

HIGHWOODS PROPERTIES INC

FORM 10-K405

(Annual Report (Regulation S-K, item 405))

Filed 3/30/2001 For Period Ending 12/31/2000

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

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, 2000

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
(State or other jurisdiction
of incorporation or organization)

56-1871668
(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. [X]

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 February 23, 2001 was \$1,332,510,407. As of February 23, 2001, there were 56,384,105 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 May 15, 2001 are incorporated by reference in

Part III Items 10, 11, 12 and 13.

HIGHWOODS PROPERTIES, INC.

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PART I

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

ITEM 1. BUSINESS

General

The Company is a self-administered and self-managed equity REIT that began operations through a predecessor in 1978. Since the Company's initial public offering in 1994, we have evolved into one of the largest owners and operators of suburban office, industrial and retail properties in the southeastern and midwestern United States. At December 31, 2000, we:

- o owned 493 in-service office, industrial and retail properties, encompassing approximately 36.2 million rentable square feet and 1,885 apartment units;

- o owned an interest (50% or less) in 65 in-service office and industrial properties, encompassing approximately 6.2 million rentable square feet and 418 apartment units;

- o owned 1,317 acres (and have agreed to purchase an additional 97 acres over the next two years) of undeveloped land suitable for future development; and

- o were developing an additional 33 properties, which will encompass approximately 3.9 million rentable square feet (including seven properties encompassing 1.1 million rentable square feet that we are developing with our joint venture partners).

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, 2000, the Company owned 88.0% 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.

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. We initially owned only a limited number of office properties in North Carolina, most of which were in the Research Triangle. Today, with our various joint venture partners, our portfolio includes office, industrial, retail and multi-family properties, development projects and development land throughout 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 have 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. Our development and acquisition activities also benefit from our local market presence and knowledge. Our property-level officers have significant 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, development projects and development land to strategic joint ventures formed with selected partners.

Recent Developments

The following table summarizes our acquisition, disposition and joint venture activity during 2000 (\$ in thousands):

Acquisition Activity

| Property | Market | Building Type (1) | Date Acquired | Rentable Square Feet | Initial Cost |
|---------------------|-----------|----------------------|------------------|-------------------------|-----------------|
| One Harbour Place | Tampa | O | 08/01/00 | 208,000 | \$27,200 |
| Virginia Mutual | Richmond | O | 08/25/00 | 58,000 | 7,050 |
| 1700 Century Circle | Atlanta | O | 11/17/00 | 27,000 | 2,450 |
| 6060 Poplar | Memphis | O | 12/21/00 | 110,000 | 10,312 |
| Ramparts | Nashville | O | 12/21/00 | 134,000 | 14,777 |
| 6000 Poplar | Memphis | O | 12/29/00 | 132,000 | 13,418 |
| Total | | | | 669,000 | \$75,207 |

Disposition Activity

| Property | Market | Building Type (1) | Date Sold | Rentable Square Feet | Sales Price |
|----------------------------------|--------------------------|----------------------|--------------|-------------------------|----------------|
| Hampton 5-9 | Piedmont Triad | I | 01/31/00 | 315,000 | \$ 5,400 |
| 2616 Phoenix Drive | Piedmont Triad | I | 02/01/00 | 32,000 | 800 |
| Holly Building | Research Triangle | O | 02/11/00 | 20,000 | 2,500 |
| Bannister Business Center | Kansas City | I | 03/01/00 | 32,000 | 1,900 |
| Red Bridge Professional Building | Kansas City | O | 03/08/00 | 47,000 | 2,800 |
| Crestwood Shops | Kansas City | R | 03/21/00 | 23,000 | 1,900 |
| Kenilworth Shops | Kansas City | R | 03/31/00 | 11,000 | 1,100 |
| Fulton Corporate Center | Atlanta | I | 04/01/00 | 101,000 | 2,300 |
| Oak Park Building | Kansas City | O | 05/01/00 | 32,000 | 2,700 |
| Pomona/Dundas/Spring Garden | Piedmont Triad | I | 05/04/00 | 290,000 | 13,900 |
| Colony Corporate Centre | Research Triangle | O | 06/15/00 | 52,000 | 5,300 |
| Battlefield Business Center II | Hampton Roads | I | 06/22/00 | 98,000 | 5,900 |
| Highwoods Centre | Hampton Roads | O | 06/22/00 | 100,000 | 8,800 |
| Birchwood | Research Triangle | O | 06/27/00 | 13,000 | 2,000 |
| Quivira Business Park | Kansas City | I | 06/29/00 | 299,000 | 11,100 |
| 5301 Departure Drive | Research Triangle | I | 06/30/00 | 85,000 | 6,100 |
| Jacksonville Portfolio 1 | Jacksonville | O | 06/30/00 | 924,000 | 68,600 |
| 1077 Fred Drive | Atlanta | I | 07/07/00 | 106,000 | 1,600 |
| Grassmere | Nashville | I | 07/07/00 | 336,000 | 23,500 |
| Jacksonville Portfolio 2 | Jacksonville/Tallahassee | O | 07/12/00 | 1,074,000 | 100,300 |
| Hartford Office Building | Kansas City | O | 07/14/00 | 49,000 | 3,200 |
| Westwood Shops | Kansas City | R | 07/19/00 | 5,000 | 800 |
| Trailwoods & 96th & Nall | Kansas City | R | 07/21/00 | 72,000 | 6,000 |
| Romanelli | Kansas City | R | 08/10/00 | 25,000 | 1,900 |
| Ridgefield I | Asheville | I | 08/28/00 | 61,000 | 5,300 |
| Triangle Business Center | Research Triangle | O/I | 09/29/00 | 394,000 | 27,700 |
| A4 Health Systems | Research Triangle | O | 10/25/00 | 55,000 | 6,400 |
| Ridgefield II | Asheville | O | 12/29/00 | 64,000 | 6,000 |
| Ridgefield III | Asheville | O | 12/29/00 | 56,000 | 6,000 |
| Expressway Warehouse | Research Triangle | I | 12/29/00 | 60,000 | 2,265 |
| Total | | | | 4,831,000 | \$334,065 |

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

Joint Venture Activity

| Name | Market | Building Type (1) | Date Contributed | Rentable Square Feet | Sales Price |
|---------------------|---------|----------------------|---------------------|----------------------------|----------------|
| Highwoods DLF 97/26 | | | | | |
| DLF 99/32 | Various | O | 05/09/00 | 816,000 | \$117,000 |
| MG-HIW, LLC | Various | O | 12/19/00 | 2,581,000 | 350,000 |
| Total | | | | 3,397,000 | \$467,000 |

Development Activity

The following wholly owned development projects were placed in service during 2000 (\$ in thousands):

Placed In Service

| Name | Market | Building Type (1) | Month Placed in Service | Number of Properties | Rentable Square Feet | Cost to Date |
|------------------------------------|-------------------|----------------------|-------------------------------|-------------------------|-------------------------|-----------------|
| Southwind Office Center D | Memphis | O | 01/00 | 1 | 64,000 | \$7,018 |
| Airpark South Warehouse IV | Piedmont Triad | I | 01/00 | 1 | 86,000 | 2,952 |
| Highwoods Preserve I | Tampa | O | 01/00 | 1 | 208,000 | 28,923 |
| Parkway Plaza 11 | Charlotte | O | 01/00 | 1 | 32,000 | 2,766 |
| Parkway Plaza 12 | Charlotte | O | 01/00 | 1 | 22,000 | 1,929 |
| Westwood South | Nashville | O | 02/00 | 1 | 127,000 | 14,131 |
| Eastshore III | Richmond | O | 02/00 | 1 | 80,000 | 8,519 |
| Lakefront Plaza One | Hampton Roads | O | 03/00 | 1 | 76,000 | 8,297 |
| Caterpillar Financial | Nashville | O | 03/00 | 1 | 312,000 | 52,110 |
| Air Park South Warehouse III | Piedmont Triad | I | 03/00 | 1 | 120,000 | 3,139 |
| Highwoods Preserve II | Tampa | O | 03/00 | 1 | 34,000 | 1,738 |
| Highwoods Preserve III | Tampa | O | 03/00 | 1 | 178,000 | 25,104 |
| Eastshore I | Richmond | O | 03/00 | 1 | 69,000 | 7,693 |
| Lakeview Ridge III | Nashville | O | 04/00 | 1 | 134,000 | 13,230 |
| HIW Distribution Center | Richmond | I | 04/00 | 1 | 166,000 | 6,835 |
| Highwoods Center II @ Tradeport | Atlanta | O | 06/00 | 1 | 54,000 | 5,147 |
| Seville Square | Kansas City | R | 06/00 | 1 | 99,000 | 21,379 |
| Stony Point II | Richmond | O | 06/00 | 1 | 141,000 | 14,490 |
| ALO | Piedmont Triad | I | 06/00 | 1 | 27,000 | 1,171 |
| Bluegrass Valley I | Atlanta | I | 06/00 | 1 | 136,000 | 5,307 |
| Parkway Plaza 14 | Charlotte | O | 07/00 | 1 | 90,000 | 7,614 |
| Newpoint II | Atlanta | I | 07/00 | 1 | 131,000 | 6,262 |
| Incharge Institute | Orlando | O | 08/00 | 1 | 32,000 | 3,522 |
| Lakepoint II | Tampa | O | 08/00 | 1 | 225,000 | 31,092 |
| 3737 Glenwood Ave. | Research Triangle | O | 08/00 | 1 | 108,000 | 19,024 |
| Highwoods Preserve IV | Tampa | O | 09/00 | 1 | 211,000 | 30,968 |
| Highwoods VIII | Richmond | O | 09/00 | 1 | 60,000 | 7,201 |
| Jones Apparel Expansion | Piedmont Triad | I | 10/00 | 1 | 209,000 | 5,614 |
| ECPI | Piedmont Triad | O | 11/00 | 1 | 31,000 | 3,204 |
| Mallard Creek V | Charlotte | O | 11/00 | 1 | 119,000 | 12,203 |
| Valencia Place Retail | Kansas City | R | 11/00 | 1 | 72,000 | 14,328 |
| Total | | | | 31 | 3,453,000 | \$372,910 |

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

As of December 31, 2000, we were developing 23 suburban office properties and three industrial properties totaling 2.9 million rentable square feet of office and industrial space. The following table summarizes these development projects. In addition to the properties described in this table, we are developing with our joint venture partners seven additional properties totaling 1.1 million rentable square feet. At December 31, 2000, these seven development projects had an aggregate budgeted cost of \$140.1 million and were 61.0% pre-leased.

In-Process

| Name | Market | Rentable Square Feet | Estimated Cost | Cost at 12/31/00 | Pre-Leasing Percentage (1) | Estimated Completion | Estimated Stabilization (2) |
|--|-------------------|-------------------------|-------------------|---------------------|-------------------------------|-------------------------|--------------------------------|
| (\$ in thousands) | | | | | | | |
| Office: | | | | | | | |
| Highwoods Preserve V | Tampa | 185,000 | \$ 27,633 | \$12,817 | 100% | 3Q01 | 3Q01 |
| Met Life Building at Brookfield | Greenville | 118,000 | 13,220 | 1,704 | 67 | 3Q01 | 4Q01 |
| 380 Park Place | Tampa | 82,000 | 9,675 | 4,961 | 64 | 1Q01 | 4Q01 |
| Romac | Tampa | 128,000 | 18,582 | 2,375 | 100 | 4Q01 | 4Q01 |
| Maplewood | Research Triangle | 36,000 | 3,901 | 2,308 | 100 | 1Q01 | 1Q02 |
| ParkWest One | Research Triangle | 46,000 | 4,364 | 574 | 26 | 1Q01 | 1Q02 |
| ParkWest Two | Research Triangle | 48,000 | 4,544 | 583 | 100 | 1Q01 | 1Q02 |
| Situs III | Research Triangle | 39,000 | 4,543 | 1,804 | 94 | 1Q01 | 1Q02 |
| International Place 3 | Memphis | 214,000 | 34,272 | 3,037 | 100 | 2Q02 | 2Q02 |
| Cool Springs II | Nashville | 205,000 | 22,718 | 13,661 | 19 | 2Q01 | 2Q02 |
| Highwoods Tower II | Research Triangle | 167,000 | 25,134 | 15,415 | 74 | 1Q01 | 2Q02 |
| CentreGreen Two | Research Triangle | 97,000 | 11,596 | 4,025 | 58 | 2Q01 | 2Q02 |
| Hickory Trace | Nashville | 52,000 | 5,933 | 1,164 | -- | 3Q01 | 3Q02 |
| CentreGreen Four | Research Triangle | 100,000 | 11,764 | 1,800 | -- | 3Q01 | 3Q02 |
| North Shore Commons | Richmond | 116,000 | 13,084 | 6,063 | 58 | 2Q01 | 3Q02 |
| Stony Point III | Richmond | 106,000 | 11,425 | 2,572 | 45 | 2Q01 | 3Q02 |
| Highwoods Park at Jefferson Village | Piedmont Triad | 101,000 | 9,839 | 1,917 | -- | 4Q01 | 4Q02 |
| GlenLake I | Research Triangle | 158,000 | 19,089 | 1,435 | -- | 4Q01 | 4Q02 |
| In-Process | | | | | | | |
| Office Total or Weighted Average | | 1,998,000 | \$251,316 | \$78,215 | 56% | | |
| | | ===== | ===== | ===== | === | | |
| Industrial: | | | | | | | |
| Holden Road | Piedmont Triad | 64,000 | \$ 2,014 | \$ 1,134 | 40% | 1Q01 | 3Q01 |
| Tradeport Place IV | Atlanta | 122,000 | 4,447 | 1,612 | -- | 3Q01 | 3Q02 |
| In-Process Industrial | | | | | | | |
| Total or Weighted Average | | 186,000 | \$ 6,461 | \$ 2,746 | 14% | | |
| | | ===== | ===== | ===== | === | | |
| Total or Weighted Average of all In-Process Development Projects | | | | | | | |
| | | 2,184,000 | \$257,777 | \$80,961 | 53% | | |
| | | ===== | ===== | ===== | === | | |

(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 | Market | Rentable Square Feet | Estimated Cost | Cost at 12/31/00 | Percent leased/ Pre-leased (1) | Estimated Completion | Estimated Stabilization (2) |
|---|-------------------|-------------------------|-------------------|---------------------|--------------------------------------|-------------------------|--------------------------------|
| ----- | | | | | | | |
| (\$ in thousands) | | | | | | | |
| Office: | | | | | | | |
| Valencia Place | Kansas City | 250,000 | \$ 40,586 | \$ 40,022 | 91% | 1Q00 | 1Q01 |
| Deerfield III | Atlanta | 54,000 | 5,276 | 3,494 | 100 | 4Q00 | 3Q01 |
| CentreGreen One | Research Triangle | 97,000 | 11,246 | 10,362 | 97 | 3Q00 | 3Q01 |
| Shadow Creek | Memphis | 80,000 | 8,989 | 6,720 | 82 | 4Q00 | 4Q01 |
| Highwoods Plaza | Tampa | 66,000 | 7,505 | 6,011 | 29 | 4Q00 | 4Q01 |
| | | ----- | ----- | ----- | --- | | |
| Completed-Not Stabilized Office Total or Weighted Average | | | | | | | |
| | | 547,000 | \$ 73,602 | \$ 66,609 | 84% | | |
| | | ===== | ===== | ===== | === | | |
| Industrial: | | | | | | | |
| Tradeport Place III | Atlanta | 122,000 | \$ 4,780 | \$ 4,633 | 90% | 4Q00 | 4Q01 |
| | | ----- | ----- | ----- | --- | | |
| Completed-Not Stabilized Industrial Total or Weighted Average | | | | | | | |
| | | 122,000 | \$ 4,780 | \$ 4,633 | 90% | | |
| | | ===== | ===== | ===== | === | | |
| Total or Weighted Average of all Completed-Not Stabilized Development Projects | | | | | | | |
| | | 669,000 | \$ 78,382 | \$ 71,242 | 85% | | |
| | | ===== | ===== | ===== | === | | |
| Total or Weighted Average of all Development Projects | | | | | | | |
| | | 2,853,000 | \$336,159 | \$152,203 | 60% | | |
| | | ===== | ===== | ===== | === | | |

(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 Cost | Pre-Leasing Percentage (1) |
|---|-------------------------------------|-------------------|-------------------------------|
| | ----- (\$ in thousands) ----- | | |
| Summary By Estimated Stabilization Date | | | |
| First Quarter 2001 | 250,000 | \$ 40,586 | 91% |
| Second Quarter 2001 | -- | -- | -- |
| Third Quarter 2001 | 400,000 | 46,169 | 90 |
| Fourth Quarter 2001 | 596,000 | 62,751 | 76 |
| First Quarter 2002 | 169,000 | 17,352 | 78 |
| Second Quarter 2002 | 683,000 | 93,720 | 63 |
| Third Quarter 2002 | 496,000 | 46,653 | 23 |
| Fourth Quarter 2002 | 259,000 | 28,928 | -- |
| | ----- | ----- | ----- |
| Total or Weighted Average | 2,853,000 | \$336,159 | 60% |
| | ===== | ===== | == |
| Summary by Market: | | | |
| Atlanta | 298,000 | \$ 14,503 | 55% |
| Greenville | 118,000 | 13,220 | 67 |
| Kansas City | 250,000 | 40,586 | 91 |
| Memphis | 294,000 | 43,261 | 95 |
| Nashville | 257,000 | 28,651 | 15 |
| Piedmont Triad | 165,000 | 11,853 | 16 |
| Research Triangle | 788,000 | 96,181 | 52 |
| Richmond | 222,000 | 24,509 | 52 |
| Tampa | 461,000 | 63,395 | 83 |
| | ----- | ----- | ----- |
| Total or Weighted Average | 2,853,000 | \$336,159 | 60% |
| | ===== | ===== | == |
| Build-to-Suit | 527,000 | \$ 80,487 | 100% |
| Multi-tenant | 2,326,000 | 255,672 | 51 |
| | ----- | ----- | ----- |
| Total or Weighted Average | 2,853,000 | \$336,159 | 60% |
| | ===== | ===== | === |

| | Average Rentable Square Feet | Average Estimated Cost | Average Pre-Leasing (1) |
|----------------------------|---------------------------------------|------------------------------|----------------------------|
| | ----- | ----- | ----- |
| | | (\$ in thousands) | |
| Average Per Property Type: | | | |
| Office | 110,652 | \$14,127 | 62% |
| Industrial | 102,667 | 3,747 | 44 |
| | ----- | ----- | -- |
| Weighted Average | 109,731 | \$12,929 | 60% |
| | ----- | ----- | -- |

(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, 2000, the Company employed 542 persons, as compared to 536 at December 31, 1999.

ITEM 2. PROPERTIES

General

As of December 31, 2000, we owned 493 in-service office, industrial and retail properties, encompassing approximately 36.2 million rentable square feet, and 1,885 apartment units. The following table sets forth information about our wholly owned in-service properties at December 31, 2000:

| | Rentable Square Feet (1) | Occupancy (2) | Percentage of December 2000 Rental Revenue | | | | Total |
|-------------------------|-----------------------------|---------------|--|------------|--------|--------------|--------|
| | | | Office | Industrial | Retail | Multi-Family | |
| Piedmont Triad | 8,334,000 | 96% | 6.6% | 4.7% | -- | -- | 11.3% |
| Atlanta | 6,143,000 | 94 | 10.1 | 3.4 | -- | -- | 13.5 |
| Tampa | 4,053,000 | 95 | 13.4 | 0.3 | -- | -- | 13.7 |
| Research Triangle | 3,741,000 | 94 | 12.7 | 0.1 | -- | -- | 12.8 |
| Nashville | 2,789,000 | 94 | 10.0 | -- | -- | -- | 10.0 |
| Richmond | 2,698,000 | 96 | 7.5 | 0.4 | -- | -- | 7.9 |
| Kansas City | 2,617,000 | 93 | 4.3 | -- | 6.8% | 4.0% | 15.1 |
| Charlotte | 2,157,000 | 92 | 4.8 | 0.6 | -- | -- | 5.4 |
| Greenville | 1,220,000 | 93 | 3.2 | 0.2 | -- | -- | 3.4 |
| Memphis | 1,086,000 | 93 | 3.4 | -- | -- | -- | 3.4 |
| Orlando | 662,000 | 95 | 1.4 | -- | -- | -- | 1.4 |
| Columbia | 426,000 | 77 | 1.2 | -- | -- | -- | 1.2 |
| Other | 257,000 | 99 | 0.9 | -- | -- | -- | 0.9 |
| | ----- | -- | ---- | ---- | ---- | ---- | ----- |
| Total | 36,183,000 | 94% | 79.5% | 9.7% | 6.8% | 4.0% | 100.0% |
| | ===== | == | ==== | === | === | === | ===== |

(1) Excludes Kansas City's basement space and apartment units.

(2) Excludes Kansas City's apartment occupancy percentage of 95%.

The following table sets forth certain information about our wholly owned in-service and development properties as of December 31, 2000 and 1999:

| | December 31, 2000 | | December 31, 1999 | |
|---------------------------------|-------------------------|----------------------------------|-------------------------|----------------------------------|
| | Rentable Square Feet | Percent Leased/ Pre-Leased | Rentable Square Feet | Percent Leased/ Pre-Leased |
| In-Service | | | | |
| Office | 24,177,000 | 94% | 26,072,000 | 94% |
| Industrial | 10,357,000 | 95 | 11,325,000 | 94 |
| Retail | 1,649,000 | 94 | 1,579,000 | 94 |
| | ----- | -- | ----- | -- |
| Total or Weighted Average | 36,183,000 | 94% | 38,976,000 | 94% |
| | ===== | == | ===== | == |
| Development | | | | |
| Completed -- Not Stabilized | | | | |
| Office | 547,000 | 84% | 1,826,000 | 72% |
| Industrial | 122,000 | 90 | 503,000 | 77 |
| Retail | -- | -- | 99,000 | 97 |
| | ----- | -- | ----- | -- |
| Total or Weighted Average | 669,000 | 85% | 2,428,000 | 74% |
| | ===== | == | ===== | == |
| In Process | | | | |
| Office | 1,998,000 | 56% | 2,089,000 | 87% |
| Industrial | 186,000 | 14 | 162,000 | 100 |
| Retail | -- | -- | 81,000 | 83 |
| | ----- | -- | ----- | -- |
| Total or Weighted Average | 2,184,000 | 53% | 2,332,000 | 88% |
| | ===== | ==== | ===== | === |
| Total | | | | |
| Office | 26,722,000 | | 29,987,000 | |
| Industrial | 10,665,000 | | 11,990,000 | |
| Retail | 1,649,000 | | 1,759,000 | |
| | ----- | | ----- | |
| Total | 39,036,000 | | 43,736,000 | |
| | ===== | | ===== | |

Tenants

The following table sets forth information concerning the 20 largest tenants of our wholly owned in-service properties as of December 31, 2000:

| Tenant | Number of Leases | Annualized Rental Revenue (1) | Percent of Total Annualized Rental Revenue |
|--------------------------------------|---------------------|----------------------------------|--|
| ----- | | | |
| | | (\$ in thousands) | |
| Intermedia Communications | 12 | \$ 12,979 | 2.9% |
| Federal Government | 55 | 11,448 | 2.6 |
| Capital One Services, Inc. | 8 | 10,664 | 2.4 |
| Bell South | 51 | 10,010 | 2.2 |
| AT&T | 8 | 9,084 | 2.0 |
| Caterpillar Financial Services | 3 | 8,055 | 1.8 |
| IBM | 9 | 7,978 | 1.8 |
| Price Waterhouse Coopers | 7 | 6,522 | 1.5 |
| US Air | 7 | 5,778 | 1.3 |
| Nortel Networks Corporation | 3 | 5,211 | 1.2 |
| Sara Lee | 9 | 4,807 | 1.1 |
| Sprint | 11 | 4,386 | 1.0 |
| Lockton Companies, Inc. | 1 | 2,927 | 0.7 |
| International Paper | 9 | 2,753 | 0.6 |
| Barclays American Mortgage | 2 | 2,736 | 0.6 |
| Bank of America | 18 | 2,575 | 0.6 |
| Carlton, Fields, Ward Et al | 2 | 2,454 | 0.5 |
| General Electric | 13 | 2,440 | 0.5 |
| Voicestream Wireless | 3 | 2,390 | 0.5 |
| BTI | 4 | 2,335 | 0.5 |
| | -- | ----- | ---- |
| Total | 235 | \$117,532 | 26.3% |
| | === | ===== | ===== |

(1) Annualized Rental Revenue is December 2000 rental revenue (base rent plus operating expense pass-throughs) multiplied by 12.

The following tables set forth certain information about leasing activities at our wholly owned in-service properties (excluding apartment units) for the years ended December 31, 2000, 1999 and 1998.

| | 2000 | | |
|---|--------------|-------------|-------------|
| | Office | Industrial | Retail |
| Net Effective Rents Related to Re-Leased Space: | | | |
| Number of lease transactions (signed leases) | 801 | 174 | 71 |
| Rentable square footage leased | 4,166,054 | 2,373,244 | 162,866 |
| Average per rentable square foot over the lease term: | | | |
| Base rent | \$ 17.05 | \$ 4.64 | \$ 21.99 |
| Tenant improvements | (1.20) | (0.24) | (1.41) |
| Leasing commissions | (0.50) | (0.12) | (0.60) |
| Rent concessions | (0.03) | (0.00) | (0.00) |
| Effective rent | \$ 15.32 | \$ 4.28 | \$ 19.98 |
| Expense stop (1) | (4.76) | (0.23) | (0.03) |
| Equivalent effective net rent | \$ 10.56 | \$ 4.05 | \$ 19.95 |
| Average term in years | 5 | 4 | 7 |
| Rental Rate Trends: | | | |
| Average final rate with expense pass-throughs | \$ 15.56 | \$ 4.16 | \$ 15.71 |
| Average first year cash rental rate | \$ 16.33 | \$ 4.46 | \$ 19.89 |
| Percentage increase | 4.90% | 7.20% | 26.60% |
| Capital Expenditures Related to Re-leased Space: | | | |
| Tenant Improvements: | | | |
| Total dollars committed under signed leases | \$24,215,684 | \$2,279,129 | \$2,252,002 |
| Rentable square feet | 4,166,054 | 2,373,244 | 162,866 |
| Per rentable square foot | \$ 5.81 | \$ 0.96 | \$ 13.83 |
| Leasing Commissions: | | | |
| Total dollars committed under signed leases | \$ 9,398,696 | \$1,203,586 | \$ 530,437 |
| Rentable square feet | 4,166,054 | 2,373,244 | 162,866 |
| Per rentable square foot | \$ 2.26 | \$ 0.51 | \$ 3.26 |
| Total: | | | |
| Total dollars committed under signed leases | \$33,614,380 | \$3,482,715 | \$2,782,439 |
| Rentable square feet | 4,166,054 | 2,373,244 | 162,866 |
| Per rentable square foot | \$ 8.07 | \$ 1.47 | \$ 17.08 |

| | 1999 | | | 1998 |
|---|--------------|-------------|-------------|--------------|
| | Office | Industrial | Retail | Office |
| Net Effective Rents Related to Re-Leased Space: | | | | |
| Number of lease transactions (signed leases) | 1,051 | 249 | 101 | 1,042 |
| Rentable square footage leased | 5,086,408 | 2,786,017 | 378,304 | 5,004,005 |
| Average per rentable square foot over the lease term: | | | | |
| Base rent | \$ 15.58 | \$ 5.35 | \$ 17.24 | \$ 16.00 |
| Tenant improvements | (.82) | (.28) | (1.02) | (0.81) |
| Leasing commissions | (.39) | (.13) | (.44) | (0.35) |
| Rent concessions | (.03) | (.01) | (.01) | (0.03) |
| Effective rent | \$ 14.34 | \$ 4.93 | \$ 15.77 | \$ 14.81 |
| Expense stop (1) | (4.19) | (.28) | (.07) | (4.25) |
| Equivalent effective net rent | \$ 10.15 | \$ 4.65 | \$ 15.70 | \$ 10.56 |
| Average term in years | 5 | 4 | 6 | 5 |
| Rental Rate Trends: | | | | |
| Average final rate with expense pass-throughs | \$ 15.13 | \$ 5.05 | \$ 12.21 | \$ 14.12 |
| Average first year cash rental rate | \$ 15.68 | \$ 5.24 | \$ 16.28 | \$ 15.12 |
| Percentage increase | 3.64% | 3.76% | 33.33% | 7.08% |
| Capital Expenditures Related to Re-leased Space: | | | | |
| Tenant Improvements: | | | | |
| Total dollars committed under signed leases | \$21,748,441 | \$3,621,621 | \$4,589,543 | \$19,144,349 |
| Rentable square feet | 5,086,408 | 2,786,017 | 378,304 | 5,004,005 |

| | | | | |
|---|--------------|-------------|-------------|--------------|
| Per rentable square foot | \$ 4.28 | \$ 1.30 | \$ 12.13 | \$ 3.83 |
| | ===== | ===== | ===== | ===== |
| Leasing Commissions: | | | | |
| Total dollars committed under signed leases | \$ 8,990,333 | \$1,336,828 | \$1,069,227 | \$ 8,348,495 |
| Rentable square feet | 5,086,408 | 2,786,017 | 378,304 | 5,004,005 |
| | ----- | ----- | ----- | ----- |
| Per rentable square foot | \$ 1.77 | \$.48 | \$ 2.83 | \$ 1.67 |
| | ===== | ===== | ===== | ===== |
| Total: | | | | |
| Total dollars committed under signed leases | \$30,738,774 | \$4,958,449 | \$5,658,770 | \$27,492,844 |
| Rentable square feet | 5,086,408 | 2,786,017 | 378,304 | 5,004,005 |
| | ----- | ----- | ----- | ----- |
| Per rentable square foot | \$ 6.04 | \$ 1.78 | \$ 14.96 | \$ 5.49 |
| | ===== | ===== | ===== | ===== |

| | 1998 | |
|---|-------------|-----------|
| | Industrial | Retail |
| | ----- | ----- |
| Net Effective Rents Related to Re-Leased Space: | | |
| Number of lease transactions (signed leases) | 207 | 26 |
| Rentable square footage leased | 1,400,108 | 66,964 |
| Average per rentable square foot over the lease term: | | |
| Base rent | \$ 5.81 | \$ 14.81 |
| Tenant improvements | (0.26) | (0.82) |
| Leasing commissions | (0.12) | (0.58) |
| Rent concessions | -- | (0.26) |
| | ----- | ----- |
| Effective rent | \$ 5.43 | \$ 13.15 |
| Expense stop (1) | (0.37) | (0.84) |
| | ----- | ----- |
| Equivalent effective net rent | \$ 5.06 | \$ 12.31 |
| | ===== | ===== |
| Average term in years | 3 | 6 |
| | ===== | ===== |
| Rental Rate Trends: | | |
| Average final rate with expense pass-throughs | \$ 5.39 | \$ 10.35 |
| Average first year cash rental rate | \$ 5.58 | \$ 12.41 |
| | ----- | ----- |
| Percentage increase | 3.53% | 19.90% |
| | ===== | ===== |
| Capital Expenditures Related to Re-leased Space: | | |
| Tenant Improvements: | | |
| Total dollars committed under signed leases | \$1,226,526 | \$340,620 |
| Rentable square feet | 1,400,108 | 66,964 |
| | ----- | ----- |
| Per rentable square foot | \$ 0.88 | \$ 5.09 |
| | ===== | ===== |
| Leasing Commissions: | | |
| Total dollars committed under signed leases | \$ 558,840 | \$222,315 |
| Rentable square feet | 1,400,108 | 66,964 |
| | ----- | ----- |
| Per rentable square foot | \$ 0.40 | \$ 3.32 |
| | ===== | ===== |
| Total: | | |
| Total dollars committed under signed leases | \$1,785,367 | \$562,935 |
| Rentable square feet | 1,400,108 | 66,964 |
| | ----- | ----- |
| Per rentable square foot | \$ 1.28 | \$ 8.41 |
| | ===== | ===== |

(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 wholly owned in-service properties (excluding apartment units) as of December 31, 2000, assuming no tenant exercises renewal options.

Office Properties:

| Lease Expiring | Number of Leases Expiring | Rentable Square Feet Subject to Expiring Leases | Percentage of Leased Square Footage Represented by Expiring Leases | Annual Rents Under Expiring Leases (1) | Average Annual Rental Rate Per Square Foot for Expirations | Percentage of Leased Rents Represented by Expiring Leases |
|----------------|---------------------------|---|--|--|--|---|
| | | | | (in thousands) | | |
| 2001 | 692 | 2,702,635 | 12.2% | \$ 45,507 | \$ 16.84 | 12.3% |
| 2002 | 530 | 2,771,026 | 12.5 | 44,791 | 16.16 | 12.1 |
| 2003 | 525 | 3,462,759 | 15.5 | 59,465 | 17.17 | 16.0 |
| 2004 | 341 | 2,694,725 | 12.1 | 47,035 | 17.45 | 12.7 |
| 2005 | 393 | 3,011,191 | 13.5 | 49,929 | 16.58 | 13.5 |
| 2006 | 88 | 1,881,955 | 8.5 | 31,096 | 16.52 | 8.4 |
| 2007 | 43 | 1,040,198 | 4.7 | 16,196 | 15.57 | 4.4 |
| 2008 | 44 | 1,221,905 | 5.5 | 17,609 | 14.41 | 4.7 |
| 2009 | 18 | 714,403 | 3.2 | 11,267 | 15.77 | 3.0 |
| 2010 | 41 | 1,431,499 | 6.4 | 24,234 | 16.93 | 6.5 |
| Thereafter | 66 | 1,307,399 | 5.9 | 23,883 | 18.27 | 6.4 |
| | --- | ----- | ----- | ----- | ----- | ----- |
| | 2,781 | 22,239,695 | 100.0% | \$371,012 | \$ 16.68 | 100.0% |
| | ===== | ===== | ===== | ===== | ===== | ===== |

Industrial Properties:

| Lease Expiring | Number of Leases Expiring | Rentable Square Feet Subject to Expiring Leases | Percentage of Leased Square Footage Represented by Expiring Leases | Annual Rents Under Expiring Leases (1) | Average Annual Rental Rate Per Square Foot for Expirations | Percentage of Leased Rents Represented by Expiring Leases |
|----------------|---------------------------|---|--|--|--|---|
| | | | | (in thousands) | | |
| 2001 | 126 | 1,665,614 | 16.7% | \$ 7,845 | \$ 4.71 | 17.2% |
| 2002 | 107 | 1,695,379 | 17.0 | 7,445 | 4.39 | 16.3 |
| 2003 | 84 | 1,352,681 | 13.5 | 6,622 | 4.90 | 14.5 |
| 2004 | 57 | 2,119,192 | 21.2 | 8,765 | 4.14 | 19.2 |
| 2005 | 44 | 769,896 | 7.7 | 4,019 | 5.22 | 8.7 |
| 2006 | 11 | 356,062 | 3.6 | 2,294 | 6.44 | 5.0 |
| 2007 | 13 | 1,081,566 | 10.8 | 3,698 | 3.42 | 8.1 |
| 2008 | 4 | 196,045 | 2.0 | 1,306 | 6.66 | 2.9 |
| 2009 | 6 | 268,813 | 2.7 | 1,808 | 6.73 | 4.0 |
| 2010 | 4 | 182,746 | 1.8 | 897 | 4.91 | 2.0 |
| Thereafter | 10 | 295,453 | 3.0 | 968 | 3.28 | 2.1 |
| | --- | ----- | ----- | ----- | ----- | ----- |
| | 466 | 9,983,447 | 100.0% | \$45,667 | \$ 4.57 | 100.0% |
| | === | ===== | ===== | ===== | ===== | ===== |

(1) Annual Rents Under Expiring Leases are December 2000 rental revenue (base rent plus operating expense pass-throughs) multiplied by 12.

Retail Properties:

| Lease Expiring | Number of Leases Expiring | Rentable Square Feet Subject to Expiring Leases | Percentage of Leased Square Footage Represented by Expiring Leases | Annual Rents Under Expiring Leases (1) | Average Annual Rental Rate Per Square Foot for Expirations | Percentage of Leased Rents Represented by Expiring Leases |
|-------------------|---------------------------------|--|--|---|---|--|
| | | | | (in thousands) | | |
| 2001 | 60 | 188,894 | 12.1% | \$ 3,300 | \$ 17.47 | 10.4% |
| 2002 | 34 | 74,376 | 4.8 | 1,406 | 18.90 | 4.4 |
| 2003 | 44 | 110,790 | 7.1 | 2,392 | 21.59 | 7.5 |
| 2004 | 36 | 213,861 | 13.7 | 2,670 | 12.48 | 8.4 |
| 2005 | 38 | 88,207 | 5.7 | 2,420 | 27.44 | 7.6 |
| 2006 | 24 | 89,285 | 5.7 | 2,098 | 23.50 | 6.6 |
| 2007 | 17 | 72,560 | 4.7 | 1,421 | 19.58 | 4.5 |
| 2008 | 16 | 108,901 | 7.0 | 3,582 | 32.89 | 11.3 |
| 2009 | 21 | 169,286 | 10.9 | 3,185 | 18.81 | 10.0 |
| 2010 | 15 | 79,314 | 5.1 | 2,367 | 29.84 | 7.5 |
| Thereafter | 22 | 363,723 | 23.2 | 6,878 | 18.91 | 21.8 |
| | -- | ----- | ----- | ----- | ----- | ----- |
| | 327 | 1,559,197 | 100.0% | \$31,719 | \$ 20.34 | 100.0% |
| | === | ===== | ===== | ===== | ===== | ===== |

Total:

| Lease Expiring | Number of Leases Expiring | Rentable Square Feet Subject to Expiring Leases | Percentage of Leased Square Footage Represented by Expiring Leases | Annual Rents Under Expiring Leases (1) | Average Annual Rental Rate Per Square Foot for Expirations | Percentage of Leased Rents Represented by Expiring Leases |
|-------------------|---------------------------------|--|--|---|---|--|
| | | | | (in thousands) | | |
| 2001 | 878 | 4,557,143 | 13.5% | \$ 56,652 | \$ 12.43 | 12.6% |
| 2002 | 671 | 4,540,781 | 13.4 | 53,642 | 11.81 | 12.0 |
| 2003 | 653 | 4,926,230 | 14.6 | 68,479 | 13.90 | 15.3 |
| 2004 | 434 | 5,027,778 | 14.9 | 58,470 | 11.63 | 13.0 |
| 2005 | 475 | 3,869,294 | 11.5 | 56,368 | 14.57 | 12.6 |
| 2006 | 123 | 2,327,302 | 6.9 | 35,488 | 15.25 | 7.9 |
| 2007 | 73 | 2,194,324 | 6.5 | 21,315 | 9.71 | 4.8 |
| 2008 | 64 | 1,526,851 | 4.5 | 22,497 | 14.73 | 5.0 |
| 2009 | 45 | 1,152,502 | 3.4 | 16,260 | 14.11 | 3.6 |
| 2010 | 60 | 1,693,559 | 5.0 | 27,498 | 16.24 | 6.1 |
| Thereafter | 98 | 1,966,575 | 5.8 | 31,729 | 16.13 | 7.1 |
| | --- | ----- | ----- | ----- | ----- | ----- |
| | 3,574 | 33,782,339 | 100.0% | \$448,398 | \$ 13.27 | 100.0% |
| | ===== | ===== | ===== | ===== | ===== | ===== |

(1) Annual Rents Under Expiring Leases are December 2000 rental revenue (base rent plus operating expense pass-throughs) multiplied by 12.

Development Land

We estimate that we can develop approximately 13.5 million square feet of office, industrial and retail space on our wholly owned development land. All of this development land is zoned and available for office, industrial or retail development, substantially all of which has utility infrastructure already in place. We believe in our future development activities that our commercially zoned and unencumbered land in existing business parks gives us an advantage 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 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 asserts claims against J.C. Nichols and certain named directors and officers of J.C. Nichols for breach of fiduciary duty to J.C. Nichols' stockholders and to members of the J.C. Nichols Company Employee Stock Ownership Trust, as well as claims under Section 14(a) of the Securities Exchange Act of 1934 and Sections 11 and 12(2) of the Securities Act of 1933 variously against J.C. Nichols, the named directors and officers of J.C. Nichols and the Company. By order dated June 18, 1999, the court granted in part and denied in part our motion to dismiss, and the court thereafter certified the proposed class of plaintiffs with respect to the remaining claims. By order dated August 28, 2000, the court granted in part and denied in part defendants' summary judgment motion. Defendants sought reconsideration of the court's ruling with respect to certain of the securities claims as to which the court denied their summary judgment motion, and by order dated January 11, 2001, the court granted in part that reconsideration motion. On the eve of the trial of this matter, the parties settled all their remaining claims. The terms of that settlement are now being documented. We do not believe the settlement will have a material adverse effect on our business, financial condition or 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 | 56 | 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. |
| Edward J. Fritsch | 42 | Director, Executive Vice President, Chief Operating Officer and Secretary. Mr. Fritsch joined us in 1982 and was a partner of our predecessor. |
| John L. Turner | 54 | Director, Vice Chairman of the Board of Directors and Chief Investment Officer. Mr. Turner co-founded the predecessor of Forsyth Properties in 1975. |
| Gene H. Anderson | 55 | 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 F. Beale | 47 | Senior Vice President. Mr. Beale is responsible for our operations in Florida. Prior to joining us in 2000, Mr. Beale was vice president of Koger Equity, Inc. |
| Michael E. Harris | 51 | Senior Vice President. Mr. Harris is responsible for our operations in Tennessee, Missouri, Kansas and Charlotte. 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 | 44 | Senior Vice President. Mr. Jackson is responsible for our operations in Virginia and the Research Triangle and Piedmont Triad divisions of North Carolina. Prior to joining us in 1998, Mr. Jackson was senior vice president of Compass Development and Construction Services. |
| Carman J. Liuzzo | 40 | 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 | 51 | Vice President and General Counsel. Prior to joining us in 1997, Mr. Pridgen was a partner with Smith Helms Mulliss & Moore, L.L.P. |

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 stock prices per share reported on the NYSE for the quarters indicated and the distributions paid per share during such quarter.

| Quarter Ended: | 2000 | | | 1999 | | |
|--------------------|---------|---------|--------------|---------|---------|--------------|
| | High | Low | Distribution | High | Low | Distribution |
| March 31 | \$23.50 | \$20.25 | \$.555 | \$25.69 | \$22.25 | \$.54 |
| June 30 | 25.94 | 21.31 | .555 | 27.69 | 22.75 | .54 |
| September 30 | 27.19 | 23.50 | .57 | 26.88 | 22.25 | .555 |
| December 31 | 24.94 | 21.25 | .57 | 25.63 | 20.25 | .555 |

On February 23, 2001, the last reported stock price of the Common Stock on the NYSE was \$24.03 per share and the Company had 1,381 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 2000, the Company's distributions totaled \$133,446,000, none of which represented return of capital for financial statement purposes. The minimum distribution per share of Common Stock required to maintain REIT status was approximately \$2.20 per share in 2000 and \$1.92 per share in 1999.

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 85% 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 2000, employees purchased 55,593 shares of Common Stock under the Employee Stock Purchase Plan.

Sales of Unregistered Securities

During 2000, the Company issued an aggregate of 9,911 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 principals of Eakin & Smith, pursuant to an exemption from the registration requirements of the Securities Act of 1933. Each of the principals is an accredited investor. We exercised reasonable care to assure that the principals were not purchasing the shares with a view to their distribution.

ITEM 6. SELECTED FINANCIAL DATA

The following table sets forth selected financial and operating information for the Company as of and for the years ended December 31, 2000, 1999, 1998, 1997 and 1996 (\$ in thousands, except per share amounts):

| | Year Ended December 31, 2000 | Year Ended December 31, 1999 | Year Ended December 31, 1998 | Year Ended December 31, 1997 | Year Ended December 31, 1996 |
|--|------------------------------------|------------------------------------|------------------------------------|------------------------------------|------------------------------------|
| Operating Data: | | | | | |
| Total revenue | \$ 566,431 | \$ 584,935 | \$ 512,471 | \$ 274,470 | \$ 137,926 |
| Rental property operating expenses (1) | 159,767 | 174,075 | 154,323 | 76,743 | 35,313 |
| General and administrative | 21,864 | 22,345 | 20,776 | 10,216 | 5,666 |
| Interest expense | 112,827 | 117,134 | 97,011 | 47,394 | 26,610 |
| Depreciation and amortization | 119,443 | 112,347 | 91,705 | 47,533 | 22,095 |
| Income before cost of unsuccessful transactions, gain on disposition of assets, minority interest and extraordinary item | 152,530 | 159,034 | 148,656 | 92,584 | 48,242 |
| Cost of unsuccessful transactions | -- | (1,500) | -- | -- | -- |
| Gain on disposition of assets | 4,659 | 8,679 | 1,716 | -- | -- |
| Income before minority interest and extraordinary item | 157,189 | 166,213 | 150,372 | 92,584 | 48,242 |
| Minority interest | (18,991) | (20,779) | (24,335) | (15,106) | (6,782) |
| Income before extraordinary item | 138,198 | 145,434 | 126,037 | 77,478 | 41,460 |
| Extraordinary item-loss on early extinguishment of debt | (4,711) | (7,341) | (387) | (5,799) | (2,140) |
| Net income | 133,487 | 138,093 | 125,650 | 71,679 | 39,320 |
| Dividends on preferred stock | (32,580) | (32,580) | (30,092) | (13,117) | -- |
| Net income available for common shareholders | \$ 100,907 | \$ 105,513 | \$ 95,558 | \$ 58,562 | \$ 39,320 |
| Net income per common share -- basic | \$ 1.70 | \$ 1.72 | \$ 1.74 | \$ 1.51 | \$ 1.51 |
| Net income per common share -- diluted | \$ 1.70 | \$ 1.71 | \$ 1.74 | \$ 1.50 | \$ 1.50 |
| Balance Sheet Data (at end of period): | | | | | |
| Net real estate assets | \$ 3,128,259 | \$ 3,673,338 | \$ 3,924,192 | \$ 2,614,654 | \$ 1,377,874 |
| Total assets | 3,701,602 | 4,016,197 | 4,314,333 | 2,722,306 | 1,443,440 |
| Total mortgages and notes payable | 1,587,019 | 1,766,177 | 2,008,716 | 978,558 | 555,876 |
| Other Data: | | | | | |
| Number of in-service properties | 493 | 563 | 658 | 481 | 292 |
| Total rentable square feet | 36,183,000 | 38,976,000 | 44,642,000 | 30,721,000 | 17,455,000 |

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

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

This Annual Report on Form 10-K contains certain forward-looking statements with respect to our operations, industry, financial condition and liquidity. These statements reflect our assessment of a number of risks and uncertainties. Our actual results could differ materially from the results anticipated in these forward-looking statements as a result of certain factors set forth in this Annual Report. An additional statement made pursuant to the Private Securities Litigation Reform Act of 1995 and summarizing certain of the principal risks and uncertainties inherent in our business is included under the caption " -- Disclosure Regarding Forward-Looking Statements." You are encouraged to read this section carefully.

You should read the following discussion and analysis in conjunction with the accompanying consolidated financial statements and related notes contained elsewhere in this Annual Report on Form 10-K.

Overview

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

Results of Operations

Comparison of 2000 to 1999. Revenues from rental operations decreased \$23.4 million, or 4.1%, from \$566.8 million for the year ended December 31, 1999 to \$543.4 million for the year ended December 31, 2000. The decrease was primarily a result of the disposition and contribution of 6.9 million square feet of wholly owned office, industrial and retail properties offset in part by the acquisition of 669,000 square feet of additional wholly owned office space and the completion of 3.5 million square feet of wholly-owned development activity in 2000. Our in-service wholly owned portfolio decreased from 39.0 million square feet at December 31, 1999 to 36.2 million square feet at December 31, 2000. Same property revenues, which are the revenues of the 443 in-service properties and 1,885 apartment units wholly owned on January 1, 1999, increased 2.7% for the year ended December 31, 2000, compared to the year ended December 31, 1999.

During the year ended December 31, 2000, 1,046 leases representing 6.3 million square feet of office, industrial and retail space were executed at an average rate per square foot which was 5.9% higher than the average rate per square foot on the expired leases.

Interest and other income increased \$2.3 million, or 13.6%, from \$16.9 million for the year ended December 31, 1999 to \$19.2 million for the year ended December 31, 2000. The increase was a result of an increase in interest income related to a \$30.0 million note receivable that was recorded as a result of certain property dispositions in June 1999 and an increase in development fee income in 2000 related to the DLF II Joint Venture.

Rental operating expenses decreased \$14.3 million, or 8.2%, from \$174.1 million for the year ended December 31, 1999 to \$159.8 million for the year ended December 31, 2000. The decrease was primarily a result of the disposition and contribution of 6.9 million square feet of wholly owned office, industrial and retail properties offset in part by the acquisition of 669,000 square feet of additional wholly owned office space and the completion of 3.5 million square feet of wholly owned development activity in 2000. Rental operating expenses as a percentage of related revenues decreased from 30.7% for the year ended December 31, 1999 to 29.4% for the year ended December 31, 2000.

Depreciation and amortization for the years ended December 31, 2000 and 1999 totaled \$119.4 million and \$112.3 million, respectively. The increase of \$7.1 million, or 6.3%, was due to an increase

in depreciation of leasing commissions and tenant improvements, partly offset by a decrease in depreciation on buildings that resulted from the disposition activity during 1999 and 2000. Interest expense decreased \$4.3 million, or 3.7%, from \$117.1 million for the year ended December 31, 1999 to \$112.8 million for the year ended December 31, 2000. The decrease was primarily attributable to the decrease in the outstanding debt for the entire year of 2000. Interest expense for the years ended December 31, 2000 and 1999 included \$2.5 million and \$2.8 million, respectively, of amortization of deferred financing costs and the costs related to our interest rate hedge contracts. General and administrative expenses as a percentage of total revenues was 3.8% in 1999 and 3.9% in 2000.

Income before minority interest and extraordinary item equaled \$157.2 million and \$166.2 million for the years ended December 31, 2000 and 1999, respectively. The Company's net income allocated to minority interest totaled \$19.0 million and \$20.8 million for the years ended December 31, 2000 and 1999, respectively. The Company recorded \$32.6 million in preferred stock dividends for each of the years ended December 31, 2000 and 1999.

Comparison of 1999 to 1998. Revenues from rental operations increased \$66.6 million, or 13.3%, from \$500.2 million for the year ended December 31, 1998 to \$566.8 million for the year ended December 31, 1999. The increase was primarily a result of our acquisition and development activity in 1998 and 1999. In total, we acquired or completed the development of 3.1 million rentable square feet of wholly owned office, industrial and retail properties during 1999. These additions to our portfolio were offset by the disposition of 8.8 million rentable square feet of majority-owned office, industrial and retail properties and 418 apartment units in 1999 (including the removal of certain properties from our consolidated financial statements as a result of the reorganization of the Des Moines partnerships). Same property revenues, which are the revenues of the 403 in-service properties wholly owned on January 1, 1998, increased 3.0% for the year ended December 31, 1999 compared to the year ended December 31, 1998.

During the year ended December 31, 1999, 1,401 leases representing 8.3 million square feet of office, industrial and retail space were executed at an average rate per square foot which was 4.9% higher than the average rate per square foot on the expired leases.

Interest and other income increased \$5.1 million, or 43.2%, from \$11.8 million for the year ended December 31, 1998 to \$16.9 million for the year ended December 31, 1999. The increase was a result of higher cash balances during the year ended December 31, 1999 and additional income generated from management fees and development fees.

Rental operating expenses increased \$19.8 million, or 12.8%, from \$154.3 million for the year ended December 31, 1998 to \$174.1 million for the year ended December 31, 1999. The increase was primarily a result of our acquisition and development activity in 1998 and 1999. In total, we acquired or completed the development of 3.1 million rentable square feet of wholly owned office, industrial and retail properties during 1999. These additions to our portfolio were offset by the disposition of 8.8 million rentable square feet of majority-owned office, industrial and retail properties and 418 apartment units in 1999 (including the removal of certain properties from our consolidated financial statements as a result of the reorganization of the Des Moines partnerships). Rental operating expenses as a percentage of related revenues remained consistent at 31.0% in 1998 and 1999.

Depreciation and amortization for the years ended December 31, 1999 and 1998 totaled \$112.3 million and \$91.7 million, respectively. The increase of \$20.6 million, or 22.5%, was due to an average increase in depreciable assets and deferred leasing costs. Interest expense increased \$20.1 million, or 20.7%, from \$97.0 million in 1998 to \$117.1 million in 1999. The increase was attributable to an average increase in outstanding debt related to our acquisition and development activities. The weighted average interest rates on outstanding debt remained consistent in 1998 and 1999. Interest expense for the years ended December 31, 1999 and 1998 included \$2.8 million and \$2.6 million, respectively, of amortization of deferred financing costs and of the costs related to our interest rate hedge contracts. General and administrative expenses decreased from 4.1% of total revenue in 1998 to 3.8% in 1999.

Income before minority interest and extraordinary item equaled \$166.2 million and \$150.4 million for the years ended December 31, 1999 and 1998, respectively. The Company's net income allocated to minority interest totaled \$20.8 million and \$24.3 million for 1999 and 1998, respectively. The Company incurred extraordinary losses in 1999 and 1998 of \$7.3 million and \$387,000, respectively, related to the early extinguishment of debt. The Company recorded \$32.6 million and \$30.1 million in preferred stock dividends for the years ended December 31, 1999 and 1998, respectively.

Liquidity and Capital Resources

Statement of Cash Flows. For the year ended December 31, 2000, the Company generated \$256.4 million in cash flows from operating activities and \$286.2 million from investing activities (primarily as a result of the dispositions of assets, offset in part by additions to assets). These combined cash flows of \$542.6 million were used in 2000 to fund financing activities of \$472.3 million, primarily consisting of repayments of unsecured debt, the repurchase of Common Stock and Common Units and the payment of distributions.

Capitalization. The Company's total indebtedness at December 31, 2000 was \$1.6 billion and was comprised of \$635.7 million of secured indebtedness with a weighted average interest rate of 7.9% and \$951.3 million of unsecured indebtedness with a weighted average interest rate of 7.3%. Except as stated below, all of the mortgage and notes payable outstanding at December 31, 2000 were either fixed rate obligations or variable rate obligations covered by interest rate hedge contracts. Approximately \$37.0 million of floating rate notes were not covered by interest rate hedge contracts on December 31, 2000.

Based on the Company's total market capitalization of \$3.6 billion at December 31, 2000 (at the December 31, 2000 stock price of \$24.875 and assuming the redemption for shares of Common Stock of the 7.8 million Common Units of minority interest in the Operating Partnership), the Company's debt represented approximately 43.8% of its total market capitalization.

On December 14, 2000, the Company obtained a new \$300.0 million revolving loan (the "Revolving Loan") from a group of ten lender banks. The Revolving Loan matures in December 2003 and replaces our previous \$450.0 million revolving credit facility. The Revolving Loan carries an interest rate based upon our senior unsecured credit ratings. As a result, interest would currently accrue on borrowings under the Revolving Loan at an average rate of LIBOR plus 85 basis points. The Revolving Loan also includes a \$150.0 million competitive bid sub-facility. At December 31, 2000, the Company had not borrowed any funds under the new Revolving Loan. The terms of the Revolving Loan require the Company to pay an annual facility fee equal to .20% of the aggregate amount of the Revolving Loan and require compliance with certain financial covenants. At December 31, 2000, the Company was in compliance with these covenants.

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, 2000 (\$ in thousands):

| Type of Hedge | Notional Amount | Maturity Date | Reference Rate | Fixed Rate | Fair Market Value |
|---------------|-----------------|---------------|-----------------------|------------|-------------------|
| Swap | \$ 19,839 | 6/10/02 | 1-Month LIBOR + 0.75% | 6.95% | \$(125) |
| Collar | \$ 80,000 | 10/01/01 | 1-Month LIBOR | 5.60-6.25% | \$ (2) |
| Cap | \$ 8,434 | 6/15/01 | 1-Month LIBOR | 7.75% | \$ -- |

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. Net receipts from counterparties under interest rate hedge contracts were \$206,894 during 2000 and were recorded as decreases to interest expense.

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 our revolving loan.

Our short-term (within the next 12 months) liquidity needs also include, among other things, the funding of approximately \$161.7 million of our existing development activity. See "Business -- Development Activity." We expect to fund our short-term liquidity needs through a combination of:

- o borrowings under our Revolving Loan;
- 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, development projects and development land 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.

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. As of December 31, 2000, to maintain qualification as a REIT, the Company must distribute to stockholders at least 95% of REIT taxable income. Effective January 1, 2001, the Company must distribute to stockholders at least 90% of REIT taxable income to maintain qualification as a REIT. 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

Stock Repurchase. Since we commenced our share repurchase program in December 1999, the Company has repurchased 8.0 million shares of Common Stock and Common Units at a weighted average price of \$23.95 per share/unit for an aggregate purchase price of approximately \$190.8 million.

Disposition Activity. Since December 31, 2000, we have sold 76,000 square feet of office properties and 277 apartment units for gross proceeds of \$46.8 million. In addition, we currently have 182,000 rentable square feet of wholly owned properties and 1,395 apartment units under contract for sale in various transactions totaling \$114.5 million. These transactions are subject to customary closing conditions, including due diligence and documentation, and are expected to close during the first and second quarters of 2001. However, we can provide no assurance that all or parts of these transactions will be consummated.

We expect to use a portion of the net proceeds from our recent and pending disposition activity to reinvest in tax-deferred exchange transactions under

Section 1031 of the Internal Revenue Code. We expect to reinvest up to \$12.8 million of the remaining net proceeds from disposition activity as of December 31, 2000 and up to \$152.4 million of the net proceeds from pending disposition activity to acquire, in tax-deferred exchange transactions, in-service properties, development land and development projects located in core markets and in sub-markets where we have a strong presence. For an exchange to qualify for tax-deferred treatment under Section 1031, the net proceeds from the sale of a property must be held by an escrow agent until applied toward the purchase of real estate qualifying for gain deferral. Given the competition for properties meeting our investment criteria, there may be some delay in reinvesting such proceeds. Delays in reinvesting such proceeds will reduce our income from operations. In addition, the use of net proceeds from dispositions to fund development activity, either through direct payments or repayment of borrowings under our Revolving Loan, will reduce our income from operations until such development projects are placed in service.

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 ("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. In June 1999, the FASB issued Statement No. 137, Accounting for Derivative Instruments and Hedging Activities -- Deferral of the FASB Statement No. 133, which stipulates the required adoption date to be all fiscal years beginning after June 15, 2000. In June, 2000, FASB issued Statement No. 138, Accounting for Certain Derivative Instruments and Certain Hedging Activities -- an amendment of FASB Statement No. 133. Statement No. 133, as amended by Statement No. 138, requires us to recognize all derivatives on the balance sheet at fair value. Derivatives that are not hedges must be adjusted to fair value through income. If the derivative is a hedge, depending on the nature of the hedge, changes in the fair value of 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. We will adopt SFAS No. 133/138, Accounting for Derivative Instruments and Hedging Activities on January 1, 2001. This new accounting standard requires companies to carry all derivative instruments, including certain embedded derivatives, in the statement of financial condition at fair value. The accounting for changes in the fair value of a derivative instrument depends on whether it has been designated and qualifies as part of a hedging relationship and, if so, on the reason for holding it. We use only qualifying hedges that are designated specifically to reduce exposure to interest rate risk by locking in the expected future cash payments on certain liabilities. This is typically accomplished using an interest rate swap, collar or cap. For financial reporting purposes, the gain or loss on the effective portion of the interest rate hedge is recorded as a component of equity, which becomes reclassified into earnings along with payments on the hedged liability.

Upon adoption of SFAS No. 133/138 in January 2001, we will record a net transition adjustment of \$555,962 in unrealized loss (income statement) and a net transition adjustment of \$125,000 in accumulated other comprehensive income (equity) at that time. Adoption of the standard results in us recognizing \$127,000 of derivative instrument liabilities. Adoption of SFAS No. 133/138 also results in a reclassification of approximately \$10.6 million of deferred financing costs from past cashflow hedging relationships from other assets to other comprehensive income. As in the past, these amounts will be recognized as additional interest expense when the related cash flow payments on the debt are made. In general, the amount of volatility will vary with the level of derivative activities during any period. The fair market value of our derivatives is discussed under " -- Liquidity and Capital Resources."

Effective January 1, 2000, we adopted Staff Accounting Bulletin No. 101, Revenue Recognition in Financial Statements ("SAB 101"). SAB 101 does not change existing rules on revenue recognition. Rather, the SAB explains how existing revenue recognition guidance should be applied for transactions not specifically addressed by existing rules. The adoption of SAB 101 did not have a material impact on our net income or financial position.

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 equals net income (computed in accordance with GAAP) 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. In October 1999, NAREIT issued an additional clarification effective as of January 1, 2000 stipulating that FFO should include both recurring and non-recurring operating results. Consistent with this clarification, non-recurring items that are not defined as "extraordinary" under GAAP will be reflected in the calculation of FFO. Gains and losses from the sale of depreciable operating property will continue to be excluded from the calculation of 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, 2000, 1999 and 1998 are summarized in the following table (in thousands):

| | Year Ended December 31, | | |
|--|----------------------------|------------|-----------|
| | 2000 | 1999 | 1998 |
| FFO: | | | |
| Income before minority interest and extraordinary item | \$ 157,189 | \$ 166,213 | \$150,372 |
| Add/(Deduct): | | | |
| Dividends to preferred shareholders | (32,580) | (32,580) | (30,092) |
| Cost of unsuccessful transactions | -- | 1,500 | 146 |
| Severance costs and other division closing expenses | -- | 1,813 | -- |
| Gain on disposition of land and depreciable assets, net of income taxes | (4,659) | (8,679) | (1,716) |
| Gain on disposition of land | 6,449 | -- | -- |
| Depreciation and amortization | 119,443 | 112,347 | 91,705 |
| Depreciation on unconsolidated subsidiaries | 5,581 | 3,618 | 974 |
| FFO | 251,423 | 244,232 | 211,389 |
| Cash Available for Distribution: | | | |
| Add/(Deduct): | | | |
| Rental income from straight-line rents | (14,892) | (14,983) | (13,385) |
| Amortization of deferred financing costs | 2,512 | 2,823 | 2,598 |
| Non-incremental revenue generating capital expenditures: | | | |
| Building improvements paid | (10,566) | (10,056) | (9,029) |
| Second generation tenant improvements paid | (22,287) | (25,043) | (20,115) |
| Second generation lease commissions paid | (13,033) | (13,653) | (13,055) |
| Cash available for distribution | \$ 193,157 | \$ 183,320 | \$158,403 |
| Weighted average shares/units outstanding (1) -- diluted | 67,715 | 70,757 | 65,621 |
| Dividend payout ratios: | | | |
| FFO | 60.6% | 64.3% | 65.2% |
| Cash available for distribution | 78.9% | 85.7% | 87.0% |

(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, 91.7% 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 are discussed below. Our market risk discussion includes "forward-looking statements" and represents an estimate of possible changes in fair value or future earnings that would occur assuming hypothetical future movements in interest rates. These disclosures are not precise indicators of expected future losses, but only indicators of reasonably possible losses. As a result, actual future results may differ materially from those presented. See "Management's Discussion and Analysis of 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.

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, 2000, the Company had approximately \$37.0 million of variable rate debt outstanding that was not protected by interest rate hedge contracts. If the weighted average interest rate on this variable rate debt is 100 basis points higher or lower during the 12 months ended December 31, 2001, our interest expense would be increased or decreased approximately \$370,000.

Interest Rate Hedge Contracts. For a discussion of our interest rate hedge contracts in effect at December 31, 2000, 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, 2000 would increase by approximately \$552,000. If interest rates decrease by 100 basis points, the aggregate fair market value of these interest rate hedge contracts as of December 31, 2000 would decrease by approximately \$761,000.

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.

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 May 15, 2001 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) | Operating Agreement of MG-HIW, LLC, entered into as of December 1, 2000, by and among Miller Global HIW 20, LLC and the Operating Partnership |
| 3.1 | (2) | Amended and Restated Articles of Incorporation of the Company |
| 3.2 | (3) | Amended and Restated Bylaws of the Company |
| 4.1 | (3) | Specimen of certificate representing shares of Common Stock |
| 4.2 | (4) | Indenture among the Operating Partnership, the Company and First Union National Bank of North Carolina dated as of December 1, 1996 |
| 4.3 | (5) | Specimen of certificate representing 8 5/8% Series A Cumulative Redeemable Preferred Shares |
| 4.4 | (6) | Specimen of certificate representing 8% Series B Cumulative Redeemable Preferred Shares |
| 4.5 | (7) | Specimen of certificate representing 8% Series D Cumulative Redeemable Preferred Shares |
| 4.6 | (7) | Specimen of Depositary Receipt evidencing the Depositary Shares each representing 1/10 of an 8% Series D Cumulative Redeemable Preferred Share |
| 4.7 | (7) | Deposit Agreement, dated April 23, 1998, between the Company and First Union National Bank, as preferred share depository |
| 4.8 | (8) | Rights Agreement, dated as of October 6, 1997, between the Company and First Union National Bank, as rights agent |
| 4.9 | (9) | Agreement to furnish certain instruments defining the rights of long-term debt holders |
| 10.1 | (3) | Amended and Restated Agreement of Limited Partnership of the Operating Partnership |
| 10.2 | (5) | Amendment to Amended and Restated Agreement of Limited Partnership of the Operating Partnership with respect to Series A Preferred Units |
| 10.3 | (6) | Amendment to Amended and Restated Agreement of Limited Partnership of the Operating Partnership with respect to Series B Preferred Units |
| 10.4 | (7) | Amendment to Amended and Restated Agreement of Limited Partnership of the Operating Partnership with respect to Series D Preferred Units |
| 10.5 | (10) | 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 | (11) | 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 | (12) | Amended and Restated 1994 Stock Option Plan |
| 10.8 | (9) | 1997 Performance Award Plan |
| 10.9 | (13) | Form of Executive Supplemental Employment Agreement between the Company and Named Executive Officers |

| Ex. | FN | Description |
|-------|------|--|
| 10.10 | (14) | Form of warrants to purchase Common Stock of the Company issued to John L. Turner, William T. Wilson III and John E. Reece II |
| 10.11 | (15) | Form of warrants to purchase Common Stock of the Company issued to W. Brian Reames, John W. Eakin and Thomas S. Smith |
| 10.12 | (16) | 1999 Shareholder Value Plan |
| 10.13 | (1) | Credit Agreement among Highwoods Realty Limited Partnership, Highwoods Properties, Inc., the Subsidiaries named therein and the Lenders named therein, dated as of December 13, 2000 |
| 21 | (13) | Schedule of subsidiaries of the Company |
| 23 | | Consent of Ernst & Young LLP |

(1) Filed as part of the Company's Current Report on Form 8-K dated December 14, 2000 and incorporated herein by reference.

(2) 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.

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

(4) Filed as part of the Operating Partnership's Current Report on Form 8-K dated December 2, 1996 and incorporated herein by reference.

(5) Filed as part of the Company's Current Report on Form 8-K dated February 12, 1997 and incorporated herein by reference.

(6) Filed as part of the Company's Current Report on Form 8-K dated September 25, 1997 and incorporated herein by reference.

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

(8) Filed as part of the Company's Current Report on Form 8-K dated October 4, 1997 and incorporated herein by reference.

(9) 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.

(10) 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.

(11) 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.

(12) Filed as part of the Company's proxy statement on Schedule 14A relating to the 1997 Annual Meeting of Stockholders.

(13) Filed as part of the Company's Annual Report on Form 10-K for the year ended December 31, 1998 and incorporated herein by reference.

(14) Filed as part of Registration Statement 33-88364 with the SEC and incorporated herein by reference.

(15) Filed as part of the Company's Current Report on Form 8-K dated April 1, 1996 and incorporated herein by reference.

(16) Filed as part of the Company's Annual Report on Form 10-K for the year ended December 31, 1999 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 December 20, 2000, the Company filed a current report on Form 8-K, dated December 14, 2000, reporting under Items 2 and 5 of the Form that it had formed a joint venture with Miller Global Properties, LLC and executed a new credit facility with a group of 10 lender banks.

On January 25, 2001, the Company filed a current report on Form 8-K, dated January 25, 2001, reporting under Item 5 of the Form that it had repurchased a certain number of shares of common stock pursuant to its previously announced share repurchase program.

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 16, 2001.

HIGHWOODS PROPERTIES, INC.

By: /s/ RONALD P. GIBSON

*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 16, 2001 |
| /s/ RONALD P. GIBSON ----- Ronald P. Gibson | President, Chief Executive Officer and Director | March 16, 2001 |
| /s/ EDWARD J. FRITSCH ----- Edward J. Fritsch | Executive Vice President, Chief Operating Officer, Secretary and Director | March 16, 2001 |
| /s/ JOHN L. TURNER ----- John L. Turner | Vice Chairman of the Board and Chief Investment Officer | March 16, 2001 |
| /s/ GENE H. ANDERSON ----- Gene H. Anderson | Senior Vice President and Director | March 16, 2001 |
| /s/ THOMAS W. ADLER ----- Thomas W. Adler | Director | March 16, 2001 |
| /s/ KAY N. CALLISON ----- Kay N. Callison | Director | March 16, 2001 |
| /s/ WILLIAM E. GRAHAM, JR. ----- William E. Graham, Jr. | Director | March 16, 2001 |
| /s/ LAWRENCE S. KAPLAN ----- Lawrence S. Kaplan | Director | March 16, 2001 |
| /s/ L. GLENN ORR, JR. ----- L. Glenn Orr, Jr. | Director | March 16, 2001 |
| /s/ WILLARD H. SMITH JR. ----- Willard H. Smith Jr. | Director | March 16, 2001 |
| /s/ CARMAN J. LIUZZO ----- Carman J. Liuzzo | Vice President and Chief Financial Officer (Principal Financial Officer and Principal Accounting Officer) and Treasurer | March 16, 2001 |

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INDEX TO FINANCIAL STATEMENTS

| | Page |
|---|-------|
| Highwoods Properties, Inc. | ----- |
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| Consolidated Balance Sheets as of December 31, 2000 and 1999 | F-3 |
| Consolidated Statements of Income for the Years Ended December 31, 2000, 1999 and 1998 . | F-4 |
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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, 2000 and 1999, and the related consolidated statements of income, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2000. 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 auditing standards generally accepted in the United States. 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, 2000 and 1999, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2000 in conformity with accounting principles generally accepted in the United States. 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.

/S/ ERNST & YOUNG LLP

*Raleigh, North Carolina
February 19, 2001*

HIGHWOODS PROPERTIES, INC.

Consolidated Balance Sheets

(\$ in thousands, except per share amounts)

| | December 31, | |
|--|--------------|-------------|
| | 2000 | 1999 |
| Assets | | |
| Real estate assets, at cost: | | |
| Land and improvements | \$ 421,270 | \$ 491,273 |
| Buildings and tenant improvements | 2,742,946 | 3,056,962 |
| Development in process | 87,622 | 186,925 |
| Land held for development | 145,598 | 168,396 |
| Furniture, fixtures and equipment | 11,433 | 7,917 |
| | ----- | ----- |
| | 3,408,869 | 3,911,473 |
| Less -- accumulated depreciation | (280,610) | (238,135) |
| | ----- | ----- |
| Net real estate assets | 3,128,259 | 3,673,338 |
| Property held for sale | 127,824 | 48,960 |
| Cash and cash equivalents | 104,780 | 34,496 |
| Restricted cash | 2,192 | 1,842 |
| Accounts receivable, net of allowance of \$825 and \$800 at December 31, 2000 and 1999, respectively | 24,003 | 22,847 |
| Advances to related parties | 27,560 | 15,096 |
| Notes receivable | 80,918 | 58,241 |
| Accrued straight-line rents receivable | 39,295 | 35,951 |
| Investment in unconsolidated affiliates | 78,423 | 38,977 |
| Other assets: | | |
| Deferred leasing costs | 83,269 | 66,783 |
| Deferred financing costs | 43,110 | 40,125 |
| Prepaid expenses and other | 11,878 | 15,614 |
| | ----- | ----- |
| | 138,257 | 122,522 |
| Less -- accumulated amortization | (49,909) | (36,073) |
| | ----- | ----- |
| Other assets, net | 88,348 | 86,449 |
| Total Assets | \$3,701,602 | \$4,016,197 |
| | ===== | ===== |
| Liabilities and Stockholders' Equity | | |
| Mortgages and notes payable | \$1,587,019 | \$1,766,117 |
| Accounts payable, accrued expenses and other liabilities | 109,824 | 111,945 |
| | ----- | ----- |
| Total Liabilities | 1,696,843 | 1,878,062 |
| Minority interest | 213,214 | 245,665 |
| Stockholders' equity: | | |
| Preferred stock, \$.01 par value, authorized 50,000,000 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, 2000 and 1999 | 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, 2000 and 1999 | 172,500 | 172,500 |
| 8% Series D Cumulative Redeemable Preferred Shares (liquidation preference \$250 per share), 400,000 shares issued and outstanding at December 31, 2000 and 1999, respectively | 100,000 | 100,000 |
| Common stock, \$.01 par value, 200,000,000 authorized shares; 58,124,205 and 60,918,613 shares issued and outstanding at December 31, 2000 and December 31, 1999, respectively | 581 | 609 |
| Additional paid-in capital | 1,506,161 | 1,572,031 |
| Distributions in excess of net earnings | (110,209) | (77,670) |
| Deferred compensation -- restricted stock | (2,488) | -- |
| | ----- | ----- |
| Total Stockholders' Equity | 1,791,545 | 1,892,470 |
| | ----- | ----- |
| Total Liabilities and Stockholders' Equity | \$3,701,602 | \$4,016,197 |
| | ===== | ===== |

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, 2000, 1999 and 1998

| | 2000 | 1999 | 1998 |
|---|------------|------------|------------|
| Revenue: | | | |
| Rental property | \$ 543,383 | \$ 566,816 | \$ 500,222 |
| Equity in earnings of unconsolidated affiliates | 3,863 | 1,185 | 430 |
| Interest and other income | 19,185 | 16,934 | 11,819 |
| | ----- | ----- | ----- |
| Total revenue | 566,431 | 584,935 | 512,471 |
| Operating expenses: | | | |
| Rental property | 159,767 | 174,075 | 154,323 |
| Depreciation and amortization | 119,443 | 112,347 | 91,705 |
| Interest expense: | | | |
| Contractual | 110,315 | 114,311 | 94,413 |
| Amortization of deferred financing costs | 2,512 | 2,823 | 2,598 |
| | ----- | ----- | ----- |
| General and administrative | 112,827 | 117,134 | 97,011 |
| | 21,864 | 22,345 | 20,776 |
| | ----- | ----- | ----- |
| Income before cost of unsuccessful transactions, gain on disposition of assets, minority interest and extraordinary item.... | 152,530 | 159,034 | 148,656 |
| Cost of unsuccessful transactions | -- | (1,500) | -- |
| Gain on disposition of assets | 4,659 | 8,679 | 1,716 |
| | ----- | ----- | ----- |
| Income before minority interest and extraordinary item | 157,189 | 166,213 | 150,372 |
| Minority interest | (18,991) | (20,779) | (24,335) |
| | ----- | ----- | ----- |
| Income before extraordinary item | 138,198 | 145,434 | 126,037 |
| Extraordinary item -- loss on early extinguishment of debt | (4,711) | (7,341) | (387) |
| | ----- | ----- | ----- |
| Net income | 133,487 | 138,093 | 125,650 |
| Dividends on preferred shares | (32,580) | (32,580) | (30,092) |
| | ----- | ----- | ----- |
| Net income available for common shareholders | \$ 100,907 | \$ 105,513 | \$ 95,558 |
| | ===== | ===== | ===== |
| Net income per common share -- basic: | | | |
| Income before extraordinary item | \$ 1.78 | \$ 1.84 | \$ 1.75 |
| Extraordinary item -- loss on early extinguishment of debt | (.08) | (.12) | (.01) |
| | ----- | ----- | ----- |
| Net income | \$ 1.70 | \$ 1.72 | \$ 1.74 |
| | ===== | ===== | ===== |
| Weighted average common shares outstanding -- basic | 59,175 | 61,443 | 54,791 |
| | ===== | ===== | ===== |
| Net income per common share -- diluted: | | | |
| Income before extraordinary item | \$ 1.78 | \$ 1.83 | \$ 1.74 |
| Extraordinary item -- loss on early extinguishment of debt | (.08) | (.12) | -- |
| | ----- | ----- | ----- |
| Net income | \$ 1.70 | \$ 1.71 | \$ 1.74 |
| | ===== | ===== | ===== |
| Weighted average common shares outstanding -- diluted | 59,347 | 61,529 | 55,076 |
| | ===== | ===== | ===== |

See accompanying notes to consolidated financial statements.

HIGHWOODS PROPERTIES, INC.

Consolidated Statements of Stockholders' Equity

(in thousands, except for number of common shares)

For the Years Ended December 31, 2000, 1999 and 1998

| | Number of Common Shares | Common Stock | Series A Preferred | Series B Preferred |
|---------------------------------|-------------------------------|-----------------|-----------------------|-----------------------|
| | ----- | ----- | ----- | ----- |
| Balance at | | | | |
| December 31, 1997 | 46,838,600 | \$468 | \$125,000 | \$172,500 |
| Issuance of | | | | |
| Common Stock | 12,036,711 | 120 | -- | -- |
| Series D Preferred Shares | | | | |
| offering | -- | -- | -- | -- |
| Common Stock | | | | |
| dividends | -- | -- | -- | -- |
| Preferred Stock | | | | |
| dividends | -- | -- | -- | -- |
| Net income | -- | -- | -- | -- |
| Shares issued upon | | | | |
| redemption of | | | | |
| Common Units | 989,948 | 11 | -- | -- |
| | ----- | ----- | ----- | ----- |
| Balance at | | | | |
| December 31, 1998 | 59,865,259 | 599 | 125,000 | 172,500 |
| Issuance of | | | | |
| Common Stock | 1,191,462 | 12 | -- | -- |
| Common Stock dividends | -- | -- | -- | -- |
| Preferred Stock dividends | -- | -- | -- | -- |
| Net Income | -- | -- | -- | -- |
| Shares issued upon | | | | |
| redemption of | | | | |
| Common units | 1,258,316 | 12 | -- | -- |
| Forward Equity | | | | |
| Transaction | -- | -- | -- | -- |
| Retirement of | | | | |
| Common Stock | (246,424) | (2) | -- | -- |
| Purchase of | | | | |
| Treasury Stock | (1,150,000) | (12) | -- | -- |
| | ----- | ----- | ----- | ----- |
| Balance at | | | | |
| December 31, 1999 | 60,918,613 | 609 | 125,000 | 172,500 |
| Issuance of | | | | |
| Common Stock | 81,733 | -- | -- | -- |
| Common Stock dividends | -- | -- | -- | -- |
| Preferred Stock | | | | |
| dividends | -- | -- | -- | -- |
| Issuance of | | | | |
| Restricted Stock | 104,945 | 1 | -- | -- |
| Amortization of Deferred | | | | |
| Compensation | -- | -- | -- | -- |
| Purchase of | | | | |
| Treasury Stock | (2,981,086) | (29) | -- | -- |
| Net Income | -- | -- | -- | -- |
| | ----- | ----- | ----- | ----- |
| Balance at | | | | |
| December 31, 2000 | 58,124,205 | \$581 | \$125,000 | \$172,500 |
| | ===== | ===== | ===== | ===== |

| | Series D Preferred | Additional Paid-In Capital | Deferred Compen- sation | Retained Earnings (Distributions in Excess of Net Earnings) | Total |
|---------------------------|-----------------------|----------------------------------|-------------------------------|--|-------------|
| | ----- | ----- | ----- | ----- | ----- |
| Balance at | | | | | |
| December 31, 1997 | \$ -- | \$1,132,100 | \$ -- | \$ (28,627) | \$1,401,441 |
| Issuance of | | | | | |
| Common Stock | -- | 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 | -- | 31,733 | -- | -- | 31,744 |
| Balance at December 31, 1998 | 100,000 | 1,546,592 | -- | (48,692) | 1,895,999 |
| Issuance of Common Stock | -- | 23,079 | -- | -- | 23,091 |
| Common Stock dividends | -- | -- | -- | (134,341) | (134,341) |
| Preferred Stock dividends | -- | -- | -- | (32,580) | (32,580) |
| Net Income | -- | -- | -- | 138,093 | 138,093 |
| Shares issued upon redemption of Common units | -- | 40,606 | -- | -- | 40,618 |
| Forward Equity Transaction | -- | (12,783) | -- | -- | (12,783) |
| Retirement of Common Stock | -- | -- | -- | (150) | (152) |
| Purchase of Treasury Stock | -- | (25,463) | -- | -- | (25,475) |
| Balance at December 31, 1999 | 100,000 | 1,572,031 | -- | (77,670) | 1,892,470 |
| Issuance of Common Stock | -- | 749 | -- | -- | 749 |
| Common Stock dividends | -- | -- | -- | (133,446) | (133,446) |
| Preferred Stock dividends | -- | -- | -- | (32,580) | (32,580) |
| Issuance of Restricted Stock | -- | 2,557 | (3,049) | -- | (491) |
| Amortization of Deferred Compensation | -- | -- | 561 | -- | 561 |
| Purchase of Treasury Stock | -- | (69,176) | -- | -- | (69,205) |
| Net Income | -- | -- | -- | 133,487 | 133,487 |
| Balance at December 31, 2000 | \$100,000 | \$1,506,161 | \$(2,488) | \$(110,209) | \$1,791,545 |
| | ===== | ===== | ===== | ===== | ===== |

See accompanying notes to consolidated financial statements.

HIGHWOODS PROPERTIES, INC.

Consolidated Statements of Cash Flows

(in thousands)

For the Years Ended December 31, 2000, 1999 and 1998

| | 2000 | 1999 | 1998 |
|---|------------|------------|-------------|
| | ----- | ----- | ----- |
| Operating activities: | | | |
| Net income | \$ 133,487 | \$ 138,093 | \$ 125,650 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | |
| Depreciation | 108,119 | 101,534 | 85,046 |
| Amortization | 13,836 | 13,636 | 9,257 |
| Amortization of deferred compensation | 561 | -- | -- |
| Equity in earnings of unconsolidated affiliates | (3,863) | (1,185) | (430) |
| Loss on early extinguishment of debt | 4,711 | 7,341 | 387 |
| Minority interest | 18,991 | 20,779 | 24,335 |
| Gain on disposition of land and depreciable assets | (4,659) | (8,679) | (1,716) |
| Changes in operating assets and liabilities: | | | |
| Accounts receivable | (1,156) | 5,039 | (7,168) |
| Prepaid expenses and other assets | 3,386 | 742 | 393 |
| Accrued straight-line rents receivable | (14,892) | (14,983) | (13,385) |
| Accounts payable, accrued expenses and other liabilities | (2,121) | (29,700) | 41,410 |
| | ----- | ----- | ----- |
| Net cash provided by operating activities | 256,400 | 232,617 | 263,779 |
| | ----- | ----- | ----- |
| Investing activities: | | | |
| Proceeds from disposition of real estate assets | 729,945 | 696,379 | 26,347 |
| Additions to real estate assets | (423,245) | (511,056) | (943,446) |
| Advances to subsidiaries | (12,464) | (4,676) | (1,348) |
| Distributions from unconsolidated affiliates | 3,030 | 1,685 | -- |
| Investments in notes receivable | (15,557) | (18,016) | (11,049) |
| Other investing activities | 4,503 | (3,953) | (110,929) |
| | ----- | ----- | ----- |
| Net cash provided by/(used in) investing activities | 286,212 | 160,363 | (1,040,425) |
| | ----- | ----- | ----- |
| Financing activities: | | | |
| Distributions paid on common stock and common units | (151,890) | (154,088) | (136,891) |
| Dividends paid on preferred stock | (32,580) | (32,580) | (30,092) |
| Net proceeds from sale of preferred stock | -- | -- | 96,808 |
| Net proceeds from the sale of common stock | 74 | 17,551 | 198,439 |
| Repurchase of Common Stock and Units | (101,138) | (25,475) | -- |
| Payment of prepayment penalties | (4,711) | (7,341) | (387) |
| Borrowings on revolving loans | 546,000 | 529,500 | 956,500 |
| Repayment of revolving loans | (775,000) | (725,000) | (846,500) |
| Borrowings on mortgages and notes payable | 218,162 | 332,693 | 745,356 |
| Repayment of mortgages and notes payable | (168,260) | (321,261) | (170,304) |
| Net payment of deferred financing costs | (2,985) | (3,928) | (14,984) |
| | ----- | ----- | ----- |
| Net cash (used in)/provided by financing activities | (472,328) | (389,929) | 797,945 |
| | ----- | ----- | ----- |
| Net increase in cash and cash equivalents | 70,284 | 3,051 | 21,299 |
| Cash and cash equivalents at beginning of the period | 34,496 | 31,445 | 10,146 |
| | ----- | ----- | ----- |
| Cash and cash equivalents at end of the period | \$ 104,780 | \$ 34,496 | \$ 31,445 |
| | ===== | ===== | ===== |
| Supplemental disclosure of cash flow information: | | | |
| Cash paid for interest | \$ 134,976 | \$ 150,364 | \$ 95,468 |
| | ===== | ===== | ===== |

See accompanying notes to consolidated financial statements.

HIGHWOODS PROPERTIES, INC.

Consolidated Statements of Cash Flows -- Continued

(in thousands)

For the Years Ended December 31, 2000, 1999 and 1998

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:

| | 2000 | 1999 | 1998 |
|--|-------------|-------------|-----------|
| | ----- | ----- | ----- |
| Assets: | | | |
| Net real estate assets | \$ (56,055) | \$ (78,012) | \$478,224 |
| Cash and cash equivalents | -- | (4,719) | 55,064 |
| Accounts receivable and other | -- | (2,975) | 6,634 |
| Investment in unconsolidated affiliates | 48,054 | 13,830 | 18,218 |
| Notes receivable | 6,372 | 32,695 | 29,176 |
| | ----- | ----- | ----- |
| Total Assets | \$ (1,629) | \$ (39,181) | \$587,316 |
| | ===== | ===== | ===== |
| Liabilities: | | | |
| Mortgages and notes payable | -- | (58,531) | 345,106 |
| Accounts payable, accrued expenses and other liabilities | -- | 7,604 | 34,044 |
| | ----- | ----- | ----- |
| Total Liabilities | -- | (50,927) | 379,150 |
| | ----- | ----- | ----- |
| Net Assets | \$ (1,629) | \$ 11,746 | \$208,166 |
| | ===== | ===== | ===== |

See accompanying notes to consolidated financial statements.

HIGHWOODS PROPERTIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2000

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 wholly owned assets include: 493 in-service office, industrial and retail properties; 1,885 apartment units; 1,317 acres of undeveloped land suitable for future development; and an additional 26 properties under development.

The Company conducts substantially all of its activities through, and substantially all of its interests in the properties are held directly or indirectly by, Highwoods Realty Limited Partnership (the "Operating Partnership"). The Company is the sole general partner of the Operating Partnership. At December 31, 2000, the Company owned 88.0% of the common partnership interests ("Common Units") in the Operating Partnership. Limited partners (including certain officers and directors of the Company) own the remaining Common Units. Holders of Common Units may redeem them for the cash value of one share of the Company's common stock, \$.01 par value (the "Common Stock"), or, at the Company's option, one share (subject to certain adjustments) of Common Stock.

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

Basis of Presentation

The consolidated financial statements include the accounts of the Company and the Operating Partnership and its majority-owned 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 common shares outstanding.

The extraordinary loss represents the payment of prepayment penalties and the writeoff of loan origination fees related to the early extinguishment of debt and is shown net of the minority interest's share in the loss.

Real Estate Assets

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 five to seven years for furniture, fixtures and equipment. Tenant improvements are amortized over the life of the respective leases, using the straight-line method. Real estate assets are stated at the lower of cost or fair value, if impaired.

HIGHWOODS PROPERTIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (Continued)

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

The Company evaluates its real estate assets upon the occurrence of significant adverse changes in their operations to assess whether any impairment indicators are present that affect the recovery of the recorded value. If any real estate assets are considered impaired, a loss is provided to reduce the carrying value of the property to its estimated fair value. As of December 31, 2000, none of the Company's assets were considered impaired.

As of December 31, 2000, the Company had 258,000 square feet of properties and 1,672 apartment units under contract for sale in various transactions totaling \$161.3 million. These real estate assets have a carrying value of \$127.8 million and have been classified as assets held for sale in the accompanying financial statements.

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 certain mortgage notes to escrow real estate taxes with the mortgagor. At December 31, 2000 and 1999, those balances were \$737,602 and \$1,683,282, respectively.

Investments in Unconsolidated Affiliates

Investments in unconsolidated affiliates are accounted for using 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.

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. As of December 31, 2000, to maintain qualification as a REIT, the Company must distribute to stockholders at least 95% of REIT taxable income. Effective January 1, 2001, the Company must distribute to stockholders at least 90% of REIT taxable income to maintain qualification as a REIT.

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.

HIGHWOODS PROPERTIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (Continued)

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

Concentration of Credit Risk

Management of the Company performs ongoing credit evaluations of its tenants. As of December 31, 2000, the wholly owned in-service properties (excluding apartment units) were leased to 2,712 tenants in 14 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 financial instruments. 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 applicable 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, 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 \$300.0 million unsecured revolving loan (the "Revolving Loan") 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, 2000, 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

Statement of Financial Accounting Standards No. 130, Reporting Comprehensive Income ("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 stockholders' equity exclusive of transactions with owners such as capital contributions and dividends. The Company did not report any comprehensive income items in any of the years presented.

Segment Reporting

Statement of Financial Accounting Standards No. 131, Disclosures about Segments of an Enterprise and Related Information ("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.

Impact of Recently Issued Accounting Standards

In June 1998, the Financial Accounting Standards Board ("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. In June 1999, the FASB issued Statement No. 137, Accounting for Derivative Instruments and Hedging Activities -- Deferral of the FASB Statement No. 133, which stipulates the required adoption date to be all fiscal years beginning after June 15, 2000. In June 2000, FASB issued Statement No. 138, Accounting for Certain Derivative Instruments and Certain Hedging Activities -- an amendment of FASB Statement No. 133. Statement No. 133, as amended by Statement No. 138, requires 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 is discussed in Note 3. The Company will adopt SFAS No. 133/138, Accounting for Derivative Instruments and Hedging Activities, on January 1, 2001. This new accounting standard requires companies to carry all derivative instruments, including certain embedded derivatives, in the statement of financial condition at fair value. The accounting for changes in the fair value of a derivative instrument depends on whether it has been designated and qualifies as part of a hedging relationship and, if so, on the reason for holding it. The Company uses only qualifying hedges that are designated specifically to reduce exposure to interest rate risk by locking in the expected future cash payments on certain liabilities. This is typically accomplished using an interest rate swap, collar or cap. For financial reporting purposes, the gain or loss on the effective portion of the interest rate hedge is recorded as a component of equity, which becomes reclassified into earnings along with payments on the hedged liability.

In connection with the adoption of SFAS No. 133/138 in January 2001, the Company recorded a net transition adjustment of \$555,962 in unrealized loss (income statement) and a net transition adjustment of \$125,000 in accumulated other comprehensive income (equity). Adoption of the standard has also resulted in the Company recognizing \$127,000 of derivative instrument liabilities. Adoption of SFAS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (Continued)

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

No. 133/138 also results in a reclassification of approximately \$10.6 million of deferred financing costs from past cashflow hedging relationships from other assets to other comprehensive income. As in the past, these amounts will be recognized as additional interest expense when the related cash flow payments on the debt are made. In general, the amount of volatility will vary with the level of derivative activities during any period.

Effective January 1, 2000, the Company adopted Staff Accounting Bulletin No. 101, Revenue Recognition in Financial Statements ("SAB 101"). SAB 101 did not change existing rules on revenue recognition. Rather, it explains how existing revenue recognition guidance should be applied for transactions not specifically addressed by existing rules. The adoption of SAB 101 did not have a material impact on the Company's net income or financial position.

Reclassifications

Certain amounts in the December 31, 1999 and 1998 Financial Statements have been reclassified to conform to the December 31, 2000 presentation. These reclassifications had no material effect on net income or stockholders' equity as previously reported.

2. INVESTMENTS IN UNCONSOLIDATED AFFILIATES

On March 15, 1999, the Company closed a transaction with Schweiz-Deutschland-USA Dreilander Beteiligung Objekt DLF 98/29-Walker Fink-KG ("DLF"), pursuant to which the Company sold or contributed certain office properties valued at approximately \$142.0 million to a newly created limited partnership (the "Joint Venture"). DLF contributed approximately \$55.0 million for a 77.19% interest in the Joint Venture, and the Joint Venture borrowed approximately \$71.0 million from third-party lenders. The Company retained the remaining 22.81% interest in the Joint Venture, received net cash proceeds of approximately \$124.0 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.

In addition, in connection with its merger with J.C. Nichols Company in July 1998, the Company succeeded to the interests of J.C. Nichols in a strategic alliance with R&R Investors, Ltd. pursuant to which R&R Investors manages and leases certain co-venture properties located in the Des Moines area. As a result of the merger, the Company acquired an ownership interest of 50% or more in a series of nine co-ventures with R&R Investors. Certain of these properties were previously included in the Company's consolidated financial statements. On June 2, 1999, the Company agreed with R&R Investors to reorganize its respective ownership interests in the Des Moines properties such that each would own a 50% interest in the properties in the Des Moines area. Accordingly, the Company has adopted the equity method of accounting for its investment in each of the Des Moines properties as a result of such reorganization. The impact of the reorganization was immaterial to the consolidated financial statements of the Company.

On May 9, 2000, the Company closed a transaction with Dreilander-Fonds 97/26 and 99/32 ("DLF II") pursuant to which the Company sold or contributed five in-service office properties encompassing 570,000 rentable square feet and a 246,000-square-foot development project valued at approximately \$110.0 million to a newly created limited partnership (the "DLF II Joint Venture"). DLF II contributed \$24.0 million in cash for a 40.0% ownership interest in the DLF II Joint Venture and the DLF II Joint Venture borrowed approximately \$50.0 million from a third-party lender. The Company initially retained the remaining 60.0% interest in the DLF II Joint Venture, received net cash proceeds of approximately \$74.0 million and is the sole and exclusive manager and leasing agent of the DLF II Joint Venture's properties, for which the Company receives customary management fees and leasing commissions. During

HIGHWOODS PROPERTIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (Continued)

2. INVESTMENTS IN UNCONSOLIDATED AFFILIATES -- Continued

2000, DLF II contributed an additional \$8.2 million in cash to the DLF II Joint Venture, which increased its ownership percentage to 53.0%. The Company has adopted the equity method of accounting for this joint venture.

On December 19, 2000, the Company formed various joint ventures with Denver-based Miller Global Properties, LLC ("Miller Global"). In the first joint venture, the Company sold or contributed 19 in-service office properties encompassing approximately 2.5 million rentable square feet valued at approximately \$335.0 million to a newly created limited liability company. As part of the formation of the first joint venture, Miller Global contributed approximately \$85.0 million in cash for an 80% ownership interest and the joint venture borrowed approximately \$238.8 million from a third-party lender. The Company retained a 20.0% ownership interest and received net cash proceeds of approximately \$307.0 million. The Company has also agreed to contribute two additional development properties valued at approximately \$10.3 million for a 20.0% ownership interest during the first part of 2001. The joint venture expects to borrow up to \$7.2 million in connection with these two projects that will be funded by the existing third party lender. In the remaining joint ventures, the Company contributed approximately \$7.5 million of development land to various newly created limited liability companies. These joint ventures expect to develop four properties encompassing 435,000 rentable square feet with a budgeted cost of approximately \$61.0 million. The Company and Miller Global each own 50.0% of these joint ventures. In addition, the Company is the sole and exclusive manager and leasing agent for the properties in all of these joint ventures and receives customary management fees and leasing commissions. The Company has adopted the equity method of accounting for all of these joint ventures.

As a result of these transactions, the Company had investments accounted for under the equity method of accounting which consisted of the following at December 31, 2000 and 1999:

| | 2000 Percent owned | 1999 Percent owned |
|--|-----------------------|-----------------------|
| Dallas County Partners | 50.00% | 50.00% |
| Dallas County Partners II | 50.00 | 50.00 |
| Dallas County Partners III | 50.00 | 50.00 |
| Fountain Three | 50.00 | 50.00 |
| Kessinger/Hunter, L.C. | 30.00 | 30.00 |
| 4600 Madison Associates, L.P. | 12.50 | 12.50 |
| Schweiz-Deutschland-USA DreilanderBeteiligung Objekt DLF 98/29-Walker Fink-KG | 22.81 | 22.81 |
| Dreilander-Fonds 97/26 and 99/32 | 47.00 | -- |
| RRHWoods, LC | 50.00 | 50.00 |
| Highwoods-Markel Assoc., LLC | 50.00 | 50.00 |
| MG-HIW, LLC | 20.00 | -- |
| MG-HIW Peachtree Corners III, LLC | 50.00 | -- |
| MH-HIW Rocky Point, LLC | 50.00 | -- |
| MG-HIW Metrowest I, LLC | 50.00 | -- |
| MG-HIW Metrowest II, LLC | 50.00 | -- |

Selected aggregate financial data for unconsolidated affiliates for 2000 and 1999 is presented below:

| | 2000 | 1999 |
|-------------------------|----------------|-----------|
| | (in thousands) | |
| Total assets | \$858,935 | \$374,566 |
| Total liabilities | \$569,360 | \$266,832 |
| Net income | \$ 11,753 | \$ 5,473 |

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, 2000 and 1999:

| | 2000 | 1999 |
|---|----------------|-------------|
| | ----- | ----- |
| | (in thousands) | |
| Mortgage notes payable: | | |
| 9.0% mortgage note due 2005 | \$ 37,697 | \$ 38,400 |
| 8.1% mortgage note due 2005 | 29,328 | 29,914 |
| 8.2% mortgage note due 2007 | 71,183 | 42,167 |
| 7.8% mortgage note due 2009 | 92,840 | 94,024 |
| 7.9% mortgage note due 2009 | 92,861 | 94,027 |
| 7.8% mortgage note due 2010 | 136,836 | -- |
| 8.0% mortgage notes due 2013 | -- | 59,064 |
| 6.0% to 10.5% mortgage notes due between | | |
| 2000 and 2022 | 129,736 | 185,080 |
| Industrial Revenue Bonds due 2015 | 37,000 | 37,000 |
| Variable rate mortgage note due 2001 | 8,199 | -- |
| Variable rate mortgage notes due 2021 | -- | 1,889 |
| | ----- | ----- |
| | 635,680 | 581,565 |
| | ----- | ----- |
| Unsecured indebtedness: | | |
| 6.75% notes due 2003 | \$ 100,000 | \$ 100,000 |
| 8.0% notes due 2003 | 146,500 | 150,000 |
| 7.0% notes due 2006 | 110,000 | 110,000 |
| 7.125% notes due 2008 | 100,000 | 100,000 |
| 8.125% notes due 2009 | 50,000 | 50,000 |
| 7.19% notes due 2011 | 100,000 | 100,000 |
| 6.835% notes due 2013 | 125,000 | 125,000 |
| 7.5% notes due 2018 | 200,000 | 200,000 |
| Variable rate note due 2002 | 19,839 | 20,552 |
| Revolving loan due 2001 and 2003 | -- | 229,000 |
| | ----- | ----- |
| | 951,339 | 1,184,552 |
| | ----- | ----- |
| Total | \$1,587,019 | \$1,766,117 |
| | ===== | ===== |

Secured Indebtedness

Mortgage notes payable were secured by real estate assets with an aggregate carrying value of \$1.0 billion at December 31, 2000.

Unsecured Indebtedness

On June 24, 1997, the Operating Partnership sold \$100.0 million of Exercisable Put Option Notes due June 15, 2011 (the "Put Option Notes"). The Put Option Notes bear an interest rate of 7.19%. 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 \$125.0 million of MandatOry Par Put Remarketed Securities ("MOPPRS") due February 1, 2013. The MOPPRS bear an interest rate of 6.835%. Under certain circumstances, the MOPPRS could become subject to early maturity on January 31, 2003.

On December 14, 2000, the Company obtained its new \$300.0 million revolving loan (the "Revolving Loan") from a group of 10 lender banks. The Revolving Loan matures in December 2003 and replaces the Company's previous \$450.0 million revolving credit facility. The Revolving Loan carries an interest rate based upon the Company's senior unsecured credit ratings. As a result, interest would currently accrue on borrowings under the Revolving Loan at an average rate of LIBOR plus 85 basis points. The

HIGHWOODS PROPERTIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (Continued)

3. MORTGAGES AND NOTES PAYABLE -- Continued

Revolving Loan also includes a \$150.0 million competitive bid sub-facility. At December 31, 2000, the Company had not borrowed any funds under the Revolving Loan. The terms of the Revolving Loan require the Company to pay an annual facility fee equal to .20% of the aggregate amount of the Revolving Loan and require compliance with certain financial covenants. At December 31, 2000, 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.

The following table sets forth information regarding the Company's interest rate hedge contracts as of December 31, 2000 (\$ in thousands):

| Type of Hedge | Notional Amount | Maturity Date | Reference Rate | Fixed Rate | Fair Market Value |
|---------------|-----------------|---------------|-----------------------|--------------|-------------------|
| Swap | \$19,839 | 6/10/02 | 1-Month LIBOR + 0.75% | 6.95% | \$ (125) |
| Collar | \$80,000 | 10/01/01 | 1-Month LIBOR | 5.60 - 6.25% | \$ (2) |
| Cap | \$ 8,434 | 6/15/01 | 1-Month LIBOR | 7.75% | \$ -- |

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 receipts/(payments) made to counterparties under interest rate hedge contracts were (\$206,894), \$304,720 and \$48,000 in 2000, 1999 and 1998, respectively, and were recorded as (decreases)/increases to 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.

HIGHWOODS PROPERTIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (Continued)

3. MORTGAGES AND NOTES PAYABLE -- Continued

Other Information

The aggregate maturities of the mortgage and notes payable at December 31, 2000 are as follows:

| Year of Maturity | Principal Amount |
|------------------|------------------|
| ----- | ----- |
| | (in thousands) |
| 2001 | \$ 19,226 |
| 2002 | 58,455 |
| 2003 | 262,031 |
| 2004 | 13,957 |
| 2005 | 80,944 |
| Thereafter | 1,152,406 |
| | ----- |
| | \$1,587,019 |
| | ===== |

Total interest capitalized was approximately \$23,669,000, \$29,147,000 and \$17,968,000 in 2000, 1999 and 1998, respectively.

4. EMPLOYEE BENEFIT PLANS

Management Compensation Program

The Company's executive officers participate in an annual cash incentive bonus program whereby they are eligible for cash bonuses based on a percentage of their annual base salary as of the prior December. Each executive's target level bonus is determined by competitive analysis and the executive's ability to influence overall performance of the Company and, assuming certain levels of the Company's performance, ranges from 40% to 85% of base salary depending on position in the Company. The eligible bonus percentage for each executive is determined by a weighted average of the Company's actual performance versus its annual plan using the following measures: return on invested capital; growth in funds from operations ("FFO") per share; property level cash flow as a percentage of plan; general and administrative expenses as a percentage of revenue; and growth in same store net operating income. To the extent this weighted average is less than or exceeds the Company's targeted performance level, the bonus percentage paid is proportionally reduced or increased on a predetermined scale. Depending on the Company's performance, annual incentive bonuses could range from zero to 200% of an executive's target level bonus. Bonuses are accrued in the year earned and are included in accrued expenses in the Consolidated Balance Sheets.

Beginning on January 1, 1999, the Company established a Shareholder Value Plan which allows executive officers to participate in a long term incentive plan which includes annual grants of stock options and restricted shares. The mix of awards varies by position in the Company. The stock options vest ratably over four years. The restricted shares vest 50% after three years and 50% after five years. The

HIGHWOODS PROPERTIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (Continued)

4. EMPLOYEE BENEFIT PLANS -- Continued

awards are recorded at market value on the date of grant as unearned compensation expense and amortized over the restriction periods. Generally, recipients are eligible to receive dividends on restricted stock issued. Restricted stock and annual expense information is as follows:

| | 2000 |
|--|-----------|
| | ----- |
| Restricted shares outstanding at January 1, 2000 | -- |
| Number of restricted shares awarded | 112,903 |
| Restricted shares repurchased or cancelled | (7,958) |
| | ----- |
| Restricted shares outstanding at December 31, 2000 | 104,945 |
| | ===== |
| Annual expense, net | \$561,000 |
| | ===== |
| Average fair value per share | \$ 24.19 |
| | ===== |

The Shareholder Value Plan rewards the executive officers of the Company when the total shareholder returns measured by increases in the market value of the Common Stock plus the dividends on those shares exceeds a comparable index of the Company's peers over a three year period. The payout for this program is determined by the Company's percent change in shareholder return compared to the composite index of its peer group. If the Company's performance is not at least 100% of the peer group index, no payout is made. To the extent performance exceeds the peer group, the payout increases. A new three year plan cycle begins each year under this program.

In September 2000, the Company established a deferred compensation plan pursuant to which various executive officers could elect to defer a portion of the compensation that would otherwise be paid to the executive officer for investment in units of phantom stock. The maximum amount any executive officer can elect to defer for investment in units of phantom stock in any year is 25% each of his gross base salary and annual incentive bonus. At the end of each calendar quarter, any executive officer that elects to defer compensation in such a manner is credited with units of phantom stock at a 15% discount. Payouts will generally be made five years after the end of the calendar year in which units of phantom stock were credited.

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 6.0% of compensation deferred at the rate of 75.0% of employee contributions. During 2000, 1999 and 1998, the Company contributed \$955,303, \$763,319, and \$588,000, respectively, to the 401(k) savings 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 85% 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 55,593 and 29,214 shares of Common Stock under the Employee Stock Purchase Plan during the years ended December 31, 2000 and 1999, respectively.

HIGHWOODS PROPERTIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (Continued)

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, 2000, are as follows (in thousands):

| | |
|------------------|-------------|
| 2001 | \$ 425,080 |
| 2002 | 394,587 |
| 2003 | 342,600 |
| 2004 | 285,812 |
| 2005 | 229,350 |
| Thereafter | 839,586 |
| | ----- |
| | \$2,517,015 |
| | ===== |

6. RELATED PARTY TRANSACTIONS

The Company makes advances to Highwoods Services, Inc. for working capital purposes. These advances bear interest at a rate of 8% per annum, are due on demand and totaled \$27.1 million at December 31, 2000, and \$15.1 million at December 31, 1999. The Company recorded interest income from these advances of \$1.2 million, \$1.1 million and \$826,000 for the years ended December 31, 2000, 1999 and 1998, 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 July 16, 1999, the Company purchased development land and an option to purchase other development land in the Bluegrass Valley office development project from the same limited liability company controlled by the same executive officer and director of the Company for approximately \$4.6 million in Common Units.

During 2000, the Company sold certain properties encompassing 2.0 million square feet to an entity controlled by a former executive officer and director for approximately \$169.0 million, consisting of cash, shares of Common Stock, Common Units and the waiver and/or termination of certain outstanding obligations existing under various agreements between the Company and such former executive officer and director.

7. STOCKHOLDERS' EQUITY

Common Stock Distributions

Distributions paid on Common Stock were \$2.25, \$2.19 and \$2.10 per share for the years ended December 31, 2000, 1999 and 1998, respectively.

HIGHWOODS PROPERTIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (Continued)

7. STOCKHOLDERS' EQUITY -- Continued

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

| | 2000 | 1999 | 1998 |
|-------------------------|---------|---------|---------|
| | ----- | ----- | ----- |
| Per share: | | | |
| Ordinary income | \$ 1.67 | \$ 1.70 | \$ 1.84 |
| Capital gains | .58 | .49 | .01 |
| Return of capital | -- | -- | .25 |
| | ----- | ----- | ----- |
| Total | \$ 2.25 | \$ 2.19 | \$ 2.10 |
| | ===== | ===== | ===== |

The Company's tax returns for the year ended December 31, 2000 have not been filed, and the taxability information for 2000 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.

As of December 31, 2000, the tax basis of the Company's assets was \$3,178,835,000.

On January 30, 2001, the Board of Directors declared a Common Stock distribution of \$.57 per share payable on February 22, 2001, to stockholders of record on February 9, 2001.

Preferred Stock

On February 12, 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. Of the \$86.25 distribution paid per Series A Preferred Share in 2000, \$67.14 will be taxed as ordinary income and \$19.11 will be taxed as capital gain.

On September 25, 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. Of the \$2.00 distribution paid per Series B Preferred Share 2000, \$1.56 will be taxed as ordinary income and \$0.44 will be taxed as capital gain.

On April 23, 1998, the Company issued 4,000,000 depository shares (the "Series D Depository Shares"), each representing a 1/10 fractional interest in an 8% Series D Cumulative Redeemable Preferred

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (Continued)

7. STOCKHOLDERS' EQUITY -- Continued

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. Of the \$20.00 distribution paid per Series D Preferred Share in 2000, \$15.57 will be taxed as ordinary income and \$4.43 will be taxed as capital gain.

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 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.

Equity Settlement

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 provided that if the market price was less than a certain amount, referred to as the "Forward Price," the Company would be required to pay UB-LB the difference times 1.8 million. (Similarly, if the Market Price of a share of Common Stock was above the Forward Price, UB-LB was required to pay the Company the difference in shares of Common Stock.)

On February 28, 1999, the Company and UB-LB amended the forward contract. Pursuant to the amendment, UB-LB applied \$12.8 million in Company collateral to "buy down" the Forward Price by approximately \$7.10 and the Company issued 161,924 shares of Common Stock to UB-LB as an interim settlement payment. On June 9, 1999, the Company settled the transaction. In connection with the settlement, 246,424 shares of Common Stock were returned and canceled.

HIGHWOODS PROPERTIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (Continued)

7. STOCKHOLDERS' EQUITY -- Continued

Stock Repurchase

On December 14, 1999, the Company announced that its board of directors had authorized a share repurchase plan pursuant to which the Company may, at its sole discretion, repurchase up to 10.0 million shares of its outstanding Common Stock and Common Units. As of December 31, 2000, the Company had used net proceeds from its disposition activity, either through direct payments or repayment of borrowings under the Revolving Loan, to repurchase 5.4 million shares of Common Stock and Common Units through periodic open market or privately negotiated transactions at a weighted average price of \$23.36 per share.

8. 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 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.

HIGHWOODS PROPERTIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (Continued)

8. EARNINGS PER SHARE -- Continued

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

| | 2000 | 1999 | 1998 |
|--|--|-----------|-----------|
| | ----- | ----- | ----- |
| | (in thousands, except per share amounts) | | |
| Numerator: | | | |
| Income before minority interest and extraordinary item | \$157,189 | \$166,213 | \$150,372 |
| Non-convertible preferred stock dividends (4) | (32,580) | (32,580) | (30,092) |
| Minority interest | (18,991) | (20,779) | (24,335) |
| General partner's portion of extraordinary item | (4,711) | (7,341) | (387) |
| | ----- | ----- | ----- |
| Numerator for basic earnings per share -- income available to common shareholders | \$100,907 | \$105,513 | \$ 95,558 |
| Effect of dilutive securities: | | | |
| Minority interest | --(1) | --(2) | --(3) |
| Minority interest portion of extraordinary item | --(1) | --(2) | --(3) |
| | ----- | ----- | ----- |
| | --(1) | --(2) | --(3) |
| Numerator for diluted earnings per share -- net income available to common shareholders -- after assumed conversions | \$100,875 | \$105,513 | \$ 95,558 |
| Denominator: | | | |
| Denominator for basic earnings per share -- weighted-average shares | 59,175 | 61,443 | 54,791 |
| Effect of dilutive securities: | | | |
| Employee stock options (4) | 162 | 78 | 240 |
| Warrants (4) | 10 | 8 | 45 |
| Common Units converted | --(1) | --(2) | --(3) |
| | ----- | ----- | ----- |
| Dilutive potential common shares | 172 | 86 | 285 |
| Denominator for diluted earnings per share -- adjusted weighted average shares and assumed conversions | 59,347 | 61,529 | 55,076 |
| Basic earnings per share | \$ 1.70 | \$ 1.72 | \$ 1.74 |
| | ===== | ===== | ===== |
| Diluted earnings per share | \$ 1.70 | \$ 1.71 | \$ 1.74 |
| | ===== | ===== | ===== |

(1) 8.4 million Common Units and the related \$19.0 million in minority interest, net of \$584,000 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) 9.3 million Common Units and the related \$20.8 million in minority interest, net of \$959,000 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) 10.5 million Common Units and the related \$24.3 million 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.

(4) 7.7 million Common Units and the related \$15.1 million in minority interest, net of \$1.1 million 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.

For additional disclosures regarding outstanding preferred stock, the employee stock options and the warrants, see Notes 4, 7 and 9.

HIGHWOODS PROPERTIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (Continued)

9. STOCK OPTIONS AND WARRANTS

As of December 31, 2000, 6,000,000 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.

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 123 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 2000 was estimated at the dates of grant using the following weighted average assumptions: risk-free interest rates ranging between 5.78% and 6.67%, dividend yield of 10.91% and a weighted average expected life of the options of five years. The fair value of the options granted in 1999 was estimated at the dates of grant using the following weighted average assumptions: risk-free interest rates ranging between 4.21% and 6.81%, dividend yield of 10.65% and a weighted average expected life of the options of five years. The fair value of the options granted in 1998 was estimated at the dates of grant using the following weighted average assumptions: risk-free interest 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. Had the compensation cost for the Company's stock option plans been determined based on the fair value at the dates of grant for awards in 2000, 1999 and 1998 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 | | |
|---|--|------------|----------|
| | 2000 | 1999 | 1998 |
| | (dollars in thousands, except per share amounts) | | |
| Net income -- as reported | \$ 100,907 | \$ 105,513 | \$95,558 |
| Net income -- pro forma | \$ 98,468 | \$ 103,181 | \$93,394 |
| Net income per share -- basic (as reported) | \$ 1.70 | \$ 1.72 | \$ 1.74 |
| Net income per share -- diluted (as reported) | \$ 1.70 | \$ 1.71 | \$ 1.74 |
| Net income per share -- basic (pro forma) | \$ 1.66 | \$ 1.68 | \$ 1.70 |
| Net income per share -- diluted (pro forma) | \$ 1.66 | \$ 1.68 | \$ 1.70 |

The following table summarizes information about employees' and Board of Directors' stock options outstanding at December 31, 2000, 1999 and 1998:

| | Options Outstanding | |
|-------------------------------------|---------------------|--|
| | Number of Shares | Weighted Average Exercise Price |
| 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 granted | 1,091,051 | 22.24 |
| Options canceled | (614,328) | 30.82 |
| Options exercised | (100,840) | 19.91 |
| Balances at December 31, 1999 | 4,399,434 | 28.01 |
| Options granted | 1,050,204 | 20.96 |
| Options canceled | (2,072,453) | 32.17 |
| Options exercised | (103,527) | 16.87 |
| Balances at December 31, 2000 | 3,273,658 | \$ 23.06 |
| | ===== | ===== |
| | Options Exercisable | |
| | Number of Shares | Weighted Average Exercise Price |
| December 31, 1998 | 1,315,898 | \$ 26.65 |
| December 31, 1999 | 1,227,004 | \$ 26.47 |
| December 31, 2000 | 1,242,629 | \$ 24.45 |

Exercise prices for options outstanding as of December 31, 2000 ranged from \$9.54 to \$35.88. The weighted average remaining contractual life of those options is 7.5 years. Using the Black-Scholes options valuation model, the weighted average fair value of options granted during 2000, 1999 and 1998 was \$0.90, \$0.68 and \$2.98, respectively.

Warrants

In connection with various acquisitions in 1997, 1996 and 1995, the Company issued warrants to purchase shares of Common Stock.

HIGHWOODS PROPERTIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (Continued)

9. STOCK OPTIONS AND WARRANTS -- Continued

The following table sets forth information regarding warrants outstanding as of December 31, 2000:

| Date of Issuance | Number of Warrants | Exercise Price |
|---------------------|--------------------|----------------|
| ----- | ----- | ----- |
| February 1995 | 35,000 | \$ 21.00 |
| April 1996 | 150,000 | \$ 28.00 |
| October 1997 | 538,035 | \$ 32.50 |
| December 1997 | 120,000 | \$ 34.13 |
| | ----- | |
| Total | 843,035 | |
| | ===== | |

The warrants granted in February 1995, April 1996 and December 1997 expire 10 years from the respective dates of issuance. All warrants are exercisable from the dates of issuance. The warrants granted in October 1997 do not have an expiration date.

10. COMMITMENTS AND CONTINGENCIES

Lease

Certain properties in the Company's wholly owned 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):

| | |
|------------------|----------|
| 2001 | \$ 1,236 |
| 2002 | 1,211 |
| 2003 | 1,194 |
| 2004 | 1,194 |
| 2005 | 1,194 |
| Thereafter | 48,840 |
| | ----- |
| | \$54,869 |
| | ===== |

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 asserts claims against J.C. Nichols and certain named directors and officers of J.C. Nichols for breach of fiduciary duty to J.C. Nichols' stockholders and to members of the J.C. Nichols Company Employee Stock Ownership Trust, as well as claims under Section 14(a) of the Securities Exchange Act of 1934 and Sections 11 and 12(2) of the Securities Act of 1933 variously against J.C. Nichols, the named directors and officers of J.C. Nichols and the Company. By order dated June 18, 1999, the court granted in part and denied in part our motion to dismiss, and the court thereafter certified the proposed class of plaintiffs with respect to the remaining claims. By order dated August 28, 2000, the court granted in part and denied in part defendants' summary judgment

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (Continued)

10. COMMITMENTS AND CONTINGENCIES -- Continued

motion. Defendants sought reconsideration of the court's ruling with respect to certain of the securities claims as to which the court denied their summary judgment motion, and by order dated January 11, 2001, the court granted in part that reconsideration motion. On the eve of the trial of this matter, the parties settled all their remaining claims. The terms of that settlement are now being documented. The Company does not believe the settlement will have a material adverse effect on its business, financial condition or results of operations.

In addition, the Company is a party to a variety of legal proceedings arising in the ordinary course of its 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 \$417.4 million at December 31, 2000. The amounts remaining on these contracts as of December 31, 2000 totaled \$81.5 million.

The Company has entered into various contracts under which it is committed to acquire 97.4 acres of land over a three year period for an aggregate purchase price of approximately \$11.5 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 material effect on the estimated fair values. The carrying amounts and estimated fair values of the Company's financial instruments at December 31, 2000 were as follows:

HIGHWOODS PROPERTIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (Continued)

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

| | Carrying Amount | Fair Value |
|-------------------------------------|--------------------|---------------|
| | ----- | ----- |
| | (in thousands) | |
| Cash and cash equivalents | \$ 104,780 | \$ 104,780 |
| Accounts and notes receivable | \$ 104,921 | \$ 104,921 |
| Mortgages and notes payable | \$1,587,019 | \$1,613,783 |
| Interest rate hedge contracts | \$ 554 | \$ (127) |

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, 2000, 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, 2000. 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 AND DISPOSITIONS

On July 13, 1998, the Company completed its acquisition of 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 \$544.0 million and consisted of the issuance of approximately 5.63 million shares of the Company's Common Stock, the assumption of approximately \$229.0 million of debt, approximately \$15.0 million in transaction costs and a cash payment of approximately \$120.0 million, net of cash acquired of approximately \$59.0 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 1998.

During 1999, the Company sold approximately 3.3 million rentable square feet of office and industrial properties, 49 acres of development land in the South Florida area and 36 in-service central Florida office properties encompassing 2.1 million rentable square feet for gross proceeds of approximately \$488.3 million. In addition, the Company sold approximately 2.9 million rentable square feet of office and industrial properties for gross proceeds of \$208.1 million. The Company recorded a gain of \$8.7 million related to these dispositions.

In addition to the properties sold or contributed to the joint ventures, during 2000, as discussed in Note 2, the Company sold approximately 4.8 million rentable square feet of office and industrial properties and 272.0 acres of development land for gross proceeds of \$369.5 million. Since December 31, 2000, the Company has sold 76,000 square feet of office properties and 277 apartment units for gross proceeds of \$46.8 million.

HIGHWOODS PROPERTIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (Continued)

13. SUPPLEMENTAL PRO FORMA INFORMATION (UNAUDITED) The following unaudited pro forma information has been prepared assuming the acquisition of J.C. Nichols Company occurred as of January 1, 1998 (in thousands, except per share amounts):

| | Pro Forma Year Ended December 31, 1998 |
|--|---|
| ----- | |
| Revenues | \$ 559,083 |
| Net income before extraordinary item | \$ 132,986 |
| Net income | \$ 132,599 |
| Net income per share -- basic | \$ 1.87 |
| Net income per share -- diluted | \$ 1.86 |

The pro forma information is not necessarily indicative of what the Company's results of operations would have been if the transaction 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.

HIGHWOODS PROPERTIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (Continued)

14. SEGMENT INFORMATION -- Continued

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, 2000, 1999 and 1998:

| | Year Ended December 31, | | |
|---|-------------------------|------------|------------|
| | 2000 | 1999 | 1998 |
| | (in thousands) | | |
| Rental Income: | | | |
| Office segment | \$ 445,223 | \$ 466,027 | \$ 428,792 |
| Industrial segment | 44,559 | 51,168 | 48,134 |
| Retail segment | 36,127 | 32,799 | 13,922 |
| Apartment segment | 17,474 | 16,822 | 9,374 |
| Total Rental Income | \$ 543,383 | \$ 566,816 | \$ 500,222 |
| Net Operating Income: | | | |
| Office segment | \$ 310,955 | \$ 319,209 | \$ 292,774 |
| Industrial segment | 37,417 | 42,361 | 39,392 |
| Retail segment | 25,054 | 21,685 | 8,869 |
| Apartment segment | 10,190 | 9,486 | 4,864 |
| Total Net Operating Income | \$ 383,616 | \$ 392,741 | \$ 345,899 |
| Reconciliation to income before minority interest and extraordinary item: | | | |
| Equity in earnings of unconsolidated affiliates | 3,863 | 1,185 | 430 |
| Cost of unsuccessful transactions | -- | (1,500) | -- |
| Gain on disposition of assets | 4,659 | 8,679 | 1,716 |
| Interest and other income | 19,185 | 16,934 | 11,819 |
| Interest expense | (112,827) | (117,134) | (97,011) |
| General and administrative expenses | (21,864) | (22,345) | (20,776) |
| Depreciation and amortization | (119,443) | (112,347) | (91,705) |
| Income before minority interest and extraordinary item | \$ 157,189 | \$ 166,213 | \$ 150,372 |

| | At December 31, | | |
|---------------------------|-----------------|-------------|-------------|
| | 2000 | 1999 | 1998 |
| Total Assets: | | | |
| Office segment | \$2,661,914 | \$3,002,953 | \$3,268,124 |
| Industrial segment | 299,660 | 435,022 | 495,675 |
| Retail segment | 273,023 | 258,853 | 239,555 |
| Apartment segment | 118,144 | 118,549 | 139,093 |
| Corporate and other | 348,861 | 200,820 | 171,886 |
| Total Assets | \$3,701,602 | \$4,016,197 | \$4,314,333 |

15. SUBSEQUENT EVENTS (UNAUDITED)

From January 1, 2001 to March 8, 2001, the Company repurchased 2.6 million shares of Common Stock and Common Units at a weighted average price of \$25.19 per share/unit for an aggregate purchase price of approximately \$65.1 million.

HIGHWOODS PROPERTIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (Continued)

15. SUBSEQUENT EVENTS -- Continued

In 1999, legislation affecting REITs was enacted that became effective January 1, 2001. As part of this legislation, REITs are permitted to own, directly or indirectly, taxable subsidiaries through which the REIT can provide non-customary services to its tenants without tainting the rents received by the REIT. Highwoods Services, Inc. was converted, tax-free, into a taxable REIT subsidiary on January 1, 2001.

16. SELECTED QUARTERLY FINANCIAL DATA (UNAUDITED):

Selected quarterly financial data for the years ended December 31, 2000 and 1999 are as follows:

| | For the year ended December 31, 2000 | | | | |
|---|--------------------------------------|----------------|---------------|----------------|------------|
| | First Quarter | Second Quarter | Third Quarter | Fourth Quarter | Total |
| Total Revenue | \$141,159 | \$ 145,121 | \$138,986 | \$141,165 | \$ 566,431 |
| Income before cost of unsuccessful transactions, gain/(loss) on disposition of assets, minority interest and extraordinary item | 40,506 | 40,537 | 35,938 | 35,549 | 152,530 |
| Gain/(loss) on disposition of assets | 6,946 | (26,062) | 10,552 | 13,223 | 4,659 |
| Income before minority interest and extraordinary item | 47,452 | 14,475 | 46,490 | 48,772 | 157,189 |
| Minority interest | (6,020) | (1,822) | (5,298) | (5,851) | (18,991) |
| Extraordinary item -- loss on early extinguishment of debt | (195) | (839) | (3,310) | (367) | (4,711) |
| Net income | 41,237 | 11,814 | 37,882 | 42,554 | 133,487 |
| Dividends on preferred stock | (8,145) | (8,145) | (8,145) | (8,145) | (32,580) |
| Net income available for common shareholders | \$ 33,092 | \$ 3,669 | \$ 29,737 | \$ 34,409 | \$ 100,907 |
| Net income per common share -- basic: | | | | | |
| Income before extraordinary item | \$ 0.55 | \$ 0.08 | \$ 0.56 | \$ 0.59 | \$ 1.78 |
| Extraordinary item -- loss on early extinguishment of debt | -- | (0.01) | (0.06) | (0.01) | (0.08) |
| Net income | \$ 0.55 | \$ 0.07 | \$ 0.50 | \$ 0.58 | \$ 1.70 |
| Net income per common share -- diluted: | | | | | |
| Income before extraordinary item | \$ 0.55 | \$ 0.08 | \$ 0.56 | \$ 0.59 | \$ 1.78 |
| Extraordinary item -- loss on early extinguishment of debt | -- | (0.01) | (0.06) | (0.01) | (0.08) |
| Net income | \$ 0.55 | \$ 0.07 | \$ 0.50 | \$ 0.58 | \$ 1.70 |

HIGHWOODS PROPERTIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (Continued)

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

| | For the year ended December 31, 1999 | | | | |
|--|--------------------------------------|----------------|---------------|----------------|------------|
| | First Quarter | Second Quarter | Third Quarter | Fourth Quarter | Total |
| Total Revenue | \$152,205 | \$147,842 | \$140,627 | \$144,261 | \$ 584,935 |
| Income before cost of unsuccessful transactions, gain on disposition of assets, minority interest and extraordinary item | 40,291 | 39,713 | 42,215 | 36,815 | 159,034 |
| Cost of unsuccessful transactions | -- | -- | -- | (1,500) | (1,500) |
| Gain on disposition of assets | 569 | 1,524 | 846 | 5,740 | 8,679 |
| Income before minority interest and extraordinary item | 40,860 | 41,237 | 43,061 | 41,055 | 166,213 |
| Minority interest | (5,826) | (4,879) | (5,065) | (5,009) | (20,779) |
| Extraordinary item -- loss on early extinguishment of debt..... | -- | (777) | (4,997) | (1,567) | (7,341) |
| Net income | 35,034 | 35,581 | 32,999 | 34,479 | 138,093 |
| Dividends on preferred stock | (8,145) | (8,145) | (8,145) | (8,145) | (32,580) |
| Net income available for common shareholders | \$ 26,889 | \$ 27,436 | \$ 24,854 | \$ 26,334 | \$ 105,513 |
| Net income per common share -- basic: | | | | | |
| Income before extraordinary item | \$ 0.45 | \$ 0.46 | \$ 0.48 | \$ 0.45 | \$ 1.84 |
| Extraordinary item -- loss on early extinguishment of debt | -- | (0.01) | (0.08) | (0.03) | (0.12) |
| Net income | \$ 0.45 | \$ 0.45 | \$ 0.40 | \$ 0.42 | \$ 1.72 |
| Net income per common share -- diluted: | | | | | |
| Income before extraordinary item | \$ 0.45 | \$ 0.46 | \$ 0.48 | \$ 0.44 | \$ 1.83 |
| Extraordinary item -- loss on early extinguishment of debt | -- | (0.01) | (0.08) | (0.03) | (0.12) |
| Net income | \$ 0.45 | \$ 0.45 | \$ 0.40 | \$ 0.41 | \$ 1.71 |

HIGHWOODS PROPERTIES, INC.

SCHEDULE III -- REAL ESTATE AND ACCUMULATED DEPRECIATION

December 31, 2000
(in thousands)

| Description | 2000 Encumbrance | Initial Cost | | Cost Capitalized Subsequent to Acquisition | |
|--|---------------------|--------------|----------------------------|--|----------------------------|
| | | Land | Building & Improvements | Land | Building & Improvements |
| Asheville, NC | | | | | |
| Ridgefield I | -- | 636 | 3,607 | (636) | (3,607) |
| Ridgefield II | -- | 910 | 5,157 | (910) | (5,157) |
| Ridgefield III | -- | 743 | 4,722 | (743) | (4,722) |
| Ridgefield IV | -- | 791 | -- | -- | -- |
| Atlanta, GA | | | | | |
| Two Point Royal | -- | 1,793 | 14,951 | -- | 294 |
| 400 North Business Park | -- | 979 | 6,112 | -- | 189 |
| 50 Glenlake | -- | 2,500 | 20,000 | -- | 242 |
| 6348 Northeast Expressway | 1,319 | 277 | 1,629 | -- | 105 |
| 6438 Northeast Expressway | 1,495 | 181 | 2,225 | -- | 77 |
| Bluegrass Lakes | -- | 816 | 3,775 | -- | (11) |
| Bluegrass Place 1 | -- | 491 | 2,016 | -- | 25 |
| Bluegrass Place 2 | -- | 412 | 2,529 | -- | 41 |
| Bluegrass Valley 1 | -- | 1,363 | -- | -- | 3,641 |
| Bluegrass Land Site V10 | -- | 1,812 | -- | -- | -- |
| Bluegrass Land Site V14 | -- | 1,419 | -- | -- | -- |
| 1700 Century Circle | -- | -- | 2,456 | -- | -- |
| 1700 Century Center | -- | 1,115 | 3,148 | -- | 514 |
| 1800 Century Boulevard | -- | 1,441 | 28,939 | -- | 608 |
| 1875 Century Boulevard | -- | -- | 8,790 | -- | 376 |
| 1900 Century Boulevard | -- | -- | 4,721 | -- | 605 |
| 2200 Century Parkway | -- | -- | 14,274 | -- | 1,302 |
| 2400 Century Center | -- | -- | 14,970 | -- | 20 |
| 2600 Century Parkway | -- | -- | 10,254 | -- | 1,058 |
| 2635 Century Parkway | -- | -- | 21,083 | -- | 1,268 |
| 2800 Century Parkway | -- | -- | 19,963 | -- | 385 |
| Chattahoochee Avenue | -- | 248 | 1,817 | -- | 241 |
| Chastain Place I | -- | 472 | 3,011 | -- | 924 |
| Chastain Place II | -- | 607 | 2,097 | -- | 8 |
| Chastain Place III | -- | 539 | 1,662 | -- | (9) |
| Corporate Lakes Distribution Center | -- | 1,275 | 7,227 | -- | 503 |
| Cosmopolitan North | -- | 2,855 | 4,155 | -- | 900 |
| Century Plaza 1 | -- | 1,290 | 8,425 | -- | 164 |
| Century Plaza 2 | -- | 1,380 | 7,589 | -- | 186 |
| Century Plaza 3 | -- | 570 | -- | -- | -- |
| Deerfield Land | -- | 879 | -- | (879) | -- |
| Deerfield 1 | -- | 1,194 | 2,612 | (1,194) | (2,612) |
| Deerfield 3 | -- | -- | -- | -- | -- |
| EKA Chemical | -- | 609 | 9,883 | -- | 3 |
| 1035 Fred Drive | -- | 270 | 1,239 | -- | 31 |
| 1077 Fred Drive | -- | 384 | 1,191 | (384) | (1,191) |
| 5125 Fulton Industrial Blvd | -- | 578 | 3,116 | -- | 92 |
| Fulton Corporate Center | -- | 542 | 2,042 | (542) | (2,042) |
| 10 Glenlake | -- | 3,021 | 30,966 | (3,021) | (30,856) |
| Gwinnett Distribution Center | -- | 1,128 | 5,943 | -- | 399 |
| Kennestone Corporate Center | -- | 518 | 4,874 | -- | 247 |
| Lavista Business Park | -- | 821 | 5,244 | -- | 619 |
| Norcross, I, II | -- | 326 | 1,979 | -- | 81 |
| Nortel | -- | 3,342 | 32,109 | -- | 14 |
| Newpoint Place I | -- | 825 | 3,799 | -- | 20 |
| Newpoint Place II | -- | 1,436 | 3,321 | 47 | 556 |
| Newpoint Place III | -- | 661 | 1,866 | -- | 694 |
| Newpoint Place IV | -- | -- | -- | -- | -- |
| Newpoint Place | -- | 187 | -- | 3,039 | 10 |
| Oakbrook I | (6) | 873 | 4,948 | -- | 144 |

Gross Amount at
Which Carried at Close of Period

Building &

Accumulated

Date of

Life on
Which
Depreciation

| Description | Land | Improvements | Total | Depreciation | Construction | is Computed |
|-------------------------------------|-------|--------------|--------|--------------|--------------|-------------|
| Asheville, NC | | | | | | |
| Ridgefield I | -- | -- | -- | -- | 1987 | 5-40 yrs. |
| Ridgefield II | -- | -- | -- | -- | 1989 | 5-40 yrs. |
| Ridgefield III | -- | -- | -- | -- | 1998 | 5-40 yrs. |
| Ridgefield IV | 791 | -- | 791 | -- | N/A | N/A |
| Atlanta, GA | | | | | | |
| Two Point Royal | 1,793 | 15,245 | 17,038 | 1,210 | 1997 | 5-40 yrs. |
| 400 North Business Park | 979 | 6,301 | 7,280 | 619 | 1985 | 5-40 yrs. |
| 50 Glenlake | 2,500 | 20,242 | 22,742 | 1,648 | 1997 | 5-40 yrs. |
| 6348 Northeast Expressway | 277 | 1,734 | 2,011 | 170 | 1978 | 5-40 yrs. |
| 6438 Northeast Expressway | 181 | 2,302 | 2,483 | 230 | 1981 | 5-40 yrs. |
| Bluegrass Lakes | 816 | 3,764 | 4,580 | 301 | 1999 | 5-40 yrs. |
| Bluegrass Place 1 | 491 | 2,041 | 2,532 | 174 | 1995 | 5-40 yrs. |
| Bluegrass Place 2 | 412 | 2,570 | 2,982 | 218 | 1996 | 5-40 yrs. |
| Bluegrass Valley 1 | 1,363 | 3,641 | 5,004 | 87 | 2000 | 5-40 yrs. |
| Bluegrass Land Site V10 | 1,812 | -- | 1,812 | -- | 1999 | 5-40 yrs. |
| Bluegrass Land Site V14 | 1,419 | -- | 1,419 | -- | 1999 | 5-40 yrs. |
| 1700 Century Circle | -- | 2,456 | 2,456 | 3 | 1983 | 5-40 yrs. |
| 1700 Century Center | 1,115 | 3,662 | 4,777 | 552 | 1972 | 5-40 yrs. |
| 1800 Century Boulevard | 1,441 | 29,547 | 30,988 | 2,997 | 1975 | 5-40 yrs. |
| 1875 Century Boulevard | -- | 9,166 | 9,166 | 961 | 1976 | 5-40 yrs. |
| 1900 Century Boulevard | -- | 5,326 | 5,326 | 677 | 1971 | 5-40 yrs. |
| 2200 Century Parkway | -- | 15,576 | 15,576 | 1,828 | 1971 | 5-40 yrs. |
| 2400 Century Center | -- | 14,990 | 14,990 | 1,747 | 1998 | 5-40 yrs. |
| 2600 Century Parkway | -- | 11,312 | 11,312 | 1,122 | 1973 | 5-40 yrs. |
| 2635 Century Parkway | -- | 22,351 | 22,351 | 2,382 | 1980 | 5-40 yrs. |
| 2800 Century Parkway | -- | 20,348 | 20,348 | 2,016 | 1983 | 5-40 yrs. |
| Chattahoochee Avenue | 248 | 2,058 | 2,306 | 318 | 1970 | 5-40 yrs. |
| Chastain Place I | 472 | 3,935 | 4,407 | 721 | 1997 | 5-40 yrs. |
| Chastain Place II | 607 | 2,105 | 2,712 | 292 | 1998 | 5-40 yrs. |
| Chastain Place III | 539 | 1,653 | 2,192 | 182 | 1999 | 5-40 yrs. |
| Corporate Lakes Distribution Center | 1,275 | 7,730 | 9,005 | 928 | 1988 | 5-40 yrs. |
| Cosmopolitan North | 2,855 | 5,055 | 7,910 | 738 | 1980 | 5-40 yrs. |
| Century Plaza 1 | 1,290 | 8,589 | 9,879 | 294 | 1981 | 5-40 yrs. |
| Century Plaza 2 | 1,380 | 7,775 | 9,155 | 257 | 1984 | 5-40 yrs. |
| Century Plaza 3 | 570 | -- | 570 | -- | 1984 | 5-40 yrs. |
| Deerfield Land | -- | -- | -- | -- | N/A | N/A |
| Deerfield 1 | -- | -- | -- | -- | 1999 | 5-40 yrs. |
| Deerfield 3 | -- | -- | -- | -- | N/A | N/A |
| EKA Chemical | 609 | 9,886 | 10,495 | 690 | 1998 | 5-40 yrs. |
| 1035 Fred Drive | 270 | 1,270 | 1,540 | 126 | 1973 | 5-40 yrs. |
| 1077 Fred Drive | -- | -- | -- | -- | 1973 | 5-40 yrs. |
| 5125 Fulton Industrial Blvd | 578 | 3,208 | 3,786 | 337 | 1973 | 5-40 yrs. |
| Fulton Corporate Center | -- | -- | -- | -- | 1973 | 5-40 yrs. |
| 10 Glenlake | -- | 110 | 110 | -- | 1998 | 5-40 yrs. |
| Gwinnett Distribution Center | 1,128 | 6,342 | 7,470 | 689 | 1991 | 5-40 yrs. |
| Kennestone Corporate Center | 518 | 5,121 | 5,639 | 508 | 1985 | 5-40 yrs. |
| Lavista Business Park | 821 | 5,863 | 6,684 | 679 | 1973 | 5-40 yrs. |
| Norcross, I, II | 326 | 2,060 | 2,386 | 206 | 1970 | 5-40 yrs. |
| Nortel | 3,342 | 32,123 | 35,465 | 2,241 | 1998 | 5-40 yrs. |
| Newpoint Place I | 825 | 3,819 | 4,644 | 707 | 1998 | 5-40 yrs. |
| Newpoint Place II | 1,483 | 3,877 | 5,360 | 153 | 1999 | 5-40 yrs. |
| Newpoint Place III | 661 | 2,560 | 3,221 | 302 | 1998 | 5-40 yrs. |
| Newpoint Place IV | -- | -- | -- | -- | N/A | N/A |
| Newpoint Place | 3,226 | 10 | 3,236 | -- | N/A | N/A |
| Oakbrook I | 873 | 5,092 | 5,965 | 597 | 1981 | 5-40 yrs. |

| Description | 2000 Encumbrance | Initial Cost | | Cost Capitalized Subsequent to Acquisition | |
|--|---------------------|--------------|----------------------------|--|----------------------------|
| | | Land | Building & Improvements | Land | Building & Improvements |
| | | | | | |
| Oakbrook II | (6) | 1,579 | 8,388 | -- | 1,199 |
| Oakbrook III | (6) | 1,480 | 8,388 | -- | 220 |
| Oakbrook IV | (6) | 953 | 5,400 | -- | 154 |
| Oakbrook V | (6) | 2,206 | 12,501 | -- | 348 |
| Oakbrook Summitt | 4,497 | 950 | 6,572 | -- | 447 |
| Oxford Lake Business Center | -- | 855 | 7,014 | -- | 99 |
| Peachtree Corners Land | -- | 1,394 | -- | (386) | -- |
| Peachtree Corners I | -- | 1,923 | 5,100 | (1,923) | (5,100) |
| Peachtree Corners II | -- | 1,392 | 4,482 | (1,392) | (4,482) |
| Southside Distribution Center | -- | 810 | 1,219 | -- | 3,370 |
| Highwoods Center I @ Tradeport | -- | 305 | 3,299 | -- | 17 |
| HIW Center II at Tradeport | -- | 635 | 3,474 | -- | 768 |
| HIW Center III at Tradeport | -- | -- | -- | -- | -- |
| Atlanta Tradeport | -- | 6,694 | -- | (660) | 23 |
| Tradeport I | -- | 557 | 2,669 | -- | 173 |
| Tradeport II | -- | 557 | 3,456 | -- | 57 |
| Tradeport III | -- | -- | -- | 668 | 3,812 |
| Tradeport IV | -- | -- | -- | -- | -- |
| Baltimore, MD Sportsman Club | -- | 15,291 | -- | 8,797 | -- |
| Charlotte, NC | | | | | |
| 4101 Stuart Andrew Boulevard | -- | 70 | 510 | -- | 254 |
| 4105 Stuart Andrew Boulevard | -- | 26 | 189 | -- | 22 |
| 4109 Stuart Andrew Boulevard | -- | 87 | 636 | -- | 65 |
| 4201 Stuart Andrew Boulevard | -- | 110 | 809 | -- | 58 |
| 4205 Stuart Andrew Boulevard | -- | 134 | 979 | -- | 60 |
| 4209 Stuart Andrew Boulevard | -- | 91 | 665 | -- | 80 |
| 4215 Stuart Andrew Boulevard | -- | 133 | 978 | -- | 74 |
| 4301 Stuart Andrew Boulevard | -- | 232 | 1,702 | -- | 121 |
| 4321 Stuart Andrew Boulevard | -- | 73 | 534 | -- | 41 |
| 4601 Park Square | -- | 2,601 | 7,802 | -- | 270 |
| Alston & Bird | -- | 2,362 | 5,379 | 4 | 40 |
| First Citizens Building | -- | 647 | 5,528 | -- | 493 |
| Twin Lakes Distribution Center | -- | 2,816 | 6,570 | -- | 1 |
| Mallard Creek I | -- | 1,248 | 4,142 | -- | 143 |
| Mallard Creek III | -- | 845 | 4,762 | -- | 82 |
| Mallard Creek IV | -- | 348 | 1,152 | -- | 3 |
| Mallard Creek V | -- | 1,665 | 8,738 | -- | 1,461 |
| Mallard Creek VI | -- | 834 | -- | -- | -- |
| NationsFord Business Park | -- | 1,206 | -- | (1,206) | -- |
| Oakhill Land | -- | 2,796 | -- | -- | -- |
| Oak Hill Business Park English | (6) | 750 | 4,248 | -- | 93 |
| Oak Hill Business Park Laurel | (6) | 471 | 2,671 | -- | 398 |
| Oak Hill Business Park+B150 Live Oak | -- | 1,403 | 5,611 | -- | 611 |
| Oak Hill Business Park Scarlett | (6) | 1,073 | 6,078 | -- | 446 |
| Oak Hill Business Park Twin Oak | (6) | 1,243 | 7,044 | -- | 634 |
| Oak Hill Business Park Willow | (6) | 442 | 2,505 | -- | 880 |
| Oak Hill Business Park Water Pinebrook | (6) | 1,623 | 9,196 | -- | 829 |
| Parkway Plaza Building 1 | -- | 846 | 4,607 | -- | 272 |
| Parkway Plaza Building 2 | -- | 1,110 | 4,741 | -- | 670 |
| | -- | 1,694 | 6,777 | -- | 1,227 |

Gross Amount at
Which Carried at Close of Period

| Description | Land | Building & Improvements | Total | Accumulated Depreciation | Date of Construction | Life on Which Depreciation is Computed |
|-------------|------|----------------------------|-------|-----------------------------|-------------------------|---|
|-------------|------|----------------------------|-------|-----------------------------|-------------------------|---|

| | | | | | | |
|--------------------------------------|--------|--------|--------|-------|------|-----------|
| Oakbrook II | 1,579 | 9,587 | 11,166 | 1,430 | 1983 | 5-40 yrs. |
| Oakbrook III | 1,480 | 8,608 | 10,088 | 1,069 | 1984 | 5-40 yrs. |
| Oakbrook IV | 953 | 5,554 | 6,507 | 636 | 1985 | 5-40 yrs. |
| Oakbrook V | 2,206 | 12,849 | 15,055 | 1,559 | 1985 | 5-40 yrs. |
| Oakbrook Summitt | 950 | 7,019 | 7,969 | 781 | 1981 | 5-40 yrs. |
| Oxford Lake Business Center | 855 | 7,113 | 7,968 | 740 | 1985 | 5-40 yrs. |
| Peachtree Corners Land | 1,008 | -- | 1,008 | -- | N/A | N/A |
| Peachtree Corners I | -- | -- | -- | -- | 1999 | 5-40 yrs. |
| Peachtree Corners II | -- | -- | -- | -- | 1999 | 5-40 yrs. |
| Southside Distribution Center | 810 | 4,589 | 5,399 | 451 | 1988 | 5-40 yrs. |
| Highwoods Center I @ Tradeport | 305 | 3,316 | 3,621 | 346 | 1999 | 5-40 yrs. |
| HIW Center II at Tradeport | 635 | 4,242 | 4,877 | 258 | 1999 | 5-40 yrs. |
| HIW Center III at Tradeport | -- | -- | -- | -- | N/A | N/A |
| Atlanta Tradeport | 6,034 | 23 | 6,057 | -- | N/A | N/A |
| Tradeport I | 557 | 2,842 | 3,399 | 243 | 1999 | 5-40 yrs. |
| Tradeport II | 557 | 3,513 | 4,070 | 333 | 1999 | 5-40 yrs. |
| Tradeport III | 668 | 3,812 | 4,480 | 8 | 1999 | 5-40 yrs. |
| Tradeport IV | -- | -- | -- | -- | N/A | N/A |
| Baltimore, MD Sportsman Club | 24,088 | -- | 24,088 | -- | N/A | N/A |
| Charlotte, NC | | | | | | |
| 4101 Stuart Andrew Boulevard | 70 | 764 | 834 | 224 | 1984 | 5-40 yrs. |
| 4105 Stuart Andrew Boulevard | 26 | 211 | 237 | 43 | 1984 | 5-40 yrs. |
| 4109 Stuart Andrew Boulevard | 87 | 701 | 788 | 109 | 1984 | 5-40 yrs. |
| 4201 Stuart Andrew Boulevard | 110 | 867 | 977 | 144 | 1982 | 5-40 yrs. |
| 4205 Stuart Andrew Boulevard | 134 | 1,039 | 1,173 | 165 | 1982 | 5-40 yrs. |
| 4209 Stuart Andrew Boulevard | 91 | 745 | 836 | 127 | 1982 | 5-40 yrs. |
| 4215 Stuart Andrew Boulevard | 133 | 1,052 | 1,185 | 173 | 1982 | 5-40 yrs. |
| 4301 Stuart Andrew Boulevard | 232 | 1,823 | 2,055 | 286 | 1982 | 5-40 yrs. |
| 4321 Stuart Andrew Boulevard | 73 | 575 | 648 | 87 | 1982 | 5-40 yrs. |
| 4601 Park Square | 2,601 | 8,072 | 10,673 | 567 | 1972 | 5-40 yrs. |
| Alston & Bird | 2,366 | 5,419 | 7,785 | 396 | 1965 | 5-40 yrs. |
| First Citizens Building | 647 | 6,021 | 6,668 | 1,141 | 1989 | 5-40 yrs. |
| Twin Lakes Distribution Center | 2,816 | 6,571 | 9,387 | 487 | 1991 | 5-40 yrs. |
| Mallard Creek I | 1,248 | 4,285 | 5,533 | 338 | 1986 | 5-40 yrs. |
| Mallard Creek III | 845 | 4,844 | 5,689 | 330 | 1990 | 5-40 yrs. |
| Mallard Creek IV | 348 | 1,155 | 1,503 | 76 | 1993 | 5-40 yrs. |
| Mallard Creek V | 1,665 | 10,199 | 11,864 | 460 | 1999 | 5-40 yrs. |
| Mallard Creek VI | 834 | -- | 834 | -- | N/A | N/A |
| NationsFord Business Park | -- | -- | -- | -- | N/A | N/A |
| Oakhill Land | 2,796 | -- | 2,796 | -- | N/A | N/A |
| Oak Hill Business Park English | 750 | 4,341 | 5,091 | 500 | 1984 | 5-40 yrs. |
| Oak Hill Business Park Laurel | 471 | 3,069 | 3,540 | 435 | 1984 | 5-40 yrs. |
| Oak Hill Business Park+B150 Live Oak | 1,403 | 6,222 | 7,625 | 898 | 1989 | 5-40 yrs. |
| Oak Hill Business Park Scarlett | 1,073 | 6,524 | 7,597 | 808 | 1982 | 5-40 yrs. |
| Oak Hill Business Park Twin Oak | 1,243 | 7,678 | 8,921 | 911 | 1985 | 5-40 yrs. |
| Oak Hill Business Park Willow | 442 | 3,385 | 3,827 | 619 | 1982 | 5-40 yrs. |
| Oak Hill Business Park Water | 1,623 | 10,025 | 11,648 | 1,430 | 1985 | 5-40 yrs. |
| Pinebrook | 846 | 4,879 | 5,725 | 467 | 1986 | 5-40 yrs. |
| Parkway Plaza Building 1 | 1,110 | 5,411 | 6,521 | 758 | 1982 | 5-40 yrs. |
| Parkway Plaza Building 2 | 1,694 | 8,004 | 9,698 | 1,667 | 1983 | 5-40 yrs. |

| Description | 2000 Encumbrance | Initial Cost | | Cost Capitalized Subsequent to Acquisition | |
|------------------------------------|---------------------|--------------|----------------------------|--|----------------------------|
| | | Land | Building & Improvements | Land | Building & Improvements |
| | | | | | |
| Parkway Plaza Building 3 | (3) | 1,570 | 6,282 | -- | 532 |
| Parkway Plaza Building 6 | -- | -- | 2,438 | -- | 526 |
| Parkway Plaza Building 7 | -- | -- | 4,648 | -- | 237 |
| Parkway Plaza Building 8 | -- | -- | 4,698 | -- | 203 |
| Parkway Plaza Building 9 | -- | -- | 6,008 | -- | 28 |
| Parkway Plaza Building 10 | -- | -- | 2,328 | 160 | 217 |
| Parkway Plaza Bldg 12 | -- | 112 | 1,489 | -- | 265 |
| Parkway Plaza Bldg 14 | -- | 483 | 6,077 | -- | 440 |
| Columbia, SC | | | | | |
| Center Point I | -- | 1,313 | 7,441 | -- | 99 |
| Center Point II | -- | 1,183 | 8,724 | 1 | 12 |
| Center Point V | -- | 265 | 1,279 | -- | 330 |
| Center Point VI | -- | 265 | -- | -- | -- |
| Fontaine I | -- | 1,219 | 6,907 | -- | 326 |
| Fontaine II | -- | 941 | 5,335 | -- | 778 |
| Fontaine III | -- | 853 | 4,833 | -- | 87 |
| Fontaine V | -- | 395 | 2,237 | -- | 3 |
| Piedmont Triad, NC | | | | | |
| Concourse Center 1 | -- | 946 | 7,646 | 180 | 63 |
| ECPI | -- | 431 | 2,522 | -- | -- |
| Bissell Land | -- | 990 | -- | -- | -- |
| 6348 Burnt Poplar | -- | 721 | 2,883 | -- | 26 |
| 6350 Burnt Poplar | -- | 339 | 1,365 | -- | 17 |
| Chimney Rock A/B | -- | 1,610 | 3,757 | 1 | 293 |
| Chimney Rock C | -- | 604 | 1,408 | -- | 5 |
| Chimney Rock D | -- | 236 | 550 | -- | 7 |
| Chimney Rock E | -- | 1,692 | 3,948 | 1 | 55 |
| Chimney Rock F | -- | 1,431 | 3,338 | 1 | 3 |
| Chimney Rock G | -- | 1,044 | 2,435 | 1 | 12 |
| Deep River Corporate Center | -- | 1,033 | 5,855 | -- | 310 |
| Airpark East-Copier Consultants | (2) | 252 | 1,008 | (29) | 124 |
| Airpark East-Building 1 | (2) | 377 | 1,510 | -- | 101 |
| Airpark East-Building 2 | (2) | 461 | 1,842 | -- | 27 |
| Airpark East-Building 3 | (2) | 321 | 1,283 | -- | 85 |
| Airpark East-HewlettPackard | (2) | 149 | 727 | 315 | 205 |
| Airpark East-Inacom Building | (2) | 106 | 478 | 159 | 294 |
| Airpark East-Simplex | (2) | 103 | 526 | 168 | 259 |
| Airpark East-Building A | (2) | 541 | 2,913 | (33) | 550 |
| Airpark East-Building B | (2) | 779 | 3,200 | (43) | 381 |
| Airpark East-Building C | (2) | 2,384 | 9,535 | -- | 668 |
| Airpark East-Building D | (2) | 271 | 3,213 | 579 | 727 |
| Airpark East Expansion | -- | -- | -- | 36 | -- |
| Airpark East Land | -- | 1,317 | -- | (1,317) | -- |
| Airpark East-Service Center 1 | (2) | 275 | 1,099 | (39) | 133 |
| Airpark East-Service Center 2 | (2) | 222 | 889 | (31) | 119 |
| Airpark East-Service Center 3 | (2) | 304 | 1,214 | -- | 66 |
| Airpark East-Service Center 4 | (2) | 224 | 898 | -- | 198 |
| Airpark East-Service Court | (2) | 194 | 774 | (24) | 57 |
| Airpark East-Warehouse 1 | (2) | 384 | 1,535 | (29) | 67 |
| Airpark East-Warehouse 2 | (2) | 372 | 1,488 | -- | 86 |
| Airpark East-Warehouse 3 | (2) | 370 | 1,480 | (30) | 49 |
| Airpark East-Warehouse 4 | (2) | 657 | 2,628 | -- | 179 |
| Airpark East-Highland | (2) | 175 | 699 | (30) | 386 |
| 206 South Westgate Drive | -- | 91 | 664 | (91) | (664) |
| 207 South Westgate Drive | -- | 138 | 1,012 | (138) | (1,012) |
| 300 South Westgate Drive | -- | 68 | 496 | (68) | (496) |
| 305 South Westgate Drive | -- | 30 | 220 | (30) | (220) |
| 307 South Westgate Drive | -- | 66 | 485 | (66) | (485) |
| 309 South Westgate Drive | -- | 68 | 496 | (68) | (496) |
| 311 South Westgate Drive | -- | 75 | 551 | (75) | (551) |
| 315 South Westgate Drive | -- | 54 | 396 | (54) | (396) |
| 317 South Westgate Drive | -- | 81 | 597 | (81) | (597) |

Gross Amount at
Which Carried at Close of Period

| Description | Land | Building & Improvements | Total | Accumulated Depreciation | Date of Construction | Life on Which Depreciation is Computed |
|-------------|------|----------------------------|-------|-----------------------------|-------------------------|---|
|-------------|------|----------------------------|-------|-----------------------------|-------------------------|---|

| | | | | | | |
|------------------------------|-------|--------|--------|-------|------|-----------|
| Parkway Plaza Building 3 | 1,570 | 6,814 | 8,384 | 1,111 | 1984 | 5-40 yrs. |
| Parkway Plaza Building 6 | -- | 2,964 | 2,964 | 591 | 1996 | 5-40 yrs. |
| Parkway Plaza Building 7 | -- | 4,885 | 4,885 | 625 | 1985 | 5-40 yrs. |
| Parkway Plaza Building 8 | -- | 4,901 | 4,901 | 617 | 1986 | 5-40 yrs. |
| Parkway Plaza Building 9 | -- | 6,036 | 6,036 | 765 | 1984 | 5-40 yrs. |
| Parkway Plaza Building 10 | 160 | 2,545 | 2,705 | 453 | 1999 | 5-40 yrs. |
| Parkway Plaza Bldg 12 | 112 | 1,754 | 1,866 | 95 | 1999 | 5-40 yrs. |
| Parkway Plaza Bldg 14 | 483 | 6,517 | 7,000 | 331 | 1999 | 5-40 yrs. |
| Columbia, SC | | | | | | |
| Center Point I | 1,313 | 7,540 | 8,853 | 848 | 1988 | 5-40 yrs. |
| Center Point II | 1,184 | 8,736 | 9,920 | 1,190 | 1996 | 5-40 yrs. |
| Center Point V | 265 | 1,609 | 1,874 | 266 | 1997 | 5-40 yrs. |
| Center Point VI | 265 | -- | 265 | -- | N/A | N/A |
| Fontaine I | 574 | 7,233 | 7,807 | 792 | 1985 | 5-40 yrs. |
| Fontaine II | 941 | 6,113 | 7,054 | 1,154 | 1987 | 5-40 yrs. |
| Fontaine III | 853 | 4,920 | 5,773 | 569 | 1988 | 5-40 yrs. |
| Fontaine V | 395 | 2,240 | 2,635 | 242 | 1990 | 5-40 yrs. |
| Piedmont Triad, NC | | | | | | |
| Concourse Center 1 | 1,126 | 7,709 | 8,835 | 489 | 1999 | 5-40 yrs. |
| ECPI | 431 | 2,522 | 2,953 | 13 | 2000 | 5-40 yrs. |
| Bissell Land | 990 | -- | 990 | -- | N/A | N/A |
| 6348 Burnt Poplar | 721 | 2,909 | 3,630 | 427 | 1990 | 5-40 yrs. |
| 6350 Burnt Poplar | 339 | 1,382 | 1,721 | 203 | 1992 | 5-40 yrs. |
| Chimney Rock A/B | 1,611 | 4,050 | 5,661 | 257 | 1981 | 5-40 yrs. |
| Chimney Rock C | 604 | 1,413 | 2,017 | 96 | 1983 | 5-40 yrs. |
| Chimney Rock D | 236 | 557 | 793 | 37 | 1983 | 5-40 yrs. |
| Chimney Rock E | 1,693 | 4,003 | 5,696 | 273 | 1985 | 5-40 yrs. |
| Chimney Rock F | 1,432 | 3,341 | 4,773 | 229 | 1987 | 5-40 yrs. |
| Chimney Rock G | 1,045 | 2,447 | 3,492 | 166 | 1987 | 5-40 yrs. |
| Deep River Corporate Center | 1,033 | 6,165 | 7,198 | 803 | 1989 | 5-40 yrs. |
| Airpark East-Copier | 223 | 1,132 | 1,355 | 175 | 1990 | 5-40 yrs. |
| Consultants | | | | | | |
| Airpark East-Building 1 | 377 | 1,611 | 1,988 | 269 | 1990 | 5-40 yrs. |
| Airpark East-Building 2 | 461 | 1,869 | 2,330 | 276 | 1986 | 5-40 yrs. |
| Airpark East-Building 3 | 321 | 1,368 | 1,689 | 229 | 1986 | 5-40 yrs. |
| Airpark East-HewlettPackard | 464 | 932 | 1,396 | 225 | 1996 | 5-40 yrs. |
| Airpark East-Inacom Building | 265 | 772 | 1,037 | 205 | 1996 | 5-40 yrs. |
| Airpark East-Simplex | 271 | 785 | 1,056 | 172 | 1997 | 5-40 yrs. |
| Airpark East-Building A | 508 | 3,463 | 3,971 | 682 | 1986 | 5-40 yrs. |
| Airpark East-Building B | 736 | 3,581 | 4,317 | 684 | 1988 | 5-40 yrs. |
| Airpark East-Building C | 2,384 | 10,203 | 12,587 | 1,611 | 1990 | 5-40 yrs. |
| Airpark East-Building D | 850 | 3,940 | 4,790 | 804 | 1997 | 5-40 yrs. |
| Airpark East Expansion | (36) | -- | (36) | -- | N/A | N/A |
| Airpark East Land | -- | -- | -- | -- | N/A | N/A |
| Airpark East-Service | 236 | 1,232 | 1,468 | 238 | 1985 | 5-40 yrs. |
| Center 1 | | | | | | |
| Airpark East-Service | 191 | 1,008 | 1,199 | 165 | 1985 | 5-40 yrs. |
| Center 2 | | | | | | |
| Airpark East-Service | 304 | 1,280 | 1,584 | 232 | 1985 | 5-40 yrs. |
| Center 3 | | | | | | |
| Airpark East-Service | 224 | 1,096 | 1,320 | 165 | 1985 | 5-40 yrs. |
| Center 4 | | | | | | |
| Airpark East-Service Court | 170 | 831 | 1,001 | 144 | 1990 | 5-40 yrs. |
| Airpark East-Warehouse 1 | 355 | 1,602 | 1,957 | 256 | 1985 | 5-40 yrs. |
| Airpark East-Warehouse 2 | 372 | 1,574 | 1,946 | 261 | 1985 | 5-40 yrs. |
| Airpark East-Warehouse 3 | 340 | 1,529 | 1,869 | 232 | 1986 | 5-40 yrs. |
| Airpark East-Warehouse 4 | 657 | 2,807 | 3,464 | 451 | 1988 | 5-40 yrs. |
| Airpark East-Highland | 145 | 1,085 | 1,230 | 122 | 1990 | 5-40 yrs. |
| 206 South Westgate Drive | -- | -- | -- | -- | 1986 | 5-40 yrs. |
| 207 South Westgate Drive | -- | -- | -- | -- | 1986 | 5-40 yrs. |
| 300 South Westgate Drive | -- | -- | -- | -- | 1986 | 5-40 yrs. |
| 305 South Westgate Drive | -- | -- | -- | -- | 1985 | 5-40 yrs. |
| 307 South Westgate Drive | -- | -- | -- | -- | 1985 | 5-40 yrs. |
| 309 South Westgate Drive | -- | -- | -- | -- | 1985 | 5-40 yrs. |
| 311 South Westgate Drive | -- | -- | -- | -- | 1985 | 5-40 yrs. |
| 315 South Westgate Drive | -- | -- | -- | -- | 1985 | 5-40 yrs. |
| 317 South Westgate Drive | -- | -- | -- | -- | 1985 | 5-40 yrs. |

| Description | 2000 Encumbrance | Initial Cost | | Cost Capitalized Subsequent to Acquisition | |
|------------------------------------|---------------------|--------------|----------------------------|--|----------------------------|
| | | Land | Building & Improvements | Land | Building & Improvements |
| | | | | | |
| 319 South Westgate Drive | -- | 54 | 396 | (54) | (396) |
| Inman Road Land | -- | 2,357 | -- | -- | -- |
| 7906 Industrial Village Road | -- | 62 | 455 | -- | 23 |
| 7908 Industrial Village Road | -- | 62 | 455 | -- | 34 |
| 7910 Industrial Village Road | -- | 62 | 455 | -- | 47 |
| Jefferson Pilot Land | 608 | 13,560 | -- | (13,560) | -- |
| Airpark North - DC1 | (2) | 723 | 2,891 | -- | 206 |
| Airpark North - DC2 | (2) | 1,094 | 4,375 | -- | 95 |
| Airpark North - DC3 | (2) | 378 | 1,511 | -- | 215 |
| Airpark North - DC4 | (2) | 377 | 1,508 | -- | 141 |
| Airpark North Land | (2) | 804 | -- | -- | -- |
| 2606 Phoenix Drive- 100 Series | -- | 63 | 466 | -- | -- |
| 2606 Phoenix Drive- 200 Series | -- | 63 | 466 | -- | 84 |
| 2606 Phoenix Drive- 300 Series | -- | 31 | 229 | -- | 100 |
| 2606 Phoenix Drive- 400 Series | -- | 52 | 382 | -- | 11 |
| 2606 Phoenix Drive- 500 Series | -- | 64 | 471 | -- | 20 |
| 2606 Phoenix Drive- 600 Series | -- | 78 | 575 | -- | 16 |
| Network Construction | -- | -- | 533 | -- | 200 |
| Highwoods Park Blg I Holden Rd. | 4,461 | -- | -- | -- | -- |
| 5 Dundas Circle | -- | 72 | 531 | (72) | (531) |
| 7 Dundas Circle | -- | 75 | 552 | (75) | (552) |
| 8 Dundas Circle | -- | 84 | 617 | (84) | (617) |
| 302 Pomona Drive | -- | 84 | 617 | (84) | (617) |
| 304 Pomona Drive | -- | 22 | 163 | (22) | (163) |
| 306 Pomona Drive | -- | 50 | 368 | (50) | (368) |
| 308 Pomona Drive | -- | 72 | 531 | (72) | (531) |
| 9 Dundas Circle | -- | 51 | 373 | (51) | (373) |
| 2616 Phoenix Drive | -- | 135 | 990 | (135) | (990) |
| 500 Radar Road | -- | 202 | 1,484 | -- | 118 |
| 502 Radar Road | -- | 39 | 285 | -- | 80 |
| 504 Radar Road | -- | 39 | 285 | -- | 14 |
| 506 Radar Road | -- | 39 | 285 | -- | 12 |
| Regency One-Piedmont Center | -- | 515 | 2,347 | -- | 579 |
| Regency Two-Piedmont Center | -- | 435 | 1,859 | -- | 509 |
| Sears Cenfact | -- | 861 | 3,446 | (31) | 43 |
| 4000 Spring Garden Street | -- | 127 | 933 | (127) | (933) |
| 4002 Spring Garden Street | -- | 39 | 290 | (39) | (290) |
| 4004 Spring Garden Street | -- | 139 | 1,019 | (139) | (1,019) |
| Airpark South Warehouse I | -- | 537 | 2,934 | 8 | (427) |
| Airpark South Warehouse 2 | -- | 733 | 2,548 | 11 | (37) |
| Airpark South Warehouse 3 | -- | 599 | 2,365 | -- | -- |
| Airpark South Warehouse 4 | -- | 489 | 2,175 | 7 | 287 |
| Airpark South Warehouse VI | -- | 1,690 | 3,915 | 26 | 3 |
| Airpark West-1 | (3) | 954 | 3,817 | -- | 390 |
| Airpark West-2 | (3) | 887 | 3,536 | (3) | 505 |
| Airpark West-4 | (3) | 226 | 903 | -- | 132 |
| Airpark West-5 | (3) | 242 | 966 | -- | 127 |
| Airpark West-6 | (3) | 326 | 1,308 | -- | 128 |
| 7327 West Friendly Avenue | -- | 60 | 441 | -- | 11 |
| 7339 West Friendly Avenue | -- | 63 | 465 | -- | 27 |
| 7341 West Friendly Avenue | -- | 113 | 831 | -- | 108 |
| 7343 West Friendly Avenue | -- | 72 | 531 | -- | 26 |
| 7345 West Friendly Avenue | -- | 66 | 485 | -- | 14 |
| 7347 West Friendly Avenue | -- | 97 | 709 | -- | 63 |
| 7349 West Friendly Avenue | -- | 53 | 388 | -- | 14 |
| 7351 West Friendly Avenue | -- | 106 | 778 | -- | 30 |
| 7353 West Friendly Avenue | -- | 123 | 901 | -- | 16 |
| 7355 West Friendly Avenue | -- | 72 | 525 | -- | 21 |

Gross Amount at
Which Carried at Close of Period

| Description | Land | Building & Improvements | Total | Accumulated Depreciation | Date of Construction | Life on Which Depreciation is Computed |
|-------------|------|----------------------------|-------|-----------------------------|-------------------------|---|
|-------------|------|----------------------------|-------|-----------------------------|-------------------------|---|

| | | | | | | |
|-------------------------------|--------|-------|--------|-----|------|-----------|
| 319 South Westgate Drive | -- | -- | -- | -- | 1985 | 5-40 yrs. |
| Inman Road Land | 2,357 | -- | 2,357 | -- | N/A | N/A |
| 7906 Industrial Village Road | 62 | 478 | 540 | 65 | 1985 | 5-40 yrs. |
| 7908 Industrial Village Road | 62 | 489 | 551 | 75 | 1985 | 5-40 yrs. |
| 7910 Industrial Village Road | 62 | 502 | 564 | 74 | 1985 | 5-40 yrs. |
| Jefferson Pilot Land | 12,089 | -- | 12,089 | -- | N/A | N/A |
| Airpark North - DC1 | 723 | 3,097 | 3,820 | 455 | 1986 | 5-40 yrs. |
| Airpark North - DC2 | 1,094 | 4,470 | 5,564 | 674 | 1987 | 5-40 yrs. |
| Airpark North - DC3 | 378 | 1,726 | 2,104 | 362 | 1988 | 5-40 yrs. |
| Airpark North - DC4 | 377 | 1,649 | 2,026 | 290 | 1988 | 5-40 yrs. |
| Airpark North Land | 804 | -- | 804 | -- | N/A | N/A |
| 2606 Phoenix Drive-100 Series | 63 | 466 | 529 | 64 | 1989 | 5-40 yrs. |
| 2606 Phoenix Drive-200 Series | 63 | 550 | 613 | 66 | 1989 | 5-40 yrs. |
| 2606 Phoenix Drive-300 Series | 31 | 329 | 360 | 67 | 1989 | 5-40 yrs. |
| 2606 Phoenix Drive-400 Series | 52 | 393 | 445 | 60 | 1989 | 5-40 yrs. |
| 2606 Phoenix Drive-500 Series | 64 | 491 | 555 | 78 | 1989 | 5-40 yrs. |
| 2606 Phoenix Drive-600 Series | 78 | 591 | 669 | 94 | 1989 | 5-40 yrs. |
| Network Construction | -- | 733 | 733 | 94 | 1988 | 5-40 yrs. |
| Highwoods Park Blg I | -- | -- | -- | -- | N/A | N/A |
| Holden Rd. | -- | -- | -- | -- | N/A | N/A |
| 5 Dundas Circle | -- | -- | -- | -- | 1987 | 5-40 yrs. |
| 7 Dundas Circle | -- | -- | -- | -- | 1986 | 5-40 yrs. |
| 8 Dundas Circle | -- | -- | -- | -- | 1986 | 5-40 yrs. |
| 302 Pomona Drive | -- | -- | -- | -- | 1987 | 5-40 yrs. |
| 304 Pomona Drive | -- | -- | -- | -- | 1987 | 5-40 yrs. |
| 306 Pomona Drive | -- | -- | -- | -- | 1987 | 5-40 yrs. |
| 308 Pomona Drive | -- | -- | -- | -- | 1987 | 5-40 yrs. |
| 9 Dundas Circle | -- | -- | -- | -- | 1986 | 5-40 yrs. |
| 2616 Phoenix Drive | -- | -- | -- | -- | 1985 | 5-40 yrs. |
| 500 Radar Road | 202 | 1,602 | 1,804 | 257 | 1981 | 5-40 yrs. |
| 502 Radar Road | 39 | 365 | 404 | 79 | 1986 | 5-40 yrs. |
| 504 Radar Road | 39 | 299 | 338 | 43 | 1986 | 5-40 yrs. |
| 506 Radar Road | 39 | 297 | 336 | 43 | 1986 | 5-40 yrs. |
| Regency One-Piedmont Center | 515 | 2,926 | 3,441 | 524 | 1996 | 5-40 yrs. |
| Regency Two-Piedmont Center | 435 | 2,368 | 2,803 | 584 | 1996 | 5-40 yrs. |
| Sears Cenfact | 830 | 3,489 | 4,319 | 513 | 1989 | 5-40 yrs. |
| 4000 Spring Garden Street | -- | -- | -- | -- | 1983 | 5-40 yrs. |
| 4002 Spring Garden Street | -- | -- | -- | -- | 1983 | 5-40 yrs. |
| 4004 Spring Garden Street | -- | -- | -- | -- | 1983 | 5-40 yrs. |
| Airpark South Warehouse I | 545 | 2,507 | 3,052 | 269 | 1998 | 5-40 yrs. |
| Airpark South Warehouse 2 | 744 | 2,511 | 3,255 | 97 | 1999 | 5-40 yrs. |
| Airpark South Warehouse 3 | 599 | 2,365 | 2,964 | 56 | 1999 | 5-40 yrs. |
| Airpark South Warehouse 4 | 496 | 2,462 | 2,958 | 164 | 1999 | 5-40 yrs. |
| Airpark South Warehouse VI | 1,716 | 3,918 | 5,634 | 179 | 1999 | 5-40 yrs. |
| Airpark West-1 | 954 | 4,207 | 5,161 | 905 | 1984 | 5-40 yrs. |
| Airpark West-2 | 884 | 4,041 | 4,925 | 814 | 1985 | 5-40 yrs. |
| Airpark West-4 | 226 | 1,035 | 1,261 | 214 | 1985 | 5-40 yrs. |
| Airpark West-5 | 242 | 1,093 | 1,335 | 202 | 1985 | 5-40 yrs. |
| Airpark West-6 | 326 | 1,436 | 1,762 | 282 | 1985 | 5-40 yrs. |
| 7327 West Friendly Avenue | 60 | 452 | 512 | 62 | 1987 | 5-40 yrs. |
| 7339 West Friendly Avenue | 63 | 492 | 555 | 75 | 1989 | 5-40 yrs. |
| 7341 West Friendly Avenue | 113 | 939 | 1,052 | 158 | 1988 | 5-40 yrs. |
| 7343 West Friendly Avenue | 72 | 557 | 629 | 79 | 1988 | 5-40 yrs. |
| 7345 West Friendly Avenue | 66 | 499 | 565 | 75 | 1988 | 5-40 yrs. |
| 7347 West Friendly Avenue | 97 | 772 | 869 | 145 | 1988 | 5-40 yrs. |
| 7349 West Friendly Avenue | 53 | 402 | 455 | 62 | 1988 | 5-40 yrs. |
| 7351 West Friendly Avenue | 106 | 808 | 914 | 121 | 1988 | 5-40 yrs. |
| 7353 West Friendly Avenue | 123 | 917 | 1,040 | 125 | 1988 | 5-40 yrs. |
| 7355 West Friendly Avenue | 72 | 546 | 618 | 74 | 1988 | 5-40 yrs. |

| Description | 2000 Encumbrance | Initial Cost | | Cost Capitalized Subsequent to Acquisition | |
|--|---------------------|--------------|----------------------------|--|----------------------------|
| | | Land | Building & Improvements | Land | Building & Improvements |
| | | | | | |
| 150 Stratford | -- | 2,777 | 11,459 | -- | 112 |
| ALO | -- | 177 | 986 | -- | 2 |
| Chesapeake | (3) | 1,236 | 4,944 | -- | 8 |
| Forsyth Corporate Center | (6) | 326 | 1,850 | -- | 652 |
| The Knollwood-370 | (2) | 1,819 | 7,451 | -- | 476 |
| The Knollwood-380 | (2) | 2,977 | 11,912 | -- | 570 |
| The Knollwood-Retail @ 380 | (2) | -- | 1 | -- | 141 |
| RMIC | -- | 1,091 | 5,525 | (1,091) | (5,525) |
| Robinhood | -- | 290 | 1,159 | -- | 130 |
| 101 Stratford | -- | 1,205 | 6,810 | -- | 381 |
| Consolidated Center/ Building I | -- | 625 | 2,126 | -- | 56 |
| Consolidated Center/ Building II | -- | 625 | 4,376 | -- | 138 |
| Consolidated Center/ Building III | -- | 680 | 3,522 | -- | 51 |
| Consolidated Center/ Building IV | -- | 376 | 1,624 | -- | 184 |
| Champion Headquarters | -- | 1,725 | 6,280 | (1,725) | (6,280) |
| Hampton Park - Building 5 | -- | 318 | 742 | (318) | (742) |
| Hampton Park - Building 6 | -- | 371 | 866 | (371) | (866) |
| Hampton Park - Building 7 | -- | 212 | 495 | (212) | (495) |
| Hampton Park - Building 8 | -- | 212 | 495 | (212) | (495) |
| Hampton Park - Building 9 | -- | 212 | 495 | (212) | (495) |
| 5100 Indiana Avenue | -- | 490 | 1,143 | -- | 2 |
| Madison Park - Building 5610 | -- | 211 | 493 | -- | -- |
| Madison Park - Building 5620 | -- | 941 | 2,196 | -- | -- |
| Madison Park - Building 5630 | -- | 1,486 | 3,468 | -- | 13 |
| Madison Park - Building 5635 | -- | 893 | 2,083 | -- | -- |
| Madison Park - Building 5640 | -- | 3,632 | 8,476 | -- | 35 |
| Madison Park - Building 5650 | -- | 1,081 | 2,522 | -- | 1 |
| Madison Park - Building 5660 | -- | 1,910 | 4,456 | -- | 83 |
| Madison Park - Building 5655 | -- | 5,891 | 13,753 | -- | 1 |
| 711 Almondridge | -- | 301 | 702 | -- | 25 |
| 710 Almondridge | -- | 1,809 | 4,221 | 523 | 5,211 |
| 500 Northridge | -- | 1,789 | 4,174 | -- | 6 |
| 520 Northridge | -- | 1,645 | 3,876 | -- | 243 |
| 531 Northridge Warehouse | -- | 4,992 | 11,648 | -- | 174 |
| 531 Northridge Office | -- | 766 | 1,788 | -- | 1 |
| 540 Northridge | -- | 2,038 | 4,755 | -- | 415 |
| 550 Northridge | -- | 472 | 1,102 | -- | 154 |
| US Airways | (6) | 2,625 | 14,824 | -- | 209 |
| University Commercial Center-Landmark 03 | -- | 429 | 1,771 | -- | 170 |
| University Commercial Center-Archer 04 | -- | 514 | 2,058 | -- | 181 |
| University Commercial Center-Service Center 1 | -- | 276 | 1,155 | -- | 66 |
| University Commercial Center-Service Center 2 | -- | 215 | 859 | -- | 127 |
| University Commercial Center-Service Center 3 | -- | 167 | 668 | -- | 26 |
| University Commercial Center-Warehouse 1 | -- | 203 | 812 | -- | 8 |
| University Commercial Center-Warehouse 2 | -- | 196 | 786 | -- | 13 |
| Westpoint Business Park-BMF | -- | 795 | 3,181 | -- | 3 |
| Westpoint Business Park-Luwabahnson | -- | 346 | 1,384 | -- | 1 |
| Westpoint Business Park- 3 & 4 | -- | 120 | 480 | -- | 38 |
| Westpoint Business Park | -- | 1,759 | -- | (1,759) | -- |
| Westpoint Business Park-Wp 11 | -- | 393 | 1,570 | -- | 69 |
| Westpoint Business Park-Wp 12 | -- | 382 | 1,531 | -- | 42 |
| Westpoint Business Park-Wp 13 | -- | 297 | 1,192 | -- | 41 |

Gross Amount at
Which Carried at Close of Period

| Description | Land | Building & Improvements | Total | Accumulated Depreciation | Date of Construction | Life on Which Depreciation is Computed |
|-------------|------|----------------------------|-------|-----------------------------|-------------------------|---|
|-------------|------|----------------------------|-------|-----------------------------|-------------------------|---|

| | | | | | | |
|--|-------|--------|--------|-------|-----------|-----------|
| 150 Stratford | 2,777 | 11,571 | 14,348 | 1,858 | 1991 | 5-40 yrs. |
| ALO | 177 | 988 | 1,165 | 13 | 1998 | 5-40 yrs. |
| Chesapeake | 1,236 | 4,952 | 6,188 | 729 | 1993 | 5-40 yrs. |
| Forsyth Corporate Center | 326 | 2,502 | 2,828 | 468 | 1985 | 5-40 yrs. |
| The Knollwood-370 | 1,819 | 7,927 | 9,746 | 1,309 | 1994 | 5-40 yrs. |
| The Knollwood-380 | 2,977 | 12,482 | 15,459 | 2,095 | 1990 | 5-40 yrs. |
| The Knollwood-Retail @ 380 | -- | 142 | 142 | 56 | 1995 | 5-40 yrs. |
| RMIC | -- | -- | -- | -- | 1998 | 5-40 yrs. |
| Robinhood | 290 | 1,289 | 1,579 | 233 | 1989 | 5-40 yrs. |
| 101 Stratford | 1,205 | 7,191 | 8,396 | 557 | 1986 | 5-40 yrs. |
| Consolidated Center/ Building I | 625 | 2,182 | 2,807 | 170 | 1983 | 5-40 yrs. |
| Consolidated Center/ Building II | 625 | 4,514 | 5,139 | 368 | 1983 | 5-40 yrs. |
| Consolidated Center/ Building III | 680 | 3,573 | 4,253 | 279 | 1989 | 5-40 yrs. |
| Consolidated Center/ Building IV | 376 | 1,808 | 2,184 | 195 | 1989 | 5-40 yrs. |
| Champion Headquarters | -- | -- | -- | -- | 1993 | 5-40 yrs. |
| Hampton Park - Building 5 | -- | -- | -- | -- | 1981 | 5-40 yrs. |
| Hampton Park - Building 6 | -- | -- | -- | -- | 1980 | 5-40 yrs. |
| Hampton Park - Building 7 | -- | -- | -- | -- | 1983 | 5-40 yrs. |
| Hampton Park - Building 8 | -- | -- | -- | -- | 1984 | 5-40 yrs. |
| Hampton Park - Building 9 | -- | -- | -- | -- | 1985 | 5-40 yrs. |
| 5100 Indiana Avenue | 490 | 1,145 | 1,635 | 73 | 1982 | 5-40 yrs. |
| Madison Park - Building 5610 | 211 | 493 | 704 | 31 | 1988 | 5-40 yrs. |
| Madison Park - Building 5620 | 941 | 2,196 | 3,137 | 141 | 1983 | 5-40 yrs. |
| Madison Park - Building 5630 | 1,486 | 3,481 | 4,967 | 223 | 1983 | 5-40 yrs. |
| Madison Park - Building 5635 | 893 | 2,083 | 2,976 | 134 | 1986 | 5-40 yrs. |
| Madison Park - Building 5640 | 3,632 | 8,511 | 12,143 | 544 | 1985 | 5-40 yrs. |
| Madison Park - Building 5650 | 1,081 | 2,523 | 3,604 | 162 | 1984 | 5-40 yrs. |
| Madison Park - Building 5660 | 1,910 | 4,539 | 6,449 | 285 | 1984 | 5-40 yrs. |
| Madison Park - Building 5655 | 5,891 | 13,754 | 19,645 | 882 | 1987 | 5-40 yrs. |
| 711 Almondridge | 301 | 727 | 1,028 | 56 | 1988 | 5-40 yrs. |
| 710 Almondridge | 2,332 | 9,432 | 11,764 | 300 | 1989 | 5-40 yrs. |
| 500 Northridge | 1,789 | 4,180 | 5,969 | 274 | 1988 | 5-40 yrs. |
| 520 Northridge | 1,645 | 4,119 | 5,764 | 274 | 1988 | 5-40 yrs. |
| 531 Northridge Warehouse | 4,992 | 11,822 | 16,814 | 757 | 1989 | 5-40 yrs. |
| 531 Northridge Office | 766 | 1,789 | 2,555 | 116 | 1989 | 5-40 yrs. |
| 540 Northridge | 2,038 | 5,170 | 7,208 | 311 | 1987 | 5-40 yrs. |
| 550 Northridge | 472 | 1,256 | 1,728 | 126 | 1989 | 5-40 yrs. |
| US Airways | 2,625 | 15,033 | 17,658 | 1,177 | 1970-1987 | 5-40 yrs. |
| University Commercial Center-Landmark 03 | 429 | 1,941 | 2,370 | 315 | 1985 | 5-40 yrs. |
| University Commercial Center-Archer 04 | 514 | 2,239 | 2,753 | 387 | 1986 | 5-40 yrs. |
| University Commercial Center-Service Center 1 | 276 | 1,221 | 1,497 | 212 | 1983 | 5-40 yrs. |
| University Commercial Center-Service Center 2 | 215 | 986 | 1,201 | 190 | 1983 | 5-40 yrs. |
| University Commercial Center-Service Center 3 | 167 | 694 | 861 | 105 | 1984 | 5-40 yrs. |
| University Commercial Center-Warehouse 1 | 203 | 820 | 1,023 | 120 | 1983 | 5-40 yrs. |
| University Commercial Center-Warehouse 2 | 196 | 799 | 995 | 117 | 1983 | 5-40 yrs. |
| Westpoint Business Park-BMF | 795 | 3,184 | 3,979 | 467 | 1986 | 5-40 yrs. |
| Westpoint Business Park-Luwabahnson | 346 | 1,385 | 1,731 | 204 | 1990 | 5-40 yrs. |
| Westpoint Business Park- 3 & 4 | 120 | 518 | 638 | 78 | 1988 | 5-40 yrs. |
| Westpoint Business Park | -- | -- | -- | -- | N/A | N/A |
| Westpoint Business Park-Wp 11 | 393 | 1,639 | 2,032 | 256 | 1988 | 5-40 yrs. |
| Westpoint Business Park-Wp 12 | 382 | 1,573 | 1,955 | 232 | 1988 | 5-40 yrs. |
| Westpoint Business Park-Wp 13 | 297 | 1,233 | 1,530 | 182 | 1988 | 5-40 yrs. |

| Description | 2000 Encumbrance | Initial Cost | | Cost Capitalized Subsequent to Acquisition | |
|-------------------------------|---------------------|--------------|----------------------------|--|----------------------------|
| | | Land | Building & Improvements | Land | Building & Improvements |
| Westpoint Business | -- | 640 | 2,577 | -- | 25 |
| Park-Fairchild | | | | | |
| Westpoint Business | -- | 178 | 590 | -- | 452 |
| Park-Warehouse5 | | | | | |
| Greenville, SC | | | | | |
| 385 Land | -- | 1,800 | -- | -- | -- |
| Nationsbank Plaza | -- | 642 | 9,349 | -- | 1,883 |
| Brookfield Plaza | (6) | 1,489 | 8,437 | -- | 345 |
| Brookfield-CRS Sitrine | -- | 3,022 | 17,125 | -- | 24 |
| Brookfield-YMCA | -- | 33 | 189 | -- | 16 |
| 385 Building 1 | -- | 1,413 | 1,401 | -- | 2,783 |
| Patewood I | -- | 942 | 5,016 | -- | 71 |
| Patewood II | -- | 942 | 5,018 | -- | 285 |
| Patewood III | (6) | 835 | 4,733 | -- | 158 |
| Patewood IV | (6) | 1,210 | 6,856 | -- | 14 |
| Patewood V | (6) | 1,677 | 9,503 | -- | 22 |
| Patewood VI | -- | 2,375 | 9,643 | -- | (32) |
| 769 Pelham Road | -- | 705 | 2,778 | -- | 3 |
| Patewood Business Center | -- | 1,312 | 7,436 | -- | 252 |
| Highwoods Properties | -- | -- | -- | 2,692 | 70,201 |
| Jacksonville, FL | | | | | |
| 9A Land | -- | 3,915 | -- | -- | -- |
| Belfort Park I | -- | 1,322 | 4,285 | (1,322) | (4,285) |
| Belfort Park II | -- | 831 | 5,066 | (831) | (5,066) |
| Belfort Park III | -- | 647 | 4,063 | (647) | (4,063) |
| Belfort Park VI | -- | -- | -- | 656 | -- |
| Belfort Park VII | -- | -- | -- | 2,103 | -- |
| CIGNA Building | -- | 381 | 1,592 | (381) | (1,592) |
| Harry James Building | -- | 272 | 1,360 | (272) | (1,360) |
| Independent Square | -- | 3,985 | 44,633 | (3,985) | (44,633) |
| Three Oaks Plaza | -- | 1,630 | 14,036 | (1,630) | (14,036) |
| Reflections | -- | 958 | 9,877 | (958) | (9,877) |
| Southpoint Building | -- | 594 | 3,987 | (594) | (3,987) |
| SWD Land Annex | -- | -- | -- | 1 | 5 |
| Highwoods Center | -- | 1,143 | 6,476 | (1,143) | (6,476) |
| Life of the South Building | -- | 184 | 4,750 | (184) | (4,750) |
| Tallahassee, FL | | | | | |
| Blair Stone Building | -- | 1,550 | 32,988 | (1,550) | (32,988) |
| 215 South Monroe St. | -- | 1,950 | 17,853 | (1,950) | (17,853) |
| Building | | | | | |
| Shawnee Mission, KS | | | | | |
| Corinth Square North Shops | (4) | 2,693 | 10,772 | -- | 64 |
| Corinth Shops South | (4) | 1,043 | 4,172 | -- | 13 |
| Fairway Shops | 2,620 | 673 | 2,694 | -- | 127 |
| Prairie Village Rest & Bank | (7) | -- | -- | -- | 247 |
| Prairie Village Shops | (7) | 3,289 | 13,157 | -- | 1,216 |
| Shannon Valley Shopping | 6,258 | 1,669 | 6,678 | -- | 1,844 |
| Center | | | | | |
| Trailwood III Shops | -- | 223 | 893 | (223) | (893) |
| Trailwood Shops | -- | 458 | 1,831 | (458) | (1,831) |
| Valencia Place | (5) | -- | 2,245 | 441 | 10,927 |
| Westwood Shops | -- | 113 | 453 | (113) | (453) |
| Brymar Building | -- | 329 | 1,317 | -- | 2 |
| Corinth Executive Square | -- | 514 | 2,054 | -- | 286 |
| Corinth Office Building | 821 | 529 | 2,116 | -- | 20 |
| Fairway North Building | 4,500 | 753 | 3,013 | -- | 252 |
| Fairway West Building | 3,775 | 851 | 3,402 | -- | 223 |
| Hartford Office Building | -- | 568 | 2,271 | (568) | (2,271) |
| Land-Kansas | -- | 27,484 | 121 | (8,985) | (121) |
| Nichols Building | 870 | 490 | 1,959 | -- | 73 |
| Oak Park Building | -- | 368 | 1,470 | (368) | (1,470) |
| Prairie Village Office Center | -- | 749 | 2,997 | -- | 102 |
| OUIVIRA Business Park A | -- | 191 | 447 | (191) | (447) |
| QUIVIRA Business Park B | -- | 179 | 417 | (179) | (417) |
| QUIVIRA Business Park C | -- | 189 | 440 | (189) | (440) |
| QUIVIRA Business Park D | -- | 154 | 360 | (154) | (360) |

Gross Amount at
Which Carried at Close of Period

| Description | Land | Building & Improvements | Total | Accumulated Depreciation | Date of Construction | Life on Which Depreciation is Computed |
|-------------|------|----------------------------|-------|-----------------------------|-------------------------|---|
|-------------|------|----------------------------|-------|-----------------------------|-------------------------|---|

| | | | | | | |
|---------------------------------------|--------|--------|--------|-------|------|-----------|
| Westpoint Business Park-Fairchild | 640 | 2,602 | 3,242 | 380 | 1990 | 5-40 yrs. |
| Westpoint Business Park-Warehouse5 | 178 | 1,042 | 1,220 | 292 | 1995 | 5-40 yrs. |
| Greenville, SC | | | | | | |
| 385 Land | 1,800 | -- | 1,800 | -- | N/A | N/A |
| Nationsbank Plaza | 642 | 11,232 | 11,874 | 1,250 | 1973 | 5-40 yrs. |
| Brookfield Plaza | 1,489 | 8,782 | 10,271 | 1,115 | 1987 | 5-40 yrs. |
| Brookfield-CRS SIRRINE | 3,022 | 17,149 | 20,171 | 1,849 | 1990 | 5-40 yrs. |
| Brookfield-YMCA | 33 | 205 | 238 | 33 | 1990 | 5-40 yrs. |
| 385 Building 1 | 1,413 | 4,184 | 5,597 | 604 | 1998 | 5-40 yrs. |
| Patewood I | 942 | 5,087 | 6,029 | 497 | 1985 | 5-40 yrs. |
| Patewood II | 942 | 5,303 | 6,245 | 560 | 1987 | 5-40 yrs. |
| Patewood III | 835 | 4,891 | 5,726 | 651 | 1989 | 5-40 yrs. |
| Patewood IV | 1,210 | 6,870 | 8,080 | 741 | 1989 | 5-40 yrs. |
| Patewood V | 1,677 | 9,525 | 11,202 | 1,027 | 1990 | 5-40 yrs. |
| Patewood VI | 2,375 | 9,611 | 11,986 | 1,103 | 1999 | 5-40 yrs. |
| 769 Pelham Road | 705 | 2,781 | 3,486 | 202 | 1989 | 5-40 yrs. |
| Patewood Business Center | 1,312 | 7,688 | 9,000 | 841 | 1983 | 5-40 yrs. |
| Highwoods Properties | 2,692 | 70,201 | 72,893 | 1,348 | 1998 | 5-40 yrs. |
| Jacksonville, FL | | | | | | |
| 9A Land | 3,915 | -- | 3,915 | -- | N/A | N/A |
| Belfort Park I | -- | -- | -- | -- | 1988 | 5-40 yrs. |
| Belfort Park II | -- | -- | -- | -- | 1988 | 5-40 yrs. |
| Belfort Park III | -- | -- | -- | -- | 1988 | 5-40 yrs. |
| Belfort Park VI | 656 | -- | 656 | -- | N/A | N/A |
| Belfort Park VII | 2,103 | -- | 2,103 | -- | N/A | N/A |
| CIGNA Building | -- | -- | -- | -- | 1972 | 5-40 yrs. |
| Harry James Building | -- | -- | -- | -- | 1982 | 5-40 yrs. |
| Independent Square | -- | -- | -- | -- | 1975 | 5-40 yrs. |
| Three Oaks Plaza | -- | -- | -- | -- | 1972 | 5-40 yrs. |
| Reflections | -- | -- | -- | -- | 1985 | 5-40 yrs. |
| Southpoint Building | -- | -- | -- | -- | 1980 | 5-40 yrs. |
| SWD Land Annex | 1 | 5 | 6 | 1 | N/A | N/A |
| Highwoods Center | -- | -- | -- | -- | 1991 | 5-40 yrs. |
| Life of the South Building | -- | -- | -- | -- | 1964 | 5-40 yrs. |
| Tallahassee, FL | | | | | | |
| Blair Stone Building | -- | -- | -- | -- | 1994 | 5-40 yrs. |
| 215 South Monroe St. Building | -- | -- | -- | -- | 1976 | 5-40 yrs. |
| Shawnee Mission, KS | | | | | | |
| Corinth Square North Shops | 2,693 | 10,836 | 13,529 | 713 | 1962 | 5-40 yrs. |
| Corinth Shops South | 1,043 | 4,185 | 5,228 | 267 | 1953 | 5-40 yrs. |
| Fairway Shops | 673 | 2,821 | 3,494 | 215 | 1940 | 5-40 yrs. |
| Prairie Village Rest & Bank | -- | 247 | 247 | 2 | 1948 | 5-40 yrs. |
| Prairie Village Shops | 3,289 | 14,373 | 17,662 | 995 | 1948 | 5-40 yrs. |
| Shannon Valley Shopping Center | 1,669 | 8,522 | 10,191 | 633 | 1988 | 5-40 yrs. |
| Trailwood III Shops | -- | -- | -- | -- | 1986 | 5-40 yrs. |
| Trailwood Shops | -- | -- | -- | -- | 1968 | 5-40 yrs. |
| Valencia Place | 441 | 13,172 | 13,613 | 89 | 1999 | 5-40 yrs. |
| Westwood Shops | -- | -- | -- | -- | 1926 | 5-40 yrs. |
| Brymar Building | 329 | 1,319 | 1,648 | 91 | 1968 | 5-40 yrs. |
| Corinth Executive Square | 514 | 2,340 | 2,854 | 200 | 1973 | 5-40 yrs. |
| Corinth Office Building | 529 | 2,136 | 2,665 | 135 | 1960 | 5-40 yrs. |
| Fairway North Building | 753 | 3,265 | 4,018 | 254 | 1985 | 5-40 yrs. |
| Fairway West Building | 851 | 3,625 | 4,476 | 302 | 1983 | 5-40 yrs. |
| Hartford Office Building | -- | -- | -- | -- | 1978 | 5-40 yrs. |
| Land-Kansas | 19,290 | -- | 20,081 | -- | N/A | N/A |
| Nichols Building | 490 | 2,032 | 2,522 | 155 | 1978 | 5-40 yrs. |
| Oak Park Building | -- | -- | -- | -- | 1976 | 5-40 yrs. |
| Prairie Village Office Center | 749 | 3,099 | 3,848 | 232 | 1960 | 5-40 yrs. |
| QUIVIRA Business Park A | -- | -- | -- | -- | 1975 | 5-40 yrs. |
| QUIVIRA Business Park B | -- | -- | -- | -- | 1973 | 5-40 yrs. |
| QUIVIRA Business Park C | -- | -- | -- | -- | 1973 | 5-40 yrs. |
| QUIVIRA Business Park D | -- | -- | -- | -- | 1973 | 5-40 yrs. |

| Description | Initial Cost | | Cost Capitalized Subsequent to Acquisition | |
|--------------------------------|--------------|-------|--|-------------------------|
| | Encumbrance | Land | Land | Building & Improvements |
| QUIVIRA Business Park E | -- | 251 | (251) | (586) |
| QUIVIRA Business Park F | -- | 171 | (171) | (400) |
| QUIVIRA Business Park G | -- | 205 | (205) | (477) |
| QUIVIRA Business Park H | -- | 175 | (175) | (407) |
| QUIVIRA Business Park J | -- | 360 | (360) | (839) |
| QUIVIRA Business Park L | -- | 98 | (98) | (222) |
| QUIVIRA Business Park K | -- | 95 | (95) | (222) |
| QUIVIRA Business Park SWB | -- | 257 | (257) | (600) |
| Kansas City, MO | | | | |
| 48th & Penn | (5) | 418 | -- | 812 |
| Balcony Retail | (5) | 889 | -- | 2,945 |
| Brookside Shopping Center | 3,699 | 2,002 | 154 | 649 |
| Court of the Penguins | (5) | 566 | -- | 491 |
| Colonial Shops | -- | 138 | -- | 14 |
| Crestwood Shops | -- | 253 | (253) | (1,013) |
| Esplanade | (5) | 748 | -- | 1,407 |
| Land Under Ground Leases | -- | 9,789 | (8,688) | (114) |
| Retail | | | | |
| Ground Leases Retail KH | -- | 677 | -- | -- |
| Halls Block | (5) | 275 | -- | 3,335 |
| Kenilworth | -- | 113 | (113) | (452) |
| Macy's Block | (5) | 504 | -- | 503 |
| Millcreek Retail | (5) | 602 | -- | 1,714 |
| Nichols Block Retail | (5) | 600 | -- | 795 |
| 96th & Nall Shops | -- | 99 | (99) | (397) |
| Plaza Central | (5) | 405 | -- | 1,452 |
| Plaza Savings South | (5) | 357 | -- | 1,724 |
| Romanelli Annex Shops | -- | 24 | (24) | (97) |
| Red Bridge Shops | -- | 1,091 | -- | 1,007 |
| Romanelli Shops | -- | 219 | (219) | (875) |
| Seville Shops West | (5) | 300 | -- | 9,494 |
| Seville Square | (5) | -- | -- | 719 |
| Swanson Block | (5) | 949 | -- | 3,769 |
| Theater Block | (5) | 1,197 | -- | 4,321 |
| Time Block Retail | (5) | 1,292 | -- | 4,330 |
| Triangle | (5) | 308 | -- | 539 |
| Corinth Gardens | -- | 283 | -- | 119 |
| Coach House North | 8,000 | 1,604 | -- | 322 |
| Coach House South | 20,000 | 3,707 | -- | 582 |
| Coach Lamp | -- | 870 | -- | 302 |
| Corinth Paddock | -- | 1,050 | -- | 411 |
| Corinth Place | 4,500 | 639 | -- | 95 |
| Rental Houses | -- | -- | -- | -- |
| Kenilworth | 6,910 | 2,160 | -- | 565 |
| Kirkwood Circle | -- | 3,000 | (3,000) | -- |
| Mission Valley | 994 | 576 | -- | 105 |
| Neptune | 4,372 | 1,073 | -- | 81 |
| Parklane | -- | 273 | -- | 108 |
| Regency House | 4,063 | 1,853 | -- | 1,468 |
| St. Charles Apartments | -- | -- | -- | -- |
| Sulgrave | 7,546 | 2,621 | -- | 1,279 |
| Tama Apartments (HPI) | -- | -- | -- | -- |
| Wornall Road Apartments | -- | 30 | -- | 14 |
| 4900 Main Building | -- | -- | -- | 337 |
| 63rd & Brookside Building | -- | 71 | -- | 14 |
| Balcony Office | (5) | 65 | -- | 94 |
| Bannister Business Center | -- | 306 | (306) | (713) |
| Esplanade Block Office | (5) | 375 | -- | 261 |
| Marley Continental Homes of KS | -- | 180 | (180) | (1,620) |
| Millcreek Office | (5) | 79 | -- | 183 |
| Land-Missouri | -- | 3,794 | (434) | -- |
| Nichols Block Office | (5) | 74 | -- | 76 |
| One Ward Parkway | -- | 666 | -- | 212 |
| Park Plaza Building | (5) | 1,352 | -- | 276 |
| Parkway Building | -- | 395 | -- | 135 |

Gross Amount at
Which Carried at Close of Period

| Description | Land | Building & Improvements | Total | Accumulated Depreciation | Date of Construction | Life on Which Depreciation is Computed |
|-------------|------|-------------------------|-------|--------------------------|----------------------|--|
|-------------|------|-------------------------|-------|--------------------------|----------------------|--|

| | | | | | | |
|---------------------------|-------|--------|--------|-------|-----------|-----------|
| QUIVIRA Business Park E | -- | -- | -- | -- | 1973 | 5-40 yrs. |
| QUIVIRA Business Park F | -- | -- | -- | -- | 1973 | 5-40 yrs. |
| QUIVIRA Business Park G | -- | -- | -- | -- | 1973 | 5-40 yrs. |
| QUIVIRA Business Park H | -- | -- | -- | -- | 1973 | 5-40 yrs. |
| QUIVIRA Business Park J | -- | -- | -- | -- | 1973 | 5-40 yrs. |
| QUIVIRA Business Park L | -- | -- | -- | -- | 1985 | 5-40 yrs. |
| QUIVIRA Business Park K | -- | -- | -- | -- | 1985 | 5-40 yrs. |
| QUIVIRA Business Park SWB | -- | -- | -- | -- | 1973 | 5-40 yrs. |
| Kansas City, MO | | | | | | |
| 48th & Penn | 418 | 4,577 | 4,995 | 415 | 1948 | 5-40 yrs. |
| Balcony Retail | 889 | 10,947 | 11,836 | 687 | 1925 | 5-40 yrs. |
| Brookside Shopping Center | 2,156 | 9,251 | 11,407 | 582 | 1919 | 5-40 yrs. |
| Court of the Penguins | 566 | 5,582 | 6,148 | 446 | 1945 | 5-40 yrs. |
| Colonial Shops | 138 | 564 | 702 | 44 | 1907 | 5-40 yrs. |
| Crestwood Shops | -- | -- | -- | -- | 1932 | 5-40 yrs. |
| Esplanade | 748 | 8,141 | 8,889 | 586 | 1928 | 5-40 yrs. |
| Land Under Ground Leases | 1,101 | -- | 1,101 | -- | N/A | N/A |
| Retail | | | | | | |
| Ground Leases Retail KH | 677 | -- | 677 | -- | N/A | N/A |
| Halls Block | 275 | 5,813 | 6,088 | 198 | 1964 | 5-40 yrs. |
| Kenilworth | -- | -- | -- | -- | 1965 | 5-40 yrs. |
| Macy's Block | 504 | 5,039 | 5,543 | 364 | 1926 | 5-40 yrs. |
| Millcreek Retail | 602 | 7,136 | 7,738 | 585 | 1920 | 5-40 yrs. |
| Nichols Block Retail | 600 | 6,197 | 6,797 | 435 | 1930 | 5-40 yrs. |
| 96th & Nall Shops | -- | -- | -- | -- | 1976 | 5-40 yrs. |
| Plaza Central | 405 | 5,101 | 5,506 | 455 | 1958 | 5-40 yrs. |
| Plaza Savings South | 357 | 4,935 | 5,292 | 275 | 1948 | 5-40 yrs. |
| Romanelli Annex Shops | -- | -- | -- | -- | 1963 | 5-40 yrs. |
| Red Bridge Shops | 1,091 | 5,371 | 6,462 | 294 | 1959 | 5-40 yrs. |
| Romanelli Shops | -- | -- | -- | -- | 1925 | 5-40 yrs. |
| Seville Shops West | 300 | 12,190 | 12,490 | 656 | 1999 | 5-40 yrs. |
| Seville Square | -- | 21,692 | 21,692 | 818 | 1999 | 5-40 yrs. |
| Swanson Block | 949 | 12,306 | 13,255 | 687 | 1967 | 5-40 yrs. |
| Theater Block | 1,197 | 15,090 | 16,287 | 1,033 | 1928 | 5-40 yrs. |
| Time Block Retail | 1,292 | 15,957 | 17,249 | 957 | 1929 | 5-40 yrs. |
| Triangle | 308 | 3,310 | 3,618 | 265 | 1925 | 5-40 yrs. |
| Corinth Gardens | 283 | 1,722 | 2,005 | 109 | 1961 | 5-40 yrs. |
| Coach House North | 1,604 | 9,414 | 11,018 | 586 | 1986 | 5-40 yrs. |
| Coach House South | 3,707 | 21,590 | 25,297 | 1,326 | 1984 | 5-40 yrs. |
| Coach Lamp | 870 | 5,231 | 6,101 | 321 | 1961 | 5-40 yrs. |
| Corinth Paddock | 1,050 | 6,360 | 7,410 | 391 | 1973 | 5-40 yrs. |
| Corinth Place | 639 | 3,718 | 4,357 | 230 | 1987 | 5-40 yrs. |
| Rental Houses | -- | -- | -- | -- | N/A | 5-40 yrs. |
| Kenilworth | 2,160 | 12,805 | 14,965 | 799 | 1965 | 5-40 yrs. |
| Kirkwood Circle | -- | -- | -- | -- | N/A | N/A |
| Mission Valley | 576 | 3,371 | 3,947 | 210 | 1964 | 5-40 yrs. |
| Neptune | 1,073 | 6,160 | 7,233 | 386 | 1988 | 5-40 yrs. |
| Parklane | 273 | 1,656 | 1,929 | 99 | 1924 | 5-40 yrs. |
| Regency House | 1,853 | 11,968 | 13,821 | 829 | 1960 | 5-40 yrs. |
| St. Charles Apartments | -- | -- | -- | -- | 1922 | 5-40 yrs. |
| Sulgrave | 2,621 | 16,134 | 18,755 | 1,030 | 1967 | 5-40 yrs. |
| Tama Apartments (HPI) | -- | 94 | 94 | 4 | 1965 | 5-40 yrs. |
| Wornall Road Apartments | 30 | 185 | 215 | 11 | 1918 | 5-40 yrs. |
| 4900 Main Building | -- | 13,146 | 13,146 | 852 | 1986 | 5-40 yrs. |
| 63rd & Brookside Building | 71 | 297 | 368 | 20 | 1919 | 5-40 yrs. |
| Balcony Office | 65 | 679 | 744 | 38 | 1928 | 5-40 yrs. |
| Bannister Business Center | -- | -- | -- | -- | 1985 | 5-40 yrs. |
| Esplanade Block Office | 375 | 3,635 | 4,010 | 218 | 1945 | 5-40 yrs. |
| Marley Continental Homes | -- | -- | -- | -- | N/A | 5-40 yrs. |
| of KS | | | | | | |
| Millcreek Office | 79 | 900 | 979 | 54 | 1925 | 5-40 yrs. |
| Land-Missouri | 3,360 | 190 | 3,550 | 12 | N/A | 5-40 yrs. |
| Nichols Block Office | 74 | 744 | 818 | 64 | 1938 | 5-40 yrs. |
| One Ward Parkway | 666 | 2,875 | 3,541 | 289 | 1980 | 5-40 yrs. |
| Park Plaza Building | 1,352 | 5,685 | 7,037 | 412 | 1983 | 5-40 yrs. |
| Parkway Building | 395 | 1,713 | 2,108 | 169 | 1906-1910 | 5-40 yrs. |

| Description | 2000 Encumbrance | Initial Cost | | Cost Capitalized Subsequent to Acquisition | |
|----------------------------------|---------------------|--------------|----------------------------|--|----------------------------|
| | | Land | Building & Improvements | Land | Building & Improvements |
| Romanelli Annex Office Building | -- | 73 | 294 | (73) | (294) |
| Red Bridge Professional Building | -- | 405 | 1,621 | (405) | (1,621) |
| Somerset | -- | 30 | 122 | -- | -- |
| Two Brush Creek Plaza | -- | 961 | 3,845 | -- | 182 |
| Theatre Block Office | (5) | 242 | 2,179 | -- | 142 |
| Time Block Office | (5) | 199 | 1,792 | -- | 503 |
| Valencia Place Office | -- | 1,530 | 27,548 | -- | 4,665 |
| HPI Rental Houses | -- | -- | 949 | -- | -- |
| HPI St. Charles Apartments | -- | 45 | 165 | -- | -- |
| HPI 4900 Main St | -- | 3,202 | -- | -- | -- |
| HPI Challenger Memphis, TN | 19,000 | 19,095 | -- | -- | -- |
| Atrium I & II | -- | 1,530 | 6,121 | 40 | 374 |
| Centrum | -- | 1,013 | 5,488 | -- | 268 |
| Colonnade | -- | 1,300 | 7,994 | -- | (19) |
| Hickory Hill Medical Plaza | -- | 398 | 2,256 | -- | 18 |
| 3400 Players Club Parkway | (6) | 1,005 | 5,515 | -- | 9 |
| International Place Phase II | -- | 4,847 | 27,469 | -- | 1,176 |
| Kirby Centre | -- | 525 | 2,973 | -- | 125 |
| International Place Phase III | -- | 2,566 | -- | -- | -- |
| 6000 Poplar Ave | -- | 2,340 | 11,385 | -- | (210) |
| 6060 Poplar Ave | -- | 1,980 | 8,677 | -- | (289) |
| Shadow Creek I | -- | 973 | 5,493 | -- | -- |
| Southwind Office Center "A" | -- | 996 | 5,643 | -- | 272 |
| Southwind Office Center "B" | -- | 1,356 | 7,684 | -- | 356 |
| Southwind Office Center "D" | -- | 744 | 6,232 | -- | (131) |
| Southwind Office Center "C" | (6) | 1,070 | 5,924 | -- | -- |
| Norfolk, VA | | | | | |
| Battlefield Business Center II | -- | 774 | 4,387 | (774) | (4,387) |
| Greenbriar Business Center | -- | 936 | 5,305 | -- | 63 |
| Hampton Center Two | -- | 945 | 6,567 | -- | 801 |
| Riverside II | 675 | 2 | 9,148 | 481 | (9,148) |
| Nashville, TN | | | | | |
| 3322 West End | -- | 3,021 | 27,266 | 4 | 273 |
| 3401 Westend | -- | 6,103 | 23,343 | (1,147) | (1,857) |
| 5310 Maryland Way | -- | 1,923 | 7,360 | (368) | (1,082) |
| Ayers Land | -- | 1,164 | -- | -- | -- |
| Southpointe | -- | 1,655 | 9,059 | -- | (98) |
| BNA Corporate Center | 11,049 | -- | 22,588 | -- | (2,066) |
| Caterpillar Financial Center | -- | -- | 2,964 | 5,120 | 39,499 |
| Century City Plaza I | -- | 903 | 3,612 | -- | 552 |
| Cool Springs Land | -- | -- | -- | 7,412 | -- |
| Cool Springs-Building II | -- | -- | -- | -- | -- |
| Cool Springs I | -- | 1,983 | 13,854 | -- | 75 |
| Eastpark 1, 2, 3 | 3,630 | 3,137 | 11,842 | (766) | (1,099) |
| Grassmere sold | -- | 1779 | -- (19) | (1,779) | -- |
| Grassmere I | -- | 1,251 | 7,091 | (1,251) | (7,091) |
| Grassmere II | -- | 2,260 | 12,804 | (2,260) | (12,804) |
| Grassmere III | -- | 1,340 | 7,592 | (1,340) | (7,592) |
| Highwoods Plaza I | -- | 1,772 | 9,029 | -- | 68 |
| Highwoods Plaza II | -- | 1,448 | 6,948 | -- | 1,549 |
| Harpeth on The Green II | -- | 1,419 | 5,677 | 1 | 572 |
| Harpeth on the Green III | -- | 1,658 | 6,633 | 2 | 465 |
| Harpeth on the Green IV | -- | 1,709 | 6,835 | 5 | 729 |
| Harpeth on the Green V | -- | 662 | 5,771 | -- | (124) |
| Lakeview Ridge | -- | 2,179 | 7,545 | (411) | (1,125) |
| Lakeview Ridge II | -- | 605 | 5,883 | -- | (41) |
| Lakeview Ridge III | -- | 1,073 | 9,708 | -- | 692 |
| The Ramparts at Brentwood | -- | 2,394 | 12,806 | -- | (1,052) |
| The Sparrow Building | -- | 1,262 | 5,047 | -- | 272 |
| Grassmere/Thousdale Land | -- | 760 | -- | (760) | -- |
| Winners Circle | -- | 1,495 | 7,072 | 2 | 236 |
| Westwood South | -- | 2,106 | 10,517 | -- | 510 |

Gross Amount at
Which Carried at Close of Period

| Description | Land | Building & Improvements | Total | Accumulated Depreciation | Date of Construction | Life on Which Depreciation is Computed |
|------------------------|------|----------------------------|-------|-----------------------------|-------------------------|---|
| Romanelli Annex Office | -- | -- | -- | -- | 1963 | 5-40 yrs. |

| | | | | | | |
|--------------------------------|--------|--------|--------|-------|------|-----------|
| Building | | | | | | |
| Red Bridge Professional | -- | -- | -- | -- | 1972 | 5-40 yrs. |
| Building | | | | | | |
| Somerset | 30 | 122 | 152 | 7 | 1998 | 5-40 yrs. |
| Two Brush Creek Plaza | 961 | 4,027 | 4,988 | 305 | 1983 | 5-40 yrs. |
| Theatre Block Office | 242 | 2,321 | 2,563 | 148 | 1928 | 5-40 yrs. |
| Time Block Office | 199 | 2,295 | 2,494 | 143 | 1945 | 5-40 yrs. |
| Valencia Place Office | 1,530 | 32,213 | 33,743 | 390 | 1999 | 5-40 yrs. |
| HPI Rental Houses | -- | 949 | 949 | 58 | 1960 | 5-40 yrs. |
| HPI St. Charles Apartments | 45 | 165 | 210 | 10 | 1922 | 5-40 yrs. |
| HPI 4900 Main St | 3,202 | -- | 3,202 | -- | N/A | 5-40 yrs. |
| HPI Challenger | 19,095 | -- | 19,095 | -- | N/A | 5-40 yrs. |
| Memphis, TN | | | | | | |
| Atrium I & II | 1,570 | 6,495 | 8,065 | 679 | 1984 | 5-40 yrs. |
| Centrum | 1,013 | 5,756 | 6,769 | 551 | 1979 | 5-40 yrs. |
| Colonnade | 1,300 | 7,975 | 9,275 | 944 | 1998 | 5-40 yrs. |
| Hickory Hill Medical Plaza | 398 | 2,274 | 2,672 | 250 | 1988 | 5-40 yrs. |
| 3400 Players Club Parkway | 1,005 | 5,524 | 6,529 | 919 | 1997 | 5-40 yrs. |
| International Place Phase II | 4,847 | 28,645 | 33,492 | 3,508 | 1988 | 5-40 yrs. |
| Kirby Centre | 525 | 3,098 | 3,623 | 347 | 1984 | 5-40 yrs. |
| International Place Phase III | 2,566 | -- | 2,566 | -- | N/A | N/A |
| 6000 Poplar Ave | 2,340 | 11,175 | 13,515 | 12 | 1985 | 5-40 yrs. |
| 6060 Poplar Ave | 1,980 | 8,388 | 10,368 | 9 | 1987 | 5-40 yrs. |
| Shadow Creek I | 973 | 5,493 | 6,466 | 11 | 2000 | 5-40 yrs. |
| Southwind Office Center "A" | 996 | 5,915 | 6,911 | 687 | 1991 | 5-40 yrs. |
| Southwind Office Center "B" | 1,356 | 8,040 | 9,396 | 961 | 1990 | 5-40 yrs. |
| Southwind Office Center "D" | 744 | 6,101 | 6,845 | 400 | 1999 | 5-40 yrs. |
| Southwind Office Center "C" | 1,070 | 5,924 | 6,994 | 423 | 1998 | 5-40 yrs. |
| Norfolk, VA | | | | | | |
| Battlefield Business Center II | -- | -- | -- | -- | 1987 | 5-40 yrs. |
| Greenbriar Business Center | 936 | 5,368 | 6,304 | 585 | 1984 | 5-40 yrs. |
| Hampton Center Two | 945 | 7,368 | 8,313 | 457 | 1999 | 5-40 yrs. |
| Riverside II | 483 | -- | 483 | -- | 1999 | 5-40 yrs. |
| Nashville, TN | | | | | | |
| 3322 West End | 3,025 | 27,539 | 30,564 | 839 | 1986 | 5-40 yrs. |
| 3401 Westend | 4,956 | 21,486 | 26,442 | 3,004 | 1982 | 5-40 yrs. |
| 5310 Maryland Way | 1,555 | 6,278 | 7,833 | 738 | 1994 | 5-40 yrs. |
| Ayers Land | 1,164 | -- | 1,164 | -- | N/A | N/A |
| Southpointe | 1,655 | 8,961 | 10,616 | 1,229 | 1998 | 5-40 yrs. |
| BNA Corporate Center | -- | 20,522 | 20,522 | 2,626 | 1985 | 5-40 yrs. |
| Caterpillar Financial Center | 5,120 | 42,463 | 47,583 | 819 | 1999 | 5-40 yrs. |
| Century City Plaza I | 903 | 4,164 | 5,067 | 630 | 1987 | 5-40 yrs. |
| Cool Springs Land | 7,412 | -- | 7,412 | -- | N/A | N/A |
| Cool Springs-Building II | -- | -- | -- | -- | N/A | N/A |
| Cool Springs I | 1,983 | 13,929 | 15,912 | 1,255 | 1999 | 5-40 yrs. |
| Eastpark 1, 2, 3 | 2,371 | 10,743 | 13,114 | 1,543 | 1978 | 5-40 yrs. |
| Grassmere sold | -- | -- | -- | -- | N/A | N/A |
| Grassmere I | -- | -- | -- | -- | 1984 | 5-40 yrs. |
| Grassmere II | -- | -- | -- | -- | 1985 | 5-40 yrs. |
| Grassmere III | -- | -- | -- | -- | 1990 | 5-40 yrs. |
| Highwoods Plaza I | 1,772 | 9,097 | 10,869 | 1,727 | 1996 | 5-40 yrs. |
| Highwoods Plaza II | 1,448 | 8,497 | 9,945 | 1,577 | 1997 | 5-40 yrs. |
| Harpeth on The Green II | 1,420 | 6,249 | 7,669 | 765 | 1984 | 5-40 yrs. |
| Harpeth on the Green III | 1,660 | 7,098 | 8,758 | 827 | 1987 | 5-40 yrs. |
| Harpeth on the Green IV | 1,714 | 7,564 | 9,278 | 978 | 1989 | 5-40 yrs. |
| Harpeth on the Green V | 662 | 5,647 | 6,309 | 822 | 1998 | 5-40 yrs. |
| Lakeview Ridge | 1,768 | 6,420 | 8,188 | 763 | 1986 | 5-40 yrs. |
| Lakeview Ridge II | 605 | 5,842 | 6,447 | 865 | 1998 | 5-40 yrs. |
| Lakeview Ridge III | 1,073 | 10,400 | 11,473 | 632 | 1999 | 5-40 yrs. |
| The Ramparts at Brentwood | 2,394 | 11,754 | 14,148 | 13 | 1986 | 5-40 yrs. |
| The Sparrow Building | 1,262 | 5,319 | 6,581 | 565 | 1982 | 5-40 yrs. |
| Grassmere/Thousdale Land | -- | -- | -- | -- | N/A | N/A |
| Winners Circle | 1,497 | 7,308 | 8,805 | 607 | 1987 | 5-40 yrs. |
| Westwood South | 2,106 | 11,027 | 13,133 | 701 | 1999 | 5-40 yrs. |

| Description | 2000 Encumbrance | Initial Cost | | Cost Capitalized Subsequent to Acquisition | |
|---|---------------------|--------------|----------------------------|--|----------------------------|
| | | Land | Building & Improvements | Land | Building & Improvements |
| Orlando, FL | | | | | |
| Sunport Center | -- | 1,505 | 9,777 | -- | 107 |
| Oakridge Center | -- | 4,700 | 18,761 | -- | 805 |
| Sandlake Southwest | -- | 1,025 | 4,049 | (1,025) | (4,049) |
| Lake Mary Land | -- | 2,804 | -- | -- | -- |
| InCharge Institute | -- | 501 | 2,085 | -- | -- |
| MetroWest Center | -- | 1,344 | 7,618 | -- | 330 |
| Landmark I | -- | 6,785 | 28,243 | (6,785) | (28,243) |
| Landmark II | -- | 6,785 | 28,206 | (6,785) | (28,206) |
| C N A Maitland I | -- | 1,858 | 16,129 | (1,858) | (15,817) |
| Maitland Building B | -- | 1,115 | 8,121 | (1,115) | (8,121) |
| C N A Maitland II | -- | 743 | 2,639 | (743) | (2,636) |
| Hard Rock Caf- | -- | 1,305 | 3,570 | (1,305) | (2,409) |
| MetroWest Land | -- | -- | -- | 3,044 | -- |
| One Winter Park | -- | 1,000 | 3,652 | (1,000) | (3,652) |
| The Palladium | -- | 1,400 | 5,500 | (1,400) | (5,500) |
| 201 Pine Street Building | -- | 4,400 | 29,836 | (4,400) | (29,836) |
| Capital Plaza | -- | -- | -- | -- | (14) |
| Capital Plaza III | -- | -- | -- | 2,970 | -- |
| Pine Street Parking | -- | 1,030 | 8,087 | (1,030) | (8,087) |
| Interlachen Village | 2,026 | 1,100 | 2,689 | -- | 66 |
| Signature Plaza | -- | 4,300 | 30,294 | (4,300) | (30,294) |
| Research Triangle, NC | | | | | |
| Blue Ridge II | -- | 463 | 1,485 | -- | (15) |
| Blue Ridge I | -- | 722 | 4,538 | -- | 1,053 |
| 3600 Glenwood Avenue | -- | -- | 10,994 | -- | -- |
| 3645 Trust Drive - One North Commerce Center | -- | 520 | 2,949 | 268 | 460 |
| 3737 Glenwood Ave. | -- | -- | 15,889 | -- | 1,889 |
| 4101 Research Commons | -- | 1,349 | 6,928 | -- | -- |
| 4201 Research Commons | -- | 1,204 | 7,715 | (1,204) | (7,715) |
| 4301 Research Commons | -- | 900 | 7,425 | (900) | (7,425) |
| 4401 Research Commons | -- | 1,249 | 8,929 | -- | 4,938 |
| 4501 Research Commons | -- | 785 | 4,448 | (785) | (4,448) |
| 4800 North Park | -- | 2,678 | 17,673 | -- | 307 |
| 4900 North Park | 1,334 | 770 | 1,989 | -- | 275 |
| 5000 North Park | (6) | 1,010 | 4,697 | -- | 1,110 |
| 5200 Green's Dairy - One North Commerce Center | -- | 169 | 959 | -- | 40 |
| 5220 Green's Dairy - One North Commerce Center | -- | 382 | 2,165 | -- | 196 |
| 5301 Departure Drive | -- | 882 | 5,000 | (882) | (5,000) |
| Amica | -- | 289 | 1,517 | -- | 91 |
| Arrowwood | -- | 955 | 3,406 | -- | 631 |
| Aspen | -- | 560 | 2,088 | -- | 453 |
| Birchwood | -- | 201 | 907 | (201) | (907) |
| BTI | -- | -- | 15,504 | -- | 3,867 |
| BTI Houses | -- | 250 | 250 | (250) | (250) |
| Capital Center | -- | 851 | -- | (474) | (377) |
| Cedar East | -- | 563 | 2,491 | -- | 268 |
| Cedar West | -- | 563 | 2,475 | -- | 614 |
| CentreGreen 1 | -- | 1,677 | 7,133 | -- | -- |
| Clintrials Land Parcel 2 | -- | 657 | -- | -- | -- |
| Clintrials Land Parcel 3 | -- | 548 | -- | -- | -- |
| Colony Corporate Center | -- | 613 | 3,296 | (613) | (3,296) |
| Concourse | -- | 986 | 12,069 | (986) | (12,069) |
| Cape Fear | -- | 131 | -- | -- | 2,627 |
| Creekstone Crossing | -- | 728 | 3,841 | -- | 100 |
| Catawba | -- | 125 | 1,635 | -- | 293 |
| Cottonwood | -- | 609 | 3,253 | -- | 8 |
| Cypress | -- | 567 | 1,729 | -- | 164 |
| Day Tract Land | -- | 3,860 | -- | -- | -- |
| Dogwood | -- | 766 | 2,777 | -- | 23 |
| EPA Annex | -- | 2,601 | 10,920 | -- | 111 |
| Expressway Warehouse | -- | 242 | -- | (242) | -- |
| Global Software | (6) | 465 | 7,471 | -- | -- |

Gross Amount at
Which Carried at Close of Period

| Description | Land | Building & Improvements | Total | Accumulated Depreciation | Date of Construction | Life on Which Depreciation is Computed |
|-------------|------|----------------------------|-------|-----------------------------|-------------------------|---|
|-------------|------|----------------------------|-------|-----------------------------|-------------------------|---|

| | | | | | | |
|------------------------------|-------|--------|--------|-------|-----------|-----------|
| Orlando, FL | | | | | | |
| Sunport Center | 1,505 | 9,884 | 11,389 | 800 | 1990 | 5-40 yrs. |
| Oakridge Center | 4,700 | 19,566 | 24,266 | 1,654 | 1966-1992 | 5-40 yrs. |
| Sandlake Southwest | -- | -- | -- | -- | 1986 | 5-40 yrs. |
| Lake Mary Land | 2,804 | -- | 2,804 | -- | N/A | N/A |
| InCharge Institute | 501 | 2,085 | 2,586 | 23 | 2000 | 5-40 yrs. |
| MetroWest Center | 1,344 | 7,948 | 9,292 | 904 | 1988 | 5-40 yrs. |
| Landmark I | -- | -- | -- | -- | 1983 | 5-40 yrs. |
| Landmark II | -- | -- | -- | -- | 1985 | 5-40 yrs. |
| C N A Maitland I | -- | 312 | 312 | -- | 1998 | 5-40 yrs. |
| Maitland Building B | -- | -- | -- | -- | 1999 | 5-40 yrs. |
| C N A Maitland II | -- | 3 | 3 | -- | 1998 | 5-40 yrs. |
| Hard Rock Caf- | -- | 1,161 | 1,161 | -- | 1998 | 5-40 yrs. |
| MetroWest Land | 3,044 | -- | 3,044 | -- | N/A | N/A |
| One Winter Park | -- | -- | -- | -- | 1982 | 5-40 yrs. |
| The Palladium | -- | -- | -- | -- | 1988 | 5-40 yrs. |
| 201 Pine Street Building | -- | -- | -- | -- | 1980 | 5-40 yrs. |
| Capital Plaza | -- | (14) | (14) | -- | N/A | 5-40 yrs. |
| Capital Plaza III | 2,970 | -- | 2,970 | -- | 1999 | 5-40 yrs. |
| Pine Street Parking | -- | -- | -- | -- | 1999 | 5-40 yrs. |
| Interlachen Village | 1,100 | 2,755 | 3,855 | 248 | 1987 | 5-40 yrs. |
| Signature Plaza | -- | -- | -- | -- | 1986 | 5-40 yrs. |
| Research Triangle, NC | | | | | | |
| Blue Ridge II | 463 | 1,470 | 1,933 | 527 | 1988 | 5-40 yrs. |
| Blue Ridge I | 722 | 5,591 | 6,313 | 1,153 | 1982 | 5-40 yrs. |
| 3600 Glenwood Avenue | -- | 10,994 | 10,994 | 1,042 | 1986 | 5-40 yrs. |
| 3645 Trust Drive - One North | 788 | 3,409 | 4,197 | 366 | 1984 | 5-40 yrs. |
| Commerce Center | | | | | | |
| 3737 Glenwood Ave. | -- | 17,778 | 17,778 | 688 | 1999 | 5-40 yrs. |
| 4101 Research Commons | 1,349 | 6,928 | 8,277 | 49 | 1999 | 5-40 yrs. |
| 4201 Research Commons | -- | -- | -- | -- | 1991 | 5-40 yrs. |
| 4301 Research Commons | -- | -- | -- | -- | 1989 | 5-40 yrs. |
| 4401 Research Commons | 1,249 | 13,867 | 15,116 | 4,651 | 1987 | 5-40 yrs. |
| 4501 Research Commons | -- | -- | -- | -- | 1985 | 5-40 yrs. |
| 4800 North Park | 2,678 | 17,980 | 20,658 | 3,025 | 1985 | 5-40 yrs. |
| 4900 North Park | 770 | 2,264 | 3,034 | 472 | 1984 | 5-40 yrs. |
| 5000 North Park | 1,010 | 5,807 | 6,817 | 1,455 | 1980 | 5-40 yrs. |
| 5200 Green's Dairy - One | 169 | 999 | 1,168 | 119 | 1984 | 5-40 yrs. |
| North Commerce Center | | | | | | |
| 5220 Green's Dairy - One | 382 | 2,361 | 2,743 | 279 | 1984 | 5-40 yrs. |
| North Commerce Center | | | | | | |
| 5301 Departure Drive | -- | -- | -- | -- | 1984 | 5-40 yrs. |
| Amica | 289 | 1,608 | 1,897 | 327 | 1983 | 5-40 yrs. |
| Arrowwood | 955 | 4,037 | 4,992 | 882 | 1979 | 5-40 yrs. |
| Aspen | 560 | 2,541 | 3,101 | 555 | 1980 | 5-40 yrs. |
| Birchwood | -- | -- | -- | -- | 1983 | 5-40 yrs. |
| BTI | -- | 19,371 | 19,371 | 1,275 | 1995 | 5-40 yrs. |
| BTI Houses | -- | -- | -- | -- | N/A | 5-40 yrs. |
| Capital Center | 377 | (377) | -- | -- | N/A | N/A |
| Cedar East | 563 | 2,759 | 3,322 | 582 | 1981 | 5-40 yrs. |
| Cedar West | 563 | 3,089 | 3,652 | 768 | 1981 | 5-40 yrs. |
| CentreGreen 1 | 1,677 | 7,133 | 8,810 | 61 | 2000 | 5-40 yrs. |
| Clintrials Land Parcel 2 | 657 | -- | 657 | -- | N/A | N/A |
| Clintrials Land Parcel 3 | 548 | -- | 548 | -- | N/A | N/A |
| Colony Corporate Center | -- | -- | -- | -- | 1985 | 5-40 yrs. |
| Concourse | -- | -- | -- | -- | 1986 | 5-40 yrs. |
| Cape Fear | 131 | 2,627 | 2,758 | 1,776 | 1979 | 5-40 yrs. |
| Creekstone Crossing | 728 | 3,941 | 4,669 | 580 | 1990 | 5-40 yrs. |
| Catawba | 125 | 1,928 | 2,053 | 1,225 | 1980 | 5-40 yrs. |
| Cottonwood | 609 | 3,261 | 3,870 | 548 | 1983 | 5-40 yrs. |
| Cypress | 567 | 1,893 | 2,460 | 437 | 1980 | 5-40 yrs. |
| Day Tract Land | 3,860 | -- | 3,860 | -- | N/A | N/A |
| Dogwood | 766 | 2,800 | 3,566 | 461 | 1983 | 5-40 yrs. |
| EPA Annex | 2,601 | 11,031 | 13,632 | 1,634 | 1966 | 5-40 yrs. |
| Expressway Warehouse | -- | -- | -- | -- | 1990 | 5-40 yrs. |
| Global Software | 465 | 7,471 | 7,936 | 1,720 | 1996 | 5-40 yrs. |

| Description | 2000 Encumbrance | Initial Cost | | Cost Capitalized Subsequent to Acquisition | |
|--|---------------------|--------------|----------------------------|--|----------------------------|
| | | Land | Building & Improvements | Land | Building & Improvements |
| Hawthorn | -- | 904 | 3,782 | -- | 214 |
| Highwoods Health Club | -- | 142 | 524 | -- | 2,516 |
| Holiday Inn Reservations Center | -- | 867 | 2,735 | -- | 132 |
| Holly | -- | 300 | 1,144 | (300) | (1,144) |
| Healthsource | -- | 1,294 | 10,593 | 10 | 1,696 |
| Highwoods Tower One | (6) | 203 | 16,914 | -- | 554 |
| Highwoods Tower Two | 8,199 | -- | -- | -- | -- |
| Highwoods Centre | -- | 532 | 7,902 | -- | (127) |
| Ironwood | -- | 319 | 1,276 | -- | 367 |
| Kaiser | -- | 133 | 3,625 | -- | 567 |
| Laurel | -- | 884 | 2,524 | -- | 449 |
| Lake Plaza East | -- | 856 | 4,893 | (856) | (4,893) |
| Highwoods Office Center North | -- | 1,103 | 49 | (746) | -- |
| Highwoods Office Center South | -- | 2,519 | -- | -- | -- |
| Leatherwood | -- | 213 | 851 | -- | 445 |
| Martin Land | -- | -- | -- | -- | -- |
| Maplewood | -- | -- | -- | -- | -- |
| A4 Health Systems | -- | 717 | 3,418 | (717) | (3,418) |
| Creekstone Park | -- | 796 | -- | (647) | -- |
| Northpark I | -- | 405 | -- | 93 | 3,774 |
| North Park - Land | -- | 962 | -- | 510 | -- |
| Phase I - One North Commerce Center | -- | 768 | 4,353 | -- | 395 |
| \`W' Building - One North Commerce Center | -- | 1,163 | 6,592 | -- | 1,513 |
| Overlook | -- | 398 | 10,401 | -- | 592 |
| Pamlico/Roanoke | -- | 269 | -- | 20 | 11,087 |
| Raleigh Corp Center Lot D | -- | -- | -- | 2,039 | -- |
| Red Oak at Highwoods | -- | 389 | 6,086 | -- | 358 |
| Rexwoods Center I | (3) | 775 | -- | 103 | 3,749 |
| Rexwoods II | -- | 355 | -- | 7 | 1,851 |
| Rexwoods III | -- | 886 | -- | 34 | 2,916 |
| Rexwoods IV | -- | 586 | -- | -- | 3,629 |
| Rexwoods V | (6) | 1,301 | 5,979 | -- | 60 |
| Riverbirch | (6) | 448 | -- | 21 | 4,281 |
| Situs I | -- | 693 | 2,917 | (693) | (2,917) |
| Situs II | -- | 718 | 5,950 | (718) | (5,950) |
| Situs III | -- | -- | -- | -- | -- |
| Six Forks Center I | -- | 666 | 2,663 | -- | 499 |
| Six Forks Center II | -- | 1,086 | 4,345 | -- | 435 |
| Six Forks Center III | (6) | 862 | 4,411 | -- | 431 |
| Smoketree Tower | -- | 2,353 | 11,802 | -- | 1,684 |
| South Square I | (3) | 606 | 3,785 | -- | 557 |
| South Square II | -- | 525 | 4,710 | -- | 297 |
| Sycamore | (6) | 255 | 5,830 | -- | -- |
| Building 2A - Triangle Business Center | -- | 377 | 4,004 | (377) | (4,004) |
| Building 2B - Triangle Business Center | -- | 118 | 1,225 | (118) | (1,225) |
| Building 3 - Triangle Business Center | -- | 409 | 5,349 | (409) | (5,349) |
| Building 7 - Triangle Business Center | -- | 414 | 6,301 | 2,610 | (6,301) |
| Weston | -- | 1,544 | -- | (1,544) | -- |
| Willow Oak | (6) | 458 | 4,685 | -- | 1,776 |
| Richmond, VA | | | | | |
| Highwoods Distribution Center | -- | -- | -- | 6,690 | -- |
| Airport Center I | -- | 708 | 4,374 | -- | 998 |
| Airport Center 2 | -- | 362 | 2,896 | -- | 305 |
| Capital One Building I | -- | 1,278 | 10,690 | -- | 313 |
| Capital One Building II | -- | 477 | 3,946 | -- | 243 |
| Capital One Building III | -- | 1,278 | 11,515 | -- | (171) |
| Capital One Parking Deck | -- | -- | 2,288 | -- | 132 |

Gross Amount at
Which Carried at Close of Period

| Description | Land | Building & Improvements | Total | Accumulated Depreciation | Date of Construction | Life on Which Depreciation is Computed |
|-------------|------|----------------------------|-------|-----------------------------|-------------------------|---|
|-------------|------|----------------------------|-------|-----------------------------|-------------------------|---|

| | | | | | | |
|---|-------|--------|--------|-------|------|-----------|
| Hawthorn | 904 | 3,996 | 4,900 | 2,044 | 1987 | 5-40 yrs. |
| Highwoods Health Club | 142 | 3,040 | 3,182 | 347 | 1998 | 5-40 yrs. |
| Holiday Inn Reservations Center | 867 | 2,867 | 3,734 | 492 | 1984 | 5-40 yrs. |
| Holly | -- | -- | -- | -- | 1984 | 5-40 yrs. |
| Healthsource | 1,304 | 12,289 | 13,593 | 1,678 | 1996 | 5-40 yrs. |
| Highwoods Tower One | 203 | 17,468 | 17,671 | 4,473 | 1991 | 5-40 yrs. |
| Highwoods Tower Two | -- | -- | -- | -- | N/A | N/A |
| Highwoods Centre | 532 | 7,775 | 8,307 | 747 | 1998 | 5-40 yrs. |
| Ironwood | 319 | 1,643 | 1,962 | 422 | 1978 | 5-40 yrs. |
| Kaiser | 133 | 4,192 | 4,325 | 1,711 | 1988 | 5-40 yrs. |
| Laurel | 884 | 2,973 | 3,857 | 528 | 1982 | 5-40 yrs. |
| Lake Plaza East | -- | -- | -- | -- | 1984 | 5-40 yrs. |
| Highwoods Office Center North | 357 | 49 | 406 | 15 | N/A | N/A |
| Highwoods Office Center South | 2,519 | -- | 2,519 | -- | N/A | N/A |
| Leatherwood | 213 | 1,296 | 1,509 | 373 | 1979 | 5-40 yrs. |
| Martin Land | -- | -- | -- | -- | N/A | N/A |
| Maplewood | -- | -- | -- | -- | N/A | N/A |
| A4 Health Systems | -- | -- | -- | -- | 1996 | 5-40 yrs. |
| Creekstone Park | -- | -- | -- | -- | N/A | N/A |
| Northpark I | 498 | 3,774 | 4,272 | 523 | 1997 | 5-40 yrs. |
| North Park - Land | 1,472 | -- | 1,472 | -- | N/A | N/A |
| Phase I - One North Commerce Center | 768 | 4,748 | 5,516 | 607 | 1981 | 5-40 yrs. |
| \`W' Building - One North Commerce Center | 1,163 | 8,105 | 9,268 | 1,171 | 1983 | 5-40 yrs. |
| Overlook | 398 | 10,993 | 11,391 | 754 | 1999 | 5-40 yrs. |
| Pamlico/Roanoke | 289 | 11,087 | 11,376 | 3,432 | 1980 | 5-40 yrs. |
| Raleigh Corp Center Lot D | 2,039 | -- | 2,039 | -- | N/A | N/A |
| Red Oak at Highwoods | 389 | 6,444 | 6,833 | 491 | 1999 | 5-40 yrs. |
| Rexwoods Center I | 878 | 3,749 | 4,627 | 1,136 | 1990 | 5-40 yrs. |
| Rexwoods II | 362 | 1,851 | 2,213 | 344 | 1993 | 5-40 yrs. |
| Rexwoods III | 920 | 2,916 | 3,836 | 712 | 1992 | 5-40 yrs. |
| Rexwoods IV | 586 | 3,629 | 4,215 | 958 | 1995 | 5-40 yrs. |
| Rexwoods V | 1,301 | 6,039 | 7,340 | 788 | 1998 | 5-40 yrs. |
| Riverbirch | 469 | 4,281 | 4,750 | 1,443 | 1987 | 5-40 yrs. |
| Situs I | -- | -- | -- | -- | 1996 | 5-40 yrs. |
| Situs II | -- | -- | -- | -- | 1998 | 5-40 yrs. |
| Situs III | -- | -- | -- | -- | N/A | N/A |
| Six Forks Center I | 666 | 3,162 | 3,828 | 497 | 1982 | 5-40 yrs. |
| Six Forks Center II | 1,086 | 4,780 | 5,866 | 732 | 1983 | 5-40 yrs. |
| Six Forks Center III | 862 | 4,842 | 5,704 | 881 | 1987 | 5-40 yrs. |
| Smoketree Tower | 2,353 | 13,486 | 15,839 | 2,815 | 1984 | 5-40 yrs. |
| South Square I | 606 | 4,342 | 4,948 | 862 | 1988 | 5-40 yrs. |
| South Square II | 525 | 5,007 | 5,532 | 906 | 1989 | 5-40 yrs. |
| Sycamore | 255 | 5,830 | 6,085 | 996 | 1997 | 5-40 yrs. |
| Building 2A - Triangle Business Center | -- | -- | -- | -- | 1984 | 5-40 yrs. |
| Building 2B - Triangle Business Center | -- | -- | -- | -- | 1984 | 5-40 yrs. |
| Building 3 - Triangle Business Center | -- | -- | -- | -- | 1988 | 5-40 yrs. |
| Building 7 - Triangle Business Center | 3,024 | -- | 3,024 | -- | 1986 | 5-40 yrs. |
| Weston | -- | -- | -- | -- | N/A | N/A |
| Willow Oak | 458 | 6,461 | 6,919 | 1,989 | 1995 | 5-40 yrs. |
| Richmond, VA | | | | | | |
| Highwoods Distribution Center | 6,690 | -- | 6,690 | -- | N/A | N/A |
| Airport Center I | 708 | 5,372 | 6,080 | 728 | 1997 | 5-40 yrs. |
| Airport Center 2 | 362 | 3,201 | 3,563 | 251 | 1998 | 5-40 yrs. |
| Capital One Building I | 1,278 | 11,003 | 12,281 | 565 | 1999 | 5-40 yrs. |
| Capital One Building II | 477 | 4,189 | 4,666 | 200 | 1999 | 5-40 yrs. |
| Capital One Building III | 1,278 | 11,344 | 12,622 | 484 | 1999 | 5-40 yrs. |
| Capital One Parking Deck | -- | 2,420 | 2,420 | 79 | 1999 | 5-40 yrs. |

| Description | 2000 Encumbrance | Initial Cost | | Cost Capitalized Subsequent to Acquisition | |
|----------------------------------|---------------------|--------------|----------------------------|--|----------------------------|
| | | Land | Building & Improvements | Land | Building & Improvements |
| 1309 Cary Street | -- | 171 | 685 | -- | 77 |
| 4900 Cox | -- | 1,324 | 5,305 | -- | 165 |
| Technology Park 1 | -- | 541 | 2,166 | -- | 146 |
| Development Opportunity Strip | -- | 29 | -- | -- | -- |
| East Shore I | -- | -- | 1,254 | 953 | 4,492 |
| East Shore II | -- | 907 | 6,662 | -- | 110 |
| East Shore III | -- | -- | 2,220 | 1,319 | 3,965 |
| Eastshore Four | -- | 1,183 | -- | -- | -- |
| Grove Park | -- | 349 | 2,685 | 364 | 3,149 |
| Grove Park II | -- | 907 | -- | -- | -- |
| Highwoods Distribution Center | -- | 517 | 5,714 | -- | 405 |
| Highwoods One | (6) | 1,846 | 8,613 | -- | 1,985 |
| Richfood Holdings Building | -- | 785 | 5,170 | -- | 1,375 |
| North Shore Commons | -- | 71 | -- | (71) | -- |
| Highwoods Five | -- | 806 | 4,948 | -- | 936 |
| Sadler & Cox Land | -- | -- | -- | 1,682 | -- |
| IXL Building | -- | 907 | 4,937 | -- | -- |
| Highwoods Common | -- | 547 | 4,342 | (26) | (774) |
| Innsbrook Centre | -- | 914 | 6,768 | -- | 184 |
| Liberty Mutual Building | 3,169 | 1,205 | 4,819 | -- | 608 |
| Mercer Plaza | -- | 1,556 | 12,350 | -- | -- |
| Markel-American | -- | 1,372 | 8,667 | -- | 896 |
| North Park Building | -- | 2,163 | 8,659 | -- | 328 |
| North Shore Commons Bldg A | -- | -- | -- | -- | -- |
| Hamilton Beach Building | -- | 1,086 | 4,344 | -- | 329 |
| Pavillion - Richmond | -- | 401 | -- | -- | -- |
| One Shockoe Plaza | -- | -- | 19,324 | -- | (3,954) |
| Pickles Land | 731 | 850 | -- | -- | -- |
| Stony Point I | -- | 1,384 | 11,445 | -- | 1,050 |
| Stony Point II | -- | 1,561 | 10,949 | -- | 1,496 |
| Technology Park 2 | -- | 264 | 1,058 | -- | 46 |
| Vantage Place-A | -- | 203 | 811 | -- | 147 |
| Vantage Place-B | -- | 233 | 931 | -- | 129 |
| Vantage Place-C | -- | 235 | 940 | -- | 89 |
| Vantage Place-D | -- | 218 | 873 | -- | 187 |
| Vantage Point | -- | 1,089 | 4,354 | -- | 206 |
| Waterfront Plaza | -- | 585 | 2,347 | -- | 626 |
| Westshore I | -- | 358 | 1,431 | -- | 28 |
| Westshore II | -- | 545 | 2,181 | -- | 34 |
| Westshore III | -- | 961 | 3,601 | -- | 1,348 |
| Virginia Mutual | -- | 1,301 | 6,034 | -- | (252) |
| South Florida Debartolo Land | -- | 1,727 | -- | (1,727) | -- |
| The 1800 Eller Drive Building | -- | -- | 9,724 | -- | 491 |
| Tampa, FL | | | | | |
| 5400 Gray Street | -- | 350 | 295 | -- | 8 |
| Anchor Glass | -- | 1,281 | 11,034 | (1,281) | (11,034) |
| Atrium | -- | 1,639 | 9,286 | (287) | 2,219 |
| Bayshore Place | -- | 2,248 | 10,323 | (2,248) | (10,323) |
| Bay View | -- | 1,304 | 5,964 | -- | 178 |
| Bay Vista Garden Center | -- | 447 | 4,777 | -- | 11 |
| Bay Vista Garden Center II | -- | 1,328 | 6,981 | 134 | 400 |
| Bay Vista Office Center | -- | 935 | 4,480 | -- | 295 |
| Bay Vista Retail Center | -- | 283 | 1,135 | -- | 31 |
| Countryside Place | -- | 843 | 3,731 | -- | 114 |
| Clearwater Point | -- | 317 | 1,531 | -- | 38 |
| Cypress Center Land | -- | 1,410 | -- | -- | -- |
| Cypress Commons | -- | 1,211 | 11,488 | -- | 7 |
| Cypress Center I Cigna | -- | 3,171 | 12,635 | -- | 3 |
| Cypress Center III | -- | 1,190 | 7,690 | -- | 5 |
| Cypress West | 2,054 | 615 | 4,988 | -- | 191 |
| Brookwood Day Care Center | -- | 61 | 347 | -- | 25 |

Gross Amount at
Which Carried at Close of Period

| Description | Land | Building & Improvements | Total | Accumulated Depreciation | Date of Construction | Life on Which Depreciation is Computed |
|-------------|------|----------------------------|-------|-----------------------------|-------------------------|---|
|-------------|------|----------------------------|-------|-----------------------------|-------------------------|---|

| | | | | | | |
|-------------------------------|-------|--------|--------|-------|------|-----------|
| 1309 Cary Street | 171 | 762 | 933 | 97 | 1987 | 5-40 yrs. |
| 4900 Cox | 1,324 | 5,470 | 6,794 | 724 | 1991 | 5-40 yrs. |
| Technology Park 1 | 541 | 2,312 | 2,853 | 339 | 1991 | 5-40 yrs. |
| Development Opportunity Strip | 29 | -- | 29 | -- | N/A | N/A |
| East Shore I | 953 | 5,746 | 6,699 | 112 | N/A | N/A |
| East Shore II | 907 | 6,772 | 7,679 | 520 | 1999 | 5-40 yrs. |
| East Shore III | 1,319 | 6,185 | 7,504 | 145 | 1999 | 5-40 yrs. |
| Eastshore Four | 1,183 | -- | 1,183 | -- | N/A | N/A |
| Grove Park | 713 | 5,834 | 6,547 | 794 | 1997 | 5-40 yrs. |
| Grove Park II | 907 | -- | 907 | -- | N/A | N/A |
| Highwoods Distribution Center | 517 | 6,119 | 6,636 | 316 | 1999 | 5-40 yrs. |
| Highwoods One | 1,846 | 10,598 | 12,444 | 2,009 | 1996 | 5-40 yrs. |
| Richfood Holdings Building | 785 | 6,545 | 7,330 | 872 | 1997 | 5-40 yrs. |
| North Shore Commons | -- | -- | -- | -- | N/A | N/A |
| Highwoods Five | 806 | 5,884 | 6,690 | 546 | 1998 | 5-40 yrs. |
| Sadler & Cox Land | 1,682 | -- | 1,682 | -- | N/A | N/A |
| IXL Building | 907 | 4,937 | 5,844 | 36 | 2000 | 5-40 yrs. |
| Highwoods Common | 521 | 3,568 | 4,089 | 137 | 1999 | 5-40 yrs. |
| Innsbrook Centre | 914 | 6,952 | 7,866 | 190 | 1989 | 5-40 yrs. |
| Liberty Mutual Building | 1,205 | 5,427 | 6,632 | 690 | 1990 | 5-40 yrs. |
| Merger Plaza | 1,556 | 12,350 | 13,906 | 324 | 1984 | 5-40 yrs. |
| Markel-American | 1,372 | 9,563 | 10,935 | 780 | 1998 | 5-40 yrs. |
| North Park Building | 2,163 | 8,987 | 11,150 | 1,110 | 1989 | 5-40 yrs. |
| North Shore Commons Bldg A | -- | -- | -- | -- | N/A | N/A |
| Hamilton Beach Building | 1,086 | 4,673 | 5,759 | 636 | 1986 | 5-40 yrs. |
| Pavillion - Richmond | 401 | -- | 401 | -- | N/A | N/A |
| One Shockoe Plaza | -- | 15,370 | 15,370 | 1,916 | 1996 | 5-40 yrs. |
| Pickles Land | 850 | -- | 850 | -- | N/A | N/A |
| Stony Point I | 1,384 | 12,495 | 13,879 | 1,161 | 1990 | 5-40 yrs. |
| Stony Point II | 1,561 | 12,445 | 14,006 | 714 | 1999 | 5-40 yrs. |
| Technology Park 2 | 264 | 1,104 | 1,368 | 160 | 1991 | 5-40 yrs. |
| Vantage Place-A | 203 | 958 | 1,161 | 186 | 1987 | 5-40 yrs. |
| Vantage Place-B | 233 | 1,060 | 1,293 | 180 | 1988 | 5-40 yrs. |
| Vantage Place-C | 235 | 1,029 | 1,264 | 171 | 1987 | 5-40 yrs. |
| Vantage Place-D | 218 | 1,060 | 1,278 | 215 | 1988 | 5-40 yrs. |
| Vantage Point | 1,089 | 4,560 | 5,649 | 690 | 1990 | 5-40 yrs. |
| Waterfront Plaza | 585 | 2,973 | 3,558 | 545 | 1988 | 5-40 yrs. |
| Westshore I | 358 | 1,459 | 1,817 | 181 | 1995 | 5-40 yrs. |
| Westshore II | 545 | 2,215 | 2,760 | 268 | 1995 | 5-40 yrs. |
| Westshore III | 961 | 4,949 | 5,910 | 770 | 1997 | 5-40 yrs. |
| Virginia Mutual | 1,301 | 5,782 | 7,083 | 44 | 1996 | 5-40 yrs. |
| South Florida | | | | | | |
| Debartolo Land | -- | -- | -- | -- | N/A | N/A |
| The 1800 Eller Drive Building | -- | 10,215 | 10,215 | 573 | 1983 | 5-40 yrs. |
| Tampa, FL | | | | | | |
| 5400 Gray Street | 350 | 303 | 653 | 24 | 1973 | 5-40 yrs. |
| Anchor Glass | -- | -- | -- | -- | 1988 | 5-40 yrs. |
| Atrium | 1,352 | 11,505 | 12,857 | 1,111 | 1989 | 5-40 yrs. |
| Bayshore Place | -- | -- | -- | -- | 1990 | 5-40 yrs. |
| Bay View | 1,304 | 6,142 | 7,446 | 477 | 1982 | 5-40 yrs. |
| Bay Vista Garden Center | 447 | 4,788 | 5,235 | 348 | 1982 | 5-40 yrs. |
| Bay Vista Garden Center II | 1,462 | 7,381 | 8,843 | 720 | 1997 | 5-40 yrs. |
| Bay Vista Office Center | 935 | 4,775 | 5,710 | 450 | 1982 | 5-40 yrs. |
| Bay Vista Retail Center | 283 | 1,166 | 1,449 | 91 | 1987 | 5-40 yrs. |
| Countryside Place | 843 | 3,845 | 4,688 | 316 | 1988 | 5-40 yrs. |
| Clearwater Point | 317 | 1,569 | 1,886 | 122 | 1981 | 5-40 yrs. |
| Cypress Center Land | 1,410 | -- | 1,410 | -- | N/A | N/A |
| Cypress Commons | 1,211 | 11,495 | 12,706 | 1,121 | 1985 | 5-40 yrs. |
| Cypress Center I Cigna | 3,171 | 12,638 | 15,809 | 1,441 | 1982 | 5-40 yrs. |
| Cypress Center III | 1,190 | 7,695 | 8,885 | 322 | 1983 | 5-40 yrs. |
| Cypress West | 615 | 5,179 | 5,794 | 460 | 1985 | 5-40 yrs. |
| Brookwood Day Care Center | 61 | 372 | 433 | 43 | 1986 | 5-40 yrs. |

| Description | Initial Cost | | Cost Capitalized Subsequent to Acquisition | |
|----------------------------------|------------------|---------|--|----------|
| | 2000 Encumbrance | Land | Building & Improvements | Land |
| Expo Building | -- | 171 | 969 | -- |
| Feathersound II | 2,227 | 800 | 7,282 | -- |
| Fireman's Fund Building | -- | 500 | 4,107 | -- |
| Fireman's fund Land | -- | 1,000 | -- | -- |
| Federated | -- | 6,028 | -- | -- |
| Horizon Office Building | (1) | -- | 6,114 | -- |
| Highwoods Preserve I | -- | -- | 2,268 | 1,618 |
| Highwoods Preserve III | -- | -- | 1,524 | 1,488 |
| Highwoods Preserve IV | -- | 1,639 | 16,355 | -- |
| Highwoods Preserve V | -- | -- | -- | -- |
| Highwoods Plaza | -- | 545 | 4,650 | -- |
| Highwoods Preserve Land | -- | 3,231 | -- | -- |
| ROMAC | -- | -- | -- | -- |
| Lakepointe II | (1) | 2,000 | 20,376 | -- |
| Lakeside | (1) | -- | 7,272 | -- |
| Lakepointe I | (1) | 2,100 | 31,390 | -- |
| Northside Square Office Building | -- | 601 | 3,601 | -- |
| Northside Square Retail Building | -- | 800 | 2,808 | -- |
| One Harbour Place | (3) | 2,015 | 25,252 | -- |
| Parkside | (1) | -- | 9,193 | -- |
| Pavillion Office Building | (1) | -- | 16,022 | -- |
| Pavilion Parking Garage | (1) | -- | 5,618 | -- |
| Park Place | -- | 1,508 | -- | -- |
| REO Building | -- | 795 | 4,484 | -- |
| Registry I | -- | 744 | 4,216 | -- |
| Registry II | -- | 908 | 5,147 | -- |
| Registry Square | -- | 344 | 1,951 | -- |
| Rocky Point Land | -- | 3,484 | -- | -- |
| Sabal Business Center I | -- | 375 | 2,127 | -- |
| Sabal Business Center II | -- | 342 | 1,935 | -- |
| Sabal Business Center III | -- | 290 | 1,642 | -- |
| Sabal Business Center IV | -- | 819 | 4,638 | -- |
| Sabal Business Center V | -- | 1,026 | 5,813 | -- |
| Sabal Business Center VI | -- | 1,609 | 9,116 | -- |
| Sabal Business Center VII | -- | 1,519 | 8,605 | -- |
| Sabal Lake Building | -- | 572 | 3,241 | -- |
| Sabal Industrial Park Land | -- | 473 | -- | -- |
| Sabal Park Plaza | -- | 611 | 3,460 | -- |
| Sabal Tech Center | -- | 548 | 3,107 | -- |
| Summit Executive Centre | -- | 579 | 2,749 | -- |
| Spectrum | (1) | 1,450 | 14,173 | -- |
| Sabal Pavilion - Phase I | -- | 660 | 8,633 | 304 |
| Sabal Pavilion - Phase II | -- | 357 | -- | -- |
| Tower Place | -- | 3,194 | 18,098 | (3,194) |
| USF&G | -- | 1,366 | 7,742 | -- |
| Westshore Square | 2,811 | 1,130 | 5,155 | -- |
| | | 668,327 | 3,039,068 | (83,902) |
| | | ===== | ===== | ===== |

Gross Amount at
Which Carried at Close of Period

| Description | Land | Building & Improvements | Total | Accumulated Depreciation | Date of Construction | Life on Which Depreciation is Computed |
|-------------------------|-------|-------------------------|--------|--------------------------|----------------------|--|
| Expo Building | 171 | 992 | 1,163 | 109 | 1981 | 5-40 yrs. |
| Feathersound II | 800 | 7,649 | 8,449 | 714 | 1986 | 5-40 yrs. |
| Fireman's Fund Building | 500 | 4,202 | 4,702 | 365 | 1982 | 5-40 yrs. |
| Fireman's fund Land | 1,000 | -- | 1,000 | -- | N/A | N/A |
| Federated | 6,028 | -- | 6,028 | -- | N/A | N/A |
| Horizon Office Building | -- | 6,286 | 6,286 | 524 | 1980 | 5-40 yrs. |
| Highwoods Preserve I | 1,618 | 21,238 | 22,856 | 492 | 1999 | 5-40 yrs. |
| Highwoods Preserve III | 1,488 | 18,689 | 20,177 | 352 | 1999 | 5-40 yrs. |
| Highwoods Preserve IV | 1,639 | 23,072 | 24,711 | 160 | 1999 | 5-40 yrs. |
| Highwoods Preserve V | -- | -- | -- | -- | N/A | N/A |
| Highwoods Plaza | 545 | 4,994 | 5,539 | 34 | 1999 | 5-40 yrs. |
| Highwoods Preserve Land | 3,231 | -- | 3,231 | -- | N/A | N/A |
| ROMAC | -- | -- | -- | -- | N/A | N/A |
| Lakepointe II | 2,000 | 23,193 | 25,193 | 715 | 1999 | 5-40 yrs. |
| Lakeside | -- | 7,378 | 7,378 | 592 | 1978 | 5-40 yrs. |

| | | | | | | |
|----------------------------------|---------|-----------|-----------|---------|------|-----------|
| Lakepointe I | 2,100 | 31,834 | 33,934 | 2,595 | 1986 | 5-40 yrs. |
| Northside Square Office Building | 601 | 3,704 | 4,305 | 304 | 1986 | 5-40 yrs. |
| Northside Square Retail Building | 800 | 2,869 | 3,669 | 227 | 1986 | 5-40 yrs. |
| One Harbour Place | 2,015 | 25,253 | 27,268 | 237 | 1985 | 5-40 yrs. |
| Parkside | -- | 9,470 | 9,470 | 763 | 1979 | 5-40 yrs. |
| Pavillion Office Building | -- | 16,227 | 16,227 | 1,314 | 1982 | 5-40 yrs. |
| Pavilion Parking Garage | -- | 5,618 | 5,618 | 168 | 1999 | 5-40 yrs. |
| Park Place | 1,508 | -- | 1,508 | -- | N/A | N/A |
| REO Building | 795 | 4,665 | 5,460 | 384 | 1983 | 5-40 yrs. |
| Registry I | 744 | 4,553 | 5,297 | 546 | 1985 | 5-40 yrs. |
| Registry II | 908 | 5,541 | 6,449 | 667 | 1987 | 5-40 yrs. |
| Registry Square | 344 | 2,055 | 2,399 | 225 | 1988 | 5-40 yrs. |
| Rocky Point Land | 3,484 | -- | 3,484 | -- | N/A | N/A |
| Sabal Business Center I | 375 | 2,255 | 2,630 | 259 | 1982 | 5-40 yrs. |
| Sabal Business Center II | 342 | 2,072 | 2,414 | 273 | 1984 | 5-40 yrs. |
| Sabal Business Center III | 290 | 1,687 | 1,977 | 187 | 1984 | 5-40 yrs. |
| Sabal Business Center IV | 819 | 4,645 | 5,464 | 501 | 1984 | 5-40 yrs. |
| Sabal Business Center V | 1,026 | 5,899 | 6,925 | 652 | 1988 | 5-40 yrs. |
| Sabal Business Center VI | 1,609 | 9,196 | 10,805 | 994 | 1988 | 5-40 yrs. |
| Sabal Business Center VII | 1,519 | 8,649 | 10,168 | 935 | 1990 | 5-40 yrs. |
| Sabal Lake Building | 572 | 3,393 | 3,965 | 425 | 1986 | 5-40 yrs. |
| Sabal Industrial Park Land | 473 | -- | 473 | -- | N/A | N/A |
| Sabal Park Plaza | 611 | 3,844 | 4,455 | 648 | 1987 | 5-40 yrs. |
| Sabal Tech Center | 548 | 3,204 | 3,752 | 341 | 1989 | 5-40 yrs. |
| Summit Executive Centre | 579 | 2,750 | 3,329 | 200 | 1988 | 5-40 yrs. |
| Spectrum | 1,450 | 14,437 | 15,887 | 1,211 | 1984 | 5-40 yrs. |
| Sabal Pavilion - Phase I | 964 | 8,564 | 9,528 | 443 | 1998 | 5-40 yrs. |
| Sabal Pavilion - Phase II | 357 | -- | 357 | -- | N/A | N/A |
| Tower Place | -- | -- | -- | -- | 1988 | 5-40 yrs. |
| USF&G | 1,366 | 9,133 | 10,499 | 1,402 | 1988 | 5-40 yrs. |
| Westshore Square | 1,130 | 5,171 | 6,301 | 383 | 1976 | 5-40 yrs. |
| | ----- | ----- | ----- | ----- | | |
| | 596,439 | 2,793,870 | 3,443,117 | 280,772 | | |
| | ===== | ===== | ===== | ===== | | |

(1) These assets are pledged as collateral for a \$71,183,000 first mortgage loan.

(2) These assets are pledged as collateral for a \$45,396,000 first mortgage loan.

(3) These assets are pledged as collateral for a \$29,328,000 first mortgage loan.

(4) These assets are pledged as collateral for a \$7,883,000 first mortgage loan.

(5) These assets are pledged as collateral for a \$136,836,000 first mortgage loan.

(6) These assets are pledged as collateral for a \$185,701,000 first mortgage loan.

(7) These assets are pledged as collateral for a \$11,141,000 first mortgage loan.

The aggregate cost for Federal Income tax purposes was approximately \$3,118,840,000.

HIGHWOODS PROPERTIES, INC.

NOTE TO SCHEDULE III (in thousands)

As of December 31, 2000, 1999 and 1998

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

| | December 31, | | |
|--|--------------|-------------|-------------|
| | 2000 | 1999 | 1998 |
| Real Estate: | | | |
| Balance at beginning of year | \$3,768,234 | \$4,025,472 | \$2,603,410 |
| Additions | | | |
| Acquisitions, development and improvements | 403,012 | 507,475 | 1,447,637 |
| Cost of real estate sold | (733,608) | (764,713) | (25,575) |
| | ----- | ----- | ----- |
| Balance at close of year (a) | \$3,437,638 | \$3,768,234 | \$4,025,472 |
| | ===== | ===== | ===== |
| Accumulated Depreciation | | | |
| Balance at beginning of year | \$ 237,979 | \$ 167,989 | \$ 86,062 |
| Depreciation expense | 108,752 | 99,386 | 83,462 |
| Real estate sold | (65,959) | (29,396) | (1,535) |
| | ----- | ----- | ----- |
| Balance at close of year (b) | \$ 280,772 | \$ 237,979 | \$ 167,989 |
| | ===== | ===== | ===== |

(a) Reconciliation of total cost to balance sheet caption at December 31, 2000, 1999 and 1998
(in thousands)

| | 2000 | 1999 | 1998 |
|--|-------------|-------------|-------------|
| | ----- | ----- | ----- |
| Total per schedule III | \$3,443,117 | \$3,768,234 | \$4,025,472 |
| Construction in progress exclusive of land included in schedule III | 87,622 | 186,925 | 189,465 |
| Furniture, fixtures and equipment | 11,433 | 7,917 | 7,693 |
| Property held for sale | (133,303) | (51,603) | (129,166) |
| | ----- | ----- | ----- |
| Total real estate assets at cost | \$3,408,869 | \$3,911,473 | \$4,093,464 |
| | ===== | ===== | ===== |

(b) Reconciliation of total accumulated depreciation to balance sheet caption at December 31, 2000,
1999 and 1998 (in thousands)

| | 2000 | 1999 | 1998 |
|--|------------|------------|------------|
| | ----- | ----- | ----- |
| Total per Schedule III | \$ 280,772 | \$ 237,979 | \$ 167,989 |
| Accumulated depreciation -- furniture, fixtures and equipment | 5,317 | 2,799 | 3,953 |
| Property held for sale | (5,479) | (2,643) | (2,670) |
| | ----- | ----- | ----- |
| Total accumulated depreciation | \$ 280,610 | \$ 238,135 | \$ 169,272 |
| | ===== | ===== | ===== |

EXHIBIT 23.1

CONSENT OF INDEPENDENT AUDITORS

We consent to the incorporation by reference in the Registration Statements (Form S-3 Nos. 333-51671-01, 333-51759, and 333-61913, and Form S-8 Nos. 333-38878, 333-12117, 333-29759 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 19, 2001 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, 2000.

/s/ ERNST & YOUNG LLP

Raleigh, North Carolina
March 29, 2001

End of Filing

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