

HIGHWOODS PROPERTIES INC

FORM 10-Q (Quarterly Report)

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Industry	Real Estate Operations
Sector	Services
Fiscal Year	12/31

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended March 31, 2004

Commission file number: 001-13100

HIGHWOODS PROPERTIES, INC.

(Exact name of registrant as specified in its charter)

Maryland
(State or other jurisdiction of
incorporation or organization)

56-1871668
(I.R.S. Employer
Identification Number)

3100 Smoketree Court, Suite 600, Raleigh, N.C.
(Address of principal executive office)

27604
(Zip Code)

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

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

Indicate by check mark whether the Registrant is an accelerated filer (as defined in rule 12b-2 of the Securities Exchange Act). Yes ☒ No ☐

The Company has only one class of common stock, par value \$0.01 per share, with 53,630,160 shares outstanding as of April 12, 2004.

Table of Contents

HIGHWOODS PROPERTIES, INC.
QUARTERLY REPORT FOR THE PERIOD ENDED MARCH 31, 2004
TABLE OF CONTENTS

	<u>Page</u>
PART I	FINANCIAL INFORMATION
Item 1.	Financial Statements 3
	Consolidated Balance Sheets as of March 31, 2004 and December 31, 2003 4
	Consolidated Statements of Operations for the three months ended March 31, 2004 and 2003 5
	Consolidated Statements of Stockholders' Equity for the three months ended March 31, 2004 6
	Consolidated Statements of Cash Flows for the three months ended March 31, 2004 and 2003 7
	Notes to Consolidated Financial Statements 9
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations 21
	Disclosure Regarding Forward-Looking Statements 21
	Overview 21
	Results of Operations 29
	Liquidity and Capital Resources 33
	Critical Accounting Estimates 41
	Funds From Operations and Cash Available for Distributions 41
Item 3.	Quantitative and Qualitative Disclosures About Market Risk 44
Item 4.	Controls and Procedures 44
PART II	OTHER INFORMATION
Item 2.	Changes in Securities and Use of Proceeds 46
Item 6.	Exhibits and Reports on Form 8-K 46

PART I—FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

We refer to (1) Highwoods Properties, Inc. as the “Company,” (2) Highwoods Realty Limited Partnership as the “Operating Partnership,” (3) the Company’s common stock as “Common Stock,” (4) the Operating Partnership’s common partnership interests as “Common Units” and (5) the Operating Partnership’s preferred partnership interests as “Preferred Units.”

The information furnished in the accompanying Consolidated Balance Sheets, Statements of Operations, Statement of Stockholders’ Equity and Statements of Cash Flows reflect all adjustments (consisting of normal recurring accruals) that are, in our opinion, necessary for a fair presentation of the aforementioned financial statements for the interim period.

The aforementioned financial statements should be read in conjunction with the notes to consolidated financial statements and Management’s Discussion and Analysis of Financial Condition and Results of Operations included herein and in our 2003 Annual Report on Form 10-K.

Table of Contents

HIGHWOODS PROPERTIES, INC.

Consolidated Balance Sheets

(Unaudited and \$ in thousands except per share amounts)

	March 31, 2004 (Unaudited)	December 31, 2003
Assets:		
Real estate assets, at cost:		
Land and improvements	\$ 443,611	\$ 397,150
Buildings and tenant improvements	3,093,094	2,912,489
Development in process	9,071	6,899
Land held for development	199,228	196,620
Furniture, fixtures and equipment	21,950	21,818
	<u>3,766,954</u>	<u>3,534,976</u>
Less—accumulated depreciation	(566,489)	(542,328)
Net real estate assets	<u>3,200,465</u>	<u>2,992,648</u>
Property held for sale	38,467	55,453
Cash and cash equivalents	17,001	18,564
Restricted cash	8,044	6,320
Accounts receivable, net	10,737	17,827
Notes receivable	24,309	24,623
Accrued straight-line rents receivable	54,732	51,189
Investments in unconsolidated affiliates	68,553	74,665
Other assets:		
Deferred leasing costs	114,687	110,488
Deferred financing costs	46,396	46,198
Prepaid expenses and other	14,287	13,799
	<u>175,370</u>	<u>170,485</u>
Less—accumulated amortization	(89,155)	(84,965)
Other assets, net	<u>86,215</u>	<u>85,520</u>
Total Assets	<u>\$3,508,523</u>	<u>\$3,326,809</u>
Liabilities and Stockholders' Equity:		
Mortgages and notes payable	\$1,767,239	\$1,558,758
Accounts payable, accrued expenses and other liabilities	108,199	111,772
Total Liabilities	<u>1,875,438</u>	<u>1,670,530</u>
Minority interest	161,884	165,250
Stockholders' Equity:		
Preferred stock, \$.01 par value, 50,000,000 authorized shares; 8 5/8% Series A Cumulative Redeemable Preferred Shares (liquidation preference \$1,000 per share), 104,945 shares issued and outstanding at March 31, 2004 and December 31, 2003	104,945	104,945
8% Series B Cumulative Redeemable Preferred Shares (liquidation preference \$25 per share), 6,900,000 shares issued and outstanding at March 31, 2004 and December 31, 2003	172,500	172,500
8% Series D Cumulative Redeemable Preferred Shares (liquidation preference \$250 per share), 400,000 shares issued and outstanding at March 31, 2004 and December 31, 2003	100,000	100,000
Common stock, \$.01 par value, 200,000,000 authorized shares; 53,631,176 and 53,474,403 shares issued and outstanding at March 31, 2004 and December 31, 2003, respectively	536	535
Additional paid-in capital	1,400,315	1,393,103
Distributions in excess of net earnings	(296,538)	(271,971)
Accumulated other comprehensive loss	(3,525)	(3,650)
Deferred compensation	(7,032)	(4,433)
Total Stockholders' Equity	<u>1,471,201</u>	<u>1,491,029</u>

Total Liabilities and Stockholders' Equity	\$3,508,523	\$3,326,809
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See accompanying notes to consolidated financial statements.

Table of Contents

HIGHWOODS PROPERTIES, INC.
Consolidated Statements of Operations
(Unaudited and \$ in thousands, except per share amounts)

	Three Months Ended March 31,	
	2004	2003
Rental revenue	\$108,622	\$103,924
Operating expenses:		
Rental property	39,165	35,940
Depreciation and amortization	34,316	32,030
General and administrative (includes \$4,638 retirement compensation expense in 2004)	12,167	5,344
Total operating expenses	85,648	73,314
Interest expense:		
Contractual	26,057	27,674
Amortization of deferred financing costs	855	626
	26,912	28,300
Other income:		
Interest and other income	3,346	2,859
Equity in earnings of unconsolidated affiliates	1,402	1,761
	4,748	4,620
Income before gain/(loss) on disposition of land and depreciable assets, minority interest and discontinued operations	810	6,930
Gain on disposition of land	1,138	863
(Loss)/gain on disposition and impairment of depreciable assets, net	(55)	20
Income before minority interest and discontinued operations	1,893	7,813
Minority interest	(231)	(938)
Income from continuing operations	1,662	6,875
Discontinued operations:		
Income from discontinued operations, net of minority interest	667	4,467
Gain/(loss) on sale of discontinued operations, net of minority interest	3,555	(170)
	4,222	4,297
Net income	5,884	11,172
Dividends on preferred stock	(7,713)	(7,713)
Net (loss)/income attributable to common stockholders	\$ (1,829)	\$ 3,459
Net (loss)/income per common share – basic:		
Loss from continuing operations	\$ (0.11)	\$ (0.02)
Income from discontinued operations	0.08	0.08
Net (loss)/income	\$ (0.03)	\$ 0.06
Weighted average common shares outstanding – basic	53,542	53,428
Net (loss)/income per common share – diluted:		
Loss from continuing operations	\$ (0.11)	\$ (0.02)
Income from discontinued operations	0.08	0.08
Net (loss)/income	\$ (0.03)	\$ 0.06

Weighted average common shares outstanding – diluted	53,542	53,475
	<u> </u>	<u> </u>
Dividends declared per common share	\$ 0.425	\$ 0.585
	<u> </u>	<u> </u>

See accompanying notes to consolidated financial statements.

Table of Contents

HIGHWOODS PROPERTIES, INC.
Consolidated Statement of Stockholders' Equity
(Unaudited and \$ in thousands except share amounts)
For the Three Months Ended March 31, 2004

	Common Stock	Series A Preferred	Series B Preferred	Series D Preferred	Additional Paid-In Capital	Deferred Compensation	Accumulated Other Comprehensive Loss	Distributions in Excess of Net Earnings	Total
Balance at December 31, 2003	\$ 535	\$ 104,945	\$ 172,500	\$ 100,000	\$ 1,393,103	\$ (4,433)	\$ (3,650)	\$ (271,971)	\$1,491,029
Issuance of Common Stock	—	—	—	—	320	—	—	—	320
Conversion of Common Units to Common Stock	—	—	—	—	1,404	—	—	—	1,404
Common Stock Dividends	—	—	—	—	—	—	—	(22,738)	(22,738)
Preferred Stock dividends	—	—	—	—	—	—	—	(7,713)	(7,713)
Issuance of restricted stock	1	—	—	—	2,633	(2,634)	—	—	—
Fair value of stock options issued	—	—	—	—	2,855	(2,855)	—	—	—
Amortization of deferred compensation	—	—	—	—	—	2,890	—	—	2,890
Other comprehensive income	—	—	—	—	—	—	125	—	125
Net Income	—	—	—	—	—	—	—	5,884	5,884
Balance at March 31, 2004	\$ 536	\$ 104,945	\$ 172,500	\$ 100,000	\$ 1,400,315	\$ (7,032)	\$ (3,525)	\$ (296,538)	\$1,471,201

See accompanying notes to consolidated financial statements.

Table of Contents

HIGHWOODS PROPERTIES, INC. Consolidated Statements of Cash Flows (Unaudited and in thousands)

	Three Months Ended March 31,	
	2004	2003
Operating activities:		
Income from continuing operations	\$ 1,662	\$ 6,875
Adjustments to reconcile income from continuing operations to net cash provided by operating activities:		
Depreciation and amortization	34,316	32,030
Amortization of deferred compensation	2,890	372
Amortization of deferred financing costs	855	626
Amortization of accumulated other comprehensive loss	210	437
Equity in earnings of unconsolidated affiliates	(1,402)	(1,761)
Gain on disposition of land and depreciable assets	(1,083)	(883)
Minority interest	231	938
Discontinued operations	773	6,306
Changes in operating assets and liabilities	(258)	(6,134)
Net cash provided by operating activities	38,194	38,806
Investing activities:		
Additions to real estate assets	(93,565)	(26,286)
Proceeds from disposition of real estate assets	21,774	2,388
Distributions from unconsolidated affiliates	1,832	4,934
Investments in notes receivable	1,128	(1,020)
Contributions to unconsolidated affiliates	(9,988)	—
Other investing activities	(22)	(204)
Net cash used in investing activities	(78,841)	(20,188)
Financing activities:		
Distributions paid on common stock and common units	(25,368)	(35,248)
Dividends paid on preferred stock	(7,713)	(7,713)
Net proceeds from the sale of common stock	320	128
Repurchase of common stock and common units	(50)	(2,751)
Borrowings on revolving loan	175,500	68,000
Repayment of revolving loan	(100,000)	(32,000)
Borrowings on mortgages and notes payable	—	2,190
Repayment of mortgages and notes payable	(3,226)	(4,419)
Net change in deferred financing costs	(379)	1,382
Net cash provided by/(used in) financing activities	39,084	(10,431)
Net (decrease)/increase in cash and cash equivalents	(1,563)	8,187
Cash and cash equivalents at beginning of the period	18,564	11,017
Cash and cash equivalents at end of the period	\$ 17,001	\$ 19,204
Supplemental disclosure of cash flow information:		
Cash paid for interest	\$ 20,794	\$ 21,446

See accompanying notes to consolidated financial statements.

Table of Contents

HIGHWOODS PROPERTIES, INC.
Consolidated Statements of Cash Flows – Continued
(Unaudited and in thousands)

Supplemental disclosure of non-cash investing and financing activities:

The following table summarizes the net assets acquired subject to mortgage notes payable and other non-cash transactions:

	Three Months Ended March 31,	
	2004	2003
Assets:		
Net real estate assets	\$149,535	\$ —
Restricted cash	1,651	—
Accounts receivable	(476)	—
Notes receivable	814	—
Accrued straight-line rents receivable	828	—
Investment in unconsolidated affiliates	(15,692)	1,694
Deferred financing costs	—	17,810
	<u>\$136,660</u>	<u>\$19,504</u>
Liabilities:		
Mortgages and notes payable	\$136,207	\$17,810
Accounts payable, accrued expenses and other liabilities	453	1,694
	<u>\$136,660</u>	<u>\$19,504</u>

See accompanying notes to consolidated financial statements.

HIGHWOODS PROPERTIES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2004
(Unaudited)

1. DESCRIPTION OF BUSINESS

Description of Business

Highwoods Properties, Inc. (the “Company”) is a self-administered and self-managed real estate investment trust (“REIT”) that operates in the southeastern and midwestern United States. The Company’s wholly-owned assets include: 468 in-service office, industrial and retail properties; 1,255 acres of undeveloped land suitable for future development; and an additional four properties under development.

The Company conducts substantially all of its activities through, and substantially all of its interests in the properties are held directly or indirectly by, Highwoods Realty Limited Partnership (the “Operating Partnership”). The Company is the sole general partner of the Operating Partnership. At March 31, 2004, the Company owned 100.0% of the preferred partnership interests (“Preferred Units”) and 89.7% of the common partnership interests (“Common Units”) in the Operating Partnership. During the three months ended March 31, 2004, the Company redeemed from limited partners (including certain officers and directors of the Company) 1,960 Common Units for \$0.05 million in cash and redeemed 54,308 Common Units in exchange for Common Stock on a one-for-one basis. These transactions increased the percentage of Common Units owned by the Company from 88.9% at December 31, 2003 to 89.7% at March 31, 2004. 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 of Common Stock. The three series of Preferred Units in the Operating Partnership were issued to the Company in connection with the Company’s three Preferred Stock offerings in 1997 and 1998. The net proceeds raised from each of the three Preferred Stock issuances were contributed by the Company to the Operating Partnership in exchange for preferred interests in the Operating Partnership. The terms of each series of Preferred Units generally parallel the terms of the respective Preferred Stock as to dividends, liquidation and redemption rights.

Basis of Presentation

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

The Company has elected and expects to continue to qualify as a REIT under Sections 856 through 860 of the Internal Revenue Code of 1986 (the “Code”), as amended. Therefore, no provision has been made for income taxes related to REIT taxable income to be distributed to shareholders. In June 1994, the Company formed a taxable REIT subsidiary, as permitted under the Code, through which it conducts certain business activities; the taxable REIT subsidiary is subject to federal and state income taxes on its net taxable income and the Company records provisions for such taxes to the extent required based on its income recognized for financial statement purposes, including the effects of temporary differences between such income and that recognized for tax purposes.

Minority interest represents Common Units in the Operating Partnership owned by various individuals and entities other than the Company. The Operating Partnership directly and indirectly owns substantially all of the Company’s properties and is the entity through which the Company, as the sole general partner, conducts substantially all of its operations. Per share information is calculated using the weighted average number of shares of Common Stock outstanding (including common share equivalents).

Certain amounts in the March 31, 2003 and December 31, 2003 financial statements included in this Quarterly Report have been reclassified to conform to the March 31, 2004 presentation. These reclassifications had no effect on net income or stockholders’ equity as previously reported in the Company’s audited Consolidated Financial Statements included in the Company’s 2003 Annual Report on Form 10-K.

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

1. DESCRIPTION OF BUSINESS —Continued

The accompanying financial information has not been audited, but in the opinion of management, all adjustments (consisting of normal recurring accruals) necessary for a fair presentation of our financial position, results of operations and cash flows have been made. The Company has condensed or omitted certain notes and other information from the interim financial statements presented in this Quarterly Report on Form 10-Q. These financial statements should be read in conjunction with the Company's 2003 Annual Report on Form 10-K.

Options and warrants totaling 524,000 that could potentially dilute basic earnings per share in the future were excluded from the computation of diluted earnings per share for the three months ended March 31, 2004 because their effect was anti-dilutive.

The preparation of financial statements in accordance with Generally Accepted Accounting Principles ("GAAP") 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.

2. INVESTMENTS IN UNCONSOLIDATED AFFILIATES

The Company has various investments in joint ventures with unrelated investors. The Company has retained minority equity interests ranging from 12.50% to 50.00% in these joint ventures. As required by GAAP, the Company has accounted for its joint venture activity using the equity method of accounting, as the Company does not control these joint ventures and, as of March 31, 2004, the joint ventures were not deemed variable interest entities. As a result, the assets and liabilities of the Company's joint ventures are not included on its Consolidated Balance Sheets.

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

2. INVESTMENTS IN UNCONSOLIDATED AFFILIATES —Continued

The following table sets forth information regarding the Company's joint venture activity as recorded on the respective joint venture's books for the three months ended March 31, 2004 and 2003 (\$ in thousands):

		Three Months Ended March 31, 2004					Three Months Ended March 31, 2003				
	Percent										
	Owned	Revenue	Operating Expenses	Interest	Depr/ Amort	Net Income/ (Loss)	Revenue	Operating Expenses	Interest	Depr/ Amort	Net Income/ (Loss)
Income Statement Data:											
Board of Trade Investment Company	49.00%	\$ 633	\$ 434	\$ 14	\$ 112	\$ 73	\$ 608	\$ 395	\$ 17	\$ 100	\$ 96
Dallas County Partners (1)	50.00%	2,547	1,524	680	464	(121)	2,411	1,410	695	472	(166)
Dallas County Partners II (1)	50.00%	1,595	711	570	186	128	1,566	689	599	206	72
Fountain Three (1)	50.00%	1,834	835	536	379	84	1,763	760	572	356	75
RRHWoods, LLC (1)	50.00%	3,311	1,874	675	851	(89)	3,507	1,791	673	835	208
Kessinger/Hunter, LLC	26.50%	1,538	1,229	—	174	135	1,397	1,160	—	159	78
4600 Madison Associates, LP	12.50%	1,215	562	287	421	(55)	1,493	592	299	394	208
Highwoods DLF 98/29, LP	22.81%	4,960	1,346	1,137	880	1,597	4,643	1,348	1,153	862	1,280
Highwoods DLF 97/26 DLF 99/32, LP	42.93%	3,796	1,005	1,140	1,083	568	4,182	1,123	1,152	1,001	906
Highwoods-Markel Associates, LLC	50.00%	1,671	385	586	368	332	812	438	238	143	(7)
MG-HIW, LLC (2)	20.00%	4,749	1,868	836	979	1,066	12,292	4,386	2,328	2,344	3,234
MG-HIW Peachtree Corners III, LLC (2)	50.00%	—	—	—	—	—	34	25	25	19	(35)
MG-HIW Metrowest I, LLC (2)	50.00%	—	5	—	—	(5)	—	8	—	—	(8)
MG-HIW Metrowest II, LLC (2)	50.00%	141	88	39	70	(56)	123	109	44	79	(109)
Concourse Center Associates, LLC	50.00%	526	141	175	85	125	526	138	173	76	139
Plaza Colonnade, LLC	50.00%	1	—	—	1	—	4	—	1	—	3
SF-HIW Harborview, LP	20.00%	1,395	468	351	216	360	1,419	408	351	217	443
Highwoods KC Glenridge Office, LP (3)	40.00%	326	97	—	46	183	—	—	—	—	—
Total		\$ 30,238	\$ 12,572	\$ 7,026	\$ 6,315	\$ 4,325	\$ 36,780	\$ 14,780	\$ 8,320	\$ 7,263	\$ 6,417

(1) Des Moines joint ventures.

(2) See Note 3, Acquisition of Joint Venture Assets and Equity Interests, for discussion of the Company's acquisition of these joint venture assets.

(3) The Company and Kapital-Consult, a European investment firm, formed this joint venture partnership, which on February 26, 2004 acquired Glenridge Point Office Park, consisting of two office buildings aggregating 185,000 square feet located in the Central Perimeter sub-market of Atlanta. The buildings are 91.1% occupied as of March 31, 2004. The acquisition also includes 2.9 acres of development land that can accommodate 150,000 square feet of office space. The Company contributed \$10.0 million to the joint venture in return for a 40.0% equity interest and Kapital-Consult contributed \$14.9 million for a 60.0% equity interest in the partnership. The joint venture intends to enter into a \$16.5 million 10-year secured loan on the assets. The Company will be the sole and exclusive manager and leasing agent for this property and will receive customary management fees and leasing commissions.

In January 2003, the FASB issued Interpretation No. 46 ("FIN 46"), "Consolidation of Variable Interest Entities" ("VIEs"), the primary objective of which is to provide guidance on the identification of entities for which control is achieved through means other than voting rights and to determine when and which business enterprise should consolidate the VIEs. This new model applies when either (1) the equity investors (if any) do not have a controlling financial interest or (2) the equity investment at risk is insufficient to finance the entity's activities without additional financial support. FIN 46 also requires additional disclosures. FIN 46 was effective immediately for interests acquired subsequent to January 31, 2003 and is effective March 31, 2004 for interests in VIEs created before February 1, 2003. The Company assessed its variable interests, including the joint ventures listed above, and determined the interests were not VIEs at March 31, 2004. As a result, the provisions of FIN 46 did not have an impact on the Company's financial condition or results of operations.

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

3. ACQUISITION OF JOINT VENTURE ASSETS AND EQUITY INTERESTS

On July 29, 2003, the Company acquired the assets and/or its partner's 80.0% equity interest related to 15 properties encompassing 1.3 million square feet owned by MG-HIW, LLC. The properties are located in Atlanta, Raleigh and Tampa. Also as part of the MG-HIW, LLC acquisition on July 29, 2003, the Company was assigned Miller Global's 50.0% equity interest in the single property encompassing 53,896 square feet owned by MG-HIW Peachtree Corners III, LLC.

Additionally, as part of the MG-HIW, LLC acquisition on July 29, 2003, the Company entered into an option agreement with its partner, Miller Global, to acquire their 50.0% interest in the assets of MG-HIW Metrowest I, LLC and MG-HIW Metrowest II, LLC. On March 2, 2004, the Company exercised the option and paid its partner \$3.2 million for such remaining interest in the assets of MG-HIW Metrowest I, LLC and MG-HIW Metrowest II, LLC. A \$7.4 million construction loan was paid in full by the Company. The assets encompass 87,832 square feet of property and 7.0 acres of development land zoned for the development of 90,000 square feet of office space.

On July 29, 2003, the Company also entered into an option agreement to acquire Miller Global's 80.0% interest in the remaining assets of MG-HIW, LLC. The remaining assets of MG-HIW, LLC were five properties encompassing 1.3 million square feet located in the central business district of Orlando ("Orlando properties"). On March 2, 2004, the Company exercised the option and paid its partner, Miller Global, \$62.5 million and assumed \$136.2 million of floating rate debt with interest based on LIBOR plus 200 basis points. A \$7.5 million letter of credit was also cancelled. The transaction implies a valuation (100.0% ownership) of \$214.3 million with respect to these assets, which includes the properties and other net assets of the joint venture. The Company accounted for the acquisition in accordance with the provisions of SFAS 141. The fair values assigned to the identifiable tangible and intangible assets and liabilities are preliminary as the Company is evaluating the fair values and allocation of costs. Management does not believe that any adjustment would have a material effect on the Company's financial position or results of operations. The results of operations subsequent to March 1, 2004 are included in the Company's Consolidated Statements of Operations for the period ended March 31, 2004.

In January 2004, the Company signed a non-binding letter of intent with Kapital-Consult, manager for Dreilander-Fonds, a European investment firm, under which Kapital-Consult will acquire a 60.0% equity interest in the Orlando properties for approximately \$45.5 million, excluding certain development rights to be retained by the Company. The joint venture intends to refinance the existing debt on the properties with a \$143.0 million 10-year fixed rate loan. In order to lock the interest rate on the new debt, the parties paid a \$2.9 million deposit, \$1.2 million of which was paid by the Company. Although the joint venture transaction is subject to documentation and other closing conditions, it is expected to close no later than the end of the second quarter of 2004.

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

4. RELATED PARTY TRANSACTIONS

The Company has previously reported that it has had a contract to acquire development land in the Bluegrass Valley office development project from GAPI, Inc., a corporation controlled by an executive officer and director of the Company. On January 17, 2003, the Company acquired an additional 23.5 acres of this land from GAPI, Inc. for cash and shares of Common Stock valued at \$2.3 million. In May 2003, 4.0 acres of the remaining acres not yet acquired by the Company was taken by the Georgia Department of Transportation to develop a roadway interchange for consideration of \$1.8 million. The Department of Transportation took possession and title of the property in June 2003. As part of the terms of the contract between the Company and GAPI, Inc., the Company was entitled to the proceeds from the condemnation of \$1.8 million, less the contracted purchase price between the Company and GAPI, Inc. for the condemned property of \$0.7 million. On September 30, 2003, as a result of the condemnation, the Company received the proceeds of \$1.8 million. A related party payable of \$0.7 million to GAPI, Inc. related to the condemnation of the development land is included in accounts payable, accrued expenses and other liabilities in the Company's Consolidated Balance Sheet at March 31, 2004.

5. DERIVATIVE FINANCIAL INSTRUMENTS

The interest rates on all of the Company's variable rate debt are currently adjusted at one to three month intervals, subject to settlements under interest rate hedge contracts. Net payments made to counter parties under interest rate hedge contracts were nominal in 2004 and were recorded as increases to interest expense.

In addition, the Company is exposed to certain losses in the event of non-performance by the counter party under the interest rate hedge contracts. The Company expects the counter party, which is a major financial institution, to perform fully under the contracts. However, if the counter party was to default on its 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 rate in the contracts.

During the year ended December 31, 2003, the Company entered into and subsequently terminated three interest rate swap agreements related to a ten-year fixed rate financing completed on December 1, 2003. These swap agreements were designated as cash flow hedges and the unamortized effective portion of the cumulative gain on these derivative instruments was \$3.7 million at March 31, 2004 and is being reported as a component of AOCL in stockholders' equity. This deferred gain is being recognized in net income as a reduction of interest expense in the same period or periods during which interest expense on the hedged fixed rate financing effects net income. The Company expects that approximately \$0.3 million will be recognized in the next 12 months.

In 2003, the Company also entered into two interest rate swaps related to a floating rate credit facility. The swaps effectively fix the one month LIBOR rate on \$20.0 million of floating rate debt at 1.59% from January 2, 2004 until May 31, 2005. These swap agreements are designated as cash flow hedges and the effective portion of the cumulative loss on these derivative instruments was \$0.06 million at March 31, 2004. The Company expects that the portion of the cumulative loss recorded in AOCL at March 31, 2004 associated with these derivative instruments, which will be recognized within the next 12 months, will be approximately \$0.07 million.

At March 31, 2004, approximately \$5.8 million of deferred financing costs from past cash flow hedging instruments remain in AOCL, including those described above. These costs are recognized as interest expense as the underlying debt is repaid and amounted to \$0.2 million and \$0.4 million during the quarters ended March 31, 2004 and 2003, respectively. The Company expects that the portion of the cumulative loss recorded in AOCL at March 31, 2004 associated with these derivative instruments, which will be recognized within the next 12 months, will be approximately \$0.8 million.

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

6. OTHER COMPREHENSIVE INCOME

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

	Three Months Ended March 31,	
	2004	2003
Net income	\$5,884	\$11,172
Other comprehensive income:		
Unrealized derivative losses on cashflow hedges	(85)	—
Amortization of hedging gains and losses included in other comprehensive income	210	437
Total other comprehensive income	125	437
Total comprehensive income	\$6,009	\$11,609

7. DISCONTINUED OPERATIONS AND IMPAIRMENT OF LONG-LIVED ASSETS

In October 2001, the FASB issued SFAS No. 144 "Accounting for the Impairment or Disposal of Long-Lived Assets." SFAS 144 supercedes SFAS No. 121 "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be disposed of" and the accounting and reporting provisions for disposals of a segment of business as addressed in APB 30 "Reporting the Results of Operations-Reporting the Effects of the Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions."

The net operating results and net carrying value of 3.7 million square feet of property, 122.8 acres of revenue-producing land and 4 apartment units sold during 2004 and 2003 and 0.3 million square feet of property and 88 apartment units held for sale at March 31, 2004 are shown in the following table. These were a result of disposal activities that were initiated subsequent to the effective date of SFAS 144 and are classified as discontinued operations in the Company's Consolidated Statements of Operations (in thousands):

	Three Months Ended March 31,	
	2004	2003
Total revenue	\$ 1,224	\$ 9,045
Rental operating expenses	451	2,310
Depreciation and amortization	29	1,264
Interest expense	—	429
Income before gain on sale of discontinued operations and minority interest	744	5,042
Minority interest	77	575
Income from discontinued operations, net of minority interest	667	4,467
Gain/(loss) on sale/impairment of discontinued operations	3,965	(192)
Minority interest in the Operating Partnership	(410)	22
Gain/(loss) on sale/impairment of discontinued operations, net of minority interest	3,555	(170)
Total discontinued operations	\$ 4,222	\$ 4,297
Carrying value of assets included in discontinued operations that were held for sale and/or sold during the period	\$21,536	\$237,987

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

7. DISCONTINUED OPERATIONS AND IMPAIRMENT OF LONG-LIVED ASSETS - Continued

In addition, SFAS 144 requires that a long-lived asset classified as held for sale be measured at the lower of the carrying value or fair value less cost to sell. During the three months ended March 31, 2004, the Company determined that no properties held for sale had a carrying value that was greater than fair value less cost to sell; therefore, no impairment loss was recognized in the Consolidated Statements of Operations for the three months ended March 31, 2004. For 2003, the impairment loss related to two office properties whose carrying value was greater than their fair value less cost to sell, which have now been sold, was \$0.3 million, net of minority interest. This impairment loss is included in loss on sale of discontinued operations in the Consolidated Statements of Operations for the three months ended March 31, 2003.

See Note 11 for discussion of a subsequent event involving an agreement to sell certain assets at the Highwoods Preserve office campus in Tampa, Florida and 26.0 acres of land in suburban Baltimore, Maryland and related impairment losses that will be recognized in the second quarter of 2004.

SFAS 144 also requires that if indicators of impairment exist, the carrying value of a long-lived asset classified as held for use be compared to the sum of its estimated future undiscounted cash flows. If the carrying value is greater than the sum of its undiscounted future cash flows, an impairment loss should be recognized for the excess of the carrying amount of the asset over its estimated fair value. At March 31, 2004 and 2003, because there were no properties held for use with a carrying value exceeding the sum of their estimated undiscounted future cash flows, no impairment loss related to held for use properties was recognized during the three months ended March 31, 2004 and 2003.

8. STOCK-BASED COMPENSATION

In accordance with Statement of Financial Accounting Standard No. 148 "Accounting for Stock-based Compensation – Transition and Disclosure" ("SFAS 148"), the Company has included \$0.05 million of amortization related to the vesting of stock options granted subsequent to January 1, 2003 and 0.15 million related to the modifications made to those options that are included in the CEO's retirement package (see note 11) for further discussion in general and administrative expenses in its Consolidated Statement of Operations. In addition, the Company has included the total value of option grants since that date, which through March 31, 2004 aggregate \$1.2 million, in stockholders' equity in its Consolidated Balance Sheet. See below for the amounts that would have been deducted from net income if the Company had elected to expense the fair value of all stock option awards that had vested rather than only those awards issued subsequent to January 1, 2003:

	Three Months Ended March 31,	
	2004	2003
	(\$ in thousands, except per share amounts)	
Net (loss)/income attributable to common stockholders – as reported	\$(1,829)	\$3,459
Add: Stock option expense included in reported net income	181(1)	5
Deduct: Total stock option expense determined under fair value recognition method for all awards	(331)(1)	(158)
Pro forma net (loss)/income attributable to common stockholders	\$(1,979)	\$3,306
Basic net (loss)/income per common share - as reported	\$ (0.03)	\$ 0.06
Basic net (loss)/income per common share - pro forma	\$ (0.04)	\$ 0.06
Diluted net (loss)/income per common share - as reported	\$ (0.03)	\$ 0.06
Diluted net (loss)/income per common share - pro forma	\$ (0.04)	\$ 0.06

- (1) Certain options related to the retirement package of the Company's CEO granted prior to January 1, 2003 have been excluded from the calculation. These options were remeasured and expensed during the three months ended March 31, 2004 in accordance with APB 25. See Note 9 for further discussion.

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

9. COMMITMENTS AND CONTINGENCIES

Concentration of Credit Risk

The Company maintains its cash and cash equivalent investments at financial institutions. The combined account balances at each institution typically exceed the FDIC insurance coverage and, as a result, there is a concentration of credit risk related to amounts on deposit in excess of FDIC insurance coverage. Management of the Company believes that the risk is not significant.

Contracts

The Company has entered into contracts related to tenant improvements and the development of certain properties totaling \$25.2 million as of March 31, 2004. The amounts remaining to be paid under these contracts as of March 31, 2004 totaled \$17.1 million.

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.

Joint Ventures

Certain properties owned in joint ventures with unaffiliated parties have buy/sell options that may be exercised to acquire the other partner's interest by either the Company or its joint venture partner if certain conditions are met as set forth in the respective joint venture agreement. The Company's partner in SF-HIW Harborview, LP has the right to put its 80.0% equity interest in the partnership to the Company in exchange for cash at anytime during the one-year period commencing on September 11, 2014. As a result, the Company has deferred a gain of \$1.9 million until the expiration of the put option. The value of the equity interest will be determined based upon the then fair market value of SF-HIW Harborview, LP assets and liabilities.

The Company has agreed to guarantee certain rent shortfalls and re-tenanting costs for certain properties contributed or sold to the joint ventures. As of March 31, 2004, the Company has \$6.5 million accrued for obligations related to these agreements. The Company believes that its estimates related to these agreements are adequate. However, if its assumptions and estimates prove to be incorrect, future losses may occur.

Other Guarantees

The following is a discussion of the various guarantees existing at March 31, 2004 that fall under the initial recognition and measurement requirements of FASB Interpretation No. 45 "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others" ("FIN 45"). The following discussion also includes those guarantees in existence prior to the January 1, 2003 effective date which only fall under the disclosure requirements of the Interpretation and as such, no liability was recorded.

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

9. COMMITMENTS AND CONTINGENCIES - Continued

In connection with guarantees in place prior to January 1, 2003 relating to the Des Moines joint ventures, the maximum potential amount of future payments the Company could be required to make under these guarantees is \$25.3 million. Of this amount, \$8.6 million arose from housing revenue bonds that require credit enhancements in addition to the real estate mortgages. The bonds bear a floating interest rate, which currently averages 0.96% and mature in 2015. Guarantees of \$9.5 million will expire upon two industrial buildings becoming 93.8% and 95.0% leased. Currently, these buildings are 90.0% and 64.0% leased, respectively. The remaining \$7.2 million in guarantees relate to loans on four office buildings that were in the lease-up phase at the time the loans were initiated. Each of the loans will expire by May 2008. The average occupancy of the four buildings at March 31, 2004 is 92.0%. If the joint ventures are unable to repay the outstanding balance under the loans, the Company will be required, under the terms of the agreements, to repay the outstanding balance. Recourse provisions exist to enable the Company to recover some or all of its losses from the joint ventures' assets and/or the other partner. The joint ventures currently generate sufficient cash flow to cover the debt service required by the loans. As a result, no liability has been recorded in the Company's Consolidated Balance Sheet.

In connection with the RRHWoods, LLC joint venture, the Company renewed its guarantee of \$6.2 million to a bank in July 2003. The bank provides a letter of credit securing industrial revenue bonds, which mature in 2015. The Company would be required to perform under the guarantee should the joint venture be unable to repay the bonds. The Company has recourse provisions in order to recover from the joint venture's assets and the other partner for amounts paid in excess of their proportionate share. The property collateralizing the bonds is 100.0% leased and currently generates sufficient cash flow to cover the debt service required by the bond financing. As a result, no liability has been recorded in the Company's Consolidated Balance Sheet.

With respect to the Plaza Colonnade, LLC joint venture, the Company has included \$2.8 million in other liabilities and adjusted the investment in unconsolidated affiliates by \$2.8 million on its Consolidated Balance Sheet at March 31, 2004 related to two separate guarantees of a construction loan agreement and a construction completion agreement. The construction loan matures in February 2006, with two one-year options to extend the maturity date that are conditional on completion and lease-up of the project. The term of the construction completion agreement requires the core and shell of the building to be completed by December 15, 2005. Currently, the building is scheduled to be completed in December 2004. Both guarantees arose from the formation of the joint venture to construct an office building. If the joint venture is unable to repay the outstanding balance under the construction loan agreement or complete the construction of the office building, the Company would be required, under the terms of the agreements, to repay its 50.0% share of the outstanding balance under the construction loan and complete the construction of the office building. On March 30, 2004, the Industrial Development Authority of the City of Kansas City, Missouri issued \$18.5 million in non-recourse bonds to finance public improvements made by the joint venture for the benefit of the Kansas City Missouri Public Library. Since the joint venture leases the land for the office building from the library, the joint venture is obligated to build certain public improvements. The net bond proceeds of \$16.3 million will be used to reimburse the joint venture for its costs. As funds are transferred from the bond fund to the construction lender, the Company's exposure is reduced. The maximum potential amount of future payments by the Company under these agreements is \$27.6 million if the construction loan is fully funded. No recourse provisions exist that would enable the Company to recover from the other partner amounts paid under the guarantee. However, given that the loan is collateralized by the building, the Company and their partner could obtain and liquidate the building to recover the amounts paid should the Company be required to perform under the guarantee.

In addition to the Plaza Colonnade, LLC construction loan and completion agreement described above, the partners collectively provided \$12.0 million in letters of credit in December 2002, \$6.0 million by the Company and \$6.0 million by its partner. The Company and its partner would be held liable under the letter of credit agreements should the joint venture not complete construction of the building. The letters of credit expire in December 31, 2004. No recourse provisions exist that would enable the Company to recover from the other partner amounts drawn under the letter of credit.

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

9. COMMITMENTS AND CONTINGENCIES - Continued

Dispositions

In connection with the disposition of 225,220 square feet of property in 2002, fully leased to Capital One Services, Inc., a subsidiary of Capital One Financial Services, Inc., the Company agreed to guarantee any rent shortfalls and re-tenanting costs for a five year period of time from the date of sale. The Company's contingent liability with respect to this guarantee as of March 31, 2004 is \$15.5 million. Because of this guarantee, in accordance with Statement of Financial Accounting Standards No. 66 "Accounting for Sales of Real Estate" ("SFAS 66"), the Company deferred the gain of approximately \$6.9 million, which will be recognized when the contingency period is concluded. The Company has not recorded any additional liability under this guarantee and believes that its estimate related to the agreement is accurate. However, if its assumptions and estimates prove to be incorrect, the deferred gain may not be recognized and additional losses may occur in the future.

In connection with the disposition of 298,000 square feet of property in 2003, fully leased to Capital One Services, Inc., a subsidiary of Capital One Financial Services, Inc., the Company agreed to guarantee, over various contingency periods through April 2006, any rent shortfalls on certain space. Because of this guarantee, in accordance with SFAS 66, the Company deferred \$4.4 million of the total \$8.4 million gain. The deferred portion of the gain will be recognized as the guarantee contingency exposure is reduced. The Company's contingent liability with respect to this guarantee as of March 31, 2004 is \$4.4 million.

In connection with the disposition of 1.9 million square feet of industrial property at the end of 2003, the Company agreed to guarantee, over various contingency periods through December 2006, any rent shortfalls on 16.3% of the rentable square footage of the industrial property, which is occupied by two tenants. Because of this guarantee, in accordance with SFAS 66, the Company deferred \$2.4 million of the total \$5.2 million gain. The deferred portion of the gain will be recognized as the guarantee contingency exposure is reduced. As of March 31, 2004, the Company has recognized \$0.2 million of the deferred gain. As such, the remaining contingent liability balance with respect to this guarantee is \$2.2 million as of March 31, 2004.

Litigation

The Company is 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. Accordingly, none of such proceedings are expected to have a material adverse effect on the Company's business, financial condition and results of operations.

Retirement Package

As previously announced, the Company's Chief Executive Officer plans to retire June 30, 2004. In connection with his retirement, the Company's Board of Directors has approved a cash payment to him in an amount equal to (1) three times the base salary paid to him during the twelve-month period preceding his retirement plus (2) three times the target annual bonus available to him under the Company's executive incentive bonus plan. These payments will be made to him no later than 30 days from the date of his retirement. Additionally, the Board of Directors has determined that all unvested stock options and shares of restricted stock awarded to the Chief Executive Officer during his employment will vest upon his retirement and the stock options will remain outstanding for their stated terms. He will also continue under the Company's health and life insurance plan for three years at the Company's expense. Under GAAP, the changes to existing stock options and restricted stock give rise to new measurement dates and revised compensation computations. The total cost to be recognized under GAAP is approximately \$6.3 million, comprised of a \$2.2 million cash payment, \$2.3 million related to stock options, \$1.7 million related to restricted shares and about \$0.1 million for continued insurance coverage. Certain components of this retirement package are required to be recognized as of the Board's approval date, which was in the first quarter, while other components are required to be amortized from that date until his June 30, 2004 retirement date. Accordingly, \$4.6 million was expensed in the first quarter and the remaining \$1.7 million will be expensed in the second quarter.

Table of Contents

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

10. 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.

All operations are within the United States and no tenant comprises more than 10.0% of consolidated revenues. The following table summarizes the rental income, net operating income and assets for each reportable segment for the three months ended March 31, 2004 and 2003 (in thousands):

	Three Months Ended March 31,	
	2004	2003
Rental Revenue (A):		
Office segment	\$ 90,402	\$ 85,636
Industrial segment	8,407	8,214
Retail segment	9,473	9,730
Apartment segment	340	344
Total Rental Revenue	\$ 108,622	\$ 103,924
Net Operating Income (A):		
Office segment	\$ 56,501	\$ 54,627
Industrial segment	6,450	6,340
Retail segment	6,377	6,876
Apartment segment	129	141
Total Net Operating Income	69,457	67,984
Reconciliation to income before gain/(loss) on disposition of land and depreciable assets, minority interest and discontinued operations:		
Depreciation and amortization	(34,316)	(32,030)
Interest expense	(26,912)	(28,300)
General and administrative expenses (includes \$4,638 retirement compensation expense in 2004)	(12,167)	(5,344)
Interest and other income	3,346	2,859
Equity in earnings of unconsolidated affiliates	1,402	1,761
Income before gain/(loss) on disposition of land and depreciable assets, minority interest and discontinued operations	\$ 810	\$ 6,930
	March 31,	
	2004	2003
Total Assets:		
Office segment	\$2,786,611	\$2,559,199
Industrial segment	270,611	352,808
Retail segment	267,749	295,141
Apartment segment	13,968	13,758
Corporate and other	169,584	182,126
Total Assets	\$3,508,523	\$3,403,032

(A) Net of discontinued operations.

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

11. SUBSEQUENT EVENTS

On April 8, 2004, the Company approved an agreement to sell a portion of the Highwoods Preserve Office Park, consisting of approximately 177,000 of the total 816,000 square feet of space and 3.3 acres of development land. Accordingly, those assets were classified as held for sale in accordance with SFAS 144. Under SFAS 144, the assets remain classified as held for use as of March 31, 2004. The remaining assets of this office park did not meet the criteria to be classified as held for sale and accordingly are also classified as held for use as of March 31, 2004. The Highwoods Preserve Office Park has not been occupied since WorldCom vacated the space as of December 31, 2002. The 177,000 square feet of space currently under contract to be sold to a third party by October 2004 has a net book value of \$21.0 million. The development land, whose net book value is approximately \$0.6 million, is contracted to be sold to the same third party, contingent upon the Company securing certain development rights for this land from the local municipality. The transactions are subject to customary closing conditions and no assurances can be provided that the dispositions will occur. The net proceeds to be received as a result of the sale of the building are approximately \$18.0 million. Accordingly, an impairment loss of approximately \$3.3 million was recorded in April 2004 when the property was reclassified to held for sale. The sale of the land is expected to result in a gain of approximately \$0.8 million.

On May 6, 2004, the Company approved an agreement to sell approximately 26.0 acres of land in suburban Baltimore, Maryland. Accordingly, the asset was classified as held for sale in accordance with SFAS 144. Under SFAS 144, the asset remains classified as held for use as of March 31, 2004. The agreement for the land, whose net book value is \$7.0 million, provides for proceeds of \$5.8 million. Accordingly, an impairment loss of approximately \$1.2 million was recorded in May 2004 when the property was reclassified to held for sale. The transaction is subject to customary closing conditions and no assurances can be provided that the disposition will occur.

WorldCom Settlement

The Company submitted bankruptcy claims against WorldCom/MCI aggregating approximately \$21.2 million related to rejected leases and other matters. WorldCom/MCI emerged from bankruptcy on April 20, 2004; however, the Company's claims have not yet been accepted. Based on the status of the claims and the bankruptcy orders, the Company expects to receive some amount of its claims in cash and stock of WorldCom/MCI, but such amount is not currently estimatable and no recovery has been recorded as of March 31, 2004.

Table of Contents

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion should be read in conjunction with all of the financial statements appearing elsewhere in the report and is based primarily on the consolidated financial statements of the Company.

DISCLOSURE REGARDING FORWARD-LOOKING STATEMENTS

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

- speculative development activity by our competitors in our existing markets could result in an excessive supply of office, industrial and retail properties relative to tenant demand;
- the financial condition of our tenants could deteriorate;
- we may not be able to complete development, acquisition, reinvestment, disposition or joint venture projects as quickly or on as favorable terms as anticipated;
- we may not be able to lease or release space quickly or on as favorable terms as old leases;
- an unexpected increase in interest rates would increase our debt service costs;
- we may not be able to continue to meet our long-term liquidity requirements on favorable terms;
- we could lose key executive officers; and
- our southeastern and midwestern markets may suffer additional declines in economic growth.

This list of risks and uncertainties, however, is not intended to be exhaustive. You should also review the cautionary statements we make in "Business – Risk Factors" set forth in our 2003 Annual Report.

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

OVERVIEW

We are a fully integrated, self-administered REIT that provides leasing, management, development, construction and other customer-related services for our properties and for third parties. As of March 31, 2004, we own or have an interest in 529 in-service office, industrial and retail properties encompassing approximately 41.7 million square feet. We also own 1,255 acres of development land which is suitable to develop approximately 14.2 million rentable square feet of office, industrial and retail space. We are based in Raleigh, North Carolina, and our properties and development land are located in Florida, Georgia, Iowa, Kansas, Maryland, Missouri, North Carolina, South Carolina, Tennessee and Virginia.

Table of Contents

Property Information

The following table sets forth certain information with respect to our wholly owned in-service and development properties (excluding apartment units) as of March 31, 2004 and 2003:

	March 31, 2004		March 31, 2003	
	Rentable Square Feet	Percent Leased/ Pre-Leased	Rentable Square Feet	Percent Leased/ Pre-Leased
In-Service:				
Office (1)	26,608,000	79.2%	25,387,000	80.9%
Industrial	8,092,000	86.5	10,243,000	86.8
Retail (2)	1,411,000	94.0	1,527,000	96.5
Total or Weighted Average	36,111,000	81.4%	37,157,000	83.2%
Development:				
Completed—Not Stabilized				
Office (1)	140,000	36.0%	100,000	42.0%
Industrial	—	—	60,000	50.0
Total or Weighted Average	140,000	36.0%	160,000	45.0%
In Process				
Office (1)	112,000	100.0%	40,000	0.0%
Industrial	350,000	100.0	—	—
Total or Weighted Average	462,000	100.0%	40,000	0.0%
Total:				
Office (1)	26,860,000		25,527,000	
Industrial	8,442,000		10,303,000	
Retail (2)	1,411,000		1,527,000	
Total or Weighted Average	36,713,000		37,357,000	

(1) Substantially all of our Office properties are located in suburban markets.

(2) Excludes basement space in the Country Club Plaza property of 418,000 square feet.

Table of Contents

The following tables set forth scheduled lease expirations at our wholly owned in-service properties as of March 31, 2004, assuming no tenant exercises renewal options.

Office Properties:

Lease Expiring (1)	Rentable Square Feet Subject to Expiring Leases	Percentage of Leased Square Footage Represented by Expiring Leases	Annualized Rental Revenue Under Expiring Leases (2)	Average Annual Rental Rate Per Square Foot for Expirations	Percent of Annualized Rental Revenue Represented by Expiring Leases (2)
			(\$ in thousands)		
2004 (nine months) (3)	2,285,403	10.8%	\$ 40,914	\$ 17.90	11.0%
2005	3,163,455	15.0	59,617	18.85	16.1
2006	3,357,476	15.9	61,949	18.45	16.7
2007	2,012,419	9.5	34,461	17.12	9.3
2008	3,420,432	16.2	56,279	16.45	15.2
2009	2,132,241	10.1	33,655	15.78	9.1
2010	1,429,393	6.8	27,324	19.12	7.4
2011	1,193,605	5.7	22,563	18.90	6.1
2012	644,211	3.0	11,941	18.54	3.2
2013	528,071	2.5	8,398	15.90	2.3
Thereafter	956,877	4.5	13,322	13.92	3.6
	21,123,583	100.0%	\$ 370,423	\$ 17.54	100.0%

Industrial Properties:

Lease Expiring (1)	Rentable Square Feet Subject to Expiring Leases	Percentage of Leased Square Footage Represented by Expiring Leases	Annualized Rental Revenue Under Expiring Leases (2)	Average Annual Rental Rate Per Square Foot for Expirations	Percent of Annualized Rental Revenue Represented by Expiring Leases (2)
			(\$ in thousands)		
2004 (nine months) (4)	1,397,215	20.0%	\$ 6,597	\$ 4.72	20.4%
2005	1,369,018	19.6	6,333	4.63	19.6
2006	926,832	13.2	4,681	5.05	14.5
2007	1,732,892	24.7	7,230	4.17	22.5
2008	384,012	5.5	1,913	4.98	5.9
2009	449,714	6.4	2,508	5.58	7.8
2010	104,570	1.5	500	4.78	1.5
2011	138,342	2.0	356	2.57	1.1
2012	44,447	0.6	261	5.87	0.8
2013	102,384	1.5	612	5.98	1.9
Thereafter	348,450	5.0	1,302	3.74	4.0
	6,997,876	100.0%	\$ 32,293	\$ 4.61	100.0%

- (1) 2004 and beyond expirations that have been renewed are reflected above based on the renewal's expiration date.
- (2) Annualized Rental Revenue is March 2004 rental revenue (base rent plus operating expense pass-throughs) multiplied by 12.
- (3) Includes 207,000 square feet of leases that are on a month to month basis or 0.9% of total annualized revenue.
- (4) Includes 90,000 square feet of leases that are on a month to month basis or 0.1% of total annualized revenue.

Table of Contents

Retail Properties:

Lease Expiring (1)	Rentable Square Feet Subject to Expiring Leases	Percentage of Leased Square Footage Represented by Expiring Leases	Annualized Rental Revenue Under Expiring Leases (2)	Average Annual Rental Rate Per Square Foot for Expirations	Percent of Annualized Rental Revenue Represented by Expiring Leases (2)
			(\$ in thousands)		
2004 (nine months) (3)	60,800	4.6%	\$ 1,100	\$ 18.09	3.4%
2005	113,864	8.6	2,492	21.89	7.7
2006	89,916	6.8	2,109	23.46	6.5
2007	82,495	6.2	1,941	23.53	6.0
2008	139,062	10.5	3,660	26.32	11.4
2009	164,360	12.4	3,903	23.75	12.2
2010	64,968	4.9	1,911	29.41	5.9
2011	53,833	4.1	1,671	31.04	5.2
2012	112,661	8.5	2,848	25.28	8.8
2013	129,053	9.7	3,262	25.28	10.1
Thereafter	316,107	23.7	7,307	23.12	22.8
Total:	1,327,119	100.0%	\$ 32,204	\$ 24.27	100.0%

Lease Expiring (1)	Rentable Square Feet Subject to Expiring Leases	Percentage of Leased Square Footage Represented by Expiring Leases	Annualized Rental Revenue Under Expiring Leases (2)	Average Annual Rental Rate Per Square Foot for Expirations	Percent of Annualized Rental Revenue Represented by Expiring Leases (2)
			(\$ in thousands)		
2004 (nine months) (4)	3,743,418	12.7%	\$ 48,611	\$ 12.99	11.2%
2005	4,646,337	15.8	68,442	14.73	15.7
2006	4,374,224	14.9	68,739	15.71	15.9
2007	3,827,806	13.0	43,632	11.40	10.0
2008	3,943,506	13.4	61,852	15.68	14.2
2009	2,746,315	9.3	40,066	14.59	9.2
2010	1,598,931	5.4	29,735	18.60	6.8
2011	1,385,780	4.7	24,590	17.74	5.7
2012	801,319	2.7	15,050	18.78	3.5
2013	759,508	2.6	12,272	16.16	2.8
Thereafter	1,621,434	5.5	21,931	13.53	5.0
	29,448,578	100.0%	\$ 434,920	\$ 14.77	100.0%

- (1) 2004 and beyond expirations that have been renewed are reflected above based on the renewal's expiration date.
- (2) Annualized Rental Revenue is March 2004 rental revenue (base rent plus operating expense pass-throughs) multiplied by 12.
- (3) Includes 26,000 square feet of leases that are on a month to month basis or 0.1% of total annualized revenue.
- (4) Includes 323,000 square feet of leases that are on a month to month basis or 1.1% of total annualized revenue.

Capital Recycling Program

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. Through our capital recycling program, we generally seek to:

- engage in the development of office and industrial projects in our existing geographic markets, primarily in suburban business parks;

Table of Contents

- acquire selective suburban office and industrial properties in our existing geographic markets at prices below replacement cost that offer attractive returns; and
- selectively dispose of non-core properties or other properties in order to use the net proceeds for investments or other purposes.

Our capital recycling activities benefit from our local market presence and knowledge. Our division officers have significant real estate experience in their respective markets. Based on this experience, we believe that we are in a better position to evaluate capital recycling opportunities than many of our competitors. 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.

The following summarizes our capital recycling program:

	Three Months Ended March 31, 2004	Year Ended December 31, 2003
Office, Industrial and Retail Properties (rentable square feet in thousands)		
Dispositions	(162)	(3,298)
Contributions to Joint Ventures	—	(291)
Developments Placed In-Service	—	191
Redevelopments	—	(221)
Acquisitions (including 1,319 from a joint venture in 2003 and 1,357 from two joint ventures in 2004)	1,358	1,429
Net Change of In-Service Properties	1,196	(2,190)

Customer Information

The following table sets forth information concerning the 20 largest customers of our wholly-owned properties as of March 31, 2004 (\$ in thousands):

Customer	Rental Square Feet	Annualized Rental Revenue (1)	Percent of Total Annualized Rental Revenue(1)	Average Remaining Lease Term in Years
		(\$ in thousands)		
Federal Government	739,523	\$ 14,991	3.58%	6.1
AT&T	573,890	10,922	2.61	3.6
PricewaterhouseCoopers	297,795	6,965	1.66	6.1
State of Georgia	359,565	6,858	1.64	4.7
Sara Lee	1,195,383	4,636	1.11	3.4
IBM	215,460	4,568	1.09	2.0
WorldCom and Affiliates (2)	183,014	3,746	0.89	2.4
Northern Telecom	246,000	3,651	0.87	3.9
Volvo	267,717	3,450	0.82	5.3
Lockton Companies	132,718	3,303	0.79	10.9
US Airways	295,046	3,243	0.77	3.7
ITC Deltacom (3)	158,392	3,226	0.77	1.2
BB&T	239,248	3,187	0.76	7.0
T-Mobile USA	120,561	3,016	0.72	2.3
Bank of America	146,842	2,733	0.65	5.2
Ford Motor Company	125,989	2,685	0.64	5.9
Ikon	181,361	2,534	0.61	3.6
CHS Professional Services	149,021	2,519	0.60	2.6
Hartford Insurance	115,548	2,506	0.60	2.6
Carlton Fields	95,771	2,412	0.58	0.3
Total	5,838,844	\$ 91,151	21.76%	4.5

(1) Annualized Rental Revenue is March 2004 rental revenue (base rent plus operating expense pass-throughs) multiplied by 12.

(2) This quarter reflects the addition of customers in the Orlando properties previously part of the MG-HIW, LLC joint venture.

(3) ITC Deltacom (formerly Business Telecom) is located in a property that, as of March 31, 2004, is under contract for sale. Although no assurances can be made, the sale is expected to close in 2004.

Table of Contents

Results of Operations

During the three months ended March 31, 2004, approximately 83.2% of our rental revenue was derived from our office properties. As a result, while we own and operate a limited number of industrial and retail properties, our operating results depend heavily on successfully leasing our office properties. Furthermore, since most of our office properties are located in Florida, Georgia and North Carolina, employment growth in those states is and will continue to be an important determinative factor in predicting our future operating results.

The key components affecting our revenue stream are average occupancy and rental rates. During the past several years, as the average occupancy of our portfolio has decreased, our same property rental revenue has declined. Average occupancy generally increases during times of improving economic growth, as our ability to lease space outpaces vacancies that occur upon the expirations of existing leases, while average occupancy generally declines during times of slower economic growth, when new vacancies tend to outpace our ability to lease space. Asset acquisitions and dispositions also impact our rental revenues and could impact our average occupancy, depending upon the occupancy percentage of the properties that are acquired or sold.

Whether or not our rental revenue tracks average occupancy proportionally depends upon whether rents under new leases are higher or lower than the rents under the previous leases. During the three months ended March 31, 2004, the average rate per square foot on a GAAP basis on new leases was only 0.9% lower than the average rate per square foot on the expired leases. A further indicator of the predictability of future revenues is the expected lease expirations of our portfolio. Our average suburban office lease term, excluding renewal periods is 4.5 years. During the remainder of 2004, leases on approximately 3.7 million square feet of space will expire that have not been renewed as of March 31, 2004. This square footage represents approximately 12.7% of our annualized revenue. As of April 30, 2004, we have renewed or signed new leases aggregating 4.5 million square feet of space with start dates in 2004. In order to maintain occupancy at its current level, we estimate that we must lease an additional 2.9 million square feet with lease start dates in 2004. As a result, in addition to seeking to increase our average occupancy by leasing current vacant space, we also must concentrate our leasing efforts on renewing leases on expiring space. For more information regarding our lease expirations, see “Properties—Lease Expirations.”

Our expenses primarily consist of depreciation and amortization, general and administrative expenses, rental property expenses and interest expense. Depreciation and amortization is a non-cash expense associated with the ownership of real property and generally remains relatively consistent each year, unless we buy or sell assets, since we depreciate our properties on a straight-line basis. General and administrative expenses, net of amounts capitalized and excluding retirement compensation, consist primarily of management and employee salaries and other personnel costs, corporate overhead and long term incentive compensation, and have ranged from 5.7% to 6.2% of our total expenses over the past few years. Rental property expenses are expenses associated with our ownership and operating of rental properties and include variable expenses, such as common area maintenance and utilities, and fixed expenses, such as property taxes and insurance. Some of these variable expenses may be lower as our average occupancy declines, while the fixed expenses remain constant regardless of average occupancy. Interest expense depends upon the amount of our borrowings, the weighted average interest rates on our debt and the amount capitalized on development projects.

Under GAAP, certain expenses related to the development, construction and leasing of properties, such as construction costs, interest costs, real estate taxes, salaries and other costs relating to such activities, are capitalized rather than expensed as incurred. As a result, during times of increased development, construction and successful leasing activity, certain of our general and administrative expenses may actually be lower because some fixed overhead costs are properly capitalized, and then amortized over the lives of various projects rather than expensed during the period incurred.

We also record income from our investments in unconsolidated affiliates, which are our joint ventures. These joint ventures are not consolidated on our balance sheet. We record in “equity in earnings of unconsolidated affiliates” our proportionate share of the joint venture’s net income or loss as part of “other income.” During the first quarter of 2004, income earned from our joint ventures, net of minority interest, accounted for approximately 21.4% of our total net income.

Table of Contents

Additionally, SFAS 144 requires us to record net income received from properties sold or held for sale separately as “income from discontinued operations.” As a result, we separately record revenues and expenses from these properties. During the three months ended March 31, 2004, income, including gains and losses from the sale of properties, from discontinued operations, net of minority interest, accounted for approximately 64.3% of our total net income.

Liquidity and Capital Resources

We incur capital expenditures to lease space to our customers and to maintain the quality of our properties to successfully compete against other properties. Tenant improvements are the costs required to customize the space for the specific needs of the customer. Lease commissions are costs incurred to find space for the customer. Building improvements are recurring capital costs not related to a customer to maintain the buildings. As leases expire, we either attempt to relet the space to an existing customer or attract a new customer to occupy the space. Generally, customer renewals require lower leasing capital than reletting to a new customer. However, market conditions such as supply of available space on the market, as well as demand for space, drive not only customer rental rates but also tenant improvement costs. Leasing capital expenditures are amortized over the term of the lease and building improvements are depreciated over the appropriate useful life of the assets acquired. Both are included in depreciation and amortization in results of operations.

Because we are a REIT, we are required under the federal tax laws to distribute at least 90.0% of our REIT taxable income to our stockholders. We generally use rents received from customers to fund our operating expenses, recurring capital expenditures, debt securities, guarantee obligations and stockholder dividends. To fund property acquisitions, development activity or building renovations, we incur debt from time to time. As of March 31, 2004, we had approximately \$1.0 billion of secured debt outstanding and \$0.8 billion of unsecured debt outstanding. Our debt consists of mortgage debt, unsecured debt securities and borrowings under our revolving loan. As of April 18, 2004, we have \$117.9 million of additional borrowing availability under our revolving loan. As of the date of this filing, our short-term cash needs include the funding of \$29.2 million in development activity and \$54.8 million in principal payments due on our long term debt in the next year.

Our revolving loan and the indenture governing our outstanding long-term unsecured debt securities each require us to satisfy various operating and financial covenants and performance ratios. As a result, to ensure that we do not violate the provisions of these debt instruments, we may from time to time be limited in undertaking certain activities that may otherwise be in the best interest of our stockholders, such as repurchasing capital stock, acquiring additional assets, increasing the total amount of our debt, or increasing stockholder dividends. We review our current and expected operating results, financial condition and planned strategic actions on an ongoing basis for the purpose of monitoring our continued compliance with these covenants and ratios. While we are currently in compliance with these covenants and ratios and expect to remain so for the foreseeable future, we cannot provide any assurance of such continued compliance and any failure to remain in compliance could result in an acceleration of some or all of our debt, severely restrict our ability to incur additional debt to fund short- and long-term cash needs, or result in higher interest expense.

To generate additional capital to fund our growth and other strategic initiatives and to lessen the ownership risks typically associated with owning 100.0% of a property, we may sell some of our properties or contribute them to joint ventures. When we create a joint venture with a strategic partner, we usually contribute one or more properties that we own and/or vacant land to a newly formed entity in which we retain an interest of 50.0% or less. In exchange for our equal or minority interest in the joint venture, we generally receive cash from the partner and retain all of the management income relating to the properties in the joint venture. The joint venture itself will frequently borrow money on its own behalf to finance the acquisition of and/or leverage the return upon the properties being acquired by the joint venture or to build or acquire additional buildings, typically on a non-recourse or limited recourse basis. We generally are not liable for the debts of our joint ventures, except to the extent of our equity investment, unless we have directly guaranteed any of that debt. In most cases, we and/or our strategic partners are required to guarantee customary exceptions to non-recourse liability in non-recourse loans.

We have historically also sold additional Common Stock or Preferred Stock, or issued Common Units, to fund additional growth or to reduce our debt, but have limited those efforts during the past five years because of our ability to generally incur debt at a lower cost. We currently have an effective shelf registration statement with the SEC pursuant to which the Company could sell up to \$900.0 million of Common Stock and the Operating

Table of Contents

Partnership could sell up to \$600.0 million of unsecured debt securities.

Management's Analysis

In measuring, analyzing and comparing our operating performance, we use a number of different criteria, including GAAP financial measures, such as net income, and non-GAAP financial measures, such as funds from operations ("FFO"). FFO does not represent net income or cash flows from operating, investing or financing activities as defined by GAAP and 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. See "Funds From Operations and Cash Available for Distributions." However, we believe that FFO is one of several indicators of the performance of an equity REIT. FFO can facilitate comparisons of operating performance between periods and between other REITs because it excludes factors, such as depreciation, amortization and gains and losses from sales of real estate assets, which are based on historical cost and may be of limited relevance in evaluating current performance. FFO as disclosed by other REITs may not be comparable to our calculation of FFO.

In measuring, analyzing and comparing our financial condition, management uses a number of other criteria, such as total debt as a percentage of total market capitalization, the weighted average interest rate of our secured and unsecured debt, our borrowing capacity and cash available for distributions ("CAD"). CAD provides us with an additional basis to evaluate our ability to incur and service debt, fund acquisitions, leasing and other capital expenditures and pay dividends to stockholders. CAD, which is a non-GAAP financial measure, does not represent net income or cash flows from operating, investing or financing activities as defined by GAAP. See "Funds From Operations and Cash Available for Distribution."

Table of Contents

RESULTS OF OPERATIONS

As described in Note 7 to the Consolidated Financial Statements, we reclassified the operations and/or gain/(loss) from disposal of certain properties to discontinued operations if the properties were either sold during 2003 and 2004 or were held for sale at March 31, 2004 and met certain conditions as stipulated by SFAS 144. Accordingly, properties sold during 2003 and 2004 that did not meet certain conditions as stipulated by SFAS 144 were not reclassified to discontinued operations.

The following table sets forth information regarding our results of operations for the three months ended March 31, 2004 and 2003 (\$ in millions):

	Three Months Ended March 31,		\$ Change	% of Change
	2004	2003		
Rental revenue	\$108.6	\$103.9	\$ 4.7	4.5%
Operating expenses:				
Rental property	39.2	36.0	3.2	8.9
Depreciation and amortization	34.3	32.0	2.3	7.2
General and administrative	12.2	5.3	6.9	130.2
	<u>85.7</u>	<u>73.3</u>	<u>12.4</u>	<u>16.9</u>
Interest expense:				
Contractual	26.0	27.7	(1.7)	(6.1)
Amortization of deferred financing costs	0.9	0.6	0.3	50.0
	<u>26.9</u>	<u>28.3</u>	<u>(1.4)</u>	<u>(4.9)</u>
Other income:				
Interest and other income	3.4	2.8	0.6	21.4
Equity in earnings of unconsolidated affiliates	1.4	1.8	(0.4)	(22.2)
	<u>4.8</u>	<u>4.6</u>	<u>0.2</u>	<u>4.3</u>
Income before gain/(loss) on disposition of land and depreciable assets, minority interest and discontinued operations	0.8	6.9	(6.1)	(88.4)
Gain on disposition of land	1.1	0.9	0.2	22.2
(Loss)/gain on disposition of depreciable assets	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
	1.1	0.9	0.2	22.2
Income before minority interest and discontinued operations	1.9	7.8	(5.9)	(75.6)
Minority interest	<u>(0.2)</u>	<u>(0.9)</u>	<u>0.7</u>	<u>77.8</u>
Income from continuing operations	1.7	6.9	(5.2)	(75.4)
Discontinued operations:				
Income from discontinued operations, net of minority interest	0.7	4.5	(3.8)	(84.4)
Gain/(loss) on sale of discontinued operations, net of minority interest	3.5	(0.2)	3.7	1,850.0
	<u>4.2</u>	<u>4.3</u>	<u>(0.1)</u>	<u>(2.3)</u>
Net income	5.9	11.2	(5.3)	(47.3)
Dividends on preferred stock	<u>(7.7)</u>	<u>(7.7)</u>	<u>—</u>	<u>—</u>
Net income available for common stockholders	<u>\$ (1.8)</u>	<u>\$ 3.5</u>	<u>\$ (5.3)</u>	<u>(151.4)%</u>

Rental Revenue

The increase in rental revenue from continuing operations was primarily a result of the acquisition of certain MG-HIW, LLC assets in July 2003 and early March 2004 which have increased rental revenues by \$7.0 million. Partly offsetting this increase was a decrease in average occupancy rates from 81.6% for the three months ended March 31, 2003 to 81.3% for the three months ended March 31, 2004. The decrease in average occupancy rates was primarily a result of lease expirations and early lease terminations. In addition, due to the decrease in some property average occupancy, recovery income from certain operating expenses has decreased in the three months ended March 31, 2004 from the three months ended March 31, 2003.

Same property rental revenue generated from the 32.9 million square feet of our 439 wholly-owned in-service properties that were owned throughout the period from January 1, 2003 to March 31, 2004, decreased \$1.0 million, or 3.6%, for the three months ended March 31, 2004 compared to the three months ended March 31, 2003. This decrease is primarily a result of lower same property average occupancy, which decreased from 82.5% in the first quarter of 2003 to 81.7% in the first quarter of 2004. In addition, due to the decrease in some property average occupancy, recovery income from certain operating expenses has decreased in the three months ended March 31, 2004 from the three months ended March 31, 2003.

Table of Contents

During the three months ended March 31, 2004, 251 second generation leases representing 1.9 million square feet of office, industrial and retail space were executed. The average rate per square foot on a GAAP basis over the lease term for these leases was only 0.9% lower than the rent paid by previous customers.

As of the date of this filing, we are beginning to see a modest improvement in employment trends in a few of our markets and an improving economic climate in the Southeast. However, we expect a lag between positive employment growth and positive absorption of office space due to the significant amount of vacancies, under-utilized space and space available for sublease in our markets.

We anticipate that occupancy in our in-service portfolio will remain consistent or decrease slightly in the second quarter of 2004 and increase slightly in the third and fourth quarters of 2004. This outlook is based on the level of leasing activity we have experienced over the past 12 months, which we expect to continue through the remainder of 2004, our expected renewal rates and other factors. During the last nine months of 2004, leases on approximately 3.7 million square feet of space will expire that have not been renewed as of March 31, 2004. This square footage represents approximately 12.7% of our annualized revenue. As of April 30, 2004, we have renewed or signed new leases aggregating 4.5 million square feet of space with start dates in 2004. In order to maintain occupancy at its current level, we estimate that we must lease an additional 2.9 million square feet with lease start dates in 2004. Because of an oversupply of office space in many of our southeastern markets, we continue to expect straight-line rents under new leases to be lower than the straight-line rents under the expiring leases. As noted above, during the three months ended March 31, 2004, the average rate per square foot on a GAAP basis on new leases was only 0.9% lower than the average rate per square foot on the expired leases.

Operating Expenses

The increase in rental operating expenses from continuing operations (real estate taxes, utilities, insurance, repairs and maintenance and other property-related expenses) was a result of an increase in certain fixed operating expenses that do not vary with net changes in our occupancy percentages, such as real estate taxes, insurance and utility rate changes, and \$2.5 million from an increase in operating expenses which resulted from the acquisition of certain MG-HIW assets in July 2003 and early March 2004.

Rental operating expenses as a percentage of rental revenue increased from 34.6% for the three months ended March 31, 2003 to 36.1% for the three months ended March 31, 2004.

Same property rental operating expenses, which are the expenses related to the 439 wholly-owned in-service properties that were owned throughout the period from January 1, 2003 to March 31, 2004, increased \$1.3 million, or 3.6%, for the three months ended March 31, 2004, compared to the three months ended March 31, 2003. The increase was a result of inflationary increases in certain costs, including real estate taxes and utilities, and because many property operating costs are fixed and do not vary as occupancy changes.

Same property rental operating expenses as a percentage of related revenue increased from 33.6% for the three months ended March 31, 2003 to 35.1% for the three months ended March 31, 2004. The increase in this percentage largely occurred because many operating costs are fixed and do not decline with average occupancy and because a number of fixed costs have experienced higher increases, these include property taxes and utilities.

We expect property operating expenses to increase slightly in the remainder of 2004 due to inflationary increases along with increases in certain fixed operating expenses that do not vary with occupancy.

The increase in depreciation and amortization from continuing operations is primarily related to the acquisition of certain MG-HIW assets in July 2003 and March 2004, and an increase in building, leasing commissions and tenant improvement expenditures and the write-off of deferred leasing costs and tenant improvements for customers who vacated their space prior to lease expiration.

General and administrative expenses from continuing operations, net of amounts capitalized, were \$6.8 million higher in the three months ended March 31, 2004 compared to the same period of 2003. Of the total increase, \$4.6 million relates to the cost of a retirement package for our Chief Executive Officer, as described in Note 9 to the Unaudited Interim Consolidated Financial Statements. The remaining \$2.3 million increase was caused by (1) increased costs of personnel and consultants in connection with implementing Sarbanes-Oxley, (2) higher long term

Table of Contents

incentive compensation costs, (3) a credit to G&A expenses in 2003 from settlement of a litigation matter, and (4) higher salary, fringe benefit and employee relocation costs.

In the remainder of 2004, general and administrative expenses are expected to increase due to inflationary increases in compensation, benefits and other expenses related to the implementation of the Sarbanes-Oxley Act. In addition, in the second quarter of 2004, general and administrative expenses will include \$1.7 million, which represents the second quarter recognition of the retirement package to be paid to our CEO. See Note 9 to the Consolidated Financial Statements for further discussion.

Interest Expense

Interest expense, net of amounts capitalized, decreased by \$1.4 million for the three months ended March 31, 2004 compared to the same period of 2003. The decrease was primarily due to lower average interest rates on outstanding debt mostly due to a debt refinancing completed in December 2003. This decrease was partially offset by (1) higher average debt balances in 2004 compared to 2003 (due mostly to the consolidation, beginning early March 2004 of debt assumed when we acquired the remaining interest in the Miller Global joint venture and the related borrowing of \$62.5 million under our line of credit to purchase the 80.0% joint venture interest, as described in Note 3 to the Unaudited Interim Consolidated Financial Statements) and (2) by slightly lower capitalized interest in 2004 compared to 2003 due to lower average construction and development costs. Interest expense for the three months ended March 31, 2004 and 2003 included \$0.9 million and \$0.6 million, respectively, of amortization of deferred financing costs. The increase was primarily a result of financing costs incurred in connection with the refinancing of the Mandatory Par Put Remarketed Securities ("MOPPRS").

Interest expense is expected to decline in the remainder of 2004 primarily due to the December 2003 refinancing of certain long term debt, offset by any increases in average debt balances resulting from acquisitions or other activities.

Interest and Other Income

The increase in interest and other income is primarily related to the interest received during the three months ended March 31, 2004 related to a note receivable acquired in connection with the disposition of certain properties in 2003, and higher interest rates earned on cash reserves. Third party leasing and development fee income decreased slightly in the three months ended March 31, 2004 due to lower demand for real estate slightly offset by an increase in management fee income due to the Company retaining the management of some of our properties that were sold to third parties or contributed to joint ventures during 2003 and the first quarter of 2004.

The decrease in equity in earnings from continuing operations of unconsolidated affiliates was primarily a result of the acquisition of certain assets of the MG-HIW, LLC joint venture in July 2003 and early March 2004 and lower occupancy in the first quarter of 2004 for certain joint ventures.

We expect equity in earnings from continuing operations of unconsolidated affiliates to decrease in the remainder of 2004, primarily as a result of the acquisition of the assets of the MG-HIW, LLC joint venture in July 2003 and March 2004.

Gain on Disposition of Land and Depreciable Assets.

In the first quarter of 2004, the majority of the gain was comprised of a \$1.1 million gain related to the disposition of 40.5 acres of land. In the first quarter of 2003, the majority of the gain was comprised of a \$0.06 million gain related to the disposition of 6.7 acres of land.

Discontinued Operations

In accordance with SFAS 144, we classified net income of \$0.7 million and \$4.5 million, net of minority interest, as discontinued operations for the three months ended March 31, 2004 and 2003, respectively. These amounts pertained to 3.7 million square feet of property, 4 apartment units and 122.8 acres of revenue-producing land sold during 2003 and 2004 and 0.3 million square feet of property and 88 apartment units held for sale at March 31, 2004. We also classified as discontinued operations a gain on the sale of these properties of \$3.5 million

Table of Contents

and a \$0.2 million loss, net of minority interest, in the three months ended March 31, 2004 and 2003, respectively. Included in the loss in the three months ended March 31, 2003 was \$0.3 million of impairment charges.

Preferred Stock Dividends

We recorded \$7.7 million in preferred stock dividends in each of the three months ended March 31, 2004 and 2003.

Net Income

We recorded net income in the first quarter of 2004 of \$5.9 million, which was a 47.3% decrease from net income of \$11.2 million in the first quarter of 2003. The decrease was primarily due to the recorded cost of the retirement package for our Chief Executive Officer, an increase in rental property operating expenses and an increase in depreciation and amortization. In the remainder of 2004, we expect net income to be lower as compared with 2003 due to flat to slightly rising average occupancy, pressure on rental rates, the remaining expense to be recorded in the second quarter associated with the retirement package of our Chief Executive Officer, an impairment loss to be recorded in the second quarter related to a building at the Highwoods Preserve Office Park and 26.0 acres of land in suburban Baltimore, Maryland, higher depreciation and amortization, higher property operating costs, and higher general and administrative costs, offset by lower interest expense.

L IQUIDITY AND C APITAL R ESOURCES

Statement of Cash Flows

As required by GAAP, we report and analyze our cash flows based on operating activities, investing activities and financing activities. The following table sets forth the changes in the Company's cash flows from the first three months of 2003 to the first three months of 2004 (\$ in thousands):

	Three Months Ended March 31,		Change
	2004	2003	
Cash Provided By Operating Activities	\$ 38,194	\$ 38,806	\$ (612)
Cash Used In Investing Activities	(78,841)	(20,188)	(58,653)
Cash Provided By/(Used In) Financing Activities	39,084	(10,431)	49,515
Total Cash Flows	\$ (1,563)	\$ 8,187	\$ (9,750)

In calculating cash flow from operating activities, GAAP requires us to add depreciation and amortization, which are non-cash expenses, back to net income. As a result, we have historically generated a significant positive amount of cash from operating activities. From period to period, cash flow from operations depends primarily upon changes in our net income, as discussed more fully under "Results of Operations," changes in receivables and payables, and net additions or decreases in our overall portfolio, which affect the amount of depreciation and amortization expense.

Cash provided by or used in investing activities generally relates to capitalized costs incurred for leasing and major building improvements, and our acquisition, disposition and joint venture activity. During periods of significant net acquisition activity, our cash used in such investing activities will generally exceed cash provided by investing activities, which typically would consist of cash received upon the sale of properties or distributions from our joint ventures.

Cash used in financing activities generally relates to stockholder dividends, incurrence and repayment of debt and sales or repurchases of common stock and preferred stock. As discussed previously, we use a significant amount of our cash to fund stockholder dividends. Whether or not we incur significant new debt during a period depends generally upon the net effect of our acquisition, disposition, development and joint venture activity. We use our revolving loan for working capital purposes, which means that during any given period, in order to minimize interest expense associated with balances outstanding under the revolving loan, we will likely record significant repayments and borrowings under the revolving loan.

The decrease of \$0.6 million in cash provided by operating activities was primarily a result of lower net income due to a decrease in average occupancy rates for our wholly-owned portfolio, an increase in general and administrative expenses and out capital recycling program. In addition, the level of net cash provided by operating activities is affected by the timing of receipt of revenues and payment of expenses.

The increase of \$58.7 million in cash used in investing activities was primarily a result of an increase in additions to real estate assets of approximately \$67.2 million, which was mostly due to the acquisition of the remaining MG-HIW, LLC assets, and a \$10.0 million contribution to the Highwoods KC Glenridge Office, LP joint venture. These increases were partially offset by an increase in proceeds from dispositions of real estate assets of approximately \$19.4 million.

Cash provided by financing activities was \$39.1 million for the three months ended March 31, 2004 and cash used in financing activities was \$10.4 million for the three months ended March 31, 2003. The increase of \$49.5 million was primarily a result of an increase in \$38.5 in net borrowings on the unsecured revolving loan, mortgages and notes payable and a decrease of \$9.9 million in distributions paid on common stock and units.

As disclosed in the Consolidated Statement of Cash Flows, there were significant non-cash investing and financing activities in both quarters; the activities in 2004 primarily related to the consolidation of the MG-HIW Orlando joint venture.

In 2004, we expect to continue our capital recycling program of selectively disposing of non-core properties or other properties in order to use the net proceeds for investments or other purposes. At March 31, 2004, we had

Table of Contents

279,398 square feet of office properties, 88 apartment units and 81.5 acres of land classified as held for sale pursuant to SFAS 144 with a carrying value of \$38.5 million. The sale of these assets are subject to customary closing conditions, including due diligence and documentation, and are expected to close during the remainder of 2004. However, we can provide no assurance that these assets will be sold.

During the remainder of 2004, we expect to have positive cash flows from operating activities. The net cash flows from investing activities in the remainder of 2004 could be positive or negative, depending on the level and timing of property dispositions, property acquisitions and capitalized leasing and improvement costs. Any positive cash flows from investing activities in the remainder of 2004 are expected to be used to pay stockholder and unitholder distributions, required debt amortization, and recurring capital expenditures.

Capitalization

The following table sets forth our capitalization as of March 31, 2004 and December 31, 2003 (in thousands, except per share amounts):

	March 31, 2004	December 31, 2003
Mortgages and notes payable, at recorded book value	\$ 1,767,239	\$ 1,558,758
Preferred stock, at redemption value	\$ 377,445	\$ 377,445
Common shares and units outstanding	59,777	59,677
Per share stock price at period end	\$ 26.21	\$ 25.40
Market value of common equity	1,566,755	1,515,795
Total market capitalization with debt	\$ 3,711,439	\$ 3,451,998

Based on our total market capitalization of approximately \$3.7 billion at March 31, 2004 (at the March 31, 2004 per share stock price of \$26.21 and assuming the redemption for shares of Common Stock of the 6.1 million Common Units of minority interest in the Operating Partnership), our debt represented approximately 47.6% of our total market capitalization, which is an increase of 2.4% over 2003, which was 45.2%. The increase is a result of the increases in our debt from December 31, 2003 to March 31, 2004, primarily as a result of the assumption of debt related to the acquisition of the 80.0% equity interest in the remaining MG-HIW, LLC assets on March 2, 2004. See Note 3 to the Consolidated Financial Statements for further discussion of the acquisition.

Our total indebtedness at the three months ended March 31, 2004 was approximately \$1.8 billion and was comprised of \$1.0 billion of secured indebtedness with a weighted average interest rate of 6.3% and \$0.8 billion of unsecured indebtedness with a weighted average interest rate of 5.8%. As of March 31, 2004, our outstanding mortgage and loans payable and the secured revolving loan were secured by real estate assets with an aggregate carrying value of approximately \$1.6 billion.

We do not intend to reserve funds to retire existing secured or unsecured debt upon maturity. For a more complete discussion of our long-term liquidity needs, see "Liquidity and Capital Resources—Current and Future Cash Needs."

Table of Contents

The following table sets forth a summary regarding our known contractual obligations at March 31, 2004 (in thousands):

	Payments Due By Period						
		Through Remainder					
	Total	of 2004	2005	2006	2007	2008	Thereafter
Fixed Rate Debt: (1)							
<i>Unsecured</i>							
Put Option Notes	\$ 100,000	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 100,000
Notes	460,000	—	—	110,000	—	100,000	250,000
<i>Secured:</i>							
Mortgage Loans Payable (2)	751,894	9,716	81,447	19,362	79,385	13,965	548,019
Total Fixed Rate Debt	1,311,894	9,716	81,447	129,362	79,385	113,965	898,019
Variable Rate Debt:							
<i>Unsecured:</i>							
Term Loan	120,000	—	120,000	—	—	—	—
Revolving Loan	130,500	—	—	130,500	—	—	—
<i>Secured:</i>							
Mortgage Loans Payable (2)	204,845	164	279	201,175	3,227	—	—
Total Variable Rate Debt	455,345	164	120,279	331,675	3,227	—	—
Total Long Term Debt	1,767,239	9,880	201,726	461,037	82,612	113,965	898,019
Operating Lease Obligations:							
Land Leases	48,075	945	1,273	1,213	1,194	1,194	42,256
Purchase Obligations:							
Completion Contracts (3)	17,100	17,100	—	—	—	—	—
Other Long Term Liabilities Reflected on the Balance Sheet:							
Plaza Colonade Debt Repayment Guarantee (4)	2,468	—	—	2,468	—	—	—
Plaza Colonnade Completion Guarantee (4)	376	—	—	376	—	—	—
SF-HIW Harborview Lease Guarantee	91	—	—	—	91	—	—
Capital One Lease Guarantee (5)	6,917	—	—	6,917	—	—	—
Capital One Lease Guarantee (5)	4,421	1,566	1,428	1,427	—	—	—
Industrial Portfolio Lease Guarantee (5)	2,243	1,183	517	517	26	—	—
Highwoods DLF 98/29, LP Lease Guarantee	6,425	461	615	615	615	615	3,504
CEO's Retirement Package (3)	2,313	2,260	21	21	11	—	—
Total	\$1,857,668	\$ 33,395	\$ 205,580	\$ 474,591	\$84,549	\$ 115,774	\$ 943,779

- (1) The Operating Partnership's unsecured notes of \$560.0 million bear interest at rates ranging from 7.0% to 8.125% with interest payable semi-annually in arrears. Any premium and discount related to the issuance of the unsecured notes together with other issuance costs is being amortized over the life of the respective notes as an adjustment to interest expense. All of the unsecured notes, except for the Put Option Notes, are redeemable at any time prior to maturity at our option, subject to certain conditions including the payment of make-whole amounts. Our fixed rate mortgage loans generally are either locked out to prepayment for all or a portion of their term, or are prepayable subject to certain conditions including prepayment penalties.
- (2) The mortgage loans payable were secured by real estate assets with an aggregate carrying value of approximately \$1.6 billion at March 31, 2004.
- (3) See Note 9 to the Consolidated Financial Statements for further discussion.
- (4) See "Liquidity and Capital Resources – Off Balance Sheet Arrangements."
- (5) These liabilities represent gains that were deferred in accordance with SFAS 66 when sold these properties to a third party. We defer gains on sales of real estate up to our maximum exposure to contingent loss. For further discussion, see Note 9 to the Consolidated Financial Statements.

Table of Contents

On March 29, 2004, we amended our existing revolving loan and two bank term loans. The changes modified certain definitions used in all three loans to determine amounts that are used to compute financial covenants and also adjusted one of the financial ratio covenants. The amendment did not change any economic terms of the loan, although we paid fees to the lenders which were capitalized and will be amortized over the remaining term of the loan. The amended \$250.0 million revolving loan (the “Revolving Loan”) is from a group of nine lender banks and matures in July 2006. The Revolving Loan carries an interest rate based upon our senior unsecured credit ratings. As a result, interest currently accrues on borrowings under the Revolving Loan at a rate of LIBOR plus 105 basis points. The terms of the Revolving Loan require us to pay an annual facility fee equal to .25% of the aggregate amount of the Revolving Loan. We currently have a credit rating of BBB- assigned by Standard & Poor’s and Fitch Inc. In August 2003, Moody’s Investor Service downgraded our credit rating from Baa3 to Ba1. We cannot provide any assurances Moody’s or the other credit rating agencies will not further change our credit ratings. If Standard & Poor’s or Fitch Inc. were to lower our credit ratings without a corresponding increase by Moody’s, the interest rate on borrowings under our revolving loan would automatically increase 60 basis points.

Operating and Financial Covenants and Performance Ratios

The terms of the revolving loan and the indentures that govern our outstanding notes require us to comply with certain operating and financial covenants and performance ratios. We are currently in compliance with all such requirements. Although we expect to remain in compliance with the covenants and ratios under our revolving loans for at least the next several quarters, depending upon our future operating performance and property and financing transactions, we cannot assure you that we will continue to be in compliance.

The following table sets forth more detailed information about our ratio and covenant compliance under the revolving loan assuming the new Revolving Loan had been in effect at March 31, 2004. Certain of these definitions may differ from similar terms used in the consolidated financial statements and may, for example, consider our proportionate share of investments in unconsolidated affiliates. For a more detailed discussion of the covenants in our revolving loan, including definitions of certain relevant terms, see the credit agreement governing our revolving loan which is attached as Exhibit 10.14.

	March 31, 2004
Total Liabilities Less Than or Equal to 57.5% of Total Assets	52.63%
Unencumbered Assets Greater Than or Equal to 2 times Unsecured Debt	3.9
Secured Debt Less Than or Equal to 35% of Total Assets	28.7%
Adjusted EBDITA Greater Than 2.10 times Interest Expense	2.18
Adjusted EBDITA Greater Than 1.50 times Fixed Charges	1.59
Adjusted NOI Unencumbered assets Greater Than 2.25 times Interest on Unsecured Debt	2.62
Tangible Net Worth Greater Than \$1.577 Billion	\$1.6 billion
Restricted Payments, including distributions to shareholders, Less Than or Equal to 95% of CAD	84.2%

The following table sets forth more detailed information about the Operating Partnership’s ratio and covenant compliance under the Operating Partnership’s indenture as of March 31, 2004. Certain of these definitions may differ from similar terms used in the consolidated financial statements and may, for example, consider our proportionate share of investments in unconsolidated affiliates. For a more detailed discussion of the covenants in our indenture, including definitions of certain relevant terms, see the indenture governing our unsecured notes which is incorporated by reference in our Quarterly Report on Form 10-Q as Exhibit 10.14.

	March 31, 2004
Overall Debt Less Than or Equal to 60% of Adjusted Total Assets	43.6%
Secured Debt Less Than or Equal to 40% of Adjusted Total Assets	23.7%
Income Available for debt service Greater Than 1.50 times Annual Service Charge	2.7
Total Unencumbered Assets Greater Than 200% of Unsecured Debt	307.5%

Anticipated Refinancings in 2004

In 1997, a trust formed by the Operating Partnership sold \$100.0 million of Exercisable Put Option Securities due June 15, 2004 (“X-POS”). The assets of the trust consist of, among other things, \$100.0 million of Exercisable Put Option Notes due June 15, 2011 (the “Put Option Notes”), issued by the Operating Partnership. The Put Option

Table of Contents

Notes bear an interest rate of 7.19% from the date of issuance through June 15, 2004. After June 15, 2004, the interest rate to maturity on the Put Option Notes will be 6.39% plus the applicable spread determined as of June 15, 2004. In connection with the initial issuance of the Put Option Notes, a counter party was granted an option to purchase the Put Option Notes from the trust on June 15, 2004 at 100.0% of the principal amount. If the counter party elects not to exercise this option, the Operating Partnership would be required to repurchase the Put Option Notes from the Trust on June 15, 2004 at 100.0% of the principal amount plus accrued and unpaid interest.

We currently anticipate that no later than June 15, 2004 we will call or repurchase \$100.0 million of the X-POS and the third party purchase option. We will exchange the X-POS for a similar amount of new bonds. We anticipate that these transactions will be accounted for as an exchange of indebtedness under EITF 96-19 and accordingly no gain or loss would be recorded. Additionally, we anticipate the transaction will have no material effect on future interest expense assuming current market rates and conditions remain constant. However, any such transaction will depend upon our ability to favorably access the credit market and, accordingly, no assurances can be provided that we will be successful in refinancing the Put Option Note on favorable terms, if at all.

Current and Future Cash Needs

Historically, rental revenue has been the principal source of funds to meet our short-term liquidity requirements, which primarily consist of operating expenses, debt service, stockholder dividends, any guarantee obligations and recurring capital expenditures. In addition, we could incur tenant improvements and lease commissions related to any releasing of space at the Highwoods Preserve campus vacated by WorldCom.

In addition to the requirements discussed above, our short-term (within the next 12 months) liquidity requirements also include the funding of approximately \$29.2 million of our existing development activity (as of the date of this filing) and first generation tenant improvements and lease commissions on properties placed in-service that are not fully leased. We expect to fund our short-term liquidity requirements through a combination of working capital, cash flows from operations and the following:

- borrowings under our unsecured revolving loan (up to \$117.9 million of availability as of April 18, 2004);
- the selective disposition of non-core assets or other assets, including land held for development or sale;
- the sale or contribution of some of our wholly-owned properties, development projects and development land to strategic joint ventures to be formed with unrelated investors, which will have the net effect of generating additional capital through such sale or contributions; and
- the issuance of secured debt (at April 18, 2004, we had \$2.2 billion of unencumbered real estate assets at cost).

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

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

Table of Contents

Stockholder Dividends

To maintain our qualification as a REIT, we must distribute to stockholders at least 90.0% of our REIT taxable income. REIT taxable income, the calculation of which is determined by the federal tax laws, does not necessarily equal net income under GAAP. We generally expect to use our cash flow from operating activities for dividends to stockholders and for payment of recurring capital expenditures. Future dividends will be made at the discretion of our Board of Directors. The following factors will affect our cash flows and, accordingly, influence the decisions of our Board of Directors regarding dividends:

- debt service requirements after taking into account debt covenants and the repayment and restructuring of certain indebtedness;
- scheduled increases in base rents of existing leases;
- changes in rents attributable to the renewal of existing leases or replacement leases;
- changes in occupancy rates at existing properties and execution of leases for newly acquired or developed properties; and
- operating expenses and capital replacement needs, including tenant improvements and leasing costs.

Share and Unit Repurchase Program

As of March 31, 2004, we had repurchased 12.4 million shares of Common Stock and Common Units at a weighted average purchase price of \$24.00 per share and a total purchase price of \$297.1 million under our repurchase program. In determining whether or not to repurchase additional capital stock, we will consider, among other factors, the effect of repurchases on our liquidity and the price of our Common Stock.

Off Balance Sheet Arrangements

The Company has several off balance sheet joint venture and guarantee arrangements. The joint ventures were formed with unrelated investors to generate additional capital to fund property acquisitions, repay outstanding debt or fund other strategic initiatives and to lessen the ownership risks typically associated with owning 100.0% of a property. When we create a joint venture with a strategic partner, we usually contribute one or more properties that we own to a newly formed entity in which we retain an interest of 50.0% or less. In exchange for an equal or minority interest in the joint venture, we generally receive cash from the partner and retain the management income relating to the properties in the joint venture.

At March 31, 2004, our joint ventures had \$629.7 million of total assets and \$411.3 million of total liabilities. During the first quarter of 2004, these joint ventures earned \$4.3 million of total net income. We have a 38.8% weighted average equity interest in these joint ventures. For additional discussion of our joint venture activity, see Note 2 in the Consolidated Financial Statements.

As required by GAAP, we have accounted for our joint venture activity using the equity method of accounting, as we do not control these joint ventures and, as of March 31, 2004, the joint ventures were not deemed variable interest entities. As a result, the assets and liabilities of our joint ventures are not included on our balance sheet and the results of operations of the joint ventures are not included on our income statement, other than as equity in earnings of unconsolidated affiliates. In other words, we generally are not liable for the debts of our joint ventures, except to the extent of our equity investment, unless we have directly guaranteed any of that debt. In most cases, we and/or our strategic partners are required to guarantee customary exceptions to non-recourse liability in non-recourse loans.

Table of Contents

As of March 31, 2004, our joint ventures had \$393.2 million of outstanding debt. The following table sets forth the principal payments due on that outstanding long-term debt as recorded on the respective joint venture's books at March 31, 2004 (\$ in thousands):

	Percent	Remainder						
	Owned	Total	of 2004	2005	2006	2007	2008	Thereafter
Board of Trade Investment Company	49.00%	\$ 704	\$ 139	\$ 198	\$ 215	\$ 152	\$ —	\$ —
Dallas County Partners (1)	50.00%	37,763	732	1,041	4,419	13,332	5,764	12,475
Dallas County Partners II (1)	50.00%	22,166	943	1,375	1,522	1,684	1,863	14,779
Fountain Three (1)	50.00%	29,653	835	1,172	1,243	1,316	6,400	18,687
RRHWoods, LLC (1)	50.00%	66,312	278	403	431	4,241	381	60,578
4600 Madison Associates, LP	12.50%	16,548	538	762	815	873	935	12,625
Highwoods DLF 98/29, LP	22.81%	66,989	783	1,107	1,185	1,268	1,356	61,290
Highwoods DLF 97/26 DLF 99/32, LP	42.93%	58,854	541	770	831	897	969	54,846
Highwoods-Markel Associates, LLC	50.00%	39,901	459	643	682	722	766	36,629
Concourse Center Associates, LLC	50.00%	9,652	133	189	202	217	232	8,679
Plaza Colonnade, LLC	50.00%	21,631	—	—	—	21,631	—	—
SF-HIW Harborview, LP	20.00%	22,800	—	—	—	91	378	22,331
Highwoods KC Glenridge Land, LP	40.00%	250	—	—	250	—	—	—
Total		\$393,223(2)	\$ 5,381	\$7,660	\$11,795	\$46,424	\$19,044	\$302,919

(1) Des Moines joint ventures.

(2) All of this joint venture debt is non-recourse to us except (1) in the case of customary exceptions pertaining to such matters as misuse of funds, environmental conditions and material misrepresentations and (2) those guarantees and loans described in the following paragraphs.

In connection with the Des Moines joint venture guarantees, the maximum potential amount of future payments we could be required to make under the guarantees is \$25.3 million. Of this amount, \$8.6 million arose from housing revenue bonds that require credit enhancements in addition to the real estate mortgages. The bonds bear a floating interest rate, which currently averages 0.96% and mature in 2015. Guarantees of \$9.5 million will expire upon two industrial buildings becoming 93.8% and 95.0% leased. Currently, these buildings are 90.0% and 64.0% leased, respectively. The remaining \$7.2 million in guarantees relate to loans on four office buildings that were in the lease-up phase at the time the loans were initiated. Each of the loans will expire by May 2008. The average occupancy of the four buildings at March 31, 2004 is 92.0%. If the joint ventures are unable to repay the outstanding balance under the loans, we will be required, under the terms of the agreements, to repay the outstanding balance. Recourse provisions exist to enable us to recover some or all of our losses from the joint ventures' assets and/or the other partner. The joint ventures currently generate sufficient cash flow to cover the debt service required by the loans.

In connection with the RRHWoods, LLC joint venture, we renewed our guarantee of \$6.2 million to a bank in July 2003. The bank provides a letter of credit securing industrial revenue bonds, which mature in 2015. We would be required to perform under the guarantee should the joint venture be unable to repay the bonds. We have recourse provisions in order to recover from the joint venture's assets and the other partner for amounts paid in excess of our proportionate share. The property collateralizing the bonds is 100.0% leased and currently generates sufficient cash flow to cover the debt service required by the bond financing.

With respect to the Plaza Colonnade, LLC joint venture, we have included \$2.8 million in other liabilities and adjusted the investment in unconsolidated affiliates by \$2.8 million on our consolidated balance sheet at March 31, 2004 related to two separate guarantees of a construction loan agreement and a construction completion agreement. The construction loan matures in February 2006, with two one-year options to extend the maturity date that are conditional on completion and lease-up of the project. The term of the construction completion agreement requires the core and shell of the building to be completed by December 15, 2005. Currently, the building is scheduled to be completed in December 2004. Both guarantees arose from the formation of the joint venture to construct an office building. If the joint venture is unable to repay the outstanding balance under the construction loan agreement or complete the construction of the office building, we would be required, under the terms of the agreements, to repay our 50.0% share of the outstanding balance under the construction loan and complete the construction of the office building. On March 30, 2004, the Industrial Development Authority of the City of Kansas City, Missouri issued \$18.5 million in non-recourse bonds to finance public improvements made by the joint venture for the benefit of the Kansas City Missouri Public Library. Since the joint venture leases the land for the office building from the library for 99 years, the joint venture is obligated to build certain public improvements. The net

Table of Contents

bond proceeds of \$16.3 million will be used to reimburse the joint venture for its costs. As funds are transferred from the bond fund to the construction lender, our exposure is reduced. The maximum potential amount of future payments by us under these agreements is \$27.6 million if the construction loan is fully funded. No recourse provisions exist that would enable us to recover from the other partner amounts paid under the guarantee. However, given that the loan is collateralized by the building, we and our partner could obtain and liquidate the building to recover the amounts paid should we be required to perform under the guarantee.

In addition to the Plaza Colonnade, LLC construction loan and completion agreement described above, the partners have collectively provided \$12.0 million in letters of credit, \$6.0 million by us and \$6.0 million by our partner. We and our partner would be held liable under the letter of credit agreements should the joint venture not complete construction of the building. The letters of credit expire in December 31, 2004. No recourse provisions exist that would enable us to recover from the other partner amounts drawn under the letter of credit.

Certain properties owned in joint ventures with unaffiliated parties have buy/sell options that may be exercised to acquire the other partner's interest by either us or our joint venture partner if certain conditions are met as set forth in the respective joint venture agreement. Our partner in SF-HIW Harborview, LP has the right to put its 80.0% equity interest in the partnership to us in cash at anytime during the one-year period commencing on September 11, 2014. As a result, we have deferred a gain of \$1.9 million until the expiration of the put option. The value of the equity interest will be determined based upon the then fair market value of SF-HIW Harborview, LP assets and liabilities.

On March 2, 2004, we exercised our option and acquired our partner's 80.0% equity interest in the remaining assets of MG-HIW, LLC, which are located in the central business district of Orlando. In January 2004, we signed a Letter of Intent with Kapital-Consult, manager for Dreilander-Fonds, a European investment firm, under which Kapital-Consult will acquire a 60.0% equity interest in these properties for approximately \$45.5 million, excluding certain development rights to be retained by us. The joint venture intends to refinance the existing debt on the properties with a \$143.0 million 10-year fixed rate loan. In order to lock the interest rate on the new debt, a \$2.9 million deposit was required, of which we paid approximately \$1.2 million. Although the joint venture transaction is subject to documentation and other closing conditions, it is expected to close no later than the end of the second quarter of 2004.

Interest Rate Hedging Activities

To meet in part our long-term liquidity requirements, we borrow funds at a combination of fixed and variable rates. Borrowings under our revolving loan bears interest at variable rates. Our long-term debt, which consists of long-term financings and the unsecured issuance of debt securities, typically bears interest at fixed rates. In addition, we have assumed fixed rate and variable rate debt in connection with acquiring properties. Our interest rate risk management objective is to limit the impact of interest rate changes on earnings and cash flows and to lower our overall borrowing costs. To achieve these objectives, from time to time we enter into interest rate hedge contracts such as collars, swaps, caps and treasury lock agreements in order to mitigate our interest rate risk with respect to various debt instruments.

The following table sets forth information regarding our interest rate hedge contracts as of March 31, 2004 (\$ in thousands):

Type of Hedge	Notional Amount	Maturity Date	Reference Rate	Fixed Rate	Fair Market Value
Interest Rate Swap	\$20,000	6/1/2005	1 month USD-LIBOR-BBA	1.590%	\$ (62)
					\$ (62)

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. During the first quarter of 2004, only a nominal amount was received from counter parties under interest rate hedge contracts.

Table of Contents

Related Party Transactions

We have previously reported that we have had a contract to acquire development land in the Bluegrass Valley office development project from GAPI, Inc., a corporation controlled by an executive officer and director of the Company. On January 17, 2003, we acquired an additional 23.5 acres of this land from GAPI, Inc. for cash and shares of Common Stock valued at \$2.3 million. In May 2003, 4.0 acres of the remaining acres not yet acquired by us was taken by the Georgia Department of Transportation to develop a roadway interchange for consideration of \$1.8 million. The Department of Transportation took possession and title of the property in June 2003. As part of the terms of the contract between us and GAPI, Inc., we were entitled to the proceeds from the condemnation of \$1.8 million, less the contracted purchase price between us and GAPI, Inc. for the condemned property of \$0.7 million. On September 30, 2003, as a result of the condemnation, we received the proceeds of \$1.8 million. A related party payable of \$0.7 million to GAPI, Inc. related to the condemnation of the development land is included in accounts payable, accrued expenses and other liabilities in our Consolidated Balance Sheet at March 31, 2004.

CRITICAL ACCOUNTING ESTIMATES

There were no changes to the critical accounting estimates made by management in the three months ended March 31, 2004. For a detailed description of our critical accounting estimates, see “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Critical Accounting Estimates” in our 2003 Annual Report on Form 10-K.

FUNDS FROM OPERATIONS AND CASH AVAILABLE FOR DISTRIBUTIONS

We believe that funds from operations (“FFO”) is one of several indicators of the performance of an equity REIT. FFO can facilitate comparisons of operating performance between periods and between other REITs because it excludes factors, such as depreciation, amortization and gains and losses from sales of real estate assets, which are based on historical cost and may be of limited relevance in evaluating current performance. FFO as disclosed by other REITs may not be comparable to our calculation of FFO as described below. Cash available for distribution (“CAD”) is another useful financial performance measure of an equity REIT. CAD provides an additional basis to evaluate the ability of a REIT to incur and service debt, fund acquisitions and other capital expenditures and pay distributions. CAD does not measure whether cash flow is sufficient to fund all cash needs. FFO and CAD are non-GAAP financial measures and do not represent net income or cash flows from operating, investing or financing activities as defined by GAAP. They should not be considered as alternatives to net income as an indicator of our operating performance or to cash flows as a measure of liquidity.

Our calculation of FFO, which we believe is consistent with the calculation of FFO as defined by the National Association of Real Estate Investment Trusts (NAREIT), is as follows:

- Net income (loss)—computed in accordance with GAAP;
- Plus depreciation and amortization of assets uniquely significant to the real estate industry;
- Less gains or plus losses from sales of depreciable operating properties, (excluding impairment losses—see Note 2 following the table) and items that are classified as extraordinary items under GAAP;
- Plus minority interest;
- Less dividends to preferred shareholders;
- Plus or minus adjustments for unconsolidated partnerships and joint ventures (to reflect funds from operations on the same basis); and
- Plus or minus adjustments for depreciation and amortization, gain/(loss) on sale and minority interest related to discontinued operations.

CAD is defined as FFO reduced by non-revenue enhancing capital expenditures for building improvements and tenant improvements and lease commissions related to second generation space. In addition, CAD includes both

Table of Contents

recurring and non-recurring operating results. As a result, non-recurring items that are not defined as “extraordinary” under GAAP are reflected in the calculation of CAD.

FFO, FFO per share and cash available for distribution for the three months ended March 31, 2004 and 2003 are summarized in the following table (\$ in thousands, except per share amounts):

	Three Months Ended March 31,			
	2004		2003	
	Amount	Per Share Diluted	Amount	Per Share Diluted
Funds from operations:				
Net income	\$ 5,884		\$ 11,172	
Dividends to preferred shareholders	(7,713)		(7,713)	
Net (loss)/income attributable to common shareholders	(1,829)	\$ (0.03)	3,459	\$ 0.06
Add/(Deduct):				
Depreciation and amortization of real estate assets ⁽¹⁾	33,542	0.62	31,210	0.58
(Loss)/gain on disposition of depreciable real estate assets ⁽²⁾	55	—	(20)	—
Minority interest in the Operating Partnership in income from operations	231	—	938	0.02
Unconsolidated affiliates:				
Depreciation and amortization of real estate assets ⁽¹⁾	2,278	0.04	2,415	0.05
Discontinued operations ⁽³⁾ :				
Depreciation and amortization of real estate assets ⁽¹⁾	29	—	1,264	0.02
Gain on sale, net of minority interest in the Operating Partnership ⁽²⁾	(3,555)	(0.06)	(118)	—
Minority interest in the Operating Partnership in income from discontinued operations	77	—	575	0.01
Funds from operations before amounts allocable to minority interest in the Operating Partnership	30,828	0.57	39,723	0.74
Minority interest in the Operating Partnership in funds from operations	(3,188)	(0.06)	(4,532)	(0.08)
Funds from operations applicable to common shareholders	\$ 27,640 ⁽³⁾	\$ 0.51 ⁽³⁾	\$ 35,191	\$ 0.66
Cash available for distribution:				
Funds from operations before amounts allocable to minority interest in the Operating Partnership	\$ 30,828		\$ 39,723	
Add/(Deduct):				
Rental income from straight-line rents	(2,586)		(1,685)	
Amortization of intangible lease assets	252		—	
Depreciation of non-real estate assets ⁽¹⁾	774		820	
Impairment charges	—		288	
Amortization of deferred financing costs	855		626	
Retirement compensation expense—non-cash portion ⁽⁴⁾	2,325		—	
Non-incremental revenue generating capital expenditures:				
Building improvements paid	(1,768)		(2,791)	
Second generation tenant improvements paid	(7,209)		(4,488)	
Second generation lease commissions paid	(5,040)		(3,368)	
	(14,017)		(10,647)	
Cash available for distribution	\$ 18,431		\$ 29,125	
Dividend payout data:				
Dividends paid per common share/common unit—diluted\$0.425	\$ 0.425		\$ 0.585	
Funds from operations	83.3%		88.6%	
Cash available for distribution	138.9%		121.2%	

Weighted average shares outstanding—diluted ⁽⁵⁾	54,066	53,475
Weighted average shares/units outstanding—diluted ⁽⁶⁾	60,238	60,360
Net cash provided by/(used in):		
Operating activities	\$ 38,194	\$ 38,806
Investing activities	\$(78,841)	\$(20,188)
Financing activities	\$ 39,084	\$(10,431)
Net (decrease)/increase in cash and cash equivalents	\$ (1,563)	\$ 8,187

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- (1) In connection with the SEC's adoption of Regulation G, which governs the presentation of non-GAAP financial measures in documents filed with the SEC, we revised our definition of FFO for 2003 relating to the add-back of non-real estate depreciation and amortization. Our revised definition is in accordance with the definition provided by NAREIT. The change reduced FFO before amounts allocable to minority interest as previously reported by \$0.8 million or \$0.01 per share for the first quarter of 2003.

Table of Contents

- (2) In October 2003, NAREIT issued a Financial Reporting Alert that changed its current implementation guidance for FFO regarding impairment losses. Accordingly, impairment losses related to depreciable assets have now been included in FFO for the periods presented. The following is a reconciliation of gain/(loss) on disposition of depreciable real estate assets included in the FFO calculation and gain/(loss) on disposition of depreciable assets included in our Consolidated Statements of Operations for the three months ended March 31, 2004 and 2003:

	Three Months Ended March 31,	
	2004	2003
Continuing Operations:		
(Loss)/gain on disposition of depreciable real estate assets per FFO calculation	\$ (55)	\$ 20
Impairment losses	—	—
(Loss)/gain on disposition and impairment of depreciable assets, net per Consolidated Statements of Operations	\$ (55)	\$ 20
Discontinued Operations:		
Gain on disposition of depreciable real estate assets per FFO calculation	\$3,555	\$ 118
Impairment losses	—	(288)
Gain/(loss) on disposition and impairment of depreciable assets, net per Consolidated Statements of Operations	\$3,555	\$(170)

As a result of the changes to the FFO calculation as outlined in footnotes (1) and (2), FFO has been reduced by the following in dollars and per share amounts:

	March 31,	
	2004	2003
FFO in dollars before amounts allocable to minority interest from the Operating Partnership	\$—	\$1,108
FFO per common share	\$—	\$ 0.02

- (3) For further discussion related to discontinued operations, see Note 7 to the Consolidated Financial Statements.
- (4) As previously announced, Mr. Ron Gibson, Chief Executive Officer and one of our founders, is retiring from the Company effective June 30, 2004. In connection with Mr. Gibson's retirement and as previously disclosed by us, our Board of Directors approved a compensation package for Mr. Gibson effective upon his retirement. As part of the package, Mr. Gibson will receive a lump-sum retirement payment of \$2.2 million, his unvested previously granted stock options and restricted stock awards will fully vest on June 30, 2004 and he will continue under our insurance programs for several years. His options will also be modified to remain outstanding for their stated terms. Under GAAP, these arrangements with Mr. Gibson result in a total charge of \$6.3 million, or \$0.11 per share, \$4.6 million of which was recorded in the first quarter with the balance of \$1.7 million to be recorded in the second quarter of 2004.
- (5) Options and warrants on 524,000 shares of Common Stock were not included in the calculation of net loss per share on the Consolidated Statements of Operations, as their effects were anti-dilutive. However, they are included in the calculation of funds from operations applicable to Common Shares per share diluted as they were not anti-dilutive.
- (6) 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.

Table of Contents

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The effects of potential changes in interest rates are discussed below. Our market risk discussion includes “forward-looking statements” and represents an estimate of possible changes in fair value or future earnings that would occur assuming hypothetical future movements in interest rates. These disclosures are not precise indicators of expected future losses, but only indicators of reasonably possible losses. As a result, actual future results may differ materially from those presented. See “Management’s Discussion and Analysis of 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 our revolving loan bears interest at variable rates. Our long-term debt, which consists of secured and unsecured long-term financings and the issuance of unsecured 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.

As of March 31, 2004, we had approximately \$435.3 million of variable rate debt outstanding that was not protected by interest rate hedge contracts. If the weighted average interest rate on this variable rate debt is 100 basis points higher or lower during the 12 months ended December 31, 2004, our interest expense would be increased or decreased approximately \$4.4 million.

For a discussion of our interest rate hedge contracts in effect at March 31, 2004 see “Management’s Discussion and Analysis of Financial Conditions and Results of Operations—Liquidity and Capital Resources—Interest Rate Hedging Activities.” If interest rates increase by 100 basis points, the aggregate fair market value of these interest rate hedge contracts as of March 31, 2004 would increase by approximately \$0.1 million. If interest rates decrease by 100 basis points, the aggregate fair market value of these interest rate hedge contracts as of March 31, 2004 would decrease by approximately \$0.3 million.

In addition, we are exposed to certain losses in the event of nonperformance by the counter parties under the hedge contracts. We expect the counter parties, which are major financial institutions, to perform fully under the contracts. However, if either of the counter parties was to default on its obligation under an interest rate hedge contract, we could be required to pay the full rates on our debt, even if such rates were in excess of the rate in the contract.

ITEM 4. CONTROLS AND PROCEDURES

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in our annual and periodic reports filed with the SEC is recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms. These disclosure controls and procedures are further designed to ensure that such information is accumulated and communicated to our management, including our Chief Executive Officer (“CEO”) and Chief Financial Officer (“CFO”), to allow timely decisions regarding required disclosure. SEC rules require that we disclose the conclusions of our CEO and CFO about the effectiveness of our disclosure controls and procedures.

The CEO and CFO evaluations of our disclosure controls and procedures included a review of the controls’ objectives and design, the controls’ implementation by us and the effect of the controls on the information generated for use in this Quarterly Report. In the course of the evaluation, we sought to identify data errors, control problems or acts of fraud and to confirm that appropriate corrective action, including process improvements, were being undertaken. Our disclosure controls and procedures are also evaluated on an ongoing basis by the following:

- employees in our internal audit department;
- other personnel in our finance organization;

Table of Contents

- members of our internal disclosure committee;
- members of the audit committee of our Board of Directors; and
- our independent auditors in connection with their audit and review activities.

Among other matters, we sought in our evaluation to determine whether there were any “significant deficiencies” or “material weaknesses” in our disclosure controls and procedures, or whether we had identified any acts of fraud involving personnel who have a significant role in our disclosure controls and procedures. In the professional auditing literature, “significant deficiencies” are referred to as “reportable conditions,” which are control issues that could have a significant adverse effect on the ability to record, process, summarize and report financial data in the financial statements. A “material weakness” is defined in the auditing literature as a particularly serious reportable condition where the internal control does not reduce to a relatively low level the risk that misstatements caused by error or fraud may occur in amounts that would be material in relation to the financial statements and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our management, including the CEO and CFO, does not expect that our disclosure controls and procedures will prevent all error and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of disclosure controls and procedures must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of a simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the control. The design of any system of controls also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

Based on the most recent evaluation, which was completed as of March 31, 2004, our CEO and CFO believe that our disclosure controls and procedures are effective to ensure that material information relating to us and our consolidated subsidiaries is made known to management, including the CEO and CFO, particularly during the period when our periodic reports are being prepared, and that our disclosure controls and procedures are effective to provide reasonable assurance that our financial statements are fairly presented in conformity with GAAP.

Since the date of this most recent evaluation, there have been no significant changes in our internal controls or in other factors that could significantly affect the internal controls subsequent to the date we completed our evaluation.

PART II—OTHER INFORMATION**ITEM 2. CHANGES IN SECURITIES AND USE OF PROCEEDS**

During the three months ended March 31, 2004, the Company issued 2,308 shares of Common Stock to a holder of Common Units in the Operating Partnership upon the redemption of such Common Units in a private offering pursuant to Section 4(2) of the Securities Act. The holder of the Common Units was an accredited investor under Rule 501 of the Securities Act. The Company has registered the resale of such shares under the Securities Act.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K**(a) Exhibits**

Exhibit No.	Description
10.14	Amended and Restated Credit Agreement among Highwoods Realty Limited Partnership, Highwoods Properties Inc., the Subsidiaries named therein and the Lenders named therein, dated as of March 29, 2004
12.1	Ratio of Earnings to Fixed Charges Calculation
31.1	Certification Pursuant to Section 302 of the Sarbanes-Oxley Act
31.2	Certification Pursuant to Section 302 of the Sarbanes-Oxley Act
32.1	Certification Pursuant to Section 906 of the Sarbanes-Oxley Act
32.2	Certification Pursuant to Section 906 of the Sarbanes-Oxley Act

(b) Reports on Form 8-K

On April 2, 2004, the Company filed a current report on Form 8-K, reporting under Item 5 the Company's press release announcing certain information regarding the pending retirement of the Company's Chief Executive Officer.

Table of Contents

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

HIGHWOODS PROPERTIES, INC.

By: /s/ RONALD P. GIBSON

Ronald P. Gibson
Chief Executive Officer

By: /s/ TERRY L. STEVENS

Terry L. Stevens
Vice President, Chief Financial Officer and Treasurer
(Principal Accounting Officer)

Date: May 10, 2004

FIRST AMENDMENT TO CREDIT AGREEMENT

THIS FIRST AMENDMENT TO CREDIT AGREEMENT dated as of March 29, 2004 (the “First Amendment”), is by and among HIGHWOODS REALTY LIMITED PARTNERSHIP, a North Carolina limited partnership (“Highwoods Realty”), HIGHWOODS PROPERTIES, INC., a Maryland corporation (“Highwoods Properties”), HIGHWOODS FINANCE, LLC, a Delaware limited liability company (“Highwoods Finance”), HIGHWOODS SERVICES, INC., a North Carolina corporation (“Highwoods Services”), and HIGHWOODS/TENNESSEE HOLDINGS, L.P., a Tennessee limited partnership (“Highwoods Tennessee”) (Highwoods Realty, Highwoods Properties, Highwoods Finance, Highwoods Services, and Highwoods Tennessee are hereinafter referred to individually as a “Borrower” and collectively as the “Borrowers”), the subsidiaries of the Borrowers identified on the signature pages to the Credit Agreement referenced below or joined as parties thereto pursuant to Section 7.12 thereof (such Subsidiaries are hereinafter referred to individually as a “Guarantor” and collectively as the “Guarantors”), the Lenders (as defined in the Credit Agreement), BANK OF AMERICA, N.A., as Administrative Agent for the Lenders (in such capacity, the “Administrative Agent”), BANC OF AMERICA SECURITIES LLC, as Sole Lead Arranger (in such capacity, the “Sole Lead Arranger”) and Sole Book Manager (in such capacity, the “Sole Book Manager”), WELLS FARGO BANK, NATIONAL ASSOCIATION, as Syndication Agent (in such capacity, the “Syndication Agent”) and BRANCH BANKING & TRUST COMPANY and FLEET NATIONAL BANK OF AMERICA, as Co-Documentation Agents (in such capacity, the “Documentation Agent”), and is an amendment to that certain Amended and Restated Credit Agreement dated as of July 17, 2003 by and among the Borrowers, Guarantors, Lenders, Administrative Agent, Sole Lead Arranger, Sole Book Manager, Syndication Agent and Documentation Agent (as the same may have been further amended, restated, supplemented or otherwise modified prior to the date hereof, the “Credit Agreement”).

WITNESSETH

WHEREAS, each of the Borrowers and the Guarantors have requested and the Lenders and Administrative Agent have agreed to amend the Credit Agreement on the terms and conditions set forth herein;

NOW, THEREFORE, for good and valuable consideration, the receipt of which is hereby acknowledged by the parties hereto, the parties hereto agree as follows:

1. Amendments to Credit Agreement.

(a) The definition of “Adjusted NOI” contained in Section 1.1 of the Credit Agreement is hereby deleted in its entirety and replaced with the following:

““Adjusted NOI” means, with respect to any applicable time period for any Property, an amount, not less than zero (0), equal to: (a) Net Operating Income for such period with respect to such Property less (b) the sum of (i) the Capital Expenditure Reserve amount for such Property during such period, plus (ii) a management fee in the amount of three percent (3%) of total revenues derived from the Property during such period; provided, that such amount shall be exclusive of any adjustment for such period attributable to the Straight-Lining of Rents; provided, further, that, in each case, (i) all amounts included in the above calculations (and not otherwise adjusted for interests in Minority Interest Entities) shall be adjusted to account for any amounts attributable to any interests held by any Consolidated Party in any Minority Interest Entity and (ii) all amounts included in the above calculations (and not otherwise adjusted to account for Outside Interests) shall be adjusted to deduct therefrom the pro rata share of such amounts allocable to Outside Interests.”

(b) The definition of “Capitalization Rate” contained in Section 1.1 of the Credit Agreement is hereby deleted in its entirety and replaced with the following:

““Capitalization Rate” means eight and one half of one percent (8.50%), except with respect to calculations involving the

Adjusted NOI related to the CC Plaza Project, in which case the “Capitalization Rate” shall be eight percent (8%); provided, however, that the Capitalization Rate

(both generally and for the CC Plaza Project) shall be reviewed annually and shall be subject to an annual adjustment of not more than one quarter of one percent (0.25%) by the Supermajority Lenders in their sole discretion based upon market conditions for comparable property types. No adjustment pursuant to the previous sentence shall occur until on or after July 1, 2005 and, following any such adjustment, no further adjustment to the Capitalization Rate shall occur until the passage of one (1) calendar year following such adjustment.”

(c) The following definition of “ CC Plaza Project ” is hereby inserted into Section 1.1 of the Credit Agreement in the proper alphabetical order:

““ CC Plaza Project ” means that certain development known as Country Club Plaza located at 310 Ward Parkway, Kansas City Missouri 64112 and owned by Highwoods Realty.”

(d) The definition of “ Facility Fee Modifier ” contained in Section 1.1 of the Credit Agreement is hereby deleted in its entirety and replaced with the following:

““ Facility Fee Modifier ” means, for any date of calculation, a per annum percentage equal to the sum of (a) to the extent the TL/TA Ratio, as most-recently properly calculated pursuant to any officer’s certificate delivered pursuant to Section 7.1(c) hereof, exceeds the FFM Threshold, three tenths of one percent (0.30%), plus (b) to the extent the Interest Coverage Ratio, as most-recently properly calculated pursuant to any officer’s certificate delivered pursuant to Section 7.1(c) hereof, is less than 2.15 to 1.00, one quarter of one percent (0.25%), plus (c) to the extent the Fixed Charge Coverage Ratio, as most-recently properly calculated pursuant to any officer’s certificate delivered pursuant to Section 7.1(c) hereof, is less than 1.60 to 1.00, one quarter of one percent (0.25%); provided, however, that to the extent each of clauses (b) and (c) of this definition would otherwise each require a one quarter of one percent (0.25%) increase in the Facility Fee Modifier (for a total of one half of one percent (0.50%)), the total increase in the Facility Fee Modifier as a result of the application of clauses (b) and (c) shall be three tenths of one percent (0.30%).”

(e) The following definition of “ FFM Threshold ” is hereby inserted into Section 1.1 of the Credit Agreement in the proper alphabetical order:

““ FFM Threshold ” means 52.5%; provided, that the FFM Threshold shall be increased or decreased concurrently with any increase or decrease in the Capitalization Rate which is agreed to by the Lenders pursuant to the terms of the definition thereof, such increase or decrease to be in an amount equal to five (5) multiplied by the number of basis points (whether positive or negative) by which the Capitalization Rate is changed. For purposes of clarification and example: (a) if the Capitalization Rate is increased from 8.50% to 8.60%, the FFM Threshold will move from 52.5% to 53.0%; and (b) if the Capitalization Rate is decreased from 8.50% to 8.40%, the FFM Threshold will move from 52.5% to 52.0%.”

(d) The definition of “ Net Income ” contained in Section 1.1 of the Credit Agreement is hereby deleted in its entirety and replaced with the following:

““ Net Income ” means, for any period, the sum of (a) net income (excluding extraordinary gains and losses and related tax effects thereto) after taxes for such period of the Consolidated Parties on a consolidated basis, as determined in accordance with GAAP, plus (b) without duplication, an amount equal to that portion attributable to Highwoods Realty of the line item “minority interests” relating to operating partnership units for such period, as shown on the consolidated income statements of the Consolidated Parties, plus (c) without duplication, an amount equal to the aggregate of net income (excluding extraordinary gains and losses and related tax effects thereof) after taxes for such period, as determined in accordance with GAAP, of each Minority Interest Entity multiplied by the respective Minority Interest of each such entity; provided, however, that notwithstanding anything contained herein to the contrary, (i) (A) the aggregate amount of gains resulting from Asset Dispositions of the consolidated Parties and included in the calculation of “Net Income” shall not exceed \$5,000,000 for any fiscal quarter (or any portion thereof) included in the applicable calculation

period (on a gross basis, without netting for losses associated with other Asset Dispositions during such fiscal quarter or any other time during the applicable calculation period); and (B) the aggregate amount of losses resulting from Asset Dispositions of the consolidated Parties and included in the calculation of "Net Income" shall not exceed \$5,000,000 for any fiscal quarter (or any portion thereof) included in the applicable calculation period (on a gross basis, without netting for gains associated with other Asset Dispositions during such fiscal quarter or any other time during the applicable calculation period) and (ii) gains and losses resulting from an Asset Disposition involving the Highwoods Preserve Properties shall be calculated solely for purposes of determining the amount thereof to be included within "Net Income" under this Credit Agreement (such amount to be subject to the limitations set forth in the preceding clause (i) in all events) using the appraised value (as reflected in the most recent appraisal delivered to and accepted by the Administrative Agent) as the basis thereof for so long as the value of such Properties is determined in accordance with clause (h)(i) of the definition of Total Assets."

(f) The following definition of "Restricted Period" is hereby inserted into Section 1.1 of the Credit Agreement in the proper alphabetical order:

"Restricted Period" means any period of time during which the Borrowers have, as a direct result of an adjustment of the Capitalization Rate by the Lenders in accordance with the terms of the definition of such term (and for no other reason), failed to meet any of the financial covenants set forth herein, subject to the following: (a) each such period shall commence as of the first day on which any such adjustment occurs and no Restricted Period shall exist with respect to a given adjustment in the Capitalization Rate to the extent such adjustment does not, as of the first day on which such adjustment occurs, cause the Borrowers to fail to meet any of the financial covenants set forth herein; and (b) a Restricted Period in effect with respect to any given adjustment in the Capitalization Rate shall end on the earlier of (i) the date occurring one hundred twenty (120) days following the date of the applicable adjustment and (ii) the date on which the Borrower is again in compliance with all financial covenants which were previously violated as a result of such adjustment."

(g) Section 5.2(d) of the Credit Agreement is hereby deleted in its entirety and replaced with the following:

"No Default, Event of Default or (except in the case of the extension of a Loan that is already outstanding) Restricted Period shall exist and be continuing either prior to or after giving effect thereto;"

(e) Section 7.11(e) of the Credit Agreement is hereby deleted in its entirety and replaced with the following:

"(e) Fixed Charge Coverage Ratio. At all times, the Fixed Charge Coverage Ratio shall be greater than 1.50 to 1.00."

(h) Section 9.1(c)(i) of the Credit Agreement is hereby deleted in its entirety and replaced with the following:

"(i) default in the due performance or observance of any term, covenant or agreement contained in Sections 7.2, 7.4(a), 7.9, 7.11, 7.12 or 8.1 through 8.17, inclusive; provided, however, that if the Credit Parties default in performance or observance of any financial covenant set forth in Section 7.11 hereof solely as a result of an adjustment of the Capitalization Rate by the Lenders in accordance with the terms of the definition of such term (and for no other reason), such resultant violation of such financial covenants shall not constitute an Event of Default hereunder to the extent the Borrower cures such violations within a period of one hundred twenty (120) days following such adjustment; or"

2. Conditions Precedent. The effectiveness of this First Amendment is subject to receipt by the Administrative Agent of each of the following, each in form and substance satisfactory to the Administrative Agent:

(a) a counterpart of this First Amendment duly executed by each of: the Borrowers, Guarantors and Supermajority Lenders;

(b) payment by Borrowers of (i) any fees required by the Administrative Agent or Sole Lead Arranger in connection with this First Amendment, (ii) a fee to each Lender executing and delivering its signature page to this First Amendment to the Administrative Agent on or before April 8, 2004, such fee for a particular Lender to be in an amount equal to 0.05% times the maximum amount of such Lender's Revolving Commitment, (iii) all other outstanding fees and expenses of the Administrative Agent and the Administrative Agent's counsel incurred in connection with the preparation of this First Amendment, (iv) all other fees and expenses relating to the preparation, execution and delivery of this First Amendment or otherwise related to the Credit Agreement or the Credit Documents which are due and payable as of the date hereof, including, without limitation, payment to the Administrative Agent of attorneys' fees, consultants' fees, travel expenses, all fees and expenses associated with prior transactions entered into or contemplated by and between Borrowers and the Administrative Agent and (v) all other fees and expenses due and then-owing from the Borrowers to the Administrative Agent and Lenders pursuant to the terms hereof, the terms of the Credit Agreement and the terms of the other Credit Documents; and

(c) such other documents, instruments and agreements as the Administrative Agent may reasonably request.

3. Representations . Each of the Borrowers and each of the Guarantors collectively represent and warrant to the Administrative Agent and the Lenders that:

(a) Authorization . Each of the Borrowers and each of the Guarantors, respectively, has the right and power and has obtained all authorizations necessary to execute and deliver this First Amendment and to perform its respective obligations hereunder and under the Credit Agreement, as amended by this First Amendment, in accordance with their respective terms. This First Amendment has been duly executed and delivered by a duly authorized officers of each of the Borrowers and each Guarantor, respectively, and each of this First Amendment and the Credit Agreement, as amended by this First Amendment, is a legal, valid and binding obligation of each of the Borrowers and each Guarantor (each as applicable), enforceable against each of the Borrowers and each Guarantor (each as applicable) in accordance with its respective terms, except as the same may be limited by bankruptcy, insolvency, and other similar laws affecting the rights of creditors generally and by equitable principles generally.

(b) Compliance with Laws, etc. . The execution and delivery by each of the Borrowers and each of the Guarantors of this First Amendment and the performance by each of the Borrowers and/or the Guarantors of this First Amendment and the Credit Agreement, as amended by this First Amendment, in accordance with their respective terms, does not and will not, by the passage of time, the giving of notice or otherwise: (i) require any approval (other than those already obtained) by any Governmental Authority or violate any law (including any Environmental Law) which is applicable to a Borrower, any Guarantors, any Consolidated Party, the Credit Documents or the transactions contemplated herein or therein; (ii) conflict with, result in a breach of or constitute a default under the organizational documents of any Borrower, any of the Guarantors or any other Consolidated Party, or any indenture, agreement/or other instrument to which any Borrower, any of the Guarantors or any other Consolidated Party is a party or by which it or any of its respective properties may be bound; or (iii) result in or require the creation or imposition of any Lien upon or with respect to any property now owned or hereafter acquired by any Borrower, any Guarantor or any other Consolidated Party other than in favor of the Administrative Agent for the benefit of the Lenders; and

(c) No Default . No Default or Event of Default has occurred and is continuing as of the date hereof nor will exist immediately after giving effect to this First Amendment.

4. Reaffirmation of Representations . Each of the Borrowers and each of the Guarantors hereby repeat and reaffirm all representations and warranties made by such party to the Administrative Agent and the Lenders in the Credit Agreement and the other Credit Documents to which it is a party on and as of the date hereof (other than any representation or warranty expressly relating to an earlier date) with the same force and effect as if such representations and warranties were set forth in this First Amendment in full.

5. Reaffirmation of Guaranty . Each of the Guarantors hereby reaffirms its continuing obligations to the Administrative Agent and the Lenders under the Credit Agreement and agrees that the transactions contemplated by this First Amendment shall not in any way affect the validity and enforceability of their respective guaranty obligations thereunder or reduce, impair or discharge the obligations of such Guarantors thereunder.

6. Severability . If any provision of any of this First Amendment or of the Credit Agreement, as amended hereby, is determined to be illegal, invalid or unenforceable, such provision shall be fully severable and the remaining provisions shall remain in full force and effect and shall be construed without giving effect to the illegal, invalid or unenforceable provisions.

7. Certain References . Each reference to the Credit Agreement in any of the Credit Documents shall be deemed to be a reference to the Credit Agreement as amended by this First Amendment and this First Amendment shall be deemed a Credit Document for purposes of the application of provisions of the Credit Agreement generally applicable thereto (including, without limitation, any arbitration provisions or waiver provisions).

8. Expenses . The Borrowers shall reimburse the Administrative Agent upon demand for all reasonable costs and expenses (including reasonable attorneys' fees) incurred by the Administrative Agent in connection with the preparation, negotiation and execution of this First Amendment and the other agreements and documents executed and delivered in connection herewith.

9. Benefits . This First Amendment shall be binding upon and shall inure to the benefit of the parties hereto and their respective successors and assigns.

10. Default . The failure of any of the Borrowers or any of the Guarantors to perform any of their respective obligations under this First Amendment or the material falsity of any representation or warranty made herein shall, at the option of the Administrative Agent and/or Lenders (as determined in accordance with the Credit Agreement) after expiration of any applicable cure period, constitute an Event of Default under the Credit Documents.

11. No Novation . The parties hereto intend this First Amendment to evidence the amendments to the terms of the existing indebtedness of the Borrowers and Guarantors to the Lenders as specifically set forth herein and do not intend for such amendments to constitute a novation in any manner whatsoever.

12. GOVERNING LAW . THIS FIRST AMENDMENT SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF NORTH CAROLINA APPLICABLE TO CONTRACTS EXECUTED, AND TO BE FULLY PERFORMED, IN SUCH STATE.

13. No Implied Agreements . Except as expressly herein amended, the terms and conditions of the Credit Agreement and the other Credit Documents remain in full force and effect. The amendments contained herein shall be deemed to have prospective application only, unless otherwise specifically stated herein.

14. Counterparts . This First Amendment may be executed in any number of counterparts, each of which when so executed and delivered shall be an original, but all of which shall constitute one and the same instrument. It shall not be necessary in making proof of this First Amendment to produce or account for more than one such counterpart for each of the parties hereto. Delivery by facsimile by any of the parties hereto of an executed counterpart of this First Amendment shall be as effective as an original executed counterpart hereof and shall be deemed a representation that an original executed counterpart hereof will be delivered. Each counterpart hereof shall be deemed to be an original and shall be binding upon all parties, their successors and assigns.

15. Binding Effect . This First Amendment shall become effective as of the date hereof at such time when all of the conditions set forth in Section 2 hereof have been satisfied or waived by the Lenders and it shall have been executed by the Borrowers, the Guarantors and the Administrative Agent, and the Administrative Agent

shall have received copies hereof (telefaxed or otherwise) which, when taken together, bear the signatures of the Supermajority Lenders, and thereafter this Credit Agreement shall be binding upon and inure to the benefit of the Borrowers, the Guarantors, the Administrative Agent and each Lender and their respective successors and assigns.

16. Release . Each Credit Party hereby represents and warrants that it has no claims, counterclaims, offsets, or defenses to the Credit Agreement or any of the Credit Documents, or to the performance of their respective obligations thereunder and, in consideration of the Lenders' and Administrative Agent's willingness to grant the amendment referenced herein, hereby releases the Administrative Agent, the Lenders, the Sole Lead Arranger, the Sole Book Manager, the Syndication Agent and the Documentation Agent and each of their respective officers, employees, representatives, agents, counsel and directors from any and all actions, causes of action, claims, demands, damages and liabilities of whatever kind or nature, in law or in equity, now known or unknown, suspected or unsuspected to the extent that any of the foregoing arises from any action or failure to act on or prior to the date hereof.

17. Definitions . All capitalized terms not otherwise defined herein are used herein with the respective definitions given them in the Credit Agreement. The interpretive provisions set forth in Sections 1.2 and 1.3 of the Credit Agreement shall apply to this First Amendment as though set forth herein.

[Signature Pages to Follow]

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

BORROWERS:

HIGHWOODS REALTY LIMITED PARTNERSHIP

By: Highwoods Properties, Inc.

HIGHWOODS PROPERTIES, INC.

HIGHWOODS SERVICES, INC.

HIGHWOODS FINANCE, LLC

By: Highwoods Properties, Inc.

HIGHWOODS/TENNESSEE HOLDINGS, L.P.

By: Highwoods/Tennessee Properties, Inc.

By: /s/ Edward J. Fritsch

Name: Edward J. Fritsch

Title: President

(Signatures continued on next page)

GUARANTORS:

HIGHWOODS/FLORIDA GP CORP.

HIGHWOODS/TENNESSEE PROPERTIES, INC.

HIGHWOODS/FLORIDA HOLDINGS, L.P.

By: Highwoods/Florida GP Corp.

PINELLAS NORTHSIDE PARTNERS, LTD.

By: Highwoods/Florida Holdings, L.P.

By: Highwoods/Florida GP Corp.

RED RUN ASSOCIATES LLC

By: Highwoods Realty Limited Partnership

By: Highwoods Properties, Inc.

WINSTON-SALEM INDUSTRIAL, LLC

By: Highwoods Realty Limited Partnership

By: Highwoods Properties, Inc.

TAMPA TECH PRESERVE, LLC

By: 581 Highwoods, L.P.

By: Highwoods/Florida Holdings, L.P.

By: Highwoods/Florida GP Corp.

MARLEY CONTINENTAL HOMES OF KANSAS, L.L.C.

By: Highwoods Properties, Inc.

SOUTH PARK LAND, LLC

By: Challenger, Inc.

MG-HIW, LLC

By: Highwoods Realty Limited Partnership

By: Highwoods Properties, Inc.

SOUTHWIND LAND HOLDINGS, LLC

By: AP Southeast Portfolio Partners, L.P.

By: Highwoods Realty GP Corp.

AP SOUTHEAST PORTFOLIO PARTNERS, L.P.

By: Highwoods Realty GP Corp.

HIGHWOODS REALTY GP CORP.

HIGHWOODS KC GLENRIDGE, LLC

By: Highwoods Realty Limited Partnership

By: Highwoods Properties, Inc.

PINELLAS BAY VISTA PARTNERS, LTD.

By: Highwoods/Florida Holdings, L.P.

By: Highwoods/Florida GP Corp.

(Signatures continued on next page)

DOWNTOWN CLEARWATER TOWER, LTD.

By: Highwoods/Florida Holdings, L.P.

By: Highwoods/Florida GP Corp.

SISBROS, LTD.

By: Highwoods/Florida Holdings, L.P.

By: Highwoods/Florida GP Corp.

SHOCKOE PLAZA INVESTORS, L.C.

By: Highwoods Realty Limited Partnership

By: Highwoods Properties, Inc.

RC ONE LLC

By: Highwoods Services, Inc.

HPI TITLE AGENCY, LLC

By: Highwoods Realty Limited Partnership

By: Highwoods Properties, Inc.

**ALAMEDA TOWERS DEVELOPMENT COMPANY
CHALLENGER, INC.**

GUARDIAN MANAGEMENT, INC.

HIGHWOODS/CYPRESS COMMONS LLC

By: AP Southeast Portfolio Partners, L.P.

By: Highwoods Realty GP Corp.

HIGHWOODS/INTERLACHEN HOLDINGS, L.P.

By: Highwoods/Florida Holdings, L.P.

By: Highwoods/Florida GP Corp.

4600 COX ROAD LLC

By: Highwoods/Florida Holdings, L.P.

By: Highwoods/Florida GP Corp.

PLAZA GIFT CARD, LLC

By: Highwoods Services, Inc.

HIGHWOODS CONSTRUCTION SERVICES, LLC

By: Highwoods Services, Inc.

(Signatures continued on next page)

HIGHWOODS DLF, LLC

By: Highwoods Realty Limited Partnership
By: Highwoods Properties, Inc.

HIGHWOODS DLF II, LLC

By: Highwoods Realty Limited Partnership
By: Highwoods Properties, Inc.

PAPEC RICHMOND II, LLC

By: Highwoods Realty Limited Partnership
By: Highwoods Properties, Inc.

PAPEC WESTON I, LLC

By: Highwoods Realty Limited Partnership
By: Highwoods Properties, Inc.

PAPEC WESTON II, LLC

By: Highwoods Realty Limited Partnership
By: Highwoods Properties, Inc.

PAPEC WESTON III, LLC

By: Highwoods Realty Limited Partnership
By: Highwoods Properties, Inc.

HARBORVIEW PLAZA, LLC

By: Highwoods/Florida Holdings, L.P.
By: Highwoods/Florida GP Corp.

SPI BROOKFIELD I, LLC

By: Highwoods Realty Limited Partnership
By: Highwoods Properties, Inc.

SPI BROOKFIELD II, LLC

By: Highwoods Realty Limited Partnership
By: Highwoods Properties, Inc.

SPI BUSINESS HOLDINGS, LLC

By: Highwoods Realty Limited Partnership
By: Highwoods Properties, Inc.

SPI CENTURY PLAZA III, LLC

By: Highwoods Realty Limited Partnership
By: Highwoods Properties, Inc.

SPI JEFFERSON VILLAGE, LLC

By: Highwoods Realty Limited Partnership
By: Highwoods Properties, Inc.

SPI TRADEPORT OFFICE III, LLC

By: Highwoods Realty Limited Partnership
By: Highwoods Properties, Inc.

(Signatures continued on next page)

SPI RALEIGH CORPORATE CENTER, LLC

By: Highwoods Realty Limited Partnership
By: Highwoods Properties, Inc.

HIGHWOODS COLONNADE, LLC

By: Highwoods Realty Limited Partnership
By: Highwoods Properties, Inc.

SPI TRADEPORT PLACE V, LLC

By: Highwoods Realty Limited Partnership
By: Highwoods Properties, Inc.

HIWTP, LLC

By: Highwoods Services, Inc.

MG-HIW PEACHTREE CORNERS III, LLC

By: Highwoods Realty Limited Partnership
By: Highwoods Properties, Inc.

GROVE PARK SQUARE, LLC

By: HIGHWOODS SERVICES, INC.

HIGHWOODS WELLNESS CENTER, LLC

By: HIGHWOODS SERVICES, INC.

HIGHWOODS 3322, LLC

By HIGHWOODS/FLORIDA HOLDINGS, L.P.

By: HIGHWOODS/FLORIDA GP CORP.

NICHOLS PLAZA WEST, INC.

OZARK MOUNTAIN VILLAGE, INC.

4551 COX ROAD LLC

By: HIGHWOODS REALTY LIMITED
PARTNERSHIP

By: HIGHWOODS PROPERTIES, INC.

MG-HIW METROWEST I, LLC

By: Highwoods Realty Limited Partnership
By: Highwoods Properties, Inc.

MG-HIW METROWEST II, LLC

By: Highwoods Realty Limited Partnership
By: Highwoods Properties, Inc.

5525 GRAY STREET, LLC

By: Highwoods Realty Limited Partnership
By: Highwoods Properties, Inc.

HIGHWOODS SITUS II, LLC

By: Highwoods Realty Limited Partnership
By: Highwoods Properties, Inc.

BAY CENTER I, LLC

By: Highwoods Realty Limited Partnership
By: Highwoods Properties, Inc.

BAY CENTER II, LLC

By: Highwoods Realty Limited Partnership
By: Highwoods Properties, Inc.

581 HIGHWOODS, L.P.

By: Highwoods/Florida Holdings, L.P.
By: Highwoods/Florida GP Corp.

By: /s/ Edward J. Fritsch

Name: Edward J. Fritsch

Title: President

[signature pages continued]

LENDERS/AGENTS :

BANK OF AMERICA, N.A.,
individually in its capacity as a Lender
and in its capacity as Administrative Agent

By: /s/ Will T. Bowers

Name: Will T. Bowers
Title: Principal

BANC OF AMERICA SECURITIES LLC,
individually in its capacity as Sole Lead Arranger
and Sole Book Manager

By: /s/ Wesley G. Carter

Name: Wesley G. Carter
Title: Vice President

[signature pages continued]

WELLS FARGO BANK, NATIONAL ASSOCIATION
individually in its capacity as a Lender
and in its capacity as Syndication Agent

By: _____

Name: _____

Title: _____

[signature pages continued]

BRANCH BANKING AND TRUST COMPANY

individually in its capacity as a Lender
and as a Co-Documentation Agent

By: _____

Name: _____

Title: _____

[signature pages continued]

FLEET NATIONAL BANK
individually in its capacity as a Lender
and as a Co-Documentation Agent

By: _____

Name: _____

Title: _____

[signature pages continued]

WACHOVIA BANK, NATIONAL ASSOCIATION
individually in its capacity as a Lender

By: _____

Name: _____

Title: _____

[signature pages continued]

PNC BANK, NATIONAL ASSOCIATION
individually in its capacity as a Lender

By: _____

Name: _____

Title: _____

[signature pages continued]

AMSOUTH BANK

individually in its capacity as a Lender

By: _____

Name: _____

Title: _____

[signature pages continued]

SOUTHTRUST BANK
individually in its capacity as a Lender

By: _____

Name: _____

Title: _____

[signature pages continued]

RBC CENTURA BANK
individually in its capacity as a Lender

By: _____

Name: _____

Title: _____

[signature pages continued]

UNION PLANTERS BANK
individually in its capacity as a Lender

By: _____
Name: _____
Title: _____

[end of signature pages]

EXHIBIT 12.1

Highwoods Properties, Inc.
Ratio of Earnings to Fixed Charges and
Ratio of Earnings to Combined Fixed Charge and
Preferred Stock Dividends
(In thousands, except per share amounts)

	Three Months Ended March 31,	Year Ended December 31,				
	2004	2003	2002	2001	2000	1999
Earnings:						
Income from continuing operations before minority interest	1,893	26,118	68,254	122,996	126,129	141,448
Interest expense	26,057	111,193	109,512	105,491	113,306	121,652
Amortization of deferred financing costs	855	3,078	1,393	2,005	2,512	2,823
Total earnings	28,805	140,389	179,159	230,492	241,947	265,923
Fixed charges and preferred stock dividends:						
Interest expense	26,057	111,193	109,512	105,491	113,306	121,652
Interest capitalized	115	1,195	7,017	16,947	23,669	29,147
Amortization of deferred financing costs	855	3,078	1,393	2,005	2,512	2,823
Total fixed charges	27,027	115,466	117,922	124,443	139,487	153,622
Preferred stock dividends	7,713	30,852	30,852	31,500	32,580	32,580
Total fixed charges and preferred stock dividends	34,740	146,318	148,774	155,943	172,067	186,202
Ratio of earnings to fixed charges	1.07	1.22	1.52	1.85	1.73	1.73
Ratio of earnings to combined fixed charges and preferred stock dividends	0.83	0.96	1.20	1.48	1.41	1.43

Exhibit 31.1

**CERTIFICATION PURSUANT TO SECTION 302
OF THE SARBANES-OXLEY ACT**

I, Ronald P. Gibson, certify that:

- I have reviewed this quarterly report on Form 10-Q of Highwoods Properties Inc.;
- Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
- Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this quarterly report;
- The Registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the Registrant and we have:
 - designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
 - evaluated the effectiveness of the Registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this

report based on such evaluation; and

- (c) disclosed in this report any change in the Registrant's internal control over financial reporting that occurred during the Registrant's most recent fiscal year that has materially affected, or is reasonably likely to materially affect, the Registrant's internal control over financial reporting.
5. The Registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant's auditors and the Audit Committee of Registrant's Board of Directors (or persons performing the equivalent functions):
 - (a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant's ability to record, process, summarize and report financial information; and
 - (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant's internal control over financial reporting.

Date: May 10, 2004

/s/ R ONALD P. G IBSON

Ronald P. Gibson
Chief Executive Officer

Exhibit 31.2

**CERTIFICATION PURSUANT TO SECTION 302
OF THE SARBANES-OXLEY ACT**

I, Terry L. Stevens, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Highwoods Properties Inc.;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this quarterly report;
4. The Registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the Registrant and we have:
 - (a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
 - (b) evaluated the effectiveness of the Registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (c) disclosed in this report any change in the Registrant's internal control over financial reporting that occurred during the Registrant's most recent fiscal year that has materially affected, or is reasonably likely to materially affect, the Registrant's internal control over financial reporting.
5. The Registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant's auditors and the Audit Committee of Registrant's Board of Directors (or persons performing the equivalent functions):
 - (a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant's ability to record, process, summarize and report financial information; and
 - (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant's internal control over financial reporting.

Date: May 10, 2004

/s/ T ERRY L. S TEVENS

Terry L. Stevens
Vice President, Chief Financial Officer, and Treasurer

Exhibit 32.1

**CERTIFICATION PURSUANT TO SECTION 906
OF THE SARBANES-OXLEY ACT**

In connection with the Quarterly Report of Highwoods Properties, Inc. (the "Company") on Form 10-Q for the period ended March 31,

2004 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Ronald P. Gibson, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

- 1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- 2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Ronald P. Gibson

Ronald P. Gibson
Chief Executive Officer
May 10, 2004

Exhibit 32.2

**CERTIFICATION PURSUANT TO SECTION 906
OF THE SARBANES-OXLEY ACT**

In connection with the Quarterly Report of Highwoods Properties, Inc. (the "Company") on Form 10-Q for the period ended March 31, 2004 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Terry L. Stevens, Vice President and Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

- 1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- 2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ TERRY L. S TEVENS

Terry L. Stevens
Vice President, Chief Financial Officer and Treasurer

May 10, 2004

End of Filing

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