

# HIGHWOODS PROPERTIES INC

## FORM 10-K (Annual Report)

Filed 3/30/2000 For Period Ending 12/31/1999

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

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# FORM 10-K

## SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

☒ Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange  
Act of 1934 For the fiscal year ended December 31, 1999

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

*Commission file number 1-13100*

### HIGHWOODS PROPERTIES, INC.

(Exact name of registrant as specified in its charter)

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

3100 Smoketree Court, Suite 600  
Raleigh, N.C. 27604  
(Address of principal executive offices) (Zip Code)

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

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

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

#### SECURITIES REGISTERED PURSUANT TO SECTION 12(G) OF THE ACT:

NONE

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

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

The aggregate market value of the shares of common stock held by non-affiliates (based upon the closing sale price on the New York Stock Exchange) on March 20, 2000 was \$1,181,083,785. As of March 20, 2000, there were 59,994,513 shares of common stock, \$.01 par value, outstanding.

## **DOCUMENTS INCORPORATED BY REFERENCE**

Portions of the Registrant's Proxy Statement in connection with its Annual Meeting of Shareholders to be held May 24, 2000 are incorporated by reference in Part III Items 10, 11, 12 and 13.

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# HIGHWOODS PROPERTIES, INC.

## TABLE OF CONTENTS

Item No. -----		Page No. -----
	PART I	
1.	Business .....	3
2.	Properties .....	10
3.	Legal Proceedings .....	15
4.	Submission of Matters to a Vote of Security Holders .....	15
X.	Executive Officers of the Registrant .....	16
	PART II	
5.	Market for Registrant's Common Stock and Related Stockholder Matters .....	17
6.	Selected Financial Data .....	18
7.	Management's Discussion and Analysis of Financial Condition and Results of Operations .....	19
7A.	Quantitative and Qualitative Disclosures About Market Risk .....	28
8.	Financial Statements and Supplementary Data .....	28
9.	Changes in and Disagreements with Accountants on Accounting and Financial Disclosure .....	28
	PART III	
10.	Directors and Executive Officers of the Registrant .....	29
11.	Executive Compensation .....	29
12.	Security Ownership of Certain Beneficial Owners and Management .....	29
13.	Certain Relationships and Related Transactions .....	29
	PART IV	
14.	Exhibits, Financial Statement Schedules and Reports on Form 8-K .....	30

## **PART I**

WE REFER TO (1) HIGHWOODS PROPERTIES, INC. AS THE "COMPANY," (2) HIGHWOODS REALTY LIMITED PARTNERSHIP (FORMERLY HIGHWOODS/FORSYTH LIMITED PARTNERSHIP) AS THE "OPERATING PARTNERSHIP," (3) THE COMPANY'S COMMON STOCK AS "COMMON STOCK" AND (4) THE OPERATING PARTNERSHIP'S COMMON PARTNERSHIP INTERESTS AS "COMMON UNITS."

### **ITEM 1. BUSINESS**

#### **General**

The Company is a self-administered and self-managed equity REIT that began operations through a predecessor in 1978. Originally founded to oversee the development, leasing and management of the 201-acre Highwoods Office Center in Raleigh, North Carolina, we have since evolved into one of the largest owners and operators of suburban office, industrial and retail properties in the southeastern and midwestern United States. At December 31, 1999, we

- o owned or had a majority interest in 563 in-service office, industrial and retail properties, encompassing approximately 39.0 million rentable square feet and 1,885 apartment units;

- o owned an interest (50% or less) in 42 in-service office and industrial properties, encompassing approximately 3.5 million rentable square feet and 418 apartment units;

- o owned 1,473 acres (and have agreed to purchase an additional 317 acres over the next three years) of undeveloped land suitable for future development; and

- o were developing an additional 41 properties, which will encompass approximately 4.8 million rentable square feet.

The Company conducts substantially all of its activities through, and substantially all of its interests in the properties are held directly or indirectly by, the Operating Partnership. The Company is the sole general partner of the Operating Partnership. At December 31, 1999, the Company owned 87% of the Common Units in the Operating Partnership. Limited partners (including certain officers and directors of the Company) own the remaining Common Units. Holders of Common Units may redeem them for the cash value of one share of the Company's Common Stock or, at the Company's option, one share (subject to certain adjustments) of Common Stock.

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

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

#### **Operating Strategy**

**Diversification.** Since the Company's initial public offering in 1994, we have significantly reduced our dependence on any particular market, property type or tenant. Our in-service portfolio has expanded from 41 North Carolina office properties (40 of which were in the Research Triangle area of North Carolina) to 605 in-service office, industrial and retail properties and 2,303 apartment units in 17 markets in the Southeast and Midwest.

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

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

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

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

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

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

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

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

## Recent Developments

The following table summarizes the acquisitions and dispositions completed during 1999 as well as assets contributed to joint ventures in 1999 (\$ in thousands):

### Acquisition Activity

Property	Market	Building Type (1)	Acquisition Closing Date	Rentable Square Feet	Initial Cost
Cypress Commons	Tampa	O	06/04/99	114,000	\$ 12,000
Cypress Center	Tampa	O	06/30/99	83,000	8,000
5404 Cypress Center	Tampa	O	07/21/99	153,000	15,700
Century Plaza I & II	Atlanta	O	09/01/99	206,000	19,500
3322 West End	Nashville	O	10/08/99	216,000	30,100
Innsbrook Center	Richmond	O	12/27/99	67,000	7,625
Mercer Plaza	Richmond	O	12/27/99	121,000	13,875
Total				960,000	\$106,800
				=====	=====

### DISPOSITION ACTIVITY

Property	Market	Building Type (1)	Date Sold	Rentable Square Feet	Sales Price
Members Warehouse	Piedmont Triad	I	04/01/99	80,000	\$ 2,200
Comeau Building	South Florida	O	04/20/99	87,000	4,200
South Florida portfolio	South Florida	O/I	06/07/99	3,275,000	323,000
Phoenix Building	Research Triangle	O	06/07/99	26,000	3,000
Baltimore portfolio	Baltimore	O	06/30/99	737,000	82,200
Grassy Creek	Piedmont Triad	I	06/30/99	665,000	17,300
Virginia Center Tech Park	Richmond	O	08/02/99	120,000	8,500
1765 The Exchange	Atlanta	O	08/12/99	90,000	7,400
4000 Old Court Medical	Baltimore	O	08/12/99	42,000	5,800
Cotton Building	Research Triangle	O	08/31/99	40,000	3,600
4000 Aerial Center	Research Triangle	O	09/02/99	25,000	3,300
Georgetown Market Place	Kansas City	R	11/10/99	95,000	7,625
Riverside Building	Hampton Roads	O	12/10/99	87,000	8,250
Central Florida portfolio	Orlando/Tampa	O/I	12/20/99	2,122,000	165,329
Florida Flex	Tampa	O/I	12/22/99	751,000	45,700
Clearwater Tower	Tampa	O	12/29/99	100,000	8,300
Penn Wick, Tama & Cole Garden	Kansas City	M	12/31/99	N/A	675
Total				8,342,000	\$696,379
				=====	=====

### JOINT VENTURE ACTIVITY

Name	Market	Building Type (1)	Date Contributed	Rentable Square Feet	Proceeds
Dreilander-Fonds 98/29	Various	O	03/15/99	1,198,000	\$142,000
Total				1,198,000	\$142,000
				=====	=====

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

## DEVELOPMENT ACTIVITY

The following table summarizes the 24 development projects placed in service during 1999 (\$ in thousands):

### Placed In Service

Name	Market	Building Type (1)	Month Placed in Service	Number of Properties	Rentable Square Feet	Initial Cost (2)
Newpoint Place III	Atlanta	O	Feb-99	1	84,000	\$3,358
Chastain Place II	Atlanta	O	Mar-99	1	64,000	2,773
Chastain Place III	Atlanta	O	Mar-99	1	58,000	2,253
Highwoods Center I at Tradeport	Atlanta	O	Apr-99	1	46,000	3,603
Airpark South Warehouse VI	Piedmont Triad	I	Apr-99	1	189,000	7,714
Bluegrass Lakes I	Atlanta	I	Jun-99	1	112,000	4,883
Capital One Building 1	Richmond	O	Jun-99	1	126,000	12,387
Eastshore II	Richmond	O	Jun-99	1	77,000	7,701
Highwoods Common	Richmond	O	Jun-99	1	49,000	4,916
Ridgefield III	Asheville	O	Jul-99	1	57,000	5,642
Tradeport I	Atlanta	I	Jul-99	1	87,000	3,323
Tradeport II	Atlanta	I	Jul-99	1	87,000	4,110
Capital One Building II	Richmond	O	Jul-99	1	44,000	4,569
Patewood VI	Greenville	O	Aug-99	1	107,000	12,675
Air Park South Warehouse II	Piedmont Triad	I	Aug-99	1	136,000	3,315
CNA Maitland III	Orlando	O	Aug-99	1	79,000	9,874
Cool Springs I	Nashville	O	Sep-99	1	153,000	16,361
Highwoods Centre	Research Triangle	O	Sep-99	1	76,000	8,789
Situs II	Research Triangle	O	Sep-99	1	59,000	6,826
Capital One Building 3	Richmond	O	Oct-99	1	126,000	13,230
Highwoods Centre	Hampton Roads	O	Nov-99	1	103,000	9,501
Overlook	Research Triangle	O	Nov-99	1	97,000	11,257
Concourse Center One	Piedmont Triad	O	Dec-99	1	86,000	9,078
Red Oak	Research Triangle	O	Dec-99	1	65,000	6,740
Total				24	2,167,000	\$174,878
				==	=====	=====

(1) O = Office I = Industrial

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



We had 33 suburban office properties, six industrial properties and two retail properties under development totaling 4.8 million rentable square feet of office and industrial space at December 31, 1999. The following table summarizes these development projects as of December 31, 1999:

### IN-PROCESS

Name	Market	Rentable Square Feet	Estimated Cost	Cost at 12/31/99	Pre-Leasing Percentage (1)	Estimated Completion	Estimated Stabilization (2)
-----							
(\$ in thousands)							
-----							
Office:							
Caterpillar Financial Center	Nashville	313,000	\$ 54,000	\$ 38,938	100%	1Q00	1Q00
Eastshore I	Richmond	68,000	7,535	6,335	100	1Q00	1Q00
Eastshore III	Richmond	80,000	8,580	8,613	100	1Q00	1Q00
Intermedia Building 1	Tampa	200,000	27,040	21,170	100	1Q00	1Q00
Intermedia Building 2	Tampa	30,000	4,056	376	100	1Q00	1Q00
Intermedia Building 3	Tampa	170,000	22,984	18,500	100	1Q00	1Q00
Genus	Orlando	30,000	3,307	--	100	3Q00	3Q00
iXL	Richmond	57,000	6,875	--	100	3Q00	3Q00
Intermedia Building 4	Tampa	200,000	29,219	5,158	100	3Q00	3Q00
Valencia Place	Kansas City	241,000	34,850	30,734	80	1Q00	4Q00
ECPI Build-to-suit	Piedmont Triad	30,000	3,020	843	100	3Q00	4Q00
Intermedia Building 5	Tampa	200,000	29,219	2,562	100	3Q01	3Q01
Capital Plaza	Orlando	303,000	53,000	34,027	40	1Q00	4Q01
Highwoods Tower II	Research Triangle	167,000	25,134	1,495	72	1Q01	2Q02
-----							
In-Process							
Office Total							
or Weighted Average		2,089,000	\$308,819	\$168,751	87%		
=====							
Industrial:							
ALO	Piedmont Triad	27,000	\$ 1,055	\$ 287	100%	2Q00	2Q00
Bluegrass Valley I	Atlanta	135,000	5,664	2,829	100	3Q00	4Q00
-----							
In-Process Industrial							
Total or Weighted							
Average		162,000	\$ 6,719	\$ 3,116	100%		
=====							
Retail:							
Valencia Place	Kansas City	81,000	\$ 16,650	\$ 10,245	83%	1Q00	4Q00
-----							
In-Process Retail Total							
or Weighted Average		81,000	\$ 16,650	\$ 10,245	83%		
=====							
Total or Weighted							
Average of all							
In-Process							
Development							
Projects		2,332,000	\$332,188	\$182,112	88%		
=====							

(1) Includes the effect of letters of intent.

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

# COMPLETED-NOT STABILIZED

Name	Market	Rentable Square Feet	Estimated Cost	Cost at 12/31/99
-----				
(\$ in thousands)				
Office:				
Deerfield I	Atlanta	50,000	\$ 4,382	\$ 3,895
Parkway Plaza 12	Charlotte	22,000	1,800	1,652
Lakefront Plaza I	Hampton Roads	77,000	7,477	7,718
Southwind Building D	Memphis	64,000	6,800	7,122
Westwood South	Nashville	125,000	13,530	13,329
3737 Glenwood Ave.	Research Triangle	108,000	16,700	16,529
10 Glenlake South	Atlanta	259,000	35,100	36,732
Deerfield II	Atlanta	67,000	6,994	4,578
Highwoods Center II @ Tradeport	Atlanta	54,000	4,825	4,316
Parkway Plaza 11	Charlotte	32,000	2,600	2,511
Parkway Plaza 14	Charlotte	90,000	7,690	6,829
Belfort Park C1	Jacksonville	50,000	4,830	1,996
Belfort Park C2	Jacksonville	36,000	2,730	2,434
4101 Research Commons	Research Triangle	73,000	9,311	8,437
Stony Point II	Richmond	136,000	13,881	12,794
HIW Center @ Peachtree Corners	Atlanta	109,000	9,238	5,881
Mallard Creek V	Charlotte	118,000	12,262	10,488
Lakeview Ridge III	Nashville	131,000	13,100	10,989
Lakpoint II	Tampa	225,000	34,106	22,960
-----				
Completed-Not Stabilized				
Office Total or Weighted Average		1,826,000	\$207,356	\$181,190
		=====	=====	=====
Industrial:				
Air Park South Warehouse III	Piedmont Triad	120,000	\$ 3,626	\$ 2,894
Air Park South Warehouse IV	Piedmont Triad	86,000	2,750	2,679
HIW Distribution Center	Richmond	166,000	6,487	6,328
Newpoint II	Atlanta	131,000	5,167	4,825
-----				
Completed-Not Stabilized				
Industrial Total or Weighted Average		503,000	\$ 18,030	\$ 16,726
		=====	=====	=====
Retail:				
Seville Square	Kansas City	99,000	\$ 21,000	\$ 20,791
-----				
Completed-Not Stabilized				
Retail Total or Weighted Average		99,000	\$ 21,000	\$ 20,791
		=====	=====	=====
Total or Weighted Average of all Completed-Not Stabilized Development Projects				
		2,428,000	\$246,386	\$218,707
		=====	=====	=====
Total or Weighted Average of all Development Projects				
		4,760,000	\$578,574	\$400,819
		=====	=====	=====

Name	Percent leased/ Pre-leased (1)	Estimated Completion	Estimated Stabilization (2)
-----			
Office:			
Deerfield I	100%	3Q99	1Q00
Parkway Plaza 12	95	1Q99	1Q00
Lakefront Plaza I	96	2Q99	1Q00
Southwind Building D	97	2Q99	1Q00
Westwood South	94	3Q99	1Q00
3737 Glenwood Ave.	92	3Q99	1Q00
10 Glenlake South	90	1Q99	2Q00
Deerfield II	--	3Q99	2Q00
Highwoods Center II @ Tradeport	56	3Q99	2Q00
Parkway Plaza 11	64	1Q99	2Q00
Parkway Plaza 14	57	2Q99	2Q00

Belfort Park C1	28	3Q99	2Q00
Belfort Park C2	38	3Q99	2Q00
4101 Research Commons	66	3Q99	2Q00
Stony Point II	78	2Q99	2Q00
HIW Center @ Peachtree Corners	59	3Q99	3Q00
Mallard Creek V	49	4Q99	4Q00
Lakeview Ridge III	60	2Q99	4Q00
Lakpoint II	75	4Q99	4Q00
	---		
Completed-Not Stabilized Office Total or Weighted Average	72%		
	===		
Industrial:			
Air Park South Warehouse III	100%	4Q99	1Q00
Air Park South Warehouse IV	100	4Q99	1Q00
HIW Distribution Center	82	1Q99	2Q00
Newpoint II	33	3Q99	2Q00
	---		
Completed-Not Stabilized Industrial Total or Weighted Average	77%		
	===		
Retail:			
Seville Square	97%	2Q99	3Q00
	---		
Completed-Not Stabilized Retail Total or Weighted Average	97%		
	===		
Total or Weighted Average of all Completed-Not Stabilized Development Projects	74%		
	===		
Total or Weighted Average of all Development Projects	81%		
	===		

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(1) Includes the effect of letters of intent.

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

## DEVELOPMENT ANALYSIS

	Rentable Square Feet	Estimated Cost	Pre-Leasing Percentage (1)
	(\$ in thousands)		
SUMMARY BY ESTIMATED STABILIZATION DATE			
First Quarter 2000	1,436,000	\$173,783	99%
Second Quarter 2000	1,121,000	100,670	65
Third Quarter 2000	495,000	69,639	90
Fourth Quarter 2000	961,000	119,652	76
Third Quarter 2001	200,000	29,219	100
Fourth Quarter 2001	303,000	53,000	40
Second Quarter 2002	167,000	25,134	72
Held for Sale	77,000	7,477	96
	-----	-----	---
Total or Weighted Average	4,760,000	\$578,574	81%
	=====	=====	===
SUMMARY BY MARKET:			
Atlanta	805,000	\$ 71,370	69%
Charlotte	262,000	24,352	57
Jacksonville	86,000	7,560	32
Kansas City	421,000	72,500	85
Memphis	64,000	6,800	97
Nashville	569,000	80,630	89
Orlando	333,000	56,307	45
Piedmont Triad	263,000	10,451	100
Research Triangle	348,000	51,145	77
Richmond	507,000	43,358	88
Tampa	1,025,000	146,624	95
Held for Sale	77,000	7,477	96
	-----	-----	---
Total or Weighted Average	4,760,000	\$578,574	81%
	=====	=====	===
Build-to-Suit	1,092,000	\$142,890	100%
Multi-tenant	3,591,000	428,207	74
Held for Sale	77,000	7,477	96
	-----	-----	---
Total or Weighted Average	4,760,000	\$578,574	81%
	=====	=====	===

	Average Rentable Square Feet	Average Estimated Cost	Average Pre-Leasing (1)
	-----	-----	-----
		(\$ in thousands)	
AVERAGE PER PROPERTY TYPE:			
Office	119,938	\$15,897	79%
Industrial	110,833	4,125	82
Retail	90,000	18,825	91
Held for Sale	77,000	7,477	96
	-----	-----	--
Weighted Average	116,098	\$14,112	81%
	=====	=====	==

(1) Includes the effect of letters of intent.

### COMPETITION

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

### EMPLOYEES

As of December 31, 1999, the Company employed 536 persons, as compared to 691 at December 31, 1998.

## ITEM 2. PROPERTIES

### General

As of December 31, 1999, we owned or had a majority interest in 563 in-service office, industrial and retail properties, encompassing approximately 39.0 million rentable square feet and 1,885 apartment units. The following table sets forth certain information about our majority-owned in-service properties at December 31, 1999 in each of our 17 markets:

	Rentable Square Feet (1)	Occupancy (2)	Percentage of December 1999 Rental Revenue				Total
			Office	Industrial	Retail	Multi-Family	
Piedmont Triad .....	8,691,000	93%	6.4%	4.7%	--	--	11.1%
Atlanta .....	6,003,000	94	9.4	2.9	--	--	12.3
Research Triangle .....	4,871,000	94	14.4	0.4	--	--	14.8
Tampa .....	3,360,000	97	11.1	0.3	--	--	11.4
Kansas City .....	3,014,000	94	3.6	0.4	5.7%	3.6%	13.3
Nashville .....	2,419,000	90	7.0	0.7	--	--	7.7
Richmond .....	2,127,000	98	5.6	0.2	--	--	5.8
Charlotte .....	1,893,000	92	3.6	0.6	--	--	4.2
Orlando .....	1,713,000	95	5.4	--	--	--	5.4
Jacksonville .....	1,488,000	87	3.7	--	--	--	3.7
Greenville .....	1,220,000	94	3.1	0.2	--	--	3.3
Memphis .....	779,000	99	3.1	--	--	--	3.1
Columbia .....	426,000	81	1.1	--	--	--	1.1
Tallahassee .....	413,000	98	1.4	--	--	--	1.4
Hampton Roads .....	279,000	84	0.4	0.2	--	--	0.6
Asheville .....	180,000	88	0.3	0.1	--	--	0.4
Other .....	100,000	93	0.4	--	--	--	0.4
Total .....	38,976,000	94%	80.0%	10.7%	5.7%	3.6%	100.0%
	=====	==	====	====	===	===	=====

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

(2) Excludes Kansas City's apartment occupancy percentage of 96%.

The following table sets forth certain information about the portfolio of our majority-owned in-service and development properties as of December 31, 1999 and 1998:

	December 31, 1999		December 31, 1998	
	Rentable Square Feet	Percent Leased/ Pre-Leased	Rentable Square Feet	Percent Leased/ Pre-leased
In-Service				
Office .....	26,072,000	94%	31,110,000	94%
Industrial .....	11,325,000	94	11,871,000	93
Retail .....	1,579,000	94	1,661,000	92
	-----	---	-----	---
Total or Weighted Average .....	38,976,000	94%	44,642,000	94%
	=====	==	=====	==
Development				
Completed -- Not Stabilized				
Office .....	1,826,000	72%	1,196,000	77%
Industrial .....	503,000	77	461,000	89
Retail .....	99,000	97	--	--
	-----	---	-----	---
Total or Weighted Average .....	2,428,000	74%	1,657,000	80%
	=====	==	=====	==
In Process				
Office .....	2,089,000	87%	4,389,000	63%
Industrial .....	162,000	100	652,000	66
Retail .....	81,000	83	200,000	65
	-----	---	-----	---
Total or Weighted Average .....	2,332,000	88%	5,241,000	64%
	=====	===	=====	==
Total				
Office .....	29,987,000		36,695,000	
Industrial .....	11,990,000		12,984,000	
Retail .....	1,759,000		1,861,000	
	-----		-----	
Total .....	43,736,000		51,540,000	
	=====		=====	

## TENANTS

The following table sets forth information concerning the 20 largest tenants of our majority-owned in-service properties as of December 31, 1999:

Tenant	Number of Leases	Annualized Rental Revenue (1)	Percent of Total Annualized Rental Revenue
		(\$ in thousands)	
AT&T .....	9	\$ 13,323	2.7%
Federal Government .....	63	13,249	2.7
Bell South .....	52	10,261	2.1
IBM .....	11	8,757	1.8
Capital One Services .....	5	7,009	1.4
US Airways .....	8	6,518	1.3
PricewaterhouseCoopers .....	8	5,719	1.2
Nortel Networks .....	3	5,192	1.1
Sara Lee .....	9	4,584	0.9
Sprint .....	13	4,212	0.9
Intermedia Communications .....	17	4,198	0.9
State of Florida .....	7	4,150	0.9
Lockheed Martin .....	4	3,482	0.7
Prudential .....	14	3,115	0.6
International Paper .....	9	2,704	0.6
MCI Worldcom .....	22	2,674	0.5
Bank of America .....	16	2,378	0.5
IKON Office Solutions .....	8	2,328	0.5
GTE .....	7	2,313	0.5
General Electric .....	12	2,301	0.5
	---	-----	----
Total .....	297	\$108,467	22.3%
	===	=====	=====

(1) Annualized Rental Revenue is December 1999 rental revenue (base rent plus operating expense pass-throughs) multiplied by 12.

The following tables set forth certain information about leasing activities at our majority-owned in-service properties (excluding apartment units) for the years ended December 31, 1999, 1998 and 1997.

	1999		
	Office	Industrial	Retail
Net Effective Rents Related to Re-Leased Space:			
Number of lease transactions (signed leases) .....	1,051	249	101
Rentable square footage leased .....	5,086,408	2,786,017	378,304
Average per rentable square foot over the lease term:			
Base rent .....	\$ 15.58	\$ 5.35	\$ 17.24
Tenant improvements .....	( .82)	( .28)	( 1.02)
Leasing commissions .....	( .39)	( .13)	( .44)
Rent concessions .....	( .03)	( .01)	( .01)
Effective rent .....	\$ 14.34	\$ 4.93	\$ 15.77
Expense stop (1) .....	( 4.19)	( .28)	( .07)
Equivalent effective net rent .....	\$ 10.15	\$ 4.65	\$ 15.70
Average term in years .....	5	4	6
Rental Rate Trends:			
Average final rate with expense pass-throughs .....	\$ 15.13	\$ 5.05	\$ 12.21
Average first year cash rental rate .....	\$ 15.68	\$ 5.24	\$ 16.28
Percentage increase .....	3.64%	3.76%	33.33%
Capital Expenditures Related to Re-leased Space:			
Tenant Improvements:			
Total dollars committed under signed leases .....	\$21,748,441	\$3,621,621	\$4,589,543
Rentable square feet .....	5,086,408	2,786,017	378,304
Per rentable square foot .....	\$ 4.28	\$ 1.30	\$ 12.13
Leasing Commissions:			
Total dollars committed under signed leases .....	\$ 8,990,333	\$1,336,828	\$1,069,227
Rentable square feet .....	5,086,408	2,786,017	378,304
Per rentable square foot .....	\$ 1.77	\$ .48	\$ 2.83
Total:			
Total dollars committed under signed leases .....	\$30,738,774	\$4,958,449	\$5,658,770
Rentable square feet .....	5,086,408	2,786,017	378,304
Per rentable square foot .....	\$ 6.04	\$ 1.78	\$ 14.96

	1998			1997	
	Office	Industrial	Retail	Office	Industrial
Net Effective Rents Related to Re-Leased Space:					
Number of lease transactions (signed leases) .....	1,042	207	26	520	241
Rentable square footage leased .....	5,004,005	1,400,108	66,964	2,531,393	1,958,539
Average per rentable square foot over the lease term:					
Base rent .....	\$ 16.00	\$ 5.81	\$ 14.81	\$ 16.04	\$ 5.37
Tenant improvements .....	( 0.81)	( 0.26)	( 0.82)	( 1.06)	( 0.22)

Leasing commissions .....	( 0.35)	(0.12)	( 0.58)	( 0.39)	(0.13)
Rent concessions .....	( 0.03)	--	( 0.26)	( 0.01)	(0.01)
Effective rent .....	\$ 14.81	\$ 5.43	\$ 13.15	\$ 14.58	\$ 5.01
Expense stop (1) .....	( 4.25)	(0.37)	( 0.84)	( 3.53)	(0.23)
Equivalent effective net rent .....	\$ 10.56	\$ 5.06	\$ 12.31	\$ 11.05	\$ 4.78
Average term in years .....	5	3	6	4	3
Rental Rate Trends:					
Average final rate with expense pass-throughs .....	\$ 14.12	\$ 5.39	\$ 10.35	\$ 13.78	\$ 5.08
Average first year cash rental rate .....	\$ 15.12	\$ 5.58	\$ 12.41	\$ 14.76	\$ 5.37
Percentage increase .....	7.08%	3.53%	19.9 %	7.11%	5.71%
Capital Expenditures Related to Re-leased Space:					
Tenant Improvements:					
Total dollars committed under signed leases .....	\$19,144,349	\$1,226,526	\$340,620	\$11,443,099	\$1,421,203
Rentable square feet .....	5,004,005	1,400,108	66,964	2,531,393	1,958,539
Per rentable square foot .....	\$ 3.83	\$ 0.88	\$ 5.09	\$ 4.52	\$ 0.73
Leasing Commissions:					
Total dollars committed under signed leases .....	\$ 8,348,495	\$ 558,840	\$222,315	\$ 4,247,280	\$ 890,280
Rentable square feet .....	5,004,005	1,400,108	66,964	2,531,393	1,958,539
Per rentable square foot .....	\$ 1.67	\$ 0.40	\$ 3.32	\$ 1.68	\$ 0.45
Total:					
Total dollars committed under signed leases .....	\$27,492,844	\$1,785,367	\$562,935	\$15,690,379	\$2,311,483
Rentable square feet .....	5,004,005	1,400,108	66,964	2,531,393	1,958,539
Per rentable square foot .....	\$ 5.49	\$ 1.28	\$ 8.41	\$ 6.20	\$ 1.18

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



The following tables set forth scheduled lease expirations for executed leases at our majority-owned in-service properties (excluding apartment units) as of December 31, 1999, assuming no tenant exercises renewal options.

**Office Properties:**

Lease Expiring	Number of Leases Expiring	Rentable Square Feet Subject to Expiring Leases	Percentage of Leased Square Footage Represented by Expiring Leases	Annual Rents Under Expiring Leases (1)	Average Annual Rental Rate Per Square Foot for Expirations (1)	Percentage of Leased Rents Represented by Expiring Leases
				(in thousands)		
2000	898	3,439,598	13.8%	\$ 56,400	\$ 16.40	14.1%
2001	598	3,665,100	14.8	59,636	16.27	14.9
2002	657	3,834,351	15.5	62,252	16.24	15.6
2003	456	3,775,629	15.2	61,296	16.23	15.3
2004	374	2,726,830	11.0	44,668	16.38	11.2
2005	113	1,456,658	5.9	23,138	15.88	5.8
2006	64	1,647,918	6.6	27,106	16.45	6.8
2007	29	773,551	3.1	12,624	16.32	3.2
2008	53	1,540,816	6.2	21,702	14.08	5.4
2009	22	976,289	3.9	15,750	16.13	3.9
Thereafter	88	1,000,782	4.0	15,274	15.26	3.8
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	3,352	24,837,522	100.0%	\$399,846	\$ 16.10	100.0%
	=====	=====	=====	=====	=====	=====

**Industrial Properties:**

Lease Expiring	Number of Leases Expiring	Rentable Square Feet Subject to Expiring Leases	Percentage of Leased Square Footage Represented by Expiring Leases	Annual Rents Under Expiring Leases (1)	Average Annual Rental Rate Per Square Foot for Expirations (1)	Percentage of Leased Rents Represented by Expiring Leases
				(in thousands)		
2000	228	2,537,554	23.1%	\$11,734	\$ 4.62	20.2%
2001	149	1,771,632	16.1	8,643	4.88	14.9
2002	138	1,778,493	16.2	8,035	4.52	13.8
2003	58	787,214	7.2	4,429	5.63	7.6
2004	75	2,310,262	21.0	12,116	5.24	20.8
2005	17	323,313	2.9	2,402	7.43	4.1
2006	14	459,385	4.2	3,291	7.16	5.7
2007	7	189,148	1.7	1,264	6.68	2.2
2008	6	247,737	2.3	2,006	8.10	3.5
2009	12	422,377	3.8	3,638	8.61	6.3
Thereafter	10	159,727	1.5	540	3.38	0.9
	---	-----	-----	-----	-----	-----
	714	10,986,842	100.0%	\$58,098	\$ 5.29	100.0%
	===	=====	=====	=====	=====	=====

(1) Annual Rents Under Expiring Leases are December 1999 rental revenue (base rent plus operating expense pass-throughs) multiplied by 12.

**Retail Properties:**

Lease Expiring	Number of Leases Expiring	Rentable Square Feet Subject to Expiring Leases	Percentage of Leased Square Footage Represented by Expiring Leases	Annual Rents Under Expiring Leases (1)	Average Annual Rental Rate Per Square Foot for Expirations (1)	Percentage of Leased Rents Represented by Expiring Leases
				(in thousands)		
2000	97	228,767	14.5%	\$ 3,757	\$ 16.42	12.6%
2001	53	130,267	8.3	3,175	24.37	10.7
2002	50	145,077	9.2	2,459	16.95	8.3
2003	46	118,582	7.5	2,531	21.34	8.5
2004	33	209,764	13.3	2,315	11.04	7.8
2005	16	52,135	3.3	1,496	28.69	5.0
2006	21	71,533	4.5	1,628	22.76	5.5
2007	10	52,542	3.3	949	18.06	3.2
2008	15	107,595	6.8	3,413	31.72	11.5
2009	21	141,808	9.0	2,713	19.13	9.1
Thereafter	17	318,489	20.3	5,302	16.65	17.8
	--	-----	-----	-----	-----	-----
	379	1,576,559	100.0%	\$29,738	\$ 18.86	100.0%
	===	=====	=====	=====	=====	=====

**Total:**

Lease Expiring	Number of Leases Expiring	Rentable Square Feet Subject to Expiring Leases	Percentage of Leased Square Footage Represented by Expiring Leases	Annual Rents Under Expiring Leases (1)	Average Annual Rental Rate Per Square Foot for Expirations(1)	Percentage of Leased Rents Represented by Expiring Leases
				(in thousands)		
2000	1,223	6,205,919	16.6%	\$ 71,891	\$ 11.58	14.7%
2001	800	5,566,999	14.9	71,454	12.84	14.7
2002	845	5,757,921	15.4	72,746	12.63	15.0
2003	560	4,681,425	12.5	68,256	14.58	14.0
2004	482	5,246,856	14.0	59,099	11.26	12.1
2005	146	1,832,106	4.9	27,036	14.76	5.5
2006	99	2,178,836	5.8	32,025	14.70	6.6
2007	46	1,015,241	2.7	14,837	14.61	3.0
2008	74	1,896,148	5.1	27,121	14.30	5.6
2009	55	1,540,474	4.1	22,101	14.35	4.5
Thereafter	115	1,478,998	4.0	21,116	14.28	4.3
	-----	-----	-----	-----	-----	-----
	4,445	37,400,923	100.0%	\$487,682	\$ 13.04	100.0%
	=====	=====	=====	=====	=====	=====

(1) Annual Rents Under Expiring Leases are December 1999 rental revenue (base rent plus operating expense pass-throughs) multiplied by 12.

## **DEVELOPMENT LAND**

As of December 31, 1999, we owned 1,473 acres and had committed to purchase over the next three years an additional 317 acres of land for development. We estimate that we can develop approximately 12.6 million square feet of office, industrial and retail space on the development land.

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

## **ITEM 3. LEGAL PROCEEDINGS**

On October 2, 1998, John Flake, a former stockholder of J.C. Nichols, filed a putative class action lawsuit on behalf of himself and the other former stockholders of J.C. Nichols in the United States District Court for the District of Kansas against J.C. Nichols, certain of its former officers and directors and the Company. The complaint alleges, among other things, that in connection with the merger of J.C. Nichols and the Company (1) J.C. Nichols and the named directors and officers of J.C. Nichols breached their fiduciary duties to J.C. Nichols' stockholders, (2) J.C. Nichols and the named directors and officers of J.C. Nichols breached their fiduciary duties to members of the J.C. Nichols Company Employee Stock Ownership Trust, (3) all defendants participated in the dissemination of a proxy statement containing materially false and misleading statements and omissions of material facts in violation of Section 14(a) of the Securities Exchange Act of 1934 and (4) the Company filed a registration statement with the SEC containing materially false and misleading statements and omissions of material facts in violation of Sections 11 and 12(2) of the Securities Act of 1933. The plaintiff seeks equitable relief and monetary damages. We believe that the defendants have meritorious defenses to the plaintiffs' allegations and intend to vigorously defend this litigation. By order dated June 18, 1999, the court granted in part and denied in part our motion to dismiss. The court has granted the plaintiff's motion seeking certification of the proposed class of plaintiffs with respect to the remaining claims. Discovery in the matter is proceeding. Due to the inherent uncertainties of the litigation process and the judicial system, we are not able to predict the outcome of this litigation. If this litigation is not resolved in our favor, it could have a material adverse effect on our business, financial condition and results of operations.

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

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

None.

## ITEM X. EXECUTIVE OFFICERS OF THE REGISTRANT

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

Name	Age	Position and Background
Ronald P. Gibson	55	Director, President and Chief Executive Officer. Mr. Gibson is one of our founders and has served as President or managing partner of our predecessor since its formation in 1978.
John L. Turner	53	Director, Vice Chairman of the Board of Directors and Chief Investment Officer. Mr. Turner co-founded the predecessor of Forsyth Properties in 1975.
Edward J. Fritsch	41	Executive Vice President, Chief Operating Officer and Secretary. Mr. Fritsch joined us in 1982.
Gene H. Anderson	54	Director and Senior Vice President. Mr. Anderson manages the operations of our Georgia properties. Mr. Anderson was the founder and president of Anderson Properties, Inc. prior to its merger with the Company.
Michael E. Harris	50	Senior Vice President. Mr. Harris is responsible for our operations in Tennessee, Missouri, Kansas and Maryland. Mr. Harris was executive vice president of Crocker Realty Trust prior to its merger with the Company. Before joining Crocker Realty Trust, Mr. Harris served as senior vice president, general counsel and chief financial officer of Towermarc Corporation, a privately owned real estate development firm.
Marcus H. Jackson	43	Senior Vice President. Mr. Jackson is responsible for our operations in Virginia and the Research Triangle, Greensboro and Winston Salem divisions of North Carolina. Prior to joining us in 1998, Mr. Jackson was senior vice president of Compass Development and Construction Services.
Dale R. Johannes	49	Senior Vice President. Mr. Johannes is responsible for our operations in Florida. From 1990 to 1997, Mr. Johannes served as chief operating officer of Associated Capital Properties, Inc.
Carman J. Liuzzo	39	Vice President, Chief Financial Officer and Treasurer. Prior to joining us in 1994, Mr. Liuzzo was vice president and chief accounting officer for Boddie-Noell Enterprises, Inc. and Boddie-Noell Restaurant Properties, Inc. Mr. Liuzzo is a certified public accountant.
Mack D. Pridgen III	50	Vice President and General Counsel. Prior to joining us in 1997, Mr. Pridgen was a partner with Smith Helms Mulliss & Moore, L.L.P.

## PART II

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

#### Market Information and Dividends

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

Quarter Ended:	1999			1998		
	High	Low	Distribution	High	Low	Distribution
March 31 .....	\$25.69	\$ 22.25	\$ .54	\$ 37.44	\$ 32.25	\$ 0.51
June 30 .....	27.69	22.75	.54	35.31	30.69	0.51
September 30 .....	26.88	22.25	.555	32.93	23.00	0.54
December 31 .....	25.63	20.25	.555	28.81	24.06	0.54

On March 20, 2000, the last reported sale price of the Common Stock on the NYSE was \$21.00 per share and the Company had 1,359 stockholders of record.

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

During 1999, the Company's distributions totaled \$134,341,000, none of which represented return of capital for financial statement purposes. The minimum distribution per share of Common Stock required to maintain REIT status was approximately \$2.46 per share in 1999, \$1.62 per share in 1998, \$1.56 per share in 1997 and \$1.44 per share in 1996.

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

In August 1997, the Company instituted an Employee Stock Purchase Plan for all active employees. At the end of each three-month offering period, each participant's account balance is applied to acquire shares of Common Stock at 90% of the market value of the Common Stock, calculated as the lower of the average closing price on the NYSE on the five consecutive days preceding the first day of the quarter or the five days preceding the last day of the quarter. A participant may not invest more than \$7,500 per quarter. During 1999, employees purchased 29,214 shares of Common Stock under the Employee Stock Purchase Plan.

#### SALES OF UNREGISTERED SECURITIES

During 1999, the Company issued an aggregate of 1,192,617 shares of Common Stock in private offerings exempt from the registration requirements pursuant to Section 4(2) of the Securities Act. Substantially all of these shares were issued to holders of Common Units upon the redemption of such Common Units. Each of these purchasers is an accredited investor under Rule 501 of the Securities Act. The Company has registered the resale of such shares under the Securities Act.

## ITEM 6. SELECTED FINANCIAL DATA

The following table sets forth selected financial and operating information for the Company as of December 31, 1999, 1998, 1997, 1996 and 1995 and for the years ended December 31, 1999, 1998, 1997, 1996 and 1995 (\$ in thousands, except per share amounts):

	Year Ended December 31, 1999	Year Ended December 31, 1998	Year Ended December 31, 1997	Year Ended December 31, 1996	Year Ended December 31, 1995
Operating Data:					
Total revenue .....	\$ 584,935	\$ 512,471	\$ 274,470	\$ 137,926	\$ 73,522
Rental property operating expenses (1) .....	174,075	154,323	76,743	35,313	17,049
General and administrative .....	22,345	20,776	10,216	5,666	2,737
Interest expense .....	117,134	97,011	47,394	26,610	13,720
Depreciation and amortization .....	112,347	91,705	47,533	22,095	11,082
Income before cost of unsuccessful transactions, gain on disposition of assets, minority interest and extraordinary item .....	159,034	148,656	92,584	48,242	28,934
Cost of unsuccessful transactions .....	(1,500)	--	--	--	--
Gain on disposition of assets .....	8,679	1,716	--	--	--
Income before minority interest and extraordinary item .....	166,213	150,372	92,584	48,242	28,934
Minority interest .....	(20,779)	(24,335)	(15,106)	(6,782)	(4,937)
Income before extraordinary item .....	145,434	126,037	77,478	41,460	23,997
Extraordinary item-loss on early extinguishment of debt .....	(7,341)	(387)	(5,799)	(2,140)	(875)
Net income .....	138,093	125,650	71,679	39,320	23,122
Dividends on preferred stock .....	(32,580)	(30,092)	(13,117)	--	--
Net income available for common shareholders .....	\$ 105,513	\$ 95,558	\$ 58,562	\$ 39,320	\$ 23,122
Net income per common share -- basic .....	\$ 1.72	\$ 1.74	\$ 1.51	\$ 1.51	\$ 1.49
Net income per common share -- diluted .....	\$ 1.71	\$ 1.74	\$ 1.50	\$ 1.50	\$ 1.48
Balance Sheet Data (at end of period):					
Net real estate assets .....	\$3,673,338	\$3,924,192	\$2,614,654	\$1,377,874	\$ 593,066
Total assets .....	4,016,197	4,314,333	2,722,306	1,443,440	621,134
Total mortgages and notes payable .....	1,766,177	2,008,716	978,558	555,876	182,736
Other Data:					
Number of in-service properties .....	563	658	481	292	191
Total rentable square feet .....	38,976,000	44,642,000	30,721,000	17,455,000	9,215,000

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

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

### Overview and Background

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

In February 1995, we expanded into other North Carolina markets and diversified our portfolio to include industrial and service center properties with our \$170.0 million, 57-property business combination with Forsyth Partners. During 1995, we acquired an aggregate of 144 properties, encompassing 6.4 million rentable square feet, at an initial cost of \$369.9 million.

In September 1996, we acquired 5.7 million rentable square feet of office and service center space through our \$566.0 million merger with Crocker Realty Trust, Inc. During 1996, we acquired an aggregate of 91 properties, encompassing 7.3 million square feet, at an initial cost of \$704.0 million.

In October 1997, we acquired 6.4 million rentable square feet of office space through our \$617.0 million merger with Associated Capital Properties, Inc. During 1997, we acquired an aggregate of 176 properties, encompassing 12.8 million rentable square feet, at an initial cost of \$1.1 billion.

In July 1998, we acquired 5.7 million rentable square feet of office, industrial and retail space as well as multi-family communities through our \$544.0 million merger with J.C. Nichols Company. During 1998, we acquired an aggregate of 186 properties, encompassing 14.9 million rentable square feet and 2,325 apartment units, at an initial cost of \$1.2 billion.

During 1999, in an effort to increase portfolio quality and return on invested capital, we sold 123 properties, encompassing 8.3 million rentable square feet for an aggregate sales price of \$696.4 million and contributed or sold to joint ventures 13 properties, encompassing 1.2 million rentable square feet for a sales price of \$142.0 million. In addition, we acquired seven properties, encompassing 960,000 rentable square feet at an initial cost of \$106.8 million.

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

### RESULTS OF OPERATIONS

Comparison of 1999 to 1998. Revenues from rental operations increased \$66.5 million, or 13.4%, from \$498.0 million for the year ended December 31, 1998 to \$564.5 million for the year ended December 31, 1999. The increase is primarily a result of our acquisition and development activity in 1998 and 1999. In total, we acquired or completed the development of 3.1 million rentable square feet of majority-owned office, industrial and retail properties during 1999. These additions to our portfolio were offset by the disposition of 8.8 million rentable square feet of majority-owned office, industrial and retail properties and 418 apartment units (including the removal of certain properties from our consolidated financial statements as a result of the reorganization of the Des Moines partnerships) in 1999. Same property revenues, which are the revenues of the 403 in-service properties owned on January 1, 1998, increased 3% for the year ended December 31, 1999 compared to the year ended December 31, 1998.

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

Interest and other income increased \$5.3 million, or 38%, from \$14.0 million for the year ended December 31, 1998 to \$19.3 million for the year ended December 31, 1999. The increase was a result of higher cash balances during the year ended December 31, 1999 and additional income generated from management fees, development fees and leasing commissions. The Company generated \$914,425 in auxiliary income (vending and parking) as a result of acquiring multifamily communities in the merger with J.C. Nichols.

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

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

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

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

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

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



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

Depreciation and amortization for the years ended December 31, 1998 and 1997 were \$91.7 million and \$47.5 million, respectively. The increase of \$44.2 million, or 93.1%, is due to an average increase in depreciable assets and deferred leasing costs. Interest expense increased \$49.6 million, or 104.6%, from \$47.4 million in 1997 to \$97.0 million in 1998. The increase is attributable to an average increase in outstanding debt related to our acquisition and development activities. Interest expense for the years ended December 31, 1998 and 1997 included \$2.6 million and \$2.3 million, respectively, of amortization of deferred financing costs and of the costs related to our interest rate hedge contracts. General and administrative expenses increased from 3.7% of total revenue in 1997 to 4.1% in 1998.

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

## **LIQUIDITY AND CAPITAL RESOURCES**

**STATEMENT OF CASH FLOWS.** For the year ended December 31, 1999, the Company generated \$233.0 million in cash flows from operating activities and \$160.0 million from investing activities (primarily as a result of the dispositions of assets, offset in part by additions to real estate assets). These combined cash flows of \$393.0 million were used to fund financing activities of \$390.0 million, primarily consisting of repayments on our \$450 million unsecured revolving loan (the "Revolving Loan") and mortgages and notes payable as well as the payment of distributions during 1999.

**CAPITALIZATION.** The Company's total indebtedness at December 31, 1999 totaled \$1.8 billion and was comprised of \$582.0 million of secured indebtedness with a weighted average interest rate of 7.8% and \$1.2 billion of unsecured indebtedness with a weighted average interest rate of 7.3%. Except as stated below, all of the mortgage and notes payable outstanding at December 31, 1999 were either fixed rate obligations or variable rate obligations covered by interest rate hedge contracts. A portion of our Revolving Loan and approximately \$39.0 million of floating rate notes payable assumed upon consummation of the merger with J.C. Nichols were not covered by interest rate hedge contracts on December 31, 1999.

Based on the Company's total market capitalization of \$3.8 billion at December 31, 1999 (at the December 31, 1999 stock price of \$23.63 and assuming the redemption for shares of Common Stock of the 9.0 million Common Units of minority interest in the Operating Partnership), the Company's debt represented approximately 46% of its total market capitalization.

We completed the following financing activities during 1999:

- o **JUNE 1999 EQUITY SETTLEMENT.** On June 9, 1999, we settled our August 1997 forward equity transaction with UBS AG, London Branch through a combination of cash and shares of Common Stock. In connection with the settlement, 246,424 shares of the Company's common stock were returned and retired.

- o **JULY 1999 DEBT RETIREMENT.** On July 1, 1999, we retired a \$133.0 million 7.88% mortgage note that was secured by 44 of our properties held by AP Southeast Portfolio Partners, L.P., one of our subsidiaries, by using \$138.0 million of availability under our Revolving Loan to repay the principal amount of the mortgage note plus the required yield maintenance premium for early maturity.

o **OCTOBER DEBT BORROWING.** On October 21, 1999, we borrowed \$188.4 million from Monumental Life Insurance Company, an affiliate of AEGON USA Realty Advisors, Inc., pursuant to one \$94.2 million 7.77% mortgage note due 2009 and one \$94.2 million 7.87% mortgage note due 2009, which notes are secured by 28 of our properties. We used the net proceeds from these mortgage loans, together with \$2.1 million that we received from counterparties to settle two treasury lock agreements in September 1999, to repay amounts outstanding under our Revolving Loan.

o **DECEMBER CREDIT FACILITY AMENDMENT.** On December 10, 1999, we and our lenders amended our Revolving Loan to, among other things, reduce the overall borrowing commitment thereunder from \$600 million to \$450 million.

o **DECEMBER SHARE REPURCHASES.** On December 14, 1999, we announced that our board of directors had authorized a share repurchase plan pursuant to which the Company may, at its sole and absolute discretion, repurchase up to 10.0 million shares of Common Stock and Common Units. In December 1999, we used \$25.5 million of net proceeds from our recent disposition activity, either through direct payments or repayment of borrowings under the Revolving Loan, to repurchase 1.2 million shares of Common Stock through periodic open market or privately negotiated transactions at a weighted average price of \$22.15 per share.

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

The following table sets forth information regarding our interest rate hedge contracts as of December 31, 1999 (\$ in thousands):

Type of Hedge	Notional Amount	Maturity Date	Reference Rate	Fixed Rate	Fair Market Value
Swap	\$ 20,505	6/10/02	1-Month LIBOR + 0.75%	7.700%	\$(493)
Collar	80,000	10/15/01	1-Month LIBOR	5.60 - 6.25%	525

We enter into swaps, collars and caps to limit our exposure to an increase in variable interest rates, particularly with respect to amounts outstanding under our Revolving Loan. The interest rate on all of our variable rate debt is adjusted at one- and three-month intervals, subject to settlements under these contracts. We also enter into treasury lock agreements from time to time in order to limit our exposure to an increase in interest rates with respect to future debt offerings. Net payments made to counterparties under interest rate hedge contracts were \$305,000 during 1999 and were recorded as increases to interest expense.

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

**CURRENT AND FUTURE CASH NEEDS.** Historically, rental revenue has been the principal source of funds to pay operating expenses, debt service, stockholder distributions and capital expenditures, excluding nonrecurring capital expenditures. In addition, construction management, maintenance, leasing

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

Our short-term (within the next 12 months) liquidity needs also include, among other things, the funding of approximately \$153.4 million of our existing development activity. See "Business -- Development Activity." We expect to fund our short-term liquidity needs through a combination of:

- o additional borrowings under our Revolving Loan (approximately \$175.0 million was available as of March 20, 2000);

- o the issuance of secured debt;

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

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

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

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

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

## **RECENT DEVELOPMENTS**

**STOCK REPURCHASE.** From January 1, 2000 to March 20, 2000, the Company repurchased 1.2 million shares of Common Stock at a weighted average price of \$21.65 per share unit for an aggregate purchase price of approximately \$25.9 million.

**DISPOSITION ACTIVITY.** We currently have 786,000 rentable square feet of properties under contract for sale in various transactions totaling \$57.8 million. Additionally, 3.2 million rentable square feet

of properties are under various letters of intent for sale at \$293.5 million. These transactions are subject to customary closing conditions, including due diligence and documentation, and are expected to close during the first and second quarters of 2000. However, we can provide no assurance that all or parts of these transactions will be consummated.

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

Section 1031 of the Internal Revenue Code. We expect to reinvest up to \$27.1 million of the remaining net proceeds from disposition activity as of December 31, 1999 and up to \$75.0 million of the net proceeds from pending disposition activity to acquire in tax-deferred exchange transactions in-service properties, development land and development projects located in core markets and in sub-markets where we have a strong presence. For an exchange to qualify for tax-deferred treatment under Section 1031, the net proceeds from the sale of a property must be held by an escrow agent until applied toward the purchase of real estate qualifying for gain deferral. Given the competition for properties meeting our investment criteria, there may be some delay in reinvesting such proceeds. Delays in reinvesting such proceeds will reduce our income from operations. In addition, the use of net proceeds from dispositions to fund development activity, either through direct payments or repayment of borrowings under our Revolving Loan, will reduce our income from operations until such development projects are placed in service.

## **POSSIBLE ENVIRONMENTAL LIABILITIES**

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

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

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

As of the date hereof, we have obtained Phase I environmental assessments (and, in certain instances, Phase II environmental assessments) on substantially all of our in-service properties. These assessments have not revealed, nor are we aware of, any environmental liability at our properties that we believe would materially adversely affect our financial position, operations or liquidity taken as a whole. This projection, however, could be incorrect depending on certain factors. For example, material environmental liabilities may have arisen after the assessments were performed or our assessments may not have revealed all environmental liabilities or may have underestimated the scope and severity of environmental conditions observed. There may also be unknown environmental liabilities at properties for

which we have not obtained a Phase I environmental assessment or have not yet obtained a Phase II environmental assessment. In addition, we base our assumptions regarding environmental conditions, including groundwater flow and the existence and source of contamination, on readily available sampling data. We cannot guarantee that such data is reliable in all cases. Moreover, we cannot provide any assurances (1) that future laws, ordinances or regulations will not impose a material environmental liability or (2) that tenants, the condition of land or operations in the vicinity of our properties or unrelated third parties will not affect the current environmental condition of our properties.

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

## **IMPACT OF RECENTLY ISSUED ACCOUNTING STANDARDS**

In June 1998, the Financial Accounting Standards Board ("FASB") issued Statement No. 133, Accounting for Derivative Instruments and Hedging Activities, which is required to be adopted in fiscal years beginning after June 15, 1999. In June 1999, FASB issued Statement No. 137, Accounting for Derivative Instruments and Hedging Activities -- Deferral of the FASB Statement No. 133, which stipulates the required adoption date to be all fiscal years beginning after June 15, 2000. Statement No. 133 requires us to recognize all derivatives on the balance sheet at fair value. Derivatives that are not hedges must be adjusted to fair value through income. If the derivative is a hedge, depending on the nature of the hedge, changes in the fair value of derivatives will either be offset against the change in fair value of the hedged assets, liabilities or firm commitments through earnings or recognized in other comprehensive income until the hedged item is recognized in earnings. The ineffective portion of a derivative's change in fair value will be immediately recognized in earnings. The fair market value of our derivatives is discussed in Item 7A.

## **COMPLIANCE WITH THE AMERICANS WITH DISABILITIES ACT**

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

## **FUNDS FROM OPERATIONS AND CASH AVAILABLE FOR DISTRIBUTIONS**

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

described below. FFO and cash available for distributions should not be considered as alternatives to net income as an indication of our performance or to cash flows as a measure of liquidity.

FFO equals net income (computed in accordance with generally accepted accounting principles ("GAAP")) excluding gains (or losses) from debt restructuring and sales of property, plus depreciation and amortization, and after adjustments for unconsolidated partnerships and joint ventures. In March 1995, the National Association of Real Estate Investment Trusts ("NAREIT") issued a clarification of the definition of FFO. The clarification provides that amortization of deferred financing costs and depreciation of non-real estate assets are no longer to be added back to net income in arriving at FFO. In October 1999, NAREIT issued an additional clarification effective as of January 1, 2000 stipulating that FFO should include both recurring and non-recurring operating results. Consistent with this clarification, non-recurring items that are not defined as "extraordinary" under GAAP will be reflected in the calculation of FFO. Gains and losses from the sale of depreciable operating property will continue to be excluded from the calculation of FFO.

Cash available for distribution is defined as funds from operations reduced by non-revenue enhancing capital expenditures for building improvements and tenant improvements and lease commissions related to second generation space.

FFO and Cash available for distribution for the years ended December 31, 1999, 1998 and 1997 are summarized in the following table (in thousands):

	Year Ended December 31,		
	1999	1998	1997
FFO:			
Income before minority interest and extraordinary item .....	\$ 166,213	\$ 150,372	\$ 92,584
Add/(Deduct):			
Dividends on preferred stock .....	(32,580)	(30,092)	(13,117)
Cost of unsuccessful transactions .....	1,500	146	--
Severance costs and other division closing expenses .....	1,813	--	--
Gain on disposition of assets .....	(8,679)	(1,716)	--
Depreciation and amortization .....	112,347	91,705	47,533
Depreciation on unconsolidated subsidiaries .....	3,618	974	--
FFO before minority interest .....	244,232	211,389	127,000
Cash Available for Distribution:			
Add/(Deduct):			
Rental income from straight-line rents .....	(14,983)	(13,385)	(7,035)
Amortization of deferred financing costs .....	2,823	2,598	2,256
Non-incremental revenue generating capital expenditures:			
Building improvements paid .....	(10,056)	(9,029)	(4,401)
Second generation tenant improvements paid .....	(25,043)	(20,115)	(9,889)
Second generation lease commissions paid .....	(13,653)	(13,055)	(5,535)
Cash available for distribution .....	\$ 183,320	\$ 158,403	\$ 102,396
Weighted average shares/units outstanding (1) -- diluted .....	70,757	65,621	46,813
Dividend payout ratio:			
FFO .....	64.3%	65.2%	73.0%
Cash available for distribution .....	85.7%	87.0%	90.5%

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

## **INFLATION**

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

## **DISCLOSURE REGARDING FORWARD-LOOKING STATEMENTS**

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

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

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

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

THE EFFECTS OF POTENTIAL CHANGES IN INTEREST RATES ARE DISCUSSED BELOW. OUR MARKET RISK DISCUSSION INCLUDES "FORWARD-LOOKING STATEMENTS" AND REPRESENTS AN ESTIMATE OF POSSIBLE CHANGES IN FAIR VALUE OR FUTURE EARNINGS THAT WOULD OCCUR ASSUMING HYPOTHETICAL FUTURE MOVEMENTS IN INTEREST RATES. THESE DISCLOSURES ARE NOT PRECISE INDICATORS OF EXPECTED FUTURE LOSSES, BUT ONLY INDICATORS OF REASONABLY POSSIBLE LOSSES. AS A RESULT, ACTUAL FUTURE RESULTS MAY DIFFER MATERIALLY FROM THOSE PRESENTED. SEE "MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS -- LIQUIDITY AND CAPITAL RESOURCES" AND THE NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR A DESCRIPTION OF OUR ACCOUNTING POLICIES AND OTHER INFORMATION RELATED TO THESE FINANCIAL INSTRUMENTS.

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

**CERTAIN VARIABLE RATE DEBT.** As of December 31, 1999, the Company had approximately \$187.9 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, 2000, our interest expense would be increased or decreased approximately \$1.9 million. In addition, as of December 31, 1999, we had \$80.0 million of additional variable rate debt outstanding that was protected by an interest rate collar that effectively keeps the interest rate within a range of 65 basis points. We do not believe that a 100 basis point increase or decrease in interest rates would materially affect our interest expense with respect to this \$80.0 million of debt.

**INTEREST RATE HEDGE CONTRACTS.** For a discussion of our interest rate hedge contracts in effect at December 31, 1999, see "Management's Discussion and Analysis of Financial Condition and Results of Operations -- Liquidity and Capital Resources -- Capitalization." If interest rates increase by 100 basis points, the aggregate fair market value of these interest rate hedge contracts as of December 31, 1999 would increase by approximately \$1.6 million. If interest rates decrease by 100 basis points, the aggregate fair market value of these interest rate hedge contracts as of December 31, 1999 would decrease by approximately \$1.3 million.

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

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

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

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

None.



## **PART III**

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

The section under the heading "Election of Directors" of the Proxy Statement for the Annual Meeting of Stockholders to be held May 24, 2000 is incorporated herein by reference for information on directors of the Company. See ITEM X in Part I hereof for information regarding executive officers of the Company.

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

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

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

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

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

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

## PART IV

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

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

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

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

3. Exhibits

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

Ex.	FN	Description
10.3	(9)	Amendment to Amended and Restated Agreement of Limited Partnership of the Operating Partnership with respect to Series B Preferred Units
10.4	(10)	Amendment to Amended and Restated Agreement of Limited Partnership of the Operating Partnership with respect to Series D Preferred Units
10.5	(13)	Amendment to Amended and Restated Agreement of Limited Partnership of the Operating Partnership with respect to certain rights of limited partners upon a change of control
10.6	(14)	Form of Registration Rights and Lockup Agreement among the Company and the Holders named therein, which agreement is signed by all Common Unit holders
10.7	(15)	Amended and Restated 1994 Stock Option Plan
10.8	(2)	1997 Performance Award Plan
10.9	(16)	Employment Agreement among the Company, the Operating Partnership and John W. Eakin
10.10	(17)	Employment Agreement among the Company, the Operating Partnership and Gene H. Anderson
10.11	(1)	Employment Agreement among the Company, the Operating Partnership and James R. Heistand
10.12	(19)	Form of Executive Supplemental Employment Agreement between the Company and Named Executive Officers
10.13	(18)	Form of warrants to purchase Common Stock of the Company issued to John L. Turner, William T. Wilson III and John E. Reece II
10.14	(16)	Form of warrants to purchase Common Stock of the Company issued to W. Brian Reames, John W. Eakin and Thomas S. Smith
10.15	(2)	Form of warrants to purchase Common Stock of the Company issued to James R. Heistand and certain other shareholders of Associated Capital Properties, Inc.
10.16	(20)	Purchase and Sale Agreement dated March 22, 1999, by and among Highwoods/Florida Holdings, L.P. and America's Capital Partners, LLC, as amended by First Amendment to Purchase and Sale Agreement dated April 21, 1999
10.17	(20)	Purchase and Sale Agreement dated March 22, 1999, by and among Highwoods/Florida Holdings, L.P. and America's Capital Partners, LLC, as amended by First Amendment to Purchase and Sale Agreement dated April 21, 1999
10.18	(19)	First Amendment to Credit Agreement among the Operating Partnership, the Company, the Subsidiaries named therein and the Lenders named therein dated as of July 3, 1998
10.19	(19)	Second Amendment to Credit Agreement among the Operating Partnership, the Company, the Subsidiaries named therein and the Lenders named therein dated as of July 3, 1998
10.20	(21)	Fourth Amendment to Credit Agreement among the Operating Partnership, the Company, the Subsidiaries named therein and the Lenders named therein dated as of December 10, 1999
10.21		1999 Shareholder Value Plan
21	(19)	Schedule of subsidiaries of the Company
23		Consent of Ernst & Young LLP
27		Financial Data Schedule

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

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

- (3) Filed as part of the Company's Current Report on Form 8-K April 29, 1998 and incorporated herein by reference.
- (4) Filed as part of the Company's Current Report on Form 8-K dated September 25, 1997 and amended by articles supplementary filed as part of the Company's Current Report on Form 8-K dated October 4, 1997 and articles supplementary filed as part of the Company's Current Report on Form 8-K dated April 20, 1998, each of which is incorporated herein by reference.
- (5) Filed as part of Registration Statement 33-76952 with the SEC and incorporated herein by reference.
- (6) Filed by Crocker Realty Trust, Inc. as part of Registration Statement No. 33-88482 filed with the SEC and incorporated herein by reference.
- (7) Filed as part of the Operating Partnership's Current Report on Form 8-K dated December 2, 1996 and incorporated herein by reference.
- (8) Filed as part of the Company's Current Report on Form 8-K dated February 12, 1997 and incorporated herein by reference.
- (9) Filed as part of the Company's Current Report on Form 8-K dated September 25, 1997 and incorporated herein by reference.
- (10) Filed as part of the Company's Current Report on Form 8-K dated April 20, 1998 and incorporated herein by reference.
- (11) Filed as part of the Company's Current Report on Form 8-K dated October 4, 1997 and incorporated herein by reference.
- (12) Filed as part of the Company's Current Report on Form 8-K dated July 3, 1998 and incorporated herein by reference.
- (13) Filed as part of the Operating Partnership's Quarterly Report on Form 10-Q for the quarter ended June 30, 1997 and incorporated herein by reference.
- (14) Filed as part of the Company's Annual Report on Form 10-K for the year ended December 31, 1995 and incorporated herein by reference.
- (15) Filed as part of the Company's proxy statement on Schedule 14A relating to the 1997 Annual Meeting of Stockholders.
- (16) Filed as part of the Company's Current Report on Form 8-K dated April 1, 1996 and incorporated herein by reference.
- (17) Filed as part of the Company's Current Report on Form 8-K dated January 9, 1997 and incorporated herein by reference.
- (18) Filed as part of Registration Statement 33-88364 with the SEC and incorporated herein by reference.
- (19) Filed as part of the Company's Annual Report on Form 10-K for the year ended December 31, 1998 and incorporated herein by reference.
- (20) Filed as part of the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 1999 and incorporated herein by reference.
- (21) Filed as part of the Company's Current Report on Form 8-K dated December 10, 1999 and incorporated herein by reference.

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

(b) Reports on Form 8-K

On December 22, 1999, we filed a current report on Form 8-K, dated December 10, 1999, setting forth certain exhibits under items 5 and 7.

## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Raleigh, State of North Carolina, on March 30, 2000.

### HIGHWOODS PROPERTIES, INC.

By: /s/ RONALD P. GIBSON  
-----

*Ronald P. Gibson, President and  
Chief Executive Officer*

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

Signature	Title	Date
<div style="border-bottom: 1px dashed black; display: flex; justify-content: space-between;"> <span>/s/ O. TEMPLE SLOAN, JR.</span> <span>Chairman of the Board of Directors</span> <span>March 30, 2000</span> </div> <div>O. Temple Sloan, Jr.</div>		
<div style="border-bottom: 1px dashed black; display: flex; justify-content: space-between;"> <span>/s/ RONALD P. GIBSON</span> <span>President, Chief Executive Officer and Director</span> <span>March 30, 2000</span> </div> <div>Ronald P. Gibson</div>		
<div style="border-bottom: 1px dashed black; display: flex; justify-content: space-between;"> <span>/s/ JOHN L. TURNER</span> <span>Vice Chairman of the Board and Chief Investment Officer</span> <span>March 30, 2000</span> </div> <div>John L. Turner</div>		
<div style="border-bottom: 1px dashed black; display: flex; justify-content: space-between;"> <span>/s/ GENE H. ANDERSON</span> <span>Senior Vice President and Director</span> <span>March 30, 2000</span> </div> <div>Gene H. Anderson</div>		
<div style="border-bottom: 1px dashed black; display: flex; justify-content: space-between;"> <span>/s/ THOMAS W. ADLER</span> <span>Director</span> <span>March 30, 2000</span> </div> <div>Thomas W. Adler</div>		
<div style="border-bottom: 1px dashed black; display: flex; justify-content: space-between;"> <span>/s/ KAY NICHOLS CALLISON</span> <span>Director</span> <span>March 30, 2000</span> </div> <div>Kay Nichols Callison</div>		
<div style="border-bottom: 1px dashed black; display: flex; justify-content: space-between;"> <span>/s/ WILLIAM E. GRAHAM, JR.</span> <span>Director</span> <span>March 30, 2000</span> </div> <div>William E. Graham, Jr.</div>		
<div style="border-bottom: 1px dashed black; display: flex; justify-content: space-between;"> <span>/s/ JAMES R. HEISTAND</span> <span>Director</span> <span>March 30, 2000</span> </div> <div>James R. Heistand</div>		
<div style="border-bottom: 1px dashed black; display: flex; justify-content: space-between;"> <span>/s/ L. GLENN ORR, JR.</span> <span>Director</span> <span>March 30, 2000</span> </div> <div>L. Glenn Orr, Jr.</div>		
<div style="border-bottom: 1px dashed black; display: flex; justify-content: space-between;"> <span>/s/ WILLARD H. SMITH JR.</span> <span>Director</span> <span>March 30, 2000</span> </div> <div>Willard H. Smith Jr.</div>		
<div style="border-bottom: 1px dashed black; display: flex; justify-content: space-between;"> <span>/s/ CARMAN J. LIUZZO</span> <span>Vice President and Chief Financial Officer (Principal Financial Officer and Principal Accounting Officer) and Treasurer</span> <span>March 30, 2000</span> </div> <div>Carman J. Liuzzo</div>		

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## INDEX TO FINANCIAL STATEMENTS

	Page
	-----
Highwoods Properties, Inc.	
Report of Independent Auditors .....	F-2
Consolidated Balance Sheets as of December 31, 1999 and 1998 .....	F-3
Consolidated Statements of Income for the Years Ended December 31, 1999, 1998 and 1997 .	F-4
Consolidated Statements of Stockholders' Equity for the Years Ended December 31, 1999, 1998 and 1997 .....	F-5
Consolidated Statements of Cash Flows for the Years Ended December 31, 1999, 1998 and 1997 .....	F-6
Notes to Consolidated Financial Statements .....	F-8
Schedule III -- Real Estate and Accumulated Depreciation .....	F-31

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

## **REPORT OF INDEPENDENT AUDITORS**

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

We have audited the accompanying consolidated balance sheets of Highwoods Properties, Inc. as of December 31, 1999 and 1998, and the related consolidated statements of income, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 1999. Our audits also included the financial statement schedule listed in the Index at Item 14(a). These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Highwoods Properties, Inc. at December 31, 1999 and 1998, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 1999 in conformity with accounting principles generally accepted in the United States. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

### **ERNST & YOUNG LLP**

Raleigh, North Carolina  
February 18, 2000



# HIGHWOODS PROPERTIES, INC.

## Consolidated Balance Sheets

(\$ in thousands, except per share amounts)

	December 31,	
	1999	1998
Assets		
Real estate assets, at cost:		
Land and improvements .....	\$ 491,273	\$ 559,100
Buildings and tenant improvements .....	3,056,962	3,186,584
Development in process .....	186,925	189,465
Land held for development .....	168,396	150,622
Furniture, fixtures and equipment .....	7,917	7,693
	-----	-----
	3,911,473	4,093,464
Less -- accumulated depreciation .....	(238,135)	(169,272)
	-----	-----
Net real estate assets .....	3,673,338	3,924,192
Property held for sale .....	48,960	131,262
Cash and cash equivalents .....	34,496	31,445
Restricted cash .....	1,842	24,263
Accounts receivable, net of allowance of \$800 and \$1,688 at December 31, 1999 and 1998, respectively .....	22,847	27,948
Advances to related parties .....	15,096	10,420
Notes receivable .....	58,241	40,225
Accrued straight-line rents receivable .....	35,951	27,194
Investment in unconsolidated affiliates .....	38,977	21,088
Other assets:		
Deferred leasing costs .....	66,783	45,785
Deferred financing costs .....	40,125	38,750
Prepaid expenses and other .....	15,614	15,237
	-----	-----
	122,522	99,772
Less -- accumulated amortization .....	(36,073)	(23,476)
	-----	-----
Other assets, net .....	86,449	76,296
	-----	-----
Total Assets .....	\$4,016,197	\$4,314,333
	=====	=====
Liabilities and Stockholders' Equity		
Mortgages and notes payable .....	\$1,766,117	\$2,008,716
Accounts payable, accrued expenses and other liabilities .....	111,945	130,575
	-----	-----
Total Liabilities .....	1,878,062	2,139,291
Minority interest .....	245,665	279,043
Stockholders' equity:		
Preferred stock, \$.01 par value, authorized 50,000,000 shares;		
8 5/8% Series A Cumulative Redeemable Preferred Shares (liquidation preference \$1,000 per share), 125,000 shares issued and outstanding at December 31, 1999 and 1998 .....	125,000	125,000
8% Series B Cumulative Redeemable Preferred Shares (liquidation preference \$25 per share), 6,900,000 shares issued and outstanding at December 31, 1999 and 1998 .....	172,500	172,500
8% Series D Cumulative Redeemable Preferred Shares (liquidation preference \$250 per share), 400,000 shares issued and outstanding at December 31, 1999 and 1998, respectively .....	100,000	100,000
Common stock, \$.01 par value, authorized 200,000,000 shares; issued 62,068,613 (includes 1,150,000 shares in treasury) and 59,865,259 at December 31, 1999 and 1998, respectively .....	621	599
Additional paid-in capital .....	1,597,494	1,546,592
Distributions in excess of net earnings .....	(77,670)	(48,692)
Less Treasury stock at cost, 1,150,000 shares at December 31, 1999 .....	(25,475)	--
	-----	-----
Total Stockholders' Equity .....	1,892,470	1,895,999
	-----	-----
Total Liabilities and Stockholders' Equity .....	\$4,016,197	\$4,314,333
	=====	=====

See accompanying notes to consolidated financial statements.

# HIGHWOODS PROPERTIES, INC.

## Consolidated Statements of Income

(in thousands, except per share amounts)

### For the Years Ended December 31, 1999, 1998 and 1997

	1999	1998	1997
Revenue:			
Rental property .....	\$ 564,465	\$ 498,001	\$ 266,933
Equity in earnings of unconsolidated affiliates .....	1,185	430	--
Interest and other income .....	19,285	14,040	7,537
	-----	-----	-----
Total revenue .....	584,935	512,471	274,470
Operating expenses:			
Rental property .....	174,075	154,323	76,743
Depreciation and amortization .....	112,347	91,705	47,533
Interest expense:			
Contractual .....	114,311	94,413	45,138
Amortization of deferred financing costs .....	2,823	2,598	2,256
	-----	-----	-----
General and administrative .....	117,134	97,011	47,394
	22,345	20,776	10,216
	-----	-----	-----
Income before cost of unsuccessful transactions, gain on disposition of assets, minority interest and extraordinary item .....	159,034	148,656	92,584
Cost of unsuccessful transactions .....	(1,500)	--	--
Gain on disposition of assets .....	8,679	1,716	--
	-----	-----	-----
Income before minority interest and extraordinary item .....	166,213	150,372	92,584
Minority interest .....	(20,779)	(24,335)	(15,106)
	-----	-----	-----
Income before extraordinary item .....	145,434	126,037	77,478
Extraordinary item -- loss on early extinguishment of debt .....	(7,341)	(387)	(5,799)
	-----	-----	-----
Net income .....	138,093	125,650	71,679
Dividends on preferred stock .....	(32,580)	(30,092)	(13,117)
	-----	-----	-----
Net income available for common shareholders .....	\$ 105,513	\$ 95,558	\$ 58,562
	=====	=====	=====
Net income per common share -- basic:			
Income before extraordinary item .....	\$ 1.84	\$ 1.75	\$ 1.66
Extraordinary item -- loss on early extinguishment of debt .....	(.12)	(.01)	(.15)
	-----	-----	-----
Net income .....	\$ 1.72	\$ 1.74	\$ 1.51
	=====	=====	=====
Weighted average common shares outstanding -- basic .....	61,443	54,791	38,770
	=====	=====	=====
Net income per common share -- diluted:			
Income before extraordinary item .....	\$ 1.83	\$ 1.74	\$ 1.65
Extraordinary item-loss on early extinguishment of debt .....	(.12)	--	(.15)
	-----	-----	-----
Net income .....	\$ 1.71	\$ 1.74	\$ 1.50
	=====	=====	=====
Weighted average common shares outstanding -- diluted .....	61,529	55,076	39,161
	=====	=====	=====

See accompanying notes to consolidated financial statements.

# HIGHWOODS PROPERTIES, INC.

## Consolidated Statements of Stockholders' Equity

(in thousands, except for number of common shares)

**For the Years Ended December 31, 1999, 1998 and 1997**

	Number of Common Shares	Common Stock	Series A Preferred	Series B Preferred
Balance at December 31, 1996 .....	35,636,155	\$356	\$ --	\$ --
Issuance of Common Stock .....	10,702,215	107	--	--
Series A Preferred Shares offering .....	--	--	125,000	--
Series B Preferred Shares offering .....	--	--	--	172,500
Common Stock dividends.....	--	--	--	--
Preferred stock dividends.....	--	--	--	--
Net Income .....	--	--	--	--
Shares issued upon redemption of Common Units .....	500,230	5	--	--
Balance at December 31, 1997 .....	46,838,600	468	125,000	172,500
Issuance of Common Stock .....	12,036,711	120	--	--
Series D Preferred Shares offering .....	--	--	--	--
Common Stock dividends.....	--	--	--	--
Preferred Stock dividends.....	--	--	--	--
Net income .....	--	--	--	--
Shares issued upon redemption of Common Units .....	989,948	11	--	--
Balance at December 31, 1998 .....	59,865,259	599	125,000	172,500
Issuance of Common Stock .....	1,191,462	12	--	--
Common Stock dividends.....	--	--	--	--
Preferred Stock dividends.....	--	--	--	--
Net Income .....	--	--	--	--
Shares issued upon redemption of Common units .....	1,258,316	12	--	--
Forward Equity Transaction .....	--	--	--	--
Retirement of Common Stock .....	(246,424)	(2)	--	--
Purchase of Treasury Stock .....	(1,150,000)	--	--	--
Balance at December 31, 1999 .....	60,918,613	\$621	\$125,000	\$172,500

	Series D Preferred	Treasury Stock	Additional Paid-In Capital	Retained Earnings (Distributions in Excess of Net Earnings)	Total
Balance at December 31, 1996 .....	\$ --	\$ --	\$ 780,562	\$ (10,571)	\$ 770,347
Issuance of Common Stock .....	--	--	349,147	--	349,254
Series A Preferred Shares offering .....	--	--	(3,191)	--	121,809
Series B Preferred Shares offering .....	--	--	(6,154)	--	166,346
Common Stock dividends.....	--	--	--	(76,618)	(76,618)
Preferred stock dividends.....	--	--	--	(13,117)	(13,117)

Net Income .....	--	--	--	71,679	71,679
Shares issued upon redemption of Common Units .....	--	--	11,736	--	11,741
	-----	-----	-----	-----	-----
Balance at December 31, 1997 .....	--	--	1,132,100	(28,627)	1,401,441
Issuance of Common Stock .....	--	--	385,951	--	386,071
Series D Preferred Shares offering .....	100,000	--	(3,192)	--	96,808
Common Stock dividends.....	--	--	--	(115,623)	(115,623)
Preferred Stock dividends.....	--	--	--	(30,092)	(30,092)
Net income .....	--	--	--	125,650	125,650
Shares issued upon redemption of Common Units .....	--	--	31,733	--	31,744
	-----	-----	-----	-----	-----
Balance at December 31, 1998 .....	100,000	--	1,546,592	(48,692)	1,895,999
Issuance of Common Stock .....	--	--	23,079	--	23,091
Common Stock dividends.....	--	--	--	(134,341)	(134,341)
Preferred Stock dividends.....	--	--	--	(32,580)	(32,580)
Net Income .....	--	--	--	138,093	138,093
Shares issued upon redemption of Common units .....	--	--	40,606	--	40,618
Forward Equity Transaction .....	--	--	(12,783)	--	(12,783)
Retirement of Common Stock .....	--	--	--	(150)	(152)
Purchase of Treasury Stock .....	--	(25,475)	--	--	(25,475)
	-----	-----	-----	-----	-----
Balance at December 31, 1999 .....	\$100,000	\$(25,475)	\$1,597,494	\$ (77,670)	\$1,892,470
	=====	=====	=====	=====	=====

See accompanying notes to consolidated financial statements.

# HIGHWOODS PROPERTIES, INC.

## Consolidated Statements of Cash Flows

(in thousands)

**For the Years Ended December 31, 1999, 1998 and 1997**

	1999	1998	1997
Operating activities:			
Net income .....	\$ 138,093	\$ 125,650	\$ 71,679
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation .....	101,534	85,046	44,393
Amortization .....	13,636	9,257	5,396
Loss on early extinguishment of debt .....	7,341	387	5,799
Minority interest .....	20,779	24,335	15,106
Gain on disposition of assets .....	(8,679)	(1,716)	--
Changes in operating assets and liabilities:			
Accounts receivable .....	5,039	(7,168)	(8,662)
Prepaid expenses and other assets .....	742	393	(3,270)
Accrued straight-line rents receivable .....	(15,834)	(14,161)	(6,848)
Accounts payable, accrued expenses and other liabilities .....	(29,700)	41,410	6,599
Net cash provided by operating activities .....	232,951	263,433	130,192
Investing activities:			
Proceeds from disposition of assets .....	696,379	26,347	1,419
Additions to real estate assets .....	(511,056)	(943,446)	(465,066)
Advances to subsidiaries .....	(4,676)	(1,348)	(6,666)
Other .....	(20,618)	(121,632)	(53,970)
Net cash provided by/(used in) investing activities .....	160,029	(1,040,079)	(524,283)
Financing activities:			
Distributions paid on common stock and common units .....	(154,088)	(136,891)	(88,397)
Dividends paid on preferred stock .....	(32,580)	(30,092)	(11,720)
Net proceeds from sale of preferred stock .....	--	96,808	288,155
Net proceeds from the sale of common stock .....	17,551	198,439	345,325
Purchase of Treasury Stock .....	(25,475)	--	--
Payment of prepayment penalties .....	(7,341)	(387)	(6,945)
Borrowings on revolving loans .....	529,500	956,500	563,500
Repayment of revolving loans .....	(725,000)	(846,500)	(264,000)
Borrowings on mortgages and notes payable .....	332,693	745,356	100,000
Repayment of mortgages and notes payable .....	(321,261)	(170,304)	(532,481)
Net change in deferred financing costs .....	(3,928)	(14,984)	(270)
Net cash (used in)/provided by financing activities .....	(389,929)	797,945	393,167
Net increase (decrease) in cash and cash equivalents .....	3,051	21,299	(924)
Cash and cash equivalents at beginning of the period .....	31,445	10,146	11,070
Cash and cash equivalents at end of the period .....	\$ 34,496	\$ 31,445	\$ 10,146
Supplemental disclosure of cash flow information:			
Cash paid for interest .....	\$ 150,364	\$ 95,468	\$ 51,283

See accompanying notes to consolidated financial statements.

# HIGHWOODS PROPERTIES, INC.

## Consolidated Statements of Cash Flows -- Continued

(in thousands)

### For the Years Ended December 31, 1999, 1998 and 1997

Supplemental disclosure of non-cash investing and financing activities: The following summarizes the net assets contributed by holders of common partnership interests ("Common Units") in Highwoods Realty Limited Partnership (the "Operating Partnership") other than Highwoods Properties, Inc. (the "Company") or acquired/(sold) subject to mortgage notes payable/note receivable:

	1999	1998	1997
	-----	-----	-----
Assets:			
Net real estate assets .....	\$ (78,012)	\$478,224	\$782,136
Cash and cash equivalents .....	(4,719)	55,064	--
Restricted cash .....	--	--	2,727
Net tenant leasing costs .....	--	--	131
Net deferred financing costs .....	--	--	227
Accounts receivable and other .....	(2,975)	6,634	913
Investment in unconsolidated affiliates .....	13,830	18,218	--
Notes receivable .....	32,695	29,176	--
	-----	-----	-----
Total Assets .....	\$ (39,181)	\$587,316	786,134
	-----	-----	-----
Liabilities:			
Mortgages and notes payable .....	(58,531)	345,106	555,663
Accounts payable, accrued expenses and other liabilities .....	7,604	34,044	19,527
	-----	-----	-----
Total Liabilities .....	(50,927)	379,150	575,190
	-----	-----	-----
Net Assets .....	\$ 11,746	\$208,166	\$210,944
	=====	=====	=====

See accompanying notes to consolidated financial statements.

# HIGHWOODS PROPERTIES, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 1999

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

#### DESCRIPTION OF THE COMPANY

Highwoods Properties, Inc. (the "Company") is a self-administered and self-managed real estate investment trust ("REIT") which operates in the southeastern and midwestern United States. The Company's majority-owned assets include 563 in-service office, industrial and retail properties; 1,885 apartment units; 1,473 acres of undeveloped land suitable for future development; and an additional 41 properties under development.

The Company conducts substantially all of its activities through, and substantially all of its interests in the properties are held directly or indirectly by, Highwoods Realty Limited Partnership (formerly Highwoods/Forsyth Limited Partnership, the "Operating Partnership"). The Company is the sole general partner of the Operating Partnership. At December 31, 1999, the Company owned 87% of the common partnership interests ("Common Units") in the Operating Partnership. Limited partners (including certain officers and directors of the Company) own the remaining Common Units. Holders of Common Units may redeem them for the cash value of one share of the Company's common stock, \$.01 par value (the "Common Stock"), or, at the Company's option, one share (subject to certain adjustments) of Common Stock.

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

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

#### BASIS OF PRESENTATION

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

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

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

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

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

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

**REAL ESTATE ASSETS**

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

The Company evaluates its real estate assets upon occurrence of significant adverse changes in their operations to assess whether any impairment indicators are present that affect the recovery of the recorded value. If any real estate assets are considered impaired, a loss is provided to reduce the carrying value of the property to its estimated fair value. As of December 31, 1999, none of the Company's assets were considered impaired.

The Company has 786,000 square feet of properties under contract for sale in various transactions totaling \$57.8 million. These real estate assets, which are recorded at the lower of cost or estimated sales price, net of costs to sell, have a carrying value of \$49.0 million and have been classified as assets held for sale in the accompanying financial statements.

**CASH EQUIVALENTS**

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

**RESTRICTED CASH**

The Company was required by a certain mortgage note to maintain various depository accounts, a cash collateral account and a contingency reserve account. All rents with respect to the collateralized properties were made payable to, and deposited directly in, the depository accounts, which were then transferred to the cash collateral account. Subsequent to payment of debt service and other required escrows, the residual balance of the cash collateral account was funded to the Company for capital expenditures and operations. The Company was required to maintain a minimum contingency reserve account balance of \$7,000,000. During 1999, the Company paid off such mortgage note and is no longer required to maintain the depository and contingency reserve accounts. However, the Company is required by certain other mortgage notes to escrow real estate taxes with the mortgagor. At December 31, 1999 and 1998, those balances were \$1,683,282 and \$2,672,448, respectively.

**INVESTMENT IN UNCONSOLIDATED AFFILIATES**

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

**REVENUE RECOGNITION**

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



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

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

**DEFERRED LEASE FEES AND LOAN COSTS**

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

**INCOME TAXES**

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

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

**CONCENTRATION OF CREDIT RISK**

Management of the Company performs ongoing credit evaluations of its tenants. The majority-owned properties (excluding apartment units) are leased to approximately 3,445 tenants in 17 geographic locations. The Company's tenants engage in a wide variety of businesses. There is no dependence upon any single tenant.

**INTEREST RATE RISK MANAGEMENT**

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

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

The Company is exposed to certain losses in the event of non-performance by the counterparties under the interest rate hedge contracts. The counterparties are major financial institutions, and are expected to perform fully under the agreements. However, if they were to default on their obligations under the arrangements, the Company could be required to pay the full rate under its \$450 million unsecured revolving loan (the "Revolving Loan") and the variable rate mortgages, even if such rate were in excess of the rate in the interest rate hedge contracts. The Company would not realize a material loss as of December 31, 1999, in the event of non-performance by any one counterparty. Additionally, the Company limits the amount of credit exposure with any one institution.

**STOCK COMPENSATION**

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

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

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

**USE OF ESTIMATES**

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

**COMPREHENSIVE INCOME**

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

**SEGMENT REPORTING**

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

**IMPACT OF RECENTLY ISSUED ACCOUNTING STANDARDS**

In June 1998, the Financial Accounting Standards Board ("FASB") issued Statement No. 133, Accounting for Derivative Instruments and Hedging Activities, which is required to be adopted in fiscal years beginning after June 15, 1999. In June 1999, FASB issued Statement No. 137, Accounting for Derivative Instruments and Hedging Activities -- Deferral of the FASB Statement No. 133, which stipulates the required adoption date to be all fiscal years beginning after June 15, 2000. Statement No. 133 requires the Company to recognize all derivatives on the balance sheet at fair value. Derivatives that are not hedges must be adjusted to fair value through income. If the derivative is a hedge, depending on the nature of the hedge, changes in the fair value of derivatives will either be offset against the change in fair value of the hedged assets, liabilities or firm commitments through earnings or recognized in other comprehensive income until the hedged item is recognized in earnings. The ineffective portion of a derivative's change in fair value will be immediately recognized in earnings. The fair market value of the Company's derivatives is discussed in Note 3.

**RECLASSIFICATIONS**

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

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

2. INVESTMENT IN UNCONSOLIDATED AFFILIATES On March 15, 1999, the Company closed a transaction with Schweiz-Deutschland-USA Dreilander Beteiligung Objekt DLF 98/29-Walker Fink-KG ("DLF"), pursuant to which the Company sold or contributed certain office properties valued at approximately \$142.0 million to a newly created limited partnership (the "Joint Venture"). DLF contributed approximately \$55.0 million for a 77.19% interest in the Joint Venture, and the Joint Venture borrowed approximately \$71.0 million from third-party lenders. The Company retained the remaining 22.81% interest in the Joint Venture, received net cash proceeds of approximately \$124.0 million and is the sole and exclusive manager and leasing agent of the Joint Venture's properties, for which the Company receives customary management fees and leasing commissions. At December 31, 1999, the carrying value of the Operating Partnership's investment in DLF was \$14.6 million.

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

As a result of these transactions, the Company had investments accounted for under the equity method of accounting which consisted of the following at December 31, 1999 and 1998:

	1999 Percent owned	1998 Percent owned
	-----	-----
Dallas County Partners .....	50.00%	50.00%
Dallas County Partners II .....	50.00	50.00
Dallas County Partners III, LLC .....	50.00	50.00
Fountain Three .....	50.00	50.00
Center Court Partners .....	--	50.00
Terrace Place Place Partners .....	--	50.00
Meredith Drive Associates L.P. ....	--	49.50
Board of Trade Investment Company .....	--	49.00
Kessinger/Hunter .....	30.00	30.00
4600 Madison Associates, LP .....	12.50	12.50
DLF .....	22.81	--
RRHWoods, LLC .....	50.00	--
Highwoods-Markel Assoc., LLC .....	50.00	--

Selected aggregate financial data for unconsolidated affiliates for 1999 and 1998 is presented below:

	1999	1998
	-----	-----
	(in thousands)	
Total assets .....	\$374,566	\$143,662
Total liabilities .....	\$266,832	\$116,089
Net income .....	\$ 5,473	\$ 4,412

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

3. MORTGAGES AND NOTES PAYABLE Mortgages and notes payable consisted of the following at December 31, 1999, and 1998:

	1999	1998
	-----	-----
	(in thousands)	
Mortgage notes payable:		
7.9% mortgage note due 2001 .....	\$ --	\$ 133,000
9.0% mortgage note due 2005 .....	38,400	39,043
8.1% mortgage note due 2005 .....	29,914	30,454
8.0% mortgage note due 2007 .....	42,167	42,842
7.8% mortgage note due 2009 .....	94,024	--
7.9% mortgage note due 2009 .....	94,027	--
8.0% mortgage notes due 2013 .....	59,064	55,754
6.0% to 13.0% mortgage notes due between 2000 and 2022 .....	185,080	254,234
Variable rate Industrial Revenue Bonds due between 2000 and 2015 .....	37,000	70,800
Variable rate mortgage notes due 2021 .....	1,889	1,975
	-----	-----
	\$ 581,565	\$ 628,102
	-----	-----
Unsecured indebtedness:		
6.75% notes due 2003 .....	\$ 100,000	\$ 100,000
8.0% notes due 2003 .....	150,000	150,000
7.0% notes due 2006 .....	110,000	110,000
7.125% notes due 2008 .....	100,000	100,000
8.125% notes due 2009 .....	50,000	50,000
7.19% notes due 2011 .....	100,000	100,000
6.835% notes due 2013 .....	125,000	125,000
7.5% notes due 2018 .....	200,000	200,000
Variable rate note due 2002 .....	20,552	21,114
Revolving loan due 2001 .....	229,000	424,500
	-----	-----
	\$1,184,552	\$1,380,614
	-----	-----
Total .....	\$1,766,117	\$2,008,716
	=====	=====

**SECURED INDEBTEDNESS**

Mortgage notes payable were secured by real estate assets with an aggregate carrying value of \$1.1 billion at December 31, 1999.

The 7.9% mortgage note due 2001, which was paid off during 1999, had been secured by 45 of the properties (the "Mortgage Note Properties"), which were held by AP Southeast Portfolio Partners, L.P. (the "Financing Partnership"). The Company had a 99.99% economic interest in the Financing Partnership, which was managed indirectly by the Company. The 7.9% mortgage note was a conventional, monthly pay, first mortgage note in the principal amount of \$133.0 million issued by the Financing Partnership. The 7.9% mortgage note was a limited recourse obligation of the Financing Partnership as to which, in the event of a default under the indenture or the mortgage, recourse may have been only against the Mortgage Note Properties and other assets that had been pledged as security. The 7.9% mortgage note was issued to Kidder Peabody Acceptance Corporation I pursuant to an indenture, dated March 1, 1994, among the Financing Partnership, Bankers Trust Company of California, N.A. and Bankers Trust Company.

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

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

**UNSECURED INDEBTEDNESS**

On June 24, 1997, a trust formed by the Operating Partnership sold \$100.0 million of Exercisable Put Option Securities due June 15, 2004 ("X-POS"), which represent fractional undivided beneficial interest in the trust. The assets of the trust consist of, among other things, \$100.0 million of Exercisable Put Option Notes due June 15, 2011 (the "Put Option Notes"), issued by the Operating Partnership. The Put Option Notes bear an interest rate of 7.19%, representing an effective borrowing cost of 7.09% from the date of issuance through June 15, 2004, net of a related put option and certain interest rate hedge contract costs. Under certain circumstances, the Put Option Notes could become subject to early maturity on June 15, 2004.

On February 2, 1998, the Operating Partnership sold \$125.0 million of MandatOry Par Put Remarketed Securities ("MOPPRS") due February 1, 2013. The MOPPRS bear an interest rate of 6.835%, representing an effective borrowing cost of 6.31% from the date of issuance through January 31, 2003 (the "Remarketing Date"), net of a related remarketing option. Under certain circumstances, the MOPPRS could become subject to early maturity on the Remarketing Date.

During 1998, the Company obtained a \$600.0 million unsecured revolving loan (as amended, the "Revolving Loan"). The Company and its lenders amended the Revolving Loan as of December 10, 1999 to reduce the overall borrowing commitment to \$450.0 million. The Revolving Loan, as amended, matures in July 2001 and carries an interest rate based upon the Operating Partnership's senior unsecured credit rating. The Revolving Loan also includes a \$225.0 million competitive bid sub-facility. At December 31, 1999, the effective interest rate for borrowing under the Revolving Loan was 7.3%. The Company had \$213.0 million of borrowing availability under the Revolving Loan at December 31, 1999. The terms of the Revolving Loan require the Company to pay an annual facility fee equal to .15% of the aggregate amount of the Revolving Loan and include certain restrictive covenants which limit, among other things, dividend payments, and which require compliance with certain financial ratios and measurements. At December 31, 1999, the Company was in compliance with these covenants.

**INTEREST RATE HEDGE CONTRACTS**

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

The following table sets forth information regarding the Company's interest rate hedge contracts as of December 31, 1999 (\$ in thousands):

Type of Hedge	Notional Amount	Maturity Date	Reference Rate	Fixed Rate	Fair Market Value
Swap	\$20,505	6/10/02	1-Month LIBOR + 0.75%	7.700%	\$ (493)
Collar	80,000	10/15/01	1-Month LIBOR	5.60 - 6.25%	525

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

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

The interest rate on all of the Company's variable rate debt is adjusted at one- and three-month intervals, subject to settlements under these contracts. Net payments made to counterparties under interest rate hedge contracts were \$304,720, \$48,000 and \$47,000 in 1999, 1998 and 1997, respectively, 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 counterparties under the interest rate hedge contracts. The Company expects the counterparties, which are major financial institutions, to perform fully under these contracts. However, if the counterparties were to default on their obligations under the interest rate hedge contracts, the Company could be required to pay the full rates on its debt, even if such rates were in excess of the rates in the contracts.

**OTHER INFORMATION**

The aggregate maturities of the mortgage and notes payable at December 31, 1999 are as follows:

Year of Maturity	Principal Amount
-----	-----
	(in thousands)
2000 .....	\$ 28,859
2001 .....	246,608
2002 .....	64,477
2003 .....	268,148
2004 .....	113,736
Thereafter .....	1,044,289
	-----
	\$1,766,117
	=====

Total interest capitalized was approximately \$29,147,000, \$17,968,000 and \$7,238,000 in 1999, 1998 and 1997, respectively.

**4. EMPLOYEE BENEFIT PLANS**

**MANAGEMENT COMPENSATION PROGRAM**

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

Prior to January 1, 1999, the Company paid a portion of each executive officer's bonus in the form of phantom stock awards under a deferred compensation plan. Such executives were credited with a

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

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

specified number of units of phantom stock equal to such number of shares of common stock as could be purchased with 25% of the employee's cash bonus. Five years from the date of the phantom stock grant, the executive officers will receive the value of a share of common stock for each unit of phantom stock and an additional amount equal to the value of the dividends paid during the period on the corresponding common stock assuming reinvestment. Payouts with respect to phantom stock grants may be made in shares of common stock or cash or both. If an executive officer leaves the Company's employ for any reason (other than death, disability or normal retirement) prior to the end of the five-year period, all phantom stock awards will be forfeited.

Beginning on January 1, 1999, the Company established a Shareholder Value Plan which allows executive officers to participate in a long term incentive plan which includes annual grants of stock options, restricted shares and units. The mix of awards varies by position in the Company and for certain corporate officers, including the Chief Executive Officer, no restricted shares are granted. The stock options vest ratably over four years. The restricted shares vest 50% after three years and 50% after five years.

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

**401(k) SAVINGS PLAN**

The Company has a 401(k) savings plan covering substantially all employees who meet certain age and employment criteria. The Company matches the first 6% of compensation deferred at the rate of 50% of employee contributions. During 1999, 1998 and 1997, the Company contributed \$763,319, \$588,000, and \$353,000, respectively, to the 401(k) savings plan. Administrative expenses of the plan are paid by the Company.

**EMPLOYEE STOCK PURCHASE PLAN**

In August 1997, the Company instituted an Employee Stock Purchase Plan for all active employees. At the end of each three-month offering period, each participant's account balance is applied to acquire shares of Common Stock at 90% of the market value of the Common Stock, calculated as the lower of the average closing price on the New York Stock Exchange on the five consecutive days preceding the first day of the quarter or the five days preceding the last day of the quarter. A participant may not invest more than \$7,500 per quarter. Employees purchased 29,214 and 24,046 shares of Common Stock under the Employee Stock Purchase Plan during the years ended December 31, 1999 and 1998, respectively.

**5. RENTAL INCOME**

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

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

**5. RENTAL INCOME -- Continued**

Expected future minimum rents to be received over the next five years and thereafter from tenants for leases in effect at December 31, 1999, are as follows (in thousands):

2000 .....	\$ 449,767
2001 .....	411,026
2002 .....	352,705
2003 .....	287,564
2004 .....	224,948
Thereafter .....	830,727
	-----
	\$2,556,737
	=====

**6. RELATED PARTY TRANSACTIONS**

The Company makes advances to Highwoods Services, Inc. for working capital purposes. These advances bear interest at a rate of 8% per annum, are due on demand and totaled \$15.1 million at December 31, 1999, and \$10.4 million at December 31, 1998. The Company recorded interest income from these advances of \$1.1 million, \$826,000 and \$142,000 for the years ended December 31, 1999, 1998 and 1997, respectively.

On December 8, 1998, the Company purchased the Bluegrass Valley office development project from a limited liability company controlled by an executive officer and director of the Company for approximately \$2.5 million. On July 16, 1999, the Company purchased development land and an option to purchase other development land in the Bluegrass Valley office development project from the same limited liability company controlled by the same executive officer and director of the Company for approximately \$4.6 million in common units.

On October 1, 1997, the Company sold the Ivy Distribution Center in Winston-Salem, North Carolina, to a limited liability company controlled by an executive officer and director of the Company for \$2.1 million. The Company accepted a note receivable of \$2.1 million as consideration for this transaction which approximated the carrying value of the property. The note bore interest at 8% per annum and was paid in full on October 8, 1998. The Company recorded interest income of \$123,000 and \$41,000 for the years ended December 31, 1998 and 1997, respectively.

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

**7. STOCKHOLDERS' EQUITY**

**COMMON STOCK DISTRIBUTIONS**

Distributions paid on Common Stock were \$2.19, \$2.10 and \$1.98 per share for the years ended December 31, 1999, 1998 and 1997, respectively.



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

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

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

	1999	1998	1997
	-----	-----	-----
Per share:			
Ordinary income .....	\$ 1.70	\$ 1.84	\$ 1.39
Capital gains .....	.49	.01	--
Return of capital .....	--	.25	.59
	-----	-----	-----
Total .....	\$ 2.19	\$ 2.10	\$ 1.98
	=====	=====	=====

The Company's tax returns for the year ended December 31, 1999 have not been filed, and the taxability information for 1999 is based upon the best available data. The Company's tax returns have not been examined by the IRS, and therefore the taxability of distributions is subject to change.

The tax basis of the Company's assets at December 31, 1999 is \$2,732,597,000 and the tax basis of the Company's liabilities is \$2,200,662,000.

On January 31, 2000, the Board of Directors declared a Common Stock distribution of \$.555 per share payable on February 18, 2000, to stockholders of record on February 10, 2000.

**PREFERRED STOCK**

On February 7, 1997, the Company issued 125,000 8 5/8% Series A Cumulative Redeemable Preferred Shares (the "Series A Preferred Shares"). The Series A Preferred Shares are non-voting and have a liquidation preference of \$1,000 per share for an aggregate liquidation preference of \$125.0 million plus accrued and unpaid dividends. The net proceeds (after underwriting commission and other offering costs) of the Series A Preferred Shares issued were \$121.8 million. Holders of the Series A Preferred Shares are entitled to receive, when, as and if declared by the Company's Board of Directors, out of funds legally available for payment of distributions, cumulative preferential cash distributions at a rate of 8 5/8% of the liquidation preference per annum (equivalent to \$86.25 per share). On or after February 12, 2027, the Series A Preferred Shares may be redeemed for cash at the option of the Company. The redemption price (other than the portion thereof consisting of accrued and unpaid distributions) is payable solely out of the sale proceeds of other capital shares of the Company, which may include shares of other series of preferred stock. Of the \$86.25 distribution per Series A Preferred Share in 1999, \$67.14 will be taxed as ordinary income and \$19.11 will be taxed as capital gain.

On September 22, 1997, the Company issued 6,900,000 8% Series B Cumulative Redeemable Preferred Shares (the "Series B Preferred Shares"). The Series B Preferred Shares are non-voting and have a liquidation preference of \$25 per share for an aggregate liquidation preference of \$172.5 million plus accrued and unpaid dividends. The net proceeds (after underwriting commission and other offering costs) of the Series B Preferred Shares issued were \$166.3 million. Holders of the Series B Preferred Shares are entitled to receive, when, as and if declared by the Company's Board of Directors, out of funds legally available for payment of distributions, cumulative preferential cash distributions at a rate of 8% of the liquidation preference per annum (equivalent to \$2.00 per share). On or after September 25, 2002, the Series B Preferred Shares may be redeemed for cash at the option of the Company. The redemption price (other than the portion thereof consisting of accrued and unpaid distributions) is payable solely out of the sale proceeds of other capital shares of the Company, which may include shares of other series of preferred stock. Of the \$2.00 distribution per Series B Preferred Share, \$1.56 will be taxed as ordinary income and \$0.44 will be taxed as capital gain.

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

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

On April 23, 1998, the Company issued 4,000,000 depositary shares (the "Series D Depositary Shares"), each representing a 1/10 fractional interest in an 8% Series D Cumulative Redeemable Preferred Share (the "Series D Preferred Shares"). The Series D Preferred Shares are non-voting and have a liquidation preference of \$250 per share for an aggregate liquidation preference of \$100 million plus accrued and unpaid dividends. The net proceeds (after underwriting commission and other offering costs) of the Series D Preferred Shares issued were \$96.8 million. Holders of Series D Preferred Shares are entitled to receive, when, as and if declared by the Company's Board of Directors out of funds legally available for payment of distributions, cumulative preferential cash distributions at a rate of 8% of the liquidation preference per annum (equivalent to \$20.00 per share). On or after April 23, 2003, the Series D Preferred Shares may be redeemed for cash at the option of the Company. The redemption price (other than the portion thereof consisting of accrued and unpaid distributions) is payable solely out of the sale proceeds of other capital shares of the Company, which may include shares of other series of preferred stock. Of the \$20.00 distribution per Series D Preferred Share, \$15.57 will be taxed as ordinary income and \$4.43 will be taxed as capital gain.

**SHAREHOLDER RIGHTS PLAN**

On October 4, 1997, the Board declared a dividend on one preferred share purchase right ("Right") for each outstanding share of Common Stock to be distributed to all holders of record of the Common Stock on October 16, 1997. The Rights attach to shares of Common Stock subsequently issued. Each Right entitles the registered holder to purchase one-hundredth of a participating preferred share for an exercise price of \$140.00 per one-hundredth of a participating preferred share, subject to adjustment as provided in the rights agreement. The Rights will generally be exercisable only if a person or group acquires 15% or more of the Common Stock or announces a tender offer for 15% or more of the Common Stock. The Rights will expire on October 6, 2007, unless the expiration date of the Rights is extended, and the Rights are subject to redemption at a price of \$0.01 per Right under certain circumstances.

**DIVIDEND REINVESTMENT PLAN**

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

**EQUITY SETTLEMENT**

On August 28, 1997, the Company entered into a purchase agreement with UBS AG, London Branch ("UB-LB") involving the sale of 1.8 million shares of Common Stock and a related forward contract providing for certain purchase price adjustments. The forward contract (as amended) generally provided that if the market price was less than a certain amount, referred to as the "Forward Price," the Company would be required to pay UB-LB the difference times 1.8 million. (Similarly, if the Market Price of a share of Common Stock was above the Forward Price, UB-LB was required to pay the Company the difference in shares of Common Stock.)

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

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

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

**STOCK REPURCHASE**

On December 14, 1999, the Company announced that its board of directors had authorized a share repurchase plan pursuant to which the Company may, at its sole and absolute discretion, repurchase up to 10.0 million shares of its outstanding Common Stock and Common Units. As of December 31, 1999, the Company had used \$25.5 million of net proceeds from its recent disposition activity, either through direct payments or repayment of borrowings under the Revolving Loan, to repurchase 1.2 million shares of Common Stock through periodic open market or privately negotiated transactions at a weighted average price of \$22.15 per share.

**8. EARNINGS PER SHARE**

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

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

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

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

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

	1999	1998	1997
	-----	-----	-----
	(in thousands, except per share amounts)		
Numerator:			
Income before minority interest and extraordinary item .....	\$166,213	\$150,372	\$ 92,584
Non-convertible preferred stock dividends (4) .....	(32,580)	(30,092)	(13,117)
Minority interest .....	(20,779)	(24,335)	(15,106)
General partner's portion of extraordinary item .....	(7,341)	(387)	(5,799)
	-----	-----	-----
Numerator for basic earnings per share -- income available to common shareholders .....	\$105,513	\$ 95,558	\$ 58,562
Effect of dilutive securities:			
Minority interest .....	--(1)	--(2)	--(3)
Minority interest portion of extraordinary item .....	--(1)	--(2)	--(3)
	-----	-----	-----
	--(1)	--(2)	--(3)
Numerator for diluted earnings per share -- net income available to common shareholders -- after assumed conversions .....	\$105,513	\$ 95,558	\$ 58,562
Denominator:			
Denominator for basic earnings per share -- weighted-average shares .....	61,443	54,791	38,770
Effect of dilutive securities:			
Employee stock options (4) .....	78	240	318
Warrants (4) .....	8	45	73
Common Units converted .....	--(1)	--(2)	--(3)
	-----	-----	-----
Dilutive potential common shares .....	86	285	391
Denominator for diluted earnings per share -- adjusted weighted average shares and assumed conversions .....	61,529	55,076	39,161
Basic earnings per share .....	\$ 1.72	\$ 1.74	\$ 1.51
	=====	=====	=====
Diluted earnings per share .....	\$ 1.71	\$ 1.74	\$ 1.50
	=====	=====	=====

(1) 9.3 million Common Units and the related \$20.8 million in minority interest, net of \$959,000 of the minority interest's portion of the extraordinary item, were excluded from the dilutive earnings per share calculation due to the anti-dilutive effect.

(2) 10.5 million Common Units and the related \$24.3 million in minority interest, net of \$62,000 of the minority interest's portion of the extraordinary item, were excluded from the dilutive earnings per share calculation due to the anti-dilutive effect.

(3) 7.7 million Common Units and the related \$15.1 million in minority interest, net of \$1.1 million of the minority interest's portion of the extraordinary item, were excluded from the dilutive earnings per share calculation due to the anti-dilutive effect.

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

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

**9. STOCK OPTIONS AND WARRANTS**

As of December 31, 1999, 6,000,000 shares of the Company's authorized Common Stock were reserved for issuance upon the exercise of options under the Amended and Restated 1994 Stock Option Plan. Options generally vest over a four- or five-year period beginning with the date of grant.

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

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

Because SFAS 123 is applicable only to options granted subsequent to December 31, 1994, only options granted subsequent to that date were valued using this Black-Scholes model. The fair value of the options granted in 1999 was estimated at the date of grant using the following weighted average assumptions: risk-free rates ranging between 4.21% and 6.81%, dividend yield of 10.65% and a weighted average expected life of the options of five years. The fair value of the options granted in 1998 was estimated at the date of grant using the following weighted-average assumptions: risk-free interest rates ranging between 3.29% and 6.01%, dividend yield of 9.0% and a weighted average expected life of the options of five years. The fair value of the 1997 options were estimated at the date of grant using the following weighted average assumptions: risk-free interest rates ranging between 5.75% and 6.72%, dividend yield of 6.5% and a weighted-average expected life of the options of five years. Had the compensation cost for the Company's stock option plans been determined based on the fair value at the date of grant for awards in 1999, 1998 and 1997 consistent with the provisions of SFAS 123, the Company's net income and net income per share would have decreased to the pro forma amounts indicated below:

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

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

	Year ended December 31		
	1999	1998	1997
	(dollars in thousands, except per share amounts)		
Net income -- as reported .....	\$ 105,513	\$95,558	\$ 58,562
Net income -- pro forma .....	\$ 103,181	\$93,394	\$ 57,383
Net income per share -- basic (as reported) .....	\$ 1.72	\$ 1.74	\$ 1.51
Net income per share -- diluted (as reported) .....	\$ 1.71	\$ 1.74	\$ 1.50
Net income per share -- basic (pro forma) .....	\$ 1.68	\$ 1.70	\$ 1.48
Net income per share -- diluted (pro forma) .....	\$ 1.68	\$ 1.70	\$ 1.47

The following table summarizes information about employees' and Board of Directors' stock options outstanding at December 31, 1999, 1998 and 1997:

	Options Outstanding	
	Number of Shares	Weighted Average Exercise Price
Balances at December 31, 1996 .....	1,265,700	\$ 24.67
Options granted .....	2,250,765	32.90
Options canceled .....	(76,040)	22.20
Options exercised .....	(117,428)	21.84
Balances at December 31, 1997 .....	3,322,997	30.40
Options granted .....	737,754	27.21
Options canceled .....	(11,800)	31.11
Options exercised .....	(25,400)	21.98
Balances at December 31, 1998 .....	4,023,551	29.83
Options granted .....	1,091,051	22.24
Options canceled .....	(614,328)	30.82
Options exercised .....	(100,840)	19.91
Balances at December 31, 1999 .....	4,399,434	\$ 28.01

	Options Exercisable	
	Number of Shares	Weighted Average Exercise Price
December 31, 1997 .....	686,870	\$ 30.94
December 31, 1998 .....	1,315,898	\$ 26.65
December 31, 1999 .....	1,227,004	\$ 26.47

Exercise prices for options outstanding as of December 31, 1999, ranged from \$9.54 to \$35.50. The weighted average remaining contractual life of those options is 7.6 years. Using the Black-Scholes options valuation model, the weighted average fair value of options granted during 1999, 1998 and 1997 was \$0.68, \$2.98 and \$3.23, respectively.

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

9. STOCK OPTIONS AND WARRANTS -- Continued

**WARRANTS**

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

Date of Issuance	Number of Warrants	Exercise Price
-----	-----	-----
February 1995 .....	100,000	\$ 21.00
April 1996 .....	150,000	\$ 28.00
October 1997 .....	1,390,610	\$ 32.50
December 1997 .....	120,000	\$ 34.13
	-----	
Total .....	1,760,610	
	=====	

The warrants granted in February 1995, April 1996 and December 1997 expire 10 years from the date of issuance. All warrants are exercisable from the date of issuance. The warrants granted in October 1997 do not have an expiration date. There were no warrants issued during 1998 and 1999.

10. COMMITMENTS AND CONTINGENCIES

**LEASE**

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

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

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

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

2000 .....	\$ 1,194
2001 .....	1,194
2002 .....	1,167
2003 .....	1,149
2004 .....	1,149
Thereafter .....	49,860
	-----
	\$55,713
	=====

**LITIGATION**

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

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

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

materially false and misleading statements and omissions of material facts in violation of Section 14(a) of the Securities Exchange Act of 1934 and (4) the Company filed a registration statement with the SEC containing materially false and misleading statements and omissions of material facts in violation of Sections 11 and 12(2) of the Securities Act of 1933. The plaintiff seeks equitable relief and monetary damages. The Company believes that the defendants have meritorious defenses to the plaintiffs' allegations and intends to vigorously defend this litigation. By order dated June 18, 1999, the court granted in part and denied in part the Company's motion to dismiss. The court has granted the plaintiff's motion seeking certification of the proposed class of plaintiffs with respect to the remaining claims. Discovery in the matter is proceeding. Due to the inherent uncertainties of the litigation process and the judicial system, the Company is not able to predict the outcome of this litigation. If this litigation is not resolved in the Company's favor, it could have a material adverse effect on the Company's business, financial condition and results of operations.

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

**CONTRACTS**

The Company has entered into construction contracts totaling \$390.2 million at December 31, 1999. The amounts remaining on these contracts as of December 31, 1999 totaled \$115.1 million.

The Company has entered into various contracts under which it is committed to acquire 317 acres of land over a three year period for an aggregate purchase price of approximately \$32.0 million.

**CAPITAL EXPENDITURES**

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

**ENVIRONMENTAL MATTERS**

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

**EMPLOYMENT AGREEMENTS**

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

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

The following disclosures of estimated fair values were determined by management using available market information and appropriate valuation methodologies. Considerable judgment is necessary to interpret market data and develop estimated fair values. Accordingly, the estimates presented herein are



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

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

not necessarily indicative of the amounts that the Company could realize upon disposition of the financial instruments. The use of different market assumptions and/or estimation methodologies may have a material effect on the estimated fair values. The carrying amounts and estimated fair values of the Company's financial instruments at December 31, 1999 were as follows:

	Carrying Amount	Fair Value
	-----	-----
	(in thousands)	
Cash and cash equivalents .....	\$ 34,496	\$ 34,496
Accounts and notes receivable .....	\$ 81,088	\$ 81,088
Mortgages and notes payable .....	\$1,766,117	\$1,650,635
Interest rate hedge contracts .....	\$ 1,300	\$ 32

The fair values for the Company's fixed rate mortgages and notes payable were estimated using discounted cash flow analysis, based on the Company's estimated incremental borrowing rate at December 31, 1999, for similar types of borrowing arrangements. The carrying amounts of the Company's variable rate borrowings approximate fair value.

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

Disclosures about the fair value of financial instruments are based on relevant information available to the Company at December 31, 1999. Although management is not aware of any factors that would have a material effect on the fair value amounts reported herein, such amounts have not been revalued since that date and current estimates of fair value may significantly differ from the amounts presented herein.

**12. ACQUISITION AND DISPOSITIONS**

On July 13, 1998, the Company completed its acquisition of the J.C. Nichols Company ("JCN"), a Missouri real estate operating company, pursuant to a merger agreement dated December 22, 1997 and amended on April 29, 1998. The aggregate consideration totaled \$544.0 million and consisted of the issuance of approximately 5.63 million shares of the Company's Common Stock, the assumption of approximately \$229.0 million of debt, approximately \$15.0 million in transaction costs and a cash payment of approximately \$120.0 million, net of cash acquired of approximately \$59.0 million. The merger was accounted for under the purchase method of accounting. The results of operations of JCN have been included in the Company's financial statements for the period from July 13, 1998 to December 31, 1998. Unaudited pro forma information is provided in Note 13 as if the acquisition of JCN had occurred at the beginning of the respective years presented.

During 1999, the Company sold approximately 3.3 million rentable square feet of non-core office and industrial properties, 49 acres of development land in the South Florida area and 36 in-service central Florida office properties encompassing 2.1 million rentable square feet for gross proceeds of approximately \$488.3 million. In addition, the Company sold approximately 2.9 million rentable square feet of non-core office and industrial properties in the Baltimore area and certain other non-core office and industrial properties for gross proceeds of \$208.1 million. The Company recorded a gain of \$8.7 million related to these dispositions. Non-core office and industrial properties generally include single buildings or business parks that do not fit our long-term strategy.

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

12. ACQUISITION AND DISPOSITIONS -- Continued

**PENDING DISPOSITIONS**

The Company currently has 786,000 rentable square feet of properties under contract for sale in various transactions totaling \$57.8 million. Additionally, 3.2 million rentable square feet of properties are under various letters of intent for sale at \$293.5 million. These transactions are subject to customary closing conditions, including due diligence and documentation, and are expected to close during the first and second quarters of 2000. However, the Company can provide no assurance that all or parts of these transactions will be consummated.

13. SUPPLEMENTAL PRO FORMA INFORMATION (UNAUDITED)

The following unaudited proforma information has been prepared assuming the acquisition of J.C. Nichols Company occurred as of January 1, 1998 (in thousands, except per share amounts):

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

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

14. SEGMENT INFORMATION

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

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

The accounting policies of the segments are the same as those described in Note 1. Further, all operations are within the United States and no tenant comprises more than 10% of consolidated revenues. The following table summarizes the rental income, net operating income and assets for each reportable segment for the years ended December 31, 1999, 1998 and 1997:

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

**14. SEGMENT INFORMATION -- Continued**

	Year Ended December 31,		
	1999	1998	1997
	(in thousands)		
Rental Income:			
Office segment .....	\$ 463,676	\$ 426,571	\$ 233,527
Industrial segment .....	51,168	48,134	33,406
Retail segment .....	32,799	13,922	--
Apartment segment .....	16,822	9,374	--
Total Rental Income .....	\$ 564,465	\$ 498,001	\$ 266,933
	=====	=====	=====
Net Operating Income:			
Office segment .....	\$ 316,858	\$ 290,553	\$ 162,685
Industrial segment .....	42,361	39,392	27,505
Retail segment .....	21,685	8,869	--
Apartment segment .....	9,486	4,864	--
Total Net Operating Income .....	\$ 390,390	\$ 343,678	\$ 190,190
Reconciliation to income before minority interest and extraordinary item:			
Equity in earnings of unconsolidated affiliates .....	1,185	430	--
Cost of unsuccessful transactions .....	(1,500)	--	--
Gain on disposition of assets .....	8,679	1,716	--
Interest and other income .....	19,285	14,040	7,537
Interest expense .....	(117,134)	(97,011)	(47,394)
General and administrative expenses .....	(22,345)	(20,776)	(10,216)
Depreciation and amortization .....	(112,347)	(91,705)	(47,533)
Income before minority interest and extraordinary item .....	\$ 166,213	\$ 150,372	\$ 92,584
	=====	=====	=====

	At December 31,		
	1999	1998	1997
Total Assets:			
Office segment .....	\$2,968,953	\$3,268,124	\$2,361,973
Industrial segment .....	435,022	495,675	288,511
Retail segment .....	292,853	239,555	--
Apartment segment .....	118,549	139,093	--
Corporate and other .....	200,820	171,886	71,822
Total Assets .....	\$4,016,197	\$4,314,333	\$2,722,306
	=====	=====	=====

**15. SUBSEQUENT EVENTS**

Stock Repurchase. From January 1, 2000 to March 20, 2000, the Company repurchased 1.5 million shares of Common Stock and Common Units at a weighted average price of \$21.89 per share/unit for an aggregate purchase price of approximately \$31.7 million.

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

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

Selected quarterly financial data for the years ended December 31, 1999 and 1998 are as follows:

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

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

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

	For the year ended December 31, 1998*				
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total
Total Revenue .....	\$102,488	\$115,641	\$142,940	\$151,402	\$ 512,471
Income before gain on disposition of assets minority interest and extraordinary item .....	\$ 34,037	\$ 37,251	\$ 40,309	\$ 37,059	\$ 148,656
Gain on disposition of assets .....	\$ --	\$ --	\$ --	\$ 1,716	\$ 1,716
Income before minority interest and extraordinary item .....	\$ 34,037	\$ 37,251	\$ 40,309	\$ 38,775	\$ 150,372
Minority interest .....	\$ (5,608)	\$ (6,266)	\$ (6,031)	\$ (6,430)	\$ (24,335)
Extraordinary item -- loss on early extinguishment of debt .....	\$ (46)	\$ --	\$ (324)	\$ (17)	\$ (387)
Net income .....	\$ 28,383	\$ 30,985	\$ 33,954	\$ 32,328	\$ 125,650
Dividends on preferred stock.....	\$ (6,145)	\$ (7,656)	\$ (8,145)	\$ (8,146)	\$ (30,092)
Net income available for common shareholders .....	\$ 22,238	\$ 23,329	\$ 25,809	\$ 24,182	\$ 95,558
Net income per common share -- basic:					
Income before extraordinary item .....	\$ 0.45	\$ 0.45	\$ 0.45	\$ 0.40	\$ 1.75
Extraordinary item -- loss on early extinguishment of debt .....	\$ --	\$ --	\$ (0.01)	\$ --	\$ (0.01)
Net income .....	\$ 0.45	\$ 0.45	\$ 0.44	\$ 0.40	\$ 1.74
Net income per common share -- diluted:					
Income before extraordinary item .....	\$ 0.45	\$ 0.44	\$ 0.45	\$ 0.40	\$ 1.74
Extraordinary item -- loss on early extinguishment of debt .....	\$ --	\$ --	\$ (0.01)	\$ --	\$ --
Net income .....	\$ 0.45	\$ 0.44	\$ 0.44	\$ 0.40	\$ 1.74

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

# HIGHWOODS PROPERTIES, INC.

## SCHEDULE III -- REAL ESTATE AND ACCUMULATED DEPRECIATION

December 31, 1999  
(In thousands)

Description	1999 Encumbrance	Initial Cost		Cost Capitalized Subsequent to Acquisition	
		Land	Building & Improvements	Land	Building & Improvements
Asheville, NC					
Ridgefield I	--	636	3,607	--	257
Ridgefield II	--	910	5,157	--	274
Ridgefield III	--	743	4,722	--	--
Ridgefield IV	--	--	--	791	--
Atlanta, GA					
1765 The Exchange	--	767	6,305	(767)	(6,305)
One Point Royal	--	1,754	16,621	(1,754)	(16,621)
Two Point Royal	--	1,793	14,951	--	176
400 North Business Park	--	979	6,112	--	178
50 Glenlake	--	2,500	20,000	--	242
6348 Northeast Expressway	1,361	277	1,629	--	99
6438 Northeast Expressway	1,542	181	2,225	--	69
Bluegrass Lakes	--	816	3,775	--	--
Bluegrass Place 1	--	491	2,016	--	25
Bluegrass Place 2	--	412	2,529	--	47
Bluegrass Land Site V10	--	1,858	--	--	--
Bluegrass Land Site V14	--	1,454	--	--	--
1700 Century Circle	--	1,115	3,148	--	403
1800 Century Boulevard	--	1,441	28,939	--	392
1875 Century Boulevard	--	--	8,790	--	347
1900 Century Boulevard	--	--	4,721	--	447
2200 Century Parkway	--	--	14,274	--	1,117
2400 Century Center	--	--	14,970	--	--
2600 Century Parkway	--	--	10,254	--	357
2635 Century Parkway	--	--	21,083	--	1,064
2800 Century Parkway	--	--	19,963	--	321
Chattahoochee Avenue	--	248	1,817	--	231
Chastain Place I	--	472	3,011	--	910
Chastain Place II	--	607	2,097	--	--
Chastain Place III	--	539	1,662	--	--
Corporate Lakes	--	1,275	7,227	--	445
Distribution Center					
Cosmopolitan North	--	2,855	4,155	--	700
Century Plaza 1	--	1,290	8,425	--	--
Century Plaza 2	--	1,380	7,589	--	--
Century Plaza 3	--	570	--	--	--
Deerfield Land	--	879	--	382	--
Deerfield 1	--	1,194	2,612	--	39
EKA Chemical	--	609	9,883	--	3
1035 Fred Drive	--	270	1,239	--	16
1077 Fred Drive	--	384	1,191	--	38
5125 Fulton Industrial Blvd	--	578	3,116	--	81
Fulton Corporate Center	--	542	2,042	--	92
10 Glenlake	--	3,021	30,966	--	--
Glenlakes	--	2,908	--(18)	(2,898)	--
Gwinnett Distribution Center	--	1,128	5,943	--	330
Kennestone Corporate Center	--	518	4,874	--	215
Lavista Business Park	--	821	5,244	--	568
Norcross, I, II	--	326	1,979	--	43
Nortel	--	3,341	32,109	--	2
Newpoint Place I	--	825	3,799	--	--
Newpoint Place II	--	1,436	3,321	--	--
Newpoint Place III	--	661	1,866	--	694
Newpoint Place	--	187	--	2,973	--
Newpoint - Site E	--	984	--(22)	(984)	--
Oakbrook I	(11)	873	4,948	--	76

Gross Amount at  
Which Carried at Close of Period  
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Life on  
Which

Description	Land	Building & Improvements	Total	Accumulated Depreciation	Date of Construction	Depreciation is Computed
Asheville, NC						
Ridgefield I	636	3,864	4,500	396	1987	5-40 yrs.
Ridgefield II	910	5,431	6,341	491	1989	5-40 yrs.
Ridgefield III	743	4,722	5,465	226	1998	5-40 yrs.
Ridgefield IV	791	--	791	--	N/A	N/A
Atlanta, GA						
1765 The Exchange	--	--	--	--	1983	5-40 yrs.
One Point Royal	--	--	--	--	1996	5-40 yrs.
Two Point Royal	1,793	15,127	16,920	793	1997	5-40 yrs.
400 North Business Park	979	6,290	7,269	449	1985	5-40 yrs.
50 Glenlake	2,500	20,242	22,742	1,106	1997	5-40 yrs.
6348 Northeast Expressway	277	1,728	2,005	124	1978	5-40 yrs.
6438 Northeast Expressway	181	2,294	2,475	168	1981	5-40 yrs.
Bluegrass Lakes	816	3,775	4,591	124	1999	5-40 yrs.
Bluegrass Place 1	491	2,041	2,532	122	1995	5-40 yrs.
Bluegrass Place 2	412	2,576	2,988	153	1996	5-40 yrs.
Bluegrass Land Site V10	1,858	--	1,858	--	1999	5-40 yrs.
Bluegrass Land Site V14	1,454	--	1,454	--	1999	5-40 yrs.
1700 Century Circle	1,115	3,551	4,666	372	1972	5-40 yrs.
1800 Century Boulevard	1,441	29,331	30,772	2,205	1975	5-40 yrs.
1875 Century Boulevard	--	9,137	9,137	707	1976	5-40 yrs.
1900 Century Boulevard	--	5,168	5,168	472	1971	5-40 yrs.
2200 Century Parkway	--	15,391	15,391	1,293	1971	5-40 yrs.
2400 Century Center	--	14,970	14,970	906	1998	5-40 yrs.
2600 Century Parkway	--	10,611	10,611	784	1973	5-40 yrs.
2635 Century Parkway	--	22,147	22,147	1,728	1980	5-40 yrs.
2800 Century Parkway	--	20,284	20,284	1,506	1983	5-40 yrs.
Chattahoochee Avenue	248	2,048	2,296	232	1970	5-40 yrs.
Chastain Place I	472	3,921	4,393	460	1997	5-40 yrs.
Chastain Place II	607	2,097	2,704	149	1998	5-40 yrs.
Chastain Place III	539	1,662	2,201	85	1999	5-40 yrs.
Corporate Lakes	1,275	7,672	8,947	669	1988	5-40 yrs.
Distribution Center						
Cosmopolitan North	2,855	4,855	7,710	476	1980	5-40 yrs.
Century Plaza 1	1,290	8,425	9,715	62	1981	5-40 yrs.
Century Plaza 2	1,380	7,589	8,969	56	1984	5-40 yrs.
Century Plaza 3	570	--	570	--	1984	5-40 yrs.
Deerfield Land	1,261	--	1,261	--	N/A	N/A
Deerfield 1	1,194	2,651	3,845	31	1999	5-40 yrs.
EKA Chemical	609	9,886	10,495	443	1998	5-40 yrs.
1035 Fred Drive	270	1,255	1,525	93	1973	5-40 yrs.
1077 Fred Drive	384	1,229	1,613	91	1973	5-40 yrs.
5125 Fulton Industrial Blvd	578	3,197	3,775	250	1973	5-40 yrs.
Fulton Corporate Center	542	2,134	2,676	168	1973	5-40 yrs.
10 Glenlake	3,021	30,966	33,987	1,198	1998	5-40 yrs.
Glenlakes	10	--	10	--	N/A	N/A
Gwinnett Distribution Center	1,128	6,273	7,401	504	1991	5-40 yrs.
Kennestone Corporate Center						
Kennestone Corporate Center	518	5,089	5,607	358	1985	5-40 yrs.
Lavista Business Park						
Lavista Business Park	821	5,812	6,633	480	1973	5-40 yrs.
Norcross, I, II	326	2,022	2,348	144	1970	5-40 yrs.
Nortel	3,341	32,111	35,452	1,438	1998	5-40 yrs.
Newpoint Place I	825	3,799	4,624	407	1998	5-40 yrs.
Newpoint Place II	1,436	3,321	4,757	9	1999	5-40 yrs.
Newpoint Place III	661	2,560	3,221	149	1998	5-40 yrs.
Newpoint Place	3,160	--	3,160	--	N/A	N/A
Newpoint - Site E	--	--	--	--	N/A	N/A
Oakbrook I	873	5,024	5,897	448	1981	5-40 yrs.

Description	1999 Encumbrance	Initial Cost		Cost Capitalized Subsequent to Acquisition	
		Land	Building & Improvements	Land	Building & Improvements
Oakbrook II	(11)	1,579	8,388	--	1,186
Oakbrook III	(11)	1,480	8,388	--	209
Oakbrook IV	(11)	953	5,400	--	130
Oakbrook V	(11)	2,206	12,501	--	262
Oakbrook Summitt	4,531	950	6,572	--	378
Oxford Lake Business Center	--	855	7,014	--	99
Peachtree Corners Land	--	1,394	--	--	--
Peachtree Corners II	--	1,392	4,482	--	(31)
Southside Distribution Center	--	810	1,219	--	3,340
Highwoods Center I @ Tradeport	--	305	3,299	--	--
HIW Center II at Tradeport	--	635	3,474	--	--
Atlanta Tradeport	--	6,694	--	--	--
Tradeport I	--	557	2,669	--	--
Tradeport II	--	557	3,456	--	--
Baltimore, MD					
4000 Old Court Medical Building	--	862	5,152	(862)	(5,152)
9690 Deereco Road	--	1,188	16,296	(1,188)	(16,296)
Automatic Data Processing	--	2,277	7,667	(2,277)	(7,667)
The Atrium	--	1,390	9,864	(1,390)	(9,864)
Business Center at Owings Mills, Lot 7	--	827	1,581	(827)	(1,581)
Business Center at Owings Mills, Lot 8	--	786	2,241	(786)	(2,241)
Business Center at Owings Mills, Lot 9	--	960	6,125	(960)	(6,125)
Clark Building	--	1,675	8,764	(1,675)	(8,764)
Merrill Lynch Building	--	2,960	11,316	(2,960)	(11,316)
Sportsman Club	--	15,291	--	--	--
Boca, Raton, FL					
Highwoods Square	--	2,586	14,657	(2,586)	(14,657)
Highwoods Plaza	--	1,772	10,042	(1,772)	(10,042)
One Boca Place	--	5,736	32,505	(5,736)	(32,505)
Charlotte, FL					
4101 Stuart Andrew Boulevard	--	70	510	--	254
4105 Stuart Andrew Boulevard	--	26	189	--	22
4109 Stuart Andrew Boulevard	--	87	636	--	40
4201 Stuart Andrew Boulevard	--	110	809	--	58
4205 Stuart Andrew Boulevard	--	134	979	--	52
4209 Stuart Andrew Boulevard	--	91	665	--	52
4215 Stuart Andrew Boulevard	--	133	978	--	74
4301 Stuart Andrew Boulevard	--	232	1,702	--	137
4321 Stuart Andrew Boulevard	--	73	534	--	34
4601 Park Square	--	2,601	7,802	--	246
Alston & Bird	--	2,362	5,379	--	31
First Citizens Building	--	647	5,528	--	482
Twin Lakes Distribution Center	--	2,816	6,570	--	--
Mallard Creek I	--	1,248	4,142	--	301
Mallard Creek III	--	845	4,762	--	78
Mallard Creek IV	--	348	1,152	--	3
Mallard Creek V	--	1,665	8,738	--	--
Mallard Creek VI	--	834	--	--	--
NationsFord Business Park	--	1,206	-- (23)	(791)	--
Oakhill Land	--	2,796	--	--	--

Gross Amount at  
Which Carried at Close of  
Period

Life on  
Which



Description	Land	Building & Improvements	Total	Accumulated Depreciation	Date of Construction	Depreciation is Computed
Oakbrook II	1,579	9,574	11,153	1,081	1983	5-40 yrs.
Oakbrook III	1,480	8,597	10,077	841	1984	5-40 yrs.
Oakbrook IV	953	5,530	6,483	476	1985	5-40 yrs.
Oakbrook V	2,206	12,763	14,969	1,169	1985	5-40 yrs.
Oakbrook Summitt	950	6,950	7,900	543	1981	5-40 yrs.
Oxford Lake Business Center	855	7,113	7,968	488	1985	5-40 yrs.
Peachtree Corners Land	1,394	--	1,394	--	N/A	N/A
Peachtree Corners II	1,392	4,451	5,843	4	1999	5-40 yrs.
Southside Distribution Center	810	4,559	5,369	334	1988	5-40 yrs.
Highwoods Center I @ Tradeport	305	3,299	3,604	153	1999	5-40 yrs.
HIW Center II at Tradeport	635	3,474	4,109	55	1999	5-40 yrs.
Atlanta Tradeport	6,694	--	6,694	--	N/A	N/A
Tradeport I	557	2,669	3,226	68	1999	5-40 yrs.
Tradeport II	557	3,456	4,013	86	1999	5-40 yrs.
Baltimore, MD						
4000 Old Court Medical Building	--	--	--	--	1987	5-40 yrs.
9690 Deereco Road	--	--	--	--	1989	5-40 yrs.
Automatic Data Processing	--	--	--	--	1998	5-40 yrs.
The Atrium	--	--	--	--	1986	5-40 yrs.
Business Center at Owings Mills, Lot 7	--	--	--	--	1989	5-40 yrs.
Business Center at Owings Mills, Lot 8	--	--	--	--	1988	5-40 yrs.
Business Center at Owings Mills, Lot 9	--	--	--	--	1974	5-40 yrs.
Clark Building	--	--	--	--	1982	5-40 yrs.
Merrill Lynch Building	--	--	--	--	N/A	N/A
Sportsman Club	15,291	--	15,291	--		
Boca, Raton, FL						
Highwoods Square	--	--	--	--	1989	5-40 yrs.
Highwoods Plaza	--	--	--	--	1980	5-40 yrs.
One Boca Place	--	--	--	--	1987	5-40 yrs.
Charlotte, FL						
4101 Stuart Andrew Boulevard	70	764	834	177	1984	5-40 yrs.
4105 Stuart Andrew Boulevard	26	211	237	36	1984	5-40 yrs.
4109 Stuart Andrew Boulevard	87	676	763	85	1984	5-40 yrs.
4201 Stuart Andrew Boulevard	110	867	977	117	1982	5-40 yrs.
4205 Stuart Andrew Boulevard	134	1,031	1,165	128	1982	5-40 yrs.
4209 Stuart Andrew Boulevard	91	717	808	96	1982	5-40 yrs.
4215 Stuart Andrew Boulevard	133	1,052	1,185	140	1982	5-40 yrs.
4301 Stuart Andrew Boulevard	232	1,839	2,071	224	1982	5-40 yrs.
4321 Stuart Andrew Boulevard	73	568	641	68	1982	5-40 yrs.
4601 Park Square	2,601	8,048	10,649	343	1972	5-40 yrs.
Alston & Bird	2,362	5,410	7,772	258	1965	5-40 yrs.
First Citizens Building	647	6,010	6,657	919	1989	5-40 yrs.
Twin Lakes Distribution Center	2,816	6,570	9,386	256	1991	5-40 yrs.
Mallard Creek I	1,248	4,443	5,691	196	1986	5-40 yrs.
Mallard Creek III	845	4,840	5,685	201	1990	5-40 yrs.
Mallard Creek IV	348	1,155	1,503	47	1993	5-40 yrs.
Mallard Creek V	1,665	8,738	10,403	28	1999	5-40 yrs.
Mallard Creek VI	834	--	834	--	N/A	N/A
NationsFord Business Park	415	--	415	--	N/A	N/A
Oakhill Land	2,796	--	2,796	--	N/A	N/A

Description	1999 Encumbrance	Initial Cost		Cost Capitalized Subsequent to Acquisition	
		Land	Building & Improvements	Land	Building & Improvements
Oak Hill Business Park English	(11)	750	4,248	--	90
Oak Hill Business Park Laurel	(11)	471	2,671	--	282
Oak Hill Business Park Live Oak	--	1,403	5,611	--	579
Oak Hill Business Park Scarlett	(11)	1,073	6,078	--	407
Oak Hill Business Park Twin Oak	(11)	1,243	7,044	--	474
Oak Hill Business Park Willow	(11)	442	2,505	--	876
Oak Hill Business Park Water	(11)	1,623	9,196	--	816
Pinebrook	--	846	4,607	--	218
Parkway Plaza Building 1	--	1,110	4,741	--	538
Parkway Plaza Building 2	--	1,694	6,777	--	1,267
Parkway Plaza Building 3	(4)	1,570	6,282	--	567
Parkway Plaza Building 6	--	--	2,438	--	534
Parkway Plaza Building 7	--	--	4,648	--	237
Parkway Plaza Building 8	--	--	4,698	--	203
Parkway Plaza Building 9	--	--	6,008	--	28
Parkway Plaza Building 11	--	--	2,328	160	--
Parkway Plaza Bldg 12	--	112	1,489	--	--
Parkway Plaza Bldg 14	--	483	6,077	--	--
University Research Center Columbia, SC	--	3,694	13,463	(3,694)	(13,463)
Center Point I	--	1,313	7,441	--	88
Center Point II	--	1,183	8,724	1	--
Center Point V	--	265	1,279	--	264
Center Point VI	--	265	--	--	--
Fontaine I	--	1,219	6,907	--	326
Fontaine II	--	941	5,335	--	778
Fontaine III	--	853	4,833	--	87
Fontaine V	--	395	2,237	--	--
Piedmont Triad, NC					
Concourse Center 1	--	946	7,646	--	--
Airport Center Drive	--	1,600	--(13)	(717)	--
6348 Burnt Poplar	--	721	2,883	--	26
6350 Burnt Poplar	--	339	1,365	--	17
Chimney Rock A/B	--	1,610	3,757	1	4
Chimney Rock C	--	604	1,408	--	2
Chimney Rock D	--	236	550	--	2
Chimney Rock E	--	1,692	3,948	1	43
Chimney Rock F	--	1,431	3,338	1	4
Chimney Rock G	--	1,044	2,435	1	3
Deep River Corporate Center	--	1,033	5,855	--	302
Airpark East-Copier Consultants	(3)	252	1,008	--	124
Airpark East-Building 1	(3)	377	1,510	--	47
Airpark East-Building 2	(3)	461	1,842	--	23
Airpark East-Building 3	(3)	321	1,283	--	67
Airpark East-HewlettPackard	--	149	727(12)	313	701
Airpark East-Inacom Building	--	106	478(12)	222	294
Airpark East-Simplex	--	103	526(12)	196	258
Airpark East-Building A	(3)	541	2,913	--	470
Airpark East-Building B	(3)	779	3,200	--	340
Airpark East-Building C	(3)	2,384	9,535	--	572
Airpark East-Building D	--	271	3,213(12)	575	711
Airpark East Expansion	--	--	--	36	--
Airpark East Land	--	1,317	--(12)	(1,306)	64
Airpark East-Service Center 1	(3)	275	1,099	--	127

Gross Amount at  
Which Carried at Close of Period

Description	Land	Building & Improvements	Total	Accumulated Depreciation	Date of Construction	Life on Which Depreciation is Computed
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Oak Hill Business Park English	750	4,338	5,088	378	1984	5-40 yrs.
Oak Hill Business Park Laurel	471	2,953	3,424	327	1984	5-40 yrs.
Oak Hill Business Park Live Oak	1,403	6,190	7,593	663	1989	5-40 yrs.
Oak Hill Business Park Scarlett	1,073	6,485	7,558	592	1982	5-40 yrs.
Oak Hill Business Park Twin Oak	1,243	7,518	8,761	649	1985	5-40 yrs.
Oak Hill Business Park Willow	442	3,381	3,823	424	1982	5-40 yrs.
Oak Hill Business Park Water	1,623	10,012	11,635	1,070	1985	5-40 yrs.
Pinebrook	846	4,825	5,671	307	1986	5-40 yrs.
Parkway Plaza Building 1	1,110	5,279	6,389	567	1982	5-40 yrs.
Parkway Plaza Building 2	1,694	8,044	9,738	1,294	1983	5-40 yrs.
Parkway Plaza Building 3	1,570	6,849	8,419	875	1984	5-40 yrs.
Parkway Plaza Building 6	--	2,972	2,972	436	1996	5-40 yrs.
Parkway Plaza Building 7	--	4,885	4,885	493	1985	5-40 yrs.
Parkway Plaza Building 8	--	4,901	4,901	486	1986	5-40 yrs.
Parkway Plaza Building 9	--	6,036	6,036	612	1984	5-40 yrs.
Parkway Plaza Building 11	160	2,328	2,488	103	1999	5-40 yrs.
Parkway Plaza Bldg 12	112	1,489	1,601	7	1999	5-40 yrs.
Parkway Plaza Bldg 14	483	6,077	6,560	54	1999	5-40 yrs.
University Research Center Columbia, SC	--	--	--	--	1980	5-40 yrs.
Center Point I	1,313	7,529	8,842	642	1988	5-40 yrs.
Center Point II	1,184	8,724	9,908	852	1996	5-40 yrs.
Center Point V	265	1,543	1,808	174	1997	5-40 yrs.
Center Point VI	265	--	265	--	N/A	N/A
Fontaine I	1,219	7,233	8,452	599	1985	5-40 yrs.
Fontaine II	941	6,113	7,054	878	1987	5-40 yrs.
Fontaine III	853	4,920	5,773	437	1988	5-40 yrs.
Fontaine V	395	2,237	2,632	186	1990	5-40 yrs.
Piedmont Triad, NC						
Concourse Center 1	946	7,646	8,592	126	1999	5-40 yrs.
Airport Center Drive	883	--	883	--	N/A	N/A
6348 Burnt Poplar	721	2,909	3,630	353	1990	5-40 yrs.
6350 Burnt Poplar	339	1,382	1,721	168	1992	5-40 yrs.
Chimney Rock A/B	1,611	3,761	5,372	156	1981	5-40 yrs.
Chimney Rock C	604	1,410	2,014	58	1983	5-40 yrs.
Chimney Rock D	236	552	788	23	1983	5-40 yrs.
Chimney Rock E	1,693	3,991	5,684	165	1985	5-40 yrs.
Chimney Rock F	1,432	3,342	4,774	139	1987	5-40 yrs.
Chimney Rock G	1,045	2,438	3,483	101	1987	5-40 yrs.
Deep River Corporate Center	1,033	6,157	7,190	604	1989	5-40 yrs.
Airpark East-Copier Consultants	252	1,132	1,384	137	1990	5-40 yrs.
Airpark East-Building 1	377	1,557	1,934	220	1990	5-40 yrs.
Airpark East-Building 2	461	1,865	2,326	229	1986	5-40 yrs.
Airpark East-Building 3	321	1,350	1,671	188	1986	5-40 yrs.
Airpark East-HewlettPackard	462	1,428	1,890	185	1996	5-40 yrs.
Airpark East-Inacom Building	328	772	1,100	157	1996	5-40 yrs.
Airpark East-Simplex	299	784	1,083	131	1997	5-40 yrs.
Airpark East-Building A	541	3,383	3,924	525	1986	5-40 yrs.
Airpark East-Building B	779	3,540	4,319	548	1988	5-40 yrs.
Airpark East-Building C	2,384	10,107	12,491	1,305	1990	5-40 yrs.
Airpark East-Building D	846	3,924	4,770	586	1997	5-40 yrs.
Airpark East Expansion	36	--	36	--	N/A	N/A
Airpark East Land	11	64	75	--	N/A	N/A
Airpark East-Service Center 1	275	1,226	1,501	187	1985	5-40 yrs.

Description	1999 Encumbrance	Initial Cost		Cost Capitalized Subsequent to Acquisition	
		Land	Building & Improvements	Land	Building & Improvements
Airpark East-Service Center 2	(3)	222	889	--	119
Airpark East-Service Center 3	(3)	304	1,214	--	66
Airpark East-Service Center 4	(3)	224	898	--	74
Airpark East-Service Court	(3)	194	774	--	57
Airpark East-Warehouse 1	(3)	384	1,535	--	78
Airpark East-Warehouse 2	(3)	372	1,488	--	86
Airpark East-Warehouse 3	(3)	370	1,480	--	49
Airpark East-Warehouse 4	(3)	657	2,628	--	179
Airpark East-Highland	(3)	175	699	--	377
206 South Westgate Drive	--	91	664	--	19
207 South Westgate Drive	--	138	1,012	--	8
300 South Westgate Drive	--	68	496	--	6
305 South Westgate Drive	--	30	220	--	69
307 South Westgate Drive	--	66	485	--	14
309 South Westgate Drive	--	68	496	--	21
311 South Westgate Drive	--	75	551	--	27
315 South Westgate Drive	--	54	396	--	13
317 South Westgate Drive	--	81	597	--	25
319 South Westgate Drive	--	54	396	--	7
Inman Road Land	--	2,357	--	--	--
7906 Industrial Village Road	--	62	455	--	22
7908 Industrial Village Road	--	62	455	--	11
7910 Industrial Village Road	--	62	455	--	14
Jefferson Pilot Land	7,683	13,560	--	--	--
Airpark North - DC1	(3)	723	2,891	--	187
Airpark North - DC2	(3)	1,094	4,375	--	95
Airpark North - DC3	(3)	378	1,511	--	215
Airpark North - DC4	(3)	377	1,508	--	141
Airpark North Land	--	804	--	--	--
2606 Phoenix Drive (100 Series)	--	63	466	--	--
2606 Phoenix Drive (200 Series)	--	63	466	--	3
2606 Phoenix Drive (300 Series)	--	31	229	--	124
2606 Phoenix Drive (400 Series)	--	52	382	--	11
2606 Phoenix Drive (500 Series)	--	64	471	--	20
2606 Phoenix Drive (600 Series)	--	78	575	--	16
Network Construction	--	--	533	--	200
5 Dundas Circle	--	72	531	--	14
7 Dundas Circle	--	75	552	--	28
8 Dundas Circle	--	84	617	--	19
302 Pomona Drive	--	84	617	--	81
304 Pomona Drive	--	22	163	--	1
306 Pomona Drive	--	50	368	--	26
308 Pomona Drive	--	72	531	--	9
9 Dundas Circle	--	51	373	--	37
2616 Phoenix Drive	--	135	990	--	82
500 Radar Road	--	202	1,484	--	109
502 Radar Road	--	39	285	--	80
504 Radar Road	--	39	285	--	14
506 Radar Road	--	39	285	--	7
Regency One-Piedmont Center	--	515	2,347	--	576
Regency Two-Piedmont Center	--	435	1,859	--	509
Sears Cenfact	--	861	3,446	--	26
4000 Spring Garden Street	--	127	933	--	87
4002 Spring Garden Street	--	39	290	--	6

Gross Amount at  
Which Carried at Close of Period  
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Life on  
Which

Description	Land	Building & Improvements	Total	Accumulated Depreciation	Date of Construction	Depreciation is Computed
Airpark East-Service Center 2	222	1,008	1,230	131	1985	5-40 yrs.
Airpark East-Service Center 3	304	1,280	1,584	192	1985	5-40 yrs.
Airpark East-Service Center 4	224	972	1,196	119	1985	5-40 yrs.
Airpark East-Service Court	194	831	1,025	116	1990	5-40 yrs.
Airpark East-Warehouse 1	384	1,613	1,997	210	1985	5-40 yrs.
Airpark East-Warehouse 2	372	1,574	1,946	208	1985	5-40 yrs.
Airpark East-Warehouse 3	370	1,529	1,899	190	1986	5-40 yrs.
Airpark East-Warehouse 4	657	2,807	3,464	355	1988	5-40 yrs.
Airpark East-Highland	175	1,076	1,251	94	1990	5-40 yrs.
206 South Westgate Drive	91	683	774	77	1986	5-40 yrs.
207 South Westgate Drive	138	1,020	1,158	114	1986	5-40 yrs.
300 South Westgate Drive	68	502	570	56	1986	5-40 yrs.
305 South Westgate Drive	30	289	319	47	1985	5-40 yrs.
307 South Westgate Drive	66	499	565	61	1985	5-40 yrs.
309 South Westgate Drive	68	517	585	62	1985	5-40 yrs.
311 South Westgate Drive	75	578	653	78	1985	5-40 yrs.
315 South Westgate Drive	54	409	463	50	1985	5-40 yrs.
317 South Westgate Drive	81	622	703	76	1985	5-40 yrs.
319 South Westgate Drive	54	403	457	46	1985	5-40 yrs.
Inman Road Land	2,357	--	2,357	--	N/A	N/A
7906 Industrial Village Road	62	477	539	52	1985	5-40 yrs.
7908 Industrial Village Road	62	466	528	57	1985	5-40 yrs.
7910 Industrial Village Road	62	469	531	60	1985	5-40 yrs.
Jefferson Pilot Land	13,560	--	13,560	--	N/A	N/A
Airpark North - DC1	723	3,078	3,801	364	1986	5-40 yrs.
Airpark North - DC2	1,094	4,470	5,564	557	1987	5-40 yrs.
Airpark North - DC3	378	1,726	2,104	293	1988	5-40 yrs.
Airpark North - DC4	377	1,649	2,026	230	1988	5-40 yrs.
Airpark North Land	804	--	804	--	N/A	N/A
2606 Phoenix Drive (100 Series)	63	466	529	52	1989	5-40 yrs.
2606 Phoenix Drive (200 Series)	63	469	532	55	1989	5-40 yrs.
2606 Phoenix Drive (300 Series)	31	353	384	47	1989	5-40 yrs.
2606 Phoenix Drive (400 Series)	52	393	445	49	1989	5-40 yrs.
2606 Phoenix Drive (500 Series)	64	491	555	64	1989	5-40 yrs.
2606 Phoenix Drive (600 Series)	78	591	669	77	1989	5-40 yrs.
Network Construction	--	733	733	55	1988	5-40 yrs.
5 Dundas Circle	72	545	617	69	1987	5-40 yrs.
7 Dundas Circle	75	580	655	72	1986	5-40 yrs.
8 Dundas Circle	84	636	720	85	1986	5-40 yrs.
302 Pomona Drive	84	698	782	96	1987	5-40 yrs.
304 Pomona Drive	22	164	186	19	1987	5-40 yrs.
306 Pomona Drive	50	394	444	52	1987	5-40 yrs.
308 Pomona Drive	72	540	612	63	1987	5-40 yrs.
9 Dundas Circle	51	410	461	47	1986	5-40 yrs.
2616 Phoenix Drive	135	1,072	1,207	126	1985	5-40 yrs.
500 Radar Road	202	1,593	1,795	205	1981	5-40 yrs.
502 Radar Road	39	365	404	57	1986	5-40 yrs.
504 Radar Road	39	299	338	34	1986	5-40 yrs.
506 Radar Road	39	292	331	34	1986	5-40 yrs.
Regency One-Piedmont Center	515	2,923	3,438	404	1996	5-40 yrs.
Regency Two-Piedmont Center	435	2,368	2,803	439	1996	5-40 yrs.
Sears Cenfact	861	3,472	4,333	425	1989	5-40 yrs.
4000 Spring Garden Street	127	1,020	1,147	131	1983	5-40 yrs.
4002 Spring Garden Street	39	296	335	35	1983	5-40 yrs.

Description	1999 Encumbrance	Initial Cost		Cost Capitalized Subsequent to Acquisition	
		Land	Building & Improvements	Land	Building & Improvements
4004 Spring Garden Street	--	139	1,019	--	67
Airpark South Warehouse I	--	537	2,934	--	--
Airpark South Warehouse 2	--	733	2,548	--	--
Airpark South Warehouse 4	--	489	2,175	--	--
Airpark South Warehouse VI	--	1,690	3,915	--	--
RF Micro Devices	--	512	7,674	(512)	(7,674)
Airpark West(1)	(4)	954	3,817	--	824
Airpark West(2)	(4)	887	3,536	(3)	498
Airpark West(4)	(4)	226	903	--	132
Airpark West(5)	(4)	242	966	--	76
Airpark West(6)	(4)	326	1,308	--	128
7327 West Friendly Avenue	--	60	441	--	7
7339 West Friendly Avenue	--	63	465	--	27
7341 West Friendly Avenue	--	113	831	--	123
7343 West Friendly Avenue	--	72	531	--	24
7345 West Friendly Avenue	--	66	485	--	17
7347 West Friendly Avenue	--	97	709	--	61
7349 West Friendly Avenue	--	53	388	--	14
7351 West Friendly Avenue	--	106	778	--	28
7353 West Friendly Avenue	--	123	901	--	12
7355 West Friendly Avenue	--	72	525	--	7
150 Stratford	--	2,777	11,459	--	404
Chesapeake	(4)	1,236	4,944	--	8
Forsyth Corporate Center	(11)	326	1,850	--	647
The Knollwood(370)	(3)	1,819	7,451	--	472
The Knollwood(380)	(3)	2,977	11,912	--	1,891
RMIC	--	1,091	5,525	--	626
Robinhood	--	290	1,159	--	115
101 Stratford	--	1,205	6,810	--	306
Consolidated Center/ Building I	--	625	2,126	--	56
Consolidated Center/ Building II	--	625	4,376	--	138
Consolidated Center/ Building III	--	680	3,522	--	51
Consolidated Center/ Building IV	--	376	1,624	--	184
Champion Headquarters	--	1,725	6,280	--	85
Grassy Creek - Building G	--	1,439	3,357	(1,439)	(3,357)
Grassy Creek - Building H	--	1,606	3,748	(1,606)	(3,748)
Grassy Creek - Building I	--	1,835	4,283	(1,835)	(4,283)
Hampton Park - Building 5	--	318	742	--	145
Hampton Park - Building 6	--	371	866	--	6
Hampton Park - Building 7	--	212	495	--	3
Hampton Park - Building 8	--	212	495	--	65
Hampton Park - Building 9	--	212	495	--	3
5100 Indiana Avenue	--	490	1,143	--	2
Members Warehouse	--	602	1,406	(602)	(1,406)
Madison Park - Building 5610	--	211	493	--	--
Madison Park - Building 5620	(10)	941	2,196	--	--
Madison Park - Building 5630	(10)	1,486	3,468	--	13
Madison Park - Building 5635	(10)	893	2,083	--	--
Madison Park - Building 5640	(10)	3,632	8,476	--	35
Madison Park - Building 5650	(10)	1,081	2,522	--	1
Madison Park - Building 5660	(10)	1,910	4,456	--	10
Madison Park - Building 5655	(10)	5,891	13,753	--	22
711 Almondridge	--	301	702	--	25
710 Almondridge	--	1,809	4,221	--	109
500 Northridge	--	1,789	4,174	--	2

Gross Amount at  
Which Carried at Close of Period

Building &

Accumulated

Date of

Life on  
Which  
Depreciation

Description	Land	Improvements	Total	Depreciation	Construction	is Computed
4004 Spring Garden Street	139	1,086	1,225	144	1983	5-40 yrs.
Airpark South Warehouse I	537	2,934	3,471	155	1998	5-40 yrs.
Airpark South Warehouse 2	733	2,548	3,281	35	1999	5-40 yrs.
Airpark South Warehouse 4	489	2,175	2,664	17	1999	5-40 yrs.
Airpark South Warehouse VI	1,690	3,915	5,605	96	1999	5-40 yrs.
RF Micro Devices	--	--	--	--	1997	5-40 yrs.
Airpark West(1)	954	4,641	5,595	807	1984	5-40 yrs.
Airpark West(2)	884	4,034	4,918	601	1985	5-40 yrs.
Airpark West(4)	226	1,035	1,261	176	1985	5-40 yrs.
Airpark West(5)	242	1,042	1,284	165	1985	5-40 yrs.
Airpark West(6)	326	1,436	1,762	234	1985	5-40 yrs.
7327 West Friendly Avenue	60	448	508	50	1987	5-40 yrs.
7339 West Friendly Avenue	63	492	555	59	1989	5-40 yrs.
7341 West Friendly Avenue	113	954	1,067	120	1988	5-40 yrs.
7343 West Friendly Avenue	72	555	627	62	1988	5-40 yrs.
7345 West Friendly Avenue	66	502	568	61	1988	5-40 yrs.
7347 West Friendly Avenue	97	770	867	115	1988	5-40 yrs.
7349 West Friendly Avenue	53	402	455	52	1988	5-40 yrs.
7351 West Friendly Avenue	106	806	912	99	1988	5-40 yrs.
7353 West Friendly Avenue	123	913	1,036	102	1988	5-40 yrs.
7355 West Friendly Avenue	72	532	604	59	1988	5-40 yrs.
150 Stratford	2,777	11,863	14,640	1,504	1991	5-40 yrs.
Chesapeake	1,236	4,952	6,188	604	1993	5-40 yrs.
Forsyth Corporate Center	326	2,497	2,823	345	1985	5-40 yrs.
The Knollwood(370)	1,819	7,923	9,742	1,088	1994	5-40 yrs.
The Knollwood(380)	2,977	13,803	16,780	1,950	1990	5-40 yrs.
RMIC	1,091	6,151	7,242	510	1998	5-40 yrs.
Robinhood	290	1,274	1,564	191	1989	5-40 yrs.
101 Stratford	1,205	7,116	8,321	369	1986	5-40 yrs.
Consolidated Center/ Building I	625	2,182	2,807	116	1983	5-40 yrs.
Consolidated Center/ Building II	625	4,514	5,139	243	1983	5-40 yrs.
Consolidated Center/ Building III	680	3,573	4,253	190	1989	5-40 yrs.
Consolidated Center/ Building IV	376	1,808	2,184	119	1989	5-40 yrs.
Champion Headquarters	1,725	6,365	8,090	338	1993	5-40 yrs.
Grassy Creek - Building G	--	--	--	--	1984	5-40 yrs.
Grassy Creek - Building H	--	--	--	--	1985	5-40 yrs.
Grassy Creek - Building I	--	--	--	--	1986	5-40 yrs.
Hampton Park - Building 5	318	887	1,205	39	1981	5-40 yrs.
Hampton Park - Building 6	371	872	1,243	35	1980	5-40 yrs.
Hampton Park - Building 7	212	498	710	20	1983	5-40 yrs.
Hampton Park - Building 8	212	560	772	20	1984	5-40 yrs.
Hampton Park - Building 9	212	498	710	20	1985	5-40 yrs.
5100 Indiana Avenue	490	1,145	1,635	44	1982	5-40 yrs.
Members Warehouse	--	--	--	--	1986	5-40 yrs.
Madison Park - Building 5610	211	493	704	19	1988	5-40 yrs.
Madison Park - Building 5620	941	2,196	3,137	86	1983	5-40 yrs.
Madison Park - Building 5630	1,486	3,481	4,967	135	1983	5-40 yrs.
Madison Park - Building 5635	893	2,083	2,976	81	1986	5-40 yrs.
Madison Park - Building 5640	3,632	8,511	12,143	330	1985	5-40 yrs.
Madison Park - Building 5650	1,081	2,523	3,604	98	1984	5-40 yrs.
Madison Park - Building 5660	1,910	4,466	6,376	173	1984	5-40 yrs.
Madison Park - Building 5655	5,891	13,775	19,666	535	1987	5-40 yrs.
711 Almondridge	301	727	1,028	32	1988	5-40 yrs.
710 Almondridge	1,809	4,330	6,139	168	1989	5-40 yrs.
500 Northridge	1,789	4,176	5,965	166	1988	5-40 yrs.

Description	1999 Encumbrance	Initial Cost		Cost Capitalized Subsequent to Acquisition	
		Land	Building & Improvements	Land	Building & Improvements
520 Northridge	--	1,645	3,876	--	345
531 Northridge Warehouse	--	4,992	11,648	--	174
531 Northridge Office	--	766	1,788	--	1
540 Northridge	--	2,038	4,755	--	140
550 Northridge	--	472	1,102	--	152
US Airways	(11)	2,625	14,824	--	209
University Commercial Center-Landmark 03	--	429	1,771	--	170
University Commercial Center-Archer 04	--	514	2,058	--	185
University Commercial Center-Service Center 1	--	276	1,155	--	71
University Commercial Center-Service Center 2	--	215	859	--	127
University Commercial Center-Service Center 3	--	167	668	--	26
University Commercial Center-Warehouse 1	--	203	812	--	8
University Commercial Center-Warehouse 2	--	196	786	--	13
Westpoint Business Park-BMF	(1)	795	3,181	--	3
Westpoint Business Park-Luwabahnson	--	346	1,384	--	1
Westpoint Business Park (3 & 4)	(1)	120	480	--	38
Westpoint Business Park	--	1,759	-- (14)	(420)	1
Westpoint Business Park-Wp 11	(1)	393	1,570	--	65
Westpoint Business Park-Wp 12	(1)	382	1,531	--	44
Westpoint Business Park-Wp 13	(1)	297	1,192	--	41
Westpoint Business Park-Fairchild	--	640	2,577	--	26
Westpoint Business Park-Warehouse5	--	178	590	--	336
Greenville, SC					
385 Land	--	1,800	--	--	--
Nationsbank Plaza	--	642	9,349	--	1,867
Brookfield Plaza	(11)	1,489	8,437	--	328
Brookfield-CRS Serrine	--	3,022	17,125	--	--
Brookfield-YMCA	--	33	189	--	16
385 Building 1	--	1,413	1,401	--	2,778
Patewood I	--	942	5,016	--	71
Patewood II	--	942	5,018	--	115
Patewood III	(11)	835	4,733	--	151
Patewood IV	(11)	1,210	6,856	--	4
Patewood V	(11)	1,677	9,503	--	65
Patewood VI	--	2,375	9,643	--	--
769 Pelham Road	--	705	2,778	--	10
Patewood Business Center Jacksonville, FL	--	1,312	7,436	--	169
9A Land	--	3,915	--	--	--
Belfort Park I	--	1,322	4,285	83	218
Belfort Park II	--	831	5,066	52	413
Belfort Park III	--	647	4,063	41	747
Belfort Park VI	--	--	--	484	--
Belfort Park VII	--	--	--	1,560	--
CIGNA Building	--	381	1,592	24	214
Harry James Building	--	272	1,360	17	280
Independent Square	--	3,985	44,633	250	13,667
Three Oaks Plaza	--	1,630	14,036	102	835
Reflections	6,520	958	9,877	60	544
Southpoint Building	--	594	3,987	37	231
SWD Land Annex	--	--	--	1	5
Highwoods Center	--	1,143	6,476	--	83
Life of the South Building	--	184	4,750	12	563

Gross Amount at  
Which Carried at Close of  
Period

Life on



Description	Land	Building & Improvements	Total	Accumulated Depreciation	Date of Construction	Which Depreciation is Computed
520 Northridge	1,645	4,221	5,866	155	1988	5-40 yrs.
531 Northridge Warehouse	4,992	11,822	16,814	459	1989	5-40 yrs.
531 Northridge Office	766	1,789	2,555	70	1989	5-40 yrs.
540 Northridge	2,038	4,895	6,933	188	1987	5-40 yrs.
550 Northridge	472	1,254	1,726	67	1989	5-40 yrs.
US Airways	2,625	15,033	17,658	800	1970-1987	5-40 yrs.
University Commercial Center-Landmark 03	429	1,941	2,370	252	1985	5-40 yrs.
University Commercial Center-Archer 04	514	2,243	2,757	314	1986	5-40 yrs.
University Commercial Center-Service Center 1	276	1,226	1,502	174	1983	5-40 yrs.
University Commercial Center-Service Center 2	215	986	1,201	155	1983	5-40 yrs.
University Commercial Center-Service Center 3	167	694	861	86	1984	5-40 yrs.
University Commercial Center-Warehouse 1	203	820	1,023	100	1983	5-40 yrs.
University Commercial Center-Warehouse 2	196	799	995	97	1983	5-40 yrs.
Westpoint Business Park-BMF	795	3,184	3,979	388	1986	5-40 yrs.
Westpoint Business Park-Luwabahnson	346	1,385	1,731	169	1990	5-40 yrs.
Westpoint Business Park (3 & 4)	120	518	638	63	1988	5-40 yrs.
Westpoint Business Park	1,339	1	1,340	--	N/A	N/A
Westpoint Business Park-Wp 11	393	1,635	2,028	211	1988	5-40 yrs.
Westpoint Business Park-Wp 12	382	1,575	1,957	192	1988	5-40 yrs.
Westpoint Business Park-Wp 13	297	1,233	1,530	150	1988	5-40 yrs.
Westpoint Business Park-Fairchild	640	2,603	3,243	314	1990	5-40 yrs.
Westpoint Business Park-Warehouse5 Greenville, SC	178	926	1,104	224	1995	5-40 yrs.
385 Land	1,800	--	1,800	--	N/A	N/A
Nationsbank Plaza	642	11,216	11,858	820	1973	5-40 yrs.
Brookfield Plaza	1,489	8,765	10,254	840	1987	5-40 yrs.
Brookfield-CRS Serrine	3,022	17,125	20,147	1,421	1990	5-40 yrs.
Brookfield-YMCA	33	205	238	26	1990	5-40 yrs.
385 Building 1	1,413	4,179	5,592	348	1998	5-40 yrs.
Patewood I	942	5,087	6,029	368	1985	5-40 yrs.
Patewood II	942	5,133	6,075	386	1987	5-40 yrs.
Patewood III	835	4,884	5,719	506	1989	5-40 yrs.
Patewood IV	1,210	6,860	8,070	569	1989	5-40 yrs.
Patewood V	1,677	9,568	11,245	789	1990	5-40 yrs.
Patewood VI	2,375	9,643	12,018	591	1999	5-40 yrs.
769 Pelham Road	705	2,788	3,493	132	1989	5-40 yrs.
Patewood Business Center Jacksonville, FL	1,312	7,605	8,917	650	1983	5-40 yrs.
9A Land	3,915	--	3,915	--	N/A	N/A
Belfort Park I	1,405	4,503	5,908	280	1988	5-40 yrs.
Belfort Park II	883	5,479	6,362	363	1988	5-40 yrs.
Belfort Park III	688	4,810	5,498	369	1988	5-40 yrs.
Belfort Park VI	484	--	484	--	N/A	N/A
Belfort Park VII	1,560	--	1,560	--	N/A	N/A
CIGNA Building	405	1,806	2,211	113	1972	5-40 yrs.
Harry James Building	289	1,640	1,929	110	1982	5-40 yrs.
Independent Square	4,235	58,300	62,535	3,355	1975	5-40 yrs.
Three Oaks Plaza	1,732	14,871	16,603	921	1972	5-40 yrs.
Reflections	1,018	10,421	11,439	615	1985	5-40 yrs.
Southpoint Building	631	4,218	4,849	239	1980	5-40 yrs.
SWD Land Annex	1	5	6	1	N/A	N/A
Highwoods Center	1,143	6,559	7,702	549	1991	5-40 yrs.
Life of the South Building	196	5,313	5,509	337	1964	5-40 yrs.

Description	1999 Encumbrance	Initial Cost		Cost Capitalized Subsequent to Acquisition	
		Land	Building & Improvements	Land	Building & Improvements
Tallahassee, FL					
Blair Stone Building	--	1,550	32,988	--	1,170
215 South Monroe St. Building	--	1,950	17,853	4	497
Shawnee Mission, KS					
Corinth Square North Shops	(6)	2,693	10,772	--	410
Corinth Shops South	(6)	1,043	4,172	--	52
Fairway Shops	2,710	673	2,694	--	179
Georgetown Marketplace	--	1,399	5,598	(1,399)	(5,598)
Prairie Village Shops	11,229	3,289	13,157	--	1,172
Shannon Valley Shopping Center	6,427	1,669	6,678	--	1,252
Trailwood III Shops	783	223	893	--	55
Trailwood Shops	--	458	1,831	--	72
Valencia Place	--	--	2,245	--	--
Westwood Shops	--	113	453	--	4
Brymar Building	--	329	1,317	--	22
Corinth Executive Square	--	514	2,054	--	490
Corinth Office Building	868	529	2,116	--	52
Fairway North Building	4,500	753	3,013	--	163
Fairway West Building	4,775	851	3,402	--	226
Hartford Office Building	--	568	2,271	--	138
Land - Kansas	--	28,275	121	(371)	--
Nichols Building	920	490	1,959	--	99
Oak Park Building	--	368	1,470	--	159
Prairie Village Office Center	--	749	2,997	--	159
QUIVIRA Business Park A	--	191	447	--	21
QUIVIRA Business Park B	--	179	417	--	14
QUIVIRA Business Park C	--	189	440	--	8
QUIVIRA Business Park D	--	154	360	--	9
QUIVIRA Business Park E	--	251	586	--	8
QUIVIRA Business Park F	--	171	400	--	28
QUIVIRA Business Park G	--	205	477	--	--
QUIVIRA Business Park H	--	175	407	--	--
QUIVIRA Business Park J	--	360	839	--	37
QUIVIRA Business Park L	--	98	222	--	6
QUIVIRA Business Park K	--	95	222	--	--
QUIVIRA Business Park SWB	--	257	600	--	542
Kansas City, MO					
48th & Penn	(9)	418	3,765	--	732
Balcony Retail	(9)	889	8,002	--	2,311
Brookside Shopping Center	3,898	2,002	8,602	154	717
Court of the Penguins	(9)	566	5,091	--	411
Colonial Shops	--	138	550	--	76
Crestwood Shops	--	253	1,013	--	52
Esplanade	(9)	748	6,734	--	863
Land Under Ground Leases Retail	--	9,789	114(18)	(5,781)	--
Halls Block	(9)	275	2,478	--	2,541
Kenilworth	--	113	452	--	31
Macy's Block	(9)	504	4,536	--	333
Millcreek Retail	(9)	602	5,422	--	1,549
Nichols Block Retail	(9)	600	5,402	--	370
96th & Nall Shops	--	99	397	--	18
Plaza Central	(9)	405	3,649	--	1,193
Plaza Savings South	(9)	357	3,211	--	1,147
Romanelli Annex Shops	--	24	97	--	--
Red Bridge Shops	--	1,091	4,364	--	1,048
Romanelli Shops	--	219	875	--	151
Seville Shops West	(9)	300	2,696	--	9,205
Seville Square	--	--	20,973	--	--
Swanson Block	(9)	949	8,537	--	898
Theater Block	(9)	1,197	10,769	--	3,496
Time Block Retail	(9)	1,292	11,627	--	3,063
Triangle	(9)	308	2,771	--	460

Gross Amount at  
Which Carried at Close of  
Period

Life on  
Which

Description	Land	Building & Improvements	Total	Accumulated Depreciation	Date of Construction	Depreciation is Computed
Tallahassee, FL						
Blair Stone Building	1,550	34,158	35,708	1,855	1994	5-40 yrs.
215 South Monroe St. Building	1,954	18,350	20,304	850	1976	5-40 yrs.
Shawnee Mission, KS						
Corinth Square North Shops	2,693	11,182	13,875	412	1962	5-40 yrs.
Corinth Shops South	1,043	4,224	5,267	159	1953	5-40 yrs.
Fairway Shops	673	2,873	3,546	125	1940	5-40 yrs.
Georgetown Marketplace	--	--	--	--	1974	5-40 yrs.
Prairie Village Shops	3,289	14,329	17,618	572	1948	5-40 yrs.
Shannon Valley Shopping Center	1,669	7,930	9,599	356	1988	5-40 yrs.
Trailwood III Shops	223	948	1,171	38	1986	5-40 yrs.
Trailwood Shops	458	1,903	2,361	73	1968	5-40 yrs.
Valencia Place	--	2,245	2,245	--	1999	5-40 yrs.
Westwood Shops	113	457	570	17	1926	5-40 yrs.
Brymar Building	329	1,339	1,668	54	1968	5-40 yrs.
Corinth Executive Square	514	2,544	3,058	112	1973	5-40 yrs.
Corinth Office Building	529	2,168	2,697	79	1960	5-40 yrs.
Fairway North Building	753	3,176	3,929	142	1985	5-40 yrs.
Fairway West Building	851	3,628	4,479	168	1983	5-40 yrs.
Hartford Office Building	568	2,409	2,977	98	1978	5-40 yrs.
Land - Kansas	27,904	121	28,025	4	N/A	N/A
Nichols Building	490	2,058	2,548	80	1978	5-40 yrs.
Oak Park Building	368	1,629	1,997	60	1976	5-40 yrs.
Prairie Village Office Center	749	3,156	3,905	129	1960	5-40 yrs.
QUIVIRA Business Park A	191	468	659	19	1975	5-40 yrs.
QUIVIRA Business Park B	179	431	610	17	1973	5-40 yrs.
QUIVIRA Business Park C	189	448	637	17	1973	5-40 yrs.
QUIVIRA Business Park D	154	369	523	13	1973	5-40 yrs.
QUIVIRA Business Park E	251	594	845	21	1973	5-40 yrs.
QUIVIRA Business Park F	171	428	599	15	1973	5-40 yrs.
QUIVIRA Business Park G	205	477	682	18	1973	5-40 yrs.
QUIVIRA Business Park H	175	407	582	25	1973	5-40 yrs.
QUIVIRA Business Park J	360	876	1,236	42	1973	5-40 yrs.
QUIVIRA Business Park L	98	228	326	11	1985	5-40 yrs.
QUIVIRA Business Park K	95	222	317	11	1985	5-40 yrs.
QUIVIRA Business Park SWB	257	1,142	1,399	52	1973	5-40 yrs.
Kansas City, MO						
48th & Penn	418	4,497	4,915	227	1948	5-40 yrs.
Balcony Retail	889	10,313	11,202	382	1925	5-40 yrs.
Brookside Shopping Center	2,156	9,319	11,475	338	1919	5-40 yrs.
Court of the Penguins	566	5,502	6,068	263	1945	5-40 yrs.
Colonial Shops	138	626	764	26	1907	5-40 yrs.
Crestwood Shops	253	1,065	1,318	41	1932	5-40 yrs.
Esplanade	748	7,597	8,345	324	1928	5-40 yrs.
Land Under Ground Leases	4,008	114	4,122	4	N/A	N/A
Retail						
Halls Block	275	5,019	5,294	117	1964	5-40 yrs.
Kenilworth	113	483	596	18	1965	5-40 yrs.
Macy's Block	504	4,869	5,373	215	1926	5-40 yrs.
Millcreek Retail	602	6,971	7,573	296	1920	5-40 yrs.
Nichols Block Retail	600	5,772	6,372	256	1930	5-40 yrs.
96th & Nall Shops	99	415	514	16	1976	5-40 yrs.
Plaza Central	405	4,842	5,247	195	1958	5-40 yrs.
Plaza Savings South	357	4,358	4,715	155	1948	5-40 yrs.
Romanelli Annex Shops	24	97	121	4	1963	5-40 yrs.
Red Bridge Shops	1,091	5,412	6,503	171	1959	5-40 yrs.
Romanelli Shops	219	1,026	1,245	48	1925	5-40 yrs.
Seville Shops West	300	11,901	12,201	270	1999	5-40 yrs.
Seville Square	--	20,973	20,973	281	1999	5-40 yrs.
Swanson Block	949	9,435	10,384	406	1967	5-40 yrs.
Theater Block	1,197	14,265	15,462	523	1928	5-40 yrs.
Time Block Retail	1,292	14,690	15,982	559	1929	5-40 yrs.
Triangle	308	3,231	3,539	143	1925	5-40 yrs.

Description	1999 Encumbrance	Initial Cost		Cost Capitalized Subsequent to Acquisition	
		Land	Building & Improvements	Land	Building & Improvements
Cole Garden Apartments	--	22	122	(22)	(122)
Corinth Gardens	--	283	1,603	--	77
Coach House North	8,000	1,604	9,092	--	182
Coach House South	20,000	3,707	21,008	--	246
Coach Lamp	--	870	4,929	--	158
Corinth Paddock	--	1,050	5,949	--	171
Corinth Place	4,500	639	3,623	--	53
Rental Houses	--	--	939	--	1
Kenilworth	7,153	2,160	12,240	--	342
Kirkwood Circle	--	3,000	--	--	--
Mission Valley	1,053	576	3,266	--	76
Neptune	4,447	1,073	6,079	--	151
Parklane	--	273	1,548	--	23
Penn Wick Apartments	--	31	175	(31)	(175)
Regency House	4,183	1,853	10,500	--	1,124
St. Charles Apartments	--	29	164	--	(1)
Sulgrave	7,768	2,621	14,855	--	1,088
Tama Apartments	--	16	93	(16)	(93)
Wornall Road Apartments	--	30	171	--	--
4900 Main Building	--	3,202	12,809	--	165
63rd & Brookside Building	--	71	283	--	7
Balcony Office	(9)	65	585	--	85
Bannister Business Center	1,106	306	713	--	174
Challenger Inc.	19,000	13,475	--	5,620	--
Esplanade Block Office	(9)	375	3,374	--	261
Marley Continental Homes of KS	--	180	1,620	--	--
Millcreek Office	(9)	79	717	--	146
Land - Missouri	--	4,665	188	(434)	--
Nichols Block Office	(9)	74	668	--	62
One Ward Parkway	--	666	2,663	--	240
Plaza Land Company	--	50	--	(50)	--
Park Plaza Building	(9)	1,352	5,409	27	1,848
Parkway Building	--	395	1,578	--	168
Romanelli Annex Office Building	--	73	294	--	8
Red Bridge Professional Building	--	405	1,621	--	133
Two Brush Creek Plaza	--	961	3,845	--	175
Theatre Block Office	(9)	242	2,179	--	--
Time Block Office	(9)	199	1,792	--	248
Memphis, TN					
Atrium I & II	--	1,530	6,121	40	258
Centrum	--	1,013	5,488	--	248
Colonnade	--	1,300	7,994	--	--
Hickory Hill Medical Plaza	--	398	2,256	--	8
3400 Players Club Parkway	(11)	1,005	5,515	--	--
International Place Phase II	--	4,847	27,469	--	1,140
Kirby Centre	--	525	2,973	--	114
International Place Phase III	--	2,566	--	--	--
Southwind Office Center A	--	996	5,643	--	239
Southwind Office Center B	--	1,356	7,684	--	312
Southwind Office Center D	--	744	6,232	--	--
Southwind Office Center C	(11)	1,070	5,924	--	--
Norfolk, VA					
Battlefield Business Center II	--	774	4,387	--	146
Greenbriar Business Center	--	936	5,305	--	56
Hampton Center Two	--	945	6,567	--	--
Riverside II	--	2	9,148	--	--
Riverside Building	--	1,495	5,963	(1,495)	(5,963)
Nashville, TN					
3322 West End	--	3,021	27,266	--	--
3401 Westend	--	6,103	23,343	84	2,104
5310 Maryland Way	--	1,923	7,360	20	152
Ayers Land	--	1,164	--	--	--

Gross Amount at  
Which Carried at Close of Period

Building &

Accumulated

Date of

Life on  
Which  
Depreciation

Description	Land	Improvements	Total	Depreciation	Construction	is Computed
Cole Garden Apartments	--	--	--	--	1960	5-40 yrs.
Corinth Gardens	283	1,680	1,963	63	1961	5-40 yrs.
Coach House North	1,604	9,274	10,878	345	1986	5-40 yrs.
Coach House South	3,707	21,254	24,961	780	1984	5-40 yrs.
Coach Lamp	870	5,087	5,957	187	1961	5-40 yrs.
Corinth Paddock	1,050	6,120	7,170	227	1973	5-40 yrs.
Corinth Place	639	3,676	4,315	135	1987	5-40 yrs.
Rental Houses	--	940	940	17	N/A	5-40 yrs.
Kenilworth	2,160	12,582	14,742	466	1965	5-40 yrs.
Kirkwood Circle	3,000	--	3,000	--	N/A	N/A
Mission Valley	576	3,342	3,918	123	1964	5-40 yrs.
Neptune	1,073	6,230	7,303	227	1988	5-40 yrs.
Parklane	273	1,571	1,844	58	1924	5-40 yrs.
Penn Wick Apartments	--	--	--	--	1965	5-40 yrs.
Regency House	1,853	11,624	13,477	479	1960	5-40 yrs.
St. Charles Apartments	29	163	192	3	1922	5-40 yrs.
Sulgrave	2,621	15,943	18,564	603	1967	5-40 yrs.
Tama Apartments	--	--	--	--	1965	5-40 yrs.
Wornall Road Apartments	30	171	201	6	1918	5-40 yrs.
4900 Main Building	3,202	12,974	16,176	506	1986	5-40 yrs.
63rd & Brookside Building	71	290	361	11	1919	5-40 yrs.
Balcony Office	65	670	735	22	1928	5-40 yrs.
Bannister Business Center	306	887	1,193	51	1985	5-40 yrs.
Challenger Inc.	19,095	--	19,095	--	N/A	N/A
Esplanade Block Office	375	3,635	4,010	129	1945	5-40 yrs.
Marley Continental Homes of KS	180	1,620	1,800	59	N/A	5-40 yrs.
Millcreek Office	79	863	942	28	1925	5-40 yrs.
Land - Missouri	4,231	188	4,419	7	N/A	5-40 yrs.
Nichols Block Office	74	730	804	32	1938	5-40 yrs.
One Ward Parkway	666	2,903	3,569	166	1980	5-40 yrs.
Plaza Land Company	--	--	--	--	N/A	N/A
Park Plaza Building	1,379	7,257	8,636	294	1983	5-40 yrs.
Parkway Building	395	1,746	2,141	95	1906-1910	5-40 yrs.
Romanelli Annex Office Building	73	302	375	11	1963	5-40 yrs.
Red Bridge Professional Building	405	1,754	2,159	76	1972	5-40 yrs.
Two Brush Creek Plaza	961	4,020	4,981	176	1983	5-40 yrs.
Theatre Block Office	242	2,179	2,421	80	1928	5-40 yrs.
Time Block Office	199	2,040	2,239	78	1945	5-40 yrs.
Memphis, TN						
Atrium I & II	1,570	6,379	7,949	479	1984	5-40 yrs.
Centrum	1,013	5,736	6,749	355	1979	5-40 yrs.
Colonnade	1,300	7,994	9,294	574	1998	5-40 yrs.
Hickory Hill Medical Plaza	398	2,264	2,662	187	1988	5-40 yrs.
3400 Players Club Parkway	1,005	5,515	6,520	628	1997	5-40 yrs.
International Place Phase II	4,847	28,609	33,456	2,619	1988	5-40 yrs.
Kirby Centre	525	3,087	3,612	256	1984	5-40 yrs.
International Place Phase III	2,566	--	2,566	--	N/A	N/A
Southwind Office Center A	996	5,882	6,878	494	1991	5-40 yrs.
Southwind Office Center B	1,356	7,996	9,352	701	1990	5-40 yrs.
Southwind Office Center D	744	6,232	6,976	59	1999	5-40 yrs.
Southwind Office Center C	1,070	5,924	6,994	155	1998	5-40 yrs.
Norfolk, VA						
Battlefield Business Center II	774	4,533	5,307	364	1987	5-40 yrs.
Greenbriar Business Center	936	5,361	6,297	448	1984	5-40 yrs.
Hampton Center Two	945	6,567	7,512	102	1999	5-40 yrs.
Riverside II	2	9,148	9,150	213	1999	5-40 yrs.
Riverside Building	--	--	--	--	1988	5-40 yrs.
Nashville, TN						
3322 West End	3,021	27,266	30,287	143	1986	5-40 yrs.
3401 Westend	6,187	25,447	31,634	2,608	1982	5-40 yrs.
5310 Maryland Way	1,943	7,512	9,455	672	1994	5-40 yrs.
Ayers Land	1,164	--	1,164	--	N/A	N/A

Description	1999 Encumbrance	Initial Cost		Cost Capitalized Subsequent to Acquisition	
		Land	Building & Improvements	Land	Building & Improvements
Southpointe	--	1,655	9,059	--	--
BNA Corporate Center	11,265	--	22,588	--	1,552
Caterpillar Financial Center	--	--	2,964	--	--
Century City Plaza I	--	903	3,612	--	388
Cool Springs - Building II	--	10,225	--	--	--
Cool Springs I	--	1,983	13,854	--	--
Eastpark 1, 2, 3	3,801	3,137	11,842	(133)	716
Grassmere	--	1,779	--(19)	(348)	--
Grassmere I	--	1,251	7,091	350	1,062
Grassmere II	--	2,260	12,804	--	371
Grassmere III	--	1,340	7,592	--	5
Highwoods Plaza I	--	1,772	9,029	--	--
Highwoods Plaza II	--	1,448	6,948	--	1,239
Harpeth on the Green II	--	1,419	5,677	1	392
Harpeth on the Green III	--	1,658	6,633	2	362
Harpeth on the Green IV	--	1,709	6,835	5	640
Harpeth on the Green V	--	662	5,771	--	--
Lakeview Ridge	--	2,208	7,545	--	138
Lakeview Ridge II	--	605	5,883	--	--
Lakeview Ridge III	--	1,073	9,708	--	--
Ridge Development	--	1,960	--(20)	(1,960)	--
The Sparrow Building	--	1,262	5,047	--	150
Grassmere/Thousdale Land	--	760	--	--	--
Winners Circle	--	1,495	7,072	2	223
Westwood South Orlando, FL	--	2,106	10,517	--	--
Sunport Center	--	1,505	9,777	--	107
Oakridge Center	--	4,700	18,761	--	805
Corporate Square	--	900	1,717	(900)	(1,717)
Executive Point Towers	--	2,200	7,230	(2,200)	(7,230)
Sandlake Southwest	3,439	1,025	4,049	--	22
Lakeview Office Park	--	5,400	13,994	(5,400)	(13,994)
2699 Lee Road Building	--	1,500	6,003	(1,500)	(6,003)
Lake Mary Land	--	2,788	--	--	--
MetroWest Center	--	1,344	7,618	--	197
Landmark I	--	6,785	28,243	--	602
Landmark II	--	6,785	28,206	--	127
C N A Maitland I	--	1,858	16,129	(1,858)	(16,129)
Maitland Building B	--	1,115	8,121	--	315
C N A Maitland II	--	743	2,639	(743)	(2,639)
Hard Rock Cafe	--	1,305	3,570	(1,305)	(2,409)
Metro West Land	--	5,505	--	--	--
One Winter Park	--	1,000	3,652	(1,000)	(3,652)
The Palladium	--	1,400	5,500	(1,400)	(5,500)
201 Pine Street Building	--	4,400	29,836	--	1,424
Capital Plaza	--	--	--	--	14
Capital Plaza III	--	--	--	2,970	--
Pine Street Parking	--	1,030	8,087	--	--
Premier Point North	--	800	3,037	(800)	(3,037)
Premier Point South	--	600	3,404	(600)	(3,404)
Interlachen Village	2,055	1,100	2,689	--	47
Signature Plaza	--	4,300	30,294	2	2,348
Skyline Center	--	700	2,748	(700)	(2,748)
Southwest Corporate Center	--	991	5,613	(991)	(5,613)
Research Triangle, NC					
Blue Ridge II	--	463	1,485	--	--
Blue Ridge I	--	722	4,538	--	1,051
3404 North Duke Street	--	879	3,522	(879)	(3,522)
Fairfield II	--	910	3,647	(910)	(3,647)
3600 Glenwood Avenue	--	--	10,994	--	--
3645 Trust Drive - One North Commerce Center	--	520	2,949	268	441
3737 Glenwood Ave.	--	--	15,889	--	--
4020 North Roxboro Road	--	675	2,708	(675)	(2,708)
4101 North Roxboro Road	--	1,059	4,243	(1,059)	(4,243)

Gross Amount at  
Which Carried at Close of  
Period

-----	Life on
Building &	Which
Accumulated	Depreciation
Date of	

Description	Land	Improvements	Total	Depreciation	Construction	is Computed
Southpointe	1,655	9,059	10,714	655	1998	5-40 yrs.
BNA Corporate Center	--	24,140	24,140	2,338	1985	5-40 yrs.
Caterpillar Financial Center	--	2,964	2,964	--	1999	5-40 yrs.
Century City Plaza I	903	4,000	4,903	465	1987	5-40 yrs.
Cool Springs - Building II	10,225	--	10,225	--	N/A	N/A
Cool Springs I	1,983	13,854	15,837	608	1999	5-40 yrs.
Eastpark 1, 2, 3	3,004	12,558	15,562	1,370	1978	5-40 yrs.
Grassmere	1,431	--	1,431	--	N/A	N/A
Grassmere I	1,601	8,153	9,754	708	1984	5-40 yrs.
Grassmere II	2,260	13,175	15,435	1,181	1985	5-40 yrs.
Grassmere III	1,340	7,597	8,937	631	1990	5-40 yrs.
Highwoods Plaza I	1,772	9,029	10,801	1,283	1996	5-40 yrs.
Highwoods Plaza II	1,448	8,187	9,635	1,034	1997	5-40 yrs.
Harpeth on the Green II	1,420	6,069	7,489	558	1984	5-40 yrs.
Harpeth on the Green III	1,660	6,995	8,655	605	1987	5-40 yrs.
Harpeth on the Green IV	1,714	7,475	9,189	684	1989	5-40 yrs.
Harpeth on the Green V	662	5,771	6,433	493	1998	5-40 yrs.
Lakeview Ridge	2,208	7,683	9,891	693	1986	5-40 yrs.
Lakeview Ridge II	605	5,883	6,488	450	1998	5-40 yrs.
Lakeview Ridge III	1,073	9,708	10,781	216	1999	5-40 yrs.
Ridge Development	--	--	--	--	N/A	N/A
The Sparrow Building	1,262	5,197	6,459	425	1982	5-40 yrs.
Grassmere/Thousdale Land	760	--	760	--	N/A	N/A
Winners Circle	1,497	7,295	8,792	411	1987	5-40 yrs.
Westwood South	2,106	10,517	12,623	112	1999	5-40 yrs.
Orlando, FL						
Sunport Center	1,505	9,884	11,389	551	1990	5-40 yrs.
Oakridge Center	4,700	19,566	24,266	1,096	1966-1992	5-40 yrs.
Corporate Square	--	--	--	--	1971	5-40 yrs.
Executive Point Towers	--	--	--	--	1978	5-40 yrs.
Sandlake Southwest	1,025	4,071	5,096	157	1986	5-40 yrs.
Lakeview Office Park	--	--	--	--	1975	5-40 yrs.
2699 Lee Road Building	--	--	--	--	1974	5-40 yrs.
Lake Mary Land	2,788	--	2,788	--	N/A	N/A
MetroWest Center	1,344	7,815	9,159	677	1988	5-40 yrs.
Landmark I	6,785	28,845	35,630	1,427	1983	5-40 yrs.
Landmark II	6,785	28,333	35,118	1,357	1985	5-40 yrs.
C N A Maitland I	--	--	312	--	1998	5-40 yrs.
Maitland Building B	1,115	8,436	9,236	58	1999	5-40 yrs.
C N A Maitland II	--	--	3	--	1998	5-40 yrs.
Hard Rock Cafe	--	1,161	1,161	--	1998	5-40 yrs.
Metro West Land	5,505	--	5,505	--	N/A	N/A
One Winter Park	--	--	--	--	1982	5-40 yrs.
The Palladium	--	--	--	--	1988	5-40 yrs.
201 Pine Street Building	4,400	31,260	35,660	1,863	1980	5-40 yrs.
Capital Plaza	--	14	14	--	N/A	5-40 yrs.
Capital Plaza III	2,970	--	2,970	--	1999	5-40 yrs.
Pine Street Parking	1,030	8,087	9,117	141	1999	5-40 yrs.
Premier Point North	--	--	--	--	1983	5-40 yrs.
Premier Point South	--	--	--	--	1983	5-40 yrs.
Interlachen Village	1,100	2,736	3,836	163	1987	5-40 yrs.
Signature Plaza	4,302	32,642	36,944	2,046	1986	5-40 yrs.
Skyline Center	--	--	--	--	1985	5-40 yrs.
Southwest Corporate Center	--	--	--	--	1984	5-40 yrs.
Research Triangle, NC						
Blue Ridge II	463	1,485	1,948	482	1988	5-40 yrs.
Blue Ridge I	722	5,589	6,311	907	1982	5-40 yrs.
3404 North Duke Street	--	--	4	--	1985	5-40 yrs.
Fairfield II	--	--	--	--	1989	5-40 yrs.
3600 Glenwood Avenue	--	10,994	10,994	767	1986	5-40 yrs.
3645 Trust Drive - One	788	3,390	4,178	271	1984	5-40 yrs.
North Commerce Center						
3737 Glenwood Ave.	--	15,889	15,889	95	1999	5-40 yrs.
4020 North Roxboro Road	--	--	--	--	1989	5-40 yrs.
4101 North Roxboro Road	--	--	20	--	1984	5-40 yrs.

Description	1999 Encumbrance	Initial Cost		Cost Capitalized Subsequent to Acquisition	
		Land	Building & Improvements	Land	Building & Improvements
Fairfield I	--	805	3,227	(805)	(3,227)
4101 Research Commons	--	1,349	6,928	--	--
4201 Research Commons	--	1,204	7,715	--	2,423
4301 Research Commons	--	900	7,425	--	708
4401 Research Commons	--	1,249	8,929	--	4,973
4501 Research Commons	--	785	4,448	--	1,235
4800 North Park	--	2,678	17,673	--	332
4900 North Park	1,389	770	1,989	--	275
5000 North Park	(11)	1,010	4,697	--	1,134
5200 Green's Dairy - One	--	169	959	--	205
North Commerce Center					
5220 Green's Dairy - One	--	382	2,165	--	107
North Commerce Center					
5301 Departure Drive	--	882	5,000	--	6
4000 Aerial Center	--	541	2,163	(541)	(2,163)
Amica	--	289	1,517	--	80
Arrowwood	--	955	3,406	--	633
Aspen	--	560	2,088	--	453
Birchwood	--	201	907	--	53
BTI	--	--	15,504	--	3,897
BTI Houses	--	250	250	--	--
Capital Center	--	851	-- (15)	(474)	--
Cedar East	--	563	2,491	--	330
Cedar West	--	563	2,475	--	623
Clintrials Land Parcel 2	--	657	--	--	--
Clintrials Land Parcel 3	--	548	--	--	--
Clintrials Research	--	2,497	12,798	(2,497)	(12,798)
Colony Corporate Center	--	613	3,296	--	696
Concourse	--	986	12,069	--	1,779
Cape Fear	--	131	--	--	2,627
Creekstone Crossing	--	728	3,841	--	100
Cotton	--	460	1,844	(460)	(1,844)
Catawba	--	125	1,635	--	293
Cottonwood	--	609	3,253	--	8
Cypress	--	567	1,729	--	288
Dogwood	--	766	2,777	--	23
EPA Annex	--	2,601	10,920	--	109
Expressway Warehouse	--	242	--	4	1,929
Global Software	(11)	465	7,471	--	--
Hawthorn	--	904	3,782	--	238
Highwoods Health Club	--	142	524	--	2,516
Holiday Inn Reservations Center	--	867	2,735	--	136
Holly	--	300	1,144	--	45
Healthsource	--	1,294	10,593	10	1,696
Highwoods Tower One	(11)	203	16,914	--	547
Highwoods Centre	--	532	7,902	--	--
Ironwood	--	319	1,276	--	364
Kaiser	--	133	3,625	--	759
Laurel	--	884	2,524	--	449
Lake Plaza East	--	856	4,893	--	696
Highwoods Office Center North	--	1,103	49 (16)	(746)	--
Highwoods Office Center South	--	2,518	--	--	--
Leatherwood	--	213	851	--	445
Martin Land	--	--	--	3,361	--
A4 Health Systems	--	717	3,418	--	1,300
Creekstone Park	--	796	-- (17)	(647)	--
Northpark I	--	405	--	93	3,782
North Park - Land	--	962	--	510	--
Phase I - One North Commerce Center	--	768	4,353	--	330
\`W' Building - One North Commerce Center	--	1,163	6,592	--	1,484
Overlook	--	398	10,401	--	--
Pamlico/Roanoke	--	269	--	20	11,087

Gross Amount at  
Which Carried at Close of Period

Building &

Accumulated

Date of

Life on  
Which  
Depreciation



Description	Land	Improvements	Total	Depreciation	Construction	is Computed
Fairfield I	--	--	--	--	1987	5-40 yrs.
4101 Research Commons	1,349	6,928	8,277	49	1999	5-40 yrs.
4201 Research Commons	1,204	10,138	11,342	2,601	1991	5-40 yrs.
4301 Research Commons	900	8,133	9,033	959	1989	5-40 yrs.
4401 Research Commons	1,249	13,902	15,151	3,817	1987	5-40 yrs.
4501 Research Commons	785	5,683	6,468	1,008	1985	5-40 yrs.
4800 North Park	2,678	18,005	20,683	2,555	1985	5-40 yrs.
4900 North Park	770	2,264	3,034	387	1984	5-40 yrs.
5000 North Park	1,010	5,831	6,841	1,186	1980	5-40 yrs.
5200 Green's Dairy - One	169	1,164	1,333	93	1984	5-40 yrs.
North Commerce Center						
5220 Green's Dairy - One	382	2,272	2,654	211	1984	5-40 yrs.
North Commerce Center						
5301 Departure Drive	882	5,006	5,888	416	1984	5-40 yrs.
4000 Aerial Center	--	--	--	--	1992	5-40 yrs.
Amica	289	1,597	1,886	282	1983	5-40 yrs.
Arrowwood	955	4,039	4,994	684	1979	5-40 yrs.
Aspen	560	2,541	3,101	437	1980	5-40 yrs.
Birchwood	201	960	1,161	159	1983	5-40 yrs.
BTI	--	19,401	19,401	786	1995	5-40 yrs.
BTI Houses	250	250	500	8	N/A	5-40 yrs.
Capital Center	377	--	377	--	N/A	N/A
Cedar East	563	2,821	3,384	488	1981	5-40 yrs.
Cedar West	563	3,098	3,661	631	1981	5-40 yrs.
Clintrials Land Parcel 2	657	--	657	--	N/A	N/A
Clintrials Land Parcel 3	548	--	548	--	N/A	N/A
Clintrials Research	--	--	--	--	1998	5-40 yrs.
Colony Corporate Center	613	3,992	4,605	700	1985	5-40 yrs.
Concourse	986	13,848	14,834	1,981	1986	5-40 yrs.
Cape Fear	131	2,627	2,758	1,624	1979	5-40 yrs.
Creekstone Crossing	728	3,941	4,669	475	1990	5-40 yrs.
Cotton	--	--	--	--	1972	5-40 yrs.
Catawba	125	1,928	2,053	1,156	1980	5-40 yrs.
Cottonwood	609	3,261	3,870	465	1983	5-40 yrs.
Cypress	567	2,017	2,584	347	1980	5-40 yrs.
Dogwood	766	2,800	3,566	390	1983	5-40 yrs.
EPA Annex	2,601	11,029	13,630	1,354	1966	5-40 yrs.
Expressway Warehouse	246	1,929	2,175	465	1990	5-40 yrs.
Global Software	465	7,471	7,936	1,340	1996	5-40 yrs.
Hawthorn	904	4,020	4,924	1,916	1987	5-40 yrs.
Highwoods Health Club	142	3,040	3,182	173	1998	5-40 yrs.
Holiday Inn Reservations Center	867	2,871	3,738	414	1984	5-40 yrs.
Holly	300	1,189	1,489	196	1984	5-40 yrs.
Healthsource	1,304	12,289	13,593	1,283	1996	5-40 yrs.
Highwoods Tower One	203	17,461	17,664	3,989	1991	5-40 yrs.
Highwoods Centre	532	7,902	8,434	289	1998	5-40 yrs.
Ironwood	319	1,640	1,959	344	1978	5-40 yrs.
Kaiser	133	4,384	4,517	1,512	1988	5-40 yrs.
Laurel	884	2,973	3,857	409	1982	5-40 yrs.
Lake Plaza East	856	5,589	6,445	1,137	1984	5-40 yrs.
Highwoods Office Center North	357	49	406	15	N/A	N/A
Highwoods Office Center South	2,518	--	2,518	--	N/A	N/A
Leatherwood	213	1,296	1,509	283	1979	5-40 yrs.
Martin Land	3,361	--	3,361	--	N/A	N/A
A4 Health Systems	717	4,718	5,435	624	1996	5-40 yrs.
Creekstone Park	149	--	149	--	N/A	N/A
Northpark I	498	3,782	4,280	343	1997	5-40 yrs.
North Park - Land	1,472	--	1,472	--	N/A	N/A
Phase I - One North Commerce Center	768	4,683	5,451	442	1981	5-40 yrs.
\`W' Building - One North Commerce Center	1,163	8,076	9,239	838	1983	5-40 yrs.
Overlook	398	10,401	10,799	173	1999	5-40 yrs.
Pamlico/Roanoke	289	11,087	11,376	2,973	1980	5-40 yrs.

Description	1999 Encumbrance	Initial Cost		Cost Capitalized Subsequent to Acquisition	
		Land	Building & Improvements	Land	Building & Improvements
Phoenix	--	394	2,019	(394)	(2,019)
Raleigh Corp Center Lot D	--	--	--	2,039	--
Red Oak at Highwoods	--	389	6,086	--	--
Rexwoods Center I	(4)	775	--	103	3,701
Rexwoods II	--	355	--	7	1,851
Rexwoods III	--	886	--	34	2,920
Rexwoods IV	--	586	--	--	3,640
Rexwoods V	--	1,301	5,979	--	--
Riverbirch	(11)	448	--	21	4,506
Situs I	(11)	693	2,917	(1)	1,480
Situs II	--	718	5,950	--	--
Six Forks Center I	--	666	2,663	--	485
Six Forks Center II	--	1,086	4,345	--	462
Six Forks Center III	(11)	862	4,411	--	425
Smoketree Tower	--	2,353	11,802	--	4,604
South Square I	(4)	606	3,785	--	832
South Square II	--	525	4,710	--	289
Sycamore	(11)	255	5,830	--	--
Building 2A - Triangle Business Center	(4)	377	4,004	--	858
Building 2B - Triangle Business Center	(4)	118	1,225	--	213
Building 3 - Triangle Business Center	(4)	409	5,349	--	660
Building 7 - Triangle Business Center	(4)	414	6,301	--	670
Weston	--	1,544	--	--	--
Willow Oak	(11)	458	4,685	--	1,834
Richmond, VA					
Innsbrook Centre	--	914	6,768	--	--
Highwoods Distribution Center	735	--	--	5,575	--
Airport Center I	--	708	4,374	--	998
Airport Center 2	--	362	2,896	--	215
Capital One Building I	--	1,278	10,690	--	--
Capital One Building II	--	477	3,946	--	--
Capital One Building III	--	1,278	11,515	--	--
Capital One Parking Deck	--	--	2,288	--	--
1309 Cary Street	--	171	685	--	99
4900 Cox	--	1,324	5,305	--	165
Technology Park 1	--	541	2,166	--	182
East Shore I	--	--	1,254	--	--
East Shore II	--	907	6,662	--	--
East Shore III	--	--	2,220	--	--
Grove Park II	--	902	--	--	--
Grove Park	--	349	2,685	364	3,069
Highwoods Distribution Center	--	517	5,714	--	--
Highwoods One	(11)	1,846	8,613	--	1,953
Richfood Holdings Building	--	785	5,170	--	1,375
End of Cox Road Land	--	966	-- (21)	(966)	--
North Shore Commons	--	71	--	--	--
Highwoods Five	--	806	4,948	--	979
Sadler & Cox Land	239	--	--	1,682	--
Highwoods Common	--	547	4,342	2	--
Liberty Mutual Building	3,263	1,205	4,819	--	618
Waterfront Plaza	(5)	585	2,347	--	670
Mercer Plaza	--	1,556	12,350	--	--
Markel-American	--	1,372	8,667	--	934
North Park Building	--	2,163	8,659	--	440
Hamilton Beach Building	(5)	1,086	4,344	--	496
One Shockoe Plaza	--	--	19,324	--	--
Westshore I	--	358	1,431	--	30
Westshore II	--	545	2,181	--	36
Westshore III	--	961	3,601	--	1,254
Stony Point I	--	1,384	11,445	--	989
Stony Point II	--	1,561	10,949	--	--

Gross Amount at  
Which Carried at Close of Period

Building &

Accumulated

Date of

Life on  
Which  
Depreciation

Description	Land	Improvements	Total	Depreciation	Construction	is Computed
Phoenix	--	--	--	--	1990	5-40 yrs.
Raleigh Corp Center Lot D	2,039	--	2,039	--	N/A	N/A
Red Oak at Highwoods	389	6,086	6,475	172	1999	5-40 yrs.
Rexwoods Center I	878	3,701	4,579	1,031	1990	5-40 yrs.
Rexwoods II	362	1,851	2,213	293	1993	5-40 yrs.
Rexwoods III	920	2,920	3,840	631	1992	5-40 yrs.
Rexwoods IV	586	3,640	4,226	791	1995	5-40 yrs.
Rexwoods V	1,301	5,979	7,280	476	1998	5-40 yrs.
Riverbirch	469	4,506	4,975	1,312	1987	5-40 yrs.
Situs I	692	4,397	5,089	893	1996	5-40 yrs.
Situs II	718	5,950	6,668	345	1998	5-40 yrs.
Six Forks Center I	666	3,148	3,814	379	1982	5-40 yrs.
Six Forks Center II	1,086	4,807	5,893	579	1983	5-40 yrs.
Six Forks Center III	862	4,836	5,698	700	1987	5-40 yrs.
Smoketree Tower	2,353	16,406	18,735	2,813	1984	5-40 yrs.
South Square I	606	4,617	5,223	717	1988	5-40 yrs.
South Square II	525	4,999	5,524	715	1989	5-40 yrs.
Sycamore	255	5,830	6,085	664	1997	5-40 yrs.
Building 2A - Triangle Business Center	377	4,862	5,239	1,113	1984	5-40 yrs.
Building 2B - Triangle Business Center	118	1,438	1,556	284	1984	5-40 yrs.
Building 3 - Triangle Business Center	409	6,009	6,418	1,337	1988	5-40 yrs.
Building 7 - Triangle Business Center	414	6,971	7,385	1,135	1986	5-40 yrs.
Weston	1,544	--	1,544	--	N/A	N/A
Willow Oak	458	6,519	6,977	1,610	1995	5-40 yrs.
Richmond, VA						
Innsbrook Centre	914	6,768	7,682	7	1989	5-40 yrs.
Highwoods Distribution Center	5,575	--	5,575	--	N/A	N/A
Airport Center I	708	5,372	6,080	494	1997	5-40 yrs.
Airport Center 2	362	3,111	3,473	134	1998	5-40 yrs.
Capital One Building I	1,278	10,690	11,968	131	1999	5-40 yrs.
Capital One Building II	477	3,946	4,423	44	1999	5-40 yrs.
Capital One Building III	1,278	11,515	12,793	49	1999	5-40 yrs.
Capital One Parking Deck	--	2,288	2,288	20	1999	5-40 yrs.
1309 Cary Street	171	784	955	71	1987	5-40 yrs.
4900 Cox	1,324	5,470	6,794	581	1991	5-40 yrs.
Technology Park 1	541	2,348	2,889	265	1991	5-40 yrs.
East Shore I	--	1,254	1,254	--	N/A	N/A
East Shore II	907	6,662	7,569	139	1999	5-40 yrs.
East Shore III	--	2,220	2,220	--	1999	5-40 yrs.
Grove Park II	902	--	902	--	N/A	N/A
Grove Park	713	5,754	6,467	487	1997	5-40 yrs.
Highwoods Distribution Center	517	5,714	6,231	98	1999	5-40 yrs.
Highwoods One	1,846	10,566	12,412	1,501	1996	5-40 yrs.
Richfood Holdings Building	785	6,545	7,330	540	1997	5-40 yrs.
End of Cox Road Land	--	--	--	--	N/A	N/A
North Shore Commons	71	--	71	--	N/A	N/A
Highwoods Five	806	5,927	6,733	201	1998	5-40 yrs.
Sadler & Cox Land	1,682	--	1,682	--	N/A	N/A
Highwoods Common	549	4,342	4,891	48	1999	5-40 yrs.
Liberty Mutual Building	1,205	5,437	6,642	465	1990	5-40 yrs.
Waterfront Plaza	585	3,017	3,602	372	1988	5-40 yrs.
Mercer Plaza	1,556	12,350	13,906	13	1984	5-40 yrs.
Markel-American	1,372	9,601	10,973	435	1998	5-40 yrs.
North Park Building	2,163	9,099	11,262	845	1989	5-40 yrs.
Hamilton Beach Building	1,086	4,840	5,926	502	1986	5-40 yrs.
One Shockoe Plaza	--	19,324	19,324	1,510	1996	5-40 yrs.
Westshore I	358	1,461	1,819	144	1995	5-40 yrs.
Westshore II	545	2,217	2,762	210	1995	5-40 yrs.
Westshore III	961	4,855	5,816	535	1997	5-40 yrs.
Stony Point I	1,384	12,434	13,818	698	1990	5-40 yrs.
Stony Point II	1,561	10,949	12,510	128	1999	5-40 yrs.

Description	1999 Encumbrance	Initial Cost		Cost Capitalized Subsequent to Acquisition	
		Land	Building & Improvements	Land	Building & Improvements
Stony Point III	--	2,546	--	--	--
Technology Park 2	--	264	1,058	--	49
Virginia Center Technology Park	--	1,438	5,858	(1,438)	(5,858)
Vantage Place-A	--	203	811	--	150
Vantage Place-B	--	233	931	--	141
Vantage Place-C	--	235	940	--	86
Vantage Place-D	--	218	873	--	187
Vantage Point South Florida	--	1,089	4,354	--	633
2828 Coral Way Building	--	1,100	4,303	(1,100)	(4,303)
The Atrium at Coral Gables	--	3,000	16,398	(3,000)	(16,398)
Atrium West	--	1,300	5,564	(1,300)	(5,564)
Avion	--	800	4,307	(800)	(4,307)
Centrum Plaza	--	1,000	3,545	(1,000)	(3,545)
Comeau Building	--	460	3,683	(460)	(3,683)
Corporate Square	--	1,750	3,385	(1,750)	(3,385)
Dadeland Towers North	--	3,700	18,571	(3,700)	(18,571)
Debartolo Land	--	1,727	--	--	--
Highwoods Court at Doral	--	3,423	13,692	(3,423)	(13,692)
The 1800 Eller Drive Building	--	--	9,724	--	491
Emerald Hills Plaza I	--	1,450	5,830	(1,450)	(5,830)
Emerald Hills Plaza II	--	1,450	7,030	(1,450)	(7,030)
Gulf Atlantic Center	--	--	11,237	--	(11,237)
Horizon One	--	998	6,070	(998)	(6,070)
Highwoods Park H1	--	215	542	(215)	(542)
Highwoods Park H2	--	532	1,838	(532)	(1,838)
Highwoods Park A	--	462	1,680	(462)	(1,680)
Highwoods Park B	--	388	1,362	(388)	(1,362)
Highwoods Park C	--	1,121	3,962	(1,121)	(3,962)
Highwoods Park D	--	1,123	3,865	(1,123)	(3,865)
Highwoods Park E	--	1,142	3,981	(1,142)	(3,981)
Highwoods Park F	--	382	1,284	(382)	(1,284)
Highwoods Park G	--	346	2,155	(346)	(2,155)
Highwoods Park J	--	326	2,380	(326)	(2,380)
Highwoods Park L	--	6,375	--	(6,375)	--
Highwoods Park M	--	714	4,133	(714)	(4,133)
Highwoods Park N	--	--	114	--	(114)
Highwoods Park P	--	--	96	--	(96)
Palm Beach Gardens Office Park	--	1,000	4,510	(1,000)	(4,510)
Pine Island Commons	--	1,750	4,175	(1,750)	(4,175)
Sheraton Design Center	--	1,000	4,040	(1,000)	(4,040)
Sunset Station Plaza	--	660	7,721	(660)	(7,721)
Venture Corporate Center I	--	1,867	7,458	(1,867)	(7,458)
Venture Corporate Center II	--	1,867	8,837	(1,867)	(8,837)
Venture Corporate Center III	--	1,867	8,838	(1,867)	(8,838)
Tampa, FL					
5400 Gray Street	--	350	295	--	5
Anchor Glass	--	1,281	11,034	--	--
Atrium	--	1,639	9,286	(287)	1,753
7201 - 7243B Bryan Dairy	--	352	2,398	(352)	(2,398)
7245 - 7279 Bryan Dairy	--	352	2,396	(352)	(2,396)
Benjamin Center #7	--	296	1,678	(296)	(1,678)
Benjamin Center #9	--	300	1,699	(300)	(1,699)
Brandywine I	--	667	1,904	(667)	(1,904)
Brandywine II	--	483	965	(483)	(965)
Bayshore Place	6,316	2,248	10,323	--	162
Bay View	--	1,304	5,964	--	118
Bay Vista Garden Center	(8)	447	4,777	--	11
Bay Vista Garden Center II	(8)	1,328	6,981	134	400
Bay Vista Office Center	(8)	935	4,480	--	169
Bay Vista Retail Center	(8)	283	1,135	--	23
Countryside Place	--	843	3,731	--	114

Gross Amount at  
Which Carried at Close of  
Period

Life on  
Which

Description	Land	Building & Improvements	Total	Accumulated Depreciation	Date of Construction	Depreciation is Computed
Stony Point III	2,546	--	2,546	--	N/A	N/A
Technology Park 2	264	1,107	1,371	127	1991	5-40 yrs.
Virginia Center Technology Park	--	--	--	--	1985	5-40 yrs.
Vantage Place-A	203	961	1,164	141	1987	5-40 yrs.
Vantage Place-B	233	1,072	1,305	128	1988	5-40 yrs.
Vantage Place-C	235	1,026	1,261	134	1987	5-40 yrs.
Vantage Place-D	218	1,060	1,278	165	1988	5-40 yrs.
Vantage Point	1,089	4,987	6,076	588	1990	5-40 yrs.
South Florida						
2828 Coral Way Building	--	--	--	--	1985	5-40 yrs.
The Atrium at Coral Gables	--	--	--	--	1984	5-40 yrs.
Atrium West	--	--	--	--	1983	5-40 yrs.
Avion	--	--	--	--	1985	5-40 yrs.
Centrum Plaza	--	--	--	--	1988	5-40 yrs.
Comeau Building	--	--	--	--	1926	5-40 yrs.
Corporate Square	--	--	--	--	1981	5-40 yrs.
Dadeland Towers North	--	--	--	--	1972	5-40 yrs.
Debartolo Land	1,727	--	1,727	--	N/A	N/A
Highwoods Court at Doral	--	--	--	--	1987	5-40 yrs.
The 1800 Eller Drive Building	--	10,215	10,215	573	1983	5-40 yrs.
Emerald Hills Plaza I	--	--	--	--	1979	5-40 yrs.
Emerald Hills Plaza II	--	--	--	--	1979	5-40 yrs.
Gulf Atlantic Center	--	--	--	--	1986	5-40 yrs.
Horizon One	--	--	--	--	1985	5-40 yrs.
Highwoods Park H1	--	--	--	--	1984	5-40 yrs.
Highwoods Park H2	--	--	--	--	1984	5-40 yrs.
Highwoods Park A	--	--	--	--	1984	5-40 yrs.
Highwoods Park B	--	--	--	--	1984	5-40 yrs.
Highwoods Park C	--	--	--	--	1984	5-40 yrs.
Highwoods Park D	--	--	--	--	1984	5-40 yrs.
Highwoods Park E	--	--	--	--	1984	5-40 yrs.
Highwoods Park F	--	--	--	--	1984	5-40 yrs.
Highwoods Park G	--	--	--	--	1984	5-40 yrs.
Highwoods Park J	--	--	--	--	1984	5-40 yrs.
Highwoods Park L	--	--	--	--	N/A	N/A
Highwoods Park M	--	--	--	--	1984	5-40 yrs.
Highwoods Park N	--	--	--	--	1984	5-40 yrs.
Highwoods Park P	--	--	--	--	1984	5-40 yrs.
Palm Beach Gardens Office Park	--	--	--	--	1984	5-40 yrs.
Pine Island Commons	--	--	--	--	1985	5-40 yrs.
Sheraton Design Center	--	--	--	--	1982	5-40 yrs.
Sunset Station Plaza	--	--	--	--	1984	5-40 yrs.
Venture Corporate Center I	--	--	--	--	1982	5-40 yrs.
Venture Corporate Center II	--	--	--	--	1982	5-40 yrs.
Venture Corporate Center III	--	--	--	--	1982	5-40 yrs.
Tampa, FL						
5400 Gray Street	350	300	650	17	1973	5-40 yrs.
Anchor Glass	1,281	11,034	12,315	548	1988	5-40 yrs.
Atrium	1,352	11,039	12,391	790	1989	5-40 yrs.
7201 - 7243B Bryan Dairy	--	--	--	--	1988	5-40 yrs.
7245 - 7279 Bryan Dairy	--	--	--	--	1987	5-40 yrs.
Benjamin Center #7	--	--	--	--	1991	5-40 yrs.
Benjamin Center #9	--	--	--	--	1989	5-40 yrs.
Brandywine I	--	--	--	--	1984	5-40 yrs.
Brandywine II	--	--	--	--	1984	5-40 yrs.
Bayshore Place	2,248	10,485	12,733	428	1990	5-40 yrs.
Bay View	1,304	6,082	7,386	301	1982	5-40 yrs.
Bay Vista Garden Center	447	4,788	5,235	226	1982	5-40 yrs.
Bay Vista Garden Center II	1,462	7,381	8,843	466	1997	5-40 yrs.
Bay Vista Office Center	935	4,649	5,584	300	1982	5-40 yrs.
Bay Vista Retail Center	283	1,158	1,441	58	1987	5-40 yrs.
Countryside Place	843	3,845	4,688	185	1988	5-40 yrs.

Description	1999 Encumbrance	Initial Cost		Cost Capitalized Subsequent to Acquisition	
		Land	Building & Improvements	Land	Building & Improvements
Clearwater Point	--	317	1,531	--	38
Cross Bayou	--	468	2,997	(468)	(2,997)
Crossroads Office Center	--	561	3,342	(561)	(3,342)
Clearwater Tower	--	1,601	5,955	(1,601)	(5,955)
Cypress Center Land	--	1,410	--	--	--
Cypress Commons	--	1,211	11,488	--	--
Cypress Center I Cigna	--	3,171	12,635	--	--
Cypress Center III	--	1,190	7,690	--	--
Cypress West	2,085	615	4,988	--	216
Brookwood Day Care Center	--	61	347	--	24
Expo Building	--	171	969	--	21
Interstate Corporate Center	--	1,412	5,647	(1,412)	(5,647)
Feathersound II	2,261	800	7,282	--	355
Fireman's Fund Building	--	500	4,107	--	95
Fireman's Fund Land	--	1,000	--	--	--
Grand Plaza (Office)	--	1,100	7,676	(1,100)	(7,676)
Grand Plaza (Retail)	--	840	10,647	(840)	(10,647)
Federated	--	6,028	--	--	--
Horizon Office Building	(2)	--	6,114	--	144
Highwoods Preserve I	--	--	2,268	--	--
Highwoods Preserve III	--	--	1,524	--	--
Highwoods Preserve Land	3,300	3,743	--	--	--
IBP 8302 Laurel Fair Circle	--	63	595	(63)	(595)
IBP 8306 Laurel Fair Circle	--	102	968	(102)	(968)
IBP 8308 Laurel Fair Circle	--	118	1,087	(118)	(1,087)
IBP 4510 Oakfair Blvd	--	118	1,110	(118)	(1,110)
IBP 4514 Oakfair Blvd	--	71	366	(71)	(366)
IBP 4520 Oakfair Blvd	--	173	1,621	(173)	(1,621)
IBP 4524 Oakfair Blvd	--	141	1,329	(141)	(1,329)
IBP Land	--	3,781	--	(3,781)	--
Idlewild	--	623	3,859	(623)	(3,859)
Lakepointe II Office Building	(2)	2,000	20,376	--	--
Lakeside	(2)	--	7,272	--	76
Lakepointe I	(2)	2,100	31,390	--	458
Lakeside Technology Center	--	1,325	8,084	(1,325)	(8,084)
Mariner Square	--	650	2,821	(650)	(2,821)
Marathon I	--	215	1,059	(215)	(1,059)
Marathon II	--	215	1,049	(215)	(1,049)
Northside Square Office Building	(7)	601	3,601	--	99
Northside Square Retail Building	(7)	800	2,808	--	43
Parkside	(2)	--	9,193	--	254
Sabal Pavilion - Phase I	--	660	8,633	--	--
Sabal Pavilion - Phase II	--	661	--	--	--
Pavillion Office Building	(2)	--	16,022	--	278
Pavilion Parking Garage	--	--	5,541	--	--
Park Place	--	1,508	--	--	--
USF&G	--	1,366	7,742	--	1,370
Registry I	--	744	4,216	--	283
Registry II	--	908	5,147	--	219
Registry Square	--	344	1,951	--	101
Rocky Point Land	--	3,484	--	--	--
Sabal Business Center I	--	375	2,127	--	124
Sabal Business Center II	--	342	1,935	--	134
Sabal Business Center III	--	290	1,642	--	41
Sabal Business Center IV	--	819	4,638	--	39
Sabal Business Center V	--	1,026	5,813	--	77
Sabal Business Center VI	--	1,609	9,116	--	196
Sabal Business Center VII	--	1,519	8,605	--	32
Sabal Lake Building	--	572	3,241	--	147
Sabal Industrial Park Land	--	301	--	--	--
Sabal Park Plaza	--	611	3,460	--	379
Sabal Tech Center	--	548	3,107	--	92

Gross Amount at  
Which Carried at Close of Period

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Building & Accumulated Date of Life on  
Which Depreciation

Description	Land	Improvements	Total	Depreciation	Construction	is Computed
Clearwater Point	317	1,569	1,886	75	1981	5-40 yrs.
Cross Bayou	--	--	--	--	1982	5-40 yrs.
Crossroads Office Center	--	--	--	--	1981	5-40 yrs.
Clearwater Tower	--	--	--	--	1990	5-40 yrs.
Cypress Center Land	1,410	--	1,410	--	N/A	N/A
Cypress Commons	1,211	11,488	12,699	352	1985	5-40 yrs.
Cypress Center I Cigna	3,171	12,635	15,806	460	1982	5-40 yrs.
Cypress Center III	1,190	7,690	8,880	111	1983	5-40 yrs.
Cypress West	615	5,204	5,819	312	1985	5-40 yrs.
Brookwood Day Care Center	61	371	432	32	1986	5-40 yrs.
Expo Building	171	990	1,161	84	1981	5-40 yrs.
Interstate Corporate Center	--	--	--	--	1981	5-40 yrs.
Feathersound II	800	7,637	8,437	469	1986	5-40 yrs.
Fireman's Fund Building	500	4,202	4,702	249	1982	5-40 yrs.
Fireman's Fund Land	1,000	--	1,000	--	N/A	N/A
Grand Plaza (Office)	--	--	--	--	1985	5-40 yrs.
Grand Plaza (Retail)	--	--	--	--	1985	5-40 yrs.
Federated	6,028	--	6,028	--	N/A	N/A
Horizon Office Building	--	6,258	6,258	359	1980	5-40 yrs.
Highwoods Preserve I	--	2,268	2,268	--	1999	5-40 yrs.
Highwoods Preserve III	--	1,524	1,524	--	1999	5-40 yrs.
Highwoods Preserve Land	3,743	--	3,743	--	N/A	N/A
IBP 8302 Laurel Fair Circle	--	--	--	--	1987	5-40 yrs.
IBP 8306 Laurel Fair Circle	--	--	--	--	1987	5-40 yrs.
IBP 8308 Laurel Fair Circle	--	--	--	--	1987	5-40 yrs.
IBP 4510 Oakfair Blvd	--	--	--	--	1987	5-40 yrs.
IBP 4514 Oakfair Blvd	--	--	--	--	1987	5-40 yrs.
IBP 4520 Oakfair Blvd	--	--	--	--	1987	5-40 yrs.
IBP 4524 Oakfair Blvd	--	--	--	--	1987	5-40 yrs.
IBP Land	--	--	--	--	N/A	N/A
Idlewild	--	--	--	--	1981	5-40 yrs.
Lakepointe II Office Building	2,000	20,376	22,376	78	1999	5-40 yrs.
Lakeside	--	7,348	7,348	406	1978	5-40 yrs.
Lakepointe I	2,100	31,848	33,948	1,777	1986	5-40 yrs.
Lakeside Technology Center	--	--	--	--	1984	5-40 yrs.
Mariner Square	--	--	--	--	1973	5-40 yrs.
Marathon I	--	--	--	--	1997	5-40 yrs.
Marathon II	--	--	--	--	1987	5-40 yrs.
Northside Square Office Building	601	3,700	4,301	184	1986	5-40 yrs.
Northside Square Retail Building	800	2,851	3,651	141	1986	5-40 yrs.
Parkside	--	9,447	9,447	524	1979	5-40 yrs.
Sabal Pavilion - Phase I	660	8,633	9,293	231	1998	5-40 yrs.
Sabal Pavilion - Phase II	661	--	661	--	N/A	N/A
Pavillion Office Building	--	16,300	16,300	904	1982	5-40 yrs.
Pavilion Parking Garage	--	5,541	5,541	28	1999	5-40 yrs.
Park Place	1,508	--	1,508	--	N/A	N/A
USF&G	1,366	9,112	10,478	1,002	1988	5-40 yrs.
Registry I	744	4,499	5,243	407	1985	5-40 yrs.
Registry II	908	5,366	6,274	504	1987	5-40 yrs.
Registry Square	344	2,052	2,396	169	1988	5-40 yrs.
Rocky Point Land	3,484	--	3,484	--	N/A	N/A
Sabal Business Center I	375	2,251	2,626	178	1982	5-40 yrs.
Sabal Business Center II	342	2,069	2,411	192	1984	5-40 yrs.
Sabal Business Center III	290	1,683	1,973	140	1984	5-40 yrs.
Sabal Business Center IV	819	4,677	5,496	385	1984	5-40 yrs.
Sabal Business Center V	1,026	5,890	6,916	487	1988	5-40 yrs.
Sabal Business Center VI	1,609	9,312	10,921	765	1988	5-40 yrs.
Sabal Business Center VII	1,519	8,637	10,156	718	1990	5-40 yrs.
Sabal Lake Building	572	3,388	3,960	322	1986	5-40 yrs.
Sabal Industrial Park Land	301	--	301	--	N/A	N/A
Sabal Park Plaza	611	3,839	4,450	529	1987	5-40 yrs.
Sabal Tech Center	548	3,199	3,747	258	1989	5-40 yrs.

Description	1999 Encumbrance	Initial Cost		Cost Capitalized Subsequent to Acquisition	
		Land	Building & Improvements	Land	Building & Improvements
Summit Executive Centre	--	579	2,749	--	1
Spectrum	(2)	1,450	14,173	--	268
Starkey Road Center	--	383	2,163	(383)	(2,163)
Turtle Creek 4900	--	188	1,353	(188)	(1,353)
Creekside Dr					
Turtle Creek 4902	--	72	514	(72)	(514)
Creekside Dr					
Turtle Creek 4904	--	41	298	(41)	(298)
Creekside Dr					
Turtle Creek 4906	--	75	541	(75)	(541)
Creekside Dr					
Turtle Creek 4908	--	124	885	(124)	(885)
Creekside Dr					
Turtle Creek 4910	--	171	1,223	(171)	(1,223)
Creekside Dr					
Turtle Creek 4911	--	200	1,434	(200)	(1,434)
Creekside Dr					
Turtle Creek 4912	--	29	211	(29)	(211)
Creekside Dr					
Turtle Creek 4914	--	65	464	(65)	(464)
Creekside Dr					
Telecom Technology	--	1,250	11,224	(1,250)	(11,224)
Center					
Tower Place	--	3,194	18,098	--	753
Westshore Square	2,893	1,130	5,155	--	176
REO Building	--	795	4,484	--	165
Ft. Myers, FL					
Sunrise Office Center	--	422	3,478	(422)	(3,503)
		-----	-----	-----	-----
		784,277	3,445,396	(117,294)	(344,145)
		=====	=====	=====	=====

Description	Gross Amount at Which Carried at Close of Period			Accumulated Depreciation	Date of Construction	Life on Which Depreciation is Computed
	Land	Building & Improvements	Total			
Summit Executive Centre	579	2,750	3,329	130	1988	5-40 yrs.
Spectrum	1,450	14,441	15,891	799	1984	5-40 yrs.
Starkey Road Center	--	--	--	--	1980	5-40 yrs.
Turtle Creek 4900 Creekside Dr	--	--	--	--	1985	5-40 yrs.
Turtle Creek 4902 Creekside Dr	--	--	--	--	1985	5-40 yrs.
Turtle Creek 4904 Creekside Dr	--	--	--	--	1985	5-40 yrs.
Turtle Creek 4906 Creekside Dr	--	--	--	--	1985	5-40 yrs.
Turtle Creek 4908 Creekside Dr	--	--	--	--	1985	5-40 yrs.
Turtle Creek 4910 Creekside Dr	--	--	--	--	1985	5-40 yrs.
Turtle Creek 4911 Creekside Dr	--	--	--	--	1985	5-40 yrs.
Turtle Creek 4912 Creekside Dr	--	--	--	--	1985	5-40 yrs.
Turtle Creek 4914 Creekside Dr	--	--	--	--	1985	5-40 yrs.
Telecom Technology Center	--	--	--	--	1991	5-40 yrs.
Tower Place	3,194	18,851	22,045	1,644	1988	5-40 yrs.
Westshore Square	1,130	5,331	6,461	249	1976	5-40 yrs.
REO Building	795	4,649	5,444	261	1983	5-40 yrs.
Ft. Myers, FL Sunrise Office Center	--	(25)	(25)	--	1974	5-40 yrs.
	-----	-----	-----	-----		
	666,983	3,101,251	3,768,234	237,979		
	-----	-----	-----	-----		

(1) These assets are pledged as collateral for a \$5,485,000 first mortgage loan.



- (2) These assets are pledged as collateral for a \$42,167,000 first mortgage loan.
- (3) These assets are pledged as collateral for an \$46,238,000 first mortgage loan.
- (4) These assets are pledged as collateral for a \$29,914,000 first mortgage loan.
- (5) These assets are pledged as collateral for a \$4,681,000 first mortgage loan.
- (6) These assets are pledged as collateral for a \$8,261,000 first mortgage loan.
- (7) These assets are pledged as collateral for a \$1,634,000 first mortgage loan.
- (8) These assets are pledged as collateral for a \$3,105,000 first mortgage loan.
- (9) These assets are pledged as collateral for a \$69,063,000 first mortgage loan.
- (10) These assets are pledged as collateral for a \$14,039,000 first mortgage loan.
- (11) These assets are pledged as collateral for a \$188,051,000 first mortgage loan.
- (12) Reflects land transferred to Hewlett Packard property, Inacom property, Two AirPark East property, AirPark East-Simplex property and Two Airpark East.
- (13) Reflects land transferred to Concourse Center 1 and Concourse Center 2 Land in progress and Land Held for Development.
- (14) Reflects land sale.
- (15) Reflects land transferred to Situs 1 and Situs 2.
- (16) Reflects land transferred to Red Oak at Highwoods.
- (17) Reflects land transferred to Highwoods Centre and Sycamore.
- (18) Transferred to Land In Progress Account.
- (19) Reflects land transferred to Grassmere I.

(20) Reflects transfer of land to Lakeview Ridge II and Lakeview Ridge III, and sale of 3.35 acres of land.

(21) Reflects Transfer of land to Highwoods Common.

(22) Transferred land to Newpoint Place.

(23) Sold 9.61 acres in 1999.

The aggregate cost for Federal Income tax purposes was approximately \$3,125,842,307.

# HIGHWOODS PROPERTIES, INC.

## NOTE TO SCHEDULE III

(in thousands)

**As of December 31, 1999, 1998 and 1997**

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

	December 31,		
	1999	1998	1997
Real Estate:			
Balance at beginning of year .....	\$4,025,472	\$2,603,410	\$1,390,079
Additions:			
Acquisitions, development and improvements .....	507,475	1,447,637	1,216,687
Cost of real estate sold .....	(764,713)	(25,575)	(3,356)
Balance at close of year (a) .....	\$3,768,234	\$4,025,472	\$2,603,410
Accumulated Depreciation:			
Balance at beginning of year .....	\$ 167,989	\$ 86,062	\$ 42,194
Depreciation expense .....	99,386	83,462	44,002
Real estate sold .....	(29,396)	(1,535)	(134)
Balance at close of year (b) .....	\$ 237,979	\$ 167,989	\$ 86,062
-----			
(a) Reconciliation of total cost to balance sheet caption at December 31, 1999, 1998 and 1997:			
	1999	1998	1997
Total per schedule III .....	\$3,768,234	\$4,025,472	\$2,603,410
Construction in progress exclusive			
of land included in Schedule III .....	186,925	189,465	95,387
Furniture, fixtures and equipment .....	7,917	7,693	3,362
Property held for sale .....	(51,603)	(129,166)	--
Total real estate assets at cost .....	\$3,911,473	\$4,093,464	\$2,702,159
(b) Reconciliation of total accumulated depreciation to balance sheet caption at December 31, 1999, 1998 and 1997:			
	1999	1998	1997
Total per schedule III .....	\$ 237,979	\$ 167,989	\$ 86,062
Accumulated depreciation -- furniture, fixtures and			
equipment .....	2,799	3,953	1,443
Property held for sale .....	(2,643)	(2,670)	--
Total accumulated depreciation .....	\$ 238,135	\$ 169,272	\$ 87,505

**EXHIBIT 10.21**  
**HIGHWOODS PROPERTIES, INC.**  
**1999 SHAREHOLDER VALUE PLAN**

**SECTION 1. GENERAL PURPOSE OF THE PLAN: DEFINITIONS**

The name of the plan is the Highwoods Properties, Inc. 1999 Shareholder Value Plan (the "Plan"). The purpose of the Plan is to further align the interests of the officers of Highwoods Properties, Inc. (the "Company") and its Subsidiaries upon whose judgement, initiative and efforts the Company largely depends for the successful conduct of its business with those of the Company and its shareholders. The Plan provides that those officers selected by the Committee shall be allowed to participate in a long term incentive plan which rewards them only upon the Company's achieving shareholder returns at or above that of the Company's peers, thereby stimulating their efforts on the Company's behalf and strengthening their desire to remain with the Company.

The following terms shall be defined as set forth below:

"ACT" means the Securities Exchange Act of 1934, as amended.

"AGREEMENT" shall mean the written agreement, substantially in the form of Exhibit B attached hereto, evidencing an Award hereunder between the Company and the recipient of such Award.

"AWARD" or "AWARDS" means a grant of an SVP Award.

"BOARD" means the Board of Directors of the Company.

"CAUSE" means and shall be limited to a vote of the Board resolving that the participant should be dismissed as a result of (i) any material breach by the participant of any agreement to which the participant and the Company are parties, (ii) any act (other than retirement) or omission to act by the participant which may have a material and adverse effect on the business of the Company or any Subsidiary or on the participant's ability to perform services for the Company or any Subsidiary, including, without limitation, the commission of any crime (other than ordinary traffic violations), or (iii) any material misconduct or neglect of duties by the participant in connection with the business or affairs of the Company or any Subsidiary.

"CHANGE OF CONTROL" is defined in Section 10.

"CODE" means the Internal Revenue Code of 1986, as amended, and any successor Code, and related rules, regulations and interpretations.

"COMMITTEE" means the Board or any Committee of the Board referred to in Section 2.

"DISABILITY" means disability as set forth in Section 22(e)(3) of the Code.

"EFFECTIVE DATE" means January 1, 1999.

"FAIR MARKET VALUE" means the last reported sale price at which a share of common stock in a given company is traded on any given date or, if no such shares are traded on such date, on the next most recent date on which such shares were traded, as reflected on the New York Stock Exchange or, if applicable, any other national stock exchange on which such shares are traded.

"NON-EMPLOYEE DIRECTOR" means a director who is qualified as such under Rule 16b-3(b)(3) promulgated under the Act or any successor definition under the Act.

"PEER GROUP" shall mean that list of companies as determined from time to time by the Committee and as listed on Exhibit C attached hereto. The component members of the Peer Group may be changed from time to time in the reasonable discretion of the Committee.

"PERFORMANCE MEASURES" shall mean the criteria and objectives, established by the Committee, which shall be satisfied or met during the applicable Plan Period as a condition to the holder's receipt of an SVP Award. Such criteria and objectives shall include the attainment by a Share of a specified Shareholder Return (including dividends). The Committee may, in its reasonable discretion, amend or adjust the Performance Measures or other terms and conditions of an outstanding award in recognition of unusual or nonrecurring events affecting the Company or its financial statements or changes in law or accounting principles. If the Committee consists solely of "outside directors" (within the meaning of Section 162(m) of the Code and the regulations promulgated thereunder) and the Committee desires that compensation payable pursuant to any award subject to Performance Measures shall be "qualified performance-based compensation" within the meaning of Section 162(m) of the Code, the Performance Measures (i) shall be established by the Committee no later than the end of the first quarter of the Plan Period, as applicable (or such other time permitted pursuant to Treasury Regulations promulgated under Section 162(m) of the Code or otherwise permitted by the Internal Revenue Service) and (ii) shall satisfy all other applicable requirements imposed under Treasury Regulations promulgated under Section 162(m) of the Code, including the requirement that such Performance Measures be stated in terms of an objective formula or standard.

"PLAN PERIOD" shall mean any period designated by the Committee for which the Performance Measures shall be calculated, but generally, shall refer to the three (3) year period beginning on each January 1.

"SHARE" or "SHARES" means one or more, respectively, of the Company's shares of common stock, par value \$.01 per share, subject to adjustments pursuant to Section 3.

"SHAREHOLDER RETURN" shall mean as to the common stock of any applicable company the percentage determined by dividing (x) the fair Market Value of a share of such stock at the end of the Plan Period plus all dividends or distributions paid with respect to such share during the Plan Period and assuming reinvestment in such shares of all such dividends or distributions, adjusted to give effect to Section 3 of the Plan, by (y) the Fair Market Value of a share of stock of the applicable company on its last trading day immediately preceding the first day of the Plan Period.

"SHAREHOLDER VALUE PLAN AWARD" OR "SVP AWARD" shall mean a right stated as a grant of SVP Units to receive cash or other consideration as provided hereby, contingent upon the attainment of specified Shareholder Returns of the Company as compared to Shareholder Returns of the Peer Group within the Plan Period.

"SUBSIDIARY" means Highwoods Realty Limited Partnership and any corporation or other entity (other than the Company) in any unbroken chain of corporations or other entities, beginning with the Company, if each of the corporations or entities (other than the last corporation or entity in the unbroken chain) owns stock or other interests possessing 50% or more of the economic interest or the total combined voting power of all classes of stock or other interests in one of the other corporations or entities in the chain.

"SVP UNIT(S)" means the units described in this Plan and in an Agreement and designated as being granted pursuant to an SVP Award.

## SECTION 2. ADMINISTRATION OF PLAN: COMMITTEE AUTHORITY TO SELECT PARTICIPANTS AND DETERMINE AWARDS

(a) COMMITTEE. The Plan shall be administered by the Executive Compensation Committee of the Board, or any other committee of not less than two Non-Employee Directors performing similar functions, as appointed by the Board from time to time. Only Non-Employee Directors may vote with respect to transactions involving an Award.

(b) POWERS OF COMMITTEE. The Committee shall have the power and authority to grant Awards consistent with the terms of the Plan, including the power and authority:

(i) to select participants to whom Awards may be granted from time to time;

(ii) to determine the time or times of a grant of an Award;

(iii) to determine and modify the terms and conditions, including restrictions, not inconsistent with the terms of the Plan, of any Award, which terms and conditions may differ among individual Awards and participants, and to approve the form of written instruments evidencing the Awards;

(iv) to accelerate the vesting of all or any portion of any Award;

(v) to extend the period in which an Award may be settled;

(vi) to determine whether, to what extent, and under what circumstances amounts payable with respect to an Award shall be deferred, whether automatically or at the election of the participant, and whether and to what extent the Company shall pay or credit amounts constituting dividends or deemed dividends on such deferrals; and

(vii) to adopt, alter and repeal such rules, guidelines and practices for administration of the Plan and for its own acts and proceedings as it shall deem advisable; to interpret the terms and provisions of the Plan and any Awards (including related written instruments); to make all determinations it deems advisable for the administration of the Plan; to decide all disputes arising in connection with the Plan; and to otherwise supervise the administration of the Plan.

All decisions and interpretations of the Committee shall be binding on all persons, including the Company and Plan participants

### SECTION 3. MERGERS; SUBSTITUTIONS

**STOCK DIVIDENDS, MERGERS, ETC.** In the event of any stock split, stock dividend, recapitalization, reorganization, merger, consolidation, combination, exchange of shares, liquidation, spin-off or other similar change in capitalization or similar dividend affecting either the Company or a company included in the Peer Group, the terms of the Plan shall be appropriately adjusted by the Committee. The decision of the Committee regarding any such adjustment shall be final, binding and conclusive.

### SECTION 4. ELIGIBILITY

Participants in the Plan will be such full or part-time officers of the Company and its Subsidiaries who are responsible for or contribute to the management, growth, or profitability of the Company and its Subsidiaries and whom are selected from time to time by the Committee, in its sole discretion.

### SECTION 5. SHAREHOLDER VALUE PLAN AWARDS

(a) **SHAREHOLDER VALUE PLAN AWARDS.** The Committee may, in its discretion, grant SVP Awards to such eligible persons as may be selected by the Committee.

(b) **TERMS OF SVP AWARDS.** SVP Awards shall be subject to the following terms and conditions and shall contain such additional terms and conditions, not inconsistent with the terms of this Plan, as the Committee shall in its discretion deem advisable:

(i) **GRANT OF SVP AWARDS.** An SVP Award may be granted by the Committee. The Plan Period and Performance Measure of an SVP Award also shall be as designated by the Committee.

(ii) VESTING AND FORFEITURE. The Agreement relating to an SVP Award shall provide, in the manner determined by the Committee in its discretion and subject to the provisions of this Plan, for the vesting of such award if specified Performance Measure(s) are satisfied or met during the specified Plan Period, and for the forfeiture of such award if specified Performance Measure(s) are not satisfied or met during the specified Plan Period.

(iii) VALUATION OF SVP AWARDS.

(a) At the date of grant of an SVP Award, each SVP Unit shall have a stated value of \$1,000.

(b) The settlement value of an SVP Unit (the "Value") shall be based upon the relative percentage of Shareholder Return for a Share compared to the Shareholder Return of the shares in the Peer Group. The Value shall be determined as follows:

If the Company's Shareholder Return for the Plan Period divided by the Shareholder Return of the Peer Group (such result being termed the "Index Ratio") as of the measurement date equals or exceeds 1.00, then the Value of an SVP Unit will be equal to \$1,000 times the sum of .5 plus .025 for each percentage point that the Index Ratio (expressed in percentage points) exceeds 100. In no event, however, shall the Value of an SVP exceed \$3,000. If the Index Ratio is less than 1.00, then an SVP Unit shall have a Value equal to \$0.

An example of the computation of the Value of an SVP Unit is attached at Exhibit A.

(iv) SETTLEMENT OF VESTED SVP AWARDS. Except as provided at paragraph 5(c)(i) below for certain terminations of employment requiring a cash settlement, vested SVP Awards shall be settled, at the election of the participant, in (x) cash, (y) Shares at 90% of the 20-day trailing average as of the end of the applicable Plan Period, or

(z) a reduction in the exercise price of any stock option granted to the participant and unexercised as of the Settlement Date. The Settlement Date shall be established by the Company so long as such Settlement Date occurs no later than ninety (90) days following the expiration of the applicable Plan Period. The participant's election allowed under this paragraph as to method of settlement shall be the last such election filed no later than one (1) year prior to the end of the Plan Period. Except to the extent otherwise provided in the Agreement relating to an SVP Award, in the event of a Change of Control the Plan Period shall expire and the Performance Measure shall be computed through such date and the applicable SVP Award shall forthwith be settled on the first business day immediately following such Change of Control.

(c) TERMINATION OF EMPLOYMENT OR SERVICE.



(i) **DISABILITY, DEATH AND INVOLUNTARY TERMINATION WITHOUT CAUSE.** Except to the extent otherwise set forth in the Agreement relating to an SVP Award, if the employment of a participant is terminated by reason of Disability, death or involuntary termination by the Company without Cause, the Plan Period with respect to any SVP Award held by such participant shall terminate, the Performance Measure shall be computed through such date, the Value shall be determined and pro rated to reflect the portion of the Plan Period completed prior to the date of termination of employment and the applicable SVP Award shall be settled in cash as soon as practicable following the termination but not later than the tenth day thereafter.

(ii) **OTHER TERMINATION.** Except to the extent otherwise set forth in the Agreement relating to an SVP Award, if the participant's employment with the Company terminates for any reason other than Disability, death, or involuntary termination by the Company without Cause, then the Plan Period for such SVP Award shall be deemed to end on the date of such termination, no Performance Measure shall be recognized or deemed attained, satisfied or met, and the holder's SVP Award shall be forfeited to and canceled by the Company.

## SECTION 6. TAX WITHHOLDING

**PAYMENT BY PARTICIPANT.** Each participant shall, not later than the date as of which the Value of an Award or amounts received hereunder first becomes includable in the gross income of the participant for federal income tax purposes, pay to the Company, or make arrangements satisfactory to the Committee regarding payment of any federal, state, or local taxes of any kind required by law to be withheld with respect to such income.

## SECTION 7. TRANSFER, LEAVE OF ABSENCE, ETC.

For purposes of the Plan, the following events shall not be deemed a termination of employment:

- (a) a transfer to the employment of the Company from a Subsidiary or from the Company to a Subsidiary, or from one Subsidiary to another; or
- (b) an approved leave of absence for military service or sickness, or for any other purposes approved by the Company, if the employee's right to re-employment is guaranteed either by a statute or by contract or under the policy pursuant to which the leave of absence was granted or if the Committee otherwise so provides in writing.

## SECTION 8. AMENDMENTS AND TERMINATION

The Board may, at any time, amend or discontinue the Plan and the Committee may, at any time, amend or cancel any outstanding Award for the purpose of satisfying changes in law without the consent of any participant. No amendment, however, may impair the rights of a holder of an outstanding Award without the consent of such holder.

#### SECTION 9. STATUS OF PLAN

With respect to the portion of any Award which has not been exercised and any payments of consideration not received by a participant, a participant shall have no rights greater than those of a general creditor of the Company unless the Committee shall otherwise expressly determine in connection with any Award or Awards. In its sole discretion, the Committee may authorize the creation of trusts or other arrangements to meet the Company's obligations to deliver Shares or make payments with respect to Awards hereunder, provided that the existence of such trusts or other arrangements is consistent with the provisions of the foregoing sentence.

#### SECTION 10. CHANGE OF CONTROL PROVISIONS

Upon the occurrence of a Change of Control as defined in this Section 10:

(a) The Plan Period for SVP Awards will expire, the Performance Measures will be computed through the date of such Change of Control, the Value shall be determined and pro rated to reflect the portion of the Plan Period completed prior to the date of the Change of Control and the applicable SVP Award shall be settled on the date of such Change in Control.

(b) "CHANGE OF CONTROL" shall mean the occurrence of any one of the following events:

(i) any "PERSON," as such term is used in Section 13(d) and 14(d) of the Act (other than the Company, any of its Subsidiaries, any trustee, fiduciary or other person or entity holding securities under any employee benefit plan of the Company or any of its Subsidiaries), together with all "affiliates" and "associates" (as such terms are defined in Rule 12b-2 under the Act) of such person, shall become the "beneficial owner" (as such term is defined in Rule 13d-3 under the Act), directly or indirectly, of securities of the Company representing 40% or more of either (A) the combined voting power of the Company's then outstanding securities having the right to vote in an election of the Company's Board of Directors ("Voting Securities") or (B) the then outstanding Shares (in either such case other than as a result of acquisition of securities directly from the Company); or

(ii) persons who, as of May 1, 1999, constitute the Company's Board of Directors (the "Incumbent Directors") cease for any reason, including, without limitation, as a result of a tender offer, proxy contest, merger or similar transaction, to constitute at least a majority of the Board, provided that any person becoming a director of the Company subsequent to May 1, 1999 whose election or nomination for election was approved by a vote of at least a majority of the Incumbent Directors shall, for purposes of this Plan, be considered an Incumbent Director; or

(iii) the stockholders of the Company shall approve (A) any consolidation or merger of the Company or any Subsidiary where the stockholders of the Company, immediately prior to the consolidation or merger, would not, immediately after the consolidation or merger, beneficially own (as such term is defined in Rule 13d-3 under the Act), directly or indirectly, shares representing in the aggregate 50% of the voting shares of the corporation issuing cash or securities in the consolidation or merger (or of its ultimate parent corporation, if any), (B) any sale, lease, exchange or other transfer (in one transaction or a series of transactions contemplated or arranged by an party as a single plan) of all or substantially all of the assets of the Company or (C) any plan or proposal for the liquidation or dissolution of the Company.

Notwithstanding the foregoing, a "Change of Control" shall not be deemed to have occurred for purposes of the foregoing clause (i) solely as the result of an acquisition of securities by the Company which, by reducing the number of Shares or other voting securities outstanding, increases (x) the proportionate number of Shares beneficially owned by any person to 40% or more of the Shares then outstanding or (y) the proportionate voting power represented by the voting securities beneficially owned by any person to 40% or more of the combined voting power of all then outstanding voting securities; PROVIDED, HOWEVER, that if any person referred to in clause (x) or (y) of this sentence shall thereafter become the beneficial owner of any additional Shares or other voting securities (other than pursuant to a stock split, stock dividend, or similar transaction), then a "Change of Control" shall be deemed to have occurred for purposes of the foregoing clause (i).

#### SECTION 11. EFFECTIVE DATE OF PLAN

This Plan became effective on January 1, 1999.

#### SECTION 12. GOVERNING LAW

This Plan shall be governed by North Carolina law except to the extent such law is preempted by federal law.

**SHAREHOLDER VALUE PLAN  
DETERMINATION OF SETTLEMENT VALUE - EXAMPLE  
EXHIBIT A**

1) FAIR MARKET VALUE AT 1/1/99:

**HIGHWOODS \$ 25.00  
PEER GROUP (TOTAL) \$1,200.00**

2) DIVIDENDS PER SHARE DURING PLAN PERIOD:

**HIGHWOODS \$ 8.00  
PEER GROUP (TOTAL) \$ 234.00**

3) FAIR MARKET VALUE AT END OF PLAN PERIOD:

HIGHWOODS	\$ 43.00
PEER GROUP	\$1,920.00

4) SHAREHOLDER RETURN:

HIGHWOODS:	
DIVIDENDS	\$ 8.00
RETURN ON DIVIDENDS*	.75
FMV-ENDING	43.00
	-----
	51.75
	(divided by) = 2.07
FMV- BEGINNING	25.00
PEER GROUP:	
DIVIDENDS	\$ 243.00
RETURN ON DIVIDENDS*	18.05
FMV- ENDING	1,920.00
	-----
	2,181.05
	(divided by) = 1.82
FMV- BEGINNING	1,200.00

5) INDEX RATIO:

HIGHWOODS SHAREHOLDER RETURN	2.07
	(divided by) = 1.14
PEER GROUP SHAREHOLDER RETURN	1.82

6) VALUE OF AN SVP UNIT:  
SINCE THE INDEX RATIO EXCEEDS 1.00, THE VALUE OF AN SVP UNIT IS EQUAL TO \$1,000, THE STATED VALUE OF A UNIT,  
TIMES THE SUM OF .5 + (.025 TIMES THE INDEX RATIO IN PERCENTAGE POINTS LESS 100), OR

STATED VALUE OF AN SVP UNIT	\$1,000
.5 + (.025) (114-100) =	.850
	-----
VALUE	\$ 850
	=====

**EXHIBIT C**

**PEER GROUP**

## CONSENT OF INDEPENDENT AUDITORS

We consent to the incorporation by reference in the Registration Statements (Form S-3 Nos. 333-39247, 333-51671-01, 333-51759 and 333-61913, and Form S-8 Nos. 333-12117, 333-29759, 333-29763 and 333-55901) and related Prospectuses of Highwoods Properties, Inc. and in the Registration Statement (Form S-3 No. 333-51671) and related Prospectus of Highwoods Realty Limited Partnership of our report dated February 18, 2000 with respect to the consolidated financial statements and schedule of Highwoods Properties, Inc. included in the Annual Report (Form 10-K) for the year ended December 31, 1999.

*/s/ ERNST & YOUNG LLP*

*Raleigh, North Carolina*

*March 30, 2000*

**ARTICLE 5**

MULTIPLIER: 1,000

PERIOD TYPE	YEAR
FISCAL YEAR END	DEC 31 1999
PERIOD START	JAN 01 1999
PERIOD END	DEC 31 1999
CASH	36,338
SECURITIES	0
RECEIVABLES	96,984
ALLOWANCES	800
INVENTORY	0
CURRENT ASSETS	89,895
PP&E	3,911,473
DEPRECIATION	238,135
TOTAL ASSETS	4,016,197
CURRENT LIABILITIES	111,945
BONDS	1,766,117
PREFERRED MANDATORY	0
PREFERRED	397,500
COMMON	0
OTHER SE	1,740,635
TOTAL LIABILITY AND EQUITY	4,016,197
SALES	564,465
TOTAL REVENUES	584,935
CGS	174,075
TOTAL COSTS	286,422
OTHER EXPENSES	22,345
LOSS PROVISION	0
INTEREST EXPENSE	117,134
INCOME PRETAX	145,434
INCOME TAX	0
INCOME CONTINUING	145,434
DISCONTINUED	0
EXTRAORDINARY	(7,341)
CHANGES	0
NET INCOME	138,093
EPS BASIC	1.72
EPS DILUTED	1.71

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