

HIGHWOODS PROPERTIES INC

FORM 10-Q (Quarterly Report)

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

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 1999

Commission file number: 001-13100

HIGHWOODS PROPERTIES, INC.

(Exact name of registrant as specified in its charter)

MARYLAND
(State or other jurisdiction of
incorporation or organization)

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

3100 SMOKETREE COURT, SUITE 600, RALEIGH, N.C.
(Address of principal executive office)

27604
(Zip Code)

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

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

The Company has only one class of common stock, par value \$.01 per share, with 61,696,481 shares outstanding as of August 9, 1999.

HIGHWOODS PROPERTIES, INC.

QUARTERLY REPORT FOR THE PERIOD ENDED JUNE 30, 1999

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PART I -- FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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

The information furnished in the accompanying balance sheets, statements of income, statements of stockholders' equity and statements of cash flows reflect all adjustments (consisting of normal recurring accruals) that are, in our opinion, necessary for a fair presentation of the aforementioned financial statements for the interim period.

The aforementioned financial statements should be read in conjunction with the notes to consolidated financial statements and Management's Discussion and Analysis of Financial Condition and Results of Operations included herein and our 1998 Annual Report on Form 10-K.

HIGHWOODS PROPERTIES, INC.

CONSOLIDATED BALANCE SHEETS

(DOLLARS IN THOUSANDS EXCEPT PER SHARE AMOUNTS)

	JUNE 30, 1999	DECEMBER 31, 1998
	----- (UNAUDITED)	-----
ASSETS		
Real estate assets, at cost:		
Land and improvements	\$ 483,969	\$ 559,100
Buildings and tenant improvements	2,875,956	3,186,584
Development in process	173,077	189,465
Land held for development	152,143	150,622
Furniture, fixtures and equipment	7,183	7,693
	-----	-----
	3,692,328	4,093,464
Less -- accumulated depreciation	(197,494)	(169,272)
	-----	-----
Net real estate assets	3,494,834	3,924,192
Property held for sale	202,698	131,262
Cash and cash equivalents	104,004	31,445
Restricted cash	11,969	24,263
Accounts receivable	23,050	27,948
Advances to related parties	14,251	10,420
Notes receivable	51,803	40,225
Accrued straight line rents receivable	29,527	27,194
Investment in unconsolidated affiliates	33,463	21,088
Other assets:		
Deferred leasing costs	54,006	45,785
Deferred financing costs	42,903	38,750
Prepaid expenses and other	16,155	15,237
	-----	-----
	113,064	99,772
Less -- accumulated amortization	(28,802)	(23,476)
	-----	-----
	84,262	76,296
	-----	-----
	\$4,049,861	\$4,314,333
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY		
Mortgages and Notes payable	\$1,779,870	\$2,008,716
Accounts payable, accrued expenses and other liabilities	100,374	130,575
	-----	-----
Total liabilities	1,880,244	2,139,291
Minority interest	241,951	279,043
Stockholders' equity:		
Preferred stock, \$.01 par value, 50,000,000 authorized shares;		
8 5/8% Series A Cumulative Redeemable Preferred Shares		
(liquidation preference \$1,000 per share), 125,000 shares issued		
and outstanding at June 30, 1999 and December 31, 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 June 30, 1999 and December 31, 1998	172,500	172,500
8% Series D Cumulative Redeemable Preferred Shares		
(liquidation preference \$250 per share), 400,000 shares issued and		
outstanding at June 30, 1999 and December 31, 1998	100,000	100,000
Common stock, \$.01 par value, authorized 200,000,000 shares; 61,696,481		
shares issued and outstanding at June 30, 1999 and 59,865,259 shares		
issued and outstanding at December 31, 1998	617	599
Additional paid-in capital	1,589,620	1,546,592
Distributions in excess of net earnings	(60,071)	(48,692)
	-----	-----
Total stockholders' equity	1,927,666	1,895,999
	-----	-----
	\$4,049,861	\$4,314,333
	=====	=====

SEE ACCOMPANYING NOTES TO CONSOLIDATED FINANCIAL STATEMENTS.

HIGHWOODS PROPERTIES, INC.

CONSOLIDATED STATEMENTS OF INCOME

(IN THOUSANDS EXCEPT PER SHARE AMOUNTS)

	THREE MONTHS ENDED JUNE 30,		SIX MONTHS ENDED JUNE 30,	
	1999	1998	1999	1998
	(UNAUDITED)	(UNAUDITED)	(UNAUDITED)	(UNAUDITED)
REVENUE:				
Rental property	\$142,079	\$113,079	\$ 288,800	\$ 213,410
Equity in earnings of unconsolidated affiliates	490	--	687	--
Interest and other income	5,273	2,562	10,560	4,719
	147,842	115,641	300,047	218,129
OPERATING EXPENSES:				
Rental property	43,761	35,827	89,106	65,555
Depreciation and amortization	27,705	20,340	55,861	37,501
Interest expense:				
Contractual	29,717	17,221	61,559	34,383
Amortization of deferred financing costs	734	616	1,512	1,232
	30,451	17,837	63,071	35,615
General and administrative	6,212	4,386	12,005	8,170
Income before gain on disposition of assets, net of income tax provision, minority interest and extraordinary item	39,713	37,251	80,004	71,288
Gain on disposition of assets, net of income tax provision	1,524	--	2,093	--
Income before minority interest and extraordinary item	41,237	37,251	82,097	71,288
MINORITY INTEREST	(4,879)	(6,266)	(10,705)	(11,874)
Income before extraordinary item	36,358	30,985	71,392	59,414
EXTRAORDINARY ITEM -- LOSS ON EARLY EXTINGUISHMENT OF DEBT	(777)	--	(777)	(46)
Net income	35,581	30,985	70,615	59,368
Dividends on preferred shares	(8,145)	(7,656)	(16,290)	(13,801)
Net income available for common shareholders	\$ 27,436	\$ 23,329	\$ 54,325	\$ 45,567
NET INCOME/(LOSS) PER COMMON SHARE -- BASIC:				
Income before extraordinary item	\$ 0.46	\$ 0.45	\$ 0.90	\$ 0.90
Extraordinary item -- loss on early extinguishment of debt	(0.01)	--	(0.01)	--
Net income	\$ 0.45	\$ 0.45	\$ 0.89	\$ 0.90
Weighted average shares outstanding -- basic	61,529	52,359	60,930	50,714
NET INCOME/(LOSS) PER COMMON SHARE -- DILUTED:				
Income before extraordinary item	\$ 0.46	\$ 0.44	\$ 0.90	\$ 0.89
Extraordinary item loss on early extinguishment of debt	(0.01)	--	(0.01)	--
Net income	\$ 0.45	\$ 0.44	\$ 0.89	\$ 0.89
Weighted average shares outstanding -- diluted	61,722	52,751	60,954	51,221
Distributions declared per common share	\$ 0.54	\$ 0.51	\$ 1.08	\$ 1.02

SEE ACCOMPANYING NOTES TO CONSOLIDATED FINANCIAL STATEMENTS.

HIGHWOODS PROPERTIES, INC.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

FOR THE SIX MONTHS ENDED JUNE 30, 1999 (UNAUDITED)

(DOLLARS IN THOUSANDS)

	NUMBER OF COMMON SHARES	COMMON STOCK	SERIES A PREFERRED	SERIES B PREFERRED
Balance at December 31, 1998	59,865,259	\$599	\$125,000	\$172,500
Issuance of Common Stock	821,595	8		
Common Stock Dividends				
Preferred Stock Dividends				
Net Income				
Shares issued upon redemption of Common Units	1,256,051	12		
Forward Equity Swap Settlement (see Note 8)				
Retirement of Common Stock (see Note 8)	(246,424)	(2)		
Balance at June 30, 1999	61,696,481	\$617	\$125,000	\$172,500

	SERIES D PREFERRED	ADDITIONAL PAID-IN CAPITAL	RETAINED EARNINGS (DISTRIBUTIONS IN EXCESS OF NET EARNINGS)	TOTAL
Balance at December 31, 1998	\$100,000	\$1,546,592	\$ (48,692)	\$1,895,999
Issuance of Common Stock		15,256		15,264
Common Stock Dividends			(65,554)	(65,554)
Preferred Stock Dividends			(16,290)	(16,290)
Net Income			70,615	70,615
Shares issued upon redemption of Common Units		40,555		40,567
Forward Equity Swap Settlement (see Note 8)		(12,783)		(12,783)
Retirement of Common Stock (see Note 8)			(150)	(152)
Balance at June 30, 1999	\$100,000	\$1,589,620	\$ (60,071)	\$1,927,666

SEE ACCOMPANYING NOTES TO CONSOLIDATED FINANCIAL STATEMENTS.

HIGHWOODS PROPERTIES, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(IN THOUSANDS)

	SIX MONTHS ENDED JUNE 30,	
	1999	1998
	(UNAUDITED)	(UNAUDITED)
OPERATING ACTIVITIES:		
Net income	\$ 70,615	\$ 59,368
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	55,861	37,501
Minority interest	10,705	11,874
Loss on early extinguishment of debt	777	46
Gain on disposition of assets, net of income tax provision	(2,093)	--
Changes in operating assets and liabilities	(40,336)	1,656
Net cash provided by operating activities	95,529	110,445
INVESTING ACTIVITIES:		
Additions to real estate assets	(245,342)	(647,142)
Cash paid in exchange for partnership net assets	(847)	(20,601)
Proceeds from disposition of assets	502,737	--
Repayment of advances from subsidiaries and related parties	(3,831)	(2,341)
Other	(21,666)	(8,441)
Net cash provided by/(used in) investing activities	231,051	(678,525)
FINANCING ACTIVITIES:		
Distributions paid on common stock and common units	(76,147)	(62,158)
Dividends paid on preferred stock	(16,290)	(13,801)
Payments of prepayment penalties	(777)	(46)
Borrowings on mortgages and notes payable	4,385	521,941
Repayment of mortgages and notes payable	(22,700)	(118,120)
Borrowings on revolving loans	210,500	535,000
Payments on revolving loans	(362,500)	(582,500)
Net proceeds from the sale of common stock	14,002	193,761
Net proceeds from the sale of 8% Series D Cumulative Redeemable Preferred Shares	--	96,842
Net change in deferred financing costs	(4,494)	(5,950)
Net cash (used in)/provided by financing activities	(254,021)	564,969
Net increase/(decrease) in cash and cash equivalents	72,559	(3,111)
Cash and cash equivalents at beginning of the period	31,445	10,146
Cash and cash equivalents at end of the period	\$ 104,004	\$ 7,035
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid for interest	\$ 78,057	\$ 36,277

SEE ACCOMPANYING NOTES TO CONSOLIDATED FINANCIAL STATEMENTS.

HIGHWOODS PROPERTIES, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(IN THOUSANDS)

SUPPLEMENTAL DISCLOSURE OF NON-CASH INVESTING AND FINANCING ACTIVITIES

The following summarizes (i) the net assets contributed by the holders of Common Units in the Operating Partnership, (ii) the change in net assets contributed as a result of the reorganization of our ownership in the Des Moines Properties (see Note 6) and (iii) the net assets acquired subject to mortgage notes payable.

	SIX MONTHS ENDED JUNE 30,	
	1999	1998
	(UNAUDITED)	(UNAUDITED)
ASSETS:		
Rental property and equipment, net	\$ (25,879)	\$93,979
LIABILITIES:		
Mortgages and notes payable assumed	\$ (52,165)	\$73,821
	-----	-----
Net assets	\$ 26,286	\$20,158
	=====	=====

SEE ACCOMPANYING NOTES TO CONSOLIDATED FINANCIAL STATEMENTS.

HIGHWOODS PROPERTIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 1999
(UNAUDITED)

1. BASIS OF PRESENTATION

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

The extraordinary loss represents the write-off of loan origination fees and prepayment penalties paid on the early extinguishment of debt, net of the minority interest.

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 the Company's derivatives is discussed in Item 2.

The "Year 2000" issue is a general term used to describe the various problems that may result from the improper processing of dates and calculations involving years by many computers throughout the world as the Year 2000 is approached and reached. We have reviewed the impact of Year 2000 issues and do not expect Year 2000 issues to be material to our business, operations, or financial condition. The Year 2000 issue is discussed more fully in "Management's Discussion and Analysis of Financial Condition and Results of Operations."

Minority interest in the Company represents Common Units owned by various individuals and entities and not the Company in the Operating Partnership, the entity that owns substantially all of the Company's properties and through which the Company, as the sole general partner, conducts substantially all of its operations. Per share information is calculated using the weighted average number of shares outstanding (including common share equivalents). In addition, minority interest includes equity of consolidated real estate partnerships which are owned by various individuals and entities and not the Company. The Company acquired greater than 50% of the interest in certain real estate partnerships as part of its acquisition of J.C. Nichols.

2. INCOME TAXES

The Company has elected and expects to continue to qualify as a REIT under Sections 856 through 860 of the Internal Revenue Code of 1986, as amended. Therefore, no provision has been made for income taxes related to REIT taxable income to be distributed to shareholders. However, a provision has been made resultant from the portion of REIT taxable income related to the gain on disposition of assets that will not be distributed to shareholders.

3. SEGMENT INFORMATION

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

Our 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 total assets for each reportable segment for the three and six months ended June 30, 1999 and 1998.

	THREE MONTHS ENDED JUNE 30,		SIX MONTHS ENDED JUNE 30,	
	1999	1998	1999	1998
	(IN THOUSANDS)		(IN THOUSANDS)	
RENTAL INCOME:				
Office segment	\$ 117,045	\$ 103,002	\$ 239,660	\$ 194,398
Industrial segment	12,783	10,077	25,006	19,012
Retail segment	8,156	--	15,940	--
Apartment segment	4,095	--	8,194	--
	\$ 142,079	\$ 113,079	\$ 288,800	\$ 213,410
	=====	=====	=====	=====
NET OPERATING INCOME:				
Office segment	\$ 79,740	\$ 68,878	\$ 163,487	\$ 132,097
Industrial segment	10,645	8,374	20,846	15,758
Retail segment	5,561	--	10,704	--
Apartment segment	2,372	--	4,657	--
	98,318	77,252	199,694	147,855
	-----	-----	-----	-----
RECONCILIATION TO INCOME BEFORE MINORITY INTEREST AND EXTRAORDINARY ITEM:				
Equity in income of unconsolidated affiliates	490	--	687	--
Gain on disposition of assets, net of income tax provision	1,524	--	2,093	--
Interest and other income	5,273	2,562	10,560	4,719
Interest expense	(30,451)	(17,837)	(63,071)	(35,615)
General and administrative expenses	(6,212)	(4,386)	(12,005)	(8,170)
Depreciation and amortization	(27,705)	(20,340)	(55,861)	(37,501)
	\$ 41,237	\$ 37,251	\$ 82,097	\$ 71,288
	=====	=====	=====	=====
TOTAL ASSETS:				
Office segment	\$2,950,888	\$3,084,351	\$2,950,888	\$3,084,351
Industrial segment	454,023	310,534	454,023	310,534
Retail segment	250,534	--	250,534	--
Apartment segment	119,868	--	119,868	--
Corporate and other	274,548	74,039	274,548	74,039
	\$4,049,861	\$3,468,924	\$4,049,861	\$3,468,924
	=====	=====	=====	=====

4. JOINT VENTURE ACTIVITY

On March 15, 1999, we closed a transaction with Schweiz-Deutschland-USA Dreilander Beteiligung Objekt-DLF 98/29-Walker Fink-KG ("DLF"), pursuant to which we sold or contributed certain office properties valued at approximately \$142 million to a newly created limited partnership (the "Joint Venture"). DLF contributed approximately \$55 million for a 77.19% interest in the Joint Venture, and the Joint Venture borrowed approximately \$71 million from third-party lenders. We retained the remaining 22.81% interest in the Joint Venture, received net cash proceeds of approximately \$124 million and are the sole and exclusive manager and leasing agent of the Joint Venture's properties, for which we receive customary management fees and leasing commissions. We used the cash proceeds received in the transaction to fund existing development activity either through direct payments or repayment of borrowings under the Revolving Loan.

5. LEGAL CONTINGENCIES

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

material facts in violation of Section 14(a) of the Exchange Act of 1934 and

(4) the Company filed a registration statement with the SEC containing materially false and misleading statements and omissions of material facts in violation of Sections 11 and 12(2) of the Securities Act of 1933. The plaintiffs seek equitable relief and monetary damages. We believe that the defendants have meritorious defenses to the plaintiffs' allegations. We intend to vigorously defend this litigation. By order dated June 18, 1999, the court granted in part and denied in part our motions to dismiss. The plaintiff has filed a motion seeking certification of the proposed class of plaintiffs. All defendants will oppose that motion, which remains pending. Discovery in this matter is proceeding. Due to the inherent uncertainties of the litigation process, 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 affect on our business, financial condition and results of operations.

6. DES MOINES PARTNERSHIPS

In connection with our merger with J.C. Nichols in July 1998, we 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, we 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 our consolidated financial statements. On June 2, 1999, we agreed with R&R Investors to reorganize our 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, we have adopted the equity method of accounting for our 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.

7. DISPOSITION ACTIVITY

On June 7, 1999, we sold approximately 3.3 million rentable square feet of non-core office and industrial properties and 49 acres of development land in the South Florida area for gross proceeds of approximately \$323.0 million. In addition, during the six months ended June 30, 1999, we sold approximately 1.6 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 \$108.9 million. We recorded a gain, net of income tax provision, of \$2.1 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.

In addition, we have entered into various agreements to sell approximately 2.8 million rentable square feet of non-core office and industrial properties for gross proceeds of \$220.0 million. These transactions are subject to customary closing conditions, including due diligence and documentation, and are expected to close during the third and fourth quarters of 1999. However, we can provide no assurance that all or parts of these transactions will be consummated.

8. EQUITY SETTLEMENT

On June 9, 1999, the Company settled on it's August 1997 forward equity transaction with UBS, AG, London Branch ("UBS") 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.

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

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

RESULTS OF OPERATIONS

THREE MONTHS ENDED JUNE 30, 1999. Revenues from rental operations increased \$29.0 million, or 25.6%, from \$113.1 million for the three months ended June 30, 1998 to \$142.1 million for the comparable period in 1999. The increase is primarily a result of the acquisition of 4.2 million square feet of majority owned office, industrial and retail properties and 2,326 apartment units, and the completion of 1.6 million square feet of development activity during the last six months of 1998 and the first six months of 1999, slightly offset by the disposition and removal of 6.6 million 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). Our in-service portfolio decreased from 40.7 million square feet at June 30, 1998 to 39.9 million square feet at June 30, 1999. Same property revenues, which are the revenues of the 490 in-service properties owned on April 1, 1998, increased 3.1% for the three months ended June 30, 1999, compared to the same three months of 1998.

During the three months ended June 30, 1999, 382 leases representing 2.1 million square feet of office, industrial and retail space commenced at an average rate per square foot which was 6.4% higher than the average rate per square foot on the expired leases.

Interest and other income increased \$2.7 million, or 103.8%, from \$2.6 million for the three months ended June 30, 1998 to \$5.3 million for the comparable period in 1999. The increase was a result of higher cash balances in 1999 and additional income generated from management fees, development fees and leasing commissions. The Company generated \$274,000 in auxiliary income (vending and parking) as a result of acquiring multifamily communities in the merger with J.C. Nichols.

Rental operating expenses increased \$8.0 million, or 22.3%, from \$35.8 million for the three months ended June 30, 1998 to \$43.8 million for the comparable period in 1999. The increase is primarily a result of the acquisition of 4.2 million square feet of majority owned office, industrial and retail properties and 2,326 apartment units, and the completion of 1.6 million square feet of development activity during the last six months of 1998 and the first six months of 1999, slightly offset by the disposition and removal of 6.6 million 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). Rental operating expenses as a percentage of related revenues decreased from 31.7% for the three months ended June 30, 1998 to 30.8% for the comparable period in 1999.

Depreciation and amortization for the three months ended June 30, 1999 and 1998 was \$27.7 million and \$20.3 million, respectively. The increase of \$7.4 million, or 36.5%, is due to an increase in depreciable assets over the prior year. Interest expense increased \$12.7 million, or 71.3%, from \$17.8 million for the three months ended June 30, 1998 to \$30.5 million for the comparable period in 1999. The increase is attributable to the increase in the outstanding debt for the entire quarter. Interest expense for the three months ended June 30, 1999 and 1998 included \$734,000 and \$616,000, respectively, of amortization of deferred financing costs and the costs related to our interest rate hedge contracts. General and administrative expenses increased from 3.9% of rental revenue for the three months ended June 30, 1998 to 4.4% for the comparable period in 1999.

Net income before minority interest and extraordinary item equaled \$41.2 million and \$37.3 million for the three months ended June 30, 1999 and 1998, respectively. The Company's net income allocated to minority interest totaled \$4.8 million and \$6.3 million for the three months ended June 30, 1999 and 1998, respectively. The Company recorded \$8.1 million and \$7.7 million in preferred stock dividends for the three months ended June 30, 1999 and 1998, respectively.

SIX MONTHS ENDED JUNE 30, 1999. Revenues from rental operations increased \$75.4 million, or 35.3%, from \$213.4 million for the six months ended June 30, 1998 to \$288.8 million for the comparable period in 1999. The increase is primarily a result of the acquisition of 4.2 million square feet of majority owned office, industrial and retail properties and 2,326 apartment units, and the completion of 1.6 million square feet of development activity during the last six months of 1998 and the first six months of 1999, slightly offset by the disposition and removal of 6.6 million 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 Partnership). Our in-service portfolio decreased from 40.7 million square

feet at June 30, 1998 to 39.9 million square feet at June 30, 1999. Same property revenues, which are the revenues of the 440 in-service properties owned on January 1, 1998, increased 3.2% for the six months ended June 30, 1999, compared to the same six months of 1998.

During the six months ended June 30, 1999, 755 leases representing 4.4 million square feet of office, industrial and retail space commenced at an average rate per square foot which was 5.7% higher than the average rate per square foot on the expired leases.

Interest and other income increased \$5.9 million, or 125.5%, from \$4.7 million for the six months ended June 30, 1998 to \$10.6 million for the comparable period in 1999. The increase was a result of higher cash balances in 1999, and additional income generated from management fees, development fees and leasing commissions. The Company generated \$587,000 in auxiliary income (vending and parking) as a result of acquiring multifamily communities in the merger with J.C. Nichols.

Rental operating expenses increased \$23.5 million, or 35.8%, from \$65.6 million for the six months ended June 30, 1998 to \$89.1 million for the comparable period in 1999. The increase is primarily a result of the acquisition of 4.2 million square feet of majority owned office, industrial and retail properties and 2,326 apartment units, and the completion of 1.6 million square feet of development activity during the last six months of 1998 and the first six months of 1999, slightly offset by the disposition and removal of 6.6 million 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). Rental operating expenses as a percentage of related revenues increased from 30.7% for the six months ended June 30, 1998 to 30.9% for the comparable period in 1999.

Depreciation and amortization for the six months ended June 30, 1999 and 1998 was \$55.9 million and \$37.5 million, respectively. The increase of \$18.4 million, or 49.1%, is due to an increase in depreciable assets over the prior year. Interest expense increased \$27.5 million, or 77.2%, from \$35.6 million for the six months ended June 30, 1998 to \$63.1 million for the comparable period in 1999. The increase is attributable to the increase in the outstanding debt for the entire six months. Interest expense for the six months ended June 30, 1999 and 1998 included \$1,512,000 and \$1,232,000, respectively, of amortization of deferred financing costs and the costs related to our interest rate hedge contracts. General and administrative expenses increased from 3.8% of rental revenue for the six months ended June 30, 1998 to 4.2% for the comparable period in 1999.

Net income before minority interest and extraordinary item equaled \$82.1 million and \$71.3 million for the six months ended June 30, 1999 and 1998, respectively. The Company's net income allocated to minority interest totaled \$10.7 million and \$11.9 million for the six months ended June 30, 1999 and 1998, respectively. The Company recorded \$16.3 million and \$13.8 million in preferred stock dividends for the six months ended June 30, 1999 and 1998, respectively.

LIQUIDITY AND CAPITAL RESOURCES

STATEMENT OF CASH FLOWS. For the six months ended June 30, 1999, cash provided by operating activities decreased by \$14.9 million, or 13.5%, to \$95.5 million, as compared to \$110.4 million for the same period in 1998. The decrease is primarily due to the payment of real estate taxes due in the first quarter of 1999 offset by the increase in net income resulting from our property acquisitions in 1998 and 1999. Cash provided by investing activities was \$231.0 million for the first six months of 1999, as compared to \$678.5 used in investing activities for the same period in 1998. The increase is primarily due to the disposition of certain properties and the decline in acquisition activity during the first six months of 1999, as compared to the same period in 1998. Cash used in financing activities was \$254.0 million for the first six months of 1999, as compared to \$565.0 provided by investing activities for the same period in 1998. The decrease is primarily due to the decrease in the borrowings on mortgages, notes payable and revolving loans as well as a decrease in common and preferred stock offerings in the first six months of 1999, as compared to the same period in 1998. Payments of distributions increased by \$14.0 million to \$76.2 million for the first six months of 1999, from \$62.2 million for the same period in 1998. The increase is due to the greater number of shares outstanding and a 6.0% increase in the distribution rate. Preferred stock dividend payments were \$16.3 million for the first six months of 1999, as compared to \$13.8 million for the same period in 1998. The increase is due to the issuance of 8% Series D Cumulative Redeemable Preferred Shares in the first quarter of 1998.

CAPITALIZATION. The Company's total indebtedness at June 30, 1999 totaled \$1.8 billion and was comprised of \$552 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 7.0%. Except as stated below, all of the mortgage and notes payable outstanding at June 30, 1999 were either fixed rate obligations or variable rate obligations covered by interest rate hedge contracts. A portion of our \$600 million unsecured revolving loan (the "Revolving Loan") and approximately \$43.7 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 June 30, 1999.

Based on the Company's total market capitalization of \$4.1 billion at June 30, 1999 (at the June 30, 1999 stock price of \$27.44 and assuming the redemption for shares of Common Stock of the 8.9 million Common Units of minority interest in the Operating Partnership), the Company's debt represented approximately 43% of its total market capitalization.

To meet in part our long-term liquidity requirements, we borrow funds at a combination of fixed and variable rates. Borrowings under our Revolving Loan 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 June 30, 1999:

TYPE OF HEDGE	NOTIONAL AMOUNT	MATURITY DATE	REFERENCE RATE	FIXED RATE	FAIR MARKET VALUE
-----	-----	-----	-----	-----	-----
(DOLLARS IN THOUSANDS)					
Treasury Lock	\$100,000	10/1/99	10-Year Treasury	5.725%	\$ 486
Treasury Lock	100,000	7/1/99	10-Year Treasury	5.674	782
Swap	100,000	10/1/99	3-Month LIBOR	4.970	281
Swap	20,828	6/10/02	1-Month LIBOR + 0.75%	7.700	(945)
Collar	80,000	10/15/01	1-Month LIBOR	5.40 - 6.25	175

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.

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 in-service 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 \$210 million of our existing development activity. We expect to fund our short-term liquidity needs through a combination of:

- o additional borrowings under our Revolving Loan (approximately \$318.5 million was available as of June 30, 1999);
- o the issuance of secured debt;
- o the selective disposition of non-core assets; and
- o the sale or contribution of some of our wholly owned properties to strategic joint ventures to be formed with selected partners interested in investing with us, which will have the net effect of generating additional capital through such sale or contributions.

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

On June 7, 1999, we sold approximately 3.3 million rentable square feet of non-core office and industrial properties and 49 acres of development land in the South Florida area for gross proceeds of approximately \$323.0 million. In addition, during the six months ended June 30, 1999, we sold approximately 1.6 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 approximately \$108.9 million. The Company recorded a gain, net of income tax provision, of \$2.1 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.

In addition, we have entered into various agreements to sell approximately 2.8 million rentable square feet of non-core office and industrial properties for gross proceeds of \$220.0 million. These transactions are subject to customary closing conditions, including due diligence and documentation, and are expected to close during the third and fourth quarters of 1999. However, we can provide no assurance that all or parts of these transactions will be consummated.

We intend to use 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 and to fund existing development activity, either through direct payments or repayment of borrowings under our Revolving Loan. We expect to reinvest up to \$72 million of the net proceeds from recent disposition activity and up to \$123 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.

YEAR 2000

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

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

APPROACH AND STATUS. Our Year 2000 compliance efforts are divided into two areas -- "operations level" and "property level." Operations level includes those information technology systems used in our corporate and division offices to perform real estate, accounting and human resources functions. Property level includes the non-information technology systems at our individual properties. Year 2000 remediation plan at both the operations and property levels has three phases:

- o assessment (inventory and testing of computer systems),
- o renovation (repairing or replacing non-compliant systems) and
- o validation (testing of repaired or replaced systems).

Our Information Technology Department is overseeing our operations level compliance program. With respect to our operations level IT software, we have completed all three phases of our Year 2000 remediation plan. As part of a standardization of our technology infrastructure in 1998, computer software that was not Year 2000 compliant was upgraded or replaced. These software upgrades were off-the-shelf Year 2000 compliant packages. Additionally, we successfully upgraded and tested a Year 2000 compliant version of our corporate accounting and property management software in December 1998. With respect to our operations level IT hardware, we have completed the assessment phase of our remediation plan and are 95% complete (in terms of labor) with the renovation and validation phases of the plan. We expect to complete the renovation and validation phases with respect to our operations level hardware by end of the third quarter of 1999.

Our Chief Operating Officer is overseeing our property level compliance program. We have completed our inventory of all of our properties' non-information technology systems. As part of the inventory process, we requested appropriate vendors and manufacturers to certify that their products are Year 2000 compliant. We are approximately 90% complete (in terms of labor) with the renovation and validation phases of our remediation plan at the property level. We expect to complete both phases in the third quarter of 1999.

With respect to Year 2000 issues relating to our customer base, we have not sought representations from our tenants with respect to their Year 2000 readiness because no one tenant represents more than 3% of our annualized rental revenue. With respect to suppliers and vendors, our material purchases are generally from those in competitive fields where others will be able to meet any of our needs unmet by suppliers or vendors with Year 2000 difficulties. (Although we have no reason to expect a significant interruption of utility services for our properties, we have not received (nor sought) written assurances from utility providers that Year 2000 issues will not cause an interruption in service.)

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

RISKS ASSOCIATED WITH THE YEAR 2000 ISSUE. We do not expect Year 2000 failures to have a material adverse effect on our results of operations or liquidity because:

- o we do not rely on a small number of tenants for a significant portion of our rental revenue;
- o we stand ready to switch vendors or suppliers whose Year 2000 failures adversely affect their products or services; and
- o our remediation plan is expected to be complete prior to the Year 2000.

As a result, we do not expect to develop a contingency plan for Year 2000 failures.

Our assessment of the likely impact of Year 2000 issues on us, which is a forward-looking statement, depends on numerous factors, such as the continued provision of utility services, and we remain exposed to the risk of Year 2000 failures. See " -- Disclosure Regarding Forward-Looking Statements."

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

POSSIBLE ENVIRONMENTAL LIABILITIES

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

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

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

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

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

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

IMPACT OF RECENTLY ISSUED ACCOUNTING STANDARDS

In June 1998, the Financial Accounting Standards Board ("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 the Company's derivatives is discussed in Item 2.

COMPLIANCE WITH THE AMERICANS WITH DISABILITIES ACT

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

FUNDS FROM OPERATIONS AND CASH AVAILABLE FOR DISTRIBUTIONS

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

FFO means net income (computed in accordance with generally accepted accounting principles) excluding gains (or losses) from debt restructuring and sales of property, plus depreciation and amortization, and after adjustments for unconsolidated partnerships and joint ventures. In March 1995, the National Association of Real Estate Investment Trusts ("NAREIT") issued a clarification of the definition of FFO. The clarification provides that amortization of deferred financing costs and depreciation of non-real estate assets are no longer to be added

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

FFO and cash available for distribution for the three and six month periods ended June 30, 1999 and 1998 are summarized in the following table (in thousands):

	THREE MONTHS ENDED JUNE 30,		SIX MONTHS ENDED JUNE 30	
	1999	1998	1999	1998
FUNDS FROM OPERATIONS:				
Income before minority interest and extraordinary item	\$ 41,237	\$ 37,251	\$ 82,097	\$ 71,288
Add (deduct):				
Dividends to preferred shareholders	(8,145)	(7,656)	(16,290)	(13,801)
Severance costs and other division closing expenses	1,233	--	1,233	--
Gain on disposition of assets, net of income tax provision	(1,524)	--	(2,093)	--
Depreciation and amortization	27,705	20,340	55,861	37,501
Depreciation on unconsolidated affiliates	745	--	1,222	--
FUNDS FROM OPERATIONS BEFORE MINORITY INTEREST	61,251	49,935	122,030	94,988
CASH AVAILABLE FOR DISTRIBUTION:				
Add (deduct):				
Rental income from straight-line rents	(3,524)	(2,976)	(7,509)	(6,092)
Amortization of deferred financing costs	734	616	1,512	1,232
Non-incremental revenue generating capital expenditures (1):				
Building improvements paid	(2,957)	(1,678)	(4,475)	(2,697)
Second generation tenant improvements paid	(4,112)	(4,868)	(10,121)	(7,304)
Second generation lease commissions paid	(4,082)	(1,785)	(7,613)	(3,511)
CASH AVAILABLE FOR DISTRIBUTION	\$ 47,310	\$ 39,244	\$ 93,824	\$ 76,616
	=====	=====	=====	=====
Weighted average common shares/common units outstanding -- basic (2)	70,445	63,126	70,329	61,370
	=====	=====	=====	=====
Weighted average common shares/common units outstanding -- diluted (2)	70,468	63,518	70,360	61,877
	=====	=====	=====	=====
DIVIDEND PAYOUT RATIO -- DILUTED:				
Funds from operations	62.1%	64.9%	62.3%	66.4%
	=====	=====	=====	=====
Cash available for distribution	80.4%	82.5%	81.0%	82.4%
	=====	=====	=====	=====

(1) Amounts represent cash expenditures.

(2) 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 share and per Common Unit basis; therefore, the resultant per share information is unaffected by the conversion.

On July 26, 1999, the Company's Board of Directors declared a dividend of \$.555 per share (\$2.22 on an annualized basis) payable on August 18, 1999 to stockholders of record on August 5, 1999.

DISCLOSURE REGARDING FORWARD-LOOKING STATEMENTS

Some of the information in this Quarterly Report on Form 10-Q may contain forward-looking statements. Such statements include, in particular, statements about our plans, strategies and prospects under "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, disposition 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.

PROPERTY INFORMATION

The following table sets forth certain information with respect to our majority owned in-service and development properties (excluding apartment units) as of June 30, 1999 and 1998:

JUNE 30, 1999	RENTABLE SQUARE FEET	NUMBER OF PROPERTIES	PERCENT LEASED/ PRE-LEASED
-----	-----	-----	-----
IN-SERVICE:			
Office	26,666,000	397	94%
Industrial	11,497,000	193	90%
Retail	1,790,000	19	91%
	-----	---	--
Total	39,953,000	609	93%
	=====	===	==
DEVELOPMENT:			
COMPLETED -- NOT STABILIZED			
Office	1,951,000	18	78%
Industrial	476,000	4	78%
Retail	119,000	1	97%
	-----	---	--
Total	2,546,000	23	79%
	=====	===	==
IN PROCESS			
Office	3,065,000	24	69%
Industrial	472,000	4	17%
Retail	81,000	1	53%
	-----	---	--
Total	3,618,000	29	61%
	=====	===	==
TOTAL:			
Office	31,682,000	439	
Industrial	12,445,000	201	
Retail	1,990,000	21	
	-----	---	--
Total	46,117,000	661	
	=====	===	
JUNE 30, 1998			

IN-SERVICE:			
Office	28,850,000	382	94%
Industrial	11,863,000	148	94%
Retail	--	--	--
	-----	---	--
Total	40,713,000	530	94%
	=====	===	==
DEVELOPMENT:			
COMPLETED -- NOT STABILIZED			
Office	N/A	N/A	N/A
Industrial	N/A	N/A	N/A
Retail	N/A	N/A	N/A
	-----	---	--
Total	N/A	N/A	N/A
	=====	===	====
IN PROCESS			
Office	3,261,000	27	44%
Industrial	705,000	5	43%
Retail	--	--	--
	-----	---	--
Total	3,966,000	32	44%
	=====	===	====
TOTAL:			
Office	32,111,000	409	
Industrial	12,568,000	153	
Retail	--	--	
	-----	---	--
Total	44,679,000	562	
	=====	===	

The following table sets forth certain information with respect to our properties under development as of June 30, 1999 (dollars in thousands):

NAME	LOCATION	RENTABLE SQUARE FEET	ESTIMATED COST	COST AT 6/30/99	PRE-LEASING PERCENTAGE (1)	ESTIMATED COMPLETION	ESTIMATED STABILIZATION (2)
IN-PROCESS							
OFFICE:							
C N A Maitland III	Orlando	78,000	\$ 9,885	\$ 7,731	100%	3Q99	3Q99
Capital One Bldg 2	Richmond	44,000	5,359	5,240	100%	3Q99	3Q99
Highwoods Center II @ Tradeport	Atlanta	53,000	4,825	2,527	56%	3Q99	4Q99
Capital One Bldg 3	Richmond	126,000	15,046	10,267	100%	4Q99	4Q99
Eastshore I	Richmond	68,000	7,535	457	100%	4Q99	4Q99
Lakepoint II	Tampa	225,000	34,106	16,153	52%	4Q99	4Q99
Deerfield I	Atlanta	72,000	6,994	2,312	62%	3Q99	1Q00
Deerfield II	Atlanta	45,000	4,382	3,120	--	3Q99	1Q00
Westwood South	Nashville	125,000	13,530	9,582	90%	3Q99	1Q00
3737 Glenwood Ave.	Research Triangle	107,000	16,700	11,096	80%	3Q99	1Q00
Eastshore III	Richmond	80,000	8,580	452	100%	1Q00	1Q00
Intermedia Building 1	Tampa	200,000	27,040	5,219	100%	1Q00	1Q00
Intermedia Building 2	Tampa	30,000	4,056	439	100%	1Q00	1Q00
Intermedia Building 3	Tampa	170,000	22,984	5,754	100%	1Q00	1Q00
Belfort Park C1	Jacksonville	54,000	4,830	2,196	--	3Q99	2Q00
Belfort Park C2	Jacksonville	31,000	2,730	2,241	--	3Q99	2Q00
Caterpillar Financial Center	Nashville	313,000	54,000	22,400	79%	1Q00	2Q00
4101 Research Commons	Research Triangle	73,000	9,311	6,052	35%	3Q99	2Q00
Peachtree Corner	Atlanta	109,000	9,238	3,869	33%	3Q99	3Q00
Intermedia Building 4	Tampa	200,000	29,219	1,909	100%	3Q00	3Q00
Mallard Creek V	Charlotte	118,000	12,262	7,575	--	4Q99	4Q00
Valencia Place	Kansas City	241,000	34,020	21,400	47%	1Q00	4Q00
Intermedia Building 5	Tampa	200,000	29,219	1,473	100%	3Q01	3Q01
Capital Plaza	Orlando	303,000	53,000	27,554	30%	1Q00	4Q01
In-Process Office Total or Weighted Average		3,065,000	\$418,851	\$177,018	69%		
INDUSTRIAL:							
Newpoint II	Atlanta	131,000	5,167	4,141	43%	3Q99	2Q00
Air Park South Warehouse III	Piedmont Triad	120,000	3,626	668	--	4Q99	2Q00
Air Park South Warehouse IV	Piedmont Triad	86,000	2,750	1,754	28%	4Q99	3Q00
Bluegrass Valley I	Atlanta	135,000	5,664	71	--	2Q00	4Q00
In-Process Industrial Total or Weighted Average		472,000	\$ 17,207	\$ 6,634	17%		
RETAIL:							
Valencia Place	Kansas City	81,000	14,362	7,193	53%	1Q00	4Q00
In-Process Retail Total or Weighted Average		81,000	\$ 14,362	\$ 7,193	53%		
Total or Weighted Average of all In-Process Development Projects		3,618,000	\$450,420	\$190,845	61%		

(1) Includes the effect of letters of intent.

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

NAME	LOCATION	RENTABLE SQUARE FEET	ESTIMATED COST	COST AT 6/30/99	PRE-LEASING PERCENTAGE (1)	ESTIMATED COMPLETION	ESTIMATED STABILIZATION (2)
COMPLETED -- NOT STABILIZED							
OFFICE:							
Patewood VI	Greenville	107,000	\$ 11,400	\$ 12,223	96%	3Q98	3Q99
Lakeview Ridge III	Nashville	131,000	13,100	9,883	88%	2Q99	3Q99
Highwoods Centre	Research Triangle	76,000	8,300	8,627	100%	4Q98	3Q99
Overlook	Research Triangle	97,000	10,500	10,162	100%	4Q98	3Q99
Red Oak	Research Triangle	65,000	6,000	5,978	90%	4Q98	3Q99
Situs II	Research Triangle	59,000	6,300	6,648	94%	3Q98	3Q99
Interstate Corporate Center	Tampa	342,000	19,100	17,856	99%	1Q99	3Q99
Ridgefield III	Asheville	57,000	5,500	5,185	53%	3Q98	4Q99
10 Glenlakes	Atlanta	254,000	35,100	29,735	82%	1Q99	4Q99
Parkway Plaza 11	Charlotte	32,000	2,600	2,354	66%	1Q99	4Q99
Highwoods Centre	Hampton Roads	103,000	9,925	8,501	66%	4Q98	4Q99
Southwind Building D	Memphis	64,000	6,800	5,017	85%	2Q99	4Q99
Cool Springs I	Nashville	153,000	16,800	15,552	66%	3Q98	4Q99
Stony Point II	Richmond	136,000	13,881	10,554	58%	2Q99	4Q99
Parkway Plaza 12	Charlotte	22,000	1,800	1,445	67%	1Q99	1Q00
Parkway Plaza 14	Charlotte	90,000	7,690	5,569	58%	2Q99	1Q00
Lakefront Plaza I	Hampton Roads	77,000	7,477	6,502	32%	2Q99	1Q00
Concourse Center One	Piedmont Triad	86,000	8,400	6,708	32%	2Q99	1Q00
Completed -- Not Stabilized Office Total or Weighted Average		1,951,000	\$190,673	\$168,499	78%		
INDUSTRIAL:							
Tradeport 1	Atlanta	87,000	\$ 3,100	\$ 2,989	82%	3Q98	3Q99
Tradeport 2	Atlanta	87,000	3,100	3,146	86%	3Q98	3Q99
Air Park South Warehouse II	Piedmont Triad	136,000	4,200	3,293	100%	4Q98	3Q99
HIW Distribution Center	Richmond	166,000	5,764	5,663	53%	1Q99	4Q99
Completed -- Not Stabilized Industrial Total or Weighted Average		476,000	\$ 16,164	\$ 15,091	78%		
RETAIL:							
Seville Square	Kansas City	119,000	\$ 32,100	\$ 30,190	97%	2Q99	1Q00
Completed -- Not Stabilized Retail Total or Weighted Average		119,000	\$ 32,100	\$ 30,190	97%		
Total or Weighted Average of all Completed -- Not Stabilized Development Projects		2,546,000	\$238,937	\$213,780	79%		
Total or Weighted Average of all Development Projects		6,164,000	\$689,357	\$404,625	69%		

(1) Includes the effect of letters of intent.

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

DEVELOPMENT ANALYSIS	RENTABLE SQUARE FEET	ESTIMATED COSTS	PRE-LEASING PERCENTAGE (1)
	(DOLLARS IN THOUSANDS)		
SUMMARY BY ESTIMATED STABILIZATION DATE:			
Third Quarter 1999	967,000	\$ 81,244	94%
Fourth Quarter 1999	1,334,000	147,957	69%
First Quarter 2000	1,146,000	154,256	81%
Second Quarter 2000	722,000	79,664	46%
Third Quarter 2000	395,000	41,207	66%
Fourth Quarter 2000	575,000	66,308	27%
Third Quarter 2001	200,000	29,219	100%
Fourth Quarter 2001	303,000	53,000	30%
Held for Sale	522,000	36,502	83%
	-----	-----	----
Total or Weighted Average	6,164,000	\$ 689,357	69%
	=====	=====	=====
SUMMARY BY MARKET:			
Asheville	57,000	\$ 5,500	53%
Atlanta	973,000	77,570	54%
Charlotte	262,000	24,352	34%
Greenville	107,000	11,400	96%
Jacksonville	85,000	7,560	--
Kansas City	441,000	80,482	62%
Memphis	64,000	6,800	85%
Nashville	722,000	97,430	80%
Orlando	381,000	62,885	44%
Piedmont Triad	428,000	18,976	44%
Research Triangle	477,000	57,111	83%
Richmond	620,000	56,165	78%
Tampa	1,025,000	146,624	89%
Held for Sale	522,000	36,502	83%
	-----	-----	----
Total or Weighted Average	6,164,000	\$ 689,357	69%
	=====	=====	=====
Build-to-Suit	1,196,000	\$ 158,923	100%
Multi-tenant	4,446,000	493,932	59%
Held for Sale	522,000	36,502	83%
	-----	-----	----
Total or Weighted Average	6,164,000	\$ 689,357	69%
	=====	=====	=====
	RENTABLE SQUARE FEET	ESTIMATED COSTS	PRE-LEASING PERCENTAGE (1)
	(DOLLARS IN THOUSANDS)		
PER PROPERTY TYPE:			
Office Weighted Average.....	115,231	\$ 14,693	71%
Industrial Weighted Average	118,500	4,171	48%
Retail Weighted Average	100,000	23,231	79%
Held for Sale Weighted Average	174,000	12,167	83%
	-----	-----	----
Total Weighted Average	118,538	\$ 13,257	69%
	=====	=====	=====

(1) Includes the effect of letters of intent.

The following tables set forth certain information about our leasing activities at our majority-owned in service properties (excluding apartment units) for the three months ended June 30 and March 31, 1999 and December 31 and September 30 1998.

	OFFICE LEASING STATISTICS THREE MONTHS ENDED				
	6/30/99	3/31/99	12/31/98	9/30/98	AVERAGE
NET EFFECTIVE RENTS RELATED TO RE-LEASED SPACE:					
Number of lease transactions (signed leases)	290	276	308	326	300
Rentable square footage leased	1,326,838	1,406,170	1,291,297	1,645,913	1,417,555
Average per rentable square foot over the lease term:					
Base rent	\$ 15.60	\$ 14.84	\$ 16.54	\$ 16.18	\$ 15.79
Tenant improvements	(0.84)	(0.84)	(0.85)	(0.71)	(0.81)
Leasing commissions	(0.38)	(0.42)	(0.38)	(0.42)	(0.40)
Rent concessions	(0.03)	(0.01)	(0.03)	(0.02)	(0.02)
Effective rent	14.35	13.57	15.28	15.03	14.56
Expense stop (1)	(4.21)	(3.55)	(3.96)	(4.45)	(4.04)
Equivalent effective net rent	\$ 10.14	\$ 10.02	\$ 11.32	\$ 10.58	\$ 10.52
Average term in years	4	5	4	5	5
CAPITAL EXPENDITURES RELATED TO RE-LEASED SPACE:					
Tenant Improvements:					
Total dollars committed under signed leases	\$5,073,153	\$6,848,279	\$4,886,517	\$ 6,754,100	\$5,890,512
Rentable square feet	1,326,838	1,406,170	1,291,297	1,645,913	1,417,555
Per rentable square foot	\$ 3.82	\$ 4.87	\$ 3.78	\$ 4.10	\$ 4.16
Leasing Commissions:					
Total dollars committed under signed leases	\$2,230,915	\$3,047,978	\$2,005,094	\$ 3,694,473	\$2,744,615
Rentable square feet	1,326,838	1,406,170	1,291,297	1,645,913	1,417,555
Per rentable square foot	\$ 1.68	\$ 2.17	\$ 1.55	\$ 2.24	\$ 1.94
Total:					
Total dollars committed under signed leases	\$7,304,068	\$9,896,257	\$6,891,611	\$10,448,573	\$8,635,127
Rentable square feet	1,326,838	1,406,170	1,291,297	1,645,913	1,417,555
Per rentable square foot	\$ 5.50	\$ 7.04	\$ 5.34	\$ 6.35	\$ 6.09
RENTAL RATE TRENDS:					
Average final rate with expense pass throughs	\$ 15.20	\$ 14.28	\$ 13.57	\$ 14.51	\$ 14.39
Average first year cash rental rate	\$ 15.61	\$ 15.01	\$ 14.47	\$ 15.43	\$ 15.13
Percentage increase	2.70%	5.11%	6.63%	6.34%	5.14%

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

INDUSTRIAL LEASING STATISTICS
THREE MONTHS ENDED

	6/30/99	3/31/99	12/31/98	9/30/98	AVERAGE
NET EFFECTIVE RENTS RELATED TO RE-LEASED SPACE:					
Number of lease transactions (signed leases)	63	72	44	56	59
Rentable square footage leased	589,835	837,616	582,758	314,549	581,190
Average per rentable square foot over the lease term:					
Base rent	\$ 5.55	\$ 5.12	\$ 4.71	\$ 6.59	\$ 5.49
Tenant improvements	(0.37)	(0.22)	(0.20)	(0.23)	(0.26)
Leasing commissions	(0.22)	(0.10)	(0.09)	(0.09)	(0.13)
Rent concessions	0.00	0.00	0.00	0.00	0.00
Effective rent	4.96	4.80	4.42	6.27	5.11
Expense stop (1)	(0.28)	(0.28)	(0.25)	(0.44)	(0.31)
Equivalent effective net rent	\$ 4.68	\$ 4.52	\$ 4.17	\$ 5.83	\$ 4.80
Average term in years	4	4	3	4	4
CAPITAL EXPENDITURES RELATED TO RE-LEASED SPACE:					
TENANT IMPROVEMENTS:					
Total dollars committed under signed leases	\$1,064,618	\$ 821,654	\$712,108	\$248,359	\$711,685
Rentable square feet	589,835	837,616	582,758	314,549	581,190
Per rentable square foot	\$ 1.80	\$ 0.98	\$ 1.22	\$ 0.79	\$ 1.22
LEASING COMMISSIONS:					
Total dollars committed under signed leases	\$ 527,815	\$ 315,101	\$173,017	\$ 99,574	\$278,877
Rentable square feet	589,835	837,616	582,758	314,549	581,190
Per rentable square foot	\$ 0.89	\$ 0.38	\$ 0.30	\$ 0.32	\$ 0.48
TOTAL:					
Total dollars committed under signed leases	\$1,592,433	\$1,136,755	\$885,125	\$347,933	\$990,561
Rentable square feet	589,835	837,616	582,758	314,549	581,190
Per rentable square foot	\$ 2.70	\$ 1.36	\$ 1.52	\$ 1.11	\$ 1.70
RENTAL RATE TRENDS:					
Average final rate with expense pass throughs	\$ 5.17	\$ 4.91	\$ 4.62	\$ 5.40	\$ 5.03
Average first year cash rental rate	\$ 5.62	\$ 4.91	\$ 4.72	\$ 5.54	\$ 5.20
Percentage increase	8.70%	0.00%	2.16%	2.59%	3.38%

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

RETAIL LEASING STATISTICS
THREE MONTHS ENDED

	6/30/99	3/31/99	12/31/98	9/30/98	AVERAGE
NET EFFECTIVE RENTS RELATED TO RE-LEASED SPACE:					
Number of lease transactions (signed leases)	29	25	15	11	20
Rentable square footage leased	159,484	62,638	29,706	37,258	72,272
Average per rentable square foot over the lease term:					
Base rent	\$ 14.48	\$ 15.37	\$ 16.34	\$ 13.59	\$ 14.95
Tenant improvements	(1.46)	(0.45)	(1.66)	(0.14)	(0.93)
Leasing commissions	(0.39)	(0.39)	(0.76)	(0.44)	(0.50)
Rent concessions	0.00	0.00	0.00	0.00	0.00
Effective rent	12.63	14.53	13.92	13.01	13.52
Expense stop (1)	0.00	(0.27)	(1.79)	(0.09)	(0.54)
Equivalent effective net rent	\$ 12.63	\$ 14.26	\$ 12.13	\$ 12.92	\$ 12.98
Average term in years	6	6	5	6	6
CAPITAL EXPENDITURES RELATED TO RE-LEASED SPACE:					
TENANT IMPROVEMENTS:					
Total dollars committed under signed leases	\$2,784,277	\$248,531	\$319,620	\$ 21,000	\$ 843,357
Rentable square feet	159,484	62,638	29,706	37,258	72,272
Per rentable square foot	\$ 17.46	\$ 3.97	\$ 10.76	\$ 0.56	\$ 11.67
LEASING COMMISSIONS:					
Total dollars committed under signed leases	\$ 393,991	\$153,872	\$123,047	\$ 99,268	\$ 192,544
Rentable square feet	159,484	62,638	29,706	37,258	72,272
Per rentable square foot	\$ 2.47	\$ 2.46	\$ 4.14	\$ 2.66	\$ 2.66
TOTAL:					
Total dollars committed under signed leases	\$3,178,268	\$402,403	\$442,667	\$120,268	\$1,035,901
Rentable square feet	159,484	62,638	29,706	37,258	72,272
Per rentable square foot	\$ 19.93	\$ 6.42	\$ 14.90	\$ 3.23	\$ 14.33
RENTAL RATE TRENDS:					
Average final rate with expense pass throughs	\$ 9.91	\$ 10.92	\$ 15.91	\$ 8.55	\$ 11.32
Average first year cash rental rate	\$ 14.20	\$ 16.22	\$ 18.16	\$ 10.53	\$ 14.78
Percentage increase	43.29%	48.53%	14.14%	23.16%	30.51%

(1) "Expense stop" represents operating expenses (generally including taxes, utilities, routine building expense and common area maintainance) 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 June 30, 1999 assuming no tenant exercises renewal options.

OFFICE PROPERTIES:

YEAR OF LEASE EXPIRATION	NUMBER OF LEASES	TOTAL RENTABLE SQUARE FEET EXPIRING	PERCENTAGE OF LEASED SQUARE FOOTAGE REPRESENTED BY EXPIRING LEASES	ANNUAL RENTS UNDER EXPIRING LEASES (1) (IN THOUSANDS)	AVERAGE ANNUAL RENTAL RATE PER SQUARE FOOT FOR EXPIRATIONS (1)	PERCENTAGE OF LEASED RENTS REPRESENTED BY EXPIRING LEASES
Remainder of 1999	589	2,009,187	7.7%	\$ 31,033	\$ 15.45	7.6%
2000	753	3,410,864	13.1%	54,052	15.85	13.3%
2001	700	4,015,449	15.5%	64,456	16.05	15.8%
2002	637	3,928,971	15.1%	62,292	15.85	15.3%
2003	500	3,857,956	14.9%	62,079	16.09	15.2%
2004	260	2,573,684	9.9%	40,959	15.91	10.0%
2005	88	1,305,799	5.0%	19,881	15.23	4.9%
2006	51	1,394,041	5.4%	21,553	15.46	5.3%
2007	29	761,892	2.9%	12,278	16.12	3.0%
2008	50	1,572,359	6.1%	21,975	13.98	5.4%
2009 and thereafter	42	1,136,541	4.4%	17,220	15.15	4.2%
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	3,699	25,966,743	100.0%	\$407,778	\$ 15.70	100.0%
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INDUSTRIAL PROPERTIES:

YEAR OF LEASE EXPIRATION	NUMBER OF LEASES	TOTAL RENTABLE SQUARE FEET EXPIRING	PERCENTAGE OF LEASED SQUARE FOOTAGE REPRESENTED BY EXPIRING LEASES	ANNUAL RENTS UNDER EXPIRING LEASES (1) (IN THOUSANDS)	AVERAGE ANNUAL RENTAL RATE PER SQUARE FOOT FOR EXPIRATIONS (1)	PERCENTAGE OF LEASED RENTS REPRESENTED BY EXPIRING LEASES
Remainder of 1999	157	1,230,655	12.2%	\$ 6,146	\$ 4.99	12.3%
2000	178	2,121,760	21.0%	10,700	5.04	21.3%
2001	156	1,916,091	18.9%	9,075	4.74	18.1%
2002	112	1,380,531	13.6%	6,635	4.81	13.3%
2003	57	773,676	7.6%	4,276	5.53	8.6%
2004	42	1,653,829	16.4%	6,526	3.95	13.1%
2005	12	191,086	1.9%	1,224	6.41	2.4%
2006	6	312,099	3.1%	1,500	4.81	3.0%
2007	2	39,125	0.4%	488	12.47	1.0%
2008	6	247,737	2.4%	1,981	8.00	4.0%
2009 and thereafter	5	247,876	2.5%	1,447	5.84	2.9%
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	733	10,114,465	100.0%	\$49,998	\$ 4.94	100.0%
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(1) Includes operating expense pass throughs and excludes the effect of future contractual rent increases.

RETAIL PROPERTIES:

YEAR OF LEASE EXPIRATION	NUMBER OF LEASES	TOTAL RENTABLE SQUARE FEET EXPIRING	PERCENTAGE OF LEASED SQUARE FOOTAGE REPRESENTED BY EXPIRING LEASES	ANNUAL RENTS UNDER EXPIRING LEASES (1) (IN THOUSANDS)	AVERAGE ANNUAL RENTAL RATE PER SQUARE FOOT FOR EXPIRATIONS (1)	PERCENTAGE OF LEASED RENTS REPRESENTED BY EXPIRING LEASES
Remainder of 1999	55	192,916	9.2%	\$ 2,004	\$ 10.39	7.3%
2000	74	273,325	13.0%	3,159	11.56	11.5%
2001	60	233,221	11.2%	3,292	14.12	12.0%
2002	48	185,497	8.8%	2,425	13.07	8.8%
2003	49	217,203	10.3%	3,334	15.35	12.1%
2004	23	196,052	9.3%	1,618	8.25	5.9%
2005	13	57,731	2.8%	1,090	18.88	4.0%
2006	15	120,367	5.7%	1,352	11.23	4.9%
2007	9	67,092	3.2%	985	14.68	3.6%
2008	14	107,352	5.1%	2,365	22.03	8.6%
2009 and thereafter	26	447,832	21.4%	5,866	13.10	21.3%
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	386	2,098,588	100.0%	\$27,490	\$ 13.10	100.0%
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TOTAL:

YEAR OF LEASE EXPIRATION	NUMBER OF LEASES	TOTAL RENTABLE SQUARE FEET EXPIRING	PERCENTAGE OF LEASED SQUARE FOOTAGE REPRESENTED BY EXPIRING LEASES	ANNUAL RENTS UNDER EXPIRING LEASES (1) (IN THOUSANDS)	AVERAGE ANNUAL RENTAL RATE PER SQUARE FOOT FOR EXPIRATIONS (1)	PERCENTAGE OF LEASED RENTS REPRESENTED BY EXPIRING LEASES
Remainder of 1999	801	3,432,758	9.0%	\$ 39,183	\$ 11.41	8.1%
2000	1,005	5,805,949	15.2%	67,911	11.70	14.0%
2001	916	6,164,761	16.1%	76,823	12.46	15.8%
2002	797	5,494,999	14.4%	71,352	12.98	14.7%
2003	606	4,848,835	12.7%	69,689	14.37	14.4%
2004	325	4,423,565	11.6%	49,103	11.10	10.1%
2005	113	1,554,616	4.1%	22,195	14.28	4.6%
2006	72	1,826,507	4.8%	24,405	13.36	5.0%
2007	40	868,109	2.3%	13,751	15.84	2.8%
2008	70	1,927,448	5.0%	26,321	13.66	5.4%
2009 and thereafter	73	1,832,249	4.8%	24,533	13.39	5.1%
	-----	-----	-----	-----	-----	-----
	4,818	38,179,796	100.0%	\$485,266	\$ 12.71	100.0%
	=====	=====	=====	=====	=====	=====

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

INFLATION

Historically inflation has not had a significant impact on our operations 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 increased incremental 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, many of the leases are for terms of less than seven years, which may enable us to replace existing leases with new leases at a higher base rent if rents on the existing leases are below the market rate.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

THE EFFECTS OF POTENTIAL CHANGES IN INTEREST RATES ARE DISCUSSED BELOW. OUR MARKET RISK DISCUSSION INCLUDES "FORWARD-LOOKING STATEMENTS" AND REPRESENTS AN ESTIMATE OF POSSIBLE CHANGES IN FAIR VALUE OR FUTURE EARNINGS THAT WOULD OCCUR ASSUMING HYPOTHETICAL FUTURE MOVEMENTS IN INTEREST RATES. THESE DISCLOSURES ARE NOT PRECISE INDICATORS OF EXPECTED FUTURE LOSSES, BUT ONLY INDICATORS OF REASONABLY POSSIBLE LOSSES. AS A RESULT, ACTUAL FUTURE RESULTS MAY DIFFER MATERIALLY FROM THOSE PRESENTED. SEE "MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS -- LIQUIDITY AND CAPITAL RESOURCES" 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 June 30, 1999, the Company had approximately \$136.2 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 June 30, 2000, our interest expense would be increased or decreased approximately \$1.4 million. In addition, as of June 30, 1999, we had \$80 million of additional variable rate debt outstanding that was protected by an interest rate collar that effectively keeps the interest rate within a range of 85 basis points. We do not believe that a 100 basis point increase or decrease in interest rates would materially affect our interest expense with respect to this \$80 million of debt.

INTEREST RATE HEDGE CONTRACTS. For a discussion of our interest rate hedge contracts in effect at June 30, 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 June 30, 1999 would increase by approximately \$16.4 million. If interest rates decrease by 100 basis points, the aggregate fair market value of these interest rate hedge contracts as of June 30, 1999 would decrease by approximately \$18.0 million.

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

PART II -- OTHER INFORMATION

Item 1. Legal Proceedings

On October 2, 1998, John Flake, a former stockholder of J.C. Nichols, filed a putative class action lawsuit on behalf of himself and the other former stockholders of J.C. Nichols in the United States District Court for the District of Kansas against J.C. Nichols, certain of its former officers and directors and the Company. The complaint alleges, among other things, that in connection with the merger of J.C. Nichols and the Company, (1) J.C. Nichols and the named directors and officers of J.C. Nichols breached their fiduciary duties to J.C. Nichols' stockholders, (2) J.C. Nichols and the named directors and officers of J.C. Nichols breached their fiduciary duties to members of the J.C. Nichols Company Employee Stock Ownership Trust, (3) all defendants participated in the dissemination of a proxy statement containing materially false and misleading statements and omissions of material facts in violation of Section 14(a) of the Exchange Act of 1934 and (4) the Company filed a registration statement with the SEC containing materially false and misleading statements and omissions of material facts in violation of Sections 11 and 12(2) of the Securities Act of 1933. The plaintiffs seek equitable relief and monetary damages. We believe that the defendants have meritorious defenses to the plaintiffs' allegations. We intend to vigorously defend this litigation. By order dated June 18, 1999, the court granted in part and denied in part our motions to dismiss. The plaintiff has filed a motion seeking certification of the proposed class of plaintiffs. All defendants will oppose that motion, which remains pending. Discovery in this matter is proceeding. Due to the inherent uncertainties of the litigation process, 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.

Item 2. Changes in Securities and Use of Proceeds

(c) During the three months ended June 30, 1999, the Company issued an aggregate of 13,514 shares of Common Stock to holders of Common Units in connection with the merger of Eakin & Smith, Inc. into the Company on April 1, 1996. The shares were issued to three principals of Eakin & Smith, pursuant to an exemption from the registration requirements of the Securities Act of 1933. Each of the three principals is an accredited investor. We exercised reasonable care to assure that the principals were not purchasing the shares with a view to their distribution.

Item 3. Defaults Upon Senior Securities -- NA

Item 4. Submission of Matters to a Vote of Security Holders

On June 2, 1999, the Company held its Annual Meeting of Stockholders. The final vote of the matters presented for a vote at such meeting was as follows:

MATTER	FOR	AGAINST	BROKER NON-VOTE	ABSTAIN
(A) Election of Directors				
Thomas W. Adler	49,436,674	--	--	198,868
Kay Nichols Collison	49,436,774	--	--	198,768
William E. Graham, Jr.	49,436,774	--	--	198,768
Willard H. Smith Jr.	49,436,774	--	--	198,768
(B) Ratify appointment of Ernst & Young LLP as independent auditors	49,175,764	2,947	--	456,831

Item 5. Other Information -- NA

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

EXHIBIT NO.	DESCRIPTION
10.1 (1)	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
10.2 (1)	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
27	Financial Data Schedule

(1) 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.

(b) Reports on Form 8-K -- None

SIGNATURES

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

HIGHWOODS PROPERTIES, INC.

/s/ RONALD P. GIBSON

RONALD P. GIBSON
PRESIDENT AND CHIEF EXECUTIVE OFFICER

/s/ CARMAN J. LIUZZO

CARMAN J. LIUZZO
CHIEF FINANCIAL OFFICER
(PRINCIPAL ACCOUNTING OFFICER)

Date: August 16, 1999

ARTICLE 5

MULTIPLIER: 1000

PERIOD TYPE	3 MOS	6 MOS
FISCAL YEAR END	DEC 31 1999	DEC 31 1999
PERIOD START	APR 01 1999	JAN 01 1999
PERIOD END	JUN 30 1999	JUN 30 1999
CASH	115,973	115,973
SECURITIES	0	0
RECEIVABLES	91,195	91,195
ALLOWANCES	2,091	2,091
INVENTORY	0	0
CURRENT ASSETS	169,429	169,429
PP&E	3,692,328	3,692,328
DEPRECIATION	197,494	197,494
TOTAL ASSETS	4,049,861	4,049,861
CURRENT LIABILITIES	100,374	100,374
BONDS	1,779,870	1,779,870
PREFERRED MANDATORY	0	0
PREFERRED	397,500	397,500
COMMON	0	0
OTHER SE	1,771,500	1,771,500
TOTAL LIABILITY AND EQUITY	4,049,861	4,049,861
SALES	142,079	288,800
TOTAL REVENUES	147,842	300,047
CGS	43,761	89,106
TOTAL COSTS	71,466	144,967
OTHER EXPENSES	6,212	12,005
LOSS PROVISION	0	0
INTEREST EXPENSE	30,451	63,071
INCOME PRETAX	36,358	71,392
INCOME TAX	0	0
INCOME CONTINUING	36,358	71,392
DISCONTINUED	0	0
EXTRAORDINARY	(777)	(777)
CHANGES	0	0
NET INCOME	27,436	54,325
EPS BASIC	0.45	0.89
EPS DILUTED	0.45	0.89

End of Filing

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