

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 March 31, 2001

Commission file number: 001-13100

HIGHWOODS PROPERTIES, INC.

(Exact name of registrant as specified in its charter)

Maryland
(State or other jurisdiction of
incorporation or organization)

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

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

27604
(Zip Code)

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

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

The Company has only one class of common stock, par value \$.01 per share, with 53,875,783 shares outstanding as of May 1, 2001.

HIGHWOODS PROPERTIES, INC.

QUARTERLY REPORT FOR THE PERIOD ENDED MARCH 31, 2001

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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 in our 2000 Annual Report on Form 10-K.

HIGHWOODS PROPERTIES, INC.

CONSOLIDATED BALANCE SHEETS

(dollars in thousands)

	March 31, 2001	December 31, 2000
	----- (Unaudited)	-----
ASSETS		
Real estate assets, at cost:		
Land and improvements.....	\$ 415,301	\$ 421,270
Buildings and tenant improvements.....	2,790,722	2,742,946
Development in process.....	110,425	87,622
Land held for development.....	148,374	145,598
Furniture, fixtures and equipment.....	11,736	11,433
	-----	-----
	3,476,558	3,408,869
Less--accumulated depreciation.....	(306,120)	(280,610)
	-----	-----
Net real estate assets.....	3,170,438	3,128,259
Property held for sale.....	96,910	127,824
Cash and cash equivalents.....	46,119	104,780
Restricted cash.....	2,145	2,192
Accounts receivable, net.....	18,389	24,003
Advances to related parties.....	--	27,560
Notes receivable.....	71,559	80,918
Accrued straight-line rents receivable.....	41,996	39,295
Investment in unconsolidated affiliates.....	78,777	78,423
Other assets:		
Deferred leasing costs.....	88,953	83,269
Deferred financing costs (See Note 4).....	26,350	43,110
Prepaid expenses and other.....	11,161	11,878
	-----	-----
	126,464	138,257
Less--accumulated amortization.....	(48,605)	(49,909)
	-----	-----
Other assets, net.....	77,859	88,348
	-----	-----
Total Assets.....	\$3,604,192	\$3,701,602
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY		
Mortgages and notes payable.....	\$1,606,208	\$1,587,019
Accounts payable, accrued expenses and other liabilities.....	107,375	109,824
	-----	-----
Total Liabilities.....	1,713,583	1,696,843
Minority interest.....	211,201	213,214
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 March 31, 2001 and December 31, 2000.....	125,000	125,000
8% Series B Cumulative Redeemable Preferred Shares (liquidation preference \$25 per share), 6,900,000 shares issued and outstanding at March 31, 2001 and December 31, 2000.....	172,500	172,500
8% Series D Cumulative Redeemable Preferred Shares (liquidation preference \$250 per share), 400,000 shares issued and outstanding at March 31, 2001 and December 31, 2000.....	100,000	100,000
Common stock, \$.01 par value, 200,000,000 authorized shares; 54,239,673 shares issued and outstanding at March 31, 2001 and 58,124,205 at December 31, 2000...	542	581
Additional paid-in capital.....	1,408,002	1,506,161
Distributions in excess of net earnings.....	(111,972)	(110,209)
Accumulated other comprehensive loss (See Note 4).....	(10,598)	--
Deferred compensation--restricted stock.....	(4,066)	(2,488)
	-----	-----
Total Stockholders' Equity.....	1,679,408	1,791,545
	-----	-----
Total Liabilities and Stockholders' Equity.....	\$3,604,192	\$3,701,602
	=====	=====

See accompanying notes to consolidated financial statements.

HIGHWOODS PROPERTIES, INC.

CONSOLIDATED STATEMENTS OF INCOME

(Unaudited and in thousands except per share amounts)

	Three Months Ended March 31,	
	2001	2000
Revenue:		
Rental property.....	\$128,621	\$136,574
Equity in earnings of unconsolidated affiliates.....	833	943
Interest and other income.....	7,813	3,642
Total Revenue.....	137,267	141,159
Operating expenses:		
Rental property.....	36,909	39,461
Depreciation and amortization.....	29,206	28,328
Interest expense:		
Contractual.....	28,321	27,047
Amortization of deferred financing costs.....	665	721
General and administrative.....	5,212	5,096
Income before gain on disposition of land and depreciable assets, minority interest and extraordinary item	36,954	40,506
Gain on disposition of land and depreciable assets.....	7,071	6,946
Income before minority interest and extraordinary item.....	44,025	47,452
Minority interest.....	(5,251)	(6,020)
Income before extraordinary item.....	38,774	41,432
Extraordinary item--loss on early extinguishment of debt...	(193)	(195)
Net income.....	38,581	41,237
Dividends on preferred stock.....	(8,145)	(8,145)
Net income available for common shareholders.....	\$ 30,436	\$ 33,092
Net income per common share--basic:		
Income before extraordinary item.....	\$ 0.54	\$ 0.55
Extraordinary item--loss on early extinguishment of debt.....	--	--
Net income.....	\$ 0.54	\$ 0.55
Weighted average shares outstanding--basic.....	56,393	60,406
Net income per common share--diluted:		
Income before extraordinary item.....	\$ 0.54	\$ 0.55
Extraordinary item--loss on early extinguishment of debt.....	--	--
Net income.....	\$ 0.54	\$ 0.55
Weighted average shares outstanding--diluted.....	56,659	60,492
Distributions declared per common share.....	\$ 0.57	\$ 0.555

See accompanying notes to consolidated financial statements.

HIGHWOODS PROPERTIES, INC.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

For the Three Months Ended March 31, 2001
(Unaudited and in thousands except share amounts)

	Number of Common Shares	Common Stock	Series A Preferred	Series B Preferred	Series D Preferred	Additional Paid-In Capital	Deferred Compensation	Accumulated Other Comprehensive Loss	Distributions in excess of Net Earnings
Balance at December 31, 2000.....	58,124,205	\$581	\$125,000	\$172,500	\$100,000	\$1,506,161	\$(2,488)	--	\$(110,209)
Issuance of Common Stock...	11,178	--	--	--	--	68	--	--	--
Common Stock Dividends.....	--	--	--	--	--	--	--	--	(32,199)
Preferred Stock Dividends.....	--	--	--	--	--	--	--	--	(8,145)
Issuance of restricted stock.....	71,190	--	--	--	--	1,779	(1,779)	--	--
Amortization of deferred compensation...	--	--	--	--	--	--	201	--	--
Repurchase of Common Stock...	(3,966,900)	(39)	--	--	--	(100,006)	--	--	--
Net Income.....	--	--	--	--	--	--	--	--	38,581
Reclassification of derivative instruments....	--	--	--	--	--	--	--	(10,598)	--
Total other comprehensive loss.....									
Balance at March 31, 2001.....	54,239,673	\$542	\$125,000	\$172,500	\$100,000	\$1,408,002	\$(4,066)	\$(10,598)	\$(111,972)
	=====	=====	=====	=====	=====	=====	=====	=====	=====
		Other Comprehensive Loss							
	Total								
Balance at December 31, 2000.....	\$1,791,545	--	--	--	--	--	--	--	--
Issuance of Common Stock...	68	--	--	--	--	--	--	--	--
Common Stock Dividends.....	(32,199)	--	--	--	--	--	--	--	--
Preferred Stock Dividends.....	(8,145)	--	--	--	--	--	--	--	--
Issuance of restricted stock.....	--	--	--	--	--	--	--	--	--
Amortization of deferred compensation...	201	--	--	--	--	--	--	--	--
Repurchase of Common Stock...	(100,045)	--	--	--	--	--	--	--	--
Net Income.....	38,581	38,581	--	--	--	--	--	--	--
Reclassification of derivative instruments....	(10,598)	(10,598)	--	--	--	--	--	--	--
Total other comprehensive loss.....		27,983							
		=====							
Balance at March 31, 2001.....	\$1,679,408								
	=====								

See accompanying notes to consolidated financial statements.

HIGHWOODS PROPERTIES, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited and in thousands)

	Three Months Ended March 31,	
	2001	2000
Operating activities:		
Net income.....	\$ 38,581	\$41,237
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization.....	29,871	29,049
Amortization of deferred compensation.....	201	--
Minority interest.....	5,251	6,020
Equity in earnings of unconsolidated affiliates.....	(833)	(943)
Loss on early extinguishment of debt.....	193	195
Gain on disposition of land and depreciable assets.....	(7,071)	(6,946)
Transition adjustment upon adoption of FASB 133.....	556	--
Loss on ineffective portion of derivative instruments.....	466	--
Changes in operating assets and liabilities.....	(446)	(9,507)
Net cash provided by operating activities.....	66,769	59,105
Investing activities:		
Additions to real estate assets.....	(59,310)	(49,787)
Proceeds from disposition of real estate assets.....	49,700	20,666
Payment from advances to subsidiaries.....	27,560	1,237
Distributions from unconsolidated affiliates.....	1,333	622
Investments in notes receivable.....	8,684	(5,001)
Other investing activities.....	(5,705)	(1,046)
Net cash provided by /(used in) investing activities...	22,262	(33,309)
Financing activities:		
Distributions paid on common stock and common units.....	(36,506)	(38,438)
Dividends paid on preferred stock.....	(8,145)	(8,145)
Payment of prepayment penalties.....	(193)	(195)
Borrowings on mortgages and notes payable.....	16,402	72,215
Repayments on mortgages and notes payable.....	(33,733)	(67,334)
Borrowings on revolving loans.....	69,000	129,000
Repayments on revolving loans.....	(47,000)	(88,000)
Net proceeds from the sale of common stock.....	68	107
Net change in deferred financing costs.....	(738)	(418)
Repurchase of common stock and units.....	(106,847)	(35,301)
Net cash used in financing activities.....	(147,692)	(36,509)
Net decrease in cash and cash equivalents.....	(58,661)	(10,713)
Cash and cash equivalents at beginning of the period.....	104,780	34,496
Cash and cash equivalents at end of the period.....	\$ 46,119	\$23,783
Supplemental disclosure of cash flow information:		
Cash paid for interest.....	\$ 23,489	\$24,583

See accompanying notes to consolidated financial statements.

HIGHWOODS PROPERTIES, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS--(Continued)
(Unaudited and in thousands)

Supplemental disclosure of non-cash investing and financing activities

The following table summarizes the net assets contributed by the holders of Common Units in the Operating Partnership and the net assets acquired subject to mortgage notes payable.

	Three Months Ended March 31,	
	2001	2000
	(Unaudited)	(Unaudited)
Assets:		
Notes receivable	\$ 675	--
Cash and cash equivalents.....	551	--
Rental property and equipment, net.....	19,881	\$1,356
Liabilities:		
Accounts payable, accrued expenses and other liabilities.....	22,520	--
Mortgages and notes payable.....	1,392	--
Net assets.....	\$(2,805)	\$1,356
	=====	=====

See accompanying notes to consolidated financial statements.

HIGHWOODS PROPERTIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2001
(Unaudited)

1. BASIS OF PRESENTATION

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

The 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.

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 stockholders.

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.

Certain amounts in the March 31, 2000 financial statements have been reclassified to conform to the March 31, 2001 presentation. These reclassifications had no material effect on net income or stockholders' equity as previously reported.

The accompanying financial information has not been audited, but in the opinion of management, all adjustments (consisting of normal recurring accruals) necessary for a fair presentation of our financial position, results of operations and cash flows have been made. For further information, refer to the financial statements and notes thereto included in our 2000 Annual Report on Form 10-K.

2. 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.

HIGHWOODS PROPERTIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

The accounting policies of the segments are the same as those described in Note 1. Further, all operations are within the United States and no tenant comprises more than 10% of consolidated revenues. The following table summarizes the rental income, net operating income and total assets for each reportable segment for the three months ended March 31, 2001 and 2000.

	Three Months Ended March 31,	
	2001	2000
Rental Income:		
Office segment.....	\$ 103,941	\$ 110,510
Industrial segment.....	11,715	13,115
Retail segment.....	9,695	8,395
Apartment segment.....	3,270	4,554
	-----	-----
Total Rental Income.....	\$ 128,621	\$ 136,574
	=====	=====
Net Operating Income:		
Office segment.....	\$ 73,361	\$ 77,396
Industrial segment.....	9,976	10,851
Retail segment.....	6,584	6,049
Apartment segment.....	1,791	2,817
	-----	-----
Total Net Operating Income.....	91,712	97,113
	-----	-----
Reconciliation to income before minority interest and extraordinary item:		
Equity in income of unconsolidated affiliates.....	833	943
Gain on disposition assets.....	7,071	6,946
Interest and other income.....	7,813	3,642
Interest expense.....	(28,986)	(27,768)
General and administrative expense.....	(5,212)	(5,096)
Depreciation and amortization.....	(29,206)	(28,328)
	-----	-----
Income before minority interest and extraordinary item.....	\$ 44,025	\$ 47,452
	=====	=====
Total Assets:		
Office segment.....	\$2,700,177	\$2,996,001
Industrial segment.....	337,605	438,389
Retail segment.....	243,538	272,664
Apartment segment.....	86,761	115,387
Corporate and other.....	236,111	198,910
	-----	-----
Total Assets.....	\$3,604,192	\$4,021,351
	=====	=====

3. LEGAL CONTINGENCIES

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 asserts claims against J.C. Nichols and certain named directors and officers of J.C. Nichols for breach of fiduciary duty to J.C. Nichols' stockholders, and to members of the J.C. Nichols Company Employee Stock Ownership Trust, as well as claims under Section 14(a) of the Securities Exchange Act of 1934 Sections 11 and 12(2) of the Securities Act of 1933 variously against J.C. Nichols, the named directors and officers of J.C. Nichols and the Company. By order dated June 18, 1999, the court granted in part and denied in

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

part our motion to dismiss, and the court thereafter certified the proposed class of plaintiffs with respect to the remaining claims. By order dated August 28, 2000, the court granted in part and denied in part defendants' summary judgment motion. Defendants sought reconsideration of the court's ruling with respect to certain of the securities claims as to which the court denied their summary judgment motion, and by order dated January 11, 2001, the court granted in part that reconsideration motion. On the eve of the trial of this matter, the parties settled all their remaining claims. The parties have executed a Stipulation of Settlement, which has been submitted to the court. The final settlement hearing is scheduled for May 24, 2001. We do not believe the settlement will have a material adverse effect on our business, financial condition or results of operations.

4. DERIVATIVE FINANCIAL INSTRUMENTS

On January 1, 2001, we adopted Financial Accounting Standards Board Statement (SFAS) No. 133/138, "Accounting for Derivative Instruments and Hedging Activities," as amended. This Statement 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 Accumulated Other Comprehensive Loss ("AOCL") until the hedged item is recognized in earnings. The ineffective portion of a derivative's change in fair value is recognized in earnings. In connection with the adoption of SFAS 133/138 in January 2001, we recorded a net transition adjustment of \$555,962 of unrealized loss in interest and other income and a net transition adjustment of \$125,000 in AOCL. Adoption of the standard also resulted in our recognizing \$127,000 of derivative instrument liabilities and a reclassification of approximately \$10.6 million of deferred financing costs from past cashflow hedging relationships from other assets to AOCL.

Our interest rate risk management objective is to limit the impact of interest rate changes on earnings and cashflows and to lower overall borrowing costs. To achieve these objectives, 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 these derivatives for trading or speculative purposes.

All of our derivatives are designated as cashflow hedges (i.e., hedging the exposure of variability in expected future cash flows that is attributable to a particular risk) at March 31, 2001. The effective portion of the cumulative loss on the derivative instruments was \$10.6 million at March 31, 2001 and is reported as a component of AOCL in shareholders' equity and recognized into earnings in the same period or periods during which the hedged transaction affects earnings (as the underlying debt is paid down). We expect that the portion of the cumulative loss recorded in AOCL at March 31, 2001 associated with the derivative instruments which will be recognized within the next 12 months will be approximately \$1.5 million. The ineffective portion of our derivatives' changes in fair value has resulted in a loss of \$1.0 million and is reported in interest and other income on the Consolidated Statements of Income at March 31, 2001.

Derivative liabilities totaling approximately \$860,788 related to our interest rate swap, cap and collar agreements, with a notional amount of \$113.1 million, are recorded in other accounts payable, accrued expenses and other liabilities in the Consolidated Condensed Balance Sheets at March 31, 2001. The fair value of our interest rate swap, cap and collar agreements was (\$860,788) at March 31, 2001 and is based on individual market values as calculated monthly using a published forward curve for the floating portion and the agreed upon fixed rate for the fixed portion of the interest rate swap, cap and collar agreements.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

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

Results of Operations

Three Months Ended March 31, 2001. Revenues from rental operations decreased \$8.0 million, or 5.9%, from \$136.6 million for the three months ended March 31, 2000 to \$128.6 million for the comparable period in 2001. The decrease is primarily a result of the disposition of and contribution of 6.5 million square feet of wholly owned office, industrial and retail properties and 277 apartment units, offset in part by the acquisition of 741,000 square feet of wholly owned office properties and the completion of 2.2 million square feet of development activity during the last nine months of 2000 and the first three months of 2001. Our in-service portfolio decreased from 40.2 million square feet at March 31, 2000 to 36.5 million square feet at March 31, 2001. Same property revenues, which are the revenues of the 455 in-service properties and 1,608 apartment units owned on January 1, 2000, increased 3.3% for the three months ended March 31, 2001, compared to the same three months in 2000.

During the three months ended March 31, 2001, 161 leases representing 1.1 million square feet of office, industrial and retail space were executed at an average rate per square foot which was 7.9% higher than the average rate per square foot on the expired leases.

Interest and other income increased \$4.2 million, or 116.7%, from \$3.6 million for the three months ended March 31, 2000 to \$7.8 million for the comparable period in 2001. The increase was a result of an increase in interest income and third party fee income partly offset by an adjustment related to the adoption of FASB 133.

Rental operating expenses decreased \$2.6 million, or 6.6%, from \$39.5 million for the three months ended March 31, 2000 to \$36.9 million for the comparable period in 2001. The decrease is primarily a result of the disposition of and contribution of 6.5 million square feet of wholly owned office, industrial and retail properties and 277 apartment units, offset in part by the acquisition of 741,000 square feet of wholly owned office properties and the completion of 2.2 million square feet of development activity during the last nine months of 2000 and the first three months of 2001. Rental operating expenses as a percentage of related revenues was 28.7% and 28.9% for the three months ended March 31, 2001 and 2000, respectively.

Depreciation and amortization for the three months ended March 31, 2001 and 2000 totaled \$29.2 million and \$28.3 million, respectively. The increase of \$878,000, or 3.1%, is due to an increase in tenant improvements in 2000 and 2001. Interest expense increased \$1.2 million, or 4.3%, from \$27.8 million for the three months ended March 31, 2000 to \$29.0 million for the comparable period in 2001. The increase is attributable to a decrease in capitalized interest in 2001 from 2000. Interest expense for the three months ended March 31, 2001 and 2000 included \$665,000 million and \$721,000 million, respectively, of amortization of deferred financing costs and the costs related to our interest rate hedge contracts. General and administrative expenses increased 0.2% from 3.6% of total revenue for the three months ended March 31, 2000 to 3.8% for the comparable period in 2001.

Income before minority interest and extraordinary item was \$44.0 million and \$47.5 million for the three months ended March 31, 2001 and 2000, respectively. The Company's net income allocated to minority interest totaled \$5.3 million and \$6.0 million for the three months ended March 31, 2001 and 2000, respectively. The Company recorded \$8.1 million in preferred stock dividends for the three months ended March 31, 2001 and 2000.

Liquidity and Capital Resources

Statement of Cash Flows. For the three months ended March 31, 2001, the Company generated \$66.8 million in cash flows from operating activities and \$22.3 million in investing activities (primarily as a result of dispositions of real estate assets and repayments from subsidiaries, partly offset by additions to real estate assets). These combined cash flows of \$89.1 million were used during the quarter to partly fund financing activities of \$147.7 million, primarily consisting of the repurchase of Common Stock and Common Units and the payment of distributions.

Capitalization. Our total indebtedness at March 31, 2001 totaled \$1.6 billion and was comprised of \$629.0 million of secured indebtedness with a weighted average interest rate of 7.8% and \$1.0 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 March 31, 2001 were either fixed rate obligations or variable rate obligations covered by interest rate hedge contracts. Approximately \$32.5 million of floating rate notes were not covered by interest rate hedge contracts on March 31, 2001.

Based on the Company's total market capitalization of \$3.5 billion at March 31, 2001 (at the March 31, 2001 stock price of \$24.65 and assuming the redemption for shares of Common Stock of the 7.7 million Common Units of minority interest in the Operating Partnership), the Company's debt represented approximately 45.5% 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 \$300.0 million unsecured revolving loan (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 March 31, 2001:

Type of Hedge	Notional Amount	Maturity Date	Reference Rate	Fixed Rate	Fair Market Value
Swap.....	\$19,671	06/10/02	1-Month LIBOR + 0.75%	6.95%	\$(392,540)
Collar.....	\$80,000	10/15/01	1-Month LIBOR	5.60-6.25%	\$(468,248)
Cap.....	\$13,434	06/15/01	1-Month LIBOR	7.75%	--

The interest rate on our variable rate debt is adjusted at one-month intervals, subject to settlements under these contracts. Net (receipts)/payments made to counterparties under interest rate hedge contracts were \$(24,105) during the first quarter of 2001 and \$7,545 during the first quarter of 2000 and were recorded as (decreases)/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 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 \$80.0 million of our existing development activity. We expect to fund our short-term liquidity needs through a combination of:

- . borrowings under our Revolving Loan (approximately \$248.0 million was available at March 31, 2001);
- . the issuance of secured debt;
- . the selective disposition of non-core assets; and
- . 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 or the incurrence of other debt.

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 Repurchases. On April 25, 2001, we announced that we had essentially completed our previously announced 10.0 million share and unit repurchase program pursuant to which we repurchased 9.9 million shares of Common Stock and Common Units at a weighted average price of \$24.18 per share/unit, for a total

purchase price of \$239.2 million. In addition, the Company announced that its board of directors has authorized the repurchase of up to an additional 5 million shares of Common Stock and Common Units. To date, we have not repurchased any shares or units under our new program.

Disposition Activity. During the three months ended March 31, 2001, we sold approximately 76,000 rentable square feet of office properties, 277 apartment units and 73.0 acres of development land for gross proceeds of \$49.7 million. In addition, we currently have 182,000 rentable square feet of wholly owned properties and 1,395 apartment units under contract for sale in various transactions totaling \$120.0 million. These transactions are subject to customary closing conditions, including due diligence and documentation, and are expected to close at various times throughout 2001. However we can provide no assurance that all or parts of these transactions will be consummated.

As of May 14, 2001, 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 \$10.0 million of the net proceeds from completed disposition activity and up to \$112.0 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.

Compliance with the Americans with Disabilities Act

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

Funds From Operations and Cash Available for Distributions

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

FFO equals net income (computed in accordance with GAAP) excluding gains (or losses) from debt restructuring and sales of depreciable assets, 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. This 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 FFO 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 month period ended March 31, 2001 and 2000 are summarized in the following table (in thousands):

	Three Months Ended March 30,	
	2001	2000
Funds from operations:		
Income before minority interest and extraordinary item.....	\$44,025	\$47,452
Add/(Deduct):		
Dividends to preferred stockholders.....	(8,145)	(8,145)
Transition adjustment upon adoption of FASB 133.....	556	--
Gain on disposition of land and depreciable assets.....	(7,071)	(6,946)
Gain on disposition of land.....	1,026	--
Depreciation and amortization.....	29,206	28,328
Depreciation of unconsolidated affiliates.....	1,992	878
Funds from operations.....	61,589	61,567
Cash available for distribution:		
Add/(Deduct):		
Rental income from straight-line rents.....	(3,102)	(3,800)
Amortization of deferred financing costs.....	665	721
Non-incremental revenue generating capital expenditures(1):		
Building improvements paid.....	(1,073)	(1,369)
Second generation tenant improvements paid.....	(3,755)	(4,782)
Second generation lease commissions paid.....	(4,787)	(3,131)
Cash available for distribution.....	\$49,537	\$49,206
Weighted average common shares/common units outstanding-- basic(2).....	64,094	69,256
Weighted average common shares/common units outstanding-- diluted(2).....	64,359	69,341
Dividend payout ratios:		
Funds from operations.....	59.6%	62.5%
Cash available for distribution.....	74.1%	78.2%

(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 April 25, 2001, the Company's Board of Directors declared a dividend for the first quarter ended March 31, 2001 of \$0.57 per share (\$2.28 on an annualized basis) payable on May 17, 2001 to stockholders of record on May 4, 2001.

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:

- . our markets could suffer unexpected increases in development of office, industrial and retail properties;
- . the financial condition of our tenants could deteriorate;
- . the costs of our development projects could exceed our original estimates;
- . we may not be able to complete development, acquisition, reinvestment, disposition or joint venture projects as quickly or on as favorable terms as anticipated;
- . we may not be able to lease or release space quickly or on as favorable terms as old leases;
- . we may have incorrectly assessed the environmental condition of our properties;
- . an unexpected increase in interest rates would increase our debt service costs;
- . we may not be able to continue to meet our long-term liquidity requirements on favorable terms;
- . we could lose key executive officers; and
- . our southeastern 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 wholly owned in-service and development properties (excluding apartment units) as of March 31, 2001 and 2000:

March 31, 2001	Rentable Square Feet	Percent Leased/ Pre-Leased
-----	-----	-----
In-Service:		
Office.....	24,509,000	94%
Industrial.....	10,358,000	95%
Retail(1).....	1,645,000	94%
	-----	---
Total or Weighted Average.....	36,512,000	94%
	=====	===
Development:		
Completed--Not Stabilized		
Office.....	524,000	78%
Industrial.....	306,000	52%
Retail.....	--	--
	-----	---
Total or Weighted Average.....	830,000	69%
	=====	===
In Process		
Office.....	2,079,000	52%
Industrial.....	122,000	--
Retail.....	20,000	34%
	-----	---
Total or Weighted Average.....	2,221,000	49%
	=====	===
Total:		
Office.....	27,112,000	
Industrial.....	10,786,000	
Retail.....	1,665,000	

Total or Weighted Average.....	39,563,000	
	=====	
March 31, 2000	Rentable Square Feet	Percent Leased/ Pre-Leased
-----	-----	-----
In-Service:		
Office.....	27,517,000	94%
Industrial.....	11,153,000	93%
Retail.....	1,543,000	95%
	-----	---
Total or Weighted Average.....	40,213,000	94%
	=====	===
Development:		
Completed--Not Stabilized		
Office.....	1,745,000	69%
Industrial.....	297,000	60%
Retail.....	180,000	94%
	-----	---
Total or Weighted Average.....	2,222,000	70%
	=====	===
In Process		
Office.....	1,101,000	78%
Industrial.....	284,000	57%
Retail.....	--	--
	-----	---
Total or Weighted Average.....	1,385,000	74%
	=====	===
Total:		
Office.....	30,363,000	
Industrial.....	11,734,000	
Retail.....	1,723,000	

Total or Weighted Average.....	43,820,000	
	=====	

(1) Excludes basement space

As of March 31, 2001, we were developing 24 suburban office properties, 4 industrial properties and 1 retail property totaling 3.1 million rentable square feet of office and industrial space. The following table summarizes these development projects. In addition to the properties described in this table, we are developing with our joint venture partners seven additional properties totaling 859,000 rentable square feet. At March 31, 2001, these seven development projects had an aggregate budgeted cost of \$107.1 million and were 67.0% pre-leased.

In-Process

Name	Market	Rentable Square Feet	Estimated Cost	Cost at 3/31/01	Pre-Leasing Percentage(1)	Estimated Completion	Estimated Stabilization

(\$ in thousands)							
Office:							
Highwoods Preserve V	Tampa	185,000	\$ 27,633	\$17,273	100%	3Q01	3Q01
Met Life Building at Brookfield(2)	Greenville	118,000	13,220	3,938	67%	3Q01	4Q01
Romac	Tampa	128,000	18,582	5,967	100%	4Q01	4Q01
Verizon Wireless(2)	Greenville	193,000	16,356	2,975	100%	1Q02	1Q02
International Place 3	Memphis	214,000	34,272	5,462	100%	2Q02	2Q02
Cool Springs II	Nashville	205,000	22,718	16,294	19%	2Q01	2Q02
Centre Green Two(2)	Research Triangle	97,000	11,596	6,225	61%	2Q01	2Q02
ParkWest One(2)	Research Triangle	46,000	4,364	1,871	28%	2Q01	2Q02
ParkWest Two(2)	Research Triangle	48,000	4,544	1,998	100%	2Q01	2Q02
Hickory Trace	Nashville	52,000	5,933	4,260	--	3Q01	3Q02
Centre Green Four(2)	Research Triangle	100,000	11,764	4,418	--	3Q01	3Q02
North Shore Commons A	Richmond	115,000	13,084	9,003	58%	2Q01	3Q02
Stony Point III(2)	Richmond	107,000	11,425	2,577	45%	2Q01	3Q02
Shadow Creek II(2)	Memphis	81,000	8,750	1,877	--	4Q01	4Q02
Highwoods Park at Jefferson Village(2)	Piedmont Triad	101,000	9,839	1,159	--	4Q01	4Q02
GlenLake I(2)	Research Triangle	158,000	19,089	3,011	--	4Q01	4Q02
Seven Springs I(2)	Nashville	131,000	15,556	3,739	--	1Q02	1Q03
In-Process Office Total or Weighted Average		2,079,000	\$248,725	\$92,047	52%		
		=====	=====	=====	=====		
Industrial:							
Tradeport Place IV	Atlanta	122,000	\$ 4,447	\$1,988	--	3Q01	3Q02
In-Process Industrial Total or Weighted Average		122,000	\$ 4,447	\$1,988	--		
		=====	=====	=====	=====		
Retail:							
Plaza Redevelopment (Granada Shops)	Kansas City	20,000	\$ 4,680	\$176	34%	4Q01	4Q01
In-Process Retail Total or Weighted Average		20,000	\$ 4,680	\$176	34%		
		=====	=====	=====	=====		
Total or Weighted Average of all In-Process Development Projects		2,221,000	\$257,852	\$94,211	49%		
		=====	=====	=====	=====		

(1) Letters of intent comprise 2% of the Total Pre-Leasing Percentage.

(2) We are developing these properties for a third party and own an option to purchase each property.

Completed--Not Stabilized

Name	Market	Rentable Square Feet	Estimated Cost	Cost at 3/31/01	Pre-Leasing Percentage(1)	Estimated Completion	Estimated Stabilization
----	-----	-----	-----	-----	-----	-----	-----
(\$ in thousands)							
Office:							
Deerfield III	Atlanta	54,000	\$ 5,276	\$ 4,185	100%	4Q00	3Q01
Shadow Creek	Memphis	80,000	8,989	7,547	82%	4Q00	4Q01
380 Park Place	Tampa	82,000	9,675	8,419	78%	1Q01	4Q01
Highwoods Plaza	Tampa	66,000	7,505	6,436	30%	4Q00	1Q02
Situs III	Research Triangle	39,000	4,543	2,693	94%	1Q01	1Q02
Maplewood	Research Triangle	36,000	3,901	3,240	100%	1Q01	1Q02
Highwoods Tower II	Research Triangle	167,000	25,134	19,601	75%	1Q01	2Q02
		-----	-----	-----	---	---	---
Office Total or Weighted Average		524,000	\$ 65,023	\$52,121	78%		
		=====	=====	=====	===		
Industrial:							
Holden Road	Piedmont Triad	64,000	\$ 2,014	\$1,750	60%	1Q01	3Q01
Tradeport Place III	Atlanta	122,000	4,780	4,568	100%	4Q00	4Q01
Enterprise Center I	Piedmont Triad	120,000	3,807	3,218	--	4Q00	4Q01
		-----	-----	-----	---		
Completed-Not Stabilized Retail Total or Weighted Average		306,000	\$ 10,601	\$9,536	52%		
		=====	=====	=====	===		
Total or Weighted Average of all Completed-Not Stabilized Development Projects		830,000	\$ 75,624	\$ 61,657	69%		
		-----	-----	-----	---		
Total or Weighted Average of all Development Projects		3,051,000	\$333,476	\$155,868	54%		
		=====	=====	=====	===		

(1) Letters of intent comprise 2% of the Total Pre-Leasing Percentage.

	Rentable Square Feet	Estimated Cost	Pre-Leasing Percentage(1)	
	-----	-----	-----	
	(in thousands)			
Development Analysis				
Summary by Estimated Stabilization Date:				
Second Quarter 2001.....		--	--	--
Third Quarter 2001.....		303,000	\$ 34,923	92%
Fourth Quarter 2001.....		670,000	63,733	69%
First Quarter 2002.....		334,000	32,305	85%
Second Quarter 2002.....		777,000	102,628	64%
Third Quarter 2002.....		496,000	46,653	23%
Fourth Quarter 2002.....		340,000	37,678	--
First Quarter 2003.....		131,000	15,556	--
		-----	-----	-----
Total or Weighted Average.....		3,051,000	\$333,476	54%
		=====	=====	===
Summary by Market:				
Atlanta.....		298,000	\$ 14,503	59%
Greenville.....		311,000	29,576	87%
Kansas City.....		20,000	4,680	34%
Memphis.....		375,000	52,011	75%
Nashville.....		388,000	44,207	10%
Piedmont Triad.....		285,000	15,660	13%
Research Triangle.....		691,000	84,935	46%
Richmond.....		222,000	24,509	52%
Tampa.....		461,000	63,395	86%
		-----	-----	---
Total or Weighted Average.....		3,051,000	\$333,476	54%
		=====	=====	===
Build-to-Suit.....		720,000	\$ 96,843	100%
Multi-Tenant.....		2,331,000	236,633	40%
		-----	-----	---
Total or Weighted Average.....		3,051,000	\$333,476	54%
		=====	=====	===
	Average Rentable Square Feet	Average Estimated Cost	Pre-Leasing Percentage(1)	
	-----	-----	-----	
	(in thousands)			
Per Property Type:				
Office.....	108,458	\$13,073		57%
Industrial.....	107,000	3,762		37%
Retail.....	20,000	4,680		34%
	-----	-----		---
All.....	105,207	\$11,499		54%
	=====	=====		===

(1) Letters of intent comprise 2% of the Total pre-leasing percentage.

The following table sets forth certain information about leasing activities at our wholly owned in-service properties (excluding apartment units) for the three months ended March 31, 2001 and December 31, September 30 and June 30, 2000.

Office Leasing Statistics Three Months Ended					
	3/31/01	12/31/00	9/30/00	6/30/00	Average
Net Effective Rents Related to Re-Leased Space:					
Number of lease transactions (signed leases).....	132	199	174	221	182
Rentable square footage leased.....	941,419	1,187,466	1,056,239	990,663	1,043,947
Average per rentable square foot over the lease term:					
Base rent.....	\$ 17.73	\$ 17.51	\$ 15.23	\$ 18.43	\$ 17.23
Tenant improvements..	(1.13)	(1.14)	(1.21)	(1.39)	(1.22)
Leasing commissions..	(0.57)	(0.59)	(0.40)	(0.57)	(0.53)
Rent concessions.....	(0.01)	(0.03)	(0.03)	(0.05)	(0.03)
Effective rent.....	16.02	15.75	13.59	16.42	15.45
Expense stop(1).....	(2.96)	(4.73)	(4.03)	(5.37)	(4.27)
Equivalent effective net rent.....	\$ 13.06	\$ 11.02	\$ 9.56	\$ 11.05	\$ 11.17
Average term in years...	5.3	4.6	4.9	4.6	4.8
Capital Expenditures Related to Released Space:					
Tenant Improvements:					
Total dollars committed under signed leases.....	\$ 7,103,609	\$ 7,273,031	\$6,676,576	\$5,510,054	\$6,640,817
Rentable square feet..	941,419	1,187,466	1,056,239	990,663	1,043,947
Per rentable square foot.....	\$ 7.55	\$ 6.12	\$ 6.32	\$ 5.56	\$ 6.36
Leasing Commissions:					
Total dollars committed under signed leases.....	\$ 3,361,410	\$ 2,873,345	\$1,910,278	\$2,392,441	\$2,634,369
Rentable square feet..	941,419	1,187,466	1,056,239	990,663	1,043,947
Per rentable square foot.....	\$ 3.57	\$ 2.42	\$ 1.81	\$ 2.41	\$ 2.52
Total:					
Total dollars committed under signed leases.....	\$10,465,020	\$10,146,377	\$8,586,853	\$7,902,495	\$9,275,186
Rentable square feet..	941,419	1,187,466	1,056,239	990,663	1,043,947
Per rentable square foot.....	\$ 11.12	\$ 8.54	\$ 8.13	\$ 7.98	\$ 8.88
Rental Rate Trends:					
Average final rate with expense pass throughs.....	\$ 15.05	\$ 15.83	\$ 14.30	\$ 16.59	\$ 15.44
Average first year cash rental rate.....	\$ 16.04	\$ 16.38	\$ 14.96	\$ 17.58	\$ 16.24
Percentage increase...	6.6%	3.5%	4.6%	6.0%	5.2%

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

Industrial Leasing Statistics Three Months Ended					
	3/31/01	12/31/00	9/30/00	6/30/00	Average
Net Effective Rents Related to Re-Leased Space:					
Number of lease transactions (signed leases)	27	31	31	46	34
Rentable square footage leased.....	190,663	355,947	349,079	362,521	314,553
Average per rentable square foot over the lease term:					
Base rent.....	\$ 5.88	\$ 5.29	\$ 4.54	\$ 5.14	\$ 5.21
Tenant improvements.....	(0.20)	(0.29)	(0.32)	(0.28)	(0.27)
Leasing commissions.....	(0.09)	(0.15)	(0.15)	(0.12)	(0.13)
Rent concessions.....	(0.00)	(0.00)	(0.00)	(0.01)	(0.00)
Effective rent.....	5.59	4.85	4.07	4.73	4.81
Expense stop (1).....	(0.74)	(0.30)	(0.23)	(0.48)	(0.44)
Equivalent effective net rent.....	\$ 4.85	\$ 4.55	\$ 3.84	\$ 4.25	\$ 4.37
Average term in years.....	2.5	2.7	3.6	4.2	3.3
Capital Expenditures Related to Re-leased Space:					
Tenant Improvements:					
Total dollars committed under signed leases.....	\$ 91,304	\$412,679	\$510,520	\$389,592	\$351,023
Rentable square feet.....	190,663	355,947	349,079	362,521	314,553
Per rentable square foot..	\$ 0.48	\$ 1.16	\$ 1.46	\$ 1.07	\$ 1.12
Leasing Commissions:					
Total dollars committed under signed leases.....	\$ 61,239	\$145,117	\$167,772	\$185,028	\$139,789
Rentable square feet.....	190,663	355,947	349,079	362,521	314,553
Per rentable square foot..	\$ 0.32	\$ 0.41	\$ 0.48	\$ 0.51	\$ 0.44
Total:					
Total dollars committed under signed leases.....	\$152,542	\$557,796	\$678,292	\$574,620	\$490,813
Rentable square feet.....	190,663	355,947	349,079	362,521	314,553
Per rentable square foot..	\$ 0.80	\$ 1.57	\$ 1.94	\$ 1.59	\$ 1.56
Rental Rate Trends:					
Average final rate with expense pass throughs.....	\$ 4.89	\$ 4.92	\$ 4.11	\$ 4.44	\$ 4.59
Average first year cash rental rate.....	\$ 5.06	\$ 5.23	\$ 4.51	\$ 4.72	\$ 4.88
Percentage increase.....	3.4%	6.3%	9.6%	6.4%	6.3%

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

Retail Leasing Statistics Three Months Ended					
	3/31/01	12/31/00	9/30/00	6/30/00	Average
Net Effective Rents Related to Re-Leased Space:					
Number of lease transactions (signed leases).....	9	15	21	15	15
Rentable square footage leased.....	38,618	35,057	53,217	37,036	40,982
Average per rentable square foot over the lease term:					
Base rent.....	\$ 29.31	\$ 24.07	\$ 22.26	\$ 21.84	\$ 24.37
Tenant improvements...	(1.86)	(1.90)	(1.26)	(1.97)	(1.75)
Leasing commissions...	(0.29)	(0.49)	(0.58)	(0.57)	(0.48)
Rent concessions.....	(0.22)	(0.00)	(0.03)	(0.00)	(0.06)
	-----	-----	-----	-----	-----
Effective rent.....	26.94	21.68	20.39	19.30	22.08
Expense stop (1).....	0.00	0.00	0.00	(0.12)	(0.03)
	-----	-----	-----	-----	-----
Equivalent effective net rent.....	\$ 26.94	\$ 21.68	\$ 20.39	\$ 19.18	\$ 22.05
	=====	=====	=====	=====	=====
Average term in years.....	9.3	6.7	7.6	8.3	8.0
	=====	=====	=====	=====	=====
Capital Expenditures Related to Re-leased Space:					
Tenant Improvements:					
Total dollars committed under signed leases.....	\$729,480	\$655,301	\$600,136	\$ 914,200	\$724,779
Rentable square feet....	38,618	35,057	53,217	37,036	40,982
	-----	-----	-----	-----	-----
Per rentable square foot.....	\$ 18.89	\$ 18.69	\$ 11.28	\$ 24.68	\$ 17.69
	=====	=====	=====	=====	=====
Leasing Commissions:					
Total dollars committed under signed leases.....	\$ 93,045	\$ 66,986	\$143,269	\$ 175,122	\$119,606
Rentable square feet....	38,618	35,057	53,217	37,036	40,982
	-----	-----	-----	-----	-----
Per rentable square foot.....	\$ 2.41	\$ 1.91	\$ 2.69	\$ 4.73	\$ 2.92
	=====	=====	=====	=====	=====
Total:					
Total dollars committed under signed leases.....	\$822,525	\$722,287	\$743,406	\$1,089,322	\$844,385
Rentable square feet....	38,618	35,057	53,217	37,036	40,982
	-----	-----	-----	-----	-----
Per rentable square foot.....	\$ 21.30	\$ 20.60	\$ 13.97	\$ 29.41	\$ 20.60
	=====	=====	=====	=====	=====
Rental Rate Trends:					
Average final rate with expense pass throughs....	\$ 12.91	\$ 18.41	\$ 13.85	\$ 16.60	\$ 15.44
Average first year cash rental rate.....	\$ 19.70	\$ 22.57	\$ 19.40	\$ 19.06	\$ 20.18
	-----	-----	-----	-----	-----
Percentage increase.....	52.6%	22.6%	40.1%	14.8%	30.7%
	=====	=====	=====	=====	=====

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

The following tables set forth scheduled lease expirations at our wholly owned in-service properties (excluding apartment units) as of March 31, 2001, 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)	Average Annual Rental Rate Per Square Foot for Expirations(1)	Percentage of Leased Rents Represented by Expiring Leases
(in thousands)						
2001.....	599	2,431,357	10.5%	\$40,152	\$16.51	10.3%
2002.....	548	3,154,987	13.7%	52,079	16.51	13.4%
2003.....	548	3,542,989	15.3%	59,604	16.82	15.3%
2004.....	368	2,659,604	11.5%	46,824	17.61	12.1%
2005.....	419	3,100,350	13.4%	52,818	17.04	13.6%
2006.....	157	2,281,087	9.9%	37,545	16.46	9.7%
2007.....	46	1,070,034	4.6%	16,668	15.58	4.3%
2008.....	48	1,269,730	5.5%	19,018	14.98	4.9%
2009.....	18	714,403	3.1%	11,431	16.00	2.9%
2010.....	44	1,501,620	6.5%	26,205	17.45	6.7%
2011 and thereafter.....	45	1,382,964	6.0%	26,231	18.97	6.8%
	-----	-----	-----	-----	-----	-----
	2,840	23,109,125	100.0%	\$388,575	\$16.81	100.0%
	=====	=====	=====	=====	=====	=====

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)	Average Annual Rental Rate Per Square Foot for Expirations(1)	Percentage of Leased Rents Represented by Expiring Leases
(in thousands)						
2001.....	110	1,450,864	14.5%	\$6,694	\$4.61	14.4%
2002.....	111	1,774,868	17.8%	7,797	4.39	16.7%
2003.....	90	1,370,468	13.7%	6,875	5.02	14.7%
2004.....	62	2,136,315	21.5%	8,912	4.17	19.1%
2005.....	42	684,591	6.9%	3,995	5.84	8.6%
2006.....	17	503,707	5.0%	2,806	5.57	6.0%
2007.....	13	1,081,566	10.8%	4,425	4.09	9.5%
2008.....	4	196,045	2.0%	1,306	6.66	2.8%
2009.....	6	268,813	2.7%	1,819	6.77	3.9%
2010.....	4	182,746	1.8%	1,043	5.71	2.2%
2011 and thereafter.....	6	326,680	3.3%	969	2.97	2.1%
	-----	-----	-----	-----	-----	-----
	465	9,976,663	100.0%	\$46,641	\$4.68	100.0%
	==	=====	=====	=====	=====	=====

(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)	Average Annual Rental Rate Per Square Foot for Expirations(1)	Percentage of Leased Rents Represented by Expiring Leases
-----	-----	-----	-----	-----	-----	-----
(in thousands)						
2001.....	46	153,464	10.0%	\$2,830	\$18.44	8.7%
2002.....	33	69,975	4.5%	1,389	19.85	4.3%
2003.....	44	108,530	7.1%	2,460	22.67	7.6%
2004.....	35	213,016	13.8%	2,658	12.48	8.2%
2005.....	39	90,406	5.9%	2,543	28.13	7.8%
2006.....	23	80,907	5.3%	1,971	24.36	6.1%
2007.....	18	74,779	4.9%	1,492	19.95	4.6%
2008.....	16	108,901	7.1%	3,607	33.12	11.1%
2009.....	21	169,286	11.0%	3,184	18.81	9.8%
2010.....	17	94,138	6.1%	2,471	26.25	7.6%
2011 and thereafter.....	24	375,561	24.3%	7,801	20.77	24.2%
-----	-----	-----	-----	-----	-----	-----
	316	1,538,963	100.0%	\$ 32,406	\$21.06	100.0%
=====	=====	=====	=====	=====	=====	=====

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)	Average Annual Rental Rate Per Square Foot for Expirations(1)	Percentage of Leased Rents Represented by Expiring Leases
-----	-----	-----	-----	-----	-----	-----
2001.....	755	4,035,685	11.7%	\$49,676	\$12.31	10.6%
2002.....	692	4,999,830	14.4%	61,265	12.25	13.1%
2003.....	682	5,021,987	14.5%	68,939	13.73	14.7%
2004.....	465	5,008,935	14.6%	58,394	11.66	12.5%
2005.....	500	3,875,347	11.2%	59,356	15.32	12.7%
2006.....	197	2,865,701	8.3%	42,322	14.77	9.1%
2007.....	77	2,226,379	6.4%	22,585	10.14	4.8%
2008.....	68	1,574,676	4.5%	23,931	15.20	5.1%
2009.....	45	1,152,502	3.3%	16,434	14.26	3.5%
2010.....	65	1,778,504	5.1%	29,719	16.71	6.4%
2011 and thereafter.....	75	2,085,205	6.0%	35,001	16.79	7.5%
-----	-----	-----	-----	-----	-----	-----
	3,621	34,624,751	100.0%	\$467,622	\$13.51	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 Financial Condition and 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 March 31, 2001, the Company had approximately \$32.5 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 March 31, 2002, our interest expense would be increased or decreased approximately \$325,000. In addition, as of March 31, 2001, we had \$22.0 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 \$22.0 million of debt.

Interest Rate Hedge Contracts. For a discussion of our interest rate hedge contracts in effect at March 31, 2001, 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 March 31, 2001 would increase by approximately \$559,000. If interest rates decrease by 100 basis points, the aggregate fair market value of these interest rate hedge contracts as of March 31, 2001 would decrease by approximately \$648,000.

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

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 asserts claims against J.C. Nichols and certain named directors and officers of J.C. Nichols for breach of fiduciary duty to J.C. Nichols' stockholders, and to members of the J.C. Nichols Company Employee Stock Ownership Trust, as well as claims under Section 14(a) of the Securities Exchange Act of 1934 Sections 11 and 12(2) of the Securities Act of 1933 variously against J.C. Nichols, the named directors and

officers of J.C. Nichols and the company. By order dated June 18, 1999, the court granted in part and denied in part our motion to dismiss, and the court thereafter certified the proposed class of plaintiffs with respect to the remaining claims. By order dated August 28, 2000, the court granted in part and denied in part defendants' summary judgment motion. Defendants sought reconsideration of the court's ruling with respect to certain of the securities claims as to which the court denied their summary judgment motion, and by order dated January 11, 2001, the court granted in part that reconsideration motion. On the eve of the trial of this matter, the parties settled all their remaining claims. The parties have executed a Stipulation of Settlement, which has been submitted to the court. The final settlement hearing is scheduled for May 24, 2001. We do not believe the settlement will have a material adverse effect on our business, financial condition or results of operations.

Item 6. Exhibits and Reports on Form 8-K

(b) Reports on Form 8-K

On January 25, 2001, we filed a Current Report on Form 8-K reporting under Item 5 that we had repurchased additional shares of Common Stock and Common Units.

On April 27, 2001, we filed a Current Report on Form 8-K reporting under Items 5 and 7 that we had essentially completed our previously announced 10 million share and unit repurchase program and that our board of directors had authorized the repurchase of up to an additional 5 million shares of Common Stock and Common Units.

SIGNATURES

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

Highwoods Properties, Inc.

By: /s/ Ronald P. Gibson
 Ronald P. Gibson
 President and Chief Executive
 Officer

By: /s/ Carman J. Liuzzo
 Carman J. Liuzzo
 Chief Financial Officer
 (Principal Accounting Officer)

Date: May 15, 2001

End of Filing

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