

# HIGHWOODS PROPERTIES INC

## FORM 10-Q (Quarterly Report)

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

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**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 September 30, 1998

*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

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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

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The Company has only one class of common stock, par value \$.01 per share, with 59,441,225 shares outstanding as of November 13, 1998.

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# HIGHWOODS PROPERTIES, INC.

## QUARTERLY REPORT FOR THE PERIOD ENDED SEPTEMBER 30, 1998

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## **PART I -- FINANCIAL INFORMATION**

### **ITEM 1. FINANCIAL STATEMENTS**

The information furnished in the accompanying balance sheets, statements of operations and statements of cash flows reflect all adjustments that are, in the opinion of management, 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 and the 1997 Annual Report on Form 10-K of Highwoods Properties, Inc. (the "Company").

# HIGHWOODS PROPERTIES, INC.

## CONSOLIDATED BALANCE SHEETS

(IN THOUSANDS EXCEPT PER SHARE AMOUNTS)

	SEPTEMBER 30, 1998	DECEMBER 31, 1997
	(UNAUDITED)	
ASSETS		
Real estate assets, at cost:		
Land and improvements .....	\$ 582,031	\$ 344,315
Buildings and tenant improvements .....	3,172,487	2,194,641
Development in process .....	170,744	95,387
Land held for development .....	159,438	64,454
Furniture, fixtures and equipment .....	6,753	3,362
	-----	-----
	4,091,453	2,702,159
Less -- accumulated depreciation .....	(166,187)	(87,505)
	-----	-----
Net real estate assets .....	3,925,266	2,614,654
Cash and cash equivalents .....	21,951	10,146
Restricted cash .....	22,377	9,341
Accounts receivable .....	24,746	17,701
Advances to related parties .....	8,914	9,072
Notes receivable .....	17,691	--
Accrued straight line rents receivable .....	23,100	13,033
Investment in unconsolidated affiliates .....	30,465	--
Other assets:		
Deferred leasing costs .....	42,064	21,688
Deferred financing costs .....	32,094	22,294
Prepaid expenses and other .....	17,818	17,607
	-----	-----
	91,976	61,589
Less -- accumulated amortization .....	(21,548)	(13,230)
	-----	-----
	70,428	48,359
	-----	-----
	\$4,144,938	\$2,722,306
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY		
Mortgages and notes payable .....	\$1,857,013	\$ 978,558
Accounts payable, accrued expenses and other liabilities .....	112,202	55,121
	-----	-----
Total liabilities .....	1,969,215	1,033,679
Minority interest .....	289,461	287,186
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 September 30, 1998 and December 31, 1997 .....	125,000	125,000
8% Series B Cumulative Redeemable Preferred Shares		
(liquidation preference \$25 per share), 6,900,000 shares issued and		
outstanding at September 30, 1998 and December 31, 1997 .....	172,500	172,500
8% Series D Cumulative Redeemable Preferred Shares		
(liquidation preference \$250 per share), 400,000 shares and 0 shares		
issued and outstanding at September 30, 1998 and December 31, 1997,		
respectively .....	100,000	--
Common stock, \$.01 par value, authorized 200,000,000 shares; issued and		
outstanding 59,263,412 at September 30, 1998 and 46,838,600 at		
December 31, 1997 .....	593	468
Additional paid-in capital .....	1,529,093	1,132,100
Distributions in excess of net income .....	(40,924)	(28,627)
	-----	-----
Total stockholders' equity .....	1,886,262	1,401,441
	-----	-----
	\$4,144,938	\$2,722,306
	=====	=====

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 SEPTEMBER 30,		NINE MONTHS ENDED SEPTEMBER 30,	
	1998	1997	1998	1997
REVENUE:				
Rental property .....	\$138,793	\$ 61,768	\$ 352,203	\$177,246
Equity in earnings of unconsolidated affiliates .....	194	--	194	--
Interest and other income .....	3,953	1,887	8,672	5,968
	142,940	63,655	361,069	183,214
OPERATING EXPENSES:				
Rental property .....	43,117	17,407	108,672	48,995
Depreciation and amortization .....	24,464	11,151	61,965	31,051
Interest expense:				
Contractual .....	28,452	10,566	62,835	33,082
Amortization of deferred financing costs .....	683	567	1,915	1,689
	29,135	11,133	64,750	34,771
General and administrative .....	5,915	2,410	14,085	6,694
Income before minority interest and extraordinary item .....	40,309	21,554	111,597	61,703
MINORITY INTEREST .....	(6,031)	(3,448)	(17,905)	(9,872)
Income before extraordinary item .....	34,278	18,106	93,692	51,831
EXTRAORDINARY ITEM -- LOSS ON EARLY EXTINGUISHMENT OF DEBT .....	(324)	(1,328)	(370)	(4,665)
Net income .....	33,954	16,778	93,322	47,166
Dividends on Preferred Stock .....	(8,145)	(2,870)	(21,946)	(6,972)
Net income available for common stockholders .....	\$ 25,809	\$ 13,908	\$ 71,376	\$ 40,194
NET INCOME PER COMMON SHARE -- BASIC:				
Income before extraordinary item .....	\$ 0.45	\$ 0.42	\$ 1.35	\$ 1.25
Extraordinary item -- loss on early extinguishment of debt .....	(0.01)	(0.04)	(0.01)	(0.13)
Net income .....	\$ 0.44	\$ 0.38	\$ 1.34	\$ 1.12
Weighted average shares outstanding -- Basic .....	58,059	36,582	53,189	35,777
NET INCOME PER COMMON SHARE -- DILUTED:				
Income before extraordinary item .....	\$ 0.45	\$ 0.41	\$ 1.34	\$ 1.24
Extraordinary item loss on early extinguishment of debt .....	(0.01)	(0.03)	(0.01)	(0.13)
Net income .....	\$ 0.44	\$ 0.38	\$ 1.33	\$ 1.11
Weighted average shares outstanding -- Diluted .....	58,228	36,964	53,510	36,248

SEE ACCOMPANYING NOTES TO CONSOLIDATED FINANCIAL STATEMENTS.

# HIGHWOODS PROPERTIES, INC.

## CONSOLIDATED STATEMENTS OF CASH FLOWS

(UNAUDITED AND IN THOUSANDS)

	NINE MONTHS ENDED SEPTEMBER 30,	
	1998	1997
<b>OPERATING ACTIVITIES:</b>		
Net income .....	\$ 93,322	\$ 47,166
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization .....	61,965	32,520
Minority interest .....	17,905	8,979
Loss on early extinguishment of debt .....	370	5,534
Changes in operating assets and liabilities .....	15,892	2,338
Net cash provided by operating activities .....	189,454	96,537
<b>INVESTING ACTIVITIES:</b>		
Additions to real estate assets .....	(756,794)	(149,458)
Cash paid in exchange for partnership net assets .....	(108,257)	(5,314)
Other .....	(21,000)	(15,005)
Net cash used in investing activities .....	(886,051)	(169,777)
<b>FINANCING ACTIVITIES:</b>		
Distributions paid on Common Stock and Common Units .....	(99,483)	(57,770)
Dividends paid on Preferred Stock .....	(21,946)	(5,959)
Payments of prepayment penalties .....	(370)	(5,534)
Borrowings on mortgages and notes payable .....	529,941	183,000
Repayment of mortgages and notes payable .....	(130,993)	(223,388)
Borrowings on revolving loans .....	792,500	--
Payments on revolving loans .....	(648,000)	--
Net proceeds from the sale of Common Stock .....	196,930	58,463
Net proceeds from the sale of 8 5/8% Series A Cumulative Redeemable Preferred Shares .....	--	121,804
Net proceeds from sale of 8% Series B Cumulative Redeemable Preferred Shares .....	--	167,066
Net proceeds from the sale of 8% Series D Cumulative Redeemable Preferred Shares .....	96,809	--
Net change in deferred financing costs .....	(6,986)	(425)
Net cash provided by financing activities .....	708,402	237,257
Net increase in cash and cash equivalents .....	11,805	164,017
Cash and cash equivalents at beginning of the period .....	10,146	11,070
Cash and cash equivalents at end of the period .....	\$ 21,951	\$ 175,087
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:</b>		
Cash paid for interest .....	\$ 60,325	\$ 7,763

**SEE ACCOMPANYING NOTES TO CONSOLIDATED FINANCIAL STATEMENTS.**

**HIGHWOODS PROPERTIES, INC.**

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

(UNAUDITED AND IN THOUSANDS)

**SUPPLEMENTAL DISCLOSURE OF NON-CASH INVESTING AND FINANCING ACTIVITIES**

The following summarizes the net assets contributed by holders of limited partnership interests ("Common Units") in Highwoods Realty Limited Partnership (the "Operating Partnership") or acquired subject to mortgage notes payable:

	NINE MONTHS ENDED SEPTEMBER 30,	
	1998	1997
ASSETS:		
Rental property and equipment, net .....	\$491,863	\$226,051
LIABILITIES:		
Mortgages and notes payable assumed .....	\$327,214	\$133,736
	-----	-----
Net assets .....	\$164,649	\$ 92,315
	=====	=====

**SEE ACCOMPANYING NOTES TO CONSOLIDATED FINANCIAL STATEMENTS.**



# HIGHWOODS PROPERTIES, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

SEPTEMBER 30, 1998  
(UNAUDITED)

### 1. BASIS OF PRESENTATION

The consolidated financial statements include the accounts of the Company, the Operating Partnership and certain subsidiaries, including the following significant subsidiaries:

Highwoods/Tennessee Holdings, L.P.

AP Southeast Portfolio Partners, L.P.  
Highwoods/Florida Holdings, L.P.

The Company's investment in Highwoods Services, Inc. (the "Service Company") is accounted for using the equity method of accounting. 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.

The Company has elected and expects to continue to qualify as a real estate investment trust ("REIT") under Sections 856 through 860 of the Internal Revenue Code of 1986, as amended.

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

FASB Statement No. 128 replaced the calculation of primary and fully diluted earnings per share with basic and diluted earnings per share. Unlike primary earnings per share, basic earnings per share excludes any dilutive effects of options, warrants and convertible securities. Diluted earnings per share is very similar to the previously reported fully diluted earnings per share. It is computed using the weighted average number of shares of the Company's common stock, \$.01 par value per share (the "Common Stock"), and the dilutive effect of options, warrants and convertible securities outstanding, using the "treasury stock" method. Earnings per share data are required for all periods for which an income statement or summary of earnings is presented, including summaries outside the basic financial statements. All earnings per share amounts for all periods presented have, where appropriate, been restated to conform to the FASB Statement No. 128 requirements.

In 1997, the FASB issued Statements No. 130, "Reporting Comprehensive Income" ("SFAS 130") and No. 131, "Disclosures About Segments of an Enterprise and Related Information" ("SFAS 131"), which are both effective for fiscal years beginning after December 15, 1997. As of January 1, 1998, the Company adopted SFAS 130 which established new rules for the reporting and display of comprehensive income and its components; however, the adoption of this statement had no impact on the Company's net income or shareholders' equity. SFAS 131, which addresses reporting segment information, is not required for interim reporting in the first year of application. The Company does not believe the adoption of SFAS 130 and 131 will have a material impact on its financial statements.

Emerging Issues Task Forces ("EITF") Issue No. 97-11, Accounting for Internal Cost Relating to Real Estate Property Acquisitions, requires internal acquisition costs related to the purchase of an operating property to be expensed as incurred. The Company's financial statements for the nine months ended September 30, 1998 reflect the change, effective March 19, 1998, as required by the EITF, in accounting for acquisition costs. The Company believes the effect of this change on future periods will be immaterial.

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. The Company has reviewed the impact of the Year 2000 issues and does not expect Year 2000 issues to be material to its 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 real estate partnerships as part of its acquisition of J.C. Nichols Company.

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 the financial position, results of operations and cash flows of the Company have been made. For further information, refer to the financial statements and notes thereto included in the Company's 1997 Annual Report on Form 10-K.

## 2. ACQUISITIONS

On July 13, 1998, the Company completed its merger (the "J.C. Nichols Transaction") with J.C. Nichols Company, a Missouri real estate operating company ("J.C. Nichols"). As a result of the J.C. Nichols Transaction the Company acquired ownership of or an ownership interest in 79 office, industrial and retail properties and 18 multifamily communities in the Kansas City and Des Moines, Iowa metropolitan areas. The \$544 million purchase price consisted of the issuance of approximately \$180 million in equity, or 5.63 million shares of the Company's Common Stock, the assumption of approximately \$229 million of debt, approximately \$15 million in transaction costs and a cash payment of approximately \$120 million, net of cash acquired of approximately \$59 million.

## 3. DEBT AND EQUITY TRANSACTIONS

On January 27, 1998, the Company sold 2,000,000 shares of Common Stock in an underwritten public offering for net proceeds of approximately \$68.2 million.

On February 2, 1998, the Operating Partnership sold \$125 million of 6.835% MOPPRSSM due February 1, 2013 and \$100 million of 7 1/8% notes due February 1, 2008 in an underwritten public offering for net proceeds of approximately \$226.3 million.

On February 18, 1998, the Company sold an aggregate of 1,553,604 shares of Common Stock in two underwritten public offerings for net proceeds of approximately \$51.2 million.

On March 30, 1998, the Company sold 428,572 shares of Common Stock in an underwritten public offering for net proceeds of approximately \$14.2 million.

On April 20, 1998, the Operating Partnership sold \$200 million of 7 1/2% notes due April 15, 2018 in an underwritten public offering for net proceeds of approximately \$197.4 million.

On April 21, 1998, the Company sold 441,176 shares of Common Stock in an underwritten public offering for net proceeds of approximately \$14.2 million.

On April 23, 1998, the Company sold 4,000,000 Depositary Shares, each representing 1/10 of a share of the Company's 8% Series D Cumulative Redeemable Preferred Shares, par value \$.01 per share, in an underwritten public offering for net proceeds of approximately \$96.8 million.

On April 29, 1998, the Company sold 1,080,443 shares of Common Stock in an underwritten public offering for net proceeds of approximately \$34.6 million.

## 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. The following discussion is based primarily on the consolidated financial statements of Highwoods Properties, Inc.

## RESULTS OF OPERATIONS

On July 13, 1998, the Company completed its previously reported merger (the "J.C. Nichols Transaction") with J.C. Nichols Company, a Missouri real estate operating company ("J.C. Nichols"). As a result of the J.C. Nichols Transaction, the Company acquired ownership of or an ownership interest in 79 office, industrial and retail properties encompassing approximately 5.8 million rentable square feet and 18 multifamily communities with 2,325 apartment units.

### THREE MONTHS ENDED SEPTEMBER 30, 1998

Revenues from rental operations increased \$77.0 million, or 125%, from \$61.8 million for the three months ended September 30, 1997 to \$138.8 million for the comparable period in 1998. The increase is primarily a result of the acquisition of 22.0 million square feet of office, industrial and retail properties and 2,325 apartment units, and the completion of 1.5 million square feet of development activity during the last three months of 1997 and the first nine months of 1998. The Company's portfolio increased from 21.9 million square feet at September 30, 1997 to 45.4 million square feet at September 30, 1998. Same property revenues, which are the revenues of the 360 in-service properties owned on July 1, 1997, increased 4% for the three months ended September 30, 1998, compared to the same three months of 1997.

During the three months ended September 30, 1998, 365 leases representing 1.9 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 \$2.1 million, or 111%, from \$1.9 million for the three months ended September 30, 1997 to \$4.0 million for the comparable period in 1998. The increase is a result of higher cash balances in 1998, and additional income generated from management fees, development fees and leasing commissions. The Company generated \$270,000 in auxiliary income (vending and parking) as a result of acquiring multifamily communities in the J.C. Nichols Transaction.

Rental operating expenses increased \$25.7 million, or 148%, from \$17.4 million for the three months ended September 30, 1997 to \$43.1 million for the comparable period in 1998. The increase is a result of the addition of 23.5 million square feet and 2,325 apartment units through a combination of acquisitions and developments during the last three months of 1997 and the first nine months of 1998. Rental operating expenses as a percentage of related revenues increased from 28.2% for the three months ended September 30, 1997 to 31.1% for the comparable period in 1998. This increase is a result of an increase in the percentage of office properties in the portfolio, which have fewer triple net lease pass throughs.

Depreciation and amortization for the three months ended September 30, 1998 and 1997 was \$24.5 million and \$11.2 million, respectively. The increase of \$13.3 million, or 119%, is due to a 107% increase in average depreciable asset balance over the prior year. Interest expense increased \$18.0 million, or 162%, from \$11.1 million for the three months ended September 30, 1997 to \$29.1 million for the comparable period in 1998. The increase is attributable to the increase in the outstanding debt for the entire quarter. Interest expense for the three months ended September 30, 1998 and 1997 included \$683,000 and \$567,000, respectively, of amortization of non-cash deferred financing costs and the costs related to the Company's interest rate protection agreements. General and administrative expenses increased from 3.9% of rental revenue for the three months ended September 30, 1997 to 4.3% for the comparable period in 1998.

Net income before minority interest and extraordinary item equaled \$40.3 million and \$21.6 million for the three months ended September 30, 1998 and 1997, respectively. The Company's net income allocated to minority interest totaled \$6.0 million and \$3.4 million for the three months ended September 30, 1998 and 1997, respectively. The Company recorded \$8.1 million and \$2.9 million in preferred stock dividends for the three months ended September 30, 1998 and 1997, respectively (see "-- Liquidity and Capital Resources" below).

### NINE MONTHS ENDED SEPTEMBER 30, 1998

Revenue from rental operations increased \$175.0 million, or 99%, from \$177.2 million for the nine months of 1997 to \$352.2 million for the nine months of 1998. The increase is a result of the Company's acquisition and development activity in 1997 and 1998. In total, 296 office, industrial and retail properties encompassing 23.5 million square feet and 2,325 apartment units were added in the last three months of 1997 and the first nine

months of 1998. Same property revenues, which are the revenues of the 291 in-service properties (encompassing 17.1 million square feet) owned on January 1, 1997, increased 5% for the nine months ended September 30, 1998, compared to the same nine months of 1997.

During the nine months ended September 30, 1998, 963 leases representing 4.5 million square feet of office and industrial space commenced at an average rate per square foot which was 6.9% higher than the average rate per square foot on the expired leases.

Interest and other income increased \$2.7 million from \$6.0 million in 1997 to \$8.7 million in 1998. The increase is primarily related to an increase in interest income as the Company maintained a higher cash position. The Company also generated addition management fees, development fees and leasing commissions in 1998. The Company generated \$270,000 in auxiliary income (vending and parking) as a result of acquisition of multifamily communities in the J.C. Nichols Transaction.

Rental operating expenses increased \$59.7 million, or 122%, from \$49.0 million in 1997 to \$108.7 million in 1998. Rental expenses as a percentage of related rental revenues increased from 27.7% in 1997 to 30.9% in 1998. The increase is a result of an increase in the percentage of office properties in the portfolio, which have fewer triple net lease pass throughs.

Depreciation and amortization for the nine months ended September 30, 1998, and 1997 was \$62.0 million and \$31.1 million, respectively. The increase of \$30.9 million, or 99%, is due to a 106% average increase in depreciable assets. Interest expense increased \$30.0 million, or 86%, from \$34.8 million in 1997 to \$64.8 million in 1998. The increase is attributable to an average increase in outstanding debt related to the Company's acquisition activities. Interest expense for the nine months ended September 30, 1998 and 1997 included \$1.9 million and \$1.7 million, respectively, of amortization of non-cash deferred financing costs and of the costs related to the Company's interest rate protection agreements. General and administrative expenses increased from 3.7% of total rental revenue in 1997 to 3.9% in 1998.

Net income before minority interest and extraordinary item equaled \$111.6 million and \$61.7 million for the nine-month periods ended September 30, 1998, and 1997, respectively. The Company's net income allocated to the minority interest totaled \$17.9 million and \$9.9 million for 1998 and 1997, respectively. The Company incurred an extraordinary loss in the first quarter of 1997 of \$3.3 million related to the early extinguishing of debt assumed in the acquisition of the Anderson Properties and Century Center portfolios. The Company also recorded \$21.9 million and \$7.0 million in preferred stock dividends for the nine months ended September 30, 1998 and 1997, respectively.

## **LIQUIDITY AND CAPITAL RESOURCES**

### **STATEMENT OF CASH FLOWS**

For the nine months ended September 30, 1998, cash provided by operating activities increased by \$93.0 million, or 96%, to \$189.5 million, as compared to \$96.5 million for the same period in 1997. The increase is primarily due to the increase in net income resulting from the Company's property acquisitions in 1997 and 1998. Cash used for investing activities increased by \$716.3 million, to \$886.1 million for the first nine months of 1998, as compared to \$169.8 million for the same period in 1997. The increase is attributable to the Company's acquisition activity in the first nine months of 1998. Cash provided by financing activities increased by \$471.1 million to \$708.4 million for the first nine months of 1998, as compared to \$237.3 million for the same period in 1997. During the first nine months of 1998, cash provided by financing activities consisted primarily of \$823.8 million in aggregate net proceeds from the sale of common and preferred stock and the sale by the Operating Partnership of MandatOry Par Put Remarketed SecuritiesSM ("MOPPRSSM") and unsecured notes. The cash provided by financing activity was offset by net payments of \$131.0 million to reduce existing indebtedness. Additionally, payments of distributions increased by \$41.7 million to \$99.5 million for the first nine months of 1998, as compared with \$57.8 million for the same period in 1997. The increase is due to the greater number of shares outstanding and a 6% increase in the distribution rate. Preferred stock dividend payments were \$21.9 million for the first nine months of 1998, as compared to \$6.0 million for the same period in 1997.

## CAPITALIZATION

The Company's total indebtedness at September 30, 1998 totaled \$1.9 billion and was comprised of \$641.8 million of secured indebtedness with a weighted average interest rate of 7.7% and \$1.2 billion of unsecured indebtedness with a weighted average interest rate of 6.8%. Except as stated below, all of the mortgage and notes payable outstanding at September 30, 1998 were either fixed rate obligations or variable rate obligations covered by interest rate protection agreements. A portion of the Company's \$600 million unsecured revolving loan (see below) and approximately \$69 million of floating rate notes payable assumed upon consummation of the J.C. Nichols Transaction were not covered by interest rate protection agreements on such date.

Based on the Company's total market capitalization of \$4.2 billion at September 30, 1998, (at the September 30, 1998 stock price of \$27.75 and assuming the redemption for shares of Common Stock of the 10,404,000 Common Units of minority interest in the Operating Partnership), the Company's debt represented approximately 44% of its total market capitalization.

On July 3, 1998, the Company obtained a new \$600 million revolving line of credit (the "Revolving Loan") from a group of 14 lender banks. The Revolving Loan matures in July 2001 and replaced the Company's previously existing revolving loans aggregating \$430 million. The Revolving Loan carries an interest rate based upon the Operating Partnership's senior unsecured credit rating. At the Operating Partnership's current BBB/Baa2 senior unsecured rating, interest accrues on borrowings at an average interest rate of LIBOR plus 80 basis points and will adjust based on the Company's senior unsecured credit rating within a range of LIBOR plus 65 basis points to LIBOR plus 150 basis points. The Revolving Loan requires monthly payments of interest only with the balance of all principal and accrued but unpaid interest due July 3, 2001. The Revolving Loan also includes a \$300 million competitive bid sub-facility. The obligations of the Operating Partnership under the Revolving Loan are guaranteed by the Company, its sole general partner, and certain subsidiaries of the Company and the Operating Partnership.

To protect the Company from increases in interest expense due to changes in variable interest rates, the Company: (i) purchased an interest rate collar limiting its exposure to an increase in interest rates to 7.05% with respect to \$80 million of its \$600 million Revolving Loan excluding the effect of changes in the Company's credit risk, under which the Company had \$459 million outstanding at September 30, 1998, (ii) purchased a one year interest rate swap limiting its exposure to an increase in interest rates to 5.77% with respect to an additional \$100 million of its Revolving Loan excluding the effect of changes in the Company's credit risk and (iii) entered into interest rate swaps that limit its exposure to an increase in interest rates to 6.95% in connection with \$21 million of variable rate mortgages. The interest rate on all such variable rate debt is adjusted at one and three month intervals, subject to the Company's interest rate protection program. No payments were received from the counterparties under the interest rate protection agreements for the nine months ended September 30, 1998 and 1997. The Company is exposed to certain losses in the event of non-performance by the counterparties under the cap and swap arrangements. The counterparties are major financial institutions and are expected to perform fully under the agreements. However, if such counterparties were to default on their obligations under the arrangements, the Company could be required to pay the full rates under the Revolving Loan and the variable rate mortgages, even if such rates were in excess of the rate in the cap and swap agreements. In addition, the Company may incur other variable rate indebtedness in the future. Increases in interest rates on its indebtedness could increase the Company's interest expense and could adversely affect the Company's cash flow and its ability to pay expected distributions to stockholders.

In anticipation of future debt offerings, the Company has entered into four forward treasury lock agreements as described below:

NOTIONAL AMOUNTS (IN MILLIONS)	FIXED RATE (1)	TERMINATION DATE
\$ 50	5.7%	1/99
\$ 50	5.6%	3/99
\$ 100	5.7%	7/99
\$ 100	5.7%	10/99

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(1) Rate is a combination of the treasury rate plus forward premium.

## 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 non-recurring capital expenditures. In addition, construction management, maintenance, leasing and management fees have provided sources of cash flow. Except for an \$8 million renovation of the common areas of a 639,000-square foot property acquired from Associated Capital Properties, Inc., the Company presently has no plans for major capital improvements to the existing properties, other than normal recurring non-revenue enhancing expenditures. The Company expects to meet its short-term liquidity requirements generally through its working capital and net cash provided by operating activities along with the Revolving Loan.

The Company's 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. The Company had approximately \$459 million outstanding on its Revolving Loan as of September 30, 1998. The Company has \$124 million available on its \$600 million Revolving Loan as an unconsolidated affiliate has an additional borrowing of \$17 million outstanding on the Revolving Loan. As of September 30, 1998, the Company had under development 52 properties, which will encompass approximately 6.1 million rentable square feet. The budgeted cost of such development activity is \$691 million, \$201 million of which had been funded as of September 30, 1998. The Company remains committed to maintaining a flexible and conservative capital structure. Accordingly, the Company expects to meet certain of its long-term liquidity requirements, including funding its development activity, through a combination of: (i) additional borrowings under the Revolving Loan; (ii) the issuance by the Operating Partnership of additional unsecured debt securities; (iii) the issuance of additional equity securities by the Company and the Operating Partnership; (iv) the selective disposition of underperforming and/or non-core assets; and (v) the sale or contribution of certain of the Company's wholly owned properties to strategic joint ventures to be formed with selected institutional investors interested in investing with the Company, which will have the net effect of generating additional capital through such sales or contributions. For a discussion of certain such arrangements, see "Recent Developments." The Company expects to use such sources to meet its long-term liquidity requirements either through direct payments or repayment of borrowings under the Revolving Loan. The Company does not intend to reserve funds to retire existing secured or unsecured indebtedness upon maturity. Instead, the Company will seek to refinance such debt at maturity or retire such debt through the issuance of equity or debt securities.

On August 28, 1997, the Company entered into a purchase agreement with UBS AG, London Branch ("UB-LB") involving the sale of 1.8 million shares of Common Stock and a related Forward Contract providing for certain purchase price adjustments (the "Forward Contract"). The Forward Contract generally provides that if the Market Price (as defined below) of a share of Common Stock on the maturity date is less than a certain amount (the "Forward Price"), the Company must pay UB-LB the difference times 1.8 million. (Similarly, if the Market Price of a share of Common Stock is above the Forward Price, UB-LB must pay us the difference in shares of Common Stock.) If the Company chooses not to or cannot settle in freely tradable shares of Common Stock, the Company must repurchase the 1.8 million shares at the Forward Price in cash. The Forward Price is approximately \$32.16 and will be adjusted by LIBOR plus 75 basis points, minus any dividends received on the shares. (As of August 28, 1998, the Forward Price had increased by \$.04 since August 28, 1997.)

In addition, the Forward Contract provides for quarterly payments of collateral equal to 1.8 million times 110% of the amount by which the market price of a share of Common Stock is below the Forward Price. The collateral may be in the form of cash or freely tradeable shares of Common Stock. As a result of the difference between the closing price of a share of Common Stock on August 28, 1998 and the Forward Price, the Company gave UB-LB cash collateral of \$12.8 million on September 12, 1998. UB-LB will return the cash with interest for freely tradeable shares of Common Stock of equal value.

The maturity date of the Forward Contract is February 28, 1999; however, if the closing price of the Common Stock falls below \$19.28, UB-LB has the right to force a complete settlement under the Forward Contract. UB-LB also has the right to force a complete settlement under the Forward Contract if, among other things, the Company (i) is in default with respect to certain financial covenants under the Forward Contract, (ii) is in default under the Revolving Loan or any other unsecured lending agreement or (iii) fails to post sufficient cash collateral.

Settlement of the Forward Contract in cash would reduce the Company's liquidity. Settlement in cash would involve the repurchase of 1.8 million shares at a price per share equal to the Forward Price. Assuming the Forward Price remains at \$32.16, the repurchase price would total approximately \$57.9 million. Having already paid \$12.8 million as collateral, settlement in cash would require the Company to pay approximately \$45.1 million in additional funds.

The Company anticipates that its 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 the capital and liquidity needs of the Company 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 Company intends to invest amounts accumulated for distribution in short-term investments. The following factors will affect cash flows from operating activities and, accordingly, influence the decisions of the Board of Directors regarding distributions: (i) debt service requirements after taking into account the repayment and restructuring of certain indebtedness; (ii) scheduled increases in base rents of existing leases; (iii) changes in rents attributable to the renewal of existing leases or replacement leases; (iv) changes in occupancy rates at existing properties and procurement of leases for newly acquired or developed properties; and (v) operating expenses and capital replacement needs.

## **RECENT DEVELOPMENTS**

In October 1998, the Company signed a letter of intent to form a joint venture with an institutional investor representing certain foreign funds ("Investor"), pursuant to which the Company would sell or contribute certain office properties valued at approximately \$150 million to a newly created limited partnership (the "Joint Venture"). The Investor would contribute approximately \$55 million for a 72% interest in the Joint Venture, and the Joint Venture would borrow approximately \$75 million from third-party lenders. The Company would retain the remaining 28% interest in the Joint Venture, receive cash proceeds of approximately \$129 million and be the sole and exclusive manager and leasing agent of the Joint Venture's properties, for which it would receive customary management fees and leasing commissions. The Company intends to use the cash proceeds received in the transaction to fund existing development activity either through direct payments or repayment of borrowings under the Revolving Loan. Although both parties intend to sign definitive agreements related to the transaction and to close the transaction by March 31, 1999, no assurance can be given that all or part of the transaction will be consummated.

In November 1998, the Company signed a letter of intent to sell certain non-core properties in Florida for gross proceeds of approximately \$130 million. Non-core properties generally include single buildings that do not fit the Company's long-term strategy. Although the Company believes that the disposition transaction in Florida will close by January 31, 1999, no assurance can be given that all or part of the transaction will be consummated. In addition, the Company has under contract to sell or has sold certain other non-core properties for gross proceeds of \$20 million.

See " -- Disclosure Regarding Forward-Looking Statements" contained below.

## **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 is a problem because computer hardware and software were 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 causing disruptions of operations.

## **APPROACH AND STATUS**

The Company's Year 2000 compliance efforts are divided into two areas -- the "operations level" and the "property level." The operations level includes those information technology ("IT") systems used by the Company in its corporate and division offices to perform its real estate functions. The property level includes the IT and non-IT systems at the Company's individual properties.

The Company's Information Technology Department is overseeing the Company's operations level compliance program. At the operations level, all of the Company's computer systems are off-the-shelf packages that have not been modified. The corporate accounting and property management package, which is widely used in the industry, released a Year 2000 compliant version in the third quarter of 1998. The Company is currently testing the revision and expects the new version to be installed, tested and operational by the end of 1998. As part of a current revamping and standardization of our technology infrastructure, all computer hardware and software that was not Year 2000 compliant has been upgraded. The majority of the system tests have been completed and the Company expects to complete the system tests in the first quarter of 1999.

The Chief Operating Officer is overseeing the Company's property level compliance program. The Company is currently conducting an inventory of all of its properties' known IT and non-IT systems (including systems with embedded technology, such as security systems, HVAC, elevator, and fire and safety systems). This inventory is 50% complete and is expected to be completed by the end of the first quarter of 1999. As part of the inventory, the Company is also instructing the appropriate vendors and manufacturers to certify that their products are Year 2000 compliant. As the final phase of the property level compliance program, the Company will conduct equipment trial runs, where feasible. This testing is projected to be completed by the end of 1998.

## **COSTS**

The Company expects that the costs directly associated with the Year 2000 efforts will not be material. With the exception of the Company's accounting software and property management system, operational Year 2000 issues are being handled as a part of an existing and unaccelerated infrastructure upgrade and standardization project. The cost of the upgrades and infrastructure standardization was under \$600,000. The property management and accounting system upgrade costs were already included in our annual software maintenance agreement with the vendor. The costs associated with upgrading our non-compliant property level systems are not expected to be material.

## **RISKS ASSOCIATED WITH THE YEAR 2000 ISSUE**

The Company is exposed to the potential risk of non-compliance by vendors and service providers. Given the availability of multiple vendors and service providers, management believes that there will be no material effect on the Company's operations due to the failure or interruption of service by a vendor or service provider.

In addition, the Company is exposed to the risk that its tenants could be impacted by the Year 2000 issue such that they would be unable to pay their rent to the Company on time. Management does not believe that enough of the Company's tenants are going to be affected in a sufficient manner to have a material impact on the Company. Also, the Company's leases with its tenants protect the Company in the event of tenant default and require the payment of delinquent fees on late rental payments. However, the effects of non-compliance by the Company's tenants cannot be ascertained at this time.

Given the Company's efforts on its operations level compliance program to date, the Company believes that it will be Year 2000 compliant on the operations level by December 31, 1999. The Company does not expect any adverse effects on its operational systems that would affect the Company's ability to meet its financial and reporting requirements. In addition, based on the assessment of our property level systems, the Company does not believe that a material number of property level systems will be non-compliant. The Company will create contingency plans during the fourth quarter of 1999 for such systems that are then-expected to be non-compliant.

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

The Company considers Funds from Operations ("FFO") to be a useful financial performance measure of its operating performance because, together with net income and cash flows, FFO provides investors with an additional basis to evaluate its ability to incur and service debt and to fund acquisitions and other capital expenditures. FFO does not represent net income or cash flows from operations as defined by GAAP, and FFO should



not be considered as an alternative to net income as an indicator of the Company's operating performance or as an alternative to cash flows as a measure of liquidity. FFO does not measure whether cash flow is sufficient to fund all of the Company's cash needs including principal amortization, capital improvements and distributions to stockholders. FFO does not represent cash flows from operating, investing or financing activities as defined by GAAP. Further, FFO as disclosed by other REITs may not be comparable to the Company's calculation of FFO, as described below.

FFO is defined as net income (computed in accordance with generally accepted accounting principles) excluding gains (or losses) from debt restructuring and sales of property, plus depreciation of real estate assets, 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.

Funds from operations and cash available for distribution for the three and nine month periods ended September 30, 1998 and 1997 are summarized in the following table (in thousands):

	THREE MONTHS ENDED SEPTEMBER 30,		NINE MONTHS ENDED SEPTEMBER 30,	
	1998	1997	1998	1997
FUNDS FROM OPERATIONS:				
Income before minority interest and extraordinary item .....	\$ 40,309	\$ 21,554	\$ 111,597	\$ 61,703
Add (deduct):				
Dividends to preferred shareholders .....	(8,145)	(2,870)	(21,946)	(6,972)
Cost of unsuccessful transactions .....	146	--	146	--
Depreciation and amortization .....	24,464	11,151	61,965	31,051
Depreciation unconsolidated subsidiaries .....	311	--	311	--
	-----	-----	-----	-----
FUNDS FROM OPERATIONS BEFORE MINORITY INTEREST .....	57,085	29,835	152,073	85,782
CASH AVAILABLE FOR DISTRIBUTION:				
Add (deduct):				
Rental income from straight-line rents .....	(3,200)	(1,347)	(9,292)	(3,822)
Amortization of deferred financing costs .....	683	567	1,915	1,689
Non-incremental revenue generating capital expenditures (1):				
Building improvements paid .....	(1,986)	(933)	(4,683)	(2,941)
Second generation tenant improvements paid .....	(3,988)	(2,063)	(11,292)	(5,510)
Second generation lease commissions paid .....	(5,530)	(1,201)	(9,041)	(3,535)
	-----	-----	-----	-----
CASH AVAILABLE FOR DISTRIBUTION .....	\$ 43,064	\$ 24,858	\$ 119,680	\$ 71,663
	=====	=====	=====	=====
Weighted average common shares/Common Units outstanding -- Basic (2) .....	68,711	43,550	63,845	42,686
	=====	=====	=====	=====
Weighted average common shares/Common Units outstanding -- Diluted (2) .....	68,880	43,932	64,166	43,157
	=====	=====	=====	=====
DIVIDEND PAYOUT RATIO -- DILUTED:				
Funds from operations .....	65.2%	75.1%	65.8%	74.0%
	=====	=====	=====	=====
Cash available for distribution .....	86.4%	90.1%	83.6%	88.5%
	=====	=====	=====	=====

(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 October 30, 1998, the Company's Board of Directors declared a dividend of \$.54 per share (\$2.16 on an annualized basis) payable on November 18, 1998 to stockholders of record on November 10, 1998.

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

This Report contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. These statements are identified by words such as "expect," "anticipate," "should" and words of similar import. Forward-looking statements are inherently subject to risks and uncertainties, many of which cannot be predicted with accuracy and some of which might not even be anticipated. Future events and actual results, financial and otherwise, may differ materially from the results discussed in the forward-looking statements. Factors that might cause such a difference include, but are not limited to, those discussed in the Company's Annual Report on Form 10-K for the year ended December 31, 1997.

## PROPERTY INFORMATION

The following table sets forth certain information with respect to the Company's properties as of September 30, 1998 and 1997:

SEPTEMBER 30, 1998	RENTABLE SQUARE FEET	NUMBER OF PROPERTIES	PERCENT LEASED/ PRE-LEASED
-----	-----	-----	-----
IN-SERVICE:			
Office .....	30,856,000	453	94%
Industrial .....	12,227,000	194	92%
Retail .....	2,337,000	18	96%
	-----	---	--
Total .....	45,420,000	665	93%
	=====	===	==
DEVELOPMENT:			
COMPLETED -- NOT STABILIZED			
Office .....	426,000	5	63%
Industrial .....	241,000	3	28%
Retail .....	--	--	--
	-----	---	--
Total .....	667,000	8	50%
	=====	===	==
IN PROCESS			
Office .....	4,637,000	37	64%
Industrial .....	629,000	5	55%
Retail .....	200,000	2	36%
	-----	---	--
Total .....	5,466,000	44	62%
	=====	===	==
TOTAL:			
Office .....	35,919,000	495	
Industrial .....	13,097,000	202	
Retail .....	2,537,000	20	
	-----	---	
Total .....	51,553,000	717	
	=====	===	
MULTI-FAMILY	9/30/98		
	-----		
Number of Units .....	2,325		
Occupancy % .....	96%		
SEPTEMBER 30, 1997			
-----			
IN-SERVICE:			
Office .....	15,022,000	230	94%
Industrial .....	6,882,000	139	92%
Retail .....	--	--	--
	-----	---	--
Total .....	21,904,000	369	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 .....	2,259,000	24	39%
Industrial .....	585,000	7	7%
Retail .....	--	--	--
	-----	---	--
Total .....	2,844,000	31	33%
	=====	===	=====
TOTAL:			
Office .....	17,281,000	254	
Industrial .....	7,467,000	146	
Retail .....	--	--	
	-----	---	
Total .....	24,748,000	400	
	=====	===	

The following table sets forth certain information with respect to the Company's properties under development as of September 30, 1998 (dollars in thousands):

							ESTIMATED
NAME	LOCATION	SQUARE FOOTAGE	BUDGETED COST	COST AT 9/30/98	PRE-LEASING PERCENTAGE(1)	ESTIMATED COMPLETION	STABILIZATION DATE
-----							
IN-PROCESS							
OFFICE:							
10 Glenlakes	Atlanta	254,000	\$ 35,100	\$ 17,802	59%	1Q 99	4Q 99
Highwoods Center at Tradeport	Atlanta	45,000	3,717	765	100%	1Q 99	2Q 99
Automatic Data Processing	Baltimore	110,000	12,400	10,816	100%	4Q 98	4Q 98
Highwoods I	Baltimore	125,000	15,300	3,206	0%	2Q 99	4Q 99
Parkway 11	Charlotte	22,000	1,800	872	41%	1Q 99	3Q 99
Parkway 12	Charlotte	32,000	2,600	607	0%	1Q 99	3Q 99
Parkway Plaza 14	Charlotte	90,000	7,690	898	53%	2Q 99	4Q 99
Lakefront Plaza I	Hampton Roads	76,000	7,477	1,006	15%	2Q 99	1Q 00
Valencia Place	Kansas City	241,000	34,020	2,632	42%	1Q 00	2Q 00
Southwind Building C	Memphis	74,000	7,700	3,743	100%	4Q 98	4Q 98
Southwind Building D	Memphis	64,000	6,800	1,037	20%	2Q 99	4Q 99
Caterpillar Financial Center	Nashville	313,000	54,000	9,152	74%	1Q 00	2Q 00
Lakeview Ridge III	Nashville	131,000	13,100	3,747	0%	2Q 99	3Q 99
Westwood South	Nashville	125,000	13,530	3,354	53%	3Q 99	1Q 00
Maitland I (C N A)	Orlando	180,000	24,400	11,332	100%	1Q 99	1Q 99
Capital Plaza	Orlando	341,000	53,000	3,069	30%	1Q 00	4Q 01
Hard Rock	Orlando	63,000	7,000	3,765	100%	4Q 98	4Q 98
Maitland III (C N A)	Orlando	78,000	9,885	1,255	100%	2Q 99	2Q 99
Concourse Center One	Piedmont Triad	86,000	8,400	1,503	25%	2Q 99	1Q 00
3737 Glenwood Ave.	RTP	107,000	16,700	1,835	56%	3Q 99	1Q 00
Highwoods Centre	RTP	76,000	8,300	6,149	91%	4Q 98	1Q 99
Overlook	RTP	97,000	10,500	6,756	54%	4Q 98	2Q 99
Red Oak	RTP	65,000	6,000	3,612	0%	4Q 98	2Q 99
Eastshore II	Richmond	76,000	7,842	4,465	3%	4Q 98	3Q 99
Highwoods Common	Richmond	49,000	4,840	703	0%	1Q 99	3Q 99
Stony Point II	Richmond	133,000	13,881	4,493	32%	2Q 99	4Q 99
Sportsline USA	South Florida	80,000	10,000	--	100%	3Q 99	3Q 00
Highwoods Square	South Florida	93,000	12,500	5,788	26%	4Q 98	4Q 99
380 Park Place	Tampa	83,000	9,000	--	100%	4Q 99	1Q 00
Intermedia Building 1	Tampa	200,000	27,040	--	100%	1Q 00	1Q 00
Intermedia Building 2	Tampa	30,000	4,056	--	100%	1Q 00	1Q 00
Intermedia Building 3	Tampa	170,000	22,984	--	100%	1Q 00	1Q 00
Intermedia Building 4	Tampa	200,000	29,219	--	100%	2Q 00	2Q 00
Intermedia Building 5	Tampa	200,000	29,219	--	100%	3Q 01	3Q 01
Interstate Corporate Center (2)	Tampa	309,000	15,600	13,435	90%	4Q 98	2Q 99
Sabal Pavillion Phase I	Tampa	121,000	12,500	8,395	100%	4Q 98	4Q 98
Highwoods Centre	Virginia Beach	98,000	9,925	4,718	36%	4Q 98	3Q 99
Total or Weighted Average		4,637,000	\$568,025	\$140,910	64%		
		-----	-----	-----	---		
INDUSTRIAL:							
HIW Distribution Center	Richmond	166,000	\$ 5,764	\$ 1,927	33%	4Q 98	3Q 99
Chastain III	Atlanta	54,000	2,098	1,471	75%	4Q 98	1Q 99
Newpoint III	Atlanta	84,000	3,000	2,158	74%	4Q 98	2Q 99
Air Park South Warehouse II	Piedmont Triad	136,000	4,200	2,361	0%	4Q 98	1Q 99
Air Park South Warehouse VI	Piedmont Triad	189,000	8,000	2,093	100%	1Q 99	1Q 99
Total or Weighted Average		629,000	\$ 23,062	\$ 10,010	55%		
		-----	-----	-----	---		
RETAIL:							
Seville Square (2)	Kansas City	119,000	\$ 32,100	9,377	60%	1Q 99	3Q 99
Valencia Place	Kansas City	81,000	14,362	1,128	0%	4Q 99	2Q 00
Total or Weighted Average		200,000	\$ 46,462	\$ 10,505	36%		
		-----	-----	-----	---		
Total or Weighted Average		5,466,000	\$637,549	\$161,425	62%		
		=====	=====	=====	===		

(1) Includes the effect of letters of intent

(2) Redevelopment Project

NAME	LOCATION	SQUARE FOOTAGE	BUDGETED COST	COST AT 9/30/98	PRE-LEASING PERCENTAGE (1)	ESTIMATED COMPLETION	ESTIMATED STABILIZATION DATE
COMPLETED -- NOT STABILIZED							
OFFICE:							
Ridgefield III	Asheville	57,000	\$ 5,500	\$ 4,129	29%	3Q 98	3Q 99
Situs II	RTP	59,000	6,300	4,614	48%	3Q 98	2Q 99
Patewood VI	Greenville	107,000	11,400	9,938	90%	3Q 98	1Q 99
Cool Springs I	Nashville	153,000	16,800	10,770	50%	3Q 98	1Q 99
Maitland II (C N A)	Orlando	50,000	4,950	3,503	100%	3Q 98	1Q 99
Total or Weighted Average		426,000	\$ 44,950	\$ 32,955	63%		
INDUSTRIAL:							
Chastain II	Atlanta	67,000	2,602	1,791	100%	3Q 98	4Q 98
Tradeport 1	Atlanta	87,000	3,100	2,448	0%	3Q 98	1Q 99
Tradeport 2	Atlanta	87,000	3,100	2,449	0%	3Q 98	2Q 99
Total or Weighted Average		241,000	\$ 8,802	\$ 6,688	28%		
Total or Weighted Average		667,000	\$ 53,752	\$ 39,643	50%		
Grand Total		6,133,000	\$691,301	\$201,068	60%		

(1) Includes the effect of letters of intent

(2) Redevelopment Project

DOLLARS IN THOUSANDS	DEVELOPMENT ANALYSIS		
	SQUARE FOOTAGE	BUDGETED COST	PRE-LEASING PERCENTAGE (1)
-----			
SUMMARY BY ESTIMATED STABILIZATION DATE:			
Fourth Quarter 1989 .....	435,000	\$ 42,202	100%
First Quarter 1999 .....	1,032,000	83,248	68%
Second Quarter 1999 .....	824,000	58,102	66%
Third Quarter 1999 .....	750,000	83,471	25 %
Fourth Quarter 1999 .....	759,000	91,271	37%
First Quarter 2000 .....	877,000	109,187	73%
Second Quarter 2000 .....	835,000	131,601	64%
Third Quarter 2000 .....	80,000	10,000	100%
Third Quarter 2001 .....	200,000	29,219	100%
Fourth Quarter 2001 .....	341,000	53,000	30%
	-----	-----	-----
Total or Weighted Average .....	6,133,000	\$691,301	60%
	=====	=====	=====
SUMMARY BY MARKET:			
Asheville .....	57,000	\$ 5,500	29%
Atlanta .....	678,000	52,717	54%
Baltimore .....	235,000	27,700	47%
Charlotte .....	144,000	12,090	39%
Greenville .....	107,000	11,400	90%
Hampton Roads .....	76,000	7,477	15%
Kansas City .....	441,000	80,482	39%
Memphis .....	138,000	14,500	63%
Nashville .....	722,00	97,430	52%
Orlando .....	712,000	99,235	66%
Piedmont Triad .....	411,000	20,600	51%
Research Triangle .....	404,000	47,800	52%
Richmond .....	424,000	32,327	23%
South Florida .....	173,000	22,500	60%
Tampa .....	1,313,000	149,618	98%
Virginia Beach .....	98,000	9,925	36%
	-----	-----	-----
Total .....	6,133,000	\$691,301	60%
	=====	=====	=====
Build-to-Suit .....	1,394,000	\$185,203	100%
Multi-Tenant .....	4,739,000	506,098	49%
	-----	-----	-----
	6,133,000	\$691,301	60%
	=====	=====	=====
	AVERAGE RENTABLE SQUARE FEET	AVERAGE BUDGETED COST	AVERAGE PRE-LEASING(1)
	-----	-----	-----
PER PROPERTY TYPE:			
Office .....	120,548	\$ 14,595	64%
Industrial .....	108,750	3,983	48%
Retail .....	100,000	23,231	36%
	-----	-----	-----
	117,942	\$ 13,294	60%
	=====	=====	=====

(1) Includes the effect of letters of intent

The following tables set forth certain information about the Company's leasing activities for the three months ended September 30, June 30, and March 31, 1998 and December 31, 1997.

OFFICE LEASING STATISTICS THREE MONTHS ENDED					
	9/30/98	6/30/98	3/31/98	12/31/97	WEIGHTED AVERAGE
NET EFFECTIVE RENTS RELATED TO RE-LEASED SPACE:					
Number of lease transactions (signed leases)	207	285	242	158	223
Rentable square footage leased	1,645,913	1,099,805	966,990	772,149	1,121,214
Average per rentable square foot over the lease term:					
Base rent	\$ 16.18	\$ 15.53	\$ 15.54	\$ 15.91	\$ 15.79
Tenant improvements	( 0.71)	( 1.00)	( 0.70)	( 1.16)	( 0.89)
Leasing commissions	( 0.42)	( 0.27)	( 0.30)	( 0.32)	( 0.33)
Rent concessions	0.00	( 0.03)	( 0.03)	( 0.02)	( 0.02)
Effective rent	15.05	14.23	14.51	14.41	14.55
Expense stop(1)	( 4.45)	( 4.22)	( 4.35)	( 3.73)	( 4.19)
Equivalent effective net rent	\$ 10.60	\$ 10.01	\$ 10.16	\$ 10.68	\$ 10.36
Average term in years	5	5	5	4	5
CAPITAL EXPENDITURES RELATED TO RE-LEASED SPACE:					
Tenant Improvements:					
Total dollars committed under signed leases	\$ 6,754,100	\$5,849,409	\$3,717,938	\$3,784,078	\$5,026,381
Rentable square feet	1,645,913	1,099,805	966,990	772,149	1,121,214
Per rentable square foot	\$ 4.10	\$ 5.32	\$ 3.84	\$ 4.90	\$ 4.48
Leasing Commissions:					
Total dollars committed under signed leases	\$ 3,694,473	\$1,356,002	\$1,349,444	\$1,041,790	\$1,860,427
Rentable square feet	1,645,913	1,099,805	966,990	772,149	1,121,214
Per rentable square foot	\$ 2.24	\$ 1.23	\$ 1.40	\$ 1.35	\$ 1.66
Total:					
Total dollars committed under signed leases	\$10,448,573	\$7,205,411	\$5,067,382	\$4,825,868	\$6,886,808
Rentable square feet	1,645,913	1,099,805	966,990	772,149	1,121,214
Per rentable square foot	\$ 6.35	\$ 6.55	\$ 5.24	\$ 6.25	\$ 6.14
RENTAL RATE TRENDS:					
Average final rate with expense pass throughs	\$ 14.51	\$ 13.91	\$ 13.56	\$ 13.23	\$ 13.80
Average first year cash rental rate	\$ 15.43	\$ 14.87	\$ 14.65	\$ 14.04	\$ 14.75
Percentage increase	6.34%	6.90%	8.04%	6.12%	6.85%

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

INDUSTRIAL LEASING STATISTICS  
THREE MONTHS ENDED

	9/30/98	6/30/98	3/31/97	12/31/97	WEIGHTED AVERAGE
NET EFFECTIVE RENTS RELATED TO RE-LEASED SPACE:					
Number of lease transactions (signed leases)	56	41	66	56	55
Rentable square footage leased	314,549	194,014	308,787	464,733	320,521
Average per rentable square foot over the lease term:					
Base rent	\$ 6.59	\$ 6.99	\$ 6.35	\$ 4.35	\$ 6.07
Tenant improvements	(0.23)	(0.29)	(0.38)	(0.12)	(0.26)
Leasing commissions	(0.09)	(0.19)	(0.15)	(0.08)	(0.13)
Rent concessions	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
Effective rent	\$ 6.27	\$ 6.51	\$ 5.82	\$ 4.15	\$ 5.69
Expense stop(1)	(0.44)	(0.52)	(0.43)	(0.30)	(0.42)
Equivalent effective net rent	\$ 5.83	\$ 5.99	\$ 5.39	\$ 3.85	\$ 5.27
Average term in years	4	3	3	3	3
CAPITAL EXPENDITURES RELATED TO RE-LEASED SPACE:					
TENANT IMPROVEMENTS:					
Total dollars committed under signed leases	\$248,359	\$239,348	\$533,334	\$157,152	\$294,548
Rentable square feet	314,549	194,014	308,787	464,733	320,521
Per rentable square foot	\$ 0.79	\$ 1.23	\$ 1.73	\$ 0.34	\$ 0.92
LEASING COMMISSIONS:					
Total dollars committed under signed leases	\$ 99,574	\$130,243	\$153,967	\$108,899	\$123,171
Rentable square feet	314,549	194,014	308,787	464,733	320,521
Per rentable square foot	\$ 0.32	\$ 0.67	\$ 0.50	\$ 0.23	\$ 0.38
Total:					
Total dollars committed under signed leases	\$347,933	\$369,591	\$687,301	\$266,051	\$417,719
Rentable square feet	314,549	194,014	308,787	464,733	320,521
Per rentable square foot	\$ 1.11	\$ 1.90	\$ 2.23	\$ 0.57	\$ 1.30
RENTAL RATE TRENDS:					
Average final rate with expense pass throughs	\$ 5.40	\$ 6.09	\$ 5.77	\$ 4.31	\$ 5.39
Average first year cash rental rate	\$ 5.54	\$ 6.50	\$ 6.09	\$ 4.32	\$ 5.61
Percentage increase	2.59%	6.73%	5.55%	0.23%	4.08%

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



RETAIL LEASING STATISTICS  
THREE MONTHS ENDED

9/30/98

NET EFFECTIVE RENTS RELATED TO RE-LEASED SPACE:

Number of lease transactions (signed leases)	11
Rentable square footage leased	37,258
Average per rentable square foot over the lease term:	
Base rent	\$ 13.59
Tenant improvements	( 0.14)
Leasing commissions	( 0.44)
Rent concessions	\$ 0.00
	-----
Effective rent	\$ 13.01
Expense stop	( 0.09)
	-----
Equivalent effective net rent	\$ 12.92
	-----
Average term in years	6
	=====

CAPITAL EXPENDITURES RELATED TO RE-LEASED SPACE:

TENANT IMPROVEMENTS:

Total dollars committed under signed leases	\$ 21,000
Rentable square feet	37,258
	-----
Per rentable square foot	\$ 0.56
	=====

LEASING COMMISSIONS:

Total dollars committed under signed leases	\$ 99,268
Rentable square feet	37,258
	-----
Per rentable square foot	\$ 2.66
	=====

TOTAL:

Total dollars committed under signed leases	\$120,268
Rentable square feet	37,258
	-----
Per rentable square foot	\$ 3.23
	=====

RENTAL RATE TRENDS:

Average final rate with expense pass throughs	\$ 8.55
Average first year cash rental rate	\$ 10.53
	-----
Percentage increase	23.16%
	=====

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

The following tables set forth scheduled lease expirations for executed leases as of September 30, 1998 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 1998	497	1,423,156	5.0%	\$ 21,788	\$ 15.31	4.9%
1999	896	4,127,972	14.3%	60,527	14.66	13.7%
2000	882	4,107,372	14.4%	64,611	15.73	14.6%
2001	754	4,099,157	14.3%	64,207	15.66	14.6%
2002	599	4,027,554	14.0%	63,705	15.82	14.4%
2003	456	3,386,794	11.8%	52,865	15.61	12.0%
2004	102	1,492,207	5.2%	23,192	15.54	5.3%
2005	74	1,254,342	4.4%	18,380	14.65	4.2%
2006	51	1,246,624	4.3%	19,329	15.51	4.4%
2007	27	845,503	2.9%	13,611	16.10	3.1%
Thereafter	77	2,697,206	9.4%	38,906	14.42	8.8%
	---	---	---	---	---	---
Total or average	4,415	28,707,887	100.0%	\$441,121	\$ 15.37	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) (IN THOUSANDS)	AVERAGE ANNUAL RENTAL RATE PER SQUARE FOOT FOR EXPIRATIONS (1)	PERCENTAGE OF LEASED RENTS REPRESENTED BY EXPIRING LEASES
Remainder of 1998	129	1,180,807	10.4%	\$ 5,947	\$ 5.04	10.9%
1999	195	2,279,095	20.1%	12,489	5.48	22.8%
2000	175	2,218,665	19.7%	10,791	4.86	19.7%
2001	145	1,690,266	15.0%	7,923	4.69	14.5%
2002	64	1,211,800	10.7%	5,501	4.54	10.1%
2003	45	672,037	5.9%	3,330	4.96	6.1%
2004	11	1,048,258	9.3%	3,983	3.80	7.3%
2005	8	95,380	0.8%	696	7.30	1.3%
2006	3	226,880	2.0%	1,050	4.63	1.9%
2007	5	505,989	4.5%	1,774	3.51	3.2%
Thereafter	4	185,921	1.6%	1,180	6.35	2.2%
	---	---	---	---	---	---
Total or average	784	11,315,098	100.0%	\$54,664	\$ 4.83	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) (IN THOUSANDS)	AVERAGE ANNUAL RENTAL RATE PER SQUARE FOOT FOR EXPIRATIONS (1)	PERCENTAGE OF LEASED RENTS REPRESENTED BY EXPIRING LEASES
Remainder of 1998	49	136,095	6.1%	\$ 1,478	\$ 10.86	5.9%
1999	73	308,281	13.9	2,906	9.43	11.6
2000	75	269,127	12.1	3,116	11.58	12.4
2001	55	213,801	9.6	2,925	13.68	11.6
2002	38	159,110	7.2	2,052	12.90	8.2
2003	33	166,182	7.5	2,504	15.07	10.0
2004	15	162,378	7.3	1,239	7.63	4.9
2005	13	88,630	4.0	1,308	14.76	5.2
2006	9	103,967	4.7	1,096	10.54	4.4
2007	9	69,144	3.1	966	13.97	3.8
Thereafter	33	539,906	24.5	5,532	10.25	22.0
	--	-----	-----	-----	-----	-----
Total or average	402	2,216,621	100.0%	\$25,122	\$ 11.33	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) (IN THOUSANDS)	PERCENTAGE OF LEASED RENTS REPRESENTED BY EXPIRING LEASES
Remainder of 1998	675	2,740,058	6.5%	\$ 29,213	5.6%
1999	1,164	6,715,348	15.9	75,922	14.6
2000	1,132	6,595,164	15.6	78,518	15.0
2001	954	6,003,224	14.2	75,055	14.4
2002	701	5,398,464	12.8	71,258	13.7
2003	534	4,225,013	10.0	58,699	11.3
2004	128	2,702,843	6.4	28,414	5.5
2005	95	1,438,352	3.4	20,384	3.9
2006	63	1,577,471	3.7	21,475	4.1
2007	41	1,420,636	3.4	16,351	3.1
Thereafter	114	3,423,033	8.1	45,618	8.8
	-----	-----	-----	-----	-----
Total or average	5,601	42,239,606	100.0%	\$520,907	100.0%
	=====	=====	=====	=====	=====

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

## INFLATION

Historically inflation has not had a significant impact on the Company's operations because of the relatively low inflation rate in the Company's 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 the Company's 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 the Company to replace existing leases with new leases at a higher base rent if rents on the existing leases are below the market rate.

## 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 (i) J.C. Nichols and the named directors and officers of J.C. Nichols breached their fiduciary duties to J.C. Nichols' stockholders, (ii) 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, (iii) all defendants participated in the dissemination of a proxy statement containing materially false and misleading statements and omissions of material facts in violation of Section 14(a) of the Securities Exchange Act of 1934 and (iv) the Company filed a registration statement with the Securities and Exchange Commission 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, as amended (the "Securities Act"). The plaintiffs seek equitable relief and monetary damages. The Company believes that the defendants have meritorious defenses to the Plaintiffs' allegations. The Company intends to vigorously defend this litigation. Due to the inherent uncertainties of the litigation process and the judicial system, the Company is not able to predict the outcome of this litigation. If this litigation is not resolved in the Company's favor, it could have a material adverse effect on the Company's business, financial condition and results of operations.

### Item 2. Changes in Securities and Use of Proceeds (c) During the three months

ended September 30, 1998, the Company issued an aggregate of 395,173 shares of Common Stock to holders of Common Units in the Operating Partnership upon the redemption of such Common Units in private offerings exempt from the registration requirements pursuant to Section 4(2) of the Securities Act. Each of the holders of Common Units were accredited investors under Rule 501 of the Securities Act and none of the offerings involved a general solicitation by the Company. The Company has registered the resale of such shares under the Securities Act.

### Item 3. Defaults Upon Senior Securities -- NA

### Item 4. Submission of Matters to a Vote of Security Holders -- NA

### Item 5. Other Information -- NA

### Item 6. Exhibits and Reports on Form 8-K

#### (a) Exhibits

EXHIBIT NO.	DESCRIPTION
2.1(1)	Agreement and Plan of Merger by and among the Company, Jackson Acquisition Corp. and J.C. Nichols Company dated December 22, 1997
2.2(2)	Amendment No. 1 to Agreement and Plan of Merger by and among the Company, Jackson Acquisition Corp. and J.C. Nichols Company dated April 23, 1998
10(3)	Credit Agreement among the Operating Partnership, the Company, the Subsidiaries named therein and the Lenders named therein, dated as of July 3, 1998
12	Statement re computation of ratios
27	Financial Data Schedule

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

(2) Filed as part of Registration Statement No. 333-51671 with the Securities and Exchange Commission and incorporated herein by reference.

(3) Filed as part of the Company's Current Report on Form 8-K dated July 3, 1998 and incorporated herein by reference.

#### (b) Reports on Form 8-K

On July 2, 1998, the Company filed a current report on Form 8-K, dated July 1, 1998, reporting under item 5 of the Form that shareholders of J.C. Nichols Company had approved the merger with the Company.

On July 23, 1998, the Company filed a current report on Form 8-K, dated July 3, 1998, reporting under item 2 of the Form that the Company had completed its merger with J.C. Nichols Company and under item 5 of the Form that the Company had obtained a \$600 million revolving credit facility from a group of lenders.

On September 28, 1998, the Company filed an amendment to its current report on Form 8-K, dated July 3, 1998, setting forth under item 7 certain pro forma financial information of the Company and audited financial statements of J.C. Nichols Company.

On September 30, 1998, the Company filed an amendment to its current report on Form 8-K, dated July 3, 1998, setting forth under item 7 certain pro forma financial information of the Company and audited financial statements of J.C. Nichols Company.

## 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: November 16, 1998

**EXHIBIT 12**  
**HIGHWOODS PROPERTIES, INC.**

**RATIO OF EARNINGS TO FIXED CHARGES AND RATIO OF EARNINGS  
TO COMBINED FIXED CHARGES AND PREFERRED STOCK DIVIDENDS**

	NINE MONTHS ENDED SEPTEMBER 30, 1998		1997	
Earnings (1)				
Income (loss) from continuing operations .....	\$ 111,597		\$ 92,584	
Interest .....	62,835		45,138	
Amortization of loan costs .....	1,915		2,256	
Total earnings .....	\$ 176,347		\$ 139,978	
Fixed charges and preferred stock dividends				
Interest .....	\$ 62,835		\$ 45,138	
Interest capitalized .....	11,097		7,238	
Amortization of loan costs expensed .....	1,915		2,256	
Amortization of loan costs capitalized .....	--		--	
Total fixed charges .....	\$ 75,847		\$ 54,632	
Preferred stock dividends .....	21,946		13,117	
Ratio of earnings to fixed charges .....	2.33		2.56	
Ratio of earnings to combined fixed charges and preferred stock dividends .....	1.80		2.07	

  

	1996	1995	1994	1993
Earnings (1)				
Income (loss) from continuing operations .....	\$ 48,242	\$ 28,934	\$ 8,159	\$ (155)
Interest .....	24,699	12,101	4,955	5,185
Amortization of loan costs .....	1,911	1,619	738	--
Total earnings .....	\$ 74,852	\$ 42,654	\$ 13,852	\$ 5,030
Fixed charges and preferred stock dividends				
Interest .....	\$ 24,699	\$ 12,101	\$ 4,955	\$ 5,185
Interest capitalized .....	2,935	507	17	16
Amortization of loan costs expensed .....	1,911	1,619	738	--
Amortization of loan costs capitalized .....	--	--	--	--
Total fixed charges .....	\$ 29,545	\$ 14,227	\$ 5,710	\$ 5,201
Preferred stock dividends .....	--	--	--	--
Ratio of earnings to fixed charges .....	2.53	3.00	2.43	0.97
Ratio of earnings to combined fixed charges and preferred stock dividends .....	2.53	3.00	2.43	0.97

(1) The calculation does not include amortization of previously capitalized interest.

## ARTICLE 5

PERIOD TYPE	3 MOS	9 MOS
FISCAL YEAR END	DEC 31 1998	DEC 31 1998
PERIOD START	JUL 01 1998	JAN 01 1998
PERIOD END	SEP 30 1998	SEP 30 1998
CASH	44,328,000	44,328,000
SECURITIES	0	0
RECEIVABLES	51,351,000	51,351,000
ALLOWANCES	0	0
INVENTORY	0	0
CURRENT ASSETS	113,497,000	113,497,000
PP&E	4,091,453,000	4,091,453,000
DEPRECIATION	166,187,000	166,187,000
TOTAL ASSETS	4,144,938,000	4,144,938,000
CURRENT LIABILITIES	112,202,000	112,202,000
BONDS	1,857,013,000	1,857,013,000
PREFERRED MANDATORY	0	0
PREFERRED	397,500,000	3,975,000,000
COMMON	593,000	593,000
OTHER SE	1,777,630,000	1,777,630,000
TOTAL LIABILITY AND EQUITY	4,144,938,000	4,144,938,000
SALES	138,987,000	352,397,000
TOTAL REVENUES	142,940,000	361,069,000
CGS	43,117,000	108,672,000
TOTAL COSTS	67,581,000	170,637,000
OTHER EXPENSES	5,915,000	14,085,000
LOSS PROVISION	0	0
INTEREST EXPENSE	29,135,000	64,750,000
INCOME PRETAX	34,278,000	93,692,000
INCOME TAX	0	0
INCOME CONTINUING	34,278,000	34,278,000
DISCONTINUED	0	0
EXTRAORDINARY	324,000	370,000
CHANGES	0	0
NET INCOME	25,809,000	71,376,000
EPS PRIMARY	.44	1.34
EPS DILUTED	.44	1.33

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**End of Filing**

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