

# HIGHWOODS PROPERTIES INC

## FORM 10-Q (Quarterly Report)

Filed 11/14/2000 For Period Ending 9/30/2000

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

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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, 2000

*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 58,415,950 shares outstanding as of November 10, 2000.

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**HIGHWOODS PROPERTIES, INC.**  
**QUARTERLY REPORT FOR THE PERIOD ENDED SEPTEMBER 30, 2000**

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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 1999 Annual Report on Form 10-K.

# HIGHWOODS PROPERTIES, INC.

## Consolidated Balance Sheets (dollars in thousands except per share amounts)

	September 30, 2000	December 31, 1999
	----- (Unaudited)	-----
<b>Assets</b>		
Real estate assets, at cost:		
Land and improvements .....	\$ 423,699	\$ 491,273
Buildings and tenant improvements.....	2,750,696	3,056,962
Development in process.....	78,108	186,925
Land held for development.....	152,799	168,396
Furniture, fixtures and equipment.....	10,422	7,917
	-----	-----
	3,415,724	3,911,473
Less - accumulated depreciation.....	(262,749)	(238,135)
	-----	-----
Net real estate assets.....	3,152,975	3,673,338
Property held for sale.....	340,923	48,960
Cash and cash equivalents.....	29,906	34,496
Restricted cash.....	8,998	1,842
Accounts receivable, net.....	23,765	22,847
Advances to related parties.....	13,164	15,096
Notes receivable.....	77,085	58,241
Accrued straight-line rents receivable.....	39,415	35,951
Investment in unconsolidated affiliates.....	55,877	38,977
Other assets:		
Deferred leasing costs.....	76,877	66,783
Deferred financing costs.....	40,229	40,125
Prepaid expenses and other.....	11,112	15,614
	-----	-----
	128,218	122,522
Less - accumulated amortization.....	(45,490)	(36,073)
	-----	-----
Other assets, net	82,728	86,449
	-----	-----
Total Assets.....	\$3,824,836	\$4,016,197
	=====	=====
<b>Liabilities and Stockholders' Equity</b>		
Mortgages and Notes payable.....	\$1,686,529	\$1,766,117
Accounts payable, accrued expenses and other liabilities.....	126,432	111,945
	-----	-----
Total Liabilities.....	1,812,961	1,878,062
Minority interest.....	213,580	245,665
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, 2000 and December 31, 1999.....	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, 2000 and December 31, 1999.....	172,500	172,500
8% Series D Cumulative Redeemable Preferred Shares (liquidation preference \$250 per share), 400,000 shares issued and outstanding at September 30, 2000 and December 31, 1999.....	100,000	100,000
Common stock, \$.01 par value, 200,000,000 authorized shares; issued 62,232,642 (includes 3,811,086 shares in treasury) and 62,068,613 (includes 1,150,000 shares in treasury) at September 30, 2000 and December 31, 1999, respectively.....	622	621
Additional paid-in capital.....	1,601,045	1,597,494
Distributions in excess of net earnings.....	(111,321)	(77,670)
Less treasury shares at cost, 3,811,086 at September 30, 2000 and 1,150,000 at December 31, 1999.....	(86,791)	(25,475)
Deferred compensation - restricted stock	(2,760)	--
	-----	-----
Total Stockholders' Equity.....	1,798,295	1,892,470
	-----	-----
Total Liabilities and Stockholders' Equity	\$3,824,836	\$4,016,197
	=====	=====

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,	
	2000	1999	2000	1999
Revenue:				
Rental property.....	\$ 131,118	\$ 136,304	\$ 404,738	\$ 425,104
Equity in earnings of unconsolidated affiliates.....	1,320	702	3,207	1,389
Interest and other income.....	6,548	3,621	17,321	14,181
Total Revenue.....	138,986	140,627	425,266	440,674
Operating expenses:				
Rental property.....	39,470	41,002	120,358	130,108
Depreciation and amortization.....	30,123	26,116	87,813	81,977
Interest expense:				
Contractual.....	27,172	25,715	81,994	87,274
Amortization of deferred financing costs.....	564	696	1,862	2,208
General and administrative.....	27,736	26,411	83,856	89,482
	5,719	4,883	16,258	16,888
Income before gain/(loss) on disposition of land and depreciable assets, net of income tax provision, minority interest and extraordinary item.....	35,938	42,215	116,981	122,219
Gain/(loss) on disposition of land and depreciable assets, net of income tax provision.....	10,552	846	(8,564)	2,939
Income before minority interest and extraordinary item.....	46,490	43,061	108,417	125,158
Minority interest.....	(5,298)	(5,065)	(13,140)	(15,770)
Income before extraordinary item.....	41,192	37,996	95,277	109,388
Extraordinary item - loss on early extinguishment of debt.....	(3,310)	(4,997)	(4,344)	(5,774)
Net income.....	37,882	32,999	90,933	103,614
Dividends on preferred stock.....	(8,145)	(8,145)	(24,435)	(24,435)
Net income available for common shareholders.....	\$ 29,737	\$ 24,854	\$ 66,498	\$ 79,179
Net income per common share - basic:				
Income before extraordinary item.....	\$ 0.56	\$ 0.48	\$ 1.19	\$ 1.38
Extraordinary item - loss on early extinguishment of debt.....	(0.06)	(0.08)	(0.07)	(0.09)
Net income.....	\$ 0.50	\$ 0.40	\$ 1.12	\$ 1.29
Weighted average shares outstanding - basic.....	58,609	61,863	59,433	61,233
Net income per common share - diluted:				
Income before extraordinary item.....	\$ 0.56	\$ 0.48	\$ 1.19	\$ 1.38
Extraordinary item - loss on early extinguishment of debt.....	(0.06)	(0.08)	(0.08)	(0.09)
Net income.....	\$ 0.50	\$ 0.40	\$ 1.11	\$ 1.29
Weighted average shares outstanding - diluted...	59,029	62,169	59,672	61,493
Distributions declared per common share	\$ 0.57	\$ 0.555	\$ 1.68	\$ 1.635

See accompanying notes to consolidated financial statements.

# HIGHWOODS PROPERTIES, INC.

## Consolidated Statements of Stockholders' Equity For the Nine Months Ended September 30, 2000

(Unaudited and \$ in thousands)

	Number of Common Shares -----	Common Stock -----	Series A Preferred -----	Series B Preferred -----	Series D Preferred -----	Treasury Stock -----	Additional Paid-In Capital -----	Deferred Compensation -----	Retained Earnings -----	Total -----
Balance at December 31, 1999.....	60,918,613	\$621	\$125,000	\$172,500	\$100,000	\$(25,475)	\$1,597,494	\$ --	\$(77,670)	\$1,892,470
Issuance of Common Stock..	54,026	--	--	--	--	--	892	--	--	892
Common Stock Dividends.....	--	--	--	--	--	--	--	--	(100,149)	(100,149)
Preferred Stock Dividends....	--	--	--	--	--	--	--	--	(24,435)	(24,435)
Issuance of restricted stock.....	110,003	1	--	--	--	--	2,659	(3,151)	--	(491)
Amortization of deferred compensation	--	--	--	--	--	--	--	391	--	391
Purchase of Treasury Stock	(2,661,086)	--	--	--	--	(61,316)	--	--	--	(61,316)
Net Income....	--	--	--	--	--	--	--	--	90,933	90,933
	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----
Balance at September 30, 2000.....	58,421,556	\$622	\$125,000	\$172,500	\$100,000	\$(86,791)	\$1,601,045	\$(2,760)	\$(111,321)	\$1,798,295
	=====	=====	=====	=====	=====	=====	=====	=====	=====	=====

See accompanying notes to consolidated financial statements.

# HIGHWOODS PROPERTIES, INC.

## Consolidated Statements of Cash Flows

(Unaudited and in thousands)

	Nine Months Ended September 30,	
	2000	1999
Operating activities:		
Net income.....	\$ 90,933	\$103,614
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization.....	87,813	81,977
Minority interest.....	13,140	15,770
Loss/(Gain) on disposition of land and depreciable assets, net of income tax provision.....	8,564	(2,939)
Amortization of deferred compensation.....	391	--
Changes in operating assets and liabilities.....	(12)	(23,959)
Net cash provided by operating activities.....	200,829	174,463
Investing activities:		
Additions to real estate assets.....	(221,055)	(414,168)
Cash paid in exchange for partnership net assets.....	--	(991)
Proceeds from disposition of real estate assets.....	339,600	550,039
Repayment of advances to subsidiaries/(advances to subsidiaries).....	1,932	(4,005)
Other .....	(14,600)	(37,512)
Net cash provided by investing activities .....	105,877	93,363
Financing activities:		
Distributions paid on common stock and common units.....	(114,187)	(114,724)
Dividends paid on preferred stock.....	(24,435)	(24,435)
Borrowings on mortgages and notes payable.....	73,198	4,385
Repayments on mortgages and notes payable.....	(147,286)	(172,568)
Borrowings on revolving loans.....	295,500	408,000
Repayments on revolving loans.....	(301,000)	(362,500)
Net proceeds from the sale of common stock.....	401	22,940
Net payment of deferred financing costs.....	(104)	(4,494)
Purchase of treasury stock and units.....	(90,342)	--
Other.....	(3,041)	(8,375)
Net cash used in financing activities.....	(311,296)	(251,771)
Net (decrease)/increase in cash and cash equivalents.....	(4,590)	16,055
Cash and cash equivalents at beginning of the period.....	34,496	31,445
Cash and cash equivalents at end of the period.....	\$ 29,906	\$ 47,500
	=====	=====
Supplemental disclosure of cash flow information:		
Cash paid for interest.....	\$ 94,853	\$103,603
	=====	=====

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 (1) the net assets contributed by the holders of Common Units in the Operating Partnership, (2) the change in net assets contributed as a result of the reorganization of our Des Moines partnerships and (3) the net assets acquired subject to mortgage notes payable.

	Nine Months Ended September 30,	
	2000	1999
	(Unaudited)	(Unaudited)
Assets:		
Rental property and equipment, net.....	\$ (24,656)	\$ (18,513)
Notes Receivable.....	23,775	--
Liabilities:		
Mortgages and notes payable .....	--	(52,165)
Net assets.....	\$ (881)	\$ 33,652
	=====	=====

See accompanying notes to consolidated financial statements.

# HIGHWOODS PROPERTIES, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

September, 30, 2000  
(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. However, during 1999, a provision was made related to a portion of REIT taxable income that resulted from a gain on disposition of assets that had not been distributed to stockholders at September 30, 1999.

In June 1998, the Financial Accounting Standards Board ("FASB") issued Statement No. 133, Accounting for Derivative Instruments and Hedging Activities, which is required to be adopted in fiscal years beginning after June 15, 1999. In June 1999, FASB issued Statement No. 137, Accounting for Derivative Instruments and Hedging Activities - Deferral of the FASB Statement No. 133, which stipulates the required adoption date to be all fiscal years beginning after June 15, 2000. In June 2000, FASB issued Statement No. 138, Accounting for Certain Derivative Instruments and Certain Hedging Activities - an amendment of FASB Statement No. 133. Statement No. 133, as amended by Statement No. 138, requires us to recognize all derivatives on the balance sheet at fair value. Derivatives that are not hedges must be adjusted to fair value through income. If the derivative is a hedge, depending on the nature of the hedge, changes in the fair value of derivatives will either be offset against the change in fair value of the hedged assets, liabilities or firm commitments through earnings or recognized in other comprehensive income until the hedged item is recognized in earnings. The ineffective portion of a derivative's change in fair value will be immediately recognized in earnings. The fair market value of our derivatives is discussed in Item 2.

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.

### 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.

The accounting policies of the segments are the same as those described in Note 1. Further, all operations are within the United States and no tenant comprises more than 10% of consolidated revenues. The following table summarizes the rental income, net operating income and total assets for each reportable segment for the three and nine months ended September 30, 2000 and 1999.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2000	1999	2000	1999
	(in thousands)		(in thousands)	
Rental Income:				
Office segment.....	\$ 106,593	\$ 109,581	\$ 333,123	\$ 348,337
Industrial segment.....	11,523	13,842	33,288	39,753
Retail segment.....	8,631	8,597	25,285	24,536
Apartment segment.....	4,371	4,284	13,042	12,478
	-----	-----	-----	-----
Total Rental Income.....	\$ 131,118	\$ 136,304	\$ 404,738	\$ 425,104
	=====	=====	=====	=====
Net operating income:				
Office segment.....	\$ 74,384	\$ 76,082	\$ 231,326	\$ 238,944
Industrial segment.....	9,793	11,423	28,026	32,897
Retail segment.....	5,163	5,454	17,464	16,156
Apartment segment.....	2,308	2,343	7,564	6,999
	-----	-----	-----	-----
Total Net operating income.....	\$ 91,648	\$ 95,302	\$ 284,380	\$ 294,996
	-----	-----	-----	-----
Reconciliation to income before minority interest and extraordinary item:				
Equity in income of unconsolidated affiliates	\$ 1,320	\$ 702	\$ 3,207	\$ 1,389
Gain/(loss) on disposition of land and depreciable assets, net of income tax provision.....	10,552	846	(8,564)	2,939
Interest and other income.....	6,548	3,621	17,321	14,181
Interest expense.....	(27,736)	(26,411)	(83,856)	(89,482)
General and administrative expenses.....	(5,719)	(4,883)	(16,258)	(16,888)
Depreciation and amortization.....	(30,123)	(26,116)	(87,813)	(81,977)
	-----	-----	-----	-----
Income before minority interest and extraordinary item.....	\$ 46,490	\$ 43,061	\$ 108,417	\$ 125,158
	=====	=====	=====	=====
Total assets:				
Office segment.....	\$ 2,874,681	\$ 3,021,160	\$ 2,874,681	\$ 3,021,160
Industrial segment.....	365,217	496,428	365,217	496,428
Retail segment.....	269,865	256,197	269,865	256,197
Apartment segment.....	116,163	119,356	116,183	119,356
Corporate and other.....	198,910	227,466	198,910	227,466
	-----	-----	-----	-----
Total assets.....	\$ 3,824,836	\$ 4,120,607	\$ 3,824,836	\$ 4,120,607
	=====	=====	=====	=====

### 3. DISPOSITION AND JOINT VENTURE ACTIVITY

On May 9, 2000, we closed a transaction with Dreilander-Fonds 97/26 and 99/32 ("DLF II") pursuant to which we sold or contributed five in-service office properties encompassing 570,000 rentable square feet and a 246,000-square-foot development project valued at approximately \$117.0 million to a newly created limited partnership (the "DLF II Joint Venture"). DLF II contributed \$24.0 million in cash for a 40.0% ownership interest in the DLF II Joint Venture and the DLF II Joint Venture borrowed approximately \$60.0 million from third-party lenders. We initially retained the remaining 60.0% interest in the DLF II Joint Venture, received net cash proceeds of approximately \$74.0 million and are the sole and exclusive manager and leasing agent of the DLF II Joint Venture's properties, for which we receive customary management fees and leasing commissions. On August 31, 2000, DLF II contributed an additional \$7.1 million in cash to the DLF II Joint Venture, which increased its ownership percentage to 51.0%. It is anticipated that DLF II will exercise its option to contribute up to an additional \$17.0 million in cash to the DLF II Joint Venture before March 31, 2001 to increase its ownership percentage to 80.0%. We have adopted the equity method of accounting for this joint venture.

In addition to the properties sold or contributed to the DLF II Joint Venture, during the nine months ended September 30, 2000, we sold approximately 4.6 million rentable square feet of non-core office and industrial properties and 192.0 acres of development land for gross proceeds of \$339.6 million. We recorded a loss of \$8.6 million related to these dispositions. Included in these sales were certain properties encompassing 2.0 million square feet sold to an entity majority-owned by a related party for a selling price of \$169.0 million. Non-core office and industrial properties generally include single buildings or business parks that do not fit our long-term strategy. Since September 30, 2000, an additional 55,000 square feet of non-core office and industrial properties, which are included in property held for sale in the Consolidated Balance Sheet at September 30, 2000, have been sold for gross proceeds of \$6.4 million.

On August 9, 2000, we agreed to form two joint ventures with an institutional investor. In the first joint venture, we expect to sell or contribute 21 in-service office properties encompassing approximately 3.0 million rentable square feet valued at approximately \$345.3 million (including approximately \$4.5 million of development land) to a newly created limited liability company. As part of the formation of the first joint venture, the institutional investor will contribute approximately \$85.0 million in cash for an 80.0% ownership interest and the joint venture will borrow approximately \$245.0 million from third-party lenders. We will retain the remaining 20.0% ownership interest and receive net cash proceeds of approximately \$311.0 million. In the second joint venture, we will contribute approximately \$7.2 million of development land we currently own to a second newly created limited liability company. The second joint venture expects to develop four properties encompassing 435,000 rentable square feet with a budgeted cost of approximately \$61.0 million. We will each own 50.0% of the second joint venture. In addition, we will be the sole and exclusive manager and leasing agent for the properties in both joint ventures, and will receive customary management fees and leasing commissions. We will be adopting the equity method for both of these joint ventures. These transactions are subject to customary closing conditions, including the completion of due diligence, the execution of other definitive agreements and the ability to obtain satisfactory financing, and are expected to close before the end of 2000. However, we cannot assure you that these transactions will be consummated or that they will be consummated on the terms described in this quarterly report.

#### 4. 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 alleges, among other things, that in connection with the merger of J.C. Nichols and the Company, (1) J.C. Nichols and the named directors and officers of J.C. Nichols breached their fiduciary duties to J.C. Nichols' stockholders, (2) J.C. Nichols and the named directors and officers of J.C. Nichols breached fiduciary duties to members of the J.C. Nichols Company Employee Stock Ownership Trust, (3) all defendants participated in the dissemination of a proxy statement containing materially false and misleading statements and omissions of material facts in violation of Section 14(a) of the Securities Exchange Act of 1934 and (4) the Company filed a registration statement with the SEC containing materially false and misleading statements and omissions of material facts in violation of Sections 11 and 12(2) of the Securities Act of 1933. The plaintiff seeks equitable relief and monetary damages. We believe that the defendants have meritorious defenses to the plaintiff's allegations and intend to vigorously defend this litigation. By order dated June 18, 1999, the court granted in part and denied in part our motion to dismiss. The court has granted the plaintiff's motion seeking certification of the proposed class of plaintiffs with respect to the remaining claims. Discovery in this matter has now been completed. Plaintiff John Flake passed away on or about April 2, 2000, and plaintiff's counsel has substituted his estate as the representative plaintiff in this action. Defendants filed a summary judgment motion as to all claims asserted by the plaintiff, who opposed defendants' motion. By order dated August 28, 2000, the court granted defendants' motion as to plaintiff's claims that J.C. Nichols and the named directors and officers of J.C. Nichols breached fiduciary duties to members of the J.C. Nichols Company Employee Stock Ownership Trust. The court also granted in part and denied in part defendants' summary judgment motion as to the remaining claims asserted by the plaintiff. Defendants have sought reconsideration of the court's ruling as to certain of the securities claims as to which the court denied their summary judgment motion. Due to the inherent uncertainties of the litigation process and the judicial system, we are not able to predict the outcome of this litigation. However, at this time, we do not expect the result of this litigation to have a material adverse effect on our business, financial condition and results of operations.

#### 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 September 30, 2000. Revenues from rental operations decreased \$5.2 million, or 3.8%, from \$136.3 million for the three months ended September 30, 1999 to \$131.1 million for the comparable period in 2000. The decrease is primarily a result of the disposition and contribution of 7.9 million square feet of majority-owned office, industrial and retail properties, offset in part by the acquisition of 700,000 square feet of majority-owned office, industrial and retail properties and

the completion of 4.2 million square feet of development activity during the last three months of 1999 and the first nine months of 2000. Our in-service portfolio decreased from 40.8 million square feet at September 30, 1999 to 37.8 million square feet at September 30, 2000. Same property revenues, which are the revenues of the 461 in-service properties and 1,885 apartment units owned on July 1, 1999, increased 2.4% for the three months ended September 30, 2000, compared to the same three months in 1999.

During the three months ended September 30, 2000, 226 leases representing 1.5 million square feet of office, industrial and retail space were executed at an average rate per square foot which was 6.5% higher than the average rate per square foot on the expired leases.

Interest and other income increased \$2.9 million, or 80.6%, from \$3.6 million for the three months ended September 30, 1999 to \$6.5 million for the comparable period in 2000. The increase was a result of an increase in development fees in 2000 related to the DLF II Joint Venture.

Rental operating expenses decreased \$1.5 million, or 3.7%, from \$41.0 million for the three months ended September 30, 1999 to \$39.5 million for the comparable period in 2000. The decrease is primarily a result of the disposition and contribution of 7.9 million square feet of majority owned office, industrial and retail properties offset in part by the acquisition of 700,000 square feet of majority-owned office, industrial and retail properties and the completion of 4.2 million square feet of development activity during the last three months of 1999 and the first nine months of 2000. Rental operating expenses as a percentage of related revenues were 30.1% for the three months ended September 30, 2000 and 1999.

Depreciation and amortization for the three months ended September 30, 2000 and 1999 totaled \$30.1 million and \$26.1 million, respectively. The increase of \$4.0 million, or 15.3%, is due to an increase in depreciation on leasing commissions and tenant improvements, partly offset by a decrease in depreciation on buildings, due to the disposition activity in 1999 and 2000. Interest expense increased \$1.3 million, or 4.9%, from \$26.4 million for the three months ended September 30, 1999 to \$27.7 million for the comparable period in 2000. The increase is attributable to an increase in the weighted average interest rates from 1999 to 2000. Interest expense for the three months ended September 30, 2000 and 1999 included \$564,000 and \$696,000 respectively, of amortization of deferred financing costs and the costs related to our interest rate hedge contracts. General and administrative expenses was 4.1% of total revenue for the three months ended September 30, 2000 and 3.8% for the comparable period in 1999.

Income before minority interest and extraordinary item was \$46.5 million and \$43.1 million for the three months ended September 30, 2000 and 1999, respectively. The Company's net income allocated to minority interest totaled \$5.3 million and \$5.1 million for the three months ended September 30, 2000 and 1999, respectively. The Company recorded \$8.1 million in preferred stock dividends for the three months ended September 30, 2000 and 1999.

Nine Months Ended September 30, 2000. Revenues from rental operations decreased \$20.4 million, or 4.8%, from \$425.1 million for the nine months ended September 30, 1999 to \$404.7 million for the comparable period in 2000. The decrease is primarily a result of the disposition and contribution of 7.9 million square feet of majority-owned office, industrial and retail properties offset in part by the acquisition of 700,000 square feet of majority-owned office, industrial and retail properties and the completion of 4.2 million square feet of development activity during the last three months of 1999 and the first nine months of 2000. Our in-service portfolio decreased from 40.8 million square feet at September 30, 1999 to 37.8 million square feet at September 30, 2000. Same property revenues, which are the revenues of the 445 in-service properties and 1,885 apartment units owned on January 1, 1999, increased 3.1% for the nine months ended September 30, 2000, compared to the same nine months in 1999.

During the nine months ended September 30, 2000, 743 leases representing 4.8 million square feet of office, industrial and retail space were executed at an average rate per square foot which was 6.6% higher than the average rate per square foot on the expired leases.

Interest and other income increased \$3.1 million, or 21.8 %, from \$14.2 million for the nine months ended September 30, 1999 to \$17.3 million for the comparable period in 2000. The increase was a result of an increase in interest income related to a \$30.0 million note receivable that was recorded as a result of certain property dispositions in June 1999, an increase in termination fees from 1999 to 2000 and an increase in development fee income in 2000 related to the DLF II Joint Venture.

Rental operating expenses decreased \$9.7 million, or 7.5%, from \$130.1 million for the nine months ended September 30, 1999 to \$120.4 million for the comparable period in 2000. The decrease is

primarily a result of the disposition and contribution of 7.9 million square feet of majority-owned office, industrial and retail properties offset in part by the acquisition of 700,000 square feet of majority-owned office, industrial and retail properties and the completion of 4.2 million square feet of development activity during the last three months of 1999 and the first nine months of 2000. Rental operating expenses as a percentage of related revenues decreased from 30.6% for the nine months ended September 30, 1999 to 29.8% for the comparable period in 2000.

Depreciation and amortization for the nine months ended September 30, 2000 and 1999 totaled \$87.8 million and \$82.0 million, respectively. The increase of \$5.8 million, or 7.1%, is due to an increase in depreciation on leasing commissions and tenant improvements, partly offset by a decrease in depreciation on buildings, due to the disposition activity in 1999 and 2000. Interest expense decreased \$5.6 million, or 6.3%, from \$89.5 million for the nine months ended September 30, 1999 to \$83.9 million for the comparable period in 2000. The decrease is attributable to the decrease in the outstanding debt for the entire nine months in 2000. Interest expense for the nine months ended September 30, 2000 and 1999 included \$1.9 million and \$2.2 million, respectively, of amortization of deferred financing costs and the costs related to our interest rate hedge contracts. General and administrative expenses as a percentage of total revenues was 3.8% in 1999 and 2000.

Income before minority interest and extraordinary item equaled \$108.4 million and \$125.2 million for the nine months ended September 30, 2000 and 1999, respectively. The Company's net income allocated to minority interest totaled \$13.1 million and \$15.8 million for the nine months ended September 30, 2000 and 1999, respectively. The Company recorded \$24.4 million in preferred stock dividends for the nine months ended September 30, 2000 and 1999.

### **Liquidity and Capital Resources**

**Statement of Cash Flows.** For the nine months ended September 30, 2000, cash provided by operating activities increased by \$26.3 million, or 15.1%, to \$200.8 million, from \$174.5 million for the same period in 1999. The increase is due to the collection of a \$30.0 million note receivable and the accrual of an \$18.0 million liability related to the DLF II Joint Venture during the nine months ended September 30, 2000. Cash provided by investing activities was \$105.9 million for the first nine months of 2000, as compared to \$93.4 million for the same period in 1999. The increase of \$12.5 million, or 13.4% is primarily due to the decline in acquisition and development activity offset in part by the decline in the disposition activity during the nine months ended September 30, 2000, as compared to the same period in 1999. Cash used in financing activities was \$311.3 million for the nine months ended September 30, 2000, as compared to \$251.8 million for the same period in 1999. The increase is primarily due to the increase in borrowings on mortgages and notes payable from 1999 to 2000 and the purchase of treasury stock and units in 2000. Payments of distributions were \$114.2 million and \$114.7 million for the first nine months of 2000 and 1999. Preferred stock dividend payments were \$24.4 million for the nine months ended September 30, 2000 and 1999.

**Capitalization.** The Company's total indebtedness at September 30, 2000 totaled \$1.7 billion and was comprised of \$511.5 million of secured indebtedness with a weighted average interest rate of 7.9% and \$1.2 billion of unsecured indebtedness with a weighted average interest rate of 7.4%. Except as stated below, all of the mortgage and notes payable outstanding at September 30, 2000 were either fixed rate obligations or variable rate obligations covered by interest rate hedge contracts. A portion of our \$450.0 million unsecured revolving loan (the "Revolving Loan") and approximately \$37.0 million of floating rate notes payable assumed upon consummation of the merger with J.C. Nichols were not covered by interest rate hedge contracts on September 30, 2000.

Based on the Company's total market capitalization of \$3.7 billion at September 30, 2000 (at the September 30, 2000 stock price of \$23.63 and assuming the redemption for shares of Common Stock of the 7.9 million Common Units of minority interest in the Operating Partnership), the Company's debt represented approximately 46.2% of its total market capitalization.

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

order to mitigate our interest rate risk with respect to various debt instruments. We do not hold or issue these derivative contracts for trading or speculative purposes.

The following table sets forth information regarding our interest rate hedge contracts as of September 30, 2000:

Type of Hedge -----	Notional Amount -----	Maturity Date -----	Reference Rate -----	Fixed Rate -----	Fair Market Value -----
Swap	\$20,006	6/10/02	1-Month LIBOR + 0.75%	6.95%	\$ 98
Collar	80,000	10/15/01	1-Month LIBOR	5.60 - 6.25%	298
Cap	5,434	6/15/01	1-Month LIBOR	7.75%	-----

We enter into swaps, collars and caps to limit our exposure to an increase in variable interest rates, particularly with respect to amounts outstanding under our Revolving Loan. The interest rate on all of our variable rate debt is adjusted at one and three-month intervals, subject to settlements under these contracts. We also enter into treasury lock agreements from time to time in order to limit our exposure to an increase in interest rates with respect to future debt offerings.

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

**Current and Future Cash Needs.** Historically, rental revenue has been the principal source of funds to pay operating expenses, debt service, stockholder distributions and capital expenditures, excluding nonrecurring capital expenditures. In addition, construction management, maintenance, leasing and management fees have provided sources of cash flow. We presently have no plans for major capital improvements to the existing in-service properties, other than normal recurring building improvements, tenant improvements and lease commissions. We expect to meet our short-term liquidity requirements generally through working capital and net cash provided by operating activities along with the Revolving Loan.

Our short-term (within the next 12 months) liquidity needs also include, among other things, the funding of approximately \$125.0 million of our existing development activity. We expect to fund our short-term liquidity needs through a combination of:

- o additional borrowings under our Revolving Loan (approximately \$214.0 million was available as of September 30, 2000);
- o the issuance of secured debt;
- o the selective disposition of non-core assets; and
- o the sale or contribution of some of our wholly owned properties to strategic joint ventures to be formed with selected partners interested in investing with us, which will have the net effect of generating additional capital through such sale or contributions.

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

We anticipate that our available cash and cash equivalents and cash flows from operating activities, together with cash available from borrowings and other sources, will be adequate to meet our capital and liquidity needs in both the short and long term. However, if these sources of funds are

insufficient or unavailable, the Company's ability to make the expected distributions to stockholders discussed below and satisfy other cash requirements may be adversely affected.

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

## **Recent Developments**

**Stock Repurchase.** From January 1, 2000 to November 10, 2000, the Company repurchased 3.9 million shares of Common Stock and Common Units at a weighted average price of \$23.61 per share/unit, for a total purchase price of \$92.7 million.

**Disposition and Joint Venture Activity.** On May 9, 2000, we closed a transaction with Dreilander-Fonds 97/26 and 99/32 ("DLF II") pursuant to which we sold or contributed five in-service office properties encompassing 570,000 rentable square feet and a 246,000-square-foot development project valued at approximately \$117.0 million to a newly created limited partnership (the "DLF II Joint Venture"). DLF II contributed \$24.0 million in cash for a 40.0% ownership interest in the DLF II Joint Venture and the DLF II Joint Venture borrowed approximately \$60.0 million from third-party lenders. We initially retained the remaining 60.0% interest in the DLF II Joint Venture, received net cash proceeds of approximately \$74.0 million and are the sole and exclusive manager and leasing agent of the DLF II Joint Venture's properties, for which we receive customary management fees and leasing commissions. On August 31, 2000, DLF II contributed an additional \$7.1 million in cash to the DLF II Joint Venture, which increased its ownership percentage to 51.0%. It is anticipated that DLF II will exercise its option to contribute up to an additional \$17.0 million in cash to the DLF II Joint Venture before March 31, 2001 to increase its ownership percentage to 80.0%.

In addition to the properties sold or contributed to the DLF II Joint Venture, during the nine months ended September 30, 2000, we sold approximately 4.6 million rentable square feet of non-core office and industrial properties and 192.0 acres of development land for gross proceeds of \$339.6 million. Non-core office and industrial properties generally include single buildings or business parks that do not fit our long-term strategy. Since September 30, 2000, we have sold an additional 55,000 square feet of non-core office and industrial properties for gross proceeds of \$6.4 million.

On August 9, 2000, we agreed to form two joint ventures with an institutional investor. In the first joint venture, we expect to sell or contribute 21 in-service office properties encompassing approximately 3.0 million rentable square feet valued at approximately \$345.3 million (including approximately \$4.5 million of development land) to a newly created limited liability company. As part of the formation of the first joint venture, the institutional investor will contribute approximately \$85.0 million in cash for an 80.0% ownership interest and the joint venture will borrow approximately \$245.0 million from third-party lenders. We will retain the remaining 20.0% ownership interest and receive net cash proceeds of approximately \$311.0 million. In the second joint venture, we will contribute approximately \$7.2 million of development land we currently own to a second newly created limited liability company. The second joint venture expects to develop four properties encompassing 435,000 rentable square feet with a budgeted cost of approximately \$61.0 million. We will each own 50.0% of the second joint venture and will be the sole and exclusive manager and leasing agent for the properties in both joint ventures, for which we will receive customary management fees and leasing commissions. These transactions are subject to customary closing conditions, including the completion of due diligence, the execution of other definitive agreements and the ability to obtain satisfactory financing, and are expected to close before the end of 2000. However, we cannot assure you that these transactions will be consummated or that they will be consummated on the terms described in this quarterly report.

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. As of



November 10, 2000, we expect to reinvest up to \$25.0 million of the net proceeds from recent disposition activity to acquire in tax-deferred exchange transactions in-service properties, development land and development projects located in core markets and in sub-markets where we have a strong presence. For an exchange to qualify for tax-deferred treatment under Section 1031, the net proceeds from the sale of a property must be held by an escrow agent until applied toward the purchase of real estate qualifying for gain deferral. Given the competition for properties meeting our investment criteria, there may be some delay in reinvesting such proceeds. Delays in reinvesting such proceeds will reduce our income from operations. In addition, the use of net proceeds from dispositions to fund development activity, either through direct payments or repayment of borrowings under our revolving loan, will reduce our income from operations until such development projects are placed in service.

### **Possible Environmental Liabilities**

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

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

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

As of the date hereof, we have obtained Phase I environmental assessments (and, in certain instances, Phase II environmental assessments) on substantially all of our in-service properties. These assessments have not revealed, nor are we aware of, any environmental liability at our properties that we believe would materially adversely affect our financial position, operations or liquidity taken as a whole. This projection, however, could be incorrect depending on certain factors. For example, material environmental liabilities may have arisen after the assessments were performed or our assessments may not have revealed all environmental liabilities or may have underestimated the scope and severity of environmental conditions observed. There may also be unknown environmental liabilities at properties for which we have not obtained a Phase I environmental assessment or have not yet obtained a Phase II environmental assessment. In addition, we base our assumptions regarding environmental conditions, including groundwater flow and the existence and source of contamination, on readily available sampling data. We cannot guarantee that such data is reliable in all cases. Moreover, we cannot provide any assurances (1) that future laws, ordinances or regulations will not impose a material environmental liability or (2) that tenants, the condition of land or operations in the vicinity of our properties or unrelated third parties will not affect the current environmental condition of our properties.

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

leases or remain solvent. If tenants do not comply or do not remain solvent, we may at some point be responsible for contamination caused by such tenants.

### **Impact of Recently Issued Accounting Standards**

In June 1998, the Financial Accounting Standards Board ("FASB") issued Statement No. 133, Accounting for Derivative Instruments and Hedging Activities, which is required to be adopted in fiscal years beginning after June 15, 1999. In June 1999, FASB issued Statement No. 137, Accounting for Derivative Instruments and Hedging Activities - Deferral of the FASB Statement No. 133, which stipulates the required adoption date to be all fiscal years beginning after June 15, 2000. In June 2000, FASB issued Statement No. 138, Accounting for Certain Derivative Instruments and Certain Hedging Activities - an amendment of FASB Statement No. 133. Statement No. 133, as amended by Statement No. 138, requires us to recognize all derivatives on the balance sheet at fair value. Derivatives that are not hedges must be adjusted to fair value through income. If the derivative is a hedge, depending on the nature of the hedge, changes in the fair value of derivatives will either be offset against the change in fair value of the hedged assets, liabilities or firm commitments through earnings or recognized in other comprehensive income until the hedged item is recognized in earnings. The ineffective portion of a derivative's change in fair value will be immediately recognized in earnings. The fair market value of our derivatives is discussed under "-Liquidity and Capital Resources."

### **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. The clarification provides that amortization of deferred financing costs and depreciation of non-real estate assets are no longer to be added back to net income in arriving at FFO. In October 1999, NAREIT issued an additional clarification effective as of January 1, 2000 stipulating that FFO should include both recurring and non-recurring operating results. Consistent with this clarification, non-recurring items that are not defined as "extraordinary" under GAAP will be reflected in the calculation of FFO. Gains and losses from the sale of depreciable operating property will continue to be excluded from the calculation of FFO.

Cash available for distribution is defined as 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 and nine month periods ended September 30, 2000 and 1999 are summarized in the following table (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2000	1999	2000	1999
Funds from operations:				
Income before minority interest and extraordinary item.....	\$ 46,490	\$ 43,061	\$ 108,417	\$ 125,158
Add/(Deduct):				
Dividends on preferred stock.....	(8,145)	(8,145)	(24,435)	(24,435)
Severance costs and other division closing expenses .....	--	--	--	1,233
(Gain)/Loss on disposition of land and depreciable assets, net of income tax provision	(10,552)	(846)	8,564	(2,939)
Gain on disposition of land.....	3,288	--	3,288	--
Depreciation and amortization.....	30,123	26,116	87,813	81,977
Depreciation of unconsolidated affiliates.....	1,752	892	3,733	2,114
	-----	-----	-----	-----
Funds from operations before minority interest	62,956	61,078	187,380	183,108
Cash available for distribution:				
Add/(Deduct):				
Rental income from straight-line rents.....	(3,657)	(3,436)	(11,452)	(10,945)
Amortization of deferred financing costs.....	564	696	1,862	2,208
Non-incremental revenue generating capital expenditures (1):				
Building improvements paid.....	(2,248)	(2,114)	(5,913)	(6,589)
Second generation tenant improvements paid...	(7,900)	(7,194)	(17,730)	(17,315)
Second generation lease commissions paid.....	(1,859)	(3,000)	(8,668)	(10,613)
	-----	-----	-----	-----
Cash available for distribution.....	\$ 47,856	\$ 46,030	\$ 145,479	\$ 139,854
	=====	=====	=====	=====
Weighted average common shares/common units outstanding - basic (2).....	66,634	70,959	67,978	70,521
	=====	=====	=====	=====
Weighted average common shares/common units outstanding - diluted (2).....	67,055	71,294	68,218	70,535
	=====	=====	=====	=====
Dividend payout ratios:				
Funds from operations.....	60.7%	64.8%	61.2%	63.0%
	=====	=====	=====	=====
Cash available for distribution.....	79.9%	86.0%	78.8%	82.5%
	=====	=====	=====	=====

(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 November 6, 2000, the Company's Board of Directors declared a dividend of \$0.57 per share for the third quarter ended September 30, 2000 (\$2.28 million on an annualized basis) payable on November 29, 2000 to stockholders of record as of November 16, 2000.

## Disclosure Regarding Forward-Looking Statements

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

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

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

## Property Information

The following table sets forth certain information with respect to our majority owned in-service and development properties (excluding apartment units) as of September 30, 2000 and 1999:

September 30, 2000 -----	Rentable Square Feet -----	Percent Leased/ Pre-Leased -----
In-Service:		
Office.....	25,984,000	94%
Industrial.....	10,204,000	95%
Retail.....	1,569,000	94%
	-----	-----
Total or Weighted Average.....	37,757,000	94%
	=====	=====
Development:		
Completed - Not Stabilized		
Office.....	759,000	79%
Industrial.....	-----	-----
Retail.....	81,000	90%
	-----	-----
Total or Weighted Average.....	840,000	80%
	=====	=====
In Process		
Office.....	1,709,000	55%
Industrial.....	395,000	87%
Retail.....	-----	-----
	-----	-----
Total or Weighted Average.....	2,104,000	61%
	=====	=====
Total:		
Office.....	28,452,000	
Industrial.....	10,599,000	
Retail.....	1,650,000	
	-----	
Total or Weighted Average.....	40,701,000	
	=====	
September 30, 1999 -----		
In-Service:		
Office.....	27,293,000	94%
Industrial.....	11,805,000	91%
Retail.....	1,676,000	91%
	-----	-----
Total or Weighted Average.....	40,774,000	93%
	=====	=====
Development:		
Completed - Not Stabilized		
Office.....	2,174,000	74%
Industrial.....	383,000	55%
Retail.....	119,000	97%
	-----	-----
Total or Weighted Average.....	2,676,000	72%
	=====	=====
In Process		
Office.....	2,350,000	78%
Industrial.....	282,000	10%
Retail.....	81,000	82%
	-----	-----
Total or Weighted Average.....	2,713,000	71%
	=====	=====
Total:		
Office.....	31,817,000	
Industrial.....	12,470,000	
Retail.....	1,876,000	
	-----	
Total or Weighted Average.....	46,163,000	
	=====	

The following table sets forth certain information with respect to our properties under development as of September 30, 2000 (\$ in thousands):

In-Process

Name	Market	Rentable Square Feet	Estimated Cost	Cost at 9/30/00	Pre-Leasing Percentage (1)	Estimated Completion	Estimated Stabilization (2)
Office:							
ECPI Build-to-suit	Piedmont						
	Triad	30,000	\$ 3,020	\$ 2,998	100%	4Q00	4Q00
Deerfield III	Atlanta	54,000	5,276	2,356	100%	4Q00	3Q01
Highwoods Plaza	Tampa	66,000	7,505	5,183	20%	4Q00	3Q01
Intermedia Building 5	Tampa	185,000	27,633	6,298	100%	3Q01	3Q01
Met Life Building at Brookfield	Greenville	118,000	13,220	21	67%	3Q01	4Q01
Shadow Creek	Memphis	80,000	8,989	4,472	86%	4Q00	4Q01
380 Park Place	Tampa	82,000	9,675	2,590	47%	1Q01	4Q01
kforce.com	Tampa	128,000	18,582	284	100%	4Q01	4Q01
Maplewood	Research						
	Triangle	36,000	3,901	1,703	100%	1Q01	1Q02
Situs III	Research						
	Triangle	39,000	4,543	782	94%	1Q01	1Q02
Highwoods Centre @ Peachtree Corners III	Atlanta	54,000	5,140	1,333	0%	2Q01	2Q02
Cool Springs II	Nashville	205,000	22,718	8,950	19%	2Q01	2Q02
Highwoods Tower II	Research						
	Triangle	167,000	25,134	12,722	72%	1Q01	2Q02
ParkWest One	Research						
	Triangle	46,000	4,364	127	0%	1Q01	1Q02
ParkWest Two	Research		4,544				
	Triangle	48,000		137	0%	1Q01	1Q02
Centre Green Two	Research						
	Triangle	97,000	11,596	1,055	0%	2Q01	2Q02
Hickory Trace	Nashville	52,000	5,933	1,511	0%	3Q01	3Q02
Stony Point III	Richmond	106,000	11,425	2,546	43%	2Q01	3Q02
North Shore Commons	Richmond	116,000	13,084	2,030	53%	2Q01	3Q02
In-Process Office Total or Weighted Average		1,709,000	\$ 206,282	\$ 57,098	55%		
Industrial:							
Jones Apparel Expansion	Piedmont						
	Triad	209,000	\$ 6,071	\$ 4,241	100%	4Q00	4Q00
Holden Road	Piedmont						
	Triad	64,000	2,014	1,032	40%	1Q01	3Q01
Tradeport Place III	Atlanta	122,000	4,780	2,659	90%	4Q00	4Q01
In-Process Industrial Total or Weighted Average		395,000	\$ 12,865	\$ 7,932	87%		
Total or Weighted Average of all In-Process Development Projects		2,104,000	\$ 219,147	\$ 65,030	61%		

(1) Includes the effect of letters of intent.

(2) We generally consider a development project to be stabilized upon the earlier of the first date such project is at least 95.0% occupied or one year from the date of completion.

Completed -  
Not Stabilized

Name	Market	Rentable Square Feet	Estimated Cost	Cost at 9/30/00	Pre-Leasing Percentage (1)	Estimated Completion	Estimated Stabilization (2)
Office:							
Mallard Creek V	Charlotte	118,000	12,262	11,294	70%	4Q99	4Q00
Valencia Place	Kansas City	241,000	34,850	35,237	90%	1Q00	4Q00
Centre Green One	Research Triangle	97,000	11,246	6,856	92%	3Q00	3Q01
Capital Plaza	Orlando	303,000	53,000	44,740	69%	1Q00	4Q01
Completed-Not Stabilized Office Total or Weighted Average		759,000	\$ 111,358	\$ 98,127	79%		
Retail:							
Valencia Place	Kansas City	81,000	\$ 16,650	\$ 14,842	90%	1Q00	4Q00
Completed-Not Stabilized Retail Total or Weighted Average		81,000	\$ 16,650	\$ 14,842	90%		
Total or Weighted Average of all Completed-Not Stabilized Development							
Projects		840,000	\$ 128,008	\$ 112,969	80%		
Total or Weighted Average of all Development Projects		2,944,000	\$ 347,155	\$ 177,999	66%		

(1) Includes the effect of letters of intent.

(2) We generally consider a development project to be stabilized upon the earlier of the first date such project is at least 95.0% occupied or one year from the date of completion.

Development Analysis	Rentable Square Feet	Estimated Costs	Pre-Leasing Percentage (1)
	(in thousands)		
Summary by Estimated Stabilization Date:			
Fourth Quarter 2000.....	679,000	\$ 72,853	90%
First Quarter 2001.....	--	--	--
Second Quarter 2001.....	--	--	--
Third Quarter 2001.....	466,000	53,674	79%
Fourth Quarter 2001.....	833,000	108,246	76%
First Quarter 2002.....	169,000	17,352	43%
Second Quarter 2002.....	523,000	64,588	30%
Third Quarter 2002.....	274,000	30,442	39%
	-----	-----	-----
Total or Weighted Average.....	2,944,000	\$ 347,155	66%
	=====	=====	=====
Summary by Market:			
Atlanta.....	230,000	\$ 15,196	71%
Charlotte.....	118,000	12,262	70%
Greenville.....	118,000	13,220	67%
Kansas City.....	322,000	51,500	90%
Memphis.....	80,000	8,989	86%
Nashville.....	257,000	28,651	15%
Orlando.....	303,000	53,000	69%
Piedmont Triad.....	303,000	11,105	87%
Research Triangle.....	530,000	65,328	53%
Richmond.....	222,000	24,509	48%
Tampa.....	461,000	63,395	79%
	-----	-----	-----
Total or Weighted Average.....	2,944,000	\$ 347,155	66%
	=====	=====	=====
Build-to-Suit.....	552,000	\$ 55,306	100%
Multi-Tenant.....	2,392,000	291,849	58%
	-----	-----	-----
Total or Weighted Average.....	2,944,000	\$ 347,155	66%
	=====	=====	=====
	Average Rentable Square Feet	Average Estimated Costs	Pre-Leasing Percentage (1)
	(in thousands)		
Per Property Type:			
Office.....	107,304	\$ 13,810	62%
Industrial.....	131,667	4,288	87%
Retail.....	81,000	16,650	90%
	-----	-----	-----
All.....	109,037	\$ 12,858	66%
	=====	=====	=====

(1) Includes the effect of letters of intent.



The following tables set forth certain information about our leasing activities at our majority-owned in service properties (excluding apartment units) for the three months ended September 30, June 30, and March 31, 2000 and December 31, 1999.

	Office Leasing Statistics Three Months Ended				
	9/30/00 -----	6/30/00 -----	3/31/00 -----	12/31/99 -----	Average -----
Net Effective Rents Related to Re-Leased Space:					
Number of lease transactions (signed leases)	174	221	207	251	213
Rentable square footage leased	1,056,239	990,663	931,686	1,337,611	1,079,050
Average per rentable square foot over the lease term:					
Base rent	\$ 15.23	\$ 18.43	\$ 17.04	\$ 17.28	\$ 17.00
Tenant improvements	(1.21)	(1.39)	(1.07)	(0.90)	(1.14)
Leasing commissions	(0.40)	(0.57)	(0.40)	(0.36)	(0.43)
Rent concessions	(0.03)	(0.05)	(0.04)	(0.04)	(0.04)
	-----	-----	-----	-----	-----
Effective rent	13.59	16.42	15.53	15.98	15.39
Expense stop (1)	(4.03)	(5.37)	(5.00)	(5.09)	(4.87)
	-----	-----	-----	-----	-----
Equivalent effective net rent	\$ 9.56	\$ 11.05	\$ 10.53	\$ 10.89	\$ 10.52
	=====	=====	=====	=====	=====
Average term in years	5	5	4	5	5
	=====	=====	=====	=====	=====
Capital Expenditures Related to Released Space:					
Tenant Improvements:					
Total dollars committed under signed leases	\$ 6,676,576	\$ 5,510,054	\$ 4,756,023	\$ 6,224,907	\$ 5,791,890
Rentable square feet	1,056,239	930,663	931,686	1,337,611	1,079,050
	-----	-----	-----	-----	-----
Per rentable square foot	\$ 6.32	\$ 5.92	\$ 5.10	\$ 4.65	\$ 5.37
	=====	=====	=====	=====	=====
Leasing Commissions:					
Total dollars committed under signed leases	\$ 1,910,278	\$ 2,392,441	\$ 1,505,559	\$ 2,151,399	\$ 1,989,919
Rentable square feet	1,056,239	990,663	931,686	1,337,611	1,079,050
	-----	-----	-----	-----	-----
Per rentable square foot	\$ 1.81	\$ 2.41	\$ 1.62	\$ 1.61	\$ 1.84
	=====	=====	=====	=====	=====
Total:					
Total dollars committed under signed leases	\$ 8,586,853	\$ 7,902,495	\$ 6,261,582	\$ 8,376,306	\$ 7,781,809
Rentable square feet	1,056,239	990,663	931,686	1,337,611	1,079,050
	-----	-----	-----	-----	-----
Per rentable square foot	\$ 8.13	\$ 7.98	\$ 6.72	\$ 6.26	\$ 7.21
	=====	=====	=====	=====	=====
Rental Rate Trends:					
Average final rate with expense pass throughs	\$ 14.30	\$ 16.59	\$ 15.79	\$ 16.96	\$ 15.91
Average first year cash rental rate	\$ 14.96	\$ 17.58	\$ 16.76	\$ 17.16	\$ 16.62
	-----	-----	-----	-----	-----
Percentage increase	4.61%	6.02%	6.11%	1.16%	4.43%
	=====	=====	=====	=====	=====

(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

	9/30/00	6/30/00	03/31/00	12/31/99	Average
Net Effective Rents Related to Re-Leased Space:					
Number of lease transactions (signed leases)	31	46	66	64	52
Rentable square footage leased	349,079	362,521	1,305,697	543,522	640,205
Average per rentable square foot over the lease term:					
Base rent	\$ 4.54	\$ 5.14	\$ 4.34	\$ 5.85	\$ 4.97
Tenant improvements	(0.32)	(0.28)	(0.19)	(0.38)	(0.29)
Leasing commissions	(0.15)	(0.12)	(0.11)	(0.11)	(0.12)
Rent concessions	0.00	(0.01)	0.00	(0.01)	(0.01)
Effective rent	4.07	4.73	4.04	5.35	4.55
Expense stop (1)	(0.23)	(0.48)	(0.14)	(0.39)	(0.31)
Equivalent effective net rent	\$ 3.84	\$ 4.25	\$ 3.90	\$ 4.96	\$ 4.24
Average term in years	4	4	5	4	4
Capital Expenditures Related to Re-leased Space:					
Tenant Improvements:					
Total dollars committed under signed leases	\$ 510,520	\$ 389,592	\$ 966,338	\$1,042,852	\$ 727,325
Rentable square feet	349,079	362,521	1,305,697	543,522	640,205
Per rentable square foot	\$ 1.46	\$ 1.07	\$ 0.74	\$ 1.92	\$ 1.14
Leasing Commissions:					
Total dollars committed under signed leases	\$ 167,772	\$ 185,028	\$ 671,182	\$ 222,728	\$ 311,678
Rentable square feet	349,079	362,521	1,305,697	543,522	640,205
Per rentable square foot	\$ 0.48	\$ 0.51	\$ 0.51	\$ 0.41	\$ 0.49
Total:					
Total dollars committed under signed leases	\$ 678,292	\$ 574,620	\$1,637,520	\$1,265,580	\$1,039,003
Rentable square feet	349,079	362,521	1,305,697	543,522	640,205
Per rentable square foot	\$ 1.94	\$ 1.59	\$ 1.25	\$ 2.33	\$ 1.62
Rental Rate Trends:					
Average final rate with expense pass throughs	\$ 4.11	\$ 4.44	\$ 3.91	\$ 5.50	\$ 4.49
Average first year cash rental rate	\$ 4.51	\$ 4.72	\$ 4.19	\$ 5.66	\$ 4.77
Percentage increase	9.55%	6.35%	6.98%	2.84%	6.15%

(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

	9/30/00	6/30/00	3/31/00	12/31/99	Average
Net Effective Rents Related to Re-Leased Space:					
Number of lease transactions (signed leases)	21	15	20	28	21
Rentable square footage leased	53,217	37,036	37,556	85,476	53,321
Average per rentable square foot over the lease term:					
Base rent	\$ 22.26	\$ 21.84	\$ 19.81	\$ 14.54	\$ 19.61
Tenant improvements	(1.26)	(1.97)	(0.60)	(1.51)	(1.34)
Leasing commissions	(0.58)	(0.57)	(0.76)	(0.59)	(0.63)
Rent concessions	(0.03)	0.00	0.00	0.00	0.01
Effective rent	20.39	19.30	18.45	12.44	17.65
Expense stop (1)	0.00	(0.12)	0.00	0.00	(0.03)
Equivalent effective net rent	\$ 20.39	\$ 19.18	\$ 18.45	\$ 12.44	\$ 17.62
Average term in years	8	8	5	8	7
Capital Expenditures Related to Re-leased Space:					
Tenant Improvements:					
Total dollars committed under signed leases	\$ 600,136	\$ 914,200	\$ 82,365	\$1,119,000	\$ 678,925
Rentable square feet	53,217	37,036	37,556	85,476	53,321
Per rentable square foot	\$ 11.28	\$ 24.68	\$ 2.19	\$ 13.09	\$ 12.73
Leasing Commissions:					
Total dollars committed under signed leases	\$ 143,269	\$ 175,122	\$ 145,060	\$ 397,123	\$ 215,144
Rentable square feet	53,217	37,036	37,556	85,476	53,321
Per rentable square foot	\$ 2.69	\$ 4.73	\$ 3.86	\$ 4.65	\$ 4.03
Total:					
Total dollars committed under signed leases	\$ 743,406	\$1,089,322	\$ 227,425	\$1,516,123	\$ 894,069
Rentable square feet	53,217	37,036	37,556	85,476	53,321
Per rentable square foot	\$ 13.97	\$ 29.41	\$ 6.06	\$ 17.74	\$ 16.77
Rental Rate Trends:					
Average final rate with expense pass throughs	\$ 13.85	\$ 16.60	\$ 15.20	\$ 8.87	\$ 13.63
Average first year cash rental rate	\$ 19.40	\$ 19.06	\$ 18.68	\$ 12.41	\$ 17.39
Percentage increase	40.08%	14.82%	22.83%	39.86%	27.54%

(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 for executed leases at our majority-owned in-service properties (excluding apartment units) as of September 30, 2000 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 2000	353	1,289,187	5.2%	\$ 21,133	\$ 16.39	5.1%
2001	560	3,016,085	12.2%	52,317	17.35	12.7%
2002	584	3,152,157	12.8%	52,861	16.77	12.8%
2003	531	3,716,010	15.1%	63,796	17.17	15.4%
2004	386	2,853,841	11.6%	50,191	17.59	12.1%
2005	348	2,916,045	11.8%	48,548	16.65	11.7%
2006	75	1,766,871	7.2%	29,222	16.54	7.1%
2007	46	1,074,372	4.4%	16,590	15.44	4.0%
2008	48	1,341,127	5.4%	20,352	15.18	4.9%
2009	21	724,305	2.9%	11,480	15.85	2.8%
2010 and thereafter	106	2,815,087	11.4%	46,996	16.69	11.4%
-----	-----	-----	-----	-----	-----	-----
	3,058	24,665,087	100.0%	\$ 413,486	\$ 16.76	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 2000	48	660,609	6.9%	\$ 3,093	\$ 4.68	6.9%
2001	101	1,598,748	16.6%	7,227	4.52	16.1%
2002	101	1,637,433	17.0%	7,180	4.38	16.0%
2003	77	1,293,892	13.4%	6,211	4.80	13.8%
2004	58	2,110,324	21.9%	8,583	4.07	19.0%
2005	35	513,612	5.3%	2,812	5.47	6.3%
2006	11	356,062	3.7%	2,278	6.40	5.1%
2007	12	526,748	5.5%	2,946	5.59	6.6%
2008	4	196,045	2.0%	1,301	6.64	2.9%
2009	6	268,813	2.8%	1,806	6.72	4.0%
2010 and thereafter	13	468,199	4.9%	1,492	3.19	3.3%
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	466	9,630,485	100.0%	\$ 44,929	\$ 4.67	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 2000	26	111,244	7.3%	\$ 1,223	\$10.99	4.0%
2001	43	97,113	6.4%	2,748	28.30	8.9%
2002	35	85,947	5.7%	1,826	21.25	5.9%
2003	41	104,379	6.9%	2,282	21.86	7.4%
2004	36	213,861	14.1%	2,657	12.42	8.6%
2005	34	82,735	5.5%	2,284	27.61	7.4%
2006	23	80,498	5.3%	1,902	23.63	6.2%
2007	15	65,683	4.3%	1,181	17.98	3.8%
2008	16	108,901	7.2%	3,613	33.18	11.7%
2009	21	169,286	11.2%	3,177	18.77	10.3%
2010 and thereafter	29	397,014	26.1%	7,908	19.92	25.8%
-----	-----	-----	-----	-----	-----	-----
	319	1,516,661	100.0%	\$30,801	\$20.31	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)	Average Annual Rental Rate Per Square Foot for Expirations (1)	Percentage of Leased Rents Represented by Expiring Leases
-----	-----	-----	-----	-----	-----	-----
Remainder of 2000	427	2,061,040	5.8%	\$ 25,449	\$12.35	5.2%
2001	704	4,711,946	13.2%	62,292	13.22	12.7%
2002	720	4,875,537	13.6%	61,867	12.69	12.6%
2003	649	5,114,281	14.2%	72,289	14.13	14.8%
2004	480	5,178,026	14.4%	61,431	11.86	12.6%
2005	417	3,512,392	9.8%	53,644	15.27	11.0%
2006	109	2,203,431	6.2%	33,402	15.16	6.8%
2007	73	1,666,803	4.7%	20,717	12.43	4.2%
2008	68	1,646,073	4.6%	25,266	15.35	5.2%
2009	48	1,162,404	3.2%	16,463	14.16	3.4%
2010 and thereafter	148	3,680,300	10.3%	56,396	15.32	11.5%
-----	-----	-----	-----	-----	-----	-----
	3,843	35,812,233	100.0%	\$489,216	\$13.66	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 September 30, 2000, the Company had approximately \$180.5 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 September 30, 2001, our interest expense would be increased or decreased approximately \$1.8 million. In addition, as of September 30, 2000, we had \$80.0 million of additional variable rate debt outstanding that was protected by an interest rate collar that effectively keeps the interest rate within a range of 65 basis points. We do not believe that a 100 basis point increase or decrease in interest rates would materially affect our interest expense with respect to this \$80.0 million of debt.

**Interest Rate Hedge Contracts.** For a discussion of our interest rate hedge contracts in effect at September 30, 2000, 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 September 30, 2000 would increase by approximately \$1.0 million. If interest rates decrease by 100 basis points, the aggregate fair market value of these interest rate hedge contracts as of September 30, 2000 would decrease by approximately \$667,000.

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 alleges, among other things, that in connection with the merger of J.C. Nichols and the Company, (1) J.C. Nichols and the named directors and officers of J.C. Nichols breached their fiduciary duties to J.C. Nichols' stockholders, (2) J.C. Nichols and the named directors and officers of J.C. Nichols breached fiduciary duties to members of the J.C. Nichols Company Employee Stock Ownership Trust, (3) all defendants participated in the dissemination of a proxy statement containing materially false and misleading statements and omissions of material facts in violation of Section 14(a) of the Securities Exchange Act of 1934 and (4) the Company filed a registration statement with the SEC containing materially false and misleading statements and omissions of material facts in violation of Sections 11 and 12(2) of the Securities Act of 1933. The plaintiff seeks equitable relief and monetary damages. We believe that the defendants have meritorious defenses to the plaintiff's allegations and intend to vigorously defend this litigation. By order dated June 18, 1999, the court granted in part and denied in part our motion to dismiss. The court has granted the plaintiff's motion seeking certification of the proposed class of plaintiffs with respect to the remaining claims. Discovery in this matter has now been completed. Plaintiff John Flake passed away on or about April 2, 2000, and plaintiff's counsel has substituted his estate as the representative plaintiff in this action. Defendants filed a summary judgment motion as to all claims asserted by the plaintiff, who opposed defendants' motion. By order dated August 28, 2000, the court granted defendants' motion as to plaintiff's claims that J.C. Nichols and the named directors and officers of J.C. Nichols breached fiduciary duties to members of the J.C. Nichols Company Employee Stock Ownership Trust. The court also granted in part and denied in part defendants' summary judgment motion as to the remaining claims asserted by the plaintiff. Defendants have sought reconsideration of the court's ruling as to certain of the securities claims as to which the court denied their summary judgment motion. Due to the inherent uncertainties of the litigation process and the judicial system, we are not able to predict the outcome of this litigation. However, at this time, we do not expect the result of this litigation to have a material adverse effect on our business, financial condition and results of operations.

### Item 2. Changes in Securities and Use of Proceeds - NA

### 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
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2	(1) Agreement to Form Limited Liability Companies, entered into as of August 9, 2000, by and among Miller Global Fund III, L.P., MGA Development Associates, L.P., Highwoods Realty Limited Partnership and Highwoods/Florida Holdings, L.P.
27	Financial Data Schedule
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(1) Filed as part of our Quarterly Report on Form 10-Q for the quarter ended June 30, 2000 and incorporated by reference herein.

(b) Reports on Form 8-K - None

## SIGNATURES

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

### HIGHWOODS PROPERTIES, INC.

By:

/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 14, 2000



**ARTICLE 5**

MULTIPLIER: 1,000

PERIOD TYPE	3 MOS	9 MOS
FISCAL YEAR END	DEC 31 2000	DEC 31 2000
PERIOD START	JUL 01 2000	JAN 01 2000
PERIOD END	SEP 30 2000	SEP 30 2000
CASH	38,904	38,904
SECURITIES	0	0
RECEIVABLES	23,765	23,765
ALLOWANCES	0	0
INVENTORY	0	0
CURRENT ASSETS	75,833	75,833
PP&E	3,415,724	3,415,724
DEPRECIATION	(262,749)	(262,749)
TOTAL ASSETS	3,824,836	3,824,836
CURRENT LIABILITIES	126,432	126,432
BONDS	1,686,529	1,686,529
PREFERRED MANDATORY	0	0
PREFERRED	397,500	397,500
COMMON	622	622
OTHER SE	1,400,173	1,400,173
TOTAL LIABILITY AND EQUITY	3,824,836	3,824,836
SALES	131,118	404,738
TOTAL REVENUES	138,986	425,266
CGS	39,470	120,358
TOTAL COSTS	39,470	120,358
OTHER EXPENSES	35,842	104,071
LOSS PROVISION	0	0
INTEREST EXPENSE	27,736	83,856
INCOME PRETAX	0	0
INCOME TAX	0	0
INCOME CONTINUING	41,192	95,277
DISCONTINUED	0	0
EXTRAORDINARY	3,310	4,344
CHANGES	0	0
NET INCOME	37,882	90,933
EPS BASIC	.50	1.12
EPS DILUTED	.50	1.11

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