

HIGHWOODS PROPERTIES INC

FORM 10-Q (Quarterly Report)

Filed 8/14/2000 For Period Ending 6/30/2000

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

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

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

For the quarterly period ended June 30, 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

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

The Company has only one class of common stock, par value \$.01 per share, with 58,751,536 shares outstanding as of August 7, 2000.

HIGHWOODS PROPERTIES, INC.
QUARTERLY REPORT FOR THE PERIOD ENDED JUNE 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)

	June 30, 2000	December 31, 1999
	-----	-----
	(Unaudited)	
Assets		
Real estate assets, at cost:		
Land and improvements	\$ 472,811	\$ 491,273
Buildings and tenant improvements.....	2,980,623	3,056,962
Development in process.....	77,216	186,925
Land held for development.....	150,145	168,396
Furniture, fixtures and equipment.....	9,310	7,917
	-----	-----
	3,690,105	3,911,473
Less - accumulated depreciation.....	(268,884)	(238,135)
	-----	-----
Net real estate assets.....	3,421,221	3,673,338
Property held for sale.....	142,924	48,960
Cash and cash equivalents.....	44,507	34,496
Restricted cash.....	8,405	1,842
Accounts receivable, net.....	20,018	22,847
Advances to related parties.....	13,175	15,096
Notes receivable.....	43,096	58,241
Accrued straight line rents receivable.....	41,308	35,951
Investment in unconsolidated affiliates.....	60,827	38,977
Other assets:		
Deferred leasing costs.....	78,095	66,783
Deferred financing costs.....	40,211	40,125
Prepaid expenses and other.....	13,509	15,614
	-----	-----
	131,815	122,522
Less - accumulated amortization.....	(43,557)	(36,073)
	-----	-----
Other assets, net.....	88,258	86,449
	-----	-----
Total Assets.....	\$3,883,739	\$4,016,197
	=====	=====
Liabilities and Stockholders' Equity		
Mortgages and notes payable.....	\$1,714,531	\$1,766,117
Accounts payable, accrued expenses and other liabilities.....	117,206	111,945
	-----	-----
Total Liabilities.....	1,831,737	1,878,062
Minority interest.....	235,146	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 June 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 June 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 June 30, 2000 and December 31, 1999.....	100,000	100,000
Common stock, \$.01 par value, 200,000,000 authorized shares; issued 62,191,568 (includes 3,214,200 shares in treasury) and 62,068,613 (includes 1,150,000 shares in treasury) at June 30, 2000 and December 31, 1999, respectively.....	621	621
Additional paid-in capital.....	1,600,079	1,597,494
Distributions in excess of net earnings.....	(107,601)	(77,670)
Less Treasury stock at cost, 3,214,200 shares at June 30, 2000 and 1,150,000 shares at December 31, 1999.....	(71,601)	(25,475)
Deferred compensation - restricted stock	(2,142)	--
	-----	-----
Total Stockholders' Equity.....	1,816,856	1,892,470
	-----	-----
Total Liabilities and Stockholders' Equity	\$3,883,739	\$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 June 30,		Six Months Ended June 30,	
	2000	1999	2000	1999
Revenue:				
Rental property.....	\$ 137,719	\$ 142,079	\$ 273,620	\$ 288,800
Equity in earnings of unconsolidated affiliates.....	944	490	1,887	687
Interest and other income.....	6,458	5,273	10,773	10,560
	-----	-----	-----	-----
Total Revenue	145,121	147,842	286,280	300,047
Operating expenses:				
Rental property.....	41,427	43,761	80,888	89,106
Depreciation and amortization.....	29,362	27,705	57,690	55,861
Interest expense:				
Contractual.....	27,775	29,717	54,822	61,559
Amortization of deferred financing costs.....	577	734	1,298	1,512
	-----	-----	-----	-----
General and administrative.....	28,352	30,451	56,120	63,071
	5,443	6,212	10,539	12,005
	-----	-----	-----	-----
Income before (loss)/gain on disposition of assets, net of income tax provision, minority interest and extraordinary item.....	40,537	39,713	81,043	80,004
(Loss)/Gain on disposition of assets, net of income tax provision.....	(26,062)	1,524	(19,116)	2,093
	-----	-----	-----	-----
Income before minority interest and extraordinary item.....	14,475	41,237	61,927	82,097
Minority interest.....	(1,822)	(4,879)	(7,842)	(10,705)
	-----	-----	-----	-----
Income before extraordinary item.....	12,653	36,358	54,085	71,392
Extraordinary item - loss on early extinguishment of debt.....	(839)	(777)	(1,034)	(777)
	-----	-----	-----	-----
Net income.....	11,814	35,581	53,051	70,615
Dividends on preferred stock.....	(8,145)	(8,145)	(16,290)	(16,290)
	-----	-----	-----	-----
Net income available for common shareholders.....	\$ 3,669	\$ 27,436	\$ 36,761	\$ 54,325
	=====	=====	=====	=====
Net income per common share - basic:				
Income before extraordinary item.....	\$ 0.08	\$ 0.46	\$ 0.63	\$ 0.90
Extraordinary item - loss on early extinguishment of debt.....	(0.01)	(0.01)	(0.01)	(0.01)
	-----	-----	-----	-----
Net income.....	\$ 0.07	\$ 0.45	\$ 0.62	\$ 0.89
	=====	=====	=====	=====
Weighted average shares outstanding - basic.....	59,293	61,529	59,850	60,930
	=====	=====	=====	=====
Net income per common share - diluted:				
Income before extraordinary item.....	\$ 0.08	\$ 0.46	\$ 0.63	\$ 0.90
Extraordinary item - loss on early extinguishment of debt.....	(0.01)	(0.01)	(0.01)	(0.01)
	-----	-----	-----	-----
Net income.....	\$ 0.07	\$ 0.45	\$ 0.62	\$ 0.89
	=====	=====	=====	=====
Weighted average shares outstanding - diluted...	59,608	61,722	60,055	60,954
	=====	=====	=====	=====

See accompanying notes to consolidated financial statements.

HIGHWOODS PROPERTIES, INC.

Consolidated Statements of Stockholders' Equity

For the Six Months Ended June 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 (Distributions in excess of Net Earnings)
	-----	-----	-----	-----	-----	-----	-----	-----	-----
Balance at December 31, 1999.....	60,918,613	\$621	\$125,000	\$172,500	\$100,000	\$(25,475)	\$1,597,494	\$ --	\$ (77,670)
Issuance of Common Stock..	41,804	--	--	--	--	--	707	--	--
Common Stock Dividends.....	--	--	--	--	--	--	--	--	(66,692)
Preferred Stock Dividends....	--	--	--	--	--	--	--	--	(16,290)
Issuance of restricted stock.....	81,151	--	--	--	--	--	1,878	(2,369)	--
Amortization of deferred compensation	--	--	--	--	--	--	--	227	--
Purchase of Treasury Stock.....	(2,064,200)	--	--	--	--	(46,126)	--	--	--
Net Income....	--	--	--	--	--	--	53,051	--	53,051
Balance at June 30, 2000.	58,977,368	\$621	\$125,000	\$172,500	\$100,000	\$(71,601)	\$1,600,079	\$(2,142)	\$ (107,601)
	=====	=====	=====	=====	=====	=====	=====	=====	=====
	Total								

Balance at December 31, 1999.....	\$1,892,470								
Issuance of Common Stock..	707								
Common Stock Dividends.....	(66,692)								
Preferred Stock Dividends....	(16,290)								
Issuance of restricted stock.....	(491)								
Amortization of deferred compensation	227								
Purchase of Treasury Stock.....	(46,126)								
Net Income....	53,051								
Balance at June 30, 2000.	\$1,816,856								
	=====								

See accompanying notes to consolidated financial statements.

HIGHWOODS PROPERTIES, INC.
Consolidated Statements of Cash Flows
(unaudited and in thousands)

	Six Months Ended June 30,	
	2000	1999
Operating activities:		
Net income.....	\$ 53,051	\$ 70,615
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization.....	57,690	55,861
Minority interest.....	7,842	10,705
Loss/(Gain) on disposition of assets.....	19,116	(2,093)
Amortization of deferred compensation.....	227	--
Changes in operating assets and liabilities.....	(3,382)	(39,559)
Net cash provided by operating activities.....	134,544	95,529
Investing activities:		
Additions to real estate assets.....	(126,256)	(245,342)
Cash paid in exchange for partnership net assets.....	--	(847)
Proceeds from disposition of real estate assets.....	216,443	502,737
Advances to and repayments from subsidiaries	1,921	(3,831)
Other	(16,360)	(21,666)
Net cash provided by investing activities	75,748	231,051
Financing activities:		
Distributions paid on common stock and common units.....	(76,241)	(76,147)
Dividends paid on preferred stock.....	(16,290)	(16,290)
Borrowings on mortgages and notes payable.....	72,442	4,385
Repayments on mortgages and notes payable.....	(89,028)	(22,700)
Borrowings on revolving loans.....	279,500	210,500
Repayments on revolving loans.....	(314,500)	(362,500)
Net proceeds from the sale of common stock.....	707	14,002
Net payment of deferred financing costs.....	(86)	(4,494)
Purchase of treasury stock and units.....	(55,549)	--
Other.....	(1,227)	(777)
Net cash used in financing activities.....	(200,281)	(254,021)
Net increase in cash and cash equivalents.....	10,011	72,559
Cash and cash equivalents at beginning of the period.....	34,496	31,445
Cash and cash equivalents at end of the period.....	\$ 44,507	\$ 104,004
Supplemental disclosure of cash flow information:		
Cash paid for interest.....	\$ 68,306	\$ 78,057

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.

	Six Months Ended June 30,	
	2000	1999
	(Unaudited)	(Unaudited)
Assets:		
Rental property and equipment, net.....	\$ 1,356	\$ (25,879)
Liabilities:		
Mortgages and notes payable	--	(52,165)
Net assets.....	\$ 1,356	\$ 26,286
	=====	=====

See accompanying notes to consolidated financial statements.

HIGHWOODS PROPERTIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2000
(Unaudited)

1. BASIS OF PRESENTATION

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

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

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 was not distributed to stockholders at June 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 to 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 six months ended June 30, 2000 and 1999.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2000	1999	2000	1999
	(in thousands)		(in thousands)	
Rental Income:				
Office segment.....	\$ 112,032	\$ 117,045	\$ 223,449	\$ 239,660
Industrial segment.....	12,281	12,783	24,028	25,006
Retail segment.....	9,069	8,156	17,473	15,940
Apartment segment.....	4,337	4,095	8,670	8,194
	-----	-----	-----	-----
Total Rental Income.....	\$ 137,719	\$ 142,079	\$ 273,620	\$ 288,800
	=====	=====	=====	=====
Net Operating Income:				
Office segment.....	\$ 77,215	\$ 79,740	\$ 155,314	\$ 163,487
Industrial segment.....	10,295	10,645	20,075	20,846
Retail segment.....	6,267	5,561	12,213	10,704
Apartment segment.....	2,515	2,372	5,130	4,657
	-----	-----	-----	-----
Total Net Operating Income.....	\$ 96,292	\$ 98,318	\$ 192,732	\$ 199,694
	-----	-----	-----	-----
Reconciliation to income before minority interest and extraordinary item:				
Equity in income of unconsolidated affiliates	\$ 944	\$ 490	\$ 1,887	\$ 687
(Loss)/Gain on disposition of assets, net of income tax provision.....	(26,062)	1,524	(19,116)	2,093
Interest and other income.....	6,458	5,273	10,773	10,560
Interest expense.....	(28,352)	(30,451)	(56,120)	(63,071)
General and administrative expenses.....	(5,443)	(6,212)	(10,539)	(12,005)
Depreciation and amortization.....	(29,362)	(27,705)	(57,690)	(55,861)
	-----	-----	-----	-----
Income before minority interest and extraordinary item.....	\$ 14,475	\$ 41,237	\$ 61,927	\$ 82,097
	=====	=====	=====	=====
Total Assets:				
Office segment.....	\$ 2,872,033	\$ 2,950,888	\$ 2,872,033	\$ 2,950,888
Industrial segment.....	410,855	454,023	410,855	454,023
Retail segment.....	287,412	250,534	287,412	250,534
Apartment segment.....	114,528	119,868	114,528	119,868
Corporate and other.....	198,911	274,548	198,911	274,548
	-----	-----	-----	-----
Total Assets.....	\$ 3,883,739	\$ 4,049,861	\$ 3,883,739	\$ 4,049,861
	=====	=====	=====	=====

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 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. It is anticipated that DLF II will exercise its option to contribute up to an additional \$24.0 million in cash to the DLF II Joint Venture before the end of 2000 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 six months ended June 30, 2000, we sold approximately 2.5 million rentable square feet of non-core office and industrial properties and 89.0 acres of development land for gross proceeds of \$153.9 million. We recorded a gain of \$3.9 million related to these dispositions. Included in these sales were certain properties encompassing 887,000 square feet sold to an entity majority-owned by a related party for a selling price of \$69.0 million. Non-core office and industrial properties generally include single buildings or business parks that do not fit our long-term strategy. Since June 30, 2000, an additional 1.7 million square feet of non-core office and industrial properties, which are included in property held for sale in the Consolidated Balance Sheet at June 30, 2000, have been sold for gross proceeds of \$137.2 million. Included in these sales were certain properties encompassing 1.1 million square feet sold to an entity majority-owned by a related party for a selling price of \$100.0 million. At June 30, 2000, the carrying value of the assets held

for sale was reduced to fair value based on the selling price less costs to sell. The resulting adjustment of \$23.0 million to reduce the assets held for sale to fair value was recorded, and is included in the (loss)/gain on disposition of assets, net of income tax provision, in the Consolidated Income Statement.

On August 9, 2000, we agreed to form two joint ventures with an institutional investor. First, we expect to sell or contribute 20 in-service office properties encompassing 2.6 million rentable square feet valued at approximately \$352.0 million to a newly created limited liability company. As part of the formation of this 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 \$250.0 million from third-party lenders. We will retain the remaining 20.0% ownership interest and receive net cash proceeds of approximately \$300.0 million. Second, we expect to develop nine additional properties encompassing 861,000 rentable square feet with a budgeted cost of approximately \$110.0 million (including approximately \$15.0 million of development land that we currently own) to a second newly created limited liability company. We will each own 50.0% of this second joint venture. In addition, we 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. We will be adopting the equity method of accounting in both 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, and we are seeking summary judgment and dismissal of all claims asserted by the plaintiff. 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. Due to the inherent uncertainties of the litigation process and the judicial system, we are not able to predict the outcome of this litigation. 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 June 30, 2000. Revenues from rental operations decreased \$4.4 million, or 3.1%, from \$142.1 million for the three months ended June 30, 1999 to \$137.7 million for the comparable period in 2000. The decrease is primarily a result of the disposition of 6.4 million square feet of majority-owned office, industrial and retail properties offset in part by the acquisition of 0.8 million square feet of majority-owned office, industrial and retail properties and the completion of 3.8 million square feet of development activity during the last six months of 1999 and the first six months of 2000. Our in-service portfolio decreased from 40.0 million square feet at June 30, 1999 to 38.5 million square feet at June 30,

2000. Same property revenues, which are the revenues of the 473 in-service properties and 1,885 apartment units owned on April 1, 1999, increased 2.8% for the three months ended June 30, 2000, compared to the same three months in 1999.

During the three months ended June 30, 2000, 240 leases representing 1.1 million square feet of office, industrial and retail space were executed 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 \$1.2 million, or 22.6%, from \$5.3 million for the three months ended June 30, 1999 to \$6.5 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 and an increase in cash balances and termination fees from 1999 to 2000. For the three months ended June 30, 2000, the Company generated \$260,788 in auxiliary income (vending and parking) as a result of acquiring multifamily communities in the merger with J.C. Nichols in 1998.

Rental operating expenses decreased \$2.4 million, or 5.5%, from \$43.8 million for the three months ended June 30, 1999 to \$41.4 million for the comparable period in 2000. The decrease is primarily a result of the disposition of 6.4 million square feet of majority owned office, industrial and retail properties offset in part by the acquisition of 0.8 million square feet of majority owned office, industrial and retail properties and the completion of 3.8 million square feet of development activity during the last six months of 1999 and the first six months of 2000. Rental operating expenses as a percentage of related revenues decreased from 31.2% for the three months ended June 30, 1999 to 30.1% for the comparable period in 2000.

Depreciation and amortization for the three months ended June 30, 2000 and 1999 totaled \$29.4 million and \$27.7 million, respectively. The increase of \$1.7 million, or 6.1%, is due to an increase in depreciable assets over the prior year. Interest expense decreased \$2.1 million, or 6.9%, from \$30.5 million for the three months ended June 30, 1999 to \$28.4 million for the comparable period in 2000. The decrease is attributable to a decrease in the outstanding debt for the entire quarter of 2000. Interest expense for the three months ended June 30, 2000 and 1999 included \$577,000 and \$734,000 respectively, of amortization of deferred financing costs and the costs related to our interest rate hedge contracts. General and administrative expenses was 3.8% of total revenue for the three months ended June 30, 2000 and 4.2% for the comparable period in 1999.

Net income before minority interest and extraordinary item equaled \$14.5 million and \$41.2 million for the three months ended June 30, 2000 and 1999, respectively. The Company's net income allocated to minority interest totaled \$1.8 million and \$4.9 million for the three months ended June 30, 2000 and 1999, respectively. The Company recorded \$8.1 million in preferred stock dividends for the three months ended June 30, 2000 and 1999.

Six Months Ended June 30, 2000. Revenues from rental operations decreased \$15.2 million, or 5.3%, from \$288.8 million for the six months ended June 30, 1999 to \$273.6 million for the comparable period in 2000. The decrease is primarily a result of the disposition of 6.4 million square feet of majority-owned office, industrial and retail properties, offset in part by the acquisition of 0.8 million square feet of majority-owned office, industrial and retail properties and the completion of 3.8 million square feet of development activity during the last six months of 1999 and the first six months of 2000. Our in-service portfolio decreased from 40.0 million square feet at June 30, 1999 to 38.5 million square feet at June 30, 2000. Same property revenues, which are the revenues of the 470 in-service properties owned on January 1, 1999, increased 3.2% for the six months ended June 30, 2000, compared to the same six months in 1999.

During the six months ended June 30, 2000, 517 leases representing 3.3 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 \$0.2 million, or 1.9%, from \$10.6 million for the six months ended June 30, 1999 to \$10.8 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 and an increase in cash balances and termination fees from 1999 to 2000. For the six months ended June 30, 2000, the Company generated \$481,983 in auxiliary income

(vending and parking) as a result of acquiring multifamily communities in the merger with J.C. Nichols in 1998.

Rental operating expenses decreased \$8.2 million, or 9.2%, from \$89.1 million for the six months ended June 30, 1999 to \$80.9 million for the comparable period in 2000. The decrease is primarily a result of the disposition of 6.4 million square feet of majority-owned office, industrial and retail properties, offset in part by the acquisition of 0.8 million square feet of majority-owned office, industrial and retail properties and the completion of 3.8 million square feet of development activity during the last six months of 1999 and the first six months of 2000. Rental operating expenses as a percentage of related revenues decreased from 30.9% for the six months ended June 30, 1999 to 29.6% for the comparable period in 2000.

Depreciation and amortization for the six months ended June 30, 2000 and 1999 totaled \$57.7 million and \$55.9 million, respectively. The increase of \$1.8 million, or 3.2%, is due to an increase in depreciable assets over the prior year. Interest expense decreased \$7.0 million, or 11.1%, from \$63.1 million for the six months ended June 30, 1999 to \$56.1 million for the comparable period in 2000. The decrease is attributable to the decrease in the outstanding debt for the entire six months of 2000. Interest expense for the six months ended June 30, 2000 and 1999 included \$1.3 million and \$1.5 million, respectively, of amortization of deferred financing costs and the costs related to our interest rate hedge contracts. General and administrative expenses decreased as a percentage of total revenues to 3.7% in 2000 from 4.0% in 1999.

Net income before minority interest and extraordinary item equaled \$61.9 million and \$82.1 million for the six months ended June 30, 2000 and 1999, respectively. The Company's net income allocated to minority interest totaled \$7.8 million and \$10.7 million for the six months ended June 30, 2000 and 1999, respectively. The Company recorded \$16.3 million in preferred stock dividends for the six months ended June 30, 2000 and 1999.

Liquidity and Capital Resources

Statement of Cash Flows. For the six months ended June 30, 2000, cash provided by operating activities increased by \$39.0 million, or 40.8%, to \$134.5 million, as compared to \$95.5 million for the same period in 1999. The increase is due to (1) the collection of a \$30.0 million note receivable and (2) the accrual of an \$18.0 million liability related to the DLF II Joint Venture during the six months ended June 30, 2000. Cash provided by investing activities was \$75.7 million for the first six months of 2000, as compared to \$231.1 million for the same period in 1999. The decrease is primarily due to the decline in disposition activity, offset in part by the decline in acquisition activity during the six months ended June 30, 2000, as compared to the same period in 1999. Cash used in financing activities was \$200.3 million for the six months ended June 30, 2000, as compared to \$254.0 million for the same period in 1999. The decrease is primarily due to the increase in borrowings on mortgages and notes payable and under the revolving loan from 1999 to 2000, offset in part by the decrease in net proceeds from the sale of Common Stock and the repurchase of Common Stock and Common Units in 2000. Payments of distributions remained constant at \$76.2 million for the first six months of 2000 and 1999. Preferred stock dividend payments were \$16.3 million for the six months ended June 30, 2000 and 1999.

Capitalization. The Company's total indebtedness at June 30, 2000 totaled \$1.7 billion and was comprised of \$568.9 million of secured indebtedness with a weighted average interest rate of 7.9% and \$1.1 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 June 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 \$37.8 million of floating rate notes payable assumed upon consummation of the merger with J.C. Nichols were not covered by interest rate hedge contracts on June 30, 2000.

Based on the Company's total market capitalization of \$3.7 billion at June 30, 2000 (at the June 30, 2000 stock price of \$23.98 and assuming the redemption for shares of Common Stock of the 8.7 million Common Units of minority interest in the Operating Partnership), the Company's debt represented approximately 45.9% of its total market capitalization.

To meet in part our long-term liquidity requirements, we borrow funds at a combination of fixed and variable rates. Borrowings under our Revolving Loan bear interest at variable rates. Our long-term debt, which consists of long-term financings and the issuance of debt securities, typically bears interest at fixed

rates. In addition, we have assumed fixed rate and variable rate debt in connection with acquiring properties. Our interest rate risk management objective is to limit the impact of interest rate changes on earnings and cash flows and to lower our overall borrowing costs. To achieve these objectives, from time to time we enter into interest rate hedge contracts such as collars, swaps, caps and treasury lock agreements in order to mitigate our interest rate risk with respect to various debt instruments. We do not hold or issue these derivative contracts for trading or speculative purposes.

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

Type of Hedge	Notional Amount	Maturity Date	Reference Rate	Fixed Rate	Fair Market Value
Swap	\$20,117	6/10/02	1-Month LIBOR + 0.75%	6.95%	\$234
Collar	80,000	10/15/01	1-Month LIBOR	5.60 - 6.25%	556

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 \$122.3 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 \$243.5 million was available as of June 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 August 14, 2000, the Company repurchased 3.5 million shares of Common Stock and Common Units at a weighted average price of \$23.50 per share/unit, a total purchase price of \$82.6 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 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. It is anticipated that DLF II will exercise its option to contribute up to an additional \$24 million in cash to the DLF II Joint Venture before the end of 2000 to increase its ownership percentage to 80.0%.

In addition to the properties sold or contributed to the DLF II Joint Venture, during the six months ended June 30, 2000, we sold approximately 2.5 million rentable square feet of non-core office and industrial properties and 89.0 acres of development land for gross proceeds of \$153.9 million. Non-core office and industrial properties generally include single buildings or business parks that do not fit our long-term strategy. Since June 30, 2000, we have sold an additional 1.7 million square feet of non-core office and industrial properties for gross proceeds of \$137.2 million.

On August 9, 2000, we agreed to form two joint ventures with an institutional investor. First, we expect to sell or contribute 20 in-service office properties encompassing 2.6 million rentable square feet valued at approximately \$352.0 million to a newly created limited liability company. As part of the formation of this 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 \$250.0 million from third-party lenders. We will retain the remaining 20.0% ownership interest and receive net cash proceeds of approximately \$300.0 million. Second, we expect to develop nine additional properties encompassing 861,000 rentable square feet with a budgeted cost of approximately \$110.0 million (including approximately \$15.0 million of development land that we currently own) to a second newly created limited liability company. We will each own 50.0% of this second joint venture. In addition, we 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 August 14, 2000, we expect to reinvest up to \$37.0 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 property, plus depreciation and amortization, and after adjustments for unconsolidated partnerships and joint ventures. In March 1995, the National Association of Real Estate Investment Trusts ("NAREIT") issued a clarification of the definition of FFO. The clarification provides that amortization of deferred financing costs and depreciation of non-real estate assets are no longer to be added back to net income in arriving at FFO. In October 1999, NAREIT issued an additional clarification effective as of January 1, 2000 stipulating that FFO should include both recurring and non-recurring operating results. Consistent with this clarification, non-recurring items that are not defined as "extraordinary" under GAAP will be reflected in the calculation of FFO. Gains and losses from the sale of depreciable operating property will continue to be excluded from the calculation of FFO.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2000	1999	2000	1999
Funds from operations:				
Income before minority interest and extraordinary item.....	\$14,475	\$41,237	\$61,927	\$82,097
Add/(Deduct):				
Dividends on preferred stock.....	(8,145)	(8,145)	(16,290)	(16,290)
Severance costs and other division closing expenses	--	1,233	--	1,233
Loss/(Gain) on disposition of assets, net of income tax provision.....	26,062	(1,524)	19,116	(2,093)
Depreciation and amortization.....	29,362	27,705	57,690	55,861
Depreciation on unconsolidated affiliates.....	920	745	1,798	1,222
Funds from operations before minority interest.....	62,674	61,251	124,241	122,030
Cash available for distribution:				
Add/(Deduct):				
Rental income from straight-line rents.....	(3,995)	(3,524)	(7,795)	(7,509)
Amortization of deferred financing costs.....	577	734	1,298	1,512
Non-incremental revenue generating capital expenditures (1):				
Building improvements paid.....	(2,296)	(2,957)	(3,665)	(4,475)
Second generation tenant improvements paid.....	(5,048)	(4,112)	(9,830)	(10,121)
Second generation lease commissions paid.....	(3,678)	(4,082)	(6,809)	(7,613)
Cash available for distribution.....	\$48,234	\$47,310	\$97,440	\$93,824
	=====	=====	=====	=====
Weighted average common shares/common units outstanding - basic (2).....	68,043	70,445	68,649	70,329
	=====	=====	=====	=====
Weighted average common shares/common units outstanding - diluted (2).....	68,358	70,468	68,854	70,360
	=====	=====	=====	=====
Dividend payout ratios:				
Funds from operations.....	60.5%	62.1%	61.5%	62.3%
	=====	=====	=====	=====
Cash available for distribution.....	78.7%	80.4%	78.4%	81.0%
	=====	=====	=====	=====

(1) Amounts represent cash expenditures.

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

On July 31, 2000, the Company's Board of Directors declared a dividend of \$0.57 per share for the second quarter ended June 30, 2000 (\$2.28 on an annualized basis) payable on August 23, 2000 to stockholders of record as of August 10, 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 June 30, 2000 and 1999:

June 30, 2000 -----	Rentable Square Feet -----	Percent Leased/ Pre-Leased -----
In-Service:		
Office.....	26,227,000	94%
Industrial.....	10,607,000	93%
Retail.....	1,660,000	94%
	-----	-----
Total or Weighted Average.....	38,494,000	93%
	=====	=====
Development:		
Completed - Not Stabilized		
Office.....	1,334,000	75%
Industrial.....	131,000	69%
Retail.....	81,000	89%
	-----	-----
Total or Weighted Average.....	1,546,000	75%
	=====	=====
In Process		
Office.....	1,498,000	61%
Industrial.....	395,000	82%
Retail.....	----	----
	-----	-----
Total or Weighted Average.....	1,893,000	65%
	=====	=====
Total:		
Office.....	29,059,000	
Industrial.....	11,133,000	
Retail.....	1,741,000	

Total or Weighted Average.....	41,933,000	
	=====	
June 30, 1999 -----		
In-Service:		
Office.....	26,666,000	94%
Industrial.....	11,497,000	90%
Retail.....	1,790,000	91%
	-----	-----
Total or Weighted Average.....	39,953,000	93%
	=====	=====
Development:		
Completed - Not Stabilized		
Office.....	1,951,000	78%
Industrial.....	476,000	78%
Retail.....	119,000	97%
	-----	-----
Total or Weighted Average.....	2,546,000	79%
	=====	=====
In Process		
Office.....	3,065,000	69%
Industrial.....	472,000	17%
Retail.....	81,000	53%
	-----	-----
Total or Weighted Average.....	3,618,000	61%
	=====	=====
Total:		
Office.....	31,682,000	
Industrial.....	12,445,000	
Retail.....	1,990,000	

Total or Weighted Average.....	46,117,000	
	=====	

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

In-Process		Rentable	Estimated	Cost at	Pre-Leasing	Estimated	Estimated
Name	Market	Square Feet	Cost	6/30/00	Percentage (1)	Completion	Stabilization (2)
-----	-----	-----	-----	-----	-----	-----	-----
Office:							
Genus	Orlando	30,000	\$ 3,307	\$ 2,282	100%	3Q00	3Q00
Intermedia Building 4	Tampa	211,000	29,773	20,542	100%	3Q00	3Q00
IXL	Richmond	59,000	7,153	6,685	100%	3Q00	3Q00
ECPI Build-to-suit	Piedmont						
	Triad	30,000	3,020	2,324	100%	4Q00	4Q00
Centre Green One	Research						
	Triangle	97,000	11,246	6,111	94%	3Q00	3Q01
Intermedia Building 5	Tampa	185,000	27,633	3,758	100%	3Q00	3Q01
Deerfield III	Atlanta	54,000	5,276	1,629	28%	4Q00	3Q01
Highwoods Plaza	Tampa	66,000	7,505	1,992	20%	4Q00	3Q01
380 Park Place	Tampa	82,000	9,675	1,847	47%	1Q01	4Q01
Maplewood	Research						
	Triangle	36,000	3,901	624	100%	1Q01	1Q02
Highwoods Tower II	Research						
	Triangle	167,000	25,134	6,812	72%	1Q01	2Q02
Cool Springs II	Nashville	205,000	22,718	4,614	0%	2Q01	2Q02
Highwoods Centre @							
Peachtree Corners III	Atlanta	54,000	5,140	952	0%	2Q01	2Q02
North Shore Commons	Richmond	116,000	13,084	1,806	32%	2Q01	3Q02
Stony Point III	Richmond	106,000	11,425	----	44%	2Q01	3Q02
		-----	-----	-----	----		
In-Process Office Total or Weighted Average		1,498,000	\$ 185,990	\$ 61,978	61%	----	
		-----	-----	-----	----		
Industrial:							
Jones Apparel Expansion	Piedmont						
	Triad	209,000	\$ 6,071	\$ 2,444	100%	4Q00	4Q00
Holden Road	Piedmont						
	Triad	64,000	2,014	33	40%	4Q00	2Q01
Tradeport Place III	Atlanta	122,000	4,780	1,500	72%	4Q00	4Q01
		-----	-----	-----	----		
In-Process Industrial Total or Weighted Average		395,000	\$ 12,865	\$ 3,977	82%	----	
		-----	-----	-----	----		
Total or Weighted Average of all In-Process Development Projects		1,893,000	\$ 198,855	\$ 65,955	65%	=====	
		=====	=====	=====	=====		

(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 6/30/00	Pre-Leasing Percentage (1)	Estimated Completion	Estimated Stabilization (2)
Office:							
3737 Glenwood Avenue	Research Triangle	108,000	16,700	17,095	92%	3Q99	3Q00
Deerfield II	Atlanta	67,000	6,994	6,809	100%	3Q99	3Q00
Parkway Plaza 14	Charlotte	90,000	7,690	7,276	76%	3Q99	3Q00
Valencia Place	Kansas City	241,000	34,850	32,403	83%	1Q00	4Q00
Lakepoint II	Tampa	225,000	30,524	28,829	96%	4Q99	4Q00
Mallard Creek V	Charlotte	118,000	12,262	11,717	49%	4Q99	4Q00
4101 Research Commons	Research Triangle	73,000	9,311	8,771	100%	3Q99	4Q00
Highwoods Centre @ Peachtree Corners II	Atlanta	109,000	9,238	8,869	60%	3Q99	4Q00
Capital Plaza	Orlando	303,000	53,000	32,054	50%	1Q00	4Q01
Completed-Not Stabilized Office Total or Weighted Average		1,334,000	\$180,569	\$153,823	75%		
Industrial:							
Newpoint II	Atlanta	131,000	\$ 5,167	\$ 5,300	69%	3Q99	2Q01
Completed-Not Stabilized Industrial Total or Weighted Average		131,000	\$ 5,167	\$ 5,300	69%		
Retail:							
Valencia Place	Kansas City	81,000	\$ 16,650	\$ 13,511	89%	1Q00	4Q00
Completed-Not Stabilized Retail Total or Weighted Average		81,000	\$ 16,650	\$ 13,511	89%		
Total or Weighted Average of all Completed-Not Stabilized Development Projects		1,546,000	\$ 202,386	\$ 172,634	75%		
Total or Weighted Average Average of all Development Projects		3,439,000	\$ 401,241	\$ 238,589	70%		

(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:			
Third Quarter 2000.....	565,000	\$ 71,617	95%
Fourth Quarter 2000.....	1,086,000	121,926	85%
First Quarter 2001.....	--	--	--
Second Quarter 2001.....	195,000	7,181	59%
Third Quarter 2001.....	402,000	51,660	76%
Fourth Quarter 2001.....	507,000	67,455	55%
First Quarter 2002.....	36,000	3,901	100%
Second Quarter 2002.....	426,000	52,992	28%
Third Quarter 2002.....	222,000	24,509	38%
	-----	-----	---
Total or Weighted Average.....	3,439,000	\$ 401,241	70%
	=====	=====	=====
Summary by Market:			
Atlanta.....	537,000	\$ 36,595	61%
Charlotte.....	208,000	19,952	61%
Kansas City.....	322,000	51,500	85%
Nashville.....	205,000	22,718	--
Orlando.....	333,000	56,307	55%
Piedmont Triad.....	303,000	11,105	87%
Research Triangle.....	481,000	66,292	87%
Richmond.....	281,000	31,662	51%
Tampa.....	769,000	105,110	86%
	-----	-----	---
Total or Weighted Average.....	3,439,000	\$ 401,241	70%
	=====	=====	=====
Build-to-Suit.....	724,000	76,957	100%
Multi-Tenant.....	2,715,000	324,284	62%
	-----	-----	---
Total or Weighted Average.....	3,439,000	\$ 401,241	70%
	=====	=====	=====
	Average Rentable Square Feet	Average Estimated Costs	Pre-Leasing Percentage (1)
		(in thousands)	
Per Property Type:			
Office.....	118,000	\$ 15,273	67%
Industrial.....	131,500	4,508	78%
Retail.....	81,000	16,650	89%
	-----	-----	---
All.....	118,586	\$ 13,836	70%
	=====	=====	=====

(1) Includes the effect of letters of intent.

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

	Office Leasing Statistics Three Months Ended				
	6/30/00	3/31/00	12/31/99	9/30/99	Average

Net Effective Rents Related to Re-Leased Space:					
Number of lease transactions (signed leases)	221	207	251	234	228
Rentable square footage leased	990,663	931,686	1,337,611	1,015,789	1,068,937
Average per rentable square foot over the lease term:					
Base rent	18.43	\$ 17.04	\$ 17.28	\$ 14.61	\$ 16.84
Tenant improvements	(1.39)	(1.07)	(0.90)	(0.70)	(1.02)
Leasing commissions	(0.57)	(0.40)	(0.36)	(0.38)	(0.43)
Rent concessions	(0.05)	(0.04)	(0.04)	(0.03)	(0.04)
	-----	-----	-----	-----	-----
Effective rent	16.42	15.53	15.98	13.50	15.36
Expense stop (1)	(5.37)	(5.00)	(5.09)	(3.92)	(4.85)
	-----	-----	-----	-----	-----
Equivalent effective net rent	\$ 11.05	\$ 10.53	\$ 10.89	\$ 9.58	\$ 10.51
	=====	=====	=====	=====	=====
Average term in years	5	4	5	4	4
	=====	=====	=====	=====	=====
Capital Expenditures Related to Released Space:					
Tenant Improvements:					
Total dollars committed under signed leases	\$5,510,054	\$4,756,023	\$6,224,907	\$3,602,102	\$5,023,271
Rentable square feet	990,663	931,686	1,337,611	1,015,789	1,068,937
	-----	-----	-----	-----	-----
Per rentable square foot	\$ 5.56	\$ 5.10	\$ 4.65	\$ 3.55	\$ 4.70
	=====	=====	=====	=====	=====
Leasing Commissions:					
Total dollars committed under signed leases	\$2,392,441	\$1,505,559	\$2,151,399	\$1,560,041	\$1,902,360
Rentable square feet	990,663	931,686	1,337,611	1,015,789	1,068,937
	-----	-----	-----	-----	-----
Per rentable square foot	\$ 2.41	\$ 1.62	\$ 1.61	\$ 1.54	\$ 1.78
	=====	=====	=====	=====	=====
Total:					
Total dollars committed under signed leases	\$7,902,495	\$6,261,582	\$8,376,306	\$5,162,143	\$6,925,631
Rentable square feet	990,663	931,686	1,337,611	1,015,789	1,068,937
	-----	-----	-----	-----	-----
Per rentable square foot	\$ 7.98	\$ 6.72	\$ 6.26	\$ 5.08	\$ 6.48
	=====	=====	=====	=====	=====
Rental Rate Trends:					
Average final rate with expense pass throughs	\$ 16.59	\$ 15.79	\$ 16.96	\$ 14.09	\$ 15.86
Average first year cash rental rate	\$ 17.58	\$ 16.76	\$ 17.16	\$ 14.93	\$ 16.61
	-----	-----	-----	-----	-----
Percentage increase	6.02%	6.11%	1.16%	5.94%	4.72%
	=====	=====	=====	=====	=====

(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

	6/30/00	3/31/00	12/31/99	9/30/99	Average
Net Effective Rents Related to Re-Leased Space:					
Number of lease transactions (signed leases)	46	66	64	50	57
Rentable square footage leased	362,521	1,305,697	543,522	815,044	756,696
Average per rentable square foot over the lease term:					
Base rent	\$ 5.14	\$ 4.34	\$ 5.85	\$ 4.86	\$ 5.05
Tenant improvements	(0.28)	(0.19)	(0.38)	(0.14)	(0.25)
Leasing commissions	(0.12)	(0.11)	(0.11)	(0.10)	(0.11)
Rent concessions	(0.01)	(0.00)	(0.01)	(0.00)	(0.01)
Effective rent	4.73	4.04	5.35	4.62	4.69
Expense stop (1)	(0.48)	(0.14)	(0.39)	(0.18)	(0.30)
Equivalent effective net rent	\$ 4.25	\$ 3.90	\$ 4.96	\$ 4.44	\$ 4.39
Average term in years	4	5	4	3	4
Capital Expenditures Related to Re-leased Space:					
Tenant Improvements:					
Total dollars committed under signed leases	\$ 389,592	\$ 966,338	\$1,042,852	\$ 692,497	\$ 772,820
Rentable square feet	362,521	1,305,697	543,522	815,044	759,696
Per rentable square foot	\$ 1.07	\$ 0.74	\$ 1.92	\$ 0.85	\$ 1.02
Leasing Commissions:					
Total dollars committed under signed leases	\$ 185,028	\$ 671,182	\$ 222,728	\$ 271,184	\$ 337,531
Rentable square feet	362,521	1,305,697	543,522	815,044	756,696
Per rentable square foot	\$ 0.51	\$ 0.51	\$ 0.41	\$ 0.33	\$ 0.45
Total:					
Total dollars committed under signed leases	\$ 574,620	\$ 1,637,520	\$1,265,580	\$ 963,681	\$1,110,350
Rentable square feet	362,521	1,305,697	543,522	815,044	756,696
Per rentable square foot	\$ 1.59	\$ 1.25	\$ 2.33	\$ 1.18	\$ 1.47
Rental Rate Trends:					
Average final rate with expense pass throughs	\$ 4.44	\$ 3.91	\$ 5.50	\$ 4.63	\$ 4.62
Average first year cash rental rate	\$ 4.72	\$ 4.19	\$ 5.66	\$ 4.78	\$ 4.84
Percentage increase	6.35%	6.98%	2.84%	3.39%	4.70%

(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

	6/30/00	3/31/00	12/31/99	9/30/99	Average
Net Effective Rents Related to Re-Leased Space:					
Number of lease transactions (signed leases)	15	20	28	19	21
Rentable square footage leased	37,036	37,556	85,476	70,706	57,694
Average per rentable square foot over the lease term:					
Base rent	\$ 21.84	\$ 19.81	\$ 14.54	\$ 24.58	\$ 20.19
Tenant improvements	(1.97)	(0.60)	(1.51)	(0.66)	(1.19)
Leasing commissions	(0.57)	(0.76)	(0.59)	(0.37)	(0.57)
Rent concessions	0.00	0.00	0.00	0.00	0.00
Effective rent	19.30	18.45	12.44	23.55	18.44
Expense stop (1)	(0.12)	0.00	0.00	0.00	(0.03)
Equivalent effective net rent	\$ 19.18	\$ 18.45	\$ 12.44	\$ 23.55	\$ 18.41
Average term in years	8	5	8	5	6
Capital Expenditures Related to Re-leased Space:					
Tenant Improvements:					
Total dollars committed under signed leases	\$ 914,200	\$ 82,365	\$1,119,000	\$ 437,735	\$ 638,325
Rentable square feet	37,036	37,556	85,476	70,706	57,694
Per rentable square foot	\$ 24.68	\$ 2.19	\$ 13.09	\$ 6.19	\$ 11.06
Leasing Commissions:					
Total dollars committed under signed leases	\$ 175,122	\$ 145,060	\$ 397,123	\$ 124,241	\$ 210,386
Rentable square feet	37,036	37,556	85,476	70,706	57,694
Per rentable square foot	\$ 4.73	\$ 3.86	\$ 4.65	\$ 1.76	\$ 3.65
Total:					
Total dollars committed under signed leases	\$ 1,089,322	\$ 227,425	\$1,516,123	\$ 561,976	\$ 848,711
Rentable square feet	37,036	37,556	85,476	70,706	57,694
Per rentable square foot	\$ 29.41	\$ 6.06	\$ 17.74	\$ 7.95	\$ 14.71
Rental Rate Trends:					
Average final rate with expense pass throughs	\$ 16.60	\$ 15.20	\$ 8.87	\$ 19.12	\$ 14.95
Average first year cash rental rate	\$ 19.06	\$ 18.68	\$ 12.41	\$ 22.30	\$ 18.11
Percentage increase	14.82%	22.83%	39.86%	16.63%	21.15%

(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.

The following tables set forth scheduled lease expirations for executed leases at our majority-owned in-service properties (excluding apartment units) as of June 30, 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	521	2,130,058	8.5%	\$ 35,376	\$ 16.61	8.5%
2001	581	3,461,003	13.8%	57,654	16.66	13.9%
2002	609	3,356,797	13.4%	55,888	16.65	13.5%
2003	508	3,784,766	15.1%	63,852	16.87	15.4%
2004	391	2,776,447	11.1%	47,401	17.07	11.4%
2005	270	2,438,783	9.7%	39,153	16.05	9.4%
2006	66	1,689,017	6.7%	27,623	16.35	6.7%
2007	39	981,945	3.9%	15,266	15.55	3.7%
2008	53	1,405,514	5.6%	21,190	15.08	5.1%
2009	24	926,790	3.7%	14,739	15.90	3.6%
2010 and thereafter	92	2,136,866	8.5%	36,411	17.04	8.8%
	3,154	25,087,986	100.0%	\$ 414,553	\$ 16.52	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	72	844,578	8.6%	4,482	\$ 5.31	9.3%
2001	106	1,721,011	17.5%	8,601	5.00	17.9%
2002	103	1,694,857	17.2%	7,508	4.43	15.6%
2003	75	1,242,504	12.6%	6,249	5.03	13.0%
2004	63	2,166,835	22.1%	9,325	4.30	19.3%
2005	29	400,902	4.1%	2,471	6.16	5.1%
2006	11	356,062	3.6%	2,277	6.39	4.7%
2007	11	451,348	4.6%	2,624	5.81	5.4%
2008	6	247,737	2.5%	2,014	8.13	4.2%
2009	6	268,813	2.7%	1,806	6.72	3.7%
2010 and thereafter	12	438,976	4.5%	872	1.99	1.8%
	494	9,833,623	100.0%	\$48,229	\$ 4.90	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	50	161,041	10.1%	\$ 2,270	\$14.10	7.3%
2001	49	108,352	6.8%	3,036	28.02	9.8%
2002	45	135,732	8.5%	2,350	17.31	7.6%
2003	46	113,566	7.1%	2,416	21.27	7.8%
2004	37	217,192	13.6%	2,617	12.05	8.4%
2005	32	80,564	5.1%	2,244	27.85	7.2%
2006	23	80,498	5.1%	1,788	22.21	5.8%
2007	11	53,641	3.4%	1,007	18.77	3.2%
2008	15	107,595	6.8%	3,649	33.91	11.8%
2009	23	172,898	10.9%	3,269	18.91	10.5%
2010 and thereafter	24	360,094	22.6%	6,369	17.69	20.6%
	-----	-----	-----	-----	-----	-----
	355	1,591,173	100.0%	31,015	\$19.49	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	643	3,135,677	8.6%	\$ 42,128	\$13.44	8.5%
2001	736	5,290,366	14.5%	69,291	13.10	14.1%
2002	757	5,187,386	14.3%	65,746	12.67	13.4%
2003	629	5,140,836	14.1%	72,517	14.11	14.7%
2004	491	5,160,474	14.1%	59,343	11.50	12.0%
2005	331	2,920,249	8.0%	43,868	15.02	8.9%
2006	100	2,125,577	5.8%	31,688	14.91	6.4%
2007	61	1,486,934	4.1%	18,897	12.71	3.8%
2008	74	1,760,846	4.8%	26,853	15.25	5.4%
2009	53	1,368,501	3.7%	19,814	14.48	4.0%
2010 and thereafter	128	2,935,936	8.0%	43,652	14.87	8.8%
	-----	-----	-----	-----	-----	-----
	4,003	36,512,782	100.0%	\$493,797	\$13.52	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 June 30, 2000, the Company had approximately \$151.8 million of variable rate debt outstanding that was not protected by interest rate hedge contracts. If the weighted average interest rate on this variable rate debt is 100 basis points higher or lower during the 12 months ended June 30, 2001, our interest expense would be increased or decreased approximately \$1.5 million. In addition, as of June 30, 2000, we had \$80 million of additional variable rate debt outstanding that was protected by an interest rate collar that effectively keeps the interest rate within a range of 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 million of debt.

Interest Rate Hedge Contracts. For a discussion of our interest rate hedge contracts in effect at June 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 June 30, 2000 would increase by approximately \$1.2 million. If interest rates decrease by 100 basis points, the aggregate fair market value of these interest rate hedge contracts as of June 30, 2000 would decrease by approximately \$1.0 million.

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

PART II -- OTHER INFORMATION

Item 1. Legal Proceedings

On October 2, 1998, John Flake, a former stockholder of J.C. Nichols, filed a putative class action lawsuit on behalf of himself and the other former stockholders of J.C. Nichols in the United States District Court for the District of Kansas against J.C. Nichols, certain of its former officers and directors and the Company. The complaint alleges, among other things, that in connection with the merger of J.C. Nichols and the Company, (1) J.C. Nichols and the named directors and officers of J.C. Nichols breached their fiduciary duties to J.C. Nichols' stockholders, (2) J.C. Nichols and the named directors and officers of J.C. Nichols breached 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, and we are seeking summary judgment and dismissal of all claims asserted by the plaintiff. 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. Due to the inherent uncertainties of the litigation process and the judicial system, we are not able to predict the outcome of this litigation. 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

(c) During the three months ended June 30, 2000, the Company issued an aggregate of 9,911 shares of Common Stock in connection with the merger of Eakin & Smith, Inc. into the Company on April 1, 1996. The shares were issued to principals of Eakin & Smith, pursuant to an exemption from the registration requirements of the Securities Act of 1933. Each of the principals is an accredited investor. We exercised reasonable care to assure that the principals were not purchasing the shares with a view to their distribution.

Item 3. Defaults Upon Senior Securities - NA

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

On May 24, 2000, we held our Annual Meeting of Stockholders. The final vote of the matters presented for a vote at such meeting was as follows:

Matter -----	For ---	Against -----	Broker Non-Vote -----	Abstain -----
(A) Election of Directors				
Gene M. Anderson.....	46,706,925	--	--	367,833
Ronald P. Gibson.....	46,716,534	--	--	358,224
O. Temple Sloan, Jr.....	46,716,520	--	--	358,238
John L. Turner.....	46,711,267	--	--	363,491
William E. Graham, Jr.....	46,728,262	--	--	346,496
(B) Ratify appointment of Ernst & Young, LLP as independent auditors.....	46,964,653	65,271	--	44,834

Item 5. Other Information - NA

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

Exhibit No. -----	Description -----
2	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

(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: August 14, 2000

EXHIBIT 2

AGREEMENT TO FORM LIMITED LIABILITY COMPANIES

AGREEMENT TO FORM LIMITED LIABILITY COMPANIES (this "Agreement"), entered into as of August 9, 2000, by and among MILLER GLOBAL FUND III, L.P., a Colorado limited partnership ("MG III"), MGA DEVELOPMENT ASSOCIATES, L.P., a Colorado limited partnership ("MDA"), HIGHWOODS REALTY LIMITED PARTNERSHIP, a North Carolina limited partnership ("HIW"), and HIGHWOODS/FLORIDA HOLDINGS, L.P., a Delaware limited partnership ("HIW Florida").

WHEREAS, MGIII, HIW and HIW Florida wish to form a Delaware limited liability company (the "Operating LLC") for the purposes, among others, of acquiring, owning and operating in-service office buildings, with the buildings to be contributed or sold by HIW and HIW Florida pursuant to one or more contribution agreements and/or purchase and sale agreements (each a "Purchase Agreement", and collectively, the "Purchase Agreements"); and

WHEREAS, MG III, HIW and HIW Florida also wish to form a Delaware limited liability company (the "Land LLC") for the purpose of acquiring a tract of land in Orlando, Florida, with the possibility of future development thereof as part of a coordinated project with other Pine Street Properties (as hereinafter defined) to be owned, directly or indirectly, by the Operating LLC; and

WHEREAS, MG III, MDA, HIW and HIW Florida wish to create a framework for the formation of one or more limited liability companies (each a "Development LLC", and collectively, the "Development LLCs"), which are intended primarily or exclusively for the development of office and/or so-called "flex" buildings on land now owned or hereafter acquired by MG III, MDA, HIW and/or HIW Florida, or one or more of the affiliates of any of them;

NOW THEREFORE, for and in consideration of Ten Dollars (\$10.00), the foregoing recitals and other good and valuable consideration, the receipt and sufficiency of which are acknowledged by the parties hereto, the parties hereby agree as follows:

1. Closing; Purchase Prices and Contribution Values. Provided that all of the Conditions Precedent (as hereinafter defined) are theretofore fully satisfied or performed, or waived by the party or parties for whose benefit the subject Condition Precedent exists, the closing (the "Closing") of the transactions contemplated by this Agreement (collectively, the "Transactions") shall take place at the offices of HIW, at 9:00 a.m. local time on October 25, 2000, or on such other date and at such other time and place as the parties may mutually agree; provided, however, that, if on October 25, 2000, the parties are both using good-faith commercially reasonable efforts to effectuate the Closing but cannot do so due to the inability to satisfy or perform one or more Conditions Precedent as of such date, either MG III, on the one hand, or HIW and HIW Florida, on the other hand, may unilaterally extend the Closing hereunder one time, to a date in no event later than December 1, 2000. MG III, HIW and HIW Florida hereby agree that the purchase

prices or contribution values for the properties proposed to be acquired by the Operating LLC and the Land LLC (each a "Property" and collectively, the "Properties") are set forth on Schedule 1 attached hereto and by this reference made a part hereof.

2. Inspection Period. (a) The parties acknowledge that the willingness of MG III to enter into the Transactions is subject to its satisfaction with the Properties. The parties hereby agree that MG III shall have the period of time from the execution hereof until 5:00 p.m., Eastern Daylight Time, on October 9, 2000 (the "Inspection Period") in which to conduct its inspections of the Properties. HIW and HIW Florida hereby agree to provide the information described in Section 6.2 of the form of Purchase Agreement attached hereto as Exhibit A and by this reference made a part hereof. (Each of MG III, HIW and HIW Florida hereby acknowledges and agrees that Exhibit A hereto and the exhibits attached thereto, with only such additions and modifications as are necessary to conform Exhibit A to the facts of the particular transaction at hand (i.e., appropriate parties, legal descriptions, agreed permitted title exceptions, whether transaction is a contribution or purchase and sale of the subject Properties, etc.), or as MG III, HIW and/or HIW Florida may otherwise mutually agree, shall be employed as the Purchase Agreement in each of the acquisitions of the Properties by the Operating LLC and the Land LLC and for the acquisition of land by each of the Development LLCs (collectively, the "Development Land".) MG III and its agents and employees shall have the right to enter upon the Properties and the Development Land for the purpose of making inspections, at MG III's sole risk, cost and expense, and subject to the rights of the tenants thereof, if any. All of such entries shall be at reasonable times, upon reasonable advance notice and during normal business hours, and HIW or HIW Florida, as appropriate, or its agent shall have the right to accompany MG III or its agents or employees during any activities performed on the Properties and the Development Land. MG III and its designees shall also have the right to meet with employees and management personnel of HIW and HIW Florida, tenants, governmental agencies and such other third parties as MG III determines will be helpful in evaluating the Properties and the Development Land; provided that MG III shall give reasonable advance notice of any proposed meetings with tenants or governmental agencies and HIW or HIW Florida, as appropriate, or its agent shall have the right to accompany MG III or its agents or employees during any of such meetings. MG III shall promptly provide to HIW or HIW Florida, as appropriate, copies of all third-party physical inspection reports (including, without limitation, environmental and engineering reports and asbestos studies, but excluding any financial or legal due diligence which MG III may obtain or perform) which MG III may obtain relating to the Properties.

(b) If MG III is dissatisfied, for any reason or no reason and in MG III's sole and absolute discretion, with the result of MG III's inspections, then MG III may terminate this Agreement by notifying all parties hereto of such termination at any time between the date hereof and 5:00 p.m., Eastern Daylight Time, on October 9, 2000, whereupon all parties shall be released from all further obligations under this Agreement, except for those which expressly survive such termination. If MG III terminates this Agreement pursuant to the terms hereof, MG III shall, upon HIW's or HIW Florida's written request, promptly deliver to HIW or HIW Florida, as appropriate, or certify the destruction of, destroy all due diligence documents as required by the letter agreement

referred to in Section 11 hereof, such obligation to survive the termination of this Agreement. Upon MG III's waiver of or failure to duly exercise its right to terminate described in this Section 2(b), MG III shall have elected to proceed with the formation of the Operating LLC, the Land LLC and the Development LLCs agreed upon during the Inspection Period pursuant to the terms of this Agreement.

(c) Notwithstanding any provision of this Agreement to the contrary, MG III hereby indemnifies and agrees to defend and hold harmless HIW and HIW Florida and their respective officers, directors, partners, members, agents and employees, and the successors and assigns of any thereof, from and against any and all losses, claims, damages, liabilities, attorneys' and accountants' fees, costs of litigation and all other expenses arising from the investigation of or entry upon the Properties or the Development Land, including, without limitation, mechanic's or materialmen's liens. If MG III does not consummate the Transactions, it shall repair any damage caused by its entry onto any of the Properties or the Development Land. The provisions of this Section 2(c) shall expressly survive the Closing or the earlier termination of this Agreement.

(d) The scope of any Phase II environmental inspection of any of the Properties or the Development Land shall be subject to the prior written consent of HIW or HIW Florida, as appropriate, which shall not be unreasonably withheld, conditioned or delayed.

(e) To the maximum extent permitted by applicable law, except for the representations and warranties of HIW and HIW Florida contained in this Agreement, the Purchase Agreements and the documents of conveyance and assignment to be delivered at the Closing (collectively, "Highwoods' Warranties"), this Agreement is made without representation, covenant or warranty of any kind (whether express, implied, or, to the maximum extent permitted by applicable law, statutory) by HIW and HIW Florida. As a material part of the consideration for this Agreement, MG III agrees that the Properties and the Development Land will be offered by HIW and HIW Florida on an "AS IS" and "WHERE IS" basis, with all faults and any and all latent and patent defects, and without any representation or warranty, all of which HIW and HIW Florida hereby disclaim, except for Highwoods' Warranties. Except for Highwoods' Warranties, no warranty or representation is made by HIW or HIW Florida as to

(a) fitness for any particular purpose, (b) merchantability, (c) design, (d) quality, (e) condition, (f) operation or income, (g) compliance with drawings or specifications, (h) absence of defects, (i) absence of hazardous or toxic substances, (j) absence of faults, (k) flooding, or (l) compliance with laws and regulations, including, without limitation, those relating to health, safety and the environment. MG III acknowledges that MG III has entered into this Agreement with the intention of making and relying upon its own investigations of the physical, environmental, title, survey, economic and legal compliance condition of the Properties and the Development Land, and that, except for Highwoods' Warranties, MG III is not now relying, and will not later rely, upon any representations and warranties made by HIW or HIW Florida or anyone acting or claiming to act, by, through or under or on its behalf. The provisions of this Section 2(e) shall survive the Closing or any termination of this Agreement and shall not be merged into the closing documents.

3. Agreements Respecting Properties.

(a) Title.

(i) Delivery of Title Commitments. As soon as reasonably practicable following the date hereof (but not later than September 8, 2000), each of HIW and HIW Florida shall, at its expense, make commercially reasonable efforts to deliver or cause to be delivered to MG III:

(A) owner's title insurance commitments (collectively, the "Title Commitment") covering the Properties, to be issued by Chicago Title Insurance Company (the "Title Company"), pursuant to which the Title Company will agree to insure title to the Properties under an ALTA Owner's Policy Form B 1970 (or, if not available, such other form as is available) Extended Coverage in the full aggregate amount of the Purchase Prices and Contribution Values (as such terms are defined in the Purchase Agreements), calling for the standard printed exceptions related thereto to be deleted upon receipt of the Survey (as hereinafter defined), a current tax certificate and mechanics' lien affidavits from HIW and HIW Florida (such affidavits to be in form and content reasonably acceptable to HIW, HIW Florida, the Operating LLC and the Land LLC, respectively), with the exception for taxes and assessments to be limited to real property taxes and assessments for the year of closing, not yet due and payable, and with the title exception for the leases and tenancies of the Properties (collectively, the "Leases") to be limited to the leases in effect as of the Closing, as specified by HIW and HIW Florida in affidavits to be provided to the Title Company at the Closing. The Title Commitment shall also provide for issuance of a non-imputation endorsement protecting the Operating LLC and the Land LLC against matters in the knowledge of HIW and HIW Florida (as sellers or contributors and as members of the Operating LLC and the Land LLC); and

(B) True and correct legible copies of any and all instruments referred to in the Title Commitment as constituting exceptions or restrictions upon the title of HIW and HIW Florida to the Properties.

(ii) Survey. As soon as reasonably practicable following the date hereof, MG III shall, at MG III's expense, make commercially reasonable efforts to cause to be delivered to MG III and HIW or HIW Florida, as appropriate, surveys of the Properties (collectively, the "Survey"), certified to MG III, the Operating LLC or the Land LLC, as appropriate, and the Title Company, made by a duly licensed surveyor. The Survey shall be improvement survey plats in accordance with any statutory requirements for improvement survey plats and with "Minimum Standard Detail Requirements for ALTA/ACSM Land Title Surveys," jointly established and adopted by ALTA and ACSM in 1999, shall meet the requirements of the Urban Survey, as defined therein, and shall include Table A items 1 through 16 with item 5 revised to require datum of elevations only. The Survey shall show the location of all improvements on the Properties.

(iii) Title and Survey. On or prior to 5:00 p.m., Eastern Daylight Time, on the earlier to occur of (x) the twentieth (20th) day following the delivery of all of the items to be delivered in accordance with Sections 3(a)(i) and 3(a)(ii) above, or (y) the fifth (5th) day prior to the end of the Inspection Period, MG III shall deliver in writing to HIW or HIW Florida, as appropriate, such objections as MG III may have to anything contained in the Survey or the Title Commitment. Any such item disclosed in the Survey or the Title Commitment to which MG III does not timely object within the twenty

(20)-day period shall be deemed a "Permitted Title Exception" under the appropriate Purchase Agreement. Within five (5) days of receipt of any notice of objections by MG III (it being understood that MG III may deliver one or more such notices), HIW or HIW Florida, as appropriate, shall notify MG III either (A) of the actions that HIW or HIW Florida, as appropriate, will take to correct MG III's objections, or (B) that HIW or HIW Florida, as appropriate, will not or cannot satisfy all or certain of the items of which MG III has given timely notice of objection (collectively, the "Uncured Title Objections"). If HIW or HIW Florida, as appropriate, fails to timely respond, HIW or HIW Florida, as appropriate, shall be deemed to have elected not to correct any of such objections. In such case, MG III shall, before the end of the Inspection Period, either (I) waive the Uncured Title Objections, and proceed to close the Transactions (subject to MG III's right, prior to the Closing, to give notice of objections not evidenced by the Title Commitment or the Survey), or (II) terminate this Agreement by giving written notice to the other parties hereto; provided, however, that MG III shall have the right to have the Uncured Title Objections constituting liens or monetary claims (other than environmental liens or claims) satisfied by reduction of the Purchase Price or Contribution Value (as defined in each Purchase Agreement) at the Closing and receive a credit for such amounts. If MG III does not give notice of its election to waive the Uncured Title Objections, it shall be deemed to have waived the Uncured Title Objections. Current taxes not yet due and payable, the Leases and any additional exceptions to be added to the Title Commitment by the Title Company as disclosed by the Survey or upon deletion of the standard printed exceptions relating thereto, unless objected to by MG III as provided above, shall be deemed to be Permitted Title Exceptions. If, after delivery of the Title Commitment and prior to the Closing, the Title Company gives notice to MG III of any additional exceptions to title, MG III shall have the right to give further notice within five (5) days that MG III considers such exceptions to be Uncured Title Objections (collectively, "Additional Uncured Title Objections"); provided, however, that (A) if the Closing would otherwise occur before MG III has had a full period for waiving the Additional Uncured Title Objections or terminating this Agreement, MG III shall have the right to extend the closing hereunder to permit the periods for notice as provided above; (B) if HIW or HIW Florida, as appropriate, notifies MG III that HIW or HIW Florida, as appropriate, intends to take actions approved by MG III (which approval shall not be unreasonably withheld, conditioned or delayed) to correct the Additional Uncured Title Objections, HIW or HIW Florida, as appropriate, shall have the right to extend the closing for up to thirty (30) days for purposes of completing such actions, and (c) if HIW or HIW Florida, as appropriate, fails to correct the Additional Uncured Title Objections for any reason within said thirty (30)-day period, if applicable, MG III shall have the right to have the Additional Uncured Title Objections constituting liens or monetary claims (other than environmental liens or claims) satisfied

by reduction of the Purchase Price or Contribution Value (as defined in each Purchase Agreement) at the Closing and receive a credit for such amounts.

(b) Preservation of Leases, Service Contracts and Guaranties. This Section 2(b) shall not apply to Leases or proposed new leases for five thousand (5,000) rentable square feet or less (except for HIW's or HIW Florida's obligation to deliver copies of executed documents, as provided below). Prior to the Closing, unless its actions are consistent with the Argus Runs (as hereinafter defined) or mutually-agreed underwriting assumptions (in which case only notice shall be required hereunder), neither HIW nor HIW Florida shall, without MG III's prior written consent (which shall not be unreasonably withheld, conditioned or delayed), amend or modify the Leases, including, without limitation, any provisions thereof relating to the payment of leasing commissions, tenant improvement allowances or the allowance of rent concessions, or the Service Contracts, nor enter into any new lease or service contract, or cancel any Lease, Service Contract or Guaranty, or consent to any surrender or release of any Lease or Guaranty or to any assignment or sublease under any such Lease. If MG III's consent is required, HIW or HIW Florida, as appropriate, shall give notice of any such contemplated action (including a copy of any applicable letter of intent, related financial or credit information and the proposed documentation) and MG III shall give HIW or HIW Florida, as appropriate, either its consent or objection, including a statement of its reasons for objections, within one (1) business day of its receipt of such notice. It shall be deemed to be reasonable for MG III to refuse consent if the proposed transaction would be materially inconsistent with said the Argus Runs or mutually-agreed underwriting assumptions. If MG III fails to give notice of its election within said time period, it shall be deemed to have given its consent to said request. HIW or HIW Florida, as appropriate, shall, from and after the date hereof to the date of Closing, subject only to the foregoing, perform and discharge all of the duties and obligations and otherwise comply with every material covenant and agreement of the landlord or lessor under the Leases, in its ordinary manner of business and within the time limits required thereunder. In any event, HIW or HIW Florida, as appropriate, shall deliver copies of executed documents (any new leases, service contracts or guarantys or any amendment or modification of any Lease, Service Contract or Guaranty) within five (5) business days following execution by all parties.

(c) Tenant Estoppel Certificates. HIW and HIW Florida shall make reasonable efforts to obtain and deliver to the Operating LLC, the Land LLC and the Lender (as hereinafter defined), at or prior to the Closing, a tenant estoppel certificate, substantially in the form attached as Exhibit H to the Purchase Agreement (which form has been previously approved by the parties hereto, subject to any modifications that the Lender may require) (each a "Tenant Estoppel Certificate", and collectively, the "Tenant Estoppel Certificates") with respect to each of the Leases, duly executed by the tenant thereunder and dated within thirty (30) calendar days of the date of the Closing. If HIW and HIW Florida are unable to so obtain and deliver Tenant Estoppel Certificates from each tenant, then HIW and HIW Florida, as appropriate, may deliver, subject to MG III's rights with respect thereto as hereinafter set forth, on or before the Closing, a substitute certificate of HIW or HIW Florida, as appropriate, addressing the items set forth in each Tenant Estoppel Certificate which HIW or HIW Florida, as appropriate, is unable to

obtain (but granting HIW or HIW Florida, as appropriate, the benefit of "knowledge" qualifications in situations analogous to those in which the tenant was given such benefit), in which HIW or HIW Florida, as appropriate, indemnifies the Operating LLC, the Land LLC and the Lender and holds the Operating LLC, the Land LLC and the Lender harmless from and against any and all losses, liabilities, claims, costs and expenses incurred by the Operating LLC, the Land LLC and the Lender after the Closing as a result of any false statement of HIW or HIW Florida, as appropriate, contained in any such substitute certificate. MG III's obligation to close hereunder shall be subject to its receipt of Tenant Estoppel Certificates from each of the tenants under the Major Leases and Tenant Estoppel Certificates or substitute certificates from those tenants leasing at least eighty percent (80%) in the aggregate of the remaining rentable space in any of the Properties (excluding the rentable space occupied under the Major Leases). However, if HIW or HIW Florida, as appropriate, has been unable to obtain a Tenant Estoppel Certificate from any tenant under any of the Major Leases, MG III shall have the right to terminate this Agreement by written notice to HIW or HIW Florida, as appropriate, in which event the parties shall have no further rights or obligations hereunder, except for those which expressly survive any such termination. However, if MG III, at MG III's option and in its sole and absolute discretion, elects not to so terminate this Agreement, and HIW and HIW Florida are willing to deliver, and MG III is willing to accept, on or before the Closing, a sufficient number of substitute certificates to provide Tenant Estoppel Certificates from, or substitute certificates for, tenants under each of the Major Leases, HIW and HIW Florida shall deliver a sufficient number of substitute certificates to provide Tenant Estoppel Certificates or substitute certificates for all tenants under the Major Leases and tenants leasing at least eighty percent (80%) in the aggregate of the remaining rentable space in each of the Properties (excluding the rentable space occupied under the Major Leases), and the Closing shall occur hereunder. If, subsequent to the Closing, the Operating LLC, the Land LLC or the Lender receives any such Tenant Estoppel Certificates not previously delivered, HIW or HIW Florida, as appropriate, shall thereafter be relieved of any further obligation or liability under or pursuant to the indemnity of HIW or HIW Florida, as appropriate, with respect to the particular Lease. Upon request by MG III prior to the Closing, HIW or HIW Florida, as appropriate, shall also use reasonable efforts to obtain from parties to the Service Contracts (as defined in the Purchase Agreements) estoppel certificates in a form reasonably satisfactory to MG III; provided, however, that an estoppel certificate for a Service Contract shall not be a condition to closing hereunder unless such Service Contracts (i) expressly require the giving of such estoppel, and (ii) cannot be terminated without penalty on less than one (1) months' notice. For purposes of this Agreement, "Major Lease" shall mean and refer to each Lease having premises in excess of ten thousand (10,000) rentable square feet, if the building in which such premises are located contains one hundred thousand (100,000) rentable square feet or less, and in excess of twenty thousand (20,000) rentable square feet, if the building in which such premises are located contains more than one hundred thousand (100,000) rentable square feet.

(d) Condemnation or Destruction of Properties.

(i) Condemnation. Upon becoming aware of the same, HIW or HIW Florida, as appropriate, agrees to give MG III immediate written notice of any actual or threatened taking in condemnation or by eminent domain (or a sale in lieu thereof) of any of the Properties. Any actual or bona fide threat of taking or condemnation for any public or quasi-public purpose or use by any competent authority in appropriate proceedings or by any right of eminent domain of all or any part of the Properties which would, in MG III's reasonable judgment, materially adversely affect any Property or would, in itself, because of the time period necessary to respond to or resolve the action or for any other reason, give rise to a right of any tenant to terminate its Lease, shall, at MG III's option, allow MG III, by written notice to HIW or HIW Florida, as appropriate, to be received within fifteen (15) calendar days of MG III's receiving notice of such bona fide threat, condemnation or taking, or by the date of the Closing, whichever is earlier, to elect to terminate this Agreement.

(ii) Damage or Destruction. If, prior to the Closing, all or any material part of any Property is damaged or destroyed by any cause, HIW or HIW Florida, as appropriate, agrees to give MG III immediate written notice of such occurrence and the nature and extent of such damage and destruction, and, as soon thereafter as practicable, shall provide MG III with an estimate made by an architect, engineer or contractor ("HIW's Professional"), selected by HIW or HIW Florida, as appropriate, and reasonably approved by MG III, of the cost and amount of time required to repair such damage. If such estimate cannot reasonably be obtained by HIW or HIW Florida, as appropriate, and delivered to MG III at least ten (10) days prior to the Closing, then HIW or HIW Florida, as appropriate, shall so notify MG III, whereupon the date of the Closing shall automatically be extended to such date as would allow MG III ten (10) days before the Closing in which to make its election hereunder. If a material portion of any Property is damaged or destroyed or would, in itself, because of the time period necessary to respond to or repair the damage or destruction or for any other reason, give rise to a right of any tenant to terminate its Lease, MG III, by written notice to HIW or HIW Florida, as appropriate, to be received within fifteen (15) calendar days of MG III's receipt of notice of such damage or destruction, or by the date of the Closing, whichever is earlier, may elect to terminate this Agreement.

(iii) Termination. If this Agreement is terminated as a result of the provisions of either Section 3(d)(i) or Section 3(d)(ii) hereof, the parties shall have no further rights or obligations hereunder, except for those which expressly survive any such termination.

(iv) Awards and Proceeds. If MG III does not elect to terminate this Agreement following any notice of a bona fide threat of taking or taking by condemnation or notice of damage or destruction to any Property, as provided above, or if any such taking, damage or destruction is not material, this Agreement shall remain in full force and effect and the Transactions, less any interest in any Property taken by eminent domain or condemnation, or sale in lieu thereof, shall be effected. In the event of damage or destruction, HIW or HIW Florida, as appropriate, shall promptly contract for and commence the required repairs and restoration and complete so much thereof as

may be accomplished prior to the Closing. In the event of damage or destruction which is not material, the Closing shall occur as scheduled, and HIW or HIW Florida, as appropriate, shall be responsible for completing the required repairs and restoration, at its own cost and expense, after the Closing, and shall be entitled to all available insurance proceeds therefor (other than loss of rents insurance, if applicable, which shall be payable to the Operating LLC (or the owner of the affected Property, as appropriate, as provided below)). If the casualty is material and has not been completely repaired prior to the Closing, and MG III has elected not to terminate this Agreement as provided above, MG III may elect to either (A) extend the Closing until HIW or HIW Florida, as appropriate, shall have completed all repairs necessary to return such Property to its pre-casualty condition; or (B) close on the scheduled date of the Closing and assume the responsibility for completing such repair, receive all insurance proceeds and receive from HIW or HIW Florida, as appropriate, the deductible portion of the insurance proceeds. In any event, if MG III elects to close, the Operating LLC (or the owner of the affected Property, as appropriate) shall receive any insurance proceeds available to HIW or HIW Florida, as appropriate, or the Operating LLC (or the owner of the affected Property, as appropriate) for loss of rents after the Closing as the result of such casualty (it being acknowledged by each of HIW and HIW Florida that, under its present insurance program, the Operating LLC would be entitled to continue to receive loss of rents payments after the Closing, to the limits of the coverage in force, as long as the insurance program remains in force). In such case, at the Closing, HIW or HIW Florida, as appropriate, shall assign, transfer and set over to the Operating LLC (or the owner of the affected Property, as appropriate) all of the right, title and interest of HIW or HIW Florida, as appropriate, in and to any taking awards, payments or insurance proceeds for the actual value of the property lost or destroyed that have been or may thereafter be made for any such taking or sale in lieu thereof or damage or destruction, to the extent that such awards, payments or proceeds shall not have theretofore been used for restoration of the Property pursuant to a plan of restoration approved in writing by MG III. HIW or HIW Florida, as appropriate, shall assign to the Operating LLC (or the owner of the affected Property, as appropriate) its rights and obligations under all construction contracts pursuant to which such restoration is being accomplished.

(v) Materiality Defined. For purposes of this Section 3(d), damage or destruction to a part of the Property shall be deemed to be "material" in the event that (a) fifteen percent (15%) of the net rentable square feet within any Building is taken or damaged, (b) HIW's Professional's estimate of the cost of repairing or restoring the same is greater than \$1,000,000.00, or

(c) HIW's Professional's estimate of the time required to effect such repairs or restoration is in excess of one hundred eighty (180) days.

(e) Maintenance of Properties. Between the date hereof (which shall be "the Contract Date" for the purposes of Section 9 of Exhibit A hereto) and the Closing, HIW and HIW Florida covenant and agree to be bound by Section 9 of Exhibit A hereto.

(f) Prorations. Section 4 of Exhibit A hereto shall govern prorations in connection with the Closing, after which time Section 4 of the Purchase Agreements will control for the post-closing prorations and adjustments required thereunder.

(g) Financing of Properties. Each of MG III, HIW and HIW Florida shall use commercially reasonable efforts and reasonably cooperate to secure mutually-acceptable non-recourse (subject to typical carveouts) financing for the acquisition of the Properties by the Operating LLC and the Land LLC from a mutually-acceptable lender (the "Lender"). If required in order to facilitate the foregoing financing, HIW Florida or HIW shall provide short-term financing for the acquisition of the Property known as 301 E. Pine Street at Capital Plaza, one of the "Pine Street Properties" (as described on Exhibit B attached hereto and by this reference made a part hereof); the terms of such financing shall be on the same terms as the parties approve and obtain from Lender with respect to the balance of the Properties and shall use the same documents (with appropriate revisions), but, unless the Lender takes out the HIW or HIW Florida financing upon the stabilization of 301 E. Pine Street at Capital Plaza following the stabilization thereof, the Operating LLC shall be required to refinance said Property on a non-recourse basis as soon as it is commercially reasonable to do so in order to repay such loan by HIW or HIW Florida. In addition, at its option, HIW or HIW Florida may elect to loan any negative difference between the average loan-to-value ratio on all of the Properties and the loan-to-value ratio on any of the Properties in the Orlando, Florida City Group (but only in amounts necessary to bring any of such Properties up to the average loan-to-value ratio for all of the Properties), upon the same terms as the Lender's loan as aforesaid.

4. Entry Into Operating LLC and Land LLC. If MG III does not terminate this Agreement as hereinabove provided, MG III, HIW and HIW Florida shall enter into the Operating LLC, in the form attached hereto as Exhibit C, and the Land LLC, using the same form approved for the Development LLCs pursuant to Section 5 hereof (and incorporating the business understandings with respect thereto that are set forth in Exhibit D attached hereto and by this reference made a part hereof), respectively, immediately prior to the Closing. It is also mutually agreed and understood that, as a structural matter, the Operating LLC will be the single member of four (4) additional LLCs, which will own, respectively, all of the Properties in each of the cities of Atlanta, Raleigh, Orlando and Tampa, so that the first offer and buy-sell provisions of the Operating LLC's operating agreement can be exercised on a city-by-city basis for all of the membership interests of each single-member LLC so formed.

5. Development LLCs. MG III, MDA, HIW (on behalf of itself and its affiliates which own developable land which may be suitable for development by the Development LLCs) and HIW Florida (respecting developable land owned by HIW Florida in the State of Florida which may be suitable for development by the Development LLCs) have reached an agreement in principle to develop the projects identified on Schedule 2 attached hereto and made a part hereof, subject only to customary and usual due diligence respecting the Development Land and mutual agreement on a form of operating agreement for each Development LLC, all of which

shall be completed by the end of the Inspection Period, and hereby agree to use commercially reasonable efforts to identify any other development projects which are suitable for undertaking by the Development LLCs by the end of the Inspection Period. If any party is not satisfied with the number or quality of the Development LLCs which they have agreed to form by the end of the Inspection Period (provided, however, that all parties shall be deemed to be so satisfied if there is agreement to form Development LLCs for all of the projects identified on Schedule 2 hereto), such party may terminate this Agreement by written notice to the other parties hereto. The parties agree that the operating agreement of each Development LLC, at a minimum: (a) shall indicate that the Development LLC is intended to be owned 50% by MG III and/or MDA (or a wholly-owned affiliate of either), and 50% by one or more HIW entities; (b) shall provide for development fee income of three percent (3%) of the total budgeted development costs (including land costs) of the subject project, not to exceed \$4.00 per square foot, to be shared 68.75% to the development affiliate of HIW or HIW Florida, and 31.25% to Miller Global Properties, LLC or as it may direct; (c) shall provide for the engagement of HIW as property manager and exclusive leasing agent, upon the same terms and conditions as HIW is to be so engaged by the Operating LLC and the Land LLC pursuant to Exhibit E hereto, and the engagement of Vector Property Services (or another affiliate of MG III, MDA, or as either may direct) as property management services consultant upon the terms set forth in Section 4.01 of Exhibit E hereto; and (d) shall not contain any so-called "lock-out" period, during which the parties thereto are prohibited from exercising the buy-sell provisions thereof.

6. Rental Shortfall; Master Leases. It is mutually agreed and understood that HIW or HIW Florida, as the case may be, shall be obligated to, at its option, either reduce the Purchase Price or the Contribution Value (as such terms are defined in the Purchase Agreements), using MG III's going-in capitalization rates, or enter into one or more master leases to cover tenant leases that do not generate the expected operating income set forth in the April 11, 2000 Argus runs with respect to the Properties (collectively, the "Argus Runs"), in order to provide the Operating LLC with the operating income reflected in the Argus Runs, up to a maximum shortfall coverage of five percent (5%) per building within each Property. In the event that the tenancies in any such building would require a reduction in the Purchase Price or the Contribution Value of more than five percent (5%), or would require HIW or HIW Florida, as the case may be, to master lease space to cover a shortfall in operating income which is greater than five percent (5%) of the operating income set forth in the Argus Runs, MG III shall have the right to terminate this Agreement, and no party shall be entitled to liquidated damages as a result thereof or have any further rights or obligations hereunder, except for those which expressly survive any such termination. Each of the master leases shall provide that, as to any master-leased space that is vacant as of closing or to become vacant during the term thereof, HIW or HIW Florida, as the case may be, shall be liable for the tenant finish costs and leasing commissions for any replacement tenant put into possession during the terms of such master leases in order to relieve HIW or HIW Florida, as the case may be, of its obligations thereunder; provided, however, that, as to any space which has a tenant in possession under circumstances where such tenant is not paying the full rent reflected in the Argus Runs, HIW or HIW Florida, as the case may be, shall be responsible for any

tenant improvement costs or leasing commissions with respect to such space only if HIW or HIW Florida, as the case may be, puts a replacement tenant into possession during the term of the applicable master lease in order to relieve HIW or HIW Florida, as the case may be, from its obligations thereunder, and then, HIW or HIW Florida, as the case may be, shall be liable only for the prorated portion of tenant finish costs and leasing commissions allocable to the period of time from the execution of the replacement lease until the rental shortfall obligations of HIW or HIW Florida, as the case may be, under the subject master lease would have terminated. HIW agrees to enter into a provisional master lease as of closing for the 2 Raleigh Research Commons buildings where the tenants may not renew when the time comes. In addition, HIW and HIW Florida agree to add to Exhibit Q to each Purchase Agreement at the Closing any vacant space not reflected as such on the Argus Runs, but HIW or HIW Florida, as the case may be, will also get credit at the Closing for any space as to which the rentals exceed the Argus Runs, using MG III's capitalization rates to determine the credit. Such credit, if any, shall be offset against the obligation of HIW or HIW Florida, as the case may be, to pay rent under the master leases (by elimination of master lease obligations and, if necessary, the reduction of other master lease obligations in an amount sufficient to cover such credit), but if the amount to be offset exceeds such obligations, the Operating LLC shall pay the difference to HIW or HIW Florida, as the case may be, out of "Net Cash Flow" (as defined in the Operating LLC's operating agreement). Notwithstanding anything to the contrary contained in the operating agreement for the Operating LLC, all distributions of Net Cash Flow shall be paid to HIW or HIW Florida (as contract vendors, and not as members of the Operating LLC) until the total credit due them hereunder has been paid, and before any distribution thereof is made to the Members of the Operating LLC. Highwoods Properties, Inc., by its execution of this Agreement as the sole general partner of HIW, hereby agrees to guarantee the obligations of HIW and HIW Florida under any master leases which either may execute pursuant to this

Section 6.

7. Conditions Precedent to Closing. The obligations of the parties hereto to consummate the Closing shall be subject to the satisfaction, performance or waiver by the appropriate party of each of the following conditions precedent (each a "Condition Precedent" and collectively, the "Conditions Precedent"):

- (a) MG III, MDA, HIW and HIW Florida, as appropriate, shall have formed the Operating LLC, the Land LLC and the Development LLCs agreed upon during the Inspection Period, using the forms of operating agreements provided for herein;
- (b) MG III, HIW and HIW Florida shall have arranged mutually-acceptable financing for the acquisition of the Properties by the Operating LLC and the Land LLC, and the Lender must be prepared to close thereunder;
- (c) the Operating LLC and the Land LLC and HIW shall have executed and delivered Property Management and Leasing Agreements in the form attached hereto as Exhibit E and by this reference made a part hereof;

(d) the Operating LLC, the Land LLC, and HIW or HIW Florida, as appropriate, shall have executed and delivered the Purchase Agreements and all other documents required thereunder, and each of the Purchase Agreements for the Properties comprising the Orlando, Florida City Group (as defined in Exhibit C hereto) shall provide for purchase price adjustments as provided in Exhibit F attached hereto and by this reference made a part hereof;

(e) HIW and/or HIW Florida and the Operating LLC (or the owner of the affected Property, as appropriate) shall enter into the master leases contemplated by Section 6 above, the forms of which shall be agreed to by the parties prior to the end of the Inspection Period;

(f) the closing on the acquisition of all of the Properties to be acquired by the Operating LLC and the Land LLC shall occur simultaneously (unless mutually agreed to the contrary); and

(g) the conditions precedent contained in Section 6.4 and 6.5 of each Purchase Agreement shall have been satisfied, performed or waived by the appropriate party thereunder.

8. Default and Remedies.

(a) MG III's Default. If the Closing does not occur as a result of a material default or willful breach by MG III under the terms of this Agreement, HIW and HIW Florida shall be entitled, as their sole remedy hereunder, to terminate this Agreement and to receive from MG III, as liquidated damages hereunder (the parties hereto agreeing that, for the purposes of this Section 8(a) and Section 8(b) below, in the event that the Closing fails to occur due to a default by any party, damages would be difficult or impossible to ascertain, and thus, the liquidated damages provided for herein are intended as a reasonable estimate of such damages and not as a penalty), the sum of Eight Million Dollars (\$8,000,000.00).

(b) HIW's and/or HIW Florida's Default. If the Closing does not occur as a result of a material default or willful breach by HIW and/or HIW Florida under the terms of this Agreement, MG III and MDA shall be entitled, as their sole remedy hereunder, to terminate this Agreement and to receive from HIW and HIW Florida, jointly and severally, as liquidated damages hereunder, the sum of Eight Million Dollars (\$8,000,000.00).

(c) Termination. In the event that this Agreement is terminated in accordance with its terms, HIW and HIW Florida shall bear the cost of the Title Commitment, MG III shall bear the cost of the Survey and all other due diligence expenses that it has incurred (including, without limitation, environmental investigations), and each party shall otherwise bear its own costs and expenses incurred in connection herewith.

(d) Post-Closing Defaults. Any post-closing defaults or the untruth or breach, as the case may be, of representations or warranties shall be governed by the Purchase Agreements.

9. Brokerage. MG III, MDA, HIW and HIW Florida each represents and warrants to the others that such party has not employed a real estate broker or agent in connection with the Transactions, except for Frederick Ross Company, whose compensation has been determined by separate agreement and will be shared equally by both parties. Each party agrees to indemnify and hold the others harmless from any loss or cost suffered or incurred by it as a result of the other's representation herein being untrue.

10. Assignment. None of MG III, MDA, HIW or HIW Florida shall, without the prior written consent of the others, which may be withheld in each party's sole and absolute discretion, assign any of its rights hereunder or any part thereof, except to a person or entity controlling, controlled by or under common control with it (in which case the assignor shall remain fully liable for its assignee's performance hereunder). If any assignment is made with consent, then the Transactions shall be consummated in the name of, and by and through the authorized officials of, any such assignee, but in no event shall any assignor be released of its obligations under this Agreement as a result of any such assignment.

11. Confidentiality. Each party's obligations respecting confidentiality hereunder shall be governed by that certain letter agreement dated March 28, 2000 from Highwoods Properties, Inc. to Miller Global Properties, LLC. Notwithstanding the foregoing, nothing contained herein shall be construed so as to prohibit any party from making any disclosure required by U.S. or foreign law, including any such disclosure required by any Federal, state or local governmental agency or court of competent jurisdiction, or any disclosure that is reasonably necessary to protect any such party's interest in any action, suit or proceeding brought by or against such party.

12. Notices. Wherever any notice or other communication is required or permitted hereunder, such notice or other communication shall be in writing and shall be delivered by hand, by nationally-recognized overnight express delivery service, by U. S. registered or certified mail, return receipt requested, postage prepaid, or by electronic transfer with prompt written confirmation, sent as provided above to the addresses set out below or at such other addresses as are specified by written notice delivered in accordance herewith:

MG III and MDA:	c/o Miller Global Properties, LLC
	4649 South Ulster, Suite 1500
	Denver, Colorado 80237
	Telephone: (303) 773-0369
	Facsimile: (303) 694-0082
	Attn: James H. Miller and Donald E. Spiegleman

With a copy to: Isaacson, Rosenbaum, Woods & Levy, PC
633 17th Street, Suite 2200
Denver, Colorado 80202
Telephone: (303) 292-5656
Facsimile: (303) 292-3152
Attn: Lawrence J. Donovan, Jr., Esq.

HIW and HIW Florida: c/o Highwoods Realty Limited Partnership
3100 Smoketree Court, Suite 600
Raleigh, North Carolina 27604
Telephone: (919) 872-4924
Facsimile: (919) 876-6329
Attn: Ronald P. Gibson

With a copy to: Highwoods Realty Limited Partnership
3100 Smoketree Court, Suite 600
Raleigh, North Carolina 27604
Telephone: (919) 872-4924
Facsimile: (919) 876-6329
Attn: Mack D. Pridgen, III, Esq.

With a copy to: Alston & Bird LLP
3605 Glenwood Avenue, Suite 310
Raleigh, North Carolina 27612
Telephone: (919) 420-2206
Facsimile: (919) 420-2260
Attn: William R. Klapp, Jr., Esq.

Any notice or other communication mailed as hereinabove provided shall be deemed effectively given (a) on the date of delivery, if delivered by hand; (b) on the date mailed if sent by overnight express delivery or if sent by U.S. mail; or (c) on the date of transmission, if sent by electronic transfer device with a follow-up as provided above. Such notices shall be deemed received (a) on the date of delivery, if delivered by hand or overnight express delivery service; (b) on the date indicated on the return receipt if mailed; or (c) on the date of transmission, if sent by electronic transfer device, with a written follow-up as provided above. If any notice mailed is properly addressed but returned for any reason, such notice shall be deemed to be effective notice and to be given on the date of mailing.

13. Miscellaneous.

(a) Governing Law; Headings; Rules of Construction. This Agreement shall be governed by and construed in accordance with the internal laws of the State of North Carolina, without reference to the conflicts of laws or choice of law provisions thereof. The titles of sections and subsections herein have been inserted as a matter of convenience of reference only and shall not control or affect the meaning or

construction of any of the terms or provisions herein. All references herein to the singular shall include the plural, and vice versa.

(b) No Waiver. Neither the failure of either party to exercise any power given such party hereunder or to insist upon strict compliance by the other party with its obligations hereunder, nor any custom or practice of the parties at variance with the terms hereof shall constitute a waiver of either party's right to demand exact compliance with the terms hereof.

(c) Entire Agreement. This Agreement contains the entire agreement of the parties hereto with respect to the Transactions, and no representations, inducements, promises or agreements, oral or otherwise, between the parties not embodied herein or incorporated herein by reference shall be of any force or effect.

(d) Binding Effect. This Agreement shall be binding upon and shall inure to the benefit of the parties hereto and their respective heirs, executors, administrators, legal representatives, successors and assigns (subject to Section 10 above).

(e) Amendments. No amendment to this Agreement shall be binding on any of the parties hereto unless such amendment is in writing and is executed by the party against whom enforcement of such amendment is sought.

(f) Date For Performance. If the time period by which any right, option or election provided under this Agreement must be exercised, or by which any act required hereunder must be performed, or by which the Closing must be held, expires on a day other than a business day, then such time period shall be automatically extended through the close of business on the next regularly scheduled business day.

(g) Recording. Each of the parties agrees that it will not record this Agreement and that they will not record a short form of this Agreement.

(h) Counterparts. This Agreement may be executed in any number of counterparts (including facsimile counterparts, to be followed by the circulation of copies of the original document for execution), each of which shall be deemed to be an original, but all of which, when taken together, shall constitute but one and the same instrument.

(i) Time of the Essence. Time shall be of the essence of this Agreement and each and every term and condition hereof.

(j) Severability. This Agreement is intended to be performed in accordance with, and only to the extent permitted by, all applicable laws, ordinances, rules and regulations, and is intended, and shall for all purposes be deemed to be, a single, integrated document setting forth all of the agreements and understandings of the parties hereto, and superseding all prior negotiations, understandings and agreements of such parties. If any term or provision of this Agreement or the application thereof to any

person or circumstance shall for any reason and to any extent be held to be invalid or unenforceable, then such term or provision shall be ignored, and to the maximum extent possible, this Agreement shall continue in full force and effect, but without giving effect to such term or provision.

(k) Interpretation. Each of the parties acknowledges to the others that both it and its counsel have reviewed this Agreement and that the normal rule of construction to the effect that any ambiguities are to be resolved against the drafting party shall not be employed in the interpretation of this Agreement or any amendments or exhibits hereto. Any words following the words "include," "including," "such as," "for example," or similar words or phrases shall be illustrative only and are not intended to be exclusive, whether or not language of non-limitation is used.

IN WITNESS WHEREOF, each of the parties hereto has caused this Agreement to be executed and sealed by its duly authorized signatory, effective as of the day and year first above written.

HIW:

HIGHWOODS REALTY LIMITED PARTNERSHIP,
a North Carolina limited partnership

By: Highwoods Properties, Inc., a Maryland
corporation, its general partner

By: /s/ Mack D. Pridgen III

Name: Mack D. Pridgen III

Title: Vice President

HIW FLORIDA:

Highwoods/Florida Holdings, L.P., a Delaware
limited partnership

By: HIGHWOODS/FLORIDA GP CORP., a
Delaware corporation, its sole general partner

By: /s/ Mack D. Pridgen III

Name: Mack D. Pridgen III

Title: Vice President

MG III:

MILLER GLOBAL FUND III, L.P. a Colorado limited
partnership, its Manager

By: MG IV-GP, LLC, a Colorado limited liability
company, its sole general partner

By: MILLER GLOBAL PROPERTIES, LLC,
a Colorado limited liability company,
its sole member

By: /s/ James H. Miller

Name: James H. Miller

Title: Authorized Signatory

MDA:

MGA DEVELOPMENT ASSOCIATES, L.P., a Colorado
limited partnership

By: /s/ James H. Miller

Authorized Signatory

ARTICLE 5

MULTIPLIER: 1,000

PERIOD TYPE	3 MOS	6 MOS
FISCAL YEAR END	DEC 31 2000	DEC 31 2000
PERIOD START	APR 01 2000	JAN 01 2000
PERIOD END	JUN 30 2000	JUN 30 2000
CASH	52,912	52,912
SECURITIES	0	0
RECEIVABLES	77,131	77,131
ALLOWANCES	842	842
INVENTORY	0	0
CURRENT ASSETS	86,105	86,105
PP&E	3,690,105	3,690,105
DEPRECIATION	(268,884)	268,884
TOTAL ASSETS	3,883,739	3,883,739
CURRENT LIABILITIES	117,206	117,206
BONDS	1,714,531	1,714,531
PREFERRED MANDATORY	0	0
PREFERRED	397,500	397,500
COMMON	1,600,700	1,600,700
OTHER SE	(181,344)	(181,344)
TOTAL LIABILITY AND EQUITY	3,883,739	3,883,739
SALES	137,719	273,620
TOTAL REVENUES	145,121	286,280
CGS	41,427	80,888
TOTAL COSTS	70,789	138,578
OTHER EXPENSES	5,443	10,539
LOSS PROVISION	(26,062)	(19,116)
INTEREST EXPENSE	28,352	56,120
INCOME PRETAX	12,653	54,085
INCOME TAX	0	0
INCOME CONTINUING	12,653	54,085
DISCONTINUED	0	0
EXTRAORDINARY	(839)	(1,034)
CHANGES	0	0
NET INCOME	11,814	53,051
EPS BASIC	.07	.62
EPS DILUTED	.07	.62

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