HIGHWOODS PROPERTIES INC

FORM 10-K
(Annual Report)

Filed 3/28/1997 For Period Ending 12/31/1996

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

FORM 10-K
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

[X] Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the fiscal year ended December 31, 1996
OR
[ ] Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the transition period from to
Commission file number 1-13100

HIGHWOODS PROPERTIES, INC.
(Exact name of registrant as specified in its charter)

Maryland	56-1871668
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

3100 Smoketree Court, Suite 600
Raleigh, N.C. 27604
(Address of principal executive offices) (Zip Code)

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

Securities registered pursuant to section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
Common stock, $.01 par value	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act:
NONE

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 Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment of this Form 10-K. [X]
The aggregate market value of the shares of common stock held by non-affiliates (based upon the closing sale price on the New York Stock Exchange) on March 14, 1997 was approximately $1,258,010,021. As of March 14, 1997, there were 35,857,950 shares of common stock, $.01 par value, outstanding.
DOCUMENTS INCORPORATED BY REFERENCE Portions of the Registrant's Proxy Statement in connection with its Annual Meeting of Shareholders to be held April 29, 1997 are incorporated by reference in Part III Items 10, 11, 12 and 13.

HIGHWOODS PROPERTIES, INC.
TABLE OF CONTENTS

PART I

ITEM 1. BUSINESS

General

Highwoods Properties, Inc. (the "Company") is a self-administered and self-managed real estate investment trust ("REIT") that began operations through a predecessor in 1978. Originally founded to oversee the development, leasing and management of the 201-acre Highwoods Office Center in Raleigh, North Carolina, the Company has since evolved into one of the largest owners and operators of suburban office and industrial properties in the southeastern United States. Historically, the Company's real estate operations have been focused in the Raleigh-Durham, North Carolina market, an area also known as the Research Triangle, one of the nation's premier business centers. On June 14, 1994, the Company completed an initial public offering of 8,510,000 shares of Common Stock in connection with the reorganization of the Company's predecessor, whereby the Company succeeded to the ownership of 36 suburban office buildings, four service center properties, one warehouse facility and 94 acres of undeveloped land (the "Formation Transaction"). As of December 31, 1996, the Company owned a portfolio of 292 in-service office and industrial properties (the "Properties") and owned 238 acres (and had agreed to purchase an additional 311 acres) of undeveloped land suitable for future development (the "Development Land"). An additional 14 properties (the "Development Projects"), which will encompass approximately 1.0 million square feet, are currently under development. The Properties consist of 181 suburban office properties and 111 industrial properties (including 74 service centers) located in 16 markets in North Carolina, Florida, Tennessee, Georgia, Virginia, South Carolina and Alabama.

The Company conducts substantially all of its activities through, and substantially all of its properties are held directly or indirectly by, Highwoods/Forsyth Limited Partnership (the "Operating Partnership"). The Operating Partnership is controlled by the Company as its sole general partner and, as of March 14, 1997, the Company owned approximately 84% of the limited partnership interests (the "Units") in the Operating Partnership. The remaining Units are owned by limited partners (including certain officers and directors of the Company). Each Unit may be redeemed by the holder thereof for the cash value of one share of Common Stock, or, at the Company's option, one share (subject to certain adjustments) of Common Stock. With each such exchange, the number of Units owned by the Company and, therefore, the Company's percentage interest in the Operating Partnership, will increase.

In addition to owning the Properties, the Development Projects and the Development Land, the Company provides leasing, property management, real estate development, construction and miscellaneous tenant services for the Properties as well as for third parties. The Company conducts its third-party fee-based services through Highwoods Services, Inc. and Forsyth Properties Services, Inc., which are subsidiaries of the Operating Partnership. During the year, the Company sold its third-party brokerage business in the Research Triangle and the Piedmont Triad and currently provides such brokerage services only in Nashville, Tennessee.

The Company was formed in North Carolina in 1994. The Company's executive offices are located at 3100 Smoketree Court, Suite 600, Raleigh, North Carolina 27604, and its telephone number is (919) 872-4924. The Company also maintains regional offices in Winston-Salem and Charlotte, North Carolina; Richmond, Virginia; Nashville and Memphis, Tennessee; Atlanta, Georgia; and Tampa and Boca Raton, Florida.

Business Objectives and Strategy of the Company The Company seeks to maximize the total return to its stockholders (i) through contractual increases in rental rates from existing leases, (ii) by renewing or re-leasing space with expiring leases at higher effective rental rates, (iii) by increasing occupancy levels in properties, (iv) by acquiring new properties, (v) by developing new properties, including properties on the Development Land, and (vi) by providing a complete line of real estate services to the Company's tenants and to third parties. The Company believes that its in-house development, acquisition, construction management, leasing and management services allow it to respond to the many demands of its existing and potential tenant base, and enable it to provide its tenants cost-effective services such as build-to-suit construction and space modification, including tenant improvements and expansions. In addition, the breadth of the Company's capabilities and resources provides it with market information not generally available and gives the Company increased access to development, acquisition and management opportunities. The Company believes that the operating efficiencies achieved through its fully integrated organization also provide a competitive advantage in setting its lease rates and pricing its other services.

The Company's strategy has been to focus its real estate activities in markets where it believes its extensive local knowledge gives it a competitive advantage over other real estate developers and operators. As the Company has expanded into new markets, it has continued to maintain this localized approach by combining with local real estate operators with many years of development and management experience in their respective markets. Also, in making its acquisitions, the Company has sought to employ those property-level managers who are experienced with the real estate operations and the local market relating to the acquired properties, resulting in 87% of the portfolio currently being managed on a day-to-day basis by personnel that has had previous experience managing, leasing and/or developing those properties for which they are responsible.

The Company seeks to acquire suburban office and industrial properties at prices below replacement cost that offer attractive returns, including acquisitions of underperforming, high-quality assets in situations offering opportunities for the Company to improve such assets' operating performance. In evaluating potential acquisition opportunities, the Company will continue to rely on the extensive experience of its management and its research capabilities in considering a number of factors, including: (i) the location of the property,
(ii) the construction quality and condition of the property, (iii) the occupancy and demand of properties of a similar type in the market and (iv) the ability of the property to generate returns at or above levels of expected growth. (See " -- Recent Developments" for a discussion of the Company's acquisition and development activities during 1996.) The Company also believes that the 549 acres of Development Land should provide it with a competitive advantage in its future development activities. The Company may from time to time acquire properties from property owners through the exchange of Units in the Operating Partnership for the property owner's equity in the acquired property. As discussed above, each Unit received by these property owners is redeemable for cash from the Operating Partnership or, at the Company's option, shares of Common Stock. In connection with the transactions, the Company may also assume outstanding indebtedness associated with the acquired properties. The Company believes that this acquisition method may permit it to acquire properties at attractive prices from property owners wishing to enter into tax-deferred transactions. The Company has acquired 115 properties using the foregoing method since its inception, comprising 7.4 million rentable square feet. The Company is also committed to maintaining a capital structure that will allow it to grow through development and acquisition opportunities. As part of this commitment, the Company intends to operate with a ratio of debt to total market capitalization below 40%. At March 14, 1997, the ratio of debt to total market capitalization (based on a Common Stock price of $35.50 per share) was approximately 26%. The Company believes that this debt level improves its ability to borrow funds at attractive rates. See "Management's Discussion and Analysis of Financial Condition and Results of Operations -- Liquidity and Capital Resources."

Recent Developments

Merger and Acquisition Activity

The following table summarizes the mergers and acquisitions completed during the year ended December 31, 1996 (dollars in thousands):

Property	Location	Number of Properties	Rentable Square Feet	Initial Cost
Eakin & Smith	Nashville	7	856,000	$ 85,100(1)
Aetna Building	Richmond	1	99,000	10,800
Westshore I & II	Richmond	2	46,500	4,400
Century City I	Nashville	1	56,000	4,500
Live Oak	Charlotte	1	86,000	6,800
Crocker	Southeast	70	5,700,000	545,000(2)
Ayers Portfolio	Nashville	2	138,000	13,300
Harpeth III & IV	Nashville	2	160,000	16,750
Cary Street	Richmond	1	17,000	900
Atrium	Memphis	2	84,000	7,750
Aerial Center	Research Triangle	1	25,000	2,700
Liberty Mutual	Richmond	1	58,000	6,000
Total		91	7,325,500	$ 704,000

(1) Excludes Highwoods Plaza One, which was then under development, development land and contingent purchase price, which total $14,900,000.

(2) Net of approximately $21 million of cash held by Crocker. A significant portion of the Company's growth during 1996 resulted from its expansion into new markets. The Company entered 12 new markets and established five divisional offices as a result of the Crocker and the Eakin & Smith transactions (both transactions are described below). Eakin & Smith Transaction

On April 1, 1996, the Company completed a merger with Eakin & Smith, Inc. and its affiliates ("Eakin & Smith") combining their property portfolios, management teams and business operations (the "Eakin & Smith Transaction"). Through the combination, the Company succeeded to the ownership of seven suburban office buildings totaling 848,000 square feet, a 103,000-square-foot suburban office development project, 18 acres of development land and Eakin & Smith's brokerage and property management operations. All the properties and development land are located in Nashville, Tennessee. The aggregate cost to the Company of the Eakin & Smith Transaction, including the completion of the in-process development project, was approximately $98.5 million payable through the issuance of 537,138 Units and 489,421 shares of Common Stock, the assumption of $37 million of indebtedness (with a weighted average fixed rate of 8.0%), and cash payments of approximately $33 million. The cost excludes options to purchase 105,000 shares of Common Stock at a price of $27.50 per share and warrants to purchase 150,000 shares of Common Stock at a price of $28.00 per share, as well as deferred payments of up to 54,056 shares of Common Stock, which are attributable to Eakin & Smith's brokerage and property management operation.

Crocker Transaction

On September 20, 1996, the Company completed its merger (the "Merger") with Crocker Realty Trust, Inc. ("Crocker"). As a result of the Merger, the Company acquired 58 suburban office properties and 12 service center properties (the "Crocker Properties") located in 15 southeastern markets in Florida, North Carolina, South Carolina, Tennessee, Georgia, Virginia and Alabama. The Crocker Properties encompass 5.7 million rentable square feet. The total cost of the acquisition of all the outstanding shares of Crocker Realty Trust, Inc. was approximately $565.8 million, which included cash payments for stock and outstanding options and warrants of $322.8 million and the assumption of

$243 million of debt with an average rate of 8.6%. This indebtedness included a $140 million mortgage note with a fixed rate of 7.9% (the "7.9% Mortgage Note"). With the exception of the 7.9% Mortgage Note, the Company has repaid substantially all of such assumed indebtedness. The Company believes that the merger offered a unique investment opportunity for future growth by allowing the Company to expand and diversify its operations to growth-oriented markets throughout the Southeast. In addition, the merger enhanced the Company's opportunities to engage in development projects and accretive acquisitions, such as the 1997 Century Center and Anderson transactions (see "Management's Discussion and Analysis of Financial Condition and Results of Operations -- Recent Developments"), due to the inherent cost savings of previously established local real estate management and infrastructure. Development Activity

The following table summarizes the 12 development projects placed in service during the year ended December 31, 1996 (dollars in thousands):

Completed

Property	Location	Rentable Square Feet	Initial Cost
Hewlett Packard	Piedmont Triad	15,000	$ 1,700
Global Software	Research Triangle	93,000	7,600
Regency One	Piedmont Triad	128,000	3,300
Healthsource	Research Triangle	180,000	14,400
Highwoods One	Richmond	128,000	12,800
Situs One	Research Triangle	58,000	5,100
Inacom	Piedmont Triad	12,000	900
MSA	Research Triangle	55,000	6,200
Highwoods Plaza I	Nashville	103,000	11,500
Regency II	Piedmont Triad	96,000	2,800
Centerpoint II	Columbia	81,000	7,600
Parkway Plaza Six	Charlotte	35,000	3,100
Total		984,000	$77,000

The Company had 12 suburban office properties and two industrial properties under development totaling 1.0 million square feet of office and industrial space at December 31, 1996. The following table summarizes these development projects (dollars in thousands):

Development in process

Property	Location	Rentable Square Feet	Budgeted Cost	Cost at December 31, 1996	Pre-Leasing Percentage	Estimated Completion
Office:						
One Shockoe Plaza	Richmond	118,000	$15,400	$ 13,388	100%	1Q97
Simplex	Piedmont Triad	12,000	900	137	62	2Q97
Center Point V	Columbia	19,000	1,700	727	34	2Q97
North Park	Research Triangle	43,000	4,000	2,135	38	2Q97
Sycamore	Research Triangle	70,000	6,400	2,331	32	2Q97
Two AirPark East	Piedmont Triad	57,000	4,600	1,071	0	2Q97
Highwoods Plaza II	Nashville	103,000	10,300	2,771	0	3Q97
Highwoods Two	Richmond	74,000	7,000	922	11	3Q97
Grove Park I	Richmond	20,000	1,600	897	0	3Q97
West Shore III	Richmond	55,000	5,300	1,002	29	3Q97
Southwind III	Memphis	69,000	7,000	--	66	4Q97
ClinTrials	Research Triangle	185,000	21,500	3,427	100	2Q98
		825,000	$85,700	$ 28,808	52%	
Industrial:						
Highwoods Airport Ctr	Richmond	145,000	$ 5,500	$ 1,668	0%	2Q97
R.F. Micro Devices	Piedmont Triad	45,000	7,000	710	100	4Q97
		190,000	$12,500	$ 2,378	24%	
		1,015,000	$98,200	$ 31,186	46%*	

* Letters of intent improve the pre-leasing to 61%.

Financing Activity

In June 1996, the Company completed a 11,500,000-share public offering of Common Stock (including 1,500,000 shares issued pursuant to the underwriters' over allotment option). The net proceeds of the offering totaled $292.9 million and were used primarily to fund the acquisition of Crocker.

In July 1996, the Company sold an additional 250,000 shares of Common Stock to underwriters who participated in the Company's 11,500,000-share offering. The net proceeds from this offering were approximately $6.8 million.

On September 27, 1996, the Company replaced a $140 million credit facility with a $280 million unsecured revolving line of credit (the "Revolving Loan") from a syndicate of lenders. The Revolving Loan requires monthly payments of interest only with the balance of all principal and accrued but unpaid interest due on October 31, 1999. The interest rate on the Revolving Loan at year end was LIBOR plus 135 basis points and will adjust based on the Company's senior unsecured credit rating within a range of LIBOR plus 100 basis points to LIBOR plus 175 basis points.

On December 2, 1996, the Operating Partnership issued $100 million of 6 3/4% notes due December 1, 2003, and $110 million of 7% notes due December 1, 2006. The proceeds were used to reduce amounts outstanding on the Revolving Loan, to repay mortgage debt and to settle an interest rate swap agreement.

In December 1996, the Company completed a public offering of 2,587,500 shares of Common Stock (including 337,500 shares issued pursuant to the underwriters' over allotment option) and a concurrent non-underwritten public offering of 1,093,577 shares of Common Stock with an institutional investor. The net proceeds from the two offerings totaled approximately $96.7 million.

In connection with 1996 acquisitions, the Company issued 807,608 Units and 489,421 shares of restricted Common Stock valued at $35.6 million (based on the agreed-upon valuation of a share of Common Stock at the time of the acquisition).

Competition

The Properties compete for tenants with similar properties located in the Company's markets primarily on the basis of location, rent charged, services provided and the design and condition of the facilities. The Company also competes with other REITs, financial institutions, pension funds, partnerships, individual investors and others when attempting to acquire properties. Employees

As of December 31, 1996, the Company employed 270 persons, as compared to 124 at December 31, 1995. The increase is primarily a result of the Company's geographic expansion.

ITEM 2. PROPERTIES

General

The following table sets forth certain information about the Properties at December 31, 1996 (dollars in thousands):

	Office Properties	Industrial Properties (1)	Total Properties	Rentable Square Feet	Percent of Total Rentable Square Feet	Annualized Rental Revenue (2)	Percent of Total Annualized Rental Revenue
Research Triangle.............	66	4	70	4,491,492	25.7%	$ 59,532	31.2%
Piedmont Triad.................	23	80	103	4,521,062	25.9	28,377	14.9
Nashville..............	13	3	16	1,640,855	9.4	22,032	11.6
Tampa...................	20	--	20	1,155,483	6.6	14,953	7.8
Charlotte..............	14	16	30	1,380,173	7.9	12,765	6.7
Boca Raton..............	3	--	3	506,834	2.9	9,818	5.1
Richmond................	16	1	17	826,905	4.7	9,077	4.8
Memphis.................	7	--	7	466,354	2.7	8,631	4.5
Greenville.............	5	2	7	687,322	3.9	7,651	4.0
Atlanta.................	2	3	5	706,479	4.1	5,088	2.7
Columbia................	6	--	6	403,363	2.3	5,068	2.7
Orlando.................	2	--	2	200,796	1.2	2,107	1.1
Birmingham..............	1	--	1	114,539	0.7	1,692	0.9
Norfolk.................	1	1	2	178,827	1.0	1,583	0.8
Asheville...............	1	1	2	124,177	0.7	1,121	0.6
Jacksonville............	1	--	1	50,513	0.3	1,107	0.6
Total............	181	111	292	17,455,174	100.0%	$ 190,602	100.0%

	Office Properties	Industrial Properties (1)	Total or Average
Total Annualized Rental Revenue (2)..............	$ 165,313	$ 25,289	$ 190,602
Total rentable square feet.......................	12,350,593	5,104,581	17,455,174
Percent leased...................................	93%(3)	90%(4)	92%
Average age (years)..............................	9.4	9.6(5)	9.5

(1) Includes 74 service center properties.
(2) Annualized Rental Revenue is December 1996 rental revenue (base rent plus operating expense pass throughs) multiplied by 12.
(3) Includes 41 single-tenant properties comprising 2.6 million rentable square feet and 144,767 rentable square feet leased but not occupied.
(4) Includes 26 single-tenant properties comprising 1.5 million rentable square feet and 48,136 rentable square feet leased but not occupied.
(5) Excludes Ivy Distribution Center. Ivy is a 400,000-rentable square foot warehouse, which was constructed in stages. A portion of the building was built in 1930; major expansions took place in the mid-1940s, mid-1950s and 1981. In 1989, the entire property was renovated to convert it from a manufacturing facility to a warehouse.

The following table sets forth certain information about the portfolio of in-service and development properties as of December 31, 1996 and 1995:

	December 31, 1996			December 31, 1995		
	Number of Properties	Rentable Square Feet	Percent Leased/ Pre-leased	Number of Properties	Rentable Square Feet	Percent Leased/ Pre-leased
In-Service						
Office	181	12,350,600	93%	87	4,921,400	95%
Industrial	111	5,104,600	90	104	4,293,800	94
Total	292	17,455,200	92%	191	9,215,200	95%
Under Development						
Office	12	825,000	52%	6	590,700	71%
Industrial	2	190,000	24	1	127,600	100
Total	14	1,015,000	46%	7	718,300	76%
Total						
Office	193	13,175,600		93	5,512,100	
Industrial	113	5,294,600		105	4,421,400	
Total	306	18,470,200		198	9,933,500	

Tenants

The Properties are leased to approximately 1,800 tenants, which engage in a wide variety of businesses including computers, healthcare, telecommunications, finance, insurance and electronics. The following table sets forth information concerning the 20 largest tenants of the Properties as of December 31, 1996 (dollars in thousands):

Tenant	Number of Leases	Annualized Rental Revenue (1)	Percent of Total Annualized Rental Revenue
1. Federal Government	14	$ 5,557	2.9%
2. IBM Corporation	7	4,842	2.5
3. First Citizens Bank & Trust	8	2,747	1.4
4. BellSouth	6	2,279	1.2
5. MCI Telecommunications	6	1,879	1.0
6. International Paper Company	6	1,825	1.0
7. Jacobs-Sirrene Engineers, Inc	1	1,802	0.9
8. Barclays American	3	1,712	0.9
9. Healthsource	1	1,629	0.9
10. Sears, Roebuck and Company	3	1,553	0.8
11. Aetna Life Insurance Corp	6	1,534	0.8
12. Blue Cross & Blue Shield of SC	5	1,530	0.8
13. Duke University	4	1,450	0.8
14. Clintrials of North Carolina	4	1,436	0.8
15. Kraft Company	4	1,386	0.7
16. Volvo GM Heavy Truck Corp	4	1,318	0.7
17. Pharmacy Management Services, Inc	2	1,261	0.7
18. A T & T	3	1,216	0.6
19. Glaxo Wellcome, Inc	3	1,193	0.6
20. GTE Data Services, Inc	1	1,182	0.6
	91	$ 39,331	20.6%

(1) Calculated by multiplying December 1996 rental revenue (base rent plus operating pass throughs) by 12.

The following tables set forth certain information about the Company's leasing activities for the years ended December 31, 1996 and 1995.

	1996		1995	
	Office	Industrial	Office	Industrial
Net Effective Rents Related to Re-Leased Space:				
Number of lease transactions (signed leases)........	306	240	145	97
Rentable square footage leased.......................	1,158,563	2,302,151	655,546	586,748
Average per rentable square foot over the lease term:				
Base rent...	$ 15.00	$ 4.68	$ 15.39	$ 5.54
Tenant improvements...............................	(0.93)	(0.15)	(0.29)	(0.06)
Leasing commissions...............................	(0.31)	(0.10)	(0.31)	(0.12)
Rent concessions..................................	--	--	(0.01)	--
Effective rent....................................	$ 13.76	$ 4.43	$ 14.78	$ 5.36
Expense stop......................................	(3.36)	(0.39)	(4.36)	(0.32)
Equivalent effective net rent.....................	$ 10.40	$ 4.04	$ 10.42	$ 5.04
Average term in years.............................	4	2	4	3
Rental Rate Trends:				
Average final rate with expense pass throughs.......	$ 13.64	$ 4.41	$ 14.63	$ 5.41
Average first year cash rental rate.................	$ 14.46	$ 4.68	$ 15.12	$ 6.02
Percentage increase.................................	6.01%	6.12%	3.35%	11.28%
Capital Expenditures Related to Re-leased Space:				
Tenant Improvements:				
Total dollars committed under signed leases.......	$4,496,523	$ 685,880	$1,604,591	$ 115,097
Rentable square feet.............................	1,158,563	2,302,151	655,546	586,748
Per rentable square foot..........................	$ 3.88	$ 0.30	$ 2.45	$ 0.20
Leasing Commissions:				
Total dollars committed under signed leases.......	$1,495,498	$ 470,090	$ 770,614	$ 169,929
Rentable square feet.............................	1,158,563	2,302,151	655,546	586,748
Per rentable square foot..........................	$ 1.29	$ 0.20	$ 1.18	$ 0.29
Total:				
Total dollars committed under signed leases.......	$5,992,021	$1,155,970	$2,375,205	$ 285,026
Rentable square feet.............................	1,158,563	2,302,151	655,546	586,748
Per rentable square foot..........................	$ 5.17	$ 0.50	$ 3.62	$ 0.49

The following tables set forth scheduled lease expirations for executed leases as of December 31, 1996, assuming no tenant exercises renewal options. Office Properties:

Year of Lease Expiration	Number of Leases	Total Rentable Square Feet Expiring	Percentage of Leased Square Footage Represented by Expiring Leases	Annual Rents Under Expiring Leases (1)	Average Annual Rental Rate Per Square Foot for Expirations (1)	Percentage of Leased Rents Represented by Expiring Leases
1997	400	1,574,595	13.9%	$ 21,523,277	$ 13.67	13.1%
1998	286	1,936,670	17.1	27,305,206	14.10	16.7
1999	300	1,608,604	14.2	23,500,305	14.61	14.3
2000	256	1,773,532	15.6	26,544,059	14.97	16.2
2001	202	1,717,446	15.2	27,706,704	16.13	16.9
2002	68	811,054	7.2	12,209,094	15.05	7.5
2003	33	622,660	5.5	9,382,358	15.07	5.7
2004	13	185,635	1.6	2,246,979	12.10	1.4
2005	13	406,609	3.6	4,307,218	10.59	2.6
2006	12	535,478	4.7	7,055,661	13.18	4.3
Thereafter	11	154,058	1.4	2,193,726	14.24	1.3
Total or average	1,594	11,326,341	100.0%	$ 163,974,587	$ 14.48	100.0%

Industrial Properties:

Year of Lease Expiration	Number of Leases	Total Rentable Square Feet Expiring	Percentage of Leased Square Footage Represented by Expiring Leases	Annual Rents Under Expiring Leases (1)	Average Annual Rental Rate Per Square Foot for Expirations (1)	Percentage of Leased Rents Represented by Expiring Leases
1997	188	1,417,501	30.4%	$ 7,273,732	$ 5.13	27.5%
1998	120	825,438	17.7	5,161,532	6.25	19.6
1999	112	960,979	20.6	5,439,511	5.66	20.6
2000	40	578,220	12.4	3,888,141	6.72	14.7
2001	37	330,512	7.1	2,406,518	7.28	9.1
2002	8	361,162	7.7	1,170,620	3.24	4.4
2003	1	3,375	0.1	18,428	5.46	0.1
2004	2	34,569	0.8	288,074	8.33	1.1
2005	3	23,722	0.5	189,850	8.00	0.7
2006	1	127,600	2.7	575,476	4.51	2.2
Thereafter	0	--	0.0%	--	--	0.0
Total or average	512	4,663,078	100.0%	$ 26,411,882	$ 5.66	100.0%

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

Table of Properties

The following table and the notes thereto set forth information regarding the Properties at December 31, 1996:

Property	Building Type (1)	Year Built	Rentable Square Feet	Percent Leased at December 31, 1996	Percent Occupied at December 31, 1996
Research Triangle, NC					
Highwoods Office Center					
Amica	O	1983	20,708	100%	100%
Arrowood	O	1979	58,743	100	100
Aspen	O	1980	36,666	95	95
Birchwood	O	1983	12,748	100	43
Cedar East	O	1981	40,017	100	100
Cedar West	O	1981	39,781	85	85
Cottonwood	O	1983	40,150	100	100
Cypress	O	1980	39,004	100	100
Dogwood	O	1983	40,613	100	100
Global Software	O	1996	92,720	86	86
Hawthorn	O	1987	63,797	100	100
Highwoods Tower	O	1991	185,222	99	99
Holly	O	1984	20,186	100	100
Ironwood	O	1978	35,695	97	97
Kaiser	O	1988	56,975	100	100
Laurel	O	1982	39,382	100	100
Leatherwood	O	1979	36,581	96	96
Smoketree Tower	O	1984	150,341	98	98
Rexwoods Office Center					
2500 Blue Ridge	O	1982	61,864	100	100
Blue Ridge II	O	1988	20,673	100	100
Rexwoods Center	O	1990	41,686	100	100
Rexwoods II	O	1993	20,845	100	100
Rexwoods III	O	1992	42,484	100	100
Rexwoods IV	O	1995	42,331	100	100
Triangle Business Center					
Bldg. 2A	O	1984	102,400	60	60
Bldg. 2B	S	1984	32,000	0	0
Bldg. 3	O	1988	135,382	100	100
Bldg. 7	O	1986	126,728	91	91
Progress Center					
Cape Fear	O	1979	41,293	79	79
Catawba	O	1980	40,578	100	100
Pamlico (CompuChem)	O	1980	105,540	0	0
North Park					
4800 North Park	O	1985	168,016	100	100
4900 North Park	O	1984	32,002	75	75
5000 North Park	O	1980	74,786	96	96
Creekstone Park					
Creekstone Crossing	O	1990	59,299	100	100
Riverbirch	O	1987	60,163	100	100
Willow Oak	O	1995	88,783	100	100
Research Commons					
EPA Administration	O	1966	46,718	100	100
EPA Annex	O	1966	145,875	100	100
4501 Bldg.	O	1985	56,566	100	100
4401 Bldg.	O	1987	115,526	77	77
4301 Bldg.	O	1989	90,894	100	100
4201 Bldg.	O	1991	83,731	100	100
Hock Portfolio					
Fairfield I	O	1987	52,070	91	91
Fairfield II	O	1989	59,954	79	79
Qualex	O	1985	67,000	100	100
4101 Roxboro	O	1984	56,000	100	100
4020 Roxboro	O	1989	40,000	100	100

Property	Tenants Leasing 25% or More of Rentable Square Feet at December 31, 1996
Research Triangle, NC	
Highwoods Office Center	
Amica	Amica Mutual Insurance Company
Arrowood	First Citizens Bank & Trust
Aspen	N/A
Birchwood	USAA, Southlight, Inc.
Cedar East	Amerimark Building Products
Cedar West	N/A
Cottonwood	First Citizens Bank & Trust

Cypress	GSA-Army Recruiters
Dogwood	First Citizens Bank & Trust
Global Software	Global Software Inc.
Hawthorn	Carolina Telephone
Highwoods Tower	Maupin, Taylor, Ellis & Adams
Holly	Capital Associated Industries
Ironwood	First Citizens Bank & Trust
Kaiser	Kaiser Foundation
Laurel	Microspace Communications, First Citizens Bank & Trust
Leatherwood	GAB Robins North America, Inc.
Smoketree Tower	N/A
Rexwoods Office Center	
2500 Blue Ridge	Rex Hospital, Inc.
Blue Ridge II	McGladrey & Pullen
Rexwoods Center	N/A
Rexwoods II	Raleigh Neurology Clinic (2), Miller Building Corporation
Rexwoods III	Piedmont Olsen Hensley, Inc.
Rexwoods IV	N/A
Triangle Business Center	
Bldg. 2A	Harris Corporation,
Bldg. 2B	N/A
Bldg. 3	N/A
Bldg. 7	Broadband Technologies, Inc.
Progress Center	
Cape Fear	N/A
Catawba	GSA -- EPA
Pamlico (CompuChem)	N/A
North Park	
4800 North Park	IBM-PC Division
4900 North Park	N/A
5000 North Park	N/A
Creekstone Park	
Creekstone Crossing	N/A
Riverbirch	Digital Equipment Corporation, Quintiles, Inc.
Willow Oak	AT&T Corporation
Research Commons	
EPA Administration	Environmental Protection Agency
EPA Annex	Environmental Protection Agency
4501 Bldg.	Martin Marietta
4401 Bldg.	Ericsson
4301 Bldg.	Glaxo Wellcome, Inc. (3)
4201 Bldg.	Environmental Protection Agency
Hock Portfolio	
Fairfield I	Reliance
Fairfield II	Qualex
Qualex	Qualex
4101 Roxboro	Duke -- Cardiology
4020 Roxboro	Duke -- Pediatrics Duke -- Cardiology

Property	Building Type (1)	Year Built	Rentable Square Feet	Percent Leased at December 31, 1996	Percent Occupied at December 31, 1996
Six Forks Center					
Six Forks Center I	O	1982	33,867	100%	100%
Six Forks Center II	O	1983	55,603	94	94
Six Forks Center III	O	1987	60,786	99	99
ONCC					
Phase I	S	1981	101,127	92	91
"W" Building	O	1983	91,335	100	100
3645 Trust Drive	O	1984	50,652	58	58
5220 Green's Dairy Road	O	1984	29,869	100	100
5200 Green's Dairy Road	O	1984	18,317	82	82
5301 Departure Drive	S	1984	84,899	100	100
Other Research Triangle Properties					
Aerial Center	O	1992	25,330	0	0
Colony Corporate Center	O	1985	52,011	100	100
Concourse	O	1986	131,645	99	99
Cotton Building	O	1972	40,035	100	100
Expressway One Warehouse	I	1990	59,600	44	44
Healthsource	O	1996	180,000	100	100
Holiday Inn	O	1984	30,000	100	100
Lake Plaza East	O	1984	71,254	92	76
MSA	O	1996	55,219	100	100
Phoenix	O	1990	26,449	88	88
Situs I	O	1996	57,784	73	73
South Square I	O	1988	56,401	86	86
South Square II	O	1989	58,793	100	100
Total or Weighted Average			4,491,492	91%	91%
Piedmont Triad, NC					
Airpark East					
Highland Industries	S	1990	12,500	100%	100%
Service Center 1	S	1985	18,575	100	100
Service Center 2	S	1985	18,672	99	99
Service Center 3	S	1985	16,498	100	100
Service Center 4	S	1985	16,500	100	100
Copier Consultants	S	1990	20,000	100	100
Service Court	S	1990	12,600	99	99
Bldg. 01	O	1990	24,423	100	100
Bldg. 02	O	1986	23,827	100	100
Bldg. 03	O	1986	23,182	96	96
Bldg. A	O	1986	56,272	100	100
Bldg. B	O	1988	54,088	98	98
Bldg. C	O	1990	134,893	83	78
Sears Cenfact	O	1989	49,504	100	100
Hewlett Packard	O	1996	15,000	95	95
Inacom	O	1996	12,620	100	100
Warehouse 1	I	1985	64,000	81	81
Warehouse 2	I	1985	64,000	88	88
Warehouse 3	I	1986	57,600	93	91
Warehouse 4	I	1988	54,000	100	100
Airpark North					
DC-1	I	1986	112,000	100	100
DC-2	I	1987	111,905	100	100
DC-3	I	1988	75,000	67	67
DC-4	I	1988	60,000	100	100
Airpark West					
Airpark I	O	1984	60,000	100	100
Airpark II	O	1985	45,680	100	0
Airpark IV	O	1985	22,612	99	99
Airpark V	O	1985	21,923	60	60
Airpark VI	O	1985	22,097	94	94

Property	Tenants Leasing 25% or More of Rentable Square Feet at December 31, 1996
Six Forks Center	
Six Forks Center I	Centura Bank, NY Life Ins. Co.
Six Forks Center II	N/A
Six Forks Center III	EDS
ONCC	
Phase I	Monolith Corporation
"W" Building	International Business Machines Corp.
3645 Trust Drive	Customer Access Resources, Inc.
5220 Green's Dairy Road	N/A
5200 Green's Dairy Road	Carolina Power & Light

	Company
5301 Departure Drive	ABB Power T&D Co., Inc., Cardiovascular Diagnostics, Inc.
Other Research Triangle Properties	
Aerial Center	N/A
Colony Corporate Center	Rust Environmental & Infrastructure, Fujitsu
Concourse	ClinTrials
Cotton Building	Cotton Inc., Associated Insurances Inc.
Expressway One Warehouse	N/A
Healthsource	Healthsource N.C.
Holiday Inn	Holiday Inns, Inc.
Lake Plaza East	N/A
MSA	Management Systems Assoc.
Phoenix	Computer Intelligence, Inc.
Situs I	BellSouth
South Square I	Blue Cross and Blue Shield
South Square II	Coastal Healthcare Group, Inc.
Total or Weighted Average	
Piedmont Triad, NC	
Airpark East	
Highland Industries	Highland Industries, Inc. (4)
Service Center 1	Genetic Design
Service Center 2	Genetic Design
Service Center 3	ECPI
Service Center 4	Genetic Design
Copier Consultants	Copier Consultants
Service Court	Genetic Design
Bldg. 01	Health & Hygiene
Bldg. 02	United States Postal Service
Bldg. 03	Time Warner, Martin Marietta
Bldg. A	N/A
Bldg. B	United States Postal Service
Bldg. C	John Hancock
Sears Cenfact	Sears Roebuck & Company
Hewlett Packard	Hewlett Packard Co.
Inacom	Inacom Business Centers Inc.
Warehouse 1	Guilford Business Forms, Inc., Safelite Glass Corp.
Warehouse 2	Volvo GM Heavy Truck Corp., State Street Bank Realty
Warehouse 3	US Air, Inc., Garlock, Inc.
Warehouse 4	First Data Resources, Inc., Microdyne
Airpark North	
DC-1	VSA, Inc.
DC-2	Sears Roebuck & Co., New Breed Leasing, Electric South
DC-3	Continuous Forms & Checks, Inc.
DC-4	RSVP Communications, Inc.
Airpark West	
Airpark I	Volvo GM Heavy Truck Corp.
Airpark II	Mohawk Carpet Corporation
Airpark IV	Max Radio of Greensboro
Airpark V	N/A
Airpark VI	Brookstone College, Anacomp

Property	Building Type (1)	Year Built	Rentable Square Feet	Percent Leased at December 31, 1996	Percent Occupied at December 31, 1996
West Point Business Park					
BMF Warehouse	I	1986	240,000	100%	100%
WP-11	I	1988	89,600	85	85
WP-12	I	1988	89,600	100	100
WP-13	I	1988	89,600	100	100
WP-3 & 4	S	1988	18,059	100	100
WP-5	S	1995	25,200	65	65
Fairchild Bldg.	I	1990	89,000	100	66
LUWA Bahnson Bldg.	O	1990	27,000	100	100
University Commercial Center					
W-1	I	1983	44,400	100	100
W-2	I	1983	46,500	100	100
SR-1	S	1983	23,112	97	97
SR-2 01/02	S	1983	17,282	100	100
SR-3	S	1984	23,825	70	70
Bldg. 03	O	1985	37,077	66	66
Bldg. 04	O	1986	34,470	94	94
Ivy Distribution Center (5)	I	1930-1980	400,000	79	79
Knollwood Office Center					
370 Knollwood	O	1994	90,315	100	100
380 Knollwood	O	1990	164,141	98	98
Stoneleigh Business Park					
7327 W. Friendly Ave.	S	1987	11,180	81	81
7339 W. Friendly Ave.	S	1989	11,784	100	100
7341 W. Friendly Ave.	S	1988	21,048	94	94
7343 W. Friendly Ave.	S	1988	13,463	100	100
7345 W. Friendly Ave.	S	1988	12,300	100	100
7347 W. Friendly Ave.	S	1988	17,978	100	100
7349 W. Friendly Ave.	S	1988	9,840	88	88
7351 W. Friendly Ave.	S	1988	19,723	98	98
7353 W. Friendly Ave.	S	1988	22,826	100	100
7355 W. Friendly Ave.	S	1988	13,296	88	88
Spring Garden Plaza					
4000 Spring Garden St.	S	1983	21,773	100	100
4002 Spring Garden St.	S	1983	6,684	100	100
4004 Spring Garden St.	S	1983	23,724	62	62
Pomona Center -- Phase I					
7 Dundas Circle	S	1986	14,184	100	100
8 Dundas Circle	S	1986	16,488	93	93
9 Dundas Circle	S	1986	9,972	90	75
Pomona Center -- Phase II					
302 Pomona Dr.	S	1987	16,488	75	75
304 Pomona Dr.	S	1987	4,344	100	100
306 Pomona Dr.	S	1987	9,840	100	100
308 Pomona Dr.	S	1987	14,184	96	96
5 Dundas Circle	S	1987	14,184	100	100
Westgate on Wendover -- Phase I					
305 South Westgate Dr.	S	1985	4,608	83	83
307 South Westgate Dr.	S	1985	12,672	91	91
309 South Westgate Dr.	S	1985	12,960	89	89
311 South Westgate Dr.	S	1985	14,400	80	80
315 South Westgate Dr.	S	1985	10,368	89	89
317 South Westgate Dr.	S	1985	15,552	100	100
319 South Westgate Dr.	S	1985	10,368	100	100

Property	Tenants Leasing 25% or More of Rentable Square Feet at December 31, 1996
West Point Business Park	
BMF Warehouse	Sara Lee Knit Products, Inc.
WP-11	N.C. Record Control Centers, Walt Klein & Assoc.
WP-12	Norel Plastics, Sara Lee
WP-13	Sara Lee Knit Products, Inc.
WP-3 & 4	Tri-Communications, Inc., Rayco Safety, Inc.
WP-5	N/A
Fairchild Bldg.	Fairchild Industrial Products
LUWA Bahnson Bldg.	Luwa Bahnson, Inc.
University Commercial Center	
W-1	Lagenthal Corp.
W-2	Paper Supply Company
SR-1	N/A
SR-2 01/02	Decision Point Marketing
SR-3	Decision Point Marketing
Bldg. 03	N/A

Bldg. 04	Somur, Inc.
Ivy Distribution Center (5)	N/A
Knollwood Office Center	
370 Knollwood	Krispy Kreme, Prudential Carolinas Realty
380 Knollwood	N/A
Stoneleigh Business Park	
7327 W. Friendly Ave.	American Telecom, Salem Imaging
7339 W. Friendly Ave.	Medical Endoscopy Service, R.F. Micro Devices
7341 W. Friendly Ave.	R.F. Micro Devices
7343 W. Friendly Ave.	Executone
7345 W. Friendly Ave.	Rule Manuf.
7347 W. Friendly Ave.	Law Engineering, Winship
7349 W. Friendly Ave.	Anderson & Assoc.
7351 W. Friendly Ave.	General Transport, ACT MEDIA, Inc.
7353 W. Friendly Ave.	Office Equipment, Windsor Door
7355 W. Friendly Ave.	R.F. Micro Devices
Spring Garden Plaza	
4000 Spring Garden St.	N/A
4002 Spring Garden St.	Jordan Graphics
4004 Spring Garden St.	N/A
Pomona Center -- Phase I	
7 Dundas Circle	N/A
8 Dundas Circle	N/A
9 Dundas Circle	Netcom, Conservatop Corporation
Pomona Center -- Phase II	
302 Pomona Dr.	N/A
304 Pomona Dr.	Fortune Personnel Consultants, OSC Fluid
306 Pomona Dr.	AEL Defense Corporation, Aqua Science
308 Pomona Dr.	Hering North America
5 Dundas Circle	N/A
Westgate on Wendover -- Phase I	
305 South Westgate Dr.	Alarmguard, The Computer Store
307 South Westgate Dr.	Anders Lufvenholm
309 South Westgate Dr.	GEODAX Technology, Inc., McRae Graphics
311 South Westgate Dr.	N/A
315 South Westgate Dr.	N/A
317 South Westgate Dr.	N/A
319 South Westgate Dr.	N/A

Property	Building Type (1)	Year Built	Rentable Square Feet	Percent Leased at December 31, 1996	Percent Occupied at December 31, 1996
Westgate on Wendover -- Phase II					
206 South Westgate Dr.	S	1986	17,376	100	100
207 South Westgate Dr.	S	1986	26,448	100	100
300 South Westgate Dr.	S	1986	12,960	100	100
4600 Dundas Circle	S	1985	11,922	29	29
4602 Dundas Circle	S	1985	13,017	61	61
Radar Road					
500 Radar Rd.	I	1981	78,000	100	100
502 Radar Rd.	I	1986	15,000	100	100
504 Radar Rd.	I	1986	15,000	98	98
506 Radar Rd.	I	1986	15,000	100	100
Holden/85 Business Park					
2616 Phoenix Dr.	I	1985	31,894	100	100
2606 Phoenix Dr. -- 100	S	1989	15,000	100	100
2606 Phoenix Dr. -- 200	S	1989	15,000	100	100
2606 Phoenix Dr. -- 300	S	1989	7,380	67	67
2606 Phoenix Dr. -- 400	S	1989	12,300	90	90
2606 Phoenix Dr. -- 500	S	1989	15,180	90	90
2606 Phoenix Dr. -- 600	S	1989	18,540	90	90
Industrial Village					
7906 Industrial Village Rd.	I	1985	15,000	100	100
7908 Industrial Village Rd.	I	1985	15,000	57	57
7910 Industrial Village Rd.	I	1985	15,000	100	100
Other Piedmont Triad Properties					
6348 Burnt Poplar	I	1990	125,000	100	100
6350 Burnt Poplar	I	1992	57,600	100	100
Deep River I	O	1989	78,094	97	97
Forsyth I	O	1985	51,236	41	41
Regency One	I	1996	127,600	100	100
Regency Two	I	1996	96,000	50	50
Stratford	O	1991	135,533	96	96
Chesapeake	I	1993	250,000	100	100
3288 Robinhood	O	1989	19,599	87	87
Total or Weighted Average			4,521,062	93%	91%
Nashville, TN					
Maryland Farms					
Eastpark 1	O	1978	29,797	100%	100%
Eastpark 2	O	1978	85,516	100	100
Eastpark 3	O	1978	77,480	100	100
Harpeth II	O	1984	78,283	100	100
Harpeth III	O	1987	78,989	95	95
Harpeth IV	O	1989	77,730	100	100
Highwoods Plaza I	O	1996	102,000	58	58
EMI/Sparrow	O	1982	59,656	100	100
5310 Maryland Way	O	1994	76,615	100	100

Property	Tenants Leasing 25% or More of Rentable Square Feet at December 31, 1996
Westgate on Wendover -- Phase II	
206 South Westgate Dr.	Home Care of the Central Carolinas
207 South Westgate Dr.	Health Equipment Services
300 South Westgate Dr.	Health Equipment Services
4600 Dundas Circle	Aquaterra, Inc.
4602 Dundas Circle	Four Seasons Apparel
Radar Road	
500 Radar Rd.	United States Postal Service
502 Radar Rd.	East Texas Distributing
504 Radar Rd.	Triad International Maintenance, Dayva Industries
506 Radar Rd.	Triad International Maintenance, American Coatings
Holden/85 Business Park	
2616 Phoenix Dr.	Pliana, Inc.
2606 Phoenix Dr. -- 100	Piedmont Plastics, Rexham Corp.
2606 Phoenix Dr. -- 200	REHAU, Inc., Underground Utility Locating
2606 Phoenix Dr. -- 300	N/A
2606 Phoenix Dr. -- 400	Spectrum Financial Services
2606 Phoenix Dr. -- 500	The Record Exchange
2606 Phoenix Dr. -- 600	AT&T, Faith & Victory Church
Industrial Village	
7906 Industrial Village Rd.	Texas Aluminum

7908 Industrial Village Rd.	Air Express
7910 Industrial Village Rd.	Wadkin North America, Inc.
Other Piedmont Triad Properties	
6348 Burnt Poplar	Sears Roebuck & Co.
6350 Burnt Poplar	Industries for the Blind
Deep River I	N/A
Forsyth I	N/A
Regency One	New Breed Leasing Corp.
Regency Two	N/A
Stratford	BB&T
Chesapeake	Chesapeake Display & Packaging
3288 Robinhood	N/A
Total or Weighted Average	
Nashville, TN	
Maryland Farms	
Eastpark 1	Brentwood Music, Volunteer Credit Corp.
Eastpark 2	PMT Services, Inc.
Eastpark 3	N/A
Harpeth II	N/A
Harpeth III	Alcoa Fujikura Ltd.
Harpeth IV	USF&G, L.M. Berry Co.
Highwoods Plaza I	TCS Management Group, Inc.
EMI/Sparrow	EMI
5310 Maryland Way	BellSouth

Property	Building Type (1)	Year Built	Rentable Square Feet	Percent Leased at December 31, 1996	Percent Occupied at December 31, 1996
Grassmere					
Grassmere I	S	1984	87,902	100%	92%
Grassmere II	S	1985	140,617	100	100
Grassmere III	S	1990	103,000	100	100
Other Nashville Properties					
Century City Plaza I	O	1987	56,161	100	100
Lakeview	O	1986	99,722	100	100
3401 Westend	O	1982	253,010	99	99
BNA	O	1985	234,377	97	97
Total or Weighted Average			1,640,855	99%	99%
Tampa, FL					
Sabal Park					
Atrium	O	1989	129,855	80	80
Sabal Business Center VI	O	1988	99,136	100	100
Progressive Insurance	O	1988	83,648	100	100
Sabal Business Center VII	O	1990	71,248	100	100
Sabal Business Center V	O	1988	60,578	100	100
Registry II	O	1987	58,781	96	94
Registry I	O	1985	58,319	90	88
Sabal Business Center IV	O	1984	49,368	100	100
Sabal Tech Center	O	1989	48,220	100	100
Sabal Park Plaza	O	1987	46,758	97	97
Sabal Lake Building	O	1986	44,533	100	100
Sabal Business Center I	O	1982	40,698	88	88
Sabal Business Center II	O	1984	32,660	64	64
Registry Square	O	1988	26,568	85	85
Expo Building	O	1981	25,600	100	100
Sabal Business Center III	O	1984	21,300	100	100
Benjamin Center					
Benjamin Center #7	O	1991	30,960	100	100
Benjamin Center #9	O	1989	38,405	76	76
Other Tampa Properties					
Tower Place	O	1988	180,848	91	91
Day Care Center	O	1986	8,000	100	100
Total or Weighted Average			1,155,483	93%	93%
Charlotte, NC					
Steele Creek Park					
Bldg. A	I	1989	42,500	100%	100%
Bldg. B	I	1985	15,031	100	100
Bldg. E	I	1985	39,300	98	98
Bldg. G-1	I	1989	22,500	44	44
Bldg. H	I	1987	53,614	100	100
Bldg. K	I	1985	19,400	100	100
Highwoods/Forsyth Business Park					
4101 Stuart Andrew Blvd.	S	1984	12,185	95	95
4105 Stuart Andrew Blvd.	S	1984	4,528	96	96
4109 Stuart Andrew Blvd.	S	1984	15,212	97	97
4201 Stuart Andrew Blvd.	S	1982	19,333	98	98
4205 Stuart Andrew Blvd.	S	1982	23,401	98	98
4209 Stuart Andrew Blvd.	S	1982	15,901	98	98
4215 Stuart Andrew Blvd.	S	1982	23,372	96	96
4301 Stuart Andrew Blvd.	S	1982	40,601	85	85
4321 Stuart Andrew Blvd.	S	1982	12,774	94	94

Property	Tenants Leasing 25% or More of Rentable Square Feet at December 31, 1996
Grassmere	
Grassmere I	Contel Cellular of Nashville, Inc.
Grassmere II	N/A
Grassmere III	Harris Graphics Corporation
Other Nashville Properties	
Century City Plaza I	N/A
Lakeview	The Kroger Co. (6), Centex
3401 Westend	N/A
BNA	N/A
Total or Weighted Average	
Tampa, FL	
Sabal Park	
Atrium	GTE Data Services, Inc.
Sabal Business Center VI	Pharmacy Management Services, Inc.
Progressive Insurance	Progressive American Insurance Co.
Sabal Business Center VII	Pharmacy Management Services, Inc.
Sabal Business Center V	Lebhar-Friedman Inc.

Registry II	N/A
Registry I	N/A
Sabal Business Center IV	Phillips Educational Group of Central Florida, Inc., TGC Home Health Care, Inc.
Sabal Tech Center	National RX Services, Inc.
Sabal Park Plaza	State of Florida Department of Revenue, ERM South, Inc.
Sabal Lake Building	Warner Publisher Services, Inc.
Sabal Business Center I	N/A
Sabal Business Center II	Owen Ayres and Associates, Inc.
Registry Square	Proctor & Redfern, Inc.
Expo Building	Exposystems, Inc.
Sabal Business Center III	Eli Witt Co.
Benjamin Center	
Benjamin Center #7	Basetec Office Systems, Inc., Baers Construction
Benjamin Center #9	First Image Management Company
Other Tampa Properties	
Tower Place	N/A
Day Care Center	Telesco Enterprises, Inc.
Total or Weighted Average	
Charlotte, NC	
Steele Creek Park	
Bldg. A	Terrell Gear Drives, Inc.
Bldg. B	Pump Parts & Services (7)
Bldg. E	Bradman-Lake, Inc.
Bldg. G-1	Safewaste Corp.
Bldg. H	Sugravo Rallis Engraving, Eurotherm Drives, Inc.
Bldg. K	Aptech, Inc.
Highwoods/Forsyth Business Park	
4101 Stuart Andrew Blvd.	N/A
4105 Stuart Andrew Blvd.	Re-Directions, Transit & Level Clinic, Bell/Sysco Food
4109 Stuart Andrew Blvd.	N/A
4201 Stuart Andrew Blvd.	N/A
4205 Stuart Andrew Blvd.	Sunbelt Video, Inc.
4209 Stuart Andrew Blvd.	N/A
4215 Stuart Andrew Blvd.	Cleaning Services Group, Rodan, Inc.
4301 Stuart Andrew Blvd.	Circle K
4321 Stuart Andrew Blvd.	Communications Technology

Property	Building Type (1)	Year Built	Rentable Square Feet	Percent Leased at December 31, 1996	Percent Occupied at December 31, 1996
Parkway Plaza					
Building 1	O	1982	58,263	93%	93%
Building 2	O	1983	88,227	76	76
Building 3	O	1984	82,307	94	94
Building 6	O	1996	40,330	41	41
Building 7 (8)	O	1985	60,722	100	100
Building 8 (8)	O	1986	40,615	100	100
Building 9 (8)	I	1984	110,000	0	0
Oakhill Business Park					
Twin Oaks	O	1985	97,652	94	94
Water Oak	O	1985	90,853	90	90
Scarlet Oak	O	1982	76,584	100	85
English Oak	O	1984	54,865	100	100
Willow Oak	O	1982	38,448	0	0
Laurel Oak	O	1984	38,448	85	85
Live Oak	O	1989	85,993	50	50
Other Charlotte Properties					
First Citizens	O	1989	57,214	100	100
Total or Weighted Average			1,380,173	79%	78%
Boca Raton, FL					
One Boca Place	O	1987	277,630	99%	93%
Highwoods Square	O	1989	148,944	90	90
Highwoods Plaza	O	1980	80,260	98	98
Total or Weighted Average			506,834	96%	95%
Richmond, VA					
Innsbrook Office Center					
Liberty Mutual	O	1990	57,915	100%	100%
Markel American	O	1988	38,427	100	100
Proctor-Silex	O	1986	58,366	100	100
Vantage Place I	O	1987	13,514	100	100
Vantage Place II	O	1987	14,895	100	100
Vantage Place III	O	1988	14,389	100	100
Vantage Place IV	O	1988	13,411	100	100
Vantage Point	O	1990	62,918	100	90
Innsbrook Tech I	S	1991	18,350	100	100
DEQ Technology Center	O	1991	53,847	84	84
DEQ Office	O	1991	70,423	100	100
Aetna	O	1989	99,209	100	100
Highwoods One	O	1996	128,222	92	92
Technology Park					
Virginia Center	O	1985	119,754	83	75
Other Richmond Properties					
Westshore I	O	1995	18,775	100	100
Westshore II	O	1995	27,625	98	98
East Cary Street	O	1987	16,865	69	69
Total or Weighted Average			826,905	97%	95%
Greenville, SC					
Brookfield Corporate Center					
Brookfield-Jacobs-Sirrine	O	1990	228,345	100%	100%
Brookfield Plaza	O	1987	116,800	78	78
Brookfield-YMCA	S	1990	15,500	46	46
Patewood Business Center	S	1983	103,302	100	100
Patewood Plaza Office Park					
Patewood V	O	1990	100,187	100	100
Patewood IV	O	1989	61,649	100	100
Patewood III	O	1989	61,539	100	100
Total or Weighted Average			687,322	95%	95%

Property	Tenants Leasing 25% or More of Rentable Square Feet at December 31, 1996
Parkway Plaza	
Building 1	BASF Corporation
Building 2	International Paper
Building 3	N/A
Building 6	Hewlett-Packard
Building 7 (8)	Northwest Mortgage
Building 8 (8)	Greenpoint Financial Corp.
Building 9 (8)	N/A
Oakhill Business Park	
Twin Oaks	Springs Industries, Inc.
Water Oak	N/A
Scarlet Oak	Krueger Ringier, Inc.
English Oak	The Employers Association of the Carolinas

Willow Oak	N/A
Laurel Oak	Paramount Parks Inc., Woolpert Consultants
Live Oak	CHF Industries
Other Charlotte Properties	
First Citizens	Volvo Car Finance, Inc.
Total or Weighted Average	
Boca Raton, FL	
One Boca Place	N/A
Highwoods Square	N/A
Highwoods Plaza	N/A
Total or Weighted Average	
Richmond, VA	
Innsbrook Office Center	
Liberty Mutual	Capital One, Liberty Mutual
Markel American	Mark IV
Proctor-Silex	Proctor-Silex, Inc.
Vantage Place I	Rountrey and Associates
Vantage Place II	Hastings-Tapley
Vantage Place III	Stenrich Group, Inc.
Vantage Place IV	Corvel Healthcare, Cemetary Mgmt.
Vantage Point	EDS, Colonial Inc.
Innsbrook Tech I	Air Specialists of VA, Hobbs & Assoc.
DEQ Technology Center	Virginia State Gov., First Health
DEQ Office	Circuit City
Aetna	N/A
Highwoods One	N/A
Technology Park	
Virginia Center	N/A
Other Richmond Properties	
Westshore I	Snyder Hunt Corp.
Westshore II	Hewlett-Packard Co.
East Cary Street	Butler, Macon Et. Al.
Total or Weighted Average	
Greenville, SC	
Brookfield Corporate Center	
Brookfield-Jacobs-Sirrine	Jacobs-Sirrine Engineers, Inc.
Brookfield Plaza	DowBrands, Inc.
Brookfield-YMCA	Kids & Company at Pelham Falls, Inc.
Patewood Business Center	N/A
Patewood Plaza Office Park	
Patewood V	Bell Atlantic Mobile Systems, Inc., PYA/Monarch, Inc.
Patewood IV	MCI Telecommunications Corp.
Patewood III	MCI Telecommunications Corp.
Total or Weighted Average	

Property	Building Type (1)	Year Built	Rentable Square Feet	Percent Leased at December 31, 1996	Percent Occupied at December 31, 1996
Memphis, TN					
Atrium I	O	1984	42,124	100%	100%
Atrium II	O	1984	42,099	100	100
International Place Phase II	O	1988	208,006	98	98
Southwind Office Center "A"	O	1991	62,179	100	100
Southwind Office Center "B"	O	1990	61,860	100	100
Kirby Centre	O	1984	32,007	100	100
Medical Properties, Inc.	O	1988	18,079	100	100
Total or Weighted Average			466,354	99%	99%
Atlanta, GA					
Oakbrook					
Oakbrook I	S	1981	106,662	94%	94%
Oakbrook II	S	1983	141,938	73	56
Oakbrook III	S	1984	164,246	95	95
Oakbrook IV	O	1985	89,223	98	98
Oakbrook V	O	1985	204,410	100	100
Total or Weighted Average			706,479	94%	92%
Columbia, SC					
Fontaine Business Center					
Fontaine I	O	1985	97,576	97%	97%
Fontaine II	O	1987	73,225	84	84
Fontaine III	O	1988	57,888	100	100
Fontaine V	O	1990	21,107	100	100
Other Columbia Properties					
Center Point I	O	1988	72,567	100	95
Center Point II	O	1996	81,000	46	46
Total or Weighted Average			403,363	86%	85%
Orlando, FL					
Metrowest I	O	1988	102,019	94%	94%
Southwest Corporate Center	O	1984	98,777	100	100
Total or Weighted Average			200,796	97%	97%
Birmingham, AL					
Grandview I	O	1989	114,539	100%	100%
Norfolk, VA					
Battlefield I	S	1987	97,633	100%	100%
Greenbrier Business Center	O	1984	81,194	100	100
Total or Weighted Average			178,827	100%	100%
Asheville, NC					
Ridgefield 300	O	1989	63,500	100%	100%
Ridgefield 200	S	1987	60,677	100	100
Total or Weighted Average			124,177	100%	100%
Jacksonville, FL					
Towermarc Plaza	O	1991	50,513	99%	99%
Total or Weighted Average of All Properties			17,455,174	92%	92%

Property	Tenants Leasing 25% or More of Rentable Square Feet at December 31, 1996
Memphis, TN	
Atrium I	Baptist Memorial Health Care
Atrium II	Mueller Streamline Co.
International Place Phase II	AC Humko Corp., International Paper Company
Southwind Office Center "A"	Promus Hotels, Inc.
Southwind Office Center "B"	Check Solutions, Inc.
Kirby Centre	Financial Federal Savings Bank, Union Central Life Insurance Co.
Medical Properties, Inc.	Health Tech Affiliates, Inc.
Total or Weighted Average	
Atlanta, GA	
Oakbrook	
Oakbrook I	N/A
Oakbrook II	N/A
Oakbrook III	N/A
Oakbrook IV	N/A
Oakbrook V	N/A
Total or Weighted Average	
Columbia, SC	
Fontaine Business Center	
Fontaine I	Blue Cross and Blue Shield of S.C.
Fontaine II	Blue Cross and Blue Shield of S.C.
Fontaine III	Companion Health Care
Fontaine V	Roche Biomedical Laboratories, Inc.
Other Columbia Properties	

Center Point I	Sedgewick James of South Carolina, Inc., Alltel Mobile Communication BellSouth Mobility, Inc.
Center Point II	BellSouth
Total or Weighted Average	
Orlando, FL	
Metrowest I	N/A
Southwest Corporate Center	Walt Disney World Co.
Total or Weighted Average	
Birmingham, AL	
Grandview I	Computer Sciences Corporation
Norfolk, VA	
Battlefield I	Kasei Memory Products, Inc.
Greenbrier Business Center	Canon Computer Systems, Inc., Roche Biomedical Laboratories, Inc.
Total or Weighted Average	
Asheville, NC	
Ridgefield 300	N/A
Ridgefield 200	Memorial Mission Hospital, Inc.
Total or Weighted Average	
Jacksonville, FL	
Towermarc Plaza	Aetna Casualty
Total or Weighted Average of All Properties	

(1) I = Industrial, S = Service Center and O = Office.
(2) Raleigh Neurology Clinic has an option to purchase 33% of the Property in December 1998 for cash at the then current fair market value, as to be determined by an independent appraiser.
(3) Glaxo Wellcome has the option to purchase the Property from March 1997 to the earlier of lease termination (currently March 2000) or March 2003 for cash at the then current fair market value to be determined by an appraiser chosen by the Company, provided the terms of such purchase are acceptable to the Company and Glaxo Wellcome.
(4) Highland Industries, Inc., which entered into a 10-year lease beginning January 1991, has the option during the term of its lease to purchase the Property for a price of $1,034,000 during each of the first five years and, thereafter, at decreasing amounts through the tenth year of the lease term when the price will be $926,000.
(5) Ivy Distribution Center enables the Company to establish relationships with potential tenants that need large blocks of affordable storage space, frequently on a short-term basis. With the exception of 1989 when the building was renovated to convert it from a manufacturing facility to a bulk warehouse facility, Ivy Distribution Center has produced a positive cash flow every year since its acquisition in 1978.
(6) Kroger Co. has an option to purchase the Property through January 2001. The purchase price under the option is $10.0 million through January 1999 (and $10.8 million from January 1999 through January 2001) subject to all encumbrances, plus unamortized tenant improvements funded by the Company and unamortized leasing commissions.
(7) Pump Parts & Services, Inc. has an option to purchase the Property for a purchase price of $39.24 per square foot ($589,793) (as of August 1996) subject to a minimum increase in the per square foot purchase price of 5% per year.
(8) Properties subject to ground lease expiring December 31, 2082. The Company has the option to purchase the land during the lease term at the greater of $35,000 per acre or 85% of appraised value.

Development Land

As of December 31, 1996, the Company owned 238 acres and had committed to purchase over the next six years an additional 311 acres of land for development. The following table sets forth the location, acreage, build-out capacity and estimated construction costs with respect to the Development Land (dollars in thousands):

			Developable Square Footage			Estimated Construction
Business Park:	Location	Acreage	Office	Industrial	Total	Costs (1)
Owned:						
NationsFord Business Park	Charlotte	15	--	170,000	170,000	$ 3,920
Airpark East	Greensboro	7	--	50,000	50,000	1,150
Airpark North	Greensboro	10	20,000	--	20,000	1,600
Airport Center Drive	Greensboro	20	241,000	--	241,000	21,690
Highwoods Forsyth Park	Greensboro	6	--	60,000	60,000	3,600
West Point Business Park	Winston-Salem	26	--	286,000	286,000	8,712
Lakeview Ridge	Nashville	18	200,000	--	200,000	17,500
Grassmere	Nashville	19	450,000	--	450,000	29,250
Highwoods North	Research Triangle	18	310,000	--	310,000	26,350
Highwoods South	Research Triangle	45	525,000	--	525,000	44,625
Capital Center	Research Triangle	10	110,000	--	110,000	9,500
Creekstone Park	Research Triangle	12	132,000	--	132,000	11,220
Research Commons	Research Triangle	10	100,000	--	100,000	8,500
NorthPark	Research Triangle	12	150,000	--	150,000	12,750
Innsbrook	Richmond	10	110,000	--	110,000	7,200
		238	2,348,000	566,000	2,914,000	$207,567
To be acquired:						
Weston	Research Triangle	243	2,700,000	--	2,700,000	$248,000
Innsbrook	Richmond	50	500,000	--	500,000	50,000
Raleigh Corporate Center	Research Triangle	15	300,000	--	300,000	27,000
Maryland Farms	Nashville	3	90,000	--	90,000	9,000
		311	3,590,000	--	3,590,000	$334,000
Total		549	5,938,000	566,000	6,504,000	$541,567

(1) With respect to Development Land to be acquired, includes costs to acquire land.

All of the Development Land is zoned and available for office or industrial development, substantially all of which has utility infrastructure already in place. The Company believes that the cost of developing the Development Land could be financed with the funds available from the Company's existing credit facility, additional borrowings and offerings of equity and debt securities. The Company believes that its commercially zoned and unencumbered land in existing business parks gives the Company an advantage in its future development activities over other commercial real estate development companies in the Research Triangle, the Piedmont Triad, Richmond, Nashville and Charlotte. Any future development, however, is dependent on the demand for industrial or office space in the area, the availability of favorable financing and other factors, and no assurance can be given that any construction will take place on the Development Land. In addition, if construction is undertaken on the Development Land, the Company will be subject to the risks associated with construction activities, including the risk that occupancy rates and rents at a newly completed property may not be sufficient to make the property profitable, construction costs may exceed original estimates and construction and lease-up may not be completed on schedule, resulting in increased debt service expense and construction expense.

Option Land

The Company has options to purchase or rights of first refusal to purchase, lease or develop a total of 166 acres of undeveloped land (the "Option Land") at locations adjacent to Properties in two existing business parks. The Company has long-term rights of first refusal to purchase, lease or develop: (i) 147 acres in the Expressway Commerce Center, which is targeted for development of warehouses and service center facilities and (ii) 19 acres adjacent to Creekstone Park, which is targeted for service center development. No assurance can be given that any of the Option Land will be purchased or developed by the Company.

ITEM 3. LEGAL PROCEEDINGS
The Company is a party to a variety of legal proceedings arising in the ordinary course of its business. The Company believes that it is adequately covered by insurance and indemnification agreements. Accordingly, none of such proceedings are expected to have a material adverse effect on the financial position or results of operations of the Company.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS
None.

ITEM X. EXECUTIVE OFFICERS OF THE REGISTRANT
The following table sets forth certain information with respect to the executive officers of the Company:

Name	Age	Position and Background
Ronald P. Gibson	52	Director, President and Chief Executive Officer. Mr. Gibson is a founder of the Company and has served as President or managing partner of its predecessor since its formation in 1978.
William T. Wilson III	42	Director and Executive Vice President. Mr. Wilson joined Forsyth Properties in 1982 and served as its president from 1993 until its merger with the Company. Mr. Wilson is responsible for the operations in the Piedmont Triad, Charlotte and South Carolina.
John L. Turner	50	Director, Vice Chairman of the Board of Directors and Chief Investment Officer. Mr. Turner co-founded the predecessor of Forsyth Properties in 1975.
John W. Eakin	42	Director and Senior Vice President. Mr. Eakin is responsible for operations in Tennessee, Florida and Alabama. Mr. Eakin was a founder and president of Eakin & Smith, Inc. prior to its merger with the Company.
Thomas F. Cochran	42	Senior Vice President. Mr. Cochran manages the Charlotte and Greenville regions. Mr. Cochran served as senior vice president for Crocker prior to its acquisition by the Company in 1996.
Edward J. Fritsch	38	Senior Vice President and Secretary. Mr. Fritsch is responsible for the operations of the Company's Research Triangle division. Mr. Fritsch joined the Company in 1982.
Carman J. Liuzzo	36	Vice President, Chief Financial Officer and Treasurer. Prior to joining the Company in 1994, Mr. Liuzzo was vice president and chief accounting officer for Boddie-Noell Enterprises, Inc. and Boddie-Noell Restaurant Properties, Inc. Mr. Liuzzo is a certified public accountant.
John E. Reece II	37	Vice President. Mr. Reece is responsible for the operations of the Company's Piedmont Triangle area properties. Mr. Reece joined the Company in connection with the Company's merger with Forsyth Properties.

In addition, on February 12, 1997, Gene H. Anderson was appointed to the Board of Directors and joined the Company as a senior vice president. Mr. Anderson is responsible for the operations of the Company's Atlanta properties. Mr. Anderson was the founder and president of Anderson Properties. See "Management's Discussion and Analysis of Financial Condition and Results of Operations -- Recent Developments."
Employment Agreements
The Company's executive officers generally have employment agreements with the Company with a three-year duration. Messrs. Gibson and Fritsch have employment agreements through June 1997, Messrs. Turner, Wilson, Reece and Liuzzo have employment agreements through February 1998, Mr. Eakin's employment agreement runs through April 2000 and Mr. Anderson's employment agreement is through February 2000. Each contract includes provisions restricting the officers from competing with the Company during employment and, except in certain circumstances, for a limited period of time after termination of employment. Each of the employment contracts provides for severance payments in the event of termination by the Company without cause equal to the officer's base salary for the later of one year from the date of termination or the expiration of the three-year employment agreement.

PART II

ITEM 5. MARKET FOR THE REGISTRANT'S COMMON STOCK AND RELATED

STOCKHOLDER MATTERS

Market Information and Dividends

The Common Stock has been traded on the NYSE under the symbol "HIW" since the Company's initial public offering. The following table sets forth the quarterly high and low sales prices per share reported on the NYSE for the periods indicated and the distributions paid per share for each such period.

Period or Quarter Ended:	1996 High	1996 Low	1996 Distribution	1995 High	1995 Low	1995 Distribution	1994 High	1994 Low	1994 Distribution
March 31...............	$30.50	$27.75	$ 0.45	$22.00	$19.88	$0.425	--	--	--(1)
June 30................	30.25	26.88	0.48	25.50	21.25	0.45	$21.68	$19.68	0.075(2)
September 30...........	30.38	27.00	0.48	26.88	23.88	0.45	21.13	19.75	0.425
December 31............	33.75	28.50	0.48	28.38	25.50	0.45	21.68	18.50	0.425

(1) Prior to the Company's June 14, 1994, initial public stock offering.

(2) No distribution was paid during this period. The accrued distribution of $0.075 per share was paid on November 16, 1994 at the time the Company paid its initial distribution for the period from inception to September 30, 1994. On March 14, 1997, the last reported sale price of the Common Stock on the NYSE was $35.50 per share. On March 14, 1997, the Company had 654 stockholders of record. The Company intends to continue to pay regular quarterly distributions to holders of shares of Common Stock and holders of Units. Although the Company intends to maintain its current distribution rate, future distributions by the Company will be at the discretion of the Board of Directors and will depend on the actual funds from operations of the Company, its financial condition, capital requirements, the annual distribution requirements under the REIT provisions of the Internal Revenue Code of 1986 and such other factors as the Board of Directors deems relevant. During the year ended 1996, the Company's distributions totaled $48,259,000 of which $9,081,000 represented return of capital for financial statement purposes. The minimum per share distribution required to maintain REIT status was approximately $1.44 per share in 1996, $1.55 per share in 1995 and $.48 per share in 1994. The Company has instituted a Dividend Reinvestment and Stock Purchase Plan under which holders of Common Stock may elect to automatically reinvest their distributions in additional shares of Common Stock and may make optional cash payments for additional shares of Common Stock. The Company may issue additional shares of Common Stock or repurchase Common Stock in the open market for purposes of financing its obligations under the Dividend Reinvestment and Stock Purchase Plan.

Sales of Unregistered Securities

The Company issued 489,421 shares of Common Stock in connection with the merger of Eakin & Smith, Inc. into the Company on April 1, 1996. As a result of the merger, the Company succeeded to the third-party management and brokerage business of Eakin & Smith. The merger was part of the larger Eakin & Smith Transaction described above at "Business -- Recent Developments." The shares were issued to the three principals of Eakin & Smith, including John W. Eakin, who became an officer and director of the Company upon consummation of the transaction. The shares were issued pursuant to an exemption from the registration requirements of the Securities Act of 1933 (the "Securities Act") under Rule 506. Each of the three principals of Eakin & Smith are "accredited investors" under Rule 501 of the Securities Act. The Company exercised reasonable care to assure that the principals were not purchasing the shares with a view to their distribution.

ITEM 6. SELECTED FINANCIAL DATA

The following table sets forth selected financial and operating information for the Company as of December 31, 1996, 1995 and 1994, for the years ended December 31, 1996 and 1995, and for the period from June 14, 1994 (commencement of operations) to December 31, 1994. The following table also sets forth selected financial and operating information on a historical basis for the Highwoods Group (the predecessor to the Company) as of and for each of the years in the two-year period ended December 31, 1993, and for the period from January 1, 1994, to June 13, 1994. The pro forma operating data for the year ended December 31, 1994 assumes completion of the initial public offering and the Formation Transaction as of January 1, 1994.

Due to the impact of the initial formation of the Company and the initial public offering in 1994, the second and third offerings in 1995 and the transactions more fully described in "Management's Discussion and Analysis -- Overview and Background," the historical results of operations for the year ended December 31, 1995 and the period from June 14, 1994 to December 31, 1994 may not be comparable to the current period results of operations.

The Company and the Highwoods Group

	Company			Company Pro Forma	Highwoods Group	Highwoods Group	
	Year Ended December 31, 1996	Year Ended December 31, 1995	June 14, 1994 to December 31, 1994	Year Ended December 31, 1994	January 1, 1994 to June 13, 1994	Year ended December 31, 1993	1992
	(Dollars in thousands, except per share amounts)						
Operating Data:							
Total revenue..........	$ 137,926	$ 73,522	$ 19,442	$ 34,282	$ 6,648	$13,450	$12,532
Rental property operating expenses...	35,313	17,049(1)	5,110(1)	9,677(1)	2,596(2)	6,248(2)	5,587(2)
General and administrative.......	5,666	2,737	810	1,134	280	589	694
Interest expense.......	26,610	13,720	3,220	5,604	2,473	5,185	5,059
Depreciation and amortization.........	22,095	11,082	2,607	4,638	835	1,583	1,431
Income (loss) before minority interest....	48,242	28,934	7,695	13,229	464	(155)	(239)
Minority interest......	(6,782)	(4,937)	(808)	(1,388)	--	--	--
Income before extraordinary item...	41,460	23,997	6,887	11,841	464	(155)	(239)
Extraordinary item-loss on early extinguishment of debt.................	(2,140)	(875)	(1,273)	--	--	--	--
Net income (loss)......	$ 39,320	$ 23,122	$ 5,614	$ 11,841	$ 464	$ (155)	$ (239)
Net income per common share................	$ 1.51	$ 1.49	$ .63	$ 1.32			
Balance Sheet Data (at end of period):							
Real estate, net of accumulated depreciation.........	$1,377,874	$ 593,066	$ 207,976	$ --	$ --	$51,590	$46,626
Total assets...........	$1,443,440	$ 621,134	$ 224,777	$ --	$ --	$58,679	$53,688
Total mortgages and notes payable........	$ 555,876	$ 182,736	$ 66,864	$ --	$ --	$64,347	$60,279
Other Data:							
Number of in-service properties...........	292	191	44	--	14	14	13
Total rentable square feet.................	17,455,174	9,215,171	2,746,219	--	816,690	816,690	794,174

(1) Rental property operating expenses include salaries, real estate taxes, insurance, repairs and maintenance, property management, security and utilities.

(2) Rental property operating expenses include salaries, real estate taxes, insurance, repairs and maintenance, property management, security, utilities, leasing, development, and construction expenses.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Overview and Background

The Highwoods Group (the predecessor to the Company) was comprised of 13 office properties and one warehouse facility (the "Highwoods-Owned Properties"), 94 acres of development land and the management, development and leasing business of Highwoods Properties Company ("HPC"). On June 14, 1994, following completion of the Company's initial public offering, the Company, through a business combination involving entities under varying common ownership, succeeded to the Highwoods-Owned Properties, HPC's real estate business and 27 additional office properties owned by unaffiliated parties (such combination being referred to as the "Formation Transaction"). Minority interest in the Company represents the limited partnership interest owned by various individuals and entities and not the Company in the Operating Partnership, the entity that owns the Company's properties and through which the Company, as the sole general partner, conducts substantially all of its operations. The Company acquired three additional Properties in 1994 after the Formation Transaction.

In February 1995, the Company expanded into other North Carolina markets and diversified its portfolio to include industrial and service center properties with its $170 million, 57-Property business combination with Forsyth Partners (the "Forsyth Transaction"). During the year ended December 31, 1995, the Company acquired 144 Properties encompassing 6,357,000 square feet, at an initial cost of $369.9 million.

During the year ended December 31, 1996, the Company acquired 91 Properties encompassing 7,325,500 square feet at a initial cost of $704.0 million. See "Business -- Recent Developments" for a description of the acquisition of Crocker and the Eakin & Smith Transaction and for a table summarizing all mergers and acquisitions completed during the year ended December 31, 1996.

Given the effect of the acquisitions discussed above, the results of the Highwoods Group for the period from January 1, 1994, to June 13, 1994, are not comparable to the current operations of the Company.

This information should be read in conjunction with the accompanying consolidated and combined financial statements and the related notes thereto.

The pro forma operating data for the year ended December 31, 1994 assumes completion of the initial public offering and the Formation Transaction as of January 1, 1994.

Results of Operations

Comparison of 1996 to 1995

Revenue from rental operations increased $59.6 million, or 83.7% from $71.2 million in 1995 to $130.8 million in 1996. The increase is primarily a result of revenue from newly acquired and developed properties. Interest and other income increased 208.7% from $2.3 million in 1995 to $7.1 million in 1996. This increase is a result of the excess cash and cash equivalents resulting from the offering of Common Stock completed in the summer of 1996, and an increase in third-party management and leasing income.

Rental operating expenses increased $18.3 million, or 107.6%, from $17.0 million in 1995 to $35.3 million in 1996. The increase is due to the addition of 8.2 million square feet to the in-service portfolio. Rental expenses as a percentage of related rental revenues increased from 23.9% for the year ended December 31, 1995 to 27.0% for the year ended December 31, 1996. The increase is a result of an increase in the percentage of office properties in the portfolio; which have fewer "triple net" leases, and approximately $400,000 in additional expenses related to the severe winter weather in 1996 and the hurricane in September of the same year.

Depreciation and amortization for the years ended December 31, 1996 and 1995 was $22.1 million and $11.1 million, respectively. The increase of $11.0 million or 99.1% is due to a 130.9% increase in depreciable assets. Interest expense increased $12.9 million or 94.0% from $13.7 million in 1995 to $26.6 million in 1996. The increase is attributable to the increase in outstanding debt related to the Company's acquisition and development activities. Interest expense for the years ended December 31, 1996 and 1995 included $1.9 million and $1.6 million, respectively, of non-cash deferred financing costs and amortization of the costs related to the Company's interest rate protection agreements.

General and administrative expenses increased from 3.8% of rental revenue in 1995 to 4.3% in 1996. This increase is attributable to the addition of four regional offices in Nashville, Memphis, Tampa, and Boca Raton as a result of acquisitions. The duplication of certain personnel costs in the third quarter during the acquisition of Crocker also contributed to higher general and administrative expenses for the year ended December 31, 1996. Such duplicative costs were eliminated in the fourth quarter as the Company realized the planned synergies from the merger.

Net income before minority interest and extraordinary item equaled $48.2 million and $28.9 million for the years ended December 31, 1996 and 1995, respectively. The extraordinary items consisted of prepayment penalties incurred in connection with the extinguishment of certain debt assumed in the Crocker merger in 1996 and the Forsyth Transaction in 1995. Comparison of 1995 to Pro Forma 1994

For the year ended December 31, 1995 total revenues were comprised of $71.2 million of rental revenues and $2.3 million of interest and other income. For the year ended December 31, 1994 pro forma total revenues included $33.6 million of rental revenues, $200,000 in distributions from Highwoods Services, Inc. and $456,000 of interest income.

The $37.6 million increase in rental income from pro forma 1994 to 1995 was primarily attributable to the rental revenue derived from properties acquired during 1995. Revenues from the Company's initial portfolio of 41 properties increased by 2.1% over the comparable 1994 period. Vacancies in Smoketree Tower and Cape Fear partially offset rental rate increases and occupancy gains in other properties.

The increase in interest income from $465,000 in pro forma 1994 to $2.3 million in 1995 was due primarily to the increase in short-term investments during the three-month period following the Company's 4,774,989-share offering in August 1995.

Rental property expenses represented 23.9% of rental revenues in 1995 compared to 28.8% for pro forma 1994. The decline in this ratio was a result of increased operating efficiencies and the addition of revenues from industrial properties in 1995. Industrial properties are generally leased on a "triple net" basis, with the tenant paying all operating costs.

General and administrative expenses increased from $1.1 million or 3.3% of total revenues for pro forma 1994 to $2.7 million or 3.8% of total revenues for 1995. The increase in general and administrative expenses was a result of the growth of the Company's operations into the Piedmont Triad and Richmond.

Interest expense increased from $5.6 million for pro forma 1994 to $13.7 million for 1995. The increase in interest expense was a result of an increased debt level during 1995 compared to 1994 as the Company financed a portion of its 1995 acquisition activity through the use of debt financing. The Company's interest expense for 1995 included a benefit of $385,000 as a result of an interest rate protection agreement.

Depreciation and amortization expense increased from $4.6 million for pro forma 1994 to $11.1 million for 1995. The increase in depreciation and amortization expense reflects the increase in real estate assets during 1995.

Net income before minority interest and extraordinary item equaled $28.9 million or $1.87 per share for 1995 compared to $13.2 million or $1.47 per share for pro forma 1994.

In connection with the repayment of indebtedness related to the Forsyth Transaction, the Company incurred prepayment penalties of $1.0 million in 1995. This amount was recorded as an extraordinary item and is presented in the 1995 consolidated financial statements ($875,000) net of the minority interest share in such loss.

Liquidity and Capital Resources

Statement of Cash Flows

The Company generated $71.3 million in cash flows from operating activities and $419.8 million in cash flows from financing activities for the year ended December 31, 1996. These combined cash flows of $498.9 million were used to fund $486.9 million of investing activities, which were primarily additions to real estate assets and the cash purchase price for the net assets of Crocker. Capitalization

Mortgage and notes payable at December 31, 1996 totaled $555.9 million and were comprised of $296.9 million of secured indebtedness with an average rate of 8.0% and $259.0 million of unsecured indebtedness with an average rate of 7.1%. All of the mortgage and notes payable outstanding at December 31, 1996 were either fixed rate obligations or variable rate obligations covered by interest rate protection agreements (see below). The weighted average life of the indebtedness was approximately 6.5 years at December 31, 1996.

Based on the Company's total market capitalization of $1.9 billion at December 31, 1996 (at the December 31, 1996, stock price of $33.75 per share and assuming the redemption of each of the 4,283,000 Units of minority interest in the Operating Partnership for a share of Common Stock), the Company's indebtedness represented approximately 29% of its total market capitalization.

The Company completed the following financing activities during the year ended December 31, 1996:

(Bullet) During June 1996, the Company completed a 11,500,000-share public offering of Common Stock (including 1,500,000 shares issued pursuant to the underwriters' over allotment option). The net proceeds of the offering totaled $292.9 million and were used primarily to fund the Crocker acquisition.

(Bullet) In July 1996, the Company sold an additional 250,000 shares of Common Stock to underwriters who participated in the Company's 11,500,000-share offering. The net proceeds from this offering were approximately $6.8 million.

(Bullet) In connection with the acquisition of Crocker, the Company assumed a $140 million mortgage note (the "7.9% Mortgage Note"). The note is secured by 46 Properties, which were acquired in the merger and held by a subsidiary of the Company.

(Bullet) On September 27, 1996, the Company replaced a $140 million credit facility with a $280 million unsecured revolving line of credit (the "Revolving Loan") from a syndicate of lenders. The Revolving Loan requires monthly payments of interest only with the balance of all principal and accrued but unpaid interest due on October 31, 1999. The interest rate on the Revolving Loan at year end was LIBOR plus 135 basis points and will adjust based on the Company's senior unsecured credit rating within a range of LIBOR plus 100 basis points to LIBOR plus 175 basis points.

(Bullet) On November 26, 1996, the Operating Partnership issued $100 million of 6 3/4% notes due December 1, 2003, and $110 million of 7% notes due December 1, 2006 (collectively, the "Public Notes"). The proceeds were used to reduce amounts outstanding on the revolving loan, to repay mortgage debt and to settle an interest rate swap agreement.

(Bullet) In December 1996, the Company completed a public offering of 2,587,500 shares of Common Stock (including 337,500 shares issued pursuant to the underwriters' over allotment option) and a concurrent non-underwritten public offering of 1,093,577 shares of Common Stock with an institutional investor. The net proceeds from the two offerings totaled approximately $96.7 million.

(Bullet) In connection with the 1996 acquisitions, the Company issued 807,608 Units and 489,421 shares of restricted Common Stock valued at $35.6 million (based on the agreed-upon valuation of a share of Common Stock at the time of the acquisition).

Additional information regarding the 7.9% Mortgage Note, the Public Note and the Revolving Loan is set forth in the notes related to the accompanying consolidated and combined financial statements.

To protect the Company from increases in interest expense due to changes in the variable rate, the Company: (i) purchased an interest rate cap limiting its exposure to an increase in interest rates (one-month LIBOR plus 135 basis points) to 7.60% with respect to $80 million of the $280 million Revolving Loan, and (ii) entered into interest rate swaps that limit its exposure to an increase in the interest rates to 7.24% in connection with the $34 million of variable rate mortgages. The interest rate on all such variable rate debt is adjusted at monthly intervals, subject to the Company's interest rate protection program. Payments received from the counterparties under the interest rate protection agreements were $167,000, $385,000 and $25,000 for 1996, 1995 and 1994, respectively. The Company is exposed to certain losses in the event of non-performance by the counterparties under the cap and swap arrangements. The counterparties are major financial institutions and are expected to perform fully under the agreements. However, if they were to default on their obligations under the arrangements, the Company could be required to pay the full rate under the Revolving Loan and the variable rate mortgages, even if such rate were in excess of the rate in the cap and swap agreements. In addition, the Company may incur other variable rate indebtedness in the future. Increases in interest rates on its indebtedness could increase the Company's interest expense and could adversely affect the Company's cash flow and its ability to pay expected distributions to stockholders.

Historically, rental revenue has been the principal source of funds to pay operating expenses, debt service and capital expenditures, excluding non-recurring capital expenditures. In addition, construction management, maintenance, leasing and management fees have provided sources of cash flow. Management believes that the Company will have access to the capital resources necessary to expand and develop its business. To the extent that the Company's cash flow from operating activities is insufficient to finance its acquisition costs and other capital expenditures, including development costs, the Company expects to finance such activities through the Revolving Loan and other debt and equity financing. The Company presently has no plans for major capital improvements to the existing properties, other than a $4 million renovation of a 17-year old office property and normal recurring non-revenue enhancing expenditures. The Company expects to meet its short-term liquidity requirements generally through its working capital and net cash provided by operating activities along with the previously discussed Revolving Loan. The Company expects to meet certain of its financing requirements through long-term secured and unsecured borrowings and the issuance of debt securities or additional equity securities of the Company. In addition, the Company anticipates utilizing the Revolving Loan primarily to fund construction and development activities. The Company does not intend to reserve funds to retire existing mortgage indebtedness or indebtedness under the Revolving Loan upon maturity. Instead, the Company will seek to refinance such debt at maturity or retire such debt through the issuance of additional equity or debt securities. The Company anticipates that its available cash and cash equivalents and cash flows from operating activities, together with cash available from borrowings and other sources, will be adequate to meet the capital and liquidity needs of the Company in both the short and long-term. However, if these sources of funds are insufficient or unavailable, the Company's ability to make the expected distributions discussed below may be adversely affected.

In order to qualify as a REIT for Federal income tax purposes, the Company is required to make distributions to its stockholders of at least 95% of REIT taxable income. The Company expects to use its cash flow from operating activities for distributions to stockholders and for payment of recurring, non-incremental revenue-generating expenditures. The Company intends to invest amounts accumulated for distribution in short-term investments. The following factors will affect cash flows from operating activities and, accordingly, influence the decisions of the Board of Directors regarding distributions: (i) debt service requirements after taking into account the repayment and restructuring of certain indebtedness; (ii) scheduled increases in base rents of existing leases; (iii) changes in rents attributable to the renewal of existing leases or replacement leases; (iv) changes in occupancy rates at existing Properties and procurement of leases for newly acquired or developed properties; and (v) operating expenses and capital replacement needs. Recent Developments

Century Center Transaction

On January 9, 1997, the Company acquired the 17-building Century Center Office Park, four affiliated industrial properties and 20 acres of land for development located in suburban Atlanta, Georgia (the "Century Center Transaction"). The properties total 1.6 million rentable square feet and, as of December 31, 1996, were 99% leased. The cost of the Century Center Transaction was $55.6 million in Units (valued at $29.25 per Unit, the market value of a share of Common Stock as of the signing of a letter of intent for the Century Center Transaction), the assumption of $19.4 million of secured debt and a cash payment of $53.1 million, drawn from the Company's $280 million Revolving Loan. All Units issued in the transaction are subject to restrictions on transfer and redemption. Such restrictions are scheduled to expire over a three-year period in equal annual installments commencing one year from the date of issuance.

Century Center Office Park is located on approximately 77 acres, of which approximately 61 acres are controlled under long-term fixed rental ground leases that expire in 2058. The rent under the leases is approximately $180,000 per year with scheduled 10% increases in 1999 and 2009. The leases do not contain a right to purchase the subject land.

The Company estimates a first-year net operating income from the properties acquired in the Century Center Transaction of $13.3 million. See " -- Disclosure Regarding Forward-looking Statements" below. Anderson Transaction

On February 12, 1997, the Company acquired a portfolio of industrial, office and undeveloped properties in Atlanta from Anderson Properties, Inc. and affiliates (the "Anderson Transaction"). The Anderson Transaction involved 22 industrial properties and six office properties totaling 1.6 million rentable square feet, three industrial development projects totaling 402,000 square feet and 137 acres of land for development. The in-service properties were 94% leased as of December 31, 1996. The development projects have a cost-to-date of $4.6 million and are expected to be completed during 1997.

The cost of the Anderson Transaction consisted of the issuance of $22.9 million of Units (valued at $29.25 per Unit, the market value of a share of Common Stock as of the signing of a letter of intent relating to the transaction), the assumption of $7.8 million of mortgage debt and a cash payment of $37.7 million. The cash amount does not include $11.1 million expected to be paid to complete the three development projects. Approximately $5.5 million of the Units are newly created Class B Units, which differ from other Units in that they are not eligible for cash distributions from the Operating Partnership. The Class B Units will convert to regular Units in 25% annual installments commencing one year from the date of issuance. Prior to such conversion, such Units will not be redeemable for cash or Common Stock. All other Units to be issued in the transaction are also subject to restrictions on transfer or redemption. Such lock-up restrictions will expire over a three-year period in equal annual installments commencing one year from the date of issuance.

The Company estimates a first-year net operating income from the properties of $5.7 million. See "Disclosure Regarding Forward-looking Statements" below.

Preferred Stock Offering

On February 7, 1997 the Company issued 125,000 shares of 8 5/8% perpetual preferred stock for $1,000 per share. The net proceeds of $121.7 million were used to reduce existing indebtedness and fund the Anderson Transaction. The preferred stock is not redeemable prior to February 2027. The preferred stock is not subject to any sinking fund or mandatory redemption and is not convertible into any other securities of the Company. Possible Environmental Liabilities

Under various Federal, state and local laws, ordinances and regulations, such as the Comprehensive Environmental Response Compensation and Liability Act or "CERCLA," and common laws, an owner or operator of real estate is liable for the costs of removal or remediation of certain hazardous or toxic substances on or in such property as well as certain other costs, including governmental fines and injuries to persons and property. Such laws often impose such liability without regard to whether the owner or operator knew of, or was responsible for, the presence of such hazardous or toxic 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 or treatment of hazardous or toxic substances may also be liable for the costs of removal or remediation of such substances at a disposal or treatment facility, whether or not such facility is owned or operated by such person. Certain environmental laws impose liability with respect to the release and maintenance of asbestos-containing materials ("ACM"), and third parties may seek recovery from owners or operators of real property for personal injuries associated with asbestos-containing materials. A number of Company properties contain ACM or material that is presumed to be ACM. In connection with the ownership and operation of its properties, the Company 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, and the presence of hazardous or toxic substances at a site in the vicinity of a property could require the property owner to participate in remediation activities in certain cases or could have an adverse effect on the value of such property.

As of the date hereof, substantially all of the Properties have been subjected to a Phase I environmental assessment. These assessments have not revealed, nor is management of the Company aware of, any environmental liability that it believes would have a material adverse effect on the Company's financial position, operations or liquidity taken as a whole. This projection, however, could prove to be incorrect depending on certain factors. For example, the assessments may not reveal all environmental liabilities, or may underestimate the scope and severity of environmental conditions observed, with the result that there may be material environmental liabilities of which the Company is unaware or, material environmental liabilities may have arisen after the assessments were performed of which the Company is unaware. In addition, assumptions regarding groundwater flow and the existence and source of contamination are based on available sampling data, and there are no assurances that the data is reliable in all cases. Moreover, there can be no assurance that

(i) future laws, ordinances or regulations will not impose any material environmental liability or (ii) the current environmental condition of the Properties will not be affected by tenants, by the condition of land or operations in the vicinity of the Properties, or by third parties unrelated to the Company. Some tenants use or generate hazardous substances in the ordinary course of their respective businesses. These tenants are required under their leases to comply with all applicable laws and are responsible to the Company for any damages resulting from the tenants' use of the property. The Company is not aware of any material environmental problems resulting from tenants' use or generation of hazardous substances. There are no assurances that all tenants will comply with the terms of their leases or remain solvent and that the Company may not at some point be responsible for contamination caused by such tenants.

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

Funds From Operations and Cash Available for Distributions The Company considers 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. Funds from Operations does not represent net income or cash flows from operations as defined by GAAP, and FFO should not be considered as an alternative to net income as an indicator of the Company's operating performance or as an alternative to cash flows as a measure of liquidity. Funds from Operations does not measure whether cash flow is sufficient to fund all of the Operating Partnership's cash needs including principal amortization, capital improvements and distributions to stockholders. Funds from Operations does not represent cash flows from operating, investing or financing activities as defined by GAAP. Further, FFO as disclosed by other REITs may not be comparable to the Company's calculation of FFO, as described below. Funds from operations and cash available for distributions should not be considered as alternatives to net income as an indication of the Company's performance or to cash flows as a measure of liquidity.

Funds from Operations means net income (computed in accordance with generally accepted accounting principles) excluding gains (or losses) from debt restructuring and sales of property, plus depreciation and amortization, and after adjustments for unconsolidated partnerships and joint ventures. In March 1995, the National Association of Real Estate Investment Trusts ("NAREIT") issued a clarification of the definition of FFO. The clarification provides that amortization of deferred financing costs and depreciation of non-real estate assets are no longer to be added back to net income in arriving at FFO. Cash available for distribution is defined as funds from operations reduced by non-revenue enhancing capital expenditures for building improvements and tenant improvements and lease commissions related to second generation space.

Funds from operations and cash available for distribution for the years ended December 31, 1996 and 1995 are summarized in the following table (in thousands):

	Year Ended December 31, 1996	1995
Funds from Operations:		
Income before minority interest and extraordinary item	$48,242	$28,934
Add (deduct):		
Depreciation and amortization	22,095	11,082
Minority interest in Crocker depreciation and amortization	(117)	--
Third-party service company cash flow	400	--
Funds from operations before minority interest	70,620	40,016
Cash Available for Distribution:		
Add (deduct):		
Rental income from straight-line rents	(2,603)	(1,503)
Amortization of deferred financing costs	1,911	1,619
Non-incremental revenue generating capital expenditures:		
Building improvements paid	(3,554)	(1,337)
Second generation tenant improvements paid	(3,471)	(1,884)
Second generation lease commissions paid	(1,426)	(1,228)
Cash available for distribution	$61,477	$35,683
Weighted average shares/units outstanding (1)	30,219	18,697
Dividend payout ratio:		
Funds from operations	79.6%	81.8%
Cash available from distribution	91.4%	91.7%

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

In the last five years, inflation has not had a significant impact on the Company because of the relatively low inflation rate in the Company's geographic areas of operation. Most of the leases require the tenants to pay their pro rata share of operating expenses, including common area maintenance, real estate taxes and insurance, thereby reducing the Company's exposure to increases in operating expenses resulting from inflation. In addition, many of the leases are for terms of less than seven years, which may enable the Company to replace existing leases with new leases at a higher base if rents on the existing leases are below the then-existing market rate. Disclosure Regarding Forward-looking Statements The Private Securities Litigation Reform Act of 1995 provides a "safe harbor" for forward-looking statements to encourage companies to provide prospective information about their companies without fear of litigation so long as those statements are identified as forward-looking and are accompanied by meaningful cautionary statements identifying important factors that could cause actual results to differ materially from those projected in the statement. Accordingly, the Company hereby identifies the following important factors that could cause the Company's actual financial results to differ materially from those projected by the Company in forward-looking statements:

(i) unexpected increases in development of office or industrial properties in the Company's markets;

(ii) deterioration in the financial condition of tenants;

(iii) construction costs of properties exceeding original estimates;

(iv) delays in the completion of development projects or acquisitions;
(v) delays in leasing or releasing space;
(vi) incorrect assessments of (or changes in) the environmental condition of the Company's properties;
(vii) unexpected increases in interest rates; and
(viii) loss of key executives.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA See page F-1 of the financial report included herein.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE
None.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The section under the heading "Election of Directors" of the Proxy Statement for the Annual Meeting of Stockholders to be held April 29, 1997 (the "Proxy Statement") is incorporated herein by reference for information on directors of the Company. See ITEM X in Part I hereof for information regarding executive officers of the Company.

ITEM 11. EXECUTIVE COMPENSATION

The section under the heading "Election of Directors" entitled "Compensation of Directors" of the Proxy Statement and the section titled "Executive Compensation" of the Proxy Statement are incorporated herein by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The section under the heading "Security Ownership of Certain Beneficial Owners and Management" of the Proxy Statement is incorporated herein by reference.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The section under the heading "Certain Relationships and Related Transactions" of the Proxy Statement is incorporated herein by reference.

PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 10-K

(a) List of Documents Filed as a Part of this Report

1. Consolidated Financial Statements and Report of Independent Auditors See Index on Page F-1
2. Financial Statement Schedules See Index on Page F-1
3. Exhibits

Exhibit No.	FN	Description
2.1	(1)	Master Agreement of Merger and Acquisition by and among the Company, the Operating Partnership, Eakin & Smith, Inc. and the partnerships and limited liability companies listed therein
2.2	(2)	Stock Purchase Agreement among AP CRTI Holdings, L.P., AEW Partners, L.P., Thomas J. Crocker, Barbara F. Crocker, Richard S. Ackerman and Robert E. Onisko and the Company and Cedar Acquisition Corporation, dated April 29, 1996
2.3	(2)	Agreement and Plan of Merger by and among the Company, Crocker Realty Trust, Inc. and Cedar Acquisition Corporation, dated as of April 29, 1996
2.4	(3)	Contribution and Exchange Agreement by and among Century Center group, the Operating Partnership and the Company, dated December 31, 1996
2.5	(3)	Master Agreement of Merger and Acquisition by and among the Company, the Operating Partnership, Anderson Properties, Inc., Gene Anderson, and the partnerships and limited liability companies listed therein, dated January 31, 1997
2.6	(4)	Amended and Master Agreement of Merger and Acquisition dated January 9, 1995 by and among Highwoods Realty Limited Partnership, Forsyth Partners Holdings, Inc., Forsyth Partners Brokerage, Inc., John L. Turner, William T. Wilson III, John E. Reece II, H. Jack Leister and the partnerships and corporations listed therein
3.1	(5)	Amended and Restated Articles of Incorporation of the Company
3.2	(5)	Amended and Restated Bylaws of the Company
4.1	(5)	Specimen of certificate representing shares of Common Stock
4.2	(6)	Indenture among AP Southeast Portfolio Partners, L.P., Bankers Trust Company of California, N.A. and Bankers Trust Company, dated as of March 1, 1994
4.3	(7)	Indenture among the Operating Partnership, the Company, and First Union National Bank of North Carolina, dated as of December 1, 1996
4.4	(7)	Form of global security for 2003 Notes
4.5	(7)	Form of global security for 2006 Notes
4.6	(8)	Specimen of certificate representing 8 5/8% Series A Cumulative Redeemable Preferred Shares
4.7	(8)	Amendment to Amended and Restated Agreement of Limited Partnership of the Operating Partnership
4.8	(8)	Articles Supplementary to the Amended and Restated Articles of Incorporation of the Company
10.1	(5)	Amended and Restated Agreement of Limited Partnership of the Operating Partnership
10.2	(9)	Form of Registration Rights and Lockup Agreement among the Company and the Holders named therein
10.3	(9)	Articles of Incorporation of Highwoods Services, Inc.
10.4	(9)	Bylaws of Highwoods Services, Inc.
10.5	(9)	Articles of Incorporation of Forsyth Properties Services, Inc.
10.6	(9)	Bylaws of Forsyth Properties Services, Inc.
10.7	(9)(10)	Amended and Restated 1994 Stock Option Plan

10.8(a)	(4)(10)	Employment Agreement between the Company and the Operating Partnership and Ronald P. Gibson
10.8(b)	(4)(10)	Employment Agreement between the Company and the Operating Partnership and Edward J. Fritsch
10.8(c)	(9)(10)	Employment Agreement between the Company and the Operating Partnership and Carman J. Liuzzo
10.8(d)	(9)(10)	Employment Agreement between the Company and the Operating Partnership and John L. Turner
10.8(e)	(9)(10)	Employment Agreement between the Company and the Operating Partnership and William T. Wilson, III
10.8(f)	(1)(10)	Employment Agreement between the Company and the Operating Partnership and John W. Eakin
10.8(g)	(3)(10)	Employment Agreement between the Company and the Operating Partnership and Gene H. Anderson
10.8(h)	(4)(10)	Employment Agreement between the Company and the Operating Partnership and John E. Reece II
10.9	(1)	Form of warrants to purchase Common Stock of the Company issued to W. Brian Reames, John W. Eakin and Thomas S. Smith
10.10	(4)	Contribution and Exchange of the Cotton Building between SJ Company and the Operating Partnership dated December 4, 1995
10.11	(11)	Credit Agreement among the Operating Partnership, the Company, the Subsidiaries named therein and the Lenders named therein, dated as of September 27, 1996
10.12	(4)	Operating Agreement of Forsyth/Carter Brokerage of North Carolina, L.L.C.
10.13	(4)	Form of warrants to purchase Common Stock of the Company issued to John L. Turner, William T. Wilson III and John E. Reece II
10.14	(4)	Indemnification Agreement dated September 26, 1994 between Burnt Poplar Associates Limited Partnership and Forsyth Partners Holdings, Inc. related to the acquisition of Burnt Poplar, which agreement has been assigned to Highwoods Realty Limited Partnership
10.15	(4)	Contribution and Exchange Agreement dated January 10, 1995 between 4501 Alexander Associates and Highwoods Realty Limited Partnership related to the acquisition of Research Commons
10.16	(4)	Contribution and Exchange Agreement dated January 10, 1995 between JHPB Partners and Highwoods Realty Limited Partnership related to the acquisition of Research Commons
10.17	(4)	Contribution and Exchange Agreement by and among the Operating Partnership, R-K Properties 3, L.P. and the Partners listed therein, dated as of July 18, 1995, relating to the purchase of Vantage Point
10.18	(4)	Purchase and Sale Agreement by and between the Operating Partnership and R-K Properties 5, L.P., dated as of July 18, 1995, relating to the acquisition of Innsbrook Tech I Center
10.19	(4)	Purchase and Sale Agreement by and between the Operating Partnership and R-K Properties 1, L.P., dated as of July 18, 1995, relating to the acquisition of Vantage Place II
10.20	(4)	Purchase and Sale Agreement by and between the Operating Partnership and R-K Properties 2, L.P., dated as of July 18, 1995, relating to the acquisition of Vantage Place IV
10.21	(4)	Asset Purchase Agreement between Ross-Kreckman Management Corporation and Highwoods Services, Inc., dated as of July 5, 1995
10.22	(4)	Contribution and Exchange Agreement by and among the Operating Partnership, Vantage Associates I, L.P. and the Partners listed therein, dated as of July 18, 1995, relating to the acquisition of Vantage Place I
10.23	(4)	Contribution and Exchange Agreement by and among the Operating Partnership, Vantage Associates II, L.P. and the Partners listed therein, dated as of July 18, 1995, relating to the acquisition of Vantage Place III

10.24	(4)	Agreement for Contribution and Exchange of Partnership Interests by and among the Operating Partnership, Creekstone Associates I and the Contributors named therein, dated as of May 11, 1995, relating to the acquisition of Creekstone Crossing.
21		Schedule of subsidiaries of the Company
23		Consent of Ernst & Young
27		Financial Data Schedule

(1) Filed as a part of the Company's Current Report on Form 8-K dated April 1, 1996 and incorporated herein by reference.
(2) Filed as a part of the Company's Current Report on Form 8-K dated April 29, 1996 and incorporated herein by reference.
(3) Filed as a part of the Company's Current Report on Form 8-K dated January 9, 1997 and incorporated herein by reference.
(4) Filed as part of Registration Statement 33-88364 with the Securities and Exchange Commission and incorporated herein by reference.
(5) Filed as part of Registration Statement 33-76952 with the Securities and Exchange Commission and incorporated herein by reference.
(6) Filed by Crocker Realty Trust, Inc. as part of Registration Statement No. 33-88482 filed with the Securities and Exchange Commission and incorporated herein by reference.
(7) Filed as a part of the Operating Partnership's Current Report on Form 8-K dated December 2, 1996 and incorporated herein by reference.
(8) Filed as a part of the Company's Current Report on Form 8-K dated February 12, 1997 and incorporated herein by reference.
(9) Filed as a part of the Company's Annual Report on Form 10-K for the year ended December 31, 1995 and incorporated herein by reference.
(10) Management contract or compensatory plan.
(11) Filed as part of the Company's Current Report on Form 8-K dated September 27, 1996 and incorporated herein by reference. The Company will provide copies of any exhibit, upon written request, at a cost of $.05 per page.
(b) Reports on Form 8-K During the fourth quarter, the Company filed the following Form 8-K:

Date of Report	Date Filed	Items Reported
September 27, 1996	October 15, 1996	Completion of Acquisition of Crocker and related restructuring of the Company; description of new Revolving Loan

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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, in the City of Raleigh, State of North Carolina, on March 27, 1997.
HIGHWOODS PROPERTIES, INC.

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

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed by the following persons in the capacities and on the dates indicated.

Signature	Title	Date
/s/ O. TEMPLE SLOAN, JR. O. Temple Sloan, Jr.	Chairman of the Board of Directors	March 27, 1997
/s/ RONALD P. GIBSON Ronald P. Gibson	President, Chief Executive Officer and Director	March 27, 1997
/s/ WILLIAM T. WILSON III William T. Wilson III	Executive Vice President and Director	March 27, 1997
/s/ JOHN L. TURNER John L. Turner	Vice Chairman of the Board and Chief Investment Officer	March 27, 1997
/s/ GENE H. ANDERSON Gene H. Anderson	Senior Vice President and Director	March 27, 1997
/s/ JOHN W. EAKIN John W. Eakin	Senior Vice President and Director	March 27, 1997
/s/ THOMAS W. ADLER Thomas W. Adler	Director	March 27, 1997
/s/ WILLIAM E. GRAHAM, JR. William E. Graham, Jr.	Director	March 27, 1997
/s/ L. GLENN ORR, JR. L. Glenn Orr, Jr.	Director	March 27, 1997
/s/ WILLARD W. SMITH JR. Willard W. Smith Jr.	Director	March 27, 1997
/s/ STEPHEN TIMKO Stephen Timko	Director	March 27, 1997
/s/ CARMAN J. LIUZZO Carman J. Liuzzo	Vice President and Chief Financial Officer (Principal Financial Officer and Principal Accounting Officer) and Treasurer	March 27, 1997

INDEX TO FINANCIAL STATEMENTS

All other schedules are omitted because they are not applicable, or because the required information is included in the financial statements or notes thereto.

REPORT OF INDEPENDENT AUDITORS

THE BOARD OF DIRECTORS AND STOCKHOLDERS
HIGHWOODS PROPERTIES, INC.

We have audited the accompanying consolidated balance sheets of Highwoods Properties, Inc. as of December 31, 1996 and 1995, and the related consolidated statements of income, stockholders' equity, and cash flows for each of the two years ended December 31, 1996 and for the period from June 14, 1994 (commencement of operations) to December 31, 1994. Our audits also included the financial statement schedule listed in the Index at Item 14(a). These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Highwoods Properties, Inc. at December 31, 1996 and 1995, and the consolidated results of its operations and cash flows for each of the two years in the period ended December 31, 1996 and for the period from June 14, 1994 (commencement of operations) to December 31, 1994 in conformity with generally accepted accounting principles. Also, in our opinion, the financial statement schedule when considered in relation to the basic financial statements taken as a whole presents fairly in all material respects the information set forth therein.

ERNST & YOUNG LLP
Raleigh, North Carolina
February 14, 1997

HIGHWOODS PROPERTIES, INC.
Consolidated Balance Sheets
(Dollars in thousands, except per share amounts)

	December 31, 1996	December 31, 1995
Assets		
Real estate assets, at cost:		
Land	$ 237,090	$106,955
Buildings and improvements	1,152,990	491,581
Development in process	28,858	15,508
Furniture, fixtures and equipment	2,096	1,288
	1,421,034	615,332
Less -- accumulated depreciation	(43,160)	(22,266)
Net real estate assets	1,377,874	593,066
Cash and cash equivalents	11,070	6,838
Restricted cash	8,539	--
Accounts receivable	9,039	6,338
Advances to subsidiaries	2,406	1,274
Accrued straight line rents receivable	6,185	3,407
Other assets:		
Deferred leasing costs	9,601	4,253
Deferred financing costs and interest rate caps	21,789	8,268
Prepaid expenses and other	3,901	1,521
	35,291	14,042
Less -- accumulated amortization	(6,964)	(3,831)
	28,327	10,211
	$1,443,440	$621,134
Liabilities and stockholders' equity		
Mortgages and notes payable	$ 555,876	$182,736
Accounts payable, accrued expenses and other liabilities	27,600	11,052
Total liabilities	583,476	193,788
Minority interest	89,617	73,536
Stockholders' equity:		
Common stock, $.01 par value, authorized 100,000,000 shares; issued and outstanding 35,636,155 at December 31, 1996 and 19,404,411 at December 31, 1995	356	194
Additional paid-in capital	780,562	355,248
Distributions in excess of net earnings	(10,571)	(1,632)
Total stockholders' equity	770,347	353,810
	$1,443,440	$621,134

See accompanying notes to consolidated financial statements.

HIGHWOODS PROPERTIES, INC.
Consolidated Statements of Income
(Dollars in thousands, except per share amounts)

For the Years Ended December 31, 1996 and 1995 and for the Period from June 14, 1994 (commencement of operations) to December 31, 1994

	1996	1995	1994
Revenue:			
Rental income	$130,848	$71,217	$19,011
Interest and other income	7,078	2,305	431
Total revenue	137,926	73,522	19,442
Operating expenses:			
Rental property	35,313	17,049	5,110
Depreciation and amortization	22,095	11,082	2,607
Interest expense:			
Contractual	24,699	12,101	2,482
Amortization of deferred financing costs and interest rate cap	1,911	1,619	738
	26,610	13,720	3,220
General and administrative	5,666	2,737	810
Income before minority interest and extraordinary item	48,242	28,934	7,695
Minority interest	(6,782)	(4,937)	(808)
Income before extraordinary item	41,460	23,997	6,887
Extraordinary item -- loss on early extinguishment of debt	(2,140)	(875)	(1,273)
Net income	$ 39,320	$23,122	$ 5,614
Net income per common share:			
Income before extraordinary item	$ 1.59	$ 1.55	$ 0.77
Extraordinary item -- loss on early extinguishment of debt	(.08)	(.06)	(0.14)
Net income	$ 1.51	$ 1.49	$ 0.63
Weighted average shares outstanding	26,111	15,487	8,936

See accompanying notes to consolidated financial statements.

HIGHWOODS PROPERTIES, INC.
Consolidated Statements of Stockholders' Equity
(Dollars in thousands)

For the Years Ended December 31, 1996 and 1995 and for the Period from June 14, 1994 (commencement of operations) to December 31, 1994

	Number of Shares	Common Stock	Additional Paid-In-Capital	Retained Earnings (Distributions in Excess of Net Earnings)	Total
Balance at June 14, 1994 (commencement of operations)............................	--	$--	$ 1	$--	$ 1
Issuance of Common Stock.................	8,986,190	90	164,324		164,414
Charge to reflect carryover of historical basis of accounting and recognition of minority interest in Operational Partnership for continuing investors....	--	--	(28,794)	--	(28,794)
Distributions paid........................	--	--	--	(5,020)	(5,020)
Net income...............................	--	--	--	5,614	5,614
Balance at December 31, 1994.............	8,986,190	90	135,531	594	136,215
Issuance of Common Stock.................	10,418,221	104	219,717	--	219,821
Distributions paid........................	--	--	--	(25,348)	(25,348)
Net income...............................	--	--	--	23,122	23,122
Balance at December 31, 1995.............	19,404,411	194	355,248	(1,632)	353,810
Issuance of Common Stock.................	15,976,161	160	419,892	--	420,052
Distributions paid........................	--	--	--	(48,259)	(48,259)
Net income...............................	--	--	--	39,320	39,320
Shares issued upon redemption of Operating Partnership Units......................	255,583	2	5,422	--	5,424
Balance at December 31, 1996.............	35,636,155	$356	$ 780,562	$(10,571)	$770,347

See accompanying notes to consolidated financial statements.

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

For the Years Ended December 31, 1996 and 1995 and for the Period from June 14, 1994 (commencement of operations) to December 31, 1994

	1996	1995	1994
Operating activities:			
Net income	$ 39,320	$ 23,122	$ 5,614
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	20,752	10,483	2,324
Amortization	3,254	2,218	1,021
Loss on early extinguishment of debt	2,432	875	1,273
Minority interest	6,193	4,937	808
Changes in operating assets and liabilities:			
Accounts receivable	(1,437)	(1,561)	(321)
Prepaid expenses and other assets	(776)	(173)	(521)
Accrued straight line rents receivable	(2,778)	(1,519)	(503)
Accounts payable, accrued expenses and other liabilities	4,357	4,787	3,455
Net cash provided by operating activities	71,317	43,169	13,150
Investing activities:			
Proceeds from disposition of real estate assets	900	2,200	--
Additions to real estate assets	(181,444)	(130,411)	(99,208)
Advances to subsidiaries	(1,132)	(654)	(620)
Other assets and notes receivable	(3,626)	(1,123)	--
Cash from contributed net assets	20,711	549	2,088
Cash paid in exchange for net assets	(322,276)	(6,593)	(9,623)
Net cash used in investing activities	(486,867)	(136,032)	(107,363)
Financing activities:			
Distributions paid	(55,515)	(29,845)	(5,020)
Net proceeds from the sale of Common Stock	406,595	219,821	164,413
Payment of prepayment penalties	(1,184)	(1,046)	(1,025)
Borrowings on revolving loan	307,500	50,800	62,700
Repayment of revolving loan	(299,000)	(87,000)	(20,000)
Proceeds from mortgages and notes payable	213,500	90,250	--
Repayment of mortgages and notes payable	(141,216)	(148,907)	(93,947)
Payment of deferred financing costs	(10,898)	(630)	(6,650)
Net cash provided by financing activities	419,782	93,443	100,471
Net increase in cash and cash equivalents	4,232	580	6,258
Cash and cash equivalents at beginning of the period	6,838	6,258	--
Cash and cash equivalents at end of the period	$ 11,070	$ 6,838	$ 6,258
Supplemental disclosure of cash flow information:			
Cash paid for interest	$ 26,039	$ 11,965	$ 2,073

See accompanying notes to consolidated financial statements.

HIGHWOODS PROPERTIES, INC.
Consolidated Statements of Cash Flows -- Continued
(Dollars in thousands)

For the Years Ended December 31, 1996 and 1995 and for the Period from June 14, 1994 (commencement of operations) to December 31, 1994

Supplemental disclosure of non-cash investing and financing activities The following summarizes the net assets contributed or assets acquired subject to mortgages and notes payable:

	1996	1995	1994
Assets:			
Real estate assets, net	$625,137	$260,883	$ 51,614
Cash and cash equivalents	20,711	549	2,088
Restricted cash	11,476	--	--
Deferred rent receivable	--	--	1,385
Tenant leasing costs, net	--	--	1,188
Deferred financing costs, net	3,871	842	488
Accounts receivable and other	1,635	6,290	174
Total assets	662,830	268,564	56,937
Liabilities:			
Mortgages and notes payable	244,129	210,728	63,947
Accounts payable, accrued expenses and other liabilities	19,142	549	2,262
Total liabilities	263,271	211,277	66,209
Net assets (liabilities)	$399,559	$ 57,287	$ (9,272)

In connection with the above transactions, the Company made additional cash payments to certain partners in exchange for their partnership net assets in the amounts of $9,623,000 in 1994 and $6,593,000 in 1995. These transactions were accounted for using the purchase method of accounting. Further, in connection with these transactions, the Company received cash payments at closing to fund the payment of certain accrued liabilities such as property taxes.

Additionally, in connection with the formation of the Company additional debt of $54,164,000 was assumed and Units valued at $4,199,000 were issued during the period from June 14, 1994, to December 31, 1994.

See accompanying notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 1996

1. DESCRIPTION OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES

Organization and Formation of the Company Highwoods Properties, Inc. (the "Company") is a self-administered and self-managed real estate investment trust (REIT) which operates in the southeastern United States. The Company's assets include 181 suburban office properties, 111 industrial properties and 238 acres of undeveloped land suitable for future development. The Company was incorporated in Maryland in February 1994 and is the successor to the operations of the Highwoods Group. On June 14, 1994, the Company commenced operations upon completion of a public offering of 7,400,000 shares of $.01 par value Common Stock (plus 1,110,000 shares subsequently issued pursuant to the underwriters' over-allotment option, the "Initial Public Offering"). The Initial Public Offering price was $21 per share resulting in gross offering proceeds of $178,710,000. Proceeds to the Company, net of underwriters' discount, an advisory fee and total offering expenses, were $164,481,300. The following transactions (the "Formation Transactions") occurred in connection with the Initial Public Offering:

(Bullet) Through the merger of Highwoods Properties Company ("HPC") into the Company certain investors received 476,190 shares of restricted Common Stock in exchange for their holdings in HPC. (Bullet) The Company consummated various purchase agreements to acquire certain interests in 41 properties, including 27 properties that were not owned by the Highwoods Group prior to the Initial Public Offering. For the 14 properties previously owned by the Highwoods Group, negative net assets of approximately $9,272,000 were contributed to the Operating Partnership at their historical cost. Approximately, $8,400,000 was distributed to the non-continuing partners of the Highwoods Group for their partnership interests in the 14 properties. For the 27 properties not owned by the Highwoods Group, the Company issued approximately $4,200,000 of units in the Operating Partnership ("Units"), assumed $54,164,000 of debt and paid $82,129,000 in cash. These 27 properties were recorded at their purchase price using the purchase method of accounting.

(Bullet) The Company became the sole general partner of Highwoods/Forsyth Limited Partnership, formerly Highwoods Realty Limited Partnership (the "Operating Partnership"), by contributing its ownership interests in the 41 properties and its third-party fee business and all but $10,400,000 of the net proceeds of the Initial Public Offering in exchange for an approximate 88.3% interest in the Operating Partnership.

(Bullet) The Operating Partnership executed various option and purchase agreements whereby it paid approximately $81,352,000 in cash, issued 1,054,664 Units and assumed approximately $118,111,000 of indebtedness in exchange for fee simple interests in the 41 properties and the development land.

(Bullet) The Operating Partnership contributed the third-party management and development business and the third-party leasing business to Highwoods Services, Inc. (formerly Highwoods Realty Services, Inc. and Highwoods Leasing Company) in exchange for 100% of each company's non-voting common stock and 1% of each company's voting common stock.

1. DESCRIPTION OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES -- Continued Generally one year after issuance (the "lock-up period"), the Operating Partnership is obligated to redeem each Unit at the request of the holder thereof for cash equal to the fair market value of one share of the Company's Common Stock at the time of such redemption, provided that the Company at its option may elect to acquire any such Unit presented for redemption for cash or one share of Common Stock. When a Unit holder redeems a Unit for a share of Common Stock or cash, the minority interest will be reduced and the Company's share in the Operating Partnership will be increased. The Units owned by the Company are not redeemable for cash. At December 31, 1996, the lock-up period had expired with respect to 3,475,629 of the 4,283,237 Units issued and outstanding. Basis of Presentation

The consolidated financial statements include the accounts of the Company and the Operating Partnership. The Company's investments in Highwoods Services, Inc. and Forsyth Properties Services, Inc. (the "Service Companies") are accounted for using the equity method of accounting. All significant intercompany balances and transactions have been eliminated in the consolidated financial statements.

The Company is a real estate investment trust ("REIT") under Sections 856 through 860 of the Internal Revenue Code of 1986, as amended. Minority interest represents the limited partnership interest in the Operating Partnership owned by Unit holders other than the Company. Per share information is calculated using the weighted average number of shares outstanding.

The extraordinary loss represents the write-off of loan origination fees and prepayment penalties paid on the early extinguishment of debt and is shown net of the minority interest's share in the loss. Real Estate Assets

Real estate assets are stated at the lower of cost or fair value. All capitalizable costs related to the improvement or replacement of commercial real estate properties are capitalized. Depreciation is computed by the straight-line method over the estimated useful life of 40 years for buildings and improvements and 5 to 7 years for furniture and equipment. Tenant improvements are amortized over the life of the respective leases, using the straight-line method.

In March 1995, the FASB issued Statement No. 121, "Accounting for the Impairment of Long-Lived Assets and Long-Lived Assets to be Disposed of," which requires impairment losses to be recorded on long-lived assets used in operations when indicators of impairment are present and the undiscounted cash flows estimated to be generated by those assets are less than the assets' carrying amount. Statement No. 121 also addresses the accounting for long-lived assets that are expected to be disposed of. The Company adopted the Statement in the first quarter of 1996 and the adoption did not have any material effect. Cash Equivalents

The Company considers highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. Revenue Recognition

Minimum rental income is recognized on a straight-line basis over the term of the lease. Unpaid rents are included in accounts receivable. Certain lease agreements contain provisions which provide reimbursement of real estate taxes, insurance, advertising and certain common area maintenance

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (Continued)
1. DESCRIPTION OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES -- Continued (CAM) costs. These additional rents are recorded on the accrual basis. All rent and other receivables from tenants are due from commercial building tenants located in the properties.
Deferred Lease Fees and Loan Costs
Lease fees, concessions and loan costs are capitalized at cost and amortized over the life of the related lease or loan term, respectively. Income Taxes
The Company is a real estate investment trust ("REIT") for federal income tax purposes. A corporate REIT is a legal entity that holds real estate assets, and through distributions to stockholders, is permitted to reduce or avoid the payment of Federal income taxes at the corporate level. To maintain qualification as a REIT, the Company must distribute to stockholders at least 95% of REIT taxable income.
No provision has been made for income taxes because the Company qualified as a REIT, distributed the necessary amount of taxable income and, therefore, incurred no income tax expense during the period. Concentration of Credit Risk
Management of the Company performs ongoing credit evaluations of its tenants. The properties are leased to approximately 1,800 tenants, in 16 geographic locations, which engage in a wide variety of businesses. There is no dependence upon any single tenant.
Interest Rate Risk Management
The Company enters into various interest rate swaps and collars in managing its interest rate risk. Payments to or from the counterparties are recorded as adjustments to interest expense. The Company has designated these instruments as hedges against existing liabilities and accordingly utilizes hedge accounting.
The Company is exposed to certain losses in the event of non-performance by the counterparties under the collar and swap arrangements. The counterparties are major financial institutions with credit ratings of Aa3 or better, and are expected to perform fully under the agreements. However, if they were to default on their obligations under the arrangements, the Company could be required to pay the full rate under its Revolving Loan and the variable rate mortgages, even if such rate were in excess of the rate in the collar and swap agreements. The Company would not realize a material loss as of December 31, 1996 in the event of non-performance by any one counterparty. Additionally, the Company limits the amount of credit exposure with any one institution. Stock Compensation
The Company grants stock options for a fixed number of shares to employees with an exercise price equal to the fair value of the shares at the date of grant. As described in Note 8, the Company has elected to follow Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" ("APB 25") and related interpretations in accounting for its employee stock options.
Use of Estimates
The preparation of financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

2. MORTGAGES AND NOTES PAYABLE Mortgages and notes payable consisted of the following at December 31, 1996 and 1995 (in thousands):

	1996	1995
Mortgage notes payable:		
7.9% mortgage note due 2001	$140,000	$ --
9.0% mortgage note due 2005	40,168	40,659
8.2% mortgage note due 2005	31,410	31,833
7.6% to 13% mortgage notes due between 1999 and 2013	73,719	62,195
Variable rate mortgage note due 2000	11,612	36,549
	296,909	171,236
Unsecured indebtedness:		
6.8% notes due in 2003	100,000	--
7.0% notes due in 2006	110,000	--
7% and 9% notes due in 1997	11,595	5,000
Variable rate note due in 1999	22,372	--
Revolving loan due in 1999	15,000	6,500
	258,967	11,500
Total	$555,876	$182,736

Mortgage notes payable were secured by real estate with an aggregate carrying value of $595,000,000 at December 31, 1996.

The Company has entered into interest swap agreements with financial institutions to effectively fix the interest rate on the variable rate mortgages and variable rate notes at a rate of 7.2%. At December 31, 1996, the notional amounts of the interest rate swaps equaled the outstanding balance of the indebtedness. The swaps expire in June 1999 and July 2000 upon the maturity of the respective indebtedness and had a cost basis of $475,000 at December 31, 1996.

The 7.9% Mortgage Note is secured by 46 of the Properties (the "Mortgage Note Properties"), which are held by AP Southeast Portfolio Partners, L.P. (the "Financing Partnership"). The Company has a 99.99% economic interest in the Financing Partnership, which is managed, indirectly, by the Company. The 7.9% Mortgage Note is a conventional, monthly pay, first mortgage note in the principal amount of $140 million issued by the Financing Partnership. The 7.9% Mortgage Note is a limited recourse obligation of the Financing Partnership as to which, in the event of a default under the indenture or the mortgage, recourse may be had only against the Mortgage Note Properties and other assets that have been pledged as security. The 7.9% Mortgage Note was issued to Kidder Peabody Acceptance Corporation I pursuant to an indenture, dated March 1, 1994 (the "Mortgage Note Indenture"), among the Financing Partnership, Bankers Trust Company of California, N.A., and Bankers Trust Company.

The Mortgage Note Indenture provides for a lockout period that prohibits optional redemption payments in respect of principal of the 7.9% Mortgage Note (other than a $7 million premium-free redemption payment) prior to November 1998. Thereafter, the Financing Partnership may make optional redemption payments in respect of principal of the 7.9% Mortgage Note on any distribution date, subject to the payment of a yield maintenance charge in connection with such payments made prior to August 1, 2000.

Under the terms of the purchase agreement relating to the Mortgage Note Properties, the Financing Partnership may be obligated to pay NationsBank, N.A. a deferred contingent purchase price. This

2. MORTGAGES AND NOTES PAYABLE -- Continued contingent payment, which will in no event exceed $4.4 million, is due on April 1, 1998 if the actual four-year cumulative cash flow of such properties exceeds the projected four-year cumulative cash flow. Based on the estimates of future operations, the Company does not believe that any deferred contingent purchase principal price will be payable. On November 26, 1996, the Operating Partnership issued $100,000,000 of unsecured 6 3/4% notes due December 1, 2003 and $110,000,000 of unsecured 7% notes due December 1, 2006. Interest on the notes is payable semi-annually on June 1 and December 1 commencing on June 1, 1997. In accordance with the terms of the Indenture under which the unsecured notes are issued, the Company is required to (a) limit its total indebtedness, (b) limit its level of secured debt, (c) maintain a minimum debt service coverage ratio and (d) maintain a minimum level of unencumbered assets. At December 31, 1996, the Company was in compliance with these covenants. In September 1996, the Company obtained a $280,000,000 unsecured revolving loan which matures on October 31, 1999. Borrowings under the revolving loan will adjust based upon the Company's senior unsecured debt rating with a range of 30-day LIBOR plus 100 basis points to LIBOR plus 175 basis points. At December 31, 1996, the rate was set at 30-day LIBOR plus 135 basis points and the effective interest rate was 6.91%. The terms of the revolving loan require the Company to pay a commitment fee equal to .15% to .25% of the unused portion of the revolving loan and include certain restrictive covenants which limit, among other things, dividend payments, and which require compliance with certain financial ratios and measurements. At December 31, 1996, the Company was in compliance with these covenants. To limit increases in interest expense on $80,000,000 of the revolving loan, the Company has purchased an interest rate collar which limits its exposure to an increase in 30-day LIBOR to 6.25% through November 2001. The initial premium used to acquire the $80,000,000 interest rate cap is being amortized over the term of the collar. Payments received from counterparties under the above interest rate protection agreements were $167,000 in 1996, $385,000 in 1995 and $25,000 in 1994 and were recorded as a reduction of interest expense. The aggregate maturities of the mortgage and notes payable at December 31, 1996 are as follows (in thousands):

1997	$ 16,089
1998	8,033
1999	52,205
2000	32,279
2001	143,827
Thereafter	303,443
	$555,876

Total interest capitalized was $2,935,000 in 1996, $507,000 in 1995 and $17,000 in 1994.

3. MANAGEMENT COMPENSATION PROGRAM The Company has established an incentive compensation plan for employees of the Company. The plan provides for payment of a cash bonus to participating officers and employees if certain Company performance objectives are achieved. The amount of the bonus to participating officers and employees is based on a formula determined for each employee by the Compensation Committee, but may not exceed 100% of base salary. All bonuses may be subject to adjustment to reflect individual

3. MANAGEMENT COMPENSATION PROGRAM -- Continued performance as measured by specific qualitative criteria to be approved by the Compensation Committee. Bonuses are accrued in the year earned and included in accrued expenses in the Consolidated Balance Sheets. In addition, as an incentive to retain top management, the Company has established a deferred compensation plan which provides for phantom stock awards. Under the deferred compensation plan, phantom stock or stock appreciation rights equal in value to 25% of the yearly cash bonus may be set aside in an incentive pool, with payment after five years. If an employee leaves the Company for any reason (other than death, disability or normal retirement) prior to the end of the five-year period, all awards under the deferred compensation plan will be forfeited.

4. 401(k) SAVINGS PLAN The Company has a 401(k) savings plan covering substantially all employees who meet certain age and employment criteria. The Company matches the first 6% of compensation deferred at the rate of 50% of employee contributions. During 1996, 1995 and 1994, the Company contributed $160,000, $51,000 and $0, respectively to the Plan. Administrative expenses of the plan are paid by the Company.

5. RENTAL INCOME The Company's real estate assets are leased to tenants under operating leases, substantially all of which expire over the next ten years. The minimum rental amounts under the leases are generally either subject to scheduled fixed increases or adjustments based on the Consumer Price Index. Generally, the leases also require that the tenants reimburse the Company for increases in certain costs above the base year costs. Expected future minimum rents to be received over the next five years and thereafter from tenants for leases in effect at December 31, 1996, are as follows (in thousands):

1997	$175,091
1998	149,113
1999	118,620
2000	83,978
2001	52,465
Thereafter	98,133
	$677,400

6. RELATED PARTY TRANSACTIONS The Company makes advances to Highwoods Services, Inc. and Forsyth Properties Services, Inc. for working capital purposes. These advances bear interest at a rate of 7% per annum and totaled $2,406,000 at December 31, 1996, and $1,274,000 at December 31, 1995. The Company recorded interest income from these advances of $91,000, $43,000 and $15,000 for the years ended December 31, 1996 and 1995, and for the period from June 14, 1994, to December 31, 1994, respectively. During the year ended December 31, 1995, the Company acquired two properties encompassing 99,334 square feet at an aggregate purchase price of $6,850,000 from partnerships in which certain officers and directors of the Company owned a majority interest. These transactions were accounted for using the purchase method of accounting and their operating results are included in the Statements of Income from their respective acquisition dates.

7. DISTRIBUTIONS Distributions paid were $1.86 and $1.75 per share for the years ended December 31, 1996 and 1995 respectively, and $.50 per share for the period from June 14, 1994, to December 31, 1994. For federal income tax purposes, the following table summarizes the estimated taxability of distributions paid:

	1996	1995	1994
Per Share:			
Ordinary income	$1.50	$1.63	$.50
Capital gains	.01	--	--
Return of capital	.35	.12	--
Total	$1.86	$1.75	$.50

The Company's tax return for the year ended December 31, 1996, has not been filed, and the taxability information for 1996 is based upon the best available data. The Company's tax returns have not been examined by the Internal Revenue Service, and therefore the taxability of distributions is subject to change.

The tax basis of the Company's assets and liabilities are $1,186,654,000 and $592,106,000 respectively.

On February 4, 1997, the Board of Directors declared a distribution of $.48 per share payable on February 21, 1997, to stockholders of record on February 14, 1997.

8. STOCK OPTIONS AND WARRANTS As of December 31, 1996, 1,381,455 shares of the Company's authorized Common Stock were reserved for issuance upon the exercise of options under the Amended and Restated 1994 Stock Option Plan. For the Company's executive and senior officers and non-independent directors, the options vest in four equal installments on the second, third, fourth, and fifth anniversaries of the date of grant. For other employees and independent directors, the options vest in four equal installments on the first, second, third and fourth anniversaries of the date of grant.

8. STOCK OPTIONS AND WARRANTS -- Continued In 1995, the Financial Accounting Standards Board issued a Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation," ("SFAS 123"). SFAS 123 recommends the use of a fair value based method of accounting for an employee stock option whereby compensation cost is measured at the grant date on the fair value of the award and is recognized over the service period (generally the vesting period of the award). However, SFAS 123 specifically allows an entity to continue to measure compensation cost under Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" ("APB 25") so long as pro forma disclosures of net income and earnings per share are made as if SFAS 123 had been adopted. The Company has elected to follow APB 25 and related interpretations in accounting for its employee stock options because the Company believes that the models available to estimate the fair value of employee stock options do not provide a reliable single measure of the fair value of employee stock options. Moreover, such models required the input of highly subjective assumptions, which can materially affect the fair value estimates. APB 25 requires the recognition of compensation expense at the date of grant equal to the difference between the option price and the value of the underlying stock. Because the exercise price of the Company's employee stock options equals the market price of the underlying stock on the date of grant, the Company records no compensation expense for the award of employee stock options. Under SFAS 123, a public entity must estimate the fair value of a stock option by using an option-pricing model that takes into account as of the grant date the exercise price and expected life of the options, the current price of the underlying stock and its expected volatility, expected dividends on the stock, and the risk-free interest rate for the expected term of the option. SFAS provides examples of possible pricing models and includes the Black-Scholes pricing model, which the Company used to develop its pro forma disclosures. However, as previously noted, the Company does not believe that such models provide a reliable single measure of the fair value of employee stock options. Furthermore, the Black-Scholes model was developed for use in estimating the fair value of traded options that have no vesting restrictions and are fully transferable, rather than for use in estimating the fair value of employee stock options subject to vesting and transferability restrictions. Because SFAS 123 is applicable only to options granted subsequent to December 31, 1994, only options granted subsequent to that date were valued using this Black-Scholes model. The fair value of these options was estimated at the date of grant using the following weighted-average assumptions for 1996 and 1995: risk-free interest rate of 6.47%; expected volatility of .182; dividend yield of 7.07% and a weighted-average expected life of the options of five years. Had the compensation cost for the Company's stock option plans been determined based on the fair value at the date of grant for awards in 1996 and 1995 consistent with the provisions of SFAS 123, the Company's net income and net income per share would have decreased to the pro forma amounts indicated below:

	Year ended December 31	
	1996	1995
Net income -- as reported	$39,320	$23,122
Net income -- pro forma	$38,861	$22,999
Net income per share -- as reported	1.51	1.49
Net income per share -- pro forma	1.49	1.49

8. STOCK OPTIONS AND WARRANTS -- Continued The following table summarizes information about stock options outstanding at December 31, 1996:

	Options Outstanding	
	Number of Shares	Weighted Average Exercise Price
Balances at December 31, 1994	233,570	$21.00
Options granted	340,500	22.09
Options canceled	--	--
Options exercised	(8,000)	$21.00
Balances at December 31, 1995	566,070	21.68
Options granted	484,675	28.26
Options canceled	--	--
Options exercised	(10,545)	20.75
Balances at December 31, 1996	1,040,200	$24.75

	Options Exercisable	
	Number of Shares	Weighted Average Exercise Price
December 31, 1994	--	$21.00
December 31, 1995	48,000	$21.00
December 31, 1996	225,350	$21.74

Exercise prices for options outstanding as of December 31, 1996 ranged from $20.75 to $29.63. The weighted average remaining contractual life of those options is 8.7 years. Using the Black-Scholes options valuation model, the weighted average fair value of options granted during 1996 and 1995 was $3.10 and $1.90, respectively.

Warrants:

In connection with various acquisitions in 1995 and 1996, the Company issued warrants to certain officers and directors of the Company to purchase 100,000 shares of the Company's Common Stock at $21 per share and 150,000 shares at $28 per share. The warrants expire 10 years from the date of issuance and are exercisable as of December 31, 1996.

9. COMMITMENTS AND CONTINGENCIES

Lease:

Two of the properties located in the Parkway Plaza development are subject to a land lease expiring December 31, 2082. Rental payments are to be adjusted yearly based on the consumer price index. The Company has the option to purchase the leased land during the lease term at the greater of 85% of appraised value or $35,000 per acre. The obligation for future minimum lease payments is as follows (in thousands):

1997	$ 97
1998	97
1999	97
2000	97
2001	97
Thereafter	7,884
	$8,369

Litigation:

The Company is a party to a variety of legal proceedings arising in the ordinary course of its business. These matters are generally covered by insurance or indemnities. All of these matters, taken together, are not expected to have a material adverse effect on the accompanying consolidated financial statements notwithstanding possible insurance recovery.

Contracts:

The Company has entered into construction contracts totaling $62.2 million at December 31, 1996. The amounts remaining on these contracts as of December 31, 1996, totaled $17.1 million.

The Company has entered into a contract under which it is committed to acquire 50 acres of land over a four-year period for an aggregate purchase price of approximately $8,000,000. The seller has the option to elect to receive the purchase price in either cash or Units valued at $26.67 per Unit.

The Company has also entered into a contract under which it is committed to acquire 18 acres of land on or before August 1, 1998, for an aggregate purchase price of approximately $2,032,000.

Environmental Matters:

Substantially all of the Company's properties have been subjected to Phase I environmental reviews. Such reviews have not revealed, nor is management aware of, any environmental liability that management believes would have a material adverse effect on the accompanying consolidated financial statements.

10. DISCLOSURE ABOUT FAIR VALUE OF FINANCIAL INSTRUMENTS The following disclosures of estimated fair values were determined by management using available market information and appropriate valuation methodologies. Considerable judgment is necessary to interpret market data and develop estimated fair values. Accordingly, the estimates presented herein are not necessarily indicative of the amounts that the Company could realize upon disposition of the financial instruments. The use of different market assumptions and/or estimation methodologies may have a material effect on the estimated fair values. The carrying amounts and estimated fair values of the Company's financial instruments at December 31, 1996, were as follows (in thousands):

	Carrying Amount	Fair Value
Cash and cash equivalents	$ 19,609	$ 19,609
Accounts and notes receivable	$ 11,445	$ 11,445
Mortgages and notes payable	$555,876	$571,000
Interest rate collar and swap agreements	$ 3,606	$ 1,403

The fair values for the Company's fixed rate mortgages and notes payable were estimated using discounted cash flow analysis, based on the Company's estimated incremental borrowing rate at December 31, 1996, for similar types of borrowing arrangements. The carrying amounts of the Company's variable rate borrowings approximate fair value.

The fair values of the Company's interest rate swap and interest rate collar agreements represent the estimated amount the Company would receive or pay to terminate or replace the financial instruments at current market rates.

Disclosures about the fair value of financial instruments are based on relevant information available to the Company at December 31, 1996. Although management is not aware of any factors that would have a material effect on the fair value amounts reported herein, such amounts have not been revalued since that date and current estimates of fair value may significantly differ from the amounts presented herein.

11. PRO FORMA INFORMATION (UNAUDITED) The following unaudited pro forma information has been prepared assuming the following transactions all occurred as of January 1, 1995: (1) the 1995 acquisition of 144 properties at an initial cost of $369,900,000, (2) the 1996 acquisition of 91 properties at an initial cost of $704,000,000, (3) the February 1995, August 1995, Summer 1996, and December 1996 Common Stock offerings and (4) the November 1996 issuance of $210,000,000 of unsecured notes. Pro forma interest expense was calculated based on the indebtedness outstanding after debt repayment and using the effective interest rate on such indebtedness. In connection with various transactions, the Company issued Operating Partnership Units and shares of Common Stock totaling 2,677,748 in 1995 and 1,267,737 in 1996 which were recorded at their fair market value upon the closing date of the transactions.

	Pro Forma Year Ended December 31, 1996	Pro Forma Year Ended December 31, 1995
	(in thousands, except per share amounts)	
Revenues	$196,723	$182,522
Net Income before Extraordinary Item	$ 55,209	$ 51,317
Net Income	$ 53,069	$ 48,302
Net Income per Share	$ 1.51	$ 1.37

The pro forma information is not necessarily indicative of what the Company's results of operations would have been if the transactions had occurred at the beginning of each period presented.

11. PRO FORMA INFORMATION (UNAUDITED) -- Continued Additionally, the pro forma information does not purport to be indicative of the Company's results of operations for future periods.

12. SUBSEQUENT EVENTS

Acquisition of Suburban Atlanta Properties Century Center Transaction. On January 9, 1997, the Company acquired the 17-building Century Center Office Park, four affiliated industrial properties and 20 acres of Development Land located in suburban Atlanta, Georgia (the "Century Center Transaction"). The properties total 1.6 million rent-able square feet and, as of December 31, 1996, were 99% leased. The cost of the Century Center Transaction was $55.6 million in Units (valued at $29.25 per Unit, the market value of a share of Common Stock as of the signing of a letter of intent for the Century Center Transaction), the assumption of $19.4 million of secured debt and a cash payment of $53.1 million drawn from the Company's $280 million Revolving Loan. All Units issued in the transaction are subject to restrictions on transfer and redemption. Such restrictions are scheduled to expire over a three-year period in equal annual installments commencing one year from the date of issuance. Century Center Office Park is located on approximately 77 acres, of which approximately 61 acres are controlled under long-term fixed rental ground leases that expire in 2058. The rent under the leases is approximately $180,000 per year with scheduled 10% increases in 1999 and 2009. The leases do not contain a right to purchase the subject land. Anderson Transaction. On February 12, 1997, the Company acquired a portfolio of industrial, office and undeveloped properties in Atlanta from affiliates of Anderson Properties (the "Anderson Transaction"). The Anderson Transaction involves 22 industrial properties and six office properties totaling 1.6 million rentable square feet, three industrial development projects totaling 402,000 square feet and 137 acres of land for development. The cost of the Anderson Transaction consisted of the issuance of $22.9 million of Units (valued at $29.25 per Unit, the market value of a share of Common Stock as of the signing of a letter of intent relating to the transaction), the assumption of $7.8 million of mortgage debt and a cash payment of $37.7 million. The cash amount does not includes $11.1 million expected to be paid to complete the three development projects. Approximately $5.5 million of the Units are newly created Class B Units, which differ from other Units in that they are not eligible for cash distributions from the Operating Partnership. The Class B Units will convert to regular Units in 25% annual installments commencing one year from the date of issuance. Prior to such conversion, such Units will not be redeemable for cash or Common Stock. All other Units to be issued in the transaction are also subject to restrictions on transfer or redemption. Such lock-up restrictions will expire over a three-year period in equal annual installments commencing one year from the date of issuance.

Preferred Stock Offering

On February 7, 1997 the Company issued 125,000 shares of 8 5/8% perpetual preferred stock for $1,000 per share. The net proceeds of $121.7 million were used to pay down existing indebtedness and fund the Anderson Transaction. The preferred stock is not redeemable prior to February 2027. The preferred stock is not subject to any sinking fund or mandatory redemption and is not convertible into any other securities of the Company.

13. SELECTED QUARTERLY FINANCIAL DATA (UNAUDITED):

Selected quarterly financial data for the years ended December 31, 1996 and 1995, and for the period from June 14, 1994, to December 31, 1994, is as follows (in thousands except per share amounts):

	For the period from June 14, 1994 to December 31, 1994*				
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total
Revenues	$ --	$ 1,482	$ 8,810	$ 9,150	$ 19,442
Income before minority interest and extraordinary item	--	534	3,652	3,509	7,695
Minority interest	--	(56)	(384)	(368)	(808)
Extraordinary item	--	(1,273)	--	--	(1,273)
Net (loss) income	$ --	$ (795)	$ 3,268	$ 3,141	$ 5,614
Per Share:					
Income before extraordinary item	$ --	$ 0.06	$ 0.36	$ 0.35	$ 0.77
Net (loss) income	$ --	$ (0.09)	$ 0.36	$ 0.35	$ 0.63
	For the year ended December 31, 1995*				
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total
Revenues	$12,846	$ 17,518	$20,560	$ 22,598	$ 73,522
Income before minority interest and extraordinary item	4,879	6,829	7,939	9,287	28,934
Minority interest	(800)	(1,270)	(1,381)	(1,486)	(4,937)
Extraordinary item	(875)	--	--	--	(875)
Net income	$ 3,204	$ 5,559	$ 6,558	$ 7,801	$ 23,122
Per Share:					
Income before extraordinary item	$ 0.36	$ 0.39	$ 0.39	$ 0.40	$ 1.55
Net income	$ 0.29	$ 0.39	$ 0.39	$ 0.40	$ 1.49
	For the year ended December 31, 1996*				
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total
Revenues	$23,757	$ 27,680	$36,329	$ 50,160	$137,926
Income before minority interest and extraordinary item	9,002	10,134	14,223	14,883	48,242
Minority interest	(1,571)	(1,753)	(1,881)	(1,577)	(6,782)
Extraordinary item	--	--	(2,140)	--	(2,140)
Net (loss) income	$ 7,431	$ 8,381	$10,202	$ 13,306	$ 39,320
Per Share:					
Income before extraordinary item	$ 0.38	$ 0.42	$ 0.39	$ 0.41	$ 1.59
Net income	$ 0.38	$ 0.42	$ 0.32	$ 0.41	$ 1.51

* The total of the four quarterly amounts for net income per share do not equal the total for the year due to the use of a weighted average to compute the average number of shares outstanding.

HIGHWOODS PROPERTIES, INC.
SCHEDULE III -- REAL ESTATE AND ACCUMULATED DEPRECIATION
December 31, 1996
(In thousands)

Description	Encumbrance	Initial Cost Land	Initial Cost Building & Improvements	Cost Capitalized Subsequent to Acquisition Land	Cost Capitalized Subsequent to Acquisition Building & Improvements	Gross Amount at Which Carried at Close of Period Land
Highwoods Office Center						
Amica	--	$ 289	$ 1,544	$ --	$ 71	$ 289
Arrowwood	--	955	3,406	--	225	955
Aspen	--	560	2,104	--	128	560
Birchwood	--	201	911	--		201
Cedar East	--	563	2,498	--	149	563
Cedar West	--	563	2,487	--	253	563
Cottonwood	--	609	3,253	--	22	609
Cypress	--	567	1,747	--	95	567
Dogwood	2,603	766	2,790	--	9	766
Global Software	--	465	5,358	--	1,672	465
Hawthorn	--	904	3,782	--	32	904
Highwoods Tower	--	203	16,948	--	115	203
Holly	--	300	1,170	--	43	300
Ironwood	--	319	1,276	--	188	319
Kaiser	--	133	3,625	--	3	133
Laurel	--	884	2,537	--	17	884
Leatherwood	--	213	851	--	121	213
Smoketree Tower	--	2,353	11,922	--	1,691	2,353
Rexwoods Office Center						
2500 Blue Ridge	--	722	4,552	--	170	722
Blue Ridge II	1,431	434	--	29	1,426	462
Rexwoods Center	(2)	775	--	103	3,668	878
Rexwoods II	--	355	--	7	1,815	362
Rexwoods III	3,288	886	--	34	2,838	919
Rexwoods IV	--	586	--	--	3,870	586
Triangle Business Center						
Bldg. 2A	(2)	377	4,004	--	510	377
Bldg. 2B	(2)	118	1,225	--	232	118
Bldg. 3	(2)	409	5,349	--	574	409
Bldg. 7	(2)	414	6,301	--	231	414
Progress Center						
Cape Fear	--	131	--	--	2,516	131
Catawba	--	125	--	--	1,693	125
Pamilo (CompuChem)	--	269	--	20	6,756	289
North Park						
4800 North Park	--	2,678	17,673	--	224	2,678
4900 North Park	1,528	770	1,989	--	56	770
5000 North Park	--	1,010	4,697	--	856	1,010
Creekstone Park						
Creekstone Crossing	--	728	3,891	--	15	728
Riverbirch	--	448	--	21	4,196	469
Willow Oak	--	458	4,685	--	1,696	458
Research Commons						
EPA Annex/ Administration	--	2,601	10,920	--	91	2,601
4501 Bldg.	--	785	4,448	--	665	785
4401 Bldg.	--	1,249	8,929	--	3,673	1,249
4301 Bldg.	--	900	7,425	--	235	900
4201 Bldg.	--	1,204	7,715	--	2,310	1,204
Hock Portfollo						
Fairfield I	--	805	3,227	--	39	805
Fairfield II	--	910	3,647	--	210	910
Qualex	--	879	3,522	--	1	879
4101 Roxboro	--	1,059	4,243	--	112	1,059
4020 Roxboro	--	675	2,708	--	11	675
Six Forks Center						
Six Forks Center I	--	666	2,688	--	142	666
Six Forks Center II	--	1,086	4,370	--	228	1,086
Six Forks Center III	--	862	4,444	--	98	862

Description	Gross Amount at Which Carried at Close of Period Building & Improvements	Total (9)	Accumulated Depreciation	Date of Construction
Highwoods Office Center				
Amica	$ 1,616	$ 1,905	$ 132	1983
Arrowwood	3,631	4,586	264	1979
Aspen	2,232	2,792	163	1980
Birchwood	911	1,112	71	1983
Cedar East	2,647	3,210	187	1981
Cedar West	2,739	3,302	186	1981

Cottonwood	3,275	3,884	211	1983
Cypress	1,842	2,409	145	1980
Dogwood	2,800	3,566	178	1983
Global Software	7,030	7,495	210	1996
Hawthorn	3,814	4,718	1,591	1987
Highwoods Tower	17,063	17,266	2,507	1991
Holly	1,213	1,513	81	1984
Ironwood	1,464	1,783	130	1978
Kaiser	3,628	3,761	1,071	1988
Laurel	2,554	3,438	162	1982
Leatherwood	971	1,184	84	1979
Smoketree Tower	13,613	15,966	908	1984
Rexwoods Office Center				
2500 Blue Ridge	4,722	5,444	296	1982
Blue Ridge II	1,426	1,888	368	1988
Rexwoods Center	3,668	4,546	743	1990
Rexwoods II	1,815	2,177	145	1993
Rexwoods III	2,838	3,757	400	1992
Rexwoods IV	3,870	4,456	229	1994
Triangle Business Center				
Bldg. 2A	4,514	4,891	370	1984
Bldg. 2B	1,457	1,575	78	1984
Bldg. 3	5,923	6,332	519	1988
Bldg. 7	6,532	6,946	398	1988
Progress Center				
Cape Fear	2,516	2,647	1,063	1980
Catawba	1,693	1,818	954	1980
Pamilo (CompuChem)	6,756	7,045	1,891	1980
North Park				
4800 North Park	17,898	20,576	1,151	1985
4900 North Park	2,045	2,815	139	1984
5000 North Park	5,553	6,563	405	1980
Creekstone Park				
Creekstone Crossing	3,907	4,635	161	1990
Riverbirch	4,196	4,665	928	1987
Willow Oak	6,381	6,839	401	1995
Research Commons				
EPA Annex/ Administration	11,011	13,612	518	1966
4501 Bldg.	5,113	5,898	382	1985
4401 Bldg.	12,602	13,851	1,380	1987
4301 Bldg.	7,660	8,560	354	1989
4201 Bldg.	10,025	11,229	978	1991
Hock Portfollo				
Fairfield I	3,265	4,070	122	1987
Fairfield II	3,858	4,768	135	1989
Qualex	3,522	4,401	128	1985
4101 Roxboro	4,355	5,414	156	1984
4020 Roxboro	2,719	3,394	99	1989
Six Forks Center				
Six Forks Center I	2,830	3,496	82	1982
Six Forks Center II	4,598	5,684	128	1983
Six Forks Center III	4,542	5,404	261	1987

Description	Life on Which Depreciation is Computed
Highwoods Office Center	
Amica	5-40 yrs.
Arrowwood	5-40 yrs.
Aspen	5-40 yrs.
Birchwood	5-40 yrs.
Cedar East	5-40 yrs.
Cedar West	5-40 yrs.
Cottonwood	5-40 yrs.
Cypress	5-40 yrs.
Dogwood	5-40 yrs.
Global Software	5-40 yrs.
Hawthorn	5-40 yrs.
Highwoods Tower	5-40 yrs.
Holly	5-40 yrs.
Ironwood	5-40 yrs.
Kaiser	5-40 yrs.
Laurel	5-40 yrs.
Leatherwood	5-40 yrs.
Smoketree Tower	5-40 yrs.
Rexwoods Office Center	
2500 Blue Ridge	5-40 yrs.
Blue Ridge II	5-40 yrs.
Rexwoods Center	5-40 yrs.
Rexwoods II	5-40 yrs.
Rexwoods III	5-40 yrs.
Rexwoods IV	5-40 yrs.
Triangle Business Center	
Bldg. 2A	5-40 yrs.

Bldg. 2B	5-40 yrs.
Bldg. 3	5-40 yrs.
Bldg. 7	5-40 yrs.
Progress Center	
Cape Fear	5-40 yrs.
Catawba	5-40 yrs.
Pamilo (CompuChem)	5-40 yrs.
North Park	
4800 North Park	5-40 yrs.
4900 North Park	5-40 yrs.
5000 North Park	5-40 yrs.
Creekstone Park	
Creekstone Crossing	5-40 yrs.
Riverbirch	5-40 yrs.
Willow Oak	5-40 yrs.
Research Commons	
EPA Annex/ Administration	5-40 yrs.
4501 Bldg.	5-40 yrs.
4401 Bldg.	5-40 yrs.
4301 Bldg.	5-40 yrs.
4201 Bldg.	5-40 yrs.
Hock Portfollo	
Fairfield I	5-40 yrs.
Fairfield II	5-40 yrs.
Qualex	5-40 yrs.
4101 Roxboro	5-40 yrs.
4020 Roxboro	5-40 yrs.
Six Forks Center	
Six Forks Center I	5-40 yrs.
Six Forks Center II	5-40 yrs.
Six Forks Center III	5-40 yrs.

Description	Encumbrance	Initial Cost Land	Initial Cost Building & Improvements	Cost Capitalized Subsequent to Acquisition Land	Cost Capitalized Subsequent to Acquisition Building & Improvements	Gross Amount at Which Carried at Close of Period Land
ONCC						
Phase I	1,988	768	4,353	--	18	768
"W" Building	3,789	1,163	6,592	--	--	1,163
3645 Trust Drive	1,778	520	2,949	--	--	520
5220 Green's Dairy Road	1,072	382	2,165	--	--	382
5200 Green's Dairy Road	593	169	959	--	14	169
Other Research Triangle Properties						
4000 Aerial Center	--	541	2,163	--	--	541
Colony Corporate Center	--	613	3,296	--	117	613
Concourse	--	986	12,069	--	282	986
Cotton Building	--	460	1,844	--	72	460
5301 Departure Drive	--	882	5,000	--	4	882
Expressway One Warehouse	1,634	242	--	4	1,832	246
Healthsource	--	1,294	10,593	10	2,340	1,304
Holiday Inn	2,439	867	2,748	--	136	867
Lake Plaza East	--	856	4,893	--	248	856
MSA	--	717	3,418	--	966	717
Phoenix	--	394	2,019	--	40	394
Situs I	--	--	2,917	--	809	--
South Square I	(2)	606	3,785	--	307	606
South Square II	--	525	4,742	--	134	525
Airpark East						
Highland Industries	(6)	175	699	--	7	175
Service Center 1	(6)	275	1,099	--	38	275
Service Center 2	(6)	222	889	--	3	222
Service Center 3	(6)	304	1,214	--	53	304
Service Center 4	(6)	224	898	--	3	224
Copier Consultants	(6)	252	1,008	--	3	252
Service Court	(6)	194	774	--	26	194
Bldg. 01	(6)	377	1,510	--	38	377
Bldg. 02	(6)	461	1,842	--	12	461
Bldg. 03	(6)	321	1,283	--	21	321
Bldg. A	(6)	541	2,913	--	154	541
Bldg. B	(6)	779	3,200	--	181	779
Bldg. C	(6)	2,384	9,535	--	87	2,384
Sears Cenfact	4,528	861	3,446	--	13	862
Hewlett Packard	--	149	727	--	183	149
Warehouse 1	(6)	384	1,535	--	28	384
Warehouse 2	(6)	372	1,488	--	11	372
Warehouse 3	(6)	370	1,480	--	17	370
Warehouse 4	(6)	657	2,628	--	19	657
Inacom	--	106	478	--	282	106
Airpark North						
DC-1	(6)	723	2,891	--	38	723
DC-2	(6)	1,094	4,375	--	58	1,094
DC-3	(6)	378	1,511	--	144	378
DC-4	(6)	377	1,508	--	54	377
Airpark West						
Airpark I	(2)	954	3,817	--	354	954
Airpark II	(2)	887	3,536	(3)	30	884
Airpark IV	(2)	226	903	--	109	226
Airpark V	(2)	242	966	--	18	242
Airpark VI	(2)	326	1,308	--	78	326
West Point Business Park						
BMF Warehouse	(7)	795	3,181	--		795
WP-11	(7)	393	1,570	--	41	393
WP-12	(7)	382	1,531	--	23	382
WP-13	(7)	297	1,192	--	22	297
WP-3 & 4	(7)	120	480	--	2	120
WP-5	--	178	590	--	234	178
Fairchild Bldg.	(7)	640	2,577	--		640
LUWA Bahnson Bldg.	(7)	346	1,384	--	1	346

Description	Gross Amount at Which Carried at Close of Period Building & Improvements	Total (9)	Accumulated Depreciation	Date of Construction
ONCC				
Phase I	4,372	5,140	35	1981
"W" Building	6,592	7,755	53	1983
3645 Trust Drive	2,949	3,469	24	1984
5220 Green's Dairy Road	2,165	2,547	17	1984
5200 Green's Dairy Road	973	1,142	8	1984

Other Research Triangle Properties				
4000 Aerial Center	2,163	2,704	2	1992
Colony Corporate Center	3,413	4,026	229	1985
Concourse	12,351	13,337	816	1986
Cotton Building	1,917	2,377	48	1972
5301 Departure Drive	5,004	5,886	40	1984
Expressway One Warehouse	1,832	2,078	295	1990
Healthsource	12,933	14,237	99	1996
Holiday Inn	2,885	3,752	181	1984
Lake Plaza East	5,141	5,997	385	1984
MSA	4,383	5,100	18	1996
Phoenix	2,059	2,453	133	1990
Situs I	3,726	3,726	9	1996
South Square I	4,092	4,698	276	1988
South Square II	4,875	5,400	317	1989
Airpark East				
Highland Industries	706	881	33	1990
Service Center 1	1,137	1,412	58	1985
Service Center 2	892	1,114	42	1985
Service Center 3	1,267	1,571	65	1985
Service Center 4	901	1,125	42	1985
Copier Consultants	1,012	1,264	47	1990
Service Court	800	994	39	1990
Bldg. 01	1,548	1,925	78	1990
Bldg. 02	1,854	2,315	87	1986
Bldg. 03	1,304	1,625	64	1986
Bldg. A	3,067	3,608	158	1986
Bldg. B	3,381	4,160	171	1988
Bldg. C	9,621	12,005	460	1990
Sears Cenfact	3,459	4,321	162	1989
Hewlett Packard	910	1,059	36	1996
Warehouse 1	1,563	1,947	76	1985
Warehouse 2	1,500	1,872	72	1985
Warehouse 3	1,497	1,867	70	1986
Warehouse 4	2,647	3,304	124	1988
Inacom	761	867	13	1996
Airpark North				
DC-1	2,929	3,652	137	1986
DC-2	4,433	5,527	210	1987
DC-3	1,655	2,033	81	1988
DC-4	1,561	1,938	72	1988
Airpark West				
Airpark I	4,171	5,125	247	1984
Airpark II	3,566	4,450	170	1985
Airpark IV	1,012	1,238	56	1985
Airpark V	984	1,226	49	1985
Airpark VI	1,386	1,712	85	1985
West Point Business Park				
BMF Warehouse	3,181	3,976	149	1986
WP-11	1,611	2,004	77	1988
WP-12	1,554	1,936	73	1988
WP-13	1,214	1,511	57	1988
WP-3 & 4	482	602	23	1988
WP-5	824	1,002	54	1995
Fairchild Bldg.	2,577	3,217	121	1990
LUWA Bahnson Bldg.	1,385	1,731	65	1990

Description	Life on Which Depreciation is Computed
ONCC	
Phase I	5-40 yrs.
"W" Building	5-40 yrs.
3645 Trust Drive	5-40 yrs.
5220 Green's Dairy Road	5-40 yrs.
5200 Green's Dairy Road	5-40 yrs.
Other Research Triangle Properties	
4000 Aerial Center	5-40 yrs.
Colony Corporate Center	5-40 yrs.
Concourse	5-40 yrs.
Cotton Building	5-40 yrs.
5301 Departure Drive	5-40 yrs.
Expressway One Warehouse	5-40 yrs.
Healthsource	5-40 yrs.
Holiday Inn	5-40 yrs.
Lake Plaza East	5-40 yrs.
MSA	5-40 yrs.
Phoenix	5-40 yrs.

Situs I	5-40 yrs.
South Square I	5-40 yrs.
South Square II	5-40 yrs.
Airpark East	
Highland Industries	5-40 yrs.
Service Center 1	5-40 yrs.
Service Center 2	5-40 yrs.
Service Center 3	5-40 yrs.
Service Center 4	5-40 yrs.
Copier Consultants	5-40 yrs.
Service Court	5-40 yrs.
Bldg. 01	5-40 yrs.
Bldg. 02	5-40 yrs.
Bldg. 03	5-40 yrs.
Bldg. A	5-40 yrs.
Bldg. B	5-40 yrs.
Bldg. C	5-40 yrs.
Sears Cenfact	5-40 yrs.
Hewlett Packard	5-40 yrs.
Warehouse 1	5-40 yrs.
Warehouse 2	5-40 yrs.
Warehouse 3	5-40 yrs.
Warehouse 4	5-40 yrs.
Inacom	5-40 yrs.
Airpark North	
DC-1	5-40 yrs.
DC-2	5-40 yrs.
DC-3	5-40 yrs.
DC-4	5-40 yrs.
Airpark West	
Airpark I	5-40 yrs.
Airpark II	5-40 yrs.
Airpark IV	5-40 yrs.
Airpark V	5-40 yrs.
Airpark VI	5-40 yrs.
West Point Business Park	
BMF Warehouse	5-40 yrs.
WP-11	5-40 yrs.
WP-12	5-40 yrs.
WP-13	5-40 yrs.
WP-3 & 4	5-40 yrs.
WP-5	5-40 yrs.
Fairchild Bldg.	5-40 yrs.
LUWA Bahnson Bldg.	5-40 yrs.

Description	Encumbrance	Initial Cost Land	Initial Cost Building & Improvements	Cost Capitalized Subsequent to Acquisition Land	Cost Capitalized Subsequent to Acquisition Building & Improvements	Gross Amount at Which Carried at Close of Period Land
University Commercial Center						
W-1	--	203	812	--	--	203
W-2	--	196	786	--	6	196
SR-1	--	276	1,155	--	20	276
SR-2 01/02	--	215	859	--	92	215
SR-3	--	167	668	--	1	167
Bldg. 03	--	429	1,771	--	77	429
Bldg. 04	--	514	2,058	--	128	514
Ivy Distribution Center	--	452	1,812	--	103	452
Knollwood Office Center						
370 Knollwood	(6)	1,819	7,451	--	456	1,819
380 Knollwood	(6)	2,977	11,912	--	837	2,977
Stoneleigh Business Park						
7327 W. Friendly Ave.	--	60	441	--	6	60
7339 W. Friendly Ave.	--	63	465	--	14	63
7341 W. Friendly Ave.	(1)	113	831	--	57	113
7343 W. Friendly Ave.	(1)	72	531	--	7	72
7345 W. Friendly Ave.	(1)	66	485	--	8	66
7347 W. Friendly Ave.	(1)	97	709	--	9	97
7349 W. Friendly Ave.	(1)	53	388	--	8	53
7351 W. Friendly Ave.	(1)	106	778	--	21	106
7353 W. Friendly Ave.	(1)	123	901	--	12	123
7355 W. Friendly Ave.	(1)	72	525	--	7	72
Spring Garden Plaza						
4000 Spring Garden St.	--	127	933	--	31	127
4002 Spring Garden St.	--	39	290	--	2	39
4004 Spring Garden St.	--	139	1,019	--	23	139
Pomona Center-Phase I						
7 Dundas Circle	(1)	75	552	--	4	75
8 Dundas Circle	(1)	84	617	--	5	84
9 Dundas Circle	(1)	51	373	--		51
Pomona Center-Phase II						
302 Pomona Dr.	(1)	84	617	--	5	84
304 Pomona Dr.	(1)	22	163	--		22
306 Pomona Dr.	(1)	50	368	--	8	50
308 Pomona Dr.	(1)	72	531	--	2	72
5 Dundas Circle	(1)	72	531	--	9	72
Westgate on Wendover-Phase I						
305 South Westgate Dr.	--	30	220	--	7	30
307 South Westgate Dr.	--	66	485	--	6	66
309 South Westgate Dr.	--	68	496	--	6	68
311 South Westgate Dr.	--	75	551	--	12	75
315 South Westgate Dr.	--	54	396	--	4	54
317 South Westgate Dr.	--	81	597	--	7	81
319 South Westgate Dr.	--	54	396	--	3	54
Westgate on Wendover-Phase II						
206 South Westgate Dr.	(1)	91	664	--	64	91
207 South Westgate Dr.	(1)	138	1,012	--	6	138
300 South Westgate Dr.	(1)	68	496	--	3	68
4600 Dundas Circle	(1)	62	456	--	26	62
4602 Dundas Circle	(1)	68	498	--	15	68
Radar Road						
500 Radar Rd.	(1)	202	1,484	--	17	202
502 Radar Rd.	(1)	39	285	--	21	39
504 Radar Rd.	(1)	39	285	--	--	39
506 Radar Rd.	(1)	39	285	--	--	39
Holden/85 Business Park						
2616 Phoenix Dr.	(1)	135	990	--	3	135
2606 Phoenix Dr. -- 100	(1)	63	466	--	--	63
2606 Phoenix Dr. -- 200	(1)	63	466	--	3	63
2606 Phoenix Dr. -- 300	(1)	31	229	--	7	31

2606 Phoenix Dr. -- 400	(1)	52	382	--	4	52
2606 Phoenix Dr. -- 500	(1)	64	471	--	6	64
2606 Phoenix Dr. -- 600	(1)	78	575	--	--	78

	Gross Amount at Which Carried at Close of Period			
Description	Building & Improvements	Total (9)	Accumulated Depreciation	Date of Construction
University Commercial Center				
W-1	812	1,015	38	1983
W-2	792	988	37	1983
SR-1	1,174	1,450	58	1983
SR-2 01/02	951	1,166	57	1983
SR-3	669	836	31	1984
Bldg. 03	1,848	2,277	84	1985
Bldg. 04	2,185	2,699	100	1986
Ivy Distribution Center	1,915	2,367	94	1930-1980
Knollwood Office Center				
370 Knollwood	7,907	9,726	416	1994
380 Knollwood	12,750	15,727	602	1990
Stoneleigh Business Park				
7327 W. Friendly Ave.	447	507	16	1987
7339 W. Friendly Ave.	479	542	19	1989
7341 W. Friendly Ave.	888	1,001	33	1988
7343 W. Friendly Ave.	538	610	20	1988
7345 W. Friendly Ave.	493	559	19	1988
7347 W. Friendly Ave.	719	816	26	1988
7349 W. Friendly Ave.	396	449	15	1988
7351 W. Friendly Ave.	800	906	30	1988
7353 W. Friendly Ave.	912	1,035	33	1988
7355 W. Friendly Ave.	531	603	19	1988
Spring Garden Plaza				
4000 Spring Garden St.	965	1,092	36	1983
4002 Spring Garden St.	292	331	11	1983
4004 Spring Garden St.	1,042	1,181	39	1983
Pomona Center-Phase I				
7 Dundas Circle	557	632	21	1986
8 Dundas Circle	622	706	24	1986
9 Dundas Circle	373	424	14	1986
Pomona Center-Phase II				
302 Pomona Dr.	622	706	23	1987
304 Pomona Dr.	163	185	6	1987
306 Pomona Dr.	377	427	15	1987
308 Pomona Dr.	533	605	19	1987
5 Dundas Circle	540	612	21	1987
Westgate on Wendover-Phase I				
305 South Westgate Dr.	228	258	8	1985
307 South Westgate Dr.	491	557	19	1985
309 South Westgate Dr.	501	569	18	1985
311 South Westgate Dr.	562	637	24	1985
315 South Westgate Dr.	400	454	15	1985
317 South Westgate Dr.	604	685	23	1985
319 South Westgate Dr.	400	454	15	1985
Westgate on Wendover-Phase II				
206 South Westgate Dr.	728	819	24	1986
207 South Westgate Dr.	1,018	1,156	37	1986
300 South Westgate Dr.	498	566	18	1986
4600 Dundas Circle	481	543	17	1985
4602 Dundas Circle	513	581	19	1985
Radar Road				
500 Radar Rd.	1,500	1,702	55	1981
502 Radar Rd.	305	344	11	1986
504 Radar Rd.	285	324	10	1986
506 Radar Rd.	285	324	10	1986
Holden/85 Business Park				
2616 Phoenix Dr.	993	1,128	36	1985
2606 Phoenix Dr. -- 100	466	529	17	1989

2606 Phoenix Dr. -- 200	469	532	17	1989
2606 Phoenix Dr. -- 300	236	267	8	1989
2606 Phoenix Dr. -- 400	386	438	16	1989
2606 Phoenix Dr. -- 500	477	541	19	1989
2606 Phoenix Dr. -- 600	575	653	21	1989

Description	Life on Which Depreciation is Computed
University Commercial Center	
W-1	5-40 yrs.
W-2	5-40 yrs.
SR-1	5-40 yrs.
SR-2 01/02	5-40 yrs.
SR-3	5-40 yrs.
Bldg. 03	5-40 yrs.
Bldg. 04	5-40 yrs.
Ivy Distribution Center	5-40 yrs.
Knollwood Office Center	
370 Knollwood	5-40 yrs.
380 Knollwood	5-40 yrs.
Stoneleigh Business Park	
7327 W. Friendly Ave.	5-40 yrs.
7339 W. Friendly Ave.	5-40 yrs.
7341 W. Friendly Ave.	5-40 yrs.
7343 W. Friendly Ave.	5-40 yrs.
7345 W. Friendly Ave.	5-40 yrs.
7347 W. Friendly Ave.	5-40 yrs.
7349 W. Friendly Ave.	5-40 yrs.
7351 W. Friendly Ave.	5-40 yrs.
7353 W. Friendly Ave.	5-40 yrs.
7355 W. Friendly Ave.	5-40 yrs.
Spring Garden Plaza	
4000 Spring Garden St.	5-40 yrs.
4002 Spring Garden St.	5-40 yrs.
4004 Spring Garden St.	5-40 yrs.
Pomona Center-Phase I	
7 Dundas Circle	5-40 yrs.
8 Dundas Circle	5-40 yrs.
9 Dundas Circle	5-40 yrs.
Pomona Center-Phase II	
302 Pomona Dr.	5-40 yrs.
304 Pomona Dr.	5-40 yrs.
306 Pomona Dr.	5-40 yrs.
308 Pomona Dr.	5-40 yrs.
5 Dundas Circle	5-40 yrs.
Westgate on Wendover-Phase I	
305 South Westgate Dr.	5-40 yrs.
307 South Westgate Dr.	5-40 yrs.
309 South Westgate Dr.	5-40 yrs.
311 South Westgate Dr.	5-40 yrs.
315 South Westgate Dr.	5-40 yrs.
317 South Westgate Dr.	5-40 yrs.
319 South Westgate Dr.	5-40 yrs.
Westgate on Wendover-Phase II	
206 South Westgate Dr.	5-40 yrs.
207 South Westgate Dr.	5-40 yrs.
300 South Westgate Dr.	5-40 yrs.
4600 Dundas Circle	5-40 yrs.
4602 Dundas Circle	5-40 yrs.
Radar Road	
500 Radar Rd.	5-40 yrs.
502 Radar Rd.	5-40 yrs.
504 Radar Rd.	5-40 yrs.
506 Radar Rd.	5-40 yrs.

Holden/85 Business Park	
2616 Phoenix Dr.	5-40 yrs.
2606 Phoenix Dr. -- 100	5-40 yrs.
2606 Phoenix Dr. -- 200	5-40 yrs.
2606 Phoenix Dr. -- 300	5-40 yrs.
2606 Phoenix Dr. -- 400	5-40 yrs.
2606 Phoenix Dr. -- 500	5-40 yrs.
2606 Phoenix Dr. -- 600	5-40 yrs.

Description	Encumbrance	Initial Cost Land	Initial Cost Building & Improvements	Cost Capitalized Subsequent to Acquisition Land	Cost Capitalized Subsequent to Acquisition Building & Improvements	Gross Amount at Which Carried at Close of Period Land
Industrial Village						
7906 Industrial Village Rd.	(1)	62	455	--	5	62
7908 Industrial Village Rd.	(1)	62	455	--	5	62
7910 Industrial Village Rd.	(1)	62	455	--	5	62
Other Piedmont Triad Properties						
6348 Burnt Poplar	--	721	2,883	--	7	721
6350 Burnt Poplar	--	339	1,365	--	5	339
Deep River I	2,305	1,033	5,855	--	63	1,033
Forsyth I	1,963	326	1,850	--	(4)	326
Regency One	--	515	2,352	--	563	515
Regency Two	--	435	1,864	--		435
Stratford	--	2,777	11,459	--	33	2,777
Chesapeake	(2)	1,236	4,944	--	8	1,236
3288 Robinhood	1,160	290	1,159	--	67	290
Maryland Farms						
Eastpark 1, 2, 3	4,229	3,571	14,306	--	276	3,571
Harpeth II	--	1,419	5,677	--	83	1,419
Highwoods Plaza I	--	1,772	6,380	--	1,080	1,772
EMI/Sparrow	--	1,262	5,047	--		1,262
5310 Maryland Way	5,091	1,710	6,868	--	12	1,710
Harpeth on the Green III	--	1,658	6,633	--	47	1,658
Harpeth on the Green IV	--	1,709	6,835	--	--	1,709
Grassmere						
Grassmere I	2,856	1,251	7,091	--	234	1,251
Grassmere II	4,401	2,260	12,804	--	91	2,260
Grassmere III	5,053	1,340	7,592	1	3	1,341
Other Nashville Properties						
Century City Plaza I	--	903	3,612	--	15	903
Lakeview	--	2,075	7,517	--	36	2,075
3401 Westend	--	5,349	21,415	--	58	5,349
BNA	11,819	--	22,786	--	35	--
Sabal Park						
Atrium	--	1,639	9,286	--	12	1,639
Sabal Business Center VI	5,919	1,609	9,116	--	--	1,609
Progressive Insurance	--	1,366	7,742	--	--	1,366
Sabal Business Center VII	4,815	1,519	8,605	--	5	1,519
Sabal Business Center V	2,532	1,026	5,813	--		1,026
Registry II	--	908	5,147	--	97	908
Registry I	--	744	4,216	--	26	740
Sabal Business Center IV	2,107	819	4,638	--	--	819
Sabal Tech Center	--	548	3,107	--	--	548
Sabal Park Plaza	--	611	3,460	--	--	611
Sabal Lake Building	--	572	3,241	--	33	572
Sabal Business Center I	--	375	2,127	--	--	375
Sabal Business Center II	1,235	342	1,935	--	--	342
Registry Square	--	344	1,951	--	--	344
Expo Building	--	171	969	--	--	171
Sabal Business Center III	852	290	1,642	--	16	290
Benjamin Center						
Benjamin Center #7	--	296	1,678	--	30	296
Benjamin Center #9	--	300	1,699	--		300
Other Tampa Properties						
Tower Place	--	3,194	18,098	--	--	3,194
Day Care Center	--	61	347	--	--	61
Steele Creek Park						
Bldg. A	(2)	499	1,998	--	8	499
Bldg. B	(2)	110	441	--	2	110
Bldg. E	(2)	188	751	--	89	188
Bldg. G-1	(2)	196	783	--	20	196
Bldg. H	(2)	169	677	--	114	169
Bldg. K	(2)	148	592	--		148
Bissell Business Park						
4101 Stuart Andrew Blvd.	(1)	70	510	--	10	70
4105 Stuart Andrew Blvd.	(1)	26	189	--	1	26

Description	Gross Amount at Which Carried at Close of Period Building & Improvements	Total (9)	Accumulated Depreciation	Date of Construction
Industrial Village				
7906 Industrial Village Rd.	460	522	17	1985
7908 Industrial Village Rd.	460	522	17	1985
7910 Industrial Village Rd.	460	522	17	1985
Other Piedmont Triad Properties				
6348 Burnt Poplar	2,890	3,611	136	1990
6350 Burnt Poplar	1,370	1,709	64	1992
Deep River I	5,918	6,951	49	1989
Forsyth I	1,846	12,172	15	1985
Regency One	2,915	3,430	58	1996
Regency Two	1,864	2,299	6	1996
Stratford	11,491	14,268	543	1991
Chesapeake	4,951	6,187	232	1993
3288 Robinhood	1,226	1,516	67	1989
Maryland Farms				
Eastpark 1, 2, 3	14,582	18,153	244	1978
Harpeth II	5,761	7,180	42	1984
Highwoods Plaza I	7,460	9,232	7	1996
EMI/Sparrow	5,047	6,309	37	1982
5310 Maryland Way	6,880	8,590	130	1994
Harpeth on the Green III	6,680	8,338	21	1987
Harpeth on the Green IV	6,835	8,544	21	1989
Grassmere				
Grassmere I	7,325	8,576	58	1984
Grassmere II	12,895	15,155	104	1985
Grassmere III	7,595	8,936	61	1990
Other Nashville Properties				
Century City Plaza I	3,627	4,530	43	1987
Lakeview	7,553	9,628	133	1986
3401 Westend	21,473	26,822	418	1982
BNA	22,821	22,821	399	1985
Sabal Park				
Atrium	9,298	10,937	74	1989
Sabal Business Center VI	9,116	10,725	73	1988
Progressive Insurance	7,742	9,108	62	1988
Sabal Business Center VII	8,610	10,129	69	1990
Sabal Business Center V	5,813	6,839	46	1988
Registry II	5,244	6,152	43	1987
Registry I	4,242	4,982	34	1985
Sabal Business Center IV	4,638	5,457	37	1984
Sabal Tech Center	3,107	3,655	25	1989
Sabal Park Plaza	3,460	4,071	28	1987
Sabal Lake Building	3,275	3,847	26	1986
Sabal Business Center I	2,127	2,502	17	1982
Sabal Business Center II	1,935	2,277	15	1984
Registry Square	1,951	2,295	16	1988
Expo Building	969	1,140	8	1981
Sabal Business Center III	1,658	1,948	13	1984
Benjamin Center				
Benjamin Center #7	1,708	2,004	16	1991
Benjamin Center #9	1,699	1,999	14	1989
Other Tampa Properties				
Tower Place	18,098	21,292	144	1988
Day Care Center	347	408	3	1986
Steele Creek Park				
Bldg. A	2,005	2,504	94	1989
Bldg. B	444	554	21	1985
Bldg. E	840	1,028	39	1985
Bldg. G-1	803	999	43	1989
Bldg. H	792	961	68	1987
Bldg. K	592	740	28	1985
Bissell Business Park				
4101 Stuart Andrew Blvd.	520	590	20	1984
4105 Stuart Andrew Blvd.	190	216	7	1984

Life on Which Depreciation

Description	is Computed
Industrial Village	
7906 Industrial Village Rd.	5-40 yrs.
7908 Industrial Village Rd.	5-40 yrs.
7910 Industrial Village Rd.	5-40 yrs.
Other Piedmont Triad Properties	
6348 Burnt Poplar	5-40 yrs.
6350 Burnt Poplar	5-40 yrs.
Deep River I	5-40 yrs.
Forsyth I	5-40 yrs.
Regency One	5-40 yrs.
Regency Two	5-40 yrs.
Stratford	5-40 yrs.
Chesapeake	5-40 yrs.
3288 Robinhood	5-40 yrs.
Maryland Farms	
Eastpark 1, 2, 3	5-40 yrs.
Harpeth II	5-40 yrs.
Highwoods Plaza I	5-40 yrs.
EMI/Sparrow	5-40 yrs.
5310 Maryland Way	5-40 yrs.
Harpeth on the Green III	5-40 yrs.
Harpeth on the Green IV	5-40 yrs.
Grassmere	
Grassmere I	5-40 yrs.
Grassmere II	5-40 yrs.
Grassmere III	5-40 yrs.
Other Nashville Properties	
Century City Plaza I	5-40 yrs.
Lakeview	5-40 yrs.
3401 Westend	5-40 yrs.
BNA	5-40 yrs.
Sabal Park	
Atrium	5-40 yrs.
Sabal Business Center VI	5-40 yrs.
Progressive Insurance	5-40 yrs.
Sabal Business Center VII	5-40 yrs.
Sabal Business Center V	5-40 yrs.
Registry II	5-40 yrs.
Registry I	5-40 yrs.
Sabal Business Center IV	5-40 yrs.
Sabal Tech Center	5-40 yrs.
Sabal Park Plaza	5-40 yrs.
Sabal Lake Building	5-40 yrs.
Sabal Business Center I	5-40 yrs.
Sabal Business Center II	5-40 yrs.
Registry Square	5-40 yrs.
Expo Building	5-40 yrs.
Sabal Business Center III	5-40 yrs.
Benjamin Center	
Benjamin Center #7	5-40 yrs.
Benjamin Center #9	5-40 yrs.
Other Tampa Properties	
Tower Place	5-40 yrs.
Day Care Center	5-40 yrs.
Steele Creek Park	
Bldg. A	5-40 yrs.
Bldg. B	5-40 yrs.
Bldg. E	5-40 yrs.
Bldg. G-1	5-40 yrs.
Bldg. H	5-40 yrs.
Bldg. K	5-40 yrs.
Bissell Business Park	
4101 Stuart Andrew Blvd.	5-40 yrs.
4105 Stuart Andrew Blvd.	5-40 yrs.

Description	Encumbrance	Initial Cost Land	Initial Cost Building & Improvements	Cost Capitalized Subsequent to Acquisition Land	Cost Capitalized Subsequent to Acquisition Building & Improvements	Gross Amount at Which Carried at Close of Period Land
4109 Stuart Andrew Blvd.	(1)	87	636	--	9	87
4201 Stuart Andrew Blvd.	(1)	110	809	--	28	110
4205 Stuart Andrew Blvd.	(1)	134	979	--	13	134
4209 Stuart Andrew Blvd.	(1)	91	665	--	11	91
4215 Stuart Andrew Blvd.	(1)	133	978	--	17	133
4301 Stuart Andrew Blvd.	(1)	232	1,702	--	29	232
4321 Stuart Andrew Blvd.	(1)	73	534	--	5	73
Parkway Plaza						
Building 1	--	1,110	4,741	--	67	1,110
Building 2	--	1,694	6,777	--	166	1,694
Building 3	--	1,570	6,282	--	333	1,570
Building 7	--	--	4,648	--	38	--
Building 8	--	--	4,698	--	5	--
Building 9	4,800	--	6,008	--	3	--
Oakhill Business Park						
Twin Oaks	3,406	1,243	7,044	--	49	1,243
Water Oak	5,097	1,623	9,196	--	140	1,623
Scarlet Oak	2,177	1,073	6,078	--	22	1,073
English Oak	1,968	750	4,248	--	20	750
Willow Oak	1,234	442	2,505	--	174	442
Laurel Oak	1,448	471	2,671	--	74	471
Live Oak	--	1,403	5,611	--	--	1,403
Other Charlotte Properties						
First Citizens	--	647	5,528	--	49	647
Boca Raton, FL						
One Boca Place	--	5,736	32,505	--	--	5,736
Highwoods Square	--	2,586	14,657	--	5	2,586
Highwoods Plaza	--	1,772	10,042	--	--	1,772
Innsbrook Office Center						
Markel American	(8)	585	2,347	--	103	585
Proctor-Silex	(8)	1,086	4,344	--	33	1,086
Vantage Place I	--	235	940	--	15	235
Vantage Place II	--	203	811	--	55	203
Vantage Place III	--	218	873	--	16	218
Vantage Place IV	--	233	931	--	30	233
Vantage Point	4,459	1,089	4,354	--	151	1,089
Innsbrook Tech I	1,171	264	1,058	--	7	264
DEQ Tech Center	--	541	2,166	--	18	541
DEQ Office	--	1,324	5,305	--	36	1,324
Aetna	4,878	2,163	8,659	--	58	2,163
Highwoods One	--	1,846	8,613	--	726	1,846
Liberty Mutual Building	3,500	1,205	4,819	--	--	1,205
Technology Park						
Virginia Center	--	1,438	5,858	--	175	1,438
Other Richmond Properties						
East Cary Street Building	--	171	685	--	--	171
Westshore I	--	358	1,431	--	20	358
Westshore II	--	545	2,181	--	1	545
Brookfield Corporate Center						
Brookfield-Jacobs-Sirrine	12,049	3,022	17,125	--	--	3,022
Brookfield Plaza	4,768	1,489	8,437	--	--	1,489
Brookfield-YMCA	429	33	189	--	--	33
Patewood Business Center	2,576	1,312	7,436	--	--	1,312
Patewood Plaza Office Park						
Patewood V	4,779	1,677	9,503	--	10	1,677
Patewood IV	(10)	1,210	6,856	--	--	1,210
Patewood III	5,417	835	4,733	--	29	835
Memphis, TN						
International Place Phase II	--	4,847	27,469	--	5	4,847
Southwind Office Center "A"	--	996	5,643	--	4	996

Gross Amount at Which Carried at Close of Period Building &	Accumulated

Description	Improvements	Total (9)	Depreciation	Date of Construction
4109 Stuart Andrew Blvd.	645	732	25	1984
4201 Stuart Andrew Blvd.	837	947	33	1982
4205 Stuart Andrew Blvd.	992	1,126	38	1982
4209 Stuart Andrew Blvd.	676	767	26	1982
4215 Stuart Andrew Blvd.	994	1,127	40	1982
4301 Stuart Andrew Blvd.	1,730	1,962	66	1982
4321 Stuart Andrew Blvd.	540	613	20	1982
Parkway Plaza				
Building 1	4,808	5,918	129	1982
Building 2	6,942	8,636	194	1983
Building 3	6,614	8,184	186	1984
Building 7	4,685	4,685	122	1985
Building 8	4,703	4,703	123	1986
Building 9	6,010	6,010	157	1984
Oakhill Business Park				
Twin Oaks	7,093	8,336	56	1985
Water Oak	9,336	10,959	74	1985
Scarlet Oak	6,099	7,172	49	1982
English Oak	4,268	5,018	35	1984
Willow Oak	2,679	3,121	20	1982
Laurel Oak	2,746	3,217	22	1984
Live Oak	5,611	7,014	41	1989
Other Charlotte Properties				
First Citizens	5,577	6,224	367	1989
Boca Raton, FL				
One Boca Place	32,505	38,241	259	1987
Highwoods Square	14,662	17,248	117	1989
Highwoods Plaza	10,042	11,814	80	1980
Innsbrook Office Center				
Markel American	2,450	3,035	109	1988
Proctor-Silex	4,377	5,463	158	1986
Vantage Place I	955	1,190	32	1987
Vantage Place II	866	1,069	33	1987
Vantage Place III	889	1,107	29	1988
Vantage Place IV	961	1,194	32	1988
Vantage Point	4,504	5,593	162	1990
Innsbrook Tech I	1,065	1,329	36	1991
DEQ Tech Center	2,184	2,725	66	1991
DEQ Office	5,341	6,665	161	1991
Aetna	8,717	10,880	118	1989
Highwoods One	9,339	11,185	52	1996
Liberty Mutual Building	4,819	6,024	5	1990
Technology Park				
Virginia Center	6,033	7,471	310	1985
Other Richmond Properties				
East Cary Street Building	685	856	1	1987
Westshore I	1,451	1,809	18	1995
Westshore II	2,182	2,727	25	1995
Brookfield Corporate Center				
Brookfield-Jacobs-Sirrine	17,125	20,147	137	1990
Brookfield Plaza	8,437	9,926	67	1987
Brookfield-YMCA	189	222	2	1990
Patewood Business Center	7,436	8,748	59	1983
Patewood Plaza Office Park				
Patewood V	9,513	11,190	76	1990
Patewood IV	6,856	8,066	55	1989
Patewood III	4,761	5,596	40	1989
Memphis, TN				
International Place Phase II	27,474	32,321	219	1988
Southwind Office Center "A"	5,647	6,643	45	1991

Description	Life on Which Depreciation is Computed
4109 Stuart Andrew Blvd.	5-40 yrs.
4201 Stuart Andrew Blvd.	5-40 yrs.
4205 Stuart Andrew	

Blvd.	5-40 yrs.
4209 Stuart Andrew Blvd.	5-40 yrs.
4215 Stuart Andrew Blvd.	5-40 yrs.
4301 Stuart Andrew Blvd.	5-40 yrs.
4321 Stuart Andrew Blvd.	5-40 yrs.
Parkway Plaza	
Building 1	5-40 yrs.
Building 2	5-40 yrs.
Building 3	5-40 yrs.
Building 7	5-40 yrs.
Building 8	5-40 yrs.
Building 9	5-40 yrs.
Oakhill Business Park	
Twin Oaks	5-40 yrs.
Water Oak	5-40 yrs.
Scarlet Oak	5-40 yrs.
English Oak	5-40 yrs.
Willow Oak	5-40 yrs.
Laurel Oak	5-40 yrs.
Live Oak	5-40 yrs.
Other Charlotte Properties	
First Citizens	5-40 yrs.
Boca Raton, FL	
One Boca Place	5-40 yrs.
Highwoods Square	5-40 yrs.
Highwoods Plaza	5-40 yrs.
Innsbrook Office Center	
Markel American	5-40 yrs.
Proctor-Silex	5-40 yrs.
Vantage Place I	5-40 yrs.
Vantage Place II	5-40 yrs.
Vantage Place III	5-40 yrs.
Vantage Place IV	5-40 yrs.
Vantage Point	5-40 yrs.
Innsbrook Tech I	5-40 yrs.
DEQ Tech Center	5-40 yrs.
DEQ Office	5-40 yrs.
Aetna	5-40 yrs.
Highwoods One	5-40 yrs.
Liberty Mutual Building	5-40 yrs.
Technology Park	
Virginia Center	5-40 yrs.
Other Richmond Properties	
East Cary Street Building	5-40 yrs.
Westshore I	5-40 yrs.
Westshore II	5-40 yrs.
Brookfield Corporate Center	
Brookfield-Jacobs-Sirrine	5-40 yrs.
Brookfield Plaza	5-40 yrs.
Brookfield-YMCA	5-40 yrs.
Patewood Business Center	5-40 yrs.
Patewood Plaza Office Park	
Patewood V	5-40 yrs.
Patewood IV	5-40 yrs.
Patewood III	5-40 yrs.
Memphis, TN	
International Place Phase II	5-40 yrs.
Southwind Office Center "A"	5-40 yrs.

Description	Encumbrance	Initial Cost Land	Initial Cost Building & Improvements	Cost Capitalized Subsequent to Acquisition Land	Cost Capitalized Subsequent to Acquisition Building & Improvements	Gross Amount at Which Carried at Close of Period Land
Southwind Office Center "B"	--	1,356	7,684	--	21	1,356
Kirby Centre	--	525	2,973	--	6	525
Medical Properties, Inc.	--	398	2,256	--	--	398
Atrium I & II	--	1,530	6,121	--	--	1,530
Oakbrook						
Oakbrook I	2,013	873	4,948	--	40	873
Oakbrook II	3,463	1,579	8,950	--	278	1,579
Oakbrook III	3,931	1,480	8,388	--	--	1,480
Oakbrook IV	2,381	953	5,400	--	3	953
Oakbrook V	5,664	2,206	12,501	--	55	2,206
Fontaine Business Center						
Fontaine I	3,520	1,219	6,907	--	--	1,219
Fontaine II	1,807	941	5,335	--	479	941
Fontaine III	--	853	4,833	--	69	853
Fontaine V	1,192	395	2,237	--	--	395
Other Columbia Properties						
Center Point I	3,549	1,313	7,441	--	--	1,313
Center Point II	--	1,183	6,702	--	1,034	1,183
Orlando, FL						
Metrowest I	3,530	1,344	7,618	--	54	1,344
Southwest Corporate Center	3,717	991	5,613	--	--	991
Birmingham, AL						
Grandview I	5,154	1,895	10,739	--	--	1,895
Norfolk, VA						
Battlefield I	2,717	774	4,387	--	--	774
Greenbrier Business Center	2,768	936	5,305	--	--	936
Asheville, NC						
Ridgefield II	1,837	910	5,157	--	14	910
Ridgefield I	1,685	636	3,607	--	5	636
Jacksonville, FL						
Towermarc Plaza	--	1,143	6,476	--	--	1,143
Development Projects						
Highwoods Health Club	--	142	564	--	--	142
One Shockoe Plaza	--	--	--	--	--	--
North Park	--	--	--	--	--	--
Sycamore	--	--	--	--	--	--
Two AirPark East	--	271	--	--	1	271
AirPark East-Simplex	--	103	--	--	--	103
Center Point V	--	269	--	--	1	269
Highwoods Plaza II	--	1,448	--	--	--	1,448
Highwoods Two	--	785	--	--	--	785
Grove Park I	--	819	--	--	--	819
West Shore III	--	961	--	--	--	961
Clintrials	--	3,278	--	--	--	3,278
Center Point VI	--	269	--	--	--	269
Highwoods Airport Center	--	708	--	--	--	708
R.F. Micro Devices	--	512	--	--	--	512
Development Land						
Airport Center 2	--	362	--	--	--	362
Airpark East	--	1,932	--	(616)	(8)	1,317
Airpark North	--	804	--	--	--	804
Capital Center	--	851	--	--	--	851
Creekstone Park	--	1,255	--	(453)	(6)	802
Development Opportunity Strip	--	26	--	--	--	26
End of Cox Road Land	--	966	--	--	--	966
Grassmere	--	1,779	--	--	--	1,779
Grassmere/ Thousdale	--	760	--	--	--	760
Highwoods Square	--	--	--	112	--	112
Highwoods Office Center North	--	1,555	49	(450)	(7)	1,104
Highwoods Office Center South	--	2,518	--	--	--	2,518
NationsFord Business Park	--	1,206	--	--	--	1,206
North Park -- Wake Forest	--	962	--	--	--	962
Raleigh Corp Ctr-Daycare	--	295	--	--	--	295
Research Commons	--	1,349	--	--	--	1,349
Ridge Development	--	1,960	--	--	--	1,960

Gross Amount at Which

Description	Carried at Close of Period Building & Improvements	Total (9)	Accumulated Depreciation	Date of Construction
Southwind Office Center "B"	7,705	9,061	62	1990
Kirby Centre	2,979	3,504	24	1984
Medical Properties, Inc.	2,256	2,654	18	1988
Atrium I & II	6,121	7,651	6	1984
Oakbrook				
Oakbrook I	4,988	5,861	40	1981
Oakbrook II	9,228	10,807	81	1983
Oakbrook III	8,388	9,868	67	1984
Oakbrook IV	5,403	6,356	43	1985
Oakbrook V	12,557	14,763	101	1985
Fontaine Business Center				
Fontaine I	6,907	8,126	55	1985
Fontaine II	5,814	6,755	56	1987
Fontaine III	4,902	5,755	41	1988
Fontaine V	2,237	2,632	18	1990
Other Columbia Properties				
Center Point I	7,441	8,754	59	1988
Center Point II	7,736	8,919	57	1996
Orlando, FL				
Metrowest I	7,671	9,015	62	1988
Southwest Corporate Center	5,613	6,604	45	1984
Birmingham, AL				
Grandview I	10,739	12,634	86	1989
Norfolk, VA				
Battlefield I	4,387	5,161	35	1987
Greenbrier Business Center	5,305	6,241	42	1984
Asheville, NC				
Ridgefield II	5,170	6,080	41	1989
Ridgefield I	3,612	4,248	29	1987
Jacksonville, FL				
Towermarc Plaza	6,476	7,619	52	1991
Development Projects				
Highwoods Health Club	559	701	--	N/A
One Shockoe Plaza	--	--	32	N/A
North Park	--	--	--	N/A
Sycamore	--	--	--	N/A
Two AirPark East	1	272	--	N/A
AirPark East-Simplex	--	103	--	N/A
Center Point V	1	270	--	N/A
Highwoods Plaza II	--	1,448	--	N/A
Highwoods Two	--	785	--	N/A
Grove Park I	--	--	--	N/A
West Shore III	--	--	--	N/A
Clintrials	--	3,278	--	N/A
Center Point VI	--	--	--	N/A
Highwoods Airport Center	--	708	--	N/A
R.F. Micro Devices	--	512	--	N/A
Development Land				
Airport Center 2	--	362	--	N/A
Airpark East	--	1,317	--	N/A
Airpark North	--	804	--	N/A
Capital Center	--	851	--	N/A
Creekstone Park	--	802	--	N/A
Development Opportunity Strip	--	26	--	N/A
End of Cox Road Land	--	966	--	N/A
Grassmere	--	1,779	--	N/A
Grassmere/ Thousdale	--	760	--	N/A
Highwoods Square	--	112	--	N/A
Highwoods Office Center North	49	1,153	11	N/A
Highwoods Office Center South	--	2,518	--	N/A
NationsFord Business Park	--	1,206	--	N/A
North Park -- Wake Forest	--	962	--	N/A
Raleigh Corp Ctr- Daycare	--	295	--	N/A
Research Commons	--	1,349	--	N/A
Ridge Development	--	1,960	--	N/A

Description	Life on Which Depreciation is Computed
Southwind Office	

Center "B"	5-40 yrs.
Kirby Centre	5-40 yrs.
Medical Properties, Inc.	5-40 yrs.
Atrium I & II	5-40 yrs.
Oakbrook	
Oakbrook I	5-40 yrs.
Oakbrook II	5-40 yrs.
Oakbrook III	5-40 yrs.
Oakbrook IV	5-40 yrs.
Oakbrook V	5-40 yrs.
Fontaine Business Center	
Fontaine I	5-40 yrs.
Fontaine II	5-40 yrs.
Fontaine III	5-40 yrs.
Fontaine V	5-40 yrs.
Other Columbia Properties	
Center Point I	5-40 yrs.
Center Point II	5-40 yrs.
Orlando, FL	
Metrowest I	5-40 yrs.
Southwest Corporate Center	5-40 yrs.
Birmingham, AL	
Grandview I	5-40 yrs.
Norfolk, VA	
Battlefield I	5-40 yrs.
Greenbrier Business Center	5-40 yrs.
Asheville, NC	
Ridgefield II	5-40 yrs.
Ridgefield I	5-40 yrs.
Jacksonville, FL	
Towermarc Plaza	5-40 yrs.
Development Projects	
Highwoods Health Club	N/A
One Shockoe Plaza	N/A
North Park	N/A
Sycamore	N/A
Two AirPark East	N/A
AirPark East-Simplex	N/A
Center Point V	N/A
Highwoods Plaza II	N/A
Highwoods Two	N/A
Grove Park I	N/A
West Shore III	N/A
Clintrials	N/A
Center Point VI	N/A
Highwoods Airport Center	N/A
R.F. Micro Devices	N/A
Development Land	
Airport Center 2	N/A
Airpark East	N/A
Airpark North	N/A
Capital Center	N/A
Creekstone Park	N/A
Development Opportunity Strip	N/A
End of Cox Road Land	N/A
Grassmere	N/A
Grassmere/ Thousdale	N/A
Highwoods Square	N/A
Highwoods Office Center North	N/A
Highwoods Office Center South	N/A
NationsFord Business Park	N/A
North Park -- Wake Forest	N/A
Raleigh Corp Ctr-Daycare	N/A
Research Commons	N/A
Ridge Development	N/A

Description	Encumbrance	Initial Cost: Land	Initial Cost: Building & Improvements	Cost Capitalized Subsequent to Acquisition: Land	Cost Capitalized Subsequent to Acquisition: Building & Improvements	Gross Amount at Which Carried at Close of Period: Land
West Point Business Park	--	1,759	--	--	--	1,759
Airport Center Drive	--	1,600	--	--	--	1,600
		$ 237,639	$ 1,087,765	$(1,181)	$65,872	$ 236,453

Description	Gross Amount at Which Carried at Close of Period: Building & Improvements	Gross Amount at Which Carried at Close of Period: Total (9)	Accumulated Depreciation	Date of Construction
West Point Business Park	--	1,759	--	N/A
Airport Center Drive	--	1,600	--	N/A
	$ 1,153,626	$ 1,390,079	$42,195	

Description	Life on Which Depreciation is Computed
West Point Business Park	N/A
Airport Center Drive	N/A

(1) These assets are pledged as collateral for a $11,612,000 first mortgage loan.
(2) These assets are pledged as collateral for a $31,410,000 first mortgage loan.
(3) These assets are pledged as collateral for a $40,167,000 first mortgage loan.
(4) These assets are pledged as collateral for a $8,629,000 first mortgage loan.
(5) These assets are pledged as collateral for a $4,924,000 first mortgage loan.
(6) Reflects land transferred to the Willow Oak Property.
(7) Reflects land transferred to the Global property.
(8) Reflects land transferred to the Hewlett Packard property, Inacom property, Two AirPark East property, AirPark East-Simplex property.
(9) The aggregate cost for Federal Income Tax purposes was approximately $964,000,000.
(10) Patewood III and IV are considered one property for encumbrance purposes.

HIGHWOODS PROPERTIES, INC.
NOTE TO SCHEDULE III
(in thousands)

As of December 31, 1996, 1995 and 1994

A summary of activity for real estate and accumulated depreciation is as follows:

	December 31, 1996	1995	1994
Real Estate:			
Balance at beginning of year	$ 598,536	$218,699	$ 61,656
Additions:			
Acquisitions, development and improvements	792,697	381,936	157,043
Cost of real estate sold	(1,154)	(2,099)	--
Balance at close of year (a)	$1,390,079	$598,536	$218,699
Accumulated Depreciation:			
Balance at beginning of year	$ 21,452	$ 11,003	$ 8,679
Depreciation expense	20,752	10,483	2,324
Real estate sold	(10)	(34)	--
Balance at close of year (b)	$ 42,194	$ 21,452	$ 11,003

(a) Reconciliation of total cost to balance sheet caption at December 31, 1996, 1995 and 1994 (in thousands):

	1996	1995	1994
Total per schedule III	$1,390,079	$598,536	$218,699
Construction in progress exclusive of land included in Schedule III	28,859	15,508	--
Furniture, fixtures and equipment	2,096	1,288	967
Total real estate assets at cost	$1,421,034	$615,332	$219,666

(b) Reconciliation of total accumulated depreciation to balance sheet caption at December 31, 1996, 1995 and 1994 (in thousands):

	1996	1995	1994
Total per schedule III	$42,195	$21,452	$11,003
Accumulated depreciation -- furniture, fixtures and equipment	965	814	687
Total accumulated depreciation	$43,160	$22,266	$11,690

REPORT OF INDEPENDENT AUDITORS

BOARD OF DIRECTORS AND STOCKHOLDERS
HIGHWOODS PROPERTIES, INC.

We have audited the accompanying combined statements of income, owners' deficit and cash flows for the period from January 1, 1994 to June 13, 1994 of the Highwoods Group. These financial statements and schedule are the responsibility of the Highwoods Group's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the combined results of operations and cash flows for the period from January 1, 1994 to June 13, 1994 of the Highwoods Group in conformity with generally accepted accounting principles.

ERNST & YOUNG LLP
Raleigh, North Carolina
January 10, 1995

HIGHWOODS GROUP
COMBINED STATEMENT OF INCOME
(In thousands)

	January 1, 1994 to June 13, 1994
Revenue:	
Rental income	$ 4,953
Leasing, Development and Construction Income	1,268
Other income	427
Total revenue	6,648
Expenses:	
Property operating expenses	2,246
Leasing, Development and Construction Expenses	350
Interest	2,473
Depreciation and amortization	835
Marketing, general and administrative	280
Total expenses	6,184
Net income	$ 464

See accompanying notes.

HIGHWOODS GROUP
COMBINED STATEMENT OF OWNERS' DEFICIT
(In thousands)

	Owners' Deficit
Balance at December 31, 1993	(7,977)
Owners' distributions	(1,759)
Net income for the period from January 1, 1994 to June 13, 1994	464
Balance at June 13, 1994	$(9,272)

See accompanying notes.

HIGHWOODS GROUP
COMBINED STATEMENT OF CASH FLOWS
(In thousands)

	January 1, 1994 to June 13, 1994
Operating activities	
Net income	$ 464
Adjustments to reconcile net income to net cash provided by operating activities:	
Depreciation and amortization	835
Changes in operating assets and liabilities:	
Rents and other receivables from tenants	1,100
Deferred lease fees and loan costs	26
Deferred offering costs and prepaids	181
Tenant security deposits	8
Accrued straight line rents receivable	239
Accrued expenses and accounts payable	(54)
Net cash provided by operating activities	2,799
Investing activities	
Changes in restricted cash	835
Purchases of, and improvements to, rental properties	(347)
Net cash provided by investing activities	488
Financing activities	
Principal payments on notes payable	(399)
Distributions to partners	(1,759)
Cash used in financing activities	(2,158)
Net increase in cash and cash equivalents	1,129
Cash and cash equivalents at beginning of year	866
Cash and cash equivalents at end of year	$ 1,995
Supplemental disclosures of cash flow information	
Cash paid during the year for interest	$ 2,410

See accompanying notes.

HIGHWOODS GROUP
NOTES TO COMBINED FINANCIAL STATEMENTS
PERIOD FROM JANUARY 1, 1994 THROUGH JUNE 13, 1994

1. DESCRIPTION OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES

Description of Business The Highwoods Group is engaged in the ownership, management, operation, leasing and development of commercial real estate properties. The Highwoods Group owns and operates 14 buildings located in the Research Triangle Park region of North Carolina.

Principles of Combination

The Highwoods Group is not a legal entity but rather a combination of commercial real estate properties that are organized as general partnerships and are under common control, and an affiliated real estate management company, the Highwoods Properties Company ("HPC"). HPC provides property management services to the properties. All significant intercompany transactions and balances have been eliminated in the combination.

On June 14, 1994, the Highwoods Group transferred all of its assets and liabilities to Highwoods Realty Limited Partnership in connection with Highwoods Properties, Inc.'s initial public offering of common stock.

Cash Equivalents

The Highwoods Group considers highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

Revenue Recognition

Minimum rental income is recognized on a straight-line basis over the term of the lease, and due and unpaid rents are included in rents and other receivables from tenants in the accompanying balance sheet. Certain lease agreements contain provisions which provide reimbursement of real estate taxes, insurance and certain common area maintenance (CAM) costs. These additional rents are recorded on the accrual basis. All rent and other receivables from tenants are due from commercial building tenants located in the properties. Lease fee income is recognized 50% when the lease is signed and 50% when the tenant takes occupancy.

Other Income

Other income consists primarily of management fees generated by HPC from providing property management services to third parties and interest income.

Income Taxes

No provision has been made for income taxes because the commercial real estate properties are owned by partnerships whose partners are required to include their respective share of profits or losses in their individual tax returns.

HPC elected to be taxed for federal and state income tax purposes as an S-Corporation under provisions of the Internal Revenue Code. Consequently income, losses and credits are passed through directly to the stockholders, rather than being taxed at the corporate level.

2. LEASES The Highwoods Group leases automobiles, and office space under various operating leases. Total rent expense for these leases was $70,000 for the period from January 1, 1994 to June 13, 1994. As of June 13, 1994, the Company did not have contractual leases in place with remaining terms of one year or more.

Exhibit 21

SCHEDULE OF SUBSIDIARIES OF HIGHWOODS PROPERTIES, INC.

1. Highwoods/Forsyth Limited Partnership
2. Highwoods/Florida GP Corp.
3. Highwoods Realty GP Corp.
4. Highwoods/Tennessee Properties, Inc.
5. Highwoods/Florida Holdings GP, L.P.
6. AP-GP Southeast Portfolio Partners, L.P.
7. Highwoods/Tennessee Holdings GP, L.P.
8. Highwoods/Tennessee Holdings, L.P.
9. AP Southeast Portfolio Partners, L.P.
10. Highwoods/Florida Holdings, L.P.
11. Forsyth Properties Services, Inc.
12. Highwoods Services, Inc.
13. Southeast Realty Options Corp.

CONSENT OF INDEPENDENT AUDITORS

We consent to the incorporation by reference in the Registration Statements (Form S-3 Nos. 33-93572, 33-97712, 333-08985, 333-13519, 333-3890 and Form S-8 No. 333-12177) and related Prospectuses of Highwoods Properties, Inc. of our report dated February 14, 1997 with respect to the consolidated financial statements and schedule of Highwoods Properties, Inc. included in the Annual Report (Form 10-K) for the year ended December 31, 1996.

/s/ Ernst & Young, L.L.P.

Raleigh, North Carolina
March 26, 1997

ARTICLE 5

PERIOD TYPE	3 MOS	12 MOS
FISCAL YEAR END	DEC 31 1996	DEC 31 1996
PERIOD START	OCT 01 1996	JAN 01 1996
PERIOD END	DEC 31 1996	DEC 31 1996
CASH	19,609,000	19,609,000
SECURITIES	0	0
RECEIVABLES	17,630,000	17,630,000
ALLOWANCES	0	0
INVENTORY	0	0
CURRENT ASSETS	34,955,000	34,955,000
PP&E	1,421,034,000	1,421,034,000
DEPRECIATION	43,160,000	43,160,000
TOTAL ASSETS	1,443,440,000	1,443,440,000
CURRENT LIABILITIES	27,600,000	27,600,000
BONDS	555,876,000	555,876,000
PREFERRED MANDATORY	0	0
PREFERRED	0	0
COMMON	356,000	356,000
OTHER SE	859,608,000	859,608,000
TOTAL LIABILITY AND EQUITY	1,443,440,000	1,443,440,000
SALES	47,482,000	130,848,000
TOTAL REVENUES	50,160,000	137,926,000
CGS	13,103,000	35,313,000
TOTAL COSTS	21,841,000	57,408,000
OTHER EXPENSES	1,900,000	5,666,000
LOSS PROVISION	0	0
INTEREST EXPENSE	11,536,000	26,610,000
INCOME PRETAX	14,883,000	48,242,000
INCOME TAX	0	0
INCOME CONTINUING	13,306,000	41,460,000
DISCONTINUED	0	0
EXTRAORDINARY	0	2,140,000
CHANGES	0	0
NET INCOME	13,306,000	39,320,000
EPS PRIMARY	.41	1.51
EPS DILUTED	.41	1.51