

# HIGHWOODS PROPERTIES INC

## FORM 10-Q (Quarterly Report)

Filed 11/14/1996 For Period Ending 9/30/1996

Address	3100 SMOKETREE CT STE 600 RALEIGH, North Carolina 27604
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Industry	Real Estate Operations
Sector	Services
Fiscal Year	12/31

# SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

## FORM 10-Q

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

For the quarterly period ended September 30, 1996

*Commission file number: 001-13100*

## HIGHWOODS PROPERTIES, INC.

(Exact name of registrant as specified in its charter)

MARYLAND

(State or other jurisdiction of  
incorporation or organization)

56-1871668

(I.R.S. Employer  
Identification Number)

**3100 SMOKETREE COURT, SUITE 600, RALEIGH, N.C.**

(Address of principal executive office)

27604

(Zip Code)

Registrant's telephone number, including area code:

(919) 872-4924

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐ The Company has only one class of common stock, issued at \$.01 par value per share with 31,788,067 shares outstanding as of November 8, 1996.

**HIGHWOODS PROPERTIES, INC.**  
**QUARTERLY REPORT FOR THE PERIOD ENDED SEPTEMBER 30, 1996**  
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## **PART I -- FINANCIAL INFORMATION**

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

The information furnished in the accompanying balance sheets, statements of operations and statements of cash flows reflect all adjustments that are, in the opinion of management, necessary for a fair presentation of the aforementioned financial statements for the interim period. The aforementioned financial statements should be read in conjunction with the notes to consolidated financial statements, Management's Discussion and Analysis of Financial Condition and Results of Operations and the Company's 1995 Annual Report on Form 10-K.

**HIGHWOODS PROPERTIES, INC.**  
**CONSOLIDATED BALANCE SHEETS**  
(IN THOUSANDS EXCEPT SHARE INFORMATION)

	SEPTEMBER 30, 1996 (UNAUDITED)	DECEMBER 31, 1995
<b>ASSETS</b>		
Real estate assets, at cost:		
Land.....	\$ 240,033	\$ 106,955
Buildings.....	1,075,169	491,581
Development in process.....	37,656	15,508
Furniture, fixtures and equipment.....	1,888	1,288
	1,354,746	615,332
Less -- accumulated depreciation	(33,988)	(22,266)
Net real estate assets.....	1,320,758	593,066
Cash and cash equivalents.....	19,305	6,838
Restricted cash.....	11,532	--
Accounts and notes receivable.....	7,313	6,338
Notes receivable from service subsidiaries.....	1,404	1,274
Accrued straight line rents receivable.....	4,957	3,407
Other assets:		
Deferred leasing costs.....	5,869	4,253
Deferred financing costs and interest rate cap.....	11,968	8,268
Prepaid expenses and other.....	3,721	1,521
	21,558	14,042
Less -- accumulated amortization.....	(5,917)	(3,831)
	15,641	10,211
	\$1,380,910	\$ 621,134
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Mortgages and notes payable.....	\$ 597,734	\$ 182,736
Accounts payable, accrued expenses and other liabilities.....	28,767	11,052
Total liabilities.....	626,501	193,788
Minority interest.....	92,283	73,536
Stockholders' equity:		
Common stock, \$.01 par value, authorized 100,000,000 shares; issued and outstanding 31,788,067 at September 30, 1996 and 19,404,411 at December 31, 1995.....	318	194
Additional paid-in capital.....	670,032	355,248
Accumulated deficit.....	(8,224)	(1,632)
Total stockholders' equity.....	662,126	353,810
	\$1,380,910	\$ 621,134

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

**HIGHWOODS PROPERTIES, INC.**  
**CONSOLIDATED STATEMENTS OF INCOME**  
(UNAUDITED AND IN THOUSANDS EXCEPT PER SHARE AMOUNTS)

	THREE MONTHS ENDED SEPTEMBER 30,		NINE MONTHS ENDED SEPTEMBER 30,	
	1996	1995	1996	1995
REVENUE:				
Rental property.....	\$33,076	\$19,673	\$83,366	\$49,644
Interest and other income.....	3,253	887	4,400	11,917
	36,329	20,560	87,766	50,924
OPERATING EXPENSES:				
Rental property.....	9,015	4,666	22,210	11,917
Depreciation and amortization.....	5,459	3,069	13,357	7,612
Interest expense:				
Contractual.....	5,539	3,812	13,786	8,720
Amortization of deferred financing costs and interest rate cap.....	461	385	1,288	1,215
	6,000	4,197	15,074	9,935
General and administrative.....	1,632	689	3,766	1,813
Income before minority interest and extraordinary item...	14,223	7,939	33,359	19,647
MINORITY INTEREST.....	(1,881)	(1,381)	(5,205)	(3,451)
Income before extraordinary item.....	12,342	6,558	28,154	16,196
Extraordinary item -- loss on early extinguishment of debt....	(2,140)	--	(2,140)	(875)
Net income.....	\$10,202	\$ 6,558	\$26,014	\$15,321
Weighted average shares outstanding.....	31,763	16,943	23,730	14,623
NET INCOME PER COMMON SHARE:				
Income before extraordinary item.....	\$ 0.39	\$ 0.39	\$ 1.19	\$ 1.11
Extraordinary item -- loss on early extinguishment of debt.....	\$ (0.07)	\$ --	\$ (0.09)	\$ (0.06)
Net income.....	\$ 0.32	\$ 0.39	\$ 1.10	\$ 1.05

SEE ACCOMPANYING NOTES TO CONSOLIDATED FINANCIAL STATEMENTS.

**HIGHWOODS PROPERTIES, INC.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(UNAUDITED AND IN THOUSANDS)

	NINE MONTHS ENDED SEPTEMBER 30, 1996	1995
OPERATING ACTIVITIES:		
Net income.....	\$ 26,014	\$ 15,321
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization.....	14,645	8,827
Minority interest in income.....	4,858	3,258
Loss on early extinguishment of debt.....	2,432	1,068
Changes in operating assets and liabilities.....	(59)	1,104
Net cash provided by operating activities.....	47,890	29,578
INVESTING ACTIVITIES:		
Additions to real estate assets.....	(113,250)	(73,097)
Proceeds from disposition of real estate assets.....	900	--
Cash from contributed net assets.....	20,711	549
Cash paid in exchange for partnership net assets.....	(322,276)	(6,539)
Other.....	(2,755)	(1,539)
Net cash used in investing activities.....	(416,670)	(80,626)
FINANCING ACTIVITIES:		
Distributions paid.....	(37,938)	(19,508)
Repayment of mortgages and notes payable.....	(184,858)	(200,794)
Payment of prepayment penalties.....	(1,184)	(1,068)
Borrowings on mortgages and notes payable.....	307,500	121,500
Net proceeds from the sale of common stock.....	298,804	220,055
Payment of deferred financing costs.....	(1,077)	(519)
Net cash provided by financing activities.....	381,247	119,666
Net increase in cash and cash equivalents.....	12,467	68,618
Cash and cash equivalents at beginning of the period.....	6,838	6,258
Cash and cash equivalents at end of the period.....	\$ 19,305	\$ 74,876
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid for interest.....	\$ 12,816	\$ 3,841

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

**HIGHWOODS PROPERTIES, INC.**  
**CONSOLIDATED STATEMENT OF CASH FLOWS**  
(UNAUDITED AND IN THOUSANDS)

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

The following summarizes the net assets contributed by the unit holders of the Operating Partnership or acquired subject to mortgage notes payable:

	NINE MONTHS ENDED SEPTEMBER 30,	
	1996	1995
<b>ASSETS:</b>		
Rental property and equipment, net.....	\$614,329	\$241,468
Restricted cash.....	11,476	--
Deferred financing costs, net.....	3,871	842
Accounts receivable and other.....	1,653	6,290
Total assets.....	\$631,329	\$248,600
<b>LIABILITIES:</b>		
Mortgages and notes payable assumed.....	292,356	194,182
Accounts payable, accrued expenses and other liabilities.....	19,142	--
Total liabilities.....	311,498	194,182
Net assets.....	\$319,831	\$ 54,418

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



# **HIGHWOODS PROPERTIES, INC.**

## **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

SEPTEMBER 30, 1996

(UNAUDITED)

1. BASIS OF PRESENTATION The consolidated financial statements include the accounts of Highwoods Properties, Inc. (the "Company") and Highwoods/Forsyth Limited Partnership (the "Operating Partnership"). The Company's investment in Highwoods Services, Inc. and Forsyth Properties Services, Inc. (the "Service Companies") is accounted for on the equity method. All significant intercompany balances and transactions have been eliminated in the consolidated financial statements. The Company has elected and expects to continue to qualify as a real estate investment trust ("REIT") under Section 856 through 860 of the Internal Revenue Code of 1986, as amended. 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 holds substantially all of the Company's interest in the properties and through which the Company, as the sole general partner, conducts substantially all of its operations. Per share information is calculated using the weighted average number of shares outstanding. The accompanying financial information has not been audited, but in the opinion of management, all adjustments (consisting of normal recurring accruals) necessary for a fair presentation of the financial position, results of operations and cash flows of the Company have been made. For further information, refer to the financial statements and notes thereto included in the Company's 1995 Annual Report on Form 10-K.

**HIGHWOODS PROPERTIES, INC.**  
**PRO FORMA FINANCIAL INFORMATION**

The accompanying unaudited Pro Forma Condensed Consolidated Statements of Operations for the year ended December 31, 1995 assume that the following transactions all occurred as of January 1, 1995: (i) the merger with Forsyth Properties, Inc. and its affiliates (the "Forsyth Transaction"), (ii) the acquisition of the Research Commons Properties, (iii) the issuance of 5,640,000 shares of common stock of the Company at a price of \$20.75 per share (the "February 1995 Offering"), (iv) the issuance of 4,774,989 shares of common stock of the Company at a price of \$24.50 per share (the "August 1995 Offering"), (v) acquisitions of a total of 77 Properties and 68 acres of Development Land (the "Other 1995 Acquisitions"), (vi) the merger with Eakin & Smith, Inc. and its affiliates (the "Eakin & Smith Transaction"), (vii) the issuance of 11,500,000 and 250,000 shares of common stock of the Company at per share prices of \$26.875 and \$27.375, respectively (the "Summer 1996 Offerings") and (viii) the merger with Crocker Realty Trust, Inc. (the "Crocker Merger"). The pro forma operating data for the nine months ended September 30, 1996 assumes that (i) this Offering, (ii) the Eakin & Smith Transaction, (iii) the Summer 1996 Offerings and (iv) the Crocker Merger occurred as of January 1, 1995. These unaudited statements should be read in conjunction with the respective financial statements and notes thereto of the Company and "Management's Discussion and Analysis of Financial Condition and Results of Operations" included herein. In the opinion of management, the pro forma condensed consolidated financial information provides all adjustments necessary to reflect the effects of the above transactions.

The pro forma condensed consolidated financial information is unaudited and is not necessarily indicative of the consolidated results which would have occurred if the transactions had been consummated in the periods presented, or on any particular date in the future, nor does it purport to represent the financial position, results of operations or changes in cash flows for future periods.

**HIGHWOODS PROPERTIES, INC.**  
**PRO FORMA CONDENSED COMBINING STATEMENT OF OPERATIONS**  
**FOR THE NINE MONTHS ENDED SEPTEMBER 30, 1996**  
(UNAUDITED, IN THOUSANDS)

	PRE-ACQUISITION RESULTS				
	HISTORICAL	EAKIN & SMITH	CROCKER HISTORICAL	CROCKER ACQUISITIONS	PRO FORMA ADJUSTMENTS
	(A)	(B)	(C)	(D)	
REVENUE:					
Rental property.....	\$ 83,366	\$ 3,000	\$ 47,372	\$520	\$ 900(E)
Other income.....	4,400	512	2,607	12	(4,043)(F)
	87,766	3,512	49,979	532	(3,143)
OPERATING EXPENSES:					
Rental property.....	22,210	957	17,170	179	(1,640)(G)
Depreciation and amortization.....	13,357	526	8,516	108	351(H)
Interest expense:					
Contractual.....	13,786	739	15,055	215	(1,754)(I)
Amortization of deferred financing costs.....	1,288	--	849	--	(475)(J)
	15,074	739	15,904	215	(2,229)
General and administrative.....	3,766	153	4,134	--	(3,816)(K)
Income before minority interest.....	33,359	1,137	4,255	30	4,191
Minority interest.....	(5,205)				5(L)
Income before extraordinary item.....	\$ 28,154	\$ 1,137	\$ 4,255	\$ 30	\$ 4,196
Net income per share.....					
Weighted average shares.....					
	PRO FORMA				
REVENUE:					
Rental property.....	\$135,158				
Other income.....	3,488				
	138,646				
OPERATING EXPENSES:					
Rental property.....	38,876				
Depreciation and amortization.....	22,858				
Interest expense:					
Contractual.....	28,041				
Amortization of deferred financing costs.....	1,662				
	29,703				
General and administrative.....	4,237				
Income before minority interest.....	42,972				
Minority interest.....	(5,200)				
Income before extraordinary item.....	\$ 37,772				
Net income per share.....	\$ 1.19				
Weighted average shares.....	31,788				

See Notes to Pro Forma Condensed Combining Statement of Operations

**HIGHWOODS PROPERTIES, INC.**  
**NOTES TO PRO FORMA CONDENSED COMBINING STATEMENTS OF OPERATIONS**  
**FOR THE NINE MONTHS ENDED SEPTEMBER 30, 1996**  
(UNAUDITED, IN THOUSANDS)

(A.) Reflects the Company's historical statement of operations contained in its Quarterly Report on form 10-Q for the nine months ended September 30, 1996.

(B.) Reflects the historical statement of operations of Eakin & Smith, Inc. for the three months ended March 31, 1996, which was acquired by the Company on April 1, 1996.

(C.) Represents the historical statement of operations of Crocker Realty Trust, Inc. ("Crocker") for the period from January 1, 1996 to September 5, 1996. (D.) Reflects the historical operations of the Towermarc properties, which were acquired by Crocker on January 16, 1996, adjusted on a pro forma basis for interest and depreciation expense, for the period from January 1, 1996 to January 16, 1996, the date of the acquisition of Towermarc. Depreciation expense is calculated on the purchase price allocated to buildings, site improvements and tenant improvements with depreciation calculated on a straight-line basis over useful lives of 40 years, 15 years and the life of the respective leases, respectively. (E.) Reflects incremental rental income from a supplemental lease agreement entered into in connection with the Company's merger with Crocker (the "Crocker Merger"). The lease agreement was a condition of the Crocker Merger. (F.) Reflects the elimination of certain third-party leasing and property management income of Crocker not retained by the Company (\$1,824) and the elimination of interest income on short-term investments advanced to a wholly owned subsidiary (the "Merger Subsidiary") in connection with the Crocker Merger (\$2,219). (G.) Reflects the net adjustment to rental property expenses to eliminate the costs related to certain assets (primarily land held for development) which were retained by the prior shareholders of Crocker (\$800) and to eliminate certain other property operating costs (primarily personnel and office costs for duplicative property management operations) which have been eliminated upon the completion of the Crocker Merger (\$840). (H.) Represents the net adjustment to depreciation expense based upon an assumed allocation of the purchase price to land, buildings and development in process and building depreciation computed on a straight-line basis using an estimated life of 40 years for buildings and 7 years for furniture, fixtures and equipment as follows:

Eakin & Smith Transaction.....	\$ (73)
Crocker Merger.....	424
Total.....	\$ (351)

(I.) Represents the net adjustment to interest expense to reflect interest costs on the net incremental borrowings related to the Eakin & Smith Transaction, the Crocker Merger (including effects of refinancing of certain Crocker mortgage debt with borrowings under a \$280 million revolving loan (the "Revolving Loan")) and the issuance of 11,750,000 shares of common stock. The adjustments are as follows:

Eakin & Smith Transaction (1).....	\$ 468
Crocker Merger (2).....	(2,222)
Total.....	\$ (1,754)

(1) \$26.6 million in incremental borrowing in the Eakin & Smith Transaction at an average rate under the Revolving Loan of 7% for three months.

(2) The incremental effect of refinancing mortgage debt with an average outstanding balance of \$104,000 and an average rate of 10% with borrowings under the Revolving Loan with an average rate of 7% for the for period from January 1, 1996 to September 30, 1996. (J.) Represents the incremental adjustment to amortization to reflect the commitment fee on the Revolving Loan and the reduction in the amortization to reflect the Crocker mortgage loans repaid. (K.) Represents the net adjustment to general administrative expense to reflect the estimated incremental costs (primarily salaries) to the Operating Partnership of operating a Nashville division and to reflect the elimination of certain costs (primarily executive salaries, administrative costs, the expenses incurred to generate third-party revenue and the expenses to operate the public entity) of Crocker not expected to be incurred by the Operating Partnership as follows (in thousands):

Eakin & Smith Transaction.....	\$ 47
Crocker Merger.....	(3,863)
Total.....	\$(3,816)

(L.) Reflects the net adjustment to minority interest to reflect the pro forma minority interest percentage of 12.1%.

**HIGHWOODS PROPERTIES, INC.**  
**PRO FORMA CONDENSED COMBINING STATEMENT OF OPERATIONS**  
**FOR THE YEAR ENDED DECEMBER 31, 1995**  
**(UNAUDITED, IN THOUSANDS)**

	HISTORICAL (A)	PRO FORMA ADJUSTMENTS TRANSACTIONS (B)	PRE-CROCKER AND EAKIN & SMITH PRO FORMA	EAKIN & SMITH TRANSACTIONS (C)	CROCKER HISTORICAL (D)	TRANSACTION PRE-ACQUISITION RESULTS (E)	PRO FORMA ADJUSTMENTS
REVENUE:							
Rental property.....	\$ 71,217	\$ 17,020	\$88,237	\$ 9,222	\$ 42,489	\$23,985	\$ 1,200 (F)
Other income.....	2,305	50	2,355	2,542	1,777	2,380	(2,628) (G)
	73,522	17,070	90,592	11,764	44,266	26,365	(1,428)
OPERATING EXPENSES:							
Rental property.....	17,049	4,426	21,475	2,977	13,601	9,619	(2,030) (H)
Depreciation and amortization.....	11,082	2,868	13,950	1,956	6,773	4,881	(972) (I)
Interest expense:							
Contractual.....	12,101	2,876	14,977	2,161	16,214	5,689	387 (J)
Amortization of deferred financing costs.....	1,619	46	1,665	--	594	--	312 (K)
	13,720	2,922	16,642	2,161	16,808	5,689	699
General and administrative.....	2,737	181	2,918	763	2,813	2,376	(4,652) (L)
Income before minority interest.....	28,934	6,673	35,607	3,907	4,271	3,800	5,527
Minority interest.....	(4,937)	(760)	(5,697)				(730) (M)
Income before extraordinary item.....	\$ 23,997	\$ 5,913	\$29,910	\$ 3,907	\$ 4,271	\$ 3,800	\$ 4,797
Net income per share.....							
Weighted average shares.....							
	PRO FORMA						
REVENUE:							
Rental property.....	\$165,133						
Other income.....	6,426						
	171,559						
OPERATING EXPENSES:							
Rental property.....	45,642						
Depreciation and amortization.....	26,588						
Interest expense:							
Contractual.....	39,428						
Amortization of deferred financing costs.....	2,571						
	41,999						
General and administrative.....	4,218						
Income before minority interest.....	53,112						
Minority interest.....	(6,427 )						
Income before extraordinary item.....	\$ 46,685						
Net income per share.....	\$ 1.47						
Weighted average shares.....	31,788						

See Notes to Pro Forma Condensed Combining Statement of Operations.

**HIGHWOODS PROPERTIES, INC.**  
**NOTES TO THE PRO FORMA CONDENSED COMBINING STATEMENT OF OPERATIONS**  
**FOR THE YEAR ENDED DECEMBER 31, 1995**  
(UNAUDITED, IN THOUSANDS, EXCEPT UNIT DATA)

(A.) Represents the Company's historical statement of operations contained in its Annual Report on Form 10-K for the year ended December 31, 1995.

(B.) Reflects the February 1995 Offering and the August 1995 offering and the historical operations of Forsyth Properties, Inc. and its affiliates, the Research Commons Properties and the Other 1995 Acquisitions, adjusted on a pro forma basis for interest and depreciation expense, for the period of time during 1995 prior to their acquisition by the Company.

(C.) Represents the historical statement of operations of Eakin & Smith for the year ended December 31, 1995. (D.) Represents the historical statement of operations of Crocker contained in its Annual Report on Form 10-K for the year ended December 31, 1995. (E.) Reflects the historical operations of Crocker Realty Investors, Inc., Crocker & Sons, Inc., Crocker Realty Management Services, Inc., the Sabal properties and the Towermarc properties, adjusted on a pro forma basis for interest and depreciation expense, for the period of time during 1995 prior to their acquisition by Crocker. Interest expense reflects incremental indebtedness of approximately \$97,400 for the first half of 1995 at an average rate of 9.94% and \$57,800 for the second half of 1995 at an average rate of 9.70% plus loan cost amortization of \$292. Historical indebtedness was also reduced by \$20,000 which was prepaid on December 28, 1995 using the proceeds of a private placement. The \$20,000 had a fixed rate of interest of 11.5%. Depreciation is calculated using the respective purchase prices allocated to buildings, site improvements and tenant improvements with depreciation calculated on a straight-line basis over useful lives of 40 years, 15 years, and the life of the respective leases, respectively. (F.) Reflects incremental rental income from a supplemental lease agreement entered into in connection with the Crocker Merger. This agreement was a condition of the Crocker Merger. (G.) Reflects the elimination of certain third-party leasing and property management income of Crocker not retained by the Company. (H.) Reflects the net adjustment to rental property expenses to eliminate the costs related to certain assets (primarily land held for development) distributed to the stockholders of Crocker (\$800) and for other property operating costs (primarily personnel and office expenses related to duplicative property management operations) eliminated upon the completion of the Crocker Merger (\$1,230).

(I.) Represents the net adjustment to depreciation expense based upon an assumed allocation of the purchase price to land, buildings, furniture, fixtures and equipment and development in process and building depreciation computed on a straight-line basis using an estimated life of 40 years for buildings and 7 years for furniture, fixtures and equipment as follows (in thousands):

Eakin & Smith Transaction.....	\$(145)
Crocker Merger.....	(827)
Total.....	\$(972)

(J.) Represents the net adjustment to interest expense to reflect interest costs on borrowings under the Revolving Loan at an assumed rate of 7.0% capped

(the effective interest rate based on a 30-day LIBOR rate of 5.50% plus 1.50%)  
and assumed debt as follows (in thousands):

Eakin & Smith Transaction (1).....	\$ 2,667
Crocker Merger (2).....	(2,280)
Total.....	\$ 387

(1) \$26,653 of borrowings under the Revolving Loan at 7% plus \$10,075 of assumed debt at 8.0%.

(2) The incremental effect of \$10,231 of borrowings under the Revolving Loan at 7% and the effect of refinancing mortgage debt with an outstanding balance of \$100,000 and an average rate of 10% with borrowings under the Revolving Loan with an average rate of 7%. (K.) Represents the amortization of the commitment fee (\$937) on the Revolving Loan over the 36-month period.

(L.) Represents the net adjustment to general administrative expense to reflect the estimated incremental costs to the Company of operating a Nashville division (primarily salaries) and to reflect the elimination of certain costs (primarily executive salaries (\$1,020), administrative costs (\$1,875), the expenses incurred to generate third-party revenue (\$994) and the expenses of operating as a public entity (\$800) of Crocker not expected to be incurred by the Company as follows (in thousands):

Eakin & Smith Transaction.....	\$ 37
Crocker Merger.....	(4,689)
Total.....	\$ (4,652)

(M.) Reflects the net adjustment to minority interest to reflect the pro forma minority interest of 12.1%.



## **ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

The following discussion should be read in conjunction with all of the financial statements appearing elsewhere in the report. The following discussion is based primarily on the Consolidated Financial Statements of Highwoods Properties, Inc.

### **RESULTS OF OPERATIONS**

#### **THREE MONTHS ENDED SEPTEMBER 30, 1996**

Revenues from rental operations increased \$13.4 million, or 68%, from \$19.7 million for the three months ended September 30, 1995 to \$33.1 million for the three months ended September 30, 1996. The increase is a result of the properties acquired in subsequent periods in 1995 as well as the April 1, 1996, acquisition of the 848,000-square foot Eakin & Smith portfolio in Nashville, Tennessee. The Crocker Merger did not materially impact revenues for the quarter because the closing occurred at the end of the quarter.

During the three months ended September 30, 1996, 137 leases representing 981,436 square feet of office and industrial space commenced at an average rate per square foot 8.0% higher than the average rate per square foot on the expired leases. Interest and other income increased \$2.4 million from \$887,000 for the three months ended September 30, 1995 to \$3.3 million for the three months ended September 30, 1996. The increase is related to an increase in cash available for investment from the Summer 1996 Offerings. Third-party management and leasing fees derived primarily from the Eakin & Smith service operations also contributed to the increase in other income.

Rental operating expenses increased \$4.3 million, or 91%, from \$4.7 million for the three months ended September 30, 1995 to \$9.0 million for the three months ended September 30, 1996. The increase is a result of additional properties acquired in 1995 and 1996. Rental operating expenses as a percentage of related revenues increased from 23.9% for the three months ended September 30, 1995 to 27.2% for the three months ended September 30, 1996. This increase is a result of an increase in the percentage of office properties in the portfolio, which have fewer "triple net" leases.

Depreciation and amortization for the three months ended September 30, 1996 and 1995 was \$5.5 million and \$3.1 million, respectively. The increase of \$2.4 million, or 77%, is due to an increase in depreciable assets. Interest expense increased \$1.8 million, or 43%, from \$4.2 million for the three months ended September 30, 1995 to \$6.0 million for the three months ended September 30, 1996. The increase is attributable to the increase in outstanding indebtedness related to the Company's acquisition and development activities. Interest expense for the three months ended September 30, 1996 and 1995 included \$461,000 and \$385,000, respectively, of amortization of non-cash deferred financing costs and the costs related to the Company's interest rate protection agreement. General and administrative expenses increased from 3.5% of rental revenue for the three months ended September 30, 1995 to 4.9% for the three months ended September 30, 1996. The increase is attributable to the addition of two regional offices as a result of acquisitions in Richmond and Nashville. The duplication of personnel during the integration of the acquisition of Crocker also contributed to the increase in general and administrative expenses. Such duplicative costs are expected to be eliminated in the fourth quarter of 1996 as the Company realizes the planned synergies from the Crocker Merger.

Net income before minority interest and extraordinary item equaled \$14.2 million and \$7.9 million for the three-month periods ended September 30, 1996 and 1995, respectively. The extraordinary item consisted of prepayment penalties incurred in connection with the extinguishment of certain debt assumed in the Crocker Merger. The Company's net income allocated to the minority interest totaled \$1.9 million and \$1.4 million for 1996 and 1995, respectively.

#### **NINE MONTHS ENDED SEPTEMBER 30, 1996**

Revenue from rental operations increased \$33.8 million, or 68%, from \$49.6 million for the first nine months of 1995 to \$83.4 million for the first nine months of 1996. The increase is a result of the properties

acquired during February 1995, which only contributed partially to revenue in 1995, as well as the acquisitions made in subsequent periods in 1995 and during the nine months ended September 30, 1996. In total, 147 properties encompassing 6.5 million square feet were added to the portfolio in 1995 and 89 properties encompassing 7.5 million square feet were added in the first nine months of 1996.

During the nine months ended September 30, 1996, 390 leases representing 2.4 million square feet of office and industrial space commenced at an average rate per square foot 6.2% higher than the average rate per square foot on the expired leases. Interest and other income increased \$3.1 million from \$1.3 million for the first nine months of 1995 to \$4.4 million for the first nine months of 1996. The increase is related to an increase in cash available for investment for the nine months ended September 30, 1996 from the Summer 1996 Offerings and an increase in third-party management and leasing income.

Rental operating expenses increased \$10.3 million, or 87%, from \$11.9 million for the first nine months of 1995 to \$22.2 million for the first nine months of 1996. Rental expenses as a percentage of related rental revenues increased from 24.0% for the first nine months of 1995 to 26.6% for the first nine months of 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 \$300,000 in additional expenses relating to snow removal and the severe winter weather in 1996. Depreciation and amortization for the nine months ended September 30, 1996 and 1995 was \$13.4 million and \$7.6 million, respectively. The increase of \$5.8 million, or 76%, is due to the increase in depreciable assets noted above. Interest expense increased \$5.2 million, or 53%, from \$9.9 million for the first nine months of 1995 to \$15.1 million for the first nine months of 1996. The increase is attributable to the increase in outstanding debt related to the Company's acquisition and development activities. Interest expense for the nine months ended September 30, 1996 and 1995 included \$1.3 million and \$1.2 million, respectively, of amortization of non-cash deferred financing costs and of the costs related to the Company's interest rate protection agreements. General and administrative expenses increased from 3.7% of total rental revenue in 1995 to 4.7% in 1996. This increase is attributable to the addition of two regional offices associated with the Richmond and Nashville acquisitions. The duplication of certain personnel costs during the acquisition of Crocker also contributed to higher general and administrative expenses for the nine months ended September 30, 1996. Such duplicative costs are expected to be eliminated in the fourth quarter of 1996 as the Company realizes the planned synergies from the Crocker Merger.

Net income before minority interest and extraordinary item equaled \$33.4 million and \$19.6 million for the nine-month periods ended September 30, 1996 and 1995, respectively. The extraordinary item consisted of prepayment penalties incurred in connection with the extinguishment of certain debt assumed in the Crocker Merger. The Company's net income allocated to the minority interest totaled \$5.2 million and \$3.5 million for 1996 and 1995, respectively.

#### LIQUIDITY AND CAPITAL RESOURCES

The Company generated \$47.9 million in cash flow from operating activities and \$381.2 million in cash flow from financing activities for the nine months ended September 30, 1996. The cash flow from financing activities is a result of the issuance of 11.75 million shares of the Company's common stock in the Summer 1996 Offerings. The Company utilized \$416.7 million of this cash flow to invest in real property assets, primarily development in process, an acquisition of an 848,000-square foot office portfolio in Nashville, Tennessee through the Eakin & Smith Transaction and the acquisition of Crocker.

#### CAPITALIZATION

The Company's total indebtedness at September 30, 1996 totaled \$597.7 million and was comprised of \$300.7 million of conventional fixed rate mortgage indebtedness with an average rate of 8.2%, \$47.0 million outstanding under variable rate mortgages (see below for a discussion of interest rate protection agreements), \$245.0 million under the Company's \$280 million unsecured Revolving Loan and a 9%, \$5.0 million unsecured note.

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 initial interest rate on the Revolving Loan is LIBOR plus 150 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. At September 30, 1996, one-month LIBOR was 5.43%. To protect the Company from increases in interest expense due to fluctuations in its variable rate mortgages and Revolving Loan, the Company: (i) purchased an interest rate collar limiting its exposure to an increase in one-month LIBOR to 5.4% with respect to \$80 million of the \$280 million Revolving Loan, (ii) entered into interest rate swaps that limit its exposure to an increase in the interest rates to 7.45% in connection with the \$47.0 million variable rate mortgages, and (iii) entered into three separate forward-starting interest rate swap agreements in the aggregate amount of \$125 million to limit its exposure to rising interest rates in connection with the offering of \$200 million unsecured non-convertible debt securities of the Operating Partnership (the "Offering"). It is the Company's intent to terminate these agreements at the time of the Offering in order to effectively lock the interest rate on the underlying seven and ten-year treasury notes at approximately 6.75% and 6.72%, respectively. The interest rate on the Company's variable rate debt is adjusted at monthly intervals, subject to its interest rate protection program. 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 and are expected to fully perform 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 collar 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.

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. The Company presently has no plans for major capital improvements to its developed properties, other than normal recurring non-revenue-enhancing expenditures. The Company expects to meet its short-term liquidity requirements generally through its working capital and net cash provided by operating activities along with the borrowings under the 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 to fund construction and development activities. The Company does not intend to reserve funds to retire 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.

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.

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

Funds from operations and cash available for distribution for the three and nine months ended September 30, 1996 and 1995 are summarized in the following table (in thousands):

	THREE MONTHS ENDED SEPTEMBER 30, 1996		NINE MONTHS ENDED SEPTEMBER 30, 1996	
	1996	1995	1996	1995
FUNDS FROM OPERATIONS:				
Income before minority interest and extraordinary item.....	\$14,223	\$ 7,939	\$33,359	\$19,647
Add (deduct):				
Depreciation and amortization.....	5,459	3,069	13,357	7,612
Minority interest in Crocker's depreciation.....	(117)	--	(117)	--
Third-party service company cash flow.....	75	45	330	(60)
FUNDS FROM OPERATIONS BEFORE MINORITY INTEREST.....	19,640	10,963	46,929	27,199
CASH AVAILABLE FOR DISTRIBUTION:				
Add (deduct):				
Rental income from straight-line rents.....	(837)	(368)	(1,752)	(898)
Amortization of deferred financing costs.....	461	385	1,288	1,215
Non-incremental revenue generating capital expenditures (1):				
Building improvements paid.....	(818)	(297)	(2,018)	(838)
Second generation tenant improvements paid.....	(864)	(475)	(2,172)	(1,388)
Second generation lease commissions paid.....	(477)	(314)	(1,056)	(746)
CASH AVAILABLE FOR DISTRIBUTION.....	\$17,105	\$ 9,894	\$41,219	\$24,544
Weighted average shares/units outstanding (2).....	35,895	20,512	27,748	17,301
DIVIDEND PAYOUT RATIO:				
Funds from operations.....	87.7%	84.2%	81.6%	82.7%
Cash available for distribution.....	100.7%	93.3%	92.9%	91.6%

(1) Amounts represent cash expenditures.

(2) Assumes conversion of limited partnership units in the Operating Partnership to shares of the Company. Minority interest unit holders and the shareholders of the Company share equally on a per share and per unit basis; therefore, the resultant per share information is unaffected by the conversion. On November 4, 1996, the Company's Board of Directors declared a dividend of \$.48 per share (\$1.92 on an annualized basis) payable on November 22, 1996 to stockholders of record on November 14, 1996.

ACQUISITION OF CROCKER REALTY TRUST, INC. On September 20, 1996, the Company acquired Crocker Realty Trust, Inc. through a merger. Agreement on the terms of the Crocker Merger was reached on April 29, 1996. At that time, the Company and the

Merger Subsidiary entered into a Stock Purchase Agreement with certain controlling shareholders of Crocker (the "Sellers") to purchase all of the Sellers' shares of common stock of Crocker (the "Shares"). The Company and the Merger Subsidiary also entered into an Agreement and Plan of Merger with Crocker (the "Merger Agreement"). The Merger Agreement provided that the Merger Subsidiary would be merged into Crocker, with Crocker as the surviving entity.

On September 6, 1996, the Company closed the acquisition of the Shares. The purchase price was \$249.1 million (\$11.05 per Share) and included, as contemplated by the Stock Purchase Agreement, the \$1.1 million purchase of 1,056,000 options to purchase shares of Crocker owned by the Sellers.

The Crocker Merger was consummated on September 20, 1996 following its approval at a special meeting of the shareholders of Crocker. All shares of common stock of Crocker (other than those held by the Company) were converted into and represented a right to receive \$11.05 per share. Following the Crocker Merger, the Company entered into various restructuring transactions culminating in the contribution by the Company of Crocker's assets and liabilities to the Operating Partnership. As a result of the Crocker Merger and subsequent transactions, substantially all of the assets and liabilities of Crocker at the time of the Crocker Merger are the assets and liabilities of the Operating Partnership. The total cost of the acquisition of all of the outstanding shares of Crocker was approximately \$565.8 million, which included the assumption of \$243 million of Crocker debt discussed below.

Other than a \$140 million mortgage note (the "Mortgage Note"), all of the debt assumed in the Crocker Merger was repaid by the Operating Partnership using funds available under the Revolving Loan. The Mortgage Note is secured by 46 of the Crocker Properties (the "Mortgage Note Properties"), which are held by AP Southeast Portfolio Partners, L.P. (the "Financing Partnership"). The Operating Partnership has a 99.99% economic interest in the Financing Partnership, which is managed, indirectly, by the Company. The Mortgage Note is a conventional, monthly pay, first mortgage note in the principal amount of \$140 million issued by the Financing Partnership. The 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 therefor. The Mortgage Note was issued to Kidder Peabody Acceptance Corporation 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 bears interest on its outstanding principal balance at the rate of 7.88% per annum, subject to increase in the event of a default in the payment of any amount due, and matures on January 3, 2001. The Mortgage Note provides for scheduled monthly payments of interest only, which are due on the first business day of each calendar month.

The Mortgage Note Indenture provides for a lockout period that prohibits optional redemption payments in respect of principal of the Mortgage Note (other than a \$7 million premium-free redemption payment) prior to November 22, 1998. Thereafter, the Financing Partnership may make optional redemption payments in respect of principal of the 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 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 Operating Partnership does not believe that any deferred contingent purchase principal price will be payable.

**DISCLOSURE REGARDING FORWARD-LOOKING STATEMENTS** This Report contains forward-looking statements within the meaning of

Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. These statements are identified by words such as "expect," "anticipate," "should" and words of similar import. Forward-looking statements are inherently subject to risks and uncertainties, many of which cannot be predicted with accuracy and some of which might not even be anticipated. Future events and actual results,

financial and otherwise, may differ materially from the results discussed in the forward-looking statements. Factors that might cause such a difference include, but are not limited to, those discussed in "Management's Discussion and Analysis of Results of Operations and Financial Condition."

**PROPERTY INFORMATION**

The following table sets forth certain information with respect to the Company's properties as of September 30, 1996:

	RENTABLE SQUARE FEET	NUMBER OF PROPERTIES	PERCENT LEASED/ PRE-LEASED
IN-SERVICE:			
Office.....	11,721,000	170	93%
Industrial.....	5,015,000	110	89%
Total.....	16,736,000	280	91%
UNDER DEVELOPMENT:			
Office.....	967,000	14	55%
Industrial.....	286,000	3	29%
Total.....	1,253,000	17	49%
TOTAL:			
Office.....	12,688,000	184	
Industrial.....	5,301,000	113	
Total.....	17,989,000	297	

The following table sets forth certain information with respect to the Company's properties under development as of September 30, 1996 (dollars in thousands):

	LOCATION	RENTABLE SQUARE FEET	ESTIMATED COST	COST INCURRED TO DATE	PRE-LEASING PERCENTAGE	ESTIMATED COMPLETION DATE
OFFICE PROPERTIES:						
Highwoods Plaza I.....	Nashville, TN	103,000	\$ 11,500	\$ 6,759	80%	4Q 96
Center Point II.....	Columbia, SC	81,000	7,600	4,856	46	4Q 96
MSA.....	Research Triangle	55,000	6,200	3,741	100	4Q 96
Hewlett Packard.....	Charlotte, NC	35,000	3,100	939	41	4Q 96
Inacom.....	Piedmont Triad	13,000	900	541	100	4Q 96
One Shockoe Plaza.....	Richmond, VA	118,000	15,400	13,388	100	1Q 97
North Park.....	Research Triangle	43,000	4,000	542	38	1Q 97
Sycamore.....	Research Triangle	70,000	6,400	776	--	2Q 97
Two AirPark East.....	Piedmont Triad	57,000	4,600	409	--	2Q 97
AirPark East-Simplex.....	Piedmont Triad	12,000	900	10	60	2Q 97
Center Point V.....	Columbia, SC	19,000	1,700	279	35	2Q 97
Highwoods Plaza II.....	Nashville, TN	102,000	10,300	1,774	--	3Q 97
Highwoods Two.....	Richmond, VA	74,000	7,000	14	--	3Q 97
Clintrials.....	Research Triangle	185,000	21,500	--	100	2Q 98
OFFICE TOTAL OR WEIGHTED AVERAGE.....		967,000	\$ 101,100	\$ 34,028	55%	
INDUSTRIAL PROPERTIES:						
Regency Two.....	Piedmont Triad	96,000	2,800	1,849	40	4Q 96
Highwoods Airport Center.....	Richmond	145,000	5,500	1,368	--	2Q 97
R.F. Micro Devices.....	Piedmont Triad	45,000	7,000	--	100	4Q 97
INDUSTRIAL TOTAL OR WEIGHTED AVERAGE.....		286,000	\$ 15,300	\$ 3,217	29%	
TOTAL OR WEIGHTED AVERAGE.....		1,253,000	\$ 116,400	\$ 37,245	49%*	

\* Improves to 65% when letters of intent for space are included.

The following tables set forth certain information about the Company's leasing activities for the three and nine months ended September 30, 1996.

	OFFICE		INDUSTRIAL	
	THREE MONTHS ENDED SEPTEMBER 30, 1996	NINE MONTHS ENDED SEPTEMBER 30, 1996	THREE MONTHS ENDED SEPTEMBER 30, 1996	NINE MONTHS ENDED SEPTEMBER 30, 1996
NET EFFECTIVE RENTS RELATED TO RE-LEASED SPACE:				
Number of lease transactions (signed leases).....	77	213	60	177
Rentable square footage leased.....	276,916	687,993	704,520	1,758,024
Average per rentable square foot over the lease term:				
Base rent.....	14.80	14.91	4.16	4.36
Tenant improvements.....	(1.21)	(0.97)	(0.08)	(0.12)
Leasing commissions.....	(0.32)	(0.32)	(0.07)	(0.10)
Rent concessions.....	--	--	--	--
Effective rent.....	\$ 13.27	\$ 13.62	\$ 4.01	\$ 4.14
Expense stop.....	(3.30)	(3.28)	(0.46)	(0.37)
Equivalent effective net rent.....	\$ 9.97	\$ 10.34	\$ 3.55	\$ 3.77
Average term in years.....	4	4	2	2
RENTAL RATE TRENDS:				
Average final rate with expense pass throughs.....	\$ 13.21	\$ 13.54	\$ 3.85	\$ 4.20
Average first year cash rental rate.....	\$ 14.34	\$ 14.43	\$ 4.13	\$ 4.44
Percentage increase.....	8.56%	6.59%	7.24%	5.65%
CAPITAL EXPENDITURES RELATED TO RE-LEASED OFFICE SPACE:				
Tenant Improvements:				
Total dollars committed under signed leases.....	\$ 1,357,220	\$ 2,716,600	\$ 104,958	\$ 380,862
Rentable square feet.....	276,916	687,993	704,520	1,758,024
Per rentable square foot.....	\$ 4.90	\$ 3.95	\$ 0.15	\$ 0.22
Leasing Commissions:				
Total dollars committed under signed leases.....	\$ 363,859	\$ 891,751	\$ 92,701	\$ 328,924
Rentable square feet.....	276,916	687,993	704,520	1,758,024
Per rentable square foot.....	\$ 1.31	\$ 1.30	\$ 0.13	\$ 0.19
Total:				
Total dollars committed under signed leases.....	\$ 1,721,078	\$ 3,608,351	\$ 197,659	\$ 709,786
Rentable square feet.....	276,916	687,993	704,520	1,758,024
Per rentable square foot.....	\$ 6.22	\$ 5.24	\$ 0.28	\$ 0.40



The following tables set forth scheduled lease expirations for executed leases as of September 30, 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)	PERCENTAGE OF LEASED RENTS REPRESENTED BY EXPIRING LEASES	AVERAGE ANNUAL RENTAL RATE (1) FOR EXPIRATIONS
Remainder of 1996	95	266,697	2.5%	\$ 3,739,449	2.4%	\$14.02
1997	328	1,346,719	12.5	19,166,912	12.2	14.23
1998	285	1,909,516	17.7	26,665,888	16.9	13.96
1999	293	1,583,010	14.7	23,548,608	15.0	14.88
2000	241	1,665,840	15.5	24,925,928	15.8	14.96
2001	172	1,559,002	14.5	24,788,254	15.7	15.90
2002	57	770,511	7.1	11,768,912	7.5	15.27
2003	35	653,604	6.1	9,894,721	6.3	15.14
2004	11	137,094	1.3	2,034,102	1.3	14.84
2005	13	400,936	3.7	4,240,284	2.7	10.58
Thereafter	17	480,525	4.4	6,575,076	4.2	13.68
Total or average	1,547	10,773,454	100.0%	\$157,348,134	100.0%	\$14.61

#### 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)	PERCENTAGE OF LEASED RENTS REPRESENTED BY EXPIRING LEASES	AVERAGE ANNUAL RENTAL RATE (1) FOR EXPIRATIONS
Remainder of 1996	56	503,210	11.2%	\$ 2,668,287	9.7%	\$ 5.30
1997	151	1,135,819	25.2	6,318,761	24.8	5.56
1998	112	691,557	15.3	4,509,234	17.7	6.52
1999	106	878,278	19.5	4,670,979	18.3	5.32
2000	39	574,849	12.8	3,839,827	15.1	6.68
2001	32	278,510	6.2	1,937,708	7.6	6.96
2002	3	283,962	6.3	901,263	3.5	3.17
2003	1	3,375	0.1	18,428	0.1	5.46
2004	2	2,569	0.1	21,891	0.1	8.52
2005	3	23,722	0.5	203,041	0.8	8.56
Thereafter	1	127,600	2.8	575,476	2.3	4.51
Total or average	506	4,503,451	100.0%	\$ 25,664,895	100.0%	\$ 5.70

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

#### THIRD-PARTY SERVICE OPERATIONS

The Company, through the Service Companies and Forsyth-Carter Brokerage L.L.C., provides brokerage services as well as management, development, construction and other related services for properties owned by third parties. The Company currently provides third-party management services for 34 buildings totaling approximately 2.6 million rentable square feet and exclusive leasing services for 37 buildings, totaling approximately 3.4 million rentable square feet.

#### INFLATION

Historically inflation has not had a significant impact on the Company's operations because of the relatively low inflation rate in the Company's geographic areas of operation. Most of the leases require the tenants to pay their pro rata share of increased incremental operating expenses, including common area maintenance, real estate taxes and insurance, thereby reducing the Company's exposure to increases in operating expenses resulting from inflation. In addition, many of the leases are for terms of less than seven years which may enable the Company to replace existing leases with new leases at a higher base rent if rents on the existing leases are below the market rate.

## PART II -- OTHER INFORMATION

Item 1. Legal Proceedings -- None  
Item 2. Changes in Securities -- None  
Item 3. Defaults Upon Senior Securities -- None  
Item 4. Submission of Matters to a Vote of Security Holders

Item 5. Other Information -- None  
Item 6. Exhibits and Reports on Form 8-K  
(a) Exhibits

EXHIBIT NO.	DESCRIPTION
10.1	Credit Agreement among Highwoods/Forsyth Limited Partnership, Highwoods Properties, Inc., NationsBank, N.A., First Union National Bank and the other lenders named therein dated as of September 27, 1996 (incorporated by reference to the Operating Partnership's 8-K dated September 27, 1996).
27	Financial Data Schedule

(b) Reports on Form 8-K The Company filed a Current Report on Form 8-K dated September 27, 1996, which reported the closing of the acquisition of Crocker under item 5. (The acquisition had been previously reported under item 2 upon entering into the acquisition agreements.)

## SIGNATURES

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

/s/               RONALD P. GIBSON  
                  RONALD P. GIBSON  
                  PRESIDENT AND CHIEF EXECUTIVE OFFICER  
/s/               CARMAN J. LIUZZO  
                  CARMAN J. LIUZZO  
                  CHIEF FINANCIAL OFFICER  
                  (PRINCIPAL ACCOUNTING OFFICER)

*Date: November 14, 1996*

## ARTICLE 5

PERIOD TYPE	3 MOS	9 MOS
FISCAL YEAR END	DEC 31 1996	DEC 31 1996
PERIOD START	JUL 01 1996	JAN 01 1996
PERIOD END	SEP 30 1996	SEP 30 1996
CASH	30,837,000	30,837,000
SECURITIES	0	0
RECEIVABLES	13,674,000	13,674,000
ALLOWANCES	0	0
INVENTORY	0	0
CURRENT ASSETS	43,275,000	43,275,000
PP&E	1,354,746,000	1,354,746,000
DEPRECIATION	33,988,000	33,988,000
TOTAL ASSETS	1,380,910,000	1,380,910,000
CURRENT LIABILITIES	28,767,000	28,767,000
BONDS	597,734,000	597,734,000
PREFERRED MANDATORY	0	0
PREFERRED	0	0
COMMON	318,000	318,000
OTHER SE	754,091,000	754,091,000
TOTAL LIABILITY AND EQUITY	1,380,910,000	1,380,910,000
SALES	33,076,000	83,366,000
TOTAL REVENUES	36,329,000	87,766,000
CGS	9,015,000	22,210,000
TOTAL COSTS	14,474,000	35,567,000
OTHER EXPENSES	1,632,000	3,766,000
LOSS PROVISION	0	0
INTEREST EXPENSE	6,000,000	15,074,000
INCOME PRETAX	14,223,000	33,359,000
INCOME TAX	0	0
INCOME CONTINUING	12,342,000	28,154,000
DISCONTINUED	0	0
EXTRAORDINARY	2,140,000	2,140,000
CHANGES	0	0
NET INCOME	10,202,000	24,014,000
EPS PRIMARY	.32	1.10
EPS DILUTED	.32	1.10

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**End of Filing**

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