

HIGHWOODS PROPERTIES INC

FORM 10-Q (Quarterly Report)

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CIK	0000921082
Industry	Real Estate Operations
Sector	Services
Fiscal Year	12/31

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2001

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)

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

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, par value \$.01 per share, with 52,856,405 shares outstanding as of November 1, 2001.

HIGHWOODS PROPERTIES, INC.

QUARTERLY REPORT FOR THE PERIOD ENDED SEPTEMBER 30, 2001

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PART I--FINANCIAL INFORMATION

Item 1. Financial Statements

We refer to (1) Highwoods Properties, Inc. as the "Company," (2) Highwoods Realty Limited Partnership as the "Operating Partnership," (3) the Company's common stock as "Common Stock" and (4) the Operating Partnership's common partnership interests as "Common Units."

The information furnished in the accompanying balance sheets, statements of income, statements of stockholders' equity and statements of cash flows reflect all adjustments (consisting of normal recurring accruals) that are, in our opinion, necessary for a fair presentation of the aforementioned financial statements for the interim period.

The aforementioned financial statements should be read in conjunction with the notes to consolidated financial statements and Management's Discussion and Analysis of Financial Condition and Results of Operations included herein and in our 2000 Annual Report on Form 10-K.

HIGHWOODS PROPERTIES, INC.

CONSOLIDATED BALANCE SHEETS (dollars in thousands)

	September 30, 2001 ----	December 31, 2000 ----
	(Unaudited)	
ASSETS		
Real estate assets, at cost:		
Land and improvements	\$ 431,512	\$ 421,270
Buildings and tenant improvements	2,877,617	2,742,946
Development in process	144,326	87,622
Land held for development	145,932	145,598
Furniture, fixtures and equipment	13,125	11,433
	-----	-----
	3,612,512	3,408,869
Less--accumulated depreciation	(355,009)	(280,610)
	-----	-----
Net real estate assets	3,257,503	3,128,259
Property held for sale	30,991	127,824
Cash and cash equivalents	53,148	104,780
Restricted cash	2,930	2,192
Accounts receivable, net	22,137	24,003
Advances to related parties	--	27,560
Notes receivable	53,365	80,918
Accrued straight-line rents receivable	47,433	39,295
Investment in unconsolidated affiliates	76,672	78,423
Other assets:		
Deferred leasing costs	99,568	83,269
Deferred financing costs (See Notes 3 and 4)	26,157	43,110
Prepaid expenses and other	11,524	11,878
	-----	-----
	137,249	138,257
Less--accumulated amortization	(55,902)	(49,909)
	-----	-----
Other assets, net	81,347	88,348
	-----	-----
Total Assets	\$ 3,625,526	\$ 3,701,602
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY		
Mortgages and notes payable	\$ 1,679,157	\$ 1,587,019
Accounts payable, accrued expenses and other liabilities	106,003	109,824
	-----	-----
Total Liabilities	1,785,160	1,696,843
Minority interest	213,956	213,214
Stockholders' Equity:		
Preferred stock, \$.01 par value, 50,000,000 authorized shares:		
8 5/8% Series A Cumulative Redeemable Preferred Shares (liquidation preference \$1,000 per share), 125,000 shares issued and 104,945 shares outstanding at September 30, 2001 and 125,000 shares issued and outstanding at December 31, 2000	104,945	125,000
8% Series B Cumulative Redeemable Preferred Shares (liquidation preference \$25 per share), 6,900,000 shares issued and outstanding at September 30, 2001 and December 31, 2000	172,500	172,500
8% Series D Cumulative Redeemable Preferred Shares (liquidation preference \$250 per share), 400,000 shares issued and outstanding at September 30, 2001 and December 31, 2000	100,000	100,000
Common stock, \$.01 par value, 200,000,000 authorized shares; 53,108,631 shares issued and outstanding at September 30, 2001 and 58,124,205 shares issued and outstanding at December 31, 2000	531	581
Additional paid-in capital	1,382,033	1,506,161
Distributions in excess of net earnings	(119,912)	(110,209)
Accumulated other comprehensive loss (See Notes 3 and 4)	(9,936)	--
Deferred compensation--restricted stock	(3,751)	(2,488)
	-----	-----
Total Stockholders' Equity	1,626,410	1,791,545
	-----	-----
Total Liabilities and Stockholders' Equity	\$ 3,625,526	\$ 3,701,602
	=====	=====

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,	
	2001	2000	2001	2000
Revenue:				
Rental property	\$ 125,794	\$ 131,118	\$ 380,609	\$ 404,738
Equity in earnings of unconsolidated affiliates	3,241	1,320	5,666	3,207
Interest and other income	5,106	6,548	20,699	17,321
Total Revenue	134,141	138,986	406,974	425,266
Operating expenses:				
Rental property	37,697	39,470	112,969	120,358
Depreciation and amortization	29,503	30,123	87,826	87,813
Interest expense:				
Contractual	26,381	27,172	80,955	81,994
Amortization of deferred financing costs	324	564	1,664	1,862
General and administrative	4,784	5,719	15,447	16,258
Income before gain/(loss) on disposition of land and depreciable assets, minority interest and extraordinary item	35,452	35,938	108,113	116,981
Gain/(loss) on disposition of land and depreciable assets	3,357	10,552	16,098	(8,564)
Income before minority interest and extraordinary item ...	38,809	46,490	124,211	108,417
Minority interest	(4,820)	(5,298)	(15,166)	(13,140)
Income before extraordinary item	33,989	41,192	109,045	95,277
Extraordinary item--loss on early extinguishment of debt	---	(3,310)	(518)	(4,344)
Net income	38,989	37,882	108,527	90,933
Dividends on preferred stock	(7,713)	(8,145)	(23,787)	(24,435)
Net income available for common shareholders	\$ 26,276	\$ 29,737	\$ 84,740	\$ 66,498
Net income per common share--basic:				
Income before extraordinary item	\$ 0.49	\$ 0.56	\$ 1.56	\$ 1.19
Extraordinary item--loss on early extinguishment of debt	---	(0.06)	(0.01)	(0.07)
Net income	\$ 0.49	\$ 0.50	\$ 1.55	\$ 1.12
Weighted average shares outstanding--basic	53,748	58,609	54,680	59,433
Net income per common share--diluted:				
Income before extraordinary item	\$ 0.49	\$ 0.56	\$ 1.55	\$ 1.19
Extraordinary item--loss on early extinguishment of debt	---	(0.06)	(0.01)	(0.08)
Net income	\$ 0.49	\$ 0.50	\$ 1.54	\$ 1.11
Weighted average shares outstanding--diluted	54,169	59,029	55,074	59,672
Distributions declared per common share	0.585	.57	1.73	1.68

See accompanying notes to consolidated financial statements

HIGHWOODS PROPERTIES, INC.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY For the Nine Months Ended September 30, 2001 (Unaudited and in thousands except share amounts)

	Number of Common Shares	Common Stock	Series A Preferred	Series B Preferred	Series D Preferred	Additional Paid-In Capital
Balance at December 31, 2000	58,124,205	\$ 581	\$ 125,000	\$ 172,500	\$ 100,000	\$ 1,506,161
Issuance of Common Stock	40,678	--	--	--	--	817
Common Stock Dividends	--	--	--	--	--	--
Preferred Stock Dividends	--	--	--	--	--	--
Issuance of restricted stock	80,848	--	--	--	--	2,018
Amortization of deferred compensation	--	--	--	--	--	--
Repurchase of Common Stock	(5,137,100)	(50)	--	--	--	(128,517)
Repurchase of Preferred Stock	--	--	(20,055)	--	--	1,554
Net Income	--	--	--	--	--	--
Reclassification of derivative instruments	--	--	--	--	--	--
Balance at September 30, 2001	53,108,631	\$ 531	\$ 104,945	\$ 172,500	\$ 100,000	\$ 1,382,033

	Deferred Compensation	Accumulated Other Comprehensive Loss	Distributions in excess of Net Earnings	Total
Balance at December 31, 2000	\$ (2,488)	\$ --	\$ (110,209)	\$ 1,791,545
Issuance of Common Stock	--	--	--	817
Common Stock Dividends	--	--	(94,443)	(94,443)
Preferred Stock Dividends	--	--	(23,787)	(23,787)
Issuance of restricted stock	(2,018)	--	--	--
Amortization of deferred compensation	755	--	--	755
Repurchase of Common Stock	--	--	--	(128,567)
Repurchase of Preferred Stock	--	--	--	(18,501)
Net Income	--	--	108,527	108,527
Reclassification of derivative instruments	--	(9,936)	--	(9,936)
Balance at September 30, 2001	\$ (3,751)	\$ (9,936)	\$ (119,912)	\$ 1,626,410

See accompanying notes to consolidated financial statements.

HIGHWOODS PROPERTIES, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited and in thousands)

	Nine Months Ended September 30,	
	2001	2000
Operating activities:		
Net income	\$ 108,527	\$ 90,933
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	89,490	89,675
Amortization of deferred compensation	755	391
Minority interest	15,166	13,140
Equity in earnings of unconsolidated affiliates	(5,666)	(3,207)
(Gain)/loss on disposition of land and depreciable assets	(16,098)	8,564
Loss on early extinguishment of debt	518	4,344
Transition adjustment upon adoption of FASB 133	556	---
Loss on ineffective portion of derivative instruments	428	---
Changes in operating assets and liabilities	(17,426)	(3,011)
Net cash provided by operating activities	176,250	200,829
Investing activities:		
Additions to real estate assets	(192,919)	(221,055)
Proceeds from disposition of real estate assets	157,000	339,600
Repayment of advances to subsidiaries	27,560	1,932
Distributions from unconsolidated affiliates	6,866	2,066
Proceeds from notes receivable	26,878	4,931
Other investing activities	(8,608)	(21,597)
Net cash provided by investing activities	16,777	105,877
Financing activities:		
Distributions paid on common stock and common units	(107,611)	(114,187)
Dividends paid on preferred stock	(23,787)	(24,435)
Loss on early extinguishment of debt	(518)	(4,344)
Borrowings on mortgages and notes payable	12,780	73,198
Repayments on mortgages and notes payable	(100,187)	(147,286)
Borrowings on revolving loans	349,000	295,500
Repayments on revolving loans	(220,000)	(301,000)
Net proceeds from the sale of common stock	817	401
Net change in deferred financing costs	155	(104)
Repurchase of common stock and units and preferred stock and units	(155,308)	(90,342)
Other	---	1,303
Net cash used in financing activities	(244,659)	(311,296)
Net decrease in cash and cash equivalents	(51,632)	(4,590)
Cash and cash equivalents at beginning of the period	104,780	34,496
Cash and cash equivalents at end of the period	\$ 53,148	\$ 29,906
Supplemental disclosure of cash flow information:		
Cash paid for interest	\$ 85,147	\$ 94,853

See accompanying notes to consolidated financial statements.

HIGHWOODS PROPERTIES, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS--(Continued)

(Unaudited and in thousands)

Supplemental disclosure of non-cash investing and financing activities

The following table summarizes the net assets contributed by the holders of Common Units in the Operating Partnership and the net assets acquired subject to mortgage notes payable.

	Nine Months Ended September 30, -----	
Assets:		
Notes receivable	\$ 675	\$ 23,775
Cash and cash equivalents	6,880	---
Rental property and equipment, net	58,012	(24,656)
Liabilities:		
Accounts payable, accrued expenses and other liabilities	7,241	---
Mortgages and notes payable	58,545	---
	-----	-----
Net assets	\$ (219)	\$ (881)
	=====	=====

See accompanying notes to consolidated financial statements.

HIGHWOODS PROPERTIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2001
(Unaudited)

1. BASIS OF PRESENTATION

The consolidated financial statements include the accounts of the Company and the Operating Partnership and their wholly owned affiliates. All significant intercompany balances and transactions have been eliminated.

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

The Company has elected and expects to continue to qualify as a REIT under Sections 856 through 860 of the Internal Revenue Code of 1986, as amended. Therefore, no provision has been made for income taxes related to REIT taxable income to be distributed to stockholders.

Minority interest in the Company represents Common Units owned by various individuals and entities other than the Company in the Operating Partnership, the entity that owns substantially all of the Company's properties and through which the Company, as the sole general partner, conducts substantially all of its operations. Per share information is calculated using the weighted average number of shares of Common Stock outstanding (including common share equivalents). In addition, minority interest includes equity of consolidated real estate partnerships which are owned by various individuals and entities other than the Company.

Certain amounts in the September 30, 2000 financial statements have been reclassified to conform to the September 30, 2001 presentation. These reclassifications had no material effect on net income or stockholders' equity as previously reported.

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 our financial position, results of operations and cash flows have been made. For further information, refer to the financial statements and notes thereto included in our 2000 Annual Report on Form 10-K.

2. SEGMENT INFORMATION

Our sole business is the acquisition, development and operation of rental real estate properties. We operate office, industrial and retail properties and apartment units. There are no material inter-segment transactions.

Our chief operating decision maker ("CDM") assesses and measures operating results based upon property level net operating income. The operating results for the individual assets within each property type have been aggregated since the CDM evaluates operating results and allocates resources on a property-by-property basis within the various property types.

The accounting policies of the segments are the same as those described in Note 1. Further, all operations are within the United States and no tenant comprises more than 10% of consolidated revenues. The following table summarizes the rental income, net operating income and total assets for each reportable segment for the three and nine months ended September 30, 2001 and 2000.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2001	2000	2001	2000
	(in thousands)		(in thousands)	
Rental Income:				
Office segment	\$ 104,778	\$ 106,593	\$ 316,893	\$ 333,123
Industrial segment	11,623	11,523	35,137	33,288
Retail segment	8,970	8,631	27,325	25,285
Apartment segment	423	4,371	1,254	13,042
Total rental income	\$ 125,794	\$ 131,118	\$ 380,609	\$ 404,738
Net operating income:				
Office segment	\$ 72,181	\$ 74,384	\$ 219,352	\$ 231,326
Industrial segment	9,612	9,793	29,450	28,026
Retail segment	6,077	5,163	18,252	17,464
Apartment segment	227	2,308	586	7,564
Total net operating income	\$ 88,097	\$ 91,648	\$ 267,640	\$ 284,380
Reconciliation to income before minority interest and extraordinary item:				
Equity in income of unconsolidated affiliates	3,241	1,320	5,666	3,207
Gain/(loss) on disposition of land and depreciable assets	3,357	10,552	16,098	(8,564)
Interest and other income	5,106	6,548	20,699	17,321
Interest expense	(26,705)	(27,736)	(82,619)	(83,856)
General and administrative expenses	(4,784)	(5,719)	(15,447)	(16,258)
Depreciation and amortization	(29,503)	(30,123)	(87,826)	(87,813)
Income before minority interest and extraordinary item	\$ 38,809	\$ 46,490	\$ 124,211	\$ 108,417
Total assets:				
Office segment	\$ 2,745,314	\$ 2,874,681	\$ 2,745,314	\$ 2,874,681
Industrial segment	386,475	365,217	386,475	365,217
Retail segment	259,739	269,865	259,739	269,865
Apartment segment	10,202	116,163	10,202	116,163
Corporate and other	223,796	198,910	223,796	198,910
Total assets	\$ 3,625,526	\$ 3,824,836	\$ 3,625,526	\$ 3,824,836

3. DERIVATIVE FINANCIAL INSTRUMENTS

On January 1, 2001, we adopted Financial Accounting Standards Board Statement (SFAS) No. 133/138, "Accounting for Derivative Instruments and Hedging Activities," as amended. This Statement requires us to recognize all derivatives on the balance sheet at fair value. Derivatives that are not hedges must be adjusted to fair value through income. If the derivative is a hedge, depending on the nature of the hedge, changes in the fair value of the derivative will either be offset against the change in fair value of the hedged assets, liabilities or firm commitments through earnings, or recognized in Accumulated Other Comprehensive Loss ("AOCL") until the hedged item is recognized in earnings. The ineffective portion of a derivative's change in fair value is recognized in earnings. In connection with the adoption of SFAS 133/138 in January 2001, we recorded a net transition adjustment of \$555,962 of unrealized loss in interest and other income and a net transition adjustment of \$125,000 in AOCL. Adoption of the standard also resulted in our recognizing \$127,000 of derivative instrument liabilities and a reclassification of approximately \$10.6 million of deferred financing costs from past cashflow hedging relationships from other assets to AOCL.

Our interest rate risk management objective is to limit the impact of interest rate changes on earnings and cashflows and to lower overall borrowing costs. To achieve these objectives, we enter into interest rate hedge contracts such as collars, swaps, caps and treasury lock agreements in order to mitigate our interest rate risk with respect to various debt instruments. We do not hold these derivatives for trading or speculative purposes.

All of our derivatives are designated as cashflow hedges (i.e., hedging the exposure of variability in expected future cash flows that is attributable to a particular risk) at September 30, 2001. The effective portion of the cumulative loss on the derivative instruments was \$9.9 million at September 30, 2001 and is reported as a component of AOCL in partners' capital and recognized into earnings in the same period or periods during which the hedged transaction affects earnings (as the underlying debt is paid down). We expect that the portion of the cumulative loss recorded in AOCL at September 30, 2001 associated with the derivative instruments which will be recognized within the next 12 months will be approximately \$1.6 million. The ineffective portion of

our derivatives' changes in fair value has resulted in a loss of \$685,000 for the nine months ended September 30, 2001 which is included in interest and other income on the Consolidated Statements of Income.

Derivative liabilities totaling approximately \$646,000 related to our interest rate swap and collar agreements, with a notional amount of \$99.3 million, are recorded in accounts payable, accrued expenses and other liabilities in the Consolidated Balance Sheets at September 30, 2001. The fair value of our interest rate swap and collar agreements was \$(646,000) at September 30, 2001. To determine the fair values of derivative instruments, we use a variety of methods and assumptions that are based on market conditions and risks existing at each balance sheet date. For the majority of financial instruments including most derivatives, long-term investments and long-term debt, standard market conventions and techniques such as discounted cash flow analysis, option pricing models, replacement cost and termination cost are used to determine fair value. All methods of assessing fair value result in a general approximation of value, and such value may never actually be realized.

4. ACCUMULATED OTHER COMPREHENSIVE LOSS

Accumulated other comprehensive loss represents net income plus the results of certain non-shareholders' equity changes not reflected in the Consolidated Statements of Income. The components of accumulated other comprehensive loss are as follows:

	Nine Months Ended September 30,	
	2001	2000
Net Income	\$ 108,527	\$ 90,933
Accumulated other comprehensive loss:		
Unrealized derivative losses on cashflow hedges	(514)	---
Reclassification of past hedging relationships	(10,597)	---
Amortization of past hedging relationships	1,175	---
	-----	-----
Total accumulated comprehensive loss	(9,936)	---
	-----	-----
Total comprehensive income	\$ 98,591	\$ 90,933
	=====	=====

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion should be read in conjunction with all of the financial statements appearing elsewhere in the report and is based primarily on the consolidated financial statements of the Company.

Results of Operations

Three Months Ended September 30, 2001. Revenues from rental operations decreased \$5.3 million, or 4.0%, from \$131.1 million for the three months ended September 30, 2000 to \$125.8 million for the comparable period in 2001. The decrease is primarily a result of the disposition of 2.7 million square feet of wholly owned office and industrial properties and 1,672 apartment units, offset in part by the acquisition of 475,000 square feet of wholly owned office and industrial properties and the completion of 1.3 million square feet of development activity during the last three months of 2000 and the first nine months of 2001. Our in-service portfolio decreased from 37.8 million square feet at September 30, 2000 to 36.9 million square feet at September 30, 2001. Same property revenues, which are the revenues of the 468 in-service properties owned on July 1, 2000, increased 3.1% for the three months ended September 30, 2001, compared to the same three months of 2000.

During the three months ended September 30, 2001, 170 leases representing 1.0 million square feet of office, industrial and retail space were executed at an average rate per square foot which was 1.9% higher than the average rate per square foot on the expired leases.

Interest and other income decreased \$1.5 million, or 22.7%, from \$6.6 million for the three months ended September 30, 2000 to \$5.1 million for the comparable period in 2001. The decrease was a result of a decrease in development fee income and interest income, partly offset by an increase in management fee income and an adjustment related to the adoption of SFAS 133 in 2001.

Rental operating expenses decreased \$1.8 million, or 4.6%, from \$39.5 million for the three months ended September 30, 2000 to \$37.7 million for the comparable period in 2001. The decrease is primarily a result of the disposition and contribution of 2.7 million square feet of wholly owned office and industrial properties and 1,672 apartment units, offset in part by the acquisition of 475,000 square feet of wholly owned office and industrial properties and the completion of 1.3 million square feet of development activity during the last three months of 2000 and the first nine months of 2001. Rental operating expenses as a percentage of related revenues was 30.1% for the three months ended September 30, 2000 and 30.0% for the three months ended September 30, 2001.

Depreciation and amortization for the three months ended September 30, 2001 and 2000 was \$29.5 million and \$30.1 million, respectively. The decrease of \$0.6 million, or 2.0%, is due to a decrease in depreciable assets over the prior year. Interest expense decreased \$1.0 million, or 3.6%, from \$27.7 million for the three months ended September 30, 2000 to \$26.7 million for the comparable period in 2001. The decrease is attributable to a decrease in outstanding debt and weighted average interest rates in 2001, partly offset by a decrease in capitalized interest in 2001. Interest expense for the three months ended September 30, 2001 and 2000 included \$324,000 and \$564,000 respectively, of amortization of deferred financing costs and the costs related to our interest rate hedge contracts. General and administrative expenses decreased 0.5% from 4.1% of total revenue for the three months ended September 30, 2000 to 3.6% for the comparable period in 2001.

Income before minority interest and extraordinary item was \$38.8 million and \$46.5 million for the three months ended September 30, 2001 and 2000, respectively. The Operating Partnership recorded \$7.7 million in preferred unit distributions for the three months ended September 30, 2001 and \$8.1 million in preferred unit distributions for the three months ended September 30, 2000.

Nine Months Ended September 30, 2001. Revenues from rental operations decreased \$24.1 million, or 6.0%, from \$404.7 million for the nine months ended September 30, 2000 to \$380.6 million for the comparable period in 2001. The decrease is primarily a result of the disposition of 2.7 million square feet of wholly owned office and industrial properties and 1,672 apartment units, offset in part by the acquisition of 475,000 square feet of wholly owned office and industrial properties and the completion of 1.3 million square feet of development activity during the last three months of 2000 and the first nine months of 2001. Our in-service portfolio decreased from 37.8 million square feet at September 30, 2000 to 36.9 million square feet at September 30, 2001. Same property revenues, which are the revenues of the 451 in-service properties owned on January 1, 2000, increased 2.5% for the nine months ended September 30, 2001, compared to the same nine months of 2000.

During the nine months ended September 30, 2001, 530 leases representing 3.0 million square feet of office, industrial and retail space were executed at an average rate per square foot which was 5.1% higher than the average rate per square foot on the expired leases.

Interest and other income increased \$3.4 million, or 19.7%, from \$17.3 million for the nine months ended September 30, 2000 to \$20.7 million for the comparable period in 2001. The increase was a result of an increase in interest income, leasing, development and management fees, partly offset by an adjustment related to the adoption of SFAS 133.

Rental operating expenses decreased \$7.4 million, or 6.1%, from \$120.4 million for the nine months ended September 30, 2000 to \$113.0 million for the comparable period in 2001. The decrease is primarily a result of the disposition of 2.7 million square feet of wholly owned office and industrial properties and 1,672 apartment units, offset in part by the acquisition of 475,000 square feet of wholly owned office and industrial properties and the completion of 1.3 million square feet of development activity during the last three months of 2000 and the first nine months of 2001. Rental operating expenses as a percentage of related revenues remained constant at 29.7% for the nine months ended September 30, 2000 and 2001.

Depreciation and amortization for the nine months ended September 30, 2001 and 2000 was \$87.8 million. Interest expense decreased \$1.3 million, or 1.5%, from \$83.9 million for the nine months ended September 30, 2000 to \$82.6 million for the comparable period in 2001. The decrease is attributable to a decrease in outstanding debt and weighted average interest rates for the nine months ended September 30, 2001, partly offset by the decrease in capitalized interest in 2001. Interest expense for the nine months ended September 30, 2001 and 2000 included \$1.7 million and \$1.9 million, respectively, of amortization of deferred financing costs and the costs related to our interest rate hedge contracts. General and administrative expenses remained constant at 3.8% of total revenue for the nine months ended September 30, 2000 and 2001.

Income before minority interest and extraordinary item was \$124.2 million and \$108.4 million for the nine months ended September 30, 2001 and 2000, respectively. The Company's net income allocated to minority interest totaled \$15.2 million and \$13.1 million for the nine months ended September 30, 2001 and 2000, respectively. The Company recorded \$23.8 million in preferred stock dividends for the nine months ended September 30, 2001 and \$24.4 million in preferred stock dividends for the nine months ended September 30, 2000.

Liquidity and Capital Resources

Statement of Cash Flows. For the nine months ended September 30, 2001, the Company generated \$176.3 million in cash flows from operating activities and \$16.8 million in investing activities (primarily as a result of the disposition of real estate assets, collection of notes receivable and repayments from subsidiaries, partly offset by additions to real estate assets). These combined cash flows of \$193.1 million were used during the nine months to partly fund financing activities of \$244.7 million, primarily consisting of the repurchase of Common Stock, Common Units and Preferred Stock and the payment of distributions.

Capitalization. The Company's total indebtedness at September 30, 2001 totaled \$1.7 billion and was comprised of approximately \$599.3 million of secured indebtedness with a weighted average interest rate of 7.6% and approximately \$1.1 billion of unsecured indebtedness with a weighted average interest rate of 6.9%. Except as stated below, all of the mortgage and notes payable outstanding at September 30, 2001 were either fixed rate obligations or variable rate obligations covered by interest rate hedge contracts. Approximately \$103.5 million of floating rate notes were not covered by interest rate hedge contracts on September 30, 2001.

Based on the Company's total market capitalization of \$3.6 billion at September 30, 2001 (at the September 30, 2001 stock price of \$24.75 and assuming the redemption for shares of Common Stock of the 7.6 million Common Units of minority interest in the Operating Partnership), the Company's debt represented approximately 47.2% of its total market capitalization.

To meet in part our long-term liquidity requirements, we borrow funds at a combination of fixed and variable rates. Borrowings under our \$300.0 million unsecured revolving loan (the "Revolving Loan") bear interest at variable rates. Our long-term debt, which consists of long-term financings and the issuance of debt securities, typically bears interest at fixed rates. In addition, we have assumed fixed rate and variable rate debt in connection with acquiring properties. Our interest rate risk management objective is to limit the impact of interest rate changes on earnings and cash flows and to lower our overall borrowing costs. To achieve these objectives, from time to time

we enter into interest rate hedge contracts such as collars, swaps, caps and treasury lock agreements in order to mitigate our interest rate risk with respect to various debt instruments. We do not hold or issue these derivative contracts for trading or speculative purposes.

The following table sets forth information regarding our interest rate hedge contracts as of September 30, 2001:

Type of Hedge	Notional Amount	Maturity Date	Reference Rate	Fixed Rate	Fair Market Value
-----	-----	----	-----	-----	-----
Swap	\$19,334	6/10/02	1-Month LIBOR + 0.75%	6.95%	\$(514,828)
Collar	\$80,000	10/15/01	1-Month LIBOR	5.60 - 6.25%	\$(131,444)

The interest rates on our variable rate debt is adjusted at one-month intervals, subject to settlements under these contracts. Net payments made to counterparties under interest rate hedge contracts were \$703,603 during the first nine months of 2001 and were recorded as increases to interest expense.

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

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

Our short-term (within the next 12 months) liquidity needs also include, among other things, the funding of approximately \$76.2 million of our existing development activity. We expect to fund our short-term liquidity needs through a combination of:

- . borrowings under our Revolving Loan (approximately \$141.5 million was available at September 30, 2001);
- . the issuance of secured debt;
- . the selective disposition of non-core assets; and
- . the sale or contribution of some of our wholly owned properties to strategic joint ventures to be formed with selected partners interested in investing with us, which will have the net effect of generating additional capital through such sales or contributions.

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

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

ability to make the expected distributions to stockholders discussed below and satisfy other cash requirements may be adversely affected.

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

Recent Developments

Unit Repurchases. On May 31, 2001, the Company completed its previously announced 10.0 million share and unit repurchase program pursuant to which the Company repurchased Common Stock and Common Units at a weighted average per share price of \$24.19 for a total purchase price of \$241.9 million. In addition, on April 25, 2001, the Company announced that its board of directors has authorized the repurchase of up to an additional 5.0 million shares of Common Stock and Common Units. As of November 6, 2001, the Company has repurchased 1.2 million shares of Common Stock and Common Units at a weighted average purchase price of \$24.41 per share and a total purchase price of \$29.1 million under this new repurchase program. Separately, on June 19, 2001, the Company repurchased in a privately negotiated transaction 20,055 Series A Preferred Shares at \$922.50 per share, for a total purchase price of \$18.5 million. For each Series A Preferred Share repurchased by the Company, one equivalent Series A Preferred Unit is retired.

Disposition Activity. During the nine months ended September 30, 2001, we sold approximately 248,000 rentable square feet of office properties, 1,672 apartment units and 173.0 acres of development land for gross proceeds of \$157.0 million. In addition, we currently have 300,250 rentable square feet of wholly owned properties and 81.0 acres of land under contract for sale in various transactions totaling \$53.0 million. These transactions are subject to customary closing conditions, including due diligence and documentation, and are expected to close at various times throughout 2001. However, we can provide no assurance that all or parts of these transactions will be consummated.

As of November 12, 2001, we expect to use a portion of the cash proceeds from our recent and pending disposition activity to reinvest in tax-deferred exchange transactions under Section 1031 of the Internal Revenue Code. We expect to reinvest up to \$38.0 million of the cash proceeds from completed disposition activity and up to \$36.0 million of the cash proceeds from pending disposition activity to acquire, in tax-deferred exchange transactions, in-service properties, development land and development projects located in core markets and in sub-markets where we have a strong presence. For an exchange to qualify for tax-deferred treatment under Section 1031, the net proceeds from the sale of a property must be held by an escrow agent until applied toward the purchase of real estate qualifying for gain deferral. Given the competition for properties meeting our investment criteria, there may be some delay in reinvesting such proceeds. Delays in reinvesting such proceeds will reduce our income from operations. In addition, the use of net proceeds from dispositions to fund development activity, either through direct payments or repayment of borrowings under our Revolving Loan, will reduce our income from operations until such development projects are placed in service.

Possible Environmental Liabilities

In connection with owning or operating our properties, we may be liable for certain costs due to possible environmental liabilities. Under various laws, ordinances and regulations, such as the Comprehensive Environmental Response Compensation and Liability Act, and common law, an owner or operator of real estate is liable for the costs to remove or remediate certain hazardous or toxic chemicals or substances on or in the property. Owners or operators are also liable for certain other costs, including governmental fines and injuries to persons and property. Such laws often impose liability without regard to whether the owner or operator knew of, or was responsible for, the presence of the hazardous or toxic chemicals or substances. The presence of such substances, or the failure to remediate such substances properly, may adversely affect the owner's or operator's ability to sell or rent such property or to borrow using such property as collateral. Persons who arrange for the disposal, treatment or

transportation of hazardous or toxic chemicals or substances may also be liable for the same types of costs at a disposal, treatment or storage facility, whether or not that person owns or operates that facility.

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

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

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

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

Compliance with the Americans with Disabilities Act

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

Funds From Operations and Cash Available for Distributions

We consider funds from operations ("FFO") to be a useful financial performance measure of the operating performance of an equity REIT because, together with net income and cash flows, FFO provides investors with an additional basis to evaluate the ability of a REIT to incur and service debt and to fund acquisitions and other capital expenditures. FFO does not represent net income or cash flows from operating, investing or financing activities as defined by Generally Accepted Accounting Principles ("GAAP"). It should not be considered as an alternative to net income as an indicator of our operating performance or to cash flows as a measure of liquidity. FFO does not measure whether cash flow is sufficient to fund all cash needs, including principal amortization, capital improvements and distributions to stockholders. Further, FFO as disclosed by other REITs may not be comparable

to our calculation of FFO, as described below. FFO and cash available for distributions should not be considered as alternatives to net income as an indication of our performance or to cash flows as a measure of liquidity.

FFO equals net income (computed in accordance with GAAP) excluding gains (or losses) from debt restructuring and sales of depreciable assets, plus depreciation and amortization, and after adjustments for unconsolidated partnerships and joint ventures. In March 1995, the National Association of Real Estate Investment Trusts ("NAREIT") issued a clarification of the definition of FFO. This clarification provides that amortization of deferred financing costs and depreciation of non-real estate assets are no longer to be added back to net income in arriving at FFO. In October 1999, NAREIT issued an additional clarification effective as of January 1, 2000 stipulating that FFO should include both recurring and non-recurring operating results. Consistent with this clarification, non-recurring items that are not defined as "extraordinary" under GAAP will be reflected in the calculation of FFO. Gains and losses from the sale of depreciable operating property will continue to be excluded from the calculation of FFO.

Cash available for distribution is defined as FFO reduced by non-revenue enhancing capital expenditures for building improvements and tenant improvements and lease commissions related to second generation space.

FFO and cash available for distribution for the three month period ended September 30, 2000 and 2001 are summarized in the following table (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2001	2000	2001	2000
Funds from operations:				
Income before minority interest and extraordinary item	\$ 38,809	\$ 46,490	\$ 124,211	\$ 108,417
Add/(Deduct):				
Dividends on preferred stock	(7,713)	(8,145)	(23,787)	(24,435)
Transition adjustment upon adoption of FAS 133	---	---	556	---
(Gain)/loss on disposition of land and depreciable assets	(3,357)	(10,552)	(16,098)	8,564
(Loss)/Gain on disposition of land	(538)	3,288	1,025	3,288
Depreciation and amortization	29,503	30,123	87,826	87,813
Depreciation on unconsolidated affiliates	1,911	1,752	5,815	3,733
	-----	-----	-----	-----
Funds from operations	58,615	62,956	179,548	187,380
Cash available for distribution:				
Add/(Deduct):				
Rental income from straight-line rents	(2,701)	(3,657)	(8,947)	(11,452)
Amortization of deferred financing costs	324	564	1,664	1,862
Non-incremental revenue generating capital expenditures (1):				
Building improvements paid	(2,872)	(2,248)	(5,959)	(5,913)
Second generation tenant improvements paid	(4,834)	(7,900)	(12,610)	(17,730)
Second generation lease commissions paid	(2,867)	(1,859)	(11,195)	(8,668)
	-----	-----	-----	-----
Cash available for distribution	\$ 45,665	\$ 47,856	\$ 142,501	\$ 145,479
	=====	=====	=====	=====
Weighted average common shares/common units outstanding - basic (2)	61,363	66,634	62,333	67,978
	=====	=====	=====	=====
Weighted average common shares/common units outstanding - diluted (2)	61,783	67,055	62,727	68,218
	=====	=====	=====	=====
Dividend payout ratios:				
Funds from operations	61.7%	60.7%	60.3%	61.2%
	=====	=====	=====	=====
Cash available for distribution	79.1%	79.9%	75.9%	78.8%
	=====	=====	=====	=====

(1) Amounts represent cash expenditures.

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

On November 6, 2001, the Company's Board of Directors declared a dividend for the third quarter ended September 30, 2001 of \$0.585 per share (\$2.34 on an annualized basis) payable on November 29, 2001 to stockholders of record on November 16, 2001.

Disclosure Regarding Forward-Looking Statements

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

- . our markets could suffer unexpected increases in development of office, industrial and retail properties;
- . the financial condition of our tenants could deteriorate;

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

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

Property Information

The following table sets forth certain information with respect to our wholly owned in-service and development properties (excluding apartment units) as of September 30, 2001 and 2000:

September 30, 2001 -----	Rentable Square Feet -----	Percent Leased/ Pre-Leased -----
In-Service:		
Office	24,829,000	92.9%
Industrial	10,396,000	92.3%
Retail (1)	1,628,000	95.1%
	-----	----
Total or Weighted Average	36,853,000	92.7%
	=====	=====
Development:		
Completed--Not Stabilized		
Office	1,188,000	62.1%
Industrial	184,000	37.2%
Retail	--	--
	-----	----
Total or Weighted Average	1,372,000	58.8%
	=====	=====
In Process		
Office	1,285,000	52.5%
Industrial	258,000	47.3%
Retail	20,000	90.0%
	-----	----
Total or Weighted Average	1,563,000	52.1%
	=====	=====
Total:		
Office	27,302,000	
Industrial	10,838,000	
Retail (1)	1,648,000	

Total or Weighted Average	39,788,000	
	=====	
September 30, 2000 -----	Rentable Square Feet -----	Percent Leased/ Pre-Leased -----
In-Service:		
Office	25,984,000	94.0%
Industrial	10,204,000	94.5%
Retail	1,569,000	94.4%
	-----	----
Total or Weighted Average	37,757,000	94.1%
	=====	=====
Development:		
Completed--Not Stabilized		
Office	759,000	79.0%
Industrial	--	--
Retail	81,000	90.0%
	-----	----
Total or Weighted Average	840,000	80.0%
	=====	=====
In Process		
Office	1,709,000	55.0%
Industrial	395,000	87.0%
Retail	--	--
	-----	----
Total or Weighted Average	2,104,000	61.0%
	=====	=====
Total:		
Office	28,452,000	
Industrial	10,599,000	
Retail	1,650,000	

Total or Weighted Average	40,701,000	
	=====	

(1) Excludes basement space.

As of September 30, 2001, we were developing 23 suburban office properties, four industrial properties and one retail property totaling 2.9 million rentable square feet of office and industrial space. The following table summarizes these development projects. In addition to the properties described in this table, we are developing with our joint venture partners five additional properties totaling 660,000 rentable square feet. At September 30, 2001, these development projects had an aggregate budgeted cost of \$99.7 million and were 62.0% pre-leased.

In-Process

Name -----	Market -----	Rentable Square Feet -----	Estimated Cost -----	Cost at 9/30/01 -----	Pre-Leasing Percentage(1) -----	Estimated Completion -----	Estimated Stabilization -----
(\$ in thousands)							
Office:							
Highwoods Center III at Tradeport(2)	Atlanta	43,000	\$ 4,037	\$ 2,329	100%	4Q01	4Q01
Verizon Wireless(2)	Greenville	193,000	16,356	11,731	100%	1Q02	1Q02
International Place 3	Memphis	214,000	34,272	20,592	100%	2Q02	2Q02
Innslake(2)	Richmond	65,000	7,214	4,529	100%	4Q01	2Q02
1825 Century Center(2)	Atlanta	102,000	16,254	1,019	100%	3Q02	3Q02
Shadow Creek II(2)	Memphis	81,000	8,750	5,522	19%	4Q01	4Q02
Highwoods Park at Jefferson Village(2)	Piedmont Triad	98,000	11,290	8,945	--	4Q01	4Q02
Centre Green Four	Research Triangle	100,000	11,764	8,786	--	4Q01	4Q02
GlenLake I(2)	Research Triangle	158,000	22,417	16,379	--	4Q01	4Q02
Seven Springs I(2)	Nashville	131,000	15,556	10,984	2%	1Q02	1Q03
801 Corporate Center Drive(2)	Research Triangle	100,000	12,016	828	40%	4Q02	2Q04
In-Process Office Total or Weighted Average		1,285,000	\$ 159,926	\$ 91,644	53%		
Industrial:							
Tradeport Place IV	Atlanta	122,000	\$ 4,447	\$ 3,765	100%	4Q01	4Q01
Newpoint IV	Atlanta	136,000	5,288	3,503	--%	4Q01	4Q02
In-Process Industrial Total or Weighted Average		258,000	\$ 9,735	\$ 7,268	47%		
Retail:							
Plaza Redevelopment (Granada Shops)	Kansas City	20,000	\$ 4,680	\$ 3,017	90%	4Q01	4Q01
In-Process Retail Total or Weighted Average		20,000	\$ 4,680	\$ 3,017	90%		
Total or Weighted Average of all In-Process Development Projects		1,563,000	\$ 174,341	\$ 101,929	52%		

(1) Letters of intent comprise 4% of the Total Pre-Leasing Percentage.

(2) We are developing these properties for a third party and own an option to purchase each property.

Completed--Not Stabilized

Name	Market	Rentable Square Feet	Estimated Cost	Cost at 9/30/01	Pre-Leasing Percentage(1)	Estimated Completion	Estimated Stabilization
----	-----	----	-----	-----	-----	-----	-----
(\$ in thousands)							
Office:							
380 Park Place	Tampa	82,000	\$ 9,675	\$ 9,758	92%	1Q01	4Q01
Highwoods Plaza	Tampa	66,000	7,505	6,861	37%	4Q00	1Q02
Deerfield III	Atlanta	54,000	5,276	4,135	--	4Q00	2Q02
Met Life Building at Brookfield	Greenville	117,000	13,220	12,177	75%	3Q01	2Q02
Cool Springs II	Nashville	205,000	22,718	18,649	40%	2Q01	2Q02
Highwoods Tower II	Research Triangle	167,000	25,134	22,132	89%	1Q01	2Q02
Centre Green Two	Research Triangle	97,000	11,596	9,923	31%	2Q01	2Q02
ParkWest One	Research Triangle	46,000	4,364	3,717	74%	2Q01	2Q02
Shadow Creek	Memphis	80,000	8,989	8,074	75%	4Q00	3Q02
Hickory Trace	Nashville	52,000	5,933	5,762	51%	3Q01	3Q02
North Shore Commons A	Richmond	115,000	13,084	13,684	79%	2Q01	3Q02
Stony Point III	Richmond	107,000	11,425	10,751	73%	2Q01	3Q02
Office Total or Weighted Average		1,188,000	\$ 138,919	\$ 125,623	62%		
		=====	=====	=====	=====		
Industrial:							
Holden Road	Piedmont Triad	64,000	\$ 2,014	\$ 2,490	60%	1Q01	2Q02
Enterprise Center I	Piedmont Triad	120,000	3,807	3,398	25%	4Q00	2Q02
Industrial Total or Weighted Average		184,000	\$ 5,821	5,888	37%		
		=====	=====	=====	=====		
Total or Weighted Average of all Completed-Not Stabilized Development Projects		1,372,000	\$ 144,740	\$ 131,511	59%		
Total or Weighted Average of all Development Projects		2,935,000	\$ 319,081	\$ 233,440	55%		
		=====	=====	=====	=====		

(1) Letters of intent comprise 4% of the Grand Total Pre-Leasing Percentage.

	Rentable Square Feet ----	Estimated Cost ----- (in thousands)	Pre-Leasing Percentage(1) -----
Development Analysis			
Summary by Estimated Stabilization Date:			
Fourth Quarter 2001	267,000	\$ 22,839	97%
First Quarter 2002	259,000	23,861	84%
Second Quarter 2002	1,149,000	129,615	64%
Third Quarter 2002	456,000	55,685	78%
Fourth Quarter 2002	573,000	59,509	3%
First Quarter 2003	131,000	15,556	2%
Second Quarter 2004	100,000	12,016	40%
	-----	-----	----
Total or Weighted Average	2,935,000	\$ 319,081	55%
	=====	=====	=====
Summary by Market:			
Atlanta	457,000	\$ 35,302	58%
Greenville	310,000	29,576	91%
Kansas City	20,000	4,680	90%
Memphis	375,000	52,011	77%
Nashville	388,000	44,207	29%
Piedmont Triad	282,000	17,111	24%
Research Triangle	668,000	87,291	38%
Richmond	287,000	31,723	82%
Tampa	148,000	17,180	67%
	-----	-----	----
Total or Weighted Average	2,935,000	\$ 319,081	55%
	=====	=====	=====
Build-to-Suit	509,000	\$ 66,882	100%
Multi-Tenant	2,426,000	252,199	46%
	-----	-----	----
Total or Weighted Average	2,935,000	\$ 319,081	55%
	=====	=====	=====
	Average Rentable Square Feet ----	Average Estimated Cost ----- (in thousands)	Pre-Leasing Percentage(1) -----
Per Property Type:			
Office	107,522	\$ 12,993	57%
Industrial	110,500	3,889	43%
Retail	20,000	4,680	90%
	-----	-----	----
All	104,821	\$ 11,396	55%
	=====	=====	=====

(1) Letters of intent comprise 4% of the Total Pre-Leasing Percentage.

The following table sets forth certain information about leasing activities at our wholly owned in-service properties (excluding apartment units) for the three months ended September 30, June 30 and March 31, 2001 and December 31, 2000.

	Office Leasing Statistics				
	Three Months Ended				
	9/30/01	6/30/01	3/31/01	12/31/00	Average
Net Effective Rents Related to Re-Leased Space:					
Number of lease transactions (signed leases)	135	155	132	199	155
Rentable square footage leased	630,043	773,415	941,419	1,187,466	883,086
Average per rentable square foot over the lease term:					
Base rent	\$ 17.03	\$ 16.36	\$ 17.73	\$ 17.51	\$ 17.16
Tenant improvements	(0.90)	(1.17)	(1.13)	(1.14)	(1.09)
Leasing commissions	(0.59)	(0.67)	(0.57)	(0.59)	(0.60)
Rent concessions	(0.11)	(0.03)	(0.01)	(0.3)	(0.05)
Effective rent	15.43	14.49	16.02	15.75	15.42
Expense stop (1)	(4.54)	(3.37)	(2.96)	(4.73)	(3.90)
Equivalent effective net rent	\$ 10.89	\$ 11.12	\$ 13.06	\$ 11.02	\$ 11.52
Average term in years	4.5	4.9	5.3	4.6	4.8
Capital Expenditures Related to Re-Leased Space:					
Tenant Improvements:					
Total dollars committed under signed leases	\$2,431,063	\$5,052,983	\$ 7,103,609	\$ 7,273,031	\$ 5,465,172
Rentable square feet	630,043	773,415	941,419	1,187,466	883,086
Per rentable square foot	\$ 3.86	\$ 6.53	\$ 7.55	\$ 6.12	\$ 6.19
Leasing Commissions:					
Total dollars committed under signed leases	\$1,018,216	\$1,991,418	\$ 3,361,410	2,873,345	2,311,097
Rentable square feet	630,043	773,415	941,419	1,187,466	883,086
Per rentable square foot	\$ 1.62	\$ 2.57	\$ 3.57	\$ 2.42	\$ 2.62
Total:					
Total dollars committed under signed leases	\$3,449,279	7,044,401	\$10,465,020	\$10,146,377	\$ 7,776,269
Rentable square feet	630,043	773,415	941,419	1,187,466	883,086
Per rentable square foot	\$ 5.47	\$ 9.11	\$ 11.12	\$ 8.54	\$ 8.81
Rental Rate Trends:					
Average final rate with expense pass throughs	\$ 16.27	\$ 14.84	\$ 15.05	\$ 15.83	\$ 15.49
Average first year cash rental rate	\$ 16.51	\$ 15.54	\$ 16.04	\$ 16.38	\$ 16.12
Percentage increase	1.5%	4.7%	6.6%	3.5%	4.0%

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

Industrial Leasing Statistics					

Three Months Ended					

	9/30/01	6/30/01	3/31/01	12/31/00	Average
	-----	-----	-----	-----	-----
Net Effective Rents Related to Re-Leased Space:					
Number of lease transactions (signed leases)	26	23	27	31	27
Rentable square footage leased	285,241	153,507	190,663	355,947	246,340
Average per rentable square foot over the lease term:					
Base rent	\$ 4.71	\$ 5.84	\$ 5.88	\$ 5.29	\$ 5.43
Tenant improvements	(0.38)	(0.27)	(0.20)	(0.29)	(0.28)
Leasing commissions	(0.11)	(0.15)	(0.09)	(0.15)	(0.13)
Rent concessions	---	---	---	---	---
Effective rent	4.22	5.42	5.59	4.85	5.02
Expense stop (1)	(0.30)	(0.49)	(0.74)	(0.30)	(0.46)
Equivalent effective net rent	\$ 3.92	\$ 4.93	\$ 4.85	\$ 4.55	\$ 4.56
Average term in years	3.3	2.5	2.5	2.7	2.7
	=====	=====	=====	=====	=====
Capital Expenditures Related to Re-Leased Space:					
Tenant Improvements:					
Total dollars committed under signed leases	\$ 606,380	\$ 175,777	\$ 91,304	\$ 412,679	\$ 321,535
Rentable square feet	285,241	153,507	190,663	355,947	246,340
Per rentable square foot	\$ 2.13	\$ 1.15	\$ 0.48	\$ 1.16	\$ 1.31
	=====	=====	=====	=====	=====
Leasing Commissions:					
Total dollars committed under signed leases	\$ 87,034	\$ 63,679	\$ 61,239	\$ 145,117	\$ 89,267
Rentable square feet	285,241	153,507	190,663	355,947	246,340
Per rentable square foot	\$ 0.31	\$ 0.41	\$ 0.32	\$ 0.41	\$ 0.36
	=====	=====	=====	=====	=====
Total:					
Total dollars committed under signed leases	\$ 693,414	\$ 239,456	\$ 152,542	\$ 557,796	\$ 410,802
Rentable square feet	285,241	153,507	190,663	355,947	246,340
Per rentable square foot	\$ 2.43	\$ 1.56	\$ 0.80	\$ 1.57	\$ 1.67
	=====	=====	=====	=====	=====
Rental Rate Trends:					
Average final rate with expense pass throughs	\$ 4.85	\$ 5.73	\$ 4.89	\$ 4.92	\$ 5.10
Average first year cash rental rate	\$ 4.60	\$ 5.75	5.06	\$ 5.23	\$ 5.16
Percentage (decrease)/increase	(5.1)%	0.4%	3.4%	6.3%	1.2%
	=====	=====	=====	=====	=====

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

Retail Leasing Statistics					

Three Months Ended					

	9/30/01	6/30/01	3/31/01	12/31/00	Average
	-----	-----	-----	-----	-----
Net Effective Rents Related to Re-Leased Space:					
Number of lease transactions (signed leases)	9	14	9	15	12
Rentable square footage leased	40,283	21,072	38,618	35,057	33,758
Average per rentable square foot over the lease term:					
Base rent	\$ 16.33	\$ 22.84	\$ 29.31	\$ 24.07	\$ 23.14
Tenant improvements	(1.49)	(0.66)	(1.86)	(1.90)	(1.48)
Leasing commission	(0.75)	(0.57)	(0.29)	(0.49)	(0.52)
Rent concessions	---	---	(0.22)	---	(0.06)
	-----	-----	-----	-----	-----
Effective rent	14.09	21.61	26.94	21.68	21.08
Expense stop (1)	---	---	---	---	---
	-----	-----	-----	-----	-----
Equivalent effective net rent	\$ 14.09	\$ 21.61	\$ 26.94	\$ 21.68	\$ 21.08
	=====	=====	=====	=====	=====
Average term in years	8.8	5.3	9.3	6.7	7.5
	=====	=====	=====	=====	=====
Capital Expenditures Related to Re-Leased Space:					
Tenant Improvements:					
Total dollars committed under signed leases	\$ 526,500	\$ 121,713	\$ 729,480	\$ 655,301	\$ 508,248
Rentable square feet	40,283	21,072	38,618	35,057	33,758
	-----	-----	-----	-----	-----
Per rentable square foot	\$ 13.07	\$ 5.78	\$ 18.89	\$ 18.69	\$ 15.06
	=====	=====	=====	=====	=====
Leasing Commissions:					
Total dollars committed under signed leases	\$ 196,296	\$ 61,537	\$ 93,045	\$ 66,986	\$ 104,466
Rentable square feet	40,283	21,072	38,618	35,057	33,758
	-----	-----	-----	-----	-----
Per rentable square foot	\$ 4.87	\$ 2.92	\$ 2.41	\$ 1.91	\$ 3.09
	=====	=====	=====	=====	=====
Total:					
Total dollars committed under signed leases	\$ 722,796	\$ 183,249	\$ 822,525	\$ 722,287	\$ 612,714
Rentable square feet	40,283	21,072	38,618	35,057	33,758
	-----	-----	-----	-----	-----
Per rentable square foot	\$ 17.94	\$ 8.70	\$ 21.30	\$ 20.60	\$ 18.15
	=====	=====	=====	=====	=====
Rental Rate Trends:					
Average final rate with expense pass throughs	\$ 11.28	\$ 17.99	\$ 12.91	\$ 18.41	\$ 15.15
Average first year cash rental rate	\$ 14.82	\$ 21.51	\$ 19.70	\$ 22.57	\$ 19.65
	-----	-----	-----	-----	-----
Percentage increase	31.4%	19.6%	52.6%	22.6%	29.7%
	=====	=====	=====	=====	=====

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

The following tables set forth scheduled lease expirations at our wholly owned in-service properties (excluding apartment units) as of September 30, 2001, 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 Lease (1) ----- (in thousands)	Average Annual Rental Rate Per Square Foot for Expirations(1) -----	Percentage of Leased Rents Represented By Expiring Leases -----
Remainder of 2001	224	656,109	2.8%	\$ 10,558	\$ 16.09	2.6%
2002	554	3,014,927	13.0%	51,040	16.93	12.8%
2003	573	3,717,421	15.9%	63,050	16.96	15.7%
2004	443	2,796,127	12.0%	49,686	17.77	12.4%
2005	411	3,131,218	13.4%	54,335	17.35	13.5%
2006	295	2,671,036	11.5%	45,889	17.18	11.4%
2007	56	803,317	3.5%	12,891	16.05	3.2%
2008	77	1,810,679	7.8%	27,274	15.06	6.8%
2009	23	1,058,870	4.6%	18,556	17.52	4.6%
2010	40	1,493,144	6.4%	27,621	18.50	6.9%
2011 and thereafter	97	2,114,025	9.1%	40,445	19.13	10.1%
	-----	-----	-----	-----	-----	-----
	2,793	23,266,873	100.0%	\$ 401,345	\$ 17.25	100.0%
	=====	=====	=====	=====	=====	=====

Industrial Properties:

Year of Lease Expiration -----	Number of Leases -----	Total Rentable Square Feet Expiring -----	Percentage of Leased Square Footage Represented by Expiring Leases -----	Annual Rents Under Expiring Leases(1) ----- (in thousands)	Average Annual Rental Rate Per Square Foot for Expirations(1) -----	Percentage of Leased Rents Represented by Expiring Leases -----
Remainder of 2001	37	442,918	4.6%	\$ 2,070	\$ 4.67	4.5%
2002	122	2,339,745	24.3%	9,960	4.26	21.7%
2003	107	1,189,986	12.4%	6,317	5.31	13.8%
2004	81	2,167,998	22.5%	9,177	4.23	20.0%
2005	42	740,121	7.7%	4,303	5.81	9.4%
2006	31	627,930	6.5%	3,897	6.21	8.5%
2007	14	1,093,166	11.4%	4,530	4.14	9.9%
2008	7	241,961	2.5%	1,501	6.20	3.3%
2009	6	268,813	2.8%	1,865	6.94	4.1%
2010	4	182,746	1.9%	1,063	5.82	2.3%
2011 and thereafter	11	331,074	3.4%	1,145	3.46	2.5%
	-----	-----	-----	-----	-----	-----
	462	9,626,458	100.0%	\$ 45,828	\$ 4.76	100.0%
	=====	=====	=====	=====	=====	=====

(1) Annualized Rental Revenue is September 2001 rental revenue (base rent plus operating pass throughs) multiplied by 12.

Retail Properties:

Year of Lease Expiration	Number of Leases	Total Rentable Square Feet Expiring	Percentage of Leased Square Footage Represented by Expiring Leases	Annual Rents Under Expiring Leases(1)	Average Annual Rental Rate Per Square Foot for Expirations(1)	Percentage of Leased Rents Represented by Expiring Leases
-----	-----	-----	-----	-----	-----	-----
				(in thousands)		
Remainder of 2001	9	32,506	2.1%	\$ 327	\$ 10.06	0.9%
2002	36	77,424	5.0%	1,645	21.25	4.6%
2003	47	149,431	9.7%	2,997	20.06	8.3%
2004	34	152,448	9.9%	2,171	14.24	6.0%
2005	49	157,307	10.2%	3,085	19.61	8.6%
2006	28	86,546	5.6%	2,195	25.36	6.1%
2007	23	83,888	5.4%	1,847	22.02	5.1%
2008	23	100,444	6.5%	3,429	34.14	9.5%
2009	17	138,829	9.0%	2,823	20.33	7.8%
2010	20	125,470	8.1%	3,195	25.46	8.9%
2011 and thereafter	41	438,556	28.5%	12,274	27.99	34.2%
	-----	-----	-----	-----	-----	-----
	327	1,542,849	100.0%	\$ 35,988	\$ 23.33	100.0%
	=====	=====	=====	=====	=====	=====

Total:

Year of Lease Expiration	Number of Leases	Total Rentable Square Feet Expiring	Percentage of Leased Square Footage Represented by Expiring Leases	Annual Rents Under Expiring Leases(1)	Average Annual Rental Rate Per Square Foot for Expirations(1)	Percentage of Leased Rents Represented by Expiring Leases
-----	-----	-----	-----	-----	-----	-----
				(in thousands)		
Remainder of 2001	270	1,131,533	3.3%	\$ 12,955	\$ 11.45	2.7%
2002	712	5,432,096	15.7%	62,645	11.53	13.0%
2003	727	5,056,838	14.7%	72,364	14.31	14.9%
2004	558	5,116,573	14.8%	61,034	11.93	12.6%
2005	502	4,028,646	11.7%	61,723	15.32	12.8%
2006	354	3,385,512	9.8%	51,981	15.35	10.8%
2007	93	1,980,371	5.8%	19,268	9.73	4.0%
2008	107	2,153,084	6.3%	32,204	14.96	6.7%
2009	46	1,466,512	4.3%	23,244	15.85	4.8%
2010	64	1,801,360	5.2%	31,879	17.70	6.6%
2011 and thereafter	149	2,883,655	8.4%	53,864	18.68	11.1%
	-----	-----	-----	-----	-----	-----
	3,582	34,436,180	100.0%	\$ 483,161	\$ 14.03	100.0%
	=====	=====	=====	=====	=====	=====

(1) Annualized Rental Revenue is September 2001 rental revenue (base rent plus operating pass throughs) multiplied by 12.

Inflation

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

Item 3. Quantitative and Qualitative Disclosures About Market Risk

The effects of potential changes in interest rates are discussed below. Our market risk discussion includes "forward-looking statements" and represents an estimate of possible changes in fair value or future earnings that would occur assuming hypothetical future movements in interest rates. These disclosures are not precise indicators of expected future losses, but only indicators of reasonably possible losses. As a result, actual future results may differ materially from those presented. See "Management's Discussion and Analysis of Financial Condition and Results of Operations--Liquidity and Capital Resources" for a description of our accounting policies and other information related to these financial instruments.

To meet in part our long-term liquidity requirements, we borrow funds at a combination of fixed and variable rates. Borrowings under the revolving loan bear interest at variable rates. Our long-term debt, which consists of long-term financings and the issuance of debt securities, typically bears interest at fixed rates. In addition, we have assumed fixed rate and variable rate debt in connection with acquiring properties. Our interest rate risk management objective is to limit the impact of interest rate changes on earnings and cash flows and to lower our overall borrowing costs. To achieve these objectives, from time to time we enter into interest rate hedge contracts such as collars, swaps, caps and treasury lock agreements in order to mitigate our interest rate risk with respect to various debt instruments. We do not hold or issue these derivative contracts for trading or speculative purposes.

Certain Variable Rate Debt. As of September 30, 2001, the Company had approximately \$103.5 million of variable rate debt outstanding that was not protected by interest rate hedge contracts. If the weighted average interest rate on this variable rate debt is 100 basis points higher or lower during the 12 months ended September 30, 2002, our interest expense would be increased or decreased approximately \$1.0 million. In addition, as of September 30, 2001, we had \$80.0 million of additional variable rate debt outstanding that was protected by an interest rate collar that effectively keeps the interest rate within a range of 65 basis points. We do not believe that a 100 basis point increase or decrease in interest rates would materially affect our interest expense with respect to this \$80.0 million of debt.

Interest Rate Hedge Contracts. For a discussion of our interest rate hedge contracts in effect at September 30, 2001, see "Management's Discussion and Analysis of Financial Condition and Results of Operations--Liquidity and Capital Resources--Capitalization." If interest rates increase by 100 basis points, the aggregate fair market value of these interest rate hedge contracts as of September 30, 2001 would increase by approximately \$130,403. If interest rates decrease by 100 basis points, the aggregate fair market value of these interest rate hedge contracts as of September 30, 2001 would decrease by approximately \$132,269.

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

SIGNATURES

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

Highwoods Properties, Inc.

By: /s/ Ronald P. Gibson

Ronald P. Gibson
President and Chief Executive Officer

By: /s/ Carman J. Liuzzo

Carman J. Liuzzo
Chief Financial Officer
(Principal Accounting Officer)

Date: November 14, 2001

End of Filing

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