

HIGHWOODS PROPERTIES INC
Form 10-Q
October 29, 2009

UNITED STATES
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, 2009

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

Maryland (State or other jurisdiction of incorporation or organization)	001-13100 (Commission File Number)	56-1871668 (I.R.S. Employer Identification Number)
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HIGHWOODS REALTY LIMITED PARTNERSHIP
(Exact name of registrant as specified in its charter)

North Carolina (State or other jurisdiction of incorporation or organization)	000-21731 (Commission File Number)	56-1869557 (I.R.S. Employer Identification Number)
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3100 Smoketree Court, Suite 600
Raleigh, NC 27604
(Address of principal executive offices) (Zip Code)

919-872-4924
(Registrants' 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.

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Highwoods Properties, Inc. Yes No Highwoods Realty Limited Partnership Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Highwoods Properties, Inc. Yes No Highwoods Realty Limited Partnership Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of 'large accelerated filer,' 'accelerated filer' and 'smaller reporting company' in Rule 12b-2 of the Securities Exchange Act.

Highwoods Properties, Inc.

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company

Highwoods Realty Limited Partnership

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Securities Exchange Act).

Highwoods Properties, Inc. Yes No Highwoods Realty Limited Partnership Yes No

The Company had 71,080,090 shares of common stock outstanding as of October 26, 2009.

HIGHWOODS PROPERTIES, INC.
HIGHWOODS REALTY LIMITED PARTNERSHIP

QUARTERLY REPORT FOR THE PERIOD ENDED SEPTEMBER 30, 2009

TABLE OF CONTENTS

PART I – FINANCIAL INFORMATION	
ITEM 1. <u>FINANCIAL STATEMENTS</u>	<u>2</u>
HIGHWOODS PROPERTIES, INC.:	
<u>Consolidated Balance Sheets as of September 30, 2009 and December 31, 2008</u>	<u>3</u>
<u>Consolidated Statements of Income for the three and nine months ended September 30, 2009 and 2008</u>	<u>4</u>
<u>Consolidated Statement of Equity for the nine months ended September 30, 2009</u>	<u>5</u>
<u>Consolidated Statements of Cash Flows for the nine months ended September 30, 2009 and 2008</u>	<u>6</u>
<u>Notes to Consolidated Financial Statements</u>	<u>8</u>
HIGHWOODS REALTY LIMITED PARTNERSHIP:	
<u>Consolidated Balance Sheets as of September 30, 2009 and December 31, 2008</u>	<u>26</u>
<u>Consolidated Statements of Income for the three and nine months ended September 30, 2009 and 2008</u>	<u>27</u>
<u>Consolidated Statement of Equity for the nine months ended September 30, 2009</u>	<u>28</u>
<u>Consolidated Statements of Cash Flows for the nine months ended September 30, 2009 and 2008</u>	<u>29</u>
<u>Notes to Consolidated Financial Statements</u>	<u>31</u>
ITEM 2. <u>MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS</u>	<u>47</u>
<u>Disclosure Regarding Forward-Looking Statements</u>	<u>47</u>
<u>Results of Operations</u>	<u>48</u>
<u>Liquidity and Capital Resources</u>	<u>51</u>
<u>Critical Accounting Estimates</u>	<u>56</u>
<u>Funds From Operations</u>	<u>56</u>
ITEM 3. <u>QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK</u>	<u>58</u>
ITEM 4. <u>CONTROLS AND PROCEDURES</u>	<u>58</u>
PART II – OTHER INFORMATION	
ITEM 1A. <u>RISK FACTORS</u>	<u>59</u>
ITEM 2. <u>UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS</u>	<u>64</u>
ITEM 6. <u>EXHIBITS</u>	<u>64</u>

(Table of Contents)

PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

We refer to Highwoods Properties, Inc. as the “Company,” Highwoods Realty Limited Partnership as the “Operating Partnership,” the Company’s common stock as “Common Stock,” the Company’s preferred stock as “Preferred Stock,” the Operating Partnership’s common partnership interests as “Common Units,” the Operating Partnership’s preferred partnership interests as “Preferred Units” and in-service properties (excluding rental residential units) to which the Company and/or the Operating Partnership have title and 100.0% ownership rights as the “Wholly Owned Properties.” The partnership agreement provides that the Operating Partnership will assume and pay when due, or reimburse the Company for payment of, all costs and expenses relating to the ownership and operations of, or for the benefit of, the Operating Partnership. The partnership agreement further provides that all expenses of the Company are deemed to be incurred for the benefit of the Operating Partnership.

(Table of Contents)

HIGHWOODS PROPERTIES, INC.

Consolidated Balance Sheets

(Unaudited and in thousands, except share and per share amounts)

	September 30, 2009	December 31, 2008
Assets:		
Real estate assets, at cost:		
Land	\$ 344,052	\$ 346,889
Buildings and tenant improvements	2,815,800	2,811,810
Development in process	62,075	61,938
Land held for development	99,206	98,946
	3,321,133	3,319,583
Less-accumulated depreciation	(762,068)	(712,597)
Net real estate assets	2,559,065	2,606,986
For-sale residential condominiums	17,094	24,284
Real estate and other assets, net, held for sale	13,779	14,447
Cash and cash equivalents	42,069	13,757
Restricted cash	17,995	2,258
Accounts receivable, net of allowance of \$2,776 and \$1,281, respectively	19,847	23,687
Notes receivable, net of allowance of \$578 and \$459, respectively	3,246	3,602
Accrued straight-line rents receivable, net of allowance of \$2,573 and \$2,082, respectively	81,896	79,597
Investment in unconsolidated affiliates	66,207	67,723
Deferred financing and leasing costs, net of accumulated amortization of \$51,929 and \$52,434, respectively	70,259	72,783
Prepaid expenses and other assets	38,308	37,046
Total Assets	\$ 2,929,765	\$ 2,946,170
Liabilities, Noncontrolling Interests in the Operating Partnership and Equity:		
Mortgages and notes payable	\$ 1,472,585	\$ 1,604,685
Accounts payable, accrued expenses and other liabilities	129,477	135,609
Financing obligations	35,043	34,174
Total Liabilities	1,637,105	1,774,468
Commitments and contingencies		
Noncontrolling interests in the Operating Partnership	124,705	111,278
Equity:		
Preferred Stock, \$.01 par value, 50,000,000 authorized shares;		
8.625% Series A Cumulative Redeemable Preferred Shares (liquidation preference \$1,000 per share), 29,092 shares issued and outstanding	29,092	29,092
8.000% Series B Cumulative Redeemable Preferred Shares (liquidation preference \$25 per share), 2,100,000 shares issued and outstanding	52,500	52,500
Common stock, \$.01 par value, 200,000,000 authorized shares;		
71,070,583 and 63,571,705 shares issued and outstanding, respectively	711	636
Additional paid-in capital	1,753,276	1,616,093
Distributions in excess of net income available for common stockholders	(669,183)	(639,281)
Accumulated other comprehensive loss	(3,979)	(4,792)
Total Stockholders' Equity	1,162,417	1,054,248

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Noncontrolling interests in consolidated affiliates	5,538	6,176
Total Equity	1,167,955	1,060,424
Total Liabilities, Noncontrolling Interests in the Operating Partnership and Equity	\$ 2,929,765	\$ 2,946,170

See accompanying notes to consolidated financial statements.

(Table of Contents)

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

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2009	2008	2009	2008
Rental and other revenues	\$114,229	\$112,755	\$340,508	\$336,054
Operating expenses:				
Rental property and other expenses	42,939	40,911	123,114	118,976
Depreciation and amortization	32,637	31,458	98,443	92,405
General and administrative	9,485	8,885	27,286	29,362
Total operating expenses	85,061	81,254	248,843	240,743
Interest expense:				
Contractual	20,001	22,995	60,525	69,803
Amortization of deferred financing costs	627	714	1,978	2,038
Financing obligations	706	783	2,151	2,287
	21,334	24,492	64,654	74,128
Other income:				
Interest and other income	3,324	1,017	6,615	3,406
Gains on debt extinguishments	657	—	1,287	—
	3,981	1,017	7,902	3,406
Income from continuing operations before disposition of property and condominiums and equity in earnings of unconsolidated affiliates	11,815	8,026	34,913	24,589
Gains on disposition of property	34	1,745	247	1,852
Gains on for-sale residential condominiums	187	—	823	—
Equity in earnings of unconsolidated affiliates	682	1,214	3,844	4,723
Income from continuing operations	12,718	10,985	39,827	31,164
Discontinued operations:				
Income from discontinued operations	232	1,602	2,381	5,417
Net gains/(losses) from discontinued operations	(377)	3,137	20,639	11,890
	(145)	4,739	23,020	17,307
Net income	12,573	15,724	62,847	48,471
Net (income) attributable to noncontrolling interests in the Operating Partnership	(591)	(812)	(3,339)	(2,544)
Net (income) attributable to noncontrolling interests in consolidated affiliates	(24)	(201)	(158)	(590)
Dividends on preferred stock	(1,677)	(2,451)	(5,031)	(8,127)
Excess of preferred stock redemption/repurchase cost over carrying value	—	(108)	—	(108)
Net income available for common stockholders	\$10,281	\$12,152	\$54,319	\$37,102
Earnings per common share - basic:				
Income from continuing operations available for common stockholders	\$0.15	\$0.13	\$0.49	\$0.36
Income from discontinued operations available for common stockholders	—	0.08	0.32	0.28

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Net income available for common stockholders	\$0.15	\$0.21	\$0.81	\$0.64
Weighted average common shares outstanding - basic	70,902	58,998	66,912	57,893
Earnings per common share - diluted:				
Income from continuing operations available for common stockholders	\$0.14	\$0.13	\$0.49	\$0.36
Income from discontinued operations available for common stockholders	—	0.08	0.32	0.28
Net income available for common stockholders	\$0.14	\$0.21	\$0.81	\$0.64
Weighted average common shares outstanding - diluted	75,072	63,228	71,024	62,176
Dividends declared per common share	\$0.425	\$0.425	\$1.275	\$1.275
Net income available for common stockholders:				
Income from continuing operations available for common stockholders	\$10,418	\$7,711	\$32,642	\$20,910
Income/(loss) from discontinued operations available for common stockholders	(137)	4,441	21,677	16,192
Net income available for common stockholders	\$10,281	\$12,152	\$54,319	\$37,102

See accompanying notes to consolidated financial statements.

(Table of Contents)

HIGHWOODS PROPERTIES, INC.
Consolidated Statement of Equity
Nine Months Ended September 30, 2009
(Unaudited and in thousands, except share amounts)

	Number of Common Shares	Common Stock	Series A Preferred	Series B Preferred	Additional Paid-In Capital	Other Comprehen- sive Loss	Non- Controlling Interests in Consolidated	Distributions in Excess of Net Earnings	Total
Balance at December 31, 2008	63,571,705	\$ 636	\$ 29,092	\$ 52,500	\$ 1,616,093	\$(4,792)	\$ 6,176	\$(639,281)	\$ 1,060,424
Issuances of Common Stock, net	7,156,203	72	—	—	147,238	—	—	—	147,310
Conversion of Common Units to Common Stock	101,935	1	—	—	3,240	—	—	—	3,241
Dividends on Common Stock	—	—	—	—	—	—	—	(84,221)	(84,221)
Dividends on Preferred Stock	—	—	—	—	—	—	—	(5,031)	(5,031)
Adjustment to noncontrolling interests in the Operating Partnership	—	—	—	—	(18,497)	—	—	—	(18,497)
Distributions to noncontrolling interests in consolidated affiliates	—	—	—	—	—	—	(796)	—	(796)
Issuances of restricted stock, net	240,740	—	—	—	—	—	—	—	—
Amortization of restricted stock and stock options	—	2	—	—	5,202	—	—	—	5,204
Net (income) attributable to noncontrolling interests in the Operating Partnership	—	—	—	—	—	—	—	(3,339)	(3,339)
Net (income) attributable to noncontrolling interests in consolidated	—	—	—	—	—	—	158	(158)	—

affiliates									
Comprehensive									
income:									
Net income	—	—	—	—	—	—	—	62,847	62,847
Other									
comprehensive									
income	—	—	—	—	—	813	—	—	813
Total									
comprehensive									
income									63,660
Balance at									
September 30, 2009	71,070,583	\$711	\$29,092	\$52,500	\$1,753,276	\$(3,979)	\$5,538	\$(669,183)	\$1,167,955

See accompanying notes to consolidated financial statements.

(Table of Contents)

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

	Nine Months Ended September 30,	
	2009	2008
Operating activities:		
Net income	\$62,847	\$48,471
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	87,600	83,151
Amortization of lease commissions	11,599	11,441
Amortization of lease incentives	866	783
Amortization of restricted stock and stock options	5,204	5,285
Amortization of deferred financing costs	1,978	2,038
Amortization of accumulated other comprehensive loss	(229)	174
Gains on extinguishment of debt	(1,287)	—
Net gains on disposition of properties	(20,886)	(13,742)
Net gains on disposition of for-sale residential condominiums	(823)	—
Equity in earnings of unconsolidated affiliates	(3,844)	(4,723)
Change in financing obligations	869	124
Distributions of earnings from unconsolidated affiliates	3,076	4,561
Changes in operating assets and liabilities:		
Accounts receivable	1,725	(747)
Prepaid expenses and other assets	(1,627)	(1,429)
Accrued straight-line rents receivable	(2,787)	(5,263)
Accounts payable, accrued expenses and other liabilities	10,548	(1,983)
Net cash provided by operating activities	154,829	128,141
Investing activities:		
Additions to real estate assets and deferred leasing costs	(101,675)	(165,722)
Net proceeds from disposition of real estate assets	61,926	37,258
Net proceeds from disposition of for-sale residential condominiums	7,940	—
Distributions of capital from unconsolidated affiliates	3,257	2,343
Net repayments of notes receivable	356	1,566
Contributions to unconsolidated affiliates	(922)	(12,341)
Changes in restricted cash and other investing activities	(15,506)	8,295
Net cash used in investing activities	(44,624)	(128,601)
Financing activities:		
Dividends on Common Stock	(84,221)	(73,263)
Redemptions/repurchase of Preferred Stock	—	(52,499)
Dividends on Preferred Stock	(5,031)	(8,127)
Distributions to noncontrolling interests in the Operating Partnership	(5,168)	(5,027)
Distributions to noncontrolling interests in consolidated affiliates	(796)	(3,247)
Net proceeds from the issuances of Common Stock	147,310	209,784
Repurchase of Common Units from noncontrolling interests	—	(3,293)
Borrowings on revolving credit facility	128,000	350,650
Repayments of revolving credit facility	(291,000)	(445,950)
Borrowings on mortgages and notes payable	217,215	177,918

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Repayments of mortgages and notes payable	(185,084)	(135,742)
Contributions from noncontrolling interests in consolidated affiliates	—	625
Additions to deferred financing costs	(3,118)	(842)
Net cash (used in)/provided by financing activities	(81,893)	10,987
Net increase in cash and cash equivalents	28,312	10,527
Cash and cash equivalents at beginning of the period	13,757	3,140
Cash and cash equivalents at end of the period	\$42,069	\$13,667

See accompanying notes to consolidated financial statements.

(Table of Contents)

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

Supplemental disclosure of cash flow information:

	Nine Months Ended September 30, 2009 2008	
Cash paid for interest, net of amounts capitalized (excludes cash distributions to owners of sold properties accounted for as financings of \$396 and \$1,219, respectively)	\$64,734	\$77,198

Supplemental disclosure of non-cash investing and financing activities:

	Nine Months Ended September 30, 2009 2008	
Assets:		
Prepaid expenses and other assets	\$451	\$(1,553)
	\$451	\$(1,553)
Liabilities:		
Accounts payable, accrued expenses and other liabilities	\$(591)	\$—
	\$(591)	\$—
Noncontrolling Interests in the Operating Partnership and Equity	\$1,042	\$(1,553)

See accompanying notes to consolidated financial statements.

(Table of Contents)

HIGHWOODS PROPERTIES, INC.
Notes To Consolidated Financial Statements
September 30, 2009
(tabular dollar amounts in thousands, except per share data)
(Unaudited)

1. Description of Business and Significant Accounting Policies

Description of Business

Highwoods Properties, Inc., together with its consolidated subsidiaries (the "Company"), is a fully-integrated, self-administered and self-managed equity real estate investment trust ("REIT") that operates in the southeastern and midwestern United States. The Company conducts virtually all of its activities through Highwoods Realty Limited Partnership (the "Operating Partnership"). As of September 30, 2009, the Company and/or the Operating Partnership wholly owned: 309 in-service office, industrial and retail properties; 96 rental residential units; 580 acres of undeveloped land suitable for future development, of which 490 acres are considered core holdings; an additional four office and industrial properties under development; and 54 for-sale residential condominiums.

The Company is the sole general partner of the Operating Partnership. As of September 30, 2009, the Company owned all of the preferred partnership interests ("Preferred Units") and 70.7 million, or 94.7%, of the common partnership interests ("Common Units") in the Operating Partnership. Limited partners (including certain officers and directors of the Company) own the remaining 4.0 million Common Units. Generally, the Operating Partnership is required to redeem each Common Unit at the request of the holder thereof for cash equal to the value of one share of the Company's Common Stock, \$.01 par value (the "Common Stock"), based on the average of the market price for the 10 trading days immediately preceding the notice date of such redemption, provided that the Company at its option may elect to acquire any such Common Units presented for redemption for cash or one share of Common Stock. The Common Units owned by the Company are not redeemable. During the nine months ended September 30, 2009, the Company redeemed 101,935 Common Units for a like number of shares of Common Stock.

Common Stock Offering

On June 1, 2009, the Company issued in a public offering approximately 7.0 million shares of Common Stock for net proceeds of \$144.1 million. As required by the terms of the partnership agreement of the Operating Partnership, the net proceeds from the offering were contributed to the Operating Partnership in exchange for additional Common Units. The net impact of the offering and the redemptions discussed above was to increase the percentage of Common Units owned by the Company from 94.0% as of December 31, 2008 to 94.7% as of September 30, 2009. On June 1, 2009, we used a portion of the net proceeds of the offering to retire the remaining \$107.2 million principal amount of a secured loan. The remaining net proceeds from the offering were used to reduce the amount of borrowings outstanding under our revolving credit facility.

Basis of Presentation

Our Consolidated Financial Statements are prepared in conformity with accounting principles generally accepted in the United States of America ("GAAP"). As more fully described in Notes 3 and 10, the Consolidated Balance Sheet at December 31, 2008 was revised from previously reported amounts to reflect in real estate and other assets, net, held for sale those properties held for sale at September 30, 2009. The Consolidated Statements of Income for the three and nine months ended September 30, 2008 were also revised from previously reported amounts to reflect in discontinued operations the operations for those properties sold or held for sale during 2008 and the first nine months of 2009 which qualified for discontinued operations presentation.

(Table of Contents)

HIGHWOODS PROPERTIES, INC.

Notes To Consolidated Financial Statements (Continued)

(tabular dollar amounts in thousands, except per share data)

1. Description of Business and Significant Accounting Policies - Continued

Beginning in the first quarter of 2009, we were required to present noncontrolling interests, defined as the portion of equity in a subsidiary not attributable directly or indirectly to the parent, as a separate component of equity in the Consolidated Balance Sheets subject to existing requirements for the classification and measurement of redeemable securities. Additionally, we were required to modify the presentation of net income by attributing earnings and other comprehensive income to controlling and noncontrolling interests. These accounting changes are required to be retroactively applied for all periods presented. Below are the steps we have taken as a result of retroactively applying these changes to previously reported amounts:

- We have reclassified the noncontrolling interests in consolidated affiliates from the mezzanine section of our Consolidated Balance Sheet to equity. This reclassification totaled \$6.2 million as of December 31, 2008.
- We no longer deduct net income attributable to noncontrolling interests in consolidated affiliates and the Operating Partnership when determining net income. As a result, net income for the three and nine months ended September 30, 2008 increased \$1.0 million and \$3.1 million from the previously reported amounts, respectively. The adoption of these requirements had no effect on our net income available for common stockholders or our earnings per common share.
- We have adjusted noncontrolling interests in the Operating Partnership so that the carrying value equals the greater of historical cost or redemption value and continue to present it in the mezzanine section of our Consolidated Balance Sheets due to its redemption feature, as previously disclosed. As a result, noncontrolling interests in the Operating Partnership as of December 31, 2008 increased \$45.6 million from the previously reported amount, with a corresponding decrease to additional paid in capital.

Beginning in the first quarter of 2009, we were required to include our total number of restricted common shares outstanding in the calculation of weighted average common shares outstanding, basic and diluted, for all periods presented. As a result, for the three months ended September 30, 2008, weighted average common shares outstanding, basic and diluted, are 501,468 and 290,963 shares higher than previously reported, respectively. For the nine months ended September 30, 2008, weighted average common shares outstanding, basic and diluted, are 506,102 and 311,366 shares higher than previously reported, respectively. Basic earnings per common share for the three months ended September 30, 2008 is unchanged from the amount previously reported and, for the nine months ended September 30, 2008, is \$0.01 lower than previously reported. Diluted earnings per common share for the three and nine months ended September 30, 2008 is unchanged from amounts previously reported.

The Consolidated Financial Statements include the Operating Partnership, wholly owned subsidiaries and those subsidiaries in which we have the controlling interest and where no substantive participating rights or substantive kick out rights have been granted to the noncontrolling interests. All significant intercompany transactions and accounts have been eliminated.

The unaudited interim consolidated financial statements and accompanying unaudited consolidated financial information, in the opinion of management, contain all adjustments (including normal recurring accruals) necessary for a fair presentation of our financial position, results of operations and cash flows. We have omitted certain notes and other information from the interim consolidated financial statements presented in this Quarterly Report on Form

10-Q as permitted by SEC rules and regulations. These consolidated financial statements should be read in conjunction with our 2008 Annual Report on Form 10-K.

(Table of Contents)

HIGHWOODS PROPERTIES, INC.

Notes To Consolidated Financial Statements (Continued)

(tabular dollar amounts in thousands, except per share data)

1. Description of Business and Significant Accounting Policies - Continued

Use of Estimates

The preparation of consolidated financial statements in accordance with GAAP requires us to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates.

Income Taxes

We have elected and expect to continue to qualify as a REIT under Sections 856 through 860 of the Internal Revenue Code of 1986, as amended. A corporate REIT is a legal entity that holds real estate assets and, through the payment of dividends to stockholders, is generally permitted to reduce or avoid the payment of federal and state income taxes. To maintain qualification as a REIT, we are required to pay dividends to our stockholders equal to at least 90.0% of our annual REIT taxable income, excluding capital gains. In addition, although capital gains are not required to be distributed to maintain REIT status, capital gains, if any, are subject to federal and state income tax unless such gains are distributed to stockholders. Under temporary IRS regulations, for 2009, distributions can be paid partially using a REIT's freely tradable stock so long as stockholders have the option of receiving at least 10% of the total distribution in cash.

Noncontrolling Interests

Beginning in the first quarter of 2009, we have modified the measurement and presentation of noncontrolling interests for all periods presented, as described previously.

Noncontrolling interests in the Operating Partnership in the accompanying Consolidated Financial Statements relates to the ownership of Common Units in the Operating Partnership by various individuals and entities other than the Company. Net income attributable to noncontrolling interests in the Operating Partnership is computed by applying the weighted average percentage of Common Units not owned by the Company during the period (as a percent of the total number of outstanding Common Units) to the Operating Partnership's net income for the period after deducting distributions on Preferred Units. When a noncontrolling unitholder redeems a Common Unit for a share of Common Stock or cash, the noncontrolling interests in the Operating Partnership are reduced and the Company's share in the Operating Partnership is increased by the fair value of each redeemed security. The following table sets forth noncontrolling interests in the Operating Partnership:

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2009	2008	2009	2008
Beginning noncontrolling interests in the Operating Partnership	\$90,796	\$123,571	\$111,278	\$119,195
Mark-to-market adjustment to noncontrolling interests in the Operating Partnership	38,095	17,103	18,497	26,987
Redemptions/conversions of noncontrolling interest partnership units	(3,052)	(933)	(3,241)	(4,817)
Net income attributable to noncontrolling interests in the Operating Partnership	591	812	3,339	2,544

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Distributions to noncontrolling interests in the Operating Partnership	(1,725)	(1,671)	(5,168)	(5,027)
Total noncontrolling interests in the Operating Partnership	\$124,705	\$138,882	\$124,705	\$138,882

(Table of Contents)

HIGHWOODS PROPERTIES, INC.

Notes To Consolidated Financial Statements (Continued)

(tabular dollar amounts in thousands, except per share data)

1. Description of Business and Significant Accounting Policies - Continued

The following table sets forth net income available for common stockholders and transfers from noncontrolling interests in the Operating Partnership:

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2009	2008	2009	2008
Net income available for common stockholders	\$ 10,281	\$ 12,152	\$ 54,319	\$ 37,102
Increase in additional paid in capital from conversion of Common Units to Common Stock	3,052	933	3,241	1,524
Change from net income available for common stockholders and transfers from noncontrolling interests	\$ 13,333	\$ 13,085	\$ 57,560	\$ 38,626

Noncontrolling interests in consolidated affiliates relates to our respective joint venture partners' 50.0% interest in Highwoods-Markel Associates, LLC ("Markel") and estimated 18% economic interest in Plaza Residential, LLC ("Plaza Residential"). Each of our joint venture partners is an unrelated third party. We consolidate Markel since we are the general partner and control the major operating and financial policies of the joint venture. We consolidate Plaza Residential since we own the majority interest in and control the joint venture.

Recently Issued Accounting Standards

Beginning in the first quarter of 2010, we will be required to perform an ongoing assessment to determine whether each entity in which we have an equity interest is a variable interest entity that should be consolidated if qualitative factors indicate we have the controlling interest. We are currently evaluating the impact this requirement may have on our financial position, results of operations and disclosures.

(Table of Contents)

HIGHWOODS PROPERTIES, INC.

Notes To Consolidated Financial Statements (Continued)

(tabular dollar amounts in thousands, except per share data)

2. Investments in Unconsolidated Affiliates

We have equity interests ranging from 10.0% to 50.0% in various joint ventures with unrelated third parties. We account for our unconsolidated joint ventures using the equity method of accounting. As a result, the assets and liabilities of these joint ventures for which we use the equity method of accounting are not included in our Consolidated Balance Sheets.

The combined, summarized income statements for our unconsolidated joint ventures were as follows:

	Three Months		Nine Months Ended	
	Ended September 30, 2009	2008	September 30, 2009	2008
Income Statements:				
Revenues	\$36,152	\$40,949	\$112,368	\$120,677
Expenses:				
Rental property and other expenses	17,805	20,492	54,510	58,955
Depreciation and amortization	9,092	9,079	26,817	25,707
Interest expense	8,743	9,258	26,584	26,950
Total expenses	35,640	38,829	107,911	111,612
Income before disposition of property	512	2,120	4,457	9,065
Gains/(losses) on disposition of property	(463)	—	2,963	—
Net income	\$49	\$2,120	\$7,420	\$9,065
Our share of:				
Net income (1)	\$682	\$1,214	\$3,844	\$4,723
Depreciation and amortization of real estate assets	\$3,352	\$3,136	\$9,825	\$9,466
Interest expense	\$3,491	\$3,704	\$10,611	\$10,924
Gains/(losses) on disposition of depreciable properties	\$(199)	\$—	\$582	\$—

(1) Our share of net income differs from our weighted average ownership percentage in the joint ventures' net income due to our purchase accounting and other adjustments related to management and leasing fees.

During the third quarter of 2009, we and an unrelated third party formed a joint venture in which we have a 10.0% ownership interest. In the third quarter of 2009, this joint venture purchased land for \$3.4 million to be used for future development.

We have a 22.81% interest in a joint venture with Schweiz-Deutschland-USA Dreilander Beteiligung Objekt DLF 98/29-Walker Fink-KG. In the second quarter of 2009, this joint venture sold one property for gross proceeds of \$14.8 million and recorded a gain of \$3.4 million. We recorded \$0.8 million as our proportionate share of this gain through equity in earnings of unconsolidated affiliates in the second quarter of 2009.

We have a 42.93% interest in a joint venture with Dreilander-Fonds 97/26 and 99/32. In the third quarter of 2009, this joint venture sold one property for gross proceeds of \$7.1 million and recorded an impairment charge of \$0.5 million.

We recorded \$0.2 million as our proportionate share of this impairment charge through equity in earnings of unconsolidated affiliates in the third quarter of 2009.

(Table of Contents)

HIGHWOODS PROPERTIES, INC.

Notes To Consolidated Financial Statements (Continued)

(tabular dollar amounts in thousands, except per share data)

3. Investment Activities

Impairments of Long-Lived Assets

We are required to measure long-lived assets classified as held for sale at the lower of the carrying value or fair value less cost to sell. In the third quarter of 2009, we classified four properties as held for sale and recorded an impairment loss of \$0.4 million on two of those properties.

Dispositions

In the second quarter of 2009, we sold three non-core community retail centers aggregating 413,000 square feet in the Kansas City metropolitan area for gross proceeds of \$62.1 million. A gain of \$20.9 million was recorded in the second quarter of 2009.

Development

Development in process as of September 30, 2009 consisted primarily of two office properties aggregating 258,000 rentable square feet and 75 acres of vacant land undergoing infrastructure improvements. The aggregate cost, including leasing commissions, of the two office properties currently is expected to be \$64.1 million when fully leased and completed, of which \$62.6 million had been incurred as of September 30, 2009. The weighted average pre-leasing, based on projected development costs, of these development properties was approximately 62% as of September 30, 2009.

Additionally, we currently have one office property and one industrial property recently completed, but not yet stabilized, aggregating 353,000 square feet. We define "stabilized" as 95% occupied or one year from substantial completion, whichever comes first. The aggregate cost, including leasing commissions, of these properties currently is expected to be \$40.0 million when fully leased, of which \$34.5 million had been incurred as of September 30, 2009. The dollar weighted average pre-leasing of these properties was approximately 62% as of September 30, 2009. The components of these properties are included in land, building and tenant improvements and deferred financing and leasing costs in our Consolidated Balance Sheet as of September 30, 2009.

For-Sale Residential Condominiums

We own a majority interest in Plaza Residential, LLC, a joint venture which was formed to develop and sell 139 for-sale residential condominiums constructed above an office tower developed by us in Raleigh, NC. For-sale residential condominiums in our Consolidated Balance Sheets include our completed, but unsold, condominium inventory as of September 30, 2009 and December 31, 2008. We initially record receipt of deposits as a component of Accounts Payable, Accrued Expenses, and Other Liabilities in our Consolidated Balance Sheets as required by the deposit method. For those units sold, we account for the resulting sales proceeds using the deposit method. For the three and nine months ended September 30, 2009, we sold seven and 20 condominiums for net sales proceeds of \$2.7 million and \$7.9 million, respectively, and recorded gains of \$0.2 million and \$0.8 million, respectively. For the three and nine months ended September 30, 2008, there were no corresponding sales or gains. Net sales proceeds include forfeitures of earnest money deposits of \$0.1 million and \$0.6 million for the three and nine months ended September 30, 2009, respectively. We record forfeitures of earnest money deposits as income when entitled to claim

the forfeited deposit upon legal default. Our estimate of our partner's economic ownership, which is impacted by a contractually-based promoted return, decreased from 25% as of December 31, 2008 to 18% as of September 30, 2009.

(Table of Contents)

HIGHWOODS PROPERTIES, INC.

Notes To Consolidated Financial Statements (Continued)

(tabular dollar amounts in thousands, except per share data)

4. Deferred Financing and Leasing Costs

As of September 30, 2009 and December 31, 2008, we had deferred financing costs of \$12.5 million and \$14.7 million, respectively, with related accumulated amortization of \$4.5 million and \$7.8 million, respectively. As of September 30, 2009 and December 31, 2008, we had deferred leasing costs of \$109.7 million and \$110.5 million, respectively, with related accumulated amortization of \$47.4 million and \$44.6 million, respectively. Aggregate amortization expense (included in depreciation and amortization and amortization of deferred financing costs) for these intangibles for the three months ended September 30, 2009 and 2008 was \$4.4 million and \$4.5 million, respectively, and for the nine months ended September 30, 2009 and 2008 was \$13.6 million and \$13.5 million, respectively.

The estimated aggregate amortization expense for each of the next five succeeding fiscal years is as follows:

October 1, 2009 through December 31, 2009	\$ 4,291
2010	\$ 14,436
2011	\$ 11,419
2012	\$ 10,946
2013	\$ 7,565
2014	\$ 5,099

5. Mortgages and Notes Payable

Our consolidated mortgages and notes payable consisted of the following:

	September 30, 2009	December 31, 2008
Secured mortgage loans	\$ 724,187	\$655,186
Unsecured loans	748,398	949,499
Total	\$ 1,472,585	\$1,604,685

As of September 30, 2009, our secured mortgage loans were secured by real estate assets with an aggregate un depreciated book value of \$1.2 billion.

Our \$450.0 million unsecured revolving credit facility is scheduled to mature on May 1, 2010. The interest rate is LIBOR plus 80 basis points and the annual base facility fee is 20 basis points. The interest rate would increase to LIBOR plus 140 or 155 basis points if our credit rating were to fall below investment grade according to two of three major credit rating agencies. Our revolving credit facility had \$448.8 million of availability as of September 30, 2009 and October 26, 2009.

Our \$70.0 million secured construction facility is initially scheduled to mature on December 20, 2010. Assuming no defaults have occurred, we have options to extend the maturity date for two successive one-year periods. The interest rate is LIBOR plus 85 basis points. Our secured construction facility had \$28.3 million of availability as of September 30, 2009 and October 26, 2009.

In January 2009, we paid off at maturity \$50.0 million of 8.125% unsecured notes using borrowings under our revolving credit facility.

In March 2009, we obtained a \$20.0 million, three-year unsecured term loan with a bank lender. The interest rate is LIBOR plus 250 basis points, subject to a minimum total interest rate of 3.9%.

(Table of Contents)

HIGHWOODS PROPERTIES, INC.

Notes To Consolidated Financial Statements (Continued)

(tabular dollar amounts in thousands, except per share data)

5. Mortgages and Notes Payable - Continued

In June 2009, we retired the remaining \$107.2 million principal amount of a secured loan using a portion of the net proceeds of our Common Stock offering on June 1, 2009. We incurred no prepayment penalties.

In August 2009, we obtained a \$115.0 million, six and a half-year secured loan that bears interest at 6.875% and a \$47.3 million, seven-year secured loan that bears interest at 7.5%.

During the second quarter of 2009, we repurchased \$3.2 million principal amount of 2017 bonds for a purchase price of 79% of par value.

During the third quarter of 2009, we repurchased \$5.0 million principal amount of 2017 bonds for a purchase price of 86% of par value.

Our revolving credit facility, variable rate term loans and the indenture that governs the Operating Partnership's outstanding notes require us to comply with customary operating covenants and various financial and operating ratios. We and the Operating Partnership are each currently in compliance with all such requirements.

6. Share-Based Payments

During the nine months ended September 30, 2009, we granted under our Amended and Restated 1994 Stock Option Plan 394,044 stock options at an exercise price equal to the closing market price of a share of our common stock on the date of grant. The fair value of each option grant is estimated on the date of grant using the Black-Scholes option pricing model, which resulted in a weighted-average grant date fair value per share of \$1.80. During the nine months ended September 30, 2009, we also granted 128,384 shares of time-based restricted stock and 99,910 shares of total return-based restricted stock with weighted-average grant date fair values per share of \$19.33 and \$10.13, respectively. We recorded stock-based compensation expense of \$1.6 million and \$1.3 million during the three months ended September 30, 2009 and 2008, respectively. We recorded stock-based compensation expense of \$5.2 million and \$5.3 million during the nine months ended September 30, 2009 and 2008, respectively. As of September 30, 2009, there was \$9.3 million of total unrecognized stock-based compensation costs, which will be recognized over a weighted average remaining contractual term of 1.5 years.

7. Derivative Instruments

To meet, in part, our liquidity requirements, we borrow funds at a combination of fixed and variable rates. Borrowings under our revolving credit facility, construction facility and bank term loans bear interest at variable rates. Our long-term debt, which consists of secured and unsecured long-term financings and the issuance of unsecured debt securities, typically bears interest at fixed rates although some loans bear interest at variable rates. Our interest rate risk management objectives are 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 interest rate on all of our variable rate debt is generally adjusted at one or three month intervals, subject to settlements under these interest rate hedge contracts. We also enter into treasury lock agreements from time to time in order to

limit our exposure to an increase in interest rates with respect to future debt offerings.

In prior periods, we entered into certain interest rate hedging arrangements which were designated and are being accounted for as cash flow hedges. The effective portion of these arrangements, representing deferred interest expense, was \$1.0 million as of September 30, 2009 and is included in Accumulated Other Comprehensive Loss (“AOCL”). This deferred expense will be recognized as an addition to interest expense in the same periods during which interest expense on the hedged financings affects net income. We expect approximately \$0.1 million will be recognized as a decrease to interest expense within the next 12 months.

(Table of Contents)

HIGHWOODS PROPERTIES, INC.

Notes To Consolidated Financial Statements (Continued)

(tabular dollar amounts in thousands, except per share data)

7. Derivative Instruments - Continued

In January 2008, we entered into two floating-to-fixed interest rate swaps for a one-year period with respect to an aggregate of \$50.0 million of borrowings outstanding under our revolving credit facility or other floating rate debt. These swaps fixed the underlying LIBOR rate upon which interest on such borrowings is based at 3.26% for \$30.0 million of borrowings and 3.24% for \$20.0 million of borrowings. These swaps were designated and accounted for as cash flow hedges and matured in January 2009.

In April 2008, we entered into a floating-to-fixed interest rate swap for a two-year period with respect to an aggregate of \$50.0 million of borrowings outstanding under our term loan or other floating rate debt. The swap fixes the underlying LIBOR rate upon which interest on such borrowings is based at 2.52%. The counterparty under this swap is Bank of America, N.A. The swap was designated and is being accounted for as a cash flow hedge. The effective portion of the swap representing deferred interest expense was \$0.6 million as of September 30, 2009 and is included in AOCL. We expect all of the balance to be recognized as an increase to interest expense within the next seven months. See Note 9 for Fair Value Measurements disclosure.

In October 2008, we entered into a floating-to-fixed interest rate swap for a one-year period with respect to an aggregate of \$25.0 million of borrowings outstanding under our term loan or other floating rate debt. The swap fixes the underlying LIBOR rate upon which interest on such borrowings is based at 2.35%. The counterparty under this swap is PNC Bank, N.A. The swap was designated and is being accounted for as a cash flow hedge. The effective portion of the swap representing deferred interest expense was \$39,000 as of September 30, 2009 and is included in AOCL. We expect all of the balance to be recognized as an increase to interest expense within the next month. See Note 9 for Fair Value Measurements disclosure.

8. Other Comprehensive Income/(Loss)

Other comprehensive income/(loss) represents net income plus the changes in certain amounts deferred in accumulated other comprehensive income/(loss) related to hedging and other activities not reflected in the Consolidated Statements of Income. The components of other comprehensive income/(loss) are as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
Net income	\$12,573	\$15,724	\$62,847	\$48,471
Other comprehensive income/(loss):				
Unrealized gain/(loss) on tax increment financing bonds	259	(1,751)	451	(2,126)
Unrealized derivative net gains on cash-flow hedges	177	49	591	573
Amortization of past cash flow hedges	(89)	47	(229)	174
Total other comprehensive income/(loss)	347	(1,655)	813	(1,379)
Total comprehensive income	\$12,920	\$14,069	\$63,660	\$47,092

(Table of Contents)

HIGHWOODS PROPERTIES, INC.

Notes To Consolidated Financial Statements (Continued)

(tabular dollar amounts in thousands, except per share data)

9. Fair Value Measurements

The following summarizes the three levels of inputs that we use to measure fair value, as well as the assets, mezzanine noncontrolling interests and liabilities that we recognize at fair value using those levels of inputs.

Level 1. Quoted prices in active markets for identical assets or liabilities.

Our Level 1 assets are comprised of investments in marketable securities which we use to pay benefits under our deferred compensation plan. Our Level 1 noncontrolling interests in the Operating Partnership are comprised of Common Units in the Operating Partnership not owned by the Company. Our Level 1 liabilities are our obligations to pay certain deferred compensation plan benefits whereby participants have designated investment options (primarily mutual funds) to serve as the basis for measurement of the notional value of their accounts.

Level 2. Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the related assets or liabilities.

Our Level 2 liabilities are interest rate swaps whose fair value is determined using a pricing model based upon observable market inputs.

Level 3. Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

Our Level 3 asset is our tax increment financing bond issued by a municipal authority in connection with our construction of a public parking facility that is not routinely traded but whose fair value is determined using an estimate of projected redemption value based on quoted bid/ask prices for similar unrated municipal bonds. This available for-sale security is carried at estimated fair value in prepaid and other assets with unrealized gains or losses reported in accumulated other comprehensive loss. The estimated fair value as of September 30, 2009 was \$2.2 million below the outstanding principal due on the bond. We currently intend to hold this bond, which amortizes to maturity in 2020, and do not believe that we will be required to sell this bond before recovery. Payment of the principal and interest for the bond is guaranteed by us and, therefore, we have recorded no credit losses related to the bond's impairment. Our Level 3 liability is our SF-HIW Harborview Plaza, LP financing obligation that is not traded but whose fair value is determined using an estimate of discounted cash flows dependent on future leasing assumptions for the property.

(Table of Contents)

HIGHWOODS PROPERTIES, INC.

Notes To Consolidated Financial Statements (Continued)

(tabular dollar amounts in thousands, except per share data)

9. Fair Value Measurements - Continued

The following tables set forth the assets and liabilities that we measured at fair value on a recurring basis by level within the fair value hierarchy.

		Level 1 Quoted Prices in Active Markets for Identical Assets	Level 2 Significant Other Observable Inputs	Level 3 Significant Unobservable Inputs
	September 30, 2009			
Assets:				
Marketable securities (in prepaid and other assets) (1)	\$ 5,904	\$ 5,904	\$ —	\$ —
Tax increment financing bond (in prepaid expenses and other assets)	17,919	—	—	17,919
Total Assets	\$ 23,823	\$ 5,904	\$ —	\$ 17,919
Noncontrolling Interests in the Operating Partnership	\$ 124,705	\$ 124,705	\$ —	\$ —
Liabilities:				
Interest rate swaps (in accounts payable, accrued expenses and other liabilities)	\$ 673	\$ —	\$ 673	\$ —
Deferred compensation (in accounts payable, accrued expenses and other liabilities)	6,612	6,612	—	—
SF-Harborview Plaza, LP financing obligation	17,445	—	—	17,445
Total Liabilities	\$ 24,730	\$ 6,612	\$ 673	\$ 17,445

		Level 1 Quoted Prices in Active Markets for Identical Assets	Level 2 Significant Other Observable Inputs	Level 3 Significant Unobservable Inputs
	December 31, 2008			
Assets				
Marketable securities (in prepaid and other assets) (1)	\$ 5,422	\$ 5,422	\$ —	\$ —
Tax increment financing bond (in prepaid expenses and other assets)	17,468	—	—	17,468
Total Assets	\$ 22,890	\$ 5,422	\$ —	\$ 17,468

Liabilities

Interest rate swaps (in accounts payable, accrued expenses and other liabilities)	\$ 1,376	\$ —	\$ 1,376	\$ —
Deferred compensation (in accounts payable, accrued expenses and other liabilities)	6,522	6,522	—	—
SF-Harborview Plaza, LP financing obligation	16,604	—	—	16,604
Total Liabilities	\$ 24,502	\$ 6,522	\$ 1,376	\$ 16,604

(1) The marketable securities are held through our officer deferred compensation plans.

(Table of Contents)

HIGHWOODS PROPERTIES, INC.

Notes To Consolidated Financial Statements (Continued)

(tabular dollar amounts in thousands, except per share data)

9. Fair Value Measurements - Continued

The following table sets forth our Level 3 asset and liability.

	Three Months Ended September 30, 2009	Nine Months Ended September 30, 2009
Asset:		
Tax Increment Financing Bond		
Beginning balance	\$ 17,660	\$ 17,468
Unrealized gain (in AOCL)	259	451
Ending balance	\$ 17,919	\$ 17,919
Liability:		
SF-Harborview Plaza, LP Financing Obligation		
Beginning balance	\$ 17,172	\$ 16,604
Payments on financing obligation	(124)	(396)
Interest expense on financing obligation	397	1,237
Ending balance	\$ 17,445	\$ 17,445

The following estimated fair values were determined by management using available market information and appropriate valuation methodologies. Considerable judgment is used to interpret market data and develop estimated fair values. Accordingly, the estimates presented herein are not necessarily indicative of the amounts that we could realize upon disposition of the financial instruments. The use of different market assumptions and/or estimation methodologies may have a material effect on the estimated fair values. The carrying amounts and estimated fair values of our financial instruments were as follows:

	Carrying Amount	Fair Value
September 30, 2009		
Cash and cash equivalents	\$42,069	\$42,069
Restricted cash	\$17,995	\$17,995
Accounts and notes receivable	\$23,093	\$23,093
Marketable securities (in prepaid expenses and other assets)	\$5,904	\$5,904
Tax increment financing bond (in prepaid expenses and other assets)	\$17,919	\$17,919
Mortgages and notes payable	\$1,472,585	\$1,444,085
Financing obligations	\$35,043	\$35,142
Interest rate swaps (in accounts payable, accrued expenses and other liabilities)	\$673	\$673
Deferred compensation (in accounts payable, accrued expenses and other liabilities)	\$6,612	\$6,612
Noncontrolling interests in the Operating Partnership	\$124,705	\$124,705

December 31, 2008

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Cash and cash equivalents	\$13,757	\$13,757
Restricted cash	\$2,258	\$2,258
Accounts and notes receivable	\$27,289	\$27,289
Marketable securities (in prepaid expenses and other assets)	\$5,422	\$5,422
Tax increment financing bond (in prepaid expenses and other assets)	\$17,468	\$17,468
Mortgages and notes payable	\$1,604,685	\$1,330,899
Financing obligations	\$34,174	\$32,219
Interest rate swaps (in accounts payable, accrued expenses and other liabilities)	\$1,376	\$1,376
Deferred compensation (in accounts payable, accrued expenses and other liabilities)	\$6,522	\$6,522
Noncontrolling interests in the Operating Partnership	\$111,278	\$111,278

(Table of Contents)

HIGHWOODS PROPERTIES, INC.

Notes To Consolidated Financial Statements (Continued)

(tabular dollar amounts in thousands, except per share data)

9. Fair Value Measurements - Continued

The fair values of our mortgages and notes payable and financing obligations were estimated using discounted cash flow analyses based on estimated market rates on similar borrowing arrangements at September 30, 2009 and December 31, 2008, respectively. The carrying amounts of our cash and cash equivalents, accounts and notes receivable equal or approximate fair value.

Disclosures about the fair value of financial instruments are based on relevant information available to us at September 30, 2009. Although management is not aware of any factors that would have a material effect on the fair value amounts reported herein, such amounts have not been revalued since that date and current estimates of fair value may significantly differ from the amounts presented herein.

10. Discontinued Operations

As part of our business strategy, we from time to time selectively dispose of non-core properties and use the net proceeds for investments, for repayment of debt and/or retirement of Preferred Stock, or other purposes. The table below sets forth the net operating results of those assets classified as discontinued operations in our Consolidated Financial Statements. These assets classified as discontinued operations comprise 1.2 million square feet of office and retail properties and 13 rental residential units sold during 2008 and the nine months ended September 30, 2009. The operations of these assets have been reclassified from our ongoing operations to discontinued operations, and we will not have any significant continuing involvement in the operations after the disposal transactions:

	Three Months Ended September 30, 2009		Nine Months Ended September 30, 2009	
	2009	2008	2009	2008
Rental and other revenues	\$395	\$3,524	\$4,775	\$12,039
Operating expenses:				
Rental property and other expenses	112	1,273	1,639	4,457
Depreciation and amortization	52	652	756	2,187
Total operating expenses	164	1,925	2,395	6,644
Other income	1	3	1	22
Income before gains/(losses) from discontinued operations	232	1,602	2,381	5,417
Net gains/(losses) from discontinued operations	(377)	3,137	20,639	11,890
Total discontinued operations	\$(145)	\$4,739	\$23,020	\$17,307

The following table includes the major classes of assets and liabilities of the properties classified as held for sale:

	September 30, 2009	December 31, 2008
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Land	\$ 5,877	\$ 5,983
Land held for development	1,197	1,197
Buildings and tenant improvements	7,656	8,033
Accumulated depreciation	(1,802)	(1,627)
Net real estate assets	12,928	13,586
Deferred leasing costs, net	401	434
Accrued straight line rents receivable	403	382
Prepaid expenses and other	47	45
Total assets	\$ 13,779	\$ 14,447
Tenant security deposits, deferred rents and accrued costs (1)	\$ 12	\$ 9

(1) Included in accounts payable, accrued expenses and other liabilities.

(Table of Contents)

HIGHWOODS PROPERTIES, INC.

Notes To Consolidated Financial Statements (Continued)

(tabular dollar amounts in thousands, except per share data)

11. Earnings Per Share

Beginning in the first quarter of 2009, we have modified our calculation of weighted average common shares, basic and diluted, to include our total number of restricted common shares outstanding, as described in Note 1.

The following table sets forth the computation of basic and diluted earnings per common share:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
Earnings per common share - basic:				
Numerator:				
Income from continuing operations	\$12,718	\$10,985	\$39,827	\$31,164
Noncontrolling interests in the Operating Partnership from continuing operations	(599)	(514)	(1,996)	(1,429)
Noncontrolling interests in consolidated affiliates from continuing operations	(24)	(201)	(158)	(590)
Dividends on preferred stock	(1,677)	(2,451)	(5,031)	(8,127)
Excess of preferred stock redemption/repurchase cost over carrying value	—	(108)	—	(108)
Income from continuing operations available for common stockholders	10,418	7,711	32,642	20,910
Income/(loss) from discontinued operations	(145)	4,739	23,020	17,307
Noncontrolling interests in the Operating Partnership from discontinued operations	8	(298)	(1,343)	(1,115)
Income/(loss) from discontinued operations available for common stockholders	(137)	4,441	21,677	16,192
Net income available for common stockholders	\$10,281	\$12,152	\$54,319	\$37,102
Denominator:				
Denominator for basic earnings per common share – weighted average shares	70,902	58,998	66,912	57,893
Earnings per common share - basic:				
Income from continuing operations available for common stockholders	\$0.15	\$0.13	\$0.49	\$0.36
Income from discontinued operations available for common stockholders	—	0.08	0.32	0.28
Net income available for common stockholders	\$0.15	\$0.21	\$0.81	\$0.64
Earnings per common share - diluted:				
Numerator:				
Income from continuing operations	\$12,718	\$10,985	\$39,827	\$31,164
Noncontrolling interests in consolidated affiliates from continuing operations	(24)	(201)	(158)	(590)
Dividends on preferred stock	(1,677)	(2,451)	(5,031)	(8,127)
Excess of preferred stock redemption/repurchase cost over carrying value	—	(108)	—	(108)
Income from continuing operations available for common stockholders before noncontrolling interests in the Operating Partnership	11,017	8,225	34,638	22,339
Income/(loss) from discontinued operations	(145)	4,739	23,020	17,307

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Net income available for common stockholders before noncontrolling interests in the Operating Partnership	\$10,872	\$12,964	\$57,658	\$39,646
Denominator:				
Denominator for basic earnings per common share –weighted average shares	70,902	58,998	66,912	57,893
Add:				
Employee and director stock options and warrants	121	302	52	336
Noncontrolling Common Units	4,049	3,928	4,060	3,947
Denominator for diluted earnings per common share – adjusted weighted average shares and assumed conversions (1)	75,072	63,228	71,024	62,176
Earnings per common share - diluted:				
Income from continuing operations available for common stockholders	\$0.14	\$0.13	\$0.49	\$0.36
Income from discontinued operations available for common stockholders	—	0.08	0.32	0.28
Net income available for common stockholders	\$0.14	\$0.21	\$0.81	\$0.64

(Table of Contents)

HIGHWOODS PROPERTIES, INC.

Notes To Consolidated Financial Statements (Continued)

(tabular dollar amounts in thousands, except per share data)

11. Earnings Per Share - Continued

(1) Options and warrants aggregating 935,494 and 327,747 shares were outstanding during the three months ended September 30, 2009 and 2008, respectively, and 1,191,900 and 174,709 shares were outstanding during the nine months ended September 30, 2009 and 2008, respectively but were not included in the treasury method calculation for diluted earnings per common share because the exercise prices of the options and warrants were higher than the average market price of Common Stock during these periods.

12. Segment Information

Our principal business is the acquisition, development and operation of rental real estate properties. We evaluate our business by product type and by geographic locations. Each product type has different customers and economic characteristics as to rental rates and terms, cost per square foot of buildings, the purposes for which customers use the space, the degree of maintenance and customer support required and customer dependency on different economic drivers, among others. The operating results by geographic grouping are also regularly reviewed by our chief operating decision maker for assessing performance and other purposes. There are no material inter-segment transactions.

The accounting policies of the segments are the same as those described in Note 1 included herein. All operations are within the United States and, as of September 30, 2009, no customer of the Wholly Owned Properties comprised more than 8.9% of our consolidated revenues.

The following table summarizes the rental income and other revenues and net operating income, defined as rental and other revenues less rental property and other expenses, for each reportable segment:

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2009	2008	2009	2008
Rental and Other Revenues: (1) (2) (3)				
Office:				
Atlanta, GA	\$12,618	\$11,854	\$36,215	\$35,143
Greenville, SC	3,428	3,522	10,669	10,281
Kansas City, MO	3,742	3,959	11,201	11,477
Memphis, TN	8,187	6,331	22,617	18,839
Nashville, TN	15,175	15,384	46,202	45,572
Orlando, FL	3,112	2,939	8,906	8,115
Piedmont Triad, NC	6,230	6,259	19,066	19,383
Raleigh, NC	18,204	17,284	54,512	52,030
Richmond, VA	12,174	11,925	35,117	36,341
Tampa, FL	17,477	16,844	50,618	49,695
Total Office Segment	100,347	96,301	295,123	286,876
Industrial:				
Atlanta, GA	3,904	3,800	11,776	11,702
Piedmont Triad, NC	3,182	3,695	10,865	10,980

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Total Industrial Segment	7,086	7,495	22,641	22,682
Retail:				
Kansas City, MO	6,463	8,663	21,756	25,598
Raleigh, NC	30	—	90	—
Total Retail Segment	6,493	8,663	21,846	25,598
Residential:				
Kansas City, MO	303	296	898	898
Total Residential Segment	303	296	898	898
Total Rental and Other Revenues	\$ 114,229	\$ 112,755	\$ 340,508	\$ 336,054

(Table of Contents)

HIGHWOODS PROPERTIES, INC.

Notes To Consolidated Financial Statements (Continued)

(tabular dollar amounts in thousands, except per share data)

12. Segment Information - Continued

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2009	2008	2009	2008
Net Operating Income: (1) (2) (3)				
Office:				
Atlanta, GA	\$7,891	\$6,764	\$22,896	\$21,737
Greenville, SC	2,011	2,184	6,640	6,424
Kansas City, MO	2,340	2,420	6,843	6,902
Memphis, TN	4,841	3,852	12,886	11,176
Nashville, TN	9,940	10,209	30,078	30,153
Orlando, FL	1,638	1,638	4,666	4,534
Piedmont Triad, NC	3,872	3,843	12,188	12,315
Raleigh, NC	11,942	11,638	36,734	34,748
Richmond, VA	7,835	7,818	23,893	24,373
Tampa, FL	10,184	9,985	29,587	29,776
Total Office Segment	62,494	60,351	186,411	182,138
Industrial:				
Atlanta, GA	2,904	2,892	8,906	8,943
Piedmont Triad, NC	2,322	2,864	8,331	8,606
Total Industrial Segment	5,226	5,756	17,237	17,549
Retail:				
Atlanta, GA (4)	(6)	(6)	(18)	(20)
Kansas City, MO	3,486	5,617	13,449	16,974
Raleigh, NC (4)	(1)	(21)	9	(69)
Total Retail Segment	3,479	5,590	13,440	16,885
Residential:				
Kansas City, MO	163	163	517	528
Raleigh, NC (4)	(72)	(16)	(211)	(22)
Total Residential Segment	91	147	306	506
Total Net Operating Income	71,290	71,844	217,394	217,078
Reconciliation to income from continuing operations before disposition of property and condominiums and equity in earnings of unconsolidated affiliates:				
Depreciation and amortization	(32,637)	(31,458)	(98,443)	(92,405)
General and administrative expense	(9,485)	(8,885)	(27,286)	(29,362)
Interest expense	(21,334)	(24,492)	(64,654)	(74,128)
Interest and other income	3,981	1,017	7,902	3,406
Income from continuing operations before disposition of property and condominiums and equity in earnings of unconsolidated affiliates	\$ 11,815	\$ 8,026	\$ 34,913	\$ 24,589

(1) Net of discontinued operations.

- (2) The Piedmont Triad market encompasses the Greensboro and Winston-Salem metropolitan area.
- (3) The Raleigh market encompasses the Raleigh, Durham, Cary and Research Triangle metropolitan area.
- (4) Negative NOI with no corresponding revenues represents expensed real estate taxes and other carrying costs associated with land held for development that is currently zoned for retail and residential properties.

(Table of Contents)

HIGHWOODS PROPERTIES, INC.

Notes To Consolidated Financial Statements (Continued)

(tabular dollar amounts in thousands, except per share data)

13. Subsequent Events

We have evaluated events subsequent to September 30, 2009 and through October 29, 2009 (the issuance date of this interim report on Form 10-Q) and no such events required disclosure for purposes of these financial statements.

(Table of Contents)

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(Table of Contents)

HIGHWOODS REALTY LIMITED PARTNERSHIP

Consolidated Balance Sheets

(Unaudited and in thousands, except unit and per unit amounts)

	September 30, 2009	December 31, 2008
Assets:		
Real estate assets, at cost:		
Land	\$ 344,052	\$ 346,889
Buildings and tenant improvements	2,815,800	2,811,810
Development in process	62,075	61,938
Land held for development	99,206	98,946
	3,321,133	3,319,583
Less-accumulated depreciation	(762,068)	(712,597)
Net real estate assets	2,559,065	2,606,986
For-sale residential condominiums	17,094	24,284
Real estate and other assets, net, held for sale	13,779	14,447
Cash and cash equivalents	41,899	13,649
Restricted cash	17,995	2,258
Accounts receivable, net of allowance of \$2,776 and \$1,281, respectively	19,847	23,687
Notes receivable, net of allowance of \$578 and \$459, respectively	3,246	3,602
Accrued straight-line rents receivable, net of allowance of \$2,573 and \$2,082, respectively	81,896	79,597
Investment in unconsolidated affiliates	64,986	66,517
Deferred financing and leasing costs, net of accumulated amortization of \$51,929 and \$52,434, respectively	70,259	72,783
Prepaid expenses and other assets	38,287	37,046
Total Assets	\$ 2,928,353	\$ 2,944,856
Liabilities, Redeemable Operating Partnership Units and Equity:		
Mortgages and notes payable	\$ 1,472,585	\$ 1,604,685
Accounts payable, accrued expenses and other liabilities	129,477	135,606
Financing obligations	35,043	34,174
Total Liabilities	1,637,105	1,774,465
Commitments and Contingencies		
Redeemable Operating Partnership Units:		
Common Units, 3,965,228 and 4,067,163 outstanding, respectively	124,705	111,278
Series A Preferred Units (liquidation preference \$1,000 per unit), 29,092 shares issued and outstanding	29,092	29,092
Series B Preferred Units (liquidation preference \$25 per unit), 2,100,000 shares issued and outstanding	52,500	52,500
Total Redeemable Operating Partnership Units	206,297	192,870
Equity:		
Common Units:		
General partner Common Units, 746,270 and 672,301 outstanding, respectively	10,832	9,759
Limited partner Common Units, 69,915,504 and 62,490,596 outstanding, respectively	1,072,560	966,378
Accumulated other comprehensive loss	(3,979)	(4,792)
Noncontrolling interests in consolidated affiliates	5,538	6,176
Total Equity	1,084,951	977,521

Total Liabilities, Redeemable Operating Partnership Units and Equity	\$ 2,928,353	\$ 2,944,856
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See accompanying notes to consolidated financial statements.

(Table of Contents)

HIGHWOODS REALTY LIMITED PARTNERSHIP
Consolidated Statements of Income
(Unaudited and in thousands, except per unit amounts)

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2009	2008	2009	2008
Rental and other revenues	\$114,229	\$112,755	\$340,508	\$336,054
Operating expenses:				
Rental property and other expenses	42,939	40,911	122,863	118,826
Depreciation and amortization	32,637	31,458	98,443	92,405
General and administrative	9,485	8,885	27,537	29,509
Total operating expenses	85,061	81,254	248,843	240,740
Interest expense:				
Contractual	20,001	22,995	60,525	69,803
Amortization of deferred financing costs	627	714	1,978	2,038
Financing obligations	706	783	2,151	2,287
	21,334	24,492	64,654	74,128
Other income:				
Interest and other income	3,324	1,017	6,615	3,406
Gain on debt extinguishments	657	—	1,287	—
	3,981	1,017	7,902	3,406
Income from continuing operations before disposition of property and condominiums and equity in earnings of unconsolidated affiliates	11,815	8,026	34,913	24,592
Gains on disposition of property	34	1,745	247	1,852
Gains on for-sale residential condominiums	187	—	823	—
Equity in earnings of unconsolidated affiliates	669	1,187	3,779	4,668
Income from continuing operations	12,705	10,958	39,762	31,112
Discontinued operations:				
Income from discontinued operations	232	1,602	2,381	5,417
Net gains/(losses) from discontinued operations	(377)	3,137	20,639	11,890
	(145)	4,739	23,020	17,307
Net income	12,560	15,697	62,782	48,419
Net (income) attributable to noncontrolling interests in consolidated affiliates	(24)	(201)	(158)	(590)
Distributions on preferred units	(1,677)	(2,451)	(5,031)	(8,127)
Excess of preferred unit redemption cost over carrying value	—	(108)	—	(108)
Net income available for common unitholders	\$10,859	\$12,937	\$57,593	\$39,594
Earnings per common unit - basic:				
Income from continuing operations available for common unitholders	\$0.15	\$0.13	\$0.49	\$0.36
Income from discontinued operations available for common unitholders	—	0.08	0.33	0.28
Net income available for common unitholders	\$0.15	\$0.21	\$0.82	\$0.64
Weighted average common units outstanding - basic	74,542	62,517	70,563	61,431
Earnings per common unit - diluted:				
Income from continuing operations available for common unitholders	\$0.15	\$0.13	\$0.49	\$0.36

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Income from discontinued operations available for common unitholders	—	0.08	0.33	0.28
Net income available for common unitholders	\$0.15	\$0.21	\$0.82	\$0.64
Weighted average common units outstanding - diluted	74,663	62,819	70,615	61,767
Distributions declared per common unit	\$0.425	\$0.425	\$1.275	\$1.275
Net income available for common unitholders:				
Income from continuing operations available for common unitholders	\$11,004	\$8,198	\$34,573	\$22,287
Income/(loss) from discontinued operations available for common unitholders	(145)	4,739	23,020	17,307
Net income available for common unitholders	\$10,859	\$12,937	\$57,593	\$39,594

See accompanying notes to consolidated financial statements.

(Table of Contents)

HIGHWOODS REALTY LIMITED PARTNERSHIP

Consolidated Statement of Equity
 Nine Months Ended September 30, 2009
 (Unaudited and in thousands)

	Common Units		Accumulated Noncontrolling		Total Capital
	General Partner	Limited Partner	Other Comprehensive Loss	Interests in Consolidated Affiliates	
Balance at December 31, 2008	\$9,759	\$966,378	\$ (4,792)	\$ 6,176	\$977,521
Issuance of Common Units, net	1,473	145,837	—	—	147,310
Distributions on Common Units	(889)	(87,978)	—	—	(88,867)
Distributions on Preferred Units	(50)	(4,981)	—	—	(5,031)
Amortization of restricted stock and stock options	52	5,152	—	—	5,204
Distribution to noncontrolling interests in consolidated affiliates	—	—	—	(796)	(796)
Adjustment of Redeemable Common Units to fair value	(139)	(13,846)	—	—	(13,985)
Net (income) attributable to noncontrolling interests in consolidated affiliates	(2)	(156)	—	158	—
Comprehensive income:					
Net income	628	62,154	—	—	62,782
Other comprehensive loss	—	—	813	—	813
Total comprehensive income					63,595
Balance at September 30, 2009	\$10,832	\$1,072,560	\$ (3,979)	\$ 5,538	\$1,084,951

See accompanying notes to consolidated financial statements.

(Table of Contents)

HIGHWOODS REALTY LIMITED PARTNERSHIP
Consolidated Statements of Cash Flows
(Unaudited and in thousands)

	Nine Months Ended September 30,	
	2009	2008
Operating activities:		
Net income	\$62,782	\$48,419
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	87,600	83,151
Amortization of lease commissions	11,599	11,441
Amortization of lease incentives	866	783
Amortization of restricted stock and stock options	5,204	5,285
Amortization of deferred financing costs	1,978	2,038
Amortization of accumulated other comprehensive loss	(229)	174
Gains on extinguishment of debt	(1,287)	—
Net gains on disposition of properties	(20,886)	(13,742)
Net gains on disposition of for-sale residential condominiums	(823)	—
Equity in earnings of unconsolidated affiliates	(3,779)	(4,668)
Change in financing obligations	869	124
Distributions of earnings from unconsolidated affiliates	3,033	4,549
Changes in operating assets and liabilities:		
Accounts receivable	1,725	(747)
Prepaid expenses and other assets	(1,606)	(1,414)
Accrued straight-line rents receivable	(2,787)	(5,263)
Accounts payable, accrued expenses and other liabilities	10,551	(1,942)
Net cash provided by operating activities	154,810	128,188
Investing activities:		
Additions to real estate assets and deferred leasing costs	(101,675)	(165,722)
Net proceeds from disposition of real estate assets	61,926	37,258
Net proceeds from disposition of for-sale residential condominiums	7,940	—
Distributions of capital from unconsolidated affiliates	3,257	2,343
Net repayments of notes receivable	356	1,566
Contributions to unconsolidated affiliates	(922)	(12,341)
Changes in restricted cash and other investing activities	(15,514)	8,295
Net cash used in investing activities	(44,632)	(128,601)
Financing activities:		
Distributions on Common Units	(88,867)	(77,769)
Redemption/repurchase of Preferred Units	—	(52,499)
Distributions on Preferred Units	(5,031)	(8,127)
Distributions to noncontrolling interests in consolidated affiliates	(796)	(3,247)
Net proceeds from the issuances of Common Units	147,310	209,784
Repurchase of Common Units from noncontrolling interests	—	(3,293)
Borrowings on revolving credit facility	128,000	350,650
Repayments of revolving credit facility	(291,000)	(445,950)
Borrowings on mortgages and notes payable	217,215	177,918
Repayments of mortgages and notes payable	(185,084)	(135,742)

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Contributions from noncontrolling interests in consolidated affiliates	—	625
Additions to deferred financing costs and other financing activities	(3,675)	(1,570)
Net cash (used in)/provided by financing activities	(81,928)	10,780
Net increase in cash and cash equivalents	28,250	10,367
Cash and cash equivalents at beginning of the period	13,649	3,144
Cash and cash equivalents at end of the period	\$41,899	\$13,511

See accompanying notes to consolidated financial statements.

(Table of Contents)

HIGHWOODS REALTY LIMITED PARTNERSHIP
 Consolidated Statements of Cash Flows - Continued
 (Unaudited and in thousands)

Supplemental disclosure of cash flow information:

	Nine Months Ended September 30, 2009 2008	
Cash paid for interest, net of amounts capitalized (excludes cash distributions to owners of sold properties accounted for as financings of \$396 and \$1,219, respectively)	\$64,734	\$77,198

Supplemental disclosure of non-cash investing and financing activities:

	Nine Months Ended September 30, 2009 2008	
Assets:		
Prepaid expenses and other assets	\$451	\$(1,553)
	\$451	\$(1,553)
Liabilities:		
Accounts payable, accrued expenses and other liabilities	\$(591)	\$—
	\$(591)	\$—
Redeemable Operating Partnership Units and Equity	\$1,042	\$(1,553)

See accompanying notes to consolidated financial statements.

(Table of Contents)

HIGHWOODS REALTY LIMITED PARTNERSHIP
Notes To Consolidated Financial Statements
September 30, 2009
(tabular dollar amounts in thousands, except per unit data)
(Unaudited)

1. Description of Business and Significant Accounting Policies

Description of Business

Highwoods Properties, Inc., together with its consolidated subsidiaries (the "Company"), is a fully-integrated, self-administered and self-managed equity real estate investment trust ("REIT") that operates in the southeastern and midwestern United States. The Company conducts virtually all of its activities through Highwoods Realty Limited Partnership (the "Operating Partnership"). As of September 30, 2009, the Company and/or the Operating Partnership wholly owned: 309 in-service office, industrial and retail properties; 96 rental residential units; 580 acres of undeveloped land suitable for future development, of which 490 acres are considered core holdings; an additional four office and industrial properties under development; and 54 for-sale residential condominiums.

The Company is the sole general partner of the Operating Partnership. As of September 30, 2009, the Company owned all of the preferred partnership interests ("Preferred Units") and 70.7 million, or 94.7%, of the common partnership interests ("Common Units") in the Operating Partnership. The Company has the right to put any and all of the Preferred Units to the Operating Partnership in exchange for their liquidation preference plus accrued and unpaid distributions in the event of a corresponding redemption by the Company of the underlying Preferred Stock. Limited partners (including certain officers and directors of the Company) own the remaining 4.0 million Common Units. Generally, the Operating Partnership is required to redeem each Common Unit at the request of the holder thereof for cash equal to the value of one share of the Company's Common Stock, \$.01 par value (the "Common Stock"), based on the average of the market price for the 10 trading days immediately preceding the notice date of such redemption, provided that the Company at its option may elect to acquire any such Common Units presented for redemption for cash or one share of Common Stock. The Common Units owned by the Company are not redeemable. During the nine months ended September 30, 2009, the Company redeemed 101,935 Common Units for a like number of shares of Common Stock.

Common Stock Offering

On June 1, 2009, the Company issued in a public offering approximately 7.0 million shares of Common Stock for net proceeds of \$144.1 million. As required by the terms of the partnership agreement of the Operating Partnership, the net proceeds from the offering were contributed to the Operating Partnership in exchange for additional Common Units. The net impact of the offering and the redemptions discussed above was to increase the percentage of Common Units owned by the Company from 94.0% as of December 31, 2008 to 94.7% as of September 30, 2009. On June 1, 2009, we used a portion of the net proceeds of the offering to retire the remaining \$107.2 million principal amount of a secured loan. The remaining net proceeds from the offering were used to reduce the amount of borrowings outstanding under our revolving credit facility.

Basis of Presentation

Our Consolidated Financial Statements are prepared in conformity with accounting principles generally accepted in the United States of America ("GAAP"). As more fully described in Notes 3 and 10, the Consolidated Balance Sheet at December 31, 2008 was revised from previously reported amounts to reflect in real estate and other assets, net, held

for sale those properties held for sale at September 30, 2009. The Consolidated Statements of Income for the three and nine months ended September 30, 2008 were also revised from previously reported amounts to reflect in discontinued operations the operations for those properties sold or held for sale during 2008 and the first nine months of 2009 which qualified for discontinued operations presentation.

(Table of Contents)

HIGHWOODS REALTY LIMITED PARTNERSHIP

Notes To Consolidated Financial Statements (Continued)

(tabular dollar amounts in thousands, except per unit data)

1. Description of Business and Significant Accounting Policies - Continued

Beginning in the first quarter of 2009, we were required to present noncontrolling interests, defined as the portion of equity in a subsidiary not attributable directly or indirectly to the parent, as a separate component of equity in the Consolidated Balance Sheets subject to existing requirements for the classification and measurement of redeemable securities. Additionally, we were required to modify the presentation of net income by attributing earnings and other comprehensive income to controlling and noncontrolling interests. These accounting changes are required to be retroactively applied for all periods presented. Below are the steps we have taken as a result of retroactively applying these changes to previously reported amounts:

- We have reclassified the noncontrolling interests in consolidated affiliates from the mezzanine section of our Consolidated Balance Sheet to equity. This reclassification totaled \$6.2 million as of December 31, 2008.
- We no longer deduct net income attributable to noncontrolling interests in consolidated affiliates when determining net income. As a result, net income for the three and nine months ended September 30, 2008 increased \$0.2 million and \$0.6 million from the previously reported amounts, respectively. The adoption of these requirements had no effect on our net income available for common unitholders or our earnings per common unit.

Beginning in the first quarter of 2009, we were required to include our total number of restricted common shares outstanding in the calculation of weighted average common shares outstanding, basic and diluted, for all periods presented. As a result, for the three months ended September 30, 2008, weighted average common units outstanding, basic and diluted, are 501,468 and 290,963 units higher than previously reported, respectively. For the nine months ended September 30, 2008, weighted average common units outstanding, basic and diluted, are 506,102 and 311,366 units higher than previously reported, respectively. Basic earnings per common unit for the three months ended September 30, 2008 is unchanged from the amount previously reported and, for the nine months ended September 30, 2008, is \$0.01 lower than previously reported. Diluted earnings per common unit for the three and nine months ended September 30, 2008 is unchanged from amounts previously reported.

The Consolidated Financial Statements include wholly owned subsidiaries and those subsidiaries in which we have the controlling interest and where no substantive participating rights or substantive kick out rights have been granted to the noncontrolling interests. All significant intercompany transactions and accounts have been eliminated.

The unaudited interim consolidated financial statements and accompanying unaudited consolidated financial information, in the opinion of management, contain all adjustments (including normal recurring accruals) necessary for a fair presentation of our financial position, results of operations and cash flows. We have omitted certain notes and other information from the interim consolidated financial statements presented in this Quarterly Report on Form 10-Q as permitted by SEC rules and regulations. These consolidated financial statements should be read in conjunction with our 2008 Annual Report on Form 10-K.

Use of Estimates

The preparation of consolidated financial statements in accordance with GAAP requires us to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates.

(Table of Contents)

HIGHWOODS REALTY LIMITED PARTNERSHIP

Notes To Consolidated Financial Statements (Continued)

(tabular dollar amounts in thousands, except per unit data)

1. Description of Business and Significant Accounting Policies - Continued

Income Taxes

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. A corporate REIT is a legal entity that holds real estate assets and, through the payment of dividends to stockholders, is generally permitted to reduce or avoid the payment of federal and state income taxes at the corporate level. To maintain qualification as a REIT, the Company is required to pay dividends to its stockholders equal to at least 90.0% of its annual REIT taxable income, excluding capital gains. Under temporary IRS regulations, for 2009, distributions can be paid partially using a REIT's freely tradable stock so long as stockholders have the option of receiving at least 10% of the total distribution in cash. The partnership agreement requires the Operating Partnership to pay economically equivalent distributions on outstanding Common Units at the same time that the Company pays dividends on its outstanding Common Stock.

Noncontrolling Interests

Beginning in the first quarter of 2009, we have modified the measurement and presentation of noncontrolling interests for all periods presented, as described previously.

Noncontrolling interests in consolidated affiliates relates to our respective joint venture partners' 50.0% interest in Highwoods-Markel Associates, LLC ("Markel") and estimated 18% economic interest in Plaza Residential, LLC ("Plaza Residential"). Each of our joint venture partners is an unrelated third party. We consolidate Markel since we are the general partner and control the major operating and financial policies of the joint venture. We consolidate Plaza Residential since we own the majority interest in and control the joint venture.

Recently Issued Accounting Standards

Beginning in the first quarter of 2010, we will be required to perform an ongoing assessment to determine whether each entity in which we have an equity interest is a variable interest entity that should be consolidated if qualitative factors indicate we have the controlling interest. We are currently evaluating the impact this requirement may have on our financial position, results of operations and disclosures.

2. Investments in Unconsolidated Affiliates

We have equity interests ranging from 10.0% to 50.0% in various joint ventures with unrelated third parties. We account for our unconsolidated joint ventures using the equity method of accounting. As a result, the assets and liabilities of these joint ventures for which we use the equity method of accounting are not included in our Consolidated Balance Sheets.

(Table of Contents)

HIGHWOODS REALTY LIMITED PARTNERSHIP

Notes To Consolidated Financial Statements (Continued)

(tabular dollar amounts in thousands, except per unit data)

2. Investments in Unconsolidated Affiliates - Continued

Our combined, summarized income statements for our unconsolidated joint ventures were as follows:

	Three Months		Nine Months Ended	
	Ended		September 30,	
	September 30,	2008	2009	2008
Income Statements:				
Revenues	\$35,150	\$39,665	\$108,614	\$116,899
Expenses:				
Rental property and other expenses	17,283	19,939	52,851	57,227
Depreciation and amortization	8,657	8,680	25,508	24,505
Interest expense	8,535	9,034	25,947	26,258
Total expenses	34,475	37,653	104,306	107,990
Income before disposition of property	675	2,012	4,308	8,909
Gains/(losses) on disposition of property	(463)	—	2,963	—
Net income	\$212	\$2,012	\$7,271	\$8,909
Our share of:				
Net income (1)	\$669	\$1,187	\$3,779	\$4,668
Depreciation and amortization of real estate assets	\$3,311	\$3,097	\$8,906	\$9,342
Interest expense	\$3,465	\$3,676	\$10,531	\$10,837
Gains/(losses) on disposition of depreciable properties	\$(199)	\$—	\$582	\$—

(1) Our share of net income differs from our weighted average ownership percentage in the joint ventures' net income due to our purchase accounting and other adjustments related to management and leasing fees.

During the third quarter of 2009, we and an unrelated third party formed a joint venture in which we have a 10.0% ownership interest. In the third quarter of 2009, this joint venture purchased land for \$3.4 million to be used for future development.

We have a 22.81% interest in a joint venture with Schweiz-Deutschland-USA Dreilander Beteiligung Objekt DLF 98/29-Walker Fink-KG. In the second quarter of 2009, this joint venture sold one property for gross proceeds of \$14.8 million and recorded a gain of \$3.4 million. We recorded \$0.8 million as our proportionate share of this gain through equity in earnings of unconsolidated affiliates in the second quarter of 2009.

We have a 42.93% interest in a joint venture with Dreilander-Fonds 97/26 and 99/32. In the third quarter of 2009, this joint venture sold one property for gross proceeds of \$7.1 million and recorded an impairment charge of \$0.5 million. We recorded \$0.2 million as our proportionate share of this impairment charge through equity in earnings of unconsolidated affiliates in the third quarter of 2009.

3. Investment Activities

Impairments of Long-Lived Assets

We are required to measure long-lived assets classified as held for sale at the lower of the carrying value or fair value less cost to sell. In the third quarter of 2009, we classified four properties as held for sale and recorded an impairment loss of \$0.4 million on two of those properties.

(Table of Contents)

HIGHWOODS REALTY LIMITED PARTNERSHIP

Notes To Consolidated Financial Statements (Continued)

(tabular dollar amounts in thousands, except per unit data)

3. Investment Activities - Continued

Dispositions

In the second quarter of 2009, we sold three non-core community retail centers aggregating 413,000 square feet in the Kansas City metropolitan area for gross proceeds of \$62.1 million. A gain of \$20.9 million was recorded in the second quarter of 2009.

Development

Development in process as of September 30, 2009 consisted primarily of two office properties aggregating 258,000 rentable square feet and 75 acres of vacant land undergoing infrastructure improvements. The aggregate cost, including leasing commissions, of the two office properties currently is expected to be \$64.1 million when fully leased and completed, of which \$62.6 million had been incurred as of September 30, 2009. The weighted average pre-leasing, based on projected development costs, of these development properties was approximately 62% as of September 30, 2009.

Additionally, we currently have one office property and one industrial property recently completed, but not yet stabilized, aggregating 353,000 square feet. We define "stabilized" as 95% occupied or one year from substantial completion, whichever comes first. The aggregate cost, including leasing commissions, of these properties currently is expected to be \$40.0 million when fully leased, of which \$34.5 million had been incurred as of September 30, 2009. The dollar weighted average pre-leasing of these properties was approximately 62% as of September 30, 2009. The components of these properties are included in land, building and tenant improvements and deferred financing and leasing costs in our Consolidated Balance Sheet as of September 30, 2009.

For-Sale Residential Condominiums

We own a majority interest in Plaza Residential, LLC, a joint venture which was formed to develop and sell 139 for-sale residential condominiums constructed above an office tower developed by us in Raleigh, NC. For-sale residential condominiums in our Consolidated Balance Sheets include our completed, but unsold, condominium inventory as of September 30, 2009 and December 31, 2008. We initially record receipt of deposits as a component of Accounts Payable, Accrued Expenses, and Other Liabilities in our Consolidated Balance Sheets as required by the deposit method. For those units sold, we account for the resulting sales proceeds using the deposit method. For the three and nine months ended September 30, 2009, we sold seven and 20 condominiums for net sales proceeds of \$2.7 million and \$7.9 million, respectively, and recorded gains of \$0.2 million and \$0.8 million, respectively. For the three and nine months ended September 30, 2008, there were no corresponding sales or gains. Net sales proceeds include forfeitures of earnest money deposits of \$0.1 million and \$0.6 million for the three and nine months ended September 30, 2009, respectively. We record forfeitures of earnest money deposits as income when entitled to claim the forfeited deposit upon legal default. Our estimate of our partner's economic ownership, which is impacted by a contractually-based promoted return, decreased from 25% as of December 31, 2008 to 18% as of September 30, 2009.

4. Deferred Financing and Leasing Costs

As of September 30, 2009 and December 31, 2008, we had deferred financing costs of \$12.5 million and \$14.7 million, respectively, with related accumulated amortization of \$4.5 million and \$7.8 million, respectively. As of September 30, 2009 and December 31, 2008, we had deferred leasing costs of \$109.7 million and \$110.5 million, respectively, with related accumulated amortization of \$47.4 million and \$44.6 million, respectively. Aggregate amortization expense (included in depreciation and amortization and amortization of deferred financing costs) for these intangibles for the three months ended September 30, 2009 and 2008 was \$4.4 million and \$4.5 million, respectively, and for the nine months ended September 30, 2009 and 2008 was \$13.6 million and \$13.5 million, respectively.

(Table of Contents)

HIGHWOODS REALTY LIMITED PARTNERSHIP

Notes To Consolidated Financial Statements (Continued)

(tabular dollar amounts in thousands, except per unit data)

4. Deferred Financing and Leasing Costs - Continued

The estimated aggregate amortization expense for each of the next five succeeding fiscal years is as follows:

October 1, 2009 through December 31, 2009	\$ 4,291
2010	\$ 14,436
2011	\$ 11,419
2012	\$ 10,946
2013	\$ 7,565
2014	\$ 5,099

5. Mortgages and Notes Payable

Our consolidated mortgages and notes payable consisted of the following:

	September 30, 2009	December 31, 2008
Secured mortgage loans	\$ 724,187	\$655,186
Unsecured loans	748,398	949,499
Total	\$ 1,472,585	\$1,604,685

As of September 30, 2009, our secured mortgage loans were secured by real estate assets with an aggregate un depreciated book value of \$1.2 billion.

Our \$450.0 million unsecured revolving credit facility is scheduled to mature on May 1, 2010. The interest rate is LIBOR plus 80 basis points and the annual base facility fee is 20 basis points. The interest rate would increase to LIBOR plus 140 or 155 basis points if our credit rating were to fall below investment grade according to two of three major credit rating agencies. Our revolving credit facility had \$448.8 million of availability as of September 30, 2009 and October 26, 2009.

Our \$70.0 million secured construction facility is initially scheduled to mature on December 20, 2010. Assuming no defaults have occurred, we have options to extend the maturity date for two successive one-year periods. The interest rate is LIBOR plus 85 basis points. Our secured construction facility had \$28.3 million of availability as of September 30, 2009 and October 26, 2009.

In January 2009, we paid off at maturity \$50.0 million of 8.125% unsecured notes using borrowings under our revolving credit facility.

In March 2009, we obtained a \$20.0 million, three-year unsecured term loan with a bank lender. The interest rate is LIBOR plus 250 basis points, subject to a minimum total interest rate of 3.9%.

In June 2009, we retired the remaining \$107.2 million principal amount of a secured loan using a portion of the net proceeds of our Common Stock offering on June 1, 2009. We incurred no prepayment penalties.

In August 2009, we obtained a \$115.0 million, six and a half-year secured loan that bears interest at 6.875% and a \$47.3 million, seven-year secured loan that bears interest at 7.5%.

During the second quarter of 2009, we repurchased \$3.2 million principal amount of 2017 bonds for a purchase price of 79% of par value.

(Table of Contents)

HIGHWOODS REALTY LIMITED PARTNERSHIP

Notes To Consolidated Financial Statements (Continued)

(tabular dollar amounts in thousands, except per unit data)

5. Mortgages and Notes Payable - Continued

During the third quarter of 2009, we repurchased \$5.0 million principal amount of 2017 bonds for a purchase price of 86% of par value.

Our revolving credit facility, variable rate term loans and the indenture that governs our outstanding notes require us to comply with customary operating covenants and various financial and operating ratios. We and the Company are each currently in compliance with all such requirements.

6. Share-Based Payments

During the nine months ended September 30, 2009, the Company granted under its Amended and Restated 1994 Stock Option Plan 394,044 stock options at an exercise price equal to the closing market price of a share of its common stock on the date of grant. The fair value of each option grant is estimated on the date of grant using the Black-Scholes option pricing model, which resulted in a weighted-average grant date fair value per share of \$1.80. During the nine months ended September 30, 2009, the Company also granted 128,384 shares of time-based restricted stock and 99,910 shares of total return-based restricted stock with weighted-average grant date fair values per share of \$19.33 and \$10.13, respectively. The Company recorded stock-based compensation expense of \$1.6 million and \$1.3 million during the three months ended September 30, 2009 and 2008. The Company recorded stock-based compensation expense of \$5.2 million and \$5.3 million during the nine months ended September 30, 2009 and 2008, respectively. As of September 30, 2009, there was \$9.3 million of total unrecognized stock-based compensation costs, which will be recognized over a weighted average remaining contractual term of 1.5 years.

7. Derivative Instruments

To meet, in part, our liquidity requirements, we borrow funds at a combination of fixed and variable rates. Borrowings under our revolving credit facility, construction facility and bank term loans bear interest at variable rates. Our long-term debt, which consists of secured and unsecured long-term financings and the issuance of unsecured debt securities, typically bears interest at fixed rates although some loans bear interest at variable rates. Our interest rate risk management objectives are 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 interest rate on all of our variable rate debt is generally adjusted at one or three month intervals, subject to settlements under these interest rate hedge contracts. We also enter into treasury lock agreements from time to time in order to limit our exposure to an increase in interest rates with respect to future debt offerings.

In prior periods, we entered into certain interest rate hedging arrangements which were designated and are being accounted for as cash flow hedges. The effective portion of these arrangements, representing deferred interest expense, was \$1.0 million as of September 30, 2009 and is included in Accumulated Other Comprehensive Loss ("AOCL"). This deferred expense will be recognized as an addition to interest expense in the same periods during which interest expense on the hedged financings affects net income. We expect approximately \$0.1 million will be recognized as a decrease to interest expense within the next 12 months.

In January 2008, we entered into two floating-to-fixed interest rate swaps for a one-year period with respect to an aggregate of \$50.0 million of borrowings outstanding under our revolving credit facility or other floating rate debt. These swaps fixed the underlying LIBOR rate upon which interest on such borrowings is based at 3.26% for \$30.0 million of borrowings and 3.24% for \$20.0 million of borrowings. These swaps were designated and accounted for as cash flow hedges and matured in January 2009.

(Table of Contents)

HIGHWOODS REALTY LIMITED PARTNERSHIP

Notes To Consolidated Financial Statements (Continued)

(tabular dollar amounts in thousands, except per unit data)

7. Derivative Instruments - Continued

In April 2008, we entered into a floating-to-fixed interest rate swap for a two-year period with respect to an aggregate of \$50.0 million of borrowings outstanding under our term loan or other floating rate debt. The swap fixes the underlying LIBOR rate upon which interest on such borrowings is based at 2.52%. The counterparty under this swap is Bank of America, N.A. The swap was designated and is being accounted for as a cash flow hedge. The effective portion of the swap representing deferred interest expense was \$0.6 million as of September 30, 2009 and is included in AOCL. We expect all of the balance to be recognized as an increase to interest expense within the next seven months. See Note 9 for Fair Value Measurements disclosure.

In October 2008, we entered into a floating-to-fixed interest rate swap for a one-year period with respect to an aggregate of \$25.0 million of borrowings outstanding under our term loan or other floating rate debt. The swap fixes the underlying LIBOR rate upon which interest on such borrowings is based at 2.35%. The counterparty under this swap is PNC Bank, N.A. The swap was designated and is being accounted for as a cash flow hedge. The effective portion of the swap representing deferred interest expense was \$39,000 as of September 30, 2009 and is included in AOCL. We expect all of the balance to be recognized as an increase to interest expense within the next month. See Note 9 for Fair Value Measurements disclosure.

8. Other Comprehensive Income/(Loss)

Other comprehensive income/(loss) represents net income plus the changes in certain amounts deferred in accumulated other comprehensive income/(loss) related to hedging and other activities not reflected in the Consolidated Statements of Income. The components of other comprehensive income/(loss) are as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
Net income	\$12,560	\$15,697	\$62,782	\$48,419
Other comprehensive income/(loss):				
Unrealized gain/(loss) on tax increment financing bonds	259	(1,751)	451	(2,126)
Unrealized derivative net gains on cash-flow hedges	177	49	591	573
Amortization of past cash flow hedges	(89)	47	(229)	174
Total other comprehensive income/(loss)	347	(1,655)	813	(1,379)
Total comprehensive income	\$12,907	\$14,042	\$63,595	\$47,040

9. Fair Value Measurements

The following summarizes the three levels of inputs that we use to measure fair value, as well as the assets, mezzanine noncontrolling interests and liabilities that we recognize at fair value using those levels of inputs.

Level 1. Quoted prices in active markets for identical assets or liabilities.

Our Level 1 assets are comprised of investments in marketable securities which we use to pay benefits under our deferred compensation plan. Our Level 1 noncontrolling interests in the Operating Partnership are comprised of Common Units in the Operating Partnership not owned by the Company. Our Level 1 liabilities are our obligations to pay certain deferred compensation plan benefits whereby participants have designated investment options (primarily mutual funds) to serve as the basis for measurement of the notional value of their accounts.

Level 2. Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the related assets or liabilities.

(Table of Contents)

HIGHWOODS REALTY LIMITED PARTNERSHIP

Notes To Consolidated Financial Statements (Continued)

(tabular dollar amounts in thousands, except per unit data)

9. Fair Value Measurements - Continued

Our Level 2 liabilities are interest rate swaps whose fair value is determined using a pricing model based upon observable market inputs.

Level 3. Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

Our Level 3 asset is our tax increment financing bond issued by a municipal authority in connection with our construction of a public parking facility that is not routinely traded but whose fair value is determined using an estimate of projected redemption value based on quoted bid/ask prices for similar unrated municipal bonds. This available for-sale security is carried at estimated fair value in prepaid and other assets with unrealized gains or losses reported in accumulated other comprehensive loss. The estimated fair value as of September 30, 2009 was \$2.2 million below the outstanding principal due on the bond. We currently intend to hold this bond, which amortizes to maturity in 2020, and do not believe that we will be required to sell this bond before recovery. Payment of the principal and interest for the bond is guaranteed by us and, therefore, we have recorded no credit losses related to the bond's impairment. Our Level 3 liability is our SF-HIW Harborview Plaza, LP financing obligation that is not traded but whose fair value is determined using an estimate of discounted cash flows dependent on future leasing assumptions for the property.

The following tables set forth the assets and liabilities that we measured at fair value on a recurring basis by level within the fair value hierarchy.

	September 30, 2009	Level 1 Quoted Prices in Active Markets for Identical Assets	Level 2 Significant Other Observable Inputs	Level 3 Significant Unobservable Inputs
Assets:				
Marketable securities (in prepaid and other assets) (1)	\$ 5,904	\$ 5,904	\$ —	\$ —
Tax increment financing bond (in prepaid expenses and other assets)	17,919	—	—	17,919
Total Assets	\$ 23,823	\$ 5,904	\$ —	\$ 17,919
Liabilities:				
Interest rate swaps (in accounts payable, accrued expenses and other liabilities)	\$ 673	\$ —	\$ 673	\$ —
Deferred compensation (in accounts payable, accrued expenses and other liabilities)	6,612	6,612	—	—
SF-Harborview Plaza, LP financing obligation	17,445	—	—	17,445
Total Liabilities	\$ 24,730	\$ 6,612	\$ 673	\$ 17,445

(Table of Contents)

HIGHWOODS REALTY LIMITED PARTNERSHIP

Notes To Consolidated Financial Statements (Continued)

(tabular dollar amounts in thousands, except per unit data)

9. Fair Value Measurements - Continued

	December 31, 2008	Level 1 Quoted Prices in Active Markets for Identical Assets	Level 2 Significant Other Observable Inputs	Level 3 Significant Unobservable Inputs
Assets				
Marketable securities (in prepaid and other assets) (1)	\$ 5,422	\$ 5,422	\$ —	\$ —
Tax increment financing bond (in prepaid expenses and other assets)	17,468	—	—	17,468
Total Assets	\$ 22,890	\$ 5,422	\$ —	\$ 17,468
Liabilities				
Interest rate swaps (in accounts payable, accrued expenses and other liabilities)	\$ 1,376	\$ —	\$ 1,376	\$ —
Deferred compensation (in accounts payable, accrued expenses and other liabilities)	6,522	6,522	—	—
SF-Harborview Plaza, LP financing obligation	16,604	—	—	16,604
Total Liabilities	\$ 24,502	\$ 6,522	\$ 1,376	\$ 16,604

(1) The marketable securities are held through our officer deferred compensation plans.

The following table sets forth our Level 3 asset and liability.

	Three Months Ended September 30, 2009	Nine Months Ended September 30, 2009
Asset:		
Tax Increment Financing Bond		
Beginning balance	\$ 17,660	\$ 17,468
Unrealized gain (in AOCL)	259	451
Ending balance	\$ 17,919	\$ 17,919
Liability:		
SF-Harborview Plaza, LP Financing Obligation		
Beginning balance	\$ 17,172	\$ 16,604
Payments on financing obligation	(124)	(396)

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Interest expense on financing obligation	397	1,237
Ending balance	\$ 17,445	\$ 17,445

40

(Table of Contents)

HIGHWOODS REALTY LIMITED PARTNERSHIP

Notes To Consolidated Financial Statements (Continued)

(tabular dollar amounts in thousands, except per unit data)

9. Fair Value Measurements - Continued

The following estimated fair values were determined by management using available market information and appropriate valuation methodologies. Considerable judgment is used to interpret market data and develop estimated fair values. Accordingly, the estimates presented herein are not necessarily indicative of the amounts that we could realize upon disposition of the financial instruments. The use of different market assumptions and/or estimation methodologies may have a material effect on the estimated fair values. The carrying amounts and estimated fair values of our financial instruments were as follows:

	Carrying Amount	Fair Value
September 30, 2009		
Cash and cash equivalents	\$41,899	\$41,899
Restricted cash	\$17,995	\$17,995
Accounts and notes receivable	\$23,093	\$23,093
Marketable securities (in prepaid expenses and other assets)	\$5,904	\$5,904
Tax increment financing bond (in prepaid expenses and other assets)	\$17,919	\$17,919
Mortgages and notes payable	\$1,472,585	\$1,444,085
Financing obligations	\$35,043	\$35,142
Interest rate swaps (in accounts payable, accrued expenses and other liabilities)	\$673	\$673
Deferred compensation (in accounts payable, accrued expenses and other liabilities)	\$6,612	\$6,612
December 31, 2008		
Cash and cash equivalents	\$13,649	\$13,649
Restricted cash	\$2,258	\$2,258
Accounts and notes receivable	\$27,289	\$27,289
Marketable securities (in prepaid expenses and other assets)	\$5,422	\$5,422
Tax increment financing bond (in prepaid expenses and other assets)	\$17,468	\$17,468
Mortgages and notes payable	\$1,604,685	\$1,330,899
Financing obligations	\$34,174	\$32,219
Interest rate swaps (in accounts payable, accrued expenses and other liabilities)	\$1,376	\$1,376
Deferred compensation (in accounts payable, accrued expenses and other liabilities)	\$6,522	\$6,522

The fair values of our mortgages and notes payable and financing obligations were estimated using discounted cash flow analyses based on estimated market rates on similar borrowing arrangements at September 30, 2009 and December 31, 2008, respectively. The carrying amounts of our cash and cash equivalents, accounts and notes receivable equal or approximate fair value.

Disclosures about the fair value of financial instruments are based on relevant information available to us at September 30, 2009. Although management is not aware of any factors that would have a material effect on the fair value amounts reported herein, such amounts have not been revalued since that date and current estimates of fair value may significantly differ from the amounts presented herein.

(Table of Contents)

HIGHWOODS REALTY LIMITED PARTNERSHIP

Notes To Consolidated Financial Statements (Continued)

(tabular dollar amounts in thousands, except per unit data)

10. Discontinued Operations

As part of our business strategy, we from time to time selectively dispose of non-core properties and use the net proceeds for investments, for repayment of debt and/or retirement of Preferred Stock, or other purposes. The table below sets forth the net operating results of those assets classified as discontinued operations in our Consolidated Financial Statements. These assets classified as discontinued operations comprise 1.2 million square feet of office and retail properties and 13 rental residential units sold during 2008 and the nine months ended September 30, 2009. The operations of these assets have been reclassified from our ongoing operations to discontinued operations, and we will not have any significant continuing involvement in the operations after the disposal transactions:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
Rental and other revenues	\$395	\$3,524	\$4,775	\$12,039
Operating expenses:				
Rental property and other expenses	112	1,273	1,639	4,457
Depreciation and amortization	52	652	756	2,187
Total operating expenses	164	1,925	2,395	6,644
Other income	1	3	1	22
Income before gains/(losses) from discontinued operations	232	1,602	2,381	5,417
Net gains/(losses) from discontinued operations	(377)	3,137	20,639	11,890
Total discontinued operations	\$(145)	\$4,739	\$23,020	\$17,307

The following table includes the major classes of assets and liabilities of the properties classified as held for sale:

	September 30,	December 31,
	2009	2008
Land	\$ 5,877	\$ 5,983
Land held for development	1,197	1,197
Buildings and tenant improvements	7,656	8,033
Accumulated depreciation	(1,802)	(1,627)
Net real estate assets	12,928	13,586
Deferred leasing costs, net	401	434
Accrued straight line rents receivable	403	382
Prepaid expenses and other	47	45
Total assets	\$ 13,779	\$ 14,447
Tenant security deposits, deferred rents and accrued costs (1)	\$ 12	\$ 9

(1) Included in accounts payable, accrued expenses and other liabilities.

42

(Table of Contents)

HIGHWOODS REALTY LIMITED PARTNERSHIP

Notes To Consolidated Financial Statements (Continued)

(tabular dollar amounts in thousands, except per unit data)

11. Earnings Per Unit

Beginning in the first quarter of 2009, we have modified our calculation of weighted average common units, basic and diluted, to include our total number of restricted common shares outstanding, as described in Note 1.

The following table sets forth the computation of basic and diluted earnings per common unit:

	Three Months Ended September 30, 2009		Nine Months Ended September 30, 2008	
Earnings per common unit - basic:				
Numerator:				
Income from continuing operations	\$12,705	\$10,958	\$39,762	\$31,112
Noncontrolling interests in consolidated affiliates from continuing operations	(24)	(201)	(158)	(590)
Distributions on preferred units	(1,677)	(2,451)	(5,031)	(8,127)
Excess of preferred unit redemption cost over carrying value	—	(108)	—	(108)
Income from continuing operations available for common unitholders	11,004	8,198	34,573	22,287
Income/(loss) from discontinued operations	(145)	4,739	23,020	17,307
Net income available for common unitholders	\$10,859	\$12,937	\$57,593	\$39,594
Denominator:				
Denominator for basic earnings per common unit – weighted average units	74,542	62,517	70,563	61,431
Earnings per common unit - basic:				
Income from continuing operations available for common unitholders	\$0.15	\$0.13	\$0.49	\$0.36
Income from discontinued operations available for common unitholders	—	0.08	0.33	0.28
Net income available for common unitholders	\$0.15	\$0.21	\$0.82	\$0.64
Earnings per common unit - diluted:				
Numerator:				
Income from continuing operations	\$12,705	\$10,958	\$39,762	\$31,112
Noncontrolling interests in consolidated affiliates from continuing operations	(24)	(201)	(158)	(590)
Distributions on preferred units	(1,677)	(2,451)	(5,031)	(8,127)
Excess of preferred unit redemption cost over carrying value	—	(108)	—	(108)
Income from continuing operations available for common unitholders	11,004	8,198	34,573	22,287
Income/(loss) from discontinued operations	(145)	4,739	23,020	17,307
Net income available for common unitholders	\$10,859	\$12,937	\$57,593	\$39,594
Denominator:				
Denominator for basic earnings per common units –weighted average units	74,542	62,517	70,563	61,431
Add:				
Employee and director stock options and warrants	121	302	52	336
Denominator for diluted earnings per common units – adjusted weighted average units and assumed conversions (1)	74,663	62,819	70,615	61,767
Earnings per common unit - diluted:				

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Income from continuing operations available for common unitholders	\$0.15	\$0.13	\$0.49	\$0.36
Income from discontinued operations available for common unitholders	—	0.08	0.33	0.28
Net income available for common unitholders	\$0.15	\$0.21	\$0.82	\$0.64

(1) Options and warrants aggregating 935,494 and 327,747 units were outstanding during the three months ended September 30, 2009 and 2008, respectively, and 1,191,900 and 174,709 units were outstanding during the nine months ended September 30, 2009 and 2008, respectively but were not included in the treasury method calculation for diluted earnings per common units because the exercise prices of the options and warrants were higher than the average market price of Common Stock during these periods.

(Table of Contents)

HIGHWOODS REALTY LIMITED PARTNERSHIP

Notes To Consolidated Financial Statements (Continued)

(tabular dollar amounts in thousands, except per unit data)

12. Segment Information

Our principal business is the acquisition, development and operation of rental real estate properties. We evaluate our business by product type and by geographic locations. Each product type has different customers and economic characteristics as to rental rates and terms, cost per square foot of buildings, the purposes for which customers use the space, the degree of maintenance and customer support required and customer dependency on different economic drivers, among others. The operating results by geographic grouping are also regularly reviewed by our chief operating decision maker for assessing performance and other purposes. There are no material inter-segment transactions.

The accounting policies of the segments are the same as those described in Note 1 included herein. All operations are within the United States and, as of September 30, 2009, no customer of the Wholly Owned Properties comprised more than 8.9% of our consolidated revenues.

The following table summarizes the rental income and other revenues and net operating income, defined as rental and other revenues less rental property and other expenses, for each reportable segment:

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2009	2008	2009	2008
Rental and Other Revenues: (1) (2) (3)				
Office:				
Atlanta, GA	\$12,618	\$11,854	\$36,215	\$35,143
Greenville, SC	3,428	3,522	10,669	10,281
Kansas City, MO	3,742	3,959	11,200	11,477
Memphis, TN	8,187	6,331	22,617	18,839
Nashville, TN	15,175	15,384	46,202	45,572
Orlando, FL	3,112	2,939	8,906	8,115
Piedmont Triad, NC	6,230	6,259	19,066	19,383
Raleigh, NC	18,204	17,284	54,513	52,030
Richmond, VA	12,174	11,925	35,117	36,341
Tampa, FL	17,477	16,844	50,618	49,695
Total Office Segment	100,347	96,301	295,123	286,876
Industrial:				
Atlanta, GA	3,904	3,800	11,776	11,702
Piedmont Triad, NC	3,182	3,695	10,865	10,980
Total Industrial Segment	7,086	7,495	22,641	22,682
Retail:				
Kansas City, MO	6,463	8,663	21,756	25,598
Raleigh, NC	30	—	90	—
Total Retail Segment	6,493	8,663	21,846	25,598
Residential:				
Kansas City, MO	303	296	898	898
Total Residential Segment	303	296	898	898

Total Rental and Other
Revenues

\$114,229 \$112,755 \$340,508 \$336,054

44

(Table of Contents)

HIGHWOODS REALTY LIMITED PARTNERSHIP

Notes To Consolidated Financial Statements (Continued)

(tabular dollar amounts in thousands, except per unit data)

12. Segment Information - Continued

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2009	2008	2009	2008
Net Operating Income: (1) (2) (3)				
Office:				
Atlanta, GA	\$7,891	\$6,764	\$22,923	\$21,752
Greenville, SC	2,011	2,184	6,648	6,429
Kansas City, MO	2,340	2,420	6,851	6,907
Memphis, TN	4,841	3,852	12,901	11,183
Nashville, TN	9,940	10,209	30,113	30,173
Orlando, FL	1,638	1,638	4,671	4,538
Piedmont Triad, NC	3,872	3,843	12,202	12,324
Raleigh, NC	11,942	11,638	36,776	34,773
Richmond, VA	7,835	7,818	23,920	24,389
Tampa, FL	10,184	9,985	29,620	29,796
Total Office Segment	62,494	60,351	186,625	182,264
Industrial:				
Atlanta, GA	2,904	2,892	8,916	8,949
Piedmont Triad, NC	2,322	2,864	8,341	8,612
Total Industrial Segment	5,226	5,756	17,257	17,561
Retail:				
Atlanta, GA (4)	(6)	(6)	(18)	(20)
Kansas City, MO	3,486	5,617	13,465	16,986
Raleigh, NC (4)	(1)	(21)	9	(69)
Total Retail Segment	3,479	5,590	13,456	16,897
Residential:				
Kansas City, MO	163	163	518	528
Raleigh, NC (4)	(72)	(16)	(211)	(22)
Total Residential Segment	91	147	307	506
Total Net Operating Income	71,290	71,844	217,645	217,228
Reconciliation to income from continuing operations before disposition of property and condominiums and equity in earnings of unconsolidated affiliates:				
Depreciation and amortization	(32,637)	(31,458)	(98,443)	(92,405)
General and administrative expense	(9,485)	(8,885)	(27,537)	(29,509)
Interest expense	(21,334)	(24,492)	(64,654)	(74,128)
Interest and other income	3,981	1,017	7,902	3,406
Income from continuing operations before disposition of property and condominiums and equity in earnings of unconsolidated affiliates	\$ 11,815	\$ 8,026	\$ 34,913	\$ 24,592

(1) Net of discontinued operations.

- (2) The Piedmont Triad market encompasses the Greensboro and Winston-Salem metropolitan area.
- (3) The Raleigh market encompasses the Raleigh, Durham, Cary and Research Triangle metropolitan area.
- (4) Negative NOI with no corresponding revenues represents expensed real estate taxes and other carrying costs associated with land held for development that is currently zoned for retail and residential properties.

(Table of Contents)

HIGHWOODS REALTY LIMITED PARTNERSHIP

Notes To Consolidated Financial Statements (Continued)

(tabular dollar amounts in thousands, except per unit data)

13. Subsequent Events

We have evaluated events subsequent to September 30, 2009 and through October 29, 2009 (the issuance date of this interim report on Form 10-Q) and no such events required disclosure for purposes of these financial statements.

(Table of Contents)

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

The Company is a fully integrated, self-administered and self-managed equity REIT that provides leasing, management, development, construction and other customer-related services for our properties and for third parties. The Company conducts virtually all of its activities through the Operating Partnership and is its sole general partner. As of September 30, 2009, we owned or had an interest in 380 in-service office, industrial and retail properties, encompassing approximately 35.4 million square feet, which includes five office and industrial development properties that had not yet reached 95% stabilized occupancy aggregating 782,460 square feet and a 12.5% interest in a 261,000 square foot office property directly owned by the Company (included in the Company's Consolidated Financial Statements, but not included in the Operating Partnership's Consolidated Financial Statements), 54 for-sale residential condominiums and 514 rental residential units. We are based in Raleigh, North Carolina, and our properties and development land are located in Florida, Georgia, Iowa, Maryland, Mississippi, Missouri, North Carolina, South Carolina, Tennessee and Virginia. Additional information about us can be found on our website at www.highwoods.com. Information on our website is not part of this Quarterly Report.

You should read the following discussion and analysis in conjunction with the accompanying Consolidated Financial Statements and related notes contained elsewhere in this Quarterly Report.

Disclosure Regarding Forward-Looking Statements

Some of the information in this Quarterly Report may contain forward-looking statements. Such statements include, in particular, statements about our plans, strategies and prospects under this section and under the heading "Business." 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:

- the financial condition of our customers could deteriorate;
- we may not be able to lease or release second generation space quickly or on as favorable terms as old leases;
- we may not be able to lease our newly constructed buildings as quickly or on as favorable terms as originally anticipated;
- we may not be able to complete development, acquisition, reinvestment, disposition or joint venture projects as quickly or on as favorable terms as anticipated;
- development activity by our competitors in our existing markets could result in an excessive supply of office, industrial and retail properties relative to customer demand;
- our southeastern and midwestern markets may suffer declines in economic growth;
-

difficulties in obtaining additional capital to satisfy our future cash needs or increases in interest rates could adversely impact our ability to fund important business initiatives and increase our debt service costs;

- we may not be able to meet our liquidity requirements or obtain capital on favorable terms to fund our working capital needs and growth initiatives or to repay or refinance outstanding debt upon maturity; and
- the Company could lose key executive officers.

(Table of Contents)

This list of risks and uncertainties, however, is not intended to be exhaustive. You should also review the other cautionary statements we make in “Business – Risk Factors” set forth herein and in our 2008 Annual Report on Form 10-K. Given these uncertainties, you should not place undue reliance on forward-looking statements. We undertake no obligation to publicly release the results of any revisions to these forward-looking statements to reflect any future events or circumstances or to reflect the occurrence of unanticipated events.

Results of Operations

Results for the three and nine months ended September 30, 2008 were reclassified from previously reported amounts to reflect in discontinued operations the operations for those properties sold and held for sale during 2008 and the first nine months of 2009 which qualified for discontinued operations presentation and the retroactive accounting modifications discussed in Note 1 to our Consolidated Financial Statements.

Three Months Ended September 30, 2009 and 2008

Rental and Other Revenues

While we own and operate a number of industrial, retail and residential properties, our operating results depend heavily on successfully leasing and operating our office properties. Economic growth in the areas in which we operate is and will continue to be an important determinative factor in predicting our future operating results.

The key components affecting our rental and other revenues are average occupancy, rental rates, new developments placed in service, acquisitions and dispositions. Average occupancy generally increases during times of improving economic growth, as our ability to lease space outpaces vacancies that occur upon the expirations of existing leases. Average occupancy generally declines during times of slower or negative economic growth, when new vacancies tend to outpace our ability to lease space. Asset acquisitions, dispositions and new developments placed in service directly impact our rental revenues and could impact our average occupancy, depending upon the occupancy rate of the properties that are acquired, sold or placed in service. A further indicator of the predictability of future revenues is the expected lease expirations of our portfolio. As a result, in addition to seeking to increase our average occupancy by leasing current vacant space, we also must concentrate our leasing efforts on renewing leases on expiring space. For more information regarding our lease expirations, see “Properties – Lease Expirations” in our 2008 Annual Report on Form 10-K.

Rental and other revenues from continuing operations were 1.3% higher in the third quarter of 2009 as compared to the third quarter of 2008 primarily due to higher revenues from the contribution of development properties placed in service in 2008 and the nine months ended September 30, 2009, the acquisition of the PennMarc building in Memphis, TN and higher average rental rates, offset by lower revenues due to lower occupancy in our same property portfolio.

Operating Expenses

Our expenses primarily consist of rental property expenses, depreciation and amortization, general and administrative expenses and interest expense. Rental property expenses are expenses associated with our ownership and operation of rental properties and include expenses that vary somewhat proportionately to occupancy levels, such as common area maintenance and utilities, and expenses that do not vary based on occupancy, such as property taxes and insurance. Depreciation and amortization is a non-cash expense associated with the ownership of real property and generally remains relatively consistent each year, unless we buy, place in service or sell assets, since we depreciate our properties and related building and tenant improvement assets on a straight-line basis over a fixed life. General and administrative expenses, net of amounts capitalized, consist primarily of management and employee salaries and other

personnel costs, corporate overhead and long-term incentive compensation.

Rental property and other expenses were 5.0% higher in the third quarter of 2009 as compared to the third quarter of 2008 primarily due to higher expenses from the contribution of development properties placed in service in 2008 and the nine months ended September 30, 2009, the acquisition of the PennMarc building in Memphis, TN and by higher expenses in our same property portfolio.

(Table of Contents)

Operating margin, defined as rental and other revenues less rental property and other expenses expressed as a percentage of rental and other revenues, decreased to 62.4% in the third quarter of 2009 as compared to 63.7% in the third quarter of 2008, mostly the result of lower revenues due to lower occupancy in our same property portfolio.

Depreciation and amortization was 3.7% higher in the third quarter of 2009 as compared to the third quarter of 2008 primarily due to higher depreciation and amortization from the contribution of development properties placed in service in 2008 and the nine months ended September 30, 2009 and the acquisition of the PennMarc building in Memphis, TN.

General and administrative expenses were 6.8% higher in the third quarter of 2009 as compared to the third quarter of 2008 primarily due to higher deferred compensation expense caused by an increase in the value of marketable securities held under our deferred compensation plans and lower capitalization of costs, partly offset by lower expenses from unsuccessful projects and headcount reductions.

Other Income

Other income was \$3.0 million higher in the third quarter of 2009 as compared to the third quarter of 2008 primarily due to higher income from an increase in the value of marketable securities held under our deferred compensation plans, favorable cash settlement of a real estate-related legal claim and gain on the extinguishment of \$5.0 million principal amount of certain outstanding bonds.

Interest Expense

Interest expense depends upon the amount of our borrowings, the weighted average interest rates on our debt and the amount of interest capitalized on development projects.

Contractual interest expense is shown net of amounts capitalized to development projects. Contractual interest expense was 13.0% lower in the third quarter of 2009 as compared to the third quarter of 2008 primarily due to lower expense from lower average borrowings resulting from de-leveraging efforts using the proceeds of our sales of common stock in September 2008 and June 2009, partly offset by lower capitalized interest resulting from decreased development in process.

Discontinued Operations

The Company classified income of \$4.7 million as discontinued operations in the third quarter of 2008. This amount relates to 1.2 million square feet of office and retail properties and 13 rental residential units sold or held for sale during 2008 and the nine months ended September 30, 2009.

Dividends on Preferred Equity

Dividends on preferred equity were 31.6% lower in the third quarter of 2009 as compared to the third quarter of 2008 due to the retirement of \$53.8 million of preferred equity in September 2008.

Nine Months Ended September 30, 2009 and 2008

Rental and Other Revenues

Rental and other revenues from continuing operations were 1.3% higher in the nine months ended September 30, 2009 as compared to the nine months ended September 30, 2008 primarily due to higher revenues from the contribution of

development properties placed in service in 2008 and the nine months ended September 30, 2009, the acquisition of the PennMarc building in Memphis, TN and higher average rental rates, partly offset by lower revenues due to lower occupancy in our same property portfolio.

Operating Expenses

Rental property and other expenses were 3.5% higher in the nine months ended September 30, 2009 as compared to the nine months ended September 30, 2008 primarily due to higher expenses from the contribution of development properties placed in service in 2008 and the nine months ended September 30, 2009, the acquisition of the PennMarc building in Memphis, TN, and by higher expenses in our same property portfolio.

(Table of Contents)

Operating margin, defined as rental and other revenues less rental property and other expenses expressed as a percentage of rental and other revenues, declined to 63.8% in the nine months ended September 30, 2009 as compared to 64.6% in the nine months ended September 30, 2008 mostly the result of lower revenues from lower occupancy in our same property portfolio and higher expenses largely in same property utilities and real estate taxes.

Depreciation and amortization was 6.5% higher in the nine months ended September 30, 2009 as compared to the nine months ended September 30, 2008 primarily due to higher depreciation and amortization from the contribution of development properties placed in service in 2008 and the nine months ended September 30, 2009, the acquisition of the PennMarc building in Memphis, TN.

General and administrative expenses were 7.1% lower in the nine months ended September 30, 2009 as compared to the nine months ended September 30, 2008 primarily due to lower expenses from unsuccessful projects and headcount reductions, partly offset by higher deferred compensation expense caused by an increase in the value of marketable securities held under our deferred compensation plans and lower capitalization of costs.

Other Income

Other income was \$4.5 million higher in the nine months ended September 30, 2009 as compared to the nine months ended September 30, 2008 primarily due to higher income from an increase in the value of marketable securities held under our deferred compensation plans, favorable cash settlement of a real estate-related legal claim and gain on the extinguishment of \$8.2 million principal amount of certain outstanding bonds.

Interest Expense

Contractual interest expense is shown net of amounts capitalized to development projects. Contractual interest expense was 13.3% lower in the nine months ended September 30, 2009 as compared to the nine months ended September 30, 2008 primarily due to lower expense from lower average borrowings resulting from de-leveraging efforts using the proceeds of our sales of common stock in September 2008 and June 2009, partly offset by lower capitalized interest resulting from decreased development in process.

Discontinued Operations

The Company classified income of \$23.0 million and \$17.3 million as discontinued operations in the nine months ended September 30, 2009 and the nine months ended September 30, 2008, respectively. These amounts relate to 1.2 million square feet of office and industrial properties and 13 rental residential units sold or held for sale during 2008 and the nine months ended September 30, 2009, and include net gains on the sale of these properties of \$20.6 million and \$11.9 million in the nine months ended September 30, 2009 and the nine months ended September 30, 2008, respectively.

Net Income Attributable to Noncontrolling Interests in the Operating Partnership

The Company's net income attributable to noncontrolling interests in the Operating Partnership was \$0.8 million higher in the nine months ended September 30, 2009 as compared to the nine months ended September 30, 2008 primarily due to gains on the sale of properties in the third quarter of 2009 that were classified as discontinued operations.

Dividends on Preferred Equity

Dividends on preferred equity were 38.1% lower in the nine months ended September 30, 2009 as compared to the nine months ended September 30, 2008 due to the retirement of \$53.8 million of preferred equity in September 2008.

(Table of Contents)

Liquidity and Capital Resources

Overview

Our goal is to maintain a conservative and flexible balance sheet. We generally use rents received from customers to fund our operating expenses, recurring capital expenditures and distributions. To fund property acquisitions, development activity or building renovations and repay debt upon maturity, we may sell assets, obtain new debt and/or issue equity. Our debt generally consists of mortgage debt, unsecured debt securities and borrowings under our secured and unsecured credit facilities. To generate additional capital to fund our growth and other strategic initiatives and to lessen the ownership risks typically associated with owning 100.0% of a property, we may also sell or contribute some of our properties to joint ventures.

Statements of Cash Flows

As required by GAAP, we report and analyze our cash flows based on operating activities, investing activities and financing activities. The following table sets forth the changes in the Company's cash flows (\$ in thousands):

	Nine Months Ended September 30,		
	2009	2008	Change
C a s h P r o v i d e d B y O p e r a t i n g Activities	\$ 154,829	\$ 128,141	\$ 26,688
C a s h (U s e d I n) I n v e s t i n g Activities	(44,624)	(128,601)	83,977
Cash (Used In)/Provided by Financing Activities	(81,893)	10,987	(92,880)
Total Cash Flows	\$28,312	\$ 10,527	\$ 17,785

In calculating cash flow from operating activities, depreciation and amortization, which are non-cash expenses, are added back to net income. As a result, we have historically generated a positive amount of cash from operating activities. From period to period, cash flow from operations depends primarily upon changes in our net income, as discussed more fully above under "Results of Operations," changes in receivables and payables, and net additions or decreases in our overall portfolio, which affect the amount of depreciation and amortization expense.

Cash used in or provided by investing activities generally relates to capitalized costs incurred for leasing and major building improvements and our acquisition, development, disposition and joint venture activity. During periods of significant net acquisition and/or development activity, our cash used in such investing activities will generally exceed cash provided by investing activities, which typically consists of cash received upon the sale of properties and distributions of capital from our joint ventures.

Cash used in or provided by financing activities generally relates to distributions, incurrence and repayment of debt and sales, repurchases or redemptions of Common Stock, Common Units and Preferred Stock. As discussed previously, we use a significant amount of our cash to fund distributions. Whether or not we have increases in the outstanding balances of debt during a period depends generally upon the net effect of our acquisition, disposition, development and joint venture activity. We generally use our revolving credit facility for working capital purposes, which means that during any given period, in order to minimize interest expense, we will likely record significant repayments and borrowings under our revolving credit facility.

The increase of \$26.7 million in cash provided by operating activities of the Company in the nine months ended September 30, 2009 compared to the nine months ended September 30, 2008 was primarily the result of the net increase in the change in operating assets and liabilities as well as cash flows from net income as adjusted for changes in depreciation and amortization, gain on extinguishment of debt, gains on disposition of properties and distributions of earnings from unconsolidated affiliates.

The decrease of \$84.0 million in cash used in investing activities in the nine months ended September 30, 2009 compared to the nine months ended September 30, 2008 was primarily the result of lower capital expenditures, higher proceeds from dispositions of real estate assets and for-sale residential condominiums, reductions in restricted cash and other investing activities and higher distributions of capital from unconsolidated affiliates.

(Table of Contents)

The decrease of \$92.9 million in cash used in or provided by financing activities in the nine months ended September 30, 2009 compared to the nine months ended September 30, 2008 was primarily the result of lower net borrowings from mortgages and notes payable and our revolving credit facility, higher distributions resulting from an increase in the number of shares of Common Stock outstanding and lower net proceeds from the sale of common stock, offset by lower redemptions/repurchases of common and preferred equity and lower distributions on preferred equity.

Capitalization

The following table sets forth the Company's capitalization (in thousands, except per share amounts):

	September 30, 2009	December 31, 2008
Mortgages and notes payable, at recorded book value	\$ 1,472,585	\$1,604,685
Financing obligations		