

HIGHWOODS PROPERTIES INC  
Form 10-Q  
May 01, 2012

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

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FORM 10-Q

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

For the quarterly period ended March 31, 2012

HIGHWOODS PROPERTIES, INC.

(Exact name of registrant as specified in its charter)

|   |                             |  |
|---|-----------------------------|--|
| Maryland  | 001-13100                   | 56-1871668                                 |
| (State or other jurisdiction<br>of incorporation or organization) | (Commission<br>File Number) | (I.R.S. Employer<br>Identification Number) |

HIGHWOODS REALTY LIMITED PARTNERSHIP

(Exact name of registrant as specified in its charter)

|   |                             |  |
|---|-----------------------------|--|
| North Carolina  | 000-21731                   | 56-1869557                                 |
| (State or other jurisdiction<br>of incorporation or organization) | (Commission<br>File Number) | (I.R.S. Employer<br>Identification Number) |

3100 Smoketree Court, Suite 600  
Raleigh, NC 27604  
(Address of principal executive offices) (Zip Code)  
919-872-4924  
(Registrants' telephone number, including area code)

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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.

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

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Highwoods Realty Limited Partnership

Large accelerated filer  Accelerated filer  Non-accelerated filer  S 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  S Highwoods Realty Limited Partnership Yes  No  S

The Company had 73,924,965 shares of Common Stock outstanding as of April 26, 2012.

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HIGHWOODS PROPERTIES, INC.  
HIGHWOODS REALTY LIMITED PARTNERSHIP

QUARTERLY REPORT FOR THE PERIOD ENDED MARCH 31, 2012

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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” or “Common Shares,” the Company’s preferred stock as “Preferred Stock” or “Preferred Shares,” 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 for-sale residential condominiums) to which the Company and/or the Operating Partnership have title and 100.0% ownership rights as the “Wholly Owned Properties.” References to “we” and “our” mean the Company and the Operating Partnership, collectively, unless the context indicates otherwise.

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.

Certain information contained herein is presented as of April 26, 2012, the latest practicable date prior to the filing of this Quarterly Report.

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## HIGHWOODS PROPERTIES, INC.

## Consolidated Balance Sheets

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

|   | March 31,<br>2012 | December 31,<br>2011 |
|---|-------------------|----------------------|
| Assets:   |                   |                      |
| Real estate assets, at cost:  |                   |                      |
| Land  | \$368,122         | \$ 367,870           |
| Buildings and tenant improvements   | 3,137,658         | 3,127,984            |
| Land held for development   | 105,206           | 105,206              |
|   | 3,610,986         | 3,601,060            |
| Less-accumulated depreciation   | (911,512 )        | (895,777 )           |
| Net real estate assets  | 2,699,474         | 2,705,283            |
| For-sale residential condominiums   | 3,808             | 4,751                |
| Real estate and other assets, net, held for sale  | 7,556             | 13,260               |
| Cash and cash equivalents   | 12,215            | 11,188               |
| Restricted cash   | 20,753            | 26,666               |
| Accounts receivable, net of allowance of \$3,413 and \$3,548, respectively  | 27,230            | 30,093               |
| Mortgages and notes receivable, net of allowance of \$122 and \$61, respectively  | 17,119            | 18,600               |
| Accrued straight-line rents receivable, net of allowance of \$1,420 and \$1,294, respectively   | 110,977           | 105,611              |
| Investments in and advances to unconsolidated affiliates  | 99,062            | 100,367              |
| Deferred financing and leasing costs, net of accumulated amortization of \$67,662 and \$63,059, respectively  | 129,204           | 128,390              |
| Prepaid expenses and other assets   | 43,042            | 36,783               |
| Total Assets  | \$3,170,440       | \$ 3,180,992         |
| Liabilities, Noncontrolling Interests in the Operating Partnership and Equity:  |                   |                      |
| Mortgages and notes payable   | \$1,903,978       | \$ 1,903,213         |
| Accounts payable, accrued expenses and other liabilities  | 122,545           | 148,821              |
| Financing obligations   | 31,110            | 31,444               |
| Total Liabilities   | 2,057,633         | 2,083,478            |
| Commitments and contingencies   |                   |                      |
| Noncontrolling interests in the Operating Partnership   | 124,201           | 110,655              |
| Equity:   |                   |                      |
| Preferred Stock, \$.01 par value, 50,000,000 authorized shares;<br>8.625% Series A Cumulative Redeemable Preferred Shares (liquidation preference<br>\$1,000 per share), 29,077 shares issued and outstanding | 29,077            | 29,077               |
| Common Stock, \$.01 par value, 200,000,000 authorized shares;<br>73,608,571 and 72,647,697 shares issued and outstanding, respectively  | 736               | 726                  |
| Additional paid-in capital  | 1,818,750         | 1,803,997            |
| Distributions in excess of net income available for common stockholders   | (860,120 )        | (845,853 )           |
| Accumulated other comprehensive loss  | (4,376 )          | (5,734 )             |
| Total Stockholders' Equity  | 984,067           | 982,213              |
| Noncontrolling interests in consolidated affiliates   | 4,539             | 4,646                |
| Total Equity  | 988,606           | 986,859              |
| Total Liabilities, Noncontrolling Interests in the Operating Partnership and Equity   | \$3,170,440       | \$ 3,180,992         |

See accompanying notes to consolidated financial statements.



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## HIGHWOODS PROPERTIES, INC.

## Consolidated Statements of Income

(Unaudited and in thousands, except per share amounts)

|   | Three Months Ended March |           |   |
|---|--------------------------|-----------|---|
|   | 31,                      | 2011      |   |
|   | 2012                     | 2011      |   |
| Rental and other revenues   | \$129,943                | \$114,351 |   |
| Operating expenses:   |                          |           |   |
| Rental property and other expenses  | 46,124                   | 40,934    |   |
| Depreciation and amortization   | 38,362                   | 33,556    |   |
| General and administrative  | 9,673                    | 7,793     |   |
| Total operating expenses  | 94,159                   | 82,283    |   |
| Interest expense:   |                          |           |   |
| Contractual   | 23,948                   | 22,431    |   |
| Amortization of deferred financing costs  | 902                      | 821       |   |
| Financing obligations   | (48                      | ) 291     |   |
|   | 24,802                   | 23,543    |   |
| Other income:   |                          |           |   |
| Interest and other income   | 2,230                    | 1,873     |   |
|   | 2,230                    | 1,873     |   |
| Income from continuing operations before disposition of condominiums and equity in earnings/(losses) of unconsolidated affiliates | 13,212                   | 10,398    |   |
| Gains on for-sale residential condominiums  | 65                       | 38        |   |
| Equity in earnings/(losses) of unconsolidated affiliates  | (162                     | ) 1,467   |   |
| Income from continuing operations   | 13,115                   | 11,903    |   |
| Discontinued operations:  |                          |           |   |
| Income from discontinued operations   | 83                       | 540       |   |
| Net gains on disposition of discontinued operations   | 5,134                    | —         |   |
|   | 5,217                    | 540       |   |
| Net income  | 18,332                   | 12,443    |   |
| Net (income) attributable to noncontrolling interests in the Operating Partnership  | (827                     | ) (507    | ) |
| Net (income) attributable to noncontrolling interests in consolidated affiliates  | (184                     | ) (123    | ) |
| Dividends on Preferred Stock  | (627                     | ) (1,677  | ) |
| Net income available for common stockholders  | \$16,694                 | \$10,136  |   |
| Earnings per Common Share – basic:  |                          |           |   |
| Income from continuing operations available for common stockholders   | \$0.16                   | \$0.13    |   |
| Income from discontinued operations available for common stockholders   | 0.07                     | 0.01      |   |
| Net income available for common stockholders  | \$0.23                   | \$0.14    |   |
| Weighted average Common Shares outstanding – basic  | 72,836                   | 71,817    |   |
| Earnings per Common Share – diluted:  |                          |           |   |
| Income from continuing operations available for common stockholders   | \$0.16                   | \$0.13    |   |
| Income from discontinued operations available for common stockholders   | 0.07                     | 0.01      |   |
| Net income available for common stockholders  | \$0.23                   | \$0.14    |   |
| Weighted average Common Shares outstanding – diluted  | 76,696                   | 75,792    |   |
| Dividends declared per Common Share   | \$0.425                  | \$0.425   |   |
| Net income available for common stockholders:   |                          |           |   |
| Income from continuing operations available for common stockholders   | \$11,733                 | \$9,623   |   |
| Income from discontinued operations available for common stockholders   | 4,961                    | 513       |   |
| Net income available for common stockholders  | \$16,694                 | \$10,136  |   |

See accompanying notes to consolidated financial statements.

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## HIGHWOODS PROPERTIES, INC.

Consolidated Statements of Comprehensive Income  
(Unaudited and in thousands)

|  | Three Months Ended March |           |
|--|--------------------------|-----------|
|  | 31,                      | 2011      |
|  | 2012                     |           |
| Comprehensive income/(loss):   |                          |           |
| Net income   | \$ 18,332                | \$ 12,443 |
| Other comprehensive income/(loss):                                   |                          |           |
| Unrealized gain/(loss) on tax increment financing bond               | 287                      | (135 )    |
| Unrealized gains on cash flow hedges                                 | 1,104                    | —         |
| Amortization of settled cash flow hedges                             | (33                      | ) (29 )   |
| Total other comprehensive income/(loss)                              | 1,358                    | (164 )    |
| Total comprehensive income   | 19,690                   | 12,279    |
| Less-comprehensive (income) attributable to noncontrolling interests | (1,011                   | ) (630 )  |
| Comprehensive income attributable to the Company                     | \$ 18,679                | \$ 11,649 |

See accompanying notes to consolidated financial statements.

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## HIGHWOODS PROPERTIES, INC.

## Consolidated Statements of Equity

(Unaudited and in thousands, except share amounts)

|   | Number of<br>Common<br>Shares | Common<br>Stock | Series A<br>Cumulative<br>Redeemable<br>Preferred<br>Shares | Additional<br>Paid-In<br>Capital | Accumulated<br>Other<br>Compre-hensive<br>Loss | Non-Control<br>Interests<br>in<br>Consolidated<br>Affiliates | Distributions<br>in<br>Excess of<br>Net Income<br>Available<br>for<br>Common<br>Stockholders | Total      |
|---|-------------------------------|-----------------|---|----------------------------------|--|--|--|------------|
| Balance at<br>December 31, 2011   | 72,647,697                    | \$ 726          | \$ 29,077   | \$ 1,803,997                     | \$ (5,734 )                                    | \$ 4,646   | \$(845,853 )   | \$ 986,859 |
| Issuances of<br>Common Stock, net   | 807,483                       | 8               | —   | 26,636                           | —  | —  | —  | 26,644     |
| Conversions of<br>Common Units to<br>Common Stock   | 2,000                         | —               | —   | 63                               | —  | —  | —  | 63         |
| Dividends on<br>Common Stock  | —                             | —               | —   | —                                | —  | —  | (30,961 )  | (30,961 )  |
| Dividends on<br>Preferred Stock   | —                             | —               | —   | —                                | —  | —  | (627 )   | (627 )     |
| Adjustment of<br>noncontrolling<br>interests in the<br>Operating<br>Partnership to fair<br>value  | —                             | —               | —   | (14,366 )                        | —  | —  | —  | (14,366 )  |
| Distributions to<br>noncontrolling<br>interests in<br>consolidated<br>affiliates                  | —                             | —               | —   | —                                | —  | (291 )   | —  | (291 )     |
| Issuances of<br>restricted stock, net   | 151,391                       | —               | —   | —                                | —  | —  | —  | —          |
| Share-based<br>compensation<br>expense  | —                             | 2               | —   | 2,420                            | —  | —  | —  | 2,422      |
| Net (income)<br>attributable to<br>noncontrolling<br>interests in the<br>Operating<br>Partnership | —                             | —               | —   | —                                | —  | —  | (827 )   | (827 )     |
| Net (income)<br>attributable to<br>noncontrolling<br>interests in<br>consolidated                 | —                             | —               | —   | —                                | —  | 184  | (184 )   | —          |

affiliates

Comprehensive  
income:

|                                  |   |   |   |   |       |       |        |        |
|----------------------------------|---|---|---|---|-------|-------|--------|--------|
| Net income                       | — | — | — | — | —     | —     | 18,332 | 18,332 |
| Other<br>comprehensive<br>income | — | — | — | — | 1,358 | &#160 |        |        |