

HIGHWOODS PROPERTIES INC
Form 10-Q
October 24, 2017

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, 2017

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

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, smaller reporting company, or an emerging growth company. See the definitions of 'large accelerated filer,' 'accelerated filer,' 'smaller reporting company,' and 'emerging growth company' in Rule 12b-2 of the Exchange Act.
Highwoods Properties, Inc.

Large accelerated filer Accelerated filer Non-accelerated filer (Do not check if a smaller reporting company)

Smaller reporting company Emerging growth company

Highwoods Realty Limited Partnership

Large accelerated filer Accelerated filer Non-accelerated filer (Do not check if a smaller reporting company)

Smaller reporting company Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Highwoods Properties, Inc. Highwoods Realty Limited Partnership

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

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

The Company had 103,248,940 shares of Common Stock outstanding as of October 18, 2017.

EXPLANATORY NOTE

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” and the Operating Partnership’s preferred partnership interests as “Preferred Units.” References to “we” and “our” mean the Company and the Operating Partnership, collectively, unless the context indicates otherwise.

The Company conducts its activities through the Operating Partnership and is its sole general partner. 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 October 18, 2017, the latest practicable date for financial information prior to the filing of this Quarterly Report.

This report combines the Quarterly Reports on Form 10-Q for the period ended September 30, 2017 of the Company and the Operating Partnership. We believe combining the quarterly reports into this single report results in the following benefits:

- combined reports better reflect how management and investors view the business as a single operating unit;

- combined reports enhance investors' understanding of the Company and the Operating Partnership by enabling them to view the business as a whole and in the same manner as management;

- combined reports are more efficient for the Company and the Operating Partnership and result in savings in time, effort and expense; and

- combined reports are more efficient for investors by reducing duplicative disclosure and providing a single document for their review.

To help investors understand the significant differences between the Company and the Operating Partnership, this report presents the following separate sections for each of the Company and the Operating Partnership:

- Consolidated Financial Statements;

- Note 12 to Consolidated Financial Statements - Earnings Per Share and Per Unit;

- Item 4 - Controls and Procedures; and

- Item 6 - Certifications of CEO and CFO Pursuant to Sections 302 and 906 of the Sarbanes-Oxley Act.

HIGHWOODS PROPERTIES, INC.
HIGHWOODS REALTY LIMITED PARTNERSHIP

QUARTERLY REPORT FOR THE PERIOD ENDED SEPTEMBER 30, 2017

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PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

HIGHWOODS PROPERTIES, INC.

Consolidated Balance Sheets

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

	September 30, 2017	December 31, 2016
Assets:		
Real estate assets, at cost:		
Land	\$ 488,013	\$ 474,375
Buildings and tenant improvements	4,605,061	4,313,373
Development in-process	58,578	279,602
Land held for development	76,969	77,355
	5,228,621	5,144,705
Less-accumulated depreciation	(1,196,642)	(1,134,103)
Net real estate assets	4,031,979	4,010,602
Cash and cash equivalents	4,864	49,490
Restricted cash	47,761	29,141
Accounts receivable, net of allowance of \$504 and \$624, respectively	18,027	17,372
Mortgages and notes receivable, net of allowance of \$80 and \$105, respectively	6,789	8,833
Accrued straight-line rents receivable, net of allowance of \$324 and \$692, respectively	194,639	172,829
Investments in and advances to unconsolidated affiliates	23,523	18,846
Deferred leasing costs, net of accumulated amortization of \$145,814 and \$140,081, respectively	202,814	213,500
Prepaid expenses and other assets, net of accumulated amortization of \$22,341 and \$19,904, respectively	30,070	40,437
Total Assets	\$ 4,560,466	\$ 4,561,050
Liabilities, Noncontrolling Interests in the Operating Partnership and Equity:		
Mortgages and notes payable, net	\$ 1,966,398	\$ 1,948,047
Accounts payable, accrued expenses and other liabilities	227,575	313,885
Total Liabilities	2,193,973	2,261,932
Commitments and contingencies		
Noncontrolling interests in the Operating Partnership	147,451	144,802
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), 28,892 and 28,920 shares issued and outstanding, respectively	28,892	28,920
Common Stock, \$.01 par value, 200,000,000 authorized shares; 103,248,940 and 101,665,554 shares issued and outstanding, respectively	1,032	1,017
Additional paid-in capital	2,924,048	2,850,881
Distributions in excess of net income available for common stockholders	(758,484)	(749,412)
Accumulated other comprehensive income	5,910	4,949
Total Stockholders' Equity	2,201,398	2,136,355
Noncontrolling interests in consolidated affiliates	17,644	17,961
Total Equity	2,219,042	2,154,316

Total Liabilities, Noncontrolling Interests in the Operating Partnership and Equity	\$ 4,560,466	\$ 4,561,050
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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 September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Rental and other revenues	\$180,185	\$166,269	\$526,876	\$497,988
Operating expenses:				
Rental property and other expenses	61,234	58,620	177,484	173,715
Depreciation and amortization	56,973	52,923	168,934	161,734
Impairments of real estate assets	1,445	—	1,445	—
General and administrative	9,247	9,863	29,787	29,327
Total operating expenses	128,899	121,406	377,650	364,776
Interest expense:				
Contractual	16,395	17,722	48,763	56,111
Amortization of debt issuance costs	796	844	2,445	2,645
	17,191	18,566	51,208	58,756
Other income:				
Interest and other income	558	833	1,806	1,884
Gains on debt extinguishment	—	—	826	—
	558	833	2,632	1,884
Income from continuing operations before disposition of investment properties and activity in unconsolidated affiliates	34,653	27,130	100,650	76,340
Gains on disposition of property	19,849	3,902	25,181	14,160
Equity in earnings of unconsolidated affiliates	5,047	2,808	6,757	5,010
Income from continuing operations	59,549	33,840	132,588	95,510
Discontinued operations:				
Income from discontinued operations	—	—	—	4,097
Net gains on disposition of discontinued operations	—	—	—	414,496
	—	—	—	418,593
Net income	59,549	33,840	132,588	514,103
Net (income) attributable to noncontrolling interests in the Operating Partnership	(1,571)	(926)	(3,502)	(14,876)
Net (income) attributable to noncontrolling interests in consolidated affiliates	(315)	(319)	(914)	(941)
Dividends on Preferred Stock	(623)	(624)	(1,869)	(1,877)
Net income available for common stockholders	\$57,040	\$31,971	\$126,303	\$496,409
Earnings per Common Share – basic:				
Income from continuing operations available for common stockholders	\$0.55	\$0.32	\$1.23	\$0.92
Income from discontinued operations available for common stockholders	—	—	—	4.16
Net income available for common stockholders	\$0.55	\$0.32	\$1.23	\$5.08
Weighted average Common Shares outstanding – basic	103,237	98,973	102,489	97,669
Earnings per Common Share – diluted:				
Income from continuing operations available for common stockholders	\$0.55	\$0.32	\$1.23	\$0.92
Income from discontinued operations available for common stockholders	—	—	—	4.16
Net income available for common stockholders	\$0.55	\$0.32	\$1.23	\$5.08
Weighted average Common Shares outstanding – diluted	106,145	101,939	105,402	100,645

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Dividends declared per Common Share	\$0.440	\$0.425	\$1.320	\$1.275
Net income available for common stockholders:				
Income from continuing operations available for common stockholders	\$57,040	\$31,971	\$126,303	\$90,081
Income from discontinued operations available for common stockholders	—	—	—	406,328
Net income available for common stockholders	\$57,040	\$31,971	\$126,303	\$496,409
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 September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Comprehensive income:				
Net income	\$59,549	\$33,840	\$132,588	\$514,103
Other comprehensive income/(loss):				
Unrealized gains/(losses) on cash flow hedges	(347)	1,610	(31)	(7,785)
Amortization of cash flow hedges	211	758	992	2,336
Total other comprehensive income/(loss)	(136)	2,368	961	(5,449)
Total comprehensive income	59,413	36,208	133,549	508,654
Less-comprehensive (income) attributable to noncontrolling interests	(1,886)	(1,245)	(4,416)	(15,817)
Comprehensive income attributable to common stockholders	\$57,527	\$34,963	\$129,133	\$492,837

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 Common Shares	Common Stock	Series A Cumulative Redeemable Preferred Shares	Additional Paid-In Capital	Accumulated Other Compre- hensive Income	Non-controlling Interests in Consolidated Affiliates	Distributions in Excess of Net Income Available for Common Stockholders	Total
Balance at December 31, 2016	101,665,554	\$ 1,017	\$ 28,920	\$ 2,850,881	\$ 4,949	\$ 17,961	\$(749,412)	\$ 2,154,316
Issuances of Common Stock, net of issuance costs and tax withholdings	1,464,638	15	—	70,292	—	—	—	70,307
Conversions of Common Units to Common Stock	8,000	—	—	408	—	—	—	408
Dividends on Common Stock	—	—	—	—	—	—	(135,375)	(135,375)
Dividends on Preferred Stock	—	—	—	—	—	—	(1,869)	(1,869)
Adjustment of noncontrolling interests in the Operating Partnership to fair value	—	—	—	(3,297)	—	—	—	(3,297)
Distributions to noncontrolling interests in consolidated affiliates	—	—	—	—	—	(1,231)	—	(1,231)
Issuances of restricted stock	110,748	—	—	—	—	—	—	—
Redemptions/repurchases of Preferred Stock	—	—	(28)	—	—	—	—	(28)
Share-based compensation expense, net of forfeitures	—	—	—	5,764	—	—	—	5,764
Net (income) attributable to noncontrolling interests in the Operating Partnership	—	—	—	—	—	—	(3,502)	(3,502)
Net (income) attributable to noncontrolling interests in consolidated affiliates	—	—	—	—	—	914	(914)	—
Comprehensive income: Net income	—	—	—	—	—	—	132,588	132,588
	—	—	—	—	961	—	—	961

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Other comprehensive income								
Total comprehensive income								133,549
Balance at September 30, 2017	103,248,940	\$ 1,032	\$ 28,892	\$ 2,924,048	\$ 5,910	\$ 17,644	\$(758,484)	\$ 2,219,042

	Number of Common Shares	Common Stock	Series A Cumulative Redeemable Preferred Shares	Additional Paid-In Capital	Accumulated Other Comprehensive Loss	Non-controlling Interests in Consolidated Affiliates	Distributions in Excess of Net Income Available for Common Stockholders	Total
Balance at December 31, 2015	96,091,932	\$ 961	\$ 29,050	\$ 2,598,242	\$(3,811)	\$ 17,975	\$(1,023,135)	\$ 1,619,282
Issuances of Common Stock, net of issuance costs and tax withholdings	3,930,262	39	—	187,175	—	—	—	187,214
Conversions of Common Units to Common Stock	60,048	—	—	3,006	—	—	—	3,006
Dividends on Common Stock	—	—	—	—	—	—	(124,228)	(124,228)
Dividends on Preferred Stock	—	—	—	—	—	—	(1,877)	(1,877)
Adjustment of noncontrolling interests in the Operating Partnership to fair value	—	—	—	(13,390)	—	—	—	(13,390)
Distributions to noncontrolling interests in consolidated affiliates	—	—	—	—	—	(966)	—	(966)
Issuances of restricted stock	130,752	—	—	—	—	—	—	—
Redemptions/repurchases of Preferred Stock	—	—	(130)	—	—	—	—	(130)
Share-based compensation expense, net of forfeitures	(8,888)	2	—	5,410	—	—	—	5,412
Net (income) attributable to noncontrolling interests in the Operating Partnership	—	—	—	—	—	—	(14,876)	(14,876)
Net (income) attributable to noncontrolling interests in consolidated affiliates	—	—	—	—	—	941	(941)	—
Comprehensive income:								
Net income	—	—	—	—	—	—	514,103	514,103
	—	—	—	—	(5,449)	—	—	(5,449)

Other comprehensive
loss

Total comprehensive
income 508,654

Balance at September 30,
2016 100,204,106 \$1,002 \$28,920 \$2,780,443 \$(9,260) \$17,950 \$(650,954) \$2,168,101

See accompanying notes to consolidated financial statements.

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

	Nine Months Ended September 30,	
	2017	2016
Operating activities:		
Net income	\$ 132,588	\$ 514,103
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	168,934	161,734
Amortization of lease incentives and acquisition-related intangible assets and liabilities	(666)	(1,599)
Share-based compensation expense	5,764	5,412
Allowance for losses on accounts and accrued straight-line rents receivable	435	1,846
Accrued interest on mortgages and notes receivable	(391)	(364)
Amortization of debt issuance costs	2,445	2,645
Amortization of cash flow hedges	992	2,336
Amortization of mortgages and notes payable fair value adjustments	422	(175)
Impairments of real estate assets	1,445	—
Gains on debt extinguishment	(826)	—
Net gains on disposition of property	(25,181)	(428,656)
Equity in earnings of unconsolidated affiliates	(6,757)	(5,010)
Distributions of earnings from unconsolidated affiliates	4,815	3,936
Settlement of cash flow hedges	7,322	—
Changes in operating assets and liabilities:		
Accounts receivable	916	4,798
Prepaid expenses and other assets	2,735	(2,243)
Accrued straight-line rents receivable	(24,473)	(18,931)
Accounts payable, accrued expenses and other liabilities	(308)	(7,447)
Net cash provided by operating activities	270,211	232,385
Investing activities:		
Investments in acquired real estate and related intangible assets, net of cash acquired	—	(110,249)
Investments in development in-process	(121,367)	(122,839)
Investments in tenant improvements and deferred leasing costs	(78,691)	(63,715)
Investments in building improvements	(41,862)	(51,714)
Net proceeds from disposition of real estate assets	85,538	680,994
Distributions of capital from unconsolidated affiliates	11,670	2,639
Investments in mortgages and notes receivable	—	(7,934)
Repayments of mortgages and notes receivable	2,435	869
Investments in and advances to unconsolidated affiliates	(10,063)	(105)
Repayments from unconsolidated affiliates	—	448
Changes in restricted cash and other investing activities	(24,225)	(23,310)
Net cash provided by/(used in) investing activities	(176,565)	305,084
Financing activities:		
Dividends on Common Stock	(135,375)	(124,228)
Special dividend on Common Stock	(81,205)	—
Redemptions/repurchases of Preferred Stock	(28)	(130)
Dividends on Preferred Stock	(1,869)	(1,877)
Distributions to noncontrolling interests in the Operating Partnership	(3,742)	(3,684)
Special distribution to noncontrolling interests in the Operating Partnership	(2,271)	—

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Distributions to noncontrolling interests in consolidated affiliates	(1,231)	(966)
Proceeds from the issuance of Common Stock	75,517	194,518
Costs paid for the issuance of Common Stock	(1,244)	(2,888)
Repurchase of shares related to tax withholdings	(3,966)	(4,416)
Borrowings on revolving credit facility	492,300	257,800
Repayments of revolving credit facility	(420,300)	(528,800)
Borrowings on mortgages and notes payable	456,001	75,000
Repayments of mortgages and notes payable	(507,114)	(395,455)
Payments of debt extinguishment costs	(57)	—
Changes in debt issuance costs and other financing activities	(3,688)	(992)
Net cash used in financing activities	(138,272)	(536,118)
Net increase/(decrease) in cash and cash equivalents	\$(44,626)	\$1,351

See accompanying notes to consolidated financial statements.

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HIGHWOODS PROPERTIES, INC.

Consolidated Statements of Cash Flows – Continued

(Unaudited and in thousands)

	Nine Months Ended September 30,	
	2017	2016
Net increase/(decrease) in cash and cash equivalents	\$(44,626)	\$1,351
Cash and cash equivalents at beginning of the period	49,490	5,036
Cash and cash equivalents at end of the period	\$4,864	\$6,387

Supplemental disclosure of cash flow information:

	Nine Months Ended September 30,	
	2017	2016
Cash paid for interest, net of amounts capitalized	\$50,025	\$58,138

Supplemental disclosure of non-cash investing and financing activities:

	Nine Months Ended September 30,	
	2017	2016
Unrealized losses on cash flow hedges	\$(31)	\$(7,785)
Conversions of Common Units to Common Stock	408	3,006
Changes in accrued capital expenditures	(6,327)	25,037
Write-off of fully depreciated real estate assets	41,860	28,783
Write-off of fully amortized leasing costs	28,343	16,075
Write-off of fully amortized debt issuance costs	4,324	916
Adjustment of noncontrolling interests in the Operating Partnership to fair value	3,297	13,390

See accompanying notes to consolidated financial statements.

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HIGHWOODS REALTY LIMITED PARTNERSHIP

Consolidated Balance Sheets

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

	September 30, 2017	December 31, 2016
Assets:		
Real estate assets, at cost:		
Land	\$ 488,013	\$ 474,375
Buildings and tenant improvements	4,605,061	4,313,373
Development in-process	58,578	279,602
Land held for development	76,969	77,355
	5,228,621	5,144,705
Less-accumulated depreciation	(1,196,642)	(1,134,103)
Net real estate assets	4,031,979	4,010,602
Cash and cash equivalents	4,864	49,490
Restricted cash	47,761	29,141
Accounts receivable, net of allowance of \$504 and \$624, respectively	18,027	17,372
Mortgages and notes receivable, net of allowance of \$80 and \$105, respectively	6,789	8,833
Accrued straight-line rents receivable, net of allowance of \$324 and \$692, respectively	194,639	172,829
Investments in and advances to unconsolidated affiliates	23,523	18,846
Deferred leasing costs, net of accumulated amortization of \$145,814 and \$140,081, respectively	202,814	213,500
Prepaid expenses and other assets, net of accumulated amortization of \$22,341 and \$19,904, respectively	30,070	40,437
Total Assets	\$ 4,560,466	\$ 4,561,050
Liabilities, Redeemable Operating Partnership Units and Capital:		
Mortgages and notes payable, net	\$ 1,966,398	\$ 1,948,047
Accounts payable, accrued expenses and other liabilities	227,575	313,885
Total Liabilities	2,193,973	2,261,932
Commitments and contingencies		
Redeemable Operating Partnership Units:		
Common Units, 2,830,704 and 2,838,704 outstanding, respectively	147,451	144,802
Series A Preferred Units (liquidation preference \$1,000 per unit), 28,892 and 28,920 units issued and outstanding, respectively	28,892	28,920
Total Redeemable Operating Partnership Units	176,343	173,722
Capital:		
Common Units:		
General partner Common Units, 1,056,708 and 1,040,954 outstanding, respectively	21,665	21,023
Limited partner Common Units, 101,783,423 and 100,215,791 outstanding, respectively	2,144,931	2,081,463
Accumulated other comprehensive income	5,910	4,949
Noncontrolling interests in consolidated affiliates	17,644	17,961
Total Capital	2,190,150	2,125,396
Total Liabilities, Redeemable Operating Partnership Units and Capital	\$ 4,560,466	\$ 4,561,050

See accompanying notes to consolidated financial statements.

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HIGHWOODS REALTY LIMITED PARTNERSHIP

Consolidated Statements of Income

(Unaudited and in thousands, except per unit amounts)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Rental and other revenues	\$180,185	\$166,269	\$526,876	\$497,988
Operating expenses:				
Rental property and other expenses	61,234	58,620	177,484	173,715
Depreciation and amortization	56,973	52,923	168,934	161,734
Impairments of real estate assets	1,445	—	1,445	—
General and administrative	9,247	9,863	29,787	29,327
Total operating expenses	128,899	121,406	377,650	364,776
Interest expense:				
Contractual	16,395	17,722	48,763	56,111
Amortization of debt issuance costs	796	844	2,445	2,645
	17,191	18,566	51,208	58,756
Other income:				
Interest and other income	558	833	1,806	1,884
Gains on debt extinguishment	—	—	826	—
	558	833	2,632	1,884
Income from continuing operations before disposition of investment properties and activity in unconsolidated affiliates	34,653	27,130	100,650	76,340
Gains on disposition of property	19,849	3,902	25,181	14,160
Equity in earnings of unconsolidated affiliates	5,047	2,808	6,757	5,010
Income from continuing operations	59,549	33,840	132,588	95,510
Discontinued operations:				
Income from discontinued operations	—	—	—	4,097
Net gains on disposition of discontinued operations	—	—	—	414,496
	—	—	—	418,593
Net income	59,549	33,840	132,588	514,103
Net (income) attributable to noncontrolling interests in consolidated affiliates	(315)	(319)	(914)	(941)
Distributions on Preferred Units	(623)	(624)	(1,869)	(1,877)
Net income available for common unitholders	\$58,611	\$32,897	\$129,805	\$511,285
Earnings per Common Unit – basic:				
Income from continuing operations available for common unitholders	\$0.55	\$0.32	\$1.24	\$0.93
Income from discontinued operations available for common unitholders	—	—	—	4.18
Net income available for common unitholders	\$0.55	\$0.32	\$1.24	\$5.11
Weighted average Common Units outstanding – basic	105,660	101,422	104,914	100,142
Earnings per Common Unit – diluted:				
Income from continuing operations available for common unitholders	\$0.55	\$0.32	\$1.24	\$0.92
Income from discontinued operations available for common unitholders	—	—	—	4.18
Net income available for common unitholders	\$0.55	\$0.32	\$1.24	\$5.10
Weighted average Common Units outstanding – diluted	105,736	101,530	104,993	100,236
Distributions declared per Common Unit	\$0.440	\$0.425	\$1.320	\$1.275
Net income available for common unitholders:				
Income from continuing operations available for common unitholders	\$58,611	\$32,897	\$129,805	\$92,692
Income from discontinued operations available for common unitholders	—	—	—	418,593

Net income available for common unitholders	\$58,611	\$32,897	\$129,805	\$511,285
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See accompanying notes to consolidated financial statements.

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HIGHWOODS REALTY LIMITED PARTNERSHIP

Consolidated Statements of Comprehensive Income

(Unaudited and in thousands)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Comprehensive income:				
Net income	\$59,549	\$33,840	\$132,588	\$514,103
Other comprehensive income/(loss):				
Unrealized gains/(losses) on cash flow hedges	(347)	1,610	(31)	(7,785)
Amortization of cash flow hedges	211	758	992	2,336
Total other comprehensive income/(loss)	(136)	2,368	961	(5,449)
Total comprehensive income	59,413	36,208	133,549	508,654
Less-comprehensive (income) attributable to noncontrolling interests	(315)	(319)	(914)	(941)
Comprehensive income attributable to common unitholders	\$59,098	\$35,889	\$132,635	\$507,713

See accompanying notes to consolidated financial statements.

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HIGHWOODS REALTY LIMITED PARTNERSHIP

Consolidated Statements of Capital

(Unaudited and in thousands)

	Common Units		Accumulated	Noncontrolling	
	General	Limited	Other	Interests in	Total
	Partners'	Partners'	Comprehensive	Consolidated	
	Capital	Capital	Income	Affiliates	
Balance at December 31, 2016	\$21,023	\$2,081,463	\$ 4,949	\$ 17,961	\$2,125,396
Issuances of Common Units, net of issuance costs and tax withholdings	703	69,604	—	—	70,307
Distributions on Common Units	(1,386)	(137,191)	—	—	(138,577)
Distributions on Preferred Units	(19)	(1,850)	—	—	(1,869)
Share-based compensation expense, net of forfeitures	58	5,706	—	—	5,764
Distributions to noncontrolling interests in consolidated affiliates	—	—	—	(1,231)	(1,231)
Adjustment of Redeemable Common Units to fair value and contributions/distributions from/to the General Partner	(31)	(3,158)	—	—	(3,189)
Net (income) attributable to noncontrolling interests in consolidated affiliates	(9)	(905)	—	914	—
Comprehensive income:					
Net income	1,326	131,262	—	—	132,588
Other comprehensive income	—	—	961	—	961
Total comprehensive income					133,549
Balance at September 30, 2017	\$21,665	\$2,144,931	\$ 5,910	\$ 17,644	\$2,190,150

	Common Units		Accumulated	Noncontrolling	
	General	Limited	Other	Interests in	Total
	Partners'	Partners'	Comprehensive	Consolidated	
	Capital	Capital	Loss	Affiliates	
Balance at December 31, 2015	\$15,759	\$1,560,309	\$ (3,811)	\$ 17,975	\$1,590,232
Issuances of Common Units, net of issuance costs and tax withholdings	1,872	185,342	—	—	187,214
Distributions on Common Units	(1,274)	(126,117)	—	—	(127,391)
Distributions on Preferred Units	(19)	(1,858)	—	—	(1,877)
Share-based compensation expense, net of forfeitures	54	5,358	—	—	5,412
Distributions to noncontrolling interests in consolidated affiliates	—	—	—	(966)	(966)
Adjustment of Redeemable Common Units to fair value and contributions/distributions from/to the General Partner	(221)	(21,876)	—	—	(22,097)
Net (income) attributable to noncontrolling interests in consolidated affiliates	(9)	(932)	—	941	—
Comprehensive income:					
Net income	5,141	508,962	—	—	514,103

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Other comprehensive loss	—	—	(5,449)	—	(5,449)
Total comprehensive income						508,654	
Balance at September 30, 2016	\$21,303	\$2,109,188	\$ (9,260)	\$ 17,950	\$2,139,181	

See accompanying notes to consolidated financial statements.

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HIGHWOODS REALTY LIMITED PARTNERSHIP

Consolidated Statements of Cash Flows

(Unaudited and in thousands)

	Nine Months Ended September 30,	
	2017	2016
Operating activities:		
Net income	\$ 132,588	\$ 514,103
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	168,934	161,734
Amortization of lease incentives and acquisition-related intangible assets and liabilities	(666)	(1,599)
Share-based compensation expense	5,764	5,412
Allowance for losses on accounts and accrued straight-line rents receivable	435	1,846
Accrued interest on mortgages and notes receivable	(391)	(364)
Amortization of debt issuance costs	2,445	2,645
Amortization of cash flow hedges	992	2,336
Amortization of mortgages and notes payable fair value adjustments	422	(175)
Impairments of real estate assets	1,445	—
Gains on debt extinguishment	(826)	—
Net gains on disposition of property	(25,181)	(428,656)
Equity in earnings of unconsolidated affiliates	(6,757)	(5,010)
Distributions of earnings from unconsolidated affiliates	4,815	3,523
Settlement of cash flow hedges	7,322	—
Changes in operating assets and liabilities:		
Accounts receivable	916	4,798
Prepaid expenses and other assets	2,735	(2,243)
Accrued straight-line rents receivable	(24,473)	(18,931)
Accounts payable, accrued expenses and other liabilities	(308)	(7,447)
Net cash provided by operating activities	270,211	231,972
Investing activities:		
Investments in acquired real estate and related intangible assets, net of cash acquired	—	(110,249)
Investments in development in-process	(121,367)	(122,839)
Investments in tenant improvements and deferred leasing costs	(78,691)	(63,715)
Investments in building improvements	(41,862)	(51,714)
Net proceeds from disposition of real estate assets	85,538	680,994
Distributions of capital from unconsolidated affiliates	11,670	3,052
Investments in mortgages and notes receivable	—	(7,934)
Repayments of mortgages and notes receivable	2,435	869
Investments in and advances to unconsolidated affiliates	(10,063)	(105)
Repayments from unconsolidated affiliates	—	448
Changes in restricted cash and other investing activities	(24,225)	(23,310)
Net cash provided by/(used in) investing activities	(176,565)	305,497
Financing activities:		
Distributions on Common Units	(138,577)	(127,391)
Special distribution on Common Units	(83,149)	—
Redemptions/repurchases of Preferred Units	(28)	(130)
Distributions on Preferred Units	(1,869)	(1,877)
Distributions to noncontrolling interests in consolidated affiliates	(1,231)	(966)
Proceeds from the issuance of Common Units	75,517	194,518

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Costs paid for the issuance of Common Units	(1,244)	(2,888)
Repurchase of units related to tax withholdings	(3,966)	(4,416)
Borrowings on revolving credit facility	492,300	257,800
Repayments of revolving credit facility	(420,300)	(528,800)
Borrowings on mortgages and notes payable	456,001	75,000
Repayments of mortgages and notes payable	(507,114)	(395,455)
Payments of debt extinguishment costs	(57)	—
Changes in debt issuance costs and other financing activities	(4,555)	(1,513)
Net cash used in financing activities	(138,272)	(536,118)
Net increase/(decrease) in cash and cash equivalents	\$(44,626)	\$1,351
See accompanying notes to consolidated financial statements.		

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

	Nine Months Ended September 30,	
	2017	2016
Net increase/(decrease) in cash and cash equivalents	\$(44,626)	\$1,351
Cash and cash equivalents at beginning of the period	49,490	5,036
Cash and cash equivalents at end of the period	\$4,864	\$6,387

Supplemental disclosure of cash flow information:

	Nine Months Ended September 30,	
	2017	2016
Cash paid for interest, net of amounts capitalized	\$50,025	\$58,138

Supplemental disclosure of non-cash investing and financing activities:

	Nine Months Ended September 30,	
	2017	2016
Unrealized losses on cash flow hedges	\$(31)	\$(7,785)
Changes in accrued capital expenditures	(6,327)	25,037
Write-off of fully depreciated real estate assets	41,860	28,783
Write-off of fully amortized leasing costs	28,343	16,075
Write-off of fully amortized debt issuance costs	4,324	916
Adjustment of Redeemable Common Units to fair value	2,649	21,576

See accompanying notes to consolidated financial statements.

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HIGHWOODS PROPERTIES, INC.
HIGHWOODS REALTY LIMITED PARTNERSHIP
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2017

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

(Unaudited)

1. Description of Business and Significant Accounting Policies

Description of Business

Highwoods Properties, Inc. (the “Company”) is a fully integrated real estate investment trust (“REIT”) that provides leasing, management, development, construction and other customer-related services for its properties and for third parties. The Company conducts its activities through Highwoods Realty Limited Partnership (the “Operating Partnership”). At September 30, 2017, we owned or had an interest in 30.9 million rentable square feet of in-service properties, 0.6 million rentable square feet of properties under development and approximately 400 acres of development land.

The Company is the sole general partner of the Operating Partnership. At September 30, 2017, the Company owned all of the Preferred Units and 102.8 million, or 97.3%, of the Common Units in the Operating Partnership. Limited partners owned the remaining 2.8 million Common Units. During the nine months ended September 30, 2017, the Company redeemed 8,000 Common Units for a like number of shares of Common Stock.

Common Stock Offerings

During the first quarter of 2017, we entered into separate equity distribution agreements in which the Company may offer and sell up to \$300.0 million in aggregate gross sales price of shares of Common Stock. During the nine months ended September 30, 2017, the Company issued 1,363,919 shares of Common Stock under its equity distribution agreements at an average gross sales price of \$50.85 per share and received net proceeds, after sales commissions, of \$68.3 million.

Basis of Presentation

Our Consolidated Financial Statements are prepared in conformity with accounting principles generally accepted in the United States of America (“GAAP”).

The Company's Consolidated Financial Statements include the Operating Partnership, wholly owned subsidiaries and those entities in which the Company has the controlling interest. The Operating Partnership's Consolidated Financial Statements include wholly owned subsidiaries and those entities in which the Operating Partnership has the controlling interest. All 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 condensed or omitted certain notes and other information from the interim Consolidated Financial Statements presented in this Quarterly Report as permitted by SEC rules and regulations. These Consolidated Financial Statements should be read in conjunction with our 2016 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 our Consolidated Financial Statements and accompanying notes. Actual results could differ from those estimates.

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HIGHWOODS PROPERTIES, INC.

HIGHWOODS REALTY LIMITED PARTNERSHIP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

1. Description of Business and Significant Accounting Policies – Continued

Recently Issued Accounting Standards

The Financial Accounting Standards Board ("FASB") issued an accounting standards update ("ASU") that requires the use of a new five-step model to recognize revenue from customer contracts. The five-step model requires that we identify the contract with the customer, identify the performance obligations in the contract, determine the transaction price, allocate the transaction price to the performance obligations in the contract and recognize revenue when we satisfy the performance obligations. We will also be required to disclose information regarding the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. Upon adoption of the ASU in 2018, we expect to utilize the modified retrospective approach. We are currently conducting our analysis of the impact of the guidance on our Consolidated Financial Statements, including our internal control processes, and have an active project team working on the evaluation and implementation of the guidance. Our analysis of our non-lease related revenue contracts, which include primarily real estate sales, management, development and construction fee income and transient parking income, indicates that the adoption of this ASU will impact the financial statement disclosure of these contracts with no material impact on the timing of revenue recognition; however, we continue to evaluate the impacts of adoption of this ASU. We expect additional impact of this ASU upon adoption of the ASU related to accounting for leases discussed below for certain lease revenue streams that will be required to be evaluated as non-lease components using the five-step revenue recognition model.

The FASB issued an ASU that adds to and clarifies guidance on the classification of certain cash receipts and payments in the statement of cash flows. The ASU is required to be adopted in 2018 with retrospective application required. We do not expect such adoption to have a material effect on our Consolidated Statements of Cash Flows.

The FASB issued an ASU that clarifies and narrows the definition of a business used in determining whether to account for a transaction as an asset acquisition or business combination. The guidance requires evaluation of the fair value of the assets acquired to determine if it is concentrated in a single identifiable asset or a group of similar identifiable assets. If so, the transferred assets would not be a business. The guidance also requires a business to include at least one substantive process and narrows the definition of outputs. The ASU is required to be adopted in 2018 and applied prospectively. Upon adoption of this ASU, we expect that the majority of our future acquisitions would not meet the definition of a business; therefore, the related acquisition costs would be capitalized as part of the purchase price.

The FASB issued an ASU that clarifies when changes to the terms or conditions of a share-based payment award must be accounted for as modifications. The guidance requires modification accounting if the value, vesting conditions or classification of the award changes. The ASU is required to be adopted in 2018 and applied prospectively. We do not expect such adoption to have a material effect on our Consolidated Financial Statements.

The FASB issued an ASU which sets out the principles for the recognition, measurement, presentation and disclosure of leases for both lessees and lessors. We are currently conducting our initial analysis of the impact of the guidance on our Consolidated Financial Statements and have an active project team working on the evaluation and implementation of the guidance. We currently believe that the adoption of the ASU will not significantly change the accounting for operating leases on our Consolidated Balance Sheets where we are the lessor, and that such leases will be accounted for in a similar method to existing standards with the underlying leased asset being reported and recognized as a real

estate asset. In addition, the guidance requires lessors to capitalize and amortize only incremental direct leasing costs. As a result, we expect that upon the adoption of the ASU, we will no longer be able to capitalize and amortize certain leasing related costs and instead will expense these costs as incurred. We are in the process of evaluating the impact to our results of operations of expensing such costs. The ASU is required to be adopted in 2019 using a modified retrospective approach. Our initial analysis of our leases also indicates that upon adoption of the ASU, certain lease revenue streams that are currently accounted for using the lease accounting standard will be accounted for as non-lease components using the five-step revenue recognition model discussed above. We continue to evaluate other impacts of adoption of this ASU.

The FASB issued an ASU that eliminates the requirement to separately measure and report hedge ineffectiveness and generally requires the entire change in the fair value of a hedging instrument to be presented in the same income statement line as the hedged item when the hedged item affects earnings. The ASU is required to be adopted in 2019 using a modified retrospective approach. We do not expect such adoption to have a material effect on our Consolidated Financial Statements.

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HIGHWOODS PROPERTIES, INC.

HIGHWOODS REALTY LIMITED PARTNERSHIP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

1. Description of Business and Significant Accounting Policies – Continued

The FASB issued an ASU that requires, among other things, the use of a new current expected credit loss ("CECL") model in determining our allowances for doubtful accounts with respect to accounts receivable, accrued straight-line rents receivable and mortgages and notes receivable. The CECL model requires that we estimate our lifetime expected credit loss with respect to these receivables and record allowances that, when deducted from the balance of the receivables, represent the net amounts expected to be collected. We will also be required to disclose information about how we developed the allowances, including changes in the factors (e.g., portfolio mix, credit trends, unemployment, gross domestic product, etc.) that influenced our estimate of expected credit losses and the reasons for those changes. We will apply the ASU's provisions as a cumulative-effect adjustment to retained earnings upon adoption in 2020. We are in the process of evaluating this ASU.

2. Real Estate Assets

Dispositions

During the third quarter of 2017, we sold a total of 12 buildings for an aggregate sale price of \$78.0 million (before closing credits to buyer of \$2.5 million) and recorded aggregate gains on disposition of property of \$19.8 million.

During the first quarter of 2017, we sold a building for a sale price of \$13.0 million (before closing credits to buyer of \$1.2 million) and recorded a gain on disposition of property of \$5.3 million.

Impairments

During the third quarter of 2017, we recorded aggregate impairments of real estate assets of \$1.4 million, which resulted from a change in market-based inputs and our assumptions about the use of the assets.

3. Mortgages and Notes Receivable

Mortgages and notes receivable were \$6.8 million and \$8.8 million at September 30, 2017 and December 31, 2016, respectively. We evaluate the ability to collect our mortgages and notes receivable by monitoring the leasing statistics and/or market fundamentals of these assets. As of September 30, 2017, our mortgages and notes receivable were not in default and there were no other indicators of impairment.

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HIGHWOODS PROPERTIES, INC.

HIGHWOODS REALTY LIMITED PARTNERSHIP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

4. Intangible Assets and Below Market Lease Liabilities

The following table sets forth total intangible assets and acquisition-related below market lease liabilities, net of accumulated amortization:

	September 30, 2017	December 31, 2016
Assets:		
Deferred leasing costs (including lease incentives and above market lease and in-place lease acquisition-related intangible assets)	\$ 348,628	\$ 353,581
Less accumulated amortization	(145,814)	(140,081)
	\$ 202,814	\$ 213,500
Liabilities (in accounts payable, accrued expenses and other liabilities):		
Acquisition-related below market lease liabilities	\$ 60,304	\$ 61,221
Less accumulated amortization	(26,905)	(23,074)
	\$ 33,399	\$ 38,147

The following table sets forth amortization of intangible assets and below market lease liabilities:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Amortization of deferred leasing costs and acquisition-related intangible assets (in depreciation and amortization)	\$ 10,130	\$ 10,111	\$ 30,882	\$ 33,177
Amortization of lease incentives (in rental and other revenues)	\$ 444	\$ 273	\$ 1,284	\$ 1,374
Amortization of acquisition-related intangible assets (in rental and other revenues)	\$ 671	\$ 901	\$ 2,382	\$ 2,904
Amortization of acquisition-related intangible assets (in rental property and other expenses)	\$ 140	\$ 140	\$ 416	\$ 417
Amortization of acquisition-related below market lease liabilities (in rental and other revenues)	\$(1,576)	\$(1,734)	\$(4,748)	\$(6,294)

The following table sets forth scheduled future amortization of intangible assets and below market lease liabilities:

Amortization of Deferred Leasing Costs and Acquisition-Related Intangible Assets (in Depreciation and	Amortization of Lease Incentives (in Rental and Other Revenues)	Amortization of Acquisition-Related Intangible Assets (in Rental and Other Revenues)	Amortization of Acquisition-Related Intangible Assets (in Rental Property and Other Expenses)	Amortization of Acquisition-Related Below Market Lease Liabilities (in Rental and Other Revenues)
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	Amortization)				
October 1 through December 31, 2017	\$ 10,019	\$ 427	\$ 469	\$ 134	\$ (1,497)
2018	35,970	1,599	1,680	553	(5,962)
2019	30,311	1,377	1,286	553	(5,492)
2020	25,589	1,101	967	525	(5,180)
2021	21,254	886	647	—	(4,409)
Thereafter	61,333	4,249	1,885	—	(10,859)
	\$ 184,476	\$ 9,639	\$ 6,934	\$ 1,765	\$ (33,399)
Weighted average remaining amortization periods as of September 30, 2017 (in years)	7.6	9.5	6.5	3.2	6.8

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HIGHWOODS PROPERTIES, INC.

HIGHWOODS REALTY LIMITED PARTNERSHIP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

5. Mortgages and Notes Payable

The following table sets forth our mortgages and notes payable:

	September 30, 2017	December 31, 2016
Secured indebtedness	\$ 99,421	\$ 128,204
Unsecured indebtedness	1,875,239	1,826,145
Less-unamortized debt issuance costs	(8,262)	(6,302)
Total mortgages and notes payable, net	\$ 1,966,398	\$ 1,948,047

At September 30, 2017, our secured mortgage loans were collateralized by real estate assets with an aggregate un depreciated book value of \$147.7 million.

At September 30, 2017, we had a \$475.0 million unsecured revolving credit facility that was scheduled to mature in January 2018. The interest rate was LIBOR plus 110 basis points and the annual facility fee was 20 basis points. There was \$72.0 million outstanding under our revolving credit facility at September 30, 2017 and \$0.6 million of outstanding letters of credit, which reduced the availability on the credit facility. As a result, the unused capacity of our revolving credit facility at September 30, 2017 was \$402.4 million.

During the second quarter of 2017, we prepaid without penalty a secured mortgage loan with a fair market value of \$108.2 million with an effective interest rate of 4.22% that was originally scheduled to mature in November 2017. We recorded \$0.4 million of gain on debt extinguishment related to this prepayment.

During 2015, we acquired our joint venture partner's 77.2% interest in a building in Orlando. Simultaneously with this acquisition, the joint venture's previously existing mortgage note was restructured into a new \$18.0 million first mortgage note and a \$10.2 million subordinated note, both of which were scheduled to mature in July 2017. The first mortgage and subordinated notes had effective interest rates of 5.36% and 8.6%, respectively. The subordinated note and accrued interest thereon can be satisfied, in certain circumstances, upon payment of a "waterfall payment" equal to a cash payment of 50.0% of the amount by which the net sale proceeds or appraised value at the time of refinancing exceeded (1) the outstanding principal of the first mortgage note, (2) funds deposited by us into escrow to fund tenant improvements, leasing commissions and building improvements and (3) a 10.0% return on such funds deposited by us into escrow. As of the date of such restructuring, the subordinated note was recorded at a projected waterfall payment of \$1.0 million. During the second quarter of 2017, both notes were retired upon payment of the \$18.0 million principal balance on the first mortgage note and a \$0.5 million waterfall payment relating to the subordinated note, which resulted in \$0.4 million of gain on debt extinguishment.

During the second quarter of 2017, we obtained a \$100.0 million secured mortgage loan from a third party lender with an effective interest rate of 4.0%. This loan is scheduled to mature in May 2029. We incurred \$0.8 million of debt issuance costs in connection with this loan, which will be amortized over the term of the loan.

During the first quarter of 2017, the Operating Partnership issued \$300.0 million aggregate principal amount of 3.875% notes due 2027, less original issue discount of \$4.0 million. These notes were priced to yield 4.038%. Underwriting fees and other expenses were incurred that aggregated \$2.5 million; these costs were deferred and will

be amortized over the term of the notes.

During the first quarter of 2017, we paid off at maturity \$379.7 million principal amount of 5.85% unsecured notes.

During the first quarter of 2017, we amended our \$150.0 million unsecured bank term loan that is scheduled to mature in January 2022 by increasing the borrowed amount to \$200.0 million. The interest rate on this term loan at our current credit ratings is LIBOR plus 110 basis points. The underlying LIBOR rate with respect to \$50.0 million of the unsecured bank term loan has been effectively fixed for the term through floating-to-fixed interest rate swaps as discussed in Note 6. We incurred \$0.3 million of debt issuance costs in connection with this amendment, which will be amortized along with existing unamortized debt issuance costs over the remaining term.

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HIGHWOODS PROPERTIES, INC.

HIGHWOODS REALTY LIMITED PARTNERSHIP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

5. Mortgages and Notes Payable - Continued

We are currently in compliance with financial covenants and other requirements with respect to our consolidated debt.

We have considered our short-term liquidity needs within one year from October 24, 2017 (the date of issuance of the quarterly financial statements) and the adequacy of our estimated cash flows from operating activities and other expected financing sources to meet these needs. In particular, we have considered our scheduled debt maturities during such one-year period, including the \$200.0 million principal amount of unsecured notes due April 15, 2018. We have concluded it is probable we will meet these short-term liquidity requirements through a combination of the following:

• available cash and cash equivalents;

• cash flows from operating activities;

• issuance of debt securities by the Operating Partnership (some of which debt securities may be hedged to a fixed interest rate pursuant to the forward-starting swaps referred to in Note 6);

• issuance of secured debt;

• bank term loans;

• borrowings under our revolving credit facility;

• issuance of equity securities by the Company or the Operating Partnership; and

• the disposition of non-core assets.

6. Derivative Financial Instruments

During the second quarter of 2017, we entered into \$150.0 million notional amount of forward-starting swaps that effectively lock the underlying 10-year treasury rate at 2.44% with respect to a planned issuance of debt securities by the Operating Partnership expected to occur prior to May 15, 2018.

During the second quarter of 2017, we entered into floating-to-fixed interest rate swaps through January 2022 with respect to an aggregate of \$50.0 million LIBOR-based borrowings. These swaps effectively fix the underlying one-month LIBOR rate at a weighted average rate of 1.693%.

During 2016, we entered into \$150.0 million notional amount of forward-starting swaps that effectively locked the underlying 10-year treasury rate at 1.90% with respect to a planned issuance of debt securities by the Operating Partnership. Upon issuance of the \$300.0 million aggregate principal amount of 3.875% notes due 2027 during the first quarter of 2017, we terminated the forward-starting swaps resulting in an unrealized gain of \$7.3 million in accumulated other comprehensive income.

The counterparties under these swaps are major financial institutions. The swap agreements contain a provision whereby if we default on certain of our indebtedness and which default results in repayment of such indebtedness being, or becoming capable of being, accelerated by the lender, then we could also be declared in default on our swaps.

Our interest rate swaps have been designated as and are being accounted for as cash flow hedges with changes in fair value recorded in other comprehensive income/(loss) each reporting period. No gain or loss was recognized related to hedge ineffectiveness or to amounts excluded from effectiveness testing on our cash flow hedges during the nine months ended September 30, 2017 and 2016. We have no collateral requirements related to our interest rate swaps.

Amounts reported in accumulated other comprehensive income/(loss) related to derivatives will be reclassified to interest expense as interest payments are made on our variable-rate debt. During the period from October 1, 2017 through September 30, 2018, we estimate that less than \$0.1 million will be reclassified as a net increase to interest expense.

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

6. Derivative Financial Instruments - Continued

The following table sets forth the gross fair value of our derivatives:

	September 30, 2017	December 31, 2016
Derivatives:		
Derivatives designated as cash flow hedges in prepaid expenses and other assets:		
Interest rate swaps	\$ 306	\$ 7,619
Derivatives designated as cash flow hedges in accounts payable, accrued expenses and other liabilities:		
Interest rate swaps	\$ 1,059	\$ 1,870

The following table sets forth the effect of our cash flow hedges on accumulated other comprehensive income/(loss) and interest expense:

	Three Months Ended September 30, 2017		Nine Months Ended September 30, 2016	
Derivatives Designated as Cash Flow Hedges:				
Amount of unrealized gains/(losses) recognized in accumulated other comprehensive income/(loss) on derivatives (effective portion):				
Interest rate swaps	\$(347)	\$1,610	\$(31)	\$(7,785)
Amount of net losses reclassified out of accumulated other comprehensive income/(loss) into contractual interest expense (effective portion):				
Interest rate swaps	\$211	\$758	\$992	\$2,336

7. Noncontrolling Interests

Noncontrolling Interests in Consolidated Affiliates

At September 30, 2017, our noncontrolling interests in consolidated affiliates relate to our joint venture partner's 50.0% interest in office properties in Richmond. Our joint venture partner is an unrelated third party.

Noncontrolling Interests in the Operating Partnership

The following table sets forth the Company's noncontrolling interests in the Operating Partnership:

	Nine Months Ended September 30,	
	2017	2016
Beginning noncontrolling interests in the Operating Partnership	\$144,802	\$126,429
Adjustment of noncontrolling interests in the Operating Partnership to fair value	3,297	13,390

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Conversions of Common Units to Common Stock	(408)	(3,006)
Net income attributable to noncontrolling interests in the Operating Partnership	3,502		14,876	
Distributions to noncontrolling interests in the Operating Partnership	(3,742)	(3,684)
Total noncontrolling interests in the Operating Partnership	\$147,451		\$148,005	

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

7. Noncontrolling Interests - Continued

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Net income available for common stockholders	\$57,040	\$31,971	\$126,303	\$496,409
Increase in additional paid in capital from conversions of Common Units to Common Stock	103	1,448	408	3,006
Change from net income available for common stockholders and transfers from noncontrolling interests	\$57,143	\$33,419	\$126,711	\$499,415

8. Disclosure About Fair Value of Financial Instruments

The following summarizes the three levels of inputs that we use to measure fair value.

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

Our Level 1 asset is our investment in marketable securities that we use to pay benefits under our non-qualified deferred compensation plan. Our Level 1 liability is our non-qualified deferred compensation obligation. The Company's Level 1 noncontrolling interests in the Operating Partnership relate to the ownership of Common Units by various individuals and entities other than the Company.

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 assets include the fair value of our mortgages and notes receivable and certain interest rate swaps. Our Level 2 liabilities include the fair value of our mortgages and notes payable and remaining interest rate swaps.

The fair value of mortgages and notes receivable and mortgages and notes payable is estimated by the income approach utilizing contractual cash flows and market-based interest rates to approximate the price that would be paid in an orderly transaction between market participants. The fair value of interest rate swaps is determined using the market standard methodology of netting the discounted future fixed cash receipts and the discounted expected variable cash payments. The variable cash payments of interest rate swaps are based on the expectation of future interest rates (forward curves) derived from observed market interest rate curves. In addition, credit valuation adjustments are considered in the fair values to account for potential nonperformance risk, but were concluded to not be significant inputs to the calculation for the periods presented.

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 assets included (1) any real estate assets recorded at fair value on a non-recurring basis as a result of our quarterly impairment analysis, which were valued using the terms of definitive sales contracts or the sales comparison approach, and (2) our tax increment financing bond, which was not routinely traded but whose fair value was determined by the income approach utilizing contractual cash flows and market-based interest rates to estimate the projected redemption value based on quoted bid/ask prices for similar unrated municipal bonds. Our tax increment financing bond was assigned in conjunction with a sale during the first quarter of 2016. The estimated fair value at the date of sale of \$11.2 million was equal to the outstanding principal amount due on the bond.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

8. Disclosure About Fair Value of Financial Instruments - Continued

The following table sets forth our assets and liabilities and the Company's noncontrolling interests in the Operating Partnership that are measured or disclosed at fair value within the fair value hierarchy.

	Level 1	Level 2	Level 3
	Quoted		
	Prices		
	in Active	Significant	Significant
	Markets	Observable	Unobservable
Total	for	Inputs	Inputs
	Identical		
	Assets or		
	Liabilities		