

HIGHWOODS PROPERTIES INC  
Form 10-Q  
April 28, 2015

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 March 31, 2015

HIGHWOODS PROPERTIES, INC.

(Exact name of registrant as specified in its charter)

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

Edgar Filing: HIGHWOODS PROPERTIES INC - Form 10-Q

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 94,052,036 shares of Common Stock outstanding as of April 20, 2015.

---

## 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 April 20, 2015, 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 March 31, 2015 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;

- the following Notes to Consolidated Financial Statements:

- Note 8 - Noncontrolling Interests; and

- Note 13 - 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 MARCH 31, 2015

TABLE OF CONTENTS

	Page
PART I - FINANCIAL INFORMATION	
ITEM 1. <u>FINANCIAL STATEMENTS (unaudited)</u>	<u>3</u>
<u>HIGHWOODS PROPERTIES, INC.:</u>	
<u>Consolidated Balance Sheets at March 31, 2015 and December 31, 2014</u>	<u>3</u>
<u>Consolidated Statements of Income for the Three Months Ended March 31, 2015 and 2014</u>	<u>4</u>
<u>Consolidated Statements of Comprehensive Income for the Three Months Ended March 31, 2015 and 2014</u>	<u>5</u>
<u>Consolidated Statements of Equity for the Three Months Ended March 31, 2015 and 2014</u>	<u>6</u>
<u>Consolidated Statements of Cash Flows for the Three Months Ended March 31, 2015 and 2014</u>	<u>7</u>
<u>HIGHWOODS REALTY LIMITED PARTNERSHIP:</u>	
<u>Consolidated Balance Sheets at March 31, 2015 and December 31, 2014</u>	<u>9</u>
<u>Consolidated Statements of Income for the Three Months Ended March 31, 2015 and 2014</u>	<u>10</u>
<u>Consolidated Statements of Comprehensive Income for the Three Months Ended March 31, 2015 and 2014</u>	<u>11</u>
<u>Consolidated Statements of Capital for the Three Months Ended March 31, 2015 and 2014</u>	<u>12</u>
<u>Consolidated Statements of Cash Flows for the Three Months Ended March 31, 2015 and 2014</u>	<u>13</u>
<u>NOTES TO CONSOLIDATED FINANCIAL STATEMENTS</u>	<u>15</u>
ITEM 2. <u>MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS</u>	<u>30</u>
<u>Disclosure Regarding Forward-Looking Statements</u>	<u>30</u>
<u>Executive Summary</u>	<u>31</u>
<u>Results of Operations</u>	<u>34</u>
<u>Liquidity and Capital Resources</u>	<u>35</u>
<u>Critical Accounting Estimates</u>	<u>37</u>
<u>Non-GAAP Information</u>	<u>37</u>
ITEM 3. <u>QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK</u>	<u>40</u>
ITEM 4. <u>CONTROLS AND PROCEDURES</u>	<u>40</u>
PART II - OTHER INFORMATION	
ITEM 2. <u>UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS</u>	<u>41</u>
ITEM 6. <u>EXHIBITS</u>	<u>41</u>

Table of Contents

## PART I - FINANCIAL INFORMATION

## ITEM 1. FINANCIAL STATEMENTS

## HIGHWOODS PROPERTIES, INC.

## Consolidated Balance Sheets

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

	March 31, 2015	December 31, 2014
Assets:		
Real estate assets, at cost:		
Land	\$400,850	\$ 388,807
Buildings and tenant improvements	3,941,463	3,840,379
Development in process	133,688	205,971
Land held for development	75,888	79,355
	4,551,889	4,514,512
Less-accumulated depreciation	(1,056,028 )	(1,033,106 )
Net real estate assets	3,495,861	3,481,406
Real estate and other assets, net, held for sale	2,980	1,038
Cash and cash equivalents	11,381	8,832
Restricted cash	11,852	14,595
Accounts receivable, net of allowance of \$1,647 and \$1,314, respectively	28,385	48,557
Mortgages and notes receivable, net of allowance of \$468 and \$275, respectively	14,137	13,116
Accrued straight-line rents receivable, net of allowance of \$530 and \$600, respectively	147,597	142,037
Investments in and advances to unconsolidated affiliates	27,056	27,071
Deferred financing and leasing costs, net of accumulated amortization of \$115,342 and \$112,804, respectively	224,270	228,768
Prepaid expenses and other assets, net of accumulated amortization of \$14,770 and \$14,259, respectively	46,297	39,489
Total Assets	\$4,009,816	\$ 4,004,909
Liabilities, Noncontrolling Interests in the Operating Partnership and Equity:		
Mortgages and notes payable	\$2,089,226	\$ 2,071,389
Accounts payable, accrued expenses and other liabilities	203,001	237,633
Financing obligations	23,519	23,519
Total Liabilities	2,315,746	2,332,541
Commitments and contingencies		
Noncontrolling interests in the Operating Partnership	133,226	130,048
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), 29,050 and 29,060 shares issued and outstanding, respectively	29,050	29,060
Common Stock, \$.01 par value, 200,000,000 authorized shares; 94,047,118 and 92,907,310 shares issued and outstanding, respectively	940	929
Additional paid-in capital	2,504,867	2,464,275
Distributions in excess of net income available for common stockholders	(986,388 )	(966,141 )
Accumulated other comprehensive loss	(5,709 )	(3,912 )
Total Stockholders' Equity	1,542,760	1,524,211
Noncontrolling interests in consolidated affiliates	18,084	18,109

Edgar Filing: HIGHWOODS PROPERTIES INC - Form 10-Q

Total Equity	1,560,844	1,542,320
Total Liabilities, Noncontrolling Interests in the Operating Partnership and Equity	\$4,009,816	\$ 4,004,909

See accompanying notes to consolidated financial statements.

3

---

Table of Contents

## HIGHWOODS PROPERTIES, INC.

## Consolidated Statements of Income

(Unaudited and in thousands, except per share amounts)

	Three Months Ended March 31,	
	2015	2014
Rental and other revenues	\$157,310	\$148,453
Operating expenses:		
Rental property and other expenses	57,513	56,390
Depreciation and amortization	50,308	48,165
General and administrative	11,437	10,714
Total operating expenses	119,258	115,269
Interest expense:		
Contractual	20,442	20,750
Amortization of deferred financing costs	800	652
Financing obligations	181	(40)
	21,423	21,362
Other income:		
Interest and other income	1,238	1,399
	1,238	1,399
Income from continuing operations before disposition of investment properties and activity in unconsolidated affiliates	17,867	13,221
Gains on disposition of property	1,157	—
Equity in earnings/(losses) of unconsolidated affiliates	1,811	(29)
Income from continuing operations	20,835	13,192
Discontinued operations:		
Net gains on disposition of discontinued operations	—	384
	—	384
Net income	20,835	13,576
Net (income) attributable to noncontrolling interests in the Operating Partnership	(596)	(398)
Net (income) attributable to noncontrolling interests in consolidated affiliates	(296)	(423)
Dividends on Preferred Stock	(627)	(627)
Net income available for common stockholders	\$19,316	\$12,128
Earnings per Common Share – basic:		
Income from continuing operations available for common stockholders	\$0.21	\$0.13
Income from discontinued operations available for common stockholders	—	—
Net income available for common stockholders	\$0.21	\$0.13
Weighted average Common Shares outstanding – basic	93,222	89,966
Earnings per Common Share – diluted:		
Income from continuing operations available for common stockholders	\$0.21	\$0.13
Income from discontinued operations available for common stockholders	—	—
Net income available for common stockholders	\$0.21	\$0.13
Weighted average Common Shares outstanding – diluted	96,279	93,030
Dividends declared per Common Share	\$0.425	\$0.425
Net income available for common stockholders:		
Income from continuing operations available for common stockholders	\$19,316	\$11,756
Income from discontinued operations available for common stockholders	—	372
Net income available for common stockholders	\$19,316	\$12,128
See accompanying notes to consolidated financial statements.		





Table of Contents

## HIGHWOODS PROPERTIES, INC.

Consolidated Statements of Comprehensive Income  
(Unaudited and in thousands)

	Three Months Ended March 31,	
	2015	2014
Comprehensive income:		
Net income	\$20,835	\$13,576
Other comprehensive loss:		
Unrealized gains on tax increment financing bond	193	165
Unrealized losses on cash flow hedges	(2,914 )	(1,404 )
Amortization of cash flow hedges	924	928
Total other comprehensive loss	(1,797 )	(311 )
Total comprehensive income	19,038	13,265
Less-comprehensive (income) attributable to noncontrolling interests	(892 )	(821 )
Comprehensive income attributable to common stockholders	\$18,146	\$12,444

See accompanying notes to consolidated financial statements.

Table of Contents

## 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 Loss	Non-controlling Interests in Consolidated Affiliates	Distributions in Excess of Net Income Available for Common Stockholders	Total
Balance at December 31, 2014	92,907,310	\$929	\$29,060	\$2,464,275	\$ (3,912 )	\$ 18,109	\$ (966,141 )	\$ 1,542,320
Issuances of Common Stock, net of issuance costs and tax withholdings	989,417	10	—	40,557	—	—	—	40,567
Conversions of Common Units to Common Stock	26,820	—	—	1,206	—	—	—	1,206
Dividends on Common Stock	—	—	—	—	—	—	(39,563 )	(39,563 )
Dividends on Preferred Stock	—	—	—	—	—	—	(627 )	(627 )
Adjustment of noncontrolling interests in the Operating Partnership to fair value	—	—	—	(5,036 )	—	—	—	(5,036 )
Distributions to noncontrolling interests in consolidated affiliates	—	—	—	—	—	(321 )	—	(321 )
Issuances of restricted stock	123,571	—	—	—	—	—	—	—
Redemptions/repurchases of Preferred Stock	—	—	(10 )	—	—	—	—	(10 )
Share-based compensation expense, net of forfeitures	—	1	—	3,865	—	—	—	3,866
Net (income) attributable to noncontrolling interests in the Operating Partnership	—	—	—	—	—	—	(596 )	(596 )
Net (income) attributable to noncontrolling interests in consolidated affiliates	—	—	—	—	—	296	(296 )	—
Comprehensive income:								
Net income	—	—	—	—	—	—	20,835	20,835
Other comprehensive loss	—	—	—	—	(1,797 )	—	—	(1,797 )
Total comprehensive income								19,038
	94,047,118	\$940	\$29,050	\$2,504,867	\$ (5,709 )	\$ 18,084	\$ (986,388 )	\$ 1,560,844

Edgar Filing: HIGHWOODS PROPERTIES INC - Form 10-Q

Balance at March 31,  
2015

	Number of Common Shares	Common Stock	Series A Cumulative Redeemable Preferred Shares	Additional Paid-In Capital	Accumulated Other Compre- hensive Loss	Non-controlling Interests in Consolidated Affiliates	Distributions in Excess of Net Income Available for Common Stockholders	Total
Balance at December 31, 2013	89,920,915	\$ 899	\$ 29,077	\$2,370,368	\$ (2,611 )	\$ 21,396	\$ (920,433 )	\$1,498,696
Issuances of Common Stock, net of issuance costs and tax withholdings	(8,427 )	—	—	153	—	—	—	153
Conversions of Common Units to Common Stock	4,417	—	—	162	—	—	—	162
Dividends on Common Stock		—	—	—	—	—	(38,225 )	(38,225 )
Dividends on Preferred Stock		—	—	—	—	—	(627 )	(627 )
Adjustment of noncontrolling interests in the Operating Partnership to fair value		—	—	(7,434 )	—	—	—	(7,434 )
Distributions to noncontrolling interests in consolidated affiliates		—	—	—	—	(522 )	—	(522 )
Issuances of restricted stock	144,826	—	—	—	—	—	—	—
Share-based compensation expense, net of forfeitures		2	—	4,260	—	—	—	4,262
Net (income) attributable to noncontrolling interests in the Operating Partnership		—	—	—	—	—	(398 )	(398 )
Net (income) attributable to noncontrolling interests in		—	—	—	—	423	(423 )	—

consolidated affiliates Comprehensive income:								
Net income	—	—	—	—	—	13,576	13,576	
Other comprehensive loss	—	—	—	(311	)	—	(311	)
Total comprehensive income							13,265	
Balance at March 31, 2014	90,061,731	\$ 901	\$ 29,077	\$ 2,367,509	\$ (2,922 )	\$ 21,297	\$ (946,530)	\$ 1,469,332

See accompanying notes to consolidated financial statements.

Table of Contents

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

	Three Months Ended March 31,	
	2015	2014
Operating activities:		
Net income	\$20,835	\$13,576
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	50,308	48,165
Amortization of lease incentives and acquisition-related intangible assets and liabilities	(67 )	82
Share-based compensation expense	3,866	4,262
Allowance for losses on accounts and accrued straight-line rents receivable	417	1,125
Accrued interest on mortgages and notes receivable	(170 )	(115 )
Amortization of deferred financing costs	800	652
Amortization of cash flow hedges	924	928
Amortization of mortgages and notes payable fair value adjustments	57	(809 )
Net gains on disposition of property	(1,157 )	(384 )
Equity in (earnings)/losses of unconsolidated affiliates	(1,811 )	29
Changes in financing obligations	—	(221 )
Distributions of earnings from unconsolidated affiliates	1,386	788
Changes in operating assets and liabilities:		
Accounts receivable	3,166	713
Prepaid expenses and other assets	(6,769 )	(5,260 )
Accrued straight-line rents receivable	(5,591 )	(6,457 )
Accounts payable, accrued expenses and other liabilities	(33,088 )	(25,690 )
Net cash provided by operating activities	33,106	31,384
Investing activities:		
Investments in development in process	(11,232 )	(27,232 )
Investments in tenant improvements and deferred leasing costs	(30,008 )	(24,782 )
Investments in building improvements	(12,081 )	(13,007 )
Net proceeds from disposition of real estate assets	5,650	—
Distributions of capital from unconsolidated affiliates	394	230
Investments in mortgages and notes receivable	(938 )	(108 )
Repayments of mortgages and notes receivable	87	16,604
Changes in restricted cash and other investing activities	993	4,043
Net cash used in investing activities	(47,135 )	(44,252 )
Financing activities:		
Dividends on Common Stock	(39,563 )	(38,225 )
Redemptions/repurchases of Preferred Stock	(10 )	—
Redemptions of Common Units	—	(93 )
Dividends on Preferred Stock	(627 )	(627 )
Distributions to noncontrolling interests in the Operating Partnership	(1,248 )	(1,249 )
Distributions to noncontrolling interests in consolidated affiliates	(321 )	(522 )
Proceeds from the issuance of Common Stock	44,937	1,313
Costs paid for the issuance of Common Stock	(643 )	(14 )
Repurchase of shares related to tax withholdings	(3,727 )	(1,523 )
Borrowings on revolving credit facility	110,900	96,100

Edgar Filing: HIGHWOODS PROPERTIES INC - Form 10-Q

Repayments of revolving credit facility	(91,900 )	(36,800 )
Repayments of mortgages and notes payable	(1,220 )	(2,236 )
Additions to deferred financing costs and other financing activities	—	(96 )
Net cash provided by financing activities	16,578	16,028
Net increase in cash and cash equivalents	\$2,549	\$3,160

See accompanying notes to consolidated financial statements.

7

---

Table of Contents

## HIGHWOODS PROPERTIES, INC.

Consolidated Statements of Cash Flows – Continued  
(Unaudited and in thousands)

	Three Months Ended March 31,	
	2015	2014
Net increase in cash and cash equivalents	\$2,549	\$3,160
Cash and cash equivalents at beginning of the period	8,832	10,184
Cash and cash equivalents at end of the period	\$11,381	\$13,344

## Supplemental disclosure of cash flow information:

	Three Months Ended March 31,	
	2015	2014
Cash paid for interest, net of amounts capitalized	\$21,480	\$25,054

## Supplemental disclosure of non-cash investing and financing activities:

	Three Months Ended March 31,	
	2015	2014
Unrealized losses on cash flow hedges	\$(2,914 )	\$(1,404 )
Conversions of Common Units to Common Stock	1,206	162
Changes in accrued capital expenditures	(2,697 )	5,399
Write-off of fully depreciated real estate assets	15,020	3,121
Write-off of fully amortized deferred financing and leasing costs	10,147	3,697
Adjustment of noncontrolling interests in the Operating Partnership to fair value	5,036	7,434
Unrealized gains on tax increment financing bond	193	165

See accompanying notes to consolidated financial statements.



Table of Contents

## HIGHWOODS REALTY LIMITED PARTNERSHIP

## Consolidated Balance Sheets

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

	March 31, 2015	December 31, 2014
Assets:		
Real estate assets, at cost:		
Land	\$400,850	\$ 388,807
Buildings and tenant improvements	3,941,463	3,840,379
Development in process	133,688	205,971
Land held for development	75,888	79,355
	4,551,889	4,514,512
Less-accumulated depreciation	(1,056,028 )	(1,033,106 )
Net real estate assets	3,495,861	3,481,406
Real estate and other assets, net, held for sale	2,980	1,038
Cash and cash equivalents	11,381	8,938
Restricted cash	11,852	14,595
Accounts receivable, net of allowance of \$1,647 and \$1,314, respectively	28,385	48,557
Mortgages and notes receivable, net of allowance of \$468 and \$275, respectively	14,137	13,116
Accrued straight-line rents receivable, net of allowance of \$530 and \$600, respectively	147,597	142,037
Investments in and advances to unconsolidated affiliates	27,056	27,071
Deferred financing and leasing costs, net of accumulated amortization of \$115,342 and \$112,804, respectively	224,270	228,768
Prepaid expenses and other assets, net of accumulated amortization of \$14,770 and \$14,259, respectively	46,297	39,489
Total Assets	\$4,009,816	\$ 4,005,015
Liabilities, Redeemable Operating Partnership Units and Capital:		
Mortgages and notes payable	\$2,089,226	\$ 2,071,389
Accounts payable, accrued expenses and other liabilities	203,001	237,547
Financing obligations	23,519	23,519
Total Liabilities	2,315,746	2,332,455
Commitments and contingencies		
Redeemable Operating Partnership Units:		
Common Units, 2,910,135 and 2,936,955 outstanding, respectively	133,226	130,048
Series A Preferred Units (liquidation preference \$1,000 per unit), 29,050 and 29,060 units issued and outstanding, respectively	29,050	29,060
Total Redeemable Operating Partnership Units	162,276	159,108
Capital:		
Common Units:		
General partner Common Units, 965,484 and 954,355 outstanding, respectively	15,192	14,990
Limited partner Common Units, 92,672,825 and 91,544,146 outstanding, respectively	1,504,227	1,484,265
Accumulated other comprehensive loss	(5,709 )	(3,912 )
Noncontrolling interests in consolidated affiliates	18,084	18,109
Total Capital	1,531,794	1,513,452
Total Liabilities, Redeemable Operating Partnership Units and Capital	\$4,009,816	\$ 4,005,015

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 March 31,	
	2015	2014
Rental and other revenues	\$157,310	\$148,453
Operating expenses:		
Rental property and other expenses	57,513	56,374
Depreciation and amortization	50,308	48,165
General and administrative	11,437	10,730
Total operating expenses	119,258	115,269
Interest expense:		
Contractual	20,442	20,750
Amortization of deferred financing costs	800	652
Financing obligations	181	(40 )
	21,423	21,362
Other income:		
Interest and other income	1,238	1,399
	1,238	1,399
Income from continuing operations before disposition of investment properties and activity in unconsolidated affiliates	17,867	13,221
Gains on disposition of property	1,157	—
Equity in earnings/(losses) of unconsolidated affiliates	1,811	(29 )
Income from continuing operations	20,835	13,192
Discontinued operations:		
Net gains on disposition of discontinued operations	—	384
	—	384
Net income	20,835	13,576
Net (income) attributable to noncontrolling interests in consolidated affiliates	(296 )	(423 )
Distributions on Preferred Units	(627 )	(627 )
Net income available for common unitholders	\$19,912	\$12,526
Earnings per Common Unit – basic:		
Income from continuing operations available for common unitholders	\$0.21	\$0.13
Income from discontinued operations available for common unitholders	—	0.01
Net income available for common unitholders	\$0.21	\$0.14
Weighted average Common Units outstanding – basic	95,746	92,497
Earnings per Common Unit – diluted:		
Income from continuing operations available for common unitholders	\$0.21	\$0.13
Income from discontinued operations available for common unitholders	—	0.01
Net income available for common unitholders	\$0.21	\$0.14
Weighted average Common Units outstanding – diluted	95,870	92,621
Distributions declared per Common Unit	\$0.425	\$0.425
Net income available for common unitholders:		
Income from continuing operations available for common unitholders	\$19,912	\$12,142
Income from discontinued operations available for common unitholders	—	384
Net income available for common unitholders	\$19,912	\$12,526
See accompanying notes to consolidated financial statements.		



Table of Contents

## HIGHWOODS REALTY LIMITED PARTNERSHIP

## Consolidated Statements of Comprehensive Income

(Unaudited and in thousands)

	Three Months Ended March 31,	
	2015	2014
Comprehensive income:		
Net income	\$20,835	\$13,576
Other comprehensive loss:		
Unrealized gains on tax increment financing bond	193	165
Unrealized losses on cash flow hedges	(2,914 )	(1,404 )
Amortization of cash flow hedges	924	928
Total other comprehensive loss	(1,797 )	(311 )
Total comprehensive income	19,038	13,265
Less-comprehensive (income) attributable to noncontrolling interests	(296 )	(423 )
Comprehensive income attributable to common unitholders	\$18,742	\$12,842

See accompanying notes to consolidated financial statements.

Table of Contents

## 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	Loss	Affiliates	
Balance at December 31, 2014	\$14,990	\$1,484,265	\$ (3,912 )	\$ 18,109	\$1,513,452
Issuances of Common Units, net of issuance costs and tax withholdings	406	40,161	—	—	40,567
Distributions paid on Common Units	(406 )	(40,231 )	—	—	(40,637 )
Distributions paid on Preferred Units	(6 )	(621 )	—	—	(627 )
Share-based compensation expense, net of forfeitures	39	3,827	—	—	3,866
Distributions to noncontrolling interests in consolidated affiliates	—	—	—	(321 )	(321 )
Adjustment of Redeemable Common Units to fair value and contributions/distributions from/to the General Partner	(36 )	(3,508 )	—	—	(3,544 )
Net (income) attributable to noncontrolling interests in consolidated affiliates	(3 )	(293 )	—	296	—
Comprehensive income:					
Net income	208	20,627	—	—	20,835
Other comprehensive loss	—	—	(1,797 )	—	(1,797 )
Total comprehensive income					19,038
Balance at March 31, 2015	\$15,192	\$1,504,227	\$ (5,709 )	\$ 18,084	\$1,531,794

	Common Units		Accumulated	Noncontrolling	
	General	Limited	Other	Interests in	Total
	Partners'	Partners'	Comprehensive	Consolidated	
	Capital	Capital	Loss	Affiliates	
Balance at December 31, 2013	\$14,508	\$1,436,498	\$ (2,611 )	\$ 21,396	\$1,469,791
Issuances of Common Units, net of issuance costs and tax withholdings	2	151	—	—	153
Redemptions of Common Units	(1 )	(92 )	—	—	(93 )
Distributions paid on Common Units	(393 )	(38,907 )	—	—	(39,300 )
Distributions paid on Preferred Units	(6 )	(621 )	—	—	(627 )
Share-based compensation expense, net of forfeitures	43	4,219	—	—	4,262
Distributions to noncontrolling interests in consolidated affiliates	—	—	—	(522 )	(522 )
Adjustment of Redeemable Common Units to fair value and contributions/distributions from/to the General Partner	(66 )	(6,504 )	—	—	(6,570 )
Net (income) attributable to noncontrolling interests in consolidated affiliates	(4 )	(419 )	—	423	—
Comprehensive income:					

Edgar Filing: HIGHWOODS PROPERTIES INC - Form 10-Q

Net income	136	13,440	—	—	13,576
Other comprehensive loss	—	—	(311	) —	(311 )
Total comprehensive income					13,265
Balance at March 31, 2014	\$14,219	\$1,407,765	\$ (2,922	) \$ 21,297	\$1,440,359

See accompanying notes to consolidated financial statements.

12

---

Table of Contents

## HIGHWOODS REALTY LIMITED PARTNERSHIP

## Consolidated Statements of Cash Flows

(Unaudited and in thousands)

	Three Months Ended March 31,	
	2015	2014
Operating activities:		
Net income	\$20,835	\$13,576
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	50,308	48,165
Amortization of lease incentives and acquisition-related intangible assets and liabilities	(67 )	82
Share-based compensation expense	3,866	4,262
Allowance for losses on accounts and accrued straight-line rents receivable	417	1,125
Accrued interest on mortgages and notes receivable	(170 )	(115 )
Amortization of deferred financing costs	800	652
Amortization of cash flow hedges	924	928
Amortization of mortgages and notes payable fair value adjustments	57	(809 )
Net gains on disposition of property	(1,157 )	(384 )
Equity in (earnings)/losses of unconsolidated affiliates	(1,811 )	29
Changes in financing obligations	—	(221 )
Distributions of earnings from unconsolidated affiliates	1,386	788
Changes in operating assets and liabilities:		
Accounts receivable	3,166	713
Prepaid expenses and other assets	(6,769 )	(5,226 )
Accrued straight-line rents receivable	(5,591 )	(6,457 )
Accounts payable, accrued expenses and other liabilities	(33,002 )	(25,667 )
Net cash provided by operating activities	33,192	31,441
Investing activities:		
Investments in development in process	(11,232 )	(27,232 )
Investments in tenant improvements and deferred leasing costs	(30,008 )	(24,782 )
Investments in building improvements	(12,081 )	(13,007 )
Net proceeds from disposition of real estate assets	5,650	—
Distributions of capital from unconsolidated affiliates	394	230
Investments in mortgages and notes receivable	(938 )	(108 )
Repayments of mortgages and notes receivable	87	16,604
Changes in restricted cash and other investing activities	993	4,043
Net cash used in investing activities	(47,135 )	(44,252 )
Financing activities:		
Distributions on Common Units	(40,637 )	(39,300 )
Redemptions/repurchases of Preferred Units	(10 )	—
Redemptions of Common Units	—	(93 )
Distributions on Preferred Units	(627 )	(627 )
Distributions to noncontrolling interests in consolidated affiliates	(321 )	(522 )
Proceeds from the issuance of Common Units	44,937	1,313
Costs paid for the issuance of Common Units	(643 )	(14 )
Repurchase of units related to tax withholdings	(3,727 )	(1,523 )
Borrowings on revolving credit facility	110,900	96,100
Repayments of revolving credit facility	(91,900 )	(36,800 )



Edgar Filing: HIGHWOODS PROPERTIES INC - Form 10-Q

Repayments of mortgages and notes payable	(1,220 )	(2,236 )
Additions to deferred financing costs and other financing activities	(366 )	(338 )
Net cash provided by financing activities	16,386	15,960
Net increase in cash and cash equivalents	\$2,443	\$3,149
See accompanying notes to consolidated financial statements.		

13

---

Table of Contents

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

	Three Months Ended March 31,	
	2015	2014
Net increase in cash and cash equivalents	\$2,443	\$3,149
Cash and cash equivalents at beginning of the period	8,938	10,281
Cash and cash equivalents at end of the period	\$11,381	\$13,430

## Supplemental disclosure of cash flow information:

	Three Months Ended March 31,	
	2015	2014
Cash paid for interest, net of amounts capitalized	\$21,480	\$25,054

## Supplemental disclosure of non-cash investing and financing activities:

	Three Months Ended March 31,	
	2015	2014
Unrealized losses on cash flow hedges	\$(2,914 )	\$(1,404 )
Changes in accrued capital expenditures	(2,697 )	5,399
Write-off of fully depreciated real estate assets	15,020	3,121
Write-off of fully amortized deferred financing and leasing costs	10,147	3,697
Adjustment of Redeemable Common Units to fair value	3,178	6,328
Unrealized gains on tax increment financing bond	193	165

See accompanying notes to consolidated financial statements.

Table of Contents

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

March 31, 2015

(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 March 31, 2015, we owned or had an interest in 31.3 million rentable square feet of in-service properties, 1.2 million rentable square feet of properties under development and approximately 500 acres of development land.

The Company is the sole general partner of the Operating Partnership. At March 31, 2015, the Company owned all of the Preferred Units and 93.6 million, or 97.0%, of the Common Units in the Operating Partnership. Limited partners own the remaining 2.9 million Common Units. During the three months ended March 31, 2015, the Company redeemed 26,820 Common Units for a like number of shares of Common Stock.

Common Stock Offerings

During the three months ended March 31, 2015, the Company issued 914,126 shares of Common Stock under its equity sales agreements at an average gross sales price of \$45.34 per share and received net proceeds, after sales commissions, of \$40.8 million. As a result of this activity and the redemptions discussed above, the percentage of Common Units owned by the Company increased from 96.9% at December 31, 2014 to 97.0% at March 31, 2015.

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. At March 31, 2015 and December 31, 2014, we had involvement with, but are not the primary beneficiary in, an entity that we concluded to be a variable interest entity (see Note 3).

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 2014 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 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") recently issued an accounting standards update 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. The accounting standards update is required to be adopted in 2017. Retrospective application is required either to all periods presented or with the cumulative effect of initial adoption recognized in the period of adoption. We are in the process of evaluating this accounting standards update.

The FASB recently issued an accounting standards update that amends consolidation requirements. The amendments significantly change the consolidation analysis required under GAAP and will require companies to reevaluate all previous consolidation conclusions. The accounting standards update is required to be adopted in 2016. We are in the process of evaluating this accounting standards update.

The FASB recently issued an accounting standards update that requires debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The accounting standards update is required to be adopted in 2016. Retrospective application is required. We are in the process of evaluating this accounting standards update.

2. Real Estate Assets

Dispositions

During the first quarter of 2015, we sold:

two buildings for an aggregate sale price of \$3.5 million and recorded aggregate gains on disposition of property of \$0.4 million; and

land for a sale price of \$2.5 million and recorded a gain on disposition of property of \$0.8 million.

Table of Contents

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)

## 3. Mortgages and Notes Receivable

The following table sets forth our mortgages and notes receivable:

	March 31, 2015	December 31, 2014
Mortgages receivable (including accrued interest)	\$11,931	\$ 10,869
Less allowance	—	—
	11,931	10,869
Promissory notes	2,674	2,522
Less allowance	(468	) (275
	2,206	2,247
Mortgages and notes receivable, net	\$14,137	\$ 13,116

Mortgages receivable consist of secured financing provided to a third party. We concluded this arrangement to be an interest in a variable interest entity. However, since we do not have the power to direct matters that most significantly impact the activities of the entity, we do not qualify as the primary beneficiary. Accordingly, the entity is not consolidated. Our risk of loss with respect to this arrangement is limited to the carrying value of the mortgage receivable and the future infrastructure development funding commitment.

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 March 31, 2015, our mortgages and notes receivable were not in default and there were no other indicators of impairment.

The following table sets forth our notes receivable allowance, which relates only to promissory notes:

	Three Months Ended March 31,	
	2015	2014
Beginning notes receivable allowance	\$275	\$302
Recoveries/write-offs/other	193	(2
Total notes receivable allowance	\$468	\$300

Table of Contents

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. Investments in and Advances to Affiliates

## Unconsolidated Affiliates

We have equity interests of up to 50.0% in various joint ventures with unrelated third parties that are accounted for using the equity method of accounting because we have the ability to exercise significant influence over their operating and financial policies.

The following table sets forth the summarized income statements of our unconsolidated affiliates:

	Three Months Ended March 31,	
	2015	2014
Income Statements:		
Rental and other revenues	\$ 12,231	\$ 12,434
Expenses:		
Rental property and other expenses	5,667	6,217
Depreciation and amortization	3,115	3,489
Interest expense	2,149	2,211
Total expenses	10,931	11,917
Income before disposition of property	1,300	517
Gains on disposition of property	2,127	1,949
Net income	\$ 3,427	\$ 2,466

During the first quarter of 2015, Highwoods DLF 97/26 DLF 99/32, LP sold a building to an unrelated third party for a sale price of \$7.0 million and recorded a gain on disposition of property of \$2.1 million. We recorded \$1.1 million as our share of this gain through equity in earnings of unconsolidated affiliates.

## 5. 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:

	March 31, 2015	December 31, 2014
Assets:		
Deferred financing costs	\$ 19,444	\$ 19,478
Less accumulated amortization	(8,697)	(7,953)
	10,747	11,525
Deferred leasing costs (including lease incentives and above market lease and in-place lease acquisition-related intangible assets)	320,168	322,094
Less accumulated amortization	(106,645)	(104,851)

Edgar Filing: HIGHWOODS PROPERTIES INC - Form 10-Q

Deferred financing and leasing costs, net	213,523	217,243
	\$224,270	\$ 228,768
Liabilities (in accounts payable, accrued expenses and other liabilities):		
Acquisition-related below market lease liabilities	\$55,360	\$ 55,783
Less accumulated amortization	(14,857 )	(13,548 )
	\$40,503	\$ 42,235

18

---



Table of Contents

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. Intangible Assets and Below Market Lease Liabilities - Continued

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

	Three Months Ended	
	March 31, 2015	2014
Amortization of deferred financing costs	\$800	\$652
Amortization of deferred leasing costs and acquisition-related intangible assets (in depreciation and amortization)	\$10,293	\$9,928
Amortization of lease incentives (in rental and other revenues)	\$362	\$351
Amortization of acquisition-related intangible assets (in rental and other revenues)	\$1,166	\$1,116
Amortization of acquisition-related intangible assets (in rental property and other expenses)	\$137	\$137
Amortization of acquisition-related below market lease liabilities (in rental and other revenues)	\$(1,732)	\$(1,522)

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

	Amortization of Deferred Financing Costs	Amortization of Deferred Leasing Costs and Acquisition-Related Intangible Assets (in Depreciation and Amortization)	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)
April 1 through December 31, 2015	\$2,299	\$ 30,616	\$887	\$ 3,216	\$ 415	\$ (4,700 )
2016	2,784	34,322	1,072	3,054	553	(5,570 )
2017	2,508	29,907	1,000	2,253	553	(5,298 )
2018	1,379	25,334	893	1,462	553	(5,135 )
2019	653	21,021	705	1,046	553	(4,804 )
Thereafter	1,124	48,503	2,214	2,858	533	(14,996 )
	\$10,747	\$ 189,703	\$6,771	\$ 13,889	\$ 3,160	\$ (40,503 )
Weighted average remaining amortization periods as of March 31, 2015 (in years)	4.2	6.9	8.0	6.2	5.7	8.0

## 6. Mortgages and Notes Payable

The following table sets forth our mortgages and notes payable:

	March 31, 2015	December 31, 2014
Secured indebtedness	\$311,502	\$ 312,868
Unsecured indebtedness	1,777,724	1,758,521
Total mortgages and notes payable	\$2,089,226	\$ 2,071,389

At March 31, 2015, our secured mortgage loans were collateralized by real estate assets with an aggregate undepreciated book value of \$583.2 million.

Table of Contents

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)

## 6. Mortgages and Notes Payable - Continued

Our \$475.0 million unsecured revolving credit facility is scheduled to mature in January 2018 and includes an accordion feature that allows for an additional \$75.0 million of borrowing capacity subject to additional lender commitments. Assuming no defaults have occurred, we have an option to extend the maturity for two additional six-month periods. The interest rate at our current credit ratings is LIBOR plus 110 basis points and the annual facility fee is 20 basis points. There was \$228.0 million and \$239.0 million outstanding under our revolving credit facility at March 31, 2015 and April 20, 2015, respectively. At both March 31, 2015 and April 20, 2015, we had \$0.2 million of outstanding letters of credit, which reduces the availability on our revolving credit facility. As a result, the unused capacity of our revolving credit facility at March 31, 2015 and April 20, 2015 was \$246.8 million and \$235.8 million, respectively.

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

## 7. Derivative Financial Instruments

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 three months ended March 31, 2015 and 2014. We have no collateral requirements related to our interest rate swaps.

Amounts reported in accumulated other comprehensive loss ("AOCL") related to derivatives will be reclassified to interest expense as interest payments are made on our variable-rate debt. During the period from April 1, 2015 through March 31, 2016, we estimate that \$3.0 million will be reclassified to interest expense.

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

	March 31, 2015	December 31, 2014
Derivatives:		
Derivatives designated as cash flow hedges in accounts payable, accrued expenses and other liabilities:		
Interest rate swaps	\$4,480	\$ 2,412

The following table sets forth the effect of our cash flow hedges on AOCL and interest expense:

	Three Months Ended March 31, 2015	2014
Derivatives Designated as Cash Flow Hedges:		
Amount of unrealized losses recognized in AOCL on derivatives (effective portion):		
Interest rate swaps	\$(2,914 )	\$(1,404 )
Amount of losses reclassified out of AOCL into contractual interest expense (effective portion):		

Interest rate swaps

\$924

\$928

20

---

Table of Contents

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)

## 8. Noncontrolling Interests

## Noncontrolling Interests in Consolidated Affiliates

At March 31, 2015, our noncontrolling interests in consolidated affiliates relates to our joint venture partner's 50.0% interest in office properties in Richmond, VA. 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:

	Three Months Ended March 31,	
	2015	2014
Beginning noncontrolling interests in the Operating Partnership	\$ 130,048	\$ 106,480
Adjustment of noncontrolling interests in the Operating Partnership to fair value	5,036	7,434
Conversions of Common Units to Common Stock	(1,206 )	(162 )
Redemptions of Common Units	—	(93 )
Net income attributable to noncontrolling interests in the Operating Partnership	596	398
Distributions to noncontrolling interests in the Operating Partnership	(1,248 )	(1,249 )
Total noncontrolling interests in the Operating Partnership	\$ 133,226	\$ 112,808

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 March 31,	
	2015	2014
Net income available for common stockholders	\$ 19,316	\$ 12,128
Increase in additional paid in capital from conversions of Common Units to Common Stock	1,206	162
Change from net income available for common stockholders and transfers from noncontrolling interests	\$ 20,522	\$ 12,290

Table of Contents

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)

9. 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 asset is the fair value of certain of our mortgages and notes receivable. Our Level 2 liabilities include the fair value of our mortgages and notes payable and 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 LIBOR interest rates (forward curves) derived from observed market LIBOR interest rate curves. In addition, credit valuation adjustments are incorporated 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 include (1) certain of our mortgages and notes receivable, which were estimated by the income approach utilizing internal cash flow projections and market interest rates to estimate the price that would be paid in an orderly transaction between market participants, and (2) our tax increment financing bond, which is not routinely traded but whose fair value is 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 Level 3 liability is the fair value of our financing obligations, which was estimated by the income approach to approximate the price that would be paid in an orderly transaction between market participants, utilizing: (1) contractual cash flows; (2) market-based interest rates; and (3) a number of other assumptions including demand for space, competition for customers, changes in market rental rates, costs of operation and expected ownership periods.



Table of Contents

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)

## 9. 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 at fair value within the fair value hierarchy.

	Total	Level 1 Quoted Prices in Active Markets for Identical Assets or Liabilities	Level 2 Significant Observable Inputs	Level 3 Significant Unobservable Inputs
Fair Value at March 31, 2015:				
Assets:				
Mortgages and notes receivable, at fair value (1)	\$14,163	\$—	\$2,206	\$ 11,957
Marketable securities of non-qualified deferred compensation plan (in prepaid expenses and other assets)	3,504	3,504	—	—
Tax increment financing bond (in prepaid expenses and other assets)	12,640	—	—	12,640
Total Assets	\$30,307	\$3,504	\$2,206	\$ 24,597
Noncontrolling Interests in the Operating Partnership	\$133,226	\$133,226	\$—	\$ —
Liabilities:				
Mortgages and notes payable, at fair value (1)	\$2,173,153	\$—	\$2,173,153	\$ —
Interest rate swaps (in accounts payable, accrued expenses and other liabilities)	4,480	—	4,480	—
Non-qualified deferred compensation obligation (in accounts payable, accrued expenses and other liabilities)	3,504	3,504	—	—
Financing obligations, at fair value (1)	20,264	—	—	20,264
Total Liabilities	\$2,201,401	\$3,504	\$2,177,633	