

HIGHWOODS PROPERTIES INC

Form 10-Q

April 23, 2019

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, 2019

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 every Interactive Data File required to be submitted 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 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 Smaller reporting company Emerging growth company

Highwoods Realty Limited Partnership

Large accelerated filer Accelerated filer Non-accelerated filer 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 103,692,619 shares of Common Stock outstanding as of April 16, 2019.

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 16, 2019, 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, 2019 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 11 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 MARCH 31, 2019

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PART I - FINANCIAL INFORMATION

ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

HIGHWOODS PROPERTIES, INC.

Consolidated Balance Sheets

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

	March 31, 2019	December 31, 2018
Assets:		
Real estate assets, at cost:		
Land	\$491,613	\$491,441
Buildings and tenant improvements	4,728,637	4,676,862
Development in-process	162,076	165,537
Land held for development	94,312	128,248
	5,476,638	5,462,088
Less-accumulated depreciation	(1,324,447)	(1,296,562)
Net real estate assets	4,152,191	4,165,526
Real estate and other assets, net, held for sale	24,893	—
Cash and cash equivalents	4,827	3,769
Restricted cash	7,640	6,374
Accounts receivable	30,646	25,952
Mortgages and notes receivable, net of allowance of \$36 and \$44, respectively	1,623	5,599
Accrued straight-line rents receivable	219,870	220,088
Investments in and advances to unconsolidated affiliates	23,296	23,585
Deferred leasing costs, net of accumulated amortization of \$149,863 and \$149,275, respectively	194,848	195,273
Prepaid expenses and other assets, net of accumulated depreciation of \$18,751 and \$18,074, respectively	66,282	28,843
Total Assets	\$4,726,116	\$4,675,009
Liabilities, Noncontrolling Interests in the Operating Partnership and Equity:		
Mortgages and notes payable, net	\$2,160,594	\$2,085,831
Accounts payable, accrued expenses and other liabilities	237,278	218,922
Total Liabilities	2,397,872	2,304,753
Commitments and contingencies		
Noncontrolling interests in the Operating Partnership	127,976	105,960
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), 28,859 and 28,877 shares issued and outstanding, respectively	28,859	28,877
Common Stock, \$.01 par value, 200,000,000 authorized shares; 103,690,619 and 103,557,065 shares issued and outstanding, respectively	1,037	1,036
Additional paid-in capital	2,956,517	2,976,197
Distributions in excess of net income available for common stockholders	(811,223)	(769,303)
Accumulated other comprehensive income	7,494	9,913
Total Stockholders' Equity	2,182,684	2,246,720
Noncontrolling interests in consolidated affiliates	17,584	17,576
Total Equity	2,200,268	2,264,296
Total Liabilities, Noncontrolling Interests in the Operating Partnership and Equity	\$4,726,116	\$4,675,009

See accompanying notes to consolidated financial statements.

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HIGHWOODS PROPERTIES, INC.

Consolidated Statements of Income

(Unaudited and in thousands, except per share amounts)

	Three Months Ended	
	March 31,	
	2019	2018
Rental and other revenues	\$172,363	\$180,438
Operating expenses:		
Rental property and other expenses	60,551	59,432
Depreciation and amortization	69,204	57,568
General and administrative	12,381	11,778
Total operating expenses	142,136	128,778
Interest expense	18,739	18,391
Other income/(loss)	(3,766)) 455
Equity in earnings of unconsolidated affiliates	664	522
Net income	8,386	34,246
Net (income) attributable to noncontrolling interests in the Operating Partnership	(193)) (888)
Net (income) attributable to noncontrolling interests in consolidated affiliates	(316)) (286)
Dividends on Preferred Stock	(622)) (623)
Net income available for common stockholders	\$7,255	\$32,449