

HIGHWOODS PROPERTIES INC
Form 10-Q
October 27, 2011

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, 2011

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

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

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

919-872-4924
(Registrants' telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

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

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

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

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

Highwoods Properties, Inc.

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

Highwoods Realty Limited Partnership

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

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

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

The Company had 72,579,381 shares of Common Stock outstanding as of October 20, 2011.

HIGHWOODS PROPERTIES, INC.
HIGHWOODS REALTY LIMITED PARTNERSHIP

QUARTERLY REPORT FOR THE PERIOD ENDED SEPTEMBER 30, 2011

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PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

We refer to Highwoods Properties, Inc. as the “Company,” Highwoods Realty Limited Partnership as the “Operating Partnership,” the Company’s common stock as “Common Stock” or “Common Shares,” the Company’s preferred stock as “Preferred Stock” or “Preferred Shares,” the Operating Partnership’s common partnership interests as “Common Units,” the Operating Partnership’s preferred partnership interests as “Preferred Units” and in-service properties (excluding rental residential units) to which the Company and/or the Operating Partnership have title and 100.0% ownership rights as the “Wholly Owned Properties.” References to “we” and “our” mean the Company and the Operating Partnership, collectively, unless the context indicates otherwise.

The partnership agreement provides that the Operating Partnership will assume and pay when due, or reimburse the Company for payment of, all costs and expenses relating to the ownership and operations of, or for the benefit of, the Operating Partnership. The partnership agreement further provides that all expenses of the Company are deemed to be incurred for the benefit of the Operating Partnership.

Certain information contained herein is presented as of October 20, 2011, the latest practicable date prior to the filing of this Quarterly Report.

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HIGHWOODS PROPERTIES, INC.

Consolidated Balance Sheets

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

	September 30, 2011	December 31, 2010
Assets:		
Real estate assets, at cost:		
Land	\$ 368,948	\$ 345,088
Buildings and tenant improvements	3,115,149	2,883,092
Development in process	7,576	4,524
Land held for development	106,975	107,101
	3,598,648	3,339,805
Less-accumulated depreciation	(878,702)	(830,153)
Net real estate assets	2,719,946	2,509,652
For-sale residential condominiums	4,995	8,225
Real estate and other assets, net, held for sale	—	13,607
Cash and cash equivalents	11,088	14,206
Restricted cash	23,230	4,399
Accounts receivable, net of allowance of \$3,581 and \$3,595, respectively	23,443	20,716
Mortgages and notes receivable, net of allowance of \$545 and \$868, respectively	18,706	19,044
Accrued straight-line rents receivable, net of allowance of \$1,366 and \$2,209, respectively	102,338	93,178
Investment in and advances to unconsolidated affiliates	99,910	63,607
Deferred financing and leasing costs, net of accumulated amortization of \$60,950 and \$59,360, respectively	129,311	85,001
Prepaid expenses and other assets	38,940	40,200
Total Assets	\$ 3,171,907	\$ 2,871,835
Liabilities, Noncontrolling Interests in the Operating Partnership and Equity:		
Mortgages and notes payable	\$ 1,893,981	\$ 1,522,945
Accounts payable, accrued expenses and other liabilities	127,664	106,716
Financing obligations	32,775	33,114
Total Liabilities	2,054,420	1,662,775
Commitments and contingencies		
Noncontrolling interests in the Operating Partnership	105,995	120,838
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), 29,077 and 29,092 shares issued and outstanding, respectively	29,077	29,092
8.000% Series B Cumulative Redeemable Preferred Shares (liquidation preference \$25 per share), 0 and 2,100,000 shares	—	52,500

issued and outstanding, respectively

Common Stock, \$.01 par value, 200,000,000 authorized shares;

72,579,381 and 71,690,487 shares issued and outstanding,

respectively	726	717
Additional paid-in capital	1,807,107	1,766,886
Distributions in excess of net income available for common stockholders	(826,435)	(761,785)
Accumulated other comprehensive loss	(3,606)	(3,648)
Total Stockholders' Equity	1,006,869	1,083,762
Noncontrolling interests in consolidated affiliates	4,623	4,460
Total Equity	1,011,492	1,088,222
Total Liabilities, Noncontrolling Interests in the Operating Partnership and Equity	\$ 3,171,907	\$ 2,871,835

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,	
	2011	2010	2011	2010
Rental and other revenues	\$ 122,086	\$ 115,528	\$ 354,122	\$ 343,796
Operating expenses:				
Rental property and other expenses	46,019	43,339	128,360	122,986
Depreciation and amortization	36,320	34,183	103,467	100,081
Impairment of assets held for use	2,429	—	2,429	—
General and administrative	12,212	8,882	27,983	24,369
Total operating expenses	96,980	86,404	262,239	247,436
Interest expense:				
Contractual	23,356	22,020	68,727	65,527
Amortization of deferred financing costs	806	858	2,448	2,528
Financing obligations	228	460	665	1,330
	24,390	23,338	71,840	69,385
Other income:				
Interest and other income	1,505	1,709	5,277	4,374
Loss on debt extinguishment	—	(85)	(24)	(85)
	1,505	1,624	5,253	4,289
Income from continuing operations before disposition of property, condominiums and investment in unconsolidated affiliates and equity in earnings of unconsolidated affiliates	2,221	7,410	25,296	31,264
Gains on disposition of property	262	19	462	55
Gains/(losses) on for-sale residential condominiums	(476)	54	(322)	407
Gains on disposition of investment in unconsolidated affiliates	2,282	—	2,282	25,330
Equity in earnings of unconsolidated affiliates	1,113	1,018	3,933	2,701
Income from continuing operations	5,402	8,501	31,651	59,757
Discontinued operations:				
Income from discontinued operations	269	272	897	1,233
Net gains/(losses) on disposition of discontinued operations	2,573	—	2,573	(86)
	2,842	272	3,470	1,147
Net income	8,244	8,773	35,121	60,904
Net (income) attributable to noncontrolling interests in the Operating Partnership	(366)	(366)	(1,496)	(2,819)
Net (income)/loss attributable to noncontrolling interests in consolidated affiliates	(249)	148	(554)	(281)
Dividends on Preferred Stock	(627)	(1,677)	(3,926)	(5,031)
	—	—	(1,895)	—

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Excess of Preferred Stock redemption/repurchase cost over carrying value								
Net income available for common stockholders	\$	7,002	\$	6,878	\$	27,250	\$	52,773
Earnings per Common Share – basic:								
Income from continuing operations available for common stockholders	\$	0.06	\$	0.10	\$	0.33	\$	0.72
Income from discontinued operations available for common stockholders		0.04		—		0.05		0.02
Net income available for common stockholders	\$	0.10	\$	0.10	\$	0.38	\$	0.74
Weighted average Common Shares outstanding – basic		72,492		71,631		72,176		71,549
Earnings per Common Share – diluted:								
Income from continuing operations available for common stockholders	\$	0.06	\$	0.10	\$	0.33	\$	0.72
Income from discontinued operations available for common stockholders		0.04		—		0.05		0.02
Net income available for common stockholders	\$	0.10	\$	0.10	\$	0.38	\$	0.74
Weighted average Common Shares outstanding – diluted		76,402		75,638		76,127		75,537
Dividends declared per Common Share	\$	0.425	\$	0.425	\$	1.275	\$	1.275
Net income available for common stockholders:								
Income from continuing operations available for common stockholders	\$	4,301	\$	6,620	\$	23,953	\$	51,684
Income from discontinued operations available for common stockholders		2,701		258		3,297		1,089
Net income available for common stockholders	\$	7,002	\$	6,878	\$	27,250	\$	52,773

See accompanying notes to consolidated financial statements.

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HIGHWOODS PROPERTIES, INC.

Consolidated Statements of Equity

Nine Months Ended September 30, 2011 and 2010

(Unaudited and in thousands, except share amounts)

			Series A	Series B		Accumulated	Non-	Distributions		
	Number of	Cumulative	Cumulative	Additional	Other	Interests	Controlling	in Excess		
	Common	Redeemable	Redeemable	Paid-In	Comprehen	in	Income	of Net		
	Shares	Preferred	Preferred	Capital	Loss	Consolidated	Available	for		Total
	Shares	Shares	Shares	Capital	Loss	Common	Stockholders			
Balance at		\$	\$	\$						
December 31, 2010	71,690,487	717	29,092	52,500	\$ 1,766,886	\$ (3,648)	\$ 4,460	\$ (761,785)	\$ 1,088,222	
Issuances of										
Common Stock, net	711,234	7	—	—	22,036	—	—	—	—	