

HIGHWOODS PROPERTIES INC
Form 10-Q
April 29, 2014

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, 2014

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

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Highwoods Realty Limited Partnership

Large accelerated filer Accelerated filer Non-accelerated filer 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 90,121,773 shares of Common Stock outstanding as of April 21, 2014.

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 21, 2014, 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, 2014 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 7 - Noncontrolling Interests; and

- Note 12 - 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, 2014

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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)

	March 31, 2014	December 31, 2013
Assets:		
Real estate assets, at cost:		
Land	\$ 394,233	\$ 393,602
Buildings and tenant improvements	3,782,607	3,748,869
Development in process	69,527	44,621
Land held for development	111,444	110,374
	4,357,811	4,297,466
Less-accumulated depreciation	(1,019,931)	(985,244)
Net real estate assets	3,337,880	3,312,222
Cash and cash equivalents	13,344	10,184
Restricted cash	9,140	14,169
Accounts receivable, net of allowance of \$1,412 and \$1,648, respectively	24,661	26,430
Mortgages and notes receivable, net of allowance of \$300 and \$302, respectively	10,028	26,409
Accrued straight-line rents receivable, net of allowance of \$1,118 and \$1,063, respectively	132,038	126,014
Investments in unconsolidated affiliates	28,836	29,901
Deferred financing and leasing costs, net of accumulated amortization of \$100,639 and \$92,220, respectively	218,831	222,211
Prepaid expenses and other assets, net of accumulated amortization of \$13,186 and \$12,905, respectively	45,235	39,561
Total Assets	\$ 3,819,993	\$ 3,807,101
Liabilities, Noncontrolling Interests in the Operating Partnership and Equity:		
Mortgages and notes payable	\$ 2,012,554	\$ 1,956,299
Accounts payable, accrued expenses and other liabilities	198,856	218,962
Financing obligations	26,443	26,664
Total Liabilities	2,237,853	2,201,925
Commitments and contingencies		
Noncontrolling interests in the Operating Partnership	112,808	106,480
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 shares issued and outstanding	29,077	29,077
Common Stock, \$.01 par value, 200,000,000 authorized shares; 90,061,731 and 89,920,915 shares issued and outstanding, respectively	901	899
Additional paid-in capital	2,367,509	2,370,368
Distributions in excess of net income available for common stockholders	(946,530)	(920,433)
Accumulated other comprehensive loss	(2,922)	(2,611)
Total Stockholders' Equity	1,448,035	1,477,300
Noncontrolling interests in consolidated affiliates	21,297	21,396

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Total Equity	1,469,332	1,498,696
Total Liabilities, Noncontrolling Interests in the Operating Partnership and Equity	\$3,819,993	\$ 3,807,101

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,	
	2014	2013
Rental and other revenues	\$148,453	\$130,377
Operating expenses:		
Rental property and other expenses	56,390	46,594
Depreciation and amortization	48,165	40,088
General and administrative	10,714	10,582
Total operating expenses	115,269	97,264
Interest expense:		
Contractual	20,750	22,798
Amortization of deferred financing costs	652	949
Financing obligations	(40)	) 121
	21,362	23,868
Other income:		
Interest and other income	1,399	1,783
Losses on debt extinguishment	—	(164)
	1,399	1,619
Income from continuing operations before activity in unconsolidated affiliates	13,221	10,864
Equity in earnings/(losses) of unconsolidated affiliates	(29)	) 436
Income from continuing operations	13,192	11,300
Discontinued operations:		
Income from discontinued operations	—	2,344
Impairments of real estate assets	—	(1,128)
Net gains on disposition of discontinued operations	384	1,244
	384	2,460
Net income	13,576	13,760
Net (income) attributable to noncontrolling interests in the Operating Partnership	(398)	) (581)
Net (income) attributable to noncontrolling interests in consolidated affiliates	(423)	) (203)
Dividends on Preferred Stock	(627)	) (627)
Net income available for common stockholders	\$12,128	\$12,349
Earnings per Common Share – basic:		
Income from continuing operations available for common stockholders	\$0.13	\$0.12
Income from discontinued operations available for common stockholders	—	0.03
Net income available for common stockholders	\$0.13	\$0.15
Weighted average Common Shares outstanding – basic	89,966	81,029
Earnings per Common Share – diluted:		
Income from continuing operations available for common stockholders	\$0.13	\$0.12
Income from discontinued operations available for common stockholders	—	0.03
Net income available for common stockholders	\$0.13	\$0.15
Weighted average Common Shares outstanding – diluted	93,030	84,862
Dividends declared per Common Share	\$0.425	\$0.425
Net income available for common stockholders:		
Income from continuing operations available for common stockholders	\$11,756	\$9,998
Income from discontinued operations available for common stockholders	372	2,351
Net income available for common stockholders	\$12,128	\$12,349

See accompanying notes to consolidated financial statements.

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HIGHWOODS PROPERTIES, INC.

Consolidated Statements of Comprehensive Income
(Unaudited and in thousands)

	Three Months Ended March 31,	
	2014	2013
Comprehensive income:		
Net income	\$13,576	\$13,760
Other comprehensive income/(loss):		
Unrealized gains on tax increment financing bond	165	390
Unrealized gains/(losses) on cash flow hedges	(1,404)	280
Amortization of cash flow hedges	928	788
Total other comprehensive income/(loss)	(311)	1,458
Total comprehensive income	13,265	15,218
Less-comprehensive (income) attributable to noncontrolling interests	(821)	(784)
Comprehensive income attributable to common stockholders	\$12,444	\$14,434

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-hen- sive 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 shares redeemed for 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	—	—	—	—	—	423	(423)	—

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noncontrolling interests in 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

	Number of Common Shares	Common Stock	Series A 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, 2012	80,311,437	\$ 803	\$ 29,077	\$ 2,040,306	\$ (12,628)	\$ 4,753	\$ (897,418)	\$ 1,164,893
Issuances of Common Stock, net of shares redeemed for tax withholdings	1,664,519	17	—	55,787	—	—	—	55,804
Conversions of Common Units to Common Stock	10,071	—	—	351	—	—	—	351
Dividends on Common Stock	—	—	—	—	—	—	(34,259)	(34,259)
Dividends on Preferred Stock	—	—	—	—	—	—	(627)	(627)
Adjustment of noncontrolling interests in the Operating Partnership to fair value	—	—	—	(23,802)	—	—	—	(23,802)
Distributions to noncontrolling interests in consolidated affiliates	—	—	—	—	—	(265)	—	(265)
Issuances of restricted stock	144,566	—	—	—	—	—	—	—
Share-based compensation expense, net of forfeitures	—	1	—	3,439	—	—	—	3,440
	—	—	—	—	—	—	(581)	(581)

Net (income) attributable to noncontrolling interests in the Operating Partnership								
Net (income) attributable to noncontrolling interests in consolidated affiliates	—	—	—	—	203	(203)	—
Comprehensive income:								
Net income	—	—	—	—	—	13,760		13,760
Other comprehensive income	—	—	—	1,458	—	—		1,458
Total comprehensive income								15,218
Balance at March 31, 2013	82,130,593	\$ 821	\$ 29,077	\$ 2,076,081	\$ (11,170)	\$ 4,691	\$ (919,328)	\$ 1,180,172

See accompanying notes to consolidated financial statements.

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

	Three Months Ended March 31,	
	2014	2013
Operating activities:		
Net income	\$ 13,576	\$ 13,760
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	48,165	42,292
Amortization of lease incentives and acquisition-related intangible assets and liabilities	82	(136)
Share-based compensation expense	4,262	3,440
Allowance for losses on accounts and accrued straight-line rents receivable	1,125	426
Accrued interest on mortgages and notes receivable	(115)) —
Amortization of deferred financing costs	652	949
Amortization of cash flow hedges	928	788
Amortization of mortgages and notes payable fair value adjustments	(809)) —
Impairments of real estate assets	—	1,128
Losses on debt extinguishment	—	164
Net gains on disposition of property	(384)	) (1,244)
Equity in (earnings)/losses of unconsolidated affiliates	29	(436)
Changes in financing obligations	(221)	) (105)
Distributions of earnings from unconsolidated affiliates	788	1,145
Changes in operating assets and liabilities:		
Accounts receivable	713	(1,479)
Prepaid expenses and other assets	(5,260)	) (2,533)
Accrued straight-line rents receivable	(6,457)	) (5,788)
Accounts payable, accrued expenses and other liabilities	(25,690)	) (10,252)
Net cash provided by operating activities	31,384	42,119
Investing activities:		
Investments in acquired real estate and related intangible assets, net of cash acquired	—	(88,332)
Investments in development in process	(27,232)	) (4,978)
Investments in tenant improvements and deferred leasing costs	(24,782)	) (18,004)
Investments in building improvements	(13,007)	) (13,107)
Net proceeds from disposition of real estate assets	—	14,971
Distributions of capital from unconsolidated affiliates	230	363
Investments in mortgages and notes receivable	(108)) —
Repayments of mortgages and notes receivable	16,604	—
Investments in unconsolidated affiliates	—	(429)
Changes in restricted cash and other investing activities	4,043	10,262
Net cash (used in) investing activities	(44,252)	) (99,254)
Financing activities:		
Dividends on Common Stock	(38,225)	) (34,259)
Redemptions of Common Units	(93)) —
Dividends on Preferred Stock	(627)	) (627)
Distributions to noncontrolling interests in the Operating Partnership	(1,249)	) (1,584)
Distributions to noncontrolling interests in consolidated affiliates	(522)	) (265)
Proceeds from the issuance of Common Stock	1,313	59,019
Costs paid for the issuance of Common Stock	(14)) (701)

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Repurchase of shares related to tax withholdings	(1,523) (2,514)
Borrowings on revolving credit facility	96,100	135,900	
Repayments of revolving credit facility	(36,800	) (61,400)
Repayments of mortgages and notes payable	(2,236	) (37,214)
Additions to deferred financing costs and other financing activities	(96	) (833)
Net cash provided by financing activities	16,028	55,522	
Net increase/(decrease) in cash and cash equivalents	\$3,160	\$(1,613)

See accompanying notes to consolidated financial statements.

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HIGHWOODS PROPERTIES, INC.

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

	Three Months Ended March 31,	
	2014	2013
Net increase/(decrease) in cash and cash equivalents	\$3,160	\$(1,613)
Cash and cash equivalents at beginning of the period	10,184	13,783
Cash and cash equivalents at end of the period	\$13,344	\$12,170

Supplemental disclosure of cash flow information:

	Three Months Ended March 31,	
	2014	2013
Cash paid for interest, net of amounts capitalized	\$25,054	\$21,887

Supplemental disclosure of non-cash investing and financing activities:

	Three Months Ended March 31,	
	2014	2013
Unrealized gains/(losses) on cash flow hedges	\$(1,404)	\$280
Conversions of Common Units to Common Stock	162	351
Changes in accrued capital expenditures	5,399	5,158
Write-off of fully depreciated real estate assets	3,121	6,467
Write-off of fully amortized deferred financing and leasing costs	3,697	4,872
Unrealized gains on marketable securities of non-qualified deferred compensation plan	59	283
Adjustment of noncontrolling interests in the Operating Partnership to fair value	7,434	23,802
Unrealized gains on tax increment financing bond	165	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)

	March 31, 2014	December 31, 2013
Assets:		
Real estate assets, at cost:		
Land	\$ 394,233	\$ 393,602
Buildings and tenant improvements	3,782,607	3,748,869
Development in process	69,527	44,621
Land held for development	111,444	110,374
	4,357,811	4,297,466
Less-accumulated depreciation	(1,019,931)	(985,244)
Net real estate assets	3,337,880	3,312,222
Cash and cash equivalents	13,430	10,281
Restricted cash	9,140	14,169
Accounts receivable, net of allowance of \$1,412 and \$1,648, respectively	24,661	26,430
Mortgages and notes receivable, net of allowance of \$300 and \$302, respectively	10,028	26,409
Accrued straight-line rents receivable, net of allowance of \$1,118 and \$1,063, respectively	132,038	126,014
Investments in unconsolidated affiliates	28,836	29,901
Deferred financing and leasing costs, net of accumulated amortization of \$100,639 and \$92,220, respectively	218,831	222,211
Prepaid expenses and other assets, net of accumulated amortization of \$13,186 and \$12,905, respectively	45,201	39,561
Total Assets	\$ 3,820,045	\$ 3,807,198
Liabilities, Redeemable Operating Partnership Units and Equity:		
Mortgages and notes payable	\$ 2,012,554	\$ 1,956,299
Accounts payable, accrued expenses and other liabilities	198,804	218,887
Financing obligations	26,443	26,664
Total Liabilities	2,237,801	2,201,850
Commitments and contingencies		
Redeemable Operating Partnership Units:		
Common Units, 2,936,955 and 2,943,872 outstanding, respectively	112,808	106,480
Series A Preferred Units (liquidation preference \$1,000 per unit), 29,077 units issued and outstanding	29,077	29,077
Total Redeemable Operating Partnership Units	141,885	135,557
Equity:		
Common Units:		
General partner Common Units, 925,899 and 924,560 outstanding, respectively	14,219	14,508
Limited partner Common Units, 88,727,023 and 88,587,546 outstanding, respectively	1,407,765	1,436,498
Accumulated other comprehensive loss	(2,922)	(2,611)
Noncontrolling interests in consolidated affiliates	21,297	21,396
Total Equity	1,440,359	1,469,791
Total Liabilities, Redeemable Operating Partnership Units and Equity	\$ 3,820,045	\$ 3,807,198

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	
	March 31,	
	2014	2013
Rental and other revenues	\$148,453	\$