

HIGHWOODS PROPERTIES INC
Form 10-Q
July 25, 2017

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2017

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

HIGHWOODS REALTY LIMITED PARTNERSHIP
(Exact name of registrant as specified in its charter)
North Carolina 000-21731 56-1869557
(State or other jurisdiction (Commission (I.R.S. Employer
of incorporation or organization) File Number) Identification Number)

3100 Smoketree Court, Suite 600
Raleigh, NC 27604
(Address of principal executive offices) (Zip Code)
919-872-4924
(Registrants' telephone number, including area code)

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

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

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

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

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

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

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Smaller reporting company Emerging growth company

Highwoods Realty Limited Partnership

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

Smaller reporting company Emerging growth company

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

Highwoods Properties, Inc. Highwoods Realty Limited Partnership

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

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

The Company had 103,236,237 shares of Common Stock outstanding as of July 18, 2017.

EXPLANATORY NOTE

We refer to Highwoods Properties, Inc. as the “Company,” Highwoods Realty Limited Partnership as the “Operating Partnership,” the Company’s common stock as “Common Stock” or “Common Shares,” the Company’s preferred stock as “Preferred Stock” or “Preferred Shares,” the Operating Partnership’s common partnership interests as “Common Units” and the Operating Partnership’s preferred partnership interests as “Preferred Units.” References to “we” and “our” mean the Company and the Operating Partnership, collectively, unless the context indicates otherwise.

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

Certain information contained herein is presented as of July 18, 2017, the latest practicable date for financial information prior to the filing of this Quarterly Report.

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

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

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

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

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

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

- Consolidated Financial Statements;

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

- Item 4 - Controls and Procedures; and

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

HIGHWOODS PROPERTIES, INC.
HIGHWOODS REALTY LIMITED PARTNERSHIP

QUARTERLY REPORT FOR THE PERIOD ENDED JUNE 30, 2017

TABLE OF CONTENTS

	Page
PART I - FINANCIAL INFORMATION	
ITEM 1. <u>FINANCIAL STATEMENTS (unaudited)</u>	3
<u>HIGHWOODS PROPERTIES, INC.:</u>	
<u>Consolidated Balance Sheets at June 30, 2017 and December 31, 2016</u>	3
<u>Consolidated Statements of Income for the Three and Six Months Ended June 30, 2017 and 2016</u>	4
<u>Consolidated Statements of Comprehensive Income for the Three and Six Months Ended June 30, 2017 and 2016</u>	5
<u>Consolidated Statements of Equity for the Six Months Ended June 30, 2017 and 2016</u>	6
<u>Consolidated Statements of Cash Flows for the Six Months Ended June 30, 2017 and 2016</u>	7
<u>HIGHWOODS REALTY LIMITED PARTNERSHIP:</u>	
<u>Consolidated Balance Sheets at June 30, 2017 and December 31, 2016</u>	9
<u>Consolidated Statements of Income for the Three and Six Months Ended June 30, 2017 and 2016</u>	10
<u>Consolidated Statements of Comprehensive Income for the Three and Six Months Ended June 30, 2017 and 2016</u>	11
<u>Consolidated Statements of Capital for the Six Months Ended June 30, 2017 and 2016</u>	12
<u>Consolidated Statements of Cash Flows for the Six Months Ended June 30, 2017 and 2016</u>	13
<u>NOTES TO CONSOLIDATED FINANCIAL STATEMENTS</u>	15
ITEM 2. <u>MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS</u>	30
<u>Disclosure Regarding Forward-Looking Statements</u>	30
<u>Executive Summary</u>	31
<u>Results of Operations</u>	33
<u>Liquidity and Capital Resources</u>	36
<u>Critical Accounting Estimates</u>	39
<u>Non-GAAP Information</u>	40
ITEM 3. <u>QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK</u>	43
ITEM 4. <u>CONTROLS AND PROCEDURES</u>	44
PART II - OTHER INFORMATION	
ITEM 2. <u>UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS</u>	45
ITEM 5. <u>OTHER INFORMATION</u>	45
ITEM 6. <u>EXHIBITS</u>	45

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)

	June 30, 2017	December 31, 2016
Assets:		
Real estate assets, at cost:		
Land	\$470,185	\$474,375
Buildings and tenant improvements	4,374,143	4,313,373
Development in-process	245,593	279,602
Land held for development	82,326	77,355
	5,172,247	5,144,705
Less-accumulated depreciation	(1,163,778)	(1,134,103)
Net real estate assets	4,008,469	4,010,602
Real estate and other assets, net, held for sale	54,543	—
Cash and cash equivalents	13,346	49,490
Restricted cash	20,612	29,141
Accounts receivable, net of allowance of \$376 and \$624, respectively	15,701	17,372
Mortgages and notes receivable, net of allowance of \$88 and \$105, respectively	6,750	8,833
Accrued straight-line rents receivable, net of allowance of \$205 and \$692, respectively	185,632	172,829
Investments in and advances to unconsolidated affiliates	15,243	18,846
Deferred leasing costs, net of accumulated amortization of \$147,744 and \$140,081, respectively	205,256	213,500
Prepaid expenses and other assets, net of accumulated amortization of \$21,517 and \$19,904, respectively	34,947	40,437
Total Assets	\$4,560,499	\$4,561,050
Liabilities, Noncontrolling Interests in the Operating Partnership and Equity:		
Mortgages and notes payable, net	\$2,005,038	\$1,948,047
Accounts payable, accrued expenses and other liabilities	200,981	313,885
Liabilities held for sale	1,122	—
Total Liabilities	2,207,141	2,261,932
Commitments and contingencies		
Noncontrolling interests in the Operating Partnership	143,646	144,802
Equity:		
Preferred Stock, \$.01 par value, 50,000,000 authorized shares; 8.625% Series A Cumulative Redeemable Preferred Shares (liquidation preference \$1,000 per share), 28,905 and 28,920 shares issued and outstanding, respectively	28,905	28,920
Common Stock, \$.01 par value, 200,000,000 authorized shares; 103,236,237 and 101,665,554 shares issued and outstanding, respectively	1,032	1,017
Additional paid-in capital	2,926,128	2,850,881
Distributions in excess of net income available for common stockholders	(770,101)	(749,412)
Accumulated other comprehensive income	6,046	4,949
Total Stockholders' Equity	2,192,010	2,136,355

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Noncontrolling interests in consolidated affiliates	17,702	17,961
Total Equity	2,209,712	2,154,316
Total Liabilities, Noncontrolling Interests in the Operating Partnership and Equity	\$4,560,499	\$4,561,050

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		Six Months Ended	
	Ended		June 30,	
	2017	2016	2017	2016
Rental and other revenues	\$ 177,283	\$ 166,860	\$ 346,691	\$ 331,719
Operating expenses:				
Rental property and other expenses	58,854	57,515	116,250	115,095
Depreciation and amortization	55,816	55,317	111,961	108,811
General and administrative	9,050	8,327	20,540	19,464
Total operating expenses	123,720	121,159	248,751	243,370