

HIGHWOODS PROPERTIES INC
Form 10-Q
April 24, 2018

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, 2018

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)

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 103,421,754 shares of Common Stock outstanding as of April 17, 2018.

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 17, 2018, 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, 2018 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 MARCH 31, 2018

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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, 2018	December 31, 2017
Assets:		
Real estate assets, at cost:		
Land	\$485,956	\$485,956
Buildings and tenant improvements	4,617,003	4,590,490
Development in-process	131,671	88,452
Land held for development	125,841	74,765
	5,360,471	5,239,663
Less-accumulated depreciation	(1,239,383)	(1,202,424)
Net real estate assets	4,121,088	4,037,239
Real estate and other assets, net, held for sale	14,017	14,118
Cash and cash equivalents	31,034	3,272
Restricted cash	36,848	85,061
Accounts receivable, net of allowance of \$784 and \$753, respectively	22,943	24,397
Mortgages and notes receivable, net of allowance of \$69 and \$72, respectively	6,158	6,425
Accrued straight-line rents receivable, net of allowance of \$909 and \$819, respectively	206,698	200,131
Investments in and advances to unconsolidated affiliates	23,095	23,897
Deferred leasing costs, net of accumulated amortization of \$146,909 and \$143,512, respectively	196,302	200,679
Prepaid expenses and other assets, net of accumulated depreciation of \$19,860 and \$19,092, respectively	37,272	28,572
Total Assets	\$4,695,455	\$4,623,791
Liabilities, Noncontrolling Interests in the Operating Partnership and Equity:		
Mortgages and notes payable, net	\$2,112,584	\$2,014,333
Accounts payable, accrued expenses and other liabilities	206,258	228,215
Total Liabilities	2,318,842	2,242,548
Commitments and contingencies		
Noncontrolling interests in the Operating Partnership	123,113	144,009
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), 28,887 and 28,892 shares issued and outstanding, respectively	28,887	28,892
Common Stock, \$.01 par value, 200,000,000 authorized shares; 103,421,754 and 103,266,875 shares issued and outstanding, respectively	1,034	1,033
Additional paid-in capital	2,953,148	2,929,399
Distributions in excess of net income available for common stockholders	(762,642)	(747,344)
Accumulated other comprehensive income	15,609	7,838
Total Stockholders' Equity	2,236,036	2,219,818
Noncontrolling interests in consolidated affiliates	17,464	17,416

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Total Equity	2,253,500	2,237,234
Total Liabilities, Noncontrolling Interests in the Operating Partnership and Equity	\$4,695,455	\$4,623,791

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,	
	2018	2017
Rental and other revenues	\$180,438	\$169,408
Operating expenses:		
Rental property and other expenses	59,432	57,396
Depreciation and amortization	57,568	56,145
General and administrative	11,778	11,490
Total operating expenses	128,778	125,031
Interest expense:		
Contractual	17,705	17,023
Amortization of debt issuance costs	686	840
	18,391	17,863
Other income:		
Interest and other income	455	684
	455	684
Income before disposition of investment properties and activity in unconsolidated affiliates	33,724	27,198
Gains on disposition of property	—	5,332