

Section 1: 10-Q (10-Q)

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, 2019

or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from [] to []



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)

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)

3100 Smoketree Court, Suite 600

Raleigh, NC 27604

(Address of principal executive offices) (Zip Code)

919-872-4924

(Registrants' telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Trading Symbol(s)	Name of Each Exchange on Which Registered
Common Stock, \$.01 par value, of Highwoods Properties, Inc.	HIW	New York Stock Exchange

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 103,743,546 shares of Common Stock outstanding as of October 15, 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 October 15, 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 September 30, 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 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 SEPTEMBER 30, 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)

	September 30, 2019	December 31, 2018
Assets:		
Real estate assets, at cost:		
Land	\$ 495,501	\$ 491,441
Buildings and tenant improvements	4,844,229	4,676,862
Development in-process	133,189	165,537
Land held for development	94,550	128,248
	<u>5,567,469</u>	<u>5,462,088</u>
Less-accumulated depreciation	(1,388,166)	(1,296,562)
Net real estate assets	4,179,303	4,165,526
Cash and cash equivalents	116,724	3,769
Restricted cash	6,300	6,374
Accounts receivable	25,507	25,952
Mortgages and notes receivable, net of allowance of \$19 and \$44, respectively	1,542	5,599
Accrued straight-line rents receivable	233,078	220,088
Investments in and advances to unconsolidated affiliates	24,088	23,585
Deferred leasing costs, net of accumulated amortization of \$148,019 and \$149,275, respectively	196,048	195,273
Prepaid expenses and other assets, net of accumulated depreciation of \$19,944 and \$18,074, respectively	108,035	28,843
Total Assets	<u>\$ 4,890,625</u>	<u>\$ 4,675,009</u>
Liabilities, Noncontrolling Interests in the Operating Partnership and Equity:		
Mortgages and notes payable, net	\$ 2,322,226	\$ 2,085,831
Accounts payable, accrued expenses and other liabilities	272,989	218,922
Total Liabilities	<u>2,595,215</u>	<u>2,304,753</u>
Commitments and contingencies		
Noncontrolling interests in the Operating Partnership	122,493	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;		
103,748,337 and 103,557,065 shares issued and outstanding, respectively	1,037	1,036
Additional paid-in capital	2,963,680	2,976,197
Distributions in excess of net income available for common stockholders	(842,387)	(769,303)
Accumulated other comprehensive income/(loss)	(527)	9,913
Total Stockholders' Equity	<u>2,150,662</u>	<u>2,246,720</u>
Noncontrolling interests in consolidated affiliates	22,255	17,576
Total Equity	<u>2,172,917</u>	<u>2,264,296</u>
Total Liabilities, Noncontrolling Interests in the Operating Partnership and Equity	<u>\$ 4,890,625</u>	<u>\$ 4,675,009</u>

See accompanying notes to consolidated financial statements.

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,	
	2019	2018	2019	2018
Rental and other revenues	\$ 187,475	\$ 179,417	\$ 543,908	\$ 538,647
Operating expenses:				
Rental property and other expenses	64,135	61,153	185,244	180,248
Depreciation and amortization	60,850	57,661	189,514	171,923
Impairments of real estate assets	5,318	—	5,849	—
General and administrative	11,717	9,551	33,658	30,869
Total operating expenses	142,020	128,365	414,265	383,040
Interest expense	20,527	17,437	59,622	53,705
Other income/(loss)	174	818	(3,271)	1,735
Gains on disposition of property	3,515	3	10,218	16,975
Equity in earnings of unconsolidated affiliates	940	573	2,369	1,641
Net income	29,557	35,009	79,337	122,253
Net (income) attributable to noncontrolling interests in the Operating Partnership	(737)	(902)	(1,974)	(3,171)
Net (income) attributable to noncontrolling interests in consolidated affiliates	(297)	(324)	(919)	(918)
Dividends on Preferred Stock	(622)	(623)	(1,866)	(1,869)
Net income available for common stockholders	\$ 27,901	\$ 33,160	\$ 74,578	\$ 116,295
Earnings per Common Share – basic:				
Net income available for common stockholders	\$ 0.27	\$ 0.32	\$ 0.72	\$ 1.12
Weighted average Common Shares outstanding – basic	103,727	103,471	103,674	103,408
Earnings per Common Share – diluted:				
Net income available for common stockholders	\$ 0.27	\$ 0.32	\$ 0.72	\$ 1.12
Weighted average Common Shares outstanding – diluted	106,471	106,333	106,425	106,256

See accompanying notes to consolidated financial statements.

HIGHWOODS PROPERTIES, INC.
Consolidated Statements of Comprehensive Income
(Unaudited and in thousands)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Comprehensive income:				
Net income	\$ 29,557	\$ 35,009	\$ 79,337	\$ 122,253
Other comprehensive income/(loss):				
Unrealized gains/(losses) on cash flow hedges	(6,732)	2,187	(9,282)	10,926
Amortization of cash flow hedges	(283)	(654)	(1,158)	(1,275)
Total other comprehensive income/(loss)	(7,015)	1,533	(10,440)	9,651
Total comprehensive income	22,542	36,542	68,897	131,904
Less-comprehensive (income) attributable to noncontrolling interests	(1,034)	(1,226)	(2,893)	(4,089)
Comprehensive income attributable to common stockholders	<u>\$ 21,508</u>	<u>\$ 35,316</u>	<u>\$ 66,004</u>	<u>\$ 127,815</u>

See accompanying notes to consolidated financial statements.

HIGHWOODS PROPERTIES, INC.
Consolidated Statements of Equity
(Unaudited and in thousands, except share amounts)

Three Months Ended September 30, 2019

	Number of Common Shares	Common Stock	Series A Cumulative Redeemable Preferred Shares	Additional Paid- In Capital	Accumulated Other Compre- hensive Income/ (Loss)	Non-controlling Interests in Consolidated Affiliates	Distributions in Excess of Net Income Available for Common Stockholders	Total
Balance at June 30, 2019	103,704,603	\$ 1,037	\$ 28,859	\$ 2,972,798	\$ 6,488	\$ 22,401	\$ (821,051)	\$ 2,210,532
Issuances of Common Stock, net of issuance costs and tax withholdings	11,990	—	—	488	—	—	—	488
Conversions of Common Units to Common Stock	5,000	—	—	219	—	—	—	219
Dividends on Common Stock (\$0.475 per share)		—	—	—	—	—	(49,237)	(49,237)
Dividends on Preferred Stock (\$21.5625 per share)		—	—	—	—	—	(622)	(622)
Adjustment of noncontrolling interests in the Operating Partnership to fair value		—	—	(10,493)	—	—	—	(10,493)
Distributions to noncontrolling interests in consolidated affiliates		—	—	—	—	(443)	—	(443)
Issuances of restricted stock	26,744	—	—	—	—	—	—	—
Share-based compensation expense, net of forfeitures	—	—	—	668	—	—	—	668
Net (income) attributable to noncontrolling interests in the Operating Partnership		—	—	—	—	—	(737)	(737)
Net (income) attributable to noncontrolling interests in consolidated affiliates		—	—	—	—	297	(297)	—
Comprehensive income:								
Net income		—	—	—	—	—	29,557	29,557
Other comprehensive loss		—	—	—	(7,015)	—	—	(7,015)
Total comprehensive income								22,542
Balance at September 30, 2019	103,748,337	\$ 1,037	\$ 28,859	\$ 2,963,680	\$ (527)	\$ 22,255	\$ (842,387)	\$ 2,172,917

Nine Months Ended September 30, 2019

	Number of Common Shares	Common Stock	Series A Cumulative Redeemable Preferred Shares	Additional Paid- In Capital	Accumulated Other Compre- hensive Income/ (Loss)	Non-controlling Interests in Consolidated Affiliates	Distributions in Excess of Net Income Available for Common Stockholders	Total
Balance at December 31, 2018	103,557,065	\$ 1,036	\$ 28,877	\$ 2,976,197	\$ 9,913	\$ 17,576	\$ (769,303)	\$ 2,264,296
Issuances of Common Stock, net of issuance costs and tax withholdings	(11,715)	—	—	(243)	—	—	—	(243)
Conversions of Common Units to Common Stock	13,000	—	—	572	—	—	—	572
Dividends on Common Stock (\$1.425 per share)		—	—	—	—	—	(147,662)	(147,662)
Dividends on Preferred Stock (\$64.6875 per share)		—	—	—	—	—	(1,866)	(1,866)
Adjustment of noncontrolling interests in the Operating Partnership to fair value		—	—	(19,025)	—	—	—	(19,025)
Distributions to noncontrolling interests in consolidated affiliates		—	—	—	—	(1,227)	—	(1,227)
Contributions from noncontrolling interests in consolidated affiliates		—	—	—	—	4,987	—	4,987
Issuances of restricted stock	190,934	—	—	—	—	—	—	—
Redemptions/repurchases of Preferred Stock		—	(18)	—	—	—	—	(18)
Share-based compensation expense, net of forfeitures	(947)	1	—	6,179	—	—	—	6,180
Net (income) attributable to noncontrolling interests in the Operating Partnership		—	—	—	—	—	(1,974)	(1,974)
Net (income) attributable to noncontrolling interests in consolidated affiliates		—	—	—	—	919	(919)	—
Comprehensive income:								
Net income		—	—	—	—	—	79,337	79,337
Other comprehensive loss		—	—	—	(10,440)	—	—	(10,440)
Total comprehensive income								68,897
Balance at September 30, 2019	103,748,337	\$ 1,037	\$ 28,859	\$ 2,963,680	\$ (527)	\$ 22,255	\$ (842,387)	\$ 2,172,917

See accompanying notes to consolidated financial statements.

HIGHWOODS PROPERTIES, INC.
Consolidated Statements of Equity - Continued
(Unaudited and in thousands, except share amounts)

Three Months Ended September 30, 2018

	Number of Common Shares	Common Stock	Series A Cumulative Redeemable Preferred Shares	Additional Paid- In Capital	Accumulated Other Compre- hensive Income	Non-controlling Interests in Consolidated Affiliates	Distributions in Excess of Net Income Available for Common Stockholders	Total
Balance at June 30, 2018	103,459,115	\$ 1,035	\$ 28,887	\$ 2,936,636	\$ 15,956	\$ 17,467	\$ (759,788)	\$ 2,240,193
Issuances of Common Stock, net of issuance costs and tax withholdings	26,211	—	—	1,061	—	—	—	1,061
Conversions of Common Units to Common Stock	3,000	—	—	147	—	—	—	147
Dividends on Common Stock (\$0.4625 per share)		—	—	—	—	—	(47,856)	(47,856)
Dividends on Preferred Stock (\$21.5625 per share)		—	—	—	—	—	(623)	(623)
Adjustment of noncontrolling interests in the Operating Partnership to fair value		—	—	9,335	—	—	—	9,335
Distributions to noncontrolling interests in consolidated affiliates		—	—	—	—	(407)	—	(407)
Share-based compensation expense, net of forfeitures	—	—	—	1,141	—	—	—	1,141
Net (income) attributable to noncontrolling interests in the Operating Partnership		—	—	—	—	—	(902)	(902)
Net (income) attributable to noncontrolling interests in consolidated affiliates		—	—	—	—	324	(324)	—
Comprehensive income:								
Net income		—	—	—	—	—	35,009	35,009
Other comprehensive income		—	—	—	1,533	—	—	1,533
Total comprehensive income								36,542
Balance at September 30, 2018	<u>103,488,326</u>	<u>\$ 1,035</u>	<u>\$ 28,887</u>	<u>\$ 2,948,320</u>	<u>\$ 17,489</u>	<u>\$ 17,384</u>	<u>\$ (774,484)</u>	<u>\$ 2,238,631</u>

Nine Months Ended September 30, 2018

	Number of Common Shares	Common Stock	Series A Cumulative Redeemable Preferred Shares	Additional Paid- In Capital	Accumulated Other Compre- hensive Income	Non-controlling Interests in Consolidated Affiliates	Distributions in Excess of Net Income Available for Common Stockholders	Total
Balance at December 31, 2017	103,266,875	\$ 1,033	\$ 28,892	\$ 2,929,399	\$ 7,838	\$ 17,416	\$ (747,344)	\$ 2,237,234
Issuances of Common Stock, net of issuance costs and tax withholdings	22,815	—	—	1,476	—	—	—	1,476
Conversions of Common Units to Common Stock	26,196	—	—	1,231	—	—	—	1,231
Dividends on Common Stock (\$1.3875 per share)		—	—	—	—	—	(143,435)	(143,435)
Dividends on Preferred Stock (\$64.6875 per share)		—	—	—	—	—	(1,869)	(1,869)
Adjustment of noncontrolling interests in the Operating Partnership to fair value		—	—	9,607	—	—	—	9,607
Distributions to noncontrolling interests in consolidated affiliates		—	—	—	—	(950)	—	(950)
Issuances of restricted stock	172,440	—	—	—	—	—	—	—
Redemptions/repurchases of Preferred Stock		—	(5)	—	—	—	—	(5)
Share-based compensation expense, net of forfeitures	—	2	—	6,607	—	—	—	6,609
Net (income) attributable to noncontrolling interests in the Operating Partnership		—	—	—	—	—	(3,171)	(3,171)
Net (income) attributable to noncontrolling interests in consolidated affiliates		—	—	—	—	918	(918)	—
Comprehensive income:								
Net income		—	—	—	—	—	122,253	122,253
Other comprehensive income		—	—	—	9,651	—	—	9,651
Total comprehensive income								131,904
Balance at September 30, 2018	<u>103,488,326</u>	<u>\$ 1,035</u>	<u>\$ 28,887</u>	<u>\$ 2,948,320</u>	<u>\$ 17,489</u>	<u>\$ 17,384</u>	<u>\$ (774,484)</u>	<u>\$ 2,238,631</u>

See accompanying notes to consolidated financial statements.

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

	Nine Months Ended September 30,	
	2019	2018
Operating activities:		
Net income	\$ 79,337	\$ 122,253
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	189,514	171,923
Amortization of lease incentives and acquisition-related intangible assets and liabilities	197	(1,488)
Share-based compensation expense	6,180	6,609
Credit losses on operating lease receivables	8,711	791
Write-off of mortgages and notes receivable	4,087	—
Accrued interest on mortgages and notes receivable	(151)	(336)
Amortization of debt issuance costs	2,194	2,126
Amortization of cash flow hedges	(1,158)	(1,275)
Amortization of mortgages and notes payable fair value adjustments	1,193	1,071
Impairments of real estate assets	5,849	—
Losses on debt extinguishment	640	—
Net gains on disposition of property	(10,218)	(16,975)
Equity in earnings of unconsolidated affiliates	(2,369)	(1,641)
Distributions of earnings from unconsolidated affiliates	730	1,943
Settlement of cash flow hedges	(11,749)	7,216
Changes in operating assets and liabilities:		
Accounts receivable	(3,611)	4,778
Prepaid expenses and other assets	458	(1,487)
Accrued straight-line rents receivable	(20,955)	(17,945)
Accounts payable, accrued expenses and other liabilities	37,382	15,395
Net cash provided by operating activities	<u>286,261</u>	<u>292,958</u>
Investing activities:		
Investments in acquired real estate and related intangible assets, net of cash acquired	(19,365)	(50,649)
Investments in development in-process	(77,854)	(130,241)
Investments in tenant improvements and deferred leasing costs	(105,879)	(89,875)
Investments in building improvements	(36,383)	(52,151)
Net proceeds from disposition of real estate assets	45,250	35,441
Distributions of capital from unconsolidated affiliates	29	105
Repayments of mortgages and notes receivable	221	1,137
Payments of earnest money deposits	(50,000)	—
Changes in other investing activities	(6,279)	(4,671)
Net cash used in investing activities	<u>(250,260)</u>	<u>(290,904)</u>
Financing activities:		
Dividends on Common Stock	(147,662)	(143,435)
Redemptions/repurchases of Preferred Stock	(18)	(5)
Dividends on Preferred Stock	(1,866)	(1,869)
Distributions to noncontrolling interests in the Operating Partnership	(3,894)	(3,895)
Distributions to noncontrolling interests in consolidated affiliates	(1,227)	(950)
Proceeds from the issuance of Common Stock	1,541	3,242
Costs paid for the issuance of Common Stock	—	(95)
Repurchase of shares related to tax withholdings	(1,784)	(1,671)
Borrowings on revolving credit facility	278,600	336,400
Repayments of revolving credit facility	(460,600)	(397,400)
Borrowings on mortgages and notes payable	747,990	345,863

Repayments of mortgages and notes payable	(326,400)	(211,345)
Changes in debt issuance costs and other financing activities	(7,800)	(2,948)
Net cash provided by/(used in) financing activities	76,880	(78,108)
Net increase/(decrease) in cash and cash equivalents and restricted cash	<u>\$ 112,881</u>	<u>\$ (76,054)</u>

See accompanying notes to consolidated financial statements.

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

	Nine Months Ended September 30,	
	2019	2018
Net increase/(decrease) in cash and cash equivalents and restricted cash	\$ 112,881	\$ (76,054)
Cash and cash equivalents and restricted cash at beginning of the period	10,143	88,333
Cash and cash equivalents and restricted cash at end of the period	\$ 123,024	\$ 12,279

Reconciliation of cash and cash equivalents and restricted cash:

	Nine Months Ended September 30,	
	2019	2018
Cash and cash equivalents at end of the period	\$ 116,724	\$ 5,324
Restricted cash at end of the period	6,300	6,955
Cash and cash equivalents and restricted cash at end of the period	\$ 123,024	\$ 12,279

Supplemental disclosure of cash flow information:

	Nine Months Ended September 30,	
	2019	2018
Cash paid for interest, net of amounts capitalized	\$ 55,608	\$ 56,771

Supplemental disclosure of non-cash investing and financing activities:

	Nine Months Ended September 30,	
	2019	2018
Unrealized gains/(losses) on cash flow hedges	\$ (9,282)	\$ 10,926
Conversions of Common Units to Common Stock	572	1,231
Changes in accrued capital expenditures	(7,407)	(10,396)
Write-off of fully depreciated real estate assets	59,428	63,820
Write-off of fully amortized leasing costs	34,203	26,660
Write-off of fully amortized debt issuance costs	1,791	2,733
Adjustment of noncontrolling interests in the Operating Partnership to fair value	19,025	(9,607)
Contributions from noncontrolling interests in consolidated affiliates	4,987	—
Initial recognition of lease liabilities related to right of use assets	35,349	—

See accompanying notes to consolidated financial statements.

HIGHWOODS REALTY LIMITED PARTNERSHIP
Consolidated Balance Sheets
(Unaudited and in thousands, except unit and per unit data)

	September 30, 2019	December 31, 2018
Assets:		
Real estate assets, at cost:		
Land	\$ 495,501	\$ 491,441
Buildings and tenant improvements	4,844,229	4,676,862
Development in-process	133,189	165,537
Land held for development	94,550	128,248
	<u>5,567,469</u>	<u>5,462,088</u>
Less-accumulated depreciation	(1,388,166)	(1,296,562)
Net real estate assets	4,179,303	4,165,526
Cash and cash equivalents	116,724	3,769
Restricted cash	6,300	6,374
Accounts receivable	25,507	25,952
Mortgages and notes receivable, net of allowance of \$19 and \$44, respectively	1,542	5,599
Accrued straight-line rents receivable	233,078	220,088
Investments in and advances to unconsolidated affiliates	24,088	23,585
Deferred leasing costs, net of accumulated amortization of \$148,019 and \$149,275, respectively	196,048	195,273
Prepaid expenses and other assets, net of accumulated depreciation of \$19,944 and \$18,074, respectively	108,035	28,843
Total Assets	<u>\$ 4,890,625</u>	<u>\$ 4,675,009</u>
Liabilities, Redeemable Operating Partnership Units and Capital:		
Mortgages and notes payable, net	\$ 2,322,226	\$ 2,085,831
Accounts payable, accrued expenses and other liabilities	272,989	218,922
Total Liabilities	<u>2,595,215</u>	<u>2,304,753</u>
Commitments and contingencies		
Redeemable Operating Partnership Units:		
Common Units, 2,725,703 and 2,738,703 outstanding, respectively	122,493	105,960
Series A Preferred Units (liquidation preference \$1,000 per unit), 28,859 and 28,877 units issued and outstanding, respectively	28,859	28,877
Total Redeemable Operating Partnership Units	<u>151,352</u>	<u>134,837</u>
Capital:		
Common Units:		
General partner Common Units, 1,060,652 and 1,058,870 outstanding, respectively	21,221	22,078
Limited partner Common Units, 102,278,876 and 102,089,386 outstanding, respectively	2,101,109	2,185,852
Accumulated other comprehensive income/(loss)	(527)	9,913
Noncontrolling interests in consolidated affiliates	22,255	17,576
Total Capital	<u>2,144,058</u>	<u>2,235,419</u>
Total Liabilities, Redeemable Operating Partnership Units and Capital	<u>\$ 4,890,625</u>	<u>\$ 4,675,009</u>

See accompanying notes to consolidated financial statements.

HIGHWOODS REALTY LIMITED PARTNERSHIP
Consolidated Statements of Income
(Unaudited and in thousands, except per unit amounts)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Rental and other revenues	\$ 187,475	\$ 179,417	\$ 543,908	\$ 538,647
Operating expenses:				
Rental property and other expenses	64,135	61,153	185,244	180,248
Depreciation and amortization	60,850	57,661	189,514	171,923
Impairments of real estate assets	5,318	—	5,849	—
General and administrative	11,717	9,551	33,658	30,869
Total operating expenses	<u>142,020</u>	<u>128,365</u>	<u>414,265</u>	<u>383,040</u>
Interest expense	20,527	17,437	59,622	53,705
Other income/(loss)	174	818	(3,271)	1,735
Gains on disposition of property	3,515	3	10,218	16,975
Equity in earnings of unconsolidated affiliates	940	573	2,369	1,641
Net income	29,557	35,009	79,337	122,253
Net (income) attributable to noncontrolling interests in consolidated affiliates	(297)	(324)	(919)	(918)
Distributions on Preferred Units	(622)	(623)	(1,866)	(1,869)
Net income available for common unitholders	<u>\$ 28,638</u>	<u>\$ 34,062</u>	<u>\$ 76,552</u>	<u>\$ 119,466</u>
Earnings per Common Unit – basic:				
Net income available for common unitholders	<u>\$ 0.27</u>	<u>\$ 0.32</u>	<u>\$ 0.72</u>	<u>\$ 1.13</u>
Weighted average Common Units outstanding – basic	<u>106,046</u>	<u>105,866</u>	<u>105,998</u>	<u>105,808</u>
Earnings per Common Unit – diluted:				
Net income available for common unitholders	<u>\$ 0.27</u>	<u>\$ 0.32</u>	<u>\$ 0.72</u>	<u>\$ 1.13</u>
Weighted average Common Units outstanding – diluted	<u>106,062</u>	<u>105,924</u>	<u>106,016</u>	<u>105,847</u>

See accompanying notes to consolidated financial statements.

HIGHWOODS REALTY LIMITED PARTNERSHIP
Consolidated Statements of Comprehensive Income
(Unaudited and in thousands)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Comprehensive income:				
Net income	\$ 29,557	\$ 35,009	\$ 79,337	\$ 122,253
Other comprehensive income/(loss):				
Unrealized gains/(losses) on cash flow hedges	(6,732)	2,187	(9,282)	10,926
Amortization of cash flow hedges	(283)	(654)	(1,158)	(1,275)
Total other comprehensive income/(loss)	(7,015)	1,533	(10,440)	9,651
Total comprehensive income	22,542	36,542	68,897	131,904
Less-comprehensive (income) attributable to noncontrolling interests	(297)	(324)	(919)	(918)
Comprehensive income attributable to common unitholders	<u>\$ 22,245</u>	<u>\$ 36,218</u>	<u>\$ 67,978</u>	<u>\$ 130,986</u>

See accompanying notes to consolidated financial statements.

HIGHWOODS REALTY LIMITED PARTNERSHIP
Consolidated Statements of Capital
(Unaudited and in thousands)

	Three Months Ended September 30, 2019				
	Common Units		Accumulated Other Comprehensive Income/(Loss)	Noncontrolling Interests in Consolidated Affiliates	Total
	General Partners' Capital	Limited Partners' Capital			
Balance at June 30, 2019	\$ 21,528	\$ 2,131,256	\$ 6,488	\$ 22,401	\$ 2,181,673
Issuances of Common Units, net of issuance costs and tax withholdings	5	483	—	—	488
Distributions on Common Units (\$0.475 per unit)	(504)	(49,835)	—	—	(50,339)
Distributions on Preferred Units (\$21.5625 per unit)	(7)	(615)	—	—	(622)
Share-based compensation expense, net of forfeitures	7	661	—	—	668
Distributions to noncontrolling interests in consolidated affiliates	—	—	—	(443)	(443)
Adjustment of Redeemable Common Units to fair value and contributions/distributions from/to the General Partner	(100)	(9,809)	—	—	(9,909)
Net (income) attributable to noncontrolling interests in consolidated affiliates	(3)	(294)	—	297	—
Comprehensive income:		—			
Net income	295	29,262	—	—	29,557
Other comprehensive loss	—	—	(7,015)	—	(7,015)
Total comprehensive income					22,542
Balance at September 30, 2019	\$ 21,221	\$ 2,101,109	\$ (527)	\$ 22,255	\$ 2,144,058

	Nine Months Ended September 30, 2019				
	Common Units		Accumulated Other Comprehensive Income/(Loss)	Noncontrolling Interests in Consolidated Affiliates	Total
	General Partners' Capital	Limited Partners' Capital			
Balance at December 31, 2018	\$ 22,078	\$ 2,185,852	\$ 9,913	\$ 17,576	\$ 2,235,419
Issuances of Common Units, net of issuance costs and tax withholdings	(2)	(241)	—	—	(243)
Distributions on Common Units (\$1.425 per unit)	(1,510)	(149,463)	—	—	(150,973)
Distributions on Preferred Units (\$64.6875 per unit)	(19)	(1,847)	—	—	(1,866)
Share-based compensation expense, net of forfeitures	62	6,118	—	—	6,180
Distributions to noncontrolling interests in consolidated affiliates	—	—	—	(1,227)	(1,227)
Contributions from noncontrolling interests in consolidated affiliates	—	—	—	4,987	4,987
Adjustment of Redeemable Common Units to fair value and contributions/distributions from/to the General Partner	(172)	(16,944)	—	—	(17,116)
Net (income) attributable to noncontrolling interests in consolidated affiliates	(9)	(910)	—	919	—
Comprehensive income:					
Net income	793	78,544	—	—	79,337
Other comprehensive loss	—	—	(10,440)	—	(10,440)
Total comprehensive income					68,897
Balance at September 30, 2019	\$ 21,221	\$ 2,101,109	\$ (527)	\$ 22,255	\$ 2,144,058

See accompanying notes to consolidated financial statements.

HIGHWOODS REALTY LIMITED PARTNERSHIP
Consolidated Statements of Capital - Continued
(Unaudited and in thousands)

	Three Months Ended September 30, 2018				
	Common Units		Accumulated Other Comprehensive Income	Noncontrolling Interests in Consolidated Affiliates	Total
	General Partners' Capital	Limited Partners' Capital			
Balance at June 30, 2018	\$ 21,778	\$ 2,156,105	\$ 15,956	\$ 17,467	\$ 2,211,306
Issuances of Common Units, net of issuance costs and tax withholdings	11	1,050	—	—	1,061
Distributions on Common Units (\$0.4625 per unit)	(489)	(48,474)	—	—	(48,963)
Distributions on Preferred Units (\$21.5625 per unit)	(7)	(616)	—	—	(623)
Share-based compensation expense, net of forfeitures	11	1,130	—	—	1,141
Distributions to noncontrolling interests in consolidated affiliates	—	—	—	(407)	(407)
Adjustment of Redeemable Common Units to fair value and contributions/distributions from/to the General Partner	97	9,590	—	—	9,687
Net (income) attributable to noncontrolling interests in consolidated affiliates	(3)	(321)	—	324	—
Comprehensive income:					
Net income	351	34,658	—	—	35,009
Other comprehensive income	—	—	1,533	—	1,533
Total comprehensive income					36,542
Balance at September 30, 2018	\$ 21,749	\$ 2,153,122	\$ 17,489	\$ 17,384	\$ 2,209,744

	Nine Months Ended September 30, 2018				
	Common Units		Accumulated Other Comprehensive Income	Noncontrolling Interests in Consolidated Affiliates	Total
	General Partners' Capital	Limited Partners' Capital			
Balance at December 31, 2017	\$ 21,830	\$ 2,161,258	\$ 7,838	\$ 17,416	\$ 2,208,342
Issuances of Common Units, net of issuance costs and tax withholdings	15	1,461	—	—	1,476
Distributions on Common Units (\$1.3875 per unit)	(1,467)	(145,296)	—	—	(146,763)
Distributions on Preferred Units (\$64.6875 per unit)	(19)	(1,850)	—	—	(1,869)
Share-based compensation expense, net of forfeitures	66	6,543	—	—	6,609
Distributions to noncontrolling interests in consolidated affiliates	—	—	—	(950)	(950)
Adjustment of Redeemable Common Units to fair value and contributions/distributions from/to the General Partner	110	10,885	—	—	10,995
Net (income) attributable to noncontrolling interests in consolidated affiliates	(9)	(909)	—	918	—
Comprehensive income:					
Net income	1,223	121,030	—	—	122,253
Other comprehensive income	—	—	9,651	—	9,651
Total comprehensive income					131,904
Balance at September 30, 2018	\$ 21,749	\$ 2,153,122	\$ 17,489	\$ 17,384	\$ 2,209,744

See accompanying notes to consolidated financial statements.

HIGHWOODS REALTY LIMITED PARTNERSHIP
Consolidated Statements of Cash Flows
(Unaudited and in thousands)

	Nine Months Ended September 30,	
	2019	2018
Operating activities:		
Net income	\$ 79,337	\$ 122,253
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	189,514	171,923
Amortization of lease incentives and acquisition-related intangible assets and liabilities	197	(1,488)
Share-based compensation expense	6,180	6,609
Credit losses on operating lease receivables	8,711	791
Write-off of mortgages and notes receivable	4,087	—
Accrued interest on mortgages and notes receivable	(151)	(336)
Amortization of debt issuance costs	2,194	2,126
Amortization of cash flow hedges	(1,158)	(1,275)
Amortization of mortgages and notes payable fair value adjustments	1,193	1,071
Impairments of real estate assets	5,849	—
Losses on debt extinguishment	640	—
Net gains on disposition of property	(10,218)	(16,975)
Equity in earnings of unconsolidated affiliates	(2,369)	(1,641)
Distributions of earnings from unconsolidated affiliates	730	1,943
Settlement of cash flow hedges	(11,749)	7,216
Changes in operating assets and liabilities:		
Accounts receivable	(3,611)	4,778
Prepaid expenses and other assets	458	(1,487)
Accrued straight-line rents receivable	(20,955)	(17,945)
Accounts payable, accrued expenses and other liabilities	37,382	15,395
Net cash provided by operating activities	286,261	292,958
Investing activities:		
Investments in acquired real estate and related intangible assets, net of cash acquired	(19,365)	(50,649)
Investments in development in-process	(77,854)	(130,241)
Investments in tenant improvements and deferred leasing costs	(105,879)	(89,875)
Investments in building improvements	(36,383)	(52,151)
Net proceeds from disposition of real estate assets	45,250	35,441
Distributions of capital from unconsolidated affiliates	29	105
Repayments of mortgages and notes receivable	221	1,137
Payments of earnest money deposits	(50,000)	—
Changes in other investing activities	(6,279)	(4,671)
Net cash used in investing activities	(250,260)	(290,904)
Financing activities:		
Distributions on Common Units	(150,973)	(146,763)
Redemptions/repurchases of Preferred Units	(18)	(5)
Distributions on Preferred Units	(1,866)	(1,869)
Distributions to noncontrolling interests in consolidated affiliates	(1,227)	(950)
Proceeds from the issuance of Common Units	1,541	3,242
Costs paid for the issuance of Common Units	—	(95)
Repurchase of units related to tax withholdings	(1,784)	(1,671)
Borrowings on revolving credit facility	278,600	336,400
Repayments of revolving credit facility	(460,600)	(397,400)
Borrowings on mortgages and notes payable	747,990	345,863
Repayments of mortgages and notes payable	(326,400)	(211,345)

Changes in debt issuance costs and other financing activities	(8,383)	(3,515)
Net cash provided by/(used in) financing activities	<u>76,880</u>	<u>(78,108)</u>
Net increase/(decrease) in cash and cash equivalents and restricted cash	<u>\$ 112,881</u>	<u>\$ (76,054)</u>

See accompanying notes to consolidated financial statements.

HIGHWOODS REALTY LIMITED PARTNERSHIP
Consolidated Statements of Cash Flows - Continued
(Unaudited and in thousands)

	Nine Months Ended September 30,	
	2019	2018
Net increase/(decrease) in cash and cash equivalents and restricted cash	\$ 112,881	\$ (76,054)
Cash and cash equivalents and restricted cash at beginning of the period	10,143	88,333
Cash and cash equivalents and restricted cash at end of the period	\$ 123,024	\$ 12,279

Reconciliation of cash and cash equivalents and restricted cash:

	Nine Months Ended September 30,	
	2019	2018
Cash and cash equivalents at end of the period	\$ 116,724	\$ 5,324
Restricted cash at end of the period	6,300	6,955
Cash and cash equivalents and restricted cash at end of the period	\$ 123,024	\$ 12,279

Supplemental disclosure of cash flow information:

	Nine Months Ended September 30,	
	2019	2018
Cash paid for interest, net of amounts capitalized	\$ 55,608	\$ 56,771

Supplemental disclosure of non-cash investing and financing activities:

	Nine Months Ended September 30,	
	2019	2018
Unrealized gains/(losses) on cash flow hedges	\$ (9,282)	\$ 10,926
Changes in accrued capital expenditures	(7,407)	(10,396)
Write-off of fully depreciated real estate assets	59,428	63,820
Write-off of fully amortized leasing costs	34,203	26,660
Write-off of fully amortized debt issuance costs	1,791	2,733
Adjustment of Redeemable Common Units to fair value	16,533	(11,562)
Contributions from noncontrolling interests in consolidated affiliates	4,987	—
Initial recognition of lease liabilities related to right of use assets	35,349	—

See accompanying notes to consolidated financial statements.

HIGHWOODS PROPERTIES, INC.
HIGHWOODS REALTY LIMITED PARTNERSHIP
CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2019
(tabular dollar amounts in thousands, except per share and per unit data)
(Unaudited)

1. Description of Business and Significant Accounting Policies

Description of Business

Highwoods Properties, Inc. (the “Company”) is a fully integrated real estate investment trust (“REIT”) that provides leasing, management, development, construction and other customer-related services for its properties and for third parties. The Company conducts its activities through Highwoods Realty Limited Partnership (the “Operating Partnership”). At September 30, 2019, we owned or had an interest in 31.2 million rentable square feet of in-service properties, 1.2 million rentable square feet of office properties under development and approximately 275 acres of development land.

The Company is the sole general partner of the Operating Partnership. At September 30, 2019, the Company owned all of the Preferred Units and 103.3 million, or 97.4%, of the Common Units in the Operating Partnership. Limited partners owned the remaining 2.7 million Common Units. During the nine months ended September 30, 2019, the Company redeemed 13,000 Common Units for a like number of shares of Common Stock.

Basis of Presentation

Our Consolidated Financial Statements are prepared in conformity with accounting principles generally accepted in the United States of America (“GAAP”).

The Company’s Consolidated Financial Statements include the Operating Partnership, wholly owned subsidiaries and those entities in which the Company has the controlling interest. The Operating Partnership’s Consolidated Financial Statements include wholly owned subsidiaries and those entities in which the Operating Partnership has the controlling interest. We consolidate joint venture investments, such as interests in partnerships and limited liability companies, when we control the major operating and financial policies of the investment through majority ownership, in our capacity as a general partner or managing member or through some other contractual right. In addition, we consolidate those entities deemed to be variable interest entities in which we are determined to be the primary beneficiary. At September 30, 2019, we have involvement with, and are the primary beneficiary in, an entity that we concluded to be a variable interest entity (see Note 3). All intercompany transactions and accounts have been eliminated.

The unaudited interim consolidated financial statements and accompanying unaudited consolidated financial information, in the opinion of management, contain all adjustments (including normal recurring accruals) necessary for a fair presentation of our financial position, results of operations and cash flows. We have condensed or omitted certain notes and other information from the interim Consolidated Financial Statements presented in this Quarterly Report as permitted by SEC rules and regulations. These Consolidated Financial Statements should be read in conjunction with our 2018 Annual Report on Form 10-K.

Certain amounts within the Consolidated Statements of Income for the three and nine months ended September 30, 2018 were removed and/or combined to conform to the current year presentation.

Use of Estimates

The preparation of consolidated financial statements in accordance with GAAP requires us to make estimates and assumptions that affect the amounts reported in our Consolidated Financial Statements and accompanying notes. Actual results could differ from those estimates.

Real Estate and Related Assets

Real estate and related assets are recorded at cost and stated at cost less accumulated depreciation. Renovations, replacements and other expenditures that improve or extend the life of assets are capitalized and depreciated over their estimated useful lives. Expenditures for ordinary maintenance and repairs are charged to expense as incurred. Depreciation is computed using the straight-line method over the estimated useful life of 40 years for buildings and depreciable land infrastructure costs, 15 years for building improvements and five to seven years for furniture, fixtures and equipment. Tenant improvements are amortized using the straight-line method over initial fixed terms of the respective leases, which generally are from three to 10 years. Depreciation expense for real estate assets was \$51.3 million and \$48.1 million for the three months ended September 30, 2019 and 2018, respectively, and \$159.7 million and \$142.4 million for the nine months ended September 30, 2019 and 2018, respectively.

Leases

See Note 2 for policies and related disclosures with respect to our leases as both a lessee and lessor.

Insurance

We are primarily self-insured for health care claims for participating employees. We have stop-loss coverage to limit our exposure to significant claims on a per claim and annual aggregate basis. We determine our liabilities for claims, including incurred but not reported losses, based on all relevant information, including actuarial estimates of claim liabilities. At September 30, 2019, a reserve of \$0.5 million was recorded to cover estimated reported and unreported claims.

Other Events

During the third quarter of 2019, we announced a series of planned investment activities. First, we have agreed to acquire Bank of America Tower at Legacy Union in Charlotte's uptown CBD submarket for a total investment of \$436 million. Bank of America Tower at Legacy Union is a trophy, LEED gold-registered office building encompassing 841,000 square feet with structured parking that delivers this year. The acquisition is scheduled to close in November 2019. We have posted earnest money deposits totaling \$50 million that are non-refundable except in limited circumstances. Second, we have a two-phased plan to exit the Greensboro and Memphis markets. The first phase consists of selling a select portfolio of assets in Greensboro and Memphis by mid-2020 with a total sales price that approximates the \$436 million total investment for Bank of America Tower at Legacy Union and closing the division offices. We can provide no assurances, however, that we will dispose of any of these assets on favorable terms, or at all, because the dispositions are subject to the negotiation and execution of definitive and binding purchase and sale agreements and would then be subject to the buyers' completion of satisfactory due diligence and other customary closing conditions. The second phase is the planned sale of the remaining assets in both markets. There is no pre-determined timetable for the second phase. As a result of the announced plan to exit the Greensboro and Memphis markets and close our division offices, we recorded \$0.7 million of severance costs in the third quarter of 2019 and expect to record an additional \$1.5 million in the fourth quarter of 2019.

During the first quarter of 2019, Laser Spine Institute, which leased a 176,000 square foot building with structured parking in Tampa's Westshore submarket, suddenly ceased operations. As a result of this sudden closure, we incurred \$5.6 million of credit losses on operating lease receivables and \$2.3 million of write-offs of lease incentives (in rental and other revenues), \$4.1 million of write-offs of notes receivable (in other income/(loss)) and \$11.6 million of write-offs of tenant improvements and deferred leasing costs (in depreciation and amortization).

Recently Issued Accounting Standards

The Financial Accounting Standards Board ("FASB") issued an accounting standards update ("ASU") that eliminates the requirement to separately measure and report hedge ineffectiveness and generally requires the entire change in the fair value of a hedging instrument to be presented in the same income statement line as the hedged item when the hedged item affects earnings. We adopted the ASU as of January 1, 2019 with no material effect on our Consolidated Financial Statements.

The FASB issued an ASU that changes certain disclosure requirements for fair value measurements. The ASU is required to be adopted in 2020 and applied prospectively. We do not expect such adoption to have a material effect on our Notes to Consolidated Financial Statements.

2. Leases

On January 1, 2019, we adopted Accounting Standards Codification Topic 842 “Leases” (“ASC 842”), which supersedes Accounting Standards Codification Topic 840 “Leases” (“ASC 840”). Information in this Note 2 with respect to our leases and lease related costs as both lessee and lessor and lease related receivables as lessor is presented under ASC 842 as of September 30, 2019 and for the three and nine months ended September 30, 2019 and under ASC 840 as of and for the year ended December 31, 2018.

We adopted ASC 842 using the modified retrospective approach whereby the cumulative effect of adoption was recognized on the adoption date and prior periods were not restated. There was no net cumulative effect adjustment to retained earnings as of January 1, 2019 as a result of this adoption. ASC 842 sets out the principles for the recognition, measurement, presentation and disclosure of leases for both lessees and lessors. We operate as both a lessor and a lessee. As a lessor, we are required under ASC 842 to account for leases using an approach that is substantially equivalent to ASC 840's guidance for operating leases and other leases such as sales-type leases and direct financing leases. In addition, ASC 842 requires lessors to capitalize and amortize only incremental direct leasing costs. As a lessee, we are required under the new standard to apply a dual approach, classifying leases, such as ground leases, as either finance or operating leases based on the principle of whether or not the lease is effectively a financed purchase. This classification determines whether lease expense is recognized based on an effective interest method or on a straight-line basis over the term of the lease. ASC 842 also requires lessees to record a right of use asset and a lease liability for all leases with a term of greater than a year regardless of their classification. We have also elected the practical expedient not to recognize right of use assets and lease liabilities for leases with a term of a year or less.

On adoption of the standard, we elected the package of practical expedients provided for in ASC 842, including:

- No reassessment of whether any expired or existing contracts were or contained leases;
- No reassessment of the lease classification for any expired or existing leases; and
- No reassessment of initial direct costs for any existing leases.

The package of practical expedients was made as a single election and was consistently applied to all existing leases as of January 1, 2019. We also elected the practical expedient provided to lessors in a subsequent amendment to ASC 842 that removed the requirement to separate lease and nonlease components, provided certain conditions were met.

Information as Lessor Under ASC 842

To generate positive cash flow, as a lessor, we lease our office properties to lessees in exchange for fixed monthly payments that cover rent, property taxes, insurance and certain cost recoveries, primarily common area maintenance (“CAM”). Office properties owned by us that are under lease are located in Atlanta, Greensboro, Memphis, Nashville, Orlando, Pittsburgh, Raleigh, Richmond and Tampa and are leased to a wide variety of lessees across many industries. Our leases were determined to be operating leases and generally range from three to 10 years. Payments from customers for CAM are considered nonlease components that are separated from lease components and are generally accounted for in accordance with the revenue recognition standard. However, we qualified for and elected the practical expedient related to combining the components because the lease component is classified as an operating lease and the timing and pattern of transfer of CAM income, which is not the predominant component, is the same as the lease component. As such, consideration for CAM is accounted for as part of the overall consideration in the lease. Payments from customers for property taxes and insurance are considered noncomponents of the lease and therefore no consideration is allocated to them because they do not transfer a good or service to the customer. Fixed contractual payments from our leases are recognized on a straight-line basis over the terms of the respective leases. This means that, with respect to a particular lease, actual amounts billed in accordance with the lease during any given period may be higher or lower than the amount of rental revenue recognized for the period. Straight-line rental revenue is commenced when the customer assumes control of the leased premises. Accrued straight-line rents receivable represents the amount by which straight-line rental revenue exceeds rents currently billed in accordance with lease agreements.

Some of our leases are subject to annual changes in the Consumer Price Index (“CPI”). Although increases in the CPI are not estimated as part of our measurement of straight-line rental revenue, to the extent that actual CPI is greater or less than the CPI at lease commencement, the amount of straight-line rent recognized in a given year is affected accordingly.

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Some of our leases have termination options and/or extension options. Termination options allow the customer to terminate the lease prior to the end of the lease term under certain circumstances. Termination options generally become effective half way or further into the original lease term and require advance notification from the customer and payment of a termination fee that reimburses us for a portion of the remaining rent under the original lease term and the undepreciated lease inception costs such as commissions, tenant improvements and lease incentives. Termination fee income is recognized on a straight-line basis from the date of the executed termination agreement through lease expiration when the amount of the fee is determinable and collectability of the fee is reasonably assured. Our extension options generally require a re-negotiation with the customer at market rates.

Initial direct costs, primarily commissions, related to the leasing of our office properties are included in deferred leasing costs and are stated at amortized cost. Such expenditures are part of the investment necessary to execute leases and, therefore, are classified as investment activities in the statement of cash flows. All leasing commissions paid to third parties and our in-house personnel for new leases or lease renewals are capitalized. Capitalized leasing costs are amortized on a straight-line basis over the initial fixed terms of the respective leases. All other costs to negotiate or arrange a lease are expensed as incurred.

Lease incentive costs, which are payments made to or on behalf of a customer as an incentive to sign a lease, are capitalized in deferred leasing costs and amortized on a straight-line basis over the respective lease terms as a reduction of rental revenues.

Lease related receivables, which include accounts receivable and accrued straight-line rents receivable, are reduced for credit losses. Such amounts are recognized as a reduction to rental and other revenues. We regularly evaluate the collectability of our lease related receivables. Our evaluation of collectability primarily consists of reviewing past due account balances and considering such factors as the credit quality of our customer, historical trends of the customer and changes in customer payment terms. Additionally, with respect to customers in bankruptcy, we estimate the probable recovery through bankruptcy claims and reduce the related receivable balance for amounts deemed uncollectible. If our assumptions regarding the collectability of lease related receivables prove incorrect, we could experience credit losses in excess of what was recognized in rental and other revenues.

We recognized rental and other revenues related to operating lease payments of \$184.2 million and \$534.2 million, respectively, during the three and nine months ended September 30, 2019, of which variable lease payments were \$17.3 million and \$49.2 million, respectively. The following table sets forth the undiscounted cash flows for future minimum base rents to be received from customers for leases in effect at September 30, 2019 for the properties that we wholly own:

October 1 through December 31, 2019	\$	156,920
2020		619,066
2021		577,843
2022		544,683
2023		483,709
2024		422,362
Thereafter		1,820,576
	\$	<u>4,625,159</u>

Information as Lessor Under ASC 840

Minimum contractual rents from leases are recognized on a straight-line basis over the terms of the respective leases. This means that, with respect to a particular lease, actual amounts billed in accordance with the lease during any given period may be higher or lower than the amount of rental revenue recognized for the period. Straight-line rental revenue is commenced when the customer assumes control of the leased premises. Accrued straight-line rents receivable represents the amount by which straight-line rental revenue exceeds rents currently billed in accordance with lease agreements. Contingent rental revenue, such as percentage rent, is accrued when the contingency is removed. Termination fee income is recognized at the later of when the customer has vacated the space or the lease has expired and a fully executed lease termination agreement has been delivered, the amount of the fee is determinable and collectability of the fee is reasonably assured.

Cost recovery income is determined on a calendar year and a lease-by-lease basis. The most common types of cost recovery income in our leases are CAM and real estate taxes, for which a customer typically pays its pro-rata share of operating and administrative expenses and real estate taxes in excess of the costs incurred during a contractually specified base year. The computation of cost recovery income is complex and involves numerous judgments, including the interpretation of lease provisions. Leases are not uniform in dealing with such cost recovery income and there are many variations in the computation. Many customers make monthly fixed payments of CAM, real estate taxes and other cost reimbursement items. We accrue income related to these payments each month. We make quarterly accrual adjustments, positive or negative, to cost recovery income to adjust the recorded

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amounts to our best estimate of the final annual amounts to be billed and collected. After the end of the calendar year, we compute each customer's final cost recovery income and, after considering amounts paid by the customer during the year, issue a bill or credit for the appropriate amount to the customer. The differences between the amounts billed less previously received payments and the accrual adjustment are recorded as increases or decreases to cost recovery income when the final bills are prepared, which occurs during the first half of the subsequent year.

Accounts receivable, accrued straight-line rents receivable and mortgages and notes receivable are reduced by an allowance for amounts that may become uncollectible in the future. We regularly evaluate the adequacy of our allowance for doubtful accounts. The evaluation primarily consists of reviewing past due account balances and considering such factors as the credit quality of our customer, historical trends of the customer and changes in customer payment terms. Additionally, with respect to customers in bankruptcy, we estimate the probable recovery through bankruptcy claims and adjust the allowance for amounts deemed uncollectible. If our assumptions regarding the collectability of receivables prove incorrect, we could experience losses in excess of our allowance for doubtful accounts. The allowance and its related receivable are written-off when we have concluded there is a low probability of collection and we have discontinued collection efforts.

Lease incentive costs, which are payments made to or on behalf of a customer as an incentive to sign a lease, are capitalized in deferred leasing costs and amortized on a straight-line basis over the respective lease terms as a reduction of rental revenues.

Our real estate assets are leased to customers under operating leases. The minimum rental amounts under the leases are generally subject to scheduled fixed increases. Generally, the leases also provide that we receive cost recovery income from customers for increases in certain costs above the costs incurred during a contractually specified base year.

The following table sets forth our scheduled future minimum base rents to be received from customers for leases in effect at December 31, 2018 for the properties that we wholly own:

2019	\$	618,014
2020		581,399
2021		524,381
2022		488,157
2023		428,461
Thereafter		2,068,891
	\$	<u>4,709,303</u>

Information as Lessee Under ASC 842

We have 20 properties subject to operating ground leases in Atlanta, Nashville, Orlando, Raleigh and Tampa with a weighted average remaining term of 52 years. Rental payments on these leases are adjusted periodically based on either the CPI or on a pre-determined schedule. The monthly payments on a pre-determined schedule are recognized on a straight-line basis over the terms of the respective leases. Changes in the CPI are not estimated as part of our measurement of straight-line rental expense. Upon initial adoption of ASC 842, we recognized a lease liability of \$35.3 million (in accounts payable, accrued expenses and other liabilities) and a related right of use asset of \$29.7 million (in prepaid expenses and other assets) on our Consolidated Balance Sheets equal to the present value of the minimum lease payments required under each ground lease. The difference between the recorded lease liability and right of use asset represents the accrued straight-line rent liability previously recognized under ASC 840. We used a discount rate of approximately 4.5%, which was derived from our assessment of the credit quality of the Company and adjusted to reflect secured borrowing, estimated yield curves and long-term spread adjustments over appropriate tenors. Some of our ground leases contain extension options; however, these did not impact our calculation of the right of use asset and liability as they extend beyond the useful life of the properties subject to the operating ground leases. We recognized \$0.6 million and \$1.8 million of ground lease expense during the three and nine months ended September 30, 2019, respectively. Cash payments related to these leases were \$0.5 million and \$1.7 million during the three and nine months ended September 30, 2019, respectively.

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The following table sets forth the undiscounted cash flows of our scheduled obligations for future minimum payments on operating ground leases at September 30, 2019 and a reconciliation of those cash flows to the operating lease liability at September 30, 2019:

October 1 through December 31, 2019	\$	517
2020		2,086
2021		2,127
2022		2,169
2023		2,167
2024		2,123
Thereafter		83,697
		<hr/> 94,886
Discount		(59,869)
Lease liability	\$	<hr/> <hr/> 35,017

Information as Lessee Under ASC 840

Certain of our properties are subject to operating ground leases. Rental payments on these leases are adjusted periodically based on either the CPI or on a pre-determined schedule. Total rental property expense recorded for operating ground leases was \$2.5 million, \$2.5 million and \$2.9 million for the years ended December 31, 2018, 2017 and 2016, respectively.

The following table sets forth our scheduled obligations for future minimum payments on operating ground leases at December 31, 2018:

2019	\$	2,184
2020		2,223
2021		2,263
2022		2,305
2023		2,308
Thereafter		86,577
	\$	<hr/> <hr/> 97,860

3. Consolidated Variable Interest Entity

During the second quarter of 2019, we and The Bromley Companies formed a joint venture (the "Midtown One joint venture") to construct Midtown One, a 150,000 square foot, multi-customer office building located in the mixed-use Midtown Tampa project in Tampa's Westshore submarket. Midtown One has an anticipated total investment of \$71.3 million. Construction of Midtown One began in the third quarter of 2019 with a scheduled completion date in the second quarter of 2021. At closing, we agreed to contribute cash of \$20.0 million (\$13.6 million of which was funded and/or placed in escrow as of September 30, 2019) in exchange for an 80.0% interest in the Midtown One joint venture and The Bromley Companies contributed land valued at \$5.0 million in exchange for the remaining 20.0% interest. We also committed to provide a \$46.3 million interest-only secured construction loan to the Midtown One joint venture that is scheduled to mature on the second anniversary of completion. The loan bears interest at LIBOR plus 250 basis points. As of September 30, 2019, no amounts under the loan have been funded.

We determined that we have a variable interest in the Midtown One joint venture primarily because the entity was designed to pass along interest rate risk, equity price risk and operation risk to us as both a debt and an equity holder and The Bromley Companies as an equity holder. The Midtown One joint venture was further determined to be a variable interest entity as it requires additional subordinated financial support in the form of a loan because the initial equity investment provided by us and The Bromley Companies is not sufficient to finance its planned investments and operations. We, as majority owner and managing member and through our control rights as set forth in the joint venture's governance documents, were determined to be the primary beneficiary as we have both the power to direct the activities that most significantly affect the entity (primarily lease rates, property operations and capital expenditures) and significant economic exposure through our equity investment and loan commitment. As such, the Midtown One joint venture was consolidated as of September 30, 2019 and for the period May 29, 2019 through September 30, 2019 and all intercompany transactions and accounts were eliminated. The following table sets forth the assets and liabilities of the Midtown One joint venture included on our Consolidated Balance Sheets:

	September 30, 2019
Development in-process	\$ 19,602
Accounts payable, accrued expenses and other liabilities	\$ 798

The assets of the Midtown One joint venture can be used only to settle obligations of the joint venture and its creditors have no recourse to our wholly owned assets.

4. Real Estate Assets

Acquisitions

During the third quarter of 2019, we acquired development land in Raleigh for a purchase price, including capitalized acquisition costs, of \$6.6 million.

Dispositions

During the third quarter of 2019, we sold a building and land parcels for an aggregate sale price of \$14.3 million and recorded aggregate gains on disposition of property of \$3.5 million.

During the second quarter of 2019, we sold two buildings and land for an aggregate sale price of \$32.5 million and recorded aggregate gains on disposition of property of \$6.7 million.

Impairments

During the third quarter of 2019, we recorded aggregate impairments of real estate assets of \$5.3 million as a result of shortened hold periods from classifying all of our assets in Greensboro and Memphis as non-core.

During the second quarter of 2019, we recorded an impairment of real estate assets of \$0.5 million, which resulted from a change in market-based inputs and our assumptions about the use of the assets.

5. Intangible Assets and Below Market Lease Liabilities

The following table sets forth total intangible assets and acquisition-related below market lease liabilities, net of accumulated amortization:

	September 30, 2019	December 31, 2018
Assets:		
Deferred leasing costs (including lease incentives and above market lease and in-place lease acquisition-related intangible assets)	\$ 344,067	\$ 344,548
Less accumulated amortization	(148,019)	(149,275)
	<u>\$ 196,048</u>	<u>\$ 195,273</u>
Liabilities (in accounts payable, accrued expenses and other liabilities):		
Acquisition-related below market lease liabilities	\$ 53,861	\$ 57,955
Less accumulated amortization	(33,285)	(32,307)
	<u>\$ 20,576</u>	<u>\$ 25,648</u>

The following table sets forth amortization of intangible assets and below market lease liabilities:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Amortization of deferred leasing costs and acquisition-related intangible assets (in depreciation and amortization)	\$ 9,003	\$ 8,969	\$ 28,077	\$ 27,671
Amortization of lease incentives (in rental and other revenues)	\$ 540	\$ 452	\$ 3,848	\$ 1,357
Amortization of acquisition-related intangible assets (in rental and other revenues)	\$ 305	\$ 415	\$ 1,005	\$ 1,292
Amortization of acquisition-related intangible assets (in rental property and other expenses)	\$ 140	\$ 140	\$ 416	\$ 416
Amortization of acquisition-related below market lease liabilities (in rental and other revenues)	\$ (1,656)	\$ (1,535)	\$ (5,072)	\$ (4,553)

The following table sets forth scheduled future amortization of intangible assets and below market lease liabilities:

	Amortization of Deferred Leasing Costs and Acquisition- Related Intangible Assets (in Depreciation and Amortization)	Amortization of Lease Incentives (in Rental and Other Revenues)	Amortization of Acquisition- Related Intangible Assets (in Rental and Other Revenues)	Amortization of Acquisition- Related Intangible Assets (in Rental Property and Other Expenses)	Amortization of Acquisition- Related Below Market Lease Liabilities (in Rental and Other Revenues)
October 1 through December 31, 2019	\$ 9,538	\$ 428	\$ 258	\$ 137	\$ (1,349)
2020	34,968	1,584	954	514	(5,107)
2021	30,100	1,338	631	—	(4,152)
2022	25,689	1,104	462	—	(3,086)
2023	22,180	1,025	308	—	(2,707)
Thereafter	58,995	4,735	1,100	—	(4,175)
	<u>\$ 181,470</u>	<u>\$ 10,214</u>	<u>\$ 3,713</u>	<u>\$ 651</u>	<u>\$ (20,576)</u>
Weighted average remaining amortization periods as of September 30, 2019 (in years)	<u>7.3</u>	<u>9.3</u>	<u>6.5</u>	<u>1.2</u>	<u>5.2</u>

6. Mortgages and Notes Payable

The following table sets forth our mortgages and notes payable:

	September 30, 2019	December 31, 2018
Secured indebtedness	\$ 95,779	\$ 97,179
Unsecured indebtedness	2,239,999	1,997,816
Less-unamortized debt issuance costs	(13,552)	(9,164)
Total mortgages and notes payable, net	\$ 2,322,226	\$ 2,085,831

At September 30, 2019, our secured mortgage loan was collateralized by real estate assets with an undepreciated book value of \$146.3 million.

Our \$600.0 million unsecured revolving credit facility is scheduled to mature in January 2022 and includes an accordion feature that allows for an additional \$400.0 million of borrowing capacity subject to additional lender commitments. Assuming no defaults have occurred, we have an option to extend the maturity for two additional six-month periods. The interest rate at our current credit ratings is LIBOR plus 100 basis points and the annual facility fee is 20 basis points. There were no amounts outstanding under our revolving credit facility at both September 30, 2019 and October 15, 2019. At both September 30, 2019 and October 15, 2019, we had \$0.1 million of outstanding letters of credit, which reduces the availability on our revolving credit facility. As a result, the unused capacity of our revolving credit facility at both September 30, 2019 and October 15, 2019 was \$599.9 million.

During the third quarter of 2019, the Operating Partnership issued \$400.0 million aggregate principal amount of 3.050% notes due February 2030, less original issuance discount of \$1.0 million. These notes were priced to yield 3.079%. Underwriting fees and other expenses were incurred that aggregated \$3.4 million; these costs were deferred and will be amortized over the term of the notes.

During the third quarter of 2019, we prepaid without penalty \$100.0 million of our \$200.0 million unsecured bank term loan that is scheduled to mature in January 2022. The interest rate on the term loan at our current credit ratings is LIBOR plus 110 basis points. We recorded \$0.3 million of loss on debt extinguishment related to this prepayment.

During the first quarter of 2019, we prepaid without penalty our \$225.0 million, seven-year unsecured bank term loan, which was scheduled to mature in June 2020. The interest rate on the term loan was LIBOR plus 110 basis points. We recorded \$0.4 million of loss on debt extinguishment related to this prepayment.

During the first quarter of 2019, the Operating Partnership issued \$350.0 million aggregate principal amount of 4.20% notes due April 2029, less original issuance discount of \$1.0 million. These notes were priced to yield 4.234%. Underwriting fees and other expenses were incurred that aggregated \$3.1 million; these costs were deferred and will be amortized over the term of the notes.

We are currently in compliance with financial covenants with respect to our consolidated debt.

We have considered our short-term liquidity needs and the adequacy of our estimated cash flows from operating activities and other available financing sources to meet these needs. We intend to meet these short-term liquidity requirements through a combination of the following:

- available cash and cash equivalents;
- cash flows from operating activities;
- issuance of debt securities by the Operating Partnership;
- issuance of secured debt;
- bank term loans;
- borrowings under our revolving credit facility;
- issuance of equity securities by the Company or the Operating Partnership; and
- the disposition of non-core assets.

7. Derivative Financial Instruments

During the third quarter of 2019, we entered into \$150.0 million notional amount of forward-starting swaps that effectively locked the underlying 10-year treasury rate at 1.87% with respect to a planned issuance of debt securities by the Operating Partnership. Upon the subsequent issuance of the \$400.0 million aggregate principal amount of 3.050% notes due February 2030 during the third quarter of 2019, we terminated the forward-starting swaps and paid cash upon settlement. The unrealized loss of \$6.6 million in accumulated other comprehensive income/(loss) will be reclassified to interest expense as interest payments are made on the debt.

During 2018, we entered into an aggregate of \$225.0 million notional amount of forward-starting swaps that effectively locked the underlying 10-year treasury rate at a weighted average of 2.86% with respect to a planned issuance of debt securities by the Operating Partnership. Upon issuance of the \$350.0 million aggregate principal amount of 4.20% notes due April 2029 during the first quarter of 2019, we terminated the forward-starting swaps and paid cash upon settlement. The unrealized loss of \$5.1 million in accumulated other comprehensive income/(loss) will be reclassified to interest expense as interest payments are made on the debt.

The counterparties under our swaps are major financial institutions. The swap agreements contain a provision whereby if we default on certain of our indebtedness and which default results in repayment of such indebtedness being, or becoming capable of being, accelerated by the lender, then we could also be declared in default on our swaps.

Our interest rate swaps have been designated as and are being accounted for as cash flow hedges with changes in fair value recorded in other comprehensive income/(loss) each reporting period. We have no collateral requirements related to our interest rate swaps.

Amounts reported in accumulated other comprehensive income/(loss) related to derivatives will be reclassified to interest expense as interest payments are made on our debt. During the period from October 1, 2019 through September 30, 2020, we estimate that \$0.3 million will be reclassified as a net decrease to interest expense.

The following table sets forth the gross fair value of our derivatives:

	September 30, 2019	December 31, 2018
Derivatives:		
Derivatives designated as cash flow hedges in prepaid expenses and other assets:		
Interest rate swaps	\$ —	\$ 1,146
Derivatives designated as cash flow hedges in accounts payable, accrued expenses and other liabilities:		
Interest rate swaps	\$ 284	\$ 3,581

The following table sets forth the effect of our cash flow hedges on accumulated other comprehensive income/(loss) and interest expense:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Derivatives Designated as Cash Flow Hedges:				
Amount of unrealized gains/(losses) recognized in accumulated other comprehensive income/(loss) on derivatives:				
Interest rate swaps	\$ (6,732)	\$ 2,187	\$ (9,282)	\$ 10,926
Amount of gains reclassified out of accumulated other comprehensive income/(loss) into interest expense:				
Interest rate swaps	\$ (283)	\$ (654)	\$ (1,158)	\$ (1,275)

8. Noncontrolling Interests

Noncontrolling Interests in Consolidated Affiliates

At September 30, 2019, our noncontrolling interests in consolidated affiliates relate to our joint venture partners' 50.0% interest in office properties in Richmond and 20.0% interest in an office development property in Tampa. Our joint venture partners are unrelated third parties.

Noncontrolling Interests in the Operating Partnership

The following table sets forth the Company's noncontrolling interests in the Operating Partnership:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Beginning noncontrolling interests in the Operating Partnership	\$ 112,778	\$ 142,323	\$ 105,960	\$ 144,009
Adjustment of noncontrolling interests in the Operating Partnership to fair value	10,493	(9,335)	19,025	(9,607)
Conversions of Common Units to Common Stock	(219)	(147)	(572)	(1,231)
Net income attributable to noncontrolling interests in the Operating Partnership	737	902	1,974	3,171
Distributions to noncontrolling interests in the Operating Partnership	(1,296)	(1,296)	(3,894)	(3,895)
Total noncontrolling interests in the Operating Partnership	<u>\$ 122,493</u>	<u>\$ 132,447</u>	<u>\$ 122,493</u>	<u>\$ 132,447</u>

The following table sets forth net income available for common stockholders and transfers from the Company's noncontrolling interests in the Operating Partnership:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Net income available for common stockholders	\$ 27,901	\$ 33,160	\$ 74,578	\$ 116,295
Increase in additional paid in capital from conversions of Common Units to Common Stock	219	147	572	1,231
Change from net income available for common stockholders and transfers from noncontrolling interests	<u>\$ 28,120</u>	<u>\$ 33,307</u>	<u>\$ 75,150</u>	<u>\$ 117,526</u>

9. Disclosure About Fair Value of Financial Instruments

The following summarizes the levels of inputs that we use to measure fair value.

Level 1. Quoted prices in active markets for identical assets or liabilities.

Our Level 1 asset is our investment in marketable securities that we use to pay benefits under our non-qualified deferred compensation plan. Our Level 1 liability is our non-qualified deferred compensation obligation. The Company's Level 1 noncontrolling interests in the Operating Partnership relate to the ownership of Common Units by various individuals and entities other than the Company.

Level 2. Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the related assets or liabilities.

Our Level 2 assets include the fair value of our mortgages and notes receivable and certain interest rate swaps. Our Level 2 liabilities include the fair value of our mortgages and notes payable and remaining interest rate swaps.

The fair value of mortgages and notes receivable and mortgages and notes payable is estimated by the income approach utilizing contractual cash flows and market-based interest rates to approximate the price that would be paid in an orderly transaction between market participants. The fair value of interest rate swaps is determined using the market standard methodology of netting the discounted future fixed cash receipts and the discounted expected variable cash payments. The variable cash payments of interest rate swaps are based on the expectation of future interest rates (forward curves) derived from observed market interest rate curves. In addition, credit valuation adjustments are considered in the fair values to account for potential nonperformance risk, but were concluded to not be significant inputs to the calculation for the periods presented.

Level 3. Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

Our Level 3 assets include any real estate assets recorded at fair value on a non-recurring basis as a result of our quarterly impairment analysis, which are valued using unobservable local and national industry market data such as comparable sales, appraisals, brokers' opinions of value and/or the terms of definitive sales contracts. Significant increases or decreases in any valuation inputs in isolation would result in a significantly lower or higher fair value measurement.

The following table sets forth our assets and liabilities and the Company's noncontrolling interests in the Operating Partnership that are measured or disclosed at fair value within the fair value hierarchy.

	Total	Level 1 Quoted Prices in Active Markets for Identical Assets or Liabilities	Level 2 Significant Observable Inputs	Level 3 Significant Unobservable Inputs
Fair Value at September 30, 2019:				
Assets:				
Mortgages and notes receivable, at fair value (1)	\$ 1,542	\$ —	\$ 1,542	\$ —
Marketable securities of non-qualified deferred compensation plan (in prepaid expenses and other assets)	2,170	2,170	—	—
Impaired real estate assets	7,580	—	—	7,580
Total Assets	\$ 11,292	\$ 2,170	\$ 1,542	\$ 7,580
Noncontrolling Interests in the Operating Partnership	\$ 122,493	\$ 122,493	\$ —	\$ —
Liabilities:				
Mortgages and notes payable, net, at fair value (1)	\$ 2,391,434	\$ —	\$ 2,391,434	\$ —
Interest rate swaps (in accounts payable, accrued expenses and other liabilities)	284	—	284	—
Non-qualified deferred compensation obligation (in accounts payable, accrued expenses and other liabilities)	2,170	2,170	—	—
Total Liabilities	\$ 2,393,888	\$ 2,170	\$ 2,391,718	\$ —
Fair Value at December 31, 2018:				
Assets:				
Mortgages and notes receivable, at fair value (1)	\$ 5,599	\$ —	\$ 5,599	\$ —
Interest rate swaps (in prepaid expenses and other assets)	1,146	—	1,146	—
Marketable securities of non-qualified deferred compensation plan (in prepaid expenses and other assets)	1,849	1,849	—	—
Impaired real estate assets	10,252	—	—	10,252
Total Assets	\$ 18,846	\$ 1,849	\$ 6,745	\$ 10,252
Noncontrolling Interests in the Operating Partnership	\$ 105,960	\$ 105,960	\$ —	\$ —
Liabilities:				
Mortgages and notes payable, net, at fair value (1)	\$ 2,056,248	\$ —	\$ 2,056,248	\$ —
Interest rate swaps (in accounts payable, accrued expenses and other liabilities)	3,581	—	3,581	—
Non-qualified deferred compensation obligation (in accounts payable, accrued expenses and other liabilities)	1,849	1,849	—	—
Total Liabilities	\$ 2,061,678	\$ 1,849	\$ 2,059,829	\$ —

(1) Amounts recorded at historical cost on our Consolidated Balance Sheets at September 30, 2019 and December 31, 2018.

The Level 3 impaired real estate assets measured at a fair value of \$7.6 million in the third quarter of 2019 include an office building and land held for development. The aggregate impairments resulted from a change in our assumptions about the use of the assets and were calculated using brokers' opinions of value and comparable sales as observable inputs were not available.

The Level 3 impaired real estate assets measured at fair values of \$0.7 million and \$10.3 million in the second quarter of 2019 and fourth quarter of 2018, respectively, include land held for development. The impairments resulted from a change in our assumptions about the use of the assets and were calculated using the terms of definitive sales contracts as observable inputs were not available.

10. Share-Based Payments

During the nine months ended September 30, 2019, the Company granted 103,590 shares of time-based restricted stock and 87,344 shares of total return-based restricted stock with weighted average grant date fair values per share of \$45.98 and \$39.42, respectively. We recorded share-based compensation expense of \$0.7 million and \$1.1 million during the three months ended September 30, 2019 and 2018, respectively, and \$6.2 million and \$6.6 million during the nine months ended September 30, 2019 and 2018, respectively. At September 30, 2019, there was \$6.2 million of total unrecognized share-based compensation costs, which will be recognized over a weighted average remaining contractual term of 2.3 years.

11. Accumulated Other Comprehensive Income/(Loss)

The following table sets forth the components of accumulated other comprehensive income/(loss):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Cash flow hedges:				
Beginning balance	\$ 6,488	\$ 15,956	\$ 9,913	\$ 7,838
Unrealized gains/(losses) on cash flow hedges	(6,732)	2,187	(9,282)	10,926
Amortization of cash flow hedges (1)	(283)	(654)	(1,158)	(1,275)
Total accumulated other comprehensive income/(loss)	\$ (527)	\$ 17,489	\$ (527)	\$ 17,489

(1) Amounts reclassified out of accumulated other comprehensive income/(loss) into interest expense.

12. Earnings Per Share and Per Unit

The following table sets forth the computation of basic and diluted earnings per share of the Company:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Earnings per Common Share - basic:				
Numerator:				
Net income	\$ 29,557	\$ 35,009	\$ 79,337	\$ 122,253
Net (income) attributable to noncontrolling interests in the Operating Partnership	(737)	(902)	(1,974)	(3,171)
Net (income) attributable to noncontrolling interests in consolidated affiliates	(297)	(324)	(919)	(918)
Dividends on Preferred Stock	(622)	(623)	(1,866)	(1,869)
Net income available for common stockholders	<u>\$ 27,901</u>	<u>\$ 33,160</u>	<u>\$ 74,578</u>	<u>\$ 116,295</u>
Denominator:				
Denominator for basic earnings per Common Share – weighted average shares	103,727	103,471	103,674	103,408
Net income available for common stockholders	<u>\$ 0.27</u>	<u>\$ 0.32</u>	<u>\$ 0.72</u>	<u>\$ 1.12</u>
Earnings per Common Share - diluted:				
Numerator:				
Net income	\$ 29,557	\$ 35,009	\$ 79,337	\$ 122,253
Net (income) attributable to noncontrolling interests in consolidated affiliates	(297)	(324)	(919)	(918)
Dividends on Preferred Stock	(622)	(623)	(1,866)	(1,869)
Net income available for common stockholders before net (income) attributable to noncontrolling interests in the Operating Partnership	<u>\$ 28,638</u>	<u>\$ 34,062</u>	<u>\$ 76,552</u>	<u>\$ 119,466</u>
Denominator:				
Denominator for basic earnings per Common Share – weighted average shares	103,727	103,471	103,674	103,408
Add:				
Stock options using the treasury method	16	58	18	39
Noncontrolling interests Common Units	2,728	2,804	2,733	2,809
Denominator for diluted earnings per Common Share – adjusted weighted average shares and assumed conversions (1)	<u>106,471</u>	<u>106,333</u>	<u>106,425</u>	<u>106,256</u>
Net income available for common stockholders	<u>\$ 0.27</u>	<u>\$ 0.32</u>	<u>\$ 0.72</u>	<u>\$ 1.12</u>

(1) Includes all unvested restricted stock where dividends on such restricted stock are non-forfeitable.

The following table sets forth the computation of basic and diluted earnings per unit of the Operating Partnership:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Earnings per Common Unit - basic:				
Numerator:				
Net income	\$ 29,557	\$ 35,009	\$ 79,337	\$ 122,253
Net (income) attributable to noncontrolling interests in consolidated affiliates	(297)	(324)	(919)	(918)
Distributions on Preferred Units	(622)	(623)	(1,866)	(1,869)
Net income available for common unitholders	<u>\$ 28,638</u>	<u>\$ 34,062</u>	<u>\$ 76,552</u>	<u>\$ 119,466</u>
Denominator:				
Denominator for basic earnings per Common Unit – weighted average units	106,046	105,866	105,998	105,808
Net income available for common unitholders	<u>\$ 0.27</u>	<u>\$ 0.32</u>	<u>\$ 0.72</u>	<u>\$ 1.13</u>
Earnings per Common Unit - diluted:				
Numerator:				
Net income	\$ 29,557	\$ 35,009	\$ 79,337	\$ 122,253
Net (income) attributable to noncontrolling interests in consolidated affiliates	(297)	(324)	(919)	(918)
Distributions on Preferred Units	(622)	(623)	(1,866)	(1,869)
Net income available for common unitholders	<u>\$ 28,638</u>	<u>\$ 34,062</u>	<u>\$ 76,552</u>	<u>\$ 119,466</u>
Denominator:				
Denominator for basic earnings per Common Unit – weighted average units	106,046	105,866	105,998	105,808
Add:				
Stock options using the treasury method	16	58	18	39
Denominator for diluted earnings per Common Unit – adjusted weighted average units and assumed conversions (1)	<u>106,062</u>	<u>105,924</u>	<u>106,016</u>	<u>105,847</u>
Net income available for common unitholders	<u>\$ 0.27</u>	<u>\$ 0.32</u>	<u>\$ 0.72</u>	<u>\$ 1.13</u>

(1) Includes all unvested restricted stock where distributions on such restricted stock are non-forfeitable.

13. Segment Information

The following tables summarize the rental and other revenues and net operating income, the primary industry property-level performance metric used by our chief operating decision maker and which is defined as rental and other revenues less rental property and other expenses, for each of our reportable segments.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Rental and Other Revenues:				
Office:				
Atlanta	\$ 39,120	\$ 35,375	\$ 113,115	\$ 105,635
Greensboro	5,524	5,349	16,611	16,753
Memphis	9,967	10,121	29,669	30,228
Nashville	34,748	29,927	99,256	91,319
Orlando	12,854	13,352	39,781	40,103
Pittsburgh	15,154	14,982	45,463	45,587
Raleigh	30,688	30,432	90,458	89,518
Richmond	12,576	11,262	37,203	33,204
Tampa	23,563	25,460	62,631	76,726
Total Office Segment	184,194	176,260	534,187	529,073
Other	3,281	3,157	9,721	9,574
Total Rental and Other Revenues	\$ 187,475	\$ 179,417	\$ 543,908	\$ 538,647
Net Operating Income:				
Office:				
Atlanta	\$ 24,372	\$ 21,443	\$ 72,614	\$ 65,721
Greensboro	3,500	3,372	10,715	10,817
Memphis	6,104	6,471	18,336	19,289
Nashville	25,191	21,896	71,717	66,306
Orlando	7,889	8,195	24,452	24,551
Pittsburgh	9,150	8,969	27,179	27,189
Raleigh	22,066	22,018	65,363	65,384
Richmond	8,337	7,376	25,499	22,616
Tampa	14,339	16,188	35,715	49,448
Total Office Segment	120,948	115,928	351,590	351,321
Other	2,392	2,336	7,074	7,078
Total Net Operating Income	123,340	118,264	358,664	358,399
Reconciliation to net income:				
Depreciation and amortization	(60,850)	(57,661)	(189,514)	(171,923)
Impairments of real estate assets	(5,318)	—	(5,849)	—
General and administrative expenses	(11,717)	(9,551)	(33,658)	(30,869)
Interest expense	(20,527)	(17,437)	(59,622)	(53,705)
Other income/(loss)	174	818	(3,271)	1,735
Gains on disposition of property	3,515	3	10,218	16,975
Equity in earnings of unconsolidated affiliates	940	573	2,369	1,641
Net income	\$ 29,557	\$ 35,009	\$ 79,337	\$ 122,253

14. Subsequent Events

On October 17, 2019, the Company declared a cash dividend of \$0.475 per share of Common Stock, which is payable on December 3, 2019 to stockholders of record as of November 11, 2019.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The Company is a fully integrated office real estate investment trust ("REIT") that owns, develops, acquires, leases and manages properties primarily in the best business districts (BBDs) of Atlanta, Greensboro, Memphis, Nashville, Orlando, Pittsburgh, Raleigh, Richmond and Tampa. The Company conducts its activities through the Operating Partnership. The Operating Partnership is managed by the Company, its sole general partner. Additional information about us can be found on our website at www.highwoods.com. Information on our website is not part of this Quarterly Report.

Edward J. Fritsch, 60, retired as Chief Executive Officer and member of the Board of Directors effective September 1, 2019. Theodore J. Klinck, 53, assumed the role of Chief Executive Officer and director upon Mr. Fritsch's retirement. See "Part II. Item 5. Other Information."

You should read the following discussion and analysis in conjunction with the accompanying Consolidated Financial Statements and related notes contained elsewhere in this Quarterly Report.

Disclosure Regarding Forward-Looking Statements

Some of the information in this Quarterly Report may contain forward-looking statements. Such statements include, in particular, statements about our plans, strategies and prospects under this section. You can identify forward-looking statements by our use of forward-looking terminology such as "may," "will," "expect," "anticipate," "estimate," "continue" or other similar words. Although we believe that our plans, intentions and expectations reflected in or suggested by such forward-looking statements are reasonable, we cannot assure you that our plans, intentions or expectations will be achieved. When considering such forward-looking statements, you should keep in mind the following important factors that could cause our actual results to differ materially from those contained in any forward-looking statement:

- the closing of the planned acquisition of Bank of America Tower at Legacy Union may not occur on the terms described in this report or at all;
- buyers may not be available and pricing may not be adequate with respect to the planned dispositions of non-core assets;
- comparable sales data on which we based our expectations with respect to the sales price of the non-core assets may not reflect current market trends;
- anticipated general and administrative expense savings related to the closure of our Greensboro and Memphis division offices may not be realized;
- the financial condition of our customers could deteriorate;
- we may not be able to lease or re-lease second generation space, defined as previously occupied space that becomes available for lease, quickly or on as favorable terms as old leases;
- we may not be able to lease newly constructed buildings as quickly or on as favorable terms as originally anticipated;
- we may not be able to complete development, acquisition, reinvestment, disposition or joint venture projects as quickly or on as favorable terms as anticipated;
- development activity in our existing markets could result in an excessive supply relative to customer demand;
- our markets may suffer declines in economic and/or office employment growth;
- unanticipated increases in interest rates could increase our debt service costs;
- unanticipated increases in operating expenses could negatively impact our operating results;
- we may not be able to meet our liquidity requirements or obtain capital on favorable terms to fund our working capital needs and growth initiatives or repay or refinance outstanding debt upon maturity; and
- the Company could lose key executive officers.

This list of risks and uncertainties, however, is not intended to be exhaustive. You should also review the other cautionary statements we make in “Business – Risk Factors” set forth in our 2018 Annual Report on Form 10-K. Given these uncertainties, you should not place undue reliance on forward-looking statements. We undertake no obligation to publicly release the results of any revisions to these forward-looking statements to reflect any future events or circumstances or to reflect the occurrence of unanticipated events.

Executive Summary

Our Strategic Plan focuses on:

- owning high-quality, differentiated office buildings in the BBDs of our core markets;
- improving the operating results of our properties through concentrated leasing, asset management, cost control and customer service efforts;
- developing and acquiring office buildings in BBDs that improve the overall quality of our portfolio and generate attractive returns over the long term for our stockholders;
- disposing of properties no longer considered to be core assets primarily due to location, age, quality and/or overall strategic fit; and
- maintaining a balance sheet with ample liquidity to meet our funding needs and growth prospects.

Revenues

Our operating results depend heavily on successfully leasing and operating the office space in our portfolio. Economic growth and office employment levels in our core markets are important factors, among others, in predicting our future operating results.

The key components affecting our rental and other revenues are average occupancy, rental rates, cost recovery income, new developments placed in service, acquisitions and dispositions. Average occupancy generally increases during times of improving economic growth, as our ability to lease space outpaces vacancies that occur upon the expirations of existing leases. Average occupancy generally declines during times of slower or negative economic growth, when new vacancies tend to outpace our ability to lease space. Asset acquisitions, dispositions and new developments placed in service directly impact our rental revenues and could impact our average occupancy, depending upon the occupancy rate of the properties that are acquired, sold or placed in service. A further indicator of the predictability of future revenues is the expected lease expirations of our portfolio. As a result, in addition to seeking to increase our average occupancy by leasing current vacant space, we also concentrate our leasing efforts on renewing existing leases prior to expiration. For more information regarding our lease expirations, see “Properties - Lease Expirations” in our 2018 Annual Report on Form 10-K. Occupancy in our office portfolio decreased from 91.6% at December 31, 2018 to 91.2% at September 30, 2019.

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Whether or not our rental revenue tracks average occupancy proportionally depends upon whether GAAP rents under signed new and renewal leases are higher or lower than the GAAP rents under expiring leases. Annualized rental revenues from second generation leases expiring during any particular year are typically less than 15% of our total annual rental revenues. The following table sets forth information regarding second generation office leases signed during the third quarter of 2019 (we define second generation office leases as leases with new customers and renewals of existing customers in office space that has been previously occupied under our ownership and leases with respect to vacant space in acquired buildings):

	New	Renewal	All Office
Leased space (in rentable square feet)	366,923	571,779	938,702
Average term (in years - rentable square foot weighted)	6.7	6.3	6.5
Base rents (per rentable square foot) (1)	\$ 30.02	\$ 29.11	\$ 29.46
Rent concessions (per rentable square foot) (1)	(0.69)	(0.56)	(0.61)
GAAP rents (per rentable square foot) (1)	\$ 29.33	\$ 28.55	\$ 28.85
Tenant improvements (per rentable square foot) (1)	\$ 5.19	\$ 2.59	\$ 3.61
Leasing commissions (per rentable square foot) (1)	\$ 1.11	\$ 0.70	\$ 0.86

(1) Weighted average per rentable square foot on an annual basis over the lease term.

Annual combined GAAP rents for new and renewal leases signed in the third quarter were \$28.85 per rentable square foot, 19.4% higher compared to previous leases in the same office spaces.

We strive to maintain a diverse, stable and creditworthy customer base. We have an internal guideline whereby customers that account for more than 3% of our revenues are periodically reviewed with the Company's Board of Directors. As of September 30, 2019, no customer accounted for more than 3% of our cash revenues other than the Federal Government, which accounted for less than 5% of our cash revenues on an annualized basis. Upon completion of the MetLife III development project in Raleigh, it is expected that MetLife will account for approximately 3.3% of our revenues based on annualized cash revenues for September 2019.

Expenses

Our expenses primarily consist of rental property expenses, depreciation and amortization, general and administrative expenses and interest expense. From time to time, expenses also include impairments of real estate assets. Rental property expenses are expenses associated with our ownership and operation of rental properties and include expenses that vary somewhat proportionately to occupancy levels, such as janitorial services and utilities, and expenses that do not vary based on occupancy, such as property taxes and insurance. Depreciation and amortization is a non-cash expense associated with the ownership of real property and generally remains relatively consistent each year, unless we buy, place in service or sell assets, since our properties and related building and tenant improvement assets are depreciated on a straight-line basis over fixed lives. General and administrative expenses consist primarily of management and employee salaries and benefits, corporate overhead and short and long-term incentive compensation.

Net Operating Income

Whether or not we record increasing net operating income ("NOI") in our same property portfolio depends upon our ability to garner higher rental revenues, whether from higher average occupancy, higher GAAP rents per rentable square foot or higher cost recovery income, that exceed any corresponding growth in operating expenses. Same property NOI was \$1.8 million, or 1.6%, higher in the third quarter of 2019 as compared to 2018 due to an increase in same property revenues of \$4.4 million offset by an increase of \$2.5 million in same property expenses.

In addition to the effect of same property NOI, whether or not NOI increases depends upon whether the NOI from our acquired properties and development properties placed in service exceeds the NOI from property dispositions. NOI was \$5.1 million, or 4.3%, higher in the third quarter of 2019 as compared to 2018 due to the increase in our same property NOI and the impact of development properties placed in service, partly offset by NOI lost from property dispositions.

Cash Flows

In calculating net cash related to operating activities, depreciation and amortization, which are non-cash expenses, are added back to net income. We have historically generated a positive amount of cash from operating activities. From period to period, cash flow from operations depends primarily upon changes in our net income, as discussed more fully below under "Results of Operations," changes in receivables and payables and net additions or decreases in our overall portfolio.

Net cash related to investing activities generally relates to capitalized costs incurred for leasing and major building improvements and our acquisition, development, disposition and joint venture activity. During periods of significant net acquisition and/or development activity, our cash used in such investing activities will generally exceed cash provided by investing activities, which typically consists of cash received upon the sale of properties and distributions from our joint ventures.

Net cash related to financing activities generally relates to distributions, incurrence and repayment of debt, and issuances, repurchases or redemptions of Common Stock, Common Units and Preferred Stock. We use a significant amount of our cash to fund distributions. Whether or not we have increases in the outstanding balances of debt during a period depends generally upon the net effect of our acquisition, disposition, development and joint venture activity. We generally use our revolving credit facility for daily working capital purposes, which means that during any given period, in order to minimize interest expense, we may record significant repayments and borrowings under our revolving credit facility.

For a discussion regarding dividends and distributions, see "Liquidity and Capital Resources - Dividends and Distributions."

Liquidity and Capital Resources

We intend to maintain a conservative and flexible balance sheet with access to multiple sources of debt and equity capital and sufficient availability under our revolving credit facility that allows us to capitalize on favorable development and acquisition opportunities as they arise.

Rental and other revenues are our principal source of funds to meet our short-term liquidity requirements. Other sources of funds for short-term liquidity needs include available working capital and borrowings under our revolving credit facility, which had \$599.9 million of availability at October 15, 2019. Our short-term liquidity requirements primarily consist of operating expenses, interest and principal amortization on our debt, distributions and capital expenditures, including building improvement costs, tenant improvement costs and lease commissions. Building improvements are capital costs to maintain or enhance existing buildings not typically related to a specific customer. Tenant improvements are the costs required to customize space for the specific needs of customers. We anticipate that our available cash and cash equivalents and cash provided by operating activities and planned financing activities, including borrowings under our revolving credit facility, will be adequate to meet our short-term liquidity requirements. We use our revolving credit facility for working capital purposes and for the short-term funding of our development and acquisition activity and, in certain instances, the repayment of other debt. Continued ability to borrow under the revolving credit facility allows us to quickly capitalize on strategic opportunities at short-term interest rates.

Our long-term liquidity uses generally consist of the retirement or refinancing of debt upon maturity, funding of building improvements, new building developments and land infrastructure projects and funding acquisitions of buildings and development land. Our expected future capital expenditures for started and/or committed new development projects were approximately \$316 million at September 30, 2019. Additionally, we may, from time to time, retire outstanding equity and/or debt securities through redemptions, open market repurchases, privately negotiated acquisitions or otherwise.

We expect to meet our long-term liquidity needs through a combination of:

- cash flow from operating activities;
- bank term loans and borrowings under our revolving credit facility;
- the issuance of unsecured debt;
- the issuance of secured debt;
- the issuance of equity securities by the Company or the Operating Partnership; and
- the disposition of non-core assets.

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At September 30, 2019, our leverage ratio, as measured by the ratio of our mortgages and notes payable and outstanding preferred stock to the undepreciated book value of our assets, was 37.4% and there were 106.5 million diluted shares of Common Stock outstanding.

Investment Activity

As noted above, a key tenet of our strategic plan is to continuously upgrade the quality of our office portfolio through acquisitions, dispositions and development. We generally seek to acquire and develop office buildings that improve the average quality of our overall portfolio and deliver consistent and sustainable value for our stockholders over the long-term. Whether or not an asset acquisition or new development results in higher per share net income or funds from operations ("FFO") in any given period depends upon a number of factors, including whether the NOI for any such period exceeds the actual cost of capital used to finance the acquisition or development. Additionally, given the length of construction cycles, development projects are not placed in service until, in some cases, several years after commencement. Sales of non-core assets could result in lower per share net income or FFO in any given period in the event the resulting use of proceeds does not exceed the capitalization rate on the sold properties.

Market Rotation Plan

During the third quarter of 2019, we announced a series of planned investment activities. First, we have agreed to acquire Bank of America Tower at Legacy Union in Charlotte's uptown CBD submarket for a total investment of \$436 million. Bank of America Tower at Legacy Union is a trophy, LEED gold-registered office building encompassing 841,000 square feet with structured parking that delivers this year. The acquisition is scheduled to close in November 2019. We have posted earnest money deposits totaling \$50 million that are non-refundable except in limited circumstances. Second, we have a two-phased plan to exit the Greensboro and Memphis markets. The first phase consists of selling a select portfolio of assets in Greensboro and Memphis by mid-2020 with a total sales price that approximates the \$436 million total investment for Bank of America Tower at Legacy Union and closing the division offices. We can provide no assurances, however, that we will dispose of any of these assets on favorable terms, or at all, because the dispositions are subject to the negotiation and execution of definitive and binding purchase and sale agreements and would then be subject to the buyers' completion of satisfactory due diligence and other customary closing conditions. The second phase is the planned sale of the remaining assets in both markets. There is no pre-determined timetable for the second phase.

Results of Operations

Three Months Ended September 30, 2019 and 2018

Rental and Other Revenues

Rental and other revenues were \$8.1 million, or 4.5%, higher in the third quarter of 2019 as compared to 2018 primarily due to development properties placed in service and higher same property revenues, which increased rental and other revenues by \$6.7 million and \$4.4 million, respectively. Same property rental and other revenues were higher primarily due to higher average GAAP rents per rentable square foot, higher parking income and higher cost recovery income. These increases were partly offset by lost revenue of \$2.7 million from property dispositions.

Operating Expenses

Rental property and other expenses were \$3.0 million, or 4.9%, higher in the third quarter of 2019 as compared to 2018 primarily due to higher same property operating expenses and development properties placed in service, which increased operating expenses by \$2.5 million and \$1.7 million, respectively. Same property operating expenses were higher primarily due to higher property taxes, repairs and maintenance, contract services and property insurance. These increases were partly offset by a \$0.9 million decrease in operating expenses from property dispositions.

Depreciation and amortization was \$3.2 million, or 5.5%, higher in the third quarter of 2019 as compared to 2018 primarily due to development properties placed in service and higher same property lease related depreciation and amortization, partly offset by fully amortized acquisition-related intangible assets and property dispositions.

We recorded aggregate impairments of real estate assets of \$5.3 million in the third quarter of 2019 as a result of shortened hold periods from classifying all of our assets in Greensboro and Memphis as non-core. We recorded no such impairments in 2018.

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General and administrative expenses were \$2.2 million, or 22.7%, higher in the third quarter of 2019 as compared to 2018 primarily due to certain previously capitalized lease related costs that are now expensed upon adoption of the new lease accounting standard in 2019, executive retirement and consulting costs and severance costs associated with the anticipated closure of our Greensboro and Memphis division offices. We expect to record an additional \$1.5 million of severance costs in the fourth quarter of 2019.

Interest Expense

Interest expense was \$3.1 million, or 17.7%, higher in the third quarter of 2019 as compared to 2018 primarily due to higher average debt balances, higher average interest rates and lower capitalized interest.

Other Income/(Loss)

Other income/(loss) was \$0.6 million lower in the third quarter of 2019 as compared to 2018 primarily due to a loss on debt extinguishment in 2019.

Gains on Disposition of Property

Gains on disposition of property were \$3.5 million higher in the third quarter of 2019 as compared to 2018 due to the net effect of the disposition activity in such periods.

Equity in Earnings of Unconsolidated Affiliates

Equity in earnings of unconsolidated affiliates was \$0.4 million, or 64.0%, higher in the third quarter of 2019 as compared to 2018 primarily due to higher average occupancy.

Earnings Per Common Share - Diluted

Diluted earnings per common share was \$0.05 lower in the third quarter of 2019 as compared to 2018 due to a decrease in net income for the reasons discussed above.

Nine Months Ended September 30, 2019 and 2018

Laser Spine Institute

In the first quarter of 2019, we provided information on Laser Spine Institute, which occupied a 176,000 square-foot, six-story building with structured parking in Tampa's Westshore submarket, a BBD. The building, developed by us, had been used by Laser Spine Institute for both its company headquarters and an ambulatory surgery center. After the market closed on March 1, 2019, Laser Spine Institute announced it would immediately discontinue its operations. This unexpected announcement affected all of its locations nationwide. As a result of this sudden closure, we incurred \$5.6 million of credit losses on operating lease receivables and write-offs of \$2.3 million of lease incentives, \$4.1 million of notes receivable and \$11.6 million of tenant improvements and deferred leasing costs.

Rental and Other Revenues

Rental and other revenues were \$5.3 million, or 1.0%, higher in the nine months ended September 30, 2019 as compared to 2018 primarily due to development properties placed in service and higher same property revenues, which increased rental and other revenues by \$17.1 million and \$0.4 million, respectively. Same property rental and other revenues were higher primarily due to higher average GAAP rents per rentable square foot, higher parking income and higher cost recovery income, partly offset by credit losses on operating lease receivables and write-offs of lease incentives associated with the sudden closure of Laser Spine Institute. These increases were partly offset by property dispositions and lower restoration fees, which decreased rental and other revenues by \$8.2 million and \$3.8 million, respectively.

Operating Expenses

Rental property and other expenses were \$5.0 million, or 2.8%, higher in the nine months ended September 30, 2019 as compared to 2018 primarily due to higher same property operating expenses and development properties placed in service, which increased operating expenses by \$4.0 million and \$3.8 million, respectively. Same property operating expenses were higher

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primarily due to higher property taxes, repairs and maintenance and property insurance, partly offset by lower utilities. These increases were partly offset by a \$2.7 million decrease in operating expenses from property dispositions.

Depreciation and amortization was \$17.6 million, or 10.2%, higher in the nine months ended September 30, 2019 as compared to 2018 primarily due to accelerated depreciation and amortization of tenant improvements and deferred leasing costs associated with the sudden closure of Laser Spine Institute and development properties placed in service, partly offset by property dispositions.

We recorded aggregate impairments of real estate assets of \$5.8 million in the nine months ended September 30, 2019 primarily as a result of shortened hold periods from classifying all of our assets in Greensboro and Memphis as non-core. We recorded no such impairments in 2018.

General and administrative expenses were \$2.8 million, or 9.0%, higher in the nine months ended September 30, 2019 as compared to 2018 primarily due to certain previously capitalized lease related costs that are now expensed upon adoption of the new lease accounting standard in 2019 and higher company-wide base salaries and benefits, executive retirement and consulting costs and severance costs associated with the anticipated closure of our Greensboro and Memphis division offices, partly offset by lower incentive compensation and expensed pre-development costs. We expect to record an additional \$1.5 million of severance costs in the fourth quarter of 2019.

Interest Expense

Interest expense was \$5.9 million, or 11.0%, higher in the nine months ended September 30, 2019 as compared to 2018 primarily due to higher average debt balances, higher average interest rates and lower capitalized interest.

Other Income/(Loss)

Other income/(loss) was \$5.0 million lower in the nine months ended September 30, 2019 as compared to 2018 primarily due to the write-off of notes receivable associated with the sudden closure of Laser Spine Institute and losses on debt extinguishment in 2019.

Gains on Disposition of Property

Gains on disposition of property were \$6.8 million lower in the nine months ended September 30, 2019 as compared to 2018 due to the net effect of the disposition activity in such periods.

Equity in Earnings of Unconsolidated Affiliates

Equity in earnings of unconsolidated affiliates was \$0.7 million, or 44.4%, higher in the nine months ended September 30, 2019 as compared to 2018 primarily due to higher average occupancy.

Earnings Per Common Share - Diluted

Diluted earnings per common share was \$0.40 lower in the nine months ended September 30, 2019 as compared to 2018 due to a decrease in net income for the reasons discussed above.

Liquidity and Capital Resources

Statements of Cash Flows

We report and analyze our cash flows based on operating activities, investing activities and financing activities. The following table sets forth the changes in the Company's cash flows (in thousands):

	Nine Months Ended September 30,		Change
	2019	2018	
Net Cash Provided By Operating Activities	\$ 286,261	\$ 292,958	\$ (6,697)
Net Cash Used In Investing Activities	(250,260)	(290,904)	40,644
Net Cash Provided By/(Used In) Financing Activities	76,880	(78,108)	154,988
Total Cash Flows	\$ 112,881	\$ (76,054)	\$ 188,935

The decrease in net cash provided by operating activities in the nine months ended September 30, 2019 as compared to 2018 was primarily due to lower net cash from the settlement of cash flow hedges and property dispositions, partly offset by higher net cash from the operations of development properties placed in service and same properties and the timing of cash paid for operating expenses.

The decrease in net cash used in investing activities in the nine months ended September 30, 2019 as compared to 2018 was primarily due to higher acquisition activity and higher investments in development in-process in 2018, partly offset by non-refundable earnest money deposits for the acquisition of Bank of America Tower at Legacy Union in Charlotte.

The change in net cash provided by/(used in) financing activities in the nine months ended September 30, 2019 as compared to 2018 was primarily due to higher net debt borrowings in 2019.

Capitalization

The following table sets forth the Company's capitalization (in thousands, except per share amounts):

	September 30, 2019	December 31, 2018
Mortgages and notes payable, net, at recorded book value	\$ 2,322,226	\$ 2,085,831
Preferred Stock, at liquidation value	28,859	28,877
Common Stock outstanding	103,748	103,557
Common Units outstanding (not owned by the Company)	2,726	2,739
Per share stock price at period end	\$ 44.94	\$ 38.69
Market value of Common Stock and Common Units	\$ 4,784,942	\$ 4,112,592
Total capitalization	\$ 7,136,027	\$ 6,227,300

At September 30, 2019, our mortgages and notes payable and outstanding preferred stock represented 32.9% of our total capitalization and 37.4% of the undepreciated book value of our assets. See also "Executive Summary - Liquidity and Capital Resources."

Our mortgages and notes payable as of September 30, 2019 consisted of \$95.8 million of secured indebtedness with a weighted average interest rate of 4.0% and \$2,240.0 million of unsecured indebtedness with a weighted average interest rate of 3.67%. The secured indebtedness was collateralized by real estate assets with an undepreciated book value of \$146.3 million. As of September 30, 2019, \$250.0 million of our debt does not bear interest at fixed rates or is not protected by interest rate hedge contracts.

Investment Activity

In the normal course of business, we regularly evaluate potential acquisitions. As a result, from time to time, we may have one or more potential acquisitions under consideration that are in varying stages of evaluation, negotiation or due diligence, including potential acquisitions that are subject to non-binding letters of intent or enforceable contracts. Consummation of any transaction is subject to a number of contingencies, including the satisfaction of customary closing conditions. No assurances can be provided that we will acquire any properties in the future. See "Item 1A. Risk Factors - Recent and future acquisitions and development properties may fail to perform in accordance with our expectations and may require renovation and development costs exceeding our estimates" in our 2018 Annual Report on Form 10-K.

During the third quarter of 2019, we acquired development land in Raleigh for a purchase price, including capitalized acquisition costs, of \$6.6 million.

During the third quarter of 2019, we sold a building and land parcels for an aggregate sale price of \$14.3 million and recorded aggregate gains on disposition of property of \$3.5 million.

During the third quarter of 2019, we recorded aggregate impairments of real estate assets of \$5.3 million as a result of shortened hold periods from classifying all of our assets in Greensboro and Memphis as non-core.

During the third quarter of 2019, we announced a series of planned investment activities. First, we have agreed to acquire Bank of America Tower at Legacy Union in Charlotte's uptown CBD submarket for a total investment of \$436 million. Bank of America Tower at Legacy Union is a trophy, LEED gold-registered office building encompassing 841,000 square feet with structured parking that delivers this year. The acquisition is scheduled to close in November 2019. We have posted earnest money deposits totaling \$50 million that are non-refundable except in limited circumstances. Second, we have a two-phased plan to exit the Greensboro and Memphis markets. The first phase consists of selling a select portfolio of assets in Greensboro and Memphis by mid-2020 with a total sales price that approximates the \$436 million total investment for Bank of America Tower at Legacy Union and closing the division offices. We can provide no assurances, however, that we will dispose of any of these assets on favorable terms, or at all, because the dispositions are subject to the negotiation and execution of definitive and binding purchase and sale agreements and would then be subject to the buyers' completion of satisfactory due diligence and other customary closing conditions. The second phase is the planned sale of the remaining assets in both markets. There is no pre-determined timetable for the second phase.

As of September 30, 2019, we were developing 0.9 million rentable square feet of office properties. The following table summarizes these announced and in-process office developments:

Property	Market	Rentable Square Feet	Anticipated Total Investment (1)	Investment As Of September 30, 2019 (1)	Pre Leased %	Estimated Completion	Estimated Stabilization
(\$ in thousands)							
GlenLake Seven (2)	Raleigh	125,700	\$ 40,970	\$ 12,729	44.1%	3Q20	4Q21
Virginia Springs II	Nashville	111,000	37,900	7,681	—	4Q20	3Q22
Midtown One (3)	Tampa	150,000	71,300	19,602	—	2Q21	4Q22
Asurion	Nashville	552,800	285,000	82,573	98.3	4Q21	1Q22
		939,500	\$ 435,170	\$ 122,585	63.7%		

(1) Includes deferred lease commissions which are classified in deferred leasing costs on our Consolidated Balance Sheets.

(2) Our corporate and Raleigh market personnel plan to occupy approximately 45,500 square feet.

(3) We own an 80.0% interest in this consolidated joint venture.

Financing Activity

We have entered into separate equity distribution agreements with each of Wells Fargo Securities, LLC, Robert W. Baird & Co. Incorporated, BB&T Capital Markets, a division of BB&T Securities, LLC, Merrill Lynch, Pierce, Fenner & Smith Incorporated, BTIG, LLC, Capital One Securities, Inc., Fifth Third Securities, Inc., Jefferies LLC and J.P. Morgan Securities LLC. Under the terms of the equity distribution agreements, the Company may offer and sell up to \$300.0 million in aggregate gross sales price of shares of Common Stock from time to time through such firms, acting as agents of the Company or as principals. Sales of the shares, if any, may be made by means of ordinary brokers' transactions on the New York Stock Exchange ("NYSE") or otherwise

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at market prices prevailing at the time of sale, at prices related to prevailing market prices or at negotiated prices or as otherwise agreed with any of such firms.

Our \$600.0 million unsecured revolving credit facility is scheduled to mature in January 2022 and includes an accordion feature that allows for an additional \$400.0 million of borrowing capacity subject to additional lender commitments. Assuming no defaults have occurred, we have an option to extend the maturity for two additional six-month periods. The interest rate at our current credit ratings is LIBOR plus 100 basis points and the annual facility fee is 20 basis points. The interest rate and facility fee are based on the higher of the publicly announced ratings from Moody's Investors Service or Standard & Poor's Ratings Services. There were no amounts outstanding under our revolving credit facility at both September 30, 2019 and October 15, 2019. At both September 30, 2019 and October 15, 2019, we had \$0.1 million of outstanding letters of credit, which reduces the availability on our revolving credit facility. As a result, the unused capacity of our revolving credit facility at both September 30, 2019 and October 15, 2019 was \$599.9 million.

During the third quarter of 2019, the Operating Partnership issued \$400.0 million aggregate principal amount of 3.050% notes due February 2030, less original issuance discount of \$1.0 million. These notes were priced to yield 3.079%. During the third quarter of 2019, prior to the issuance of the 3.050% notes, we obtained \$150.0 million notional amount of forward-starting swaps. Upon the subsequent issuance of the notes, we terminated the forward-starting swaps and paid cash upon settlement. The unrealized loss of \$6.6 million in accumulated other comprehensive income/(loss) will be reclassified to interest expense as interest payments are made on the debt. Underwriting fees and other expenses were incurred that aggregated \$3.4 million; these costs were deferred and will be amortized over the term of the notes. The net effect of the amortization of these items resulted in an effective fixed interest rate of 3.37%.

During the third quarter of 2019, we prepaid without penalty \$100.0 million of our \$200.0 million unsecured bank term loan that is scheduled to mature in January 2022. The interest rate on the term loan at our current credit ratings is LIBOR plus 110 basis points. We recorded \$0.3 million of loss on debt extinguishment related to this prepayment.

We are currently in compliance with financial covenants and other requirements with respect to our consolidated debt. Although we expect to remain in compliance with these covenants and ratios for at least the next year, depending upon our future operating performance, property and financing transactions and general economic conditions, we cannot assure you that we will continue to be in compliance.

Our revolving credit facility and bank term loans require us to comply with customary operating covenants and various financial requirements. Upon an event of default on the revolving credit facility, the lenders having at least 51.0% of the total commitments under the revolving credit facility can accelerate all borrowings then outstanding, and we could be prohibited from borrowing any further amounts under our revolving credit facility, which would adversely affect our ability to fund our operations. In addition, certain of our unsecured debt agreements contain cross-default provisions giving the unsecured lenders the right to declare a default if we are in default under more than \$30.0 million with respect to other loans in some circumstances.

The indenture that governs the Operating Partnership's outstanding notes requires us to comply with customary operating covenants and various financial ratios. The trustee or the holders of at least 25.0% in principal amount of any series of notes can accelerate the principal amount of such series upon written notice of a default that remains uncured after 60 days.

We may not be able to repay, refinance or extend any or all of our debt at maturity or upon any acceleration. If any refinancing is done at higher interest rates, the increased interest expense could adversely affect our cash flow and ability to pay distributions. Any such refinancing could also impose tighter financial ratios and other covenants that restrict our ability to take actions that could otherwise be in our best interest, such as funding new development activity, making opportunistic acquisitions, repurchasing our securities or paying distributions.

Dividends and Distributions

To maintain its qualification as a REIT, the Company must pay dividends to stockholders that are at least 90.0% of its annual REIT taxable income, excluding net capital gains. The partnership agreement requires the Operating Partnership to distribute at least enough cash for the Company to be able to pay such dividends. The Company's REIT taxable income, as determined by the federal tax laws, does not equal its net income under accounting principles generally accepted in the United States of America ("GAAP"). In addition, although capital gains are not required to be distributed to maintain REIT status, capital gains, if any, are subject to federal and state income tax unless such gains are distributed to stockholders.

Cash dividends and distributions reduce the amount of cash that would otherwise be available for other business purposes, including funding debt maturities, reducing debt or future growth initiatives. The amount of future distributions that will be made is at the discretion of the Company's Board of Directors. For a discussion of the factors that will affect such cash flows and,

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accordingly, influence the decisions of the Company's Board of Directors regarding dividends and distributions, see "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations - Liquidity and Capital Resources - Dividends and Distributions" in our 2018 Annual Report on Form 10-K.

During the third quarter of 2019, the Company declared and paid a cash dividend of \$0.475 per share of Common Stock.

On October 17, 2019, the Company declared a cash dividend of \$0.475 per share of Common Stock, which is payable on December 3, 2019 to stockholders of record as of November 11, 2019.

Current and Future Cash Needs

We anticipate that our available cash and cash equivalents, cash flows from operating activities and other available financing sources, including the issuance of debt securities by the Operating Partnership, the issuance of secured debt, bank term loans, borrowings under our revolving credit facility, the issuance of equity securities by the Company or the Operating Partnership and the disposition of non-core assets, will be adequate to meet our short-term liquidity requirements.

We had \$116.7 million of cash and cash equivalents as of September 30, 2019. The unused capacity of our revolving credit facility at both September 30, 2019 and October 15, 2019 was \$599.9 million, excluding an accordion feature that allows for an additional \$400.0 million of borrowing capacity subject to additional lender commitments.

We have a currently effective automatic shelf registration statement on Form S-3 with the SEC pursuant to which, at any time and from time to time, in one or more offerings on an as-needed basis, the Company may sell an indefinite amount of common stock, preferred stock and depositary shares and the Operating Partnership may sell an indefinite amount of debt securities, subject to our ability to effect offerings on satisfactory terms based on prevailing market conditions.

The Company from time to time enters into equity distribution agreements with a variety of firms pursuant to which the Company may offer and sell shares of common stock from time to time through such firms, acting as agents of the Company or as principals. Sales of the shares, if any, may be made by means of ordinary brokers' transactions on the NYSE or otherwise at market prices prevailing at the time of sale, at prices related to prevailing market prices or at negotiated prices or as otherwise agreed with any of such firms (which may include block trades).

Critical Accounting Estimates

There were no changes made by management to the critical accounting policies in the nine months ended September 30, 2019 other than the new lease standard adoption effective January 1, 2019, which changed our policy with respect to estimating credit losses on operating lease receivables. For a description of this policy, see Note 2 to our Consolidated Financial Statements. For a description of all other critical accounting estimates, see "Management's Discussion and Analysis of Financial Condition and Results of Operations - Critical Accounting Estimates" in our 2018 Annual Report on Form 10-K.

Non-GAAP Information

The Company believes that FFO, FFO available for common stockholders and FFO available for common stockholders per share are beneficial to management and investors and are important indicators of the performance of any equity REIT. Because these FFO calculations exclude such factors as depreciation, amortization and impairments of real estate assets and gains or losses from sales of operating real estate assets, which can vary among owners of identical assets in similar conditions based on historical cost accounting and useful life estimates, they facilitate comparisons of operating performance between periods and between other REITs. Management believes that historical cost accounting for real estate assets in accordance with GAAP implicitly assumes that the value of real estate assets diminishes predictably over time. Since real estate values have historically risen or fallen with market conditions, management believes the use of FFO, FFO available for common stockholders and FFO available for common stockholders per share, together with the required GAAP presentations, provides a more complete understanding of the Company's performance relative to its competitors and a more informed and appropriate basis on which to make decisions involving operating, financing and investing activities.

FFO, FFO available for common stockholders and FFO available for common stockholders per share are non-GAAP financial measures and therefore do not represent net income or net income per share as defined by GAAP. Net income and net income per share as defined by GAAP are the most relevant measures in determining the Company's operating performance because these FFO measures include adjustments that investors may deem subjective, such as adding back expenses such as depreciation, amortization and impairments. Furthermore, FFO available for common stockholders per share does not depict the amount that accrues directly to the stockholders' benefit. Accordingly, FFO, FFO available for common stockholders and FFO available for common stockholders per share should never be considered as alternatives to net income, net income available for common stockholders, or net income available for common stockholders per share as indicators of the Company's operating performance.

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The Company's presentation of FFO is consistent with FFO as defined by the National Association of Real Estate Investment Trusts, which is calculated as follows:

- Net income/(loss) computed in accordance with GAAP;
- Less net income attributable to noncontrolling interests in consolidated affiliates;
- Plus depreciation and amortization of depreciable operating properties;
- Less gains, or plus losses, from sales of depreciable operating properties, plus impairments on depreciable operating properties and excluding items that are classified as extraordinary items under GAAP;
- Plus or minus our share of adjustments, including depreciation and amortization of depreciable operating properties, for unconsolidated joint venture investments (to reflect funds from operations on the same basis); and
- Plus or minus adjustments for depreciation and amortization and gains/(losses) on sales of depreciable operating properties, plus impairments on depreciable operating properties, and noncontrolling interests in consolidated affiliates related to discontinued operations.

In calculating FFO, the Company includes net income attributable to noncontrolling interests in the Operating Partnership, which the Company believes is consistent with standard industry practice for REITs that operate through an UPREIT structure. The Company believes that it is important to present FFO on an as-converted basis since all of the Common Units not owned by the Company are redeemable on a one-for-one basis for shares of its Common Stock.

The following table sets forth the Company's FFO, FFO available for common stockholders and FFO available for common stockholders per share (in thousands, except per share amounts):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Funds from operations:				
Net income	\$ 29,557	\$ 35,009	\$ 79,337	\$ 122,253
Net (income) attributable to noncontrolling interests in consolidated affiliates	(297)	(324)	(919)	(918)
Depreciation and amortization of real estate assets	60,145	56,904	187,347	169,693
Impairments of depreciable properties	1,400	—	1,400	—
(Gains) on disposition of depreciable properties	(2,580)	—	(9,283)	(16,433)
Unconsolidated affiliates:				
Depreciation and amortization of real estate assets	632	597	1,834	1,673
Funds from operations	88,857	92,186	259,716	276,268
Dividends on Preferred Stock	(622)	(623)	(1,866)	(1,869)
Funds from operations available for common stockholders	\$ 88,235	\$ 91,563	\$ 257,850	\$ 274,399
Funds from operations available for common stockholders per share	\$ 0.83	\$ 0.86	\$ 2.42	\$ 2.58
Weighted average shares outstanding (1)	106,471	106,333	106,425	106,256

(1) Includes assumed conversion of all potentially dilutive Common Stock equivalents.

In addition, the Company believes NOI and same property NOI are useful supplemental measures of the Company's property operating performance because such metrics provide a performance measure of the revenues and expenses directly involved in owning real estate assets and a perspective not immediately apparent from net income or FFO. The Company defines NOI as rental and other revenues less rental property and other expenses. The Company defines cash NOI as NOI less lease termination fees, straight-line rent, amortization of lease incentives and amortization of acquired above and below market leases. Other REITs may use different methodologies to calculate NOI, same property NOI and cash NOI.

As of September 30, 2019, our same property portfolio consisted of 210 in-service properties encompassing 28.7 million rentable square feet that were wholly owned during the entirety of the periods presented (from January 1, 2018 to September 30, 2019). As of December 31, 2018, our same property portfolio consisted of 210 in-service properties encompassing 28.1 million rentable square feet that were wholly owned during the entirety of the periods presented (from January 1, 2017 to December 31,

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2018). The change in our same property portfolio was due to the addition of three newly developed properties encompassing 0.8 million rentable square feet placed in service during 2017. These additions were offset by the removal of three properties encompassing 0.2 million rentable square feet that were sold during 2019.

Rental and other revenues related to properties not in our same property portfolio were \$12.3 million and \$8.6 million for the three months ended September 30, 2019 and 2018, respectively, and \$32.7 million and \$27.9 million for the nine months ended September 30, 2019 and 2018, respectively. Rental property and other expenses related to properties not in our same property portfolio were \$3.2 million and \$2.7 million for the three months ended September 30, 2019 and 2018, respectively, and \$9.0 million and \$8.0 million for the nine months ended September 30, 2019 and 2018, respectively.

The following table sets forth the Company's NOI and same property NOI (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Net income	\$ 29,557	\$ 35,009	\$ 79,337	\$ 122,253
Equity in earnings of unconsolidated affiliates	(940)	(573)	(2,369)	(1,641)
Gains on disposition of property	(3,515)	(3)	(10,218)	(16,975)
Other (income)/loss	(174)	(818)	3,271	(1,735)
Interest expense	20,527	17,437	59,622	53,705
General and administrative expenses	11,717	9,551	33,658	30,869
Impairments of real estate assets	5,318	—	5,849	—
Depreciation and amortization	60,850	57,661	189,514	171,923
Net operating income	123,340	118,264	358,664	358,399
Non same property and other net operating income	(9,091)	(5,864)	(23,766)	(19,893)
Same property net operating income	<u>\$ 114,249</u>	<u>\$ 112,400</u>	<u>\$ 334,898</u>	<u>\$ 338,506</u>
Same property net operating income	\$ 114,249	\$ 112,400	\$ 334,898	\$ 338,506
Lease termination fees, straight-line rent and other non-cash adjustments	(5,889)	(4,577)	(9,447)	(17,197)
Same property cash net operating income	<u>\$ 108,360</u>	<u>\$ 107,823</u>	<u>\$ 325,451</u>	<u>\$ 321,309</u>

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The effects of potential changes in interest rates are discussed below. Our market risk discussion includes “forward-looking statements” and represents an estimate of possible changes in fair value or future earnings that would occur assuming hypothetical future movements in interest rates. Actual future results may differ materially from those presented. See “Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations - Liquidity and Capital Resources” and the Notes to Consolidated Financial Statements for a description of our accounting policies and other information related to these financial instruments.

We borrow funds at a combination of fixed and variable rates. Borrowings under our revolving credit facility and bank term loans bear interest at variable rates. Our long-term debt, which consists of secured and unsecured long-term financings, typically bears interest at fixed rates. Our interest rate risk management objectives are to limit generally the impact of interest rate changes on earnings and cash flows and lower our overall borrowing costs. To achieve these objectives, from time to time we enter into interest rate hedge contracts such as collars, swaps, caps and treasury lock agreements in order to mitigate our interest rate risk with respect to existing and prospective debt instruments. We generally do not hold or issue these derivative contracts for trading or speculative purposes.

At September 30, 2019, we had \$2,035.8 million principal amount of fixed rate debt outstanding, a \$747.8 million increase as compared to December 31, 2018, excluding debt with a variable rate that is effectively fixed by related interest rate hedge contracts. The estimated aggregate fair market value of this debt was \$2,103.8 million. If interest rates had been 100 basis points higher, the aggregate fair market value of our fixed rate debt would have been \$128.0 million lower. If interest rates had been 100 basis points lower, the aggregate fair market value of our fixed rate debt would have been \$139.4 million higher.

At September 30, 2019, we had \$250.0 million of variable rate debt outstanding, a \$282.0 million decrease as compared to December 31, 2018, not protected by interest rate hedge contracts. If the weighted average interest rate on this variable rate debt had been 100 basis points higher or lower, the annual interest expense at September 30, 2019 would increase or decrease by \$2.5 million.

At September 30, 2019, we had \$50.0 million of variable rate debt outstanding with \$50.0 million of related floating-to-fixed interest rate swaps. These swaps effectively fix the underlying one-month LIBOR rate at a weighted average rate of 1.693%. If the underlying LIBOR interest rates increase or decrease by 100 basis points, the aggregate fair market value of the swaps at September 30, 2019 would increase or decrease by \$1.1 million.

We are exposed to certain losses in the event of nonperformance by the counterparties, which are major financial institutions, under the swaps. We regularly evaluate the financial condition of our counterparties using publicly available information. Based on this review, we currently expect the counterparties to perform fully under the swaps. However, if a counterparty defaults on its obligations under a swap, we could be required to pay the full rates on the applicable debt, even if such rates were in excess of the rate in the contract.

ITEM 4. CONTROLS AND PROCEDURES

SEC rules require us to maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in our annual and periodic reports filed with the SEC is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management to allow for timely decisions regarding required disclosure. The Company's CEO and CFO have concluded that the disclosure controls and procedures of the Company and the Operating Partnership were each effective at the end of the period covered by this Quarterly Report.

SEC rules also require us to establish and maintain internal control over financial reporting designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. There were no changes in internal control over financial reporting during the three months ended September 30, 2019 that materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting. There were also no changes in internal control over financial reporting during the three months ended September 30, 2019 that materially affected, or are reasonably likely to materially affect, the Operating Partnership's internal control over financial reporting.

PART II - OTHER INFORMATION

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

During the third quarter of 2019, the Company issued an aggregate of 5,000 shares of Common Stock to holders of Common Units in the Operating Partnership upon the redemption of a like number of Common Units in private offerings exempt from the registration requirements pursuant to Section 4(2) of the Securities Act. Each of the holders of Common Units was an accredited investor under Rule 501 of the Securities Act. The resale of such shares was registered by the Company under the Securities Act.

ITEM 5. OTHER INFORMATION

Edward J. Fritsch, 60, retired as Chief Executive Officer and member of the Company's Board of Directors effective September 1, 2019. Theodore J. Klinck, 53, assumed the role of Chief Executive Officer and director upon Mr. Fritsch's retirement. Mr. Klinck has served as President since November 2018 and Chief Operating Officer since September 2015. Prior to that, Mr. Klinck served as the Company's Senior Vice President and Chief Investment Officer. Before joining Highwoods in March 2012, Mr. Klinck served as principal and chief investment officer with Goddard Investment Group, a privately-owned real estate investment firm. Previously, Mr. Klinck had been a managing director at Morgan Stanley Real Estate.

Effective September 1, 2019, Mr. Klinck's annual base salary was increased from \$457,980 to \$625,000 and his target annual incentive percentage under our annual non-equity incentive program was increased from 95% to 130%. On September 1, 2019, Mr. Klinck received an additional grant of long-term equity incentive awards valued at approximately \$0.3 million. The mix of such awards was 50% in time-based restricted stock and 50% in total return-based restricted stock. The shares of time-based restricted stock will vest ratably on an annual basis generally over a four-year term. With respect to shares of total return-based restricted stock granted to Mr. Klinck, the historical total return period will be the same as shares of total return-based restricted stock granted on March 1, 2019 and dividends will accumulate and be payable only if and to the extent the shares vest. Beginning in 2020, Mr. Klinck will be eligible to receive long-term equity incentive awards in amount equal to 275% of his annual base salary.

Mr. Fritsch was eligible to retire under our retirement plan pursuant to which he is entitled to receive a pro rata amount of the annual non-equity incentive compensation earned during 2019. In addition, stock options and time-based restricted stock will be non-forfeitable and vest according to the terms of their original grants. Mr. Fritsch will also be entitled to retain any total return-based restricted stock that subsequently vests after his retirement date according to the terms of their original grants. See our 2019 proxy statement for estimated information regarding the benefits Mr. Fritsch would have received had he retired as of December 31, 2018. Because Mr. Fritsch previously met the age and service eligibility requirements under the retirement plan, 100% of his annual long-term equity incentive awards were expensed at the grant date as if fully vested.

Mr. Fritsch has also agreed to provide consulting services for two years after his retirement and the Company has agreed to reimburse Mr. Fritsch for the costs of health plan coverage for him and his family until he becomes eligible for Medicare. Such consulting fees and health plan reimbursements are projected to aggregate \$0.7 million, which were required under GAAP to be recorded in the third quarter of 2019.

We also announced that Brendan C. Maiorana, 43, has been promoted to Executive Vice President of Finance and Investor Relations and Brian M. Leary, 45, joined the Company as Executive Vice President and Chief Operating Officer.

Mr. Maiorana joined us in May 2016 as Senior Vice President of Finance and Investor Relations. He will continue to report directly to Mark F. Mulhern, 59, the Company's Executive Vice President and Chief Financial Officer. Prior to joining Highwoods, Mr. Maiorana spent 11 years in Equity Research at Wells Fargo Securities, starting as an Associate Equity Research Analyst. Prior to that, he worked four years at Ernst & Young LLP as a senior auditor. He is a graduate of Rutgers University with a BS in accounting and has an MBA from the University of North Carolina Kenan-Flagler Business School.

Mr. Leary joined us on July 15, 2019 as Executive Vice President and Chief Operating Officer, reporting directly to Mr. Klinck. Previously, he served as president of the commercial and mixed-use business unit of Crescent Communities since 2014. Prior to joining Crescent, Mr. Leary held senior management positions with Jacoby Development, Inc., Atlanta Beltline, Inc., AIG Global Real Estate, Atlantic Station, LLC and Central Atlanta Progress. Mr. Leary is a graduate of the Georgia Institute of Technology's College of Architecture with a BS in architecture with minor concentrations in land development and real estate. He also holds a master's degree in City Planning from Georgia Tech.

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On July 19, 2019, we entered into change in control agreements with each of Messrs. Maiorana and Leary on terms substantially similar to the change in control agreements we have in effect with our other executive officers. Mr. Leary's compensation arrangement is substantially similar to what the Company has provided to Mr. Klinck in his role as Chief Operating Officer. Information about the compensation of the Company's Chief Operating Officer is incorporated herein by reference to the Company's Proxy Statement filed in connection with its annual meeting of stockholders held on May 8, 2019.

ITEM 6. EXHIBITS

Exhibit Number	Description
4.1	Form of 3.050% Notes due February 15, 2030 (filed as part of the Company's Current Report on Form 8-K dated September 13, 2019)
4.2	Officers' Certificate Establishing the Terms of the 3.050% Notes, dated September 13, 2019 (filed as part of the Company's Current Report on Form 8-K dated September 13, 2019)
10.1	Executive Supplemental Employment Agreement, dated as of July 19, 2019, between the Company and Brendan C. Maiorana (filed as part of the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2019)
10.2	Executive Supplemental Employment Agreement, dated as of July 19, 2019, between the Company and Brian M. Leary (filed as part of the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2019)
10.3	Retirement Agreement, dated as of September 5, 2019, between the Company and Edward J. Fritsch
31.1	Certification of CEO Pursuant to Section 302 of the Sarbanes-Oxley Act for the Company
31.2	Certification of CFO Pursuant to Section 302 of the Sarbanes-Oxley Act for the Company
31.3	Certification of CEO Pursuant to Section 302 of the Sarbanes-Oxley Act for the Operating Partnership
31.4	Certification of CFO Pursuant to Section 302 of the Sarbanes-Oxley Act for the Operating Partnership
32.1	Certification of CEO Pursuant to Section 906 of the Sarbanes-Oxley Act for the Company
32.2	Certification of CFO Pursuant to Section 906 of the Sarbanes-Oxley Act for the Company
32.3	Certification of CEO Pursuant to Section 906 of the Sarbanes-Oxley Act for the Operating Partnership
32.4	Certification of CFO Pursuant to Section 906 of the Sarbanes-Oxley Act for the Operating Partnership
101.INS	The instance document does not appear in the interactive data file because its XBRL tags are embedded within the inline XBRL document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Extension Labels Linkbase
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

(a) Employee shall receive earned but unpaid pay through the Retirement Date, along with payment for any accrued but unused vacation, less applicable deductions and withholdings, payable on the next regularly scheduled bi-weekly pay date following the Retirement Date. Highwoods will continue Employee's health insurance benefits through the Retirement Date. In addition, subject to Employee's continuing compliance with his agreements under Section 2 of this Agreement, Highwoods acknowledges and confirms that Employee is eligible for benefits under the Company's Retirement Plan, which was adopted and became effective as of March 1, 2006. Without limitation of the foregoing, subject to Employee's continuing compliance with his agreements under Section 2 of this Agreement, (i) the Exercisability Benefit shall apply to all Stock Options held by Employee as of the Retirement Date and (ii) the Vesting Benefit shall apply to all shares of Time-Based Restricted Stock and Performance-Based Restricted Stock held by Employee as of the Retirement Date. Highwoods further acknowledges that the Committee has provided Consent to a waiver by Highwoods of the requirement that Employee provide a Notice of Intent to Retire at least 12 calendar months prior to the Retirement Date. Capitalized terms used but not defined herein shall have the meaning set forth in the Retirement Plan.

(b) (i) If Employee timely elects and timely submits all necessary paperwork to the appropriate entity for continuing healthcare coverage through COBRA, Highwoods shall cover the cost of such COBRA coverage from the Retirement Date through March 1, 2021 for Employee, Employee's spouse, and each of Employee's dependents unless and until any such dependent's 26th birthday. It is and shall remain Employee's obligation to timely elect and timely submit all necessary paperwork to the appropriate entity for the COBRA coverage. Highwoods shall provide Employee with access to and support from Highwoods employees who will provide guidance to Employee on deadlines by which he must elect COBRA, the process, methods, and forms to elect COBRA, and to answer questions Employee may have about the COBRA election and payment processes.

(ii) On March 1, 2021, and on each March 1 thereafter, the Company shall make a cash payment to Employee equal to the premium to be paid by Employee for one year of health plan coverage for Employee, Employee's spouse, and each of Employee's dependents that are under 26 years of age, that is the most commercially reasonable coverage that closely aligns with the health plan coverage provided to Employee, Employee's spouse, and Employee's dependents on the Retirement Date (as reasonably determined in good faith by the Company in consultation with Employee, but in no event less than the premium that would apply if the coverage for such period were provided under COBRA). Notwithstanding the foregoing, if any of Employee, Employee's spouse, or Employee's dependents is expected to become eligible for Medicare during any such one-year period, the payment for such period shall be reduced to reflect that coverage for such individual is intended to continue only through the date he or she becomes eligible for Medicare. In the event of Employee's death prior to the cessation of payments under this Section 1(b)(ii), such payments shall continue to be made with respect to coverage for Employee's spouse and each of Employee's dependents that are under 26 years of age.

(iii) Any and all payments made by the Company under subsection (ii) shall be grossed-up for federal and state tax purposes, with such gross-up being paid at the same time as the payments described above. If the Company determines that the benefits provided to Employee under subsection (i) are taxable to the Employee pursuant to Section 105(h) of the Internal Revenue Code or otherwise, the Company shall gross-up the taxable value of such benefits for federal and state tax purposes, with such gross-ups being paid on March 1, 2020 and March 1, 2021, as applicable.

(c) On the Retirement Date, Highwoods will transfer to Employee the following motor vehicle:

Make:	Chevrolet
Model:	Silverado
Body Type:	Pickup Truck
Year:	2015
VIN:	3GCPCTE02CG292038

Employee takes the vehicle "as-is" without any warranties, express or implied, as to its condition. The parties agree that the fair market value of the vehicle as of the Retirement Date is \$15,290.00 (using the appraised value of the vehicle according to the Wake County Revenue Department). Employee understands that such fair market value will be reflected on Employee's W-2 for the 2019 calendar year.

(d) After Employee's retirement, Highwoods shall continue to provide Employee, for an indefinite duration, reasonable administrative support to aid Employee in performing his nonprofit civic activities, including information technology and marketing administrative support; provided, however, that (i) such administrative support does not materially interfere with any Highwoods activities and (ii) Highwoods shall not be required to incur any expenses related thereto other than routine ordinary expenses for personnel and technology that Highwoods would reasonably incur regardless of the support provided to Employee. Highwoods acknowledges and agrees Employee may continue to refer to Highwoods and to Employee's roles with Highwoods in the performance of his nonprofit civic activities. In addition, Highwoods shall continue to provide Employee with access to information in the Company's possession regarding his holdings of outstanding common stock, restricted stock and stock options.

(e) **Full and General Release of Liability:** In consideration of this Agreement, and the promises provided for in Section 2, the sufficiency of which is hereby acknowledged, Highwoods hereby forever **WAIVES, RELEASES, AND DISCHARGES** Employee from any and all liability, actions, claims,

demands, or lawsuits in law or in equity which Highwoods may have had, presently has, or in the future may have, against Employee by reason of any act, omission, transaction or event from the beginning of time through the date of this Agreement, including but not limited to those arising out of or relating to Employee's employment with Highwoods, provided, however, that Highwoods is not releasing Employee from any claims arising from facts or circumstances which Employee has concealed from Highwoods or from any claims arising from any criminal or fraudulent acts or omissions by Employee. This release, waiver and discharge applies to any and all claims against Employee, known or unknown, arising under contract or under federal, state, or local statutory or common (including civil tort) law, which have been asserted or which could have been asserted to the maximum extent permitted by law, without limitation or exception, other than for breach of this Agreement.

It is expressly understood and agreed by the parties that this Agreement is in full accord, satisfaction, and discharge of any and all doubtful or disputed claims by Highwoods against Employee, and this Agreement has been signed with the express intent of extinguishing all claims, obligations, actions, or causes of action as herein described.

2. **Employee's Agreements:**

(a) **Full and General Release of Liability:** In consideration of this Agreement, and the benefits and promises provided for in Section 1, the sufficiency of which is hereby acknowledged, Employee hereby forever **WAIVES, RELEASES, AND DISCHARGES** Highwoods and all of its current and past insurers, attorneys, fiduciaries, current and former officers, directors, partners, employees, agents, successors, assigns, subsidiary and parent companies, and all other entities affiliated with or related to it, without limitation, exception, or reservation (collectively, the "Released Parties"), from any and all liability, actions, claims, demands, or lawsuits in law or in equity which Employee may have had, presently has, or in the future may have, against any one or all of the Released Parties by reason of any act, omission, transaction or event from the beginning of time through the date of this Agreement, including but not limited to those arising out of or relating to Employee's employment with Highwoods. This release, waiver and discharge applies to any and all claims against Highwoods, known or unknown, arising under contract or under federal, state, or local statutory or common (including civil tort) law, which have been asserted or which could have been asserted including, but not limited to, any and all claims of race, sex, national origin, religious, disability, or age discrimination, harassment and/or retaliation under Title VII of the Civil Rights Act of 1964 (as amended), the Civil Rights Act of 1991, the Older Workers Benefit Protection Act, 42 U.S.C. § 1981, the Age Discrimination in Employment Act, the Americans with Disabilities Act, the Rehabilitation Act, any claims pursuant to the Family and Medical Leave Act, the Equal Pay Act, the Occupational Safety and Health Act, the Employee Retirement Income Security Act ("ERISA"), the Consolidated Omnibus Budget Reconciliation Act ("COBRA"), 42 U.S.C. § 1983, 42 U.S.C. § 1988, any claims of retaliation pursuant to the Fair Labor Standards Act and/or North Carolina Workers' Compensation Act, state statutory and common law, including but not limited to any claims for breach of contract, tortious interference with business expectancy, outrage, negligent infliction of emotional distress, defamation, and/or wrongful discharge in violation of public policy, and any other federal, state, or local laws, including common law, to the maximum extent permitted by law, without limitation or exception, other than for breach of this Agreement.

Employee also understands and agrees that this Agreement extinguishes all claims, whether known or unknown, foreseen or unforeseen, and expressly waives any rights or benefits under any law or judicial decision that provides in substance or effect that a general release does not extend to claims that the creditor does not know or suspect to exist in his favor at the time of executing the general release.

It is expressly understood and agreed by the parties that this Agreement is in full accord, satisfaction, and discharge of any and all doubtful or disputed claims by Employee against the Released Parties, and this

Agreement has been signed with the express intent of extinguishing all claims, obligations, actions, or causes of action as herein described.

Highwoods hereby acknowledges that nothing herein shall be construed in any way to limit its obligations to indemnify Employee as more fully set forth in Article IX of the Company's Amended and Restated Charter, which is attached as Schedule 2 (a). The Company hereby affirms that its obligations to indemnify Employee to the extent set forth in Article IX of the Company's Amended and Restated Charter shall continue after the Retirement Date for an infinite duration.

(b) **Return of Highwoods' Property:** Employee understands and agrees that on or before the Retirement Date, he will turn over to Highwoods all originals and all copies of all lists, files, memoranda, records, reports, credit cards, policies, handbooks, and other documents or information, whether tangible, on computer or otherwise, which Employee received from Highwoods which is the property of Highwoods or which Employee prepared, copied or caused to be prepared or copied, or otherwise received in connection with Employee's employment with Highwoods; provided, however, that Employee may retain the personal mobile device and laptop computer currently used by Employee in the course of his employment. Subsequent to the Retirement Date, notwithstanding his retention of such technology equipment, Employee shall have no access to the Company's technology networks and other systems (except Employee shall be permitted continued use of his ed.fritsch@highwoods.com e-mail account for 45 days subsequent to the Retirement Date in the manner and subject to the conditions imposed by the Company's Chief Information Officer). Any requests for reimbursement of business-related expenses incurred by Employee during the course of Employee's employment must be submitted to Highwoods in accordance with existing policies and procedures of Highwoods no later than December 31, 2019.

(c) **Confidential Business Information:** Employee acknowledges that Employee knows confidential business information relating to Highwoods and its affiliated and related entities and their respective operations that is proprietary in nature, confidential to Highwoods, and not generally known to the public. Such "confidential business information" includes information, whether obtained in writing, in conversation, or otherwise, concerning corporate strategy, intent and plans, business operations, financing, customers and potential customers, customer leases, pricing, costs, budgets, equipment, the status, scope and terms of pending negotiations, transactions, contracts and obligations, and corporate and financial reports. Such confidential and/or trade secret information does not, however, include information in the public domain unless Employee has, without authority, made it public. For so long as the information remains confidential, Employee agrees: (1) not to disclose such information to anyone; (2) to keep such information confidential; (3) to take appropriate precautions to maintain the confidentiality of such information; and (4) not to use such information for personal benefit or the benefit of any customer or competitor of Highwoods or any other person. If Employee is required to disclose information pursuant to a court order or other government process or such disclosure is necessary to comply with applicable law or defend against such claims, then Employee shall: (a) notify Highwoods promptly before any such disclosure is made; (b) at Highwoods' request and expense, take all reasonably necessary steps to defend against such process or claims; and (c) refrain from opposing Highwoods' participation with counsel of its choice in any proceeding relating to any such court order, other government process or claims.

(d) **Employee Acknowledgements:** Employee acknowledges that as of the date Employee signed this Agreement, Employee: (1) has not suffered a work-related injury that has not be properly disclosed to Highwoods; (2) has been paid in full all wages due and owing to Employee for any and all work performed for Highwoods (except for wages scheduled to be paid to Employee in the next succeeding payroll period); (3) has not exercised any actual or apparent authority by or on behalf of Highwoods; (4) to Employee's knowledge, Employee has not entered into any agreements, whether written or otherwise, with any of Highwoods' employees (current and former) and/or third parties that could legally bind Highwoods that were

beyond the scope of Employee's authority in his role with Highwoods or which were wrongfully concealed from Highwoods by Employee.

(e) **Non-Disparagement:** Employee agrees that Employee will not make disparaging statements of any nature whatsoever about Highwoods and/or any of the Released Parties. Highwoods will not make disparaging statements of any nature whatsoever about Employee. Each of the parties agrees and acknowledges that any material violation of or failure to perform the agreements set forth in this section by the other party shall constitute a breach of this Agreement.

(f) **Non-Interference:** Nothing in this Agreement shall interfere with Employee's right to file a charge, cooperate or participate in an investigation or proceeding conducted by the Equal Employment Opportunity Commission, the North Carolina Department of Labor or any other federal, state or local regulatory or law enforcement agency. However, the consideration provided to Employee in this Agreement shall be the sole relief provided to Employee for the claims that are released by the Employee in this Agreement, and Employee will not be entitled to recover and agrees to waive any monetary benefits or recovery against the Company and/or the other Released Parties in connection with any such charge or proceeding without regard to who has brought such charge or complaint.

(g) **Non-Competition:** Except as otherwise herein, until such time as Employee no longer holds long-term incentive awards subject to the benefits referenced or described in Section 1(a) of this Agreement, Employee shall not, at any time without the prior consent of the Company's Chief Executive Officer or General Counsel, engage in the ownership, development, operation, management or leasing of any commercial office buildings located within any of the metropolitan statistical areas (as such terms are defined by the U.S. Office of Management and Budget) enumerated in the attached Schedule 2(g) or within any other city or county with respect to which the Company hereafter formally announces its intention to engage in business; provided, however, that the foregoing prohibition shall not apply to cities or counties where the Company is not engaged in business on the date of this Agreement and with respect to which the Company has not formally announced its intention to engage in business within, and Employee hereafter engages in business prior to any announcement by the Company of its intention to engage in business there. Notwithstanding the foregoing, at any time after March 1, 2023, Employee may, in his sole and absolute discretion, upon at least 30 days' prior written notice delivered to the Company, elect to no longer comply with the provisions of this Section 2(g); provided, however, that upon any such event, the remaining vested portion of any stock options then held by Employee issued under the Company's 2009 and 2015 Long-Term Equity Incentive Plans will remain exercisable only for a period of three months following the date of such notice, after which three-month period all such then-outstanding options will automatically terminate and be forfeited by Employee for no consideration.

(h) **Performance of Duties:** Employee shall use his best efforts in performing his assigned job duties through the Retirement Date. This Agreement does not create a contract of employment between Employee and the Company or otherwise alter the "at will" employment relationship that exists between Employee and the Company. This Agreement does not give Employee any right to continue in the Company's employment or otherwise limit the Company's ability to terminate Employee's employment or Employee's ability to terminate his or her employment at any time and for any or no reason, including prior to the Retirement Date. Upon the termination of Employee's employment with the Company for any reason prior to the Retirement Date, Employee shall forfeit all rights and benefits under this Agreement. The preceding sentence is not intended to affect rights and benefits, if any, to which Employee may be eligible under any other agreement or arrangement with the Company, including but not limited to the Retirement Plan.

(i) **Forfeiture and Recovery:** With respect to any asserted breach of this Agreement by either party, the complaining party shall deliver notice to the other party of the facts and circumstances

constituting the asserted breach, and such other party shall have forty-eight (48) hours within which to cure the claimed breach or to desist from the conduct complained of. Employee acknowledges and agrees that, in any suit or arbitration brought by the Company to enforce this Agreement, (i) if Employee is found to have materially breached any provision of this Agreement, or (ii) if Employee materially breaches a provision of this Agreement, but successfully defends against liability in such suit or arbitration on the ground that a provision of this Agreement is unenforceable, then Employee shall forfeit benefits under the Company's Retirement Plan, and Highwoods shall be entitled to recover from Employee any such payments made or benefits provided to Employee pursuant to this Agreement, seek reimburse from Employee of any costs and attorneys' fees Highwoods incurs in connection with obtaining the return or reimbursement of such payments, and pursue any and all other remedies at law or equity. The failure of Highwoods to pursue any remedy available to it pursuant to this section shall not constitute a waiver by Highwoods of its rights hereunder with respect to such breach or any other breach by Employee or a finding by a court or arbitrator of unenforceability of any provision of this Agreement.

(j) **Consulting Services:** (i) For a two-year period commencing on the Retirement Date (the "Consulting Period"), Employee shall provide consulting services to Highwoods in the manner set forth below for \$175,000 per year, payable in arrears on the 1st of each calendar month starting on October 1, 2019.

(ii) Employee will perform up to 20 hours per month of performing consulting services for Highwoods upon the reasonable request of an executive officer of Highwoods. Such requested consulting services are generally expected to be in the areas of strategic planning, investor relations, corporate governance and investment activities (such as acquisitions, dispositions and development projects). Employee shall have discretion in selecting the dates and times it performs such consulting services throughout the month giving due regard to the needs of the Company's business. If Highwoods deems it necessary for Employee to provide more than 20 hours in any month, Employee is not obligated to undertake such work until Employee and Highwoods have agreed on a rate of compensation.

(iii) During the Consulting Period, Employee will be an independent contractor and not an employee, partner, or co-venturer of, or in any other service relationship with, Highwoods. The manner in which Employee's services are rendered shall be within Employee's sole control and discretion. During the Consulting Period, Employee will not be authorized to speak for, represent, or obligate Highwoods in any manner without the prior express written authorization from an officer of Highwoods.

(iv) During the Consulting Period, Highwoods will reimburse Employee for all actual reasonable and necessary expenditures, which are directly related to the consulting services. These expenditures include, but are not limited to, expenses related to travel (i.e., airfare, hotel, temporary housing, meals, parking, taxis, mileage, etc.), telephone calls, and postal expenditures. Highwoods will also provide reasonable amounts of administrative support from current employees of Highwoods to assist Employee in the provision of consulting services to Highwoods.

(v) During the Consulting Period, Highwoods will take commercially reasonable steps to inform Employee if and when any of his activities or any information to which he is given access constitutes material nonpublic information under the federal securities laws.

3. **Tax Matters and Indemnification Agreement:** Employee expressly acknowledges that no oral or written representation of fact or opinion has been made to Employee by Highwoods, any of the Released Parties, or its attorneys regarding the tax treatment or consequences of any payment made under this Agreement. It is expressly understood that, except as otherwise provided in this Agreement, to the extent any liability or responsibility exists for Employee's federal, state and local income or other taxes, penalties or interest, such liability or responsibility rests solely with Employee.

The parties intend that amounts payable under this Agreement shall not be included in Employee's income for federal, state or local income tax purposes until the amounts are actually paid or delivered to Employee. This Agreement is intended to comply with Internal Revenue Code Section 409A or an exemption thereunder and shall be construed and administered in accordance therewith. Notwithstanding any other provision of this Agreement, payments provided under this Agreement may only be made upon an event and in a manner that complies with Code Section 409A or an applicable exemption. Payments under this Agreement are intended to qualify to the maximum extent applicable for the short-term deferral exception and the involuntary severance exception to application of Code Section 409A and shall be interpreted consistently with the requirements of Code Section 409A and the short-term deferral exception and involuntary severance exception thereto. References herein to termination or separation from employment shall mean separation from service within the meaning of Code Section 409A and guidance thereunder. Notwithstanding any other provision of this Agreement, if any payment or benefit provided to Employee in connection with his termination of employment is determined to constitute "nonqualified deferred compensation" within the meaning of Code Section 409A and Employee is determined to be a "specified employee" as defined in Section 409A(a)(2)(b)(i), then such payment or benefit shall not be paid until the first payroll date to occur following the six-month anniversary of his termination of employment or, if earlier, on Employee's death. The aggregate of any payments that would otherwise have been paid before such date shall be paid to Employee in a lump sum on such date and thereafter, any remaining payments shall be paid without delay in accordance with their original schedule.

Employee agrees to indemnify and hold harmless Highwoods and/or the Released Parties in connection with any liability incurred by Highwoods in connection with any tax or taxes for which Employee is responsible. Similarly, Highwoods agrees to indemnify and hold harmless Employee in connection with any liability incurred by Employee in connection with any tax or taxes for which Highwoods is responsible. Highwoods also agrees to indemnify and hold harmless Employee in connection with any liability incurred by Employee in connection with any tax or taxes resulting from the COBRA coverage payments provided for in Section 1(b)(i).

4. **Voluntary Nature of Agreement and Advice of Counsel:** Employee acknowledges that Employee (a) has read this Agreement and understands its terms, (b) signs the Agreement voluntarily of Employee's own free will, without coercion or duress, and with full understanding of the significance and binding effect of the Agreement, (c) is hereby advised to consult with an attorney before signing this Agreement, and (d) acknowledges that Employee has had an opportunity to review this Agreement with an attorney prior to execution.

5. **Consideration Period and Revocation:** Employee received this Agreement on September 5, 2019. Employee has twenty-one (21) calendar days from the date Employee received the Agreement within which to consider the Agreement, although Employee may return it sooner if desired. Employee may revoke the Agreement, by delivering a written notice of revocation to Jeffrey D. Miller, Executive Vice President, General Counsel and Secretary, Highwoods Properties, Inc., 3100 Smoketree Court, Suite 600, Raleigh, North Carolina 27604, within seven (7) calendar days after Employee signs the Agreement. In the absence of a revocation, this Agreement will become effective and enforceable on the eighth (8th) calendar day following the date Employee signs the Agreement.

6. **Cooperation:** Employee agrees that, for a two-year period after his Retirement Date, upon reasonable request by Highwoods, Employee will participate in the investigation, prosecution, or defense of any matter involving Highwoods, any of the other Released Parties, or any other matter that arose during Employee's employment, provided Highwoods shall compensate Employee for the reasonable value of the time required for such participation, and shall reimburse Employee for any reasonable travel and out-of-

pocket expenses incurred in providing such participation at its request, the purpose of which reimbursement is to avoid cost to Employee and not to influence Employee's participation.

7. **Notices:** Notices required or permitted under this Agreement shall be deemed sufficiently given if delivered by overnight courier and/or email as follows:

If to Employee: Edward J. Fritsch
Raleigh, NC 27609
Email:

If to Highwoods: c/o Jeffrey D. Miller, General Counsel
3100 Smoketree Court, Suite 600
Raleigh, North Carolina 27604
Email:

8. **Arbitration:** Except for suits initiated by the Company to enjoin a breach by Employee related to prohibited disclosures or competitive activities as proscribed in subparagraphs 2(c) and 2(g) hereinabove, which the Company may bring in an appropriate court, all other claims, disputes, and controversies arising out of this Agreement or the parties' relationship and employer and employee or former employer and former employee shall be resolved exclusively by binding arbitration. In such a proceeding, there shall be only one arbitrator, who shall be selected by the mutual agreement of the parties, and the decisions of the arbitrator shall be final and binding as to both the Company and Employee. Judgment may be entered on the arbitrator's decision in any court having competent jurisdiction. This arbitration agreement shall be governed by the Federal Arbitration Act, 9 U.S. C. §1 et seq. The direct expense of the arbitration shall be borne by Employer but each party will bear its own expenses and legal fees. The arbitration shall be held in the City of Raleigh, North Carolina. Either party may appeal the arbitrator's decision to a court in accordance with the appeal procedures of the Federal Arbitration Act 9 U.S. C. §1 et seq.

9. **Binding Effect; Entire Agreement; Severability:** This Agreement will be binding upon Employee and his heirs, administrators, representatives, executors, successors and assigns, and will inure to the benefit of the Company and its successors and assigns. This Agreement contains the entire agreement between and among the parties and cannot be modified in any respect in the future except in a writing signed by the parties hereto. It is expressly understood to be the intent of the parties hereto that the terms and provisions of this Agreement are severable and if, at any time in the future or for any reasons, any term or provision in this Agreement is declared unenforceable, void, voidable, or otherwise invalid, the remaining terms and provisions shall remain valid and enforceable as written.

10. **Governing Law:** The terms and provisions of this Agreement shall be interpreted and enforced under the substantive law of the State of North Carolina, to the extent state law applies, and under federal law, to the extent federal law applies.

11. **Counterparts:** This Agreement may be executed in any number of counterparts, each of which shall be deemed to be an original and all of which shall constitute together one and the same Agreement. Any party to this Agreement may execute this Agreement by signing any such counterparts.

12. **Attorney Fees:** In any dispute hereunder that is resolved through legal proceedings, reasonable attorneys' fees and expenses shall be awarded to the prevailing party.

13. **Termination of Amended and Restated Executive Supplemental Employment Agreement:** Each of the parties hereto acknowledges that the Amended and Restated Executive Supplemental Employment Agreement, effective as of February 12, 2013, by and between, Highwoods and Employee (the “Prior Agreement”), shall automatically terminate as of the Retirement Date, and that none of the provisions of the Prior Agreement shall survive or be deemed to survive the Retirement Date in any respect.

IMPORTANT: YOU ACKNOWLEDGE AND AGREE THAT YOU HAVE BEEN HEREBY ADVISED TO CONSULT WITH AN ATTORNEY BEFORE SIGNING THIS AGREEMENT. YOU ACKNOWLEDGE AND AGREE THAT YOU HAVE BEEN ADVISED THAT THIS AGREEMENT IS A BINDING LEGAL DOCUMENT. YOU ACKNOWLEDGE AND AGREE THAT YOU HAVE CAREFULLY READ AND FULLY UNDERSTAND ALL OF THE PROVISIONS OF THIS AGREEMENT AND THAT YOU HAVE VOLUNTARILY AND KNOWINGLY SIGNED THE AGREEMENT.

PLEASE READ CAREFULLY, THIS AGREEMENT HAS IMPORTANT LEGAL CONSEQUENCES.

IN WITNESS WHEREOF, the parties have executed this Agreement.

/s/ Edward J. Fritsch

Edward J. Fritsch

Date: September 5, 2019

HIGHWOODS PROPERTIES, INC.

By: /s/ Jeffrey D. Miller

Jeffrey D. Miller

Executive Vice President, General Counsel and Secretary

Date: September 5, 2019

Schedule 2(a)

ARTICLE IX

Indemnification

The Corporation shall indemnify directors, officers, agents and employees as follows: (a) the Corporation shall indemnify its Directors and officers, whether serving the Corporation or at its request any other entity, to the full extent required or permitted by the Maryland Corporations and Associations Article now or hereafter in force, including the advance of expenses under the procedures and to the full extent permitted by law and (b) the Corporation shall indemnify other employees and agents, whether serving the Corporation or at its request any other entity, to such extent as shall be authorized by the Board of Directors or the Corporation's Bylaws and be permitted by law. The foregoing rights of indemnification shall not be exclusive of any other rights to which those seeking indemnification may be entitled and shall continue as to a person who has ceased to be a director, officer, agent or employee and shall inure to the benefit of the heirs, executors and administrators of such a person. The Board of Directors may take such action as is necessary to carry out these indemnification provisions and is expressly empowered to adopt, approve and amend from time to time such Bylaws, resolutions or contracts implementing such provisions or such further indemnification arrangements as may be permitted by law. No amendment of these Amended and Restated Articles of Incorporation of the Corporation shall limit or eliminate the right to indemnification provided hereunder with respect to acts or omissions occurring prior to such amendment or repeal.

Schedule 2(g)

Atlanta MSA
Charlotte MSA
Greensboro-High Point MSA
Nashville MSA
Memphis MSA
Orlando MSA
Pittsburgh MSA
Raleigh MSA
Richmond MSA
Tampa MSA

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Section 3: EX-31.1 (EXHIBIT 31.1)

Exhibit 31.1

CERTIFICATION PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT

I, Theodore J. Klinck, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Highwoods Properties, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material

- respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this report;
4. The Registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Registrant and have:
 - (a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) evaluated the effectiveness of the Registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) disclosed in this report any change in the Registrant's internal control over financial reporting that occurred during the Registrant's most recent fiscal quarter (the Registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Registrant's internal control over financial reporting; and
 5. The Registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant's auditors and the Audit Committee of the Registrant's Board of Directors (or persons performing the equivalent functions):
 - (a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant's ability to record, process, summarize and report financial information; and
 - (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant's internal control over financial reporting.

Date: October 22, 2019

/s/ Theodore J. Klinck

Theodore J. Klinck
President and Chief Executive Officer

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Section 4: EX-31.2 (EXHIBIT 31.2)

Exhibit 31.2

CERTIFICATION PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT

I, Mark F. Mulhern, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Highwoods Properties, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this report;
4. The Registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Registrant and have:
 - (a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

- (c) evaluated the effectiveness of the Registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) disclosed in this report any change in the Registrant's internal control over financial reporting that occurred during the Registrant's most recent fiscal quarter (the Registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Registrant's internal control over financial reporting; and
5. The Registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant's auditors and the Audit Committee of the Registrant's Board of Directors (or persons performing the equivalent functions):
- (a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant's ability to record, process, summarize and report financial information; and
 - (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant's internal control over financial reporting.

Date: October 22, 2019

/s/ Mark F. Mulhern

Mark F. Mulhern
Executive Vice President and Chief Financial Officer

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Section 5: EX-31.3 (EXHIBIT 31.3)

Exhibit 31.3

CERTIFICATION PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT

I, Theodore J. Klinck, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Highwoods Realty Limited Partnership;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this report;
4. The Registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Registrant and have:
 - (a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) evaluated the effectiveness of the Registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) disclosed in this report any change in the Registrant's internal control over financial reporting that occurred during the Registrant's most recent fiscal quarter (the Registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Registrant's internal control over financial reporting; and
5. The Registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant's auditors and the Audit Committee of the Registrant's Board of Directors (or persons performing the equivalent functions):
 - (a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are

- reasonably likely to adversely affect the Registrant's ability to record, process, summarize and report financial information; and
- (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant's internal control over financial reporting.

Date: October 22, 2019

/s/ Theodore J. Klinck

Theodore J. Klinck
President and Chief Executive Officer of the General Partner

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Section 6: EX-31.4 (EXHIBIT 31.4)

Exhibit 31.4

CERTIFICATION PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT

I, Mark F. Mulhern, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Highwoods Realty Limited Partnership;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this report;
4. The Registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Registrant and have:
 - (a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) evaluated the effectiveness of the Registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) disclosed in this report any change in the Registrant's internal control over financial reporting that occurred during the Registrant's most recent fiscal quarter (the Registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Registrant's internal control over financial reporting; and
5. The Registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant's auditors and the Audit Committee of the Registrant's Board of Directors (or persons performing the equivalent functions):
 - (a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant's ability to record, process, summarize and report financial information; and
 - (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant's internal control over financial reporting.

Date: October 22, 2019

/s/ Mark F. Mulhern

Mark F. Mulhern

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Section 7: EX-32.1 (EXHIBIT 32.1)

Exhibit 32.1

CERTIFICATION PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT

In connection with the Quarterly Report of Highwoods Properties, Inc. (the “Company”) on Form 10-Q for the period ended September 30, 2019 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Theodore J. Klinck, President and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

- 1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- 2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Theodore J. Klinck

Theodore J. Klinck
President and Chief Executive Officer
October 22, 2019

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Section 8: EX-32.2 (EXHIBIT 32.2)

Exhibit 32.2

CERTIFICATION PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT

In connection with the Quarterly Report of Highwoods Properties, Inc. (the “Company”) on Form 10-Q for the period ended September 30, 2019 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Mark F. Mulhern, Executive Vice President and Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

- 1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- 2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Mark F. Mulhern

Mark F. Mulhern
Executive Vice President and Chief Financial Officer
October 22, 2019

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Section 9: EX-32.3 (EXHIBIT 32.3)

**CERTIFICATION PURSUANT TO SECTION 906
OF THE SARBANES-OXLEY ACT**

In connection with the Quarterly Report of Highwoods Realty Limited Partnership (the “Operating Partnership”) on Form 10-Q for the period ended September 30, 2019 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Theodore J. Klinck, President and Chief Executive Officer of Highwoods Properties, Inc., general partner of the Operating Partnership, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

- 1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- 2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Operating Partnership.

/s/ Theodore J. Klinck

Theodore J. Klinck
President and Chief Executive Officer of the General Partner
October 22, 2019

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Section 10: EX-32.4 (EXHIBIT 32.4)

**CERTIFICATION PURSUANT TO SECTION 906
OF THE SARBANES-OXLEY ACT**

In connection with the Quarterly Report of Highwoods Realty Limited Partnership (the “Operating Partnership”) on Form 10-Q for the period ended September 30, 2019 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Mark F. Mulhern, Executive Vice President and Chief Financial Officer of Highwoods Properties, Inc., general partner of the Operating Partnership, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

- 1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- 2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Operating Partnership.

/s/ Mark F. Mulhern

Mark F. Mulhern
Executive Vice President and Chief Financial Officer of the General Partner
October 22, 2019

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