

HIGHWOODS PROPERTIES INC

Form 10-Q

April 23, 2019

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

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FORM 10-Q

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

For the quarterly period ended March 31, 2019

HIGHWOODS PROPERTIES, INC.

(Exact name of registrant as specified in its charter)

Maryland 001-13100 56-1871668  
(State or other jurisdiction (Commission (I.R.S. Employer  
of incorporation or organization) File Number) Identification Number)

HIGHWOODS REALTY LIMITED PARTNERSHIP

(Exact name of registrant as specified in its charter)

North Carolina 000-21731 56-1869557  
(State or other jurisdiction (Commission (I.R.S. Employer  
of incorporation or organization) File Number) Identification Number)

3100 Smoketree Court, Suite 600

Raleigh, NC 27604

(Address of principal executive offices) (Zip Code)

919-872-4924

(Registrants' telephone number, including area code)

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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 103,692,619 shares of Common Stock outstanding as of April 16, 2019.

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## EXPLANATORY NOTE

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

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

Certain information contained herein is presented as of April 16, 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 March 31, 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 11 to Consolidated Financial Statements - Earnings Per Share and Per Unit;

- Item 4 - Controls and Procedures; and

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

HIGHWOODS PROPERTIES, INC.  
HIGHWOODS REALTY LIMITED PARTNERSHIP

QUARTERLY REPORT FOR THE PERIOD ENDED MARCH 31, 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)

	March 31, 2019	December 31, 2018
Assets:		
Real estate assets, at cost:		
Land	\$491,613	\$ 491,441
Buildings and tenant improvements	4,728,637	4,676,862
Development in-process	162,076	165,537
Land held for development	94,312	128,248
	5,476,638	5,462,088
Less-accumulated depreciation	(1,324,447 )	(1,296,562 )
Net real estate assets	4,152,191	4,165,526
Real estate and other assets, net, held for sale	24,893	—
Cash and cash equivalents	4,827	3,769
Restricted cash	7,640	6,374
Accounts receivable	30,646	25,952
Mortgages and notes receivable, net of allowance of \$36 and \$44, respectively	1,623	5,599
Accrued straight-line rents receivable	219,870	220,088
Investments in and advances to unconsolidated affiliates	23,296	23,585
Deferred leasing costs, net of accumulated amortization of \$149,863 and \$149,275, respectively	194,848	195,273
Prepaid expenses and other assets, net of accumulated depreciation of \$18,751 and \$18,074, respectively	66,282	28,843
Total Assets	\$4,726,116	\$ 4,675,009
Liabilities, Noncontrolling Interests in the Operating Partnership and Equity:		
Mortgages and notes payable, net	\$2,160,594	\$ 2,085,831
Accounts payable, accrued expenses and other liabilities	237,278	218,922
Total Liabilities	2,397,872	2,304,753
Commitments and contingencies		
Noncontrolling interests in the Operating Partnership	127,976	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; 103,690,619 and 103,557,065 shares issued and outstanding, respectively	1,037	1,036
Additional paid-in capital	2,956,517	2,976,197
Distributions in excess of net income available for common stockholders	(811,223 )	(769,303 )
Accumulated other comprehensive income	7,494	9,913
Total Stockholders' Equity	2,182,684	2,246,720
Noncontrolling interests in consolidated affiliates	17,584	17,576
Total Equity	2,200,268	2,264,296
Total Liabilities, Noncontrolling Interests in the Operating Partnership and Equity	\$4,726,116	\$ 4,675,009

See accompanying notes to consolidated financial statements.

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## HIGHWOODS PROPERTIES, INC.

## Consolidated Statements of Income

(Unaudited and in thousands, except per share amounts)

	Three Months Ended	
	March 31,	
	2019	2018
Rental and other revenues	\$172,363	\$180,438
Operating expenses:		
Rental property and other expenses	60,551	59,432
Depreciation and amortization	69,204	57,568
General and administrative	12,381	11,778
Total operating expenses	142,136	128,778
Interest expense	18,739	18,391
Other income/(loss)	(3,766)	) 455
Equity in earnings of unconsolidated affiliates	664	522
Net income	8,386	34,246
Net (income) attributable to noncontrolling interests in the Operating Partnership	(193)	) (888)
Net (income) attributable to noncontrolling interests in consolidated affiliates	(316)	) (286)
Dividends on Preferred Stock	(622)	) (623)
Net income available for common stockholders	\$7,255	\$32,449
Earnings per Common Share – basic:		
Net income available for common stockholders	\$0.07	\$0.31
Weighted average Common Shares outstanding – basic	103,600	103,324
Earnings per Common Share – diluted:		
Net income available for common stockholders	\$0.07	\$0.31
Weighted average Common Shares outstanding – diluted	106,357	106,165

See accompanying notes to consolidated financial statements.

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## HIGHWOODS PROPERTIES, INC.

Consolidated Statements of Comprehensive Income  
(Unaudited and in thousands)

	Three Months Ended March 31,	
	2019	2018
Comprehensive income:		
Net income	\$8,386	\$34,246
Other comprehensive income/(loss):		
Unrealized gains/(losses) on cash flow hedges	(1,904 )	7,877
Amortization of cash flow hedges	(515 )	(106 )
Total other comprehensive income/(loss)	(2,419 )	7,771
Total comprehensive income	5,967	42,017
Less-comprehensive (income) attributable to noncontrolling interests	(509 )	(1,174 )
Comprehensive income attributable to common stockholders	\$5,458	\$40,843

See accompanying notes to consolidated financial statements.



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## HIGHWOODS PROPERTIES, INC.

## Consolidated Statements of Equity

(Unaudited and in thousands, except share amounts)

	Number of Common Shares	Common Stock	Series A Cumulative Redeemable Preferred Shares	Additional Paid-In Capital	Accumulated Other Compre- hensive Income	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	(33,377 )	—	—	(1,128 )	—	—	—	(1,128 )
Conversions of Common Units to Common Stock	3,000	—	—	131	—	—	—	131
Dividends on Common Stock (\$0.475 per share)	—	—	—	—	—	—	(49,175 )	(49,175 )
Dividends on Preferred Stock (\$21.5625 per share)	—	—	—	—	—	—	(622 )	(622 )
Adjustment of noncontrolling interests in the Operating Partnership to fair value	—	—	—	(23,254 )	—	—	—	(23,254 )
Distributions to noncontrolling interests in consolidated affiliates	—	—	—	—	—	(308 )	—	(308 )
Issuances of restricted stock	164,190	—	—	—	—	—	—	—
Redemptions/repurchases of Preferred Stock	—	—	(18 )	—	—	—	—	(18 )
Share-based compensation expense, net of forfeitures	(259 )	1	—	4,571	—	—	—	4,572
Net (income) attributable to noncontrolling interests in the Operating Partnership	—	—	—	—	—	—	(193 )	(193 )
Net (income) attributable to noncontrolling interests in consolidated affiliates	—	—	—	—	—	316	(316 )	—
Comprehensive income: Net income	—	—	—	—	—	—	8,386	8,386

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Other comprehensive loss	—	—	—	(2,419 )	—	—	(2,419 )	
Total comprehensive income							5,967	
Balance at March 31, 2019	103,690,619	\$ 1,037	\$ 28,859	\$ 2,956,517	\$ 7,494	\$ 17,584	\$(811,223)	\$ 2,200,268

	Number of Common Shares	Common Stock	Series A Cumulative Redeemable Preferred Shares	Additional Paid-In Capital	Accumulated Other Comprehensive 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	(36,757 )	—	—	(1,029 )	—	—	—	(1,029 )
Conversions of Common Units to Common Stock	19,196	—	—	902	—	—	—	902
Dividends on Common Stock (\$0.4625 per share)	—	—	—	—	—	—	(47,747 )	(47,747 )
Dividends on Preferred Stock (\$21.5625 per share)	—	—	—	—	—	—	(623 )	(623 )
Adjustment of noncontrolling interests in the Operating Partnership to fair value	—	—	—	19,582	—	—	—	19,582
Distributions to noncontrolling interests in consolidated affiliates	—	—	—	—	—	(238 )	—	(238 )
Issuances of restricted stock	172,440	—	—	—	—	—	—	—
Redemptions/repurchases of Preferred Stock	—	—	(5 )	—	—	—	—	(5 )
Share-based compensation expense, net of forfeitures	—	1	—	4,294	—	—	—	4,295
Net (income) attributable to noncontrolling interests in the Operating Partnership	—	—	—	—	—	—	(888 )	(888 )
Net (income) attributable to noncontrolling interests in consolidated	—	—	—	—	—	286	(286 )	—

affiliates

Comprehensive income:

Net income	—	—	—	—	—	34,246	34,246	
Other comprehensive income	—	—	—	7,771	—	—	7,771	
Total comprehensive income							42,017	
Balance at March 31, 2018	103,421,754	\$1,034	\$28,887	\$2,953,148	\$15,609	\$17,464	\$(762,642)	\$2,253,500

See accompanying notes to consolidated financial statements.

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

	Three Months Ended March 31,	
	2019	2018
Operating activities:		
Net income	\$8,386	\$34,246
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	69,204	57,568
Amortization of lease incentives and acquisition-related intangible assets and liabilities	1,689	(509 )
Share-based compensation expense	4,572	4,295
Credit losses on operating lease receivables	7,315	227
Write-off of mortgages and notes receivable	4,087	—
Accrued interest on mortgages and notes receivable	(85 )	(112 )
Amortization of debt issuance costs	736	686
Amortization of cash flow hedges	(515 )	(106 )
Amortization of mortgages and notes payable fair value adjustments	385	317
Losses on debt extinguishment	375	—
Equity in earnings of unconsolidated affiliates	(664 )	(522 )
Distributions of earnings from unconsolidated affiliates	609	881
Settlement of cash flow hedges	(5,144 )	7,216
Changes in operating assets and liabilities:		
Accounts receivable	(2,583 )	3,288
Prepaid expenses and other assets	(6,953 )	(7,692 )
Accrued straight-line rents receivable	(6,903 )	(6,619 )
Accounts payable, accrued expenses and other liabilities	(11,798)	(14,636 )
Net cash provided by operating activities	62,713	78,528
Investing activities:		
Investments in acquired real estate and related intangible assets, net of cash acquired	—	(50,649 )
Investments in development in-process	(28,555)	(42,438 )
Investments in tenant improvements and deferred leasing costs	(38,544)	(33,071 )
Investments in building improvements	(12,517)	(19,293 )
Distributions of capital from unconsolidated affiliates	29	105
Repayments of mortgages and notes receivable	74	379
Changes in other investing activities	(1,989 )	(586 )
Net cash used in investing activities	(81,502)	(145,553 )
Financing activities:		
Dividends on Common Stock	(49,175)	(47,747 )
Redemptions/repurchases of Preferred Stock	(18 )	(5 )
Dividends on Preferred Stock	(622 )	(623 )
Distributions to noncontrolling interests in the Operating Partnership	(1,300 )	(1,300 )
Distributions to noncontrolling interests in consolidated affiliates	(308 )	(238 )
Proceeds from the issuance of Common Stock	652	561
Costs paid for the issuance of Common Stock	—	(46 )
Repurchase of shares related to tax withholdings	(1,780 )	(1,544 )
Borrowings on revolving credit facility	98,300	32,000
Repayments of revolving credit facility	(145,300)	(277,000)

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Borrowings on mortgages and notes payable	349,010	345,863
Repayments of mortgages and notes payable	(225,462)	(444 )
Changes in debt issuance costs and other financing activities	(2,884 )	(2,903 )
Net cash provided by financing activities	21,113	46,574
Net increase/(decrease) in cash and cash equivalents and restricted cash	\$2,324	\$(20,451)

See accompanying notes to consolidated financial statements.

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## HIGHWOODS PROPERTIES, INC.

## Consolidated Statements of Cash Flows – Continued

(Unaudited and in thousands)

	Three Months Ended March 31,	
	2019	2018
Net increase/(decrease) in cash and cash equivalents and restricted cash	\$2,324	\$(20,451)
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	\$12,467	\$67,882

## Reconciliation of cash and cash equivalents and restricted cash:

	Three Months Ended March 31,	
	2019	2018
Cash and cash equivalents at end of the period	\$4,827	\$31,034
Restricted cash at end of the period	7,640	36,848
Cash and cash equivalents and restricted cash at end of the period	\$12,467	\$67,882

## Supplemental disclosure of cash flow information:

	Three Months Ended March 31,	
	2019	2018
Cash paid for interest, net of amounts capitalized	\$23,924	\$15,986

## Supplemental disclosure of non-cash investing and financing activities:

	Three Months Ended March 31,	
	2019	2018
Unrealized gains/(losses) on cash flow hedges	\$(1,904)	\$7,877
Conversions of Common Units to Common Stock	131	902
Changes in accrued capital expenditures	(119)	(7,333)
Write-off of fully depreciated real estate assets	23,880	10,511
Write-off of fully amortized leasing costs	12,671	7,112
Write-off of fully amortized debt issuance costs	828	—
Adjustment of noncontrolling interests in the Operating Partnership to fair value	23,254	(19,582)
Initial recognition of lease liabilities related to right of use assets	35,349	—

See accompanying notes to consolidated financial statements.

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## HIGHWOODS REALTY LIMITED PARTNERSHIP

## Consolidated Balance Sheets

(Unaudited and in thousands, except unit and per unit data)

	March 31, 2019	December 31, 2018
Assets:		
Real estate assets, at cost:		
Land	\$491,613	\$491,441
Buildings and tenant improvements	4,728,637	4,676,862
Development in-process	162,076	165,537
Land held for development	94,312	128,248
	5,476,638	5,462,088
Less-accumulated depreciation	(1,324,447 )	(1,296,562 )
Net real estate assets	4,152,191	4,165,526
Real estate and other assets, net, held for sale	24,893	—
Cash and cash equivalents	4,827	3,769
Restricted cash	7,640	6,374
Accounts receivable	30,646	25,952
Mortgages and notes receivable, net of allowance of \$36 and \$44, respectively	1,623	5,599
Accrued straight-line rents receivable	219,870	220,088
Investments in and advances to unconsolidated affiliates	23,296	23,585
Deferred leasing costs, net of accumulated amortization of \$149,863 and \$149,275, respectively	194,848	195,273
Prepaid expenses and other assets, net of accumulated depreciation of \$18,751 and \$18,074, respectively	66,282	28,843
Total Assets	\$4,726,116	\$4,675,009
Liabilities, Redeemable Operating Partnership Units and Capital:		
Mortgages and notes payable, net	\$2,160,594	\$2,085,831
Accounts payable, accrued expenses and other liabilities	237,278	218,922
Total Liabilities	2,397,872	2,304,753
Commitments and contingencies		
Redeemable Operating Partnership Units:		
Common Units, 2,735,703 and 2,738,703 outstanding, respectively	127,976	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	156,835	134,837
Capital:		
Common Units:		
General partner Common Units, 1,060,175 and 1,058,870 outstanding, respectively	21,463	22,078
Limited partner Common Units, 102,221,635 and 102,089,386 outstanding, respectively	2,124,868	2,185,852
Accumulated other comprehensive income	7,494	9,913
Noncontrolling interests in consolidated affiliates	17,584	17,576
Total Capital	2,171,409	2,235,419
Total Liabilities, Redeemable Operating Partnership Units and Capital	\$4,726,116	\$4,675,009

See accompanying notes to consolidated financial statements.

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## HIGHWOODS REALTY LIMITED PARTNERSHIP

## Consolidated Statements of Income

(Unaudited and in thousands, except per unit amounts)

	Three Months Ended March 31,	
	2019	2018
Rental and other revenues	\$172,363	\$180,438
Operating expenses:		
Rental property and other expenses	60,551	59,432
Depreciation and amortization	69,204	57,568
General and administrative	12,381	11,778
Total operating expenses	142,136	128,778
Interest expense	18,739	18,391
Other income/(loss)	(3,766)	) 455
Equity in earnings of unconsolidated affiliates	664	522
Net income	8,386	34,246
Net (income) attributable to noncontrolling interests in consolidated affiliates	(316)	) (286)
Distributions on Preferred Units	(622)	) (623)
Net income available for common unitholders	\$7,448	\$33,337
Earnings per Common Unit – basic:		
Net income available for common unitholders	\$0.07	\$0.32
Weighted average Common Units outstanding – basic	105,928	105,730
Earnings per Common Unit – diluted:		
Net income available for common unitholders	\$0.07	\$0.32
Weighted average Common Units outstanding – diluted	105,948	105,756

See accompanying notes to consolidated financial statements.



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## HIGHWOODS REALTY LIMITED PARTNERSHIP

## Consolidated Statements of Comprehensive Income

(Unaudited and in thousands)

	Three Months Ended March 31,	
	2019	2018
Comprehensive income:		
Net income	\$8,386	\$34,246
Other comprehensive income/(loss):		
Unrealized gains/(losses) on cash flow hedges	(1,904 )	7,877
Amortization of cash flow hedges	(515 )	(106 )
Total other comprehensive income/(loss)	(2,419 )	7,771
Total comprehensive income	5,967	42,017
Less-comprehensive (income) attributable to noncontrolling interests	(316 )	(286 )
Comprehensive income attributable to common unitholders	\$5,651	\$41,731

See accompanying notes to consolidated financial statements.

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## HIGHWOODS REALTY LIMITED PARTNERSHIP

## Consolidated Statements of Capital

(Unaudited and in thousands)

	Common Units		Accumulated	Noncontrolling	
	General	Limited	Other	Interests in	Total
	Partners'	Partners'	Comprehensiv	Consolidated	
	Capital	Capital	Income	Affiliates	
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	(11 )	(1,117 )	—	—	(1,128 )
Distributions on Common Units (\$0.475 per unit)	(503 )	(49,778 )	—	—	(50,281 )
Distributions on Preferred Units (\$21.5625 per unit)	(6 )	(616 )	—	—	(622 )
Share-based compensation expense, net of forfeitures	46	4,526	—	—	4,572
Distributions to noncontrolling interests in consolidated affiliates	—	—	—	(308 )	(308 )
Adjustment of Redeemable Common Units to fair value and contributions/distributions from/to the General Partner	(222 )	(21,988 )	—	—	(22,210 )
Net (income) attributable to noncontrolling interests in consolidated affiliates	(3 )	(313 )	—	316	—
Comprehensive income:					
Net income	84	8,302	—	—	8,386
Other comprehensive loss	—	—	(2,419 )	—	(2,419 )
Total comprehensive income					5,967
Balance at March 31, 2019	\$21,463	\$2,124,868	\$ 7,494	\$ 17,584	\$2,171,409

	Common Units		Accumulated	Noncontrolling	
	General	Limited	Other	Interests in	Total
	Partners'	Partners'	Comprehensiv	Consolidated	
	Capital	Capital	Income	Affiliates	
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	(10 )	(1,019 )	—	—	(1,029 )
Distributions on Common Units (\$0.4625 per unit)	(488 )	(48,370 )	—	—	(48,858 )
Distributions on Preferred Units (\$21.5625 per unit)	(6 )	(617 )	—	—	(623 )
Share-based compensation expense, net of forfeitures	43	4,252	—	—	4,295
Distributions to noncontrolling interests in consolidated affiliates	—	—	—	(238 )	(238 )
Adjustment of Redeemable Common Units to fair value and contributions/distributions from/to the General Partner	207	20,500	—	—	20,707
Net (income) attributable to noncontrolling interests in consolidated affiliates	(3 )	(283 )	—	286	—
Comprehensive income:					
Net income	342	33,904	—	—	34,246

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Other comprehensive income	—	—	7,771	—	7,771
Total comprehensive income					42,017
Balance at March 31, 2018	\$21,915	\$2,169,625	\$ 15,609	\$ 17,464	\$2,224,613

See accompanying notes to consolidated financial statements.

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## HIGHWOODS REALTY LIMITED PARTNERSHIP

## Consolidated Statements of Cash Flows

(Unaudited and in thousands)

	Three Months Ended March 31,	
	2019	2018
Operating activities:		
Net income	\$8,386	\$34,246
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	69,204	57,568
Amortization of lease incentives and acquisition-related intangible assets and liabilities	1,689	(509 )
Share-based compensation expense	4,572	4,295
Credit losses on operating lease receivables	7,315	227
Write-off of mortgages and notes receivable	4,087	—
Accrued interest on mortgages and notes receivable	(85 )	(112 )
Amortization of debt issuance costs	736	686
Amortization of cash flow hedges	(515 )	(106 )
Amortization of mortgages and notes payable fair value adjustments	385	317
Losses on debt extinguishment	375	—
Equity in earnings of unconsolidated affiliates	(664 )	(522 )
Distributions of earnings from unconsolidated affiliates	609	881
Settlement of cash flow hedges	(5,144 )	7,216
Changes in operating assets and liabilities:		
Accounts receivable	(2,583 )	3,288
Prepaid expenses and other assets	(6,953 )	(7,692 )
Accrued straight-line rents receivable	(6,903 )	(6,619 )
Accounts payable, accrued expenses and other liabilities	(11,798)	(14,636 )
Net cash provided by operating activities	62,713	78,528
Investing activities:		
Investments in acquired real estate and related intangible assets, net of cash acquired	—	(50,649 )
Investments in development in-process	(28,555)	(42,438 )
Investments in tenant improvements and deferred leasing costs	(38,544)	(33,071 )
Investments in building improvements	(12,517)	(19,293 )
Distributions of capital from unconsolidated affiliates	29	105
Repayments of mortgages and notes receivable	74	379
Changes in other investing activities	(1,989 )	(586 )
Net cash used in investing activities	(81,502)	(145,553 )
Financing activities:		
Distributions on Common Units	(50,281)	(48,858 )
Redemptions/repurchases of Preferred Units	(18 )	(5 )
Distributions on Preferred Units	(622 )	(623 )
Distributions to noncontrolling interests in consolidated affiliates	(308 )	(238 )
Proceeds from the issuance of Common Units	652	561
Costs paid for the issuance of Common Units	—	(46 )
Repurchase of units related to tax withholdings	(1,780 )	(1,544 )
Borrowings on revolving credit facility	98,300	32,000
Repayments of revolving credit facility	(145,300)	(277,000)
Borrowings on mortgages and notes payable	349,010	345,863

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Repayments of mortgages and notes payable	(225,462	(444 )
Changes in debt issuance costs and other financing activities	(3,078 )	(3,092 )
Net cash provided by financing activities	21,113	46,574
Net increase/(decrease) in cash and cash equivalents and restricted cash	\$2,324	\$(20,451)

See accompanying notes to consolidated financial statements.

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## HIGHWOODS REALTY LIMITED PARTNERSHIP

## Consolidated Statements of Cash Flows - Continued

(Unaudited and in thousands)

	Three Months Ended March 31,	
	2019	2018
Net increase/(decrease) in cash and cash equivalents and restricted cash	\$2,324	\$(20,451)
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	\$12,467	\$67,882

## Reconciliation of cash and cash equivalents and restricted cash:

	Three Months Ended March 31,	
	2019	2018
Cash and cash equivalents at end of the period	\$4,827	\$31,034
Restricted cash at end of the period	7,640	36,848
Cash and cash equivalents and restricted cash at end of the period	\$12,467	\$67,882

## Supplemental disclosure of cash flow information:

	Three Months Ended March 31,	
	2019	2018
Cash paid for interest, net of amounts capitalized	\$23,924	\$15,986

## Supplemental disclosure of non-cash investing and financing activities:

	Three Months Ended March 31,	
	2019	2018
Unrealized gains/(losses) on cash flow hedges	\$(1,904)	\$7,877
Changes in accrued capital expenditures	(119)	(7,333)
Write-off of fully depreciated real estate assets	23,880	10,511
Write-off of fully amortized leasing costs	12,671	7,112
Write-off of fully amortized debt issuance costs	828	—
Adjustment of Redeemable Common Units to fair value	22,016	(20,896)
Initial recognition of lease liabilities related to right of use assets	35,349	—

See accompanying notes to consolidated financial statements.

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HIGHWOODS PROPERTIES, INC.  
HIGHWOODS REALTY LIMITED PARTNERSHIP  
CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 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 March 31, 2019, we owned or had an interest in 30.7 million rentable square feet of in-service properties, 1.6 million rentable square feet of office properties under development and approximately 350 acres of development land.

The Company is the sole general partner of the Operating Partnership. At March 31, 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 three months ended March 31, 2019, the Company redeemed 3,000 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. 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 months ended March 31, 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 \$58.3 million and \$47.5 million for the three months ended March 31, 2019 and 2018, respectively.

## Leases

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



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### 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 March 31, 2019, a reserve of \$0.6 million was recorded to cover estimated reported and unreported claims.

### Other Events

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 and for the three months ended March 31, 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

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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.

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 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. 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 \$169.4 million of rental and other revenues related to operating lease payments of which \$15.5 million was for variable lease payments for the three months ended March 31, 2019. The following table sets forth the undiscounted cash flows for future minimum base rents to be received from customers for leases in effect at March 31, 2019 for the properties that we wholly own:

April 1 through December 31, 2019	\$466,042
2020	586,386
2021	530,336
2022	494,060
2023	433,593
2024	372,614
Thereafter	1,679,410
	\$4,562,441

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## 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 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
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2020	581,399
2021	524,381
2022	488,157
2023	428,461
Thereafter	2,068,891
	\$4,709,303

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

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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 of ground lease expense, of which \$0.5 million was paid in cash, during the three months ended March 31, 2019.

The following table sets forth the undiscounted cash flows of our scheduled obligations for future minimum payments on operating ground leases at March 31, 2019 and a reconciliation of those cash flows to the operating lease liability at March 31, 2019:

April 1 through December 31, 2019	\$1,539
2020	2,086
2021	2,127
2022	2,169
2023	2,167
2024	2,123
Thereafter	83,697
	95,908
Discount	(60,668 )
Lease liability	\$35,240

## 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
	\$97,860

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## 3. 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:

	March 31, 2019	December 31, 2018
Assets:		
Deferred leasing costs (including lease incentives and above market lease and in-place lease acquisition-related intangible assets)	\$ 344,711	\$ 344,548
Less accumulated amortization	(149,863 )	(149,275 )
	\$ 194,848	\$ 195,273
Liabilities (in accounts payable, accrued expenses and other liabilities):		
Acquisition-related below market lease liabilities	\$ 56,865	\$ 57,955
Less accumulated amortization	(32,870 )	(32,307 )
	\$ 23,995	\$ 25,648

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

	Three Months Ended March 31,	
	2019	2018
Amortization of deferred leasing costs and acquisition-related intangible assets (in depreciation and amortization)	\$ 10,315	\$ 9,495
Amortization of lease incentives (in rental and other revenues)	\$ 2,848	\$ 429
Amortization of acquisition-related intangible assets (in rental and other revenues)	\$ 357	\$ 448
Amortization of acquisition-related intangible assets (in rental property and other expenses)	\$ 137	\$ 137
Amortization of acquisition-related below market lease liabilities (in rental and other revenues)	\$(1,653 )	\$(1,523 )

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)
April 1 through December 31, 2019	\$ 28,419	\$ 1,222	\$ 903	\$ 416	\$ (4,649 )
2020	32,940	1,300	957	514	(5,005 )
2021	28,377	1,060	631	—	(4,204 )
2022	24,053	836	462	—	(3,133 )
2023	20,650	763	308	—	(2,753 )
Thereafter	46,416	3,521	1,100	—	(4,251 )



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	\$ 180,855	\$ 8,702	\$ 4,361	\$ 930	\$ (23,995 )
Weighted average remaining amortization periods as of March 31, 2019 (in years)	7.1	9.2	6.5	1.7	5.5

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## 4. Mortgages and Notes Payable

The following table sets forth our mortgages and notes payable:

	March 31, 2019	December 31, 2018
Secured indebtedness	\$96,717	\$97,179
Unsecured indebtedness	2,075,211	1,997,816
Less-unamortized debt issuance costs	(11,334 )	(9,164 )
Total mortgages and notes payable, net	\$2,160,594	\$2,085,831

At March 31, 2019, our secured mortgage loan was collateralized by real estate assets with an undepreciated book value of \$146.4 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 was \$135.0 million and \$97.0 million outstanding under our revolving credit facility at March 31, 2019 and April 16, 2019, respectively. At March 31, 2019 and April 16, 2019, we had \$0.2 million and \$0.1 million, respectively, 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 March 31, 2019 and April 16, 2019 was \$464.8 million and \$502.9 million, respectively.

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.

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5. Derivative Financial Instruments

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