HIGHWOODS PROPERTIES INC
Form 10-Q
August 04, 2015

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

FORM 10-Q

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

For the quarterly period ended June 30, 2015

HIGHWOODS PROPERTIES, INC.
(Exact name of registrant as specified in its charter)

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

HIGHWOODS REALTY LIMITED PARTNERSHIP
(Exact name of registrant as specified in its charter)

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
Highwoods Properties, Inc. Yes x   No ¨   Highwoods Realty Limited Partnership Yes x   No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).
Highwoods Properties, Inc. Yes x   No ¨   Highwoods Realty Limited Partnership Yes x   No ¨

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

Large accelerated filer x Accelerated filer ¨ Non-accelerated filer ¨ Smaller reporting company ¨
Highwoods Realty Limited Partnership
Large accelerated filer ¨ Accelerated filer ¨ Non-accelerated filer x Smaller reporting company ¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Securities Exchange Act).
Highwoods Properties, Inc. Yes ¨ No x Highwoods Realty Limited Partnership Yes ¨ No x

The Company had 94,118,906 shares of Common Stock outstanding as of July 27, 2015.

EXPLANATORY NOTE

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

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

Certain information contained herein is presented as of July 27, 2015, the latest practicable date for financial information prior to the filing of this Quarterly Report.

This report combines the Quarterly Reports on Form 10-Q for the period ended June 30, 2015 of the Company and the Operating Partnership. We believe combining the quarterly reports into this single report results in the following benefits:

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

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

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

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

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

- Consolidated Financial Statements;

- the following Notes to Consolidated Financial Statements:

- Note 8 - Noncontrolling Interests; and

- Note 13 - Earnings Per Share and Per Unit;

- Item 4 - Controls and Procedures; and

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

HIGHWOODS PROPERTIES, INC.
HIGHWOODS REALTY LIMITED PARTNERSHIP

QUARTERLY REPORT FOR THE PERIOD ENDED JUNE 30, 2015

TABLE OF CONTENTS

Table of Contents

PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

HIGHWOODS PROPERTIES, INC.
Consolidated Balance Sheets
(Unaudited and in thousands, except share and per share data)

	June 30, 2015	December 31, 2014 (as revised)
Assets:		
Real estate assets, at cost:		
Land	$407,180	$ 384,301
Buildings and tenant improvements	3,991,536	3,807,315
Development in process	104,693	205,971
Land held for development	76,955	79,355
	4,580,364	4,476,942
Less-accumulated depreciation	(1,066,945)	(1,024,936)
Net real estate assets	3,513,419	3,452,006
Real estate and other assets, net, held for sale	10,631	1,038
Cash and cash equivalents	4,939	8,832
Restricted cash	15,703	14,595
Accounts receivable, net of allowance of $1,487 and $1,314, respectively	27,027	48,557
Mortgages and notes receivable, net of allowance of $410 and $275, respectively	5,935	13,116
Accrued straight-line rents receivable, net of allowance of $1,022 and $600, respectively	151,028	142,037
Investments in and advances to unconsolidated affiliates	43,979	50,685
Deferred financing and leasing costs, net of accumulated amortization of $119,396 and $112,804, respectively	223,380	228,768
Prepaid expenses and other assets, net of accumulated amortization of $15,242 and $14,259, respectively	43,601	39,489
Total Assets	$4,039,642	$ 3,999,123
Liabilities, Noncontrolling Interests in the Operating Partnership and Equity:		
Mortgages and notes payable	$2,124,028	$ 2,071,389
Accounts payable, accrued expenses and other liabilities	214,131	237,633
Financing obligation	8,962	8,962
Total Liabilities	2,347,121	2,317,984
Commitments and contingencies		
Noncontrolling interests in the Operating Partnership	116,260	130,048
Equity:		
Preferred Stock, $.01 par value, 50,000,000 authorized shares;		
8.625% Series A Cumulative Redeemable Preferred Shares (liquidation preference $1,000 per share), 29,050 and 29,060 shares issued and outstanding, respectively	29,050	29,060
Common Stock, $.01 par value, 200,000,000 authorized shares;		
94,118,006 and 92,907,310 shares issued and outstanding, respectively	941	929
Additional paid-in capital	2,525,227	2,464,275
Distributions in excess of net income available for common stockholders	(992,425)	(957,370)
Accumulated other comprehensive loss	(4,514)	(3,912)
Total Stockholders' Equity	1,558,279	1,532,982

Noncontrolling interests in consolidated affiliates	17,982	18,109
Total Equity	1,576,261	1,551,091
Total Liabilities, Noncontrolling Interests in the Operating Partnership and Equity	$4,039,642	$ 3,999,123

See accompanying notes to consolidated financial statements.

Table of Contents

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Rental and other revenues	$161,136	$152,722	$318,446	$301,175
Operating expenses:				
Rental property and other expenses	57,278	55,275	114,791	111,665
Depreciation and amortization	51,240	50,443	101,548	98,608
Impairments of real estate assets	—	588	—	588
General and administrative	8,892	8,733	20,329	19,447
Total operating expenses	117,410	115,039	236,668	230,308
Interest expense:				
Contractual	20,857	20,640	41,299	41,390
Amortization of deferred financing costs	828	799	1,628	1,451
Financing obligation	317	(226)	498	(266)
	22,002	21,213	43,425	42,575
Other income:				
Interest and other income	1,199	1,410	2,437	2,809
Gains/(losses) on debt extinguishment	(220)	18	(220)	18
	979	1,428	2,217	2,827
Income from continuing operations before disposition of investment properties and activity in unconsolidated affiliates	22,703	17,898	40,570	31,119
Gains on disposition of property	2,412	5,947	3,569	5,947
Equity in earnings of unconsolidated affiliates	1,776	667	3,587	638
Income from continuing operations	26,891	24,512	47,726	37,704
Discontinued operations:				
Net gains on disposition of discontinued operations	—	—	—	384
	—	—	—	384
Net income	26,891	24,512	47,726	38,088
Net (income) attributable to noncontrolling interests in the Operating Partnership	(782)	(742)	(1,378)	(1,140)
Net (income) attributable to noncontrolling interests in consolidated affiliates	(328)	(438)	(624)	(861)
Dividends on Preferred Stock	(626)	(627)	(1,253)	(1,254)
Net income available for common stockholders	$25,155	$22,705	$44,471	$34,833
Earnings per Common Share – basic:				
Income from continuing operations available for common stockholders	$0.27	$0.25	$0.47	$0.38
Income from discontinued operations available for common stockholders	—	—	—	0.01
Net income available for common stockholders	$0.27	$0.25	$0.47	$0.39
Weighted average Common Shares outstanding – basic	94,055	90,254	93,641	90,111
Earnings per Common Share – diluted:				
Income from continuing operations available for common stockholders	$0.27	$0.25	$0.47	$0.38
Income from discontinued operations available for common stockholders	—	—	—	0.01
Net income available for common stockholders	$0.27	$0.25	$0.47	$0.39
Weighted average Common Shares outstanding – diluted	97,049	93,312	96,666	93,172

Dividends declared per Common Share	$0.425	$0.425	$0.850	$0.850
Net income available for common stockholders:				
Income from continuing operations available for common stockholders	$25,155	$22,705	$44,471	$34,461
Income from discontinued operations available for common stockholders	—	—	—	372
Net income available for common stockholders	$25,155	$22,705	$44,471	$34,833

See accompanying notes to consolidated financial statements.

4

Table of Contents

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Comprehensive income:				
Net income	$26,891	$24,512	$47,726	$38,088
Other comprehensive income/(loss):				
Unrealized gains on tax increment financing bond	1	105	194	270
Unrealized gains/(losses) on cash flow hedges	269	(2,846)	(2,645)	(4,250)
Amortization of cash flow hedges	925	944	1,849	1,872
Total other comprehensive income/(loss)	1,195	(1,797)	(602)	(2,108)
Total comprehensive income	28,086	22,715	47,124	35,980
Less-comprehensive (income) attributable to noncontrolling interests	(1,110)	(1,180)	(2,002)	(2,001)
Comprehensive income attributable to common stockholders	$26,976	$21,535	$45,122	$33,979

See accompanying notes to consolidated financial statements.

Table of Contents

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 Loss	Non-controlling Interests in Consolidated Affiliates	Distributions in Excess of Net Income Available for Common Stockholders (as revised)	Total (as revised)
Balance at December 31, 2014	92,907,310	$929	$29,060	$2,464,275	$(3,912)	$18,109	$(957,370)	$1,551,091
Issuances of Common Stock, net of issuance costs and tax withholdings	1,055,491	11	—	43,205	—	—	—	43,216
Conversions of Common Units to Common Stock	26,820	—	—	1,206	—	—	—	1,206
Dividends on Common Stock		—	—	—	—	—	(79,526)	(79,526)
Dividends on Preferred Stock		—	—	—	—	—	(1,253)	(1,253)
Adjustment of noncontrolling interests in the Operating Partnership to fair value		—	—	11,475	—	—	—	11,475
Distributions to noncontrolling interests in consolidated affiliates		—	—	—	—	(751)	—	(751)
Issuances of restricted stock	128,951	—	—	—	—	—	—	—
Redemptions/repurchases of Preferred Stock		—	(10)	—	—	—	—	(10)
Share-based compensation expense, net of forfeitures	(566)	1	—	5,066	—	—	—	5,067
Net (income) attributable to noncontrolling interests in the Operating Partnership		—	—	—	—	—	(1,378)	(1,378)
Net (income) attributable to noncontrolling interests in consolidated affiliates		—	—	—	—	624	(624)	—
Comprehensive income:								
Net income		—	—	—	—	—	47,726	47,726
Other comprehensive loss		—	—	—	(602)	—	—	(602)
Total comprehensive income								47,124

Balance at June 30, 2015	94,118,006	$941	$29,050	$2,525,227	$(4,514)	$17,982	$(992,425)	$1,576,261

	Number of Common Shares	Common Stock	Series A Cumulative Redeemable Preferred Shares	Additional Paid-In Capital	Accumulated Other Compre-hensive Loss	Non-controlling Interests in Consolidated Affiliates	Distributions in Excess of Net Income Available for Common Stockholders (as revised)	Total (as revised)
Balance at December 31, 2013	89,920,915	$899	$29,077	$2,370,368	$(2,611)	$21,396	$(911,662)	$1,507,467
Issuances of Common Stock, net of issuance costs and tax withholdings	281,992	3	—	8,709	—	—	—	8,712
Conversions of Common Units to Common Stock	4,417	—	—	162	—	—	—	162
Dividends on Common Stock		—	—	—	—	—	(76,605)	(76,605)
Dividends on Preferred Stock		—	—	—	—	—	(1,254)	(1,254)
Adjustment of noncontrolling interests in the Operating Partnership to fair value		—	—	(18,337)	—	—	—	(18,337)
Distributions to noncontrolling interests in consolidated affiliates		—	—	—	—	(940)	—	(940)
Issuances of restricted stock	154,383	—	—	—	—	—	—	—
Share-based compensation expense, net of forfeitures		2	—	5,379	—	—	—	5,381
Net (income) attributable to noncontrolling interests in the Operating Partnership		—	—	—	—	—	(1,140)	(1,140)
Net (income) attributable to noncontrolling interests in consolidated affiliates		—	—	—	—	861	(861)	—
Comprehensive income:								

Net income		—	—	—	—	—	38,088	38,088
Other comprehensive loss		—	—	—	(2,108)	—	—	(2,108)
Total comprehensive income								35,980
Balance at June 30, 2014	90,361,707	$ 904	$ 29,077	$ 2,366,281	$ (4,719)	$ 21,317	$ (953,434)	$ 1,459,426

See accompanying notes to consolidated financial statements.

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

	Six Months Ended June 30, 2015	2014
Operating activities:		
Net income	$47,726	$38,088
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	101,548	98,608
Amortization of lease incentives and acquisition-related intangible assets and liabilities	9	234
Share-based compensation expense	5,067	5,381
Allowance for losses on accounts and accrued straight-line rents receivable	1,174	1,278
Accrued interest on mortgages and notes receivable	(268)	(232)
Amortization of deferred financing costs	1,628	1,451
Amortization of cash flow hedges	1,849	1,872
Amortization of mortgages and notes payable fair value adjustments	84	(902)
Impairments of real estate assets	—	588
(Gains)/losses on debt extinguishment	220	(18)
Net gains on disposition of property	(3,569)	(6,331)
Equity in earnings of unconsolidated affiliates	(3,587)	(638)
Changes in financing obligation	162	(628)
Distributions of earnings from unconsolidated affiliates	3,438	1,216
Changes in operating assets and liabilities:		
Accounts receivable	1,723	1,491
Prepaid expenses and other assets	(4,365)	(4,962)
Accrued straight-line rents receivable	(11,417)	(10,365)
Accounts payable, accrued expenses and other liabilities	(19,127)	(11,597)
Net cash provided by operating activities	122,295	114,534
Investing activities:		
Investments in acquired real estate and related intangible assets, net of cash acquired	(4,277)	—
Investments in development in process	(44,601)	(69,928)
Investments in tenant improvements and deferred leasing costs	(61,282)	(54,794)
Investments in building improvements	(23,513)	(28,877)
Net proceeds from disposition of real estate assets	6,070	8,975
Distributions of capital from unconsolidated affiliates	10,077	468
Investments in mortgages and notes receivable	(1,772)	(234)
Repayments of mortgages and notes receivable	9,221	16,817
Investments in and advances to unconsolidated affiliates	—	(6,225)
Changes in restricted cash and other investing activities	(6,741)	686
Net cash used in investing activities	(116,818)	(133,112)
Financing activities:		
Dividends on Common Stock	(79,526)	(76,605)
Redemptions/repurchases of Preferred Stock	(10)	—
Redemptions of Common Units	—	(93)
Dividends on Preferred Stock	(1,253)	(1,254)
Distributions to noncontrolling interests in the Operating Partnership	(2,485)	(2,497)
Distributions to noncontrolling interests in consolidated affiliates	(751)	(940)
Proceeds from the issuance of Common Stock	47,678	11,404

Costs paid for the issuance of Common Stock	(735)	(42)
Repurchase of shares related to tax withholdings	(3,727)	(2,650)
Borrowings on revolving credit facility	183,900	302,100
Repayments of revolving credit facility	(233,900)	(360,800)
Borrowings on mortgages and notes payable	125,000	296,949
Repayments of mortgages and notes payable	(41,887)	(134,648)
Payments on financing obligation	(162)	(1,364)
Additions to deferred financing costs and other financing activities	(1,512)	(2,467)
Net cash provided by/(used in) financing activities	(9,370)	27,093
Net increase/(decrease) in cash and cash equivalents	$(3,893)	$8,515

See accompanying notes to consolidated financial statements.

Table of Contents

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

	Six Months Ended June 30,	
	2015	2014
Net increase/(decrease) in cash and cash equivalents	$(3,893)	$8,515
Cash and cash equivalents at beginning of the period	8,832	10,184
Cash and cash equivalents at end of the period	$4,939	$18,699

Supplemental disclosure of cash flow information:

	Six Months Ended June 30,	
	2015	2014
Cash paid for interest, net of amounts capitalized	$40,540	$41,468

Supplemental disclosure of non-cash investing and financing activities:

	Six Months Ended June 30,	
	2015	2014
Unrealized losses on cash flow hedges	$(2,645)	$(4,250)
Conversions of Common Units to Common Stock	1,206	162
Changes in accrued capital expenditures	(3,250)	10,726
Write-off of fully depreciated real estate assets	31,011	16,994
Write-off of fully amortized deferred financing and leasing costs	17,812	13,273
Adjustment of noncontrolling interests in the Operating Partnership to fair value	(11,475)	18,337
Unrealized gains on tax increment financing bond	194	270
Assumption of mortgages and notes payable related to acquisition activities	19,277	—
Receivable related to redemption of investment in unconsolidated affiliate	—	4,660
Reduction in the carrying amount of real estate purchased from unconsolidated affiliate by our share of the unconsolidated affiliate's gain	3,124	—
Contingent consideration in connection with the acquisition of land	900	—

See accompanying notes to consolidated financial statements.

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

	June 30, 2015	December 31, 2014 (as revised)
Assets:		
Real estate assets, at cost:		
Land	$407,180	$ 384,301
Buildings and tenant improvements	3,991,536	3,807,315
Development in process	104,693	205,971
Land held for development	76,955	79,355
	4,580,364	4,476,942
Less-accumulated depreciation	(1,066,945)	(1,024,936)
Net real estate assets	3,513,419	3,452,006
Real estate and other assets, net, held for sale	10,631	1,038
Cash and cash equivalents	4,939	8,938
Restricted cash	15,703	14,595
Accounts receivable, net of allowance of $1,487 and $1,314, respectively	27,027	48,557
Mortgages and notes receivable, net of allowance of $410 and $275, respectively	5,935	13,116
Accrued straight-line rents receivable, net of allowance of $1,022 and $600, respectively	151,028	142,037
Investments in and advances to unconsolidated affiliates	43,979	50,685
Deferred financing and leasing costs, net of accumulated amortization of $119,396 and $112,804, respectively	223,380	228,768
Prepaid expenses and other assets, net of accumulated amortization of $15,242 and $14,259, respectively	43,601	39,489
Total Assets	$4,039,642	$ 3,999,229
Liabilities, Redeemable Operating Partnership Units and Capital:		
Mortgages and notes payable	$2,124,028	$ 2,071,389
Accounts payable, accrued expenses and other liabilities	214,131	237,547
Financing obligation	8,962	8,962
Total Liabilities	2,347,121	2,317,898
Commitments and contingencies		
Redeemable Operating Partnership Units:		
Common Units, 2,910,135 and 2,936,955 outstanding, respectively	116,260	130,048
Series A Preferred Units (liquidation preference $1,000 per unit), 29,050 and 29,060 units issued and outstanding, respectively	29,050	29,060
Total Redeemable Operating Partnership Units	145,310	159,108
Capital:		
Common Units:		
General partner Common Units, 966,193 and 954,355 outstanding, respectively	15,335	15,078
Limited partner Common Units, 92,743,004 and 91,544,146 outstanding, respectively	1,518,408	1,492,948
Accumulated other comprehensive loss	(4,514)	(3,912)
Noncontrolling interests in consolidated affiliates	17,982	18,109
Total Capital	1,547,211	1,522,223
Total Liabilities, Redeemable Operating Partnership Units and Capital	$4,039,642	$ 3,999,229

See accompanying notes to consolidated financial statements.

Table of Contents

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Rental and other revenues	$161,136	$152,722	$318,446	$301,175
Operating expenses:				
Rental property and other expenses	57,278	55,258	114,791	111,632
Depreciation and amortization	51,240	50,443	101,548	98,608
Impairments of real estate assets	—	588	—	588
General and administrative	8,892	8,750	20,329	19,480
Total operating expenses	117,410	115,039	236,668	230,308
Interest expense:				
Contractual	20,857	20,640	41,299	41,390
Amortization of deferred financing costs	828	799	1,628	1,451
Financing obligation	317	(226)	498	(266)
	22,002	21,213	43,425	42,575
Other income:				
Interest and other income	1,199	1,410	2,437	2,809
Gains/(losses) on debt extinguishment	(220)	18	(220)	18
	979	1,428	2,217	2,827
Income from continuing operations before disposition of investment properties and activity in unconsolidated affiliates	22,703	17,898	40,570	31,119
Gains on disposition of property	2,412	5,947	3,569	5,947
Equity in earnings of unconsolidated affiliates	1,776	667	3,587	638
Income from continuing operations	26,891	24,512	47,726	37,704
Discontinued operations:				
Net gains on disposition of discontinued operations	—	—	—	384
	—	—	—	384
Net income	26,891	24,512	47,726	38,088
Net (income) attributable to noncontrolling interests in consolidated affiliates	(328)	(438)	(624)	(861)
Distributions on Preferred Units	(626)	(627)	(1,253)	(1,254)
Net income available for common unitholders	$25,937	$23,447	$45,849	$35,973
Earnings per Common Unit – basic:				
Income from continuing operations available for common unitholders	$0.27	$0.25	$0.48	$0.38
Income from discontinued operations available for common unitholders	—	—	—	0.01
Net income available for common unitholders	$0.27	$0.25	$0.48	$0.39
Weighted average Common Units outstanding – basic	96,556	92,782	96,153	92,640
Earnings per Common Unit – diluted:				
Income from continuing operations available for common unitholders	$0.27	$0.25	$0.48	$0.38
Income from discontinued operations available for common unitholders	—	—	—	0.01
Net income available for common unitholders	$0.27	$0.25	$0.48	$0.39
Weighted average Common Units outstanding – diluted	96,640	92,903	96,257	92,763
Distributions declared per Common Unit	$0.425	$0.425	$0.850	$0.850
Net income available for common unitholders:				

Income from continuing operations available for common unitholders	$25,937	$23,447	$45,849	$35,589
Income from discontinued operations available for common unitholders	—	—	—	384
Net income available for common unitholders	$25,937	$23,447	$45,849	$35,973

See accompanying notes to consolidated financial statements.

Table of Contents

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Comprehensive income:				
Net income	$26,891	$24,512	$47,726	$38,088
Other comprehensive income/(loss):				
Unrealized gains on tax increment financing bond	1	105	194	270
Unrealized gains/(losses) on cash flow hedges	269	(2,846)	(2,645)	(4,250)
Amortization of cash flow hedges	925	944	1,849	1,872
Total other comprehensive income/(loss)	1,195	(1,797)	(602)	(2,108)
Total comprehensive income	28,086	22,715	47,124	35,980
Less-comprehensive (income) attributable to noncontrolling interests	(328)	(438)	(624)	(861)
Comprehensive income attributable to common unitholders	$27,758	$22,277	$46,500	$35,119

See accompanying notes to consolidated financial statements.

Table of Contents

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

	Common Units General Partners' Capital (as revised)	Common Units Limited Partners' Capital (as revised)	Accumulated Other Comprehensive Loss	Noncontrolling Interests in Consolidated Affiliates	Total (as revised)
Balance at December 31, 2014	$15,078	$1,492,948	$ (3,912)	$ 18,109	$1,522,223
Issuances of Common Units, net of issuance costs and tax withholdings	432	42,784	—	—	43,216
Distributions paid on Common Units	(817)	(80,846)	—	—	(81,663)
Distributions paid on Preferred Units	(13)	(1,240)	—	—	(1,253)
Share-based compensation expense, net of forfeitures	51	5,016	—	—	5,067
Distributions to noncontrolling interests in consolidated affiliates	—	—	—	(751)	(751)
Adjustment of Redeemable Common Units to fair value and contributions/distributions from/to the General Partner	133	13,115	—	—	13,248
Net (income) attributable to noncontrolling interests in consolidated affiliates	(6)	(618)	—	624	—
Comprehensive income:					
Net income	477	47,249	—	—	47,726
Other comprehensive loss	—	—	(602)	—	(602)
Total comprehensive income					47,124
Balance at June 30, 2015	$15,335	$1,518,408	$ (4,514)	$ 17,982	$1,547,211

	Common Units General Partners' Capital (as revised)	Common Units Limited Partners' Capital (as revised)	Accumulated Other Comprehensive Loss	Noncontrolling Interests in Consolidated Affiliates	Total (as revised)
Balance at December 31, 2013	$14,596	$1,445,181	$ (2,611)	$ 21,396	$1,478,562
Issuances of Common Units, net of issuance costs and tax withholdings	87	8,625	—	—	8,712
Redemptions of Common Units	(1)	(92)	—	—	(93)
Distributions paid on Common Units	(788)	(77,966)	—	—	(78,754)
Distributions paid on Preferred Units	(13)	(1,241)	—	—	(1,254)
Share-based compensation expense, net of forfeitures	54	5,327	—	—	5,381
Distributions to noncontrolling interests in consolidated affiliates	—	—	—	(940)	(940)
Adjustment of Redeemable Common Units to fair value and contributions/distributions from/to the General Partner	(171)	(17,004)	—	—	(17,175)
	(9)	(852)	—	861	—

Net (income) attributable to noncontrolling interests in consolidated affiliates					
Comprehensive income:					
Net income	381	37,707	—	—	38,088
Other comprehensive loss	—	—	(2,108)	—	(2,108)
Total comprehensive income					35,980
Balance at June 30, 2014	$14,136	$1,399,685	$ (4,719)	$ 21,317	$1,430,419

See accompanying notes to consolidated financial statements.

12

Table of Contents

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

	Six Months Ended June 30, 2015	2014
Operating activities:		
Net income	$47,726	$38,088
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	101,548	98,608
Amortization of lease incentives and acquisition-related intangible assets and liabilities	9	234
Share-based compensation expense	5,067	5,381
Allowance for losses on accounts and accrued straight-line rents receivable	1,174	1,278
Accrued interest on mortgages and notes receivable	(268)	(232)
Amortization of deferred financing costs	1,628	1,451
Amortization of cash flow hedges	1,849	1,872
Amortization of mortgages and notes payable fair value adjustments	84	(902)
Impairments of real estate assets	—	588
(Gains)/losses on debt extinguishment	220	(18)
Net gains on disposition of property	(3,569)	(6,331)
Equity in earnings of unconsolidated affiliates	(3,587)	(638)
Changes in financing obligation	162	(628)
Distributions of earnings from unconsolidated affiliates	3,438	1,216
Changes in operating assets and liabilities:		
Accounts receivable	1,723	1,491
Prepaid expenses and other assets	(4,365)	(4,892)
Accrued straight-line rents receivable	(11,417)	(10,365)
Accounts payable, accrued expenses and other liabilities	(19,041)	(11,568)
Net cash provided by operating activities	122,381	114,633
Investing activities:		
Investments in acquired real estate and related intangible assets, net of cash acquired	(4,277)	—
Investments in development in process	(44,601)	(69,928)
Investments in tenant improvements and deferred leasing costs	(61,282)	(54,794)
Investments in building improvements	(23,513)	(28,877)
Net proceeds from disposition of real estate assets	6,070	8,975
Distributions of capital from unconsolidated affiliates	10,077	468
Investments in mortgages and notes receivable	(1,772)	(234)
Repayments of mortgages and notes receivable	9,221	16,817
Investments in and advances to unconsolidated affiliates	—	(6,225)
Changes in restricted cash and other investing activities	(6,741)	686
Net cash used in investing activities	(116,818)	(133,112)
Financing activities:		
Distributions on Common Units	(81,663)	(78,754)
Redemptions/repurchases of Preferred Units	(10)	—
Redemptions of Common Units	—	(93)
Distributions on Preferred Units	(1,253)	(1,254)
Distributions to noncontrolling interests in consolidated affiliates	(751)	(940)
Proceeds from the issuance of Common Units	47,678	11,404
Costs paid for the issuance of Common Units	(735)	(42)

Repurchase of units related to tax withholdings	(3,727)	(2,650)
Borrowings on revolving credit facility	183,900	302,100
Repayments of revolving credit facility	(233,900)	(360,800)
Borrowings on mortgages and notes payable	125,000	296,949
Repayments of mortgages and notes payable	(41,887)	(134,648)
Payments on financing obligation	(162)	(1,364)
Additions to deferred financing costs and other financing activities	(2,052)	(2,917)
Net cash provided by/(used in) financing activities	(9,562)	26,991
Net increase/(decrease) in cash and cash equivalents	$(3,999)	$8,512

See accompanying notes to consolidated financial statements.

Table of Contents

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

	Six Months Ended June 30, 2015	2014
Net increase/(decrease) in cash and cash equivalents	$(3,999)	$8,512
Cash and cash equivalents at beginning of the period	8,938	10,281
Cash and cash equivalents at end of the period	$4,939	$18,793

Supplemental disclosure of cash flow information:

	Six Months Ended June 30, 2015	2014
Cash paid for interest, net of amounts capitalized	$40,540	$41,468

Supplemental disclosure of non-cash investing and financing activities:

	Six Months Ended June 30, 2015	2014
Unrealized losses on cash flow hedges	$(2,645)	$(4,250)
Changes in accrued capital expenditures	(3,250)	10,726
Write-off of fully depreciated real estate assets	31,011	16,994
Write-off of fully amortized deferred financing and leasing costs	17,812	13,273
Adjustment of Redeemable Common Units to fair value	(13,788)	16,725
Unrealized gains on tax increment financing bond	194	270
Assumption of mortgages and notes payable related to acquisition activities	19,277	—
Receivable related to redemption of investment in unconsolidated affiliate	—	4,660
Reduction in the carrying amount of real estate purchased from unconsolidated affiliate by our share of the unconsolidated affiliate's gain	3,124	—
Contingent consideration in connection with the acquisition of land	900	—

See accompanying notes to consolidated financial statements.

HIGHWOODS PROPERTIES, INC.
HIGHWOODS REALTY LIMITED PARTNERSHIP
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2015
(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 June 30, 2015, we owned or had an interest in 31.4 million rentable square feet of in-service properties, 0.9 million rentable square feet of properties under development and approximately 500 acres of development land.

The Company is the sole general partner of the Operating Partnership. At June 30, 2015, the Company owned all of the Preferred Units and 93.7 million, or 97.0%, of the Common Units in the Operating Partnership. Limited partners own the remaining 2.9 million Common Units. During the six months ended June 30, 2015, the Company redeemed 26,820 Common Units for a like number of shares of Common Stock.

Common Stock Offerings

During the three and six months ended June 30, 2015, the Company issued 58,533 and 972,659 shares, respectively, of Common Stock under its equity sales agreements at an average gross sales price of $41.72 and $45.12 per share, respectively, and received net proceeds, after sales commissions, of $2.4 million and $43.2 million, respectively. As a result of this activity and the redemptions discussed above, the percentage of Common Units owned by the Company increased from 96.9% at December 31, 2014 to 97.0% at June 30, 2015.

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. At December 31, 2014, we had involvement with, but were not the primary beneficiary in, an entity that we concluded to be a variable interest entity (see Note 3).

During the second quarter of 2015, as a result of our partner's irrevocable exercise of a buy-sell provision in one of our joint venture agreements, our partner's right to put its 80.0% equity interest back to us became no longer exercisable. As a result, we recorded the original contribution transaction as a partial sale and recognized $2.2 million of gain. Our investment in this joint venture now qualifies for the equity method of accounting, which resulted in the retrospective revision of the Consolidated Balance Sheets and Consolidated Statements of Equity and Capital for all prior periods presented. The effects of the retrospective application of the equity method of accounting to the Consolidated Statements of Income, Comprehensive Income and Cash Flows were not material. The effects of the retrospective application of the equity method of accounting to the Company's December 31, 2014 Balance Sheet were as follows:

	December 31, 2014 Previously Reported	As Revised
Net real estate assets	$3,481,406	$3,452,006
Investments in and advances to unconsolidated affiliates	$27,071	$50,685
Total Assets	$4,004,909	$3,999,123
Financing obligations	$23,519	$8,962
Distributions in excess of net income available for common stockholders	$(966,141)	$(957,370)
Total Liabilities, Noncontrolling Interests in the Operating Partnership and Equity	$4,004,909	$3,999,123

1. Description of Business and Significant Accounting Policies – Continued

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 2014 Annual Report on Form 10-K.

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 the Consolidated Financial Statements and accompanying notes. Actual results could differ from those estimates.

Recently Issued Accounting Standards

The Financial Accounting Standards Board ("FASB") recently issued an accounting standards update that requires the use of a new five-step model to recognize revenue from customer contracts. The five-step model requires that we identify the contract with the customer, identify the performance obligations in the contract, determine the transaction price, allocate the transaction price to the performance obligations in the contract and recognize revenue when we satisfy the performance obligations. We will also be required to disclose information regarding the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. The accounting standards update is required to be adopted in 2017. Retrospective application is required either to all periods presented or with the cumulative effect of initial adoption recognized in the period of adoption. We are in the process of evaluating this accounting standards update.

The FASB recently issued an accounting standards update that amends consolidation requirements. The amendments significantly change the consolidation analysis required under GAAP and will require companies to reevaluate all previous consolidation conclusions. The accounting standards update is required to be adopted in 2016. We are in the process of evaluating this accounting standards update.

The FASB recently issued an accounting standards update that requires debt issuance costs related to a recognized debt liability to be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The accounting standards update is required to be adopted in 2016. Retrospective application is required. We are in the process of evaluating this accounting standards update.

2. Real Estate Assets

Acquisitions

During the second quarter of 2015, we acquired:

- land in Atlanta, GA for a purchase price and related transaction costs of $5.2 million (including contingent consideration of $0.9 million); and

- our Highwoods DLF 98/29, LLC joint venture partner’s 77.2% interest in a building in Orlando, FL encompassing 168,000 rentable square feet in exchange for the assumption of secured debt recorded at fair value of $19.3 million (see Note 6). We expensed $0.1 million of acquisition costs (included in general and administrative expenses) related to this acquisition.

The assets acquired and liabilities assumed were recorded at fair value as determined by management based on information available at the acquisition date and on current assumptions as to future operations.

Dispositions

During the second quarter of 2015, we sold land for a sale price of $0.5 million and recorded a gain on disposition of property of $0.2 million.

During the first quarter of 2015, we sold:

- two buildings for an aggregate sale price of $3.5 million and recorded aggregate gains on disposition of property of $0.4 million; and

- land for a sale price of $2.5 million and recorded a gain on disposition of property of $0.8 million.

3. Mortgages and Notes Receivable

Mortgages and notes receivable were $5.9 million and $13.1 million at June 30, 2015 and December 31, 2014, respectively, and consisted primarily of secured financing provided to a third party. During the second quarter of 2015, $9.9 million of secured acquisition financing provided to a third party in 2012 was repaid, including accrued interest. Previously, we concluded this arrangement to be an interest in a variable interest entity. However, since we did not have the power to direct matters that most significantly impact the activities of the entity, we did not qualify as the primary beneficiary. Accordingly, the entity was not consolidated. Our risk of loss with respect to this arrangement was limited to the carrying value of the mortgage receivable.

We evaluate the ability to collect our mortgages and notes receivable by monitoring the leasing statistics and/or market fundamentals of these assets. As of June 30, 2015, our mortgages and notes receivable were not in default and there were no other indicators of impairment.

17

(tabular dollar amounts in thousands, except per share and per unit data)

4. Investments in and Advances to Unconsolidated Affiliates

We have equity interests of up to 50.0% in various joint ventures with unrelated third parties that are accounted for using the equity method of accounting because we have the ability to exercise significant influence over their operating and financial policies.

The following table sets forth the summarized income statements of our unconsolidated affiliates:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Income Statements:				
Rental and other revenues	$12,423	$12,845	$24,654	$25,278
Expenses:				
Rental property and other expenses	6,031	6,236	11,698	12,439
Depreciation and amortization	3,110	3,328	6,225	6,817
Interest expense	2,032	2,301	4,181	4,512
Total expenses	11,173	11,865	22,104	23,768
Income before disposition of property	1,250	980	2,550	1,510
Gains on disposition of property	16,054	—	18,181	1,949
Net income	$17,304	$980	$20,731	$3,459

We have a 20.0% interest in SF-HIW Harborview Plaza, LP (“Harborview”). We are the manager and leasing agent for Harborview’s property in Tampa, FL and receive customary management and leasing fees. During 2012, we also provided a three-year $20.8 million interest-only secured loan to Harborview that is scheduled to mature in September 2015. The loan bears interest at LIBOR plus 500 basis points, subject to a LIBOR floor of 0.5%. Previously, we accounted for the original contribution transaction as a financing obligation since our partner had the right to put its 80.0% equity interest back to us any time during the one-year period prior to September 11, 2015. During the second quarter of 2015, as a result of our partner’s irrevocable exercise of a buy-sell provision in our joint venture agreement, our partner’s right to put its 80.0% equity interest back to us became no longer exercisable, which resulted in recording the original contribution transaction as a partial sale. Harborview is now accounted for using the equity method of accounting. See Note 1.

See Note 2 for a description of our acquisition of a building in Orlando, FL from Highwoods DLF 98/29, LLC during the second quarter of 2015. The joint venture recorded a gain on disposition of property of $13.7 million. Our share of $3.1 million was recorded as a reduction to real estate assets.

During the second quarter of 2015, Highwoods KC Glenridge Office, LLC and Highwoods KC Glenridge Land, LLC collectively sold two buildings and land to an unrelated third party for an aggregate sale price of $24.5 million (before closing credits to buyer of $0.3 million for unfunded tenant improvements) and recorded gains on disposition of property of $2.4 million. We recorded $0.9 million as our share of these gains through equity in earnings of unconsolidated affiliates.

During the first quarter of 2015, Highwoods DLF 97/26 DLF 99/32, LP sold a building to an unrelated third party for a sale price of $7.0 million and recorded a gain on disposition of property of $2.1 million. We recorded $1.1 million as our share of this gain through equity in earnings of unconsolidated affiliates.

Table of Contents
HIGHWOODS PROPERTIES, INC.
HIGHWOODS REALTY LIMITED PARTNERSHIP
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(tabular dollar amounts in thousands, except per share and per unit data)

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:

	June 30, 2015	December 31, 2014
Assets:		
Deferred financing costs	$19,508	$ 19,478
Less accumulated amortization	(8,093)	(7,953)
	11,415	11,525
Deferred leasing costs (including lease incentives and above market lease and in-place lease acquisition-related intangible assets)	323,268	322,094
Less accumulated amortization	(111,303)	(104,851)
	211,965	217,243
Deferred financing and leasing costs, net	$223,380	$ 228,768
Liabilities (in accounts payable, accrued expenses and other liabilities):		
Acquisition-related below market lease liabilities	$55,166	$ 55,783
Less accumulated amortization	(16,300)	(13,548)
	$38,866	$ 42,235

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Amortization of deferred financing costs	$828	$799	$1,628	$1,451
Amortization of deferred leasing costs and acquisition-related intangible assets (in depreciation and amortization)	$10,169	$10,050	$20,462	$19,978
Amortization of lease incentives (in rental and other revenues)	$422	$399	$784	$750
Amortization of acquisition-related intangible assets (in rental and other revenues)	$1,189	$1,114	$2,355	$2,230
Amortization of acquisition-related intangible assets (in rental property and other expenses)	$139	$139	$276	$276
Amortization of acquisition-related below market lease liabilities (in rental and other revenues)	$(1,674)	$(1,500)	$(3,406)	$(3,022)

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

5. Intangible Assets and Below Market Lease Liabilities - Continued

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

	Amortization of Deferred Financing Costs	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)
July 1 through December 31, 2015	$1,643	$ 20,519	$706	$ 2,213	$ 273	$ (3,098)
2016	3,035	35,511	1,238	3,294	553	(5,555)
2017	2,720	30,630	1,121	2,294	553	(5,284)
2018	1,538	26,145	1,015	1,474	553	(5,123)
2019	1,130	21,716	822	1,054	553	(4,810)
Thereafter	1,349	53,743	2,582	2,870	533	(14,996)
	$11,415	$ 188,264	$7,484	$ 13,199	$ 3,018	$ (38,866)
Weighted average remaining amortization periods as of June 30, 2015 (in years)	4.3	7.0	7.9	6.1	5.5	7.8

The following table sets forth the intangible assets acquired and below market lease liabilities assumed as a result of 2015 acquisition activity:

	Acquisition-Related Intangible Assets (amortized in Rental and Other Revenues)	Acquisition-Related Intangible Assets (amortized in Depreciation and Amortization)	Acquisition-Related Below Market Lease Liabilities (amortized in Rental and Other Revenues)
Amount recorded from acquisition activity	$ 498	$ 1,671	$ (37)
Weighted average remaining amortization periods as of June 30, 2015 (in years)	2.1	2.3	4.8

6. Mortgages and Notes Payable

The following table sets forth our mortgages and notes payable:

	June 30, 2015	December 31, 2014
Secured indebtedness	$290,101	$ 312,868
Unsecured indebtedness	1,833,927	1,758,521
Total mortgages and notes payable	$2,124,028	$ 2,071,389

At June 30, 2015, our secured mortgage loans were collateralized by real estate assets with an aggregate undepreciated book value of $545.5 million.

6. Mortgages and Notes Payable - Continued

Our $475.0 million unsecured revolving credit facility is scheduled to mature in January 2018 and includes an accordion feature that allows for an additional $75.0 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 110 basis points and the annual facility fee is 20 basis points. There was $159.0 million and $158.0 million outstanding under our revolving credit facility at June 30, 2015 and July 27, 2015, respectively. At both June 30, 2015 and July 27, 2015, we had $0.4 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 June 30, 2015 and July 27, 2015 was $315.6 million and $316.6 million, respectively.

During the second quarter of 2015, we amended our $225.0 million, seven-year unsecured bank term loan, which was scheduled to mature in January 2019. We increased the borrowed amount to $350.0 million. The amended term loan is now scheduled to mature in June 2020 and the interest rate, based on our current credit ratings, was reduced from LIBOR plus 175 basis points to LIBOR plus 110 basis points. The interest rate is based on the higher of the publicly announced ratings from Moody’s Investors Service or Standard & Poor’s Ratings Services. The financial and other covenants under the amended term loan are unchanged. We incurred $1.3 million of deferred financing fees in connection with this amendment, which will be amortized along with existing unamortized deferred loan fees over the remaining term of the new loan.

During the second quarter of 2015, we prepaid without penalty the remaining $39.4 million balance on a secured mortgage loan with an effective interest rate of 6.43% that was originally scheduled to mature in November 2015. We recorded $0.2 million of loss on debt extinguishment related to this prepayment.

During the second quarter of 2015, we acquired our joint venture partner’s 77.2% interest in a building in Orlando, FL. Simultaneously with this acquisition, the joint venture's previously existing mortgage note was restructured into a new $18.0 million first mortgage note and a $10.2 million subordinated note, both of which are scheduled to mature in July 2017. The first mortgage note is interest only with an effective interest rate of 5.36%, payable monthly. The subordinated note has an effective interest rate of 8.6%. Additionally, we deposited $3.0 million into escrow to fund tenant improvements, leasing commissions and building improvements. The first mortgage note and subordinated note can be prepaid at any time commencing October 2016 upon a sale or refinancing of the property. In such event, the subordinated note and any and all accrued interest thereon would be deemed fully satisfied upon payment of a "waterfall payment," if any. Such "waterfall payment" would be a cash payment equal to 50.0% of the amount, if any, by which the net sale proceeds or appraised value in the event of a refinancing exceeds (1) the outstanding principal of the first mortgage note, (2) the funds deposited by us into escrow to fund tenant improvements, leasing commissions and building improvements and (3) a 10.0% return on such funds deposited by us into escrow. As of June 30, 2015, the fair value of the first mortgage note was $18.3 million and the fair value of the subordinated note equaled the projected waterfall payment of $1.0 million.

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

7. Derivative Financial Instruments

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. No gain or loss was recognized related to hedge ineffectiveness or to amounts excluded from effectiveness testing on our cash flow hedges during the six months ended June 30, 2015 and 2014. We have no collateral requirements related to our interest rate swaps.

Amounts reported in accumulated other comprehensive loss ("AOCL") related to derivatives will be reclassified to interest expense as interest payments are made on our variable-rate debt. During the period from July 1, 2015 through June 30, 2016, we estimate that $2.9 million will be reclassified to interest expense.

Table of Contents
HIGHWOODS PROPERTIES, INC.
HIGHWOODS REALTY LIMITED PARTNERSHIP
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(tabular dollar amounts in thousands, except per share and per unit data)

7. Derivative Financial Instruments - Continued

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

	June 30, 2015	December 31, 2014
Derivatives:		
Derivatives designated as cash flow hedges in accounts payable, accrued expenses and other liabilities:		
Interest rate swaps	$3,366	$ 2,412

The following table sets forth the effect of our cash flow hedges on AOCL and interest expense:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Derivatives Designated as Cash Flow Hedges:				
Amount of unrealized gains/(losses) recognized in AOCL on derivatives (effective portion):				
Interest rate swaps	$269	$(2,846)	$(2,645)	$(4,250)
Amount of losses reclassified out of AOCL into contractual interest expense (effective portion):				
Interest rate swaps	$925	$944	$1,849	$1,872

8. Noncontrolling Interests

Noncontrolling Interests in Consolidated Affiliates

At June 30, 2015, our noncontrolling interests in consolidated affiliates relate to our joint venture partner's 50.0% interest in office properties in Richmond, VA. Our joint venture partner is an unrelated third party.

Noncontrolling Interests in the Operating Partnership

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

	Six Months Ended June 30,	
	2015	2014
Beginning noncontrolling interests in the Operating Partnership	$130,048	$106,480
Adjustment of noncontrolling interests in the Operating Partnership to fair value	(11,475)	18,337
Conversions of Common Units to Common Stock	(1,206)	(162)
Redemptions of Common Units	—	(93)
Net income attributable to noncontrolling interests in the Operating Partnership	1,378	1,140

Distributions to noncontrolling interests in the Operating Partnership	(2,485)	(2,497)
Total noncontrolling interests in the Operating Partnership	$116,260	$123,205

(tabular dollar amounts in thousands, except per share and per unit data)

8. Noncontrolling Interests - Continued

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 June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Net income available for common stockholders	$25,155	$22,705	$44,471	$34,833
Increase in additional paid in capital from conversions of Common Units to Common Stock	—	—	1,206	162
Change from net income available for common stockholders and transfers from noncontrolling interests	$25,155	$22,705	$45,677	$34,995

9. Disclosure About Fair Value of Financial Instruments

The following summarizes the three 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 asset is the fair value of certain of our mortgages and notes receivable. Our Level 2 liabilities include the fair value of our mortgages and notes payable and 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 LIBOR interest rates (forward curves) derived from observed market LIBOR interest rate curves. In addition, credit valuation adjustments are incorporated 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 (1) certain of our mortgages and notes receivable, which were estimated by the income approach utilizing internal cash flow projections and market interest rates to estimate the price that would be paid in an orderly transaction between market participants, and (2) our tax increment financing bond, which is not routinely traded but whose fair value is determined by the income approach utilizing contractual cash flows and market-based interest rates to estimate the projected redemption value based on quoted bid/ask prices for similar unrated municipal bonds.

Our Level 3 liability is the fair value of our financing obligation, which was estimated by the income approach to approximate the price that would be paid in an orderly transaction between market participants, utilizing: (1) contractual cash flows; (2) market-based interest rates; and (3) a number of other assumptions including demand for space, competition for customers, changes in market rental rates, costs of operation and expected ownership periods.

Table of Contents
HIGHWOODS PROPERTIES, INC.
HIGHWOODS REALTY LIMITED PARTNERSHIP
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(tabular dollar amounts in thousands, except per share and per unit data)

9. Disclosure About Fair Value of Financial Instruments - Continued

The following table sets forth our assets and liabilities and the Company's noncontrolling interests in the Operating Partnership that are measured 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 June 30, 2015:				
Assets:				
Mortgages and notes receivable, at fair value (1)	$5,943	$—	$2,167	$ 3,776
Marketable securities of non-qualified deferred compensation plan (in prepaid expenses and other assets)	3,512	3,512	—	—
Tax increment financing bond (in prepaid expenses and other assets)	12,641	—	—	12,641
Total Assets	$22,096	$3,512	$2,167	$ 16,417
Noncontrolling Interests in the Operating Partnership	$116,260	$116,260	$—	$ —
Liabilities:				
Mortgages and notes payable, at fair value (1)	$2,178,032	$—	$2,178,032	$ —
Interest rate swaps (in accounts payable, accrued expenses and other liabilities)	3,366	—	3,366	—
Non-qualified deferred compensation obligation (in accounts payable, accrued expenses and other liabilities)	3,512	3,512	—	—
Financing obligation, at fair value (1)	8,700	—	—	8,700
Total Liabilities	$2,193,610	$3,512	$2,181,398	$ 8,700
Fair Value at December 31, 2014:				
Assets:				
Mortgages and notes receivable, at fair value (1)	$13,142	$—	$2,247	$10,895
Marketable securities of non-qualified deferred compensation plan (in prepaid expenses and other assets)	3,635	3,635	—	—
Tax increment financing bond (in prepaid expenses and other assets)	12,447	—	—	12,447
Total Assets	$29,224	$3,635	$2,247	$23,342
Noncontrolling Interests in the Operating Partnership	$130,048	$130,048	$—	$—
Liabilities:				
Mortgages and notes payable, at fair value (1)	$2,141,334	$—	$2,141,334	$—
Interest rate swaps (in accounts payable, accrued expenses and other liabilities)	2,412	—	2,412	—
	3,635	3,635	—	—

Non-qualified deferred compensation obligation (in accounts payable, accrued expenses and other liabilities)				
Financing obligation, at fair value (as revised) (1)	8,623	—	—	8,623
Total Liabilities (as revised)	$2,156,004	$3,635	$2,143,746	$8,623

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(1) Amounts recorded at historical cost on our Consolidated Balance Sheets at June 30, 2015 and December 31, 2014.

(tabular dollar amounts in thousands, except per share and per unit data)

9. Disclosure About Fair Value of Financial Instruments - Continued

The following table sets forth the changes in our Level 3 asset, which is recorded at fair value on our Consolidated Balance Sheets:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Asset:				
Tax Increment Financing Bond:				
Beginning balance	$12,640	$13,568	$12,447	$13,403
Unrealized gains (in AOCL)	1	105	194	270
Ending balance	$12,641	$13,673	$12,641	$13,673

During 2007, we acquired a tax increment financing bond associated with a parking garage developed by us. This bond amortizes to maturity in 2020. The estimated fair value at June 30, 2015 was $0.2 million below the outstanding principal due on the bond. If the discount rate used to fair value this bond was 100 basis points higher or lower, the fair value of the bond would have been $0.3 million lower or $0.4 million higher, respectively, as of June 30, 2015. We intend to hold this bond and have concluded that we will not be required to sell this bond before recovery of the bond principal. Payment of the principal and interest for the bond is guaranteed by us. We have recorded no credit losses related to the bond during the three and six months ended June 30, 2015 and 2014. There is no legal right of offset with the liability, which we report as a financing obligation, related to this tax increment financing bond.

The following table sets forth quantitative information about the unobservable input of our Level 3 asset, which is recorded at fair value on our Consolidated Balance Sheets:

	Valuation Technique	Unobservable Input	Rate as of June 30, 2015	December 31, 2014
Asset:				
Tax increment financing bond	Income approach	Discount rate	8.1%	8.4%

10. Share-Based Payments

During the six months ended June 30, 2015, the Company granted 197,408 stock options with an exercise price equal to the closing market price of a share of Common Stock on the date of grant. The fair value of each option is estimated on the date of grant using the Black-Scholes option pricing model, which resulted in a weighted average grant date fair value per share of $6.19. During the six months ended June 30, 2015, the Company also granted 71,994 shares of time-based restricted stock and 56,957 shares of total return-based restricted stock with weighted average grant date fair values per share of $45.91 and $43.77, respectively. We recorded share-based compensation expense of $1.2 million and $1.1 million during the three months ended June 30, 2015 and 2014, respectively, and $5.1 million and $5.4 million during the six months ended June 30, 2015 and 2014, respectively. At June 30, 2015, there was $6.7

million of total unrecognized share-based compensation costs, which will be recognized over a weighted average remaining contractual term of 2.6 years.

Table of Contents
HIGHWOODS PROPERTIES, INC.
HIGHWOODS REALTY LIMITED PARTNERSHIP
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(tabular dollar amounts in thousands, except per share and per unit data)

11. Accumulated Other Comprehensive Loss

The following table sets forth the components of AOCL:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Tax increment financing bond:				
Beginning balance	$(252)	$(864)	$(445)	$(1,029)
Unrealized gains on tax increment financing bond	1	105	194	270
Ending balance	(251)	(759)	(251)	(759)
Cash flow hedges:				
Beginning balance	(5,457)	(2,058)	(3,467)	(1,582)
Unrealized gains/(losses) on cash flow hedges	269	(2,846)	(2,645)	(4,250)
Amortization of cash flow hedges (1)	925	944	1,849	1,872
Ending balance	(4,263)	(3,960)	(4,263)	(3,960)
Total accumulated other comprehensive loss	$(4,514)	$(4,719)	$(4,514)	$(4,719)

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(1) Amounts reclassified out of AOCL into contractual interest expense.

12. Real Estate and Other Assets Held For Sale

The following table sets forth the major classes of assets of our real estate and other assets, net, held for sale:

	June 30, 2015	December 31, 2014
Assets:		
Land	$1,450	$ —
Buildings and tenant improvements	11,576	—
Land held for development	2,184	995
Less-accumulated depreciation	(5,062)	—
Net real estate assets	10,148	995
Accrued straight-line rents receivable, net	335	—
Deferred leasing costs, net	128	—
Prepaid expenses and other assets	20	43
Real estate and other assets, net, held for sale	$10,631	$ 1,038

13. Earnings Per Share and Per Unit

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

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