

HIGHWOODS PROPERTIES INC
Form 10-Q
July 24, 2018

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

FORM 10-Q

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

For the quarterly period ended June 30, 2018

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

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

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

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

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

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

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

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

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

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Smaller reporting company Emerging growth company

Highwoods Realty Limited Partnership

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

Smaller reporting company Emerging growth company

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

Highwoods Properties, Inc. Highwoods Realty Limited Partnership

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

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

The Company had 103,460,115 shares of Common Stock outstanding as of July 17, 2018.

EXPLANATORY NOTE

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

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

Certain information contained herein is presented as of July 17, 2018, the latest practicable date for financial information prior to the filing of this Quarterly Report.

This report combines the Quarterly Reports on Form 10-Q for the period ended June 30, 2018 of the Company and the Operating Partnership. We believe combining the quarterly reports into this single report results in the following benefits:

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

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

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

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

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

- Consolidated Financial Statements;

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

- Item 4 - Controls and Procedures; and

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

HIGHWOODS PROPERTIES, INC.
HIGHWOODS REALTY LIMITED PARTNERSHIP

QUARTERLY REPORT FOR THE PERIOD ENDED JUNE 30, 2018

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PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

HIGHWOODS PROPERTIES, INC.

Consolidated Balance Sheets

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

	June 30, 2018	December 31, 2017
Assets:		
Real estate assets, at cost:		
Land	\$485,086	\$ 485,956
Buildings and tenant improvements	4,609,648	4,590,490
Development in-process	178,008	88,452
Land held for development	124,558	74,765
	5,397,300	5,239,663
Less-accumulated depreciation	(1,248,643)	(1,202,424)
Net real estate assets	4,148,657	4,037,239
Real estate and other assets, net, held for sale	—	14,118
Cash and cash equivalents	4,232	3,272
Restricted cash	5,686	85,061
Accounts receivable, net of allowance of \$1,034 and \$753, respectively	19,350	24,397
Mortgages and notes receivable, net of allowance of \$61 and \$72, respectively	5,927	6,425
Accrued straight-line rents receivable, net of allowance of \$567 and \$819, respectively	213,110	200,131
Investments in and advances to unconsolidated affiliates	23,212	23,897
Deferred leasing costs, net of accumulated amortization of \$144,555 and \$143,512, respectively	195,068	200,679
Prepaid expenses and other assets, net of accumulated depreciation of \$19,200 and \$19,092, respectively	37,729	28,572
Total Assets	\$4,652,971	\$ 4,623,791
Liabilities, Noncontrolling Interests in the Operating Partnership and Equity:		
Mortgages and notes payable, net	\$2,055,004	\$ 2,014,333
Accounts payable, accrued expenses and other liabilities	215,451	228,215
Total Liabilities	2,270,455	2,242,548
Commitments and contingencies		
Noncontrolling interests in the Operating Partnership	142,323	144,009
Equity:		
Preferred Stock, \$.01 par value, 50,000,000 authorized shares; 8.625% Series A Cumulative Redeemable Preferred Shares (liquidation preference \$1,000 per share), 28,887 and 28,892 shares issued and outstanding, respectively	28,887	28,892
Common Stock, \$.01 par value, 200,000,000 authorized shares; 103,459,115 and 103,266,875 shares issued and outstanding, respectively	1,035	1,033
Additional paid-in capital	2,936,636	2,929,399
Distributions in excess of net income available for common stockholders	(759,788)	(747,344)
Accumulated other comprehensive income	15,956	7,838
Total Stockholders' Equity	2,222,726	2,219,818
Noncontrolling interests in consolidated affiliates	17,467	17,416

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Total Equity	2,240,193	2,237,234
Total Liabilities, Noncontrolling Interests in the Operating Partnership and Equity	\$4,652,971	\$4,623,791

See accompanying notes to consolidated financial statements.

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HIGHWOODS PROPERTIES, INC.

Consolidated Statements of Income

(Unaudited and in thousands, except per share amounts)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Rental and other revenues	\$178,792	\$177,283	\$359,230	\$346,691
Operating expenses:				
Rental property and other expenses	59,663	58,854	119,095	116,250
Depreciation and amortization	56,694	55,816	114,262	111,961
General and administrative	9,540	9,050	21,318	20,540
Total operating expenses	125,897	123,720	254,675	248,751
Interest expense:				
Contractual	17,155	15,345	34,860	32,368
Amortization of debt issuance costs	722	809	1,408	1,649
	17,877	16,154	36,268	34,017
Other income:				
Interest and other income	462	564	917	1,248
Gains on debt extinguishment	—	826	—	826
	462	1,390	917	2,074
Income before disposition of investment properties and activity in unconsolidated affiliates	35,480	38,799	69,204	65,997
Gains on disposition of property	16,972	—	16,972	5,332
Equity in earnings of unconsolidated affiliates	546	755	1,068	1,710
Net income	52,998	39,554	87,244	73,039
Net (income) attributable to noncontrolling interests in the Operating Partnership	(1,381)	(1,043)	(2,269)	(1,931)
Net (income) attributable to noncontrolling interests in consolidated affiliates	(308)	(299)	(594)	(599)
Dividends on Preferred Stock	(623)	(623)	(1,246)	(1,246)
Net income available for common stockholders	\$50,686	\$37,589	\$83,135	\$69,263
Earnings per Common Share – basic:				
Net income available for common stockholders	\$0.49	\$0.37	\$0.80	\$0.68
Weighted average Common Shares outstanding – basic	103,428	102,475	103,376	102,109
Earnings per Common Share – diluted:				
Net income available for common stockholders	\$0.49	\$0.37	\$0.80	\$0.68
Weighted average Common Shares outstanding – diluted	106,267	105,386	106,216	105,026
Dividends declared per Common Share	\$0.4625	\$0.4400	\$0.9250	\$0.8800

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 June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Comprehensive income:				
Net income	\$52,998	\$39,554	\$87,244	\$73,039
Other comprehensive income:				
Unrealized gains/(losses) on cash flow hedges	862	(136)	8,739	316
Amortization of cash flow hedges	(515)	297	(621)	781
Total other comprehensive income	347	161	8,118	1,097
Total comprehensive income	53,345	39,715	95,362	74,136
Less-comprehensive (income) attributable to noncontrolling interests	(1,689)	(1,342)	(2,863)	(2,530)
Comprehensive income attributable to common stockholders	\$51,656	\$38,373	\$92,499	\$71,606

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, 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	(3,396)) —	—	415	—	—	—	415
Conversions of Common Units to Common Stock	23,196	—	—	1,084	—	—	—	1,084
Dividends on Common Stock		—	—	—	—	—	(95,579)	(95,579)
Dividends on Preferred Stock		—	—	—	—	—	(1,246)	(1,246)
Adjustment of noncontrolling interests in the Operating Partnership to fair value		—	—	272	—	—	—	272
Distributions to noncontrolling interests in consolidated affiliates		—	—	—	—	(543)) —	(543)
Issuances of restricted stock	172,440	—	—	—	—	—	—	—
Redemptions/repurchases of Preferred Stock		—	(5)) —	—	—	—	(5)
Share-based compensation expense, net of forfeitures	—	2	—	5,466	—	—	—	5,468
Net (income) attributable to noncontrolling interests in the Operating Partnership		—	—	—	—	—	(2,269)	(2,269)
Net (income) attributable to noncontrolling interests in consolidated affiliates		—	—	—	—	594	(594)) —
Comprehensive income: Net income		—	—	—	—	—	87,244	87,244
		—	—	—	8,118	—	—	8,118

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Other comprehensive income									
Total comprehensive income									95,362
Balance at June 30, 2018	103,459,115	\$ 1,035	\$ 28,887	\$ 2,936,636	\$ 15,956	\$ 17,467	\$(759,788)		\$ 2,240,193

	Number of Common Shares	Common Stock	Series A 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, 2016	101,665,554	\$ 1,017	\$ 28,920	\$ 2,850,881	\$ 4,949	\$ 17,961	\$(749,412)	\$ 2,154,316
Issuances of Common Stock, net of issuance costs and tax withholdings	1,453,935	15	—	69,818	—	—	—	69,833
Conversions of Common Units to Common Stock	6,000	—	—	305	—	—	—	305
Dividends on Common Stock	—	—	—	—	—	—	(89,952)	(89,952)
Dividends on Preferred Stock	—	—	—	—	—	—	(1,246)	(1,246)
Adjustment of noncontrolling interests in the Operating Partnership to fair value	—	—	—	287	—	—	—	287
Distributions to noncontrolling interests in consolidated affiliates	—	—	—	—	—	(858)	—	(858)
Issuances of restricted stock	110,748	—	—	—	—	—	—	—
Redemptions/repurchases of Preferred Stock	—	—	(15)	—	—	—	—	(15)
Share-based compensation expense, net of forfeitures	—	—	—	4,837	—	—	—	4,837
Net (income) attributable to noncontrolling interests in the Operating Partnership	—	—	—	—	—	—	(1,931)	(1,931)
Net (income) attributable to noncontrolling interests in consolidated affiliates	—	—	—	—	—	599	(599)	—
Comprehensive income:								
Net income	—	—	—	—	—	—	73,039	73,039
	—	—	—	—	1,097	—	—	1,097

Other comprehensive
income

Total comprehensive
income

74,136

Balance at June 30, 2017 103,236,237 \$ 1,032 \$ 28,905 \$ 2,926,128 \$ 6,046 \$ 17,702 \$(770,101) \$ 2,209,712

See accompanying notes to consolidated financial statements.

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

	Six Months Ended June 30,	
	2018	2017
Operating activities:		
Net income	\$87,244	\$73,039
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	114,262	111,961
Amortization of lease incentives and acquisition-related intangible assets and liabilities	(960)	(345)
Share-based compensation expense	5,468	4,837
Allowance for losses on accounts and accrued straight-line rents receivable	192	110
Accrued interest on mortgages and notes receivable	(225)	(274)
Amortization of debt issuance costs	1,408	1,649
Amortization of cash flow hedges	(621)	781
Amortization of mortgages and notes payable fair value adjustments	694	139
Gains on debt extinguishment	—	(826)
Net gains on disposition of property	(16,972)	(5,332)
Equity in earnings of unconsolidated affiliates	(1,068)	(1,710)
Distributions of earnings from unconsolidated affiliates	1,706	2,907
Settlement of cash flow hedges	7,216	7,322
Changes in operating assets and liabilities:		
Accounts receivable	4,469	4,358
Prepaid expenses and other assets	(5,232)	(1,455)
Accrued straight-line rents receivable	(12,707)	(15,228)
Accounts payable, accrued expenses and other liabilities	(916)	(9,818)
Net cash provided by operating activities	183,958	172,115
Investing activities:		
Investments in acquired real estate and related intangible assets, net of cash acquired	(50,649)	—
Investments in development in-process	(85,717)	(97,096)
Investments in tenant improvements and deferred leasing costs	(61,990)	(54,119)
Investments in building improvements	(34,652)	(31,070)
Net proceeds from disposition of real estate assets	33,453	11,532
Distributions of capital from unconsolidated affiliates	105	7,445
Repayments of mortgages and notes receivable	758	2,357
Investments in and advances to unconsolidated affiliates	—	(172)
Changes in other investing activities	(3,147)	(4,033)
Net cash used in investing activities	(201,839)	(165,156)
Financing activities:		
Dividends on Common Stock	(95,579)	(89,952)
Special dividend on Common Stock	—	(81,205)
Redemptions/repurchases of Preferred Stock	(5)	(15)
Dividends on Preferred Stock	(1,246)	(1,246)
Distributions to noncontrolling interests in the Operating Partnership	(2,599)	(2,495)
Special distribution to noncontrolling interests in the Operating Partnership	—	(2,271)
Distributions to noncontrolling interests in consolidated affiliates	(543)	(858)
Proceeds from the issuance of Common Stock	2,052	74,987
Costs paid for the issuance of Common Stock	(28)	(1,199)

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Repurchase of shares related to tax withholdings	(1,609)	(3,955)
Borrowings on revolving credit facility	257,400	425,300
Repayments of revolving credit facility	(360,400)	(314,300)
Borrowings on mortgages and notes payable	345,863	456,001
Repayments of mortgages and notes payable	(200,892)	(506,679)
Payments of debt extinguishment costs	—	(57)
Changes in debt issuance costs and other financing activities	(2,948)	(3,688)
Net cash used in financing activities	(60,534)	(51,632)
Net decrease in cash and cash equivalents and restricted cash	\$(78,415)	\$(44,673)

See accompanying notes to consolidated financial statements.

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

	Six Months Ended June 30, 2018		2017	
Net decrease in cash and cash equivalents and restricted cash	\$	(78,415)	\$	(44,673)
Cash and cash equivalents and restricted cash at beginning of the period	88,333		78,631	
Cash and cash equivalents and restricted cash at end of the period	\$	9,918	\$	33,958

Reconciliation of cash and cash equivalents and restricted cash:

	Six Months Ended June 30, 2018		2017	
Cash and cash equivalents at end of the period	\$4,232	\$13,346		
Restricted cash at end of the period	5,686	20,612		
Cash and cash equivalents and restricted cash at end of the period	\$9,918	\$33,958		

Supplemental disclosure of cash flow information:

	Six Months Ended June 30, 2018		2017	
Cash paid for interest, net of amounts capitalized	\$33,273	\$34,930		

Supplemental disclosure of non-cash investing and financing activities:

	Six Months Ended June 30, 2018		2017	
Unrealized gains on cash flow hedges	\$8,739	\$316		
Conversions of Common Units to Common Stock	1,084	305		
Changes in accrued capital expenditures	(10,574)	(21,961)		

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Write-off of fully depreciated real estate assets	48,011	28,449
Write-off of fully amortized leasing costs	19,717	15,023
Write-off of fully amortized debt issuance costs	2,705	4,324
Adjustment of noncontrolling interests in the Operating Partnership to fair value	(272)	(287)

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)

	June 30, 2018	December 31, 2017
Assets:		
Real estate assets, at cost:		
Land	\$485,086	\$ 485,956
Buildings and tenant improvements	4,609,648	4,590,490
Development in-process	178,008	88,452
Land held for development	124,558	74,765
	5,397,300	5,239,663
Less-accumulated depreciation	(1,248,643)	(1,202,424)
Net real estate assets	4,148,657	4,037,239
Real estate and other assets, net, held for sale	—	14,118
Cash and cash equivalents	4,232	3,272
Restricted cash	5,686	85,061
Accounts receivable, net of allowance of \$1,034 and \$753, respectively	19,350	24,397
Mortgages and notes receivable, net of allowance of \$61 and \$72, respectively	5,927	6,425
Accrued straight-line rents receivable, net of allowance of \$567 and \$819, respectively	213,110	200,131
Investments in and advances to unconsolidated affiliates	23,212	23,897
Deferred leasing costs, net of accumulated amortization of \$144,555 and \$143,512, respectively	195,068	200,679
Prepaid expenses and other assets, net of accumulated depreciation of \$19,200 and \$19,092, respectively	37,729	28,572
Total Assets	\$4,652,971	\$ 4,623,791
Liabilities, Redeemable Operating Partnership Units and Capital:		
Mortgages and notes payable, net	\$2,055,004	\$ 2,014,333
Accounts payable, accrued expenses and other liabilities	215,451	228,215
Total Liabilities	2,270,455	2,242,548
Commitments and contingencies		
Redeemable Operating Partnership Units:		
Common Units, 2,805,508 and 2,828,704 outstanding, respectively	142,323	144,009
Series A Preferred Units (liquidation preference \$1,000 per unit), 28,887 and 28,892 units issued and outstanding, respectively	28,887	28,892
Total Redeemable Operating Partnership Units	171,210	172,901
Capital:		
Common Units:		
General partner Common Units, 1,058,558 and 1,056,868 outstanding, respectively	21,778	21,830
Limited partner Common Units, 101,991,748 and 101,801,198 outstanding, respectively	2,156,105	2,161,258
Accumulated other comprehensive income	15,956	7,838
Noncontrolling interests in consolidated affiliates	17,467	17,416
Total Capital	2,211,306	2,208,342
Total Liabilities, Redeemable Operating Partnership Units and Capital	\$4,652,971	\$ 4,623,791

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 June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Rental and other revenues	\$178,792	\$177,283	\$359,230	\$346,691
Operating expenses:				
Rental property and other expenses	59,663	58,854	119,095	116,250
Depreciation and amortization	56,694	55,816	114,262	111,961
General and administrative	9,540	9,050	21,318	20,540
Total operating expenses	125,897	123,720	254,675	248,751
Interest expense:				
Contractual	17,155	15,345	34,860	32,368
Amortization of debt issuance costs	722	809	1,408	1,649
	17,877	16,154	36,268	34,017
Other income:				
Interest and other income	462	564	917	1,248
Gains on debt extinguishment	—	826	—	826
	462	1,390	917	2,074
Income before disposition of investment properties and activity in unconsolidated affiliates	35,480	38,799	69,204	65,997
Gains on disposition of property	16,972	—	16,972	5,332
Equity in earnings of unconsolidated affiliates	546	755	1,068	1,710
Net income	52,998	39,554	87,244	73,039
Net (income) attributable to noncontrolling interests in consolidated affiliates	(308)	(299)	(594)	(599)
Distributions on Preferred Units	(623)	(623)	(1,246)	(1,246)
Net income available for common unitholders	\$52,067	\$38,632	\$85,404	\$71,194
Earnings per Common Unit – basic:				
Net income available for common unitholders	\$0.49	\$0.37	\$0.81	\$0.68
Weighted average Common Units outstanding – basic	105,826	104,900	105,778	104,536
Earnings per Common Unit – diluted:				
Net income available for common unitholders	\$0.49	\$0.37	\$0.81	\$0.68
Weighted average Common Units outstanding – diluted	105,858	104,977	105,807	104,617
Distributions declared per Common Unit	\$0.4625	\$0.4400	\$0.9250	\$0.8800

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 June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Comprehensive income:				
Net income	\$52,998	\$39,554	\$87,244	\$73,039
Other comprehensive income:				
Unrealized gains/(losses) on cash flow hedges	862	(136)	8,739	316
Amortization of cash flow hedges	(515)	297	(621)	781
Total other comprehensive income	347	161	8,118	1,097
Total comprehensive income	53,345	39,715	95,362	74,136
Less-comprehensive (income) attributable to noncontrolling interests	(308)	(299)	(594)	(599)
Comprehensive income attributable to common unitholders	\$53,037	\$39,416	\$94,768	\$73,537

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, 2017	\$21,830	\$2,161,258	\$ 7,838	\$ 17,416	\$2,208,342
Issuances of Common Units, net of issuance costs and tax withholdings	4	411	—	—	415
Distributions on Common Units	(978)	(96,822)	—	—	(97,800)
Distributions on Preferred Units	(12)	(1,234)	—	—	(1,246)
Share-based compensation expense, net of forfeitures	55	5,413	—	—	5,468
Distributions to noncontrolling interests in consolidated affiliates	—	—	—	(543)	(543)
Adjustment of Redeemable Common Units to fair value and contributions/distributions from/to the General Partner	13	1,295	—	—	1,308
Net (income) attributable to noncontrolling interests in consolidated affiliates	(6)	(588)	—	594	—
Comprehensive income:					
Net income	872	86,372	—	—	87,244
Other comprehensive income	—	—	8,118	—	8,118
Total comprehensive income					95,362
Balance at June 30, 2018	\$21,778	\$2,156,105	\$ 15,956	\$ 17,467	\$2,211,306

	Common Units		Accumulated	Noncontrolling	
	General	Limited	Other	Interests in	Total
	Partners'	Partners'	Comprehensiv	Consolidated	
	Capital	Capital	Income	Affiliates	
Balance at December 31, 2016	\$21,023	\$2,081,463	\$ 4,949	\$ 17,961	\$2,125,396
Issuances of Common Units, net of issuance costs and tax withholdings	698	69,135	—	—	69,833
Distributions on Common Units	(920)	(91,167)	—	—	(92,087)
Distributions on Preferred Units	(12)	(1,234)	—	—	(1,246)
Share-based compensation expense, net of forfeitures	48	4,789	—	—	4,837
Distributions to noncontrolling interests in consolidated affiliates	—	—	—	(858)	(858)
Adjustment of Redeemable Common Units to fair value and contributions/distributions from/to the General Partner	7	789	—	—	796
Net (income) attributable to noncontrolling interests in consolidated affiliates	(6)	(593)	—	599	—
Comprehensive income:					
Net income	730	72,309	—	—	73,039

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Other comprehensive income	—	—	1,097	—	1,097
Total comprehensive income					74,136
Balance at June 30, 2017	\$21,568	\$2,135,491	\$ 6,046	\$ 17,702	\$2,180,807

See accompanying notes to consolidated financial statements.

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HIGHWOODS REALTY LIMITED PARTNERSHIP

Consolidated Statements of Cash Flows

(Unaudited and in thousands)

	Six Months Ended June 30,	
	2018	2017
Operating activities:		
Net income	\$87,244	\$73,039
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	114,262	111,961
Amortization of lease incentives and acquisition-related intangible assets and liabilities	(960)	(345)
Share-based compensation expense	5,468	4,837
Allowance for losses on accounts and accrued straight-line rents receivable	192	110
Accrued interest on mortgages and notes receivable	(225)	(274)
Amortization of debt issuance costs	1,408	1,649
Amortization of cash flow hedges	(621)	781
Amortization of mortgages and notes payable fair value adjustments	694	139
Gains on debt extinguishment	—	(826)
Net gains on disposition of property	(16,972)	(5,332)
Equity in earnings of unconsolidated affiliates	(1,068)	(1,710)
Distributions of earnings from unconsolidated affiliates	1,706	2,907
Settlement of cash flow hedges	7,216	7,322
Changes in operating assets and liabilities:		
Accounts receivable	4,469	4,358
Prepaid expenses and other assets	(5,232)	(1,455)
Accrued straight-line rents receivable	(12,707)	(15,228)
Accounts payable, accrued expenses and other liabilities	(916)	(9,818)
Net cash provided by operating activities	183,958	172,115
Investing activities:		
Investments in acquired real estate and related intangible assets, net of cash acquired	(50,649)	—
Investments in development in-process	(85,717)	(97,096)
Investments in tenant improvements and deferred leasing costs	(61,990)	(54,119)
Investments in building improvements	(34,652)	(31,070)
Net proceeds from disposition of real estate assets	33,453	11,532
Distributions of capital from unconsolidated affiliates	105	7,445
Repayments of mortgages and notes receivable	758	2,357
Investments in and advances to unconsolidated affiliates	—	(172)
Changes in other investing activities	(3,147)	(4,033)
Net cash used in investing activities	(201,839)	(165,156)
Financing activities:		
Distributions on Common Units	(97,800)	(92,087)
Special distribution on Common Units	—	(83,149)
Redemptions/repurchases of Preferred Units	(5)	(15)
Distributions on Preferred Units	(1,246)	(1,246)
Distributions to noncontrolling interests in consolidated affiliates	(543)	(858)
Proceeds from the issuance of Common Units	2,052	74,987
Costs paid for the issuance of Common Units	(28)	(1,199)
Repurchase of units related to tax withholdings	(1,609)	(3,955)
Borrowings on revolving credit facility	257,400	425,300

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Repayments of revolving credit facility	(360,400)	(314,300)
Borrowings on mortgages and notes payable	345,863	456,001
Repayments of mortgages and notes payable	(200,892)	(506,679)
Payments of debt extinguishment costs	—	(57)
Changes in debt issuance costs and other financing activities	(3,326)	(4,375)
Net cash used in financing activities	(60,534)	(51,632)
Net decrease in cash and cash equivalents and restricted cash	\$(78,415)	\$(44,673)
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)

	Six Months Ended June 30, 2018		2017	
Net decrease in cash and cash equivalents and restricted cash	\$	(78,415)	\$	(44,673)
Cash and cash equivalents and restricted cash at beginning of the period	88,333		78,631	
Cash and cash equivalents and restricted cash at end of the period	\$	9,918	\$	33,958

Reconciliation of cash and cash equivalents and restricted cash:

	Six Months Ended June 30, 2018		2017	
Cash and cash equivalents at end of the period	\$4,232		\$13,346	
Restricted cash at end of the period	5,686		20,612	
Cash and cash equivalents and restricted cash at end of the period	\$9,918		\$33,958	

Supplemental disclosure of cash flow information:

	Six Months Ended June 30, 2018		2017	
Cash paid for interest, net of amounts capitalized	\$33,273		\$34,930	

Supplemental disclosure of non-cash investing and financing activities:

	Six Months Ended June 30, 2018		2017	
Unrealized gains on cash flow hedges	\$8,739		\$316	
Changes in accrued capital expenditures	(10,574)		(21,961)	
Write-off of fully depreciated real estate assets	48,011		28,449	

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Write-off of fully amortized leasing costs	19,717	15,023
Write-off of fully amortized debt issuance costs	2,705	4,324
Adjustment of Redeemable Common Units to fair value	(1,686)	(1,156)

See accompanying notes to consolidated financial statements.

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

June 30, 2018

(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, 2018, we owned or had an interest in 30.5 million rentable square feet of in-service properties, 2.0 million rentable square feet of properties under development and approximately 400 acres of development land.

The Company is the sole general partner of the Operating Partnership. At June 30, 2018, the Company owned all of the Preferred Units and 103.1 million, or 97.4%, of the Common Units in the Operating Partnership. Limited partners owned the remaining 2.8 million Common Units. During the six months ended June 30, 2018, the Company redeemed 23,196 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 2017 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 our Consolidated Financial Statements and accompanying notes. Actual results could differ from those estimates.

Insurance

Beginning in 2018, we are primarily self-insured for health care claims for eligible 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 June 30, 2018, a reserve of \$0.7 million was recorded to cover estimated reported and unreported claims.

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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)

1. Description of Business and Significant Accounting Policies – Continued

Recently Issued Accounting Standards

The Financial Accounting Standards Board ("FASB") issued an accounting standards update ("ASU") that superseded the revenue recognition requirements under previous guidance, which we adopted as of January 1, 2018. Several updates have been issued subsequently which were intended to promote a more consistent interpretation and application of the principles outlined in the ASU. The ASU requires the use of a new five-step model to recognize revenue from contracts with customers. 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 are also required to disclose information regarding the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. In analyzing our contracts with customers, we determined that the most material potential impact from the adoption of this ASU would be in how revenue is recognized for sales of real estate with continuing involvement. Prior to the adoption of this ASU, profit for such sales transactions was recognized and then reduced by the maximum exposure to loss related to the nature of the continuing involvement at the time of sale. Upon adoption of this ASU, any continuing involvement must be analyzed as a separate performance obligation in the contract and a portion of the sales price allocated to each performance obligation. When the continuing involvement performance obligation is satisfied, the sales price allocated to it will be recognized. We had no sales of real estate with continuing involvement during the first six months of 2018 or prior periods; however, we will use such methodology for any future real estate sales with continuing involvement. Our internal controls with respect to accounting for such sales have been updated accordingly. The adoption of this ASU resulted in no other changes with respect to the timing of revenue recognition or internal controls related to our other contracts with customers which include primarily management, development and construction fees and transient parking income, all of which are not material to our Consolidated Financial Statements. As such, there is no cumulative-effect adjustment from the adoption of this ASU reflected in our Consolidated Financial Statements.

The FASB issued an ASU that requires entities to show changes in total cash, cash equivalents, restricted cash and restricted cash equivalents in the statement of cash flows. As a result, restricted cash and restricted cash equivalents will be included with cash and cash equivalents when reconciling the beginning of period and end of period balances rather than presented as transfers between cash and cash equivalents and restricted cash and restricted cash equivalents in the statement of cash flows. We adopted the ASU as of January 1, 2018 with retrospective application to our Consolidated Statements of Cash Flows. Accordingly, our Consolidated Statements of Cash Flows present a reconciliation of the changes in cash and cash equivalents and restricted cash. The effect of the adoption resulted in an \$8.5 million increase in net cash used in investing activities for the six months ended June 30, 2017. Restricted cash represents cash deposits that are legally restricted or held by third parties on our behalf, such as construction-related escrows, property disposition proceeds set aside and designated or intended to fund future tax-deferred exchanges of qualifying real estate investments, escrows and reserves for debt service, real estate taxes and property insurance established pursuant to certain mortgage financing arrangements and any deposits made with lenders to unencumber secured properties.

The FASB issued an ASU that clarifies and narrows the definition of a business used in determining whether to account for a transaction as an asset acquisition or business combination. The guidance requires evaluation of the fair value of the assets acquired to determine if it is concentrated in a single identifiable asset or a group of similar

identifiable assets. If so, the transferred assets would not be a business. The guidance also requires a business to include at least one substantive process and narrows the definition of outputs. We adopted the ASU prospectively as of January 1, 2018. We expect that the majority of our future acquisitions would not meet the definition of a business; therefore, the related acquisition costs would be capitalized as part of the purchase price.

The FASB issued an ASU that clarifies when changes to the terms or conditions of a share-based payment award must be accounted for as modifications. The guidance requires modification accounting if the value, vesting conditions or classification of the award changes. We adopted the ASU as of January 1, 2018 with no effect on our Consolidated Financial Statements.

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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)

1. Description of Business and Significant Accounting Policies – Continued

The FASB issued an ASU that sets out the principles for the recognition, measurement, presentation and disclosure of leases for both lessees and lessors. We are continuing to refine our analysis of the impact of the guidance on our Consolidated Financial Statements and the related internal controls and have an active project team working on the evaluation and implementation of the guidance. We continue to monitor FASB activity with respect to possible amendments to this ASU, particularly the FASB's recent vote to finalize an amendment providing an optional practical expedient to lessors that removes the requirement to separate lease and non-lease components when the pattern of recognition of those components are the same and, when combined as a single unit, those would be classified as operating leases. Should the proposed amendment be issued, we expect to elect the practical expedient as our initial analysis of our leases indicates that the pattern of recognition of our material non-lease components (primarily cost recovery income) are the same as the lease components and will not require the use of the five-step revenue recognition model discussed above. We currently believe that the adoption of the ASU will not significantly change the accounting or the related internal controls for rental and other revenues from operating leases where we are the lessor, and that such leases will be accounted for in a manner similar to existing standards with the underlying leased asset being reported and recognized as a real estate asset. In addition, the guidance requires lessors to capitalize and amortize only incremental direct leasing costs. As a result, upon the adoption of the ASU, we will no longer be able to capitalize and amortize certain leasing related costs and instead will expense these costs as incurred. We are in the process of evaluating the impact to our results of operations of expensing such costs and any necessary changes to our related internal controls. The ASU is required to be adopted in 2019 using a modified retrospective approach which requires a cumulative-effect adjustment to retained earnings as of the beginning of the fiscal year of adoption. Leases where we are the lessee include primarily our operating ground leases. We expect to record right of use assets and the related liabilities for certain of these ground leases. We will continue to refine our evaluation and finalize our implementation plan throughout the remainder of 2018.

The FASB issued an 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. The ASU is required to be adopted in 2019 using a modified retrospective approach. We do not expect such adoption to have a material effect on our Consolidated Financial Statements.

The FASB issued an ASU that requires, among other things, the use of a new current expected credit loss ("CECL") model in determining our allowances for doubtful accounts with respect to accounts receivable, accrued straight-line rents receivable and mortgages and notes receivable. The CECL model requires that we estimate our lifetime expected credit loss with respect to these receivables and record allowances that, when deducted from the balance of the receivables, represent the net amounts expected to be collected. We will also be required to disclose information about how we developed the allowances, including changes in the factors (e.g., portfolio mix, credit trends, unemployment, gross domestic product, etc.) that influenced our estimate of expected credit losses and the reasons for those changes. We will apply the ASU's provisions as a cumulative-effect adjustment to retained earnings upon adoption in 2020. We are in the process of evaluating this ASU.

2. Real Estate Assets

Acquisitions

During the first quarter of 2018, we acquired two development parcels totaling approximately nine acres in Nashville for an aggregate purchase price, including capitalized acquisition costs, of \$50.6 million.

Dispositions

During the second quarter of 2018, we sold a building and various land parcels for an aggregate sale price of \$34.0 million and recorded aggregate gains on disposition of property of \$17.0 million.

3. Mortgages and Notes Receivable

Mortgages and notes receivable were \$5.9 million and \$6.4 million at June 30, 2018 and December 31, 2017, respectively. 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, 2018, our mortgages and notes receivable were not in default and there were no other indicators of impairment.

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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)

4. 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, 2018	December 31, 2017
Assets:		
Deferred leasing costs (including lease incentives and above market lease and in-place lease acquisition-related intangible assets)	\$ 339,623	\$ 344,191
Less accumulated amortization	(144,555)	(143,512)
	\$ 195,068	\$ 200,679
Liabilities (in accounts payable, accrued expenses and other liabilities):		
Acquisition-related below market lease liabilities	\$ 58,847	\$ 59,947
Less accumulated amortization	(30,133)	(28,214)
	\$ 28,714	\$ 31,733

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Amortization of deferred leasing costs and acquisition-related intangible assets (in depreciation and amortization)	\$ 9,207	\$ 10,133	\$ 18,702	\$ 20,752
Amortization of lease incentives (in rental and other revenues)	\$ 476	\$ 443	\$ 905	\$ 840
Amortization of acquisition-related intangible assets (in rental and other revenues)	\$ 429	\$ 675	\$ 877	\$ 1,711
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)	\$(1,495)	\$(1,592)	\$(3,018)	\$(3,172)

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 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)
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	Amortization)				
July 1 through December 31, 2018	\$ 18,504	\$ 866	\$ 784	\$ 277	\$ (2,918)
2019	32,788	1,578	1,273	553	(5,446)
2020	28,231	1,311	959	518	(5,186)
2021	23,756	1,086	632	—	(4,377)
2022	19,520	872	462	—	(3,264)
Thereafter	54,783	4,907	1,408	—	(7,523)
	\$ 177,582	\$ 10,620	\$ 5,518	\$ 1,348	\$ (28,714)
Weighted average remaining amortization periods as of June 30, 2018 (in years)	7.5	10.0	6.5	2.5	6.2

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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. Mortgages and Notes Payable

The following table sets forth our mortgages and notes payable:

	June 30, 2018	December 31, 2017
Secured indebtedness	\$98,089	\$ 98,981
Unsecured indebtedness	1,967,062	1,923,513
Less-unamortized debt issuance costs	(10,147)	(8,161)
Total mortgages and notes payable, net	\$2,055,004	\$ 2,014,333

At June 30, 2018, our secured mortgage loans were collateralized by real estate assets with an aggregate undepreciated book value of \$147.4 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 \$142.0 million and \$136.0 million outstanding under our revolving credit facility at June 30, 2018 and July 17, 2018, respectively. At both June 30, 2018 and July 17, 2018, 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, 2018 and July 17, 2018 was \$457.6 million and \$463.6 million, respectively.

During the second quarter of 2018, we paid off at maturity \$200.0 million principal amount of 7.5% unsecured notes.

During the first quarter of 2018, the Operating Partnership issued \$350.0 million aggregate principal amount of 4.125% notes due 2028, less original issuance discount of \$4.1 million. These notes were priced to yield 4.271%. Underwriting fees and other expenses were incurred that aggregated \$2.9 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 (some of which debt securities may be hedged to a fixed interest rate pursuant to the forward-starting swaps referred to in Note 6);

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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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)

6. Derivative Financial Instruments

During the second quarter of 2018, we entered into \$150.0 million notional amount of forward-starting swaps that effectively lock the underlying 10-year treasury rate at 2.91% with respect to a planned issuance of debt securities by the Operating Partnership expected to occur prior to June 11, 2019.

During 2017, we entered into \$150.0 million notional amount of forward-starting swaps that effectively locked the underlying 10-year treasury rate at 2.44% with respect to a planned issuance of debt securities by the Operating Partnership. Upon issuance of the \$350.0 million aggregate principal amount of 4.125% notes due 2028 during the first quarter of 2018, we terminated the forward-starting swaps resulting in an unrealized gain of \$7.0 million in accumulated other comprehensive income and a gain of \$0.2 million of hedge ineffectiveness in interest expense.

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

Our interest rate swaps have been designated as and are being accounted for as cash flow hedges with the effective portion of changes in fair value recorded in other comprehensive income each reporting period. No significant 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, 2018 and 2017. We have no collateral requirements related to our interest rate swaps.

Amounts reported in accumulated other comprehensive income related to derivatives will be reclassified to interest expense as interest payments are made on our debt. During the period from July 1, 2018 through June 30, 2019, we estimate that \$2.5 million will be reclassified as a decrease to interest expense.

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

	June 30, 2018	December 31, 2017
Derivatives:		
Derivatives designated as cash flow hedges in prepaid expenses and other assets:		
Interest rate swaps	\$ 2,871	\$ 1,286

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

	Three Months Ended June 30, 2018		Six Months Ended June 30, 2018	
	2017	2018	2017	2018
Derivatives Designated as Cash Flow Hedges:				

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Amount of unrealized gains/(losses) recognized in accumulated other comprehensive income on derivatives (effective portion):

Interest rate swaps	\$862	\$(136)	\$8,739	\$316
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Amount of (gains)/losses reclassified out of accumulated other comprehensive income into contractual interest expense (effective portion):

Interest rate swaps	\$(515)	\$297	\$(621)	\$781
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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. Noncontrolling Interests

Noncontrolling Interests in Consolidated Affiliates

At June 30, 2018, our noncontrolling interests in consolidated affiliates relate to our joint venture partner's 50.0% interest in office properties in Richmond. 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,	
	2018	2017
Beginning noncontrolling interests in the Operating Partnership	\$144,009	\$144,802
Adjustment of noncontrolling interests in the Operating Partnership to fair value	(272)	(287)
Conversions of Common Units to Common Stock	(1,084)	(305)
Net income attributable to noncontrolling interests in the Operating Partnership	2,269	1,931
Distributions to noncontrolling interests in the Operating Partnership	(2,599)	(2,495)
Total noncontrolling interests in the Operating Partnership	\$142,323	\$143,646

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		Six Months Ended	
	June 30,		June 30,	
	2018	2017	2018	2017
Net income available for common stockholders	\$50,686	\$37,589	\$83,135	\$69,263
Increase in additional paid in capital from conversions of Common Units to Common Stock	182	203	1,084	305
Change from net income available for common stockholders and transfers from noncontrolling interests	\$50,868	\$37,792	\$84,219	\$69,568

8. Disclosure About Fair Value of Financial Instruments

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

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

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

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

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

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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)

8. Disclosure About Fair Value of Financial Instruments - Continued

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

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

	Total	Level 1 Quoted Prices in Active Markets for Identical Assets or Liabilities	Level 2 Significant Observable Inputs
Fair Value at June 30, 2018:			
Assets:			
Mortgages and notes receivable, at fair value (1)	\$5,927	\$—	\$5,927
Interest rate swaps (in prepaid expenses and other assets)	2,871	—	2,871
Marketable securities of non-qualified deferred compensation plan (in prepaid expenses and other assets)	2,371	2,371	—
Total Assets	\$11,169	\$2,371	\$8,798
Noncontrolling Interests in the Operating Partnership	\$142,323	\$142,323	\$—
Liabilities:			
Mortgages and notes payable, net, at fair value (1)	\$2,024,245	\$—	\$2,024,245
Non-qualified deferred compensation obligation (in accounts payable, accrued expenses and other liabilities)	2,371	2,371	—
Total Liabilities	\$2,026,616	\$2,371	\$2,024,245
Fair Value at December 31, 2017:			
Assets:			
Mortgages and notes receivable, at fair value (1)	\$6,425	\$—	\$6,425
Interest rate swaps (in prepaid expenses and other assets)	1,286	—	1,286
Marketable securities of non-qualified deferred compensation plan (in prepaid expenses and other assets)	2,388	2,388	—
Total Assets	\$10,099	\$2,388	\$7,711
Noncontrolling Interests in the Operating Partnership	\$144,009	\$144,009	\$—

Liabilities:

Mortgages and notes payable, net, at fair value (1)	\$2,015,689	\$—	\$2,015,689
Non-qualified deferred compensation obligation (in accounts payable, accrued expenses and other liabilities)	2,388	2,388	—
Total Liabilities	\$2,018,077	\$2,388	\$2,015,689

(1) Amounts recorded at historical cost on our Consolidated Balance Sheets at June 30, 2018 and December 31, 2017.

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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. Share-Based Payments

During the six months ended June 30, 2018, the Company granted 94,984 shares of time-based restricted stock and 77,456 shares of total return-based restricted stock with weighted average grant date fair values per share of \$43.01 and \$40.81, respectively. We recorded share-based compensation expense of \$1.2 million and \$1.1 million during the three months ended June 30, 2018 and 2017, respectively, and \$5.5 million and \$4.8 million during the six months ended June 30, 2018 and 2017, respectively. At June 30, 2018, there was \$7.0 million of total unrecognized share-based compensation costs, which will be recognized over a weighted average remaining contractual term of 2.5 years.

10. Accumulated Other Comprehensive Income

The following table sets forth the components of accumulated other comprehensive income:

	Three Months Ended June 30, 2018		Six Months Ended June 30, 2017	
Cash flow hedges:				
Beginning balance	\$15,609	\$5,885	\$7,838	\$4,949
Unrealized gains/(losses) on cash flow hedges	862	(136)	8,739	316
Amortization of cash flow hedges (1)	(515)	297	(621)	781
Total accumulated other comprehensive income	\$15,956	\$6,046	\$15,956	\$6,046

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

11. Real Estate and Other Assets Held For Sale

The following table sets forth the assets held for sale at June 30, 2018 and December 31, 2017, which are considered non-core:

	June 30, December 31, 2018 2017	
Assets:		
Land	\$	—\$ 870
Buildings and tenant improvements	—	21,318
Land held for development	—	355
Less-accumulated depreciation	—	(9,304)
Net real estate assets	—	13,239
Accrued straight-line rents receivable	—	591
Deferred leasing costs, net	—	253
Prepaid expenses and other assets	—	35
Real estate and other assets, net, held for sale	\$	—\$ 14,118

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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)

12. Earnings Per Share and Per Unit

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Earnings per Common Share - basic:				
Numerator:				
Net income	\$52,998	\$39,554	\$87,244	\$73,039
Net (income) attributable to noncontrolling interests in the Operating Partnership	(1,381)	(1,043)	(2,269)	(1,931)
Net (income) attributable to noncontrolling interests in consolidated affiliates	(308)	(299)	(594)	(599)
Dividends on Preferred Stock	(623)	(623)	(1,246)	(1,246)
Net income available for common stockholders	\$50,686	\$37,589	\$83,135	\$69,263
Denominator:				
Denominator for basic earnings per Common Share – weighted average shares	103,428	102,475	103,376	102,109
Net income available for common stockholders	\$0.49	\$0.37	\$0.80	\$0.68
Earnings per Common Share - diluted:				
Numerator:				
Net income	\$52,998	\$39,554	\$87,244	\$73,039
Net (income) attributable to noncontrolling interests in consolidated affiliates	(308)	(299)	(594)	(599)
Dividends on Preferred Stock	(623)	(623)	(1,246)	(1,246)
Net income available for common stockholders before net (income) attributable to noncontrolling interests in the Operating Partnership	\$52,067	\$38,632	\$85,404	\$71,194
Denominator:				
Denominator for basic earnings per Common Share – weighted average shares	103,428	102,475	103,376	102,109
Add:				
Stock options using the treasury method	32	77	29	81
Noncontrolling interests Common Units	2,807	2,834	2,811	2,836
Denominator for diluted earnings per Common Share – adjusted weighted average shares and assumed conversions (1)	106,267	105,386	106,216	105,026
Net income available for common stockholders	\$0.49	\$0.37	\$0.80	\$0.68

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

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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)

12. Earnings Per Share and Per Unit - Continued

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Earnings per Common Unit - basic:				
Numerator:				
Net income	\$52,998	\$39,554	\$87,244	\$73,039
Net (income) attributable to noncontrolling interests in consolidated affiliates	(308)	(299)	(594)	(599)
Distributions on Preferred Units	(623)	(623)	(1,246)	(1,246)
Net income available for common unitholders	\$52,067	\$38,632	\$85,404	\$71,194
Denominator:				
Denominator for basic earnings per Common Unit – weighted average units	105,826	104,900	105,778	104,536
Net income available for common unitholders	\$0.49	\$0.37	\$0.81	\$0.68
Earnings per Common Unit - diluted:				
Numerator:				
Net income	\$52,998	\$39,554	\$87,244	\$73,039
Net (income) attributable to noncontrolling interests in consolidated affiliates	(308)	(299)	(594)	(599)
Distributions on Preferred Units	(623)	(623)	(1,246)	(1,246)
Net income available for common unitholders	\$52,067	\$38,632	\$85,404	\$71,194
Denominator:				
Denominator for basic earnings per Common Unit – weighted average units	105,826	104,900	105,778	104,536
Add:				
Stock options using the treasury method	32	77	29	81
Denominator for diluted earnings per Common Unit – adjusted weighted average units and assumed conversions (1)	105,858	104,977	105,807	104,617
Net income available for common unitholders	\$0.49	\$0.37	\$0.81	\$0.68

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

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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)

13. Segment Information

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

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2018	2017	2018	2017
Rental and Other Revenues:				
Office:				
Atlanta	\$34,777	\$35,347	\$70,260	\$69,556
Greensboro	5,378	5,284	11,404	10,586
Memphis	9,899	11,823	20,107	23,618
Nashville	30,669	28,836	61,392	52,526
Orlando	13,451	12,436	26,751	24,874
Pittsburgh	15,323	14,852	30,605	29,701
Raleigh	29,282	30,097	59,086	59,643
Richmond	10,893	11,106	21,942	22,048
Tampa	25,841	24,250	51,266	47,506
Total Office Segment	175,513	174,031	352,813	340,058
Other	3,279	3,252	6,417	6,633
Total Rental and Other Revenues	\$178,792	\$177,283	\$359,230	\$346,691
Net Operating Income:				
Office:				
Atlanta			\$21,608	\$22,544
Greensboro			3,434	3,391
Memphis			6,173	7,272
Nashville			22,427	21,626
Orlando			8,093	7,430
Pittsburgh			9,249	8,949
Raleigh			21,494	21,920
Richmond			7,659	7,845
Tampa			16,500	15,203
Total Office Segment			116,637	116,180
Other			2,492	2,249
Total Net Operating Income			119,129	118,429
Reconciliation to income before disposition of investment properties and activity in unconsolidated affiliates:				
Depreciation and amortization			(56,694)	(55,816)
General and administrative expenses			(9,540)	(9,050)
Interest expense			(17,877)	(16,154)
Other income			462	1,390
			917	2,074

Income before disposition of investment properties and activity in unconsolidated affiliates	\$35,480	\$38,799	\$69,204	\$65,997
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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

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

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

Disclosure Regarding Forward-Looking Statements

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

- the financial condition of our customers could deteriorate;
- we may not be able to lease or re-lease second generation space, defined as previously occupied space that becomes available for lease, quickly or on as favorable terms as old leases;
- we may not be able to lease newly constructed buildings as quickly or on as favorable terms as originally anticipated;
- we may not be able to complete development, acquisition, reinvestment, disposition or joint venture projects as quickly or on as favorable terms as anticipated;
- development activity in our existing markets could result in an excessive supply relative to customer demand;
- our markets may suffer declines in economic and/or office employment growth;
- unanticipated increases in interest rates could increase our debt service costs;
- unanticipated increases in operating expenses could negatively impact our operating results;
- we may not be able to meet our liquidity requirements or obtain capital on favorable terms to fund our working capital needs and growth initiatives or repay or refinance outstanding debt upon maturity; and
- the Company could lose key executive officers.

This list of risks and uncertainties, however, is not intended to be exhaustive. You should also review the other cautionary statements we make in "Business – Risk Factors" set forth in our 2017 Annual Report on Form 10-K. Given these uncertainties, you should not place undue reliance on forward-looking statements. We undertake no obligation to

publicly release the results of any revisions to these forward-looking statements to reflect any future events or circumstances or to reflect the occurrence of unanticipated events.

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Executive Summary

Our Strategic Plan focuses on:

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

Revenues

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

The key components affecting our rental and other revenues are average occupancy, rental rates, cost recovery income, new developments placed in service, acquisitions and dispositions. Average occupancy generally increases during times of improving economic growth, as our ability to lease space outpaces vacancies that occur upon the expirations of existing leases. Average occupancy generally declines during times of slower or negative economic growth, when new vacancies tend to outpace our ability to lease space. Asset acquisitions, dispositions and new developments placed in service directly impact our rental revenues and could impact our average occupancy, depending upon the occupancy rate of the properties that are acquired, sold or placed in service. A further indicator of the predictability of future revenues is the expected lease expirations of our portfolio. As a result, in addition to seeking to increase our average occupancy by leasing current vacant space, we also concentrate our leasing efforts on renewing existing leases prior to expiration. For more information regarding our lease expirations, see "Properties - Lease Expirations" in our 2017 Annual Report on Form 10-K. Occupancy in our office portfolio decreased from 92.9% at December 31, 2017 to 91.5% at June 30, 2018. We expect average occupancy for our office portfolio to be approximately 91% for the remainder of 2018.

Whether or not our rental revenue tracks average occupancy proportionally depends upon whether GAAP rents under signed new and renewal leases are higher or lower than the GAAP rents under expiring leases. Annualized rental revenues from second generation leases expiring during any particular year are typically less than 15% of our total annual rental revenues. The following table sets forth information regarding second generation office leases signed during the second quarter of 2018 (we define second generation office leases as leases with new customers and renewals of existing customers in office space that has been previously occupied under our ownership and leases with respect to vacant space in acquired buildings):

	New	Renewal	All Office
Leased space (in rentable square feet)	188,522	928,472	1,116,994
Average term (in years - rentable square foot weighted)	6.7	6.7	6.7
Base rents (per rentable square foot) (1)	\$28.91	\$27.23	\$27.51

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Rent concessions (per rentable square foot) (1)	(0.77)	(0.50)	(0.55)
GAAP rents (per rentable square foot) (1)	\$28.14	\$26.73	\$26.96
Tenant improvements (per rentable square foot) (1)	\$4.41	\$2.12	\$2.51
Leasing commissions (per rentable square foot) (1)	\$1.06	\$0.56	\$0.64

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

Annual combined GAAP rents for new and renewal leases signed in the second quarter were \$26.96 per rentable square foot, or 18.2%, higher compared to previous leases in the same office spaces.

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We strive to maintain a diverse, stable and creditworthy customer base. We have an internal guideline whereby customers that account for more than 3% of our revenues are periodically reviewed with the Company's Board of Directors. As of June 30, 2018, no customer accounted for more than 3% of our cash revenues other than the Federal Government, which accounted for 5% of our cash revenues on an annualized basis. Upon completion of the MetLife III development project in Raleigh, which is scheduled for delivery in the second quarter of 2019, it is expected that MetLife will account for approximately 3.5% of our revenues based on annualized cash revenues for June 2018.

Expenses

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

Net Operating Income

Whether or not we record increasing same property net operating income (“NOI”) depends upon our ability to garner higher rental revenues, whether from higher average occupancy, higher GAAP rents per rentable square foot or higher cost recovery income, that exceed any corresponding growth in operating expenses. Same property NOI was relatively unchanged in the second quarter of 2018 as compared to 2017 due to an increase in same property revenues of \$1.3 million offset by an increase of \$1.2 million in same property expenses. We expect same property NOI to be higher in the remainder of 2018 as compared to 2017 as higher rental revenues, mostly from higher average GAAP rents per rentable square foot and higher parking income, are expected to more than offset lower expected average occupancy and an anticipated increase in same property operating expenses.

In addition to the effect of same property NOI, whether or not NOI increases depends upon whether the NOI from our acquired properties and development properties placed in service exceeds the NOI from sold properties. NOI was \$0.7 million, or 0.6%, higher in the second quarter of 2018 as compared to 2017 due to the impact of development properties placed in service and a restoration fee, offset by NOI lost from sold properties. We expect NOI to remain relatively consistent for the remainder of 2018 as compared to 2017.

Cash Flows

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

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

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

Liquidity and Capital Resources

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

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Rental and other revenues are our principal source of funds to meet our short-term liquidity requirements. Other sources of funds for short-term liquidity needs include available working capital and borrowings under our revolving credit facility, which had \$463.6 million of availability at July 17, 2018. Our short-term liquidity requirements primarily consist of operating expenses, interest and principal amortization on our debt, distributions and capital expenditures, including building improvement costs, tenant improvement costs and lease commissions. Building improvements are capital costs to maintain or enhance existing buildings not typically related to a specific customer. Tenant improvements are the costs required to customize space for the specific needs of customers. We anticipate that our available cash and cash equivalents and cash provided by operating activities and planned financing activities, including borrowings under our revolving credit facility, will be adequate to meet our short-term liquidity requirements. We use our revolving credit facility for working capital purposes and for the short-term funding of our development and acquisition activity and, in certain instances, the repayment of other debt. The continued ability to borrow under the revolving credit facility allows us to quickly capitalize on strategic opportunities at short-term interest rates.

Our long-term liquidity uses generally consist of the retirement or refinancing of debt upon maturity, funding of building improvements, new building developments and land infrastructure projects and funding acquisitions of buildings and development land. Our expected future capital expenditures for started and/or committed new development projects were approximately \$368 million at June 30, 2018. Additionally, we may, from time to time, retire some or all of our remaining outstanding Preferred Stock and/or unsecured debt securities through redemptions, open market repurchases, privately negotiated acquisitions or otherwise.

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

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

At June 30, 2018, our leverage ratio, as measured by the ratio of our mortgages and notes payable and outstanding preferred stock to the undepreciated book value of our assets, was 35.3% and there were 106.3 million diluted shares of Common Stock outstanding.

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

Investment Activity

As noted above, a key tenet of our strategic plan is to continuously upgrade the quality of our office portfolio through acquisitions, dispositions and development. We generally seek to acquire and develop office buildings that improve the average quality of our overall portfolio and deliver consistent and sustainable value for our stockholders over the long-term. Whether or not an asset acquisition or new development results in higher per share net income or funds

from operations ("FFO") in any given period depends upon a number of factors, including whether the NOI for any such period exceeds the actual cost of capital used to finance the acquisition or development. Additionally, given the length of construction cycles, development projects are not placed in service until, in some cases, several years after commencement. Sales of non-core assets could result in lower per share net income or FFO in any given period in the event the resulting use of proceeds does not exceed the capitalization rate on the sold properties.

Results of Operations

Three Months Ended June 30, 2018 and 2017

Rental and Other Revenues

Rental and other revenues were \$1.5 million, or 0.9%, higher in the second quarter of 2018 as compared to 2017 primarily due to development properties placed in service, a restoration fee and higher same property revenues, which increased rental and

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other revenues by \$3.3 million, \$1.9 million and \$1.3 million, respectively. Same property rental and other revenues were higher primarily due to higher average GAAP rents per rentable square foot and higher cost recovery income, partly offset by lower average occupancy. These increases were partly offset by lost revenue of \$4.6 million from property dispositions. We expect rental and other revenues to be higher for the remainder of 2018 as compared to 2017 due to development properties placed in service and higher same property revenues, partly offset by lost revenue from property dispositions.

Operating Expenses

Rental property and other expenses were \$0.8 million, or 1.4%, higher in the second quarter of 2018 as compared to 2017 primarily due to development properties placed in service and higher same property operating expenses, which increased operating expenses by \$1.4 million and \$1.2 million, respectively. Same property operating expenses were higher primarily due to higher contract services, repairs and maintenance and property taxes, partly offset by lower utilities. These increases were partly offset by a \$1.8 million decrease in operating expenses from property dispositions. We expect rental property and other expenses to be higher for the remainder of 2018 as compared to 2017 due to higher same property operating expenses and development properties placed in service, partly offset by lower operating expenses due to property dispositions.

Depreciation and amortization was \$0.9 million, or 1.6%, higher in the second quarter of 2018 as compared to 2017 primarily due to development properties placed in service, partly offset by property dispositions. We expect depreciation and amortization to be lower for the remainder of 2018 as compared to 2017 due to fully amortized acquisition-related intangible assets and property dispositions, partly offset by development properties placed in service.

General and administrative expenses were \$0.5 million, or 5.4%, higher in the second quarter of 2018 as compared to 2017 primarily due to higher company-wide base salaries and expensed pre-development costs. We expect general and administrative expenses to be similar for the remainder of 2018 as compared to 2017 as higher company-wide base salaries and benefits are expected to be offset by lower incentive compensation.

Interest Expense

Interest expense was \$1.7 million, or 10.7%, higher in the second quarter of 2018 as compared to 2017 primarily due to lower capitalized interest, higher average debt balances and higher average interest rates. We expect interest expense to be higher for the remainder of 2018 as compared to 2017 due to higher average debt balances, partly offset by lower average interest rates and higher capitalized interest.

Other Income

Other income was \$0.9 million lower in the second quarter of 2018 as compared to 2017 primarily due to gains on debt extinguishment in 2017.

Gains on Disposition of Property

Gains on disposition of property were \$17.0 million higher in the second quarter of 2018 as compared to 2017 due to no disposition activity in 2017.

Equity in Earnings of Unconsolidated Affiliates

Equity in earnings of unconsolidated affiliates was \$0.2 million, or 27.7%, lower in the second quarter of 2018 as compared to 2017 primarily due to our share of the net effect of the disposition activity by certain unconsolidated affiliates in 2017 and lower average occupancy. We expect equity in earnings of unconsolidated affiliates to be lower for the remainder of 2018 as compared to 2017 due to our share of the net effect of the disposition activity in 2017.

Earnings Per Common Share - Diluted

Diluted earnings per common share was \$0.12 higher in the second quarter of 2018 as compared to 2017 due to an increase in net income for the reasons discussed above, partly offset by an increase in the weighted average Common Shares outstanding.

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Six Months Ended June 30, 2018 and 2017

Rental and Other Revenues

Rental and other revenues were \$12.5 million, or 3.6%, higher in the first six months of 2018 as compared to 2017 primarily due to development properties placed in service, higher same property revenues and a restoration fee, which increased rental and other revenues by \$11.8 million, \$5.9 million and \$3.8 million, respectively. Same property rental and other revenues were higher primarily due to higher average GAAP rents per rentable square foot, higher cost recovery income and higher termination fees, partly offset by lower average occupancy. These increases were partly offset by lost revenue of \$8.6 million from property dispositions.

Operating Expenses

Rental property and other expenses were \$2.8 million, or 2.4%, higher in the first six months of 2018 as compared to 2017 primarily due to development properties placed in service and higher same property operating expenses, which increased operating expenses by \$3.3 million and \$2.9 million, respectively. Same property operating expenses were higher primarily due to higher contract services, repairs and maintenance and property taxes. These increases were partly offset by a \$3.5 million decrease in operating expenses from property dispositions.

Depreciation and amortization was \$2.3 million, or 2.1%, higher in the first six months of 2018 as compared to 2017 primarily due to development properties placed in service and higher same property lease-related depreciation and amortization, partly offset by property dispositions and accelerated depreciation in 2017 related to properties that are expected to be demolished.

General and administrative expenses were \$0.8 million, or 3.8%, higher in the first six months of 2018 as compared to 2017 primarily due to higher company-wide base salaries and long-term equity incentive compensation.

Interest Expense

Interest expense was \$2.3 million, or 6.6%, higher in the first six months of 2018 as compared to 2017 primarily due to lower capitalized interest, partly offset by lower average debt balances and lower average interest rates.

Other Income

Other income was \$1.2 million lower in the first six months of 2018 as compared to 2017 primarily due to gains on debt extinguishment in 2017 and lower income from deferred compensation plan investments in 2018.

Gains on Disposition of Property

Gains on disposition of property were \$11.6 million higher in the first six months of 2018 as compared to 2017 due to the net effect of the disposition activity in such periods.

Equity in Earnings of Unconsolidated Affiliates

Equity in earnings of unconsolidated affiliates was \$0.6 million, or 37.5%, lower in the first six months of 2018 as compared to 2017 primarily due to our share of the net effect of the disposition activity by certain unconsolidated affiliates in 2017 and lower average occupancy.

Earnings Per Common Share - Diluted

Diluted earnings per common share was \$0.12 higher in the first six months of 2018 as compared to 2017 due to an increase in net income for the reasons discussed above, partly offset by an increase in the weighted average Common Shares outstanding.

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Liquidity and Capital Resources

Statements of Cash Flows

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

	Six Months Ended		
	June 30,		
	2018	2017	Change
Net Cash Provided By Operating Activities	\$183,958	\$172,115	\$11,843
Net Cash Used In Investing Activities	(201,839)	(165,156)	(36,683)
Net Cash Used In Financing Activities	(60,534)	(51,632)	(8,902)
Total Cash Flows	\$(78,415)	\$(44,673)	\$(33,742)

The increase in net cash provided by operating activities in the first six months of 2018 as compared to 2017 was primarily due to higher net cash from the operations of development properties placed in service and same properties and the timing of cash paid for operating expenses. We expect net cash related to operating activities for the remainder of 2018 to be higher as compared to 2017 primarily due to the impact of development properties placed in service, partly offset by non-core dispositions.

The increase in net cash used in investing activities in the first six months of 2018 as compared to 2017 was primarily due to acquisition activity in 2018, partly offset by higher net proceeds from disposition activity in 2018. We expect uses of cash for investing activities for the remainder of 2018 to be primarily driven by whether or not we acquire and commence development of additional office buildings in the BBDs of our markets. Additionally, as of June 30, 2018, we have approximately \$368 million left to fund of our previously-announced development activity in 2018 and future years. We expect these uses of cash for investing activities will be partly offset by proceeds from non-core dispositions for the remainder of 2018.

The increase in net cash used in financing activities in the first six months of 2018 as compared to 2017 was primarily due to higher proceeds from the issuance of Common Stock in 2017 and higher net debt borrowings in 2017, partly offset by the payment of a special dividend in 2017. Assuming the net effect of our acquisition, disposition and development activity in 2018 results in an increase of our assets, we would expect outstanding debt and/or Common Stock balances to increase.

Capitalization

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

	June 30, 2018	December 31, 2017
Mortgages and notes payable, net, at recorded book value	\$2,055,004	\$ 2,014,333
Preferred Stock, at liquidation value	\$28,887	\$ 28,892
Common Stock outstanding	103,459	103,267
Common Units outstanding (not owned by the Company)	2,806	2,829
Per share stock price at period end	\$50.73	\$ 50.91
Market value of Common Stock and Common Units	\$5,390,823	\$ 5,401,347
Total capitalization	\$7,474,714	\$ 7,444,572

At June 30, 2018, our mortgages and notes payable and outstanding preferred stock represented 27.9% of our total capitalization and 35.3% of the undepreciated book value of our assets. See also "Executive Summary - Liquidity and Capital Resources."

Our mortgages and notes payable as of June 30, 2018 consisted of \$98.1 million of secured indebtedness with a weighted average interest rate of 4.0% and \$1,967.1 million of unsecured indebtedness with a weighted average interest rate of 3.45%. The secured indebtedness was collateralized by real estate assets with an aggregate undepreciated book value of \$147.4 million. As of June 30, 2018, \$502.0 million of our debt does not bear interest at fixed rates or is not protected by interest rate hedge contracts.

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Investment Activity

In the normal course of business, we regularly evaluate potential acquisitions. As a result, from time to time, we may have one or more potential acquisitions under consideration that are in varying stages of evaluation, negotiation or due diligence, including potential acquisitions that are subject to non-binding letters of intent or enforceable contracts. Consummation of any transaction is subject to a number of contingencies, including the satisfaction of customary closing conditions. No assurances can be provided that we will acquire any properties in the future. See "Item 1A. Risk Factors - Recent and future acquisitions and development properties may fail to perform in accordance with our expectations and may require renovation and development costs exceeding our estimates" in our 2017 Annual Report on Form 10-K.

During the second quarter of 2018, we sold a building and various land parcels for an aggregate sale price of \$34.0 million and recorded aggregate gains on disposition of property of \$17.0 million.

As of June 30, 2018, we were developing 1.3 million rentable square feet of office properties. The following table summarizes these announced and in-process office developments:

Property	Market	Rentable Square Feet	Anticipated Investment		Pre Leased %	Estimated Completion	Estimated Stabilization
			Total Investment (1)	As Of June 30, 2018 (1)			
Virginia Urology	Richmond	87,000	\$29,140	\$25,039	100.0%	3Q18	3Q18
751 Corporate Center	Raleigh	89,700	21,850	16,540	89.2	4Q18	4Q20
MetLife III	Raleigh	219,000	64,500	43,208	100.0	2Q19	2Q21
Virginia Springs I	Nashville	109,000	34,300	14,910	37.7	2Q19	3Q20
Mars Petcare - Ovation	Nashville	223,700	96,200	53,301	100.0	3Q19	3Q19
Asurion (2)	Nashville	550,600	285,000	26,787	98.3	4Q21	1Q22
		1,279,000	\$530,990	\$179,785	93.2 %		

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

(2) Recorded on our Consolidated Balance Sheets in land held for development, not development in-process.

Financing Activity

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

Our \$600.0 million unsecured revolving credit facility is scheduled to mature in January 2022 and includes an accordion feature that allows for an additional \$400.0 million of borrowing capacity subject to additional lender commitments. Assuming no defaults have occurred, we have an option to extend the maturity for two additional six-month periods. The interest rate at our current credit ratings is LIBOR plus 100 basis points and the annual facility fee is 20 basis points. The interest rate and facility fee are based on the higher of the publicly announced ratings from Moody's Investors Service or Standard & Poor's Ratings Services. There was \$142.0 million and \$136.0 million outstanding under our revolving credit facility at June 30, 2018 and July 17, 2018, respectively. At both June 30, 2018 and July 17, 2018, 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, 2018 and July 17, 2018 was \$457.6 million and \$463.6 million, respectively.

During the second quarter of 2018, we paid off at maturity \$200.0 million principal amount of 7.5% unsecured notes.

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During the second quarter of 2018, we entered into \$150.0 million notional amount of forward-starting swaps that effectively lock the underlying 10-year treasury rate at 2.91% with respect to a planned issuance of debt securities by the Operating Partnership expected to occur prior to June 11, 2019. The counterparties under our swaps are major financial institutions.

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

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

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

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

Dividends and Distributions

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

Cash dividends and distributions reduce the amount of cash that would otherwise be available for other business purposes, including reducing debt or funding future growth initiatives. The amount of future distributions that will be made is at the discretion of the Company's Board of Directors. For a discussion of the factors that will affect such cash flows and, accordingly, influence the decisions of the Company's Board of Directors regarding dividends and distributions, see "Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities" in our 2017 Annual Report on Form 10-K.

During the second quarter of 2018, the Company declared and paid a cash dividend of \$0.4625 per share of Common Stock.

Current and Future Cash Needs

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

We had \$4.2 million of cash and cash equivalents as of June 30, 2018. The unused capacity of our revolving credit facility at June 30, 2018 and July 17, 2018 was \$457.6 million and \$463.6 million, respectively, excluding an accordion feature that allows for an additional \$400.0 million of borrowing capacity subject to additional lender commitments.

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

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

During the remainder of 2018, we also expect to sell an additional \$30 million to \$105 million of properties no longer considered to be core assets due to location, age, quality and/or overall strategic fit. We can make no assurance, however, that we will sell any non-core assets or, if we do, what the timing or terms of any such sale will be.

Critical Accounting Estimates

There were no changes made by management to the critical accounting policies in the six months ended June 30, 2018 other than the new revenue recognition standard adoption effective January 1, 2018. For a description of our critical accounting estimates, see "Management's Discussion and Analysis of Financial Condition and Results of Operations - Critical Accounting Estimates" in our 2017 Annual Report on Form 10-K.

Non-GAAP Information

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

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

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

Net income/(loss) computed in accordance with GAAP;

Less net income attributable to noncontrolling interests in consolidated affiliates;

Plus depreciation and amortization of depreciable operating properties;

Less gains, or plus losses, from sales of depreciable operating properties, plus impairments on depreciable operating properties and excluding items that are classified as extraordinary items under GAAP;

Plus or minus our share of adjustments, including depreciation and amortization of depreciable operating properties, for unconsolidated joint venture investments (to reflect funds from operations on the same basis); and

Plus or minus adjustments for depreciation and amortization and gains/(losses) on sales of depreciable operating properties, plus impairments on depreciable operating properties, and noncontrolling interests in consolidated affiliates related to discontinued operations.

In calculating FFO, the Company includes net income attributable to noncontrolling interests in the Operating Partnership, which the Company believes is consistent with standard industry practice for REITs that operate through an UPREIT structure.

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The Company believes that it is important to present FFO on an as-converted basis since all of the Common Units not owned by the Company are redeemable on a one-for-one basis for shares of its Common Stock.

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

	Three Months Ended		Six Months Ended	
	June 30, 2018	2017	June 30, 2018	2017
Funds from operations:				
Net income	\$52,998	\$39,554	\$87,244	\$73,039
Net (income) attributable to noncontrolling interests in consolidated affiliates	(308)	(299)	(594)	(599)
Depreciation and amortization of real estate assets	55,954	55,116	112,789	110,591
(Gains) on disposition of depreciable properties	(16,433)	—	(16,433)	(5,332)
Unconsolidated affiliates:				
Depreciation and amortization of real estate assets	565	732	1,076	1,394
Funds from operations	92,776	95,103	184,082	179,093
Dividends on Preferred Stock	(623)	(623)	(1,246)	(1,246)
Funds from operations available for common stockholders	\$92,153	\$94,480	\$182,836	\$177,847
Funds from operations available for common stockholders per share	\$0.87	\$0.90	\$1.72	\$1.69
Weighted average shares outstanding (1)	106,267	105,386	106,216	105,026

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

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

As of June 30, 2018, our same property portfolio consisted of 212 in-service properties encompassing 28.4 million rentable square feet that were wholly owned during the entirety of the periods presented (from January 1, 2017 to June 30, 2018). As of December 31, 2017, our same property portfolio consisted of 210 in-service properties encompassing 28.0 million rentable square feet that were wholly owned during the entirety of the periods presented (from January 1, 2016 to December 31, 2017). The change in our same property portfolio was due to the addition of one property encompassing 0.2 million rentable square feet acquired during 2016 and two newly developed properties encompassing 0.3 million rentable square feet placed in service during 2016. These additions were offset by the removal of one property encompassing 0.2 million rentable square feet that was sold during 2018.

Rental and other revenues related to properties not in our same property portfolio were \$13.5 million and \$13.2 million for the three months ended June 30, 2018 and 2017, respectively, and \$27.5 million and \$20.8 million for the six months ended June 30, 2018 and 2017, respectively. Rental property and other expenses related to properties not in our same property portfolio were \$2.8 million and \$3.3 million for the three months ended June 30, 2018 and 2017, respectively, and \$6.1 million and \$6.2 million for the six months ended June 30, 2018 and 2017, respectively.

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The following table sets forth the Company's NOI and same property NOI:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Income before disposition of investment properties and activity in unconsolidated affiliates	\$35,480	\$38,799	\$69,204	\$65,997
Other income	(462)	(1,390)	(917)	(2,074)
Interest expense	17,877	16,154	36,268	34,017
General and administrative expenses	9,540	9,050	21,318	20,540
Depreciation and amortization	56,694	55,816	114,262	111,961
Net operating income	119,129	118,429	240,135	230,441
Less – non same property and other net operating income	(10,608)	(9,945)	(21,359)	(14,654)
Same property net operating income	\$108,521	\$108,484	\$218,776	\$215,787
Same property net operating income	\$108,521	\$108,484	\$218,776	\$215,787
Less – lease termination fees, straight-line rent and other non-cash adjustments	(4,978)	(3,772)	(10,145)	(8,838)
Same property cash net operating income	\$103,543	\$104,712	\$208,631	\$206,949

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ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

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

At June 30, 2018, we had \$1,288.2 million principal amount of fixed rate debt outstanding, a \$145.7 million increase as compared to December 31, 2017, excluding debt with a variable rate that is effectively fixed by related interest rate hedge contracts. The estimated aggregate fair market value of this debt was \$1,258.7 million. If interest rates had been 100 basis points higher, the aggregate fair market value of our fixed rate debt would have been \$72.7 million lower. If interest rates had been 100 basis points lower, the aggregate fair market value of our fixed rate debt would have been \$78.8 million higher.

At June 30, 2018, we had \$502.0 million of variable rate debt outstanding, a \$103.0 million decrease as compared to December 31, 2017, not protected by interest rate hedge contracts. If the weighted average interest rate on this variable rate debt had been 100 basis points higher, the annual interest expense would increase \$5.0 million. If the weighted average interest rate on this variable rate debt had been 100 basis points lower, the annual interest expense would decrease \$5.0 million.

At June 30, 2018, we had \$275.0 million of variable rate debt outstanding with \$275.0 million of related floating-to-fixed interest rate swaps. These swaps effectively fix the underlying one-month LIBOR rate at a weighted average rate of 1.681%. If the underlying LIBOR interest rates increase or decrease by 100 basis points, the aggregate fair market value of the swaps at June 30, 2018 would increase by \$2.7 million or decrease by \$2.8 million, respectively.

During the second quarter of 2018, we entered into \$150.0 million notional amount of forward-starting swaps that effectively lock the underlying 10-year treasury rate at 2.91% with respect to a planned issuance of debt securities by the Operating Partnership expected to occur prior to June 11, 2019. If the underlying treasury rate was to increase or decrease by 100 basis points, the aggregate fair market value of the swaps at June 30, 2018 would increase by \$12.3 million or decrease by \$13.7 million, respectively, due to the 10-year term of such swaps.

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

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ITEM 4. CONTROLS AND PROCEDURES

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

SEC rules also require us to establish and maintain internal control over financial reporting designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. There were no changes in internal control over financial reporting during the three months ended June 30, 2018 that materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting. There were also no changes in internal control over financial reporting during the three months ended June 30, 2018 that materially affected, or are reasonably likely to materially affect, the Operating Partnership's internal control over financial reporting.

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PART II - OTHER INFORMATION

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

During the second quarter of 2018, the Company issued an aggregate of 4,000 shares of Common Stock to holders of Common Units in the Operating Partnership upon the redemption of a like number of Common Units in private offerings exempt from the registration requirements pursuant to Section 4(2) of the Securities Act. Each of the holders of Common Units was an accredited investor under Rule 501 of the Securities Act. The resale of such shares was registered by the Company under the Securities Act.

ITEM 5. OTHER INFORMATION

On July 19, 2018, the limited partnership agreement of the Operating Partnership was amended in response to changes to the Internal Revenue Code enacted by the Bipartisan Budget Act of 2015 (the “BBA”). Among other things, the amendment specifies that the Company, in its capacity as general partner of the Operating Partnership, shall serve as the so-called “partnership representative” under the BBA’s new partnership audit and adjustment procedures for tax years beginning in 2018.

ITEM 6. EXHIBITS

Exhibit Number	Description
10.1	<u>Amendment No. 2, dated as of July 19, 2018, to the Second Restated Agreement of Limited Partnership, dated as of January 1, 2000, of the Operating Partnership</u>
12.1	<u>Statement re: Computation of Ratios of the Company</u>
12.2	<u>Statement re: Computation of Ratios of the Operating Partnership</u>
31.1	<u>Certification of CEO Pursuant to Section 302 of the Sarbanes-Oxley Act for the Company</u>
31.2	<u>Certification of CFO Pursuant to Section 302 of the Sarbanes-Oxley Act for the Company</u>
31.3	<u>Certification of CEO Pursuant to Section 302 of the Sarbanes-Oxley Act for the Operating Partnership</u>
31.4	<u>Certification of CFO Pursuant to Section 302 of the Sarbanes-Oxley Act for the Operating Partnership</u>
32.1	<u>Certification of CEO Pursuant to Section 906 of the Sarbanes-Oxley Act for the Company</u>
32.2	<u>Certification of CFO Pursuant to Section 906 of the Sarbanes-Oxley Act for the Company</u>
32.3	<u>Certification of CEO Pursuant to Section 906 of the Sarbanes-Oxley Act for the Operating Partnership</u>
32.4	<u>Certification of CFO Pursuant to Section 906 of the Sarbanes-Oxley Act for the Operating Partnership</u>
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Extension Labels Linkbase
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, each of the registrants has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Highwoods Properties, Inc.

By: /s/ Mark F. Mulhern
Mark F. Mulhern
Executive Vice President and Chief Financial Officer

Highwoods Realty Limited Partnership

By: Highwoods Properties, Inc., its sole general partner

By: /s/ Mark F. Mulhern
Mark F. Mulhern
Executive Vice President and Chief Financial Officer

Date: July 24, 2018