

HIGHWOODS PROPERTIES INC
Form 10-Q
July 25, 2013

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, 2013

HIGHWOODS PROPERTIES, INC.

(Exact name of registrant as specified in its charter)

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

HIGHWOODS REALTY LIMITED PARTNERSHIP

(Exact name of registrant as specified in its charter)

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

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

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

Highwoods Properties, Inc. Yes 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 or a smaller reporting company. See the definitions of 'large accelerated filer,' 'accelerated filer' and 'smaller reporting company' in Rule 12b-2 of the Securities Exchange Act.

Highwoods Properties, Inc.
Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company

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Highwoods Realty Limited Partnership

Large accelerated filer Accelerated filer Non-accelerated filer S Smaller reporting company

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

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

The Company had 84,483,948 shares of Common Stock outstanding as of July 18, 2013.

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,” the Operating Partnership’s preferred partnership interests as “Preferred Units” and in-service properties (excluding for-sale residential condominiums) to which the Company and/or the Operating Partnership have title and 100.0% ownership rights as the “Wholly Owned Properties.” References to “we” and “our” mean the Company and the Operating Partnership, collectively, unless the context indicates otherwise.

The Company conducts virtually all of 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 18, 2013, 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, 2013 of the Company and the Operating Partnership. We believe combining the quarterly reports into this single report results in the following benefits:

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

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

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

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

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

- Consolidated Financial Statements;

- the following Notes to Consolidated Financial Statements:

- Note 4 - Investments in and Advances to Affiliates;

- Note 8 - Noncontrolling Interests; and

- Note 13 - Earnings Per Share and Per Unit;

- Item 4 - Controls and Procedures; and

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

HIGHWOODS PROPERTIES, INC.
HIGHWOODS REALTY LIMITED PARTNERSHIP

QUARTERLY REPORT FOR THE PERIOD ENDED JUNE 30, 2013

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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, 2013	December 31, 2012
Assets:		
Real estate assets, at cost:		
Land	\$ 389,431	\$ 365,762
Buildings and tenant improvements	3,482,057	3,253,805
Development in process	37,559	21,198
Land held for development	120,580	115,416
	4,029,627	3,756,181
Less-accumulated depreciation	(978,777)	(929,598)
Net real estate assets	3,050,850	2,826,583
Real estate and other assets, net, held for sale	—	47,508
Cash and cash equivalents	10,122	13,783
Restricted cash	15,987	19,702
Accounts receivable, net of allowance of \$1,465 and \$2,848, respectively	25,266	23,073
Mortgages and notes receivable, net of allowance of \$376 and \$182, respectively	25,583	25,472
Accrued straight-line rents receivable, net of allowance of \$853 and \$857, respectively	122,742	115,030
Investments in and advances to unconsolidated affiliates	65,272	66,800
Deferred financing and leasing costs, net of accumulated amortization of \$85,548 and \$76,840, respectively	181,802	168,019
Prepaid expenses and other assets, net of accumulated amortization of \$12,561 and \$12,318, respectively	41,959	44,458
Total Assets	\$ 3,539,583	\$ 3,350,428
Liabilities, Noncontrolling Interests in the Operating Partnership and Equity:		
Mortgages and notes payable	\$ 1,931,655	\$ 1,859,162
Accounts payable, accrued expenses and other liabilities	185,087	172,146
Financing obligations	28,392	29,358
Total Liabilities	2,145,134	2,060,666
Commitments and contingencies		
Noncontrolling interests in the Operating Partnership	130,351	124,869
Equity:		
Preferred Stock, \$.01 par value, 50,000,000 authorized shares; 8.625% Series A Cumulative Redeemable Preferred Shares (liquidation preference \$1,000 per share), 29,077 shares issued and outstanding	29,077	29,077
Common Stock, \$.01 par value, 200,000,000 authorized shares; 83,968,412 and 80,311,437 shares issued and outstanding, respectively	840	803
Additional paid-in capital	2,160,698	2,040,306
Distributions in excess of net income available for common stockholders	(927,110)	(897,418)
Accumulated other comprehensive loss	(4,142)	(12,628)
Total Stockholders' Equity	1,259,363	1,160,140
Noncontrolling interests in consolidated affiliates	4,735	4,753

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Total Equity	1,264,098	1,164,893
Total Liabilities, Noncontrolling Interests in the Operating Partnership and Equity	\$3,539,583	\$ 3,350,428

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,	
	2013	2012	2013	2012
Rental and other revenues	\$138,515	\$126,728	\$274,631	\$250,762
Operating expenses:				
Rental property and other expenses	49,633	45,884	98,372	90,066
Depreciation and amortization	42,394	38,991	84,208	75,687
Impairments of real estate assets	1,066	—	1,066	—
General and administrative	8,397	8,900	18,979	18,573
Total operating expenses	101,490	93,775	202,625	184,326
Interest expense:				
Contractual	22,398	23,548	45,196	47,399
Amortization of deferred financing costs	948	900	1,897	1,802
Financing obligations	(60)	(76)	61	(152)
	23,286	24,372	47,154	49,049
Other income:				
Interest and other income	1,617	1,737	3,400	3,967
Losses on debt extinguishment	—	(973)	(164)	(973)
	1,617	764	3,236	2,994
Income from continuing operations before disposition of property and condominiums and equity in earnings of unconsolidated affiliates	15,356	9,345	28,088	20,381
Losses on disposition of property	(37)	—	(37)	—
Gains on for-sale residential condominiums	—	110	—	175
Equity in earnings of unconsolidated affiliates	913	1,508	1,349	1,346
Income from continuing operations	16,232	10,963	29,400	21,902
Discontinued operations:				
Income from discontinued operations	184	2,150	245	4,409
Net gains on disposition of discontinued operations	13,163	1,385	13,694	6,519
	13,347	3,535	13,939	10,928
Net income	29,579	14,498	43,339	32,830
Net (income) attributable to noncontrolling interests in the Operating Partnership	(1,243)	(686)	(1,824)	(1,513)
Net (income) attributable to noncontrolling interests in consolidated affiliates	(187)	(223)	(390)	(407)
Dividends on Preferred Stock	(627)	(627)	(1,254)	(1,254)
Net income available for common stockholders	\$27,522	\$12,962	\$39,871	\$29,656
Earnings per Common Share – basic:				
Income from continuing operations available for common stockholders	\$0.18	\$0.13	\$0.33	\$0.26
Income from discontinued operations available for common stockholders	0.15	0.04	0.16	0.14
Net income available for common stockholders	\$0.33	\$0.17	\$0.49	\$0.40
Weighted average Common Shares outstanding – basic	82,811	74,662	81,925	73,749
Earnings per Common Share – diluted:				
Income from continuing operations available for common stockholders	\$0.18	\$0.13	\$0.33	\$0.26
	0.15	0.04	0.16	0.14

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Income from discontinued operations available for common stockholders

Net income available for common stockholders	\$0.33	\$0.17	\$0.49	\$0.40
Weighted average Common Shares outstanding – diluted	86,631	78,521	85,752	77,601
Dividends declared per Common Share	\$0.425	\$0.425	\$0.850	\$0.850
Net income available for common stockholders:				
Income from continuing operations available for common stockholders	\$14,746	\$9,596	\$26,529	\$19,259
Income from discontinued operations available for common stockholders	12,776	3,366	13,342	10,397
Net income available for common stockholders	\$27,522	\$12,962	\$39,871	\$29,656

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,	
	2013	2012	2013	2012
Comprehensive income:				
Net income	\$29,579	\$14,498	\$43,339	\$32,830
Other comprehensive income:				
Unrealized gains/(losses) on tax increment financing bond	(91)	296	299	583
Unrealized gains/(losses) on cash flow hedges	6,319	(7,481)	6,599	(7,087)
Amortization of cash flow hedges	800	782	1,588	1,459
Total other comprehensive income/(loss)	7,028	(6,403)	8,486	(5,045)
Total comprehensive income	36,607	8,095	51,825	27,785
Less-comprehensive (income) attributable to noncontrolling interests	(1,430)	(909)	(2,214)	(1,920)
Comprehensive income attributable to common stockholders	\$35,177	\$7,186	\$49,611	\$25,865

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 Loss	Non-control Interests in Consolidated Affiliates	Distributions in Excess of Net Income Available for Common Stockholders	Total
Balance at December 31, 2012	80,311,437	\$ 803	\$ 29,077	\$ 2,040,306	\$ (12,628)	\$ 4,753	\$ (897,418)	\$ 1,164,893
Issuances of Common Stock, net of tax withholdings	3,434,687	34	—	122,456	—	—	—	122,490
Conversions of Common Units to Common Stock	72,471	—	—	2,851	—	—	—	2,851
Dividends on Common Stock		—	—		—	—	(69,563)	(69,563)
Dividends on Preferred Stock		—	—		—	—	(1,254)	(1,254)
Adjustment of noncontrolling interests in the Operating Partnership to fair value		—	—	(9,649)	—	—	—	(9,649)
Distributions to noncontrolling interests in consolidated affiliates		—	—	—	—	(408)	—	(408)
Issuances of restricted stock	151,630	—	—	—	—	—	—	—
Share-based compensation expense, net of forfeitures	(1,813)	3	—	4,734	—	—	—	4,737
Net (income) attributable to noncontrolling interests in the Operating Partnership		—	—	—	—	—	(1,824)	(1,824)
Net (income) attributable to noncontrolling		—	—	—	—	390	(390)	—

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interests in consolidated affiliates								
Comprehensive income:								
Net income	—	—	—	—	—	—	43,339	43,339
Other comprehensive income	—	—	—	—	8,486	—	—	8,486
Total comprehensive income								51,825
Balance at June 30, 2013	83,968,412	\$ 840	\$ 29,077	\$ 2,160,698	\$ (4,142)	\$ 4,735	\$ (927,110)	\$ 1,264,098

	Number of Common Shares	Common Stock	Series A Cumulative Redeemable Preferred Shares	Additional Paid-In Capital	Accumulated Other Comprehensive Loss	Non-controlling Interests in Consolidated Affiliates	Distributions in excess of Net Income Available for Common Stockholders	Total
Balance at December 31, 2011	72,647,697	\$ 726	\$ 29,077	\$ 1,803,997	\$ (5,734)	\$ 4,646	\$ (845,853)	\$ 986,859
Issuances of Common Stock, net of tax withholdings	2,794,340	28	—	91,808	—	—	—	91,836
Conversions of Common Units to Common Stock	18,366	—	—	631	—	—	—	631
Dividends on Common Stock	—	—	—	—	—	—	(62,787)	(62,787)
Dividends on Preferred Stock	—	—	—	—	—	—	(1,254)	(1,254)
Adjustment of noncontrolling interests in the Operating Partnership to fair value	—	—	—	(16,501)	—	—	—	(16,501)
Distributions to noncontrolling interests in consolidated affiliates	—	—	—	—	—	(460)	—	(460)
Issuances of restricted stock	158,885	—	—	—	—	—	—	—
Share-based compensation expense, net of forfeitures	—	2	—	4,457	—	—	—	4,459
Net (income) attributable to noncontrolling	—	—	—	—	—	—	(1,513)	(1,513)

interests in the Operating Partnership Net (income) attributable to noncontrolling interests in consolidated affiliates						407	(407)	—
Comprehensive income:									
Net income						—	32,830		32,830
Other comprehensive loss						(5,045	)	—	(5,045
Total comprehensive income									27,785
Balance at June 30, 2012	75,619,288	\$ 756	\$ 29,077	\$ 1,884,392	\$ (10,779)	\$ 4,593	\$ (878,984) \$ 1,029,055

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,	
	2013	2012
Operating activities:		
Net income	\$43,339	\$32,830
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	84,767	79,113
Amortization of lease incentives and acquisition-related intangible assets and liabilities	(198)	) 180
Share-based compensation expense	4,737	4,459
Allowance for losses on accounts and accrued straight-line rents receivable	380	538
Amortization of deferred financing costs	1,897	1,802
Amortization of cash flow hedges	1,588	1,459
Impairments of real estate assets	1,481	—
Losses on debt extinguishment	164	973
Net gains on disposition of property	(13,657)	) (6,519)
Gains on for-sale residential condominiums	—	) (175)
Equity in earnings of unconsolidated affiliates	(1,349)	) (1,346)
Changes in financing obligations	(391)	) (584)
Distributions of earnings from unconsolidated affiliates	2,827	2,225
Changes in operating assets and liabilities:		
Accounts receivable	2,295	7,298
Prepaid expenses and other assets	(2,284)	) (3,158)
Accrued straight-line rents receivable	(8,009)	) (9,415)
Accounts payable, accrued expenses and other liabilities	(661)	) (16,352)
Net cash provided by operating activities	116,926	93,328
Investing activities:		
Investments in acquired real estate and related intangible assets, net of cash acquired	(228,461)) —
Investments in development in process	(11,499)	) (1,531)
Investments in tenant improvements and deferred leasing costs	(42,343)	) (43,851)
Investments in building improvements	(26,466)	) (19,758)
Net proceeds from disposition of real estate assets	60,381	19,898
Net proceeds from disposition of for-sale residential condominiums	—	2,492
Distributions of capital from unconsolidated affiliates	435	901
Investments in and repayments of mortgages and notes receivable	(156)	) 1,544
Investments in and advances/repayments to/from unconsolidated affiliates	(429)	) (2,750)
Changes in restricted cash and other investing activities	7,853	4,031
Net cash used in investing activities	(240,685)	) (39,024)
Financing activities:		
Dividends on Common Stock	(69,563)	) (62,787)
Dividends on Preferred Stock	(1,254)	) (1,254)
Distributions to noncontrolling interests in the Operating Partnership	(3,140)	) (3,158)
Distributions to noncontrolling interests in consolidated affiliates	(408)	) (460)
Proceeds from the issuance of Common Stock	126,738	95,289
Costs paid for the issuance of Common Stock	(1,711)	) (1,316)
Repurchase of shares related to tax withholdings	(2,537)	) (2,137)
Borrowings on revolving credit facility	346,300	106,300
Repayments of revolving credit facility	(233,900)) (392,800)

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Borrowings on mortgages and notes payable	—	225,000	
Repayments of mortgages and notes payable	(39,610)	(19,359)
Payments on financing obligations	(575	)	(38)
Additions to deferred financing costs and other financing activities	(242	)	(2,245)
Net cash provided by/(used in) financing activities	120,098		(58,965)
Net decrease in cash and cash equivalents	\$(3,661)	\$(4,661)

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,	
	2013	2012
Net decrease in cash and cash equivalents	\$(3,661)	\$(4,661)
Cash and cash equivalents at beginning of the period	13,783	11,188
Cash and cash equivalents at end of the period	\$10,122	\$6,527

Supplemental disclosure of cash flow information:

	Six Months Ended June 30,	
	2013	2012
Cash paid for interest, net of amounts capitalized	\$40,480	\$48,063

Supplemental disclosure of non-cash investing and financing activities:

	Six Months Ended June 30,	
	2013	2012
Unrealized gains/(losses) on cash flow hedges	\$6,599	\$(7,087)
Conversions of Common Units to Common Stock	2,851	631
Changes in accrued capital expenditures	12,618	(2,448)
Write-off of fully depreciated real estate assets	17,732	28,629
Write-off of fully amortized deferred financing and leasing costs	11,363	8,765
Unrealized gains on marketable securities of non-qualified deferred compensation plan	312	216
Adjustment of noncontrolling interests in the Operating Partnership to fair value	9,649	16,501
Unrealized gains on tax increment financing bond	299	583
Reduction of advances to unconsolidated affiliates related to acquisition activities	—	26,000

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, 2013	December 31, 2012
Assets:		
Real estate assets, at cost:		
Land	\$ 389,431	\$ 365,762
Buildings and tenant improvements	3,482,057	3,253,805
Development in process	37,559	21,198
Land held for development	120,580	115,416
	4,029,627	3,756,181
Less-accumulated depreciation	(978,777)	(929,598)
Net real estate assets	3,050,850	2,826,583
Real estate and other assets, net, held for sale	—	47,508
Cash and cash equivalents	10,205	13,867
Restricted cash	15,987	19,702
Accounts receivable, net of allowance of \$1,465 and \$2,848, respectively	25,266	23,073
Mortgages and notes receivable, net of allowance of \$376 and \$182, respectively	25,583	25,472
Accrued straight-line rents receivable, net of allowance of \$853 and \$857, respectively	122,742	115,030
Investments in and advances to unconsolidated affiliates	64,249	65,813
Deferred financing and leasing costs, net of accumulated amortization of \$85,548 and \$76,840, respectively	181,802	168,019
Prepaid expenses and other assets, net of accumulated amortization of \$12,561 and \$12,318, respectively	41,864	44,458
Total Assets	\$ 3,538,548	\$ 3,349,525
Liabilities, Redeemable Operating Partnership Units and Equity:		
Mortgages and notes payable	\$ 1,931,655	\$ 1,859,162
Accounts payable, accrued expenses and other liabilities	185,041	172,026
Financing obligations	28,392	29,358
Total Liabilities	2,145,088	2,060,546
Commitments and contingencies		
Redeemable Operating Partnership Units:		
Common Units, 3,660,545 and 3,733,016 outstanding, respectively	130,351	124,869
Series A Preferred Units (liquidation preference \$1,000 per unit), 29,077 units issued and outstanding	29,077	29,077
Total Redeemable Operating Partnership Units	159,428	153,946
Equity:		
Common Units:		
General partner Common Units, 872,201 and 836,356 outstanding, respectively	12,332	11,427
Limited partner Common Units, 82,687,402 and 79,066,272 outstanding, respectively	1,221,107	1,131,481
Accumulated other comprehensive loss	(4,142)	(12,628)
Noncontrolling interests in consolidated affiliates	4,735	4,753
Total Equity	1,234,032	1,135,033
Total Liabilities, Redeemable Operating Partnership Units and Equity	\$ 3,538,548	\$ 3,349,525

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,	
	2013	2012	2013	2012
Rental and other revenues	\$138,515	\$126,728	\$274,631	\$250,762
Operating expenses:				
Rental property and other expenses	49,611	45,825	98,376	89,945
Depreciation and amortization	42,394	38,991	84,208	75,687
Impairments of real estate assets	1,066	—	1,066	—
General and administrative	8,419	8,959	18,975	18,694
Total operating expenses	101,490	93,775	202,625	184,326
Interest expense:				
Contractual	22,398	23,548	45,196	47,399
Amortization of deferred financing costs	948	900	1,897	1,802
Financing obligations	(60)	(76)	61	(152)
	23,286	24,372	47,154	49,049
Other income:				
Interest and other income	1,617	1,737	3,400	3,967
Losses on debt extinguishment	—	(973)	(164)	(973)
	1,617	764	3,236	2,994
Income from continuing operations before disposition of property and condominiums and equity in earnings of unconsolidated affiliates	15,356	9,345	28,088	20,381
Losses on disposition of property	(37)	—	(37)	—
Gains on for-sale residential condominiums	—	110	—	175
Equity in earnings of unconsolidated affiliates	916	1,511	1,299	1,351
Income from continuing operations	16,235	10,966	29,350	21,907
Discontinued operations:				
Income from discontinued operations	184	2,150	245	4,409
Net gains on disposition of discontinued operations	13,163	1,385	13,694	6,519
	13,347	3,535	13,939	10,928
Net income	29,582	14,501	43,289	32,835
Net (income) attributable to noncontrolling interests in consolidated affiliates	(187)	(223)	(390)	(407)
Distributions on Preferred Units	(627)	(627)	(1,254)	(1,254)
Net income available for common unitholders	\$28,768	\$13,651	\$41,645	\$31,174
Earnings per Common Unit – basic:				
Income from continuing operations available for common unitholders	\$0.18	\$0.13	\$0.33	\$0.26
Income from discontinued operations available for common unitholders	0.15	0.05	0.16	0.14
Net income available for common unitholders	\$0.33	\$0.18	\$0.49	\$0.40
Weighted average Common Units outstanding – basic	86,090	77,971	85,223	77,063
Earnings per Common Unit – diluted:				
Income from continuing operations available for common unitholders	\$0.18	\$0.13	\$0.33	\$0.26
Income from discontinued operations available for common unitholders	0.15	0.04	0.16	0.14
Net income available for common unitholders	\$0.33	\$0.17	\$0.49	\$0.40

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Weighted average Common Units outstanding – diluted	86,222	78,112	85,343	77,192
Distributions declared per Common Unit	\$0.425	\$0.425	\$0.850	\$0.850
Net income available for common unitholders:				
Income from continuing operations available for common unitholders	\$15,421	\$10,116	\$27,706	\$20,246
Income from discontinued operations available for common unitholders	13,347	3,535	13,939	10,928
Net income available for common unitholders	\$28,768	\$13,651	\$41,645	\$31,174

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,	
	2013	2012	2013	2012
Comprehensive income:				
Net income	\$29,582	\$14,501	\$43,289	\$32,835
Other comprehensive income:				
Unrealized gains/(losses) on tax increment financing bond	(91)	296	299	583
Unrealized gains/(losses) on cash flow hedges	6,319	(7,481)	6,599	(7,087)
Amortization of cash flow hedges	800	782	1,588	1,459
Total other comprehensive income/(loss)	7,028	(6,403)	8,486	(5,045)
Total comprehensive income	36,610	8,098	51,775	27,790
Less-comprehensive (income) attributable to noncontrolling interests	(187)	(223)	(390)	(407)
Comprehensive income attributable to common unitholders	\$36,423	\$7,875	\$51,385	\$27,383

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	Total
	General	Limited	Other	Interests in	Partners'
	Partners'	Partners'	Comprehensive	Consolidated	Capital
	Capital	Capital	Loss	Affiliates	
Balance at December 31, 2012	\$11,427	\$1,131,481	\$ (12,628)	\$ 4,753	\$1,135,033
Issuances of Common Units, net of tax withholdings	1,225	121,265	—	—	122,490
Distributions paid on Common Units	(724)	(71,631)	—	—	(72,355)
Distributions paid on Preferred Units	(13)	(1,241)	—	—	(1,254)
Share-based compensation expense, net of forfeitures	47	4,690	—	—	4,737
Distributions to noncontrolling interests in consolidated affiliates	—	—	—	(408)	(408)
Adjustment of Redeemable Common Units to fair value and contributions/distributions from/to the General Partner	(59)	(5,927)	—	—	(5,986)
Net (income) attributable to noncontrolling interests in consolidated affiliates	(4)	(386)	—	390	—
Comprehensive income:					
Net income	433	42,856	—	—	43,289
Other comprehensive income	—	—	8,486	—	8,486
Total comprehensive income					51,775
Balance at June 30, 2013	\$12,332	\$1,221,107	\$ (4,142)	\$ 4,735	\$1,234,032

	Common Units		Accumulated	Noncontrolling	Total
	General	Limited	Other	Interests in	Partners'
	Partners'	Partners'	Comprehensive	Consolidated	Capital
	Capital	Capital	Loss	Affiliates	
Balance at December 31, 2011	\$9,575	\$948,187	\$ (5,734)	\$ 4,646	\$956,674
Issuances of Common Units, net of tax withholdings	918	90,918	—	—	91,836
Distributions paid on Common Units	(656)	(64,941)	—	—	(65,597)
Distributions paid on Preferred Units	(13)	(1,241)	—	—	(1,254)
Share-based compensation expense, net of forfeitures	45	4,414	—	—	4,459
Distributions to noncontrolling interests in consolidated affiliates	—	—	—	(460)	(460)
Adjustment of Redeemable Common Units to fair value and contributions/distributions from/to the General Partner	(144)	(14,294)	—	—	(14,438)
Net (income) attributable to noncontrolling interests in consolidated affiliates	(4)	(403)	—	407	—
Comprehensive income:					
Net income	328	32,507	—	—	32,835

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Other comprehensive loss	—	—	(5,045)	—	(5,045)
Total comprehensive income						27,790	
Balance at June 30, 2012	\$10,049	\$995,147	\$ (10,779)	\$ 4,593	\$999,010	

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,	
	2013	2012
Operating activities:		
Net income	\$43,289	\$32,835
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	84,767	79,113
Amortization of lease incentives and acquisition-related intangible assets and liabilities	(198)	) 180
Share-based compensation expense	4,737	4,459
Allowance for losses on accounts and accrued straight-line rents receivable	380	538
Amortization of deferred financing costs	1,897	1,802
Amortization of cash flow hedges	1,588	1,459
Impairments of real estate assets	1,481	—
Losses on debt extinguishment	164	973
Net gains on disposition of property	(13,657)	) (6,519)
Gains on for-sale residential condominiums	—	) (175)
Equity in earnings of unconsolidated affiliates	(1,299)	) (1,351)
Changes in financing obligations	(391)	) (584)
Distributions of earnings from unconsolidated affiliates	2,814	2,211
Changes in operating assets and liabilities:		
Accounts receivable	2,295	7,298
Prepaid expenses and other assets	(2,189)	) (3,077)
Accrued straight-line rents receivable	(8,009)	) (9,415)
Accounts payable, accrued expenses and other liabilities	(587)	) (16,413)
Net cash provided by operating activities	117,082	93,334
Investing activities:		
Investments in acquired real estate and related intangible assets, net of cash acquired	(228,461)) —
Investments in development in process	(11,499)	) (1,531)
Investments in tenant improvements and deferred leasing costs	(42,343)	) (43,851)
Investments in building improvements	(26,466)	) (19,758)
Net proceeds from disposition of real estate assets	60,381	19,898
Net proceeds from disposition of for-sale residential condominiums	—	2,492
Distributions of capital from unconsolidated affiliates	435	901
Investments in and repayments of mortgages and notes receivable	(156)	) 1,544
Investments in and advances/repayments to/from unconsolidated affiliates	(429)	) (2,750)
Changes in restricted cash and other investing activities	7,853	4,031
Net cash used in investing activities	(240,685)	) (39,024)
Financing activities:		
Distributions on Common Units	(72,355)	) (65,597)
Distributions on Preferred Units	(1,254)	) (1,254)
Distributions to noncontrolling interests in consolidated affiliates	(408)	) (460)
Proceeds from the issuance of Common Units	126,738	95,289
Costs paid for the issuance of Common Units	(1,711)	) (1,316)
Repurchase of units related to tax withholdings	(2,537)	) (2,137)
Borrowings on revolving credit facility	346,300	106,300
Repayments of revolving credit facility	(233,900)) (392,800)
Borrowings on mortgages and notes payable	—	225,000

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Repayments of mortgages and notes payable	(39,610)	(19,359)
Payments on financing obligations	(575)	(38)
Additions to deferred financing costs and other financing activities	(747	)	(2,458)
Net cash provided by/(used in) financing activities	119,941		(58,830)
Net decrease in cash and cash equivalents	\$(3,662)	\$(4,520)

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,	
	2013	2012
Net decrease in cash and cash equivalents	\$(3,662)	\$(4,520)
Cash and cash equivalents at beginning of the period	13,867	11,151
Cash and cash equivalents at end of the period	\$10,205	\$6,631

Supplemental disclosure of cash flow information:

	Six Months Ended June 30,	
	2013	2012
Cash paid for interest, net of amounts capitalized	\$40,480	\$48,063

Supplemental disclosure of non-cash investing and financing activities:

	Six Months Ended June 30,	
	2013	2012
Unrealized gains/(losses) on cash flow hedges	\$6,599	\$(7,087)
Changes in accrued capital expenditures	12,618	(2,448)
Write-off of fully depreciated real estate assets	17,732	28,629
Write-off of fully amortized deferred financing and leasing costs	11,363	8,765
Unrealized gains on marketable securities of non-qualified deferred compensation plan	312	216
Adjustment of Redeemable Common Units to fair value	5,482	14,225
Unrealized gains on tax increment financing bond	299	583
Reduction of advances to unconsolidated affiliates related to acquisition activities	—	26,000

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, 2013

(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, self-administered and self-managed equity 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 virtually all of its activities through Highwoods Realty Limited Partnership (the “Operating Partnership”). At June 30, 2013, the Company and/or the Operating Partnership wholly owned: 291 in-service office, industrial and retail properties, comprising 29.6 million square feet; 634 acres of undeveloped land suitable for future development, of which 566 acres are considered core assets; and two office development properties. In addition, we owned interests (50.0% or less) in 30 in-service office properties, a rental residential development property and 11 acres of undeveloped land suitable for future development, which includes a 12.5% interest in a 261,000 square foot office property directly owned by the Company (not included in the Operating Partnership’s Consolidated Financial Statements).

The Company is the sole general partner of the Operating Partnership. At June 30, 2013, the Company owned all of the Preferred Units and 83.6 million, or 95.8%, of the Common Units in the Operating Partnership. Limited partners, including two directors of the Company, own the remaining 3.7 million Common Units. During the six months ended June 30, 2013, the Company redeemed 72,471 Common Units for a like number of shares of Common Stock. As a result of this activity, the percentage of Common Units owned by the Company increased from 95.6% at December 31, 2012 to 95.8% at June 30, 2013.

Common Stock Offerings

During the three and six months ended June 30, 2013, the Company issued 1,756,590 and 3,056,381 shares of Common Stock, respectively, under its equity sales agreements at an average gross sales price of \$38.32 and \$37.31 per share, respectively, and received net proceeds, after sales commissions, of \$66.3 million and \$112.3 million, respectively.

Basis of Presentation

Our Consolidated Financial Statements are prepared in conformity with accounting principles generally accepted in the United States of America (“GAAP”). Our Consolidated Balance Sheets at December 31, 2012 were retrospectively revised from previously reported amounts to reflect in real estate and other assets, net, held for sale those properties classified as held for sale during the three months ended June 30, 2013. Our Consolidated Statements of Income for the three and six months ended June 30, 2012 were retrospectively revised from previously reported amounts to reflect in discontinued operations the operations for those properties classified as discontinued operations.

The Company's Consolidated Financial Statements include the Operating Partnership, wholly owned subsidiaries and those entities in which the Company has the controlling interest. The Operating Partnership's Consolidated Financial Statements include wholly owned subsidiaries and those entities in which the Operating Partnership has the controlling interest. All intercompany transactions and accounts have been eliminated. At June 30, 2013 and

December 31, 2012, we had involvement with, but are not the primary beneficiary in, an entity that we concluded to be a variable interest entity (see Note 3).

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 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 2012 Annual Report on Form 10-K.

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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

Use of Estimates

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

2. Real Estate Assets

Acquisitions

During the second quarter of 2013, we acquired an office property in Atlanta, GA encompassing 553,000 square feet for a purchase price of \$140.1 million.

During the first quarter of 2013, we acquired:

• two office properties in Tampa, FL encompassing 372,000 square feet for a purchase price of \$52.5 million,

• two office properties in Greensboro, NC encompassing 195,000 square feet for a purchase price of \$30.8 million, and

• five acres of development land in Memphis, TN for a purchase price of \$4.8 million.

During the three and six months ended June 30, 2013, we expensed \$0.4 million and \$0.9 million, respectively, of acquisition costs (included in general and administrative expenses) related to these acquisitions. The assets acquired and liabilities assumed were recorded at fair value as determined by management based on information available at the acquisition date and on current assumptions as to future operations.

Dispositions

During the second quarter of 2013, we sold:

• five industrial properties in Atlanta, GA for a sale price of \$4.5 million (after \$0.1 million in closing credits to buyer for free rent) and recorded a gain on disposition of discontinued operations of less than \$0.1 million;

• six industrial properties and a land parcel in a single transaction in Atlanta, GA for a sale price of \$38.7 million (before \$1.8 million in closing credits to buyer for unfunded tenant improvements and after \$1.3 million in closing credits to buyer for free rent) and recorded a gain on disposition of discontinued operations of \$13.2 million; and

• two industrial properties in Atlanta, GA for a sale price of \$4.8 million and recorded a loss on disposition of discontinued operations of less than \$0.1 million.

During the first quarter of 2013, we sold two office properties in Orlando, FL for a sale price of \$14.6 million (before \$0.8 million in closing credits to buyer for unfunded tenant improvements) and recorded a loss on disposition of

discontinued operations of \$0.3 million.

In connection with the disposition of an office property in Jackson, MS in the third quarter of 2012, we had the right to receive additional cash consideration of up to \$1.5 million upon the satisfaction of a certain post-closing requirement. The post-closing requirement was satisfied and the cash consideration was received during the first quarter of 2013. Accordingly, we recognized \$1.5 million in additional gain on disposition of discontinued operations in the first quarter of 2013.

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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)

2. Real Estate Assets - Continued

Impairments

During the second quarter of 2013, we recorded impairments of real estate assets of \$1.1 million on four properties in a single office park in Winston-Salem, NC. These impairments were due to a change in the assumed timing of future dispositions and leasing assumptions, which reduced the future expected cash flows from the properties.

During the first quarter of 2013, we recorded impairments of real estate assets of \$0.4 million on two industrial properties in Atlanta, GA and recorded impairments of real estate assets held for sale of \$0.7 million on five industrial properties in Atlanta, GA. These properties were subsequently sold in the second quarter of 2013 and are classified as discontinued operations. These impairments were due to a change in the assumed timing of future dispositions and leasing assumptions, which reduced the future expected cash flows from the properties.

3. Mortgages and Notes Receivable

The following table sets forth our mortgages and notes receivable:

	June 30, 2013	December 31, 2012
Seller financing (first mortgages)	\$16,113	\$ 15,853
Less allowance	—	—
	16,113	15,853
Mortgage receivable	8,715	8,648
Less allowance	—	—
	8,715	8,648
Promissory notes	1,131	1,153
Less allowance	(376)	(182)
	755	971
Mortgages and notes receivable, net	\$25,583	\$ 25,472

During 2010, we provided seller financing in conjunction with two disposition transactions. The seller financing is evidenced by first mortgages secured by the assignment of rents and the underlying real estate assets.

During 2012, we provided secured acquisition financing to a third party. We also agreed to loan such third party \$8.4 million on a secured basis to fund future infrastructure development. As of June 30, 2013, \$0.1 million has been funded to the third party for infrastructure development. We concluded this arrangement to be an interest in a variable interest entity. However, since we do not have the power to direct matters that most significantly impact the activities of the entity, we do not qualify as the primary beneficiary. Accordingly, the entity is not consolidated. Our risk of loss with respect to this arrangement is limited to the carrying value of the mortgage receivable and the future infrastructure development funding commitment.

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, 2013, 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)

3. Mortgages and Notes Receivable - Continued

The following table sets forth our notes receivable allowance, which relates only to promissory notes:

	Three Months		Six Months Ended	
	Ended June 30,		June 30,	
	2013	2012	2013	2012
Beginning notes receivable allowance	\$437	\$122	\$182	\$61
Recoveries/write-offs/other	(61)	(4)	194	57
Total notes receivable allowance	\$376	\$118	\$376	\$118

4. Investments in and Advances to Affiliates

Unconsolidated Affiliates

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

The following table sets forth combined summarized financial information for the Company's unconsolidated affiliates:

	Three Months		Six Months Ended	
	Ended June 30,		June 30,	
	2013	2012	2013	2012
Income Statements:				
Rental and other revenues	\$23,935	\$26,049	\$47,451	\$50,869
Expenses:				
Rental property and other expenses	11,739	12,666	22,948	24,082
Depreciation and amortization	6,227	5,919	12,373	12,484
Impairments of real estate assets	—	—	4,790	7,180
Interest expense	4,689	5,267	9,428	11,097
Total expenses	22,655	23,852	49,539	54,843
Income/(loss) before disposition of properties	1,280	2,197	(2,088)	(3,974)
Gains on disposition of properties	43	6,275	67	6,275
Net income/(loss)	\$1,323	\$8,472	\$(2,021)	\$2,301
The Company's share of:				
Depreciation and amortization	\$2,092	\$1,675	\$4,107	\$3,773
Impairments of real estate assets	\$—	\$—	\$1,020	\$1,002
Interest expense	\$1,732	\$1,843	\$3,484	\$3,823
Gains on disposition of properties	\$10	\$—	\$431	\$—
Net income	\$571	\$1,133	\$575	\$338
The Company's share of net income	\$571	\$1,133	\$575	\$338

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Adjustments for management and other fees	342	375	774	1,008
Equity in earnings of unconsolidated affiliates	\$913	\$1,508	\$1,349	\$1,346

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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. Investments in and Advances to Affiliates - Continued

The following table sets forth combined summarized financial information for the Operating Partnership's unconsolidated affiliates:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Income Statements:				
Rental and other revenues	\$22,892	\$25,057	\$45,371	\$48,854
Expenses:				
Rental property and other expenses	11,087	12,076	21,695	22,877
Depreciation and amortization	5,915	5,607	11,750	11,861
Impairments of real estate assets	—	—	4,790	7,180
Interest expense	4,532	5,103	9,110	10,766
Total expenses	21,534	22,786	47,345	52,684
Income/(loss) before disposition of properties	1,358	2,271	(1,974)	(3,830)
Gains on disposition of properties	43	6,275	67	6,275
Net income/(loss)	\$1,401	\$8,546	\$(1,907)	\$2,445
The Operating Partnership's share of:				
Depreciation and amortization	\$2,053	\$1,636	\$4,029	\$3,695
Impairments of real estate assets	\$—	\$—	\$1,020	\$1,002
Interest expense	\$1,712	\$1,823	\$3,444	\$3,782
Gains on disposition of properties	\$10	\$—	\$431	\$—
Net income	\$582	\$1,142	\$590	\$356
The Operating Partnership's share of net income	\$582	\$1,142	\$590	\$356
Adjustments for management and other fees	334	369	709	995
Equity in earnings of unconsolidated affiliates	\$916	\$1,511	\$1,299	\$1,351

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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. Investments in and Advances to Affiliates - Continued

Highwoods DLF 98/29, LLC ("DLF I")

During the second quarter of 2013, DLF I sold an office property to an unrelated third party for a sale price of \$5.9 million (after \$0.1 million in closing credits to buyer for free rent) and recorded a gain on disposition of discontinued operations of less than \$0.1 million. We recorded less than \$0.1 million as our share of this gain through equity in earnings of unconsolidated affiliates.

During the first quarter of 2013, DLF I recorded impairments of real estate assets of \$4.8 million on an office property in Atlanta, GA and an office property in Charlotte, NC. We recorded \$1.0 million as our share of this impairment charge through equity in earnings of unconsolidated affiliates. These impairments were due to a change in the assumed timing of future dispositions and leasing assumptions, which reduced the future expected cash flows from the properties.

Highwoods DLF 97/26 DLF 99/32, LP ("DLF II")

During the first quarter of 2013, DLF II sold an office property to unrelated third parties for a sale price of \$10.1 million (after \$0.3 million in closing credits to buyer for free rent) and recorded a gain on disposition of property of less than \$0.1 million. As our cost basis is different from the basis reflected at the joint venture level, we recorded \$0.4 million of gain through equity in earnings of unconsolidated affiliates.

5. Intangible Assets and Below Market Lease Liabilities

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

	June 30, 2013	December 31, 2012
Assets:		
Deferred financing costs	\$21,368	\$21,759
Less accumulated amortization	(9,528)	(7,862)
	11,840	13,897
Deferred leasing costs (including lease incentives and above market lease and in-place lease acquisition-related intangible assets)	245,982	223,100
Less accumulated amortization	(76,020)	(68,978)
	169,962	154,122
Deferred financing and leasing costs, net	\$181,802	\$168,019
Liabilities (in accounts payable, accrued expenses and other liabilities):		
Acquisition-related below market lease liabilities	\$45,415	\$37,019
Less accumulated amortization	(5,350)	(3,383)
	\$40,065	\$33,636

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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. Intangible Assets and Below Market Lease Liabilities - Continued

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Amortization of deferred financing costs	\$948	\$900	\$1,897	\$1,802
Amortization of deferred leasing costs and acquisition-related intangible assets (in depreciation and amortization)	\$8,123	\$7,180	\$16,431	\$13,505
Amortization of lease incentives (in rental and other revenues)	\$344	\$330	\$725	\$664
Amortization of acquisition-related intangible assets (in rental and other revenues)	\$484	\$324	\$951	\$594
Amortization of acquisition-related intangible assets (in rental property and other expenses)	\$139	\$—	\$276	\$—
Amortization of acquisition-related below market lease liabilities (in rental and other revenues)	\$(1,031)	\$(553)	\$(2,153)	\$(1,097)

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

	Amortization of Deferred Financing Costs	Amortization of Deferred Leasing Costs and Acquisition-Related Intangible Assets (in Depreciation and Amortization)	Amortization of Lease Incentives (in Rental and Other Revenues)	Amortization of Acquisition-Related Intangible Assets (in Rental and Other Revenues)	Amortization of Acquisition-Related Intangible Assets (in Rental Property and Other Expenses)	Amortization of Acquisition-Related Below Market Lease Liabilities (in Rental and Other Revenues)
July 1 through December 31, 2013	\$1,828	\$ 17,283	\$621	\$ 1,032	\$ 277	\$ (2,856)
2014	3,241	30,455	1,160	1,817	553	(5,080)
2015	2,606	24,935	932	1,438	553	(4,367)
2016	1,508	20,563	738	1,085	553	(4,293)
2017	1,220	17,526	664	951	553	(4,037)
Thereafter	1,437	41,368	2,107	1,156	1,642	(19,432)
	\$11,840	\$ 152,130	\$6,222	\$ 7,479	\$ 4,131	\$ (40,065)
Weighted average remaining amortization periods as of June 30, 2013 (in years)	5.4	6.4	7.6	5.1	8.0	9.2

The following table sets forth the intangible assets acquired and below market lease liabilities assumed as a result of 2013 acquisition activity:

	Acquisition-Related Intangible Assets (amortized in Rental and Other Revenues)	Acquisition-Related Intangible Assets (amortized in Depreciation and Amortization)	Acquisition-Related Below Market Lease Liabilities (amortized in Rental and Other Revenues)
Amount recorded from acquisition activity	\$ 3,383	\$ 19,180	\$ (8,582)
Weighted average remaining amortization periods (in years)	4.2	5.3	7.5

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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. Mortgages and Notes Payable

The following table sets forth our mortgages and notes payable:

	June 30, 2013	December 31, 2012
Secured indebtedness	\$544,510	\$ 549,607
Unsecured indebtedness	1,387,145	1,309,555
Total mortgages and notes payable	\$ 1,931,655	\$ 1,859,162

At June 30, 2013, our secured mortgage loans were collateralized by real estate assets with an aggregate undepreciated book value of \$964.8 million.

Our \$475.0 million unsecured revolving credit facility is scheduled to mature in July 2015 and includes an accordion feature that allows for an additional \$75.0 million of borrowing capacity subject to additional lender commitments. Assuming no defaults have occurred, we have an option to extend the maturity for an additional year. There was \$135.4 million and \$113.0 million outstanding under our revolving credit facility at June 30, 2013 and July 18, 2013, respectively. At both June 30, 2013 and July 18, 2013, we had \$0.1 million of outstanding letters of credit, which reduces the availability on our revolving credit facility. As a result, the unused capacity of our revolving credit facility at June 30, 2013 and July 18, 2013 was \$339.5 million and \$361.9 million, respectively.

During the first quarter of 2013, we prepaid the remaining \$35.0 million balance on a \$200.0 million bank term loan that was originally scheduled to mature in February 2016. We recorded \$0.2 million of loss on debt extinguishment related to this repayment.

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

7. Derivative Financial Instruments

Our interest rate swaps have been designated as and are being accounted for as cash flow hedges with changes in fair value recorded in other comprehensive income each reporting period. No gain or loss was recognized related to hedge ineffectiveness or to amounts excluded from effectiveness testing on our cash flow hedges during the six months ended June 30, 2013. We have no collateral requirements related to our interest rate swaps.

Amounts reported in accumulated other comprehensive loss ("AOCL") related to derivatives will be reclassified to interest expense as interest payments are made on our variable-rate debt. During the period from July 1, 2013 through June 30, 2014, we estimate that \$3.2 million will be reclassified to interest expense.

For the periods ending June 30, 2013 and December 31, 2012, all of our derivatives were in a liability position. The following table sets forth the fair value of our liability derivatives:

June 30, 2013	December 31, 2012
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Liability Derivatives:

Derivatives designated as cash flow hedges in accounts payable, accrued expenses and other liabilities:

Interest rate swaps	\$1,103	\$ 9,369
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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. Derivative Financial Instruments - Continued

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

	Three Months Ended June 30,	Six Months Ended June 30,
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