HIGHWOODS PROPERTIES INC
Form 10-K
February 06, 2018

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549
FORM 10-K

[X] Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the fiscal year ended December 31, 2017

OR

[ ] Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the transition period from_____ to_____

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

Maryland	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)

_____

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

Title of Each Class	Name of Each Exchange on Which Registered
Common Stock, $.01 par value, of Highwoods Properties, Inc.	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act:
NONE

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
Highwoods Properties, Inc. Yes x No ¨ Highwoods Realty Limited Partnership Yes x No ¨

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Securities Exchange Act.
Highwoods Properties, Inc. Yes ¨ No x Highwoods Realty Limited Partnership Yes ¨ No x

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

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of such registrants' knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. x

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 x Accelerated filer ¨ Non-accelerated filer ¨ (Do not check if a smaller reporting company)
Smaller reporting company ¨ Emerging growth company ¨
Highwoods Realty Limited Partnership
Large accelerated filer ¨ Accelerated filer ¨ Non-accelerated filer x (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 Securities Exchange Act).
Highwoods Properties, Inc. Yes ¨ No x Highwoods Realty Limited Partnership Yes ¨ No x

The aggregate market value of shares of Common Stock of Highwoods Properties, Inc. held by non-affiliates (based upon the closing sale price on the New York Stock Exchange) on June 30, 2017 was approximately $5.2 billion. At January 26, 2018, there were 103,284,071 shares of Common Stock outstanding.

There is no public trading market for the Common Units of Highwoods Realty Limited Partnership. As a result, an aggregate market value of the Common Units of Highwoods Realty Limited Partnership cannot be determined.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Proxy Statement of Highwoods Properties, Inc. to be filed in connection with its Annual Meeting of Stockholders to be held May 9, 2018 are incorporated by reference in Part II, Item 5 and Part III, Items 10, 11, 12, 13 and 14.

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 January 26, 2018, the latest practicable date for financial information prior to the filing of this Annual Report.

This report combines the Annual Reports on Form 10-K for the period ended December 31, 2017 of the Company and the Operating Partnership. We believe combining the annual 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:

- Item 6 - Selected Financial Data;
- Item 9A - Controls and Procedures;
- Item 15 - Certifications of CEO and CFO Pursuant to Sections 302 and 906 of the Sarbanes-Oxley Act;
- Consolidated Financial Statements; and
- the following Notes to Consolidated Financial Statements:
- Note 11 - Equity;
- Note 16 - Earnings Per Share and Per Unit; and
- Note 19 - Quarterly Financial Data.

HIGHWOODS PROPERTIES, INC.
HIGHWOODS REALTY LIMITED PARTNERSHIP

TABLE OF CONTENTS

Item No.		Page
	PART I	
1.	BUSINESS	4
1A.	RISK FACTORS	5
1B.	UNRESOLVED STAFF COMMENTS	14
2.	PROPERTIES	15
3.	LEGAL PROCEEDINGS	18
X.	EXECUTIVE OFFICERS OF THE REGISTRANT	19
	PART II	
5.	MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES	20
6.	SELECTED FINANCIAL DATA	23
7.	MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS	25
7A.	QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK	42
8.	FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA	42
9.	CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE	42
9A.	CONTROLS AND PROCEDURES	43
9B.	OTHER INFORMATION	46
	PART III	
10.	DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE	47
11.	EXECUTIVE COMPENSATION	47
12.	SECURITY OWNERSIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS	47
13.	CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS AND DIRECTOR INDEPENDENCE	47
14.	PRINCIPAL ACCOUNTANT FEES AND SERVICES	47
	PART IV	
15.	EXHIBITS AND FINANCIAL STATEMENT SCHEDULES	48

Table of Contents

PART I

ITEM 1. BUSINESS

General

Highwoods Properties, Inc., headquartered in Raleigh, is a publicly-traded real estate investment trust ("REIT"). The Company is a fully integrated office 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. Our Common Stock is traded on the New York Stock Exchange ("NYSE") under the symbol "HIW."

At December 31, 2017, the Company owned all of the Preferred Units and 102.9 million, or 97.3%, of the Common Units. Limited partners owned the remaining 2.8 million Common Units. Generally, the Operating Partnership is obligated to redeem each Common Unit at the request of the holder thereof for cash equal to the value of one share of Common Stock based on the average of the market price for the 10 trading days immediately preceding the notice date of such redemption, provided that the Company, at its option, may elect to acquire any such Common Units presented for redemption for cash or one share of Common Stock. The Common Units owned by the Company are not redeemable.

The Company was incorporated in Maryland in 1994. The Operating Partnership was formed in North Carolina in 1994. Our executive offices are located at 3100 Smoketree Court, Suite 600, Raleigh, NC 27604, and our telephone number is (919) 872-4924.

Our primary business is the operation, acquisition and development of office properties, which accounted for more than 97% of our annualized cash rental revenues as of December 31, 2017. There are no material inter-segment transactions. See Note 18 to our Consolidated Financial Statements for a summary of the rental and other revenues, net operating income and assets for each reportable segment.

Our website is www.highwoods.com. In addition to this Annual Report, all quarterly and current reports, proxy statements, interactive data and other information are made available, without charge, on our website as soon as reasonably practicable after they are filed or furnished with the Securities and Exchange Commission ("SEC"). The information on our website does not constitute part of this Annual Report. Reports filed or furnished with the SEC may also be viewed at www.sec.gov or obtained at the SEC's public reference facilities. Please call the SEC at (800) 732-0330 for further information about the public reference facilities.

During 2017, the Company filed unqualified Section 303A certifications with the NYSE. The Company and the Operating Partnership have also filed the CEO and CFO certifications required by Sections 302 and 906 of the Sarbanes-Oxley Act of 2002 as exhibits to this Annual Report.

Business and Operating Strategy

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.

Local Market Leadership. We focus our real estate activities in markets where we have extensive local knowledge and own a significant amount of assets. In each of our core markets, we maintain offices that are led by division officers with significant real estate experience. Our real estate professionals are seasoned and have significant experience managing commercial real estate through all aspects of multiple economic cycles. Our senior leadership team has significant experience and maintains important relationships with market participants in each of our core markets.

Table of Contents

Customer Service-Oriented Organization. We provide a complete line of real estate services to our customers. We believe that our in-house leasing and asset management, development, acquisition and construction management services generally allow us to respond to the many demands of our existing and potential customer base. We provide our customers with cost-effective services such as build-to-suit construction and space modification, including tenant improvements and expansions. In addition, the breadth of our capabilities and resources provides us with market information not generally available. We believe that operating efficiencies achieved through our fully integrated organization and the strength of our balance sheet also provide a competitive advantage in retaining existing customers and attracting new customers as well as setting our rental rates and pricing other services. In addition, our relationships with our customers may lead to development projects when these customers seek new space.

Geographic Diversification. Our core portfolio consists primarily of office properties in Raleigh, Atlanta, Tampa, Nashville, Memphis, Pittsburgh, Richmond and Orlando and office and industrial properties in Greensboro. We do not believe that our operations are significantly dependent upon any particular geographic market.

Conservative and Flexible Balance Sheet. We are committed to maintaining a conservative and flexible balance sheet with access to ample liquidity, multiple sources of debt and equity capital and sufficient availability under our revolving credit facility to fund our short and long-term liquidity requirements. Our balance sheet also allows us to proactively assure our existing and prospective customers that we are able to fund tenant improvements and maintain our properties in good condition while retaining the flexibility to capitalize on favorable development and acquisition opportunities as they arise.

Competition

Our properties compete for customers with similar properties located in our markets primarily on the basis of location, rent, services provided and the design, quality and condition of the facilities. We also compete with other domestic and foreign REITs, financial institutions, pension funds, partnerships, individual investors and others when attempting to acquire, develop and operate properties.

Employees

At December 31, 2017, we had 441 full-time employees.

ITEM 1A. RISK FACTORS

An investment in our securities involves various risks. Investors should carefully consider the following risk factors in conjunction with the other information contained in this Annual Report before trading in our securities. If any of these risks actually occur, our business, results of operations, prospects and financial condition could be adversely affected.

Adverse economic conditions in our markets that negatively impact the demand for office space, such as high unemployment, may result in lower occupancy and rental rates for our portfolio, which would adversely affect our results of operations. 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. In addition, the timing of changes in occupancy levels tends to lag the timing of changes in overall economic activity and employment levels. For additional information regarding our average occupancy and rental rate trends over the past five years, see “Item 2. Properties.” Lower rental revenues that result from lower average occupancy or lower rental rates with respect to our same property portfolio will adversely affect our results of operations unless offset by the impact of any newly acquired or developed properties or lower variable operating expenses, general and administrative expenses and/or interest expense.

We face considerable competition in the leasing market and may be unable to renew existing leases or re-let space on terms similar to the existing leases, or we may spend significant capital in our efforts to renew and re-let space, which may adversely affect our results of operations. In addition to seeking to increase our average occupancy by leasing current vacant space, we also concentrate our leasing efforts on renewing existing leases. Because we compete with a number of other developers, owners and operators of office and office-oriented, mixed-use properties, we may be unable to renew leases with our existing customers and, if our current customers do not renew their leases, we may be unable to re-let the space to new customers. To the extent that we are able to renew existing leases or re-let such space to new customers, heightened competition resulting from

Table of Contents

adverse market conditions may require us to utilize rent concessions and tenant improvements to a greater extent than we anticipate or have historically. Further, changes in space utilization by our customers due to technology, economic conditions and business culture also affect the occupancy of our properties. As a result, customers may seek to downsize by leasing less space from us upon any renewal.

If our competitors offer space at rental rates below current market rates or below the rental rates we currently charge our customers, we may lose existing and potential customers, and we may be pressured to reduce our rental rates below those we currently charge in order to retain customers upon expiration of their existing leases. Even if our customers renew their leases or we are able to re-let the space, the terms and other costs of renewal or re-letting, including the cost of required renovations, increased tenant improvement allowances, leasing commissions, reduced rental rates and other potential concessions, may be less favorable than the terms of our current leases and could require significant capital expenditures. From time to time, we may also agree to modify the terms of existing leases to incentivize customers to renew their leases. If we are unable to renew leases or re-let space in a reasonable time, or if our rental rates decline or our tenant improvement costs, leasing commissions or other costs increase, our financial condition and results of operations would be adversely affected.

Difficulties or delays in renewing leases with large customers or re-leasing space vacated by large customers could materially impact our results of operations. Our 20 largest customers account for a significant portion of our revenues. See “Item 2. Properties - Customers” and “Item 2. Properties - Lease Expirations.” There are no assurances that these customers, or any of our other large customers, will renew all or any of their space upon expiration of their current leases.

Some of our leases provide customers with the right to terminate their leases early, which could have an adverse effect on our financial condition and results of operations. Certain of our leases permit our customers to terminate their leases as to all or a portion of the leased premises prior to their stated lease expiration dates under certain circumstances, such as providing notice by a certain date and, in many cases, paying a termination fee. To the extent that our customers exercise early termination rights, our results of operations will be adversely affected, and we can provide no assurances that we will be able to generate an equivalent amount of net effective rent by leasing the vacated space to others.

Our results of operations and financial condition could be adversely affected by financial difficulties experienced by a major customer, or by a number of smaller customers, including bankruptcies, insolvencies or general downturns in business. Our operations depend on the financial stability of our customers. A default by a significant customer on its lease payments would cause us to lose the revenue associated with such lease. In the event of a customer default or bankruptcy, we may experience delays in enforcing our rights as landlord and may incur substantial costs re-leasing the property. We cannot evict a customer solely because of its bankruptcy. On the other hand, a court might authorize the customer to reject and terminate its lease. In such case, our claim against the bankrupt customer for unpaid, future rent would be subject to a statutory cap that might be substantially less than the remaining rent actually owed under the lease. As a result, our claim for unpaid rent would likely not be paid in full and we may be required to write off deferred leasing costs and accrued straight-line rents receivable. These events could adversely impact our financial condition and results of operations.

An oversupply of space in our markets often cause rental rates and occupancies to decline, making it more difficult for us to lease space at attractive rental rates, if at all. Undeveloped land in many of the markets in which we operate is generally more readily available and less expensive than in higher barrier-to-entry markets such as New York and San Francisco. As a result, even during times of positive economic growth, we and/or our competitors could construct new buildings that would compete with our existing properties. Any such oversupply could result in lower occupancy and rental rates in our portfolio, which would have a negative impact on our results of operations.

In order to maintain and/or increase the quality of our properties and successfully compete against other properties, we regularly must spend money to maintain, repair, renovate and improve our properties, which could negatively impact our financial condition and results of operations. If our properties are not as attractive to customers due to physical condition as properties owned by our competitors, we could lose customers or suffer lower rental rates. As a result, we may from time to time make significant capital expenditures to maintain or enhance the competitiveness of our properties. There can be no assurances that any such expenditures would result in higher occupancy or higher rental rates or deter existing customers from relocating to properties owned by our competitors.

Costs of complying with governmental laws and regulations may adversely affect our results of operations. All real property and the operations conducted on real property are subject to federal, state and local laws and regulations relating to environmental protection and human health and safety. Some of these laws and regulations may impose joint and several liability on customers, owners or operators for the costs to investigate or remediate contaminated properties, regardless of fault or whether the acts causing the contamination were legal. In addition, the presence of hazardous substances, or the failure to properly remediate these substances, may hinder our ability to sell, rent or pledge such property as collateral for future borrowings.

Table of Contents

Compliance with new laws or regulations or stricter interpretation of existing laws may require us to incur significant expenditures. Future laws or regulations may impose significant environmental liability. Additionally, our customers' operations, operations in the vicinity of our properties, such as the presence of underground storage tanks, or activities of unrelated third parties may affect our properties. In addition, there are various local, state and federal fire, health, life-safety and similar regulations with which we may be required to comply and that may subject us to liability in the form of fines or damages for noncompliance. Any expenditures, fines or damages we must pay would adversely affect our results of operations. Proposed legislation to address climate change could increase utility and other costs of operating our properties.

Discovery of previously undetected environmentally hazardous conditions may adversely affect our financial condition and results of operations. Under various federal, state and local environmental laws and regulations, a current or previous property owner or operator may be liable for the cost to remove or remediate hazardous or toxic substances on such property. These costs could be significant. Such laws often impose liability whether or not the owner or operator knew of, or was responsible for, the presence of such hazardous or toxic substances. Environmental laws also may impose restrictions on the manner in which property may be used or businesses may be operated, and these restrictions may require significant expenditures or prevent us from entering into leases with prospective customers that may be impacted by such laws. Environmental laws provide for sanctions for noncompliance and may be enforced by governmental agencies or private parties. Certain environmental laws and common law principles could be used to impose liability for release of and exposure to hazardous substances, including asbestos-containing materials. Third parties may seek recovery from real property owners or operators for personal injury or property damage associated with exposure to released hazardous substances. The cost of defending against claims of liability, of complying with environmental regulatory requirements, of remediating any contaminated property, or of paying personal injury claims could adversely affect our financial condition and results of operations.

Our same property results of operations would suffer if costs of operating our properties, such as real estate taxes, utilities, insurance, maintenance and other costs, rise faster than our ability to increase rental revenues and/or cost recovery income. While we receive additional rent from our customers that is based on recovering a portion of operating expenses, increased operating expenses will negatively impact our results of operations. Our revenues, including cost recovery income, are subject to longer-term leases and may not be quickly increased sufficient to recover an increase in operating costs and expenses. Furthermore, the costs associated with owning and operating a property are not necessarily reduced when circumstances such as market factors and competition cause a reduction in rental revenues from the property. Increases in same property operating expenses would adversely affect our results of operations unless offset by higher rental rates, higher cost recovery income, the impact of any newly acquired or developed properties, lower general and administrative expenses and/or lower interest expense.

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 the normal course of business, we typically evaluate potential acquisitions, enter into non-binding letters of intent, and may, at any time, enter into contracts to acquire additional properties. Acquired properties may fail to perform in accordance with our expectations due to lease-up risk, renovation cost risks and other factors. In addition, the renovation and improvement costs we incur in bringing an acquired property up to our standards may exceed our original estimates. We may not have the financial resources to make suitable acquisitions or renovations on favorable terms or at all.

Further, we face significant competition for attractive investment opportunities from an indeterminate number of other real estate investors, including investors with significantly greater capital resources and access to capital than we have, such as domestic and foreign corporations and financial institutions, publicly-traded and privately-held REITs, private institutional investment funds, investment banking firms, life insurance companies and pension funds. Moreover, owners of office properties may be reluctant to sell, resulting in fewer acquisition opportunities. As a result of such

increased competition and limited opportunities, we may be unable to acquire additional properties or the purchase price of such properties may be significantly elevated, which would reduce our expected return from making any such acquisitions.

In addition to acquisitions, we periodically consider developing or re-developing properties. Risks associated with development and re-development activities include:

- the unavailability of favorable financing;

- construction costs exceeding original estimates;

- construction and lease-up delays resulting in increased debt service expense and construction costs; and

Table of Contents

- lower than anticipated occupancy rates and rents causing a property to be unprofitable or less profitable than originally estimated.

Development and re-development activities are also subject to risks relating to our ability to obtain, or delays in obtaining, any necessary zoning, land-use, building, occupancy and other required governmental and utility company authorizations. Further, we hold and expect to continue to acquire non-income producing land for future development. See "Item 2. Properties - Land Held for Development." No assurances can be provided as to when, if ever, we will commence development projects on such land or if any such development projects would be on favorable terms. The fixed costs of acquiring and owning development land, such as the ongoing payment of property taxes, adversely affects our results of operations until such land is either placed in service or sold.

Illiquidity of real estate investments and the tax effect of dispositions could significantly impede our ability to sell assets or respond to favorable or adverse changes in the performance of our properties. Because real estate investments are relatively illiquid, our ability to promptly sell one or more properties in our portfolio in response to changing economic, financial and investment conditions is limited. We intend to continue to sell some of our properties in the future as part of our investment strategy and activities. However, we cannot predict whether we will be able to sell any property for the price or on the terms set by us, or whether the price or other terms offered by a prospective purchaser would be acceptable to us. We also cannot predict the length of time needed to find a willing purchaser and close the sale of a property.

Certain of our properties have low tax bases relative to their estimated current market values, and accordingly, the sale of such assets would generate significant taxable gains unless we sold such properties in a tax-deferred exchange under Section 1031 of the Internal Revenue Code or another tax-free or tax-deferred transaction. For an exchange to qualify for tax-deferred treatment under Section 1031, the net proceeds from the sale of a property must be held by an escrow agent until applied toward the purchase of real estate qualifying for gain deferral. Given the competition for properties meeting our investment criteria, there could be a delay in reinvesting such proceeds or we may be unable to reinvest such proceeds at all. Any delay or limitation in using the reinvestment proceeds to acquire additional income producing assets could adversely affect our near-term results of operations. Additionally, in connection with tax-deferred 1031 transactions, our restricted cash balances may be commingled with other funds being held by any such escrow agent, which subjects our balance to the credit risk of the institution. If we sell properties outright in taxable transactions, we may elect to distribute some or all of the taxable gain to our stockholders under the requirements of the Internal Revenue Code for REITs, which in turn could negatively affect our future results of operations and may increase our leverage.

Because holders of Common Units, including one of our directors, may suffer adverse tax consequences upon the sale of some of our properties, they may seek to influence us not to sell certain properties even if such a sale would otherwise be in our best interest. Holders of Common Units may suffer adverse tax consequences upon the sale of certain properties. Therefore, holders of Common Units, including one of our directors, may have different objectives than our stockholders regarding the appropriate pricing and timing of a property's sale. Although the Company is the sole general partner of the Operating Partnership and has the exclusive authority to sell any of our properties, those who hold Common Units may seek to influence us not to sell certain properties even if such sale might be financially advantageous to us or influence us to enter into tax deferred exchanges with the proceeds of such sales when such a reinvestment might not otherwise be in our best interest.

Our use of joint ventures may limit our flexibility with jointly owned investments. In appropriate circumstances, we own, develop and acquire properties in joint ventures with other persons or entities when circumstances warrant the use of these structures. Types of joint venture investments include noncontrolling ownership interests in entities such as partnerships and limited liability companies and tenant-in-common interests in which we own less than 100% of the undivided interests in a real estate asset. Our participation in joint ventures is subject to the risks that:

- we could become engaged in a dispute with any of our joint venture partners that might affect our ability to develop or operate a property;

- our joint ventures are subject to debt and the refinancing of such debt may require equity capital calls;

- our joint venture partners may default on their obligations necessitating that we fulfill their obligation ourselves;

- our joint venture partners may have different objectives than we have regarding the appropriate timing and terms of any renovation, sale or refinancing of properties;

- our joint venture partners may be structured differently than us for tax purposes and this could create conflicts of interest; and

Table of Contents

- our joint venture partners may have competing interests in our markets that could create conflicts of interest.

Our insurance coverage on our properties may be inadequate. We carry insurance on all of our properties, including insurance for liability, fire, windstorms, floods, earthquakes, environmental concerns and business interruption. Insurance companies, however, limit or exclude coverage against certain types of losses, such as losses due to terrorist acts, named windstorms, earthquakes and toxic mold. Thus, we may not have insurance coverage, or sufficient insurance coverage, against certain types of losses and/or there may be decreases in the insurance coverage available. Should an uninsured loss or a loss in excess of our insured limits occur, we could lose all or a portion of the capital we have invested in a property or properties, as well as the anticipated future operating income from the property or properties. If any of our properties were to experience a catastrophic loss, it could disrupt our operations, delay revenue and result in large expenses to repair or rebuild the property. Further, if any of our insurance carriers were to become insolvent, we would be forced to replace the existing insurance coverage with another suitable carrier, and any outstanding claims would be at risk for collection. In such an event, we cannot be certain that we would be able to replace the coverage at similar or otherwise favorable terms. Such events could adversely affect our results of operations and financial condition.

We have obtained title insurance policies for each of our properties, typically in an amount equal to its original purchase price. However, these policies may be for amounts less than the current or future values of our properties, particularly for land parcels on which we subsequently construct a building. In such event, if there is a title defect relating to any of our properties, we could lose some of the capital invested in and anticipated profits from such property.

Our use of debt could have a material adverse effect on our financial condition and results of operations. We are subject to risks associated with debt financing, such as the sufficiency of cash flow to meet required payment obligations, ability to comply with financial ratios and other covenants and the availability of capital to refinance existing indebtedness or fund important business initiatives. If we breach covenants in our debt agreements, the lenders can declare a default and, if the debt is secured, can take possession of the property securing the defaulted loan. 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. Unwaived defaults under our debt agreements could materially and adversely affect our financial condition and results of operations.

Further, we obtain credit ratings from Moody's Investors Service and Standard and Poor's Rating Services based on their evaluation of our creditworthiness. These agencies' ratings are based on a number of factors, some of which are not within our control. In addition to factors specific to our financial strength and performance, the rating agencies also consider conditions affecting REITs generally. We cannot assure you that our credit ratings will not be downgraded. If our credit ratings are downgraded or other negative action is taken, we could be required, among other things, to pay additional interest and fees on outstanding borrowings under our revolving credit facility and bank term loans.

We generally do not intend to reserve funds to retire existing debt upon maturity, which includes $200.0 million principal amount of unsecured notes due April 15, 2018. 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. While we do not currently have significant amounts of mortgage debt, we may in the future mortgage additional properties, which could also restrict our ability to sell any such underlying assets. If we

do not meet any such mortgage financing obligations, any properties securing such indebtedness could be foreclosed on.

We depend on 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 upon maturity. Our ability to borrow under the revolving credit facility also allows us to quickly capitalize on opportunities at short-term interest rates. If our lenders default under their obligations under the revolving credit facility or we become unable to borrow additional funds under the facility for any reason, we would be required to seek alternative equity or debt capital, which could be more costly and adversely impact our financial condition. If such alternative capital were unavailable, we may not be able to make new investments and could have difficulty repaying other debt.

Increases in interest rates would increase our interest expense. At December 31, 2017, we had $605.0 million of variable rate debt outstanding not protected by interest rate hedge contracts. We may incur additional variable rate debt in the future. If interest rates increase, then so would the interest expense on our unhedged variable rate debt, which could adversely affect our financial condition and results of operations. From time to time, we manage our exposure to interest rate risk with interest rate

Table of Contents

hedge contracts that effectively fix or cap a portion of our variable rate debt. In addition, we utilize fixed rate debt at market rates. If interest rates decrease, the fair market value of any existing interest rate hedge contracts or outstanding fixed-rate debt would decline.

Our efforts to manage these exposures may not be successful. Our use of interest rate hedge contracts to manage risk associated with interest rate volatility may expose us to additional risks, including a risk that a counterparty to a hedge contract may fail to honor its obligations. Developing an effective interest rate risk strategy is complex and no strategy can completely insulate us from risks associated with interest rate fluctuations. There can be no assurance that our hedging activities will have the desired beneficial impact on our results of operations or financial condition. Termination of interest rate hedge contracts typically involves costs, such as transaction fees or breakage costs.

Failure to comply with Federal government contractor requirements could result in substantial costs and loss of substantial revenue. We are subject to compliance with a wide variety of complex legal requirements because we are a Federal government contractor. These laws regulate how we conduct business, require us to administer various compliance programs and require us to impose compliance responsibilities on some of our contractors. Our failure to comply with these laws could subject us to fines and penalties, cause us to be in default of our leases and other contracts with the Federal government and bar us from entering into future leases and other contracts with the Federal government.

We face risks associated with security breaches through cyber attacks, cyber intrusions or otherwise, as well as other significant disruptions of our information technology (IT) networks and related systems. We face risks associated with security breaches, whether through cyber attacks or cyber intrusions over the Internet, malware, computer viruses, attachments to e-mails, persons inside our organization or persons with access to systems inside our organization, and other significant disruptions of our IT networks and related systems. The risk of a security breach or disruption, particularly through cyber attack or cyber intrusion, including by computer hackers, foreign governments and cyber terrorists, has generally increased as the number, intensity and sophistication of attempted attacks and intrusions from around the world have increased. Our IT networks and related systems are essential to the operation of our business and our ability to perform day-to-day operations (including managing our building systems) and, in some cases, may be critical to the operations of certain of our customers. Although we make efforts to maintain the security and integrity of these types of IT networks and related systems, and we have implemented various measures to manage the risk of a security breach or disruption, there can be no assurance that our security efforts and measures will be effective or that attempted security breaches or disruptions would not be successful or damaging. Even the most well protected information, networks, systems and facilities remain potentially vulnerable because the techniques used in such attempted security breaches evolve and generally are not recognized until launched against a target, and in some cases are designed not be detected and, in fact, may not be detected. Accordingly, we may be unable to anticipate these techniques or to implement adequate security barriers or other preventative measures, and thus it is impossible for us to entirely mitigate this risk.

A security breach or other significant disruption involving our IT networks and related systems could:

- disrupt the proper functioning of our networks and systems and therefore our operations and/or those of certain of our customers;

- result in misstated financial reports, violations of loan covenants, missed reporting deadlines and/or missed permitting deadlines;

- result in our inability to properly monitor our compliance with the rules and regulations regarding our qualification as a REIT;

- result in the unauthorized access to, and destruction, loss, theft, misappropriation or release of, proprietary, confidential, sensitive or otherwise valuable information of ours or others, which others could use to compete against us or which could expose us to damage claims by third-parties for disruptive, destructive or otherwise harmful purposes and outcomes;

- result in our inability to maintain the building systems relied upon by our customers for the efficient use of their leased space;

- require significant management attention and resources to remedy any damages that result;

- subject us to claims for breach of contract, damages, credits, penalties or termination of leases or other agreements; or

- damage our reputation among our customers and investors generally.

Table of Contents

Any or all of the foregoing could have a material adverse effect on our results of operations, financial condition and cash flows.

The Company may be subject to taxation as a regular corporation if it fails to maintain its REIT status, which could have a material adverse effect on the Company's stockholders and on the Operating Partnership. We may be subject to adverse consequences if the Company fails to continue to qualify as a REIT for federal income tax purposes. While we intend to operate in a manner that will allow the Company to continue to qualify as a REIT, we cannot provide any assurances that the Company will remain qualified as such in the future, which could have particularly adverse consequences to the Company's stockholders. Many of the requirements for taxation as a REIT are highly technical and complex and depend upon various factual matters and circumstances that may not be entirely within our control. The fact that the Company holds its assets through the Operating Partnership and its subsidiaries further complicates the application of the REIT requirements. Even a technical or inadvertent mistake could jeopardize our REIT status. Furthermore, Congress and the Internal Revenue Service might change the tax laws and regulations and the courts might issue new rulings that make it more difficult, or impossible, for the Company to remain qualified as a REIT. If the Company fails to qualify as a REIT, it would (a) not be allowed a deduction for dividends paid to stockholders in computing its taxable income, (b) be subject to federal income tax at regular corporate rates (and potentially the alternative minimum tax for years prior to 2018 and increased state and local taxes) and (c) unless entitled to relief under the tax laws, not be able to re-elect REIT status until the fifth calendar year after it failed to qualify as a REIT. Additionally, the Company would no longer be required to make distributions. As a result of these factors, the Company's failure to qualify as a REIT could impair our ability to expand our business and adversely affect the price of our Common Stock.

Even if we remain qualified as a REIT, we may face other tax liabilities that adversely affect our financial condition and results of operations. Even if we remain qualified for taxation as a REIT, we may be subject to certain federal, state and local taxes on our income and assets, including taxes on any undistributed income, tax on income from some activities conducted as a result of a foreclosure, and state or local income, property and transfer taxes. In addition, our taxable REIT subsidiary is subject to regular corporate federal, state and local taxes. Any of these taxes would adversely affect our financial condition and results of operations.

Complying with REIT requirements may cause us to forego otherwise attractive opportunities or liquidate otherwise attractive investments. To remain qualified as a REIT for federal income tax purposes, we must continually satisfy tests concerning, among other things, the sources of our income, the nature and diversification of our assets, the amounts we distribute to our stockholders and the ownership of our capital stock. In order to meet these tests, we may be required to forego investments we might otherwise make. Thus, compliance with the REIT requirements may hinder our performance.

In particular, we must ensure that at the end of each calendar quarter, at least 75% of the value of our assets consists of cash, cash items, government securities and qualified real estate assets. The remainder of our investment in securities (other than government securities, securities of taxable REIT subsidiaries and qualified real estate assets) generally cannot include more than 10% of the outstanding voting securities of any one issuer or more than 10% of the total value of the outstanding securities of any one issuer. In addition, in general, no more than 5% of the value of our assets (other than government securities, securities of taxable REIT subsidiaries and qualified real estate assets) can consist of the securities of any one issuer, and no more than 25% of the value of our total assets can be represented by the securities of one or more taxable REIT subsidiaries. If we fail to comply with these requirements at the end of any calendar quarter, we must correct the failure within 30 days after the end of the calendar quarter or qualify for certain statutory relief provisions to avoid losing our REIT qualification and suffering adverse tax consequences. As a result, we may be required to liquidate otherwise attractive investments, which could adversely affect our financial condition and results of operations.

The prohibited transactions tax may limit our ability to sell properties. A REIT's net income from prohibited transactions is subject to a 100% tax. In general, prohibited transactions are sales or other dispositions of property held primarily for sale to customers in the ordinary course of business. We may be subject to the prohibited transaction tax equal to 100% of net gain upon a disposition of real property. Although a safe harbor to the characterization of the sale of real property by a REIT as a prohibited transaction is available, we cannot assure you that we can in all cases comply with the safe harbor or that we will avoid owning property that may be characterized as held primarily for sale to customers in the ordinary course of business. Consequently, we may choose not to engage in certain sales of our properties or may conduct such sales through our taxable REIT subsidiary, which would be subject to federal and state income taxation.

Dividends payable by REITs do not qualify for the reduced tax rates available for some dividends. The maximum tax rate applicable to “qualified dividend income” payable to U.S. stockholders that are taxed at individual rates is 23.8% (including the 3.8% net investment income tax). Dividends payable by REITs, however, generally are not eligible for the reduced rates on qualified dividend income. For 2018 and future years, dividends payable by REITs to U.S. stockholders are taxed at a maximum individual rate of 33.4% (including the 3.8% net investment income tax and after factoring in a 20% deduction for pass-through income). The more favorable rates applicable to regular corporate qualified dividends could cause investors who are taxed at

Table of Contents

individual rates to perceive investments in REITs to be relatively less attractive than investments in the stocks of non-REIT corporations that pay dividends, which could adversely affect the value of the shares of REITs, including our stock.

We face possible state and local tax audits. Because we are organized and qualify as a REIT, we are generally not subject to federal income taxes, but we are subject to certain state and local taxes. In the normal course of business, certain entities through which we own real estate have undergone tax audits. Collectively, tax deficiency notices received to date from the jurisdictions conducting previous audits have not been material. However, there can be no assurance that future audits will not occur with increased frequency or that the ultimate result of such audits will not have a material adverse effect on our results of operations.

The price of our Common Stock is volatile and may decline. A number of factors may adversely influence the public market price of our Common Stock. These factors include:

- the level of institutional interest in us;
- the perceived attractiveness of investment in us, in comparison to other REITs;
- the attractiveness of securities of REITs in comparison to other asset classes;
- our financial condition and performance;
- the market's perception of our growth potential and potential future cash dividends;
- government action or regulation, including changes in tax laws;
- increases in market interest rates, which may lead investors to expect a higher annual yield from our distributions in relation to the price of our Common Stock;
- changes in our credit ratings;
- the issuance of additional shares of Common Stock, or the perception that such issuances might occur, including under our equity distribution agreements; and
- any negative change in the level or stability of our dividend.

Tax elections regarding distributions may impact the future liquidity of the Company or our stockholders. Under certain circumstances, we may consider making a tax election to treat future distributions to stockholders as distributions in the current year. This election, which is provided for in the Internal Revenue Code, may allow us to avoid increasing our dividends or paying additional income taxes in the current year. However, this could result in a constraint on our ability to decrease our dividends in future years without creating risk of either violating the REIT distribution requirements or generating additional income tax liability.

We may face risks in connection with Section 1031 exchanges. If a transaction's gain that is intended to qualify as a Section 1031 deferral is later determined to be taxable, we may face adverse consequences, and if the laws applicable to such transactions are amended or repealed, we may not be able to dispose of properties on a tax-deferred basis.

Tax legislative or regulatory action could adversely affect us or our stockholders. In recent years, numerous legislative, judicial and administrative changes have been made to the U.S. federal income tax laws applicable to

investments similar to an investment in our Common Stock. Additional changes to tax laws are likely to continue in the future, and we cannot assure you that any such changes will not adversely affect the taxation of us or our stockholders. Any such changes could have an adverse effect on an investment in our Common Stock, on the market value of our properties or the attractiveness of securities of REITs generally in comparison to other asset classes.

We cannot assure you that we will continue to pay dividends at historical rates. We generally expect to use cash flows from operating activities to fund dividends. The following factors will affect such cash flows and, accordingly, influence the decisions of the Company's board of directors regarding dividends:

- projections with respect to the future REIT taxable income expected to be generated by the Company;

Table of Contents

- debt service requirements after taking into account debt covenants and the repayment and restructuring of certain indebtedness and the availability of alternative sources of debt and equity capital and their impact on our ability to refinance existing debt and grow our business;

- scheduled increases in base rents of existing leases;

- changes in rents attributable to the renewal of existing leases or replacement leases;

- changes in occupancy rates at existing properties and execution of leases for newly acquired or developed properties;

- changes in operating expenses;

- anticipated leasing capital expenditures attributable to the renewal of existing leases or replacement leases;

- anticipated building improvements; and

- expected cash flows from financing and investing activities, including from the sales of assets generating taxable gains to the extent such assets are not sold in a tax-deferred exchange under Section 1031 of the Internal Revenue Code or another tax-free or tax-deferred transaction.

The decision to declare and pay dividends on our Common Stock in the future, as well as the timing, amount and composition of any such future dividends, will be at the sole discretion of the Company's board of directors. Changes in our future dividend payout level could have a material effect on the market price of our Common Stock.

Cash distributions reduce the amount of cash that would otherwise be available for other business purposes, including funding debt maturities, reducing debt or future growth initiatives. For the Company to maintain its qualification as a REIT, it must annually distribute to its stockholders at least 90% of REIT taxable income, excluding net capital gains. In addition, although capital gains are not required to be distributed to maintain REIT status, taxable capital gains, if any, that are generated as part of our capital recycling program are subject to federal and state income tax unless such gains are distributed to our stockholders. Cash distributions made to stockholders to maintain REIT status or to distribute otherwise taxable capital gains limit our ability to accumulate capital for other business purposes, including funding debt maturities, reducing debt or growth initiatives.

Further issuances of equity securities may adversely affect the market price of our Common Stock and may be dilutive to current stockholders. The sales of a substantial number of Common Shares, or the perception that such sales could occur, could adversely affect the market price of our Common Stock. We have filed a registration statement with the SEC allowing us to offer, from time to time, an indefinite amount of equity securities (including Common Stock and Preferred Stock) on an as-needed basis and subject to our ability to effect offerings on satisfactory terms based on prevailing conditions. In addition, the Company’s board of directors has, from time to time, authorized the Company to issue shares of Common Stock pursuant to the Company’s equity sales agreements. The interests of our existing stockholders could be diluted if additional equity securities are issued to finance future developments and acquisitions or repay indebtedness. Our ability to execute our business strategy depends on our access to an appropriate blend of debt financing, including unsecured lines of credit and other forms of secured and unsecured debt, and equity financing, including common equity.

We may change our policies without obtaining the approval of our stockholders. Our operating and financial policies, including our policies with respect to acquisitions of real estate, growth, operations, indebtedness, capitalization and dividends, are exclusively determined by the Company’s Board of Directors. Accordingly, our stockholders do not control these policies.

Limits on changes in control may discourage takeover attempts beneficial to stockholders. Provisions in the Company's charter and bylaws as well as Maryland general corporation law may have anti-takeover effects that delay, defer or prevent a takeover attempt. For example, these provisions may defer or prevent tender offers for our Common Stock or purchases of large blocks of our Common Stock, thus limiting the opportunities for the Company's stockholders to receive a premium for their shares of Common Stock over then-prevailing market prices. These provisions include the following:

- Ownership limit. The Company's charter prohibits direct, indirect or constructive ownership by any person or entity of more than 9.8% of the Company's outstanding capital stock. Any attempt to own or transfer shares of capital stock in excess of the ownership limit without the consent of the Company's board of directors will be void.

- Preferred Stock. The Company's charter authorizes the board of directors to issue preferred stock in one or more classes and establish the preferences and rights of any class of preferred stock issued. These actions can be taken without

Table of Contents

stockholder approval. The issuance of preferred stock could have the effect of delaying or preventing someone from taking control of the Company, even if a change in control were in our best interest.

Business combinations. Pursuant to the Company's charter and Maryland law, the Company cannot merge into or consolidate with another corporation or enter into a statutory share exchange transaction in which the Company is not the surviving entity or sell all or substantially all of its assets unless the board of directors adopts a resolution declaring the proposed transaction advisable and a majority of the stockholders voting together as a single class approve the transaction. Maryland law prohibits stockholders from taking action by written consent unless all stockholders consent in writing. The practical effect of this limitation is that any action required or permitted to be taken by the Company's stockholders may only be taken if it is properly brought before an annual or special meeting of stockholders. The Company's bylaws further provide that in order for a stockholder to properly bring any matter before a meeting, the stockholder must comply with requirements regarding advance notice. The foregoing provisions could have the effect of delaying until the next annual meeting stockholder actions that the holders of a majority of the Company's outstanding voting securities favor. These provisions may also discourage another person from making a tender offer for the Company's common stock, because such person or entity, even if it acquired a majority of the Company's outstanding voting securities, would likely be able to take action as a stockholder, such as electing new directors or approving a merger, only at a duly called stockholders meeting. Maryland law also establishes special requirements with respect to business combinations between Maryland corporations and interested stockholders unless exemptions apply. Among other things, the law prohibits for five years a merger and other similar transactions between a corporation and an interested stockholder and requires a supermajority vote for such transactions after the end of the five-year period. The Company's charter contains a provision exempting the Company from the Maryland business combination statute. However, we cannot assure you that this charter provision will not be amended or repealed at any point in the future.

Control share acquisitions. Maryland general corporation law also provides that control shares of a Maryland corporation acquired in a control share acquisition have no voting rights except to the extent approved by a vote of two-thirds of the votes entitled to be cast on the matter, excluding shares owned by the acquirer or by officers or employee directors. The control share acquisition statute does not apply to shares acquired in a merger, consolidation or share exchange if the corporation is a party to the transaction, or to acquisitions approved or exempted by the corporation's charter or bylaws. The Company's bylaws contain a provision exempting from the control share acquisition statute any stock acquired by any person. However, we cannot assure you that this bylaw provision will not be amended or repealed at any point in the future.

Maryland unsolicited takeover statute. Under Maryland law, the Company's board of directors could adopt various anti-takeover provisions without the consent of stockholders. The adoption of such measures could discourage offers for the Company or make an acquisition of the Company more difficult, even when an acquisition would be in the best interest of the Company's stockholders.

Anti takeover protections of operating partnership agreement. Upon a change in control of the Company, the partnership agreement of the Operating Partnership requires certain acquirers to maintain an umbrella partnership real estate investment trust structure with terms at least as favorable to the limited partners as are currently in place. For instance, the acquirer would be required to preserve the limited partner's right to continue to hold tax-deferred partnership interests that are redeemable for capital stock of the acquirer. Exceptions would require the approval of two-thirds of the limited partners of our Operating Partnership (other than the Company). These provisions may make a change of control transaction involving the Company more complicated and therefore might decrease the likelihood of such a transaction occurring, even if such a transaction would be in the best interest of the Company's stockholders.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

Table of Contents

ITEM 2. PROPERTIES

Our core portfolio consists primarily of office properties in Raleigh, Atlanta, Tampa, Nashville, Memphis, Pittsburgh, Richmond and Orlando and office and industrial properties in Greensboro.

Properties

The following table sets forth information about in-service office properties that we wholly own by geographic location at December 31, 2017:

Market	Rentable Square Feet	Occupancy	Percentage of Annualized Cash Rental Revenue (1)
Atlanta	5,244,000	88.7 %	18.9 %
Raleigh	4,824,000	94.7	17.7
Nashville	4,053,000	95.7	17.2
Tampa	3,822,000	93.6	14.9
Pittsburgh	2,148,000	94.1	8.7
Orlando	1,976,000	90.1	7.2
Memphis	1,637,000	94.1	6.4
Richmond	1,946,000	92.9	5.6
Greensboro	1,151,000	92.2	3.4
Total	26,801,000	92.9 %	100.0 %

(1) Annualized Cash Rental Revenue is cash rental revenue (base rent plus cost recovery income, excluding straight-line rent) from our office properties for the month of December 2017 multiplied by 12.

The following table sets forth the net changes in rentable square footage of in-service properties that we wholly own:

	Year Ended December 31,		
	2017	2016	2015
	(rentable square feet in thousands)		
Acquisitions	—	243	1,592
Developments Placed In-Service	1,014	176	503
Redevelopment/Other	(7)	(46)	14
Dispositions	(1,077)	(1,429)	(175)
Net Change in Rentable Square Footage	(70)	(1,056)	1,934

The following table sets forth operating information about in-service properties that we wholly own:

Average Occupancy	Annualized GAAP Rent Per Square Foot (1)	Annualized Cash Rent Per Square Foot (2)

2013	90.0	%	$ 21.42	$ 20.48
2014	90.4	%	$ 22.13	$ 21.29
2015	92.3	%	$ 23.30	$ 22.55
2016	92.8	%	$ 23.24	$ 22.55
2017	92.5	%	$ 24.05	$ 23.46

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(1) Annualized GAAP Rent Per Square Foot is rental revenue (base rent plus cost recovery income, including straight-line rent) for the month of December of the respective year multiplied by 12, divided by total occupied rentable square footage.

(2) Annualized Cash Rent Per Square Foot is cash rental revenue (base rent plus cost recovery income, excluding straight-line rent) for the month of December of the respective year multiplied by 12, divided by total occupied rentable square footage.

Table of Contents

Customers

The following table sets forth information concerning the 20 largest customers of properties that we wholly own at December 31, 2017:

Customer	Rentable Square Feet	Annualized Cash Rental Revenue (1) (in thousands)	Percent of Total Annualized Cash Rental Revenue (1)		Weighted Average Remaining Lease Term in Years
Federal Government	1,419,732	$ 34,242	5.34	%	4.5
Metropolitan Life Insurance	621,190	15,733	2.46		10.5
Bridgestone Americas	506,128	14,553	2.27		19.7
PPG Industries	356,215	9,727	1.52		13.3
EQT Corporation	319,269	7,544	1.18		6.8
Healthways	263,598	7,038	1.10		5.2
International Paper	278,444	6,804	1.06		10.9
Vanderbilt University	251,415	6,725	1.05		4.0
Bass, Berry & Sims	201,588	6,678	1.04		7.1
State of Georgia	320,449	5,791	0.90		4.3
American General Life	173,834	5,777	0.90		9.1
Novelis	168,949	5,687	0.89		6.7
Marsh USA	177,382	5,537	0.86		4.2
Laser Spine Institute	176,089	5,490	0.86		14.8
PNC Bank	187,076	5,430	0.85		8.9
Syniverse Technologies	218,678	5,005	0.78		8.8
Aon	168,697	4,996	0.78		4.1
Lifepoint Corporate Services	202,991	4,809	0.75		11.3
AT&T	197,826	4,668	0.73		1.6
HDR Engineering	134,835	4,383	0.68		1.8
Total	6,344,385	$ 166,617	26.00	%	8.2

(1) Annualized Cash Rental Revenue is cash rental revenue (base rent plus cost recovery income, excluding straight-line rent) for the month of December 2017 multiplied by 12.

Table of Contents

Lease Expirations

The following tables set forth scheduled lease expirations for existing leases at office properties that we wholly owned at December 31, 2017:

Lease Expiring (1)	Number of Leases Expiring	Rentable Square Feet Subject to Expiring Leases	Percentage of Leased Square Footage Represented by Expiring Leases	Annualized Cash Rental Revenue Under Expiring Leases (2)	Average Annual Cash Rental Rate Per Square Foot for Expirations	Percent of Annualized Cash Rental Revenue Represented by Expiring Leases (2)
				($ in thousands)		
2018 (3)	447	2,558,245	10.3 %	$ 63,063	$ 24.65	10.1 %
2019	356	3,171,150	12.7	79,643	25.11	12.7
2020	336	2,749,799	11.0	74,382	27.05	11.9
2021	255	2,436,494	9.8	62,218	25.54	9.9
2022	252	2,362,640	9.5	56,984	24.12	9.1
2023	131	1,927,697	7.7	46,709	24.23	7.5
2024	90	1,883,361	7.6	51,019	27.09	8.1
2025	64	1,304,276	5.2	35,206	26.99	5.6
2026	71	1,271,390	5.1	32,557	25.61	5.2
2027	40	1,300,493	5.2	33,572	25.81	5.4
Thereafter	172	3,922,265	15.9	90,800	23.15	14.5
	2,214	24,887,810	100.0 %	$ 626,153	$ 25.16	100.0 %

(1) Expirations that have been renewed are reflected above based on the renewal expiration date. Expirations include leases related to completed not stabilized development properties but exclude leases related to developments in-process.

(2) Annualized Cash Rental Revenue is cash rental revenue (base rent plus cost recovery income, excluding straight-line rent) for the month of December 2017 multiplied by 12.

(3) Includes 98,000 rentable square feet of leases that are on a month-to-month basis, which represent 0.3% of total annualized cash rental revenue.

In-Process Development

As of December 31, 2017, we were developing 0.7 million rentable square feet of office properties. The following table summarizes these announced and in-process office developments:

Property	Market	Rentable Square Feet	Anticipated Total Investment (1)	Investment As Of December 31, 2017 (1)	Pre Leased %	Estimated Completion	Estimated Stabilization
			($ in thousands)				
Virginia Urology	Richmond	87,000	$29,140	$ 14,037	100.0%	3Q18	3Q18

751 Corporate Center	Raleigh	89,700	21,850	9,522	35.3	4Q18	4Q20
MetLife III	Raleigh	219,000	64,500	16,351	100.0	2Q19	2Q21
Virginia Springs I	Nashville	109,000	34,300	6,426	33.8	2Q19	3Q20
Mars Petcare - Ovation	Nashville	223,700	96,200	20,392	100.0	3Q19	3Q19
		728,400	$245,990	$ 66,728	82.1	%	

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

Table of Contents

Land Held for Development

We wholly owned 385 acres of development land at December 31, 2017. We estimate that we can develop approximately 4.1 million and 0.2 million rentable square feet of office and industrial space, respectively, on the 180 acres that we consider core assets for our future development needs. Our core development land is zoned and available for development, and nearly all of the land has utility infrastructure in place. We believe that our commercially zoned and unencumbered land gives us a development advantage over other commercial real estate development companies in many of our markets.

Joint Venture Investments

The following table sets forth information about our joint venture investments by geographic location at December 31, 2017:

Market	Rentable Square Feet	Weighted Average Ownership Interest (1)	Occupancy	Percentage of Annualized Cash Rental Revenue (2)
Kansas City (3)	292,000	50.0 %	97.3 %	51.4 %
Richmond (4)	345,000	50.0	100.0	28.4
Raleigh	635,000	25.0	53.8	20.2
Total	1,272,000	37.5 %	76.3 %	100.0 %

(1) Weighted Average Ownership Interest is calculated using Rentable Square Feet.

(2) Annualized Cash Rental Revenue is cash rental revenue (base rent plus cost recovery income, excluding straight-line rent) for the month of December 2017 multiplied by 12.

(3) Excluding our 26.5% ownership interest in a real estate brokerage services company.

(4) This joint venture is consolidated.

ITEM 3. LEGAL PROCEEDINGS

We are from time to time a party to a variety of legal proceedings, claims and assessments arising in the ordinary course of our business. We regularly assess the liabilities and contingencies in connection with these matters based on the latest information available. For those matters where it is probable that we have incurred or will incur a loss and the loss or range of loss can be reasonably estimated, the estimated loss is accrued and charged to income in our Consolidated Financial Statements. In other instances, because of the uncertainties related to both the probable outcome and amount or range of loss, a reasonable estimate of liability, if any, cannot be made. Based on the current expected outcome of such matters, none of these proceedings, claims or assessments is expected to have a material adverse effect on our business, financial condition, results of operations or cash flows.

Table of Contents

ITEM X. EXECUTIVE OFFICERS OF THE REGISTRANT

The Company is the sole general partner of the Operating Partnership. The following table sets forth information with respect to the Company's executive officers:

Name	Age	Position and Background
Edward J. Fritsch	59	Director, President and Chief Executive Officer. Mr. Fritsch has been a director since January 2001. Mr. Fritsch became our chief executive officer and chair of the investment committee of our board of directors on July 1, 2004 and our president in December 2003. Prior to that, Mr. Fritsch was our chief operating officer from January 1998 to July 2004 and was a vice president and secretary from June 1994 to January 1998. Mr. Fritsch joined our predecessor in 1982 and was a partner of that entity at the time of our initial public offering in June 1994. Mr. Fritsch currently serves as a director and member of the audit and compensation committees of National Retail Properties, Inc., a publicly-traded REIT (NYSE:NNN). Mr. Fritsch is past chair of the National Association of Real Estate Investment Trusts ("NAREIT") and currently serves on its executive board. Mr. Fritsch is also a member of Wells Fargo's central region advisory board, a member of the University of North Carolina at Chapel Hill Foundation board, a director of the University of North Carolina at Chapel Hill Real Estate Holdings and a member of the Dix Park Conservancy board.
Theodore J. Klinck	52	Executive Vice President and Chief Operating and Investment Officer. Mr. Klinck became executive vice president and chief operating and investment officer in September 2015. Prior to that, Mr. Klinck was our senior vice president and chief investment officer since March 2012. Before joining us, Mr. Klinck served as principal and chief investment officer with Goddard Investment Group, a privately owned real estate investment firm. Previously, Mr. Klinck had been a managing director at Morgan Stanley Real Estate.
Mark F. Mulhern	58	Executive Vice President and Chief Financial Officer. Mr. Mulhern became chief financial officer in September 2014. Prior to that, Mr. Mulhern was a director of the Company since January 2012. Mr. Mulhern served as executive vice president and chief financial officer of Exco Resources, Inc. (NYSE:XCO), an oil and gas exploration and production company, from 2013 until September 2014. Mr. Mulhern served as senior vice president and chief financial officer of Progress Energy, Inc. (NYSE:PGN) from 2008 until its merger with Duke Energy Corporation (NYSE:DUK) in July 2012. Mr. Mulhern first joined Progress Energy in 1996 and served in a number of financial and strategic roles. He also spent eight years at Price Waterhouse. Mr. Mulhern currently serves as a director of McKim and Creed, a private engineering services firm, and Triangle Capital Corporation (NYSE:TCAP), a leading provider of capital to lower middle market companies. Mr. Mulhern is a certified public accountant, a certified management accountant and a certified internal auditor.
Jeffrey D. Miller	47	Executive Vice President, General Counsel and Secretary. Prior to joining us in March 2007, Mr. Miller was a partner with DLA Piper US, LLP, where he practiced since 2005. Previously, Mr. Miller had been a partner with Alston & Bird LLP. Mr. Miller is admitted to practice in North Carolina. Mr. Miller served as lead independent director of Hatteras Financial Corp., a publicly-traded mortgage REIT (NYSE:HTS), prior to its merger with Annaly Capital Management, Inc. (NYSE:NLY) in July 2016.

Table of Contents

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

The following table sets forth high and low stock prices per share reported on the NYSE and dividends declared per share of Common Stock:

	2017			2016		
Quarter Ended	High	Low	Dividend	High	Low	Dividend
March 31	$53.26	$48.42	$ 0.440	$48.14	$38.08	$ 0.425
June 30	$52.82	$48.98	$ 0.440	$52.86	$44.93	$ 0.425
September 30	$52.75	$48.68	$ 0.440	$56.23	$50.05	$ 0.425
December 31 (1)	$53.34	$50.08	$ 0.440	$52.03	$45.83	$ 1.225

(1) Includes a special cash dividend of $0.80 per share declared in the quarter ended December 31, 2016 and paid January 10, 2017. The principal purpose of the special dividend was to distribute taxable capital gains associated with the sales of substantially all of our wholly-owned Country Club Plaza assets in Kansas City (which we refer to as the "Plaza assets") during the first quarter of 2016.

On December 31, 2017, the last reported stock price of our Common Stock on the NYSE was $50.91 per share and the Company had 857 common stockholders of record. There is no public trading market for the Common Units. On December 31, 2017, the Operating Partnership had 103 holders of record of Common Units (other than the Company). At December 31, 2017, there were 103.3 million shares of Common Stock outstanding and 2.8 million Common Units outstanding not owned by the Company.

Because the Company is a REIT, the partnership agreement requires the Operating Partnership to distribute at least enough cash for the Company to be able to distribute to its stockholders at least 90.0% of its REIT taxable income, excluding net capital gains. See "Item 1A. Risk Factors – Cash distributions reduce the amount of cash that would otherwise be available for other business purposes, including funding debt maturities, reducing debt or future growth initiatives."

We generally expect to use cash flows from operating activities to fund distributions. The following factors will affect such cash flows and, accordingly, influence the decisions of the Company's Board of Directors regarding dividends and distributions:

- projections with respect to the future REIT taxable income expected to be generated by the Company;
- debt service requirements after taking into account debt covenants and the repayment and restructuring of certain indebtedness and the availability of alternative sources of debt and equity capital and their impact on our ability to refinance existing debt and grow our business;
- scheduled increases in base rents of existing leases;
- changes in rents attributable to the renewal of existing leases or replacement leases;
- changes in occupancy rates at existing properties and execution of leases for newly acquired or developed properties;
- changes in operating expenses;

- anticipated leasing capital expenditures attributable to the renewal of existing leases or replacement leases;

- anticipated building improvements; and

- expected cash flows from financing and investing activities, including from the sales of assets generating taxable gains to the extent such assets are not sold in a tax-deferred exchange under Section 1031 of the Internal Revenue Code or another tax-free or tax-deferred transaction.

Table of Contents

The following stock price performance graph compares the performance of our Common Stock to the S&P 500 Index and the FTSE NAREIT All Equity REITs Index. The stock price performance graph assumes an investment of $100 in our Common Stock and the two indices on December 31, 2012 and further assumes the reinvestment of all dividends. The FTSE NAREIT All Equity REITs Index is a free-float adjusted, market capitalization-weighted index of U.S. equity REITs. Constituents of the Index include all tax-qualified REITs with more than 50% of total assets in qualifying real estate assets other than mortgages secured by real property. Stock price performance is not necessarily indicative of future results.

	For the Period from December 31, 2012 to December 31,				
Index	2013	2014	2015	2016	2017
Highwoods Properties, Inc.	113.27	144.61	148.09	182.49	188.57
S&P 500 Index	132.39	150.51	152.59	170.84	208.14
FTSE NAREIT All Equity REITs Index	102.86	131.68	135.40	147.09	159.85

The performance graph above is being furnished as part of this Annual Report solely in accordance with the requirement under Rule 14a-3(b)(9) to furnish the Company's stockholders with such information and, therefore, is not deemed to be filed, or incorporated by reference in any filing, by the Company or the Operating Partnership under the Securities Act of 1933 or the Securities Exchange Act of 1934.

During 2017, cash dividends declared on Common Stock totaled $1.76 per share. Of the cash dividends declared, approximately $0.31 per share represented capital gains and approximately $1.45 per share represented ordinary dividends. The minimum dividend per share of Common Stock required for the Company to maintain its REIT status was $1.37 per share in 2017.

During the fourth quarter of 2017, the Company issued an aggregate of 2,000 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.

The Company has a Dividend Reinvestment and Stock Purchase Plan ("DRIP") under which holders of Common Stock may elect to automatically reinvest their dividends in additional shares of Common Stock and make optional cash payments for additional shares of Common Stock. The Company satisfies its DRIP obligations by instructing the DRIP administrator to purchase Common Stock in the open market.

Table of Contents

The Company has an Employee Stock Purchase Plan ("ESPP") pursuant to which employees may contribute up to 25% of their cash compensation for the purchase of Common Stock. At the end of each quarter, each participant's account balance, which includes accumulated dividends, is applied to acquire shares of Common Stock at a cost that is calculated at 85% of the average closing price on the NYSE on the five consecutive days preceding the last day of the quarter. Generally, shares purchased under the ESPP must be held at least one year. The Company satisfies its ESPP obligations by issuing additional shares of Common Stock.

Information about the Company's equity compensation plans and other related stockholder matters is incorporated herein by reference to the Company's Proxy Statement to be filed in connection with its annual meeting of stockholders to be held on May 9, 2018.

Table of Contents

ITEM 6. SELECTED FINANCIAL DATA

Operating results for the years ended December 31, 2014 and 2013 were retrospectively revised from previously reported amounts to reclassify the operations for those properties classified as discontinued operations. Total assets and mortgages and notes payable, net as of the years ended December 31, 2015, 2014 and 2013 were retrospectively revised from previously reported amounts to reclassify debt issuance costs as a direct deduction from the carrying amount of the debt liability to which they relate as opposed to being presented as assets.

The information in the following tables should be read in conjunction with the Company's Consolidated Financial Statements and related notes and Management's Discussion and Analysis of Financial Condition and Results of Operations included herein ($ in thousands, except per share data):

	Year Ended December 31,				
	2017	2016	2015	2014	2013
Rental and other revenues	$702,737	$665,634	$604,671	$555,871	$505,008
Income from continuing operations	$191,663	$122,546	$85,521	$96,987	$42,641
Income from discontinued operations	$—	$418,593	$15,739	$18,985	$88,456
Income from continuing operations available for common stockholders	$182,873	$115,461	$79,308	$90,069	$37,890
Net income	$191,663	$541,139	$101,260	$115,972	$131,097
Net income available for common stockholders	$182,873	$521,789	$94,572	$108,457	$122,949
Earnings per Common Share – basic:					
Income from continuing operations available for common stockholders	$1.78	$1.17	$0.84	$1.00	$0.44
Net income available for common stockholders	$1.78	$5.30	$1.00	$1.20	$1.44
Earnings per Common Share – diluted:					
Income from continuing operations available for common stockholders	$1.78	$1.17	$0.84	$0.99	$0.44
Net income available for common stockholders	$1.78	$5.30	$1.00	$1.19	$1.44
Dividends declared per Common Share (1)	$1.76	$2.50	$1.70	$1.70	$1.70

	December 31,				
	2017	2016	2015	2014	2013
Total assets	$4,623,791	$4,561,050	$4,485,631	$3,990,702	$3,793,177
Mortgages and notes payable, net	$2,014,333	$1,948,047	$2,491,813	$2,062,968	$1,948,161

(1) Includes a special cash dividend of $0.80 per share declared in the quarter ended December 31, 2016 and paid January 10, 2017.

Table of Contents

The information in the following tables should be read in conjunction with the Operating Partnership's Consolidated Financial Statements and related notes and Management's Discussion and Analysis of Financial Condition and Results of Operations included herein ($ in thousands, except per unit data):

	Year Ended December 31,				
	2017	2016	2015	2014	2013
Rental and other revenues	$702,737	$665,634	$604,671	$555,871	$505,008
Income from continuing operations	$191,663	$122,546	$85,521	$96,987	$42,590
Income from discontinued operations	$—	$418,593	$15,739	$18,985	$88,456
Income from continuing operations available for common unitholders	$187,932	$118,792	$81,751	$93,014	$39,133
Net income	$191,663	$541,139	$101,260	$115,972	$131,046
Net income available for common unitholders	$187,932	$537,385	$97,490	$111,999	$127,589
Earnings per Common Unit – basic:					
Income from continuing operations available for common unitholders	$1.79	$1.18	$0.84	$1.00	$0.44
Net income available for common unitholders	$1.79	$5.33	$1.01	$1.20	$1.44
Earnings per Common Unit – diluted:					
Income from continuing operations available for common unitholders	$1.79	$1.18	$0.84	$1.00	$0.44
Net income available for common unitholders	$1.79	$5.32	$1.01	$1.20	$1.44
Distributions declared per Common Unit (1)	$1.76	$2.50	$1.70	$1.70	$1.70

	December 31,				
	2017	2016	2015	2014	2013
Total assets	$4,623,791	$4,561,050	$4,485,631	$3,990,808	$3,793,274
Mortgages and notes payable, net	$2,014,333	$1,948,047	$2,491,813	$2,062,968	$1,948,161

(1) Includes a special cash distribution of $0.80 per unit declared in the quarter ended December 31, 2016 and paid January 10, 2017.

Table of Contents

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

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

Disclosure Regarding Forward-Looking Statements

Some of the information in this Annual Report may contain forward-looking statements. Such statements include, in particular, statements about our plans, strategies and prospects under this section and under the heading "Item 1. Business." You can identify forward-looking statements by our use of forward-looking terminology such as "may," "will," "expect," "anticipate," "estimate," "continue" or other similar words. Although we believe that our plans, intentions and expectations reflected in or suggested by such forward-looking statements are reasonable, we cannot assure you that our plans, intentions or expectations will be achieved. When considering such forward-looking statements, you should keep in mind the following important factors that could cause our actual results to differ materially from those contained in any forward-looking statement:

- the 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 "Item 1A. Business – Risk Factors" set forth in this Annual Report. 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.

Table of Contents

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 “Item 2. Properties - Lease Expirations.” Occupancy in our office portfolio was 92.9% at both December 31, 2017 and 2016.

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 fourth quarter of 2017 (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)	279,401	737,704	1,017,105
Average term (in years - rentable square foot weighted)	8.1	6.7	7.1
Base rents (per rentable square foot) (1)	$29.36	$28.65	$28.85
Rent concessions (per rentable square foot) (1)	(1.04)	(0.22)	(0.44)

GAAP rents (per rentable square foot) (1)	$28.32	$28.43	$ 28.41
Tenant improvements (per rentable square foot) (1)	$4.08	$2.84	$ 3.18
Leasing commissions (per rentable square foot) (1)	$0.96	$0.80	$ 0.84

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(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 fourth quarter were $28.41 per rentable square foot, or 16.8%, higher compared to previous leases in the same office spaces.

Table of Contents

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 December 31, 2017, no customer accounted for more than 3% of our cash revenues other than the Federal Government, which accounted for less than 6% of our cash revenues on an annualized basis. See “Item 2. Properties - Customers.”

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 from continuing operations was $8.7 million, or 2.1%, higher in 2017 as compared to 2016 due to an increase in same property revenues of $10.7 million offset by an increase of $2.0 million in same property expenses. We expect same property NOI to be higher in 2018 than 2017 as higher rental revenues, mostly from higher average GAAP rents per rentable square foot, higher parking income and higher cost recovery 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 from continuing operations increases depends upon whether the NOI from our acquired properties and development properties placed in service exceeds the NOI from sold properties. NOI from continuing operations was $31.3 million, or 7.2%, higher in 2017 as compared to 2016 due to the impact of development properties placed in service and acquisitions, offset by NOI lost from sold properties not classified as discontinued operations. We expect NOI from continuing operations to be higher in 2018 than 2017 due to the impact of our net investment activity in 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.

Table of Contents

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 $345.0 million of availability at January 26, 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 $198 million at December 31, 2017. 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 December 31, 2017, 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 35.0% and there were 106.2 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.

Table of Contents

Results of Operations

Comparison of 2017 to 2016

Rental and Other Revenues

Rental and other revenues were $37.1 million, or 5.6%, higher in 2017 as compared to 2016 primarily due to development properties placed in service, higher same property revenues and acquisitions, which increased rental and other revenues by $26.5 million, $10.7 million and $4.7 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 parking income, partly offset by lower termination fees. These increases were partly offset by lost revenue of $5.6 million from property dispositions. We expect rental and other revenues to be higher in 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 $5.8 million, or 2.5%, higher in 2017 as compared to 2016 primarily due to development properties placed in service, higher same property operating expenses and acquisitions, which increased operating expenses by $5.2 million, $2.0 million and $1.2 million, respectively. Same property operating expenses were higher primarily due to higher property taxes, contract services and repairs and maintenance, partly offset by lower utilities. These increases were partly offset by a $2.6 million decrease in operating expenses from property dispositions. We expect rental property and other expenses to be higher in 2018 as compared to 2017 due to higher same property operating expenses and development properties placed in service, partly offset by lower operating expenses from property dispositions.

Depreciation and amortization was $7.7 million, or 3.5%, higher in 2017 as compared to 2016 primarily due to development properties placed in service, acquisitions and accelerated depreciation related to properties that are expected to be demolished, partly offset by property dispositions. We expect depreciation and amortization to be higher in 2018 as compared to 2017 due to development properties placed in service.

We recorded aggregate impairments of real estate assets of $1.4 million in 2017, which resulted from a change in market-based inputs and our assumptions about the use of the assets. We recorded no such impairment in 2016.

General and administrative expenses were $1.5 million, or 3.9%, higher in 2017 as compared to 2016 primarily due to higher company-wide base salaries, benefits, incentive compensation and dead deal costs, partly offset by lower acquisition costs. We expect general and administrative expenses to be similar in 2018 as higher company-wide base salaries and benefits are expected to be offset by lower incentive compensation.

Interest Expense

Interest expense was $7.5 million, or 9.8%, lower in 2017 as compared to 2016 primarily due to lower average debt balances, lower average interest rates and higher capitalized interest. We expect interest expense to be higher in 2018 as compared to 2017 due to lower capitalized interest and higher average debt balances, partly offset by lower average interest rates.

Other Income

Other income was relatively unchanged in 2017 as compared to 2016.

Gains on Disposition of Property and Net Gains on Disposition of Discontinued Operations

Total gains were $375.1 million lower in 2017 as compared to 2016 due to the sales of the Plaza assets in 2016.

Equity in Earnings of Unconsolidated Affiliates

Equity in earnings of unconsolidated affiliates was $1.6 million, or 27.8%, higher in 2017 as compared to 2016 primarily due to our share of the net effect of the disposition activity by certain unconsolidated affiliates in such periods, partly offset by lower occupancy in 2017. We expect equity in earnings of unconsolidated affiliates to be lower in 2018 as compared to 2017 due to our share of the net effect of the disposition activity by certain unconsolidated affiliates.

Table of Contents

Income From Discontinued Operations

Income from discontinued operations was $4.1 million lower in 2017 as compared to 2016 due to the sales of the Plaza assets in 2016.

Earnings Per Common Share - Diluted

Diluted earnings per common share was $3.52 lower in 2017 as compared to 2016 due to gains from the sales of the Plaza assets in 2016 and an increase in the weighted average Common Shares outstanding, partly offset by increases in income from continuing operations for the reasons discussed above.

Comparison of 2016 to 2015

Rental and Other Revenues

Rental and other revenues were $61.0 million, or 10.1%, higher in 2016 as compared to 2015 primarily due to acquisitions, development properties placed in service and higher same property revenues, which increased rental and other revenues by $35.6 million, $15.5 million and $15.7 million, respectively. Same property rental and other revenues were higher primarily due to an increase in average occupancy to 93.1% in 2016 from 92.3% in 2015, higher average GAAP rents per rentable square foot and higher termination fees. These increases were partly offset by lost revenue of $5.1 million from property dispositions.

Operating Expenses

Rental property and other expenses were $15.1 million, or 7.0%, higher in 2016 as compared to 2015 primarily due to acquisitions, development properties placed in service and higher same property operating expenses, which increased operating expenses by $13.7 million, $3.5 million and $0.6 million, respectively. Same property operating expenses were higher primarily due to higher property taxes and repairs and maintenance, partly offset by lower utilities and property insurance. These increases were partly offset by a $1.8 million decrease in operating expenses from property dispositions.

Depreciation and amortization was $18.2 million, or 9.0%, higher in 2016 as compared to 2015 primarily due to acquisitions and development properties placed in service, partly offset by property dispositions.

General and administrative expenses were $0.5 million, or 1.4%, higher in 2016 as compared to 2015 primarily due to higher company-wide base salaries, partly offset by lower incentive compensation.

Interest Expense

Interest expense was $9.4 million, or 10.9%, lower in 2016 as compared to 2015 primarily due to lower average interest rates, lower average debt balances and higher capitalized interest.

Other Income

Other income was $0.6 million, or 35.5%, higher in 2016 as compared to 2015 primarily due to losses on debt extinguishment and deferred compensation plan investments in 2015.

Gains on Disposition of Property and Net Gains on Disposition of Discontinued Operations

Total gains were $417.9 million higher in 2016 as compared to 2015 due to the sales of the Plaza assets.

Gain on Disposition of Investment in Unconsolidated Affiliate

We recorded a gain on disposition of investment in unconsolidated affiliate of $4.2 million in 2015 due to the sale of our 20.0% interest in SF-HIW Harborview Plaza, LP (“Harborview”) to our partner. We had no such comparable transaction in 2016.

Table of Contents

Equity in Earnings of Unconsolidated Affiliates

Equity in earnings of unconsolidated affiliates was $0.7 million, or 14.1%, higher in 2016 as compared to 2015 primarily due to our share of the net effect of the disposition activity by certain unconsolidated affiliates in such periods and higher leasing activity in 2016.

Income From Discontinued Operations

Income from discontinued operations was $11.6 million lower in 2016 as compared to 2015 due to the sales of the Plaza assets on March 1, 2016.

Earnings Per Common Share - Diluted

Diluted earnings per common share was $4.30 higher in 2016 as compared to 2015 due to gains from the sales of the Plaza assets and other increases in income from continuing operations for the reasons discussed above, partly offset by an increase in the weighted average Common Shares outstanding.

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):

	Year Ended December 31,				
	2017	2016	2015	2017-2016 Change	2016-2015 Change
Net Cash Provided By Operating Activities	$352,532	$305,805	$288,879	$46,727	$16,926
Net Cash Provided By/(Used In) Investing Activities	(256,222)	203,890	(654,157)	(460,112)	858,047
Net Cash Provided By/(Used In) Financing Activities	(142,528)	(465,241)	361,482	322,713	(826,723)
Total Cash Flows	$(46,218)	$44,454	$(3,796)	$(90,672)	$48,250

Comparison of 2017 to 2016

The increase in net cash provided by operating activities in 2017 as compared to 2016 was primarily due to higher net cash from the operations of development properties placed in service, same properties and acquisitions, the timing of cash paid for operating expenses and the settlement of cash flow hedges. We expect net cash related to operating activities to be higher in 2018 as compared to 2017 primarily due to the impact of development properties placed in service, partly offset by non-core dispositions.

The change in net cash provided by/(used in) investing activities in 2017 as compared to 2016 was primarily due to the net proceeds from the sales of the Plaza assets in 2016, partly offset by higher acquisition activity and investments in development in-process in 2016. We expect uses of cash for investing activities in 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 December 31, 2017, we have approximately $198 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 in 2018.

The decrease in net cash used in financing activities in 2017 as compared to 2016 was primarily due to higher net debt borrowings in 2017, partly offset by the payment of a special dividend declared in the fourth quarter of 2016, lower proceeds from the issuance of Common Stock in 2017 and a 3.5% increase in our regular cash dividend rate in February 2017. We expect net cash used in financing activities in 2018 to be affected by an additional 5.1% increase in our regular cash dividend rate in February 2018. Also, 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.

Table of Contents

Comparison of 2016 to 2015

The increase in net cash provided by operating activities in 2016 as compared to 2015 was primarily due to higher net cash from the operations of acquisitions, development properties placed in service and same properties, partly offset by the timing of cash paid for expenses.

The change in net cash provided by/(used in) investing activities in 2016 as compared to 2015 was primarily due to the net proceeds from the sales of the Plaza assets and lower acquisition activity in 2016, partly offset by higher investments in development in-process and building improvements in 2016, the repayment of an advance from an unconsolidated affiliate in 2015 and higher net investments in mortgages and notes receivable in 2016.

The change in net cash provided by/(used in) financing activities in 2016 as compared to 2015 was primarily due to higher net debt repayments in 2016, partly offset by higher proceeds from the issuance of Common Stock in 2016.

Capitalization

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

	December 31,	
	2017	2016
Mortgages and notes payable, net, at recorded book value	$2,014,333	$1,948,047
Preferred Stock, at liquidation value	$28,892	$28,920
Common Stock outstanding	103,267	101,666
Common Units outstanding (not owned by the Company)	2,829	2,839
Per share stock price at year end	$50.91	$51.01
Market value of Common Stock and Common Units	$5,401,347	$5,330,800
Total capitalization	$7,444,572	$7,307,767

At December 31, 2017, our mortgages and notes payable and outstanding preferred stock represented 27.4% of our total capitalization and 35.0% of the undepreciated book value of our assets. See also "Executive Summary - Liquidity and Capital Resources."

Our mortgages and notes payable as of December 31, 2017 consisted of $99.0 million of secured indebtedness with a weighted average interest rate of 4.00% and $1,923.5 million of unsecured indebtedness with a weighted average interest rate of 3.56%. The secured indebtedness was collateralized by real estate assets with an aggregate undepreciated book value of $147.6 million. As of December 31, 2017, $605.0 million of our debt does not bear interest at fixed rates or is not protected by interest rate hedge contracts.

Investment Activity

During the fourth quarter of 2017, we acquired fee simple title to land in Raleigh that was previously subject to a ground lease for a purchase price, including capitalized acquisition costs and contingent consideration, of $2.6 million.

On February 5, 2018, we acquired two development parcels totaling approximately nine acres in Nashville for an aggregate purchase price of $50.3 million.

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."

During the fourth quarter of 2017, we sold a total of two buildings and land for an aggregate sale price of $44.7 million and recorded aggregate gains on disposition of property of $29.0 million.

Table of Contents

During the third quarter of 2017, we sold a total of 12 buildings for an aggregate sale price of $78.0 million (before closing credits to buyer of $2.5 million) and recorded aggregate gains on disposition of property of $19.8 million.

During the first quarter of 2017, we sold a building for a sale price of $13.0 million (before closing credits to buyer of $1.2 million) and recorded a gain on disposition of property of $5.3 million.

During the third quarter of 2017, we recorded aggregate impairments of real estate assets of $1.4 million, which resulted from a change in market-based inputs and our assumptions about the use of the assets.

As of December 31, 2017, we were also developing 0.7 million rentable square feet of office properties. For a table summarizing our announced and in-process office developments, see "Item 2. Properties - In-Process Development."

Financing Activity

During the first quarter of 2017, we 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., Comerica Securities, Inc., Fifth Third Securities, Inc., Jefferies LLC, Morgan Stanley & Co. LLC, MUFG Securities Americas Inc. and RBC Capital Markets, 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. During 2017, the Company issued 1,363,919 shares of Common Stock at an average gross sales price of $50.85 per share and received net proceeds, after sales commissions, of $68.3 million. We paid an aggregate of $1.0 million in sales commissions to MUFG Securities Americas Inc., Wells Fargo Securities, LLC and Jefferies LLC during 2017.

During the fourth quarter of 2017, we entered into a new $600.0 million unsecured revolving credit facility, which replaced our previously existing $475.0 million revolving credit facility, and includes an accordion feature that allows for an additional $400.0 million of borrowing capacity subject to additional lender commitments. Our new revolving credit facility is scheduled to mature in January 2022. Assuming no defaults have occurred, we have an option to extend the maturity for two additional six-month periods. The interest rate on the new facility 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. The financial and other covenants under the new facility are similar to our previous credit facility. We incurred $3.5 million of debt issuance costs, which will be amortized along with certain existing unamortized debt issuance costs over the remaining term of our new revolving credit facility. We recorded $0.1 million of loss on debt extinguishment. There was $245.0 million and $254.5 million outstanding under our new revolving credit facility at December 31, 2017 and January 26, 2018, respectively. At both December 31, 2017 and January 26, 2018, we had $0.5 million of outstanding letters of credit, which reduces the availability on the credit facility. As a result, the unused capacity of our revolving credit facility at December 31, 2017 and January 26, 2018 was $354.5 million and $345.0 million, respectively.

We simultaneously modified our $200.0 million, five-year unsecured bank term loan, which was originally scheduled to mature in January 2019. The modified term loan is now scheduled to mature in November 2022 and the interest rate, based on current credit ratings, was reduced from LIBOR plus 120 basis points to LIBOR plus 110 basis points. We incurred $1.1 million of debt issuance costs, which will be amortized along with certain existing unamortized debt issuance costs over the remaining term of the modified loan. We recorded $0.4 million of loss on debt extinguishment.

We also simultaneously prepaid without penalty $125.0 million on a $350.0 million unsecured bank term loan which is scheduled to mature in June 2020. We recorded $0.4 million of loss on debt extinguishment related to this prepayment.

During the second quarter of 2017, we prepaid without penalty a secured mortgage loan with a fair market value of $108.2 million with an effective interest rate of 4.22%. We recorded $0.4 million of gain on debt extinguishment related to this prepayment.

We previously acquired our joint venture partner’s 77.2% interest in a building in Orlando. Simultaneously with this acquisition, the joint venture's previously existing mortgage note was restructured into a new $18.0 million first mortgage note and a $10.2 million subordinated note, both of which were scheduled to mature in July 2017. The first mortgage and subordinated notes had effective interest rates of 5.36% and 8.6%, respectively. The subordinated note and accrued interest thereon can be satisfied, in certain circumstances, upon payment of a "waterfall payment" equal to a cash payment of 50.0% of the amount by which the net sale proceeds or appraised value at the time of refinancing exceeded (1) the outstanding principal of the first mortgage note, (2) funds deposited by us into escrow to fund tenant improvements, leasing commissions and building improvements and (3) a 10.0%

Table of Contents

return on such funds deposited by us into escrow. As of the date of such restructuring, the subordinated note was recorded at a projected waterfall payment of $1.0 million. During the second quarter of 2017, both notes were retired upon payment of the $18.0 million principal balance on the first mortgage note and a $0.5 million waterfall payment relating to the subordinated note, which resulted in $0.4 million of gain on debt extinguishment.

During the second quarter of 2017, we obtained a $100.0 million secured mortgage loan from a third party lender with an effective interest rate of 4.0%. This loan, which is secured by The Pinnacle at Symphony Place in Nashville, is scheduled to mature in May 2029. We incurred $0.8 million of debt issuance costs in connection with this loan, which will be amortized over the term of the loan.

During the first quarter of 2017, the Operating Partnership issued $300.0 million aggregate principal amount of 3.875% notes due 2027, less original issuance discount of $4.0 million. These notes were priced to yield 4.038%. During 2016, we obtained $150.0 million notional amount of forward-starting swaps. Upon issuance of the notes, we terminated the forward-starting swaps resulting in an unrealized gain of $7.3 million in accumulated other comprehensive income. Underwriting fees and other expenses were incurred that aggregated $2.5 million; these costs were deferred and will be amortized over the term of the notes. The net effect of the amortization of these items resulted in an effective fixed interest rate of 3.83%.

During the first quarter of 2017, we paid off at maturity $379.7 million principal amount of 5.85% unsecured notes.

During the first quarter of 2017, we amended our $150.0 million unsecured bank term loan that is scheduled to mature in January 2022 by increasing the borrowed amount to $200.0 million. The interest rate on this term loan at our current credit ratings is LIBOR plus 110 basis points. We incurred $0.3 million of debt issuance costs in connection with this amendment, which will be amortized along with existing unamortized debt issuance costs over the remaining term.

During the second quarter of 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 expected to occur prior to May 15, 2018. During the second quarter of 2017, we also entered into floating-to-fixed interest rate swaps through January 2022 with respect to an aggregate of $50.0 million LIBOR-based borrowings, which effectively fixes the underlying one-month LIBOR rate at a weighted average rate of 1.693%. The counterparties under our swaps are major financial institutions.

We regularly evaluate the financial condition of the financial institutions that participate in our credit facilities and as counterparties under interest rate swap agreements using publicly available information. Based on this review, we currently expect these financial institutions to perform their obligations under our existing facilities and swap agreements.

For information regarding our interest hedging activities and other market risks associated with our debt financing activities, see "Item 7A. Quantitative and Qualitative Disclosures About Market Risk."

Covenant Compliance

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.

Table of Contents

As of December 31, 2017, the Operating Partnership had the following unsecured notes outstanding ($ in thousands):

	Face Amount	Carrying Amount	Stated Interest Rate	Effective Interest Rate
Notes due April 2018	$200,000	$200,000	7.500%	7.500%
Notes due June 2021	$300,000	$298,504	3.200%	3.363%
Notes due January 2023	$250,000	$248,675	3.625%	3.752%
Notes due March 2027	$300,000	$296,334	3.875%	4.038%

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

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

Contractual Obligations

The following table sets forth a summary regarding our known contractual obligations, including required interest payments for those items that are interest bearing, at December 31, 2017 ($ in thousands):

		Amounts due during the years ending December 31,					
	Total	2018	2019	2020	2021	2022	Thereafter
Mortgages and Notes Payable:							
Principal payments (1)	$2,028,981	$211,803	$1,876	$226,952	$302,032	$647,115	$639,203
Interest payments	316,744	61,359	56,765	53,214	45,154	30,031	70,221
Capitalized Lease Obligations	62	29	18	15	—	—	—
Purchase Obligations:							
Lease and contractual commitments and contingent consideration (2)	343,765	291,829	44,251	5,381	330	954	1,020
Operating Lease Obligations:							
Operating ground leases	99,414	2,099	2,136	2,175	2,215	2,257	88,532
Total	$2,788,966	$567,119	$105,046	$287,737	$349,731	$680,357	$798,976

(1) Excludes amortization of premiums, discounts, debt issuance costs and/or purchase accounting adjustments.

(2) Consists primarily of commitments under signed leases and contracts for operating properties, excluding tenant-funded tenant improvements, and contracts for development/redevelopment projects. This includes $233.0 million of contractual commitments related to our in-process development activity, of which $189.6 million is scheduled to be funded in 2018. For a description of our development activity, see "Item 2. Properties - In-Process Development." The timing of these lease and contractual commitments may fluctuate.

The interest payments due on mortgages and notes payable are based on the stated rates for the fixed rate debt and on the rates in effect at December 31, 2017 for the variable rate debt. The weighted average interest rate on our fixed (including debt with a variable rate that is effectively fixed by related interest rate swaps) and variable rate debt was 4.03% and 2.52%, respectively, at December 31, 2017. For additional information about our mortgages and notes

payable, see Note 6 to our Consolidated Financial Statements. For additional information about purchase obligations and operating lease obligations, see Note 8 to our Consolidated Financial Statements.

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

Table of Contents

("GAAP"). In addition, although capital gains are not required to be distributed to maintain REIT status, capital gains, if any, are subject to federal and state income tax unless such gains are distributed to stockholders.

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

During each quarter of 2017, the Company declared and paid a regular cash dividend of $0.44 per share of Common Stock. In addition, the Company paid a special cash dividend of $0.80 per share of Common Stock on January 10, 2017 to stockholders of record as of December 27, 2016. The principal purpose of the special dividend was to distribute taxable capital gains associated with the sales of the Plaza assets in 2016.

On February 6, 2018, the Company declared a cash dividend of $0.4625 per share of Common Stock, which is payable on March 6, 2018 to stockholders of record as of February 20, 2018.

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 $3.3 million of cash and cash equivalents as of December 31, 2017. The unused capacity of our revolving credit facility at December 31, 2017 and January 26, 2018 was $354.5 million and $345.0 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.

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 2018, we also expect to sell $61.0 million to $136.0 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

The preparation of financial statements in conformity with GAAP requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent liabilities at the date of the financial statements and the reported amounts of revenues and expenses for the reporting period. Actual results could differ from our estimates.

The policies used in the preparation of our Consolidated Financial Statements are described in Note 1 to our Consolidated Financial Statements. However, certain of our significant accounting policies contain an increased level of assumptions used or estimates made in determining their impact in our Consolidated Financial Statements. Management has reviewed and determined the appropriateness of our critical accounting policies and estimates with the audit committee of the Company's Board of Directors.

Table of Contents

We consider our critical accounting estimates to be those used in the determination of the reported amounts and disclosure related to the following:

- Real estate and related assets;
- Impairments of real estate assets and investments in unconsolidated affiliates;
- Sales of real estate;
- Rental and other revenues; and
- Allowance for doubtful accounts.

Real Estate and Related Assets

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

Expenditures directly related to the development and construction of real estate assets are included in net real estate assets and are stated at depreciated cost. Development expenditures include pre-construction costs essential to the development of properties, development and construction costs, interest costs on qualifying assets, real estate taxes, development personnel salaries and related costs and other costs incurred during the period of development. Interest and other carrying costs are capitalized until the building is ready for its intended use, but not later than a year from cessation of major construction activity. We consider a construction project as substantially completed and ready for its intended use upon the completion of tenant improvements. We cease capitalization on the portion that is substantially completed and occupied or held available for occupancy, and capitalize only those costs associated with the portion under construction.

Expenditures directly related to the leasing of properties are included in deferred leasing costs and are stated at amortized cost. Such expenditures are part of the investment necessary to execute leases and, therefore, are classified as investment activities in the statement of cash flows. All leasing commissions paid to third parties for new leases or lease renewals are capitalized. Internal leasing costs, which consist primarily of compensation, benefits and other costs, such as legal fees related to leasing activities, that are incurred in connection with successfully obtaining leases of properties are also capitalized. Capitalized leasing costs are amortized on a straight-line basis over the initial fixed terms of the respective leases, which generally are from three to 10 years. Estimated costs related to unsuccessful activities are expensed as incurred.

We record liabilities for the performance of asset retirement activities when the obligation to perform such activities is probable even when uncertainty exists about the timing and/or method of settlement.

Upon the acquisition of real estate assets, we assess the fair value of acquired tangible assets such as land, buildings and tenant improvements, intangible assets and liabilities such as above and below market leases, acquired in-place leases, customer relationships and other identifiable intangible assets and assumed liabilities. We assess fair value based on estimated cash flow projections that utilize discount and/or capitalization rates as well as available market

information. The fair value of the tangible assets of an acquired property considers the value of the property as if it were vacant.

The above and below market rate portions of leases acquired in connection with property acquisitions are recorded in deferred leasing costs and in accounts payable, accrued expenses and other liabilities, respectively, at fair value and amortized into rental revenue over the remaining term of the respective leases as described below. Fair value is calculated as the present value of the difference between (1) the contractual amounts to be paid pursuant to each in-place lease and (2) our estimate of fair market lease rates for each corresponding in-place lease, using a discount rate that reflects the risks associated with the leases acquired and measured over a period equal to the remaining initial term of the lease for above-market leases and the remaining initial term plus the term of any renewal option that the customer would be economically compelled to exercise for below-market leases.

In-place leases acquired are recorded at fair value in deferred leasing costs and are amortized to depreciation and amortization expense over the remaining term of the respective lease. The value of in-place leases is based on our evaluation of the specific

Table of Contents

characteristics of each customer's lease. Factors considered include estimates of carrying costs during hypothetical expected lease-up periods, current market conditions, the customer's credit quality and costs to execute similar leases. In estimating carrying costs, we include real estate taxes, insurance and other operating expenses and estimates of lost rentals at market rates during the expected lease-up periods, depending on local market conditions. In estimating costs to execute similar leases, we consider tenant improvements, leasing commissions and legal and other related expenses.

Real estate and other assets are classified as long-lived assets held for use or as long-lived assets held for sale. Real estate is classified as held for sale when the sale of the asset is probable, has been duly approved by the Company, a legally enforceable contract has been executed and the buyer's due diligence period, if any, has expired.

Impairments of Real Estate Assets and Investments in Unconsolidated Affiliates

With respect to assets classified as held for use, we perform an impairment analysis if events or changes in circumstances indicate that the carrying value may be impaired, such as a significant decline in occupancy, identification of materially adverse legal or environmental factors, change in our designation of an asset from core to non-core, which may impact the anticipated holding period, or a decline in market value to an amount less than cost. This analysis is generally performed at the property level, except when an asset is part of an interdependent group such as an office park, and consists of determining whether the asset's carrying amount will be recovered from its undiscounted estimated future operating and residual cash flows. These cash flows are estimated based on a number of assumptions that are subject to economic and market uncertainties including, among others, demand for space, competition for customers, changes in market rental rates, costs to operate each property and expected ownership periods. For properties under development, the cash flows are based on expected service potential of the asset or asset group when development is substantially complete.

If the carrying amount of a held for use asset exceeds the sum of its undiscounted future operating and residual cash flows, an impairment loss is recorded for the difference between estimated fair value of the asset and the carrying amount. We generally estimate the fair value of assets held for use by using discounted cash flow analyses. In some instances, appraisal information may be available and is used in addition to a discounted cash flow analysis. As the factors used in generating these cash flows are difficult to predict and are subject to future events that may alter our assumptions, the discounted and/or undiscounted future operating and residual cash flows estimated by us in our impairment analyses or those established by appraisal may not be achieved and we may be required to recognize future impairment losses on properties held for use.

We record assets held for sale at the lower of the carrying amount or estimated fair value. Fair value of assets held for sale is equal to the estimated or contracted sales price with a potential buyer, less costs to sell. The impairment loss is the amount by which the carrying amount exceeds the estimated fair value.

We also analyze our investments in unconsolidated affiliates for impairment. This analysis consists of determining whether an expected loss in market value of an investment is other than temporary by evaluating the length of time and the extent to which the market value has been less than cost, the financial condition and near-term prospects of the investment, and our intent and ability to retain our investment for a period of time sufficient to allow for any anticipated recovery in market value. As the factors used in this analysis are difficult to predict and are subject to future events that may alter our assumptions, we may be required to recognize future impairment losses on our investments in unconsolidated affiliates.

Sales of Real Estate

For sales transactions meeting the requirements for full profit recognition, the related assets and liabilities are removed from the balance sheet and the resultant gain or loss is recorded in the period the transaction closes. For sales

transactions with continuing involvement after the sale, if the continuing involvement with the property is limited by the terms of the sales contract, profit is recognized at the time of sale and is reduced by the maximum exposure to loss related to the nature of the continuing involvement. Sales to entities in which we have or receive an interest are accounted for using partial sale accounting.

For transactions that do not meet the criteria for a sale, we evaluate the nature of the continuing involvement, including put and call provisions, if present, and account for the transaction as a financing arrangement, profit-sharing arrangement, leasing arrangement or other alternate method of accounting, rather than as a sale, based on the nature and extent of the continuing involvement. Some transactions may have numerous forms of continuing involvement. In those cases, we determine which method is most appropriate based on the substance of the transaction.

Table of Contents

Rental and Other Revenues

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

Cost recovery income is determined on a calendar year and a lease-by-lease basis. The most common types of cost recovery income in our leases are common area maintenance (“CAM”) and real estate taxes, for which a customer typically pays its pro-rata share of operating and administrative expenses and real estate taxes in excess of the costs incurred during a contractually specified base year. The computation of cost recovery income is complex and involves numerous judgments, including the interpretation of lease provisions. Leases are not uniform in dealing with such cost recovery income and there are many variations in the computation. Many customers make monthly fixed payments of CAM, real estate taxes and other cost reimbursement items. We accrue income related to these payments each month. We make quarterly accrual adjustments, positive or negative, to cost recovery income to adjust the recorded amounts to our best estimate of the final annual amounts to be billed and collected. After the end of the calendar year, we compute each customer's final cost recovery income and, after considering amounts paid by the customer during the year, issue a bill or credit for the appropriate amount to the customer. The differences between the amounts billed less previously received payments and the accrual adjustment are recorded as increases or decreases to cost recovery income when the final bills are prepared, which occurs during the first half of the subsequent year.

Allowance for Doubtful Accounts

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

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.

Table of Contents

The Company's presentation of FFO is consistent with FFO as defined by NAREIT, which is calculated as follows:

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

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

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

	Year Ended December 31,		
	2017	2016	2015
Funds from operations:			
Net income	$191,663	$541,139	$101,260
Net (income) attributable to noncontrolling interests in consolidated affiliates	(1,239)	(1,253)	(1,264)
Depreciation and amortization of real estate assets	225,052	217,533	199,449
(Gains) on disposition of depreciable properties	(53,170)	(8,915)	(9,147)
(Gain) on disposition of investment in unconsolidated affiliate	—	—	(4,155)
Unconsolidated affiliates:			
Depreciation and amortization of real estate assets	2,298	2,978	3,203
(Gains) on disposition of depreciable properties	(4,617)	(2,173)	(946)
Discontinued operations:			
Depreciation and amortization of real estate assets	—	—	13,820
(Gains) on disposition of depreciable properties	—	(414,496)	—
Funds from operations	359,987	334,813	302,220
Dividends on Preferred Stock	(2,492)	(2,501)	(2,506)
Funds from operations available for common stockholders	$357,495	$332,312	$299,714
Funds from operations available for common stockholders per share	$3.39	$3.28	$3.08
Weighted average shares outstanding (1)	105,594	101,398	97,406

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

In addition, the Company believes NOI from continuing operations 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 from continuing operations, less rental property and other expenses from continuing operations. 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.

Table of Contents

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). As of December 31, 2016, our same property portfolio consisted of 217 in-service properties encompassing 26.7 million rentable square feet that were wholly owned during the entirety of the periods presented (from January 1, 2015 to December 31, 2016). The change in our same property portfolio was due to the addition of four properties encompassing 1.6 million rentable square feet acquired during 2015 and four newly developed properties encompassing 0.8 million rentable square feet placed in service during 2015. These additions were offset by the removal of 15 properties encompassing 1.1 million rentable square feet that were sold during 2017.

Rental and other revenues related to properties not in our same property portfolio were $62.2 million and $35.7 million for the years ended December 31, 2017 and 2016, respectively. Rental property and other expenses related to properties not in our same property portfolio were $15.9 million and $12.0 million for the years ended December 31, 2017 and 2016, respectively.

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

	Year Ended December 31,	
	2017	2016
Income from continuing operations before disposition of investment properties and activity in unconsolidated affiliates	$130,102	$101,946
Other income	(2,283)	(2,338)
Interest expense	69,105	76,648
General and administrative expenses	39,648	38,153
Impairments of real estate assets	1,445	—
Depreciation and amortization	227,832	220,140
Net operating income from continuing operations	465,849	434,549
Less – non same property and other net operating income	(46,301)	(23,723)
Same property net operating income from continuing operations	$419,548	$410,826
Same property net operating income from continuing operations	$419,548	$410,826
Less – lease termination fees, straight-line rent and other non-cash adjustments	(13,148)	(20,438)
Same property cash net operating income from continuing operations	$406,400	$390,388

Table of Contents

ITEM 7A. 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 7. 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 December 31, 2017, we had $1,142.5 million principal amount of fixed rate debt outstanding, a $111.9 million decrease as compared to December 31, 2016, 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 $1,147.7 million. If interest rates had been 100 basis points higher, the aggregate fair market value of our fixed rate debt would have been $52.6 million lower. If interest rates had been 100 basis points lower, the aggregate fair market value of our fixed rate debt would have been $56.7 million higher.

At December 31, 2017, we had $605.0 million of variable rate debt outstanding, a $130.0 million increase as compared to December 31, 2016, 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 $6.1 million. If the weighted average interest rate on this variable rate debt had been 100 basis points lower, the annual interest expense would decrease $6.1 million.

At December 31, 2017, we had $275.0 million of variable rate debt outstanding with $275.0 million of related floating-to-fixed interest rate swaps (including $50.0 million of swaps we entered into during the second quarter of 2017). These swaps effectively fix the underlying one-month LIBOR rate at a weighted average rate of 1.681%. The weighted average rate of such swaps we held at December 31, 2016 was 1.678%. If the underlying LIBOR interest rates increase or decrease by 100 basis points, the aggregate fair market value of the swaps at December 31, 2017 would increase by $4.1 million or decrease by $4.2 million, respectively.

During the second quarter of 2017, we entered into $150.0 million notional amount of forward-starting swaps that effectively lock the underlying 10-year treasury rate at 2.44% with respect to a planned issuance of debt securities by the Operating Partnership expected to occur prior to May 15, 2018. If the underlying treasury rate was to increase or decrease by 100 basis points, the aggregate fair market value of the swaps at December 31, 2017 would increase by $12.8 million or decrease by $14.2 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.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

See page 50 for Index to Consolidated Financial Statements of Highwoods Properties, Inc. and Highwoods Realty Limited Partnership.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

Table of Contents

ITEM 9A. CONTROLS AND PROCEDURES

General

The purpose of this section is to discuss our controls and procedures. The statements in this section represent the conclusions of Edward J. Fritsch, the Company's President and Chief Executive Officer (“CEO”), and Mark F. Mulhern, the Company's Executive Vice President and Chief Financial Officer (“CFO”).

The CEO and CFO evaluations of our controls and procedures include a review of the controls' objectives and design, the controls' implementation by us and the effect of the controls on the information generated for use in this Annual Report. We seek to identify data errors, control problems or acts of fraud and confirm that appropriate corrective action, including process improvements, is undertaken. Our controls and procedures are also evaluated on an ongoing basis by or through the following:

- activities undertaken and reports issued by employees responsible for testing our internal control over financial reporting;
- quarterly sub-certifications by representatives from appropriate business and accounting functions to support the CEO's and CFO's evaluations of our controls and procedures;
- other personnel in our finance and accounting organization;
- members of our internal disclosure committee; and
- members of the audit committee of the Company's Board of Directors.

We do not expect that our controls and procedures will prevent all errors and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of controls and procedures must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty and that breakdowns can occur because of a simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the control. The design of any system of controls also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions.

Management's Annual Report on the Company's Internal Control Over Financial Reporting

The Company's management is required 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 GAAP. Internal control over financial reporting includes those policies and procedures that:

- pertain to the maintenance of records that in reasonable detail accurately and fairly reflect transactions and dispositions of assets;
-

provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with GAAP, and that receipts and expenditures are being made only in accordance with authorizations of management and directors; and

- provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of assets that could have a material effect on the financial statements.

Under the supervision of the Company's CEO and CFO, we conducted an evaluation of the effectiveness of the Company's internal control over financial reporting at December 31, 2017 based on the criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have concluded that, at December 31, 2017, the Company's internal control over financial reporting was effective. Deloitte & Touche LLP, our independent registered public accounting firm, has issued their attestation report, which is included below, on the effectiveness of the Company's internal control over financial reporting at December 31, 2017.

Table of Contents

Management's Annual Report on the Operating Partnership's Internal Control Over Financial Reporting

The Operating Partnership is also required 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 GAAP.

Under the supervision of the Company's CEO and CFO, we conducted an evaluation of the effectiveness of the Operating Partnership's internal control over financial reporting at December 31, 2017 based on the criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have concluded that, at December 31, 2017, the Operating Partnership's internal control over financial reporting was effective. SEC rules do not require us to obtain an attestation report of Deloitte & Touche LLP on the effectiveness of the Operating Partnership's internal control over financial reporting.

Table of Contents

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the stockholders and the Board of Directors of Highwoods Properties, Inc.

Opinion on Internal Control over Financial Reporting

We have audited the internal control over financial reporting of Highwoods Properties, Inc. and subsidiaries (the "Company") as of December 31, 2017, based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2017, based on criteria established in Internal Control - Integrated Framework (2013) issued by COSO.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated financial statements and financial statement schedules as of and for the year ended December 31, 2017 of the Company and our report dated February 6, 2018 expressed an unqualified opinion on those financial statements and financial statement schedules.

Basis for Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Annual Report on the Company's Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control over Financial Reporting

A company's internal control over financial reporting is a process 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. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become

inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ Deloitte & Touche LLP

Raleigh, North Carolina
February 6, 2018

Table of Contents

Changes in Internal Control Over Financial Reporting

There were no changes in the Company's internal control over financial reporting during the fourth quarter of 2017 that materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting. There were also no changes in the Operating Partnership's internal control over financial reporting during the fourth quarter of 2017 that materially affected, or are reasonably likely to materially affect, the Operating Partnership's internal control over financial reporting.

Disclosure 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. As defined in Rule 13a-15(e) under the Exchange Act, disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by us is accumulated and communicated to our management, including the Company's CEO and CFO, to allow for timely decisions regarding required disclosure. The Company's CEO and CFO concluded that the Company's disclosure controls and procedures were effective at the end of the period covered by this Annual Report. The Company's CEO and CFO also concluded that the Operating Partnership's disclosure controls and procedures were effective at the end of the period covered by this Annual Report.

ITEM 9B. OTHER INFORMATION

None.

Table of Contents

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

Information about the Company’s executive officers and directors, the code of ethics that applies to the Company’s chief executive officer and senior financial officers, which is posted on our website, and certain corporate governance matters is incorporated herein by reference to the Company’s Proxy Statement to be filed in connection with its annual meeting of stockholders to be held on May 9, 2018. No changes have been made to the procedures by which stockholders may recommend nominees to the Company's board of directors since the 2017 annual meeting, which was held on May 10, 2017. See Item X in Part I of this Annual Report for biographical information regarding the Company’s executive officers. The Company is the sole general partner of the Operating Partnership.

ITEM 11. EXECUTIVE COMPENSATION

Information about the compensation of the Company’s directors and executive officers is incorporated herein by reference to the Company’s Proxy Statement to be filed in connection with its annual meeting of stockholders to be held on May 9, 2018.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

Information about the beneficial ownership of Common Stock and the Company’s equity compensation plans is incorporated herein by reference to the Company’s Proxy Statement to be filed in connection with its annual meeting of stockholders to be held on May 9, 2018.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS AND DIRECTOR INDEPENDENCE

Information about certain relationships and related transactions and the independence of the Company’s directors is incorporated herein by reference to the Company’s Proxy Statement to be filed in connection with its annual meeting of stockholders to be held on May 9, 2018.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

Information about fees paid to and services provided by our independent registered public accounting firm is incorporated herein by reference to the Company’s Proxy Statement to be filed in connection with its annual meeting of stockholders to be held on May 9, 2018.

Table of Contents

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

Reference is made to the Index to Consolidated Financial Statements on page 50 for a list of the Consolidated Financial Statements of Highwoods Properties, Inc. and Highwoods Realty Limited Partnership included in this report.

Exhibits

Exhibit Number		Description
1		Form of Equity Distribution Agreement, dated February 8, 2017, among Highwoods Properties, Inc., Highwoods Realty Limited Partnership and each of the firms named therein (filed as part of the Company's Current Report on Form 8-K dated February 8, 2017)
3.1		Amended and Restated Charter of the Company (filed as part of the Company's Current Report on Form 8-K dated May 15, 2008)
3.2		Amended and Restated Bylaws of the Company (filed as part of the Company's Current Report on Form 8-K dated May 15, 2008)
4.1		Indenture among the Operating Partnership, the Company and U.S. Bank National Association (as successor in interest to Wachovia Bank, N.A.) dated as of December 1, 1996 (filed as part of the Operating Partnership's Current Report on Form 8-K dated December 2, 1996)
4.2		Form of 7.5% Notes due April 15, 2018 (filed as part of the Company's Current Report on Form 8-K dated April 24, 1998)
4.3		Form of 3.875% Notes due March 1, 2027 (filed as part of the Company's Current Report on Form 8-K dated February 23, 2017)
4.4		Officers' Certificate Establishing the Terms of the 3.875% Notes, dated February 23, 2017 (filed as part of the Company's Current Report on Form 8-K dated February 23, 2017)
4.5		Form of 3.625% Notes due January 15, 2023 (filed as part of the Company's Current Report on Form 8-K dated December 18, 2012)
4.6		Officers' Certificate Establishing the Terms of the 3.625% Notes, dated as of December 18, 2012 (filed as part of the Company's Current Report on Form 8-K dated December 18, 2012)
4.7		Form of 3.20% Notes due June 15, 2021 (filed as part of the Company's Current Report on Form 8-K dated May 27, 2014)
4.8		Officers' Certificate Establishing the Terms of the 3.20% Notes, dated as of May 27, 2014 (filed as part of the Company's Current Report on Form 8-K dated May 27, 2014)
10.1		Second Restated Agreement of Limited Partnership, dated as of January 1, 2000, of the Operating Partnership (filed as part of the Company's Annual Report on Form 10-K for the year ended December 31, 2004)
10.2		Amendment No. 1, dated as of July 22, 2004, to the Second Restated Agreement of Limited Partnership, dated as of January 1, 2000, of the Operating Partnership (filed as part of the Company's Annual Report on Form 10-K for the year ended December 31, 2004)
10.3	*	2015 Long-Term Equity Incentive Plan (filed as part of the Company's Current Report on Form 8-K dated May 13, 2015)
10.4		Form of warrants to purchase Common Stock of the Company (filed as part of the Company's Annual Report on Form 10-K for the year ended December 31, 1997)
10.5	*	Highwoods Properties, Inc. Retirement Plan, effective as of March 1, 2006 (filed as part of the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2007)
10.6	*	

		Amended and Restated Executive Supplemental Employment Agreement, dated as of February 12, 2013, between the Company and Edward J. Fritsch (filed as part of the Company's Annual Report on Form 10-K for the year ended December 31, 2012)
10.7	*	Executive Supplemental Employment Agreement, dated as of September 1, 2015 between the Company and Theodore J. Klinck (filed as part of the Company's Current Report on Form 8-K dated September 1, 2015)

Table of Contents

Exhibit Number		Description
10.8	*	Executive Supplemental Employment Agreement, dated as of September 29, 2014 between the Company and Mark F. Mulhern (filed as part of the Company's Current Report on Form 8-K dated October 1, 2014)
10.9	*	Amended and Restated Executive Supplemental Employment Agreement, dated as of February 12, 2013, between the Company and Jeffrey D. Miller (filed as part of the Company's Annual Report on Form 10-K for the year ended December 31, 2012)
10.10	*	Highwoods Properties, Inc. Amended and Restated Employee Stock Purchase Plan (filed as part of the Company's Current Report on Form 8-K dated May 12, 2010)
10.11	*	Amendment No. 1 to the Amended and Restated Employee Stock Purchase Plan of the Company (filed as part of the Company's Annual Report on Form 10-K for the year ended December 31, 2010)
10.12		Amendment No. 2 to the Amended and Restated Employee Stock Purchase Plan of the Company
10.13		Fifth Amended and Restated Credit Agreement, dated as of October 18, 2017, by and among the Company, the Operating Partnership, Bank of America, N.A., as Administrative Agent, Swing Line Lender and L/C Issuer, Wells Fargo Bank, National Association and PNC Bank, National Association, as Co-Syndication Agents, and the Other Lenders named therein (filed as part of the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2017)
10.14		Amended and Restated Seven-Year Term Loan Agreement, dated as of November 12, 2013, by and among the Company, the Operating Partnership, Wells Fargo Bank, National Association, as Administrative Agent, and the Other Lenders named therein (filed as part of the Company's Current Report on Form 8-K dated November 12, 2013)
10.15		First Amendment to Amended and Restated Seven-Year Term Loan Agreement (filed as part of the Company's Current Report on Form 8-K dated June 11, 2015)
10.16		Second Amendment to Amended and Restated Seven-Year Term Loan Agreement, dated as of October 18, 2017, by and among the Company, the Operating Partnership and Wells Fargo Bank, National Association, as Administrative Agent (filed as part of the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2017)
12.1		Statement re: Computation of Ratios of the Company
12.2		Statement re: Computation of Ratios of the Operating Partnership
21		Schedule of Subsidiaries
23.1		Consent of Deloitte & Touche LLP for the Company
23.2		Consent of Deloitte & Touche LLP for the Operating Partnership
31.1		Certification of CEO Pursuant to Section 302 of the Sarbanes-Oxley Act for the Company
31.2		Certification of CFO Pursuant to Section 302 of the Sarbanes-Oxley Act for the Company
31.3		Certification of CEO Pursuant to Section 302 of the Sarbanes-Oxley Act for the Operating Partnership
31.4		Certification of CFO Pursuant to Section 302 of the Sarbanes-Oxley Act for the Operating Partnership
32.1		Certification of CEO Pursuant to Section 906 of the Sarbanes-Oxley Act for the Company
32.2		Certification of CFO Pursuant to Section 906 of the Sarbanes-Oxley Act for the Company
32.3		Certification of CEO Pursuant to Section 906 of the Sarbanes-Oxley Act for the Operating Partnership
32.4		Certification of CFO Pursuant to Section 906 of the Sarbanes-Oxley Act for the Operating Partnership
101.INS		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

* Represents management contract or compensatory plan.

49

Table of Contents

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

	Page
Highwoods Properties, Inc.	
Report of Independent Registered Public Accounting Firm	51
Consolidated Financial Statements:	
Consolidated Balance Sheets at December 31, 2017 and 2016	52
Consolidated Statements of Income for the Years Ended December 31, 2017, 2016 and 2015	53
Consolidated Statements of Comprehensive Income for the Years Ended December 31, 2017, 2016 and 2015	54
Consolidated Statements of Equity for the Years Ended December 31, 2017, 2016 and 2015	55
Consolidated Statements of Cash Flows for the Years Ended December 31, 2017, 2016 and 2015	57
Highwoods Realty Limited Partnership:	
Report of Independent Registered Public Accounting Firm	59
Consolidated Financial Statements:	
Consolidated Balance Sheets at December 31, 2017 and 2016	60
Consolidated Statements of Income for the Years Ended December 31, 2017, 2016 and 2015	61
Consolidated Statements of Comprehensive Income for the Years Ended December 31, 2017, 2016 and 2015	62
Consolidated Statements of Capital for the Years Ended December 31, 2017, 2016 and 2015	63
Consolidated Statements of Cash Flows for the Years Ended December 31, 2017, 2016 and 2015	64
Notes to Consolidated Financial Statements	66
Schedule II	105
Schedule III	106

All other schedules are omitted because they are not applicable or because the required information is included in our Consolidated Financial Statements or notes thereto.

Table of Contents

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the stockholders and the Board of Directors of Highwoods Properties, Inc.

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Highwoods Properties, Inc. and subsidiaries (the "Company") as of December 31, 2017 and 2016, and the related consolidated statements of income, comprehensive income, equity, and cash flows for each of the three years in the period ended December 31, 2017, and the related notes and the schedules listed in the Index at Item 15 (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2017 and 2016, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2017, in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of December 31, 2017, based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 6, 2018, expressed an unqualified opinion on the Company's internal control over financial reporting.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ Deloitte & Touche LLP

Raleigh, North Carolina
February 6, 2018

We have served as the Company's auditor since 2006.

51

Table of Contents

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

	December 31,	
	2017	2016
Assets:		
Real estate assets, at cost:		
Land	$485,956	$474,375
Buildings and tenant improvements	4,590,490	4,313,373
Development in-process	88,452	279,602
Land held for development	74,765	77,355
	5,239,663	5,144,705
Less-accumulated depreciation	(1,202,424)	(1,134,103)
Net real estate assets	4,037,239	4,010,602
Real estate and other assets, net, held for sale	14,118	—
Cash and cash equivalents	3,272	49,490
Restricted cash	85,061	29,141
Accounts receivable, net of allowance of $753 and $624, respectively	24,397	17,372
Mortgages and notes receivable, net of allowance of $72 and $105, respectively	6,425	8,833
Accrued straight-line rents receivable, net of allowance of $819 and $692, respectively	200,131	172,829
Investments in and advances to unconsolidated affiliates	23,897	18,846
Deferred leasing costs, net of accumulated amortization of $143,512 and $140,081, respectively	200,679	213,500
Prepaid expenses and other assets, net of accumulated amortization of $19,092 and $19,904, respectively	28,572	40,437
Total Assets	$4,623,791	$4,561,050
Liabilities, Noncontrolling Interests in the Operating Partnership and Equity:		
Mortgages and notes payable, net	$2,014,333	$1,948,047
Accounts payable, accrued expenses and other liabilities	228,215	313,885
Total Liabilities	2,242,548	2,261,932
Commitments and contingencies		
Noncontrolling interests in the Operating Partnership	144,009	144,802
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), 28,892 and 28,920 shares issued and outstanding, respectively	28,892	28,920
Common Stock, $.01 par value, 200,000,000 authorized shares; 103,266,875 and 101,665,554 shares issued and outstanding, respectively	1,033	1,017
Additional paid-in capital	2,929,399	2,850,881
Distributions in excess of net income available for common stockholders	(747,344)	(749,412)
Accumulated other comprehensive income	7,838	4,949
Total Stockholders' Equity	2,219,818	2,136,355
Noncontrolling interests in consolidated affiliates	17,416	17,961
Total Equity	2,237,234	2,154,316
Total Liabilities, Noncontrolling Interests in the Operating Partnership and Equity	$4,623,791	$4,561,050

See accompanying notes to consolidated financial statements.

Table of Contents

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

	Year Ended December 31,		
	2017	2016	2015
Rental and other revenues	$702,737	$665,634	$604,671
Operating expenses:			
Rental property and other expenses	236,888	231,085	215,941
Depreciation and amortization	227,832	220,140	201,918
Impairments of real estate assets	1,445	—	—
General and administrative	39,648	38,153	37,642
Total operating expenses	505,813	489,378	455,501
Interest expense:			
Contractual	65,939	73,142	82,245
Amortization of debt issuance costs	3,166	3,506	3,645
Financing obligation	—	—	162
	69,105	76,648	86,052
Other income:			
Interest and other income	2,309	2,338	1,969
Losses on debt extinguishment	(26)	—	(243)
	2,283	2,338	1,726
Income from continuing operations before disposition of investment properties and activity in unconsolidated affiliates	130,102	101,946	64,844
Gains on disposition of property	54,157	14,807	11,444
Gain on disposition of investment in unconsolidated affiliate	—	—	4,155
Equity in earnings of unconsolidated affiliates	7,404	5,793	5,078
Income from continuing operations	191,663	122,546	85,521
Discontinued operations:			
Income from discontinued operations	—	4,097	15,739
Net gains on disposition of discontinued operations	—	414,496	—
	—	418,593	15,739
Net income	191,663	541,139	101,260
Net (income) attributable to noncontrolling interests in the Operating Partnership	(5,059)	(15,596)	(2,918)
Net (income) attributable to noncontrolling interests in consolidated affiliates	(1,239)	(1,253)	(1,264)
Dividends on Preferred Stock	(2,492)	(2,501)	(2,506)
Net income available for common stockholders	$182,873	$521,789	$94,572
Earnings per Common Share – basic:			
Income from continuing operations available for common stockholders	$1.78	$1.17	$0.84
Income from discontinued operations available for common stockholders	—	4.13	0.16
Net income available for common stockholders	$1.78	$5.30	$1.00
Weighted average Common Shares outstanding – basic	102,682	98,439	94,404
Earnings per Common Share – diluted:			
Income from continuing operations available for common stockholders	$1.78	$1.17	$0.84
Income from discontinued operations available for common stockholders	—	4.13	0.16
Net income available for common stockholders	$1.78	$5.30	$1.00
Weighted average Common Shares outstanding – diluted	105,594	101,398	97,406
Net income available for common stockholders:			
Income from continuing operations available for common stockholders	$182,873	$115,461	$79,308

Income from discontinued operations available for common stockholders	—	406,328	15,264
Net income available for common stockholders	$182,873	$521,789	$94,572

See accompanying notes to consolidated financial statements.

Table of Contents

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

	Year Ended December 31,		
	2017	2016	2015
Comprehensive income:			
Net income	$191,663	$541,139	$101,260
Other comprehensive income/(loss):			
Unrealized gains on tax increment financing bond	—	—	445
Unrealized gains/(losses) on cash flow hedges	1,732	5,703	(4,040)
Amortization of cash flow hedges	1,157	3,057	3,696
Total other comprehensive income	2,889	8,760	101
Total comprehensive income	194,552	549,899	101,361
Less-comprehensive (income) attributable to noncontrolling interests	(6,298)	(16,849)	(4,182)
Comprehensive income attributable to common stockholders	$188,254	$533,050	$97,179

See accompanying notes to consolidated financial statements.

Table of Contents

HIGHWOODS PROPERTIES, INC.
Consolidated Statements of Equity
(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/(Loss)	Non-controlling Interests in Consolidated Affiliates	Distributions in Excess of Net Income Available for Common Stockholders	Total
Balance at December 31, 2014	92,907,310	$929	$29,060	$2,464,275	$(3,912)	$18,109	$(957,370)	$1,551,091
Issuances of Common Stock, net of issuance costs and tax withholdings	3,023,710	30	—	125,507	—	—	—	125,537
Conversions of Common Units to Common Stock	37,203	—	—	1,645	—	—	—	1,645
Dividends on Common Stock	—	—	—	—	—	—	(160,337)	(160,337)
Dividends on Preferred Stock	—	—	—	—	—	—	(2,506)	(2,506)
Adjustment of noncontrolling interests in the Operating Partnership to fair value	—	—	—	(67)	—	—	—	(67)
Distributions to noncontrolling interests in consolidated affiliates	—	—	—	—	—	(1,398)	—	(1,398)
Issuances of restricted stock	128,951	—	—	—	—	—	—	—
Redemptions/repurchases of Preferred Stock	—	—	(10)	—	—	—	—	(10)
Share-based compensation expense, net of forfeitures	(5,242)	2	—	6,882	—	—	—	6,884
Net (income) attributable to noncontrolling interests in the Operating Partnership	—	—	—	—	—	—	(2,918)	(2,918)
Net (income) attributable to noncontrolling interests in consolidated affiliates	—	—	—	—	—	1,264	(1,264)	—
Comprehensive income: Net income	—	—	—	—	—	—	101,260	101,260

Other comprehensive income	—	—	—	—	101	—	—	101
Total comprehensive income								101,361
Balance at December 31, 2015	96,091,932	961	29,050	2,598,242	(3,811)	17,975	(1,023,135)	1,619,282
Issuances of Common Stock, net of issuance costs and tax withholdings	5,390,710	54	—	256,326	—	—	—	256,380
Conversions of Common Units to Common Stock	61,048	—	—	3,057	—	—	—	3,057
Dividends on Common Stock	—	—	—	—	—	—	(166,861)	(166,861)
Special dividend on Common Stock	—	—	—	—	—	—	(81,205)	(81,205)
Dividends on Preferred Stock	—	—	—	—	—	—	(2,501)	(2,501)
Adjustment of noncontrolling interests in the Operating Partnership to fair value	—	—	—	(12,993)	—	—	—	(12,993)
Distributions to noncontrolling interests in consolidated affiliates	—	—	—	—	—	(1,267)	—	(1,267)
Issuances of restricted stock	130,752	—	—	—	—	—	—	—
Redemptions/repurchases of Preferred Stock	—	—	(130)	—	—	—	—	(130)
Share-based compensation expense, net of forfeitures	(8,888)	2	—	6,249	—	—	—	6,251
Net (income) attributable to noncontrolling interests in the Operating Partnership	—	—	—	—	—	—	(15,596)	(15,596)
Net (income) attributable to noncontrolling interests in consolidated affiliates	—	—	—	—	—	1,253	(1,253)	—
Comprehensive income:								
Net income	—	—	—	—	—	—	541,139	541,139
Other comprehensive income	—	—	—	—	8,760	—	—	8,760
Total comprehensive income								549,899
Balance at December 31, 2016	101,665,554	$1,017	$28,920	$2,850,881	$4,949	$17,961	$(749,412)	$2,154,316

Table of Contents

HIGHWOODS PROPERTIES, INC.
Consolidated Statements of Equity - Continued
(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/(Loss)	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	1,480,573	15	—	70,962	—	—	—	70,977
Conversions of Common Units to Common Stock	10,000	—	—	511	—	—	—	511
Dividends on Common Stock	—	—	—	—	—	—	(180,805)	(180,805)
Dividends on Preferred Stock	—	—	—	—	—	—	(2,492)	(2,492)
Adjustment of noncontrolling interests in the Operating Partnership to fair value	—	—	—	354	—	—	—	354
Distributions to noncontrolling interests in consolidated affiliates	—	—	—	—	—	(1,784)	—	(1,784)
Issuances of restricted stock	110,748	—	—	—	—	—	—	—
Redemptions/repurchases of Preferred Stock	—	—	(28)	—	—	—	—	(28)
Share-based compensation expense, net of forfeitures	—	1	—	6,691	—	—	—	6,692
Net (income) attributable to noncontrolling interests in the Operating Partnership	—	—	—	—	—	—	(5,059)	(5,059)
Net (income) attributable to noncontrolling interests in consolidated affiliates	—	—	—	—	—	1,239	(1,239)	—
Comprehensive income:								
Net income	—	—	—	—	—	—	191,663	191,663
Other comprehensive income	—	—	—	—	2,889	—	—	2,889

Total comprehensive income								194,552
Balance at December 31, 2017	103,266,875	$1,033	$28,892	$2,929,399	$7,838	$17,416	$(747,344)	$2,237,234

See accompanying notes to consolidated financial statements.

Table of Contents

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

	Year Ended December 31,		
	2017	2016	2015
Operating activities:			
Net income	$191,663	$541,139	$101,260
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	227,832	220,140	215,957
Amortization of lease incentives and acquisition-related intangible assets and liabilities	(1,172)	(1,996)	86
Share-based compensation expense	6,692	6,251	6,884
Allowance for losses on accounts and accrued straight-line rents receivable	1,508	2,001	2,103
Accrued interest on mortgages and notes receivable	(509)	(502)	(357)
Amortization of debt issuance costs	3,166	3,506	3,645
Amortization of cash flow hedges	1,157	3,057	3,696
Amortization of mortgages and notes payable fair value adjustments	705	(234)	(58)
Impairments of real estate assets	1,445	—	—
Losses on debt extinguishment	26	—	243
Net gains on disposition of property	(54,157)	(429,303)	(11,444)
Gain on disposition of investment in unconsolidated affiliate	—	—	(4,155)
Equity in earnings of unconsolidated affiliates	(7,404)	(5,793)	(5,078)
Changes in financing obligation	—	—	162
Distributions of earnings from unconsolidated affiliates	5,078	4,424	4,901
Settlement of cash flow hedges	7,322	—	—
Changes in operating assets and liabilities:			
Accounts receivable	(4,974)	3,401	1,415
Prepaid expenses and other assets	7,908	(4,423)	1,266
Accrued straight-line rents receivable	(32,234)	(24,245)	(22,756)
Accounts payable, accrued expenses and other liabilities	(1,520)	(11,618)	(8,891)
Net cash provided by operating activities	352,532	305,805	288,879
Investing activities:			
Investments in acquired real estate and related intangible assets, net of cash acquired	(1,840)	(110,249)	(408,634)
Investments in development in-process	(150,944)	(177,875)	(136,664)
Investments in tenant improvements and deferred leasing costs	(109,742)	(91,423)	(115,503)
Investments in building improvements	(63,780)	(80,672)	(55,881)
Net proceeds from disposition of real estate assets	129,503	684,371	26,748
Net proceeds from disposition of investment in unconsolidated affiliate	—	—	6,919
Distributions of capital from unconsolidated affiliates	11,670	2,766	10,401
Investments in mortgages and notes receivable	—	(7,934)	(1,772)
Repayments of mortgages and notes receivable	2,917	1,699	9,381
Investments in and advances to unconsolidated affiliates	(10,063)	(105)	(659)
Repayments from unconsolidated affiliates	—	448	20,800
Changes in restricted cash and other investing activities	(63,943)	(17,136)	(9,293)
Net cash provided by/(used in) investing activities	$(256,222)	$203,890	$(654,157)

Table of Contents

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

	Year Ended December 31,		
	2017	2016	2015
Financing activities:			
Dividends on Common Stock	$(180,805)	$(166,861)	$(160,337)
Special dividend on Common Stock	(81,205)	—	—
Redemptions/repurchases of Preferred Stock	(28)	(130)	(10)
Dividends on Preferred Stock	(2,492)	(2,501)	(2,506)
Distributions to noncontrolling interests in the Operating Partnership	(4,987)	(4,888)	(4,959)
Special distribution to noncontrolling interests in the Operating Partnership	(2,271)	—	—
Distributions to noncontrolling interests in consolidated affiliates	(1,784)	(1,267)	(1,398)
Proceeds from the issuance of Common Stock	76,268	264,769	131,341
Costs paid for the issuance of Common Stock	(1,283)	(3,973)	(2,040)
Repurchase of shares related to tax withholdings	(4,008)	(4,416)	(3,764)
Borrowings on revolving credit facility	780,300	287,600	476,300
Repayments of revolving credit facility	(535,300)	(586,600)	(386,300)
Borrowings on mortgages and notes payable	656,001	150,000	475,000
Repayments of mortgages and notes payable	(832,553)	(395,993)	(156,120)
Payments on financing obligation	—	—	(1,722)
Payments of debt extinguishment costs	(57)	—	—
Changes in debt issuance costs and other financing activities	(8,324)	(981)	(2,003)
Net cash provided by/(used in) financing activities	(142,528)	(465,241)	361,482
Net increase/(decrease) in cash and cash equivalents	(46,218)	44,454	(3,796)
Cash and cash equivalents at beginning of the period	49,490	5,036	8,832
Cash and cash equivalents at end of the period	$3,272	$49,490	$5,036

Supplemental disclosure of cash flow information:

	Year Ended December 31,		
	2017	2016	2015
Cash paid for interest, net of amounts capitalized	$68,207	$72,847	$82,242

Supplemental disclosure of non-cash investing and financing activities:

	Year Ended December 31,		
	2017	2016	2015
Unrealized gains/(losses) on cash flow hedges	$1,732	$5,703	$(4,040)
Conversions of Common Units to Common Stock	511	3,057	1,645
Changes in accrued capital expenditures	(1,912)	8,580	2,547
Write-off of fully depreciated real estate assets	59,108	39,262	48,698
Write-off of fully amortized leasing costs	40,517	25,569	37,176
Write-off of fully amortized debt issuance costs	11,724	964	1,088
Adjustment of noncontrolling interests in the Operating Partnership to fair value	(354)	12,993	67
Unrealized gains on tax increment financing bond	—	—	445
Assumption of mortgages and notes payable related to acquisition activities	—	—	19,277

Contingent consideration in connection with the acquisition of land	750	—	900
Special dividend on Common Stock declared	—	(81,205)	—
Special distribution to noncontrolling interests in the Operating Partnership declared	—	(2,271)	—

See accompanying notes to consolidated financial statements.

Table of Contents

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors of the General Partner of Highwoods Realty Limited Partnership

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Highwoods Realty Limited Partnership and subsidiaries (the “Operating Partnership”) as of December 31, 2017 and 2016, and the related consolidated statements of income, comprehensive income, capital, and cash flows for each of the three years in the period ended December 31, 2017, and the related notes and the schedules listed in the Index at Item 15 (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Operating Partnership as of December 31, 2017 and 2016, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2017, in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

These financial statements are the responsibility of the Operating Partnership's management. Our responsibility is to express an opinion on the Operating Partnership’s financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Operating Partnership in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Operating Partnership is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits, we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Operating Partnership’s internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ Deloitte & Touche LLP

Raleigh, North Carolina
February 6, 2018

We have served as the Operating Partnership’s auditor since 2006.

59

Table of Contents

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

	December 31,	
	2017	2016
Assets:		
Real estate assets, at cost:		
Land	$485,956	$474,375
Buildings and tenant improvements	4,590,490	4,313,373
Development in-process	88,452	279,602
Land held for development	74,765	77,355
	5,239,663	5,144,705
Less-accumulated depreciation	(1,202,424)	(1,134,103)
Net real estate assets	4,037,239	4,010,602
Real estate and other assets, net, held for sale	14,118	—
Cash and cash equivalents	3,272	49,490
Restricted cash	85,061	29,141
Accounts receivable, net of allowance of $753 and $624, respectively	24,397	17,372
Mortgages and notes receivable, net of allowance of $72 and $105, respectively	6,425	8,833
Accrued straight-line rents receivable, net of allowance of $819 and $692, respectively	200,131	172,829
Investments in and advances to unconsolidated affiliates	23,897	18,846
Deferred leasing costs, net of accumulated amortization of $143,512 and $140,081, respectively	200,679	213,500
Prepaid expenses and other assets, net of accumulated amortization of $19,092 and $19,904, respectively	28,572	40,437
Total Assets	$4,623,791	$4,561,050
Liabilities, Redeemable Operating Partnership Units and Capital:		
Mortgages and notes payable, net	$2,014,333	$1,948,047
Accounts payable, accrued expenses and other liabilities	228,215	313,885
Total Liabilities	2,242,548	2,261,932
Commitments and contingencies		
Redeemable Operating Partnership Units:		
Common Units, 2,828,704 and 2,838,704 outstanding, respectively	144,009	144,802
Series A Preferred Units (liquidation preference $1,000 per unit), 28,892 and 28,920 units issued and outstanding, respectively	28,892	28,920
Total Redeemable Operating Partnership Units	172,901	173,722
Capital:		
Common Units:		
General partner Common Units, 1,056,868 and 1,040,954 outstanding, respectively	21,830	21,023
Limited partner Common Units, 101,801,198 and 100,215,791 outstanding, respectively	2,161,258	2,081,463
Accumulated other comprehensive income	7,838	4,949
Noncontrolling interests in consolidated affiliates	17,416	17,961
Total Capital	2,208,342	2,125,396
Total Liabilities, Redeemable Operating Partnership Units and Capital	$4,623,791	$4,561,050

See accompanying notes to consolidated financial statements.

Table of Contents

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

	Year Ended December 31,		
	2017	2016	2015
Rental and other revenues	$702,737	$665,634	$604,671
Operating expenses:			
Rental property and other expenses	236,888	231,085	215,941
Depreciation and amortization	227,832	220,140	201,918
Impairments of real estate assets	1,445	—	—
General and administrative	39,648	38,153	37,642
Total operating expenses	505,813	489,378	455,501
Interest expense:			
Contractual	65,939	73,142	82,245
Amortization of debt issuance costs	3,166	3,506	3,645
Financing obligation	—	—	162
	69,105	76,648	86,052
Other income:			
Interest and other income	2,309	2,338	1,969
Losses on debt extinguishment	(26)	—	(243)
	2,283	2,338	1,726
Income from continuing operations before disposition of investment properties and activity in unconsolidated affiliates	130,102	101,946	64,844
Gains on disposition of property	54,157	14,807	11,444
Gain on disposition of investment in unconsolidated affiliate	—	—	4,155
Equity in earnings of unconsolidated affiliates	7,404	5,793	5,078
Income from continuing operations	191,663	122,546	85,521
Discontinued operations:			
Income from discontinued operations	—	4,097	15,739
Net gains on disposition of discontinued operations	—	414,496	—
	—	418,593	15,739
Net income	191,663	541,139	101,260
Net (income) attributable to noncontrolling interests in consolidated affiliates	(1,239)	(1,253)	(1,264)
Distributions on Preferred Units	(2,492)	(2,501)	(2,506)
Net income available for common unitholders	$187,932	$537,385	$97,490
Earnings per Common Unit – basic:			
Income from continuing operations available for common unitholders	$1.79	$1.18	$0.84
Income from discontinued operations available for common unitholders	—	4.15	0.17
Net income available for common unitholders	$1.79	$5.33	$1.01
Weighted average Common Units outstanding – basic	105,106	100,902	96,910
Earnings per Common Unit – diluted:			
Income from continuing operations available for common unitholders	$1.79	$1.18	$0.84
Income from discontinued operations available for common unitholders	—	4.14	0.17
Net income available for common unitholders	$1.79	$5.32	$1.01
Weighted average Common Units outstanding – diluted	105,185	100,989	96,997
Net income available for common unitholders:			
Income from continuing operations available for common unitholders	$187,932	$118,792	$81,751
Income from discontinued operations available for common unitholders	—	418,593	15,739

Net income available for common unitholders	$187,932	$537,385	$97,490

See accompanying notes to consolidated financial statements.

Table of Contents

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

	Year Ended December 31,		
	2017	2016	2015
Comprehensive income:			
Net income	$191,663	$541,139	$101,260
Other comprehensive income/(loss):			
Unrealized gains on tax increment financing bond	—	—	445
Unrealized gains/(losses) on cash flow hedges	1,732	5,703	(4,040)
Amortization of cash flow hedges	1,157	3,057	3,696
Total other comprehensive income	2,889	8,760	101
Total comprehensive income	194,552	549,899	101,361
Less-comprehensive (income) attributable to noncontrolling interests	(1,239)	(1,253)	(1,264)
Comprehensive income attributable to common unitholders	$193,313	$548,646	$100,097

See accompanying notes to consolidated financial statements.

Table of Contents

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

	Common Units		Accumulated Other Comprehensive Income/(Loss)	Noncontrolling Interests in Consolidated Affiliates	Total
	General Partners' Capital	Limited Partners' Capital			
Balance at December 31, 2014	$15,078	$1,492,948	$ (3,912)	$ 18,109	$1,522,223
Issuances of Common Units, net of issuance costs and tax withholdings	1,255	124,282	—	—	125,537
Distributions on Common Units	(1,646)	(162,955)	—	—	(164,601)
Distributions on Preferred Units	(25)	(2,481)	—	—	(2,506)
Share-based compensation expense, net of forfeitures	69	6,815	—	—	6,884
Distributions to noncontrolling interests in consolidated affiliates	—	—	—	(1,398)	(1,398)
Adjustment of Redeemable Common Units to fair value and contributions/distributions from/to the General Partner	28	2,704	—	—	2,732
Net (income) attributable to noncontrolling interests in consolidated affiliates	(13)	(1,251)	—	1,264	—
Comprehensive income:					
Net income	1,013	100,247	—	—	101,260
Other comprehensive income	—	—	101	—	101
Total comprehensive income					101,361
Balance at December 31, 2015	15,759	1,560,309	(3,811)	17,975	1,590,232
Issuances of Common Units, net of issuance costs and tax withholdings	2,564	253,816	—	—	256,380
Distributions on Common Units	(1,710)	(169,344)	—	—	(171,054)
Special distribution on Common Units	(832)	(82,317)	—	—	(83,149)
Distributions on Preferred Units	(25)	(2,476)	—	—	(2,501)
Share-based compensation expense, net of forfeitures	63	6,188	—	—	6,251
Distributions to noncontrolling interests in consolidated affiliates	—	—	—	(1,267)	(1,267)
Adjustment of Redeemable Common Units to fair value and contributions/distributions from/to the General Partner	(194)	(19,201)	—	—	(19,395)
Net (income) attributable to noncontrolling interests in consolidated affiliates	(13)	(1,240)	—	1,253	—
Comprehensive income:					
Net income	5,411	535,728	—	—	541,139
Other comprehensive income	—	—	8,760	—	8,760
Total comprehensive income					549,899
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	710	70,267	—	—	70,977
Distributions on Common Units	(1,851)	(183,221)	—	—	(185,072)

Distributions on Preferred Units	(25)	(2,467)	—	—	(2,492)
Share-based compensation expense, net of forfeitures	67	6,625	—	—	6,692
Distributions to noncontrolling interests in consolidated affiliates	—	—	—	(1,784)	(1,784)
Adjustment of Redeemable Common Units to fair value and contributions/distributions from/to the General Partner	1	72	—	—	73
Net (income) attributable to noncontrolling interests in consolidated affiliates	(12)	(1,227)	—	1,239	—
Comprehensive income:					
Net income	1,917	189,746	—	—	191,663
Other comprehensive income	—	—	2,889	—	2,889
Total comprehensive income					194,552
Balance at December 31, 2017	$21,830	$2,161,258	$ 7,838	$ 17,416	$2,208,342

See accompanying notes to consolidated financial statements.

Table of Contents

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

	Year Ended December 31,		
	2017	2016	2015
Operating activities:			
Net income	$191,663	$541,139	$101,260
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	227,832	220,140	215,957
Amortization of lease incentives and acquisition-related intangible assets and liabilities	(1,172)	(1,996)	86
Share-based compensation expense	6,692	6,251	6,884
Allowance for losses on accounts and accrued straight-line rents receivable	1,508	2,001	2,103
Accrued interest on mortgages and notes receivable	(509)	(502)	(357)
Amortization of debt issuance costs	3,166	3,506	3,645
Amortization of cash flow hedges	1,157	3,057	3,696
Amortization of mortgages and notes payable fair value adjustments	705	(234)	(58)
Impairments of real estate assets	1,445	—	—
Losses on debt extinguishment	26	—	243
Net gains on disposition of property	(54,157)	(429,303)	(11,444)
Gain on disposition of investment in unconsolidated affiliate	—	—	(4,155)
Equity in earnings of unconsolidated affiliates	(7,404)	(5,793)	(5,078)
Changes in financing obligation	—	—	162
Distributions of earnings from unconsolidated affiliates	5,078	4,011	4,901
Settlement of cash flow hedges	7,322	—	—
Changes in operating assets and liabilities:			
Accounts receivable	(4,974)	3,401	1,415
Prepaid expenses and other assets	7,908	(4,423)	1,266
Accrued straight-line rents receivable	(32,234)	(24,245)	(22,756)
Accounts payable, accrued expenses and other liabilities	(1,520)	(11,618)	(8,805)
Net cash provided by operating activities	352,532	305,392	288,965
Investing activities:			
Investments in acquired real estate and related intangible assets, net of cash acquired	(1,840)	(110,249)	(408,634)
Investments in development in-process	(150,944)	(177,875)	(136,664)
Investments in tenant improvements and deferred leasing costs	(109,742)	(91,423)	(115,503)
Investments in building improvements	(63,780)	(80,672)	(55,881)
Net proceeds from disposition of real estate assets	129,503	684,371	26,748
Net proceeds from disposition of investment in unconsolidated affiliate	—	—	6,919
Distributions of capital from unconsolidated affiliates	11,670	3,179	10,401
Investments in mortgages and notes receivable	—	(7,934)	(1,772)
Repayments of mortgages and notes receivable	2,917	1,699	9,381
Investments in and advances to unconsolidated affiliates	(10,063)	(105)	(659)
Repayments from unconsolidated affiliates	—	448	20,800
Changes in restricted cash and other investing activities	(63,943)	(17,136)	(9,293)
Net cash provided by/(used in) investing activities	$(256,222)	$204,303	$(654,157)

Table of Contents

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

	Year Ended December 31,		
	2017	2016	2015
Financing activities:			
Distributions on Common Units	$(185,072)	$(171,054)	$(164,601)
Special distribution on Common Units	(83,149)	—	—
Redemptions/repurchases of Preferred Units	(28)	(130)	(10)
Distributions on Preferred Units	(2,492)	(2,501)	(2,506)
Distributions to noncontrolling interests in consolidated affiliates	(1,784)	(1,267)	(1,398)
Proceeds from the issuance of Common Units	76,268	264,769	131,341
Costs paid for the issuance of Common Units	(1,283)	(3,973)	(2,040)
Repurchase of units related to tax withholdings	(4,008)	(4,416)	(3,764)
Borrowings on revolving credit facility	780,300	287,600	476,300
Repayments of revolving credit facility	(535,300)	(586,600)	(386,300)
Borrowings on mortgages and notes payable	656,001	150,000	475,000
Repayments of mortgages and notes payable	(832,553)	(395,993)	(156,120)
Payments on financing obligation	—	—	(1,722)
Payments of debt extinguishment costs	(57)	—	—
Changes in debt issuance costs and other financing activities	(9,371)	(1,676)	(2,890)
Net cash provided by/(used in) financing activities	(142,528)	(465,241)	361,290
Net increase/(decrease) in cash and cash equivalents	(46,218)	44,454	(3,902)
Cash and cash equivalents at beginning of the period	49,490	5,036	8,938
Cash and cash equivalents at end of the period	$3,272	$49,490	$5,036

Supplemental disclosure of cash flow information:

	Year Ended December 31,		
	2017	2016	2015
Cash paid for interest, net of amounts capitalized	$68,207	$72,847	$82,242

Supplemental disclosure of non-cash investing and financing activities:

	Year Ended December 31,		
	2017	2016	2015
Unrealized gains/(losses) on cash flow hedges	$1,732	$5,703	$(4,040)
Changes in accrued capital expenditures	(1,912)	8,580	2,547
Write-off of fully depreciated real estate assets	59,108	39,262	48,698
Write-off of fully amortized leasing costs	40,517	25,569	37,176
Write-off of fully amortized debt issuance costs	11,724	964	1,088
Adjustment of Redeemable Common Units to fair value	(793)	18,373	(3,619)
Unrealized gains on tax increment financing bond	—	—	445
Assumption of mortgages and notes payable related to acquisition activities	—	—	19,277
Contingent consideration in connection with the acquisition of land	750	—	900
Special distribution on Common Units declared	—	(83,149)	—

See accompanying notes to consolidated financial statements.

65

Table of Contents

HIGHWOODS PROPERTIES, INC.
HIGHWOODS REALTY LIMITED PARTNERSHIP
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2017
(tabular dollar amounts in thousands, except per share and per unit data)

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 December 31, 2017, we owned or had an interest in 30.7 million rentable square feet of in-service properties, 1.5 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 December 31, 2017, the Company owned all of the Preferred Units and 102.9 million, or 97.3%, of the Common Units in the Operating Partnership. Limited partners owned the remaining 2.8 million Common Units. In the event the Company issues shares of Common Stock, the net proceeds of the issuance are contributed to the Operating Partnership in exchange for additional Common Units. Generally, the Operating Partnership is obligated to redeem each Common Unit at the request of the holder thereof for cash equal to the value of one share of Common Stock based on the average of the market price for the 10 trading days immediately preceding the notice date of such redemption, provided that the Company, at its option, may elect to acquire any such Common Units presented for redemption for cash or one share of Common Stock. The Common Units owned by the Company are not redeemable. During 2017, the Company redeemed 10,000 Common Units for a like number of shares of Common Stock.

Basis of Presentation

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

The Company's Consolidated Financial Statements include the Operating Partnership, wholly owned subsidiaries and those entities in which the Company has the controlling interest. The Operating Partnership's Consolidated Financial Statements include wholly owned subsidiaries and those entities in which the Operating Partnership has the controlling interest. We consolidate joint venture investments, such as interests in partnerships and limited liability companies, when we control the major operating and financial policies of the investment through majority ownership, in our capacity as a general partner or managing member or through some other contractual right. At December 31, 2017, three properties owned through a joint venture investment were consolidated.

All intercompany transactions and accounts have been eliminated.

During 2015, as a result of our partner’s irrevocable exercise of a buy-sell provision in our SF-HIW Harborview Plaza, LP ("Harborview") joint venture agreement, our partner’s right to put its 80.0% equity interest back to us became no longer exercisable. As a result, we recorded the original contribution transaction as a partial sale. Our investment in this joint venture then qualified for the equity method of accounting, which resulted in the retrospective revision of our Consolidated Statements of Equity and Capital for prior periods.

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.

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

1. Description of Business and Significant Accounting Policies – Continued

Real Estate and Related Assets

Real estate and related assets are recorded at cost and stated at cost less accumulated depreciation. Renovations, replacements and other expenditures that improve or extend the life of assets are capitalized and depreciated over their estimated useful lives. Expenditures for ordinary maintenance and repairs are charged to expense as incurred. Depreciation is computed using the straight-line method over the estimated useful life of 40 years for buildings and depreciable land infrastructure costs, 15 years for building improvements and five to seven years for furniture, fixtures and equipment. Tenant improvements are amortized using the straight-line method over initial fixed terms of the respective leases, which generally are from three to 10 years. Depreciation expense for real estate assets was $184.4 million, $173.1 million and $168.7 million for the years ended December 31, 2017, 2016 and 2015, respectively.

Expenditures directly related to the development and construction of real estate assets are included in net real estate assets and are stated at depreciated cost. Development expenditures include pre-construction costs essential to the development of properties, development and construction costs, interest costs on qualifying assets, real estate taxes, development personnel salaries and related costs and other costs incurred during the period of development. Interest and other carrying costs are capitalized until the building is ready for its intended use, but not later than a year from cessation of major construction activity. We consider a construction project as substantially completed and ready for its intended use upon the completion of tenant improvements. We cease capitalization on the portion that is substantially completed and occupied or held available for occupancy, and capitalize only those costs associated with the portion under construction.

Expenditures directly related to the leasing of properties are included in deferred leasing costs and are stated at amortized cost. Such expenditures are part of the investment necessary to execute leases and, therefore, are classified as investment activities in the statement of cash flows. All leasing commissions paid to third parties for new leases or lease renewals are capitalized. Internal leasing costs, which consist primarily of compensation, benefits and other costs, such as legal fees related to leasing activities, that are incurred in connection with successfully obtaining leases of properties are also capitalized. Capitalized leasing costs are amortized on a straight-line basis over the initial fixed terms of the respective leases, which generally are from three to 10 years. Estimated costs related to unsuccessful activities are expensed as incurred.

We record liabilities for the performance of asset retirement activities when the obligation to perform such activities is probable even when uncertainty exists about the timing and/or method of settlement.

Upon the acquisition of real estate assets, we assess the fair value of acquired tangible assets such as land, buildings and tenant improvements, intangible assets and liabilities such as above and below market leases, acquired in-place leases, customer relationships and other identifiable intangible assets and assumed liabilities. We assess fair value based on estimated cash flow projections that utilize discount and/or capitalization rates as well as available market information. The fair value of the tangible assets of an acquired property considers the value of the property as if it were vacant.

The above and below market rate portions of leases acquired in connection with property acquisitions are recorded in deferred leasing costs and in accounts payable, accrued expenses and other liabilities, respectively, at fair value and amortized into rental revenue over the remaining term of the respective leases as described below. Fair value is calculated as the present value of the difference between (1) the contractual amounts to be paid pursuant to each in-place lease and (2) our estimate of fair market lease rates for each corresponding in-place lease, using a discount rate that reflects the risks associated with the leases acquired and measured over a period equal to the remaining initial term of the lease for above-market leases and the remaining initial term plus the term of any renewal option that the customer would be economically compelled to exercise for below-market leases.

In-place leases acquired are recorded at fair value in deferred leasing costs and are amortized to depreciation and amortization expense over the remaining term of the respective lease. The value of in-place leases is based on our evaluation of the specific characteristics of each customer's lease. Factors considered include estimates of carrying costs during hypothetical expected lease-up periods, current market conditions, the customer's credit quality and costs to execute similar leases. In estimating carrying costs, we include real estate taxes, insurance and other operating expenses and estimates of lost rentals at market rates during the expected lease-up periods, depending on local market conditions. In estimating costs to execute similar leases, we consider tenant improvements, leasing commissions and legal and other related expenses.

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

1. Description of Business and Significant Accounting Policies – Continued

Real estate and other assets are classified as long-lived assets held for use or as long-lived assets held for sale. Real estate is classified as held for sale when the sale of the asset is probable, has been duly approved by the Company, a legally enforceable contract has been executed and the buyer's due diligence period, if any, has expired.

Impairments of Real Estate Assets and Investments in Unconsolidated Affiliates

With respect to assets classified as held for use, we perform an impairment analysis if events or changes in circumstances indicate that the carrying value may be impaired, such as a significant decline in occupancy, identification of materially adverse legal or environmental factors, change in our designation of an asset from core to non-core, which may impact the anticipated holding period, or a decline in market value to an amount less than cost. This analysis is generally performed at the property level, except when an asset is part of an interdependent group such as an office park, and consists of determining whether the asset's carrying amount will be recovered from its undiscounted estimated future operating and residual cash flows. These cash flows are estimated based on a number of assumptions that are subject to economic and market uncertainties including, among others, demand for space, competition for customers, changes in market rental rates, costs to operate each property and expected ownership periods. For properties under development, the cash flows are based on expected service potential of the asset or asset group when development is substantially complete.

If the carrying amount of a held for use asset exceeds the sum of its undiscounted future operating and residual cash flows, an impairment loss is recorded for the difference between estimated fair value of the asset and the carrying amount. We generally estimate the fair value of assets held for use by using discounted cash flow analyses. In some instances, appraisal information may be available and is used in addition to a discounted cash flow analysis. As the factors used in generating these cash flows are difficult to predict and are subject to future events that may alter our assumptions, the discounted and/or undiscounted future operating and residual cash flows estimated by us in our impairment analyses or those established by appraisal may not be achieved and we may be required to recognize future impairment losses on properties held for use.

We record assets held for sale at the lower of the carrying amount or estimated fair value. Fair value of assets held for sale is equal to the estimated or contracted sales price with a potential buyer, less costs to sell. The impairment loss is the amount by which the carrying amount exceeds the estimated fair value.

We also analyze our investments in unconsolidated affiliates for impairment. This analysis consists of determining whether an expected loss in market value of an investment is other than temporary by evaluating the length of time and the extent to which the market value has been less than cost, the financial condition and near-term prospects of the investment, and our intent and ability to retain our investment for a period of time sufficient to allow for any anticipated recovery in market value. As the factors used in this analysis are difficult to predict and are subject to future events that may alter our assumptions, we may be required to recognize future impairment losses on our investments in unconsolidated affiliates.

Sales of Real Estate

For sales transactions meeting the requirements for full profit recognition, the related assets and liabilities are removed from the balance sheet and the resultant gain or loss is recorded in the period the transaction closes. For sales transactions with continuing involvement after the sale, if the continuing involvement with the property is limited by the terms of the sales contract, profit is recognized at the time of sale and is reduced by the maximum exposure to loss related to the nature of the continuing involvement. Sales to entities in which we have or receive an interest are accounted for using partial sale accounting.

For transactions that do not meet the criteria for a sale, we evaluate the nature of the continuing involvement, including put and call provisions, if present, and account for the transaction as a financing arrangement, profit-sharing arrangement, leasing arrangement or other alternate method of accounting, rather than as a sale, based on the nature and extent of the continuing involvement. Some transactions may have numerous forms of continuing involvement. In those cases, we determine which method is most appropriate based on the substance of the transaction.

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

1. Description of Business and Significant Accounting Policies – Continued

Rental and Other Revenues

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

Cost recovery income is determined on a calendar year and a lease-by-lease basis. The most common types of cost recovery income in our leases are common area maintenance (“CAM”) and real estate taxes, for which a customer typically pays its pro-rata share of operating and administrative expenses and real estate taxes in excess of the costs incurred during a contractually specified base year. The computation of cost recovery income is complex and involves numerous judgments, including the interpretation of lease provisions. Leases are not uniform in dealing with such cost recovery income and there are many variations in the computation. Many customers make monthly fixed payments of CAM, real estate taxes and other cost reimbursement items. We accrue income related to these payments each month. We make quarterly accrual adjustments, positive or negative, to cost recovery income to adjust the recorded amounts to our best estimate of the final annual amounts to be billed and collected. After the end of the calendar year, we compute each customer's final cost recovery income and, after considering amounts paid by the customer during the year, issue a bill or credit for the appropriate amount to the customer. The differences between the amounts billed less previously received payments and the accrual adjustment are recorded as increases or decreases to cost recovery income when the final bills are prepared, which occurs during the first half of the subsequent year.

Allowance for Doubtful Accounts

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

Discontinued Operations

Properties that are sold or classified as held for sale are classified as discontinued operations provided that the disposal represents a strategic shift that has (or will have) a major effect on our operations and financial results. Interest expense is included in discontinued operations if a related loan securing the sold property is to be paid off or assumed by the buyer in connection with the sale.

Lease Incentives

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

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

1. Description of Business and Significant Accounting Policies – Continued

Investments in Unconsolidated Affiliates

We account for our joint venture investments using the equity method of accounting when our interests represent a general partnership interest but substantive participating rights or substantive kick out rights have been granted to the limited partners or when our interests do not represent a general partnership interest and we do not control the major operating and financial policies of the investment. These investments are initially recorded at cost as investments in unconsolidated affiliates and are subsequently adjusted for our share of earnings and cash contributions and distributions. To the extent our cost basis at formation of the joint venture is different than the basis reflected at the joint venture level, the basis difference is amortized over the life of the related assets and included in our share of equity in earnings of unconsolidated affiliates.

Cash Equivalents

We consider highly liquid investments with an original maturity of three months or less when purchased to be cash equivalents.

Restricted Cash

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.

Redeemable Common Units and Preferred Units

Limited partners holding Common Units other than the Company (“Redeemable Common Units”) have the right to put any and all of the Common Units to the Operating Partnership and the Company has the right to put any and all of the Preferred Units to the Operating Partnership in exchange for their liquidation preference plus accrued and unpaid distributions in the event of a corresponding redemption by the Company of the underlying Preferred Stock. Consequently, these Redeemable Common Units and Preferred Units are classified outside of permanent partners’ capital in the Operating Partnership's accompanying balance sheets. The recorded value of the Redeemable Common Units is based on fair value at the balance sheet date as measured by the closing price of Common Stock on that date multiplied by the total number of Redeemable Common Units outstanding. The recorded value of the Preferred Units is based on their redemption value.

Income Taxes

The Company has elected and expects to continue to qualify as a REIT under Sections 856 through 860 of the Internal Revenue Code of 1986, as amended (the “Code”). A corporate REIT is a legal entity that holds real estate assets and, through the payment of dividends to stockholders, is generally permitted to reduce or avoid the payment of federal and

state income taxes at the corporate level. To maintain qualification as a REIT, the Company is required to pay dividends to its stockholders equal to at least 90.0% of its annual REIT taxable income, excluding net capital gains. The partnership agreement requires the Operating Partnership to pay economically equivalent distributions on outstanding Common Units at the same time that the Company pays dividends on its outstanding Common Stock.

Other than income taxes related to its taxable REIT subsidiary, the Operating Partnership does not reflect any federal income taxes in its financial statements, since as a partnership the taxable effects of its operations are attributed to its partners. The Operating Partnership does record state income tax for states that tax partnership income directly.

We conduct certain business activities through a taxable REIT subsidiary, as permitted under the Code. The taxable REIT subsidiary is subject to federal, state and local income taxes on its taxable income. We record provisions for income taxes based on its income recognized for financial statement purposes, including the effects of temporary differences between such income and the amount recognized for tax purposes.

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

1. Description of Business and Significant Accounting Policies – Continued

Concentration of Credit Risk

At December 31, 2017, properties that we wholly own were leased to 1,792 customers. The geographic locations that comprise greater than 10.0% of our rental and other revenues are Raleigh, Atlanta, Tampa and Nashville. Our customers engage in a wide variety of businesses. No single customer generated more than 6% of our consolidated revenues during 2017.

We maintain our cash and cash equivalents and our restricted cash at financial or other intermediary institutions. The combined account balances at each institution may exceed FDIC insurance coverage and, as a result, there is a concentration of credit risk related to amounts on deposit in excess of FDIC insurance coverage. Additionally, from time to time in connection with tax-deferred 1031 transactions, our restricted cash balances may be commingled with other funds being held by any such intermediary institution, which would subject our balance to the credit risk of the institution.

Derivative 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 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. The interest rate on all of our variable rate debt is generally adjusted at one or three month intervals, subject to settlements under these interest rate hedge contracts.

Interest rate swaps involve the receipt of variable-rate amounts from a counterparty in exchange for making fixed-rate payments over the life of the agreements without exchange of the underlying notional amount. The effective portion of changes in the fair value of derivatives designated and that qualify as cash flow hedges is recorded in accumulated other comprehensive income/(loss) and is subsequently reclassified into interest expense in the period that the hedged forecasted transaction affects earnings.

We account for terminated derivative instruments by recognizing the related accumulated comprehensive income/(loss) balance in current earnings, unless the hedged forecasted transaction continues as originally planned, in which case we continue to amortize the accumulated comprehensive income/(loss) into earnings over the originally designated hedge period.

Earnings Per Share and Per Unit

Basic earnings per share of the Company is computed by dividing net income available for common stockholders by the weighted Common Shares outstanding - basic. Diluted earnings per share is computed by dividing net income available to common stockholders (inclusive of noncontrolling interests in the Operating Partnership) by the weighted

Common Shares outstanding - basic plus the dilutive effect of options, warrants and convertible securities outstanding, including Common Units, using the treasury stock method. Weighted Common Shares outstanding - basic includes all unvested restricted stock where dividends received on such restricted stock are non-forfeitable.

Basic earnings per unit of the Operating Partnership is computed by dividing net income available for common unitholders by the weighted Common Units outstanding - basic. Diluted earnings per unit is computed by dividing net income available to common unitholders by the weighted Common Units outstanding - basic plus the dilutive effect of options and warrants, using the treasury stock method. Weighted Common Units outstanding - basic includes all of the Company's unvested restricted stock where distributions received on such restricted stock are non-forfeitable.

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

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 requires the use of a new five-step model to recognize revenue from customer contracts. The five-step model requires that we identify the contract with the customer, identify the performance obligations in the contract, determine the transaction price, allocate the transaction price to the performance obligations in the contract and recognize revenue when we satisfy the performance obligations. We will also be required to disclose information regarding the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. Upon adoption of the ASU in 2018, we expect to utilize the modified retrospective approach which requires a cumulative-effect adjustment to retained earnings as of the beginning of the fiscal year of adoption. We have analyzed the impact of the guidance on our Consolidated Financial Statements, including our internal control processes, and have an active project team continuing to refine our evaluation and finalize our implementation plan with particular emphasis on development of the new required disclosures. Our analysis of our non-lease related revenue contracts, which include primarily real estate sales, management, development and construction fee income and transient parking income, indicates that the adoption of this ASU will require additional financial statement disclosure related to these contracts but will have no material cumulative-effect adjustment or impact on the timing of revenue recognition. There could be additional impact of this ASU upon adoption of the ASU related to accounting for leases discussed below for certain lease revenue streams that may be required to be evaluated as non-lease components using the five-step revenue recognition model.

The FASB issued an ASU that adds to and clarifies guidance on the classification of certain cash receipts and payments in the statement of cash flows. The ASU is required to be adopted in 2018 with retrospective application required. We do not expect such adoption to have a material effect on our Consolidated Statements of Cash Flows.

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. The ASU is required to be adopted in 2018 and applied prospectively. Upon adoption of this ASU, 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. The ASU is required to be adopted in 2018 and applied prospectively. We do not expect such adoption to have a material effect on our Consolidated Financial Statements.

The FASB issued an ASU which sets out the principles for the recognition, measurement, presentation and disclosure of leases for both lessees and lessors. We are continuing to conduct our analysis of the impact of the guidance on our Consolidated Financial Statements 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 Board's recent vote to provide an optional practical expedient to lessors that would remove the requirement for lessors 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 such amendment be finalized, we expect to elect the practical expedient. Regardless, we currently believe that the adoption of the ASU will not significantly change the accounting for operating leases on our Consolidated Balance Sheets where we are the lessor, and that such leases will be accounted for in a similar method 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, we expect that 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. 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. Our initial analysis of our leases also indicates that upon adoption of the ASU, certain lease revenue streams that are currently accounted for using the lease accounting standard may be accounted for as non-lease components using the five-step revenue recognition model discussed above. Leases where we are the lessee include primarily our operating ground leases which are not material to our Consolidated Financial Statements. We will continue to refine our evaluation and finalize our implementation plan throughout 2018.

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

1. Description of Business and Significant Accounting Policies – Continued

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 2017, we acquired fee simple title to land in Raleigh that was previously subject to a ground lease for a purchase price, including capitalized acquisition costs and contingent consideration, of $2.6 million.

During 2016, we acquired a building in Raleigh, which encompasses 243,000 rentable square feet, for a net purchase price of $76.9 million. We expensed $0.3 million of acquisition costs (included in general and administrative expenses) related to this acquisition. The assets acquired and liabilities assumed were recorded at fair value as determined by management, with the assistance of third party specialists, based on information available at the acquisition date and on current assumptions as to future operations.

During 2016, we also acquired:

- fee simple title to the land underneath one of our buildings in Pittsburgh that was previously subject to a ground lease for a purchase price of $18.5 million. We expensed $0.5 million of acquisition costs (included in general and administrative expenses) related to this acquisition;
- an acre of development land in Raleigh for a purchase price, including capitalized acquisition costs, of $5.8 million; and
- 14 acres of development land in Nashville for a purchase price, including capitalized acquisition costs, of $9.1 million.

During 2015, we acquired:

- a building in Tampa encompassing 528,000 rentable square feet for a net purchase price of $113.5 million and an adjacent land parcel for a purchase price of $2.2 million;
- two buildings in Atlanta encompassing 896,000 rentable square feet for a net purchase price of $290.3 million;
- land in Atlanta for a purchase price and related transaction costs of $5.2 million (including contingent consideration of $0.9 million); and
- our Highwoods DLF 98/29, LLC joint venture partner's 77.2% interest in a building in Orlando encompassing 168,000 rentable square feet in exchange for the assumption of secured debt recorded at fair value of $19.3 million (see Note 6).

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

2. Real Estate Assets - Continued

We expensed $1.0 million of acquisition costs (included in general and administrative expenses) in 2015 related to these acquisitions. The assets acquired and liabilities assumed were recorded at fair value as determined by management, with the assistance of third party specialists, based on information available at the acquisition date and on current assumptions as to future operations.

The following table sets forth a summary of the fair value of the major assets acquired and liabilities assumed relating to the above-referenced acquisition of two buildings in Atlanta during 2015:

	Total Purchase Price Allocation
Real estate assets	$ 275,639
Acquisition-related intangible assets (in deferred leasing costs)	23,722
Acquisition-related below market lease liabilities (in accounts payable, accrued expenses and other liabilities)	(9,076)
Total allocation	$ 290,285

The following table sets forth the Company's revenues and net income, adjusted for interest expense, straight-line rental income, depreciation and amortization related to purchase price allocations and acquisition costs, assuming the above-referenced acquisition of two buildings in Atlanta during 2015 had been completed as of January 1, 2014:

	Year Ended December 31, 2015 (unaudited)
Pro forma revenues	$ 626,067
Pro forma net income	$ 103,485
Pro forma net income available for common stockholders	$ 96,797
Pro forma earnings per share - basic	$ 1.03
Pro forma earnings per share - diluted	$ 1.02

The above-referenced acquisition of two buildings in Atlanta during 2015 resulted in revenues of $7.3 million and net loss of $1.2 million recorded in the Consolidated Statements of Income for the year ended December 31, 2015.

Dispositions

During 2017, we sold a total of 15 buildings and land for an aggregate sale price of $135.6 million (before closing credits to buyer of $3.7 million) and recorded aggregate gains on disposition of property of $54.2 million.

During 2016, we sold:

- substantially all of our wholly-owned Country Club Plaza assets in Kansas City (which we refer to as the "Plaza assets") for a sale price of $660.0 million (before closing credits to buyer of $4.8 million). We recorded gains on disposition of discontinued operations of $414.5 million and a gain on disposition of property of $1.3 million related to the land; and

- a 32,000 square foot building for a sale price of $4.7 million (before closing credits to buyer of $0.1 million) and recorded a gain on disposition of property of $1.1 million. The buyer, which leased 79% of the building, is a family business controlled by a director of the Company. The sale price exceeded the value set forth in an appraisal performed by a reputable independent commercial real estate services firm that has no relationship with the director or any of his affiliates.

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

2. Real Estate Assets - Continued

During 2016, we also sold two buildings and various land parcels for an aggregate sale price of $31.1 million (before closing credits to buyer of $0.5 million) and recorded aggregate gains on disposition of property of $12.4 million. We deferred $0.4 million of gain related to a land sale for a portion of the sale price that was escrowed for contingent future infrastructure work.

During 2015, we sold a total of three buildings and various land parcels for an aggregate sale price of $27.8 million and recorded aggregate gains on disposition of property of $9.2 million, net of $0.5 million in taxes payable by our taxable REIT subsidiary.

Impairments

During 2017, we recorded aggregate impairments of real estate assets of $1.4 million, which resulted from a change in market-based inputs and our assumptions about the use of the assets.

3. Mortgages and Notes Receivable

Mortgages and notes receivable were $6.4 million and $8.8 million at December 31, 2017 and 2016, 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 December 31, 2017, our mortgages and notes receivable were not in default and there were no other indicators of impairment.

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 the operating and financial policies of the joint venture investment. The difference between the cost of these investments and the net book value of the underlying net assets was $0.7 million and $(1.2) million at December 31, 2017 and 2016, respectively.

The following table sets forth our ownership in unconsolidated affiliates at December 31, 2017:

Joint Venture	Location	Ownership Interest
Plaza Colonnade, Tenant-in-Common	Kansas City	50.0%
Kessinger/Hunter & Company, LC	Kansas City	26.5%
Highwoods DLF Forum, LLC	Raleigh	25.0%
Highwoods DLF 98/29, LLC	Orlando	22.8%

We receive development, management and leasing fees for services provided to certain of our joint ventures. These fees are recognized in income to the extent of our respective joint venture partner's interest. During the years ended December 31, 2017, 2016 and 2015, we recognized $1.4 million, $0.8 million and $1.4 million, respectively, of development/construction, management and leasing fees from our unconsolidated joint ventures. At both December 31, 2017 and 2016, we had receivables of $0.1 million related to these fees in accounts receivable.

4. Investments in and Advances to Affiliates - Continued

Consolidated Affiliates

The following summarizes our consolidated affiliates:

- Highwoods-Markel Associates, LLC (“Markel”)

We have a 50.0% ownership interest in Markel. We are the manager and leasing agent for Markel's properties, which are located in Richmond in exchange for customary management and leasing fees. We consolidate Markel since we are the managing member and control the major operating and financial policies of the entity. As controlling member, we have an obligation to cause this property-owning entity to distribute proceeds of liquidation to the noncontrolling interest member in these partially owned properties only if the net proceeds received by the entity from the sale of any of Markel's assets warrant a distribution as determined
by the agreement governing the joint venture. We estimate the value of such noncontrolling interest distributions would have been $26.1 million had the entity been liquidated at December 31, 2017. This estimated settlement value is based on the fair value of the underlying properties which is based on a number of assumptions that are subject to economic and market uncertainties including, among others, demand for space, competition for customers, changes in market rental rates and costs to operate each property. If the entity's underlying assets are worth less than the underlying liabilities on the date of such liquidation, we would have no obligation to remit any consideration to the noncontrolling interest holder.

- Harborview

We had a 20.0% interest in Harborview, which had been accounted for as a financing obligation since our partner had the right to put its 80.0% equity interest back to us any time prior to September 11, 2015. During 2012, we also provided a three-year $20.8 million interest-only secured loan to Harborview that was scheduled to mature in September 2015.

During the second quarter of 2015, as a result of our partner’s irrevocable exercise of a buy-sell provision in our Harborview joint venture agreement, our partner’s right to put its 80.0% equity interest back to us became no longer exercisable, which resulted in recording the original contribution transaction as a partial sale. As a result, we were required to begin accounting for Harborview using the equity method of accounting. See Note 1.

During the third quarter of 2015, we sold our 20.0% interest in Harborview to our partner for net proceeds of $6.9 million and recorded a $4.2 million gain on disposition of investment in unconsolidated affiliate. The $20.8 million interest-only secured loan previously provided by us to Harborview was paid in full upon consummation of the sale.

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:

	December 31,	
	2017	2016
Assets:		
Deferred leasing costs (including lease incentives and above market lease and in-place lease acquisition-related intangible assets)	$344,191	$353,581
Less accumulated amortization	(143,512)	(140,081)
	$200,679	$213,500
Liabilities (in accounts payable, accrued expenses and other liabilities):		
Acquisition-related below market lease liabilities	$59,947	$61,221
Less accumulated amortization	(28,214)	(23,074)
	$31,733	$38,147

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

5. Intangible Assets and Below Market Lease Liabilities - Continued

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

	Year Ended December 31,		
	2017	2016	2015
Amortization of deferred leasing costs and acquisition-related intangible assets (in depreciation and amortization)	$41,187	$44,968	$43,332
Amortization of lease incentives (in rental and other revenues)	$1,765	$1,779	$1,493
Amortization of acquisition-related intangible assets (in rental and other revenues)	$2,921	$3,851	$5,062
Amortization of acquisition-related intangible assets (in rental property and other expenses)	$557	$557	$557
Amortization of acquisition-related below market lease liabilities (in rental and other revenues)	$(6,415)	$(8,183)	$(7,065)

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

Years Ending December 31,	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)
2018	$ 36,566	$ 1,586	$ 1,659	$ 553	$ (5,911)
2019	31,032	1,434	1,275	553	(5,454)
2020	26,614	1,171	959	518	(5,193)
2021	22,262	948	632	—	(4,383)
2022	18,098	734	462	—	(3,269)
Thereafter	48,182	4,033	1,408	—	(7,523)
	$ 182,754	$ 9,906	$ 6,395	$ 1,624	$ (31,733)
Weighted average remaining amortization periods as of December 31, 2017 (in years)	7.6	9.9	6.5	3.0	6.6

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

6. Mortgages and Notes Payable

Our mortgages and notes payable consist of the following:

	December 31,	
	2017	2016
Secured indebtedness: (1)		
5.10% (4.22% effective rate) mortgage loan due 2017 (2)	$—	$109,138
6.11% (5.36% effective rate) mortgage loan due 2017 (2)	—	19,066
4.00% mortgage loan due 2029	98,981	—
	98,981	128,204
Unsecured indebtedness:		
5.85% (5.88% effective rate) notes due 2017 (2)	—	379,661
7.50% notes due 2018	200,000	200,000
3.20% (3.363% effective rate) notes due 2021 (3)	298,504	298,072
3.625% (3.752% effective rate) notes due 2023 (4)	248,675	248,412
3.875% (4.038% effective rate) notes due 2027 (5)	296,334	—
Variable rate term loan due 2018 (6)	10,000	—
Variable rate term loan due 2020 (7)	225,000	350,000
Variable rate term loan due 2022 (8)	200,000	150,000
Variable rate term loan due 2022 (9)	200,000	200,000
Revolving credit facility due 2022 (10)	245,000	—
	1,923,513	1,826,145
Less-unamortized debt issuance costs	(8,161)	(6,302)
Total mortgages and notes payable, net	$2,014,333	$1,948,047

(1) Our secured mortgage loans were collateralized by real estate assets with an aggregate undepreciated book value of $147.6 million at December 31, 2017. Our fixed rate mortgage loans generally are either locked out to prepayment for all or a portion of their term or are prepayable subject to certain conditions including prepayment penalties.
(2) This debt was repaid in 2017.
(3) Net of unamortized original issuance discount of $1.5 million and $1.9 million as of December 31, 2017 and 2016, respectively.
(4) Net of unamortized original issuance discount of $1.3 million and $1.6 million as of December 31, 2017 and 2016, respectively.
(5) Net of unamortized original issuance discount of $3.7 million as of December 31, 2017.
(6) The interest rate was 2.46% at December 31, 2017.
(7) As more fully described in Note 7, we entered into floating-to-fixed interest rate swaps that effectively fix LIBOR for $225.0 million of this loan. Accordingly, the equivalent fixed rate of this amount is 2.78%.
(8) As more fully described in Note 7, we entered into floating-to-fixed interest rate swaps that effectively fix LIBOR for $50.0 million of this loan. Accordingly, the equivalent fixed rate of this amount is 2.79%. The interest rate on the remaining $150.0 million was 2.47% at December 31, 2017.
(9) The interest rate was 2.60% at December 31, 2017.
(10) The interest rate was 2.48% at December 31, 2017.

78

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

6. Mortgages and Notes Payable - Continued

The following table sets forth scheduled future principal payments, including amortization, due on our mortgages and notes payable at December 31, 2017:

Years Ending December 31,	Principal Amount
2018	$210,708
2019	781
2020	225,857
2021	301,170
2022	646,452
Thereafter	637,526
Less-unamortized debt issuance costs	(8,161)
	$2,014,333

During 2017, we entered into a new $600.0 million unsecured revolving credit facility, which replaced our previously existing $475.0 million revolving credit facility, and includes an accordion feature that allows for an additional $400.0 million of borrowing capacity subject to additional lender commitments. Our new revolving credit facility is scheduled to mature in January 2022. Assuming no defaults have occurred, we have an option to extend the maturity for two additional six-month periods. The interest rate on the new facility 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. The financial and other covenants under the new facility are similar to our previous credit facility. We incurred $3.5 million of debt issuance costs, which will be amortized along with certain existing unamortized debt issuance costs over the remaining term of our new revolving credit facility. We recorded $0.1 million of loss on debt extinguishment. There was $245.0 million and $254.5 million outstanding under our new revolving credit facility at December 31, 2017 and January 26, 2018, respectively. At both December 31, 2017 and January 26, 2018, we had $0.5 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 December 31, 2017 and January 26, 2018 was $354.5 million and $345.0 million, respectively.

During 2017, we prepaid without penalty a secured mortgage loan with a fair market value of $108.2 million with an effective interest rate of 4.22%. We recorded $0.4 million of gain on debt extinguishment related to this prepayment. Real estate assets having a gross book value of approximately $242 million became unencumbered in connection with the payoff of this secured loan. We also paid down $1.6 million of secured loan balances through principal amortization during 2017.

During 2017, we modified our $200.0 million, five-year unsecured bank term loan, which was originally scheduled to mature in January 2019. The modified term loan is now scheduled to mature in November 2022 and the interest rate, based on current credit ratings, was reduced from LIBOR plus 120 basis points to LIBOR plus 110 basis points. We incurred $1.1 million of debt issuance costs, which will be amortized along with certain existing unamortized debt issuance costs over the remaining term of the modified loan. We recorded $0.4 million of loss on debt extinguishment.

During 2017, we obtained a $100.0 million secured mortgage loan from a third party lender with an effective interest rate of 4.0%. This loan is scheduled to mature in May 2029. We incurred $0.8 million of debt issuance costs in connection with this loan, which will be amortized over the term of the loan.

During 2017, the Operating Partnership issued $300.0 million aggregate principal amount of 3.875% notes due 2027, less original issuance discount of $4.0 million. These notes were priced to yield 4.038%. Underwriting fees and other expenses were incurred that aggregated $2.5 million; these costs were deferred and will be amortized over the term of the notes.

6. Mortgages and Notes Payable - Continued

During 2017, we paid off at maturity $379.7 million principal amount of 5.85% unsecured notes.

During 2016, we prepaid without penalty the remaining $43.6 million balance on a secured mortgage loan with an effective interest rate of 7.5% that was originally scheduled to mature in August 2016.

During 2016, we borrowed an aggregate of $150.0 million under an unsecured bank term loan that is originally scheduled to mature in January 2022. The interest rate on the term loan at our current credit ratings is LIBOR plus 110 basis points. During 2017, we amended our $150.0 million unsecured bank term loan by increasing the borrowed amount to $200.0 million. We incurred $0.3 million of debt issuance costs in connection with this amendment, which will be amortized along with existing unamortized debt issuance costs over the remaining term.

During 2015, we prepaid without penalty a secured mortgage loan with a fair market value of $5.9 million with an effective interest rate of 7.65% that was originally scheduled to mature in February 2016, the remaining $106.0 million balance on a secured mortgage loan with an effective interest rate of 6.88% that was originally scheduled to mature in January 2016 and the remaining $39.4 million balance on a secured mortgage loan with an effective interest rate of 6.43% that was originally scheduled to mature in November 2015. We recorded aggregate losses on debt extinguishment of $0.2 million related to these prepayments.

During 2015, we obtained a $350.0 million, six-month unsecured bridge facility. The interest rate on the bridge facility at our current credit ratings was LIBOR plus 110 basis points. There was $350.0 million outstanding under our bridge facility at December 31, 2015. During 2016, we prepaid without penalty the full balance on this unsecured bridge facility.

During 2015, we amended our $225.0 million, seven-year unsecured bank term loan, which was scheduled to mature in January 2019. We increased the borrowed amount to $350.0 million. The amended term loan is scheduled to mature in June 2020 and the interest rate, based on our current credit ratings, was reduced from LIBOR plus 175 basis points to LIBOR plus 110 basis points. We incurred $1.3 million of debt issuance costs in connection with this amendment, which will be amortized along with existing unamortized debt issuance costs over the remaining term of the new loan. During 2017, we prepaid without penalty $125.0 million on this $350.0 million unsecured bank term loan. We recorded $0.4 million of loss on debt extinguishment related to this prepayment.

During 2015, we acquired our joint venture partner’s 77.2% interest in a building in Orlando. Simultaneously with this acquisition, the joint venture's previously existing mortgage note was restructured into a new $18.0 million first mortgage note and a $10.2 million subordinated note, both of which were scheduled to mature in July 2017. The first mortgage and subordinated notes had effective interest rates of 5.36% and 8.6%, respectively. The subordinated note and accrued interest thereon can be satisfied, in certain circumstances, upon payment of a "waterfall payment" equal to a cash payment of 50.0% of the amount by which the net sale proceeds or appraised value at the time of refinancing exceeded (1) the outstanding principal of the first mortgage note, (2) funds deposited by us into escrow to fund tenant improvements, leasing commissions and building improvements and (3) a 10.0% return on such funds deposited by us into escrow. As of the date of such restructuring, the subordinated note was recorded at a projected waterfall payment of $1.0 million. During 2017, both notes were retired upon payment of the $18.0 million principal balance on the first

mortgage note and a $0.5 million waterfall payment relating to the subordinated note, which resulted in $0.4 million of gain on debt extinguishment. Real estate assets having a gross book value of approximately $17 million became unencumbered in connection with the payoff of this secured loan.

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

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.

6. Mortgages and Notes Payable - Continued

The Operating Partnership has $200.0 million carrying amount of 2018 notes outstanding, $298.5 million carrying amount of 2021 notes outstanding, $248.7 million carrying amount of 2023 notes outstanding and $296.3 million carrying amount of 2027 notes outstanding. The indenture that governs these outstanding notes requires us to comply with customary operating covenants and various financial ratios. The trustee or the holders of at least 25.0% in principal amount of any series of notes can accelerate the principal amount of such series upon written notice of a default that remains uncured after 60 days.

We 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 7);
- 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.

Capitalized Interest

Total interest capitalized to development and significant building and tenant improvement projects was $8.8 million, $8.2 million and $6.9 million for the years ended December 31, 2017, 2016 and 2015, respectively.

7. Derivative Financial Instruments

During 2017, we entered into $150.0 million notional amount of forward-starting swaps that effectively lock the underlying 10-year treasury rate at 2.44% with respect to a planned issuance of debt securities by the Operating Partnership expected to occur prior to May 15, 2018.

During 2017, we also entered into floating-to-fixed interest rate swaps through January 2022 with respect to an aggregate of $50.0 million LIBOR-based borrowings. These swaps effectively fix the underlying one-month LIBOR

rate at a weighted average rate of 1.693%.

During 2016, we entered into $150.0 million notional amount of forward-starting swaps that effectively locked the underlying 10-year treasury rate at 1.90% with respect to a planned issuance of debt securities by the Operating Partnership. Upon issuance of the $300.0 million aggregate principal amount of 3.875% notes due 2027 during 2017, we terminated the forward-starting swaps resulting in an unrealized gain of $7.3 million in accumulated other comprehensive income.

We also have floating-to-fixed interest rate swaps through January 2019 with respect to an aggregate of $225.0 million LIBOR-based borrowings. These swaps effectively fix the underlying one-month LIBOR rate at a weighted average rate of 1.678%.

7. Derivative Financial Instruments - Continued

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

Our interest rate swaps have been designated as and are being accounted for as cash flow hedges with changes in fair value recorded in other comprehensive income/(loss) each reporting period. No gain or loss was recognized related to hedge ineffectiveness or to amounts excluded from effectiveness testing on our cash flow hedges during the years ended December 31, 2017 and 2016. We have no collateral requirements related to our interest rate swaps.

Amounts reported in accumulated other comprehensive income/(loss) related to derivatives will be reclassified to interest expense as interest payments are made on our variable rate debt. During 2018, we estimate that $0.9 million will be reclassified as a net decrease to interest expense.

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

	December 31,	
	2017	2016
Derivatives:		
Derivatives designated as cash flow hedges in prepaid expenses and other assets:		
Interest rate swaps	$1,286	$7,619
Derivatives designated as cash flow hedges in accounts payable, accrued expenses and other liabilities:		
Interest rate swaps	$—	$1,870

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

	Year Ended December 31,		
	2017	2016	2015
Derivatives Designated as Cash Flow Hedges:			
Amount of unrealized gains/(losses) recognized in accumulated other comprehensive income/(loss) on derivatives (effective portion):			
Interest rate swaps	$1,732	$5,703	$(4,040)
Amount of net losses reclassified out of accumulated other comprehensive income/(loss) into contractual interest expense (effective portion):			
Interest rate swaps	$1,157	$3,057	$3,696

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

8. Commitments and Contingencies

Operating Ground Leases

Certain of our properties are subject to operating ground leases. Rental payments on these leases are adjusted periodically based on either the consumer price index or on a pre-determined schedule. Total rental property expense recorded for operating ground leases was $2.5 million, $2.9 million and $3.4 million for the years ended December 31, 2017, 2016 and 2015, respectively.

The following table sets forth our scheduled obligations for future minimum payments on operating ground leases at December 31, 2017:

Years Ending December 31,	Minimum Payments
2018	$ 2,099
2019	2,136
2020	2,175
2021	2,215
2022	2,257
Thereafter	88,532
	$ 99,414

Lease and Contractual Commitments

We have $343.8 million of lease and contractual commitments at December 31, 2017. Lease and contractual commitments represent commitments under signed leases and contracts for operating properties (excluding tenant-funded tenant improvements) and contracts for development/redevelopment projects, of which $67.5 million was recorded on our Consolidated Balance Sheets at December 31, 2017.

Contingent Consideration

We had $5.0 million and $4.2 million at December 31, 2017 and 2016, respectively, of contingent consideration related to certain parcels of acquired development land in Raleigh, Atlanta and Nashville. The contingent consideration for each is payable in cash to a third party if and to the extent future development milestones as outlined in the purchase agreements are met.

Environmental Matters

Substantially all of our in-service and development properties have been subjected to Phase I environmental assessments and, in certain instances, Phase II environmental assessments. Such assessments and/or updates have not revealed, nor are we aware of, any environmental liability that we believe would have a material adverse effect on our Consolidated Financial Statements.

Litigation, Claims and Assessments

We are from time to time a party to a variety of legal proceedings, claims and assessments arising in the ordinary course of our business. We regularly assess the liabilities and contingencies in connection with these matters based on the latest information available. For those matters where it is probable that we have incurred or will incur a loss and the loss or range of loss can be reasonably estimated, the estimated loss is accrued and charged to income in our Consolidated Financial Statements. In other instances, because of the uncertainties related to both the probable outcome and amount or range of loss, a reasonable estimate of liability, if any, cannot be made. Based on the current expected outcome of such matters, none of these proceedings, claims or assessments is expected to have a material effect on our business, financial condition, results of operations or cash flows.

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

9. Noncontrolling Interests

Noncontrolling Interests in Consolidated Affiliates

At December 31, 2017, 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

Noncontrolling interests in the Operating Partnership relate to the ownership of Redeemable Common Units. Net income attributable to noncontrolling interests in the Operating Partnership is computed by applying the weighted average percentage of Redeemable Common Units during the period, as a percent of the total number of outstanding Common Units, to the Operating Partnership’s net income for the period after deducting distributions on Preferred Units. When a noncontrolling unitholder redeems a Common Unit for a share of Common Stock or cash, the noncontrolling interests in the Operating Partnership are reduced and the Company’s share in the Operating Partnership is increased by the fair value of each security at the time of redemption.

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

	Year Ended December 31,	
	2017	2016
Beginning noncontrolling interests in the Operating Partnership	$144,802	$126,429
Adjustment of noncontrolling interests in the Operating Partnership to fair value	(354)	12,993
Conversions of Common Units to Common Stock	(511)	(3,057)
Net income attributable to noncontrolling interests in the Operating Partnership	5,059	15,596
Distributions to noncontrolling interests in the Operating Partnership	(4,987)	(7,159)
Total noncontrolling interests in the Operating Partnership	$144,009	$144,802

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

	Year Ended December 31,		
	2017	2016	2015
Net income available for common stockholders	$182,873	$521,789	$94,572
Increase in additional paid in capital from conversions of Common Units to Common Stock	511	3,057	1,645
Change from net income available for common stockholders and transfers from noncontrolling interests	$183,384	$524,846	$96,217

10. Disclosure About Fair Value of Financial Instruments

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

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

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

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

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

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

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

Our Level 3 assets included (1) any real estate assets recorded at fair value on a non-recurring basis as a result of our quarterly impairment analysis, which were valued using the terms of definitive sales contracts or the sales comparison approach, and (2) our tax increment financing bond, which was not routinely traded but whose fair value was determined by the income approach utilizing contractual cash flows and market-based interest rates to estimate the projected redemption value based on quoted bid/ask prices for similar unrated municipal bonds. Our tax increment financing bond was assigned in conjunction with a sale during 2016. The estimated fair value at the date of sale of $11.2 million was equal to the outstanding principal amount due on the bond.

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

10. Disclosure About Fair Value of Financial Instruments - Continued

The following table sets forth our assets and liabilities and the Company's noncontrolling interests in the Operating Partnership that are measured 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 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
Fair Value at December 31, 2016:			
Assets:			
Mortgages and notes receivable, at fair value (1)	$8,833	$—	$8,833
Interest rate swaps (in prepaid expenses and other assets)	7,619	—	7,619
Marketable securities of non-qualified deferred compensation plan (in prepaid expenses and other assets)	2,451	2,451	—
Total Assets	$18,903	$2,451	$16,452
Noncontrolling Interests in the Operating Partnership	$144,802	$144,802	$—
Liabilities:			
Mortgages and notes payable, net, at fair value (1)	$1,965,611	$—	$1,965,611
Interest rate swaps (in accounts payable, accrued expenses and other liabilities)	1,870	—	1,870
Non-qualified deferred compensation obligation (in accounts payable, accrued expenses and other liabilities)	2,451	2,451	—
Total Liabilities	$1,969,932	$2,451	$1,967,481

(1) Amounts recorded at historical cost on our Consolidated Balance Sheets at December 31, 2017 and 2016.

The impaired real estate assets that were measured in the third quarter of 2017 at a fair value of $5.9 million and deemed to be Level 3 assets were valued based primarily on market-based inputs and our assumptions about the use of the assets, as observable inputs were not available. In the absence of observable inputs, we estimate the fair value of real estate using unobservable local and national industry market data such as comparable sales, sales contracts and appraisals to assist us in our estimation of fair value. Significant increases or decreases in any valuation inputs in isolation would result in a significantly lower or higher fair value measurement.

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

11. Equity

Common Stock Issuances

During 2017 and 2016, the Company issued 1,363,919 and 5,078,940 shares, respectively, of Common Stock in public offerings and received net proceeds of $68.3 million and $246.2 million, respectively. At December 31, 2017, the Company had 96.7 million remaining shares of Common Stock authorized to be issued under its charter.

Common Stock Dividends

Dividends of the Company declared per share of Common Stock aggregated $1.76, $2.50 and $1.70 for the years ended December 31, 2017, 2016 and 2015, respectively. Dividends declared in 2016 included a special cash dividend of $0.80 per share declared in the quarter ended December 31, 2016 and paid January 10, 2017. The principal purpose of the special dividend was to distribute taxable capital gains associated with the sales of the Plaza assets in 2016.

The following table sets forth the Company's estimated taxability to the common stockholders of dividends per share for federal income tax purposes:

	Year Ended December 31,		
	2017 (1)	2016 (1)	2015
Ordinary income	$1.50	$1.15	$1.50
Capital gains	0.32	1.29	0.13
Return of capital	—	—	0.07
Total	$1.82	$2.44	$1.70

(1) During 2016, cash dividends declared on Common Stock totaled $2.50 per share, of which approximately $0.06 was recognized as a 2017 distribution for federal income tax purposes.

The Company's tax returns have not been examined by the Internal Revenue Service (“IRS”) and, therefore, the taxability of dividends is subject to change.

Preferred Stock

The following table sets forth the Company's Preferred Stock:

Issue Date	Number of Shares Outstanding (in thousands)	Carrying Value	Liquidation Preference Per Share	Optional Redemption Date	Annual Dividends Payable Per Share

December 31, 2017						
8.625% Series A Cumulative Redeemable	2/12/1997	29	$28,892	$ 1,000	2/12/2027	$ 86.25
December 31, 2016						
8.625% Series A Cumulative Redeemable	2/12/1997	29	$28,920	$ 1,000	2/12/2027	$ 86.25

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

11. Equity - Continued

The following table sets forth the Company's estimated taxability to the preferred stockholders of dividends per share for federal income tax purposes:

	Year Ended December 31,		
	2017	2016	2015
8.625% Series A Cumulative Redeemable:			
Ordinary income	$71.00	$40.65	$79.23
Capital gains	15.25	45.60	7.02
Total	$86.25	$86.25	$86.25

The Company's tax returns have not been examined by the IRS and, therefore, the taxability of dividends is subject to change.

Warrants

At December 31, 2017 and 2016, we had 15,000 warrants outstanding with an exercise price of $32.50 per share. Upon exercise of a warrant, the Company will contribute the exercise price to the Operating Partnership in exchange for Common Units. Therefore, the Operating Partnership accounts for such warrants as if issued by the Operating Partnership. These warrants have no expiration date.

Common Unit Distributions

Distributions of the Operating Partnership declared per Common Unit aggregated $1.76, $2.50 and $1.70 for the years ended December 31, 2017, 2016 and 2015, respectively. Distributions declared in 2016 included a special cash distribution of $0.80 per unit declared in the quarter ended December 31, 2016 and paid January 10, 2017. The principal purpose of the special distribution was to distribute taxable capital gains associated with the sales of the Plaza assets in 2016.

Redeemable Common Units

Generally, the Operating Partnership is obligated to redeem each Redeemable Common Unit at the request of the holder thereof for cash equal to the value of one share of Common Stock based on the average of the market price for the 10 trading days immediately preceding the notice date of such redemption, provided that the Company, at its option, may elect to acquire any such Redeemable Common Unit presented for redemption for cash or one share of Common Stock. When a holder redeems a Redeemable Common Unit for a share of Common Stock or cash, the Company’s share in the Operating Partnership will be increased. The Common Units owned by the Company are not redeemable.

Preferred Units

The following table sets forth the Operating Partnership's Preferred Units:

	Issue Date	Number of Units Outstanding	Carrying Value	Liquidation Preference Per Unit	Optional Redemption Date	Annual Distributions Payable Per Unit
		(in thousands)				
December 31, 2017						
8.625% Series A Cumulative Redeemable	2/12/1997	29	$28,892	$ 1,000	2/12/2027	$ 86.25
December 31, 2016						
8.625% Series A Cumulative Redeemable	2/12/1997	29	$28,920	$ 1,000	2/12/2027	$ 86.25

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

12. Employee Benefit Plans

Officer, Management and Director Compensation Programs

Officers of the Company participate in an annual non-equity incentive program pursuant to which they are eligible to earn cash payments based on a percentage of their annual base salary in effect for December of the applicable year. Under this component of our executive compensation program, officers are eligible to earn additional cash compensation to the extent specific performance-based metrics are achieved during the most recently completed year. The position held by each officer has a target annual incentive percentage that ranges from 35% to 135% of base salary. The more senior the position, the greater the portion of compensation that varies with performance.

The percentage amount an officer may earn under the annual non-equity incentive plan is the product of the target annual incentive percentage times an “actual performance factor,” which can range from zero to 200%. The actual performance factor depends upon the relationship between actual performance in specific areas at each of our divisions and predetermined goals. For corporate officers, the actual performance factor is based on the goals and criteria applied to the Company’s performance as a whole. For officers who oversee our divisions, the actual performance factor is based on the goals and criteria applied partly to that division’s performance and partly to the Company’s performance overall. Amounts under our annual non-equity incentive plan are accrued and expensed in the year earned, but are typically paid early in the following year.

Certain other employees participate in a similar annual non-equity incentive program. Incentive eligibility ranges from 6% to 30% of annual base salary. The actual incentive payment is determined by a mix of the Company's overall performance, the performance of any applicable division and the individual’s performance during each year. These amounts are also accrued and expensed in the year earned, but are typically paid early in the following year.

The Company's officers generally receive annual grants of stock options and restricted stock under the Company's long-term equity incentive plan on or about March 1 of each year. Restricted stock grants are also made annually to directors and certain other employees. Dividends received on restricted stock are non-forfeitable and are paid at the same rate and on the same date as on shares of Common Stock, except that, with respect to shares of total return-based restricted stock issued to the Company's chief executive officer, dividends accumulate and are payable only if and to the extent the shares vest. Dividends paid on subsequently forfeited shares are expensed. Additional shares of total return-based restricted stock may be issued at the end of the applicable measurement periods if and to the extent actual performance exceeds certain levels of performance. Such additional shares, if any, would be fully vested when issued. No expense is recorded for additional shares of total return-based restricted stock that may be issued at the end of the applicable measurement period since that possibility is reflected in the grant date fair value. The following table sets forth the number of shares of Common Stock reserved for future issuance under the Company's long-term equity incentive plans:

	December 31,	
	2017	2016
Outstanding stock options and warrants	655,822	602,115
Possible future issuance under equity incentive plans	2,404,131	2,718,296
	3,059,953	3,320,411

Of the possible future issuance under the Company' long-term equity incentive plans at December 31, 2017, no more than an additional 0.8 million shares can be in the form of restricted stock.

During the years ended December 31, 2017, 2016 and 2015, we recognized $6.7 million, $6.3 million and $6.9 million, respectively, of share-based compensation expense. Because REITs generally do not pay income taxes, we do not realize tax benefits on share-based payments. At December 31, 2017, there was $5.2 million of total unrecognized share-based compensation costs, which will be recognized over a weighted average remaining contractual term of 2.2 years.

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

12. Employee Benefit Plans - Continued

- Stock Options

Stock options issued after 2013 vest ratably on an annual basis over four years and expire after 10 years. Stock options issued from 2011 through 2013 vest ratably on an annual basis over four years and expire after seven years. All stock options have an exercise price equal to the last reported stock price of our Common Stock on the New York Stock Exchange on the last trading day prior to grant. The value of all options as of the date of grant is calculated using the Black-Scholes option-pricing model and is amortized over the respective vesting period or the service period, if shorter, for employees who are or will become eligible under the Company's retirement plan. The weighted average fair values of options granted during 2017, 2016 and 2015 were $6.72, $4.61 and $6.19, respectively, per option. The fair values of the options granted were determined at the grant dates using the following assumptions:

	2017	2016	2015
Risk free interest rate (1)	2.0 %	1.4 %	1.7 %
Common stock dividend yield (2)	3.4 %	3.9 %	3.7 %
Expected volatility (3)	19.5%	19.7%	22.4%
Average expected option life (years) (4)	5.75	5.75	5.75

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(1) Represents the interest rate as of the grant date on US treasury bonds having the same life as the estimated life of the option grants.
(2) The dividend yield is calculated utilizing the then current regular dividend rate for a one-year period and the per share price of Common Stock on the date of grant.
(3) Based on the historical volatility of Common Stock over a period relevant to the related stock option grant.
(4) The average expected option life is based on an analysis of the Company's historical data.

The following table sets forth stock option activity:

	Options Outstanding	
	Number of Options	Weighted Average Exercise Price
Stock options outstanding at December 31, 2014	577,321	$ 34.92
Granted	197,408	45.61
Canceled	(3,829)	40.21
Exercised	(83,672)	34.89
Stock options outstanding at December 31, 2015	687,228	37.97
Granted	244,664	43.55
Canceled	(14,743)	42.64
Exercised	(330,034)	34.26
Stock options outstanding at December 31, 2016	587,115	42.26
Granted	168,748	52.49

Exercised	(115,041)	40.41
Stock options outstanding at December 31, 2017 (1) (2)	640,822	$ 45.29

(1) The outstanding options at December 31, 2017 had a weighted average remaining life of 7.7 years.

(2) The Company had 152,745 options exercisable at December 31, 2017 with a weighted average exercise price of $41.39, weighted average remaining life of 6.4 years and intrinsic value of $1.5 million. Of these exercisable options, there were no exercise prices higher than the market price of our Common Stock at December 31, 2017.

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

12. Employee Benefit Plans - Continued

Cash received or receivable from options exercised was $5.2 million, $13.4 million and $3.3 million for the years ended December 31, 2017, 2016 and 2015, respectively. The total intrinsic value of options exercised during the years ended December 31, 2017, 2016 and 2015 was $1.3 million, $4.8 million and $0.9 million, respectively. The total intrinsic value of options outstanding at December 31, 2017, 2016 and 2015 was $3.9 million, $5.1 million and $4.3 million, respectively. The Company generally does not permit the net cash settlement of exercised stock options, but does permit net share settlement so long as the shares received are held for at least a year. The Company has a practice of issuing new shares to satisfy stock option exercises.

- Time-Based Restricted Stock

Shares of time-based restricted stock vest ratably on an annual basis over four years. The value of grants of time-based restricted stock is based on the market value of Common Stock as of the date of grant and is amortized to expense over the respective vesting period or the service period, if shorter, for employees who are or will become eligible under the Company's retirement plan.

The following table sets forth time-based restricted stock activity:

	Number of Shares	Weighted Average Grant Date Fair Value
Restricted shares outstanding at December 31, 2014	222,068	$ 35.97
Awarded and issued (1)	71,994	45.91
Vested (2)	(85,809)	35.14
Forfeited	(3,533)	39.94
Restricted shares outstanding at December 31, 2015	204,720	39.74
Awarded and issued (1)	72,698	43.59
Vested (2)	(84,212)	37.76
Forfeited	(4,225)	41.96
Restricted shares outstanding at December 31, 2016	188,981	42.06
Awarded and issued (1)	61,404	52.49
Vested (2)	(78,139)	40.55
Restricted shares outstanding at December 31, 2017	172,246	$ 46.46

(1) The weighted average fair value at grant date of time-based restricted stock issued during the years ended December 31, 2017, 2016 and 2015 was $3.2 million, $3.2 million and $3.3 million, respectively.

(2) The vesting date fair value of time-based restricted stock that vested during the years ended December 31, 2017, 2016 and 2015 was $4.1 million, $3.7 million and $3.9 million, respectively. Vested shares include those shares surrendered by employees to satisfy tax withholding obligations in connection with such vesting.

91

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

12. Employee Benefit Plans - Continued

- Total Return-Based Restricted Stock

Shares of total return-based restricted stock vest to the extent the Company's absolute total returns for certain pre-determined three-year periods exceed predetermined goals. The amount subject to vesting ranges from zero to 150%. Notwithstanding the Company's absolute total return, if the Company's total return exceeds 100% of the average peer group total return index, at least 75% of total return-based restricted stock issued will vest at the end of the applicable period. The weighted average grant date fair value of such shares of total return-based restricted stock issued in 2017, 2016 and 2015 was determined to be $49.59, $41.37 and $43.77, respectively, and is amortized over the respective three-year period or the service period, if shorter, for employees who are or will become eligible under the Company's retirement plan. The fair values of the total return-based restricted stock granted were determined at the grant dates using a Monte Carlo simulation model and the following assumptions:

	2017	2016	2015
Risk free interest rate (1)	1.6 %	0.9 %	1.0 %
Common stock dividend yield (2)	3.5 %	4.1 %	3.8 %
Expected volatility (3)	42.8%	43.1%	43.0%

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(1) Represents the interest rate as of the grant date on US treasury bonds having the same life as the estimated life of the total return-based restricted stock grants.

(2) The dividend yield is calculated utilizing the then current regular dividend rate for a one-year period and the average per share price of Common Stock during the three-month period preceding the date of grant.

(3) Based on the historical volatility of Common Stock over a period relevant to the related total return-based restricted stock grant.

The following table sets forth total return-based restricted stock activity:

	Number of Shares	Weighted Average Grant Date Fair Value
Restricted shares outstanding at December 31, 2014	207,957	$ 35.70
Awarded and issued (1) (3)	118,817	37.64
Vested (2) (3)	(129,762)	31.97
Forfeited	(1,709)	37.25
Restricted shares outstanding at December 31, 2015	195,303	36.66
Awarded and issued (1) (3)	64,701	40.87
Vested (2) (3)	(71,617)	36.50
Forfeited	(4,663)	39.91
Restricted shares outstanding at December 31, 2016	183,724	39.82
Awarded and issued (1) (3)	84,013	44.76

Vested (2) (3)	(107,013)	37.88
Restricted shares outstanding at December 31, 2017	160,724	$ 44.72

(1) The fair value at grant date of total return-based restricted stock issued during the years ended December 31, 2017, 2016 and 2015 was $2.4 million, $2.4 million and $2.5 million, respectively, at target.

(2) The vesting date fair value of total return-based restricted stock that vested during the years ended December 31, 2017, 2016 and 2015 was $5.6 million, $3.1 million and $5.9 million, respectively, based on the performance of the specific plans. Vested shares include those shares surrendered by employees to satisfy tax withholding obligations in connection with such vesting.

(3) The 2017, 2016 and 2015 amounts include 34,669, 6,647 and 61,860 additional shares, respectively, that were issued at the end of the applicable measurement period because actual performance exceeded certain levels of performance.

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

12. Employee Benefit Plans - Continued

401(k) Retirement Savings Plan

We have a 401(k) Retirement Savings Plan covering substantially all employees who meet certain age and employment criteria. We contribute amounts for each participant at a rate of 75% of the employee's contribution (up to 6% of each employee's bi-weekly salary and cash incentives, subject to statutory limits). During the years ended December 31, 2017, 2016 and 2015, we contributed $1.4 million, $1.3 million and $1.3 million, respectively, to the 401(k) savings plan. The assets of this qualified plan are not included in our Consolidated Financial Statements since the assets are not owned by us.

Retirement Plan

The Company has a retirement plan for employees with at least 30 years of continuous service or are at least 55 years old with at least 10 years of continuous service. Subject to advance written notice and a non-compete agreement, eligible retirees would be entitled to receive a pro rata amount of any annual non-equity incentive compensation earned during the year of retirement and stock options and time-based restricted stock would be non-forfeitable and vest according to the terms of their original grants. Eligible retirees would also be entitled to retain any total return-based restricted stock that subsequently vests after the retirement date according to the terms of their original grants. For employees who meet the age and service eligibility requirements, 100% of their annual grants are expensed at the grant date as if fully vested. For employees who will meet the age and service eligibility requirements within the normal vesting periods, the grants are amortized over the shorter service period.

Deferred Compensation

Prior to 2010, officers could elect to defer all or a portion of their cash compensation, which was then invested in unrelated mutual funds under a non-qualified deferred compensation plan. These investments are recorded at fair value, which aggregated $2.4 million and $2.5 million at December 31, 2017 and 2016, respectively, and are included in prepaid expenses and other assets, with an offsetting deferred compensation liability recorded in accounts payable, accrued expenses and other liabilities. Deferred amounts ultimately payable to the participants are based on the value of the related mutual fund investments. Accordingly, changes in the value of the unrelated mutual funds are recorded in interest and other income and the corresponding offsetting changes in the deferred compensation liability are recorded in general and administration expense. As a result, there is no effect on our net income.

The following table sets forth our deferred compensation liability:

	Year Ended December 31,		
	2017	2016	2015
Beginning deferred compensation liability	$2,451	$2,736	$3,635
Mark-to-market adjustment to deferred compensation (in general and administrative expenses)	492	222	(32)
Distributions from deferred compensation plans	(555)	(507)	(867)
Total deferred compensation liability	$2,388	$2,451	$2,736

Employee Stock Purchase Plan

The Company has an Employee Stock Purchase Plan ("ESPP") pursuant to which employees may contribute up to 25% of their cash compensation for the purchase of Common Stock. At the end of each quarter, each participant's account balance, which includes accumulated dividends, is applied to acquire shares of Common Stock at a cost that is calculated at 85% of the average closing price on the New York Stock Exchange on the five consecutive days preceding the last day of the quarter. In the years ended December 31, 2017, 2016 and 2015, the Company issued 33,278, 27,773 and 29,496 shares, respectively, of Common Stock under the ESPP. The 15% discount on newly issued shares, which is taxable income to the participants and is recorded by us as additional compensation expense, aggregated $0.2 million in each of the years ended December 31, 2017, 2016 and 2015. Generally, shares purchased under the ESPP must be held at least one year. The Company satisfies its ESPP obligations by issuing additional shares of Common Stock.

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

13. Accumulated Other Comprehensive Income/(Loss)

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

	December 31,	
	2017	2016
Cash flow hedges:		
Beginning balance	$4,949	$(3,811)
Unrealized gains on cash flow hedges	1,732	5,703
Amortization of cash flow hedges (1)	1,157	3,057
Total accumulated other comprehensive income	$7,838	$4,949

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

14. Rental and Other Revenues; Rental Property and Other Expenses

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

	Year Ended December 31,		
	2017	2016	2015
Contractual rents, net	$583,825	$561,242	$513,909
Straight-line rental income, net	31,721	23,909	22,054
Cost recovery income, net	53,942	48,730	45,247
Lease termination fees	1,501	2,311	990
Other miscellaneous operating revenues	31,748	29,442	22,471
	$702,737	$665,634	$604,671

The following table sets forth our scheduled future minimum base rents to be received from customers for leases in effect at December 31, 2017 for the properties that we wholly own:

2018	$595,638
2019	556,405
2020	490,429
2021	432,602
2022	377,964
Thereafter	1,378,404
	$3,831,442

The following table sets forth our rental property and other expenses from continuing operations:

	Year Ended December 31,		
	2017	2016	2015
Utilities, insurance and real estate taxes	$126,461	$124,940	$117,470
Maintenance, cleaning and general building	90,764	86,221	79,091
Property management and administrative expenses	13,117	12,588	12,446
Other miscellaneous operating expenses	6,546	7,336	6,934
	$236,888	$231,085	$215,941

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

15. Real Estate and Other Assets Held For Sale and Discontinued Operations

The following table sets forth the assets held for sale at December 31, 2017 and 2016, which are considered non-core:

	December 31,	
	2017	2016
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	$ —

The following tables set forth the results of operations and cash flows for the years ended December 31, 2017, 2016 and 2015 related to discontinued operations:

	Year Ended December 31,		
	2017	2016	2015
Rental and other revenues	$—	$8,484	$50,935
Operating expenses:			
Rental property and other expenses	—	3,334	20,805
Depreciation and amortization	—	—	14,039
General and administrative	—	1,388	2,366
Total operating expenses	—	4,722	37,210
Interest expense	—	85	621
Other income	—	420	2,635
Income from discontinued operations	—	4,097	15,739
Net gains on disposition of discontinued operations	—	414,496	—
Total income from discontinued operations	$—	$418,593	$15,739

	Year Ended December 31,		
	2017	2016	2015
Cash flows from operating activities	$—	$2,040	$27,579
Cash flows from investing activities	$—	$417,097	$(16,445)

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

16. Earnings Per Share and Per Unit

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

	Year Ended December 31,		
	2017	2016	2015
Earnings per Common Share - basic:			
Numerator:			
Income from continuing operations	$191,663	$122,546	$85,521
Net (income) attributable to noncontrolling interests in the Operating Partnership from continuing operations	(5,059)	(3,331)	(2,443)
Net (income) attributable to noncontrolling interests in consolidated affiliates from continuing operations	(1,239)	(1,253)	(1,264)
Dividends on Preferred Stock	(2,492)	(2,501)	(2,506)
Income from continuing operations available for common stockholders	182,873	115,461	79,308
Income from discontinued operations	—	418,593	15,739
Net (income) attributable to noncontrolling interests in the Operating Partnership from discontinued operations	—	(12,265)	(475)
Income from discontinued operations available for common stockholders	—	406,328	15,264
Net income available for common stockholders	$182,873	$521,789	$94,572
Denominator:			
Denominator for basic earnings per Common Share – weighted average shares	102,682	98,439	94,404
Earnings per Common Share - basic:			
Income from continuing operations available for common stockholders	$1.78	$1.17	$0.84
Income from discontinued operations available for common stockholders	—	4.13	0.16
Net income available for common stockholders	$1.78	$5.30	$1.00
Earnings per Common Share - diluted:			
Numerator:			
Income from continuing operations	$191,663	$122,546	$85,521
Net (income) attributable to noncontrolling interests in consolidated affiliates from continuing operations	(1,239)	(1,253)	(1,264)
Dividends on Preferred Stock	(2,492)	(2,501)	(2,506)
Income from continuing operations available for common stockholders before net (income) attributable to noncontrolling interests in the Operating Partnership	187,932	118,792	81,751
Income from discontinued operations available for common stockholders	—	418,593	15,739
Net income available for common stockholders before net (income) attributable to noncontrolling interests in the Operating Partnership	$187,932	$537,385	$97,490
Denominator:			
Denominator for basic earnings per Common Share – weighted average shares	102,682	98,439	94,404
Add:			
Stock options using the treasury method	79	87	87
Noncontrolling interests Common Units	2,833	2,872	2,915
	105,594	101,398	97,406

Denominator for diluted earnings per Common Share – adjusted weighted average shares and assumed conversions (1)			
Earnings per Common Share - diluted:			
Income from continuing operations available for common stockholders	$1.78	$1.17	$0.84
Income from discontinued operations available for common stockholders	—	4.13	0.16
Net income available for common stockholders	$1.78	$5.30	$1.00

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

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

16. 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:

	Year Ended December 31,		
	2017	2016	2015
Earnings per Common Unit - basic:			
Numerator:			
Income from continuing operations	$191,663	$122,546	$85,521
Net (income) attributable to noncontrolling interests in consolidated affiliates from continuing operations	(1,239)	(1,253)	(1,264)
Distributions on Preferred Units	(2,492)	(2,501)	(2,506)
Income from continuing operations available for common unitholders	187,932	118,792	81,751
Income from discontinued operations available for common unitholders	—	418,593	15,739
Net income available for common unitholders	$187,932	$537,385	$97,490
Denominator:			
Denominator for basic earnings per Common Unit – weighted average units	105,106	100,902	96,910
Earnings per Common Unit - basic:			
Income from continuing operations available for common unitholders	$1.79	$1.18	$0.84
Income from discontinued operations available for common unitholders	—	4.15	0.17
Net income available for common unitholders	$1.79	$5.33	$1.01
Earnings per Common Unit - diluted:			
Numerator:			
Income from continuing operations	$191,663	$122,546	$85,521
Net (income) attributable to noncontrolling interests in consolidated affiliates from continuing operations	(1,239)	(1,253)	(1,264)
Distributions on Preferred Units	(2,492)	(2,501)	(2,506)
Income from continuing operations available for common unitholders	187,932	118,792	81,751
Income from discontinued operations available for common unitholders	—	418,593	15,739
Net income available for common unitholders	$187,932	$537,385	$97,490
Denominator:			
Denominator for basic earnings per Common Unit – weighted average units	105,106	100,902	96,910
Add:			
Stock options using the treasury method	79	87	87
Denominator for diluted earnings per Common Unit – adjusted weighted average units and assumed conversions (1)	105,185	100,989	96,997
Earnings per Common Unit - diluted:			
Income from continuing operations available for common unitholders	$1.79	$1.18	$0.84
Income from discontinued operations available for common unitholders	—	4.14	0.17
Net income available for common unitholders	$1.79	$5.32	$1.01

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

97

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

17. Income Taxes

Our Consolidated Financial Statements include the operations of the Company's taxable REIT subsidiary, which is not entitled to the dividends paid deduction and is subject to federal, state and local income taxes on its taxable income. As a REIT, the Company may also be subject to federal excise taxes if it engages in certain types of transactions.

The minimum dividend per share of Common Stock required for the Company to maintain its REIT status was $1.37, $0.99 and $1.31 per share in 2017, 2016 and 2015, respectively. Continued qualification as a REIT depends on the Company's ability to satisfy the dividend distribution tests, stock ownership requirements and various other qualification tests. The tax basis of the Company's assets (net of accumulated tax depreciation and amortization) and liabilities was approximately $4.1 billion and $2.3 billion, respectively, at December 31, 2017 and $4.0 billion and $2.3 billion, respectively, at December 31, 2016. The tax basis of the Operating Partnership's assets (net of accumulated tax depreciation and amortization) and liabilities was approximately $4.1 billion and $2.3 billion, respectively, at December 31, 2017 and $4.0 billion and $2.3 billion, respectively, at December 31, 2016.

During the years ended December 31, 2017, 2016 and 2015, the Company qualified as a REIT and incurred no federal income tax expense; accordingly, the only federal income taxes included in the accompanying Consolidated Financial Statements relate to activities of the Company's taxable REIT subsidiary. Due to the passage of federal legislation commonly known as the "Tax Cuts and Jobs Act," which was signed into law on December 22, 2017, the taxable REIT subsidiary was required to decrease the deferred tax asset balance, which resulted in an increase to tax expense of $0.1 million in 2017.

The following table sets forth the Company's income tax expense/(benefit):

	Year Ended December 31,		
	2017	2016	2015
Current tax expense/(benefit):			
Federal	$(177)	$(38)	$949
State	105	89	351
	(72)	51	1,300
Deferred tax expense/(benefit):			
Federal	223	(160)	(233)
State	(9)	87	(115)
	214	(73)	(348)
Less tax expense netted against gain on disposition of property	—	—	(518)
Total income tax expense/(benefit)	$142	$(22)	$434

The Company's net deferred tax liability was $0.3 million and $0.1 million as of December 31, 2017 and 2016, respectively. The net deferred tax liability is comprised primarily of tax versus book differences related to property (depreciation, amortization and basis differences).

For the years ended December 31, 2017 and 2016, there were no unrecognized tax benefits. The Company is subject to federal, state and local income tax examinations by taxing authorities for 2014 through 2017. The Company does not expect that the total amount of unrecognized benefits will materially change within the next year.

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

18. Segment Information

Our principal business is the operation, acquisition and development of rental real estate properties. We evaluate our business by product type and by geographic location. Each product type has different customers and economic characteristics as to rental rates and terms, cost per rentable square foot of buildings, the purposes for which customers use the space, the degree of maintenance and customer support required and customer dependency on different economic drivers, among others. The operating results by geographic grouping are also regularly reviewed by our chief operating decision maker for assessing performance and other purposes. There are no material inter-segment transactions.

Our accounting policies of the segments are the same as those used in our Consolidated Financial Statements. All operations are within the United States.

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.

	Year Ended December 31,		
	2017	2016	2015
Rental and Other Revenues:			
Office:			
Atlanta	$140,323	$134,601	$108,590
Greensboro	21,453	20,522	21,251
Memphis	45,430	48,251	47,137
Nashville	111,506	95,912	88,310
Orlando	51,236	46,260	44,621
Pittsburgh	59,103	58,789	59,392
Raleigh	119,254	112,958	102,841
Richmond	43,959	44,315	42,089
Tampa	97,524	89,903	75,715
Total Office Segment	689,788	651,511	589,946
Other	12,949	14,123	14,725
Total Rental and Other Revenues	$702,737	$665,634	$604,671

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

18. Segment Information - Continued

	Year Ended December 31,		
	2017	2016	2015
Net Operating Income:			
Office:			
Atlanta	$89,575	$84,733	$67,094
Greensboro	13,612	12,781	13,395
Memphis	28,128	30,038	29,534
Nashville	81,204	68,678	62,387
Orlando	30,526	26,525	25,524
Pittsburgh	34,784	34,175	34,348
Raleigh	86,475	80,803	72,981
Richmond	29,946	30,505	27,922
Tampa	62,378	56,493	45,447
Total Office Segment	456,628	424,731	378,632
Other	9,221	9,818	10,098
Total Net Operating Income	465,849	434,549	388,730
Reconciliation to income from continuing operations before disposition of investment properties and activity in unconsolidated affiliates:			
Depreciation and amortization	(227,832)	(220,140)	(201,918)
Impairments of real estate assets	(1,445)	—	—
General and administrative expenses	(39,648)	(38,153)	(37,642)
Interest expense	(69,105)	(76,648)	(86,052)
Other income	2,283	2,338	1,726
Income from continuing operations before disposition of investment properties and activity in unconsolidated affiliates	$130,102	$101,946	$64,844

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

18. Segment Information - Continued

	December 31,	
	2017	2016
Total Assets:		
Office:		
Atlanta	$1,049,100	$1,039,519
Greensboro	134,194	127,887
Memphis	218,088	271,115
Nashville	806,725	714,905
Orlando	306,970	307,021
Pittsburgh	334,136	353,816
Raleigh	762,331	760,607
Richmond	229,468	212,508
Tampa	550,375	553,068
Total Office Segment	4,391,387	4,340,446
Other	232,404	220,604
Total Assets	$4,623,791	$4,561,050

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

19. Quarterly Financial Data (Unaudited)

The following tables set forth quarterly financial information of the Company:

	Year Ended December 31, 2017				
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total
Rental and other revenues	$169,408	$177,283	$180,185	$175,861	$702,737
Net income	33,485	39,554	59,549	59,075	191,663
Net (income) attributable to noncontrolling interests in the Operating Partnership	(888)	(1,043)	(1,571)	(1,557)	(5,059)
Net (income) attributable to noncontrolling interests in consolidated affiliates	(300)	(299)	(315)	(325)	(1,239)
Dividends on Preferred Stock	(623)	(623)	(623)	(623)	(2,492)
Net income available for common stockholders	$31,674	$37,589	$57,040	$56,570	$182,873
Earnings per Common Share – basic:					
Net income available for common stockholders	$0.31	$0.37	$0.55	$0.55	$1.78
Earnings per Common Share – diluted:					
Net income available for common stockholders	$0.31	$0.37	$0.55	$0.55	$1.78

	Year Ended December 31, 2016				
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total
Rental and other revenues	$164,859	$166,860	$166,269	$167,646	$665,634
Income from continuing operations	28,142	33,528	33,840	27,036	122,546
Income from discontinued operations (1)	418,593	—	—	—	418,593
Net income	446,735	33,528	33,840	27,036	541,139
Net (income) attributable to noncontrolling interests in the Operating Partnership	(13,011)	(939)	(926)	(720)	(15,596)
Net (income) attributable to noncontrolling interests in consolidated affiliates	(308)	(314)	(319)	(312)	(1,253)
Dividends on Preferred Stock	(626)	(627)	(624)	(624)	(2,501)
Net income available for common stockholders	$432,790	$31,648	$31,971	$25,380	$521,789
Earnings per Common Share – basic:					
Income from continuing operations available for common stockholders	$0.27	$0.32	$0.32	$0.25	$1.17
Income from discontinued operations available for common stockholders	4.22	—	—	—	4.13
Net income available for common stockholders	$4.49	$0.32	$0.32	$0.25	$5.30
Earnings per Common Share – diluted:					
	$0.27	$0.32	$0.32	$0.25	$1.17

Income from continuing operations available for common stockholders					
Income from discontinued operations available for common stockholders	4.22	—	—	—	4.13
Net income available for common stockholders	$4.49	$0.32	$0.32	$0.25	$5.30

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(1) See Note 2 for a discussion regarding the sales of the Plaza assets.

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

19. Quarterly Financial Data (Unaudited) - Continued

The following tables set forth quarterly financial information of the Operating Partnership:

	Year Ended December 31, 2017				
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total
Rental and other revenues	$169,408	$177,283	$180,185	$175,861	$702,737
Net income	33,485	39,554	59,549	59,075	191,663
Net (income) attributable to noncontrolling interests in consolidated affiliates	(300)	(299)	(315)	(325)	(1,239)
Distributions on Preferred Units	(623)	(623)	(623)	(623)	(2,492)
Net income available for common unitholders	$32,562	$38,632	$58,611	$58,127	$187,932
Earnings per Common Unit – basic:					
Net income available for common unitholders	$0.31	$0.37	$0.55	$0.55	$1.79
Earnings per Common Unit – diluted:					
Net income available for common unitholders	$0.31	$0.37	$0.55	$0.55	$1.79

	Year Ended December 31, 2016				
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total
Rental and other revenues	$164,859	$166,860	$166,269	$167,646	$665,634
Income from continuing operations	28,142	33,528	33,840	27,036	122,546
Income from discontinued operations (1)	418,593	—	—	—	418,593
Net income	446,735	33,528	33,840	27,036	541,139
Net (income) attributable to noncontrolling interests in consolidated affiliates	(308)	(314)	(319)	(312)	(1,253)
Distributions on Preferred Units	(626)	(627)	(624)	(624)	(2,501)
Net income available for common unitholders	$445,801	$32,587	$32,897	$26,100	$537,385
Earnings per Common Unit – basic:					
Income from continuing operations available for common unitholders	$0.28	$0.33	$0.32	$0.25	$1.18
Income from discontinued operations available for common unitholders	4.23	—	—	—	4.15
Net income available for common unitholders	$4.51	$0.33	$0.32	$0.25	$5.33
Earnings per Common Unit – diluted:					
Income from continuing operations available for common unitholders	$0.28	$0.33	$0.32	$0.25	$1.18
Income from discontinued operations available for common unitholders	4.23	—	—	—	4.14
Net income available for common unitholders	$4.51	$0.33	$0.32	$0.25	$5.32

(1) See Note 2 for a discussion regarding the sales of the Plaza assets.

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

20. Subsequent Events

On February 5, 2018, we acquired two development parcels totaling approximately nine acres in Nashville for an aggregate purchase price of $50.3 million.

On February 6, 2018, the Company declared a cash dividend of $0.4625 per share of Common Stock, which is payable on March 6, 2018 to stockholders of record as of February 20, 2018.

Table of Contents

HIGHWOODS PROPERTIES, INC.
HIGHWOODS REALTY LIMITED PARTNERSHIP

SCHEDULE II
(in thousands)

The following table sets forth the activity of allowance for doubtful accounts:

	Balance at December 31, 2016	Additions	Deductions	Balance at December 31, 2017
Allowance for Doubtful Accounts - Straight-Line Rent	$ 692	$ 1,503	$ (1,376)	$ 819
Allowance for Doubtful Accounts - Accounts Receivable	624	500	(371)	753
Allowance for Doubtful Accounts - Notes Receivable	105	—	(33)	72
Totals	$ 1,421	$ 2,003	$ (1,780)	$ 1,644

	Balance at December 31, 2015	Additions	Deductions	Balance at December 31, 2016
Allowance for Doubtful Accounts - Straight-Line Rent	$ 257	$ 1,501	$ (1,066)	$ 692
Allowance for Doubtful Accounts - Accounts Receivable	928	1,045	(1,349)	624
Allowance for Doubtful Accounts - Notes Receivable	287	—	(182)	105
Totals	$ 1,472	$ 2,546	$ (2,597)	$ 1,421

	Balance at December 31, 2014	Additions	Deductions	Balance at December 31, 2015
Allowance for Doubtful Accounts - Straight-Line Rent	$ 316	$ 1,412	$ (1,471)	$ 257
Allowance for Doubtful Accounts - Accounts Receivable	1,314	1,141	(1,527)	928
Allowance for Doubtful Accounts - Notes Receivable	275	12	—	287
Totals	$ 1,905	$ 2,565	$ (2,998)	$ 1,472

Table of Contents

HIGHWOODS PROPERTIES, INC.
HIGHWOODS REALTY LIMITED PARTNERSHIP

NOTE TO SCHEDULE III
(in thousands)

The following table sets forth the activity of real estate assets and accumulated depreciation:

	December 31,		
	2017	2016	2015
Real estate assets:			
Beginning balance	$4,865,103	$4,915,858	$4,271,966
Additions:			
Acquisitions, development and improvements	486,755	353,236	708,793
Cost of real estate sold and retired	(178,104)	(403,991)	(64,901)
Ending balance (a)	$5,173,754	$4,865,103	$4,915,858
Accumulated depreciation:			
Beginning balance	$1,134,103	$1,138,378	$1,024,936
Depreciation expense	184,385	173,072	168,663
Real estate sold and retired	(106,760)	(177,347)	(55,221)
Ending balance (b)	$1,211,728	$1,134,103	$1,138,378

(a) Reconciliation of total real estate assets to balance sheet caption:

	2017	2016	2015
Total per Schedule III	$5,173,754	$4,865,103	$4,915,858
Development in-process exclusive of land included in Schedule III	88,452	279,602	194,050
Real estate assets, net, held for sale	(22,543)	—	(340,581)
Total real estate assets	$5,239,663	$5,144,705	$4,769,327

(b) Reconciliation of total accumulated depreciation to balance sheet caption:

	2017	2016	2015
Total per Schedule III	$1,211,728	$1,134,103	$1,138,378
Real estate assets, net, held for sale	(9,304)	—	(131,274)
Total accumulated depreciation	$1,202,424	$1,134,103	$1,007,104

Table of Contents

HIGHWOODS PROPERTIES, INC.
HIGHWOODS REALTY LIMITED PARTNERSHIP

SCHEDULE III - REAL ESTATE AND ACCUMULATED DEPRECIATION
(in thousands)

December 31, 2017

Description	Property Type	2017 Encumbrances	Initial Costs		Costs Capitalized Subsequent to Acquisition		Gross Value at Close of Period		Total Assets (1)	Accumulated Depreciation	Date of Construction	Life on Which Depreciation is Calculated
			Land	Bldg & Improv	Land	Bldg & Improv	Land	Bldg & Improv				
Atlanta, GA												
1700 Century Circle	Office	$—	$2,482	$2	$1,546	$2	$4,028	$4,030	$ 1,372	1983	5-40 yrs.	
1800 Century Boulevard	Office	1,449	4,081	—	10,284	1,449	14,365	40,809	20,376	1975	5-40 yrs.	
1825 Century Parkway	Office	864	—	303	13,971	1,167	13,971	15,138	5,367	2002	5-40 yrs.	
1875 Century Boulevard	Office	—	8,924	—	8,388	—	17,312	17,312	6,083	1976	5-40 yrs.	
1900 Century Boulevard	Office	—	4,744	—	711	—	5,455	5,455	4,872	1971	5-40 yrs.	
2200 Century Parkway	Office	—	14,432	—	6,956	—	21,388	21,388	10,078	1971	5-40 yrs.	
2400 Century Parkway	Office	—	—	406	15,250	406	15,250	15,656	6,328	1998	5-40 yrs.	
2500 Century Parkway	Office	—	—	328	11,105	328	11,105	11,433	3,344	2005	5-40 yrs.	
2500/2635 Parking Garage	Office	—	—	—	6,439	—	6,439	6,439	1,917	2005	5-40 yrs.	
2600 Century Parkway	Office	—	10,679	—	2,962	—	13,641	13,641	6,943	1973	5-40 yrs.	
2635 Century Parkway	Office	—	21,643	—	5,343	—	26,986	26,986	13,052	1980	5-40 yrs.	
2800 Century Parkway	Office	—	20,449	—	12,881	—	33,330	33,330	16,521	1983	5-40 yrs.	
50 Glenlake	Office	2,520	20,006	—	4,253	2,502	24,259	26,759	11,971	1997	5-40 yrs.	
Century Plaza I	Office	1,291	8,567	—	4,648	1,291	13,215	14,505	5,759	1981	5-40 yrs.	
Century Plaza II	Office	1,381	7,733	—	3,444	1,381	11,177	12,557	4,892	1984	5-40 yrs.	
Federal Aviation Administration	Office	1,196	—	1,416	15,156	2,612	15,156	17,768	5,173	2009	5-40 yrs.	
	Industrial	3,010	—	(284)	—	2,726	—	2,726	—	N/A	N/A	

Henry County - Land										
5405 Windward Parkway	Office	3,342	2,111	—	19,349	3,342	21,460	54,802	19,971	1998	5-40 yrs.
Riverpoint - Land	Industrial	7,250	3,913	2,543	11,163	6,543	13,706	513	N/A	5-40 yrs.
Riverwood 100	Office	5,785	913	(29)	14,543	5,757	79,456	85,212	16,534	1989	5-40 yrs.
South Park Residential - Land	Other	50	—	5	—	55	—	55	—	N/A	N/A
South Park Site - Land	Industrial	1,204	715	—	1,919	—	1,919	—	N/A	N/A
Tradeport - Land	Industrial	5,243	(4,819)	—	424	—	424	—	N/A	N/A
Two Point Royal	Office	1,798	964	—	3,653	1,798	18,617	20,410	9,347	1997	5-40 yrs.
Two Alliance Center	Office	9,572	5,549	—	2,948	9,572	128,497	138,076	24,936	2009	5-40 yrs.
One Alliance Center	Office	14,772	5,071	—	12,027	14,772	135,098	149,873	18,871	2001	5-40 yrs.

Table of Contents

HIGHWOODS PROPERTIES, INC.
HIGHWOODS REALTY LIMITED PARTNERSHIP

SCHEDULE III - REAL ESTATE AND ACCUMULATED DEPRECIATION (Continued)

			Initial Costs		Costs Capitalized Subsequent to Acquisition		Gross Value at Close of Period					
Description	Property Type	2017 Encumbrance	Land	Bldg & Improv	Land	Bldg & Improv	Land	Bldg & Improv	Total Assets (1)	Accumulated Depreciation	Date of Construction	Life on Which Depreciation is Calculated
10 Glenlake North	Office		5,349	26,334	—	6,217	5,349	32,551	37,900	5,613	2000	5-40 yrs.
10 Glenlake South	Office		5,103	22,811	—	3,545	5,103	26,356	31,459	4,813	1999	5-40 yrs.
Riverwood 200	Office		—	—	4,777	89,708	4,777	89,708	94,485	1,913	2017	5-40 yrs.
Riverwood 300 Land	Office		400	—	—	710	400	710	1,110	16	N/A	N/A
Monarch Tower	Office		22,711	143,068	—	6,317	22,711	149,385	172,101	21,155	1997	5-40 yrs.
Monarch Plaza Memphis, TN	Office		27,678	88,962	—	4,079	27,678	93,041	120,719	9,400	1983	5-40 yrs.
Triad Centre I	Office		2,340	11,385	(849)	4,448	1,491	15,833	17,324	7,369	1985	5-40 yrs.
Triad Centre II	Office		1,980	8,677	(404)	5,049	1,576	13,726	15,302	6,010	1987	5-40 yrs.
Atrium I & II	Office		1,576	6,253	—	3,778	1,576	10,031	11,607	4,925	1984	5-40 yrs.
Centrum	Office		1,013	5,580	—	3,236	1,013	8,816	9,829	4,463	1979	5-40 yrs.
Comcast	Office		946	—	—	8,620	946	8,620	9,566	3,857	2008	5-40 yrs.
International Place Phase II	Office		4,884	27,782	—	6,105	4,884	33,887	38,771	17,170	1988	5-40 yrs.
PennMarc Centre	Office		3,607	10,240	—	4,690	3,607	14,930	18,537	4,276	2008	5-40 yrs.
Colonnade	Office		1,306	6,481	267	2,194	1,573	8,675	10,248	4,073	1998	5-40 yrs.
Crescent Center	Office		7,875	32,756	(547)	10,298	7,328	43,054	50,382	10,618	1986	5-40 yrs.
Southwind - Land	Office		3,662	—	(2,475)	—	1,187	—	1,187	—	N/A	N/A
Triad Centre III	Office		1,253	—	—	36,191	1,253	36,191	37,444	9,614	2009	5-40 yrs.
Capital Grille	Office		311	3,258	—	2	311	3,260	3,571	1,035	2014	5-40 yrs.
Seasons 52	Office		320	3,741	—	(39)	320	3,702	4,022	1,135	2014	5-40 yrs.
International Place IV Nashville, TN	Office		4,940	49,141	—	(262)	4,940	48,879	53,819	3,562	2015	5-40 yrs.
3322 West End	Office		3,025	27,490	—	9,014	3,025	36,504	39,529	14,562	1986	5-40 yrs.
3401 West End	Office		5,862	22,917	—	4,489	5,862	27,406	33,268	14,927	1982	5-40 yrs.
5310 Maryland Way	Office		1,863	7,201	—	3,681	1,863	10,882	12,745	5,067	1994	5-40 yrs.
Cool Springs 1 & 2 Deck	Office		—	—	—	3,989	—	3,989	3,989	1,011	2007	5-40 yrs.
Cool Springs 3 & 4 Deck	Office		—	—	—	4,461	—	4,461	4,461	1,195	2007	5-40 yrs.
Cool Springs I	Office		1,583	—	15	13,886	1,598	13,886	15,484	6,423	1999	5-40 yrs.
Cool Springs II	Office		1,824	—	346	18,714	2,170	18,714	20,884	7,578	1999	5-40 yrs.
Cool Springs III	Office		1,631	—	804	15,408	2,435	15,408	17,843	4,554	2006	5-40 yrs.
Cool Springs IV	Office		1,715	—	—	19,143	1,715	19,143	20,858	4,870	2008	5-40 yrs.

108

Table of Contents

HIGHWOODS PROPERTIES, INC.
HIGHWOODS REALTY LIMITED PARTNERSHIP

SCHEDULE III - REAL ESTATE AND ACCUMULATED DEPRECIATION (Continued)

			Initial Costs		Costs Capitalized Subsequent to Acquisition		Gross Value at Close of Period				
Description	Property Type	2017 Encumbrance	Land	Bldg & Improv	Land	Bldg & Improv	Land	Bldg and Improv	Total Assets (1)	Accumulated Depreciation	Date of Construction	Life on Which Depreciation is Calculated
Cool Springs V – Healthways	Office		3,688	—	295	53,008	3,983	53,000	56,983	17,596	2007	5-40 yrs.
Harpeth On The Green II	Office		1,415	9,677	—	2,750	1,415	12,427	9,846	4,335	1984	5-40 yrs.
Harpeth On The Green III	Office		1,666	6,649	—	2,921	1,666	9,570	11,236	4,777	1987	5-40 yrs.
Harpeth On The Green IV	Office		1,716	6,842	—	2,436	1,716	9,278	10,994	4,648	1989	5-40 yrs.
Harpeth On The Green V	Office		662	—	197	5,588	859	5,588	6,447	2,824	1998	5-40 yrs.
Hickory Trace	Office		1,164	—	164	4,775	1,342	4,775	6,103	1,812	2001	5-40 yrs.
Highwoods Plaza I	Office		1,552	—	307	8,928	1,859	8,928	10,787	4,610	1996	5-40 yrs.
Highwoods Plaza II	Office		1,448	—	307	8,833	1,755	8,833	10,588	3,784	1997	5-40 yrs.
Seven Springs I	Office		2,076	—	592	13,143	3,668	13,145	15,813	5,018	2002	5-40 yrs.
SouthPointe	Office		1,655	—	310	7,827	1,965	7,827	9,792	3,640	1998	5-40 yrs.
The Ramparts of Brentwood	Office		2,394	12,806	—	7,343	2,394	20,149	22,543	6,468	1986	5-40 yrs.
Westwood South	Office		2,106	—	382	10,603	2,488	10,603	13,091	4,419	1999	5-40 yrs.
100 Winners Circle	Office		1,497	7,258	—	2,452	1,497	9,710	11,207	4,707	1987	5-40 yrs.
The Pinnacle at Symphony Place	Office	98,981	—	141,469	—	6,160	—	147,629	147,629	29,127	2010	5-40 yrs.
Seven Springs East	Office		2,525	7,587	—	123	2,525	7,710	40,235	5,913	2013	5-40 yrs.
The Shops at Seven Springs	Office		803	8,223	—	526	803	8,749	9,552	1,441	2013	5-40 yrs.
Seven Springs West	Office		2,439	11,306	—	1,287	2,439	12,593	55,032	2,508	2016	5-40 yrs.
Seven Springs II	Office		—	—	2,356	30,048	2,356	30,048	32,404	475	2017	5-40 yrs.
Bridgestone Americas, Inc. Orlando, FL	Office		—	—	15,639	169,391	15,639	169,391	185,031	1,708	2017	5-40 yrs.
Berkshire at MetroCenter	Office		1,265	—	672	11,799	1,937	11,799	13,736	6,838	2007	5-40 yrs.
Capital Plaza Three - Land	Office		2,994	—	18	—	3,012	—	3,012	—	N/A	N/A
Eola Park - Land	Office		2,027	—	—	—	2,027	—	2,027	—	N/A	N/A
Oxford - Land	Office		1,100	—	51	458	1,158	—	1,609	—	N/A	N/A

Stratford - Land	Office	2,034	—	(148)	—	1,886	1,886	—	N/A	N/A
Windsor at MetroCenter	Office	—	—	2,060	9,552	2,060	11,612	2,310	2002	5-40 yrs.
The 1800 Eller Drive Building	Office	—	9,851	—	3,267	—	13,118	3,822	1983	5-40 yrs.
Seaside Plaza	Office	3,892	9,541	—	5,550	3,892	15,091	4,494	1982	5-40 yrs.
Capital Plaza Two	Office	4,346	3,946	—	4,849	4,346	8,795	2,589	1999	5-40 yrs.
Capital Plaza One	Office	3,482	7,321	—	4,714	3,482	12,035	3,514	1975	5-40 yrs.
Landmark Center Two	Office	4,742	2,031	—	7,650	4,742	9,681	3,424	1985	5-40 yrs.

Table of Contents

HIGHWOODS PROPERTIES, INC.
HIGHWOODS REALTY LIMITED PARTNERSHIP

SCHEDULE III - REAL ESTATE AND ACCUMULATED DEPRECIATION (Continued)

			Initial Costs		Costs Capitalized Subsequent to Acquisition		Gross Value at Close of Period				
Description	Property Type	2017 Encumbrance	Land	Bldg & Improv	Land	Bldg & Improv	Land	Bldg & Improv	Total Assets(1)	Accumulated Depreciation	Date of Construction	Life on Which Depreciation is Calculated
Landmark Center One	Office		6,202	22,655	—	7,613	6,202	30,268	36,474	5,817	1983	5-40 yrs.
Lincoln Plaza	Office		3,498	56,079	—	5,310	3,498	61,389	64,887	9,073	2000	5-40 yrs.
Eola	Office		3,758	11,160	—	3,334	3,758	14,494	18,252	2,423	1969	5-40 yrs.
Greensboro, NC												
6348 Burnt Poplar	Industrial		724	2,900	—	339	724	3,239	3,963	1,801	1990	5-40 yrs.
6350 Burnt Poplar	Industrial		341	1,374	—	784	341	2,158	2,499	975	1992	5-40 yrs.
420 Gallimore Dairy Road	Office		379	1,516	—	924	379	2,440	2,819	1,209	1990	5-40 yrs.
418 Gallimore Dairy Road	Office		462	1,849	—	638	462	2,487	2,949	1,392	1986	5-40 yrs.
416 Gallimore Dairy Road	Office		322	1,293	—	603	322	1,896	2,218	955	1986	5-40 yrs.
7031 Albert Pick Road	Office		510	2,921	—	2,465	516	5,386	5,896	2,856	1986	5-40 yrs.
7029 Albert Pick Road	Office		739	3,237	—	2,112	739	5,349	6,088	2,927	1988	5-40 yrs.
7025 Albert Pick Road	Office		2,399	9,576	—	6,190	2,399	15,766	18,159	7,857	1990	5-40 yrs.
7027 Albert Pick Road	Office		850	—	699	5,160	1,549	5,160	6,709	2,136	1997	5-40 yrs.
7009 Albert Pick Road	Industrial		224	1,068	—	270	224	1,338	1,562	712	1990	5-40 yrs.
426 Gallimore Dairy Road	Office		465	—	380	1,259	845	1,259	2,104	628	1996	5-40 yrs.
422 Gallimore Dairy Road	Industrial		145	1,081	—	382	145	1,463	1,608	856	1990	5-40 yrs.
406 Gallimore Dairy Road	Office		265	—	270	1,096	535	1,096	1,631	565	1996	5-40 yrs.
7021 Albert Pick Road	Industrial		237	1,103	—	279	237	1,382	1,619	766	1985	5-40 yrs.
7019 Albert Pick Road	Industrial		192	946	—	382	192	1,328	1,520	726	1985	5-40 yrs.
7015 Albert Pick Road	Industrial		305	1,219	—	268	305	1,487	1,792	840	1985	5-40 yrs.

7017 Albert Pick Road	Industrial	225	928	—	442	225	1,370	1,595	704	1985	5-40 yrs.
7011 Albert Pick Road	Industrial	171	777	—	358	171	1,135	1,306	628	1990	5-40 yrs.
424 Gallimore Dairy Road	Office	271	—	239	981	510	981	1,491	414	1997	5-40 yrs.
410 Gallimore Dairy Road	Industrial	356	1,613	—	877	356	2,490	2,846	1,319	1985	5-40 yrs.
412 Gallimore Dairy Road	Industrial	374	1,523	—	620	374	2,143	2,517	1,175	1985	5-40 yrs.
408 Gallimore Dairy Road	Industrial	341	1,486	—	966	341	2,452	2,793	1,324	1986	5-40 yrs.
414 Gallimore Dairy Road	Industrial	659	2,676	—	967	659	3,643	4,302	1,944	1988	5-40 yrs.
237 Burgess Road	Industrial	860	2,919	—	1,093	860	4,012	4,872	2,073	1986	5-40 yrs.
235 Burgess Road	Industrial	1,302	4,392	—	1,641	1,302	6,033	7,335	3,139	1987	5-40 yrs.
241 Burgess Road	Industrial	450	1,517	—	1,276	450	2,793	3,243	1,617	1988	5-40 yrs.
243 Burgess Road	Industrial	452	1,514	—	322	452	1,836	2,288	1,005	1988	5-40 yrs.

Table of Contents

HIGHWOODS PROPERTIES, INC.
HIGHWOODS REALTY LIMITED PARTNERSHIP

SCHEDULE III - REAL ESTATE AND ACCUMULATED DEPRECIATION (Continued)

			Initial Costs		Costs Capitalized Subsequent to Acquisition		Gross Value at Close of Period					
Description	Property Type	2017 Encumbrance	Land	Bldg & Improv	Land	Bldg & Improv	Land	Bldg & Improv	Total Assets (1)	Accumulated Depreciation	Date of Construction	Life on Which Depreciation is Calculated
496 Gallimore Dairy Road	Industrial		546	—	—	3,342	546	3,342	3,888	1,568	1998	5-40 yrs.
494 Gallimore Dairy Road	Industrial		749	—	—	3,101	749	3,101	3,850	1,256	1999	5-40 yrs.
486 Gallimore Dairy Road	Industrial		603	—	—	3,281	603	3,281	3,884	1,207	1999	5-40 yrs.
488 Gallimore Dairy Road	Industrial		499	—	—	2,473	499	2,473	2,972	1,009	1999	5-40 yrs.
490 Gallimore Dairy Road	Industrial		1,733	—	—	5,997	1,733	5,997	7,730	3,441	1999	5-40 yrs.
Brigham Road - Land	Industrial		7,059	—	(5,510)	—	1,549	—	1,549	—	N/A	N/A
651 Brigham Road	Industrial		453	—	360	2,857	813	2,857	3,670	1,132	2002	5-40 yrs.
657 Brigham Road	Industrial		2,733	—	881	10,758	3,614	10,758	14,372	3,042	2006	5-40 yrs.
653 Brigham Road	Industrial		814	—	—	3,587	814	3,587	4,401	903	2007	5-40 yrs.
1501 Highwoods Boulevard	Office		1,476	—	—	8,565	1,476	8,565	10,041	3,182	2001	5-40 yrs.
Jefferson Pilot - Land	Office		11,759	—	(4,311)	—	7,448	—	7,448	—	N/A	N/A
4200 Tudor Lane	Industrial		515	—	383	2,860	898	2,860	3,758	1,285	1996	5-40 yrs.
4224 Tudor Lane	Industrial		435	—	288	2,431	723	2,431	3,154	1,041	1996	5-40 yrs.
7023 Albert Pick Road	Office		834	3,459	—	1,189	834	4,648	5,482	2,398	1989	5-40 yrs.
370 Knollwood Street	Office		1,826	7,495	—	4,112	1,826	11,607	13,433	6,000	1994	5-40 yrs.
380 Knollwood Street	Office		2,989	12,029	—	4,888	2,989	16,917	19,906	9,088	1990	5-40 yrs.
Church St Medical Center I	Office		2,734	9,129	—	803	2,734	9,932	12,666	1,446	2003	5-40 yrs.
Church St Medical Center II	Office		2,376	6,451	—	(629)	2,376	5,822	7,198	667	2007	5-40 yrs.
Church St Medical Center III	Office		925	4,551	—	124	925	4,675	5,600	1,026	2008	5-40 yrs.
628 Green Valley Road	Office		2,906	12,141	—	960	2,906	13,101	16,007	1,895	1998	5-40 yrs.
701 Green Valley Road	Office		3,787	7,719	—	900	3,787	8,619	12,406	1,511	1996	5-40 yrs.
661 Brigham Road	Office		890	5,512	—	117	890	5,629	6,519	246	2016	5-40 yrs.
655 Brigham Road Pittsburgh, PA	Office		—	—	899	6,470	899	6,470	7,369	70	2017	5-40 yrs.

One PPG Place	Office	9,819	107,643	—	42,053	9,819	149,696	159,515	52,647	1983-1985	5-40 yrs.
Two PPG Place	Office	2,302	10,978	—	8,404	2,302	19,382	21,684	8,030	1983-1985	5-40 yrs.
Three PPG Place	Office	501	2,923	—	4,007	501	6,930	7,431	1,513	1983-1985	5-40 yrs.
Four PPG Place	Office	620	3,239	—	3,215	620	6,454	7,074	1,242	1983-1985	5-40 yrs.
Five PPG Place	Office	803	4,924	—	1,862	803	6,786	7,589	1,772	1983-1985	5-40 yrs.
Six PPG Place	Office	3,353	25,602	—	10,234	3,353	35,836	39,189	6,002	1983-1985	5-40 yrs.
EQT Plaza	Office	—	83,812	16,457	71,785	16,457	155,597	172,054	18,005	1987	5-40 yrs.

Table of Contents

HIGHWOODS PROPERTIES, INC.
HIGHWOODS REALTY LIMITED PARTNERSHIP

SCHEDULE III - REAL ESTATE AND ACCUMULATED DEPRECIATION (Continued)

			Initial Costs		Costs Capitalized Subsequent to Acquisition		Gross Value at Close of Period					
Description	Property Type	2017 Encumbrance	Land	Bldg & Improv	Land	Bldg & Improv	Land	Bldg & Improv	Total Assets (1)	Accumulated Depreciation	Date of Construction	Life on Which Depreciation is Calculated
Raleigh, NC												
3600 Glenwood Avenue	Office		—	10,994	—	4,800	—	15,794	15,794	8,378	1986	5-40 yrs.
3737 Glenwood Avenue	Office		—	—	318	16,525	518	16,525	16,843	7,169	1999	5-40 yrs.
4800 North Park	Office		2,678	7,630	—	6,169	2,678	13,799	16,477	4,640	1985	5-40 yrs.
5000 North Park	Office		1,014	9,612	249	4,218	968	13,830	9,791	4,861	1980	5-40 yrs.
801 Raleigh Corporate Center	Office		828	—	272	10,798	1,100	10,798	11,898	5,934	2002	5-40 yrs.
Blue Ridge I	Office		722	4,606	—	1,818	726	6,424	7,146	3,596	1982	5-40 yrs.
Blue Ridge II	Office		462	1,410	—	871	462	2,281	2,743	1,447	1988	5-40 yrs.
Cape Fear	Office		131	1,630	62	1,238	129	2,868	2,997	2,404	1979	5-40 yrs.
Catawba	Office		125	1,635	52	1,258	123	2,893	3,016	2,719	1980	5-40 yrs.
CentreGreen One	Office		1,529	—	(391)	10,724	1,138	10,724	11,862	2,149	2000	5-40 yrs.
CentreGreen Two	Office		1,653	—	(389)	10,344	1,264	10,344	11,608	3,944	2001	5-40 yrs.
CentreGreen Three	Office		—	—	1,291	31,860	1,291	31,860	33,151	374	2017	5-40 yrs.
CentreGreen Four	Office		1,779	—	(397)	13,851	1,382	13,850	15,232	2,680	2002	5-40 yrs.
CentreGreen Five	Office		1,280	—	55	12,693	1,335	12,693	14,028	368	2008	5-40 yrs.
Cottonwood	Office		609	3,244	—	615	609	3,859	4,468	2,295	1983	5-40 yrs.
Dogwood	Office		766	2,769	—	241	766	3,010	3,776	1,716	1983	5-40 yrs.
GlenLake - Land	Office		13,003	—	(8,359)	114	4,644	—	4,758	48	N/A	5-40 yrs.
GlenLake One	Office		924	—	1,324	21,641	2,248	21,641	23,889	7,917	2002	5-40 yrs.
GlenLake Four	Office		1,659	—	493	20,615	2,152	20,615	22,767	6,379	2006	5-40 yrs.
GlenLake Six	Office		941	—	(365)	22,815	576	22,815	23,391	8,252	2008	5-40 yrs.
701 Raleigh Corporate Center	Office		1,304	—	540	14,957	1,844	14,957	16,801	7,051	1996	5-40 yrs.
Highwoods Centre	Office		531	—	(267)	7,926	264	7,926	8,190	3,521	1998	5-40 yrs.
Highwoods Office Center North - Land	Office		357	49	—	—	357	49	406	37	N/A	5-40 yrs.
Highwoods Tower Two	Office		365	—	503	21,268	868	21,268	22,136	7,267	2001	5-40 yrs.
Inveresk Parcel 2 - Land	Office		657	—	38	103	695	103	798	6	N/A	N/A
Lake Boone Medical Center	Office		1,456	6,311	—	580	1,456	6,891	8,347	1,341	1998	5-40 yrs.
4620 Creekstone Drive	Office		149	—	107	3,191	256	3,191	3,447	1,315	2001	5-40 yrs.
4825 Creekstone Drive	Office		398	—	293	11,306	691	11,304	11,995	4,582	1999	5-40 yrs.
Pamlico	Office		289	—	—	10,507	289	10,507	10,796	4,794	1980	5-40 yrs.
Progress Center Renovation	Office		—	—	—	362	—	362	362	353	2003	5-40 yrs.

112

Table of Contents

HIGHWOODS PROPERTIES, INC.
HIGHWOODS REALTY LIMITED PARTNERSHIP

SCHEDULE III - REAL ESTATE AND ACCUMULATED DEPRECIATION (Continued)

Description	Property Type	2017 Encumbrance	Initial Costs		Costs Capitalized Subsequent to Acquisition		Gross Value at Close of Period					
			Land	Bldg & Improv	Land	Bldg & Improv	Land	Bldg and Improv	Total Assets (1)	Accumulated Depreciation	Date of Construction	Life on Which Depreciation is Calculated
PNC Plaza	Office		1,206	—	—	71,350	1,206	71,350	72,556	21,320	2008	5-40 yrs.
Rexwoods Center I	Office		878	3,730	—	2,488	878	6,218	7,096	3,480	1990	5-40 yrs.
Rexwoods Center II	Office		362	1,818	—	1,436	362	3,254	3,616	1,626	1993	5-40 yrs.
Rexwoods Center III	Office		919	2,816	—	1,641	919	4,457	5,376	2,435	1992	5-40 yrs.
Rexwoods Center IV	Office		586	—	—	4,752	586	4,752	5,338	2,450	1995	5-40 yrs.
Rexwoods Center V	Office		1,301	—	184	6,376	1,485	6,376	7,861	2,881	1998	5-40 yrs.
Riverbirch	Office		469	4,038	23	5,226	492	9,264	9,756	2,100	1987	5-40 yrs.
Six Forks Center I	Office		666	2,665	—	1,997	666	4,662	5,328	2,686	1982	5-40 yrs.
Six Forks Center II	Office		1,086	6,533	—	2,807	1,086	9,340	8,426	3,971	1983	5-40 yrs.
Six Forks Center III	Office		862	4,411	—	3,051	862	7,462	8,324	4,254	1987	5-40 yrs.
Smoketree Tower	Office		2,353	11,743	—	7,109	2,353	18,852	21,205	9,725	1984	5-40 yrs.
4601 Creekstone Drive	Office		255	—	217	6,358	472	6,358	6,830	2,956	1997	5-40 yrs.
Weston - Land	Other		22,771	—	(19,526)	3,245	3,245	—	3,245	—	N/A	N/A
4625 Creekstone Drive	Office		458	—	268	6,415	726	6,415	7,141	3,186	1995	5-40 yrs.
11000 Weston Parkway	Office		2,651	18,850	—	1,318	2,651	20,168	22,819	4,956	1998	5-40 yrs.
GlenLake Five	Office		2,263	30,264	—	3,431	2,263	33,695	35,958	3,900	2014	5-40 yrs.
11800 Weston Parkway	Office		826	13,188	—	2	826	13,190	14,016	1,320	2014	5-40 yrs.
CentreGreen Café	Office		41	3,509	—	—	41	3,509	3,550	272	2014	5-40 yrs.
CentreGreen Fitness Center	Office		27	2,322	—	—	27	2,322	2,349	180	2014	5-40 yrs.
One City Plaza	Office		11,268	68,375	—	18,767	11,268	87,142	98,410	30,401	1986	5-40 yrs.
Weston Lakefront I	Office		8,522	42,267	—	168	8,522	42,435	50,957	7,876	2015	5-40 yrs.
Weston Lakefront II	Office		8,522	45,870	—	151	8,522	46,021	54,543	3,925	2015	5-40 yrs.
Edison - Land	Office		5,984	—	2,605	—	8,589	8,589	—	N/A	N/A	N/A
Charter Square	Office		7,266	75,881	—	4,191	7,266	80,072	87,338	29,573	2015	5-40 yrs.
Other Property	Other		39,326	26,866	(33,206)	695	6,120	27,561	33,681	10,615	N/A	N/A
Richmond, VA												
4900 Cox Road	Office		1,325	4,311	15	3,226	1,340	7,537	8,877	4,574	1991	5-40 yrs.
Colonnade Building	Office		1,366	6,105	—	2,401	1,366	8,506	9,872	3,059	2003	5-40 yrs.
Dominion Place - Pitts Parcel - Land	Office		1,101	—	(343)	—	758	—	758	—	N/A	N/A
Markel 4521	Office		1,581	13,299	968	(1,244)	1,749	12,055	13,804	5,213	1999	5-40 yrs.
Hamilton Beach/Proctor-Silex	Office		1,086	6,345	510	2,492	1,096	8,337	7,933	3,378	1986	5-40 yrs.

Table of Contents

HIGHWOODS PROPERTIES, INC.
HIGHWOODS REALTY LIMITED PARTNERSHIP

SCHEDULE III - REAL ESTATE AND ACCUMULATED DEPRECIATION (Continued)

			Initial Costs		Costs Capitalized Subsequent to Acquisition		Gross Value at Close of Period				
Description	Property Type	2017 Encumbrance	Land	Bldg & Improv	Land	Bldg & Improv	Land	Bldg and Improv	Total Assets (1)	Accumulated Depreciation	Date of Construction	Life on Which Depreciation is Calculated
Highwoods Commons	Office		521	—	458	3,793	979	3,793	4,772	1,766	1999	5-40 yrs.
Highwoods One	Office		1,688	—	22	13,761	3,710	13,761	15,471	6,148	1996	5-40 yrs.
Highwoods Two	Office		786	—	226	8,033	1,081	8,033	9,045	2,910	1997	5-40 yrs.
Highwoods Five	Office		783	—	11	7,296	794	7,296	8,090	2,790	1998	5-40 yrs.
Highwoods Plaza	Office		909	—	187	6,008	1,096	6,008	7,104	2,947	2000	5-40 yrs.
Innslake Center	Office		845	—	195	6,434	1,040	6,434	7,474	2,592	2001	5-40 yrs.
Highwoods Centre	Office		1,204	5,825	—	1,366	1,204	7,191	7,396	3,239	1990	5-40 yrs.
Markel 4501	Office		1,301	8,252	913	(4,135)	1,591	4,117	10,637	3,083	1998	5-40 yrs.
Markel 4600	Office		1,701	7,081	169	(3,607)	1,869	3,474	15,343	3,339	1989	5-40 yrs.
North Park	Office		2,168	8,659	6	2,582	2,174	11,241	13,415	5,098	1989	5-40 yrs.
North Shore Commons I	Office		951	—	17	12,519	968	12,519	13,487	8,053	2002	5-40 yrs.
North Shore Commons II	Office		2,067	—	(89)	11,030	1,978	11,030	13,008	2,884	2007	5-40 yrs.
North Shore Commons C - Land	Office		1,497	—	15	—	1,512	—	1,512	—	N/A	N/A
North Shore Commons D - Land	Office		1,261	—	—	—	1,261	—	1,261	—	N/A	N/A
Nuckols Corner Land	Office		1,259	—	203	—	1,462	—	1,462	—	N/A	N/A
One Shockoe Plaza	Office		—	—	356	17,440	356	17,440	17,796	6,138	1996	5-40 yrs.
Pavilion Land	Office		181	46	20	(46)	201	—	201	—	N/A	N/A
Lake Brook Commons	Office		1,608	8,864	21	2,211	1,629	11,075	12,704	6,925	1996	5-40 yrs.
Sadler & Cox Land	Office		1,535	—	343	—	1,878	—	1,878	—	N/A	N/A
Highwoods Three	Office		1,918	—	358	10,543	2,276	10,543	12,819	3,142	2005	5-40 yrs.
Stony Point I	Office		1,384	11,630	(267)	4,323	1,117	15,953	17,070	7,557	1990	5-40 yrs.
Stony Point II	Office		1,240	—	103	12,450	1,343	12,450	13,793	5,309	1999	5-40 yrs.
Stony Point III	Office		995	—	—	10,342	995	10,342	11,337	4,126	2002	5-40 yrs.
Stony Point IV	Office		955	—	—	11,069	955	11,069	12,024	3,044	2006	5-40 yrs.
Virginia Mutual	Office		1,306	6,036	15	1,481	1,321	7,517	8,838	3,237	1996	5-40 yrs.
Waterfront Plaza	Office		585	2,347	8	1,375	593	3,722	4,315	1,752	1988	5-40 yrs.
Innsbrook Center	Office		914	8,249	—	686	914	8,935	9,849	3,211	1987	5-40 yrs.
Tampa, FL												
4200 Cypress	Office		2,673	16,470	—	4,519	2,673	20,989	23,662	4,288	1989	5-40 yrs.
Bayshore Place	Office		2,276	11,817	—	2,336	2,276	14,153	16,429	2,926	1990	5-40 yrs.
General Services Administration Building	Office		4,054	—	406	27,759	4,460	27,759	32,219	10,894	2005	5-40 yrs.

114

Table of Contents

HIGHWOODS PROPERTIES, INC.
HIGHWOODS REALTY LIMITED PARTNERSHIP

SCHEDULE III - REAL ESTATE AND ACCUMULATED DEPRECIATION (Continued)

			Initial Costs		Costs Capitalized Subsequent to Acquisition		Gross Value at Close of Period					
Description	Property Type	2017 Encumbrance	Land	Bldg & Improv	Land	Bldg & Improv	Land	Bldg & Improv	Total Assets (1)	Accumulated Depreciation	Date of Construction	Life on Which Depreciation is Calculated
Highwoods Preserve Building I	Office		991	—	—	26,283	991	26,283	27,274	9,874	1999	5-40 yrs.
Highwoods Preserve Building V	Office		881	—	—	25,398	881	25,398	26,279	11,752	2001	5-40 yrs.
Highwoods Bay Center I	Office		3,565	—	(64)	36,958	3,501	36,958	40,459	11,197	2007	5-40 yrs.
HIW Bay Center II - Land	Office		3,482	—	—	—	3,482	—	3,482	—	N/A	N/A
Highwoods Preserve Building VII	Office		790	—	—	12,498	790	12,498	13,288	3,362	2007	5-40 yrs.
HIW Preserve VII Garage	Office		—	—	—	6,797	—	6,797	6,797	1,853	2007	5-40 yrs.
Horizon	Office		—	6,257	—	4,255	—	10,512	10,512	4,903	1980	5-40 yrs.
LakePointe One	Office		2,106	89	—	45,339	2,106	45,428	47,534	21,659	1986	5-40 yrs.
LakePointe Two	Office		2,000	15,848	672	15,240	2,672	31,088	33,760	12,824	1999	5-40 yrs.
Lakeside	Office		—	7,369	—	6,593	—	13,962	13,962	5,367	1978	5-40 yrs.
Lakeside/Parkside Garage	Office		—	—	—	5,627	—	5,627	5,627	1,732	2004	5-40 yrs.
One Harbour Place	Office		2,016	25,252	—	11,046	2,016	36,298	38,314	14,189	1985	5-40 yrs.
Parkside	Office		—	9,407	—	3,768	—	13,175	13,175	6,964	1979	5-40 yrs.
Pavilion	Office		—	16,394	—	4,646	—	21,040	21,040	10,479	1982	5-40 yrs.
Pavilion Parking Garage	Office		—	—	—	5,731	—	5,731	5,731	2,585	1999	5-40 yrs.
Spectrum	Office		1,454	14,502	—	6,931	1,454	21,433	22,887	11,604	1984	5-40 yrs.
Tower Place	Office		3,218	19,898	—	4,849	3,218	24,747	27,965	12,579	1988	5-40 yrs.
Westshore Square	Office		1,126	5,186	—	1,466	1,126	6,652	7,778	3,334	1976	5-40 yrs.
Independence Park - Land	Office		4,943	—	4,833	2,227	9,776	2,227	12,003	47	N/A	N/A
Independence Park I	Office		2,534	4,526	—	5,270	2,534	9,796	12,327	3,330	1983	5-40 yrs.
Meridian I	Office		1,849	22,363	—	1,808	1,849	24,171	26,020	4,047	1984	5-40 yrs.
Meridian II	Office		1,302	19,588	—	3,002	1,302	22,590	23,892	3,580	1986	5-40 yrs.
Laser Spine Institute	Office		—	—	6,310	44,634	6,310	44,634	50,944	2,849	2016	5-40 yrs.
Suntrust Financial Centre	Office		1,980	102,138	—	12,016	1,980	114,154	116,134	3,162	1992	5-40 yrs.
Suntrust Financial Land	Office		2,225	—	—	—	2,225	—	2,225	—	N/A	N/A
			563,648	2,678,507	51,701	1,933,364	564,941	4,611,867	5,173,754	1,241,728		

2017 Encumbrance Notes

(1) The tax basis of aggregate land and buildings and tenant improvements as of December 31, 2017 is $4.8 billion.

115

Table of Contents

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Raleigh, State of North Carolina, on February 6, 2018.
Highwoods Properties, Inc.

By: /s/ Edward J. Fritsch
Edward J. Fritsch
President and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacity and on the dates indicated.

Signature	Title	Date
/s/ O. Temple Sloan, Jr. O. Temple Sloan, Jr.	Chairman of the Board of Directors	February 6, 2018
/s/ Edward J. Fritsch Edward J. Fritsch	President, Chief Executive Officer and Director	February 6, 2018
/s/ Charles A. Anderson Charles A. Anderson	Director	February 6, 2018
/s/ Gene H. Anderson Gene H. Anderson	Director	February 6, 2018
/s/ Carlos E. Evans Carlos E. Evans	Director	February 6, 2018
/s/ David J. Hartzell David J. Hartzell	Director	February 6, 2018
/s/ Sherry A. Kellett Sherry A. Kellett	Director	February 6, 2018
/s/ Anne H. Lloyd Anne H. Lloyd	Director	February 6, 2018
/s/ Mark F. Mulhern Mark F. Mulhern	Executive Vice President and Chief Financial Officer	February 6, 2018
/s/ Daniel L. Clemmens Daniel L. Clemmens	Vice President and Chief Accounting Officer	February 6, 2018

Table of Contents

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Raleigh, State of North Carolina, on February 6, 2018.

Highwoods Realty Limited Partnership

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

By: /s/ Edward J. Fritsch
Edward J. Fritsch
President and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacity and on the dates indicated.

Signature	Title	Date
/s/ O. Temple Sloan, Jr. O. Temple Sloan, Jr.	Chairman of the Board of Directors of the General Partner	February 6, 2018
/s/ Edward J. Fritsch Edward J. Fritsch	President, Chief Executive Officer and Director of the General Partner	February 6, 2018
/s/ Charles A. Anderson Charles A. Anderson	Director of the General Partner	February 6, 2018
/s/ Gene H. Anderson Gene H. Anderson	Director of the General Partner	February 6, 2018
/s/ Carlos E. Evans Carlos E. Evans	Director of the General Partner	February 6, 2018
/s/ David J. Hartzell David J. Hartzell	Director of the General Partner	February 6, 2018
/s/ Sherry A. Kellett Sherry A. Kellett	Director of the General Partner	February 6, 2018
/s/ Anne H. Lloyd	Director of the General Partner	

Anne H. Lloyd		February 6, 2018
/s/ Mark F. Mulhern Mark F. Mulhern	Executive Vice President and Chief Financial Officer of the General Partner	February 6, 2018
/s/ Daniel L. Clemmens Daniel L. Clemmens	Vice President and Chief Accounting Officer of the General Partner	February 6, 2018