

HIGHWOODS PROPERTIES INC
Form 10-Q
August 02, 2016

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

FORM 10-Q

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

For the quarterly period ended June 30, 2016

HIGHWOODS PROPERTIES, INC.

(Exact name of registrant as specified in its charter)

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

HIGHWOODS REALTY LIMITED PARTNERSHIP

(Exact name of registrant as specified in its charter)

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

3100 Smoketree Court, Suite 600

Raleigh, NC 27604

(Address of principal executive offices) (Zip Code)

919-872-4924

(Registrants' telephone number, including area code)

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

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

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

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

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

Highwoods Properties, Inc.

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

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

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

The Company had 98,611,821 shares of Common Stock outstanding as of July 25, 2016.

EXPLANATORY NOTE

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

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

Certain information contained herein is presented as of July 25, 2016, the latest practicable date for financial information prior to the filing of this Quarterly Report.

This report combines the Quarterly Reports on Form 10-Q for the period ended June 30, 2016 of the Company and the Operating Partnership. We believe combining the quarterly reports into this single report results in the following benefits:

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

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

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

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

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

- Consolidated Financial Statements;

- Note 13 to Consolidated Financial Statements - Earnings Per Share and Per Unit;

- Item 4 - Controls and Procedures; and

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

HIGHWOODS PROPERTIES, INC.
HIGHWOODS REALTY LIMITED PARTNERSHIP

QUARTERLY REPORT FOR THE PERIOD ENDED JUNE 30, 2016

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PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

HIGHWOODS PROPERTIES, INC.

Consolidated Balance Sheets

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

	June 30, 2016	December 31, 2015
Assets:		
Real estate assets, at cost:		
Land	\$448,212	\$ 443,705
Buildings and tenant improvements	4,128,823	4,063,328
Development in-process	229,184	194,050
Land held for development	75,078	68,244
	4,881,297	4,769,327
Less-accumulated depreciation	(1,063,010)	(1,007,104)
Net real estate assets	3,818,287	3,762,223
Real estate and other assets, net, held for sale	2,387	240,948
Cash and cash equivalents	2,444	5,036
Restricted cash	265,193	16,769
Accounts receivable, net of allowance of \$850 and \$928, respectively	26,671	29,077
Mortgages and notes receivable, net of allowance of \$75 and \$287, respectively	9,971	2,096
Accrued straight-line rents receivable, net of allowance of \$483 and \$257, respectively	162,573	150,392
Investments in and advances to unconsolidated affiliates	19,786	20,676
Deferred leasing costs, net of accumulated amortization of \$129,252 and \$115,172, respectively	217,042	231,765
Prepaid expenses and other assets, net of accumulated amortization of \$19,260 and \$17,830, respectively	40,008	26,649
Total Assets	\$4,564,362	\$ 4,485,631
Liabilities, Noncontrolling Interests in the Operating Partnership and Equity:		
Mortgages and notes payable, net	\$2,082,207	\$ 2,491,813
Accounts payable, accrued expenses and other liabilities	241,979	233,988
Liabilities held for sale	—	14,119
Total Liabilities	2,324,186	2,739,920
Commitments and contingencies		
Noncontrolling interests in the Operating Partnership	151,400	126,429
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), 28,935 and 29,050 shares issued and outstanding, respectively	28,935	29,050
Common Stock, \$.01 par value, 200,000,000 authorized shares; 98,570,974 and 96,091,932 shares issued and outstanding, respectively	986	961
Additional paid-in capital	2,693,755	2,598,242
Distributions in excess of net income available for common stockholders	(640,969)	(1,023,135)
Accumulated other comprehensive loss	(11,628)	(3,811)
Total Stockholders' Equity	2,071,079	1,601,307
Noncontrolling interests in consolidated affiliates	17,697	17,975

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Total Equity	2,088,776	1,619,282
Total Liabilities, Noncontrolling Interests in the Operating Partnership and Equity	\$4,564,362	\$4,485,631

See accompanying notes to consolidated financial statements.

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HIGHWOODS PROPERTIES, INC.

Consolidated Statements of Income

(Unaudited and in thousands, except per share amounts)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Rental and other revenues	\$166,860	\$148,543	\$331,719	\$293,779
Operating expenses:				
Rental property and other expenses	57,515	52,370	115,095	104,884
Depreciation and amortization	55,317	47,928	108,811	94,795
General and administrative	8,327	8,665	19,464	19,908
Total operating expenses	121,159	108,963	243,370	219,587
Interest expense:				
Contractual	18,674	20,857	38,389	41,299
Amortization of debt issuance costs	811	828	1,801	1,628
Financing obligation	—	162	—	162
	19,485	21,847	40,190	43,089
Other income:				
Interest and other income	534	520	1,051	1,102
Losses on debt extinguishment	—	(220)	—	(220)
	534	300	1,051	882
Income from continuing operations before disposition of investment properties and activity in unconsolidated affiliates	26,750	18,033	49,210	31,985
Gains on disposition of property	5,861	2,412	10,258	3,569
Equity in earnings of unconsolidated affiliates	917	1,776	2,202	3,587
Income from continuing operations	33,528	22,221	61,670	39,141
Discontinued operations:				
Income from discontinued operations	—	4,670	4,097	8,585
Net gains on disposition of discontinued operations	—	—	414,496	—
	—	4,670	418,593	8,585
Net income	33,528	26,891	480,263	47,726
Net (income) attributable to noncontrolling interests in the Operating Partnership	(939)	(782)	(13,950)	(1,378)
Net (income) attributable to noncontrolling interests in consolidated affiliates	(314)	(328)	(622)	(624)
Dividends on Preferred Stock	(627)	(626)	(1,253)	(1,253)
Net income available for common stockholders	\$31,648	\$25,155	\$464,438	\$44,471
Earnings per Common Share – basic:				
Income from continuing operations available for common stockholders	\$0.32	\$0.22	\$0.60	\$0.39
Income from discontinued operations available for common stockholders	—	0.05	4.19	0.08
Net income available for common stockholders	\$0.32	\$0.27	\$4.79	\$0.47
Weighted average Common Shares outstanding – basic	97,648	94,055	97,010	93,641
Earnings per Common Share – diluted:				
Income from continuing operations available for common stockholders	\$0.32	\$0.22	\$0.60	\$0.39
Income from discontinued operations available for common stockholders	—	0.05	4.18	0.08
Net income available for common stockholders	\$0.32	\$0.27	\$4.78	\$0.47
Weighted average Common Shares outstanding – diluted	100,628	97,049	99,992	96,666

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Dividends declared per Common Share	\$0.425	\$0.425	\$0.850	\$0.850
Net income available for common stockholders:				
Income from continuing operations available for common stockholders	\$31,648	\$20,626	\$58,110	\$36,147
Income from discontinued operations available for common stockholders	—	4,529	406,328	8,324
Net income available for common stockholders	\$31,648	\$25,155	\$464,438	\$44,471
See accompanying notes to consolidated financial statements.				

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HIGHWOODS PROPERTIES, INC.

Consolidated Statements of Comprehensive Income
(Unaudited and in thousands)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Comprehensive income:				
Net income	\$33,528	\$26,891	\$480,263	\$47,726
Other comprehensive income/(loss):				
Unrealized gains on tax increment financing bond	—	1	—	194
Unrealized gains/(losses) on cash flow hedges	(5,760)	269	(9,395)	(2,645)
Amortization of cash flow hedges	783	925	1,578	1,849
Total other comprehensive income/(loss)	(4,977)	1,195	(7,817)	(602)
Total comprehensive income	28,551	28,086	472,446	47,124
Less-comprehensive (income) attributable to noncontrolling interests	(1,253)	(1,110)	(14,572)	