

HIGHWOODS PROPERTIES INC
Form 10-Q
May 09, 2008

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 March 31, 2008

Commission file number: 001-13100

HIGHWOODS PROPERTIES, INC.

(Exact name of registrant as specified in its charter)

Maryland
(State or other jurisdiction
of incorporation or organization)

56-1871668
(I.R.S. Employer
Identification Number)

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3100 Smoketree Court, Suite 600, Raleigh, N.C.

(Address of principal executive office)

27604

(Zip Code)

(919) 872-4924

(Registrant's 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. 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 "accelerated filer," "large accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Securities Exchange Act.

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). Yes No

The Company had 57,309,347 shares of common stock outstanding as of March 31, 2008.

HIGHWOODS PROPERTIES, INC.

QUARTERLY REPORT FOR THE PERIOD ENDED MARCH 31, 2008

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PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

We refer to (1) Highwoods Properties, Inc. as the Company, (2) Highwoods Realty Limited Partnership as the Operating Partnership, (3) the Company's common stock as Common Stock, (4) the Company's preferred stock as Preferred Stock, (5) the Operating Partnership's common partnership interests as Common Units, (6) the Operating Partnership's preferred partnership interests as Preferred Units and (7) in-service properties (excluding rental residential units) to which the Company and/or the Operating Partnership have title and 100.0% ownership rights as the Wholly Owned Properties.

The information furnished in the accompanying Consolidated Financial Statements reflects all adjustments (consisting of normal recurring accruals) that are, in our opinion, necessary for a fair presentation of the aforementioned financial statements for the interim period.

The aforementioned financial statements should be read in conjunction with the notes to Consolidated Financial Statements, Management's Discussion and Analysis of Financial Condition and Results of Operations and Risk Factors included herein and in our 2007 Annual Report on Form 10-K.

Table of Contents**HIGHWOODS PROPERTIES, INC.****CONSOLIDATED BALANCE SHEETS**

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

	March 31, 2008	December 31, 2007
Assets:		
Real estate assets, at cost:		
Land	\$ 360,836	\$ 356,199
Buildings and tenant improvements	2,743,659	2,701,004
Development in process	107,129	101,661
Land held for development	96,839	103,365
	3,308,463	3,262,229
Less-accumulated depreciation	(664,944)	(647,685)
Net real estate assets	2,643,519	2,614,544
Real estate and other assets, net, held for sale	18,299	18,309
Cash and cash equivalents	6,595	3,140
Restricted cash	13,862	15,896
Accounts receivable, net of allowance of \$1,038 and \$935, respectively	20,782	23,521
Notes receivable, net of allowance of \$157 and \$68, respectively	3,036	5,226
Accrued straight-line rents receivable, net of allowance of \$667 and \$440, respectively	76,715	74,313
Investment in unconsolidated affiliates	58,054	58,046
Deferred financing and leasing costs, net of accumulated amortization	72,693	72,007
Prepaid expenses and other assets	44,263	41,953
Total Assets	\$ 2,957,818	\$ 2,926,955
Liabilities, Minority Interest and Stockholders' Equity:		
Mortgages and notes payable	\$ 1,703,238	\$ 1,641,987
Accounts payable, accrued expenses and other liabilities	142,139	157,766
Financing obligations	35,296	35,071
Total Liabilities	1,880,673	1,834,824
Commitments and Contingencies (see Note 12)		
Minority interest	67,596	70,098
Stockholders' Equity:		
Preferred Stock, \$.01 par value, 50,000,000 authorized shares;		
8 5/8% Series A Cumulative Redeemable Preferred Shares (liquidation preference \$1,000 per share), 82,937 shares issued and outstanding at both March 31, 2008 and December 31, 2007	82,937	82,937
8% Series B Cumulative Redeemable Preferred Shares (liquidation preference \$25 per share), 2,100,000 shares issued and outstanding at both March 31, 2008 and December 31, 2007	52,500	52,500
Common stock, \$.01 par value, 200,000,000 authorized shares; 57,309,347 and 57,167,193 shares issued and outstanding at March 31, 2008 and December 31, 2007, respectively	573	572
Additional paid-in capital	1,447,958	1,448,055
Distributions in excess of net earnings	(572,591)	(561,093)
Accumulated other comprehensive loss	(1,828)	(938)
Total Stockholders' Equity	1,009,549	1,022,033
Total Liabilities, Minority Interest and Stockholders' Equity	\$ 2,957,818	\$ 2,926,955

See accompanying notes to consolidated financial statements.

Table of Contents**HIGHWOODS PROPERTIES, INC.****CONSOLIDATED STATEMENTS OF INCOME**

(Unaudited and in thousands, except per share amounts)

	Three Months Ended	
	March 31,	
	2008	2007
Rental and other revenues	\$ 114,780	\$ 106,108
Operating expenses:		
Rental property and other expenses	39,128	37,936
Depreciation and amortization	31,041	28,965
General and administrative	9,711	10,911
Total operating expenses	79,880	77,812
Interest expenses:		
Contractual	23,463	22,689
Amortization of deferred financing costs	638	566
Financing obligations	740	992
	24,841	24,247
Other income:		
Interest and other income	803	1,514
	803	1,514
Income before disposition of property, insurance gain, minority interest and equity in earnings of unconsolidated affiliates	10,862	5,563
Gains on disposition of property, net		16,743
Gain from property insurance settlement		4,128
Minority interest	(837)	(2,580)
Equity in earnings of unconsolidated affiliates	1,989	9,717
Income from continuing operations	12,014	33,571
Discontinued operations:		
Income from discontinued operations, net of minority interest	146	725
Gains on sales of discontinued operations, net of minority interest	3,483	18,262
	3,629	18,987
Net income	15,643	52,558
Dividends on preferred stock	(2,838)	(4,113)
Net income available for common stockholders	\$ 12,805	\$ 48,445
Net income per common share - basic:		
Income from continuing operations	\$ 0.16	\$ 0.52
Income from discontinued operations	0.07	0.34
Net income	\$ 0.23	\$ 0.86
Weighted average common shares outstanding - basic	56,729	56,040
Net income per common share - diluted:		
Income from continuing operations	\$ 0.16	\$ 0.52
Income from discontinued operations	0.06	0.33
Net income	\$ 0.22	\$ 0.85
Weighted average common shares outstanding - diluted	61,050	61,900
Dividends declared per common share	\$ 0.425	\$ 0.425

See accompanying notes to consolidated financial statements.

Table of Contents**HIGHWOODS PROPERTIES, INC.****CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY****For the Three Months Ended March 31, 2008**

(Unaudited and in thousands, except share amounts)

	Number of Common Shares	Common Stock	Series A Preferred	Series B Preferred	Additional Paid-In Capital	Accum- ulated Other Compre- hensive Loss	Distri- butions in Excess of Net Earnings	Total	
Balance at December 31, 2007	57,167,193	\$ 572	\$ 82,937	\$ 52,500	\$ 1,448,055	\$ (938	)\$ (561,093	)\$ 1,022,033	
Issuance of Common Stock, net	(24,225	)			(686	)		(686)
Common Stock dividends							(24,303	) (24,303)
Preferred Stock dividends							(2,838	) (2,838)
Adjustment to minority interest of unitholders in the Operating Partnership					(1,637	)		(1,637)
Issuance of restricted stock, net	166,379								
Amortization of restricted stock and stock options		1			2,226			2,227	
Comprehensive income:									
Net income							15,643	15,643	
Other comprehensive income/(loss)						(890	)	(890)
Total comprehensive income								14,753	
Balance at March 31, 2008	57,309,347	\$ 573	\$ 82,937	\$ 52,500	\$ 1,447,958	\$ (1,828	)\$ (572,591	)\$ 1,009,549	

See accompanying notes to consolidated financial statements.

Table of Contents**HIGHWOODS PROPERTIES, INC.****CONSOLIDATED STATEMENTS OF CASH FLOWS**

(Unaudited and in thousands)

	Three Months Ended	
	March 31,	
	2008	2007
Operating activities:		
Net income	\$ 15,643	\$ 52,558
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	27,358	26,139
Amortization of lease commissions	3,751	3,607
Amortization of lease incentives	222	222
Amortization of restricted stock and stock options	2,227	1,132
Amortization of deferred financing costs	638	566
Amortization of accumulated other comprehensive loss	80	142
Net gains on disposition of property	(3,726)	(36,486)
Gain from property insurance settlement		(4,128)
Minority interest	1,091	4,119
Equity in earnings of unconsolidated affiliates	(1,989)	(9,717)
Change in financing obligations	225	(1)
Distributions of earnings from unconsolidated affiliates	1,899	1,962
Changes in operating assets and liabilities:		
Accounts receivable	2,739	(1,057)
Prepaid expenses and other assets	(3,316)	223
Accrued straight-line rents receivable	(2,403)	(1,572)
Accounts payable, accrued expenses and other liabilities	(23,625)	(11,965)
Net cash provided by operating activities	20,814	25,744
Investing activities:		
Additions to real estate assets and deferred leasing costs	(55,532)	(66,275)
Proceeds from disposition of real estate assets	6,072	65,028
Proceeds from property insurance settlement		4,940
Distributions of capital from unconsolidated affiliates	804	6,383
Net repayments in notes receivable	2,190	576
Contributions to unconsolidated affiliates	(841)	
Changes in restricted cash and other investing activities	2,387	(15,582)
Net cash used in investing activities	(44,920)	(4,930)
Financing activities:		
Distributions paid on Common Stock and Common Units	(25,982)	(25,766)
Dividends paid on Preferred Stock	(2,838)	(4,113)
Distributions to minority partner in consolidated affiliate	(258)	(928)
Net proceeds from the sale of Common Stock	(686)	988
Repurchase of Common Units	(3,293)	(27,402)
Borrowings on revolving credit facility	203,200	106,400
Repayments of revolving credit facility	(184,100)	(416,900)
Borrowings on mortgages and notes payable	144,579	401,571
Repayments of mortgages and notes payable	(102,459)	(68,696)
Contributions from minority interest partner		1,045
Additions to deferred financing costs	(602)	(2,776)
Net cash provided by/(used in) financing activities	27,561	(36,577)
Net increase/(decrease) in cash and cash equivalents	3,455	(15,763)
Cash and cash equivalents at beginning of the period	3,140	16,690
Cash and cash equivalents at end of the period	\$ 6,595	\$ 927

See accompanying notes to consolidated financial statements.

Table of Contents**HIGHWOODS PROPERTIES, INC.****CONSOLIDATED STATEMENTS OF CASH FLOWS - Continued**

(Unaudited and in thousands)

Supplemental disclosure of cash flow information:

	Three Months Ended	
	March 31,	
	2008	2007
Cash paid for interest, net of amounts capitalized (excludes cash distributions to owners of sold properties accounted for as financings of \$200 and \$663 for 2008 and 2007, respectively)	\$ 29,977	\$ 22,666

Supplemental disclosure of non-cash investing and financing activities:

The following table summarizes the net asset acquisitions and dispositions subject to mortgage notes payable and other non-cash transactions. There were no non-cash investing and financing activities during the three months ended March 31, 2007.

	Three Months Ended	
	March 31,	
	2008	2007
Assets:		
Prepaid expenses and other assets	\$ (561)	
	\$ (561)	\$
Liabilities:		
Accounts payable, accrued expenses and other liabilities	\$ 409	
	\$ 409	\$
Minority Interest and Stockholders Equity	\$ (970)	\$

See accompanying notes to consolidated financial statements.

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HIGHWOODS PROPERTIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2008

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

(Unaudited)

1. DESCRIPTION OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES

Description of Business

Highwoods Properties, Inc., together with its consolidated subsidiaries (the "Company"), is a fully-integrated, self-administered and self-managed equity real estate investment trust ("REIT") that operates in the southeastern and midwestern United States. The Company conducts virtually all of its activities through Highwoods Realty Limited Partnership (the "Operating Partnership"). At March 31, 2008, the Company and/or the Operating Partnership wholly owned: 314 in-service office, industrial and retail properties; 96 rental residential units; 616 acres of undeveloped land suitable for future development, of which 475 acres are considered core holdings; and an additional 12 properties under development.

At March 31, 2008, the Company owned all of the preferred partnership interests (Preferred Units) and 93.5% of the common partnership interests ("Common Units") in the Operating Partnership. Limited partners (including certain officers and directors of the Company) own the remaining Common Units. Generally, the Operating Partnership is required to redeem each Common Unit at the request of the holder thereof for cash equal to the value of one share of the Company's Common Stock, \$.01 par value (the 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 the three months ended March 31, 2008, the Company redeemed 106,613 Common Units for \$3.3 million in cash, which increased the percentage of Common Units owned by the Company from 93.3% at December 31, 2007 to 93.5% at March 31, 2008. Preferred Units in the Operating Partnership were issued to the Company in connection with the Company's Preferred Stock offerings in 1997 and 1998 (the Preferred Stock). The net proceeds raised from each of the Preferred Stock issuances were contributed by the Company to the Operating Partnership in exchange for the Preferred Units. The terms of each series of Preferred Units parallel the terms of the respective Preferred Stock as to dividends, liquidation and redemption rights.

Basis of Presentation

Our Consolidated Financial Statements are prepared in accordance with U.S. Generally Accepted Accounting Principles (GAAP). As more fully described in Notes 4 and 10, as required by Statement of Financial Accounting Standard No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets, (SFAS No. 144), the Consolidated Balance Sheet at December 31, 2007 was revised from previously reported amounts to reflect in real estate and other assets held for sale those properties held for sale at March 31, 2008. The Consolidated Statement of Income for the three months ended March 31, 2007 was also revised from previously reported amounts to reflect in discontinued operations the operations of any property sold or held for sale in the first three months of 2008.

The Consolidated Financial Statements include the Operating Partnership, wholly owned subsidiaries and those subsidiaries in which we own a majority voting interest with the ability to control operations of the subsidiaries and where no substantive participating rights or substantive kick out rights have been granted to the minority interest holders. In accordance with Emerging Issues Task Force (EITF) Issue No. 04-5,

Determining Whether a General Partner or the General Partners as a Group, Controls a Limited Partnership or Similar Entity When the Limited Partners Have Certain Rights, we consolidate partnerships, joint ventures and limited liability companies when we control the major operating and financial policies of the entity through majority ownership or in our capacity as general partner or managing member. In addition, we consolidate those entities, if any, where we are deemed to be the primary beneficiary in a variable interest entity (as defined by Financial Accounting Standards Board (FASB) Interpretation No. 46 (revised December 2003) Consolidation of Variable Interest Entities (FIN 46(R))). All significant intercompany transactions and accounts have been eliminated.

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HIGHWOODS PROPERTIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

1. DESCRIPTION OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES - Continued

The accompanying unaudited financial information, in the opinion of management, contains all adjustments (including normal recurring accruals) necessary for a fair presentation of our financial position, results of operations and cash flows. We have condensed or omitted certain notes and other information from the interim financial statements presented in this Quarterly Report on Form 10-Q. These financial statements should be read in conjunction with our 2007 Annual Report on Form 10-K.

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

Restricted Cash

Restricted cash represents cash deposits that are legally restricted or held by third parties on our behalf. They include security deposits from sales contracts on residential condominiums, 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 deposits given to lenders to un-encumber secured properties.

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 distribute to its stockholders at least 90.0% of its annual REIT taxable income, excluding capital gains. 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 prescribed in the Code. If the Company fails to qualify as a REIT in any taxable year, it will be subject to federal and state income taxes and may not be able to qualify as a REIT for four subsequent taxable years. We conduct certain business activities through a taxable REIT subsidiary, as permitted under the Code. The taxable REIT subsidiary is subject to federal and state income taxes on its net taxable income. We record provisions for income taxes, to the extent required under SFAS No. 109, Accounting for Income Taxes (SFAS No. 109), 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. Additionally, beginning January 1, 2007, we began to recognize and measure the effects of uncertain tax positions under FASB Interpretation No. 48 (FIN 48), Accounting for Uncertainty in Income Taxes, an interpretation of SFAS No. 109. See

Note 13 for discussion of the effect of FIN 48 on our accounting for income taxes.

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HIGHWOODS PROPERTIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

1. DESCRIPTION OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES - Continued

Minority Interest

Minority interest in the accompanying Consolidated Financial Statements relates primarily to the ownership by various individuals and entities other than the Company of Common Units in the Operating Partnership. In addition, minority interest is also recorded for the 50.0% interest in a consolidated affiliate, Highwoods-Markel Associates, LLC (Markel), the equity interest owned by a third party in a consolidated venture formed during 2006 with Real Estate Exchange Services (REES), and the 7% equity interest owned by a third party in Plaza Residential, LLC, a consolidated joint venture formed in February 2007 related to a residential condominium project, as described below. As of March 31, 2008, minority interest in the Operating Partnership consisted of approximately 4.0 million Common Units, which had an aggregate market value of \$122.7 million based on the \$31.07 per share closing price of the Common Stock as of such date. Minority interest in the net income of the Operating Partnership is computed by applying the weighted average percentage of Common Units not owned by the Company during the period (as a percent of the total number of outstanding Common Units) to the Operating Partnership's net income after deducting distributions on Preferred Units. The result is the amount of minority interest expense (or income) recorded for the period. In addition, when a minority unitholder redeems a Common Unit for a share of Common Stock or cash, the minority interest is reduced and the Company's share in the Operating Partnership is increased. At the end of each reporting period, the Company determines the amount that represents the minority unitholders' share of the net assets (at book value) of the Operating Partnership and compares this amount to the minority interest balance that resulted from transactions during the period involving minority interest. The Company adjusts the minority interest liability to the computed share of net assets with an offsetting adjustment to the Company's paid in capital.

The organizational documents of Markel require the entity to be liquidated through the sale of its assets upon reaching December 31, 2100. As controlling partner, we have an obligation to cause this property-owning entity to distribute proceeds of liquidation to the minority interest partner in these partially owned properties only if the net proceeds received by the entity from the sale of our assets warrant a distribution as determined by the agreement. This estimated settlement value is based on estimated third party consideration realizable by the entity upon a hypothetical disposition of the properties and is net of all other assets and liabilities. The actual amount of any distributions to the minority interest holder in this entity is difficult to predict due to many factors, including the inherent uncertainty of real estate sales. 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 minority interest holder.

In the fourth quarter of 2006, we entered into an agreement with REES to ground lease certain development land to special purpose entities owned by REES. Under the agreement, REES will contribute 7% of the costs of constructing properties on this land not to exceed \$4.0 million outstanding at any time. REES will generally earn an agreed fixed return for its economic investment in these entities. The balance of development costs will be funded by third party construction loans. If third party construction loans are not obtained, the remaining 93% of costs are loaned to the entities by us. Subject to the exercise of a purchase option, it is expected that we will acquire the properties in the future at an amount generally equal to the actual development costs incurred plus the fixed return earned by REES for its economic investment in these entities. As we are considered the primary beneficiary, we consolidate these entities in accordance with FIN 46(R). These entities will be

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re-evaluated for primary beneficiary status when the entities undertake additional activity, such as placing the development projects in-service. REES's investment in the entities is included in minority interest as shown in the tables below. All costs to form the entities and other related fees have been expensed as incurred.

Table of Contents**HIGHWOODS PROPERTIES, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

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

1. DESCRIPTION OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES - Continued

In the first quarter of 2007, our taxable REIT subsidiary formed Plaza Residential, LLC with Dominion Partners, LLC (Dominion). Plaza Residential was formed to develop and sell 139 residential condominiums to be constructed above an office tower being developed by us in Raleigh, NC. Dominion has a 7% equity interest in the joint venture, will perform development services for the joint venture for a market development fee and guarantees 40.0% of the construction financing. Dominion will also receive 35.0% of the net profits from the joint venture once the partners have received distributions equal to their equity plus a 12.0% return on their equity. We are consolidating this majority owned joint venture and intercompany transactions have been eliminated in the Consolidated Financial Statements. At March 31, 2008, binding sale contracts had been executed for all of the residential condominiums. \$4.1 million of deposits related to these contracts (non-refundable unless we default in our obligation to deliver the units) had been received and are reflected in restricted cash with a corresponding amount in other liabilities. We will account for the sale of the residential condominiums in accordance with SFAS No. 66, Accounting for Sales of Real Estate (SFAS No. 66) and will record the sales when the related closings take place.

Following is minority interest as reflected in our Consolidated Statements of Income and Consolidated Balance Sheets:

	Three Months Ended	
	March 31,	
	2008	2007
Amount shown as minority interest in continuing operations (1)	\$ (837)	\$ (2,580)
Amount related to income from discontinued operations	(11)	(58)
Amount related to gains on sales of discontinued operations	(243)	(1,481)
Total minority interest in net income	\$ (1,091)	\$ (4,119)

(1) Minority interest related to the consolidated entities other than the Operating Partnership amounted to \$0.2 million for each of the three months ended March 31, 2008 and 2007.

	March 31,	December 31,
	2008	2007
Minority interest in the Operating Partnership	\$ 60,852	\$ 63,294
Minority interest in Markel	3,386	3,446
Minority interest in REES	2,561	2,561
Minority interest in Plaza Residential	797	797
Total minority interest	\$ 67,596	\$ 70,098

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HIGHWOODS PROPERTIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

1. DESCRIPTION OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES - Continued

Impact of Newly Adopted and Issued Accounting Standards

In September 2006, the FASB issued Statement No. 157, Fair Value Measurements (SFAS No. 157), which defines fair value, establishes a framework for using fair value to measure assets and liabilities, and expands disclosures about fair value measurements. The statement applies whenever other statements require or permit assets or liabilities to be measured at fair value. SFAS No. 157 became effective for fiscal years beginning after November 15, 2007, except for nonfinancial assets and liabilities that are recognized or disclosed at fair value in the financial statements on a nonrecurring basis, for which application has been deferred for one year. We adopted SFAS No. 157 in the first quarter of 2008 (See Note 9).

In November 2006, the FASB ratified EITF Issue No. 06-8, Applicability of the Assessment of a Buyer's Continuing Investment under FASB Statement No. 66 for Sales of Condominiums. EITF No. 06-8 provided additional guidance on whether the seller of a condominium unit is required to evaluate the buyer's continuing investment under SFAS No. 66 in order to recognize profit from the sale under the percentage of completion method. The EITF concluded that both the buyer's initial and continuing investment must meet the criteria in SFAS No. 66 in order for condominium sale profits to be recognized under the percentage of completion method. Sales of condominiums not meeting the continuing investment test must be accounted for under the deposit method. We adopted EITF No. 06-8 in the first quarter of 2008 and such adoption did not have an effect on our financial condition or results of operations.

In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities (SFAS No. 159), which permits all entities to choose to measure eligible items at fair value at specified election dates. We adopted SFAS No. 159 on January 1, 2008 and such adoption did not have an effect on our financial condition or results of operations.

In December 2007, the FASB issued SFAS No. 141(R), Business Combinations (SFAS No. 141(R)), which addresses principles and requirements for how an acquirer recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed and any noncontrolling interest in the acquiree. SFAS No. 141(R) becomes effective for us on January 1, 2009. We are currently evaluating the impact SFAS No. 141(R) will have on our financial condition and results of operations.

In December 2007, the FASB issued SFAS No. 160, Noncontrolling Interests in Consolidated Financial Statements - an amendment of ARB No. 51 (SFAS No. 160), which establishes accounting and presentation standards for a noncontrolling interest in a subsidiary and amends certain of ARB No. 51's consolidation procedures for consistency with other business combination standards. SFAS No. 160 becomes effective for us on

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January 1, 2009. We are currently evaluating the impact SFAS No. 160 will have on our financial condition and results of operations.

In December 2007, the FASB ratified EITF Issue No. 07-6 *Accounting for the Sale of Real Estate Subject to the Requirements of FASB Statement No. 66, Accounting for Sales of Real Estate, When the Agreement Includes a Buy-Sell Clause* (EITF No. 07-6), which addresses whether a buy-sell clause represents a prohibited form of continuing involvement that would preclude partial sale and profit recognition pursuant to SFAS No. 66. We adopted EITF No. 07-6 in the first quarter of 2008 and such adoption did not have an effect on our financial condition or results of operations.

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HIGHWOODS PROPERTIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

1. DESCRIPTION OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES - Continued

In March 2008, the FASB issued SFAS No. 161, Disclosures about Derivative Instruments and Hedging Activities (SFAS No. 161), which amends and expands the disclosure requirements of SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities. This statement is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008, with early application encouraged. SFAS No. 161 becomes effective for us on January 1, 2009. We are currently evaluating the impact SFAS No. 161 will have on our financial condition and results of operations.

2. INVESTMENTS IN UNCONSOLIDATED AND OTHER AFFILIATES

We have retained equity interests ranging from 12.5% to 50.0% in various joint ventures with unrelated investors. We account for our unconsolidated joint ventures using the equity method of accounting. As a result, the assets and liabilities of these joint ventures for which we use the equity method of accounting are not included on our Consolidated Balance Sheet.

During the third quarter of 2006, three of our joint ventures made distributions aggregating \$17.0 million as a result of a refinancing of debt related to various properties held by the joint ventures. We received 50.0% of such distributions. As a result of these distributions, our investment account in these joint ventures became negative. The new debt is non-recourse; however, we and our partner have guaranteed other debt and have contractual obligations to support the joint ventures, which are included in the Guarantees and Other Obligations table in Note 12. Therefore, in accordance with SOP 78-9, Accounting for Investments in Real Estate Ventures, we recorded the distributions as a reduction of the investment account and included the resulting negative investment balances of \$10.9 million in accounts payable, accrued expenses and other liabilities in the Consolidated Balance Sheet at March 31, 2008.

Four of our joint ventures are consolidated. SF-HIW Harborview Plaza, LP is accounted for as a financing arrangement pursuant to SFAS No. 66, as described in Note 3 to the Consolidated Financial Statements in our 2007 Annual Report on Form 10-K. Markel, REES and Plaza Residential, which are discussed in Note 1, are each consolidated.

Table of Contents**HIGHWOODS PROPERTIES, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

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

2. INVESTMENTS IN UNCONSOLIDATED AND OTHER AFFILIATES - Continued

Investments in unconsolidated affiliates as of March 31, 2008 and combined summarized income statements for our unconsolidated joint ventures for the three months ended March 31, 2008 and 2007 were as follows:

Joint Venture	Location of Properties	Ownership	
		Interest	
Board of Trade Investment Company	Kansas City, MO	49.00	%
Kessinger/Hunter, LLC	Kansas City, MO	26.50	%
4600 Madison Associates, LLC	Kansas City, MO	12.50	%
Plaza Colonnade, LLC	Kansas City, MO	50.00	%
Dallas County Partners I, LP	Des Moines, IA	50.00	%
Dallas County Partners II, LP	Des Moines, IA	50.00	%
Dallas County Partners III, LP	Des Moines, IA	50.00	%
Fountain Three	Des Moines, IA	50.00	%
RRHWoods, LLC	Des Moines, IA	50.00	%
Highwoods DLF 98/29, LP	Atlanta, GA; Charlotte, NC; Greensboro, NC; Raleigh, NC; Orlando, FL; Baltimore, MD	22.81	%
Highwoods DLF 97/26 DLF 99/32, LP	Atlanta, GA; Greensboro, NC; Orlando, FL	42.93	%
Highwoods KC Glenridge Office, LP	Atlanta, GA	40.00	%
Highwoods KC Glenridge Land, LP	Atlanta, GA	40.00	%
HIW-KC Orlando, LLC	Orlando, FL	40.00	%
Concourse Center Associates, LLC	Greensboro, NC	50.00	%
Highwoods DLF Forum, LLC	Raleigh, NC	25.00	%

	Three Months Ended	
	March 31, 2008	2007
Income Statements:		
Revenues	\$ 38,529	\$ 38,017
Expenses:		
Operating expenses	18,431	15,163
Depreciation and amortization	7,458	7,253
Interest expense and loan cost amortization	8,487	8,632
Total expenses	34,376	31,048
Income before disposition of property	4,153	6,969

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Gains on disposition of property		20,621
Net income	\$ 4,153	\$ 27,590
Our share of:		
Net income (1)	\$ 1,989	\$ 9,717
Depreciation and amortization (real estate related)	\$ 2,935	\$ 2,866
Interest expense and loan cost amortization	\$ 3,529	\$ 3,661
Gains on disposition of property	\$	\$ 7,158

- (1) Our share of net income differs from our weighted average ownership percentage in the joint ventures net income due to our purchase accounting and other related adjustments.

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HIGHWOODS PROPERTIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

2. INVESTMENTS IN UNCONSOLIDATED AND OTHER AFFILIATES - Continued

On September 27, 2004, we and an affiliate of Crosland, Inc. (Crosland) formed Weston Lakeside, LLC, in which we had a 50.0% ownership interest. Crosland managed and operated this joint venture, which constructed 332 rental residential units in three buildings at a total cost of approximately \$33.7 million. Crosland received 3.25% of all project costs other than land as a development fee and 3.5% of the gross revenue of the joint venture in management fees. We provided certain development services for the project and received a fee equal to 1.0% of all project costs excluding land. We accounted for this joint venture using the equity method of accounting. On February 22, 2007, the joint venture sold the 332 rental residential units to a third party for gross proceeds of \$45.0 million and paid off all of its outstanding debt and various development related costs. The joint venture recorded a gain of \$11.3 million in the first quarter of 2007 related to this sale and we recorded \$5.0 million as our proportionate share through equity in earnings of unconsolidated affiliates. Our share of the gain was less than 50.0% due to Crosland's preferred return as the developer. We received aggregate net distributions of \$6.2 million. Weston Lakeside, LLC has been dissolved.

We have a 22.81% interest in a joint venture (DLF I) with Schweiz-Deutschland-USA Dreilander Beteiligung Objekt DLF 98/29-Walker Fink-KG ("DLF"). We are the property manager and leasing agent of DLF I's properties and receive customary management and leasing fees. On March 12, 2007, DLF I sold five properties to a third party for gross proceeds of \$34.2 million and recorded a gain of \$9.3 million related to this sale. We recorded \$2.1 million as our proportionate share of this gain through equity in earnings of unconsolidated affiliates. On May 21, 2007, DLF I acquired Eola Park Centre, a 167,000 square foot office building in Orlando, Florida, for \$39.3 million. In June 2007, the joint venture obtained a \$27.7 million loan secured by Eola Park Centre. Simultaneously with DLF I's acquisition of Eola Park Centre, we separately acquired an adjacent parcel of development land for \$2.0 million on a wholly-owned basis.

In March 2008, we and an affiliate of DLF formed a new joint venture, Highwoods DLF Forum, LLC, in which we have a 25.00% ownership interest. Upon formation of this joint venture, we contributed \$0.8 million of cash. On April 3, 2008, Highwoods DLF Forum, LLC, acquired The Forum, which is a 635,000 square foot office park in Raleigh, North Carolina, for approximately \$113 million. We contributed an additional \$11.5 million to Highwoods DLF Forum, LLC and, simultaneously with the acquisition of The Forum, the joint venture obtained a \$67.5 million secured loan. We are the property manager and leasing agent for the office park and receive customary management fees and leasing commissions. We will account for this unconsolidated joint venture using the equity method of accounting.

For additional information regarding our other investments in unconsolidated and other affiliates, see Note 2 to the Consolidated Financial Statements in our 2007 Annual Report on Form 10-K.

3. FINANCING ARRANGEMENTS

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For information regarding sale transactions that have been accounted for as financing arrangements under paragraphs 25 through 29 of SFAS No. 66, see Notes 5 and 9 herein and Note 3 to the Consolidated Financial Statements in our 2007 Annual Report on Form 10-K.

Table of Contents**HIGHWOODS PROPERTIES, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

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

4. INVESTMENT ACTIVITIES AND IMPAIRMENT OF LONG-LIVED ASSETS**Dispositions**

Gains from dispositions not classified as discontinued operations consisted of the following:

	Three Months Ended	
	March 31,	
	2008	2007
Gains on disposition of land	\$	\$ 15,835
Gains on disposition of depreciable properties		908
Total	\$	\$ 16,743

Net gains on sales of discontinued operations, net of minority interest, consisted of the following:

	Three Months Ended	
	March 31,	
	2008	2007
Gains on disposition of depreciable properties	\$ 3,726	\$ 19,743
Allocable minority interest	(243)	(1,481)
Total	\$ 3,483	\$ 18,262

See Note 10 for information on discontinued operations.

The above gains on land and depreciable properties include deferred gain recognition from prior sales.

Development

We currently have under development 12 office, industrial and retail properties aggregating 2.1 million square feet and 139 for-sale residential units. The aggregate cost of these properties is currently expected to total approximately \$343 million when fully leased and completed, of which \$215 million was incurred as of March 31, 2008. The weighted average pre-leasing of such development projects was 68% at March 31, 2008. Six of these properties aggregating 1.2 million square feet and \$127 million total investment have been completed and transferred to completed real estate assets at various times prior to March 31, 2008, but had not yet reached projected 95% stabilized occupancy. The remaining development properties are still under construction and are included in Development in Process in the Consolidated Balance Sheet.

In addition to the development projects discussed above, during the three months ended March 31, 2008, four properties were completed and placed in service. The weighted average pre-leasing of these properties was 88% and the total investment aggregated approximately \$51.7 million at March 31, 2008.

Impairments of Long-Lived Assets

SFAS No. 144 also requires that a long-lived asset classified as held for sale be measured at the lower of the carrying value or fair value less cost to sell. During the three months ended March 31, 2008 and 2007, there were no properties held for sale which had a carrying value that was greater than fair value less cost to sell; therefore, no impairment loss was recognized in the Consolidated Statements of Income for the three months ended March 31, 2008 and 2007.

Table of Contents**HIGHWOODS PROPERTIES, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(tabular dollar amounts in thousands, except per share data)****4. INVESTMENT ACTIVITIES AND IMPAIRMENT OF LONG-LIVED ASSETS - Continued**

SFAS No. 144 also requires that if indicators of impairment exist, the carrying value of a long-lived asset classified as held for use be compared to the sum of its estimated undiscounted future cash flows. If the carrying value is greater than the sum of its undiscounted future cash flows, an impairment loss should be recognized for the excess of the carrying amount of the asset over its estimated fair value. In each of the three months ended March 31, 2008 and 2007, no indicators of impairment existed for assets held for use. Therefore, no impairment losses were recorded in the three months ended March 31, 2008 and 2007.

5. MORTGAGES, NOTES PAYABLE AND FINANCING OBLIGATIONS

Our consolidated mortgages and notes payable consisted of the following at March 31, 2008 and December 31, 2007:

	March 31, 2008	December 31, 2007
Secured mortgage loans	\$ 669,931	\$ 665,311
Unsecured loans	1,033,307	976,676
Total	\$ 1,703,238	\$ 1,641,987

As of March 31, 2008, our secured mortgage loans were secured by real estate assets with an aggregate undepreciated book value of approximately \$1.1 billion.

Our \$450 million unsecured revolving credit facility is initially scheduled to mature on May 1, 2009. Assuming no default exists, we have an option to extend the maturity date by one additional year. The interest rate is LIBOR plus 80 basis points and the annual base facility fee is 20 basis points. The revolving credit facility had \$201 million of availability at March 31, 2008.

On March 22, 2007, the Operating Partnership issued \$400 million aggregate principal amount of 5.85% Notes due March 15, 2017, net of original issue discount of \$1.2 million. We used the net proceeds from the issuance of the notes to repay borrowings outstanding under an unsecured non-revolving credit facility that was obtained on January 31, 2007 (which was subsequently terminated) and under the revolving credit facility.

On June 5, 2007, two three-year secured construction loans totaling \$24.7 million with interest at 175 basis points over LIBOR were obtained by REES, a consolidated joint venture (see Note 1). Subsequently, on July 17, 2007, REES obtained an additional \$13.7 million, three-year secured construction loan with interest at 165 basis points over LIBOR. In October 2007, REES paid off one of the original secured construction loans, which had accounted for \$4.4 million of the original \$24.7 million. At March 31, 2008, \$24.4 million was outstanding under these two remaining loans.

On December 20, 2007, we closed a \$70 million secured revolving construction facility. The loan matures on December 20, 2010. The interest rate is based on LIBOR plus 85 basis points. At March 31, 2008, there were no amounts outstanding on this revolving facility.

In December 2007, Plaza Residential, LLC, a consolidated joint venture (see Note 1), obtained a two-year, \$34.1 million secured construction loan with interest at 140 basis points over LIBOR. At March 31, 2008, there was \$2.5 million outstanding on this loan.

On February 1, 2008, we paid off at maturity \$100.0 million of 7.125% unsecured notes using borrowings under our revolving credit facility. On February 26, 2008, we closed a \$137.5 million three-year term loan that bears interest at LIBOR plus 110 basis points. Proceeds from this loan were used to reduce the outstanding borrowings under our revolving credit facility and for short-term investments.

Table of Contents**HIGHWOODS PROPERTIES, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(tabular dollar amounts in thousands, except per share data)****5. MORTGAGES, NOTES PAYABLE AND FINANCING OBLIGATIONS - Continued**

Our revolving credit facility, our term loan and the indenture that governs the Operating Partnership's outstanding notes require us to comply with customary operating covenants and various financial and operating ratios. We and the Operating Partnership are each currently in compliance with all such requirements.

Financing Obligations

Our financing obligations consisted of the following at March 31, 2008 and December 31, 2007:

	March 31, 2008	December 31, 2007
SF-HIW Harborview, LP financing obligation (1)	\$ 16,781	\$ 16,566
Tax increment financing obligation (2)	17,395	17,395
Capitalized ground lease obligation (3)	1,120	1,110
Total	\$ 35,296	\$ 35,071

(1) See Note 3 to the Consolidated Financial Statements in our 2007 Annual Report on Form 10-K for further discussion of this financing obligation. See Note 9 for Fair Value Measurement disclosure.

(2) In connection with tax increment financing for construction of a public garage related to an office building, we are obligated to pay fixed special assessments over a 20-year period. The net present value of these assessments, discounted at 6.93% at the inception of the obligation, which represents the interest rate on the underlying bond financing, is shown as a financing obligation in the Consolidated Balance Sheet. We also receive special tax revenues and property tax rebates recorded in interest and other income, which are intended, but not guaranteed, to provide funds to pay the special assessments.

On December 3, 2007, we acquired for \$20.9 million the remaining outstanding bonds, at par value, that were issued by a municipal authority in connection with this tax increment financing. These available for sale securities are carried at estimated fair value with unrealized gains or losses reported in other comprehensive income, in accordance with SFAS No. 115, Accounting for Certain Investments in Debt and Equity Securities. See Note 9 for Fair Value Measurement disclosure.

(3) Represents a capitalized lease obligation to the lessor of land on which we are constructing a new building. We are obligated to make fixed payments to the lessor through October 2022 and the lease provides for fixed price purchase options in the ninth and tenth years of the lease. We intend to exercise the purchase option in order to prevent an economic penalty related to conveying the building to the lessor at the expiration of the lease. The net present value of the fixed rental payments and purchase option through the ninth year was calculated using a

discount rate of 7.1%. The assets and liabilities under the capital lease are recorded at the lower of the present value of minimum lease payments or the fair value. The liability accretes each month for the difference between the interest rate on the financing obligation and the fixed payments. The accretion will continue until the liability equals the purchase option of the land in the ninth year of the lease.

6. EMPLOYEE BENEFIT PLANS

Compensation Programs

During the three months ended March 31, 2008, we granted under our Amended and Restated 1994 Stock Option Plan (the "Stock Option Plan") 0.3 million stock options at an exercise price equal to the closing market price of a share of our common stock on the date of grant. The fair value of each option grant is estimated on the date of grant using the Black-Scholes option pricing model, which resulted in a weighted-average grant date fair value per share of \$3.18. We also granted 0.09 million shares of time-based restricted stock and 0.07 million shares of performance-based and total return-based restricted stock with a weighted-average grant date fair value per share of \$30.09 and \$30.18, respectively. Shares of total return-based restricted stock issued in 2008 will generally vest only to the extent our absolute total return for the three-year period ended December 31, 2010 is at least 22% or if our total return exceeds 100% of the peer group index. See Note 6 to the Consolidated Financial Statements in our 2007 Annual Report on Form 10-K for additional information regarding our equity incentive and other compensation plans.

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HIGHWOODS PROPERTIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

6. EMPLOYEE BENEFIT PLANS - Continued

During the three months ended March 31, 2008 and 2007, we recognized approximately \$2.2 million and \$1.2 million, respectively, of stock-based compensation expense. As of March 31, 2008, there was \$13.9 million of total unrecognized stock-based compensation costs, which will be recognized over a weighted average remaining contractual term of 2.5 years.

7. DERIVATIVE FINANCIAL INSTRUMENTS AND OTHER FINANCIAL INSTRUMENTS HELD FOR SALE

Accumulated Other Comprehensive Loss (AOCL) at March 31, 2008 was \$1.8 million and consisted of deferred gains and losses from past cash flow hedging instruments, deferred losses on current cash flow hedges and the mark to market adjustment for bonds that are classified as held for sale.

The amount of deferred gains and losses from past cash flow hedging instruments which are being recognized as interest expense over the terms of the related debt aggregated \$0.8 million (see Note 8). We expect that the portion of the cumulative loss recorded in AOCL at March 31, 2008 associated with these derivative instruments, which will be recognized as interest expense within the next 12 months, will be approximately \$0.03 million.

In January 2008, we entered into two floating-to-fixed interest rate swaps for a one-year period with respect to an aggregate of \$50 million of borrowings outstanding under our revolving credit facility and other floating rate debt. These swaps fix the underlying LIBOR rate under which interest on such borrowings is based at 3.26% for \$30 million of borrowings and 3.24% for \$20 million of borrowings. These swaps were designated as hedges under SFAS No. 133. Accordingly, the swaps are being accounted for as cash flow hedges. We expect that the portion of the cumulative loss recorded in AOCL at March 31, 2008 associated with these derivative instruments, which will be recognized within the next 12 months, will be \$0.4 million. See Note 9 for Fair Value Measurement disclosure.

We currently have an investment in bonds that were issued by a municipal authority in connection with tax increment financing (see Note 5). These bonds are currently being held for sale and thus are being recorded at fair value with the offset recorded in AOCL. The amount of unrealized loss at March 31, 2008 was \$0.6 million. See Note 9 for Fair Value Measurement disclosure.

8. OTHER COMPREHENSIVE INCOME

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Other comprehensive income represents net income plus the changes in certain amounts deferred in accumulated other comprehensive income/(loss) related to hedging and other activities not reflected in the Consolidated Statements of Income. The components of other comprehensive income are as follows:

	Three Months Ended	
	March 31,	
	2008	2007
Net income	\$ 15,643	\$ 52,558
Other comprehensive income:		
Unrealized loss on available for sale securities	(561)
Loss on cash-flow hedge	(409)
Amortization of hedging gains and losses included in other comprehensive income	80	142
Total other comprehensive (loss)/income	(890) 142
Total comprehensive income	\$ 14,753	\$ 52,700

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HIGHWOODS PROPERTIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

9. FAIR VALUE MEASUREMENTS

As stated in Note 1, on January 1, 2008, we adopted SFAS No. 157 for our financial assets and liabilities. Our adoption of SFAS No. 157 did not impact our financial position, results of operations or liquidity. In accordance with FASB Staff Position No. FAS 157-2, Effective Date of FASB Statement No. 157 (FSP FAS 157-2), we elected to defer until January 1, 2009 the adoption of SFAS No. 157 for all nonfinancial assets and nonfinancial liabilities that are not recognized or disclosed at fair value in the financial statements on a recurring basis. The adoption of SFAS No. 157 for those assets and liabilities within the scope of FSP FAS 157-2 is not expected to have a material impact on our financial position, results of operations or liquidity.

SFAS No. 157 provides a framework for measuring fair value and requires expanded disclosure regarding fair value measurements. SFAS No. 157 defines fair value as the price that would be received for an asset or the exit price that would be paid to transfer a liability in the principal or most advantageous market in an orderly transaction between market participants on the measurement date. SFAS No. 157 also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs, where available. The following summarizes the three levels of inputs required by the standard that we use to measure fair value, as well as the assets and liabilities that we value using those levels of inputs.

Level 1. Quoted prices in active markets for identical assets or liabilities. Our Level 1 assets are comprised of investments in marketable securities which we use to pay benefits under our deferred compensation plan. Our Level 1 liabilities are our obligations to pay certain deferred compensation plan benefits whereby participants have designated investment options (primarily mutual funds) to serve as the basis for measurement of the notional value of their accounts.

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 are bonds that are not routinely traded whose fair value is determined using an estimate of projected redemption value predicated upon quoted bid/ask prices for similar unrated bonds. Our Level 2 liabilities are interest rate swaps whose fair value is determined using a price model predicated upon observable market inputs.

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 liabilities consist of the right of our joint venture partner in SF-HIW Harborview, LP to put its 80% equity interest in SF-HIW Harborview Plaza, LP to us in exchange for cash at any time during the one-year period commencing September 11, 2014. Because of the put option, this transaction is accounted for as a financing transaction. Accordingly, the assets and liabilities and operations related to the Harborview Plaza, the property owned by SF-HIW Harborview Plaza, LP, including any new financing by the partnership, remain in our Consolidated Financial Statements. As a result, we have established a financing obligation equal to the net equity contributed by the other partner. At the end of each annual reporting period, the balance of the financing obligation is adjusted to equal the greater of the original

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financing obligation or the current fair value of the put option. Due to the lack of observable market quotes for the put option, we utilize a valuation model predicated upon capitalization rates and discounted cash flows, which take into account estimates such as future lease rollovers, lease up activity and future expenditures, to calculate the estimated fair value of the put option. The estimated fair value of the put option was \$15.9 million and \$15.6 million at March 31, 2008 and December 31, 2007, respectively. This amount is adjusted by a related valuation allowance account, which is being amortized prospectively through September 2014 as interest expense on financing obligation. The amount of the valuation allowance account was \$0.9 million and \$1.0 million at March 31, 2008 and December 31, 2007, respectively. The amount amortized into interest expense from the valuation allowance was \$0.03 million during the three months ended March 31, 2008. For more information regarding this joint venture, see Note 3 to the Consolidated Financial Statements in our 2007 Annual Report on Form 10-K.

Table of Contents**HIGHWOODS PROPERTIES, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

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

9. FAIR VALUE MEASUREMENTS - Continued

The following table sets forth the financial assets and liabilities as of March 31, 2008 that we measured at fair value on a recurring basis by level within the fair value hierarchy. As required by SFAS No. 157, assets and liabilities measured at fair value are classified in their entirety based on the lowest level of input that is significant to their fair value measurement.

		Fair Value Measurements Using		
		Level 1	Level 2	Level 3
		Quoted Prices in	Significant	
		Active Markets	Other	Significant
	Balance at	for Identical	Observable	Unobservable
	March 31, 2008	Assets	Inputs	Inputs
Assets				
Marketable securities (1)	\$ 7,225	\$ 7,225	\$	\$
Taxable bonds	20,354		20,354	
Total Assets	\$ 27,579	\$ 7,225	\$ 20,354	\$
Liabilities				
Interest rate swaps	\$ 917	\$	\$ 917	\$
Deferred compensation	7,225	7,225		
Harborview financing obligation	15,869			15,869
Harborview valuation allowance	912			912
Total Liabilities	\$ 24,923	\$ 7,225	\$ 917	\$ 16,781

(1) The marketable securities are held through our officer deferred compensation plans.

Table of Contents**HIGHWOODS PROPERTIES, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

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

10. DISCONTINUED OPERATIONS

As part of our business strategy, we from time to time selectively dispose of non-core properties in order to use the net proceeds for investments, for repayment of debt and/or retirement of Preferred Stock, or other purposes. The table below sets forth the net operating results of those assets classified as discontinued operations in our Consolidated Financial Statements. These assets classified as discontinued operations comprise 1.3 million square feet of office and industrial properties and 13 rental residential units sold during 2007 and the three months ended March 31, 2008 and 0.1 million square feet of office properties held for sale at March 31, 2008. These long-lived assets relate to disposal activities that were initiated subsequent to the effective date of SFAS No. 144, or that met certain stipulations prescribed by SFAS No. 144. The operations of these assets have been reclassified from our ongoing operations to discontinued operations, and we will not have any significant continuing involvement in the operations after the disposal transactions:

	Three Months Ended	
	March 31,	
	2008	2007
Rental and other revenues	\$ 506	\$ 2,876
Operating expenses:		
Rental property and other expenses	282	1,323
Depreciation and amortization	68	781
Total operating expenses	350	2,104
Other income	1	11
Income before minority interest and gains on sales of discontinued operations	157	783
Minority interest in discontinued operations	(11)	(58)
Income from discontinued operations, net of minority interest	146	725
Gains on sales of discontinued operations	3,726	19,743
Minority interest in discontinued operations	(243)	(1,481)
Gains on sales of discontinued operations, net of minority interest	3,483	18,262
Total discontinued operations	\$ 3,629	\$ 18,987

The net book value of properties classified as discontinued operations that were sold during 2007 and the three months ended March 31, 2008 and held for sale at March 31, 2008 aggregated \$84.5 million.

Table of Contents**HIGHWOODS PROPERTIES, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(tabular dollar amounts in thousands, except per share data)****10. DISCONTINUED OPERATIONS - Continued**

The following table includes the major classes of assets and liabilities of the properties classified as held for sale as of March 31, 2008 and December 31, 2007:

	March 31, 2008		December 31, 2007
Land	\$ 1,642		\$ 1,642
Land held for development	10,404		10,404
Buildings and tenant improvements	8,003		7,985
Accumulated depreciation	(2,132	)	(2,080
Net real estate assets	17,917		17,951
Deferred leasing costs, net	178		181
Accrued straight line rents receivable	109		114
Prepaid expenses and other	95		63
Total assets	\$ 18,299		\$ 18,309
Tenant security deposits, deferred rents and accrued costs (1)	\$ 405		\$ 309

(1) Included in accounts payable, accrued expenses and other liabilities.

Table of Contents**HIGHWOODS PROPERTIES, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

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

11. EARNINGS PER SHARE

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

	Three Months Ended	
	March 31,	
	2008	2007
Basic income per share:		
Numerator:		
Income from continuing operations	\$ 12,014	\$ 33,571
Preferred Stock dividends	(2,838)	(4,113)
Income from continuing operations available for common stockholders	9,176	29,458
Income from discontinued operations	3,629	18,987
Net income available for common stockholders	\$ 12,805	\$ 48,445
Denominator:		
Denominator for basic earnings per share weighted average share (1)	56,729	56,040
Basic earnings per share:		
Income from continuing operations	\$ 0.16	\$ 0.52
Income from discontinued operations	0.07	0.34
Net income	\$ 0.23	\$ 0.86
Diluted income per share:		
Numerator:		
Income from continuing operations	\$ 12,014	\$ 33,571
Preferred Stock dividends	(2,838)	(4,113)
Minority interest in the Operating Partnership	639	2,400
Income from continuing operations available for common stockholders	9,815	31,858
Income from discontinued operations	3,629	18,987
Minority interest in the Operating Partnership in discontinued operations	254	1,539
Income from discontinued operations	3,883	20,526
Net income available for common stockholders	\$ 13,698	\$ 52,384
Denominator:		
Denominator for basic earnings per share adjusted weighted average share (1)	56,729	56,040
Add:		
Employee and director stock options and warrants	232	1,060
Common Units	3,967	4,542
Unvested restricted stock	122	258
Denominator for diluted earnings per share adjusted weighted average shares and assumed conversions	61,050 (2)	61,900
Diluted earnings per share:		

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Income from continuing operations	\$ 0.16	\$ 0.52
Income from discontinued operations	0.06	0.33
Net income	\$ 0.22	\$ 0.85

- (1) Weighted average shares exclude shares of unvested restricted stock pursuant to SFAS No. 128, Earnings per Share.
- (2) Options and warrants aggregating approximately 0.4 million shares were outstanding during the three months ended March 31, 2008, but were not included in the computation of diluted earnings per share because the exercise prices of the options and warrants were higher than the average market price of Common Stock during these periods.

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HIGHWOODS PROPERTIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

12. COMMITMENTS AND CONTINGENCIES

Concentration of Credit Risk

We maintain cash and cash equivalent investments and restricted cash at financial institutions. The combined account balances at each institution typically 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.

Land Leases

Certain properties in our wholly owned portfolio are subject to land leases expiring through 2082. Rental payments on these leases are adjusted annually based on either the consumer price index (CPI) or on a pre-determined schedule. Land leases subject to increases under a pre-determined schedule are accounted for under the straight-line method. Total expense recorded for land leases was \$0.4 million and \$0.3 million for the three months ended March 31, 2008 and 2007, respectively.

As of March 31, 2008, our payment obligations for future minimum payments on operating leases (which include scheduled fixed increases, but exclude increases based on CPI) were as follows:

Remainder of 2008	\$ 809
2009	1,118
2010	1,135
2011	1,155
2012	1,175
Thereafter	44,368
	\$ 49,760

Environmental Matters

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Substantially all of our in-service 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 is management aware of, any environmental liability that management believes would have a material adverse effect on the accompanying Consolidated Financial Statements.

Table of Contents**HIGHWOODS PROPERTIES, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(tabular dollar amounts in thousands, except per share data)****12. COMMITMENTS AND CONTINGENCIES - Continued****Guarantees and Other Obligations**

The table below sets forth information about certain guarantees and other obligations as of March 31, 2008. The amounts reflected in the table assume we would be required to pay the maximum potential exposure with no offsets or reductions. With respect to a rent guarantee, if the space is leased, we assumed the existing tenant defaulted at March 31, 2008 and that the space will remain unleased through the remainder of the guaranty. If the space is vacant, we assumed the space will remain vacant through the remainder of the guaranty. Since it is assumed that no new tenant will occupy the space, lease commissions, if applicable, are excluded.

Entity or Transaction	Type of Guarantee or Other Obligation	Amount Recorded/ Deferred	Date Guarantee Expires
Des Moines Joint Ventures (1),(4)	Debt	\$	11/2015
RRHWoods, LLC (2),(5)	Indirect Debt	\$ 324	8/2010
Plaza Colonnade (2),(6)	Indirect Debt	\$ 8	12/2009
Industrial (3),(7)	Environmental costs	\$ 125	Until Remediated
Highwoods DLF 97/26 DLF 99/32, LP (2),(8)	Rent	\$ 112	6/2008
RRHWoods, LLC and Dallas County Partners (2),(9)	Indirect Debt	\$ 68	6/2014
RRHWoods, LLC (1),(2),(11)	Indirect Debt	\$ 30	11/2009
HIW-KC Orlando, LLC (3),(10)	Rent	\$ 298	4/2011
HIW-KC Orlando, LLC (3),(10)	Leasing Costs	\$ 296	Until Paid
Capitalized Lease Obligations (12)	Debt	\$ 292	Various
Brickstone (2),(13)	Debt	\$	5/2017

- (1) Recourse provisions exist that would enable us to recover some or all of any such payments from the joint ventures' assets.
- (2) Represents guarantees that fall under the initial recognition and measurement requirements of FASB Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others" (FIN 45).
- (3) Represents guarantees that are excluded from the fair value accounting and disclosure provisions of FIN 45 because the existence of such guarantees prevents sale treatment and/or the recognition of profit from a sale transaction.
- (4) We and our joint venture each guaranteed \$8.6 million of debt of the Des Moines joint ventures that was outstanding at March 31, 2008. The joint ventures currently generate sufficient cash flow to cover the required debt service. This guarantee was entered into prior to the January 1, 2003 effective date of FIN 45 for initial recognition and measurement.

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- (5) To facilitate a financing by the RRHWoods, LLC joint venture, we and our joint venture partner each guaranteed \$3.1 million relating to a letter of credit and a corresponding master lease through August 2010. The guarantee requires us to pay under a contingent master lease if the cash flows from the building securing the letter of credit do not cover at least 50% of the minimum debt service. During 2007, we made master lease payments of \$0.1 million. As of March 31, 2008, we have recorded a \$0.3 million deferred charge included in other assets and liabilities on our Consolidated Balance Sheet with respect to this guarantee. Our maximum potential exposure under this guarantee was \$0.5 million at March 31, 2008.
- (6) To facilitate a financing by the Plaza Colonnade, LLC joint venture, we and our joint venture partner signed a contingent master lease relating to 30,772 square feet through December 2009. Our maximum potential exposure under this master lease was \$0.9 million at March 31, 2008. The current occupancy level of the building has been sufficient to cover all debt service requirements and, accordingly, no payments have been required under the master lease.

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HIGHWOODS PROPERTIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

12. COMMITMENTS AND CONTINGENCIES - Continued

- (7) As part of the sale of an industrial property in December 2003, we indemnified the buyer with respect to environmental concerns of up to \$0.1 million. As a result, \$0.1 million of the gain was deferred at the time of sale and will remain deferred until the environmental concerns are remediated.
- (8) To facilitate the restructuring of a tenant's leases with us and the Highwoods DLF 97/26 DLF 99/32, LP joint venture in September 2003, we agreed to compensate the joint venture for any economic losses incurred as a result of these lease modifications through June 2008. In connection with this arrangement, we have approximately \$0.1 million in other liabilities and \$0.1 million as a deferred charge in other assets recorded on our Consolidated Balance Sheet at March 31, 2008. Our maximum potential exposure under this arrangement was \$0.1 million at March 31, 2008. During 2008, \$0.1 million was charged to expense in connection with this arrangement.
- (9) To facilitate a financing by the RRHWoods, LLC and Dallas County Partners joint ventures, we and our joint venture partner agreed to master lease certain vacant space and each guarantee \$0.8 million of debt through 2014. No master lease payments were necessary in 2007. We currently have recorded \$0.1 million in other liabilities and \$0.1 million as a deferred charge included in other assets on our Consolidated Balance Sheet with respect to the master lease payment guarantee. The maximum potential exposure under the master lease was \$1.9 million at March 31, 2008. Because the joint ventures currently generate sufficient cash flow to cover the required debt service, no liability for the \$0.8 million direct guarantee was recorded at March 31, 2008.
- (10) We have guaranteed rent to the HIW KC Orlando, LLC joint venture for 3,248 rentable square feet through April 2011. The maximum potential exposure under this guarantee was \$0.3 million at March 31, 2008. Additionally, we agreed to guarantee the initial leasing costs, originally estimated at \$4.1 million, for approximately 11% of the total square feet of the property owned by the joint venture. No payments have been made thus far in 2008 under this arrangement.
- (11) To facilitate a financing by the RRHWoods, LLC joint venture, we and our joint venture partner each agreed to guarantee \$3.3 million of the joint venture's debt through November 2009, but can be renewed through November 2011 at the joint venture's option. Because the joint venture currently generates sufficient cash flow to cover the required debt service, no liability for this guarantee was recorded at March 31, 2008. In addition, we agreed to a master lease for 50% of the debt service should the joint venture not generate sufficient cash flow to cover the required debt service. As a result of this master lease, we have recorded \$0.03 million in other liabilities and as a deferred charge in other assets on our Consolidated Balance Sheet at March 31, 2008.
- (12) Represents capitalized lease obligations of \$0.3 million related to office equipment, which is included in accounts payable, accrued expenses and other liabilities on our Consolidated Balance Sheet at March 31, 2008.
- (13) To facilitate a financing by RRHWoods, LLC, our joint venture partner provided a \$1.5 million letter of credit. We agreed to reimburse our partner for 50% of the letter of credit in the event of a default by the joint venture of the underlying debt. Because the joint venture currently generates sufficient cash flow to cover the required debt service, no liability for this obligation was recorded at March 31, 2008.

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 the 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.

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HIGHWOODS PROPERTIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

13. INCOME TAXES

Our financial statements include the operations of our taxable REIT subsidiary that is not entitled to a dividends paid deduction and is subject to corporate federal, state and local income taxes. As a REIT, we may also be subject to certain federal excise taxes if we engage in certain types of transactions.

Other than the liability for an uncertain tax position and related accrued interest under FIN 48 discussed below, no provision has been made pursuant to SFAS No. 109 for federal and state income taxes during the three months ended March 31, 2008 and 2007 because the Company qualified as a REIT, distributed the necessary amount of taxable income and, therefore, incurred no income tax expense during the periods. The taxable REIT subsidiary has operated at a cumulative taxable loss through March 31, 2008 of approximately \$8.0 million and has paid no income taxes since its formation. In addition to the \$3.1 million deferred tax asset for these cumulative tax loss carryforwards, the taxable REIT subsidiary also had net deferred tax assets of approximately \$1.2 million comprised primarily of tax versus book basis differences in certain investments and depreciable assets held by the taxable REIT subsidiary. Because the future tax benefit of the cumulative losses is not assured, the approximate \$4.3 million net deferred tax asset position of the taxable REIT subsidiary has been fully reserved as management does not believe that it is more likely than not that the net deferred tax asset will be realized. Accordingly, no tax benefit has been recognized in the accompanying Consolidated Financial Statements. The tax benefit of the cumulative losses could be recognized for financial reporting purposes in future periods to the extent the taxable REIT subsidiary generates sufficient taxable income.

We adopted FIN 48, on January 1, 2007 and recorded a \$1.4 million liability, which included \$0.2 million of accrued interest, for an uncertain tax position, with the related expense reflected as a reduction to the beginning balance of distributions in excess of net earnings. This liability was included in accounts payable, accrued expenses and other liabilities. During the third quarter of 2007, the liability for the uncertain tax position was released, and income recognized, upon the expiration of the applicable statute of limitations. In addition, the liability of \$0.05 million of interest that was accrued in 2007 relating to this liability was also released. We continue to examine our tax positions and do not believe we have any uncertain tax positions that would result in a FIN 48 reserve as of March 31, 2008.

Table of Contents**HIGHWOODS PROPERTIES, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(tabular dollar amounts in thousands, except per share data)****14. SEGMENT INFORMATION**

Our principal business is the acquisition, development and operation of rental real estate properties. We evaluate our business by product type and by geographic locations. These segments and our disclosures below are expanded from what we reported in our Annual Report on Form 10-K for 2007 due to expanded internal reporting information used by our chief operating decision maker starting in the first quarter of 2008. Each product type has different customers and economic characteristics as to rental rates and terms, cost per 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.

The accounting policies of the segments are the same as those described in Note 1 included herein. Further, all operations are within the United States and, at March 31, 2008, no tenant of the Wholly Owned Properties comprised more than 7.2% of our consolidated revenues.

The following table summarizes the rental income, net operating income and assets for each reportable segment for the three months ended March 31, 2008 and 2007:

	Three Months Ended	
	March 31, 2008	2007
Rental and Other Revenues: (1) (2)		
Office:		
Atlanta, GA	\$ 11,526	\$ 10,387
Greenville, SC	3,216	3,097
Kansas City, MO	4,192	3,777
Memphis, TN	6,165	5,786
Nashville, TN	15,578	12,626
Orlando, FL	1,933	1,597
Piedmont Triad, NC	6,381	6,695
Raleigh, NC	18,521	15,797
Richmond, VA	11,467	10,671
Tampa, FL	15,834	15,355
Other	507	938
Total Office Segment	95,320	86,726
Industrial:		
Atlanta, GA	4,123	3,803

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Kansas City, MO	5	5
Piedmont Triad, NC	3,959	3,731
Total Industrial Segment	8,087	7,539
Retail:		
Kansas City, MO	10,872	11,426
Piedmont Triad, NC	195	125
Total Retail Segment	11,067	11,551
Residential:		
Kansas City, MO	306	292
Total Residential Segment	306	292
Total Rental and Other Revenues	\$ 114,780	\$ 106,108

Table of Contents**HIGHWOODS PROPERTIES, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

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

14. SEGMENT INFORMATION - Continued

	Three Months Ended	
	March 31,	
	2008	2007
Net Operating Income: (1) (2)		
Office:		
Atlanta, GA	\$ 7,561	\$ 6,708
Greenville, SC	1,945	1,795
Kansas City, MO	2,155	1,868
Memphis, TN	3,653	3,510
Nashville, TN	10,626	8,168
Orlando, FL	1,113	976
Piedmont Triad, NC	4,024	4,115
Raleigh, NC	12,902	10,468
Richmond, VA	8,017	7,403
Tampa, FL	9,679	9,401
Other	331	72
Total Office Segment	62,006	54,484
Industrial:		
Atlanta, GA	3,129	2,973
Kansas City, MO	2	2
Piedmont Triad, NC	3,152	2,947
Total Industrial Segment	6,283	5,922
Retail:		
Kansas City, MO	7,045	7,542
Piedmont Triad, NC	151	96
Raleigh, NC	(23)	(16)
Total Retail Segment	7,173	7,622
Residential:		
Kansas City, MO	190	144
Total Residential Segment	190	144
Total Net Operating Income	75,652	68,172
Reconciliation to income before disposition of property, insurance gain, minority interest and equity in earnings of unconsolidated affiliates:		
Depreciation and amortization	(31,041)	(28,965)
General and administrative expense	(9,711)	(10,911)
Interest expenses	(24,841)	(24,247)
Interest and other income	803	1,514
Income before disposition of property, insurance gain, minority interest and equity in earnings of unconsolidated affiliates	\$ 10,862	\$ 5,563

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- (1) Net of discontinued operations.
- (2) The Piedmont Triad market encompasses the Greensboro and Winston-Salem metropolitan area.

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ITEM 2. 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 in this Quarterly Report.

DISCLOSURE REGARDING FORWARD-LOOKING STATEMENTS

Some of the information in this Quarterly Report may contain forward-looking statements. Such statements include, in particular, statements about our plans, strategies and prospects under this section and under the heading "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:

speculative development activity by our competitors in our existing markets could result in an excessive supply of office, industrial and retail properties relative to tenant demand;

the financial condition of our tenants could deteriorate;

we may not be able to complete development, acquisition, reinvestment, disposition or joint venture projects as quickly or on as favorable terms as anticipated;

we may not be able to lease or release space quickly or on as favorable terms as old leases;

increases in interest rates would increase our debt service costs;

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 to repay or refinance outstanding debt upon maturity;

we could lose key executive officers; and

our southeastern and midwestern markets may suffer declines in economic growth.

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This list of risks and uncertainties, however, is not intended to be exhaustive. You should also review the other cautionary statements we make in **Business Risk Factors** set forth in our 2007 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.

OVERVIEW

We are a fully integrated, self-administered and self-managed equity REIT that provides leasing, management, development, construction and other customer-related services for our properties and for third parties. As of March 31, 2008, we owned or had an interest in 381 in-service office, industrial and retail properties, encompassing approximately 34.2 million square feet, which includes six in-service office, industrial and retail development properties that had not yet reached 95% stabilized occupancy aggregating approximately 1.2 million square feet, and 514 rental residential units. We are based in Raleigh, North Carolina, and our properties and development land are located in Florida, Georgia, Iowa, Kansas, Maryland, Missouri, North Carolina, South Carolina, Tennessee and Virginia. Additional information about us can be found on our website at www.highwoods.com. Information on our website is not part of this Quarterly Report.

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Results of Operations

Approximately 83% of our rental and other revenue from continuing operations is derived from our office properties. As a result, while we own and operate a limited number of industrial, retail and residential properties, our operating results depend heavily on successfully leasing our office properties. Furthermore, since approximately 80% of our annualized revenues from office properties come from properties located in Florida, Georgia, North Carolina and Tennessee, economic growth in those states is and will continue to be an important determinative factor in predicting our future operating results.

The key components affecting our rental revenue stream are dispositions, acquisitions, new developments placed in service, average occupancy and rental rates. 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 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 must concentrate our leasing efforts on renewing leases on expiring space. Whether or not our rental revenue tracks average occupancy proportionally depends upon whether rents under new leases signed are higher or lower than the rents under the previous leases.

Our expenses primarily consist of rental property expenses, depreciation and amortization, general and administrative expenses and interest expense. Rental property expenses are expenses associated with our ownership and operation of rental properties and include expenses that vary somewhat, such as common area maintenance and utilities, and relatively fixed expenses, such as property taxes and insurance. Some of these variable expenses may be lower when our average occupancy declines. 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 or sell assets, since we depreciate our properties on a straight-line basis over fixed lives. General and administrative expenses, net of amounts capitalized, consist primarily of management and employee salaries and other personnel costs, corporate and division overhead and long-term incentive compensation. Interest expense depends primarily upon the amount of our borrowings, the weighted average interest rates on our debt and the amount of interest capitalized on development projects.

We record in equity in earnings of unconsolidated affiliates our proportionate share of net income or loss, adjusted for purchase accounting effects, of our unconsolidated joint ventures.

Additionally, SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets, requires us to record net income received from properties sold or held for sale that qualify as discontinued operations under SFAS No. 144 separately as income from discontinued operations. As a result, we separately record revenues and expenses from these qualifying properties. As also required by SFAS No. 144, prior period results are reclassified to reflect the operations for such properties in discontinued operations.

Liquidity and Capital Resources

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We incur capital expenditures to lease space to our customers and to maintain the quality of our properties to successfully compete against other properties. Tenant improvements are the costs required to customize the space for the specific needs of the customer. Lease commissions are costs incurred to find the customer for the space. Lease incentives are costs paid to or on behalf of tenants to induce them to enter into leases and that do not relate to customizing the space for the tenant's specific needs. Building improvements are recurring capital costs not related to a customer to maintain the buildings. As leases expire, we either attempt to relet the space to an existing customer or attract a new customer to occupy the space. Generally, customer renewals require lower leasing capital expenditures than reletting to new customers. However, market conditions such as supply of available space in the market, as well as demand for space, drive not only customer rental rates but also tenant improvement costs. Leasing capital expenditures are amortized over the term of the lease and building improvements are depreciated over the appropriate useful life of the assets acquired. Both are included in depreciation and amortization in results of operations.

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Because we are a REIT, we are required under the federal tax laws to distribute at least 90% of our REIT taxable income, excluding capital gains, to our stockholders. We generally use rents received from customers and proceeds from sales of non-core development land to fund our operating expenses, recurring capital expenditures and stockholder dividends. To fund property acquisitions, development activity or building renovations, we may sell other assets and may incur debt from time to time. Our debt generally consists of mortgage debt, unsecured debt securities and borrowings under our credit facilities. As of March 31, 2008, we had approximately \$201 million of additional borrowing availability under our unsecured revolving credit facility, and we had approximately \$111 million of additional borrowing availability under our secured revolving construction loan facilities.

Our revolving credit facility and the indenture governing our outstanding long-term unsecured debt securities require us to satisfy various operating and financial covenants and performance ratios. As a result, to ensure that we do not violate the provisions of these debt instruments, we may from time to time be limited in undertaking certain activities that may otherwise be in the best interest of our stockholders, such as repurchasing capital stock, acquiring additional assets, increasing the total amount of our debt or increasing stockholder dividends. We review our current and expected operating results, financial condition and planned strategic actions on an ongoing basis for the purpose of monitoring our continued compliance with these covenants and ratios. Any unwaived event of default could result in an acceleration of some or all of our debt, severely restrict our ability to incur additional debt to fund short- and long-term cash needs or result in higher interest expense.

To generate additional capital to fund our growth and other strategic initiatives and to lessen the ownership risks typically associated with owning 100.0% of a property, we may sell some of our properties or contribute them to joint ventures. When we create a joint venture with a strategic partner, we usually contribute one or more properties that we own and/or vacant land to a newly formed entity in which we retain an interest of 50.0% or less. In exchange for our equal or minority interest in the joint venture, we generally receive cash from the partner and retain some or all of the management income relating to the properties in the joint venture. The joint venture itself will frequently borrow money on its own behalf to finance the acquisition of, and/or leverage the return upon, the properties being acquired by the joint venture or to build or acquire additional buildings. Such borrowings are typically on a non-recourse or limited recourse basis. We generally are not liable for the debts of our joint ventures, except to the extent of our equity investment, unless we have directly guaranteed any of that debt. In most cases, we and/or our strategic partners are required to guarantee customary exceptions to non-recourse liability in non-recourse loans. See Note 12 to the Consolidated Financial Statements for additional information on certain debt guarantees. We have historically also sold additional Common Stock or Preferred Stock or issued Common Units to fund additional growth or to reduce our debt, but we have limited those efforts since 1998 because funds generated from our capital recycling program in recent years have provided sufficient funds to satisfy our liquidity needs. In addition, we have recently used funds from our capital recycling program to redeem or repurchase Common Units and Preferred Stock for cash. In the future, we may from time to time retire some or all of our remaining outstanding Preferred Stock through redemptions, open market repurchases, privately negotiated acquisitions or otherwise.

Table of Contents**RESULTS OF OPERATIONS**

In accordance with SFAS No. 144 and as described in Note 10 to the Consolidated Financial Statements, we reclassified the operations and/or gain/(loss) from disposal of certain properties to discontinued operations for all periods presented if the operations and cash flows have been or will be eliminated from our ongoing operations and we will not have any significant continuing involvement in the operations after the disposal transaction and the properties were either sold during 2007 and the first three months of 2008 or were held for sale at March 31, 2008. There were no properties sold during 2007 and the first three months of 2008 that did not meet the conditions as stipulated by SFAS No. 144.

Three Months Ended March 31, 2008 and 2007

The following table sets forth information regarding our unaudited results of operations for the three months ended March 31, 2008 and 2007 (\$ in millions):

	Three Months Ended		2008 to 2007		
	March 31, 2008	2007	\$ Change	% of Change	%
Rental and other revenues	\$ 114.8	\$ 106.1	\$ 8.7	8.2	
Operating expenses:					
Rental property and other expenses	39.1	37.9	1.2	3.2	
Depreciation and amortization	31.1	29.0	2.1	7.2	
General and administrative	9.7	10.9	(1.2)	(11.0))
Total operating expenses	79.9	77.8	2.1	2.7	
Interest expenses:					
Contractual	23.5	22.7	0.8	3.5	
Amortization of deferred financing costs	0.6	0.5	0.1	20.0	
Financing obligations	0.7	1.0	(0.3)	(30.0))
	24.8	24.2	0.6	2.5	
Other income:					
Interest and other income	0.8	1.5	(0.7)	(46.7))
	0.8	1.5	(0.7)	(46.7))
Income before disposition of property, minority interest and equity in earnings of unconsolidated affiliates	10.9	5.6	5.3	94.6	
Gains on disposition of property, net		16.7	(16.7)	(100.0))
Gain from property insurance settlement		4.1	(4.1)	(100.0))
Minority interest	(0.8)	(2.6)	1.8	69.2	
Equity in earnings of unconsolidated affiliates	1.9	9.7	(7.8)	(80.4))
Income from continuing operations	12.0	33.5	(21.5)	(64.2))
Discontinued operations:					
Income from discontinued operations, net of minority interest	0.1	0.7	(0.6)	(85.7))
Net gains on sales of discontinued operations, net of minority interest	3.5	18.3	(14.8)	(80.9))
	3.6	19.0	(15.4)	(81.1))
Net income	15.6	52.5	(36.9)	(70.3))
Dividends on Preferred Stock	(2.8)	(4.1)	1.3	31.7	
Net income available for common stockholders	\$ 12.8	\$ 48.4	\$ (35.6)	(73.6))%

Rental and Other Revenues

Rental and other revenues increased \$8.7 million in the first quarter of 2008 compared to 2007 primarily from higher average occupancy in certain locations in 2008 as compared to 2007, the contribution from developed

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properties placed in service in 2007 and the first three months of 2008 and higher escalation income in 2008 as a result of the increase in operating expenses for the same period. In addition, in the three months ended March 31, 2008, we recorded \$1.9 million in lease termination income, primarily relating to expiration of a lease in our Raleigh division.

Rental Property and Other Expenses

Rental and other operating expenses from continuing operations (real estate taxes, utilities, insurance, repairs and maintenance and other property-related expenses) increased \$1.2 million in the first quarter of 2008 compared to the first quarter of 2007, primarily as a result of general inflationary increases in certain operating expenses, such as utility costs, insurance costs and real estate taxes. In addition, rental property and operating expenses of developed properties placed in service in 2007 and the three months ended March 31, 2008 contributed to the increase in the first quarter of 2008.

Rental revenues less rental and other operating expenses increased in 2008 compared to 2007. This is primarily the result of higher revenues and higher average occupancy. In addition, we are benefiting from the lower operating costs associated with a younger and higher quality portfolio.

The \$2.1 million increase in depreciation and amortization is primarily a result of the contribution from development properties placed in service in 2007 and the three months ended March 31, 2008, and an increase in building improvements, tenant improvements and deferred leasing costs related to those buildings placed in service.

The \$1.2 million decrease in general and administrative expenses was primarily related to lower audit fees and lower costs written off related to the termination of certain pre-development projects and a decrease in the adjustment related to our deferred compensation liability (see Note 9 to the Consolidated Financial Statements). These decreases were partly offset by higher amortization of restricted stock and stock options and the annual incentive increases and general inflationary effects.

Interest Expense

The increase in contractual interest expense is primarily the result of an increase in average borrowings from \$1.45 billion in the three months ended March 31, 2007 to \$1.66 billion in the three months ended March 31, 2008. Partly offsetting this increase was a decrease in weighted average interest rates on outstanding debt from 6.83% for the first quarter of 2007 compared to 6.26% for the first quarter of 2008. In addition, capitalized interest in 2008 was approximately \$0.4 million higher compared to 2007.

Gains on Disposition of Property; Gain from Property Insurance Settlement; Minority Interest; Equity in Earnings of Unconsolidated Affiliates

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Net gains on dispositions of properties not classified as discontinued operations was \$16.7 million for the three months ended March 31, 2007. Gains are dependent on the specific assets sold, their historical cost basis and other factors, and can vary significantly from period to period. See Note 4 to the Consolidated Financial Statements for further discussion.

In the first quarter of 2007, we recorded a \$4.1 million gain from finalization of a prior year insurance claim.

The increase in minority interest expense of \$1.8 million was primarily due to a corresponding increase in the Operating Partnership's income from continuing operations, after Preferred Unit distributions.

Equity in earnings of unconsolidated affiliates decreased \$7.8 million from 2006 to 2007. The decrease primarily resulted from the following transactions. In 2007, the Weston Lakeside joint venture sold 332 rental residential units, recognizing a gain of approximately \$11.3 million, which resulted in approximately \$5.0 million in equity in earnings of unconsolidated affiliates. Five properties owned by our DLF I joint venture (DLF I) were sold and the joint venture recognized a gain of approximately \$9.3 million, resulting in approximately \$2.1 million in equity in earnings of unconsolidated affiliates in 2007. Additionally, in 2007, DLF I received a lease termination, of which the net effect was \$2.7 million and resulted in approximately \$0.6 million in equity in earnings of unconsolidated affiliates. (See Note 2 to the Consolidated Financial Statements for further discussion related to these transactions).

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Discontinued Operations

In accordance with SFAS No. 144, we classified net income of \$3.6 million and \$19.0 million, net of minority interest, as discontinued operations for the three months ended March 31, 2008 and 2007, respectively. These amounts relate to 1.3 million square feet of office and industrial properties and 13 rental residential units sold during 2007 and the three months ended March 31, 2008 and 0.1 million square feet of office properties held for sale at March 31, 2008. These amounts include net gains on the sale of these properties of \$3.5 million and \$18.3 million, net of minority interest, in the three months ended March 31, 2008 and 2007, respectively.

Preferred Dividends

Preferred dividends decreased \$1.3 million due to the retirement of \$62 million of Preferred Stock in 2007.

Table of Contents**LIQUIDITY AND CAPITAL RESOURCES****Statement of Cash Flows**

As required by GAAP, we report and analyze our cash flows based on operating activities, investing activities and financing activities. The following table sets forth the changes in our cash flows in the first three months of 2008 as compared to the first three months of 2007 (in thousands):

	Three Months Ended		
	March 31, 2008	2007	Change
Cash Provided By Operating Activities	\$ 20,814	\$ 25,744	\$ (4,930)
Cash Used In Investing Activities	(44,920)	(4,930)	(39,990)
Cash Provided by/(Used In) Financing Activities	27,561	(36,577)	64,138
Total Cash Flows	\$ 3,455	\$ (15,763)	\$ 19,218

In calculating cash flow from operating activities, depreciation and amortization, which are non-cash expenses, are added back to net income. As a result, we have historically generated a significant 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 above under Results of Operations, changes in receivables and payables, and net additions or decreases in our overall portfolio, which affect the amount of depreciation and amortization expense.

Cash provided by or used in 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 of capital from our joint ventures.

Cash used in financing activities generally relates to stockholder dividends, distributions on Common Units, incurrence and repayment of debt and sales, repurchases or redemptions of Common Stock, Common Units and Preferred Stock. As discussed previously, we use a significant amount of our cash to fund stockholder dividends and Common Unit 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 use our revolving credit facility for working capital purposes, which means that during any given period, in order to minimize interest expense, we will likely record significant repayments and borrowings under our revolving credit facility.

The decrease of \$4.9 million in cash provided by operating activities in 2008 compared to 2007 was primarily the result of the net change in operating assets and liabilities, which resulted in a \$12.2 million decrease in cash provided by operating activities. Offsetting these decreases were higher cash flows from net income as adjusted for changes in depreciation and amortization expense, amortization of stock based compensation, gains on disposition of properties, a gain from a property insurance settlement, minority interest, and equity in earnings of unconsolidated affiliates.

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The increase of \$40.0 million in cash used in investing activities in 2008 compared to 2007 was primarily a result of a \$59.0 million decrease in proceeds from the disposition of assets, partly offset by an increase of \$18.0 million related to proceeds from dispositions which were set aside and designated for potential future tax-deferred real estate transactions.

The increase of \$64.1 million in cash provided by financing activities in 2008 compared to 2007 was primarily a result of a \$38.9 million increase in net borrowings on the revolving credit facility and mortgages and notes payable, a decrease of \$24.1 million in cash used in connection with the repurchase of Common Units, and a decrease of \$1.3 million in cash used for the payment of dividends on Preferred Stock.

In 2008, we continued our capital recycling program of selectively disposing of non-core properties in order to use the net proceeds for investments or other purposes. At March 31, 2008, we had 40 acres of land and 0.1 million

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square feet of office properties classified as held for sale pursuant to SFAS No. 144 with a carrying value of \$18.3 million.

Capitalization

The following table sets forth our capitalization as of March 31, 2008 and December 31, 2007 (in thousands, except per share amounts):

	March 31, 2008	December 31, 2007
Mortgages and notes payable, at recorded book value	\$ 1,703,238	\$ 1,641,987
Financing obligations	\$ 35,296	\$ 35,071
Preferred Stock, at liquidation value	\$ 135,437	\$ 135,437
Common Stock and Common Units outstanding	61,260	61,224
Per share stock price at period	\$ 31.07	\$ 29.38
Market value of Common Stock and Common Units	1,903,348	1,798,761
Total market capitalization with debt and obligations	\$ 3,777,319	\$ 3,611,256

Based on our total market capitalization of approximately \$3.8 billion at March 31, 2008 (at the March 31, 2008 per share stock price of \$31.07 and assuming the redemption for shares of Common Stock of the 4.0 million Common Units not owned by the Company), our mortgages and notes payable represented approximately 45.1% of our total market capitalization.

Mortgages and notes payable at March 31, 2008 was comprised of \$670 million of secured indebtedness with a weighted average interest rate of 6.5 % and \$1,033 million of unsecured indebtedness with a weighted average interest rate of 5.47%. As of March 31, 2008, our outstanding mortgages and notes payable were secured by real estate assets with an aggregate undepreciated book value of approximately \$1.1 billion.

Our Consolidated Balance Sheet includes \$84.2 million of debt outstanding at consolidated joint ventures that we have not directly or indirectly guaranteed. We are generally not liable for this debt except to the extent of our equity investment in the joint ventures.

We do not intend to reserve funds to retire existing secured or unsecured debt upon maturity. For a more complete discussion of our long-term liquidity needs, see Liquidity and Capital Resources - Current and Future Cash Needs.

Contractual Obligations

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See our 2007 Annual Report on Form 10-K for a table setting forth a summary of our contractual obligations at December 31, 2007. There were no material changes to this information in the three months ended March 31, 2008.

Financing and Investments Activity

Our \$450 million unsecured revolving credit facility is initially scheduled to mature on May 1, 2009. Assuming no default exists, we have an option to extend the maturity date by one additional year. The interest rate is LIBOR plus 80 basis points and the annual base facility fee is 20 basis points. As of March 31, 2008, we had \$247 million borrowed on this revolving credit facility.

On June 5, 2007, two three-year secured construction loans totaling \$24.7 million with interest at 175 basis points over LIBOR were obtained by REES, a consolidated joint venture (see Note 1 to the Consolidated Financial Statements). Subsequently, on July 17, 2007, REES obtained an additional \$13.7 million, three-year secured construction loan with interest at 165 basis points over LIBOR. In October 2007, we paid off one of the original secured construction loans, which had accounted for \$4.4 million of the original \$24.7 million. At March 31, 2008, \$24.4 million was outstanding under the two remaining loans.

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On December 20, 2007, we closed a \$70 million secured revolving construction facility. The loan matures on December 20, 2010. The interest rate is based on LIBOR plus 85 basis points. At March 31, 2008, there were no amounts outstanding on this revolving facility.

In December 2007, Plaza Residential, LLC, a consolidated joint venture (see Note 1 to the Consolidated Financial Statements), obtained a two-year, \$34.1 million secured construction loan with interest at 140 basis points over LIBOR. At March 31, 2008, there was \$2.5 million outstanding on this loan.

On February 1, 2008, we paid off at maturity \$100.0 million of 7.125% unsecured notes using borrowings under our revolving credit facility. On February 26, 2008, we closed a \$137.5 million three-year term loan that bears interest at LIBOR plus 110 basis points. Proceeds from this loan were used to reduce the outstanding borrowings under our revolving credit facility and for short-term investments.

Our revolving credit facility, the term loan and the indenture that governs our outstanding notes require us to comply with customary operating covenants and various financial and operating ratios. We are currently in compliance with all such requirements. 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.

If any of our lenders ever accelerated outstanding debt due to an event of default, we would not be able to borrow any further amounts under our revolving credit facility, which would adversely affect our ability to fund our operations. If our debt cannot be paid, refinanced or extended at maturity or upon acceleration, in addition to our failure to repay our debt, we may not be able to make distributions to stockholders at expected levels or at all. Furthermore, if any refinancing is done at higher interest rates, the increased interest expense would adversely affect our cash flows and ability to pay dividends to stockholders. Any such refinancing could also impose tighter financial ratios and other covenants that would restrict our ability to take actions that would otherwise be in our stockholders' best interest, such as funding new development activity, making opportunistic acquisitions, repurchasing our securities or paying dividends.

In March 2008, we and an affiliate of DLF formed a new joint venture, Highwoods DLF Forum, LLC, in which we have a 25% ownership interest. Upon formation of this joint venture, we contributed \$0.8 million of cash. On April 3, 2008, Highwoods DLF Forum, LLC, acquired The Forum, which is a 635,000 square foot office park in Raleigh, North Carolina, for approximately \$113 million. We contributed an additional \$11.5 million to Highwoods DLF Forum, LLC and, simultaneously with the acquisition of The Forum, the joint venture obtained a \$67.5 million secured loan. We are the property manager and leasing agent for the office park and receive customary management fees and leasing commissions. We will account for this unconsolidated joint venture using the equity method of accounting.

Current and Future Cash Needs

Rental and other revenues are our principal source of funds to meet our short-term liquidity requirements, which primarily consist of operating expenses, debt service, stockholder dividends, any guarantee obligations and recurring capital expenditures. In addition, we could incur tenant improvement costs and lease commissions related to any releasing of vacant space.

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As of March 31, 2008, other than principal amortization on certain secured loans, we have no outstanding debt that matures prior to the end of 2008. We generally expect to fund our short-term liquidity needs through a combination of available working capital, cash flows from operations and the following:

the selective disposition of non-core land and other assets;

borrowings under our revolving credit facility and revolving construction facilities (which have \$201 million and \$111 million of availability, respectively, as of March 31, 2008);

the sale or contribution of some of our Wholly Owned Properties, development projects and development land to strategic joint ventures to be formed with unrelated investors, which would have the net effect of generating additional capital through such sale or contributions;

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the issuance of secured debt; and

the issuance of unsecured debt.

Our long-term liquidity needs generally include the funding of capital expenditures to lease space to our customers, maintain the quality of our existing properties and build new properties. Capital expenditures include tenant improvements, building improvements, new building completion costs and land infrastructure costs. Tenant improvements are the costs required to customize space for the specific needs of first-generation and second-generation customers. Building improvements are recurring capital costs not related to a specific customer to maintain existing buildings. New building completion costs are expenses for the construction of new buildings. Land infrastructure costs are expenses to prepare development land for future development activity that is not specifically related to a single building. Excluding recurring capital expenditures for leasing costs and tenant improvements and for normal building improvements, our expected future capital expenditures for started and/or committed new development projects were approximately \$131 million at March 31, 2008. A significant portion of these future expenditures are currently subject to binding contractual arrangements.

Our long-term liquidity needs also include the funding of development projects, selective asset acquisitions and the retirement of mortgage debt, amounts outstanding under our revolving credit facility and long-term unsecured debt. Our goal is to maintain a conservative and flexible balance sheet. Accordingly, we expect to meet our long-term liquidity needs through a combination of (1) the issuance by the Operating Partnership of additional unsecured debt securities, (2) the issuance of additional equity securities by the Company and the Operating Partnership, (3) borrowings under other secured construction loans that we may enter into, as well as (4) the sources described above with respect to our short-term liquidity. We expect to use such sources to meet our long-term liquidity requirements either through direct payments or repayments of borrowings under our revolving credit facility. As mentioned above, we do not intend to reserve funds to retire existing secured or unsecured indebtedness upon maturity. Instead, we will seek to refinance such debt at maturity or retire such debt through the issuance of equity or debt securities or from proceeds from sales of properties. In the future, we may from time to time retire some or all of our remaining outstanding Preferred Stock through redemptions, open market repurchases, privately negotiated acquisitions or otherwise.

We anticipate that our available cash and cash equivalents and cash flows from operating activities, with cash available from borrowings and other sources, will be adequate to meet our capital and liquidity needs in both the short and long term. However, if these sources of funds are insufficient or unavailable, our ability to pay dividends to stockholders and satisfy other cash payments may be adversely affected.

Stockholder Dividends

To maintain our qualification as a REIT, we must distribute to stockholders at least 90% of our REIT taxable income, excluding capital gains. REIT taxable income, the calculation of which is determined by the federal tax laws, does not equal net income under GAAP. We generally expect to use our cash flow from operating activities for dividends to stockholders and for payment of recurring capital expenditures. Future dividends will be made at the discretion of our Board of Directors. The following factors will affect our cash flows and, accordingly, influence decisions of the Board of Directors regarding dividends:

debt service requirements after taking into account debt covenants and the repayment and restructuring of certain indebtedness;

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scheduled increases in base rents of existing leases;

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

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

operating expenses and capital replacement needs, including tenant improvements and leasing costs; and

sales of properties and non-core land.

Table of Contents**Off Balance Sheet Arrangements**

We have several off balance sheet joint venture and guarantee arrangements. The joint ventures were formed with unrelated investors to generate additional capital to fund property acquisitions, repay outstanding debt, fund other strategic initiatives and lessen the risks typically associated with owning 100.0% of a property. When we create a joint venture with a partner, we usually contribute cash or wholly owned assets to a newly formed entity in which we retain an equal or minority interest. For financial reporting purposes, certain assets we sold have been accounted for as financing arrangements. See Notes 1, 2 and 3 to the Consolidated Financial Statements.

As of March 31, 2008, our unconsolidated joint ventures had \$743.0 million of total assets and \$586.2 million of total liabilities as reflected in their financial statements. At March 31, 2008, our weighted average equity interest based on the total assets of these unconsolidated joint ventures was 39.5%. During the three months ended March 31, 2008, these unconsolidated joint ventures earned \$4.2 million of total net income of which our share, after appropriate purchase accounting and other adjustments, was \$2.0 million. For additional information about our unconsolidated joint venture activity, see Note 2 to the Consolidated Financial Statements.

As of March 31, 2008, our unconsolidated joint ventures had \$556.9 million of outstanding mortgage debt. All of this joint venture debt is non-recourse to us except (1) in the case of customary exceptions pertaining to such matters as misuse of funds, environmental conditions and material misrepresentations and (2) those guarantees and loans described in Note 12 to the Consolidated Financial Statements. The following table sets forth the scheduled maturities of our proportionate share of the outstanding debt of our unconsolidated joint ventures as of March 31, 2008 (\$ in thousands):

Remainder of 2008	\$ 3,411
2009	6,790
2010	9,518
2011	6,215
2012	42,012
Thereafter	165,251
	\$ 233,197

For information regarding our off-balance sheet arrangements as of December 31, 2007, see Management's Discussion and Analysis of Financial Condition and Results of Operations - Off Balance Sheet Arrangements in our 2007 Annual Report on Form 10-K. There were no material changes to this information in the three months ended March 31, 2008.

Financing Arrangements

For information regarding significant sales transactions that were accounted for as financing arrangements at December 31, 2007, see Management's Discussion and Analysis of Financial Condition and Results of Operations - Financing and Profit-Sharing Arrangements in our 2007 Annual Report on Form 10-K. There were no material changes to this information in the three months ended March 31, 2008.

Interest Rate Hedging Activities

To meet, in part, our long-term liquidity requirements, we borrow funds at a combination of fixed and variable rates. Borrowings under our revolving credit facility bear interest at variable rates. Our long-term debt, which consists of secured and unsecured long-term financings and the issuance of unsecured debt securities, typically bears interest at fixed rates although some loans bear interest at variable rates. Our interest rate risk management objectives are to limit the impact of interest rate changes on earnings and cash flows and to lower our overall borrowing costs. To achieve these objectives, from time to time, we may 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 do not hold or issue these derivative contracts for trading or speculative purposes. The interest rate on all of our variable rate debt is adjusted at one and three month intervals, subject to settlements under interest rate hedge contracts. We also enter into treasury lock agreements from time to time in order to limit our exposure to an increase in interest rates with respect to future debt offerings.

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During 2007, we entered into two floating-to-fixed interest rate swaps for a one-year period with respect to an aggregate of \$50 million of borrowings outstanding under our revolving credit facility. These swaps fix the underlying 30-day LIBOR rate under which interest on such borrowings is based at 4.70%. These swaps were not designated as hedges as of March 31, 2008 under SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities (SFAS No. 133), as amended by SFAS No. 149, Amendment of Statement 133 on Derivative Instruments and Hedging Activities. Accordingly, the swaps were accounted for as non-hedge derivatives as of March 31, 2008, and an aggregate unrealized loss of \$0.3 million was recognized in the first three months of 2008 for these two swaps.

In January 2008, we entered into two additional floating-to-fixed interest rate swaps for a one-year period with respect to an aggregate of \$50 million of borrowings outstanding under our revolving credit facility or other floating rate debt. These swaps fix the underlying LIBOR rate under which interest on such borrowings is based at 3.26% for \$30 million of borrowings and 3.24% for \$20 million of borrowings. These swaps were designated as hedges under SFAS No. 133. Accordingly, the swaps are being accounted for as cash flow hedges.

In April 2008, we entered into an additional floating-to-fixed interest rate swap for a two-year period with respect to an aggregate of \$50 million of borrowings outstanding under our term loan or other floating rate debt. The swap fixes the underlying LIBOR rate under which interest on such borrowings is based at 2.52%. The swap was designated as a hedge under SFAS No. 133. Accordingly, the swap is being accounted for as a cash flow hedge.

CRITICAL ACCOUNTING ESTIMATES

There were no changes to the critical accounting policies made by management in the three months ended March 31, 2008, except as set forth in Note 1 to the Consolidated Financial Statements under Impact of Newly Adopted and Issued Accounting Standards and in Note 13. For a description of our critical accounting estimates, see Management's Discussion and Analysis of Financial Condition and Results of Operations - Critical Accounting Estimates in our 2007 Annual Report on Form 10-K.

FUNDS FROM OPERATIONS

We believe that FFO and FFO per share are beneficial to management and investors and are important indicators of the performance of any equity REIT. Because FFO and FFO per share calculations exclude such factors as depreciation and amortization 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. Our 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, many industry investors and analysts have considered the presentation of operating results for real estate companies that use historical cost accounting to be insufficient by itself. As a result, management believes that the use of FFO and FFO per share, together with the required GAAP presentations, provide a more complete understanding of our performance relative to our competitors and a more informed and appropriate basis on which to make decisions involving operating, financing and investing activities.

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FFO and FFO per share as disclosed by other REITs may not be comparable to our calculation of FFO and FFO per share as described below. However, you should also be aware that FFO and FFO 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 our operating performance because FFO and FFO per share include adjustments that investors may deem subjective, such as adding back expenses such as depreciation and amortization. Furthermore, FFO per share does not depict the amount that accrues directly to the stockholders' benefit. Accordingly, FFO and FFO per share should never be considered as alternatives to net income or net income per share as indicators of our operating performance.

Our calculation of FFO, which we believe is consistent with the calculation of FFO as defined by the National Association of Real Estate Investment Trusts (NAREIT) and which appropriately excludes the cost of capital improvements and related capitalized interest, is as follows:

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Net income (loss) computed in accordance with GAAP;

Less dividends to holders of Preferred Stock and less excess of Preferred Stock redemption cost over carrying value;

Plus depreciation and amortization of assets uniquely significant to the real estate industry;

Less gains, or plus losses, from sales of depreciable operating properties (but excluding impairment losses) and excluding items that are classified as extraordinary items under GAAP;

Plus or minus adjustments for unconsolidated partnerships and joint ventures (to reflect funds from operations on the same basis); and

Plus or minus adjustments for depreciation and amortization and gains/(losses) on sales and minority interest related to discontinued operations.

Further, in calculating FFO, we add back minority interest in the income from the Operating Partnership, which we believe is consistent with standard industry practice for REITs that operate through an UPREIT structure. We believe 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 our Common Stock.

Other REITs may not define FFO in accordance with the current NAREIT definition or may interpret the current NAREIT definition differently than we do.

FFO and FFO per share for the three months ended March 31, 2008 and 2007 are summarized in the following table (\$ in thousands, except per share amounts):

	Three Months Ended March 31,			
	2008	2007	Amount	Per Share
Funds from operations:				
Net income	\$ 15,643	\$ 52,558		
Dividends to preferred stockholders	(2,838)	(4,113)		
Net income available for common stockholders	12,805	48,445	\$ 0.22	\$ 0.85
Add/(Deduct):				
Depreciation and amortization of real estate assets	30,484	28,328	0.50	0.46
(Gains) on disposition of depreciable properties		(908)		(0.01)
Minority interest from the Operating Partnership in income from continuing operations	639	2,400		

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Unconsolidated affiliates:				
Depreciation and amortization of real estate assets	2,935	0.05	2,866	0.04
(Gains) on disposition of depreciable properties			(7,158)	(0.12)
Discontinued operations:				
Depreciation and amortization of real estate assets	68		781	0.01
(Gains) on disposition of depreciable properties	(3,726)	(0.06)	(19,743)	(0.32)
Minority interest from the Operating Partnership in income from discontinued operations	254		1,539	
Funds from operations	\$ 43,459	\$ 0.71	\$ 56,550	\$ 0.91
Weighted average shares outstanding (1)	61,050		61,900	

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

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ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The effects of potential changes in interest rates are discussed below. Our market risk discussion includes forward-looking statements and represents an estimate of possible changes in fair value or future earnings that would occur assuming hypothetical future movements in interest rates. These disclosures are not precise indicators of expected future effects, but only indicators of reasonably possible effects. As a result, actual future results may differ materially from those presented. See 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.

To meet in part our long-term liquidity requirements, we borrow funds at a combination of fixed and variable rates. Borrowings under our revolving credit facility bear interest at variable rates. Our long-term debt, which consists of secured and unsecured long-term financings and the issuance of unsecured debt securities, typically bears interest at fixed rates although some loans bear interest at variable rates. Our interest rate risk management objectives are to limit the impact of interest rate changes on earnings and cash flows and to 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 do not hold or issue these derivative contracts for trading or speculative purposes.

As of March 31, 2008, we had \$1,292 million of fixed rate debt outstanding. The estimated aggregate fair market value of this debt at March 31, 2008 was \$1,262 million. If interest rates increase by 100 basis points, the aggregate fair market value of our fixed rate debt as of March 31, 2008 would decrease by \$58 million. If interest rates decrease by 100 basis points, the aggregate fair market value of our fixed rate debt as of March 31, 2008 would increase by \$62 million.

As of March 31, 2008, we had \$311 million of variable rate debt outstanding that was not protected by interest rate swaps. If the weighted average interest rate on this variable rate debt had been 100 basis points higher or lower during the 12 months ended March 31, 2008, our interest expense relating to this debt would increase or decrease by approximately \$3.1 million.

For a discussion of the \$100 million of interest rate swaps in effect at March 31, 2008, see Management's Discussion and Analysis of Financial Conditions and Results of Operations Liquidity and Capital Resources Interest Rate Hedging Activities. If LIBOR interest rates increase or decrease by 100 basis points, the aggregate fair market value of these swaps as of March 31, 2008 would decrease or increase, respectively, by approximately \$0.6 million.

In addition, we are exposed to certain losses in the event of nonperformance by the counterparties under the swaps. We expect the counterparties, which are major financial institutions, 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 our debt, even if such rates were in excess of the rate in the contract.

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ITEM 4. CONTROLS AND PROCEDURES

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

SEC rules also require us to establish and maintain internal control over financial reporting designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepting accounting principles. As defined in Rule 13a-15(f) under the Exchange Act, 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 our transactions and dispositions of assets;

provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepting accounting principles, 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 our assets that could have a material effect on the financial statements.

There were no changes in our internal control over financial reporting during the first quarter of 2008 that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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PART II - OTHER INFORMATION

ITEM 1. 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 the 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.

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

On January 23, 2008, a director of the Company elected to receive 3,696 shares of common stock in a private transaction exempt from the registration requirements pursuant to Section 4(2) of the Securities Act upon payout of fees deferred pursuant to the five-year payout provision of a prior deferred compensation plan for directors.

On January 30, 2008, the Company issued an aggregate of 11,688 shares of restricted stock to members of the Board of Directors in private offerings exempt from the registration requirements pursuant to Section 4(2) of the Securities Act. Such shares vest ratably on an annual basis over a four-year term.

ITEM 6. EXHIBITS

Exhibit Number	Description
31.1	Certification Pursuant to Section 302 of the Sarbanes-Oxley Act
31.2	Certification Pursuant to Section 302 of the Sarbanes-Oxley Act
31.3	Certification Pursuant to Section 302 of the Sarbanes-Oxley Act
32.1	Certification Pursuant to Section 906 of the Sarbanes-Oxley Act
32.2	Certification Pursuant to Section 906 of the Sarbanes-Oxley Act
32.3	Certification Pursuant to Section 906 of the Sarbanes-Oxley Act

SIGNATURES

Pursuant to the requirements 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.

HIGHWOODS PROPERTIES, INC.

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

By: /s/ TERRY L. STEVENS
Terry L. Stevens
Senior Vice President and Chief Financial Officer

By: /s/ DANIEL L. CLEMMENS
Daniel L. Clemmens
Vice President and Chief Accounting Officer

Date: May 9, 2008