



FOR IMMEDIATE RELEASE

Ref: 05-19

Contact: Tabitha Zane
Sr. Director, Investor Relations
919-431-1529

Highwoods Properties Reports First Quarter 2005 Financial Results Full-Year and Quarterly 2004 and 2003 Restated Financial Results Also Reported

Raleigh, NC – July 6, 2005 – Highwoods Properties, Inc. (NYSE: HIW), the largest owner and operator of suburban office properties in the Southeast, today reported financial results for the first quarter of 2005, the fourth quarter of 2004 and the full year of 2004. The Company also reported restated financial results for 2003 and the first, second and third quarters of 2004. All financial information presented in this news release is on a restated and consistent basis for all periods.

The Company expects to file its Form 10-K for the year ended December 31, 2004 and its Form 10-Q for the quarter ended March 31, 2005 within the next few weeks. This Form 10-K will include restated financial results for fiscal years 2002 and 2003 and restated quarterly results for 2003 and 2004. The Company expects that Ernst & Young LLP, its independent auditor, will issue an unqualified opinion on the Company's 2004 and restated 2003 and 2002 consolidated financial statements that will be included in the 2004 Form 10-K.

Ed Fritsch, President and Chief Executive Officer of Highwoods Properties, stated, "We are pleased to report our 2004 year-end and first quarter 2005 financial results. In line with our previously disclosed expectations, the cumulative impact of the restatement on historical net income and Funds from Operations ("FFO") for this three-year period was \$0.06 and \$0.08 per diluted share, respectively. These restatement adjustments did not impact cash and relate to transactions or practices that go back a number of years. Going forward, the impact of these non-cash accounting adjustments is expected to reduce annual FFO by \$0.02 to \$0.03 per diluted share, again in line with our previously disclosed expectations."

First Quarter 2005 Financial Results

For the three months ended March 31, 2005, the Company reported net income attributable to common stockholders of \$12.6 million, or \$0.24 per diluted share, compared to a net loss of \$2.8 million, or \$0.05 per diluted share, for the same quarter last year. Net income in the first quarter of 2005 was impacted by \$16.0 million of gains on sales of properties, which included \$5.4 million recorded in discontinued operations, offset by \$2.6 million of impairment charges on land.

FFO was \$36.2 million, or \$0.60 per diluted share, for the quarter ended March 31, 2005 compared with first quarter 2004 FFO of \$30.1 million, or \$0.50 per diluted share. First quarter 2005 net income and FFO benefited from \$2.6 million, or \$0.04 per diluted share, in lease termination fee income; this was offset by an impairment charge related to land totaling \$2.6 million, or \$0.04 per diluted share. Financial results for the first quarter 2005 also include revenue from U.S. Airways for the entire three month period, which contributed \$0.01 per diluted share to FFO.

2004 Financial Results

For the full year ended December 31, 2004, the Company reported net income attributable to common stockholders of \$9.1 million, or \$0.17 per diluted share. This compares to net income of \$15.8 million, or \$0.30 per diluted share, for the year ended December 31, 2003. FFO was \$126.8 million, or \$2.11 per diluted share, for the year ended December 31, 2004, compared with \$147.1 million, or \$2.46 per diluted share, for 2003. FFO was impacted by a number of charges and credits in 2003 and 2004, as noted in the financial tables that follow.

Restatement Results

As previously disclosed by the Company on May 26, 2005, as a result of the preparation of its 2004 financial statements, the related audit by its independent auditors, Ernst & Young LLP, and the previously disclosed review of its lease accounting practices, the Company identified several adjustments impacting 2004 and prior periods that needed to be recorded by restating prior period results. The restatement adjustments related primarily to 1) lease incentives, 2) depreciation and amortization, 3) straight-line rent expense on a ground lease and 4) capitalization of internal costs.

The effects of these adjustments on previously reported periods are shown in the attached financial tables. The cumulative impact of these adjustments for 2002, 2003 and 2004 reduced aggregate net income by \$3.2 million, or \$0.06 per diluted share. This represented approximately 1.9% of total net income during this three-year period. The total effect on net income for periods prior to 2002 was approximately \$4.9 million, or \$0.08 per diluted share.

The cumulative impact of these adjustments for 2002, 2003 and 2004 reduced aggregate FFO by \$4.9 million, or \$0.08 per diluted share. This represented approximately 1.1% of total FFO during this three-year period. The total effect on FFO for periods prior to 2002 was approximately \$3.7 million, or \$0.06 per diluted share.

These accounting adjustments on a net basis are not expected to have any material continuing effects on net income in future periods. FFO in future periods is expected to be reduced by approximately \$0.02 to \$0.03 per diluted share per year, primarily from the reclassification of lease incentive amortization.

Strategic Management Plan Update

Mr. Fritsch stated, "We continue to make strong progress towards achieving the goals outlined in our Strategic Management Plan. A key focus this year is the improvement of our portfolio through the disposition of \$100 million to \$300 million of non-core assets and we will use the proceeds to strengthen our balance sheet and fund the commencement of new development projects in strategic locations. As of today, the Company has sold or contracted to sell approximately \$329 million of assets, including all of our wholly-owned properties in Charlotte. A portion of the sales proceeds received to date were used to pay off a \$40.9 million secured loan on April 1, 2005 and we anticipate using a substantial amount of forthcoming net sales proceeds to repurchase and/or redeem some of our outstanding high-coupon preferred stock, pay off a \$26.2 million, 8.2% secured loan that is callable on August 15, 2005 and pay down our revolving credit facility. We also expect to close our division office in Charlotte after the sale is closed, which should save approximately \$500,000 annually in net general and administrative expenses."

"On the development front, we anticipate starting \$45 million to \$50 million of additional new, multi-tenant office development in the second half of this year, as we move towards our three-year goal of \$200 million to \$300 million of new development starts by the end of 2007."

“Our progress at Highwoods Preserve in Tampa has also been extremely gratifying. Over the past 12 months, we have leased or sold 700,000 square feet, or 89% of this campus. This includes our recently announced sale of Buildings II and IV to MetLife, Inc. (NYSE:MET) for \$24.5 million which closed on June 30, 2005.”

Outlook

The Company also refined its guidance for 2005, which was originally published on January 5, 2005. At that time the Company announced that it expected FFO per diluted share to be in the range of \$2.25 to \$2.35. Today, the Company believes FFO per diluted share for 2005 will be in the range of \$2.27 to \$2.33. This estimate continues to reflect management’s view of current and future market conditions, including assumptions with respect to rental rates, occupancy levels, operating expenses and asset dispositions and acquisitions and excludes any revenue from US Airways from August 2005 through the remainder of the year. This estimate also excludes any asset gains or impairments associated with actual or potential property dispositions, as well as any one-time, non-recurring charges or credits that may occur during the year.

Non-GAAP Information

We believe that FFO and FFO per share are beneficial to management and investors as important indicators of the performance of an equity REIT. FFO and FFO per share can facilitate comparisons of operating performance between periods and between other REITs because they exclude factors, such as depreciation, amortization and gains and losses from sales of real estate assets, which can vary among owners of identical assets in similar conditions based on historical cost accounting and useful life estimates. FFO and FFO per share as disclosed by other REITs may not be comparable to our calculations of FFO and FFO per share. CAD is another useful financial performance measure of an equity REIT. CAD provides an additional basis to evaluate the ability of a REIT to incur and service debt, fund acquisitions and other capital expenditures and pay distributions. CAD does not measure whether cash flow is sufficient to fund all cash needs. FFO, FFO per share and CAD are non-GAAP financial measures and do not represent net income or cash flows from operating, investing or financing activities as defined by GAAP. They should not be considered as alternatives to net income as indicators of our operating performance or to cash flows as measures of liquidity. Furthermore, FFO per share does not depict the amount that accrues directly to the stockholders’ benefit.

FFO is defined by NAREIT as net income or loss, excluding gains or losses from sales of depreciated property, plus operating property depreciation and amortization and adjustments for minority interest and unconsolidated companies on the same basis. As clarified by NAREIT in October 2003, impairment losses on depreciable real estate assets are included in FFO. Our calculation of actual FFO results is consistent with FFO as defined by NAREIT.

Supplemental Information

A copy of the Company’s first quarter 2005 Supplemental Information that includes detailed financial information is available in the “Investor Relations/Quarterly Earnings” section of the Company’s Web site at www.highwoods.com. Detailed operational information for 2004 and first quarter 2005 was previously provided in the Company’s prior Supplemental Information packages which are available on the Company’s website. This current Supplemental, together with this release, has been furnished to the Securities and Exchange Commission on Form 8-K. You may also obtain a copy of all Supplemental Information published by the Company by contacting Highwoods Investor Relations at 919-431-1521 or 800-256-2963 or by e-mail to HIW-IR@highwoods.com. If you would like to receive future Supplemental Information packages by e-mail, please contact the Investor Relations department as noted above or by written request to: Investor Relations Department, Highwoods Properties, Inc., 3100 Smoketree Court, Suite 600, Raleigh, NC 27604.

Conference Call

Highwoods will conduct a conference call to discuss these financial results at 11:00 a.m. Eastern time today, July 6. For US/Canada callers, dial (888) 202-5268 and international callers dial (706) 643-7509. A live listen-only Web cast can be accessed through the Company's Web site at www.highwoods.com under the "Investor Relations" section.

Telephone and Web cast replays will be available two hours after the completion of the call. The telephone replay will be available for one week beginning at 2:00 p.m. Eastern time. Dial-in numbers for the replay are (800) 642-1687 US/Canada, (706) 645-9291 international. The conference ID is 7683628.

About the Company

Highwoods Properties, Inc., a member of the S&P MidCap 400 Index, is a fully integrated, self-administered real estate investment trust ("REIT") that provides leasing, management, development, construction and other customer-related services for its properties and for third parties. As of March 31, 2005, the Company owned or had an interest in 504 in-service office, industrial and retail properties encompassing approximately 39.5 million square feet. Highwoods also owns 1,115 acres of development land. Highwoods is based in Raleigh, North Carolina, and its properties and development land are located in Florida, Georgia, Iowa, Kansas, Maryland, Missouri, North Carolina, South Carolina, Tennessee and Virginia. For more information about Highwoods Properties, please visit our Web site at www.highwoods.com.

Certain matters discussed in this press release, such as the effect of tenant bankruptcies on our operations, anticipated continuing compliance with debt agreements, expected leasing and financing activities and financial and operating performance and the cost and timing of expected development projects and asset dispositions, are forward-looking statements within the meaning of the federal securities laws. These statements are distinguished by use of the words "will", "expect", "intends" and words of similar meaning. Although Highwoods believes that the expectations reflected in such forward-looking statements are based upon reasonable assumptions, it can give no assurance that its expectations will be achieved.

Factors that could cause actual results to differ materially from Highwoods' current expectations include, among others, the following: the financial condition of our customers could deteriorate; unwaived defaults, if any, under our debt instruments could result in an acceleration of some of our outstanding debt; speculative development by others could result in excessive supply of office properties relative to customer demand; we may not be able to lease or re-lease space quickly or on as favorable terms as old leases; unexpected difficulties in obtaining additional capital to satisfy our future cash needs or unexpected increases in interest rates would increase our debt service costs; and others detailed in the Company's amended 2003 Annual Report on Form 10-K and subsequent SEC reports.

Financial Tables Follow

Net income for 2004 and 2003 on a quarterly basis is shown in the table below:

| | <u>1Q</u> | <u>2Q</u> | <u>3Q</u> | <u>4Q</u> | <u>Year</u> |
|---|------------|-----------|-----------|-----------|-------------|
| 2004 | | | | | |
| Net income (loss) allocable to Common shareholders – (\$000) | \$(2,777) | \$(2,319) | \$13,398 | \$827 | \$9,129 |
| Net income (loss) per diluted share | \$(0.05) | \$(0.04) | \$0.25 | \$0.02 | \$0.17 |
| 2003 | | | | | |
| Net income (loss) allocable to Common shareholders – (\$000) | \$(12,091) | \$775 | \$23,909 | \$3,227 | \$15,820 |
| Net income (loss) per diluted share | \$(0.23) | \$0.01 | \$0.45 | \$0.06 | \$0.30 |

FFO for 2004 and 2003 on a quarterly basis is shown in the table below:

| | <u>1Q</u> | <u>2Q</u> | <u>3Q</u> | <u>4Q</u> | <u>Year</u> |
|--|-----------|-----------|-----------|-----------|-------------|
| 2004 | | | | | |
| Funds from Operations - (\$000) | \$30,133 | \$16,776 | \$47,791 | \$32,124 | \$126,824 |
| Fund from Operations per diluted share | \$0.50 | \$0.28 | \$0.80 | \$0.53 | \$2.11 |
| 2003 | | | | | |
| Funds from Operations – (\$000) | \$24,391 | \$37,224 | \$49,683 | \$35,849 | \$147,147 |
| Fund from Operations per diluted share | \$0.40 | \$0.62 | \$0.83 | \$0.60 | \$2.46 |

Included in FFO for 2004 and 2003 were the following (charges) and credits (\$000, except per share amounts):

| | <u>1Q</u> | <u>2Q</u> | <u>3Q</u> | <u>4Q</u> | <u>Year</u> |
|--|-------------------|-------------------|-----------------|------------------|-------------------|
| 2004 | | | | | |
| Impairments on depreciable property | \$ 0 | \$(3,856) | \$ (500) | \$(4,426) | \$(8,782) |
| Retirement package for former CEO | (3,208) | (1,375) | 0 | 0 | (4,583) |
| Debt extinguishment loss (X-POS) | 0 | (12,457) | 0 | 0 | (12,457) |
| WorldCom Settlement | 0 | 0 | 14,435 | 0 | 14,435 |
| G&A costs related to strategic transaction and restatements | <u>0</u> | <u>(235)</u> | <u>(2,538)</u> | <u>(1,743)</u> | <u>(4,516)</u> |
| TOTAL | <u>\$(3,208)</u> | <u>\$(17,923)</u> | <u>\$11,397</u> | <u>\$(6,169)</u> | <u>\$(15,903)</u> |
| Per diluted share | <u>\$(0.05)</u> | <u>\$(0.30)</u> | <u>\$0.19</u> | <u>\$(0.10)</u> | <u>\$(0.26)</u> |
| 2003 | | | | | |
| Debt extinguishment loss (MOPPRS) | \$(14,653) | \$ 0 | \$ 0 | \$ 0 | \$(14,653) |
| Impairments on depreciable property | (325) | 0 | 0 | 0 | (325) |
| Gain on extinguishment of financing Obligation (non-Orlando MG/HIW) | <u>0</u> | <u>0</u> | <u>16,301</u> | <u>0</u> | <u>16,301</u> |
| TOTAL | <u>\$(14,978)</u> | <u>\$ 0</u> | <u>\$16,301</u> | <u>\$ 0</u> | <u>\$1,323</u> |
| Per diluted share | <u>\$(0.25)</u> | <u>\$0.00</u> | <u>\$0.27</u> | <u>\$0.00</u> | <u>\$0.02</u> |

Highwoods Properties, Inc.
Consolidated Statements of Income
(In thousands, except per share amounts)

| | Three Months Ended March 31, | | Three Months Ended June 30, | | Three Months Ended September 30, | | Three Months Ended December 31, | | Year Ended December 31, | |
|--|---------------------------------|-------------|--------------------------------|------------|-------------------------------------|------------|------------------------------------|------------|----------------------------|------------|
| | 2004 | 2003 | 2004 | 2003 | 2004 | 2003 | 2004 | 2003 | 2004 | 2003 |
| Rental and other revenues | \$ 118,577 | \$ 125,388 | \$ 116,747 | \$ 124,646 | \$ 113,161 | \$ 121,093 | \$ 115,593 | \$ 124,734 | \$ 464,078 | \$ 495,861 |
| Operating expenses: | | | | | | | | | | |
| Rental property and other expenses | 43,602 | 42,488 | 41,789 | 43,323 | 41,437 | 43,144 | 41,195 | 45,900 | 168,023 | 174,855 |
| Depreciation and amortization | 34,844 | 35,680 | 33,904 | 35,096 | 33,160 | 33,535 | 34,543 | 34,322 | 136,451 | 138,633 |
| Impairment of assets held for use | - | - | - | - | - | - | 1,270 | - | 1,270 | - |
| General and administrative | 10,743 | 4,740 | 7,945 | 7,028 | 10,166 | 6,818 | 10,841 | 6,957 | 39,695 | 25,543 |
| Total operating expenses | 89,189 | 82,908 | 83,638 | 85,447 | 84,763 | 83,497 | 87,849 | 87,179 | 345,439 | 339,031 |
| Interest expense: | | | | | | | | | | |
| Contractual | 27,149 | 30,121 | 27,304 | 30,236 | 25,564 | 29,883 | 25,552 | 29,051 | 105,569 | 119,291 |
| Amortization of deferred financing costs | 1,144 | 897 | 925 | 903 | 782 | 1,690 | 826 | 908 | 3,677 | 4,398 |
| Financing obligations | 4,724 | 4,907 | 1,457 | 4,191 | 1,409 | 4,508 | 2,533 | 4,205 | 10,123 | 17,811 |
| | 33,017 | 35,925 | 29,686 | 35,330 | 27,755 | 36,081 | 28,911 | 34,164 | 119,369 | 141,500 |
| Other income/(expense): | | | | | | | | | | |
| Interest and other income | 1,757 | 1,170 | 1,497 | 1,884 | 1,752 | 1,431 | 1,702 | 1,718 | 6,708 | 6,203 |
| Settlement of bankruptcy claim | - | - | - | - | 14,435 | - | - | - | 14,435 | - |
| Loss on debt extinguishments | - | (14,653) | (12,457) | - | - | - | - | - | (12,457) | (14,653) |
| Gain on extinguishment of co-venture obligation | - | - | - | - | - | 16,301 | - | - | - | 16,301 |
| | 1,757 | (13,483) | (10,960) | 1,884 | 16,187 | 17,732 | 1,702 | 1,718 | 8,686 | 7,851 |
| Income/(loss) before disposition of property, co-venture expense, minority interest and equity in earnings of unconsolidated affiliates | (1,872) | (6,928) | (7,537) | 5,753 | 16,830 | 19,247 | 535 | 5,109 | 7,956 | 23,181 |
| Gains on disposition of property, net | 1,085 | 804 | 14,770 | 1,613 | 2,215 | 5,617 | 3,445 | 4,353 | 21,515 | 12,387 |
| Co-venture expense | - | (2,086) | - | (2,169) | - | (333) | - | - | - | (4,588) |
| Minority interest in the Operating Partnership | 712 | 1,649 | (132) | 108 | (1,464) | (1,926) | 180 | (400) | (704) | (569) |
| Equity in earnings of unconsolidated affiliates | 1,212 | 1,084 | 1,477 | 1,307 | 2,555 | 1,010 | 2,033 | 1,272 | 7,277 | 4,673 |
| Income/(loss) from continuing operations | 1,137 | (5,477) | 8,578 | 6,612 | 20,136 | 23,615 | 6,193 | 10,334 | 36,044 | 35,084 |
| Discontinued operations: | | | | | | | | | | |
| Income from discontinued operations, net of minority interest | 363 | 1,093 | 273 | 982 | 345 | 576 | 713 | 450 | 1,694 | 3,101 |
| Gain/(loss) on sale of discontinued operations, net of minority interest | 3,436 | 6 | (3,457) | 894 | 630 | 7,431 | 1,634 | 156 | 2,243 | 8,487 |
| | 3,799 | 1,099 | (3,184) | 1,876 | 975 | 8,007 | 2,347 | 606 | 3,937 | 11,588 |
| Net income/(loss) | 4,936 | (4,378) | 5,394 | 8,488 | 21,111 | 31,622 | 8,540 | 10,940 | 39,981 | 46,672 |
| Dividends on preferred stock | (7,713) | (7,713) | (7,713) | (7,713) | (7,713) | (7,713) | (7,713) | (7,713) | (30,852) | (30,852) |
| Net income available for/(loss attributable to) common stockholders | \$ (2,777) | \$ (12,091) | \$ (2,319) | \$ 775 | \$ 13,398 | \$ 23,909 | \$ 827 | \$ 3,227 | \$ 9,129 | \$ 15,820 |
| Net income/(loss) per common share - basic: | | | | | | | | | | |
| Income/(loss) from continuing operations | \$ (0.12) | \$ (0.25) | \$ 0.02 | \$ (0.02) | \$ 0.23 | \$ 0.30 | \$ (0.03) | \$ 0.05 | \$ 0.10 | \$ 0.08 |
| Income/(loss) from discontinued operations | 0.07 | 0.02 | (0.06) | 0.03 | 0.02 | 0.15 | 0.05 | 0.01 | 0.07 | 0.22 |
| Net Income/(loss) | \$ (0.05) | \$ (0.23) | \$ (0.04) | \$ 0.01 | \$ 0.25 | \$ 0.45 | \$ 0.02 | \$ 0.06 | \$ 0.17 | \$ 0.30 |
| Weighted average common shares outstanding - basic | 53,186 | 53,150 | 53,275 | 52,932 | 53,400 | 52,746 | 53,424 | 52,976 | 53,323 | 52,950 |
| Net Income/(loss) per common share - diluted: | | | | | | | | | | |
| Income/(loss) from continuing operations | \$ (0.12) | \$ (0.25) | \$ 0.02 | \$ (0.02) | \$ 0.23 | \$ 0.30 | \$ (0.03) | \$ 0.05 | \$ 0.10 | \$ 0.08 |
| Income/(loss) from discontinued operations | 0.07 | 0.02 | (0.06) | 0.03 | 0.02 | 0.15 | 0.05 | 0.01 | 0.07 | 0.22 |
| Net income/(loss) | \$ (0.05) | \$ (0.23) | \$ (0.04) | \$ 0.01 | \$ 0.25 | \$ 0.45 | \$ 0.02 | \$ 0.06 | \$ 0.17 | \$ 0.30 |
| Weighted average common shares outstanding - diluted | 53,186 | 53,150 | 53,275 | 59,878 | 59,991 | 59,710 | 60,214 | 59,889 | 60,024 | 59,911 |

Highwoods Properties, Inc.
Funds from Operations
(In thousands, except per share amounts and ratios)

| | <u>Three Months Ended</u> <u>March 31,</u> | | <u>Three Months Ended</u> <u>June 30,</u> | | <u>Three Months Ended</u> <u>September 30,</u> | | <u>Three Months Ended</u> <u>December 31,</u> | | <u>Year Ended</u> <u>December 31,</u> | |
|--|---|------------------|--|------------------|---|------------------|--|------------------|--|-------------------|
| | <u>2004</u> | <u>2003</u> | <u>2004</u> | <u>2003</u> | <u>2004</u> | <u>2003</u> | <u>2004</u> | <u>2003</u> | <u>2004</u> | <u>2003</u> |
| Funds from operations: | | | | | | | | | | |
| Net income/(loss) | \$ 4,936 | \$ (4,378) | \$ 5,394 | \$ 8,488 | \$ 21,111 | \$ 31,622 | \$ 8,540 | \$ 10,940 | \$ 39,981 | \$ 46,672 |
| Dividends to preferred shareholders | (7,713) | (7,713) | (7,713) | (7,713) | (7,713) | (7,713) | (7,713) | (7,713) | (30,852) | (30,852) |
| Net income/(loss) applicable to common shares | (2,777) | (12,091) | (2,319) | 775 | 13,398 | 23,909 | 827 | 3,227 | 9,129 | 15,820 |
| Add/(deduct): | | | | | | | | | | |
| Depreciation and amortization of real estate assets | 34,166 | 35,022 | 33,222 | 34,421 | 32,390 | 32,715 | 33,874 | 33,648 | 133,652 | 135,806 |
| (Gain)/loss on disposition of depreciable real estate assets | 66 | (24) | (16,600) | (218) | (1,636) | (4,550) | (394) | (3,956) | (18,564) | (8,748) |
| Minority interest in income from operations | (712) | (1,649) | 132 | (108) | 1,464 | 1,926 | (180) | 400 | 704 | 569 |
| Unconsolidated affiliates: | | | | | | | | | | |
| Depreciation and amortization of real estate assets | 2,048 | 1,912 | 2,070 | 1,977 | 2,441 | 1,889 | 2,620 | 1,776 | 9,179 | 7,554 |
| Discontinued operations: | | | | | | | | | | |
| Depreciation and amortization of real estate assets | 736 | 1,198 | 639 | 1,146 | 325 | 1,154 | 85 | 857 | 1,785 | 4,355 |
| (Gain)/loss on sale, net of minority interest | (3,436) | (119) | (399) | (894) | (630) | (7,431) | (4,790) | (156) | (9,255) | (8,600) |
| Minority interest in income from discontinued operations | 42 | 142 | 31 | 125 | 39 | 71 | 82 | 53 | 194 | 391 |
| Funds from operations | <u>\$ 30,133</u> | <u>\$ 24,391</u> | <u>\$ 16,776</u> | <u>\$ 37,224</u> | <u>\$ 47,791</u> | <u>\$ 49,683</u> | <u>\$ 32,124</u> | <u>\$ 35,849</u> | <u>\$ 126,824</u> | <u>\$ 147,147</u> |
| Funds from operations per share - diluted: | | | | | | | | | | |
| Net income/(loss) applicable to common shares | \$ (0.05) | \$ (0.23) | \$ (0.04) | \$ 0.01 | \$ 0.25 | \$ 0.45 | \$ 0.02 | \$ 0.06 | \$ 0.17 | \$ 0.30 |
| Add/(deduct): | | | | | | | | | | |
| Depreciation and amortization of real estate assets | 0.57 | 0.58 | 0.56 | 0.57 | 0.54 | 0.54 | 0.56 | 0.56 | 2.22 | 2.26 |
| (Gain)/loss on disposition of depreciable real estate assets | - | - | (0.27) | - | (0.02) | (0.08) | (0.01) | (0.06) | (0.31) | (0.15) |
| Unconsolidated affiliates: | | | | | | | | | | |
| Depreciation and amortization of real estate assets | 0.03 | 0.03 | 0.03 | 0.03 | 0.04 | 0.03 | 0.04 | 0.03 | 0.15 | 0.12 |
| Discontinued operations: | | | | | | | | | | |
| Depreciation and amortization of real estate assets | 0.01 | 0.02 | 0.01 | 0.02 | - | 0.02 | - | 0.01 | 0.03 | 0.07 |
| (Gain)/loss on sale, net of minority interest | (0.06) | - | (0.01) | (0.01) | (0.01) | (0.13) | (0.08) | - | (0.15) | (0.14) |
| Funds from operations | <u>\$ 0.50</u> | <u>\$ 0.40</u> | <u>\$ 0.28</u> | <u>\$ 0.62</u> | <u>\$ 0.80</u> | <u>\$ 0.83</u> | <u>\$ 0.53</u> | <u>\$ 0.60</u> | <u>\$ 2.11</u> | <u>\$ 2.46</u> |
| Dividend payout data: | | | | | | | | | | |
| Dividends paid per common share | <u>\$ 0.425</u> | <u>\$ 0.585</u> | <u>\$ 0.425</u> | <u>\$ 0.425</u> | <u>\$ 0.425</u> | <u>\$ 0.425</u> | <u>\$ 0.425</u> | <u>\$ 0.425</u> | <u>\$ 1.700</u> | <u>\$ 1.860</u> |
| Funds from operations | <u>85.0%</u> | <u>146.3%</u> | <u>151.8%</u> | <u>68.5%</u> | <u>53.1%</u> | <u>51.2%</u> | <u>80.2%</u> | <u>70.8%</u> | <u>80.5%</u> | <u>75.6%</u> |
| Weighted average shares outstanding - diluted | <u>60,092</u> | <u>60,243</u> | <u>59,794</u> | <u>59,878</u> | <u>59,991</u> | <u>59,710</u> | <u>60,214</u> | <u>59,889</u> | <u>60,024</u> | <u>59,911</u> |
| Impairment adjustments included in funds from operations | <u>\$ -</u> | <u>\$ (325)</u> | <u>\$ (3,856)</u> | <u>\$ -</u> | <u>\$ (500)</u> | <u>\$ -</u> | <u>\$ (4,426)</u> | <u>\$ -</u> | <u>\$ (8,782)</u> | <u>\$ (325)</u> |
| Impairment adjustments included in funds from operations per share | <u>\$ -</u> | <u>\$ (0.01)</u> | <u>\$ (0.06)</u> | <u>\$ -</u> | <u>\$ (0.01)</u> | <u>\$ -</u> | <u>\$ (0.07)</u> | <u>\$ -</u> | <u>\$ (0.15)</u> | <u>\$ (0.01)</u> |

Highwoods Properties, Inc.
Consolidated Balance Sheets
(In thousands)

| | December 31, | December 31, |
|--|---------------------|---------------------|
| | 2004 | 2003 |
| Assets: | | |
| Real estate assets, at cost: | | |
| Land and improvements | \$ 397,840 | \$ 430,199 |
| Buildings and tenant improvements | 2,932,756 | 3,111,537 |
| Development in process | 25,171 | 7,485 |
| Land held for development | 188,945 | 197,064 |
| Furniture, fixtures and equipment | 22,187 | 21,818 |
| | 3,566,899 | 3,768,103 |
| Less-accumulated depreciation | (606,111) | (550,136) |
| Net real estate assets | 2,960,788 | 3,217,967 |
| Property held for sale | 32,796 | 65,724 |
| Cash and cash equivalents | 24,482 | 21,696 |
| Restricted cash | 3,875 | 4,457 |
| Accounts receivable, net | 16,748 | 18,176 |
| Notes receivable | 9,672 | 10,016 |
| Accrued straight-line rents receivable | 61,518 | 59,728 |
| Investment in unconsolidated affiliates | 74,432 | 62,069 |
| Other assets: | | |
| Deferred leasing costs | 111,121 | 102,058 |
| Deferred financing costs | 16,686 | 19,286 |
| Prepaid expenses and other | 10,618 | 10,217 |
| | 138,425 | 131,561 |
| Less-accumulated amortization | (62,567) | (53,010) |
| Other assets, net | 75,858 | 78,551 |
| Total Assets | \$ 3,260,169 | \$ 3,538,384 |
| Liabilities and Stockholders' Equity: | | |
| Mortgages and notes payable | \$ 1,572,169 | \$ 1,717,765 |
| Accounts payable, accrued expenses and other liabilities | 115,003 | 103,356 |
| Financing obligations | 65,309 | 125,777 |
| Total Liabilities | 1,752,481 | 1,946,898 |
| Minority interest in the Operating Partnership | 115,926 | 126,928 |
| Stockholders' Equity: | | |
| Preferred stock | 377,445 | 377,445 |
| Common stock | 538 | 535 |
| Additional paid-in capital | 1,416,855 | 1,408,779 |
| Distributions in excess of net earnings | (396,151) | (314,082) |
| Accumulated other comprehensive loss | (2,814) | (3,650) |
| Deferred compensation | (4,111) | (4,469) |
| Total Stockholders' Equity | 1,391,762 | 1,464,558 |
| Total Liabilities and Stockholders' Equity | \$ 3,260,169 | \$ 3,538,384 |

Highwoods Properties, Inc.
Consolidated Statements of Income
(In thousands, except per share amounts)

| | Three Months Ended | |
|--|---------------------------|-------------------|
| | March 31, | |
| | 2005 | 2004 |
| Rental and other revenues | \$ 116,022 | \$ 117,292 |
| Operating expenses: | | |
| Rental property and other expenses | 41,126 | 43,404 |
| Depreciation and amortization | 35,877 | 34,563 |
| Impairment of assets held for use | 2,614 | - |
| General and administrative | 7,423 | 10,743 |
| Total operating expenses | <u>87,040</u> | <u>88,710</u> |
| Interest expense: | | |
| Contractual | 25,585 | 27,149 |
| Amortization of deferred financing costs | 847 | 1,144 |
| Financing obligations | 1,567 | 4,724 |
| | <u>27,999</u> | <u>33,017</u> |
| Other income: | | |
| Interest and other income | 1,684 | 1,754 |
| | <u>1,684</u> | <u>1,754</u> |
| Income/(loss) before disposition of property, minority interest and equity in earnings of unconsolidated affiliates | 2,667 | (2,681) |
| Gains on disposition of property, net | 10,625 | 1,085 |
| Minority interest in the Operating Partnership | (829) | 796 |
| Equity in earnings of unconsolidated affiliates | 2,216 | 1,212 |
| Income from continuing operations | <u>14,679</u> | <u>412</u> |
| Discontinued operations: | | |
| Income from discontinued operations, net of minority interest | 843 | 1,088 |
| Gain on sale of discontinued operations, net of minority interest | 4,824 | 3,436 |
| | <u>5,667</u> | <u>4,524</u> |
| Net income | 20,346 | 4,936 |
| Dividends on preferred stock | (7,713) | (7,713) |
| Net income available for/(loss attributable to) common stockholders | <u>\$ 12,633</u> | <u>\$ (2,777)</u> |
| Net income/(loss) per common share - basic: | | |
| Income/(loss) from continuing operations | \$ 0.13 | \$ (0.14) |
| Income from discontinued operations | 0.11 | 0.09 |
| Net income/(loss) | <u>\$ 0.24</u> | <u>\$ (0.05)</u> |
| | | |
| Weighted average common shares outstanding - basic | <u>53,640</u> | <u>53,186</u> |
| Net income/(loss) per common share - diluted: | | |
| Income/(loss) from continuing operations | \$ 0.13 | \$ (0.14) |
| Income from discontinued operations | 0.11 | 0.09 |
| Net income/(loss) | <u>\$ 0.24</u> | <u>\$ (0.05)</u> |
| | | |
| Weighted average common shares outstanding - diluted | <u>60,182</u> | <u>53,186</u> |

Highwoods Properties, Inc.
Funds from Operations
(In thousands, except per share amounts and ratios)

| | Three Months Ended | |
|--|---------------------------|-------------|
| | March 31, | |
| | 2005 | 2004 |
| Funds from operations: | | |
| Net income | \$ 20,346 | \$ 4,936 |
| Dividends to preferred shareholders | (7,713) | (7,713) |
| Net income/(loss) applicable to common shares | 12,633 | (2,777) |
| Add/(deduct): | | |
| Depreciation and amortization of real estate assets | 35,209 | 33,885 |
| (Gain)/loss on disposition of depreciable real estate assets | (10,478) | 66 |
| Minority interest in income from operations | 829 | (796) |
| Unconsolidated affiliates: | | |
| Depreciation and amortization of real estate assets | 2,645 | 2,048 |
| Discontinued operations: | | |
| Depreciation and amortization of real estate assets | 138 | 1,017 |
| (Gain)/loss on sale, net of minority interest | (4,824) | (3,436) |
| Minority interest in income from discontinued operations | 94 | 126 |
| Funds from operations | \$ 36,246 | \$ 30,133 |
| Funds from operations per share - diluted: | | |
| Net income/(loss) applicable to common shares | \$ 0.24 | \$ (0.05) |
| Add/(deduct): | | |
| Depreciation and amortization of real estate assets | 0.58 | 0.57 |
| (Gain)/loss on disposition of depreciable real estate assets | (0.18) | - |
| Unconsolidated affiliates: | | |
| Depreciation and amortization of real estate assets | 0.04 | 0.03 |
| Discontinued operations: | | |
| Depreciation and amortization of real estate assets | - | 0.01 |
| (Gain)/loss on sale, net of minority interest | (0.08) | (0.06) |
| Funds from operations | \$ 0.60 | \$ 0.50 |
| Dividend payout data: | | |
| Dividends paid per common share | \$ 0.425 | \$ 0.425 |
| Funds from operations | 70.8% | 85.0% |
| Weighted average shares outstanding - diluted | 60,182 | 60,092 |
| Impairment adjustments included in funds from operations | \$ (2,614) | \$ - |
| Impairment adjustments included in funds from operations per share | \$ (0.04) | \$ - |

Highwoods Properties, Inc.
Consolidated Balance Sheets
(In thousands)

| | <u>March 31,</u> <u>2005</u> | <u>December 31,</u> <u>2004</u> |
|--|---------------------------------|------------------------------------|
| Assets: | | |
| Real estate assets, at cost: | | |
| Land and improvements | \$ 391,768 | \$ 397,840 |
| Buildings and tenant improvements | 2,914,253 | 2,932,756 |
| Development in process | 40,581 | 25,171 |
| Land held for development | 179,755 | 188,945 |
| Furniture, fixtures and equipment | 22,509 | 22,187 |
| | <u>3,548,866</u> | <u>3,566,899</u> |
| Less-accumulated depreciation | (622,956) | (606,111) |
| Net real estate assets | 2,925,910 | 2,960,788 |
| Property held for sale | 27,283 | 32,796 |
| Cash and cash equivalents | 55,166 | 24,482 |
| Restricted cash | 3,711 | 3,875 |
| Accounts receivable, net | 17,035 | 16,748 |
| Notes receivable | 8,304 | 9,672 |
| Accrued straight-line rents receivable | 62,786 | 61,518 |
| Investment in unconsolidated affiliates | 73,723 | 74,432 |
| Other assets: | | |
| Deferred leasing costs | 112,873 | 111,121 |
| Deferred financing costs | 16,257 | 16,686 |
| Prepaid expenses and other | 11,847 | 10,618 |
| | <u>140,977</u> | <u>138,425</u> |
| Less-accumulated amortization | (64,454) | (62,567) |
| Other assets, net | 76,523 | 75,858 |
| Total Assets | <u>\$ 3,250,441</u> | <u>\$ 3,260,169</u> |
| Liabilities and Stockholders' Equity: | | |
| Mortgages and notes payable | \$ 1,582,010 | \$ 1,572,169 |
| Accounts payable, accrued expenses and other liabilities | 113,282 | 115,003 |
| Financing obligations | 63,096 | 65,309 |
| Total Liabilities | <u>1,758,388</u> | <u>1,752,481</u> |
| Minority interest in the Operating Partnership | 109,275 | 115,926 |
| Stockholders' Equity: | | |
| Preferred stock | 377,445 | 377,445 |
| Common stock | 540 | 538 |
| Additional paid-in capital | 1,420,055 | 1,416,855 |
| Distributions in excess of net earnings | (406,437) | (396,151) |
| Accumulated other comprehensive loss | (2,675) | (2,814) |
| Deferred compensation | (6,150) | (4,111) |
| Total Stockholders' Equity | <u>1,382,778</u> | <u>1,391,762</u> |
| Total Liabilities and Stockholders' Equity | <u>\$ 3,250,441</u> | <u>\$ 3,260,169</u> |

Highwoods Properties, Inc.
Summary of Effects of Restatement

Dollars in thousands, except per share amounts

| | Years Ended December 31, | | | Quarter ended | Aggregate |
|---|--------------------------|-------------------|-------------------|------------------|---------------------------|
| | 2002 | 2003 | 2004 | 31-Mar-05 | From 1/1/02 to 3/31/05 |
| <u>Effects on Net Income --- Increases (Decreases):</u> | | | | | |
| Depreciation and amortization | \$ (1,118) | \$ (1,529) | \$ (1,305) | \$ 77 | \$ (3,875) |
| Ground lease straight line rent expense | (251) | (239) | (225) | (54) | \$ (769) |
| Internal cost capitalization, net | 320 | 514 | 416 | (28) | \$ 1,222 |
| Other | (66) | (174) | 100 | 1 | \$ (139) |
| Minority Interest impact | 106 | 156 | 112 | 0 | \$ 374 |
| TOTAL | <u>\$ (1,009)</u> | <u>\$ (1,272)</u> | <u>\$ (902)</u> | <u>\$ (4)</u> | <u>\$ (3,187)</u> |
| Effect on diluted Net Income per share | <u>\$ (0.02)</u> | <u>\$ (0.02)</u> | <u>\$ (0.02)</u> | <u>\$ (0.00)</u> | <u>\$ (0.06)</u> |
| Net Income, as restated | <u>\$ 80,868</u> | <u>\$ 46,672</u> | <u>\$ 39,981</u> | <u>\$ 20,346</u> | <u>\$ 187,867</u> |
| Net Income, before adjustments | <u>\$ 81,877</u> | <u>\$ 47,944</u> | <u>\$ 40,883</u> | <u>\$ 20,350</u> | <u>\$ 191,054</u> |
| | | | | | <u>-1.67%</u> |
| <u>Effects on Funds from Operations --- Increases (Decreases):</u> | | | | | |
| Accounting for lease incentives | \$ (643) | \$ (1,016) | \$ (1,309) | \$ (305) | \$ (3,273) |
| Ground lease straight line rent expense | (251) | (239) | (225) | (54) | \$ (769) |
| Internal cost capitalization | (470) | (267) | (304) | (175) | \$ (1,216) |
| Other funds from operations | (66) | (174) | 100 | 1 | \$ (139) |
| TOTAL | <u>\$ (1,430)</u> | <u>\$ (1,696)</u> | <u>\$ (1,738)</u> | <u>\$ (533)</u> | <u>\$ (5,397)</u> |
| Effect on funds from operations per share | <u>\$ (0.02)</u> | <u>\$ (0.03)</u> | <u>\$ (0.03)</u> | <u>\$ (0.01)</u> | <u>\$ (0.09)</u> |
| Funds from Operations, as restated | <u>\$ 175,636</u> | <u>\$ 147,147</u> | <u>\$ 126,824</u> | <u>\$ 36,246</u> | <u>\$ 485,853</u> |
| Funds from Operations, before adjustments | <u>\$ 177,066</u> | <u>\$ 148,843</u> | <u>\$ 128,562</u> | <u>\$ 36,779</u> | <u>\$ 491,250</u> |
| | | | | | <u>-1.10%</u> |