



BEYOND BUSINESS AS USUAL



CORPORATE PROFILE: HIGHWOODS PROPERTIES

Highwoods Properties is one of the largest owners and operators of suburban office properties in the Southeast. A fully integrated, self-administered real estate investment trust ("REIT"), Highwoods provides leasing, management, development, construction and other customer related services for its properties and third parties. As of December 31, 2003, we owned or had an interest in 530 office, industrial and retail properties encompassing approximately 42 million square feet and we owned 1,305 acres of undeveloped land well-positioned for future development.

Our strategy is simple: Own and manage highly maintained, quality assets in excellent locations. By providing outstanding customer service that consistently exceeds expectations and being the dominant provider of space in the majority of our markets, we are firmly planted in the middle of each market's deal flow. Our ultimate goal is to enhance shareholder value. We will deliver on that goal through service excellence and market dominance.

DES MOINES - 4%

KANSAS CITY - 11%

MEMPHIS - 4%

NASHVILLE - 10%

RICHMOND - 7%

RESEARCH TRIANGLE - 14%

PIEDMONT TRIAD - 9%

CHARLOTTE - 4%

GREENVILLE - 3%

ATLANTA - 14%

ORLANDO - 7%

TAMPA - 12%

CORE MARKETS

(percent of total annualized revenue including our share of unconsolidated joint ventures)

HIGHLIGHTS

in thousands, except per share amounts for the years ended December 31,

	2003	2002	2001
TOTAL REVENUE ⁽¹⁾	\$ 465,844	\$ 508,361	\$ 540,615
NET INCOME AVAILABLE FOR COMMON SHAREHOLDERS	24,843	62,609	99,711
NET INCOME AVAILABLE FOR COMMON SHAREHOLDERS PER DILUTED SHARE	0.47	1.17	1.83
FUNDS FROM OPERATIONS AVAILABLE FOR COMMON SHAREHOLDERS ⁽³⁾	133,122	162,405 ⁽²⁾	205,216
FUNDS FROM OPERATIONS PER DILUTED SHARE ⁽³⁾	2.49	3.04 ⁽²⁾	3.76
DIVIDENDS PER SHARE	1.86	2.34	2.31
REAL ESTATE ASSETS, AT COST ⁽⁴⁾	\$3,520,153	\$3,421,953	\$3,592,709
MORTGAGES AND NOTES PAYABLE	1,558,758	1,528,720	1,719,230
TOTAL MARKET CAPITALIZATION	3,451,998	3,240,453	3,661,330
SQUARE FOOTAGE OF PROPERTIES OWNED AND MANAGED	41,699	44,917	44,386

(1) Includes revenue from discontinued operations.

(2) Includes non-recurring compensation expense \$3,700 and litigation expense \$2,700.

(3) Includes impairment charges of \$2,701 in 2003 and \$13,503 in 2002.

(4) Excludes property held for sale.

For more information about FFO, a non-GAAP financial measure, see "Management's Discussion and Analysis of Financial Condition and Results of Operations" in the accompanying Annual Report on Form 10-K.

FUNDS FROM OPERATIONS

(in dollars per diluted share)

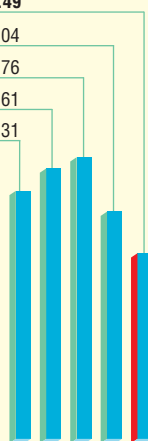
2003 - \$2.49

2002 - \$3.04

2001 - \$3.76

2000 - \$3.61

1999 - \$3.31



DIVIDENDS

(in dollars per share)

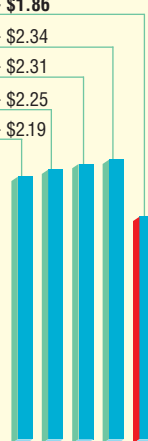
2003 - \$1.86

2002 - \$2.34

2001 - \$2.31

2000 - \$2.25

1999 - \$2.19



TOTAL DEBT/TOTAL ASSETS

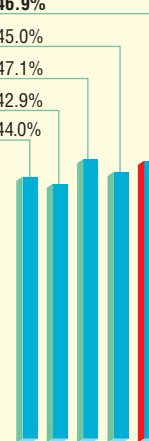
2003 - 46.9%

2002 - 45.0%

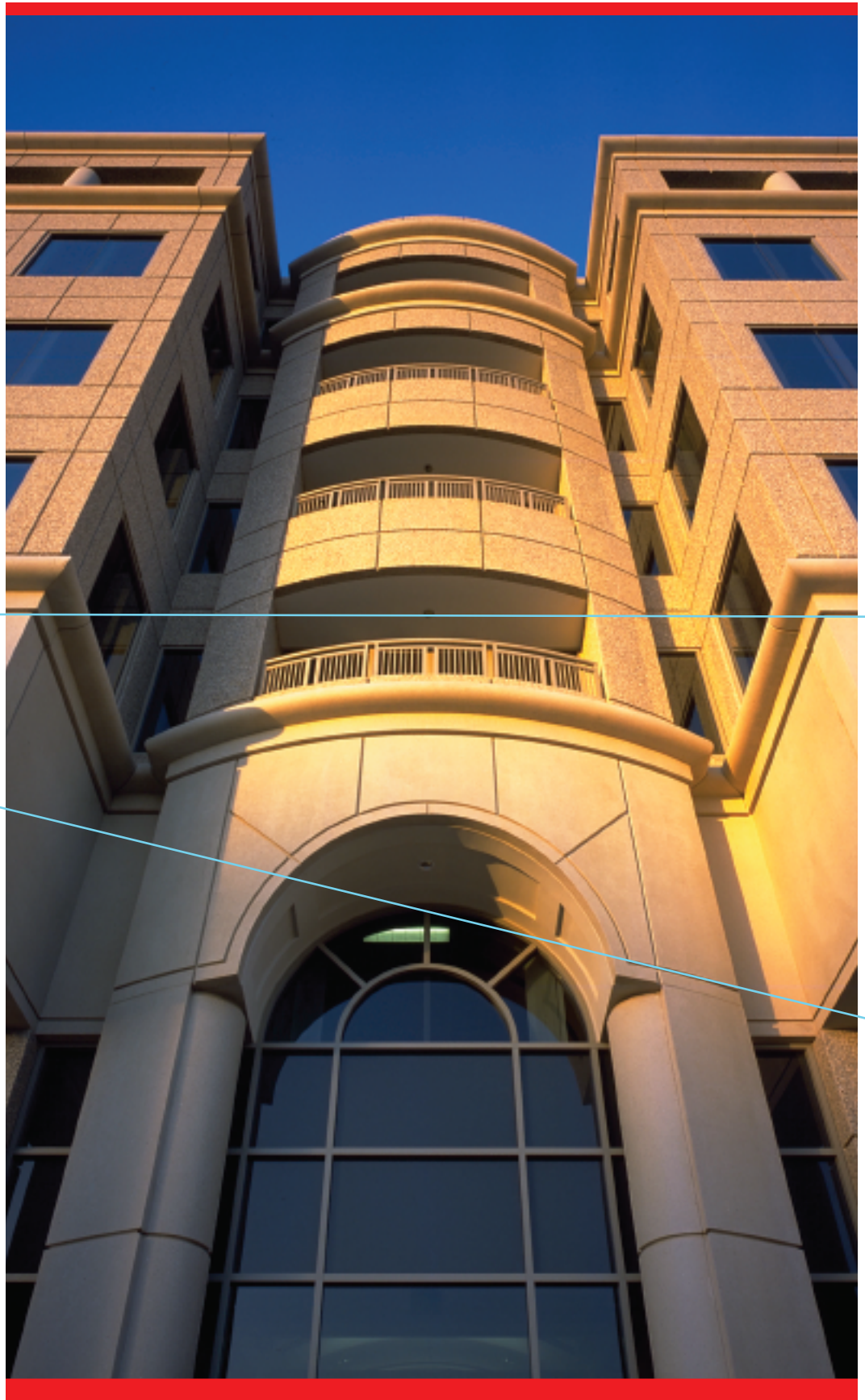
2001 - 47.1%

2000 - 42.9%

1999 - 44.0%



GlenLake One is an excellent example of our ability to create value. Delivered in an extremely challenging and competitive office market, GlenLake One has rapidly attracted a strong and prestigious customer base. Occupancy over the past 12 months has grown from 41.0% to 94.0%, and we have secured top-of-the-market rental rates.



GLENLAKE ONE – RALEIGH, NORTH CAROLINA



Highwoods confronted another challenging year as the demand for office space remained weak in the face of negligible job growth. Throughout the country, office vacancy rates remained high and our core markets were no exception. Our industry

for them in Tampa, Florida. Not only did we lose \$12.4 million in annual rental revenue, but we also had to assume the cost of maintaining this campus – approximately \$2.8 million annually – an expense previously borne by the customer and one that directly impacts FFO and net income.

DEAR SHAREHOLDERS

has yet to see a sustained recovery and, as we look at 2004, we are still uncertain as to when office employment and demand for office space will accelerate at a meaningful and sustained pace.

Our financial results for 2003 reflect this difficult operating environment. Total revenues declined 8.4% from 2002 to \$465.8 million and net income for common shareholders was \$24.8 million, or \$0.47 per share. Funds from Operations (“FFO”), the most commonly used metric to value real estate investment trusts, declined to \$133.1 million, or \$2.49 per share, from \$162.4 million, or \$3.04 per share in 2002.

A substantial portion of this decline in revenue, net income and FFO was due to WorldCom’s rejection of their lease at Highwoods Preserve, the 816,000 square-foot, five-building campus we built

In April 2003, as a result of this lease rejection, the bankruptcies of WorldCom, US Airways, and a number of other larger customers, which resulted in the loss of an additional \$8.2 million in annual revenue, our Board of Directors reduced the quarterly dividend to \$0.425 per share. At that time there were no concrete signs that the office market environment was improving and our Board made the difficult but correct decision that our Company’s long-term growth and financial health and flexibility should not be jeopardized to maintain the dividend at a level we could not comfortably support.

We were pleased that our common stock performed well throughout the year, generating a 24.9% annual total return. Our entire industry has been the beneficiary of a greater allocation of investment dollars to real estate securities as investors seek diversification, income, real assets and capital appreciation.





Occupancy continued to be our primary focus in 2003 as it was in 2002 and 2001. This year, we leased a total of 7.5 million square feet, a 34.0% increase from 2002. Unfortunately, this volume was not the result of new demand coming into our

financial, accounting and reporting aspects of our Company, including the new demands of Sarbanes-Oxley. Terry held various executive positions at another publicly traded REIT for nearly ten years, including Chief Financial Officer, and he was a member of its Board of Trustees. He

24.9% TOTAL ANNUAL RETURN

markets but was primarily driven by lease renewals and capturing market share from our competitors.

Strengthening Senior Management Team

This year we made important changes to our senior management team, significantly strengthening the group. Ed Fritsch, the Company's Chief Operating Officer, was promoted to President, a title previously held by Ron Gibson. Ed joined Highwoods in 1982 and over the past 22 years he has touched every aspect of our Company, including property management, leasing, development and strategic planning. Throughout his tenure, he has earned the respect not only of our employees, senior management team, Board of Directors and customers, but also the respect of his peers.

Terry Stevens joined our management team in December as Chief Financial Officer, responsible for managing all

also spent 18 years with Price Waterhouse including seven years as an audit partner in New York and Baltimore. Terry's extensive finance, accounting and real estate management experience is invaluable, and he is a great addition to Highwoods.

Our previous Chief Financial Officer, Carman Liuzzo, was named to the newly created position of Vice President of Investments and Strategic Analysis. In his new role, Carman is evaluating our assets, market positions, and acquisition and disposition opportunities.

We are very proud of our entire team of seasoned professionals and are confident they will work together closely to position our Company for long-term profitable growth.

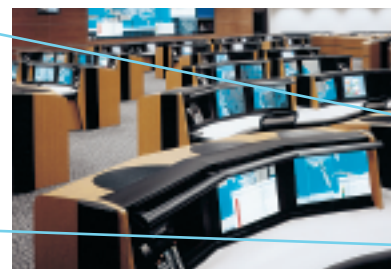
Taking Advantage of the Demand for Real Estate Assets

Like last year, the demand to purchase real assets was strong as interest rates remained



HIGHWOODS PRESERVE – TAMPA, FLORIDA

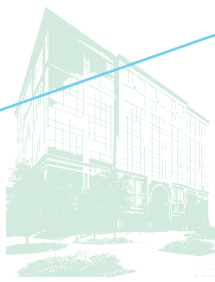
Highwoods Preserve anchors the Tampa Bay area's fastest growing and most sophisticated mix of new commercial and residential development. It is the classic corporate campus – redefined for the way business works today.



Our customers use ServiceLink, a state-of-the-art work management system, to report service requests through the Internet. ServiceLink has significantly improved our response times, increased customer satisfaction, reduced maintenance costs and increased our operational efficiency.



RAPIDLY AND EFFICIENTLY MANAGING CUSTOMER SERVICE REQUESTS



low and investors continued to seek hard assets with steady revenue streams. We took advantage of this environment by selling \$202.0 million of both non-core and highly leased assets on extremely

6.5%. As a result, our Company expects to save \$8.2 million, or \$0.14 per share, in annual interest this year. Over time, this refinancing should also improve our fixed charge coverage ratio, an important measure used by the credit rating agencies and other lending institutions.

\$202 MILLION OF ASSET SALES

attractive terms. In most cases we continue to manage and lease these assets for the purchaser, generating recurring management fees for our Company.

While we recognize that these sales may negatively impact occupancy and earnings in the short term, they are best for our Company and our shareholders over the long term as they represent the optimal strategic management of the assets.

Improving Financial Flexibility

It is critical to maintain financial flexibility to capitalize on attractive opportunities as they arise. In July we closed on a new \$250.0 million senior credit facility, a portion of which can be used to make strategic acquisitions and fund substantially pre-leased developments. We also successfully refinanced \$371.5 million of public debt, taking advantage of low interest rates to reduce the weighted average interest rate on all of our outstanding debt from 7.0% to

Looking Ahead

We anticipate another challenging year for Highwoods. Based on economic forecasts, the earliest we expect to see meaningful employment growth in our markets is late this year or the first half of 2005.

However, behind the scenes we have been preparing for the inevitable upswing. We continue to optimize our portfolio, strengthen our balance sheet and seek out opportunities to enhance our position in our core markets. When the Southeast begins to participate in the economic recovery, our shareholders will be one of the primary beneficiaries.

Thank you for your continued support and belief in our business, management team and associates.

RONALD P. GIBSON
Chief Executive Officer

O. TEMPLE SLOAN, JR.
Chairman of the Board

March 2004

SENIOR OFFICERS

Ronald P. Gibson*
Chief Executive Officer
and Director

Edward J. Fritsch*
President,
Chief Operating Officer,
and Director

Gene H. Anderson*
Senior Vice President
and Director
Atlanta, GA

Michael F. Beale*
Senior Vice President
Orlando, FL

Barrett Brady
Senior Vice President
Kansas City, MO

Thomas F. Cochran
Senior Vice President
Charlotte, NC

Robert G. Cutlip
Vice President
Research Triangle, NC

Michael E. Harris*
Senior Vice President
Memphis, TN

Paul W. Kreckman
Vice President
Richmond, VA

Carman J. Liuzzo*
Vice President,
Investments and Strategic
Analysis

Stephen A. Meyers
Vice President
Tampa, FL

Kevin E. Penn
Chief Information and
Business Solutions Officer

Mack D. Pridgen III*
Vice President,
General Counsel
and Secretary

W. Brian Reames
Vice President
Nashville, TN

Mark W. Shumaker
Vice President
Piedmont Triad, NC

Terry L. Stevens*
Vice President,
Chief Financial Officer
and Treasurer

* Officers subject to the reporting requirements of Section 16 of the Securities Exchange Act of 1934.

BOARD OF DIRECTORS



Ronald P. Gibson^{(2)(4)}**
Chief Executive Officer



O. Temple Sloan, Jr.⁽²⁾⁽³⁾⁽⁴⁾
Chairman of the Board of Directors
Chairman and CEO,
General Parts, Inc.



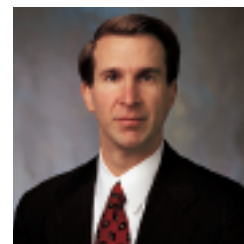
Thomas W. Adler⁽²⁾⁽⁴⁾
Chairman, PSF Management



Gene H. Anderson⁽⁴⁾
Senior Vice President



Kay N. Callison⁽¹⁾
Former Director,
J.C. Nichols Company



Edward J. Fritsch^{(2)(4)}**
President and
Chief Operating Officer



William E. Graham, Jr.⁽³⁾
Senior Counsel, Hunton & Williams
and Former Vice Chairman,
Carolina Power and Light



Lawrence S. Kaplan^(1)**
Former Tax Partner,
Ernst & Young LLP



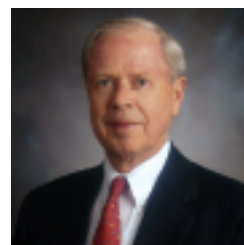
L. Glenn Orr, Jr.^{(2)(3)}**
Former Chairman,
President and CEO,
Southern National Corporation



Willard H. Smith Jr.⁽¹⁾
Former Managing Director,
Merrill Lynch



John L. Turner⁽⁴⁾
Managing Member,
Gateway Holdings LLC



F. William Vandiver, Jr.⁽¹⁾⁽²⁾
Former Corporate Risk
Management Executive,
Bank of America

(1) Audit Committee (2) Executive Committee (3) Governance/Compensation Committee (4) Investment Committee

** Denotes Chair for Each Committee

SHAREHOLDER INFORMATION

SHAREHOLDER CONTACT

For shareholder mailings and Company information:

Highwoods Properties, Inc.
Attention: Investor Relations Coordinator
3100 Smoketree Court, Suite 600
Raleigh, North Carolina 27604
T 919.872.4924
800.256.2963
F 919.876.6929
E HIW-IR@highwoods.com
W www.highwoods.com

ANNUAL MEETING

May 18, 2004, at 11:00 a.m.
Marriott Crabtree Valley
4500 Marriott Drive
Raleigh, North Carolina 27612
T 919.781.7000

TRANSFER AGENT

For information regarding change of address or other matters concerning your shareholder account, please contact the transfer agent at:

Wachovia Bank, N.A.
Equity Services Group
1525 West W.T. Harris Boulevard, 3C3
Charlotte, North Carolina 28288-1153
T 800.829.8432
F 704.590.7618

DIVIDEND REINVESTMENT PLAN

As provided by the terms of the Dividend Reinvestment and Stock Purchase Plan (the "Plan"), eligible shareholders are able to reinvest all or a portion of their dividends in shares of the Company's stock. Shareholders are also able to make optional cash payments for the purchase of additional shares. No brokerage commissions or fees will be charged under either option.

For assistance or questions about the Plan, contact Highwoods' Investor Relations Coordinator.

TOTAL RETURN TO SHAREHOLDERS

December 31, 2003

	1 Year	3 Years	5 Years
Highwoods Properties, Inc.	24.9%	33.8%	55.9%
S&P 500	28.6%	(11.7%)	(2.6%)

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