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Focused & Driven

2005 ANNUAL REPORT

 **Highwoods**
PROPERTIES



Dear Fellow Shareholders

It is my pleasure and privilege to report to you on the progress of Highwoods Properties. We have made great strides over the past two years, focusing our efforts on building a better portfolio of differentiated assets that will enable Highwoods to further outpace market absorption trends, improve cash flow and enhance shareholder value.

To create long-term shareholder value, we created a Strategic Management Plan to guide our future. Our board and senior management team developed the goals for the first three years of the Plan after a lengthy and deliberate process. This process involved a thorough review and analysis of our business and our business practices and we vowed that no process, property or person was sacred.

The initial three-year goals we established at the beginning of 2005 are comprehensive in scope and encompass a wide range of areas. They touch every aspect of our Company, including leasing, development, internal and external communications, branding and training.

A few of these concrete, measurable goals include:

- Increase Occupancy to 88% - 90%. We will also evaluate opportunities to better leverage best practices and further improve operating efficiencies.
- Improve Portfolio Quality. We will sell non-differentiating, older and underperforming assets and develop high-quality properties in prime infill locations. Our initial plan calls for the disposition of between \$600 million and \$650 million of non-core properties and for starting \$300 million to \$400 million of new development.
- Strengthen our Balance Sheet. We will use a significant portion of our disposition proceeds from the sale of non-differentiating properties to reduce our leverage and improve our financial flexibility.
- Sell Non-Core Land. We are taking an aggressive approach in evaluating our land holdings for their long-term value to our shareholders. We will sell land holdings that are not core raw materials for our growth. We expect to sell \$60 million to \$70 million of land holdings by the end of 2007.

In 2005, we made significant headway towards achieving these initial three-year goals.

- Increased occupancy 410 basis points to 89.1%;
- Placed \$86.5 million of 100% leased development projects into service;
- Announced \$134 million of new development;
- Sold \$380 million of non-core properties and land;
- Exited the Charlotte market where we had older, underperforming assets garnering annual G&A savings of \$500,000; and
- Used \$282 million of disposition proceeds to retire high coupon debt and preferred stock.

Our progress is continuing in 2006. In the first five months of the year, we announced an additional \$162 million of development starts, sold another \$160 million of non-core assets and retired an additional \$95 million of high coupon debt and preferred stock.

During 2005, we also finished a comprehensive review of our historical accounting methodologies and included a restatement of prior year financial statements in our 2004 Annual Report. This 2005 Annual Report includes financial statements that have been audited by Deloitte & Touche LLP, our new independent registered public accounting firm.

I am excited about our future and hope you are too. Our entire team is energized and we are confident our strategic vision provides the best framework for the long-term, future growth and stability of our Company. Our operating and financial platform allows us to outpace our competitors by delivering superior product and service to our customers. We are growing our portfolio of high quality, differentiated assets and we have the flexibility to anticipate and capitalize on changes in our business environment.

Thank you for your continued support and thank you to all of my co-workers and our Directors for their hard work, focus and dedication to our Company.

Respectfully,

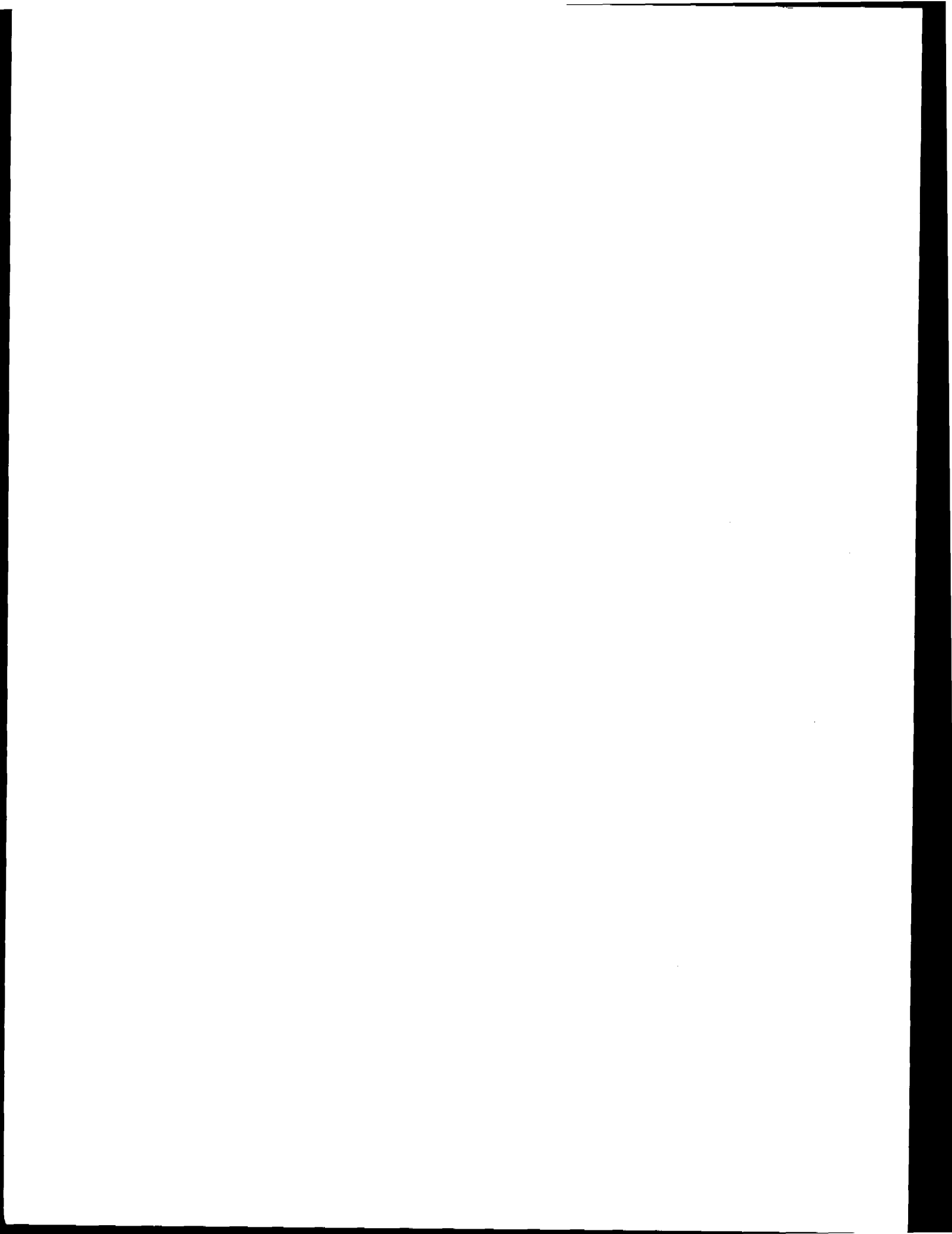
Edward J. Fritsch
President and Chief Executive Officer

June 5, 2006

Focused & Driven

2005 FORM 10-K

 **Highwoods**
PROPERTIES



Shareholder Information

Shareholder Contact

For shareholder mailings and Company information:

Highwoods Properties, Inc.
Attention: Investor Relations
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

August 3, 2006, 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:

American Stock Transfer & Trust Co.
Attention: Shareholder Services
6201 15th Avenue
Brooklyn, New York 11219
T 800.937.5449
F 718.236.2641

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 Department or the Transfer Agent.

Officers

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

Michael E. Harris*
Executive Vice President and Chief Operating Officer

Terry L. Stevens*
Vice President and Chief Financial Officer

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

S. Hugh Esleek
Treasurer

Steven L. Guinn
Vice President, Memphis, TN

Thomas S. Hill
Vice President, Raleigh, NC

Julie M. Kelly
Vice President, Compliance and Internal Audit

Paul W. Kreckman
Vice President, Richmond, VA

Carman J. Liuzzo
Vice President, Investments

Stephen A. Meyers
Vice President, Tampa, FL

Kevin E. Penn
Chief Information Officer and Vice President, Strategy

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

W. Brian Reames*
Senior Vice President, Nashville, TN

Mark W. Shumaker
Vice President, Piedmont Triad, NC

Tabitha N. Zane
Vice President, Investor Relations and Corporate Communications

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

Board of Directors*

Edward J. Fritsch^{(2)(3)(4)**}
President and Chief Executive Officer

O. Temple Sloan, Jr.⁽²⁾⁽³⁾⁽⁴⁾
Chairman of the Board of Directors, Chairman and Chief Executive Officer, The International Group, Inc.

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

Gene H. Anderson⁽⁴⁾
Senior Vice President

Kay N. Callison⁽³⁾
Former Director, J.C. Nichols Company

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

Sherry Kellelt⁽¹⁾
Former Corporate Controller, BB&T Corporation

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

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

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

* As of 3.31.06

** Denotes Committee Chair

Focused & Driven ---

that is the Highwoods' difference.

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 for third parties. As of December 31, 2005, we owned or had an interest in 447 office, industrial and retail properties encompassing approximately 37 million square feet and we owned 898 acres of undeveloped land.

Highwoods Properties, Inc.
3100 Smoketree Court, Suite 600
Raleigh, North Carolina 27604
919.872.4924

www.highwoods.com