

 **HIGHWOODS
PROPERTIES**
Celebrating 25 Years of Excellence



Capital Plaza II
Orlando



Harborview Plaza
Tampa



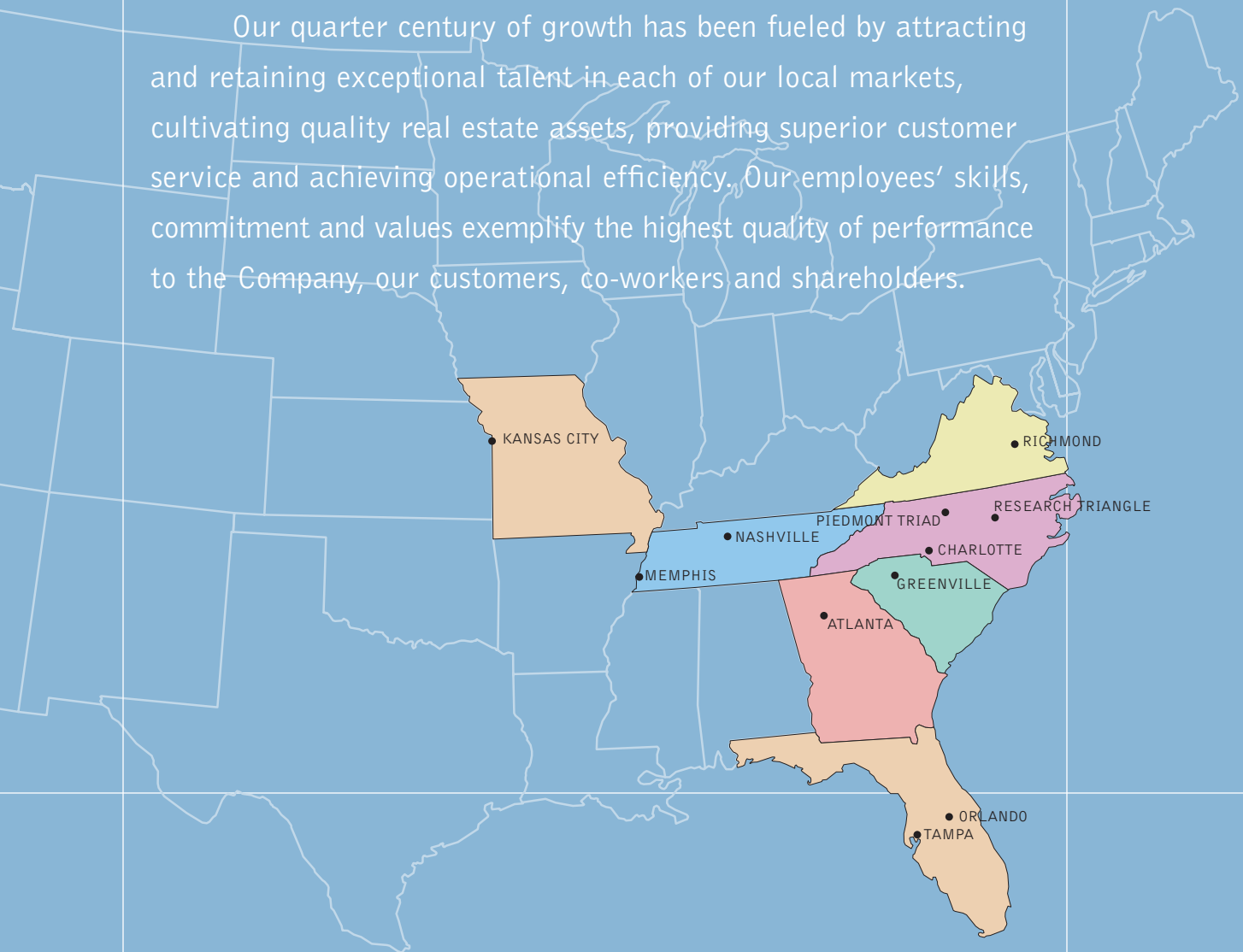
International Place III
Memphis

2 0 0 2 A N N U A L R E P O R T

CORPORATE PROFILE

Highwoods Properties is the largest owner and operator 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, 2002, we owned or had an interest in 571 office, industrial and retail properties encompassing approximately 45 million square feet, and we owned 1,308 acres of undeveloped land suitable for future development.

Our quarter century of growth has been fueled by attracting and retaining exceptional talent in each of our local markets, cultivating quality real estate assets, providing superior customer service and achieving operational efficiency. Our employees' skills, commitment and values exemplify the highest quality of performance to the Company, our customers, co-workers and shareholders.



FINANCIAL HIGHLIGHTS

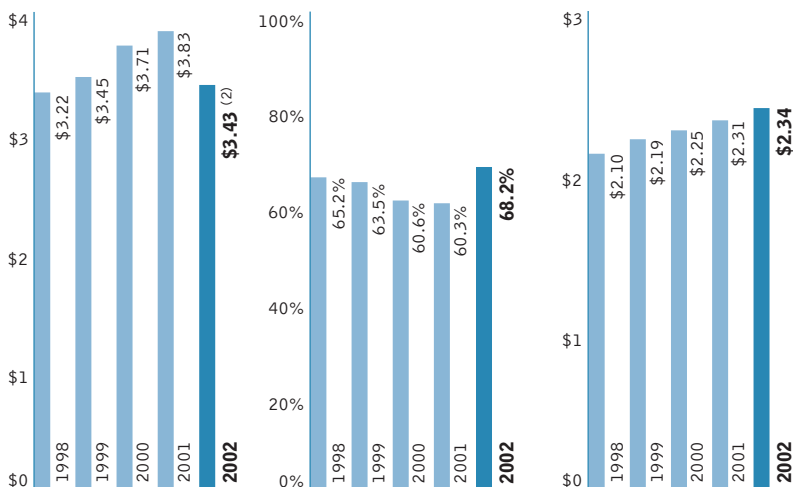
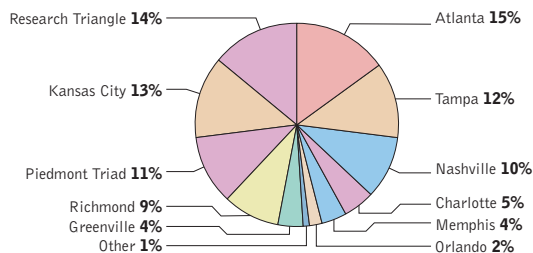
	2002	2001	2000
<i>in thousands, except per share amounts and ratios for the years ended December 31.</i>			
Total Revenue ⁽¹⁾	\$ 508,361	\$ 540,615	\$ 566,431
Net Income Available for Common Shareholders	62,609	99,711	100,907
Net Income Available for Common Shareholders per Diluted Share	1.17	1.83	1.70
Funds From Operations	208,188 ⁽²⁾	238,009	251,423
Funds From Operations per Diluted Share	3.43 ⁽²⁾	3.83	3.71
Dividends per Share	2.34	2.31	2.25
Dividend Payout Ratio	68.2%	60.3%	60.6%
Real Estate Assets, at Cost ⁽³⁾	\$ 3,471,114	\$ 3,539,289	\$ 3,268,451
Mortgages and Notes Payable	1,528,720	1,719,230	1,587,019
Total Market Capitalization	3,240,501	3,661,330	3,625,050

(1) Includes revenue from discontinued operations.

(2) Before minority interest and non-recurring compensation expense (\$3,700) and litigation reserve (\$2,700).

(3) Excludes real estate assets included in discontinued operations at December 31, 2001.

Core Markets
percent of total annualized revenue including unconsolidated joint ventures



Highwoods paid cash dividends of \$2.34 to its common stockholders in 2002. This is the eighth consecutive year Highwoods' annual dividend has increased.

Funds From Operations
in dollars per diluted share

Dividend Payout Ratio
percent of funds from operations

Dividends
in dollars per share

DEAR SHAREHOLDERS,

2002 Highlights

Total debt declined 11.0% to \$1.5 billion. Total debt to total assets fell 210 basis points to 45.0%.

Funds from operations, before minority interest and non-recurring compensation expense and litigation reserve, were \$208.2 million, or \$3.43 per diluted share.

Average same property occupancy was 88.0%.

Total revenues were \$508.4 million.

Annual dividend increased \$0.03 per share to \$2.34 per share.

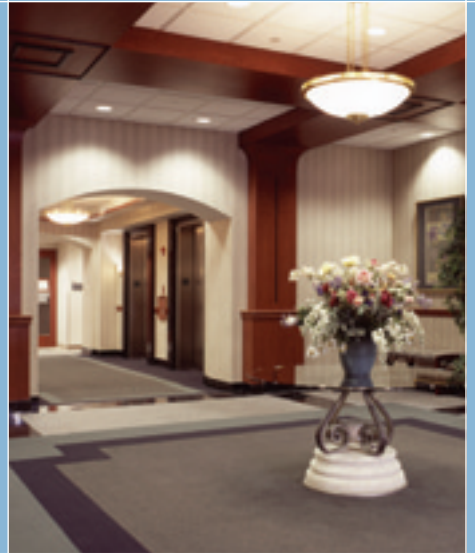
2002 can be summed up in one word—challenging. Non-existent economic growth, unabated layoffs and global uncertainties created the most daunting environment we have faced in our 25-year history. But we were not alone—2002 was one of the worst years on record for the entire commercial real estate industry.

We knew at the outset it would be a difficult year. We had prepared for slower growth by significantly limiting investment in new development projects, reducing overhead expenses and lowering our debt to maintain financial flexibility. What we had not anticipated, however, were the Chapter 11 bankruptcy filings of two of our largest customers, WorldCom and US Airways, which had been contributing a combined 5.2% of our annualized revenue. It was difficult to imagine a mere 12 months ago that even one of these colossal companies would fail. The impact of these back-to-back bankruptcies was unprecedented in our Company's history.

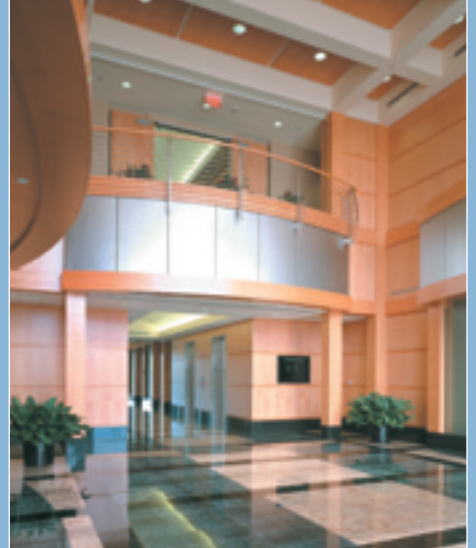
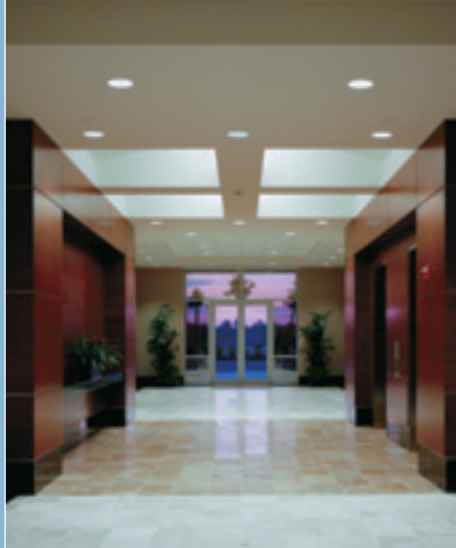
Our focus throughout 2002 was occupancy. Faced with shrinking demand for office space and a substantial increase in available and direct sublease space, our negotiations with new and prospective customers were less profitable than expected. Customers were able to garner lower rents and some meaningful concessions. It is a testament to the perseverance of our leasing agents that we actually saw a modest increase in the rental rates of expiring leases over the full terms of the leases signed.

Ironically, while the demand to lease office space declined, demand to purchase these assets actually increased. Unlike previous economic downturns, where real estate prices had fallen and financially distressed owners glutted the market with underutilized assets, the prevailing low

We are the largest owner and operator of suburban office properties in the Southeast, giving us a strong competitive advantage with current and prospective customers.



We are focused on maintaining financial health
and flexibility while maximizing shareholder returns.



2002 Highlights

5.6 million square feet of office, industrial and retail space was leased.

650 second-generation office leases were executed, representing 3.2 million square feet.

19 development projects were placed in service encompassing 2.0 million square feet. Leasing on those properties grew to 82.5% through February 2003.

Asset sales of \$303.0 million were completed, including 142 acres of land and 2.5 million square feet of office and industrial properties.

A total of 194,790 common partnership units were purchased at a weighted average price of \$24.79 per unit.

interest rate environment has enabled most of these owners to manage through this cycle. In addition, the falling stock market propelled many pension funds and financial buyers to invest in hard assets with steady revenue streams and returns of 7% to 8%. For many, real estate has been the perfect choice.

We took advantage of this strong demand by disposing of \$303 million of assets, at very attractive gains. The proceeds from these sales were used to reduce debt, enhancing our financial flexibility. Since commencing our capital recycling program four years ago, we are pleased to report that we have sold over \$2 billion of assets. These sales extracted us from non-core markets and dramatically improved the quality of our portfolio, which averages just over 12 years in age—precisely where it was when we became a publicly traded company nine years ago.

In 2003, we expect prices to remain firm for well-leased assets, and, consequently, have targeted to sell between \$75 million and \$175 million of assets, including approximately \$20 million of non-core land sales.

In 2002 Highwoods enhanced its financial flexibility. Long-term debt was reduced by \$190.5 million and total debt to total assets declined 210 basis points to 45.0%.



Total Debt/Total Assets

Asset Repositioning Volume
in millions of dollars

Development Pipeline
in millions of dollars



Our development pipeline is at its lowest level in many years. Our plans at the outset of 2002 were to start approximately \$75 million of new developments, but as market conditions worsened, we pulled back on those projects and commenced only \$6.9 million of new developments during the year. At year end, we had 331,000 square feet in development with only \$6.4 million left to fund, and we do not anticipate development activity to accelerate until market conditions dramatically improve.

Looking ahead, we believe 2003 is going to be another year of “fighting the good fight.” Maintaining occupancy will continue to be our number one goal. Our customer mix has changed significantly over the last year, and we are less dependent on the telecommunications and high-technology sectors, which continue to suffer economic devastation. Today, no single customer accounts for more than 3.4% of our annualized revenue, and our largest customer is the federal government, an exceedingly credit-worthy entity. We are hopeful our country will begin a sustained economic turnaround, which will lead to job growth and, ultimately, increased demand for office space.

We continue to anticipate that the Southeast region will lead the nation’s turnaround, as it has following past economic recessions. One economic trend report, published by Reis, Inc., forecasts national office employment growth between 2002 and 2007 at 9.4%, with office employment growth in our markets expected to be 11.8% over the same period.

2003 Goals

Maintain and increase occupancy through aggressive leasing efforts and superior customer service.

Continue capital recycling program through the sale of between \$75.0 million and \$175.0 million of assets at attractive valuations.

Limit new development projects until market conditions dramatically improve or pre-leased credit opportunities arise.

Further diversify customer base to mitigate exposure to telecommunications and high-technology industries.

Conservatively manage the Company's capital structure to ensure its financial flexibility and position it for long-term growth and profitability.

It is with these expectations that we enter 2003 prepared to maintain our current annual dividend of \$2.34. However, we will evaluate the appropriate level for our dividend if real estate fundamentals in our markets do not begin to exhibit concrete signs of improvement. Our dividend is important, but we will not sacrifice the Company's long-term growth and financial health and flexibility to maintain the dividend at its current level. Our Board of Directors will assess the situation each quarter and make a determination based on current trends and future outlook.

It is in times of adversity that a company's true strength is tested and the quality of its management team weighed. Our operating history demonstrates that we have the experience, determination and perseverance to weather this storm successfully. In past years, development and acquisitions served as our primary engines of growth. Three years ago, wisely, we realized the economic climate was changing and we needed to adapt our business model to prepare for tougher times. Our ability to adjust to market conditions ensures that Highwoods Properties will not only survive, but also thrive as we march toward our half-century mark and beyond.

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



Ronald P. Gibson
President and Chief Executive Officer



O. Temple Sloan, Jr.
Chairman of the Board

March 2003



BOARD OF DIRECTORS

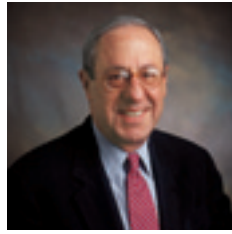
SENIOR OFFICERS



Ronald P. Gibson
President and
Chief Executive Officer



O. Temple Sloan, Jr.
Chairman of the Board of Directors
Chairman and CEO,
General Parts, Inc.



Thomas W. Adler
Chairman,
PSF Management



Gene H. Anderson
Senior Vice President

Ronald P. Gibson*
President, Chief Executive Officer and
Director

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

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

Michael E. Harris*
Senior Vice President
Memphis, TN

Paul W. Kreckman
Vice President
Richmond, VA

Carman J. Liuzzo*
Vice President,
Chief Financial Officer and Treasurer

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 Assistant Secretary

W. Brian Reames
Vice President
Nashville, TN

Mark W. Shumaker
Vice President
Piedmont Triad, NC

*Officers subject to the reporting require-
ments of Section 16 of the Securities
Exchange Act of 1934.



Kay N. Callison
Former Director,
J.C. Nichols Company



Edward J. Fritsch
Executive Vice President,
Chief Operating Officer
and Secretary



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



Lawrence S. Kaplan
Former Tax Partner,
Ernst & Young LLP



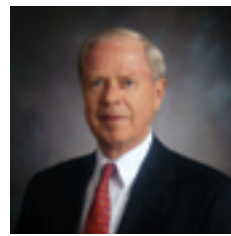
L. Glenn Orr, Jr.
Director and Former Chairman,
President and CEO,
Southern National Corporation



Willard H. Smith Jr.
Former Managing Director,
Merrill Lynch



John L. Turner
Vice Chairman of the Board of
Directors



F. William Vandiver, Jr.
Former Corporate Risk
Management Executive,
Bank of America

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

May 19, 2003, at 11:00 a.m.
 Marriott Crabtree Valley
 4500 Marriott Drive
 Raleigh, North Carolina
 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.

MARKET INFORMATION

The Common Stock has been traded on the New York Stock Exchange ("NYSE") under the symbol HIW since the Company's initial public offering. The following table sets forth the quarterly high and low sales prices per share as reported on the NYSE for the periods indicated and distributions paid per share during each such period.

QUARTER ENDED	2002			2001		
	HIGH	LOW	DISTRIBUTION	HIGH	LOW	DISTRIBUTION
March 31	\$ 28.30	\$ 25.39	\$ 0.585	\$ 25.99	\$ 24.00	\$ 0.57
June 30	29.36	26.00	0.585	26.65	24.15	0.57
September 30	26.65	23.00	0.585	26.67	23.45	0.585
December 31	23.30	18.70	0.585	26.42	23.52	0.585

On February 18, 2003, the last reported stock price of the Common Stock on the NYSE was \$21.00 per share, and the Company had 1,690 stockholders of record.



GlenLake One
Raleigh



One Shockoe Plaza
Richmond



Cool Springs II
Nashville



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Listed New York Stock Exchange: HIW