

July 10, 2011

What's NEXT For The Future Of Innsbrook



HIGHWOODS PARKWAY - EXISTING



HIGHWOODS PARKWAY - FULL BUILD-OUT

INTRODUCTION

Over the past 30 years, Innsbrook has developed from farmland located on the outskirts of the Richmond metropolitan area into a nationally recognized suburban office park and one of Central Virginia's major employment centers. Development of the Innsbrook Corporate Center began in the late 1970's and during its first 10 years, it began to capture the market for suburban office development, including well-known local companies such as Dominion Virginia Power and relocated suburban corporate headquarters such as Markel Corporation.

As Henrico County spread to its western edges in the past 20 years, residences sprang up bringing additional infrastructure with them, followed by extensive community retail to serve them and regional mall development as a testament to the concentration of economic activity in the surrounding area. Innsbrook's growth continued and other office projects developed nearby. As a result, West End Henrico has evolved pockets of more urban environment, away from a strictly traditional suburban pattern.

To attract and retain the best and the brightest employees, major employers are recognizing that their choice of office location must respond to the desires of their employees in their choice of career location. Successful office parks must increasingly provide the factors that appeal to new generations of employees.

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The predominant pattern for suburban office parks was acres of paved, often unused, parking lots. That characteristic, coupled with infrastructure already in place--roadways, utilities and other governmental services, creates a unique opportunity for Innsbrook to evolve with a more urban form and scale. Providing tomorrow's workforce with residential, commercial and entertainment amenities near their place of employment will create a vibrant, 24-hour community.

This mixed-use environment is an essential element in retaining and attracting the talented employees that existing and incoming new employers need to sustain our economic competitiveness as a region. To remain economically competitive, the Richmond area needs an additional urban product for our regional economic development teams to use in attracting new companies into Central Virginia. A location between a traditional downtown and a suburban office park as proposed for Innsbrook fills a gap in existing offerings.

THE ZONING CASE

More than 18 months ago, in response to challenging national and local economic and real estate fundamentals, Henrico County began a planning process culminating in a major amendment to its Comprehensive Land Use Plan embracing the urban mixed-use (UMU) concept for the greater Innsbrook area. That process involved a planning study conducted by the Henrico County Planning Department, numerous meetings with area residents and businesses, and finally adoption by the Board of Supervisors.

The current zoning for most of Innsbrook is O-2, O-3 and M-1, which are cookie-cutter classifications generally allowing only office uses along with banks and daycare centers and light industrial. Those classifications preclude residential or community-related retail. To allow development with a mixture of uses on the same site, the County first adopted its Urban Mixed-Use District Ordinance in 2002. Its preamble states:

“The purpose of the Urban Mixed Use District (the UMU District) is to allow the development of mixed-use, pedestrian-oriented, activity centers containing a variety of uses, including business, retail, residential, cultural, educational, and other public and private uses. The UMU District is intended to encourage redevelopment and reinvestment in commercial and industrial areas. The UMU District shall incorporate publicly accessible community open space areas and encourage high-quality development and redevelopment that stimulates investment, generates jobs, increases available housing options, and expands the County's tax base. The UMU District also permits a compatible mix of uses in a single structure or a group of structures on a parcel or group of parcels and is intended to discourage piecemeal development. The UMU District will facilitate investment by increasing the number of permitted principal and accessory uses in a single district and will encourage high quality redevelopment by permitting greater regulatory flexibility and innovative and creative design.”
(Section 24-31, Henrico County Ordinance).

The goal of Highwoods' zoning application for Innsbrook is to create an urban-style community that is economically, socially and environmentally sustainable.

Approval of the requested UMU zoning could result in the additional development on 188 acres of another 3,500,000 square feet of office use, 400,000 square feet of retail, 800 to 1,000 hotel rooms and 5,000 to 6,000 residential units in a mix of condominiums and apartments. The existing greenways and lakes would be preserved and enhanced. Structured parking would support the increased development. Ultimately, an intra-park shuttle system could be provided which will, along with amenities located within walking distances, reduce dependency on automobile travel within Innsbrook.

The proposed UMU development would be regulated by Urban Design Guidelines as part of the UMU Ordinance, as well as active involvement by the Architectural Review Committee of the Innsbrook Owners' Association. This represents an exciting opportunity to extend the life of Innsbrook, increase its value to the region and preserve the County's long-term fiscal integrity.



FREQUENTLY ASKED QUESTIONS

Who is Highwoods Properties, Inc.?

Highwoods Properties, 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, 2011, the Company owned or had an interest in 329 in-service office, industrial and retail properties encompassing approximately 32.4 million square feet. Highwoods also owns approximately 610 acres of development land. Highwoods is based in Raleigh, North Carolina, and its properties and development land are located in Florida, Georgia, Mississippi, Missouri, North Carolina, South Carolina, Tennessee and Virginia.

As of March 31, 2011, Highwoods had a total market capitalization of \$4.3 billion. More information can be obtained on the company's website: www.highwoods.com.

How much property does Highwoods own in Innsbrook?

Highwoods currently owns 28 office buildings containing a total of about 1.9 million square feet, plus undeveloped sites for additional office use. This is roughly one-third of all land in Innsbrook. Of this total, 25 buildings with about 1.7 million square feet on 188 acres are part of the present zoning case.

Why has Highwoods made this zoning application now?

With the local economy still in the early, tentative stage of recovery and the real estate market traditionally one of the last sectors to experience actual recovery, now is the best time to plan for the future. The process, begun in the summer of 2009, is now entering its final phase with the present zoning case. This will complete the public/private process in time for the next cycle of new development to begin.

Highwoods can only develop 450,000 square feet of additional office space in Innsbrook under current suburban zoning classifications. It is not possible to implement an urban form of redevelopment without a change in zoning classification to UMU as now designated in the County's 2026 Land Use Plan.

How many acres are in Innsbrook?

The original Innsbrook development contained approximately 800 acres, of which about 630 acres remain within the Innsbrook Corporate Center. The other 170 acres were developed as single-family residential subdivisions.

What is in Innsbrook Corporate Center today?

- 5.4 million square feet of office space
- 90,000 square feet of retail and commercial space
- 1,000 hotel rooms
- 580+ employers
- 22,000+ employees
- 37 acres of lakes
- 3 miles of walking trails
- 37% green space

What are the basic facts of the Innsbrook zoning case?

The 188.2 acres involved in this UMU application, now includes primarily 1.7 million square feet of office development, equivalent to about one-third of the total office space in Innsbrook.

This zoning application would allow for:

- 3,500,346 square feet of additional office development
- 415,223 square feet of additional retail and commercial development
- 610,000 square feet of additional hotel development (about 800 rooms)
- 6,226,547 square feet of new residential development (about 6,000 units)

If approved, this phase of UMU development would bring the potential for total development in Innsbrook to:

- 9,400,000 square feet of total office space and retail and commercial development
- 2,000 hotel rooms with related conference facilities
- 6,000 new residential units

What is Innsbrook's current Land Use Designation?

Innsbrook is currently designated Urban Mixed-Use (UMU) on the Henrico County 2026 Land Use Plan.

Innsbrook is also designated an Urban Development Area (UDA), a designation intended to recognize it as one of the areas where the County intends to concentrate its most intensive urban scale and form land uses.

Innsbrook has also been designated a Technology Zone.

How does Henrico County envision urban development at Innsbrook?

According to the Innsbrook Area Study conducted by the Planning Department, the vision for Innsbrook under the UMU designation is as follows (page 29):

“The Innsbrook Area will maintain its place as an important economic generator for Henrico County and the Richmond region. New development will enhance the area, and will contribute to the retention of existing businesses and help in attracting new employment generating tenants. Development will incorporate pedestrian-scaled design and serve the needs of new population growth while respecting existing development adjacent to the study area. New construction will be environmentally conscious and focus on creating a sustainable environment that reduces automobile travel and impacts on natural environmental features.

“One of the driving forces behind this Special Focus Area is the need to maintain the Innsbrook Area as a vital part of the economic base of Henrico County. The ability of existing and new development to meet changing needs and development trends is important in retaining the businesses and skilled workforce that contribute to the continued growth of the county as a whole.

“The study area will have:

“Goal 1: A strong, stable, growing, and diverse economy that provides an attractive environment for established companies as well as new businesses.

“Goal 2: A mixture of office, retail, service, entertainment, light industrial, and residential uses offering live/work opportunities.

“Goal 3: Transportation methods that provide multiple modes of transport within the study area and between other areas of the county and region.

“Goal 4: Cultural facilities serving the local population and the county as a whole. Existing cultural facilities should be retained and considered for expansion or relocation to serve as a focal point for the study area.

“Goal 5: Appropriate transitions to adjacent uses from the study area to ensure the protection of existing residents in the area.

“Goal 6: Open spaces and landscaping that enhance the appearance of the study area and provide active and passive recreational opportunities for residents, workers and visitors.

“Goal 7: Public services such as transportation facilities, utilities, police and fire and rescue services, schools, and libraries coordinated with new development.”

How will Innsbrook development benefit Henrico County economically?

Significantly. Over the next 20 years, Chmura Economics & Analytics has estimated the following total economic and fiscal impacts of this project:

Total project construction spending, by all developers combined including Highwoods, is estimated at \$2.4 billion in current dollars and the construction will generate \$4.4 billion of economic impact in Henrico County during its development phase.

- 1,302 annual jobs will be created or supported in Henrico during the 20-year construction period.
- 14,668 new permanent jobs will be housed in the development when the project is complete. Adding jobs from indirect and induced impacts, creates an estimated 31,157 total jobs that can be supported in Henrico County by the ongoing operations of the businesses located in the Innsbrook UMU.
- Total economic impacts of the ongoing operations of the businesses located in the Innsbrook UMU can reach \$7.8 billion in 2032, with direct economic impact (sales) at \$4.3 billion.
- Each dollar spent with UMU businesses will have a \$0.83 ripple effect throughout the county. Each job in the UMU will support an additional 1.12 jobs in the county.

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Will Innsbrook development benefit Henrico County financially?

Yes, it will, based on Chmura's fiscal impact analysis:

- Upon completion, the project will result in \$50.3 million in additional Henrico revenue every year after completion in 2032.
- A positive net annual fiscal impact of \$21.2 million on Henrico every year upon completion in 2032.
- A total positive net fiscal impact of \$175.3 million during the 20-year development phase prior to 2032.

Are there additional financial benefits to Henrico County?

Yes. Over the 20-year period, about \$64 million in new utility connections fees (current dollar value) will be generated, while using utility infrastructure capacity already in-place. The addition of significant residential use will allow the same utility infrastructure to be used at different times of the day, thus saving the County both capital investment and on-going maintenance costs. This is an anti-sprawl opportunity with cost savings for the county.

How does this project help maintain Henrico's commercial tax base goal?

Henrico County has a goal of 35% commercial and 65% residential tax base for the county as a whole. By keeping Innsbrook area development at least 50% commercial tax base, new development will advance the County toward its goal.

The amount of new UMU residential development in the proposed Innsbrook project will be limited to 50% of the total amount of office and commercial development on the property being zoned, on a square foot basis. The total amount of residential square footage may equal, but cannot exceed, the total amount of office and commercial space at any time during the development phases. Commercial development can exceed the 50% level, but residential cannot. This ensures that the commercial tax base will be at least 50% of the total development.

How will adjacent existing development be respected?

The county's Innsbrook Area Study recommended that building heights be limited in areas where new buildings would be adjacent to existing residential single-family subdivisions. Those limitations are as follows:

From 0' – 150' from a residential property line, a maximum building height of 45'. This is about three stories for office use and four stories for residential use.

From 150' – 300' from a residential property line, a maximum building height of 80'. This is about five stories for office use and eight stories for residential use.

What will happen to Innsbrook's lakes?

As the centerpiece of Innsbrook, they will be preserved and improved. The lakes form the core of the Innsbrook park system. The Innsbrook Owners Association will manage the lakes' edges like a park, with special attention given to maintaining specimen trees, removing dead or diseased trees and re-planting new trees and other plantings to enhance the outdoor experience along the walking trails. Additional benches and other facilities will be provided.

What will happen to Cox Road?

Cox Road will be maintained as a gently winding, tree-lined boulevard through the heart of Innsbrook. As development occurs, new parallel travel lanes will be added on other new streets to the west. This will allow traffic to be dispersed throughout the park with many more convenient intersections. Pedestrian, bicycle and road connections will be made to adjacent residential neighborhoods in appropriate locations.

The goal is to disperse internal traffic through multiple modes of transportation on multiple avenues of travel, rather than concentrating traffic on a few heavily used collector roads.

What will be the external traffic impact of this much development?

Innsbrook's traditional rush half-hour will become a true rush hour, twice a day, five days per week. For a total of 10 hours per week, there will be significant traffic volumes at Innsbrook intersections. The required Traffic Impact Study (VDOT 527) has been filed with the Virginia Department of Transportation for its review and comments.

Traffic studies are static, but motorists are dynamic. As traffic volumes gradually increase, drivers will make adjustments during rush hours: shift work hours, leave earlier, leave later, live in Innsbrook, live nearby, ride a bike to work, walk. At non-rush hour times, external traffic will not be that much different.

What type of residential development will be built in Innsbrook?

Urban residential units, both rental and ownership, are anticipated. The rental units will likely be smaller in size, mostly single bedroom units. The target market will be primarily young couples, along with singles of all ages. These are renters by choice, not necessity. Few children are expected from these demographic groups. These will not be typical suburban garden apartments.

Ownership housing will likely be empty nesters looking for an urban alternative near their former suburban neighborhood, friends, church and physicians. The units will likely be smaller than typical suburban condominiums. Again, few children are expected from this demographic group as well. The single-family suburban home formerly occupied by this group can be recycled for families with children seeking the space of a yard.

What type of retail development will be in the project?

Convenience-style retail businesses are expected throughout the project, catering to the incidentals of life rather than the basics. Restaurants, small grocers, prepared food, pharmacy and similar retailers are likely. This will not be the place for big box retailers, which are abundantly available nearby.

How will the Innsbrook project affect regional economic development efforts?

It is a major regional economic development, which will help by attracting national attention. Innsbrook will again enable our region's economic development teams to offer a broader range of product types for employers considering Central Virginia. That will make the region more competitive for more employers. The goal is to attract more business to the entire region, for the benefit of the entire region. More quality alternatives should yield more corporate relocations. Not all relocation prospects will choose Innsbrook. Some will prefer a more traditional urban location in downtown; others will prefer suburban office parks. Regardless, the economic ripple effects will be felt region-wide.

Cautionary Information about Forward-Looking Statements

Certain matters discussed in this presentation, such as the anticipated cost, timing and impact of future development activity, are forward-looking statements within the meaning of the federal securities laws. These statements are distinguished by use of the words "will", "expect", "intend" 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; development activity by our competitors in our existing markets could result in excessive supply of properties relative to customer demand; development, acquisition, reinvestment, disposition or joint venture projects may not be completed as quickly or on as favorable terms as anticipated; we may not be able to lease or re-lease second generation space quickly or on as favorable terms as old leases; our Southeastern and Midwestern markets may suffer declines in economic growth; we may not be able to lease our newly constructed buildings as quickly or on as favorable terms as originally anticipated; unanticipated increases in interest rates could increase our debt service costs; unanticipated increases in operating expenses could negatively impact our net operating income; 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; the Company could lose key executive officers; and others detailed in the Company's 2010 Annual Report on Form 10-K and subsequent SEC reports