Management's Prepared Remarks
Fourth Quarter and Full Year 2015 Conference Call
February 10, 2016

Mark Mulhern
Senior Vice President, Chief Financial Officer

As is our custom, today's prepared remarks have been posted on the web.

If any of you have not received yesterday's earnings release or supplemental, they're both available on the IR section of our website at highwoods.com. On today's call, our review will include non-GAAP measures, such as FFO and NOI. Also, the release and supplemental include a reconciliation of these non-GAAP measures to the most directly comparable GAAP financial measures.

Before I turn the call over to Ed, a quick reminder that any forward-looking statements made during today's call are subject to risks and uncertainties and these are discussed at length in our annual and quarterly SEC filings. As you know, actual events and results can differ materially from these forward-looking statements. The company does not undertake a duty to update any forward-looking statements.

Ed Fritsch
President, Chief Executive Officer

In 2015, volatility described Wall Street…and that remains so in 2016:

- The Dow Jones is hugging 16;
- The 10-year U.S. treasury is in the high 1s, not the low 2s;
- Europeans are paying their banks for the privilege of holding their cash; and
- Oil prices have dropped below $30 for the first time since the 2004 New Hampshire primary.

Our view, however, is the continuing turbulence on Wall Street and the unknown in the political arena are not materially impacting the bread and butter of our business. Out here in BBD, USA, we believe the fundamentals of leasing office space in our footprint are good and should remain relatively positive in 2016:

- the jobs picture continues to improve;
- markets are experiencing positive net absorption;
- construction costs are keeping a bridle on development; and
- rents are rising.

As demonstrated by our 2015 performance and our 2016 outlook, on both the operational front and the capital investment front, we believe fundamentals are and will continue to be positive…and should not be meaningfully impacted by what's going on up on Wall Street or on the Road to the White House.

During the fourth quarter, we leased over one million square feet of second generation office space with robust GAAP rent growth of 10.6% and an average term of 6.9 years. Compared to last year's fourth quarter, we grew same store cash NOI by 4.4% and increased occupancy 120 basis points, ending the year at 93.1%. We are pleased to have delivered FFO of $0.82 per share during the quarter, including a penny of land sale gains.

Our results were also strong for the full year 2015, growing same property cash NOI by a robust 6.7% and delivering strong FFO growth of 6.2%.

We believe we have set the table for another solid year in 2016.

We are very pleased to have selected Taubman Centers and The Macerich Company from a deep pool of high-quality bidders as the buyer of our retail-centric County Club Plaza assets in Kansas City for $660 million, which blends to a 4.7% cap rate. The Taubman/Macerich partnership has been excellent to work with throughout this process. Their business acumen, communications and efforts have been extremely proactive and top drawer. We are also very appreciative of the work done by Eastdil Secured, the exclusive listing broker, in conducting a fair, expeditious and transparent process in marketing the Plaza assets on behalf of our Company.

Closing this transaction, which is scheduled for March 1st, is the next important step in our strategic initiative to capture accretive growth in earnings and cash flow by selling the Plaza at a meaningfully lower cap rate than the expected seven-plus percent stabilized returns on our recent BBD office tower acquisitions. Plus, this sale will simplify our business model, reduce our annual G&A spend and lower our leverage ratio to under 40%.

A further upside to selling the Plaza at such an economically opportune time is we will have $220 million of dry powder in escrow pending reinvestment in additional 1031 exchanges and/or for other general corporate purposes.

Our preference is to redeploy these escrowed proceeds to acquire BBD-located assets at prices that offer upside through lease-up, rent growth, Highwoodtizing and/or operating efficiencies as well as add to our inventory of infill land for future development. Our $449 million of acquisitions during 2015, including Monarch Tower and Monarch Plaza in Buckhead Atlanta and SunTrust Financial Centre in CBD Tampa, further bolstered our proven track record of harvesting value through our acquisition activity. We acquired all three of these buildings on September 30th. By year-end 2016, within the first 15 months of our ownership, we expect to grow occupancy by 500 basis points at Monarch Centre and by 800 basis points at SunTrust Financial Centre….with still more room for future occupancy growth.

Turning to development, we delivered $162 million of 97%-leased office development in 2015 and will deliver another $115 million of currently 92% pre-leased office development in 2016. These 2015 and 2016 deliveries provide meaningful NOI upside and cash flow stability and will boost our FFO this year and beyond.

Foundation work is underway at Seven Springs II, our 131,000 square foot office development with structured parking in Nashville's highly-desirable Brentwood submarket. Having announced this project 100% spec in August 2015, we are excited to have now pre-leased 43% of the building, which is scheduled to be completed in 2Q17 and stabilized in 3Q18. Our current in-service Seven Springs project, which consists of two office buildings encompassing 332,000 square feet plus 41,000 square feet of retail, is 99% leased.

Speaking of highly-occupied BBDs, yesterday we announced we will develop CentreGreen III, an office building in Weston, one of the Raleigh area's BBDs. Our 1.3 million square foot portfolio in the mixed-use Weston PUD is 98% occupied and houses a number of customers who are growing and in need of additional space. CentreGreen III will be a 167,000 square foot office building with structured parking. The total investment for CentreGreen III is expected to be $40.9 million, including the value of Company-owned land. We anticipate construction commencing next quarter with delivery in 3Q17 and stabilization in 3Q19.

With this announcement, our current development pipeline now totals $546 million, encompassing 1.8 million square feet, and is 70% pre-leased.

We continue to focus on improving the quality of our portfolio, not just through acquisitions and development, but also by cycling out of non-core assets. We project selling another $100 to $200 million of non-core assets during 2016….in addition to the $660 million Plaza sale.

Finally, we have introduced our 2016 per share FFO outlook of $3.18 to $3.30. The midpoint of our range would result in another year of strong FFO growth, over 5%.

This growth is primarily due to:

- Sound fundamentals in our same store portfolio, where we project 4 to 5% growth in cash NOI;
- The full-year impact of developments delivered in 2015 as well as additional developments that deliver over the course of 2016; and
- Continued NOI upside from our value-add acquisitions.

As Mark will cover in more detail, our FFO outlook does include the effect of selling the Plaza assets as expected on March 1st and the range of possible uses of the $220 million of dry powder to be held in escrow after the closing. Otherwise, consistent with our long-held past practice, our FFO outlook does not include the effect of potential acquisitions and dispositions that may occur in the year.

As you know, NAREIT serves an important role as the REIT industry's voice among policymakers, the investment community, the media and numerous other important audiences. Two long-pursued NAREIT initiatives come to fruition in 2016.

First, stock exchange-listed equity REITs and real estate companies will now have our own headline sector in the Global Industry Classification system after the market closes on August 31st. Equity REITs and real estate companies having their own GICS headline sector further validates REIT-based real estate investment as an attractive asset class and should draw even more investor support and attention.

Second, the FIRPTA reforms, passed as part of December 2015's tax extenders bill, should further encourage foreign investment in listed REITs by exempting foreign pension funds from FIRPTA and increasing the ceiling for all other investors from 5% to 10%.

Both of these important initiatives are the result of years of hard work by NAREIT staff and members. With a strong dose of appreciation and gratitude, we tip our hat to Steve Wechsler and the rest of his very capable team at NAREIT.

Finally, words cannot properly express our appreciation and admiration for Glenn Stephenson and our entire, highly-dedicated team in Kansas City. On behalf of everyone at Highwoods, we thank them for their focus and commitment throughout our 17-year ownership of the Plaza and especially during this process. We wish them all the very best.

Ted Klinck
Executive Vice President, Chief Operating and Investment Officer

As Ed noted, we had solid activity this quarter, leasing over 1 million square feet of second gen office space, and year-over-year asking rents continue to increase. Average in-place cash rental rates across our office portfolio grew to $23.49 per square foot, 5.5% higher than a year ago. Occupancy in our same property office portfolio was 92.9% at year-end, up 40 basis points from September 30th and up 150 basis points year-over-year. Overall occupancy was up 50 basis points from September 30th.

For office leases signed in the fourth quarter, starting cash rent declined 2.5% while GAAP rent grew a robust 10.6%. Average term was 6.9 years, 19% higher than the prior five-quarter average.

Turning to our markets, ULI's recently-published "Emerging Trends in Real Estate" ranked Atlanta 5th, Nashville 7th and Raleigh 11th on a list of the top U.S. markets for commercial real estate heading into 2016. In 2015, office job growth exceeded 3% in each of these cities, substantially exceeding the national average of 2.1%.

The ULI study also commented positively on several of our other markets, suggesting upward-trending Pittsburgh as possibly the "future Nashville" and highlighting Orlando and Tampa as "noticeably improving" markets.

While each city has its own local market dynamics, its own unique collection of BBDs and its own set of opportunities and challenges, there is a common theme across our markets, in that our markets generally benefit from:

- Population growth and other demographics that consistently outperform national averages;
- Affordability and a pro-business environment;
- Growing and diverse economies; and
- Quality of life, simply stated…places where people love to live and work.

Turning to Atlanta, the market reported yet another quarter of positive net absorption….the 18th in a row. Our Atlanta portfolio was 92.4% occupied at quarter end, up 410 basis points year-over-year and 110 basis points since September 30th.

Demand for Monarch Tower and Monarch Plaza, which total 896,000 square feet, has been very strong since we acquired the buildings on September 30th. In just four months, we have signed renewals and re-lets for 43,000 square feet at Monarch.

Strong growth in Nashville continues:

- 385,000 square feet of positive net absorption in the fourth quarter;
- The market's unemployment rate is 4.2%, 110 basis points lower than the national average; and
- Occupancy in our portfolio was 99.2% at year-end, up 20 basis points sequentially and up 280 basis points year-over-year.

We have a signed LOI for most of the remaining 29,000 square feet of space available at our 203,000 square foot Seven Springs West development project. In addition, as Ed mentioned, we are thrilled to have already pre-leased 43% of the 131,000 square foot Seven Springs II project to a health care company, which will be a new customer for Highwoods.

Forbes Magazine just ranked Raleigh #5 on a list of "America's Next Boom Towns," saying the city "has emerged as a tech hot-spot." In Raleigh, the office market posted its 11th consecutive quarter of positive net absorption and we garnered very strong average GAAP rent growth of 16.7% on 2nd gen office leases signed during the quarter. Occupancy in our Raleigh portfolio was 92.8% at quarter end, up 120 basis points from September 30th and 270 basis points year-over-year.

We just completed our Highwoodtizing of One Bank of America Plaza, the 17-story, 374,000 square foot office building in CBD Raleigh that we acquired in September 2014. We significantly repositioned the building by dramatically expanding the volume and scale of the lobby, re-facing the first three floors, adding a 10-story, entry-defining curtain wall, modernizing the elevators and rebranding the multi-customer building as "421 Fayetteville." Our Highwoodtizing efforts have already reaped benefits as we have signed 108,000 square feet since closing with cash rents 11.6% higher than average in-place cash rents at the time of acquisition.

In Richmond, where we have the dominant position in Innsbrook, the market's leading BBD, we leased 107,000 square feet with very stout GAAP rent growth of 16.6% and average term of 11.9 years. This includes a substantial renewal of the corporate headquarters of Hamilton-Beach, a long-term Highwoods customer.

In conclusion, leasing volumes continue to be solid, reflecting positive momentum in our markets and demand for our well-located BBD office product. With the previously-disclosed known move-outs at SunTrust Financial Centre and Monarch Center and a few other near-term expirations, we expect occupancy will dip to the 92% range during the first half of the year and rebound toward 93% or better by year-end.

Mark Mulhern
Senior Vice President, Chief Financial Officer

We had a strong fourth quarter and a very positive full year. For the fourth quarter of 2015, we delivered FFO per share of $0.82, including a penny of land sale gains. The year over year comparison is $81 million of FFO in 4Q 2015, or $0.82 per share, versus $70 million of FFO in 2014, or $0.74 per share. That is a 16% increase year-over-year in dollars and an 11% increase in per share amounts.

The primary FFO growth drivers for the quarter were:

- higher same property NOI due to higher occupancy and higher rents;
- contributions from value-add acquisitions, particularly the Monarch and SunTrust acquisitions we closed on September 30, 2015 that were temporarily financed with low-cost floating rate debt; and
- developments coming on line, slightly offset by
- lost NOI from dispositions.

For the full year, we delivered FFO of $3.08 per share, reflecting continued solid operating performance of our properties as well as the positive net impact of development deliveries and our acquisitions.

We are also pleased with the performance of our same property pool…delivering 6.7% year-over-year growth in cash NOI growth and exceeding the high end of our original outlook.

Turning to our balance sheet, we ended the year with leverage of 44.9% and our debt-to-EBITDA ratio was 6.1x. This includes the $350 million bridge facility used to temporarily fund the acquisitions, which we will pay off on March 1st with proceeds from the sale of the Country Club Plaza.

As you know, we have been generally operating within a targeted leverage range of 40 to 45% as measured by the ratio of total debt and preferred stock to gross book value. The Plaza assets, which are under contract for $660 million, have a gross book value of $372 million. Using the contracted sales price rather than gross book value, our leverage would have been 2% lower at year-end. In our conservative nature, we believe it is appropriate to adjust our target leverage range to reflect this difference. Going forward, our plan will be to operate within a target leverage range of 38 to 43%. After the Plaza transaction closes, our leverage will be 38 to 39% and our debt-to-EBITDA ratio will be comfortably below 6 times.

We utilized the ATM in the fourth quarter to issue 744,000 shares at an average sales price of $43.54 per share and raised $32 million, continuing our commitment to fund our growth on a leverage-neutral basis. You may have noticed we filed a Form 424(b) and related 8-K this morning with the SEC to refresh our ATM program. This new program allows us to sell, from time to time, up to $250 million of common equity at market prices. As you know, keeping an ATM program in place is one of the many arrows we like to keep in our capital-raising quiver.

As Ed mentioned, we have provided our initial 2016 FFO outlook of $3.18 to $3.30 per share, which at the midpoint, is a 5.2% increase over 2015. In dollars, the midpoint of our range for 2016 is $321 million versus $299 million in 2015, a 7.2% increase year over year. We are also forecasting strong 4 to 5% growth in same property cash NOI. The primary FFO growth drivers for 2016 will be contributions from the SunTrust and Monarch acquisitions, the impact of 2015 and 2016 development deliveries and higher same property NOI from higher average rents. These positive drivers will obviously be partially offset by lost NOI from the sale of the Plaza.

This year's outlook includes various outcomes with respect to the $220 million of "escrowed funds" that will remain after the reverse 1031 funds are released from escrow upon the sale of the Plaza. Our preference is to use those funds to acquire more BBD-located buildings and land. Other possible options include paying down debt and/or other general corporate purposes, which could include paying out any remaining capital gains in the form of a special dividend. All of those possible outcomes have been factored into the range of our 2016 FFO outlook. In the lower section of the guidance table, we have given 2016 guidance around acquisitions, dispositions and development that are above and beyond the already announced activity related to the Plaza. Consistent with our practice, we do not include the operational or funding impact from the potential incremental investment activity in our FFO outlook until such transactions are announced. The nuance of the Plaza sale being announced, but not yet closed, caused us to make this distinction and provide clarity around our outlook for 2016.

Two things to keep in mind regarding the trajectory of our 2016 FFO outlook:

First, as is typical this time of year, G&A in our first quarter is expected to be about $3.6 million higher than the run rate for the subsequent quarters because the Company's annual equity grants are customarily made in March. As you may remember, under GAAP, certain annual long-term equity grants must be expensed at the grant date, rather than over the normal multi-year vesting period, for employees who have met the age and service eligibility requirements under the Company's long-standing retirement plan.

Second, as Ed mentioned, we have $115 million of 92% pre-leased office development delivering over the course of the year, which will mostly impact our second half results.