Management's Prepared Remarks
First Quarter 2016 Conference Call
April 27, 2016

Mark Mulhern
Senior Vice President, Chief Financial Officer

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.

As a reminder, 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

On our first quarter call in February, we noted the disconnect between the positive fundamentals of our business and a negative tone on Wall Street. A struggling Dow Jones and declining 10-year treasury yields were factors driving that negative tone. What a difference ten weeks makes. In that short time frame, Wall Street is now reflecting a more positive tone that is consistent with the fundamentals of our business. The Dow is back up around 18, the 10-year treasury has stabilized and investor sentiment across most asset classes has improved.

Aside from this, some fear that pending CMBS maturities over the next couple years have the potential to overwhelm the supply of replacement capital. This talked-about fear reminds us of how a high volume of defaults had been forecasted for the 2010-2012 window, creating a "once-in-a-lifetime" opportunity to acquire on the cheap, which obviously didn't happen. We understand the CMBS market has stabilized somewhat in the past few weeks and that life companies, domestic banks and debt funds continue to have strong appetites for loans collateralized by US commercial real estate.

We are not going to speculate on the volatility of the CMBS market, except for a few observations as it relates to us:

- we have not detected any impact on the bread-and-butter of our business;
- we have historically not been users of CMBS debt and we continue to receive attractive quotes and terms from our traditional debt capital channels; and
- with leverage at 38.4% and a debt-to-EBITDA ratio of 5.4x, we believe our balance sheet is well-positioned to weather dislocations in the broader capital markets.

The key factors that underpin the positive outlook for our business continue to apply:

- the jobs picture remains positive;
- markets continue to experience positive net absorption;
- construction costs are keeping a bridle on development; and
- rents continue to rise.

During the first quarter, we leased over 900,000 square feet of second generation office space with robust GAAP rent growth of 9.7%, strong net effective rents of $14.54 per square foot and an average term of 6.5 years. Compared to last year's first quarter, we grew same store cash NOI by 3.7% and increased occupancy 80 basis points, ending the quarter at 92.7%. We are pleased to have delivered FFO of $0.82 per share during the quarter. This includes a penny and a half of land sale gains and two pennies in term fees.

We are pleased to have successfully closed the sale of our retail-centric County Club Plaza assets on March 1st for $660 million, which blends to a 4.7% cap rate. We used $420 million of the proceeds to repay short-term debt incurred on September 30th when we acquired Monarch Tower and Monarch Plaza in Buckhead and SunTrust Financial Centre in CBD Tampa, buildings which we expect will stabilize in the seven-plus percent range. In addition to strengthening our BBD office presence and capturing accretive growth in earnings and cash flow, we simplified our business model, reduced our annual G&A spend and drove our leverage ratio to 38.4%.

The remaining $230 million of net sale proceeds were placed in escrow. As you know, our preference is to redeploy these escrowed proceeds to acquire BBD-located buildings in our existing markets as well as add to our inventory of infill land for future development. We will stay true to our mantra of being disciplined allocators of capital. The decision on how much we will use to acquire assets, pay down in debt and/or return in the form of a special dividend will play out within the next four months.

Since March 1st, we have invested $9 million of the escrowed proceeds to acquire 14 acres of development land on which we can build up to 216,000 square feet in Brentwood, one of Nashville's BBDs, where we currently own 1.5 million square feet that is 98.3% occupied. This is the last remaining raw development parcel in Maryland Farms.

Turning to development, we delivered the $56 million headquarters and surgical center for Laser Spine Institute in the Westshore submarket of Tampa and will deliver another $404 million of currently 81% pre-leased office development over the next six quarters. These deliveries, encompassing over 1.1 million square feet, provide meaningful NOI upside and cash flow stability.

We continue to chase additional development opportunities, mostly on Company-owned land, and remain comfortable with our guidance of $100 to $200 million of 2016 announcements. We expect stabilized GAAP yields to continue to average north of 8%.

With regard to dispositions, we continue to have a well-defined pipeline of non-core assets at various stages of marketing. This of course includes our two remaining wholly-owned office buildings in Kansas City, one of which is under contract. We are comfortable maintaining our disposition outlook for 2016. Year-to-date, we have sold $17 million of non-core assets….in addition to the $660 million Plaza sale.

During the quarter, we closed-out yet another joint venture investment…Concourse in Greensboro. This 50/50 joint venture sold its two office buildings totaling 118,000 square feet and an adjacent land parcel for $11 million. Only 2.2% of our revenues are generated by joint venture-owned properties.

In summary, our business remains strong. As of March 31st, only 4.7% of our revenues were scheduled to expire by year-end. This is the lowest rollover exposure at this point of the year in over a decade for us. We continue to leverage our brand, our synergistic platform and our focus on simplicity to hold the line on operating and G&A expenses. And with a more fortified balance sheet and $221 million in escrow, we are positioned to create additional shareholder value.

We have reaffirmed our 2016 per share FFO outlook of $3.18 to $3.30, which implies a midpoint of $3.24. As Mark will cover in more detail, our FFO outlook for 2016 does include the range of possible uses of the $221 million in escrow. Otherwise, our guidance is consistent with our long-held past practice, whereby our FFO outlook does not include the effect of potential acquisitions and dispositions that may occur in the remainder of the year.

Ted Klinck
Executive Vice President, Chief Operating and Investment Officer

As Ed noted, we had solid activity this quarter, leasing 902,000 square feet of second generation office space, and year-over-year asking rents continue to increase across all of our markets. Average in-place cash rental rates across our office portfolio were $23.38 per square foot, 3% higher than a year ago. Occupancy was 92.7% as of March 31st, up 80 basis points year-over-year although slightly down from year-end due to the sale of the 96.9%-occupied, 1.3 million square foot Plaza as well as two expected move-outs in Pittsburgh. Given our market dynamics, we remain comfortable with our 2016 year-end occupancy outlook of 92.5 to 93.5%.

For office leases signed in the first quarter, starting cash rents were basically flat at negative 0.2% and GAAP rents grew a robust 9.7%. Average term was 6.5 years, five months longer than the prior five-quarter average, and leasing cap ex was $17.65 per square foot, 13.6% lower than the prior five-quarter average. We are pleased with the economics we garnered….with net effective rents of $14.54 per foot, 5.9% higher than the prior five-quarter average.

Turning to markets, our Atlanta portfolio was 92.1% occupied at quarter end, up 260 basis points year-over-year. During the quarter, we leased 251,000 square feet, including two long-term renewals encompassing 212,000 square feet with the CDC in Century Center with low leasing capital expenditures. We only have 198,000 square feet of remaining 2016 rollover exposure in Atlanta. This includes a previously disclosed 58,000 square foot, second quarter “known move-out” at Monarch in Buckhead that was factored into our acquisition underwriting.

We are very pleased with the operational performance of our 1.9 million square foot Buckhead portfolio. Year-over-year asking rents are up 10% on average. After backing out near-term move-outs at Monarch, move-outs known before acquisition, occupancy in our Buckhead portfolio grew 240 basis points from 86.4% at September 30 to 88.8% at March 31 and is projected to increase another 200 basis points by year-end.

Strong growth in Nashville continues:

- 129,000 square feet of positive net absorption in the first quarter;
- The market’s unemployment rate is 3.5%, 150 basis points below the national average;
- Direct market vacancy is 7.5%;
- Occupancy in our portfolio was 99.6% at quarter-end, up 40 basis points sequentially and up 430 basis points year-over-year; and
- We have less than 100,000 square feet set to expire by year-end.

The construction of Seven Springs II, our 131,000 square foot office building with structured parking, is well underway. This $38.1 million development is 43% pre-leased, with completion scheduled for the second quarter of 2017 and stabilization in the third quarter of 2018. The volume of prospects is strong.

In Raleigh, office jobs grew 3.2%, 100 basis points above the national average, and the office market posted yet another quarter of positive net absorption. We garnered very strong average GAAP rent growth of 18.7% on over 200,000 square feet of second generation office leases signed during the quarter. Occupancy in our Raleigh portfolio was 93.0% at quarter end, up 20 basis points from December 31st and 270 basis points year-over-year. Also, we are working with a sound prospect at GlenLake V, which would bring leasing to 94% and stabilize the building well in advance of pro forma.

In CBD Pittsburgh, occupancy in our portfolio rolled down from 95.7% at year-end to 91.4%, due to 96,000 square feet of anticipated move-outs at our 1.5 million square foot PPG Place. One customer, Highmark, a health insurer, consolidated into a building it owns and another customer, Ketchum, a marketing agency, relocated into a very different, low price-point product. Pittsburgh's Class A CBD market is a solid 94% occupied and we have 175,000 square feet of strong backfill prospects with asking rents 5-7% higher than expiring rents.

In conclusion, leasing volumes and the ability to push rents continue to be solid, reflecting positive momentum in our markets and demand for our well-located BBD office product. Even with known move-outs taking occupancy to the 92% range mid-year, occupancy will rebound and average occupancy for full year 2016 is projected to be some 50 basis points higher than last year.

Mark Mulhern
Senior Vice President, Chief Financial Officer

We have had a positive start to the year as indicated by our first quarter financial results. As Ed outlined, for the first quarter of 2016, we delivered FFO per share of $0.82, including three and a half cents of land sale gains and term fees. The term fees were mostly from a customer that vacated 421 Fayetteville (formerly One Bank of America Plaza) in CBD Raleigh this past December. This space was backfilled by Kimley Horn's headquarters.

After adjusting FFO for land sale gains and term fees, we grew FFO per share by a stout 11%. The adjusted FFO also includes the impact of issuing 1.1 million shares of stock during the quarter and our G&A costs being approximately $3 million higher in the first quarter than the run rate for the next three quarters due to the routine 1st quarter expensing of annual long-term equity grants.

The primary FFO growth drivers for the quarter were:

- contributions from value-add acquisitions, particularly the Monarch and SunTrust acquisitions we closed on September 30, 2015;
- higher same property NOI due to occupancy gains and higher rents; and
- highly pre-leased developments coming on line.

These positive drivers were offset by one month of lost NOI from closing the sale of Country Club Plaza on March 1st.

The GAAP income statement this quarter reflects the very significant book gain of $414 million, or $4.17 per share, on the sale of Country Club Plaza, which is classified as discontinued operations.

Turning to our balance sheet, we used the Country Club Plaza net sale proceeds to pay off the $350 million bridge facility and pay down approximately $70 million on our line. The remaining proceeds are being held in escrow as Ed mentioned. Our quarter end leverage ratio was 38.4% and debt to EBITDA was 5.43X. Setting aside how we use the escrow dollars, we will spend approximately $150 million on development in 2016 and will fund that through operating cash flow, ATM issuances, disposition proceeds and borrowings on our line of credit. We do anticipate some financing activity in the second half of 2016 to reduce our line balance and prepare for a $380 million, 5.88% bond maturity in the first quarter of 2017. We also obtained $150 million of forward-starting swaps that effectively lock the underlying 10-year treasury at 1.90% with respect to a forecasted debt issuance before the end of the first quarter next year.

As Ed mentioned, we have reaffirmed our 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 $326 million versus $300 million in 2015, an 8.7% increase year over year. We are also forecasting 4 to 5% growth in same property cash NOI for the full year.

Our outlook includes various outcomes with respect to the $221 million of remaining escrowed funds. As Ed mentioned, 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. This range of outcomes has been factored into our 2016 FFO outlook. Otherwise, consistent with our past practice, we do not include the operational or funding impact from potential incremental investment activity until such transactions are announced.

Two things to keep in mind regarding our FFO trajectory for 2016. The first item relates to the timing of full reinvestment of the Country Club Plaza proceeds to replace the lost NOI from that disposition. With two thirds of the proceeds invested in Suntrust and Monarch, the remaining escrowed funds will likely not be redeployed until the second half of the year therefore impacting second quarter year-over-year FFO comparisons. We also have previously disclosed known moveouts that will likely result in 30-40 basis points of lower occupancy at the end of the second quarter versus the first quarter. We are fortunate to have a solid FFO growth story for 2016 but want to be transparent around how lumpiness may impact the quarterly results.