

**Management's Prepared Remarks
Second Quarter 2016 Conference Call
August 3, 2016**

**Brendan Maiorana
Vice President, Finance and Investor Relations**

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

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**

There are four main factors we believe underpin our operating results.

- First is the steady-as-she-goes cadence of slow, yet positive growth of the U.S. economy, which has resulted in an elongated cycle that is currently stable and relatively healthy.
- Second is the bridle on new competitive office supply. This bridle helps us drive rent growth in our 2nd generation product and also benefits our development activity given the lack of an abundance of competing projects.
- Third is the strength of our balance sheet and access to capital. Our balance sheet is as strong as it's ever been and we have multiple arrows in our quiver to fund organic and external growth.
- Fourth, and most importantly, is the quality of our individual markets. Across the board, we are seeing good leasing activity, with active showings and solid customer interest. Positive job metrics and other relevant economic drivers in our markets generally continue to outperform national averages and are resulting in continued steady demand for our well-located BBD product.

With this positive backdrop, we leased over 900,000 square feet of second generation office space during the second quarter, with very strong GAAP rent growth of 15.4%, cash rent growth of 3.0% and an average term of 5.6 years. Compared to last year's second quarter, we grew same store cash NOI by 4.5% and same property average occupancy was up 60 basis points. We delivered FFO of \$0.82 per share during the quarter, thanks in great part to the four key factors highlighted earlier.

As you know from our 1st quarter earnings release, \$230 million of net sale proceeds were placed in escrow on March 1st after the sale of our retail-centric County Club Plaza assets for \$660 million. Since March 1st:

- We invested \$9 million to acquire the last remaining raw development parcel in Nashville's Maryland Farms. This parcel can support up to 218,000 square feet of office. We currently own 1.1 million square feet that is 98.9% occupied in this BBD.
- We invested \$18.5 million to acquire fee-simple title to the land underneath EQT Plaza in Pittsburgh, which eliminates \$1.1 million of annual ground lease payments.



- We expect to invest another \$3.8 million of escrowed proceeds to partially fund the \$7.7 million planned acquisition of a development site that can support up to 292,000 square feet of office in CBD Raleigh.

This will leave us just shy of \$200 million remaining in escrow when the six-month, 1031-exchange window closes on August 26th. Our preference has been to redeploy all of the escrowed proceeds to acquire BBD-located assets in our existing markets while staying true to our goal of being disciplined allocators of capital. While we invested \$31 million in land, we did not acquire any additional buildings, predominantly because we found pricing to be out of sync with our view of the risk/reward profile of the opportunities available during the narrow 1031 window.

As a result, our plan is to use the remaining approximate \$200 million to pay down debt and fund a future special cash dividend of at least 75 cents per share. Assuming that dividend, we will have used the Plaza proceeds to acquire \$445 million of BBD-located, value-add assets, pay down \$130 million of debt and return \$75 million to our shareholders.

While this will close the book on the Country Club Plaza sale and the use of proceeds, we obviously continue to seek opportunities to acquire BBD-located assets at prices that offer attractive investment returns and significant future upside. We are essentially maintaining our 2016 outlook for up to \$100 million of additional acquisitions.

Turning to dispositions, we recently sold two of our four remaining assets in Kansas City. First, we sold one of our two remaining wholly-owned office buildings for \$14.2 million. Second, subsequent to quarter-end, we closed out yet another joint venture investment...the Plaza West office building, generating \$4.1 million of proceeds for our 12.5% share. Today, only 2% of our revenues are generated by joint venture-owned properties.

We are comfortable maintaining our disposition outlook for 2016 of \$760 to \$860 million. Year-to-date, we have sold \$695 million of non-core assets....obviously inclusive of the \$660 million sale of the Plaza.

With regard to development, our current \$482 million, 74% pre-leased office pipeline will provide meaningful NOI upside, cash flow stability and FFO growth as it stabilizes over the next three years. In addition, we continue to chase development opportunities and are pleased to report we have agreed on terms with a new customer for a \$30 million, 100% pre-leased built-to-suit on Company-owned land, which we expect to announce before the end of this quarter. We remain comfortable with our guidance of \$100 to \$200 million of 2016 development announcements.

Turning to FFO, we have tightened our 2016 per share outlook. We've raised the low-end by two cents from \$3.18 to \$3.20 and reduced the high-end by two cents from \$3.30 to \$3.28. The midpoint of our range continues to be \$3.24 per share... representing 5.2% growth over 2015....a very solid operational performance atop an even further strengthened balance sheet. With leverage at 37.5% and a debt-to-EBITDA ratio of 5.1x, we are well-positioned to capitalize on future acquisition and development opportunities.

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Executive Vice President, Chief Operating and Investment Officer

We had solid activity this quarter, signing 907,000 square feet of second generation office space, which was in line with recent quarterly averages. We continue to see steady activity from our bread-and-butter, mid-sized customer base. As a reminder, our average lease size is approximately 12,000 square feet and we only have 58 leases for greater than 75,000 square feet. Further, year-over-year asking rents continue to increase across all of our markets. Average in-place cash rental rates across



our office portfolio were \$23.80 per square foot, 3.7% higher than a year ago. Occupancy was 92.5% as of June 30th, which was down modestly from the end of the first quarter entirely due to previously disclosed “known near-term move-outs” at recently acquired assets. We’ve reduced the high-end of our 2016 year-end occupancy guidance by 30 basis points, with our current forecast of 92.5 to 93.2%. The reduction of the top-end is attributable to a couple of larger deals we projected to start late in the year now being forecast for early 2017.

For office leases signed in the second quarter, starting cash rents were up 3.0% compared to expiring rents, and GAAP rents grew a robust 15.4%. Leasing cap ex was \$3.18 per square foot per lease year. Our lease payback ratio, or leasing capex over cash term rent, was 14.5% in the second quarter, which was impacted by a higher proportion of new leases compared to recent quarters.

Turning to our markets, we continue to see strong demographics benefitting fundamentals in our BBD locations – this is driven by a high quality of life, well-educated workforce, a disproportionate share of population growth and low business tax environment. As an example, a recent study by LinkedIn and Trulia ranked Pittsburgh as the #1 city in its College Graduate Opportunity Index. In short, there is an attractive and compelling mosaic of reasons which continues to drive businesses to choose to relocate and/or expand in our footprint.

Development as a whole has been moderate across our markets. Projects under construction account for only 1.1% of existing stock across all of our markets, and 1.4% across our top five markets – this is approximately half of the prior peak. Construction costs continue to escalate, and are north of \$400 per square foot in our urban submarkets, inclusive of land and structured parking. And, despite the positive backdrop of market fundamentals, we don’t expect a meaningful uptick in new construction.

The outlier to moderate new supply is Nashville where exceptionally strong market activity spurred new construction. According to CoStar, there is 3.5 million square feet under construction, or about 6.5% of existing stock. This level sounds daunting for Nashville, but there are mitigating factors that make us hopeful that strong operating fundamentals will prevail:

- 850,000 square feet, or 25% of Nashville’s new construction, is ours and is 87% preleased;
- The preleased rate on Nashville’s overall construction pipeline is approximately 70% and market occupancy is over 95%; and
- Scheduled deliveries are below the rate of recent net absorption.

Sticking with Nashville, the market continued to post positive fundamentals during the second quarter.

- The market’s unemployment rate is 3.0%, 190 basis points better than the national average;
- There was 205,000 square feet of positive net absorption;
- Occupancy in our in-service portfolio was 99%; and
- For leases signed during the quarter, we posted 31% GAAP rent growth.

Our Atlanta portfolio was 91.2% occupied at quarter end, which is down 90 basis points from March 31st, entirely attributable to a previously disclosed 58,000 square foot known near-term move-out at Monarch in Buckhead that was factored into our acquisition underwriting. At Monarch, we’re now 85% leased, up from 80% upon acquisition, and we’re ahead of underwriting on rents and lease-up. After backing out known near-term move-outs at Monarch, occupancy in our 1.9 million square foot, 4 building, Buckhead portfolio grew nearly 500 basis points from 86.4% at September 30 last year to 91.2% at June 30th. As hoped, owning four contiguous, unencumbered Class A office towers is paying leasing and operating dividends.



Rents in Atlanta continue to accelerate. Year-over-year asking rents are up 10% on average. New speculative construction in Atlanta remains limited, representing only about 1.5% of existing Class A stock.

In CBD Pittsburgh, occupancy in our portfolio was steady sequentially from the first quarter. We expect occupancy to increase meaningfully by year-end, potentially as much as 250 basis points depending on the exact commencement of certain customers hovering around year-end. Pittsburgh's Class A CBD market is a solid 94% occupied. Asking rents are 5-7% higher than expiring rents, we continue to see steady rent growth, and we have a list of strong prospects for most of our vacant space.

During the quarter, occupancy in our Tampa portfolio increased 60 basis points to 88.9%. We're expecting additional gains in the second half of 2016 that should bring year-end occupancy to 90%. We're working on backfilling space at Lakeside in Tampa Bay Park, and have recently seen an increase in prospect activity. At SunTrust Financial Centre in the CBD, our \$9.1 million Highwoodtizing efforts are well underway. With regard to leasing, we're ahead of our underwriting assumptions and we expect to increase occupancy by 700 basis points from acquisition to year-end 2016.

In conclusion, steady leasing volumes and the ability to push rents reflect positive momentum in our markets and demand for our well-located BBD office product.

Brendan Maiorana

Vice President, Finance and Investor Relations

As Ed outlined, we delivered net income of \$0.32 per share, an 18.5% increase year over year, and FFO of \$0.82 per share, a 6.5% increase year over year.

The primary drivers of our solid operational results this quarter were:

- Same property cash NOI growth of 4.5% year over year due to higher rents and higher average occupancy;
- Contributions from value-add acquisitions, particularly the Monarch and SunTrust acquisitions we closed on September 30, 2015; and
- Highly pre-leased developments coming on line.

These positive drivers were slightly offset by lost NOI from dispositions, including our retail-dominated Country Club Plaza assets, and the impact of issuing one million shares of stock through the ATM.

Turning to our balance sheet, our quarter-end leverage ratio was 37.5% and debt to EBITDA was 5.1x, our strongest thus far. In late August, we expect to utilize the roughly \$200 million of remaining escrow dollars to pay down outstanding amounts on our revolving line of credit. This quarter, we also executed a 67 month unsecured term loan facility with three banks for \$150 million at LIBOR plus 110 basis points that comes due in 2022, a year in which we have no other maturities. We expect to begin drawing on that facility in September of this year. We also paid off \$43.7 million of 7.5% secured debt, increasing our unencumbered NOI to a very stout 92.8%. We have no remaining debt maturities in 2016.

As we continue to fund our active development pipeline, be opportunistic with respect to potential acquisitions and pay a special cash dividend of at least \$0.75 per share, we have multiple options to fund our liquidity needs with operating cash flow, disposition proceeds, debt capacity and equity issuance. Overall, we have a strong platform to cost effectively fund our business.



As Ed mentioned, we revised our 2016 FFO outlook of \$3.20 to \$3.28 per share, which is unchanged at the midpoint, and represents a 5.2% increase over 2015. There are some moving pieces in our updated guidance range that I will provide some color on:

- We've eliminated the potential for any additional acquisitions from the remaining CCP 1031 proceeds into our range of potential FFO outcomes.
- Our revised guidance includes dilution from dispositions and acquisition costs from deals that closed since our last earnings call that otherwise reduce FFO per share by a penny.
- Our balance sheet outlook has changed...our leverage is lower, and the guidance for average shares outstanding has moved up slightly, having a near-term dilutive impact to FFO.
- Even though our same-store cash NOI guidance is unchanged at 4-5%, we're driving higher FFO through better than expected performance on our non-same store pool.

We're pleased that our FFO guidance mid-point is unchanged even with meaningfully lower leverage and the elimination of additional 1031-funded acquisitions.

There is one final thing to keep in mind regarding our FFO trajectory for the remainder of 2016. As is typical, we expect to have meaningfully higher opex from seasonal utility costs and increased repairs and maintenance in the third quarter.

