Highwoods PROPERTIES

Management's Prepared Remarks
Third Quarter 2016 Conference Call
October 26, 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

During this summer and early fall, there have been a number of events grabbing the attention of our nation and the capital markets…most notably, the Brexit vote in the UK and the U.S. elections. When we hosted our 2nd quarter call in early August, it was a few weeks after the Brexit vote, and the yield on the U.S. 10-year was around 1.50% and the RMZ was at 1280. Since then, the U.S. 10-year yield has risen to around 1.75% and the RMZ index has dropped approximately 10%. Despite the volatility and headline news, the underlying fundamentals of our business remain steady and healthy:

- the slow yet steady cadence of the US economy continues to paint a positive jobs picture;
- our footprint continues to experience positive net absorption and favorable pro-growth demographics;
- construction costs continue to keep a bridle on development; and
- market rents continue to rise.

With this backdrop, we are pleased to report a solid operational performance for the third quarter.

Our FFO grew 7.7% per share compared to the third quarter of 2015, including a $0.03 net impact from land sale gains and acquisition expenses. Excluding those one-time items, we delivered 4% FFO per share growth. This solid FFO growth comes atop an even further fortified balance sheet. Specifically, when compared to June 30 of last year, before we announced our plan to exit Country Club Plaza, we have driven leverage from 42% to 35% and driven our debt-to-EBITDA from 5.5 times to 4.8 times.

On the operational side, we leased 867,000 square feet of second generation office space during the third quarter, with very strong GAAP rent growth of positive 20.7%, cash rent growth of positive 3.1% and an average lease term of 7.2 years. Compared to last year's third quarter, we grew same property cash NOI by 6.6% and same-property average occupancy was up 80 basis points. We increased our same-property cash NOI guidance for the year – we now expect to deliver about 5% growth for 2016, which is at the high end of our original expectations.

Turning to investment activity, we announced a $29M, 100% pre-leased build-to-suit for Virginia Urology's new headquarters and MOB facility. This development monetizes 8.4 acres of company-owned land and will be a sound addition to our Richmond portfolio. Our development pipeline now totals an investment of $519M and is 71% pre-leased based on square footage and 79% pre-leased on a dollar-weighted basis. We expect to stabilize $370M of the current pipeline by the end of 2018. These developments will provide meaningful FFO and cash flow growth as they deliver over the next few years. In addition, we're continuing to host a number of potential build-to-suit conversations.

We also acquired Charter Square in downtown Raleigh for a total investment of $83.5M. We expect to achieve a stabilized yield of greater than 7%. Delivered in 2015, for a number of reasons, we believe Charter Square is a strategic complement to our CBD Raleigh portfolio:

- It further strengthens our position as the dominant landlord in the CBD;
- Charter Square provides us a price point between our PNC Plaza and One City Plaza;
- It gives us inventory downtown where the rest of our portfolio is currently 89% occupied and will grow to 94% by year-end based on leases already signed; and
- We now have increased flexibility with our customers across our downtown portfolio and parking garages; our entire 913,000 square foot CBD portfolio is 100% unencumbered by debt or JV partners, and therefore 100% fungible.

Turning to dispositions, we sold a non-core, 14.8 acre land parcel in Tampa to a residential developer for gross proceeds of $6.8M, which garnered us a net gain of $3.9M. Year-to-date, we have sold $702 million of non-core assets, and while we initially planned for our disposition volume to be even higher, timing has caused us to push additionally forecasted sales into 2017.

Our sense is there has been a separation in the pricing trajectory between high quality assets in core submarkets and commodity assets in non-BBD locations without compelling underwriting. However, there doesn't appear to be any let-up in pricing for core assets in strong locations, and while there are fewer bidders in the race, the ones that remain are extremely well capitalized.

Turning to FFO, we have updated our 2016 per share outlook. We've raised the low end from $3.20 to $3.26 and maintained the high end at $3.28. Adjusting for the net 3 cent gain booked in the quarter, our 'core' FFO guidance mid-point remains unchanged on an even stronger balance sheet with lower leverage and ample liquidity as we wrap-up 2016 and move into calendar year 2017.

Ted Klinck
Executive Vice President, Chief Operating and Investment Officer

The fundamentals across our portfolio are healthy. We leased 867,000 square feet of second generation office and saw strong rent spreads of positive 20.7% on a GAAP basis and positive 3.1% on a cash basis. Average in-place rental rates were $24.22 per square foot, which is 3.7% higher than a year ago, and we continue to see asking rents move higher across our markets.

Occupancy was 92.7% as of September 30th, up 20 basis points since June 30th despite the negative 20 basis point impact from the acquisition of Charter Square. The impact from Charter Square is the sole reason for the reduction in our year-end occupancy guidance, which is now forecast between 92.3 and 93.0%.

As I noted earlier, we had strong rent growth on leases signed during the quarter, and the weighted average term was 7.2 years – well above our prior five-quarter average of 5.8 years. Leasing capex was high at $3.70 per square foot per year, largely due to a higher proportion of new leases and a 168,000 square foot long-term renewal in Atlanta. New leases accounted for 31.5% of our total volume, above the prior five quarter average of 25.9%.

Turning to our markets, we continue to see strong demographics, steady job growth and limited speculative development support healthy fundamentals.

Activity improved in Tampa during the third quarter. We moved occupancy up 190 basis points to 90.8%. Atop this momentum, we expect to drive occupancy in Tampa meaningfully higher next year due to signed leases that have not yet commenced, the $9.1 million Highwoodtizing efforts currently underway at SunTrust Financial Centre and limited lease roll in 2017.

In Nashville, the market continues to have strong fundamentals. Exceptionally low market vacancy of under 5% has driven the construction pipeline to 3.6 million square feet. However, 75% of the pipeline is already pre-leased. Based on pre-leasing, the projected delivery schedule and net absorption trends, we do not expect the current level of development to undermine the overall health of the market.

Our $297 million, 848,000 square foot development pipeline in Nashville is 89% pre-leased. At our 131,000 square foot Seven Springs II project, we signed another lease during the quarter and are now 52% pre-leased, with two years remaining until pro forma stabilization. Our 203,000 square foot Seven Springs West project is 86% pre-leased; we have the top floor available and have seen increased interest of late. Our remaining Nashville development is the $200 million, 514,000 square foot, 100% pre-leased headquarters build-to-suit for Bridgestone Americas.

With respect to our in-service Nashville portfolio, we remain essentially full at 99.5% occupancy. We'll need to backfill 204,000 square feet, in roughly equal parts in two separate submarkets, that HCA will vacate on January 1st, as previously disclosed. We are currently working with over 50,000 square feet of active prospects. Given the two buildings are well-located office assets, coupled with a strong underlying economy and very limited second generation market supply, we are confident in our ability to backfill these spaces at attractive terms in a reasonable period of time.

In Raleigh, we had an active quarter where we signed 185,000 square feet of second generation leases. As Ed noted, we acquired Charter Square in the CBD. This building is on Fayetteville Street in the core of downtown, offering synergies to our PNC Plaza and One City Plaza, also located on Fayetteville Street. At One City Plaza, with leases in hand, we project occupancy to be in the high 80s before year-end. Strong leasing activity at One City Plaza, combined with limited availability of large blocks of Class A space, bodes well for the lease-up of the 66,000 square feet of contiguous availability at Charter Square. At GlenLake V, our 166,000 square foot, multi-customer office development project, we signed another customer during the quarter, and we're now 94% leased. This project will stabilize in the first quarter of 2017, one quarter ahead of expectations. We spoke last quarter about an LOI that we had with a customer for approximately 20% of our 167,000 square foot CentreGreen III development. That customer has decided to stay in their current space. However, we have a very active prospect list, a number of which we expect to convert to signed leases once the building is further along.

In conclusion, with healthy fundamentals across our markets as a backdrop, we were able to drive strong rent and NOI growth this quarter and year-to-date. Limited construction, lack of sizable blocks of quality second generation space, a steady stream of showings, leasing volumes and the ability to push rents….all of this leads us to believe our well-located BBD office product will continue to deliver strong NOI growth.

Mark Mulhern
Senior Vice President, Chief Financial Officer
We delivered net income of $0.32 per share and FFO of $0.82 per share. Sequentially, excluding the $0.03 net from land sale gains and acquisition expenses, the $0.79 of FFO per share in the third quarter was $0.03 lower than second quarter of 2016, largely due to:

- $0.02 in lower GAAP NOI caused mostly by our typical seasonally higher electricity expenses in the third quarter; and
- $0.01 from higher shares outstanding, net of lower interest costs.

On a year-over-year basis, the primary drivers of the 7.7% FFO per share growth were:

- Same property cash NOI growth of 6.6% 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 that came on line.

These positive drivers were partially offset by the impact of issuing 3.6M shares year-to-date through the ATM.

As referenced earlier, we had a net $0.03 per share impact from unusual items in the quarter, a $3.9 million land sale gain in Tampa and acquisition costs of approximately $750,000.

Turning to our balance sheet, our quarter-end leverage ratio was 34.6% and debt to EBITDA was 4.8 times. These balance sheet metrics are the strongest in our history. In late August, we broke escrow on the remaining proceeds from the Country Club Plaza sale and utilized those funds to reduce our revolving line of credit, which had an outstanding balance of $28M at the end of the quarter, leaving us with $447M of capacity. In September, we drew $75M of the $150M capacity on an unsecured term loan facility. We plan to draw the remaining $75M in the fourth quarter. The loan fits well in our current debt maturity ladder as it doesn't mature until 2022, a year in which nothing else comes due.

Also, we have no remaining debt maturities in 2016. As we highlighted during past calls, on March 15, 2017 we have a $380M bond maturity with an interest rate of 5.88%. As a reminder, early this year we locked-in the 10-year treasury at 190 basis points on $150M. Our current plan is to come to the bond market in early 2017, but we're still evaluating the timing, amount and tenor of any offering.

We have multiple options to fund our liquidity needs. These include operating cash flow, disposition proceeds, credit facility availability, additional debt capacity and equity issuance. Overall, we have a strong platform to cost effectively fund our business.

We are pleased that our revised 2016 FFO outlook of $3.26 to $3.28 per share is towards the high end of our original guidance range of $3.18 to $3.30 per share despite:

- Not fully reinvesting all of the proceeds from the sales of the Country Club Plaza assets; and
- Issuing $180 million in new equity through the sale of 3.6 million shares under the ATM. To put this in context, if we kept the share count estimate unchanged from our original guidance, our full year FFO outlook would be approximately $0.05 per share higher.

Finally, as you know, we will provide 2017 guidance during our fourth quarter call, but I want to provide a reminder about our development pipeline and funding plan. We expect $304M of development projects to stabilize in 2017. The largest project, our $200M headquarters for

Bridgestone Americas in Nashville, will not deliver until late in the third quarter of 2017. Our plan is to continue to fund our development expenditures on a leverage-neutral basis, and while this is a prudent long-term funding strategy, it will continue to have a dilutive near-term impact to FFO.

We continue to feel upbeat about our business. The combination of a well-leased development pipeline with attractive stabilized yields and a strong balance sheet with some additional opportunities for interest rate savings provides a pathway for our low-risk growth outlook.