Management's Prepared Remarks
Fourth Quarter and Full Year 2017 Conference Call
February 7, 2018

Brendan Maiorana
Senior 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, NOI and EBITDA. 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
As we've all witnessed, it's been a volatile start to the year in the financial markets. The Dow increased 1,000 points faster than any time in history, and then dropped more than 1,100 points in a single session earlier this week – the largest point drop in a single day. Interest rates have also experienced sizable fluctuations. The US 10-year yield increased 40 basis points from the start of December to yesterday's close. REIT stocks have bounced around as well with the RMZ down almost 10% through yesterday's close. With all the volatility surrounding the financial markets, it's easy to get swept-up in the headlines, however, conditions in "BBD-office land" remain steady.

In short, here are several reasons to be upbeat about the outlook for Highwoods:

First, economic growth nationally has been steady-to-increasing, and across our southeastern markets, we've seen continued job growth and real estate fundamentals remain healthy. In particular, Nashville, Raleigh, Atlanta and our Florida markets continue to post some of the highest job and population growth rates across the nation, and there are no yellow flags suggesting these trends are going to reverse any time soon.

Second, our BBD locations continue to outperform their broader markets, with occupancy on average 350 bps above their broader market averages and rents on average 4% higher.

Third, new supply remains measured across our markets. Steady increases in construction costs and a measured lending environment for speculative projects gives us comfort that we're not likely to see a rise in the volume of speculative development in 2018.

Fourth, we have a $440M development pipeline that is 78% pre-leased. This pipeline will provide strong cash flow and FFO upon delivery and stabilization over the next two years.

Fifth, our land bank can support over $1.5B of additional office development and we continue to have conversations with additional pre-lease and build-to-suit prospects.

Sixth, our balance sheet is in excellent shape with debt-to-EBITDA at less than 5 turns and no meaningful maturities until 2020, except for a $200M maturity this April that has a 7.5% coupon.

Seventh and finally, we are well positioned to continue to grow our cash flows moving forward.

Last quarter we briefly spoke about Amazon's HQ2. As we all know, Amazon has slashed the list of 238 cities that submitted bids by 92% to Amazon's Final 20. We're proud 4 of our 9 markets, including more than 60% of our revenue, have exposure to the Final 20 list. It is affirming to see Amazon recognize Atlanta, Nashville, Pittsburgh and Raleigh all have deep tech-worker talent pools along with many other highly attractive economic and quality-of-life attributes.

Turning to our results, 2017 was a strong year for our company.

First, we were above target for nearly all of our operating metrics. Our FFO was $3.39 per share, toward the high end of our original guidance of $3.27 to $3.40 despite two cents of dilution from dispositions. As you know, our practice is not to include the effect of future dispositions and acquisitions in our original FFO forecast. Similar to our FFO performance, our same property NOI growth was +4.1% -- above the high-end of our original outlook of 2.5 to 3.25%. We view this as particularly strong as it comes on the heels of +5.2% growth in 2016 and +6.7% growth in 2015. The three-year average of more than 5% underscores the healthy fundamentals across our portfolio. We achieved rent spreads on 2nd gen office leases of +1.6% on a cash basis and +14.7% on a GAAP basis, all while keeping leasing costs inline with expectations.

Second, we delivered $394M of development, AND we were able to replenish our development pipeline with $225M of new announcements. Our development arm continues to be a key driver of growth for our company.

Third, we continued to cull our portfolio with the sale of $150M of non-core properties.

Fourth, we improved the balance sheet with several re-financings and recast our credit facility with an increased capacity and reduced our borrowing spread.

In Q4, we delivered FFO of $0.84 per share, including a penny from a land sale gain. Our same property cash NOI growth during the quarter was +2.2%, which includes the full quarter impact of Q3'17 move-outs in Atlanta and Richmond. We leased a robust 1.0 million square feet of second gen office at positive cash rent spreads of 2.6% and GAAP rent spreads of 16.8%, with a weighted average term of 7.2 years. Portfolio occupancy finished the year at 92.9%.

As a result of our continued strengthening cash flow, bolstered by improving rents and $394 million of development deliveries in 2017, we increased our dividend 5.1% to an annualized rate of $1.85 per share. As you know, we didn't cut our dividend during the financial crisis or thereafter. When evaluating the dividend, we balance our needs for capital reinvestment in the portfolio and our taxable income levels, and we feel confident the increased dividend in 2018 won't diminish our coverage ratios. As a reminder, this increase follows on the heels of our 3.5% increase in 2017 and our $0.80 per share special dividend in 2016.

As you saw last evening in our earnings release, we provided our initial 2018 outlook. Our FFO outlook is essentially flat with 2017 at the mid-point, which is below the growth rates we've delivered over the past few years – this is largely attributable to dilution from dispositions late in 2017 and a lack of corresponding acquisitions. In addition, our FFO outlook <u>does</u> include the pending sale of Highwoods Tower Two in Raleigh which we announced last October and will close in Q2'18.

A few of the other major items in our outlook include same property cash NOI growth of +1.0% to +2.0%, and while this is below the three-year average of more than 5%, higher growth should occur as occupancy stabilizes. Our disposition outlook is $61 to $136 million, similar to our original range in 2017; we already have $31 million under contract with the aforementioned Highwoods Tower Two in Raleigh.

Our acquisition outlook has a low-end of zero and we have a placeholder of $200 million at the high-end. This range may sound familiar since it's the same as our original guidance in 2017. We didn't acquire any buildings last year, and while there is a lot of capital dressed-out and on the sidelines ready to go into BBD locations, there are very few opportunities available.

We announced last evening the acquisition of two development parcels in the Gulch district in CBD Nashville using $50.3 million of 1031 exchange proceeds. One parcel is 5.4 acres and the other 3.6 acres, and they are zoned and entitled for more than 1.2 million square feet of office development and street-level retail. As a reminder, we've monetized a meaningful amount of our land bank during the past several years through our robust development program. We believe having an attractive inventory of land for potential build-to-suit and other development projects is an important ingredient to the success of our development platform.

Lastly, our development announcement outlook is $100 to $350 million. We continue to have conversations with build-to-suit and other anchor prospects. Last evening, we announced we're in advanced negotiations with Asurion regarding a potential $252 million, 479,000 square foot build-to-suit in the Gulch district in CBD Nashville, on the 5.4 acre parcel we just acquired. We're excited to be working with Asurion, a prospective new customer for Highwoods, on the visioning of this important project as we move towards a mutually beneficial agreement.

Ted Klinck
Executive Vice President, Chief Operating and Investment Officer

As Ed noted, fundamentals across our southeastern footprint remain healthy. We continue to see strong job growth, business friendly conditions, and high quality of life driving solid demand for office space. According to Forbes, four of our six states rank in the top 10 best states for business. And, of note, North Carolina took first place on the list, moving up one spot from 2016. This ranking evaluates states based on cost to do business, labor supply, regulatory environment, economic climate, growth prospects and quality of life.

Turning to our stats for the quarter, we leased 1.0 million square feet of second gen office space with an average term of 7.2 years. GAAP rent spreads were positive 16.8%, beating our previous five quarter average of 15.5%. It also represents the seventh consecutive quarter of double digit increases. We garnered positive 2.6% cash rent spreads, 50 basis points better than our five quarter average. We continue to push rents throughout the portfolio. Average in-place cash rents were 4.3% higher at quarter end compared to a year ago. Our Q4 same property cash NOI growth was +2.2% despite average occupancy being down 90 basis points compared to the prior year. This growth was driven by annual bumps on nearly all of our leases and solid rent spreads on commenced leases.

As we mentioned during our third quarter call, we anticipated an occupancy recovery in the late fourth quarter. We are pleased by the 80 basis point increase from the third quarter to end the year at 92.9%. The largest drivers were in Richmond where our team has backfilled a meaningful portion of the 163,000 square foot former SCI space and in Orlando where we've seen improved activity across our portfolio. The sale of 254,000 square feet, including our last wholly owned building in Kanas City and a building in Raleigh to a user, BB&T, contributed 20 basis points of the sequential improvement.

Turning to 2018 occupancy, our two largest known move-outs are the FBI in Atlanta on January 31st and Fidelity in Raleigh, which we now know will vacate on July 1st. We expect occupancy to move down in the first half of the year and then recover in the back half of the year to around 92%, the mid-point of our outlook, at year-end.

Now to our markets.

According to Avison Young, Raleigh-Durham's overall vacancy rate at the end of 2017 was 12.7%, down 30 basis points since the third quarter. Total fourth quarter net absorption was approximately 381,000 square feet, a slightly accelerated pace from the 1.25 million square feet absorbed in all of 2017. The forecast for 2018 is another solid year of demand and healthy fundamentals. Throughout our Raleigh portfolio, we continue to generate strong rents as evidenced by GAAP rent spreads of 29.6% on signed deals in Q4. This marks the 10th consecutive quarter of double digit positive GAAP rent spreads. Our in-service Raleigh portfolio is 94.7% occupied, up 200 basis points year-over-year. Additionally, we have a strong prospect for 20% of our 167,000 square foot, 46%-leased 5000 CentreGreen development in Cary's Weston submarket. We continue to feel confident about reaching stabilization on or before our Q3'19 pro forma date. As noted above, Fidelity will give back 178,000 square feet. We mentioned last quarter the lease expiration is November 30th. However, the customer will return the space to us on July 1st while prepaying full rent. This gives us extra time to market the space while receiving full economics under the original lease terms. In addition to the non-discounted prepaid rent we are to receive on June 30th, they have already paid a restoration fee of $4.8 million. Fidelity's rent is approximately 10% below market and our remaining in-service portfolio of 1.0 million square feet in the Weston submarket is 100% occupied.

In Nashville, according to Cushman & Wakefield, the market's 2017 construction completions increased the office inventory by approximately 2.0 million square feet. As a result, overall vacancy increased from 5.4% to 8.5% year-over-year and Class A vacancy increased from 4.7% to 9.6%. At Q4 2017, there was 1.7 million square feet of 43% pre-leased office under construction, well below the 2.8 million square feet under construction at year-end 2016. Given Nashville's continued level of attractiveness both from an economic and quality of life perspective, we expect the market will appropriately absorb the new product. At year-end our portfolio occupancy was 95.7% and we posted solid GAAP rent spreads in Q4 of positive 25.3%.

As discussed on recent calls, our Florida markets are seeing positive growth signs. Orlando ranked 7th out of 200 cities on the Milken Institute's recently published index of the best-performing large cities in the United States, which evaluates metro areas on their relative growth. It is also worthy to note six of the top twenty-five metros were in the state of Florida. Based on data from the Bureau of Labor Statistics, total office employment growth grew 3.1% year-over-year, which was the highest of our nine markets.

Orlando leasing fundamentals are also tightening. Net absorption in 2017 was approximately 900,000 square feet, which represents an increase of 53% year-over-year. Our Orlando portfolio was 90.1% occupied at the end of 2017, up 190 basis points from last year. Further, we reported positive 12.8% GAAP rent spreads on deals signed during the quarter. We look forward to seeing further growth in our Orlando portfolio throughout 2018.

In Atlanta, business conditions also remain healthy. According to the Department of Labor, Atlanta produced 2.1% job growth in 2017, beating the national rate of 1.4%. Atlanta's unemployment rate is in-line with the national average at 4.2%, down 60 basis points from a year ago. Class A vacancy decreased 20 basis points quarter-over-quarter to 15.6%. Net absorption was approximately 380,000 square feet in Q4, the highest quarter of the year. We had strong leasing stats in Q4 with 366,000 square feet of signed deals with an average term of 9.0 years. This includes a large, 10-year renewal with the CDC. GAAP rent spreads were solid at positive 15.0%. The re-let progress on approximately

137,000 square feet of known move-outs in our Buckhead portfolio has been slower than expected. We have full confidence in the positioning of this space given its quality and location. Occupancy across our Atlanta portfolio is projected to be down as we absorb the FBI move-out I mentioned earlier. We have already backfilled 28% of this 137,000 square feet we got back last week, and we're seeing steady interest from prospects.

In conclusion, demand across our markets is healthy, there is limited risk from new supply, and the forecast is upbeat. We remain confident in meeting our development pipeline pro forma stabilization dates and backfilling some of our larger vacancies.

Mark Mulhern
Executive Vice President, Chief Financial Officer
As Ed outlined, 2017 was a successful and active year for our company. Our operational performance exceeded the high-end of our expectations across most metrics. Same property cash NOI growth of 4.1% was strong – exceeding the high-end of our original forecasted range due to solid rent growth and relatively stable occupancy. As Ed highlighted, 2017 was the third consecutive year of strong same property cash NOI growth atop 6.7% in 2015 and 5.2% in 2016. Additionally, for those of you who follow the industrial REIT sector, we believe our same property growth methodology is mostly in line with the new calculation methodology of the industrial REITs, although we're slightly more conservative with the timing of when development properties are included in our same property pool.

As Ed also described, we were active on the investment activity front. We placed in service $394 million from our development pipeline, announced $225 million of new developments and disposed of $150 million of noncore assets…all while maintaining our strong balance sheet with leverage of 35% and debt-to-EBITDA of 4.7 times.

For the fourth quarter, we delivered net income of $0.55 per share and FFO of $0.84 per share. The unusual items to note in Q4 were: 1) approximately $900,000 of debt extinguishment costs related to recasting and extending our credit facility and a term loan; 2) a land sale gain of approximately $1.0 million related to the sale of Highwoods Tower One in Raleigh; and 3) income included in other rents of approximately $1.0 million related to the amortization of the $4.8 million restoration fee we received from Fidelity in Raleigh. The remainder of the restoration fee will be recorded as other rents in 2018.

Our 2017 FFO of $3.39 per share is at the high end of our original outlook of $3.27 to $3.40 per share even with two cents of dilution from dispositions that was not in our original guidance. The stronger performance was largely driven by better than expected NOI growth. On a year-over-year basis, the primary drivers of the 3.3% FFO per share growth were:

- Same property GAAP NOI growth of 2.1% year over year due to higher rents and strong operating expense control; and
- Highly pre-leased developments that came on line;
- Offset by dilution from dispositions, primarily closed in 4Q

We provided our initial 2018 FFO outlook of $3.35-3.47 per share. At the mid-point, FFO is essentially flat year-over-year as it reflects a full year of dilution from dispositions completed in the second half of 2017. In addition, we have headwinds in occupancy from the known move-outs we have discussed that are factored into our guidance. Our same property cash NOI growth guidance of positive 1-2% reflects those occupancy headwinds. Specifically, we expect 2018 average occupancy in our same property pool to be down approximately 150 basis points compared to 2017. Given this year's occupancy challenges after three strong years of successive growth, we believe our 2018 outlook is reasonable. We expect higher growth in the future as occupancy stabilizes.

Last night, we also announced an increase in our annualized dividend from $1.76 per share to $1.85 per share, a 5.1% increase on top of last year's 3.5% increase. Our highly pre-leased development pipeline is a strong driver of value creation and stable cash flow for our company, and was a key consideration in the decision to increase our dividend. We project our 2018 cash flow to continue to strengthen and have more than adequate coverage for the increased dividend.

2017 was an active year on the financing front:

- We issued a $300 million 10-year bond at 3.78%, replacing a 5.88% $380 million maturity last March
- We obtained a $100 million 12-year 4% secured loan, now our only secured loan on a wholly-owned property
- We expanded and extended our credit facility from $475 million to $600 million now maturing in 2023
- We extended a $200 million 2019 term loan to 2022

Our financing plans for 2018 include refinancing an April 15th $200 million maturity that carries an effective interest rate of 7.50%. As a reminder, early in 2017, we locked-in the 10-year treasury at 2.44% on $150M of principal. This hedge provides us partial protection against rising treasury rates. With plenty of availability on our revolver and other access to capital, we have substantial flexibility to be opportunistic on this upcoming maturity.

Finally, as you may have noticed, we made a couple routine SEC filings this morning. These are simply to update the financial institutions that participate in our long-standing ATM program. As you know, we have not issued any shares under our ATM since the second quarter of last year.