

**Management's Prepared Remarks
Third Quarter 2019 Conference Call
October 23, 2019**

Brendan Maiorana

Executive Vice President, Finance

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 EBITDAre. The release and supplemental include a reconciliation of these non-GAAP measures to the most directly comparable GAAP financial measures.

Forward-looking statements made during today's call are subject to risks and uncertainties, which are discussed at length in our press releases as well as our 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.

Ted Klinck

President, Chief Executive Officer

It was a busy quarter for us. We had transitions in the CEO and COO roles, announced our Market Rotation Plan to enter Charlotte and exit Greensboro and Memphis, broke ground on our \$38 million Virginia Springs II development in Nashville, completed a \$400 million bond offering and, atop of all of this, posted excellent leasing activity and delivered strong financial results.

At the beginning of last month, our longstanding CEO, Ed Fritsch, retired. Ed has been a phenomenal leader and mentor for many of us at Highwoods. Ed may be gone from his day-to-day role at Highwoods, but his legacy remains firmly in place throughout our Company, and the strategic plan that has served us well over the years will continue to guide the company. The four tenets of the plan are to:

- Continuously improve the portfolio with a focus on key infill BBDs;
- Maintain a strong balance sheet;
- Retain and attract unmatched commercial real estate professionals; and
- Communicate clearly and transparently with our investors and other stakeholders.

Consistent with our strategy, we announced a Market Rotation Plan in August. This is our exit from Greensboro and Memphis and entry into Charlotte with the purchase of Bank of America Tower at Legacy Union. Once completed, the market rotation will improve the overall quality of our portfolio, further strengthen our cash flows, all the while being leverage neutral.

Also during the quarter, we issued \$400 million of 10-year bonds at an effective rate of 3.24%. Our balance sheet continues to be very strong, with our debt-to-EBITDAre ratio at 4.9 times, nothing borrowed under our line and \$117 million of cash on hand at quarter-end.

We also had a strong quarter operationally and financially. Sequential occupancy improved 70 basis points for the office portfolio and 50 basis points overall, to 91.4%, with the most significant gains in Atlanta and Raleigh, our two largest markets by square footage. We leased 939,000 square feet, including 367,000 square feet of new leases, at GAAP rent spreads of +19.4%, cash rent spreads of +5.6%, and with a weighted average term of 6.7 years. We backfilled 144,000 square feet at 11000 Weston in Raleigh, and renewed our largest 2021 expiration, 176,000 square feet in Tampa.



Subsequent to quarter-end, we renewed and expanded our 2nd largest 2021 expiration, 133,000 square feet in Nashville.

We delivered FFO per share of \$0.83, which was impacted by \$0.05 of costs primarily relating to our Market Rotation Plan, equating to normalized FFO of \$0.88. Given our third quarter performance and solid outlook for the fourth quarter, we have revised and narrowed our 2019 FFO per share outlook to \$3.31 to \$3.33. The mid-point is down \$0.03 from our prior outlook, but after excluding the \$0.05 of market rotation costs, we're up \$0.02 on an apples-to-apples basis.

The low-end of our year-end occupancy outlook is up 20 basis points from our prior outlook to 91.7%, with the high-end at 92.3%, implying 60 basis points of additional occupancy growth by year-end at the mid-point. At this time, our year-end occupancy outlook assumes no backfill at 5332 Avion, our 176,000 square foot property in Tampa's Westshore submarket formerly occupied by Laser Spine Institute. We continue to have dialogue with medical users, but it's becoming increasingly likely we will convert the three medical floors to traditional office. We have multiple strong office prospects to backfill a substantial portion of this building. As we've stated before, we estimate market office rents for a building of 5332 Avion's quality to be approximately in line with Laser Spine's rent. While we've completed architectural drawings and have detailed cost projections, we don't want to provide specifics on our cost or rent expectations at this time given ongoing negotiations with prospects.

Our development program continues to deliver strong results. In the quarter, we placed in-service 5000 CentreGreen in Raleigh which is 100% leased. Our total investment is \$41 million for this 170,000 square foot, multi-customer building. As a reminder, we started 5000 CentreGreen 100% spec in 2016. In August, we announced Virginia Springs II, a \$38 million, 111,000 square foot spec project in Brentwood, one of Nashville's BBDs. As you may remember, we placed Virginia Springs I in-service in the first quarter of 2019 at 100% occupancy, six quarters ahead of our pro forma. At GlenLake 7 in Raleigh, we're 44% pre-leased and have strong prospects for the remaining availability, and we still have a year before estimated completion and two years before projected stabilization. Our overall development pipeline is \$500 million and 73% pre-leased. We've announced \$150 million of development year-to-date, and we continue to see good interest for build-to-suits and large anchor prospects that could drive further announcements. Longer term, we have a well-located land bank that can support \$2 billion of future development.

Turning to the Market Rotation Plan, in August, we announced the Plan would happen in two phases. Phase One includes the planned acquisition of BofA Tower in Charlotte, the disposition of assets in Greensboro and Memphis totaling the approximate purchase price of BofA Tower and the closing of our Greensboro and Memphis offices. We're on track to complete Phase One by mid-2020. Phase Two, with no pre-set timetable for completion, includes the sale of our remaining properties in Greensboro and Memphis. We are scheduled to take ownership of BofA Tower on November 14th and are very excited about our entry into Charlotte and our long-term potential in the Queen City.

In terms of the planned exit of Greensboro and Memphis, we're in the market with all Phase One properties. We remain confident in our pricing expectations, and that we will complete Phase One and return our conservative leverage metrics to current levels by mid-2020. As a reminder, upon completion, we believe Phase One will result in increased cash flows and CAD, and be roughly FFO neutral. Plus, there is additional upside with future lease-up at BofA Tower.

Turning to the balance sheet, our debt-to-EBITDA ratio at quarter-end was 4.9 times, under the mid-point of our stated comfort range of 4.5 to 5.5 times. As a reminder, we have funded our development pipeline on a leverage-neutral basis without issuing any shares on our ATM in over two years.

Overall, our portfolio is performing well and we continue to focus on growing rents and occupancy, and carefully managing opex. This positive trajectory, combined with the continued delivery of our highly



pre-leased development pipeline and completion of our market rotation plan, should drive increased FFO and cash flows while maintaining a strong balance sheet with multiple avenues to fund additional growth.

Brian Leary

Executive Vice President, Chief Operating Officer

During the quarter, we had strong leasing performance. Second gen office leasing volume was a robust 939,000 square feet, including 367,000 square feet of new leases, and we captured GAAP rent spreads of +19.4% and cash rent spreads of +5.6%. While virtually all of our leases have annual rent bumps, we've consistently posted positive cash rent spreads. Specifically, during 13 of the past 14 quarters we've reported positive cash rent spreads and increased net effective rents by 18% over the same period. Our healthy leasing volume and strong rent economics support future growth in occupancy and NOI.

In Q3, we posted same property NOI growth of +0.5%, or up 1.9% excluding 5332 Avion Park. Our portfolio occupancy increased 50 basis points sequentially to 91.4%. Our year-end occupancy outlook is now 91.7% to 92.3%, with a mid-point of 92.0%. Our improved year-end occupancy outlook is driven by a significant number of leases that have been signed but where occupancy has yet to commence. This outlook assumes no year-end occupancy at 5332 Avion.

We made meaningful progress the past several quarters reducing near-term rollover risk. We have 23% of revenues expiring through 2021, which is approximately 200 basis points lower than the past several years. We expect our future rollover to diminish further as we complete the market rotation as Greensboro and Memphis carry a disproportionate share of our near-term roll and the BofA Tower in Charlotte has a weighted average term of more than 14 years.

In our typical review of expirations larger than 100,000 square feet, we have only one remaining in 2019, two in 2020 and one in 2021. For 2019, we remain optimistic for a renewal with the FAA, located in a 100,000 square foot build-to-suit building immediately adjacent to Atlanta's Hartsfield-Jackson International Airport. For 2020, the remaining expirations are both in Tampa and include a 138,000 square foot build-to-suit for the FBI and 116,000 square feet with T-Mobile. We anticipate a renewal with the FBI, while T-Mobile is a known move-out anticipated for 3Q 2020. For 2021, we've renewed our largest remaining expiration, a 176,000 square foot customer in Tampa. Subsequent to the quarter, we not only renewed our second largest remaining 2021 expiration, 133,000 square feet in Nashville, but expanded this customer by an additional 27,000 square feet as well.

Now to our markets, which have a common denominator of growth, low costs of living and conducting business, centers of higher education and innovation, and low unemployment rates.

In Atlanta, as reported by JLL, the market posted positive year-to-date net absorption of 550,000 square feet, with Class A rents of \$32 per square foot. We're tracking 5.4 million square feet of competitive office development underway which is 25% pre-leased, half of which is in Midtown where we have no directly competitive product. Our Atlanta team signed 114,000 square feet of second generation leases during the quarter with GAAP rent spreads of +28%, while occupancy increased sequentially 130 basis points, ending the quarter at 89.7%.

Turning to Raleigh, where demographic trends continue to be strong, high demand and falling vacancy have driven average Class A rates up 9% year over year, while new office buildings in the urban core have asking rates of \$40/sf or higher, according to Avison Young. We're tracking approximately 1.4 million square feet of competitive construction, which is spread over 5 submarkets is 48% pre-leased and represents 3.4% of competitive stock. Our Raleigh team signed 193,000 square feet of second generation leases during the third quarter with robust GAAP rent spreads of +37%. Portfolio occupancy



improved 250 basis points sequentially to 88.6% and we expect additional improvement by year-end as occupancy will commence on signed leases.

On to Nashville, where Cushman & Wakefield reported Music City has posted over 900,000 square feet of net absorption year-to-date. Overall office vacancy in the market ended the quarter at 10.6%. We're tracking 2.9 million square feet of competitive projects under construction which are 23% pre-leased and represents 10.5% of competitive stock. While new supply is elevated in Nashville, it's concentrated in the urban core – the CBD, Gulch and Midtown BBDs – where we have no meaningful roll until 2025. As Ted noted, we started Virginia Springs II in Brentwood, a 111,000 square foot, \$38 million, multi customer spec project. We delivered Virginia Springs I 100% leased in the first quarter of this year, six quarters ahead of our pro forma. Given the success of Virginia Springs I, limited competitive supply in Brentwood, and early indications of interest, we're confident in the lease-up prospects for Virginia Springs II. During the quarter, we signed 114,000 square feet of second generation leases in Nashville with GAAP rent spreads of +16.6%.

Lastly to Tampa, where our team has been very busy. Class A rental rates continue to increase in the CBD and Westshore submarkets, the BBDs where the majority of our portfolio is located. According to CBRE, office rents increased 7.4% year-over-year and Class A occupancy in Westshore and the CBD is a combined 92.6%. We're tracking 930,000 square feet of competitive construction in Westshore and the CBD, which is 44% pre-leased and represents 3.6% of competitive stock. During the quarter, our Tampa team signed 264,000 square feet of second generation leases at GAAP rent spreads of +13%. Portfolio occupancy is 89.7%, which includes the full building vacancy at 5332 Avion. During the past 90 days, we have advanced our architectural plans for the 3-floor repositioning of 5332 Avion. As a reminder, this building is adjacent to Tampa International Airport in the thriving Westshore submarket. Floors 4, 5 and 6 are move-in ready for office users. Given the building's strong location, good bones, ample parking ratio and strong interest from prospects, we are confident our team will release the building with healthy economics.

In conclusion, our team delivered an excellent quarter of leasing with healthy spreads and strong net effective rents. We've made significant progress with future expirations and backfilling the few remaining sizable vacancies in the second generation portfolio. Our \$500 million, 73% pre-leased, 1.2 million square foot development pipeline has three projects with availability, all of which are at least out two years from pro forma stabilization. The leasing environment remains healthy and we expect continued demand for quality, well-located 1st and 2nd gen office product in our BBDs.

Mark Mulhern

Executive Vice President, Chief Financial Officer

We delivered net income of \$27.9 million, or 27 cents per share, and FFO of \$88.2 million, or 83 cents per share. As Ted mentioned, excluding 5 cents per share of items relating primarily to the Market Rotation Plan, FFO per share would have been 88 cents. This compares favorably to the 86 cents per share we reported last year, which included 5 months of rent from Fidelity at 11000 Weston and full NOI contribution from Laser Spine. Fortunately, growth in the remainder of the business has offset these two items, which illustrates the diversified strength of the Company, and positions us well for additional growth given our solid leasing trends, including backfilling a majority of 11000 Weston.

Excluding the 5 cents of market rotation items, the quarter was “clean” from a reported FFO perspective, with no significant capital recycling activity or term fees. There was an unrelated 1 cent land sale gain that we felt was appropriate to net against the costs associated with the Market Rotation Plan, as none of these items were included in the 2019 FFO outlook we provided in our 2nd quarter release. The total of these items comprises the 5 cent impact discussed previously.



We revised and narrowed our 2019 FFO outlook to \$3.31 to \$3.33 per share. The 3 cent reduction at the mid-point is driven by the 5 cents per share net impact from items relating to the Market Rotation Plan, offset by 2 cents per share of improvement in the business. Our updated per share outlook imputes to 90 cents in 4Q at the mid-point. As we detailed in last night's press release, we estimate 3 cents of NOI from BofA Tower in 4Q, which will be offset by 2 cents a share of additional interest expense for the pre-funding and funding of the acquisition, and 1 cent of additional accrued severance costs. Sequential growth in the fourth quarter will be driven by higher revenue due to improved occupancy and the normal seasonal pattern of operating margin improvement from the third quarter to the fourth quarter.

Our outlook for acquisitions and dispositions is driven by the Market Rotation Plan. As you know, our typical practice is not to include the impact of any future acquisitions or dispositions in our FFO outlook. This is the case with our updated outlook, except we have included expected NOI from BofA Tower, which is now scheduled to close on November 14th. As Ted mentioned, all of the properties contemplated for sale in Greensboro and Memphis as part of Phase One are now in the market. We expect most of the Phase One sales to close by the end of the first quarter and remain confident in our timeline to complete Phase One by mid-2020. As you may have seen in last night's release, we now anticipate closing both division offices around January 31, 2020. As a result, the anticipated incremental one-time severance costs of closing the offices, which total \$2.4 million in the aggregate, are required to be accrued from our original announcement date of August 21st through January 31, 2020. \$0.4 million was recorded in the third quarter, \$1.5 million will be recorded in the fourth quarter and \$0.5 million will be recorded in the first quarter of 2020.

We kept our same property cash NOI growth outlook for the full year at +0.5% to +1.5%. This outlook includes the negative impact associated with Laser Spine's sudden closure in the first quarter. Excluding 5332 Avion, same property cash NOI would be approximately 150 basis points higher. We increased the straight line rental income outlook by \$1.75 million, primarily due to the acquisition of BofA Tower. Our higher G&A outlook is obviously related to the one-time severance and retirement costs.

With net debt-to-EBITDA of 4.9 turns and leverage of 37.4%, plus nothing outstanding on our \$600 million line of credit and \$117 million of cash on hand, our balance sheet is in excellent shape. We issued \$400 million of 10-year unsecured notes during the quarter with an effective rate of 3.24%. We now have no debt maturities until mid-2021, a weighted average maturity of 6.7 years, and only \$250 million of floating rate debt. We have ample liquidity to fund the BofA Tower purchase in Q4. As a reminder, given we've already funded a \$50 million deposit, we have an additional \$386 million left to fund the total \$436 million purchase price. Our debt-to-EBITDA will be temporarily elevated at year-end, but still within our stated range of 4.5 to 5.5 times, as there will be a timing mismatch between closing BofA Tower and closing Phase One sales.

Upon completion of Phase One, our balance sheet metrics will return to the middle of our target ranges. This will provide ample flexibility to stay comfortably inside our 4.5 to 5.5 times range as we continue to fund our development pipeline, even if we don't issue any shares under our ATM program or sell other non-core assets. With the announcement of Virginia Springs II, we have \$315 million left to fund on our \$500 million development pipeline. Over the long-term, our plan is to continue to fund our business on a leverage neutral basis.

As we have signaled, we expect our free cash flow to continue to strengthen with the delivery of our highly pre-leased development pipeline, consistent performance of our same store portfolio, and completion of the Market Rotation Plan. While timing will impact our cash flow in any given quarter or year, we feel very good about the long-term cash flow trajectory for the Company.

