

**Management's Prepared Remarks
First Quarter 2020 Conference Call
April 29, 2020**

**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. Also, 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 and the Company does not undertake a duty to update any forward-looking statements.

Currently, one of the most significant factors that could cause actual outcomes to differ materially from our forward-looking statements is the potential adverse effect of the COVID-19 pandemic, and federal, state, and/or local regulatory guidelines to control it, on our financial condition, operating results and cash flows, our customers, the real estate market in which we operate, the global economy and the financial markets. The extent to which the COVID-19 pandemic impacts us and our customers will depend on future developments, which are highly uncertain and cannot be predicted with confidence, including the scope, severity and duration of the pandemic, the direct and indirect economic effects of the pandemic and containment measures, and potential changes in customer behavior, among others.

**Ted Klinck
President, Chief Executive Officer**

Let me first start by saying I hope you are all well and your families are safe and healthy. This has been an incredibly challenging six weeks for our country and for our economy, but we are grateful for the effort of all Americans, especially our first responders... the nurses, doctors and other healthcare workers... who have rallied around those affected by the COVID-19 pandemic.

Before I turn to the pandemic's impact on the economy and our business, I would first like to update everyone on our financial results for the first quarter. We delivered FFO of \$0.93 per share, the highest in our Company's history, and same property cash NOI growth of 4.0%. We leased 893,000 square feet of second gen office space with GAAP rent growth of 13.6% and cash rent growth of 6.0%. Average in-place office cash rents grew 6.2% per square foot year-over-year.

Development continues to be a growth driver for Highwoods. Our 1.2 million square foot development pipeline represents a \$500 million investment that is 77% pre-leased and 50% funded. We are pleased to report construction work on our four in-process projects, GlenLake Seven in Raleigh, Virginia Springs II in Nashville, Midtown One in Tampa and Asurion in Nashville, has continued throughout the pandemic. We remain on budget and on schedule for the varying completion dates later this year and throughout 2021. Our pipeline is projected to generate more than \$40 million of NOI upon completion and stabilization, less than \$5 million of which will be generated in 2020.

During the quarter, we completed the first phase of our plan to exit the Greensboro and Memphis markets and reinvest that capital into the high-growth market of Charlotte with the acquisition of Bank



of America Tower. All told, we sold 332,000 square feet in Memphis for \$89.6 million during the fourth quarter of 2019 and 3.6 million square feet in Greensboro and Memphis for \$338.4 million during the first quarter. These sales garnered a blended 6.8% cap rate using 2020 GAAP NOI, compared to the 6.4% cap rate for the acquisition of BofA Tower, which will deliver strong cash flow for many years to come with its excellent roster of creditworthy customers. As projected, our acquisition of Bank of America Tower and phase one of our Greensboro and Memphis market exits, coupled with G&A savings, is neutral to our FFO run-rate and accretive to our cash flow run-rate.

Now, turning to the COVID-19 pandemic.

The unprecedented nationwide efforts to slow the spread of the COVID-19 virus has obviously had a significant impact on the U.S. economy. It is still too early to predict how deep and how long it will take U.S. businesses to recover from the severe dislocations caused by the effective shutdown of large segments of our economy. Even with our strong first quarter performance, we believe it is likely our financial results for the remainder of 2020 will be adversely impacted by the COVID-19 pandemic. Given the fluidity of the pandemic and its uncertain impact on economic activity, potential lost rents from customer defaults and non-cash straight-line write-offs are too speculative to project. As a result, our updated FFO per share outlook of \$3.55 to \$3.68 excludes any such potential losses.

All of our buildings and parking facilities have remained open and available to our customers throughout the pandemic. Obviously, usage of our assets has been significantly lower than normal in April and is expected to remain low in May and June before gradually increasing in the third and fourth quarters. Fortunately, lower variable expenses, such as utilities and janitorial, will partially offset a corresponding decline in parking revenues. We expect the net impact on 2020 FFO from these items to be flat to down a few pennies.

While still early, we believe spec leasing will be slower than originally anticipated, although partially offset by higher renewal activity. We currently estimate the net impact on 2020 FFO to be \$0.02 to \$0.04 per share lower. As Brian mentioned on our last call, we entered 2020 in a strong position with regard to our rollover exposure. During the first quarter, we de-risked our future rollover exposure even more with our leasing success, leaving us with only 6.8% of revenue expiring during the remainder of 2020 and our lowest cumulative 3-year forward rollover exposure in 20 years.

With regard to the pandemic's impact on our customer base, we have long emphasized the importance of having significant customer, geographic and industry diversification. Currently, as a percentage of our revenues, no market accounts for more than 20%, no customer other than the federal government accounts for more than 4% and no industry category accounts for more than 25%. Brian will go into more detail about customers that have requested some form of rent relief and our process for managing those requests, but I'll highlight a few points:

- First, to date, we have collected 96% of contractually-required rents for April.
- Second, customers who we currently believe merit some sort of temporary relief represent about 10% of our revenues. Many of these are restaurants, amenity retailers, small health care practices and flexible office providers. In some cases, we have agreed to defer, but not abate, the payment of rent for a limited period of time. In other cases, we have agreed to abate rent as consideration for a lease term extension. To date, we have agreed to grant temporary rent deferrals that represent approximately 1% of our annualized revenues.
- Third, we have received requests from creditworthy customers who have made what many in the industry are referring to as "opportunistic" rent relief requests. Our view is these customers' contractual rent obligations do not merit temporary relief.



- Fourth, the Company is not currently aware of any customer-specific facts or circumstances that indicate a likelihood of any material losses at this point during the second quarter.

Turning to our balance sheet, with cash on hand, full availability under our \$600 million credit facility and no debt maturities until June 2021, we believe we have ample liquidity. To be prudent, we have delayed certain BI projects originally planned for this year, including some lobby and restroom upgrades. Plus, with our expectation that spec leasing will slow, we currently expect lower leasing capex for the rest of 2020.

The big question for everyone is where does the economy go from here? We don't know, but in the near-term, we are focused on:

- First, maintaining our liquidity and fortress balance sheet;
- Second, keeping our buildings open and fully operational;
- Third, keeping our development projects on time and on budget;
- Fourth, working with customers to creatively design mutually-beneficial solutions that maintain their long-term tenancy without significant financial impact on Highwoods;
- Fifth, minimizing all expenses to the greatest extent feasible without sacrificing operating performance or leasing opportunities; and
- Sixth, capturing as many renewals and re-lets as possible given this uncertain environment.

Even during the stay-at-home orders, there continues to be some interest for backfilling available space. The volume of showings has obviously slowed during the past 4-6 weeks, but activity has not gone to zero and we are cautiously optimistic that demand will begin to rebound as the economy reopens.

In the long run, given the strength of our balance sheet we believe we are well-positioned to capitalize on any opportunities created by this economic disruption. For now, we are pencils down on potential acquisitions although we continue to have discussions regarding a limited number of potential build-to-suits. Rest assured, once the economy reopens and we have a better sense for customer demand, rents, valuations and our own cost of capital in order to resume underwriting deals, we will be opportunistic, but stay true to our mantra of being disciplined capital allocators.

Before I turn the call over to Brian, I'd like to say a few words about our incredible teammates here at Highwoods. We are pleased to report that the few employees and dependents of ours who tested positive for COVID-19 have fully recovered. Since mid-March, we have actively encouraged and supported employees who can work from home to do so. Employees who cannot work from home, such as maintenance and HVAC technicians, have collaborated with each other and our respective local leadership teams to handle essential property-related tasks. We continue to be amazed by the collegiality, dedication and tenacity that our co-workers have been exhibiting every single day during this pandemic. Whether on the front lines keeping our buildings open and well-maintained or working from home keeping our business running smoothly, including closing our books, filing our 10-Q and preparing for this call. Our co-workers have continued to personify the Highwoods standard of excellence with everything they do and we sincerely thank them for their efforts.



Brian Leary
Executive Vice President, Chief Operating Officer

I'm going to briefly review our performance in the first quarter and then address the impact of the COVID-19 pandemic on our operations and outlook, before closing with our thoughts on leasing expectations for the remainder of the year.

As Ted mentioned, we finished the quarter, which now seems like a distant memory, with record setting FFO per share and solid leasing metrics. Leasing volumes were healthy with 893,000 square feet of second gen leases signed with GAAP rent spreads of 13.6% and cash rent growth of 6.0%. Leasing results in the quarter included a 238,000 square foot renewal in Atlanta with the State of Georgia that pulled our average rent per square foot and term down, but also carried lower leasing capex to drive a superlative payback for us.

As we've discussed on prior calls, we have made significant progress reducing our lease expirations over the next few years. To that end, we now have 24% of revenue expiring through year-end 2022, down from 29% at the end of 2019, and there are no expirations greater than 100,000 square feet remaining in 2021 or 2022. We're close to finalizing a long-term renewal with the FBI on their 138,000 square foot building in Tampa that currently expires in the fourth quarter of this year. We continue discussions with the FAA on their 100,000 square feet in Atlanta - currently in holdover status. Finally, T-Mobile, a long-known move-out, will vacate 116,000 square feet in north Tampa in the third quarter of this year.

Our in-place cash rents are up 6.2% year-over-year – the growth is driven by higher rents on deals executed over the past 12 months, an improved portfolio mix due to the market rotation plan, and as always, in-place annual escalators.

I'll now turn to the current status of our portfolio and the impact we're seeing from COVID-19.

All of our buildings and parking facilities are open and available for our customers, though utilization has been low. Fortunately, our portfolio has experienced limited exposure to the virus. Where we have had confirmed or suspected exposure within our buildings, we have a thorough process in place to sanitize all affected areas real-time and to ensure our customers and employees have access to their workplaces as soon as possible in a safe and sound manner. The reduced utilization has impacted our parking revenue. We generate approximately \$25 million in annual parking revenue, with approximately 20% of this attributable to transient parkers and the balance, monthly parkers. Transient revenue has ground to a halt, and we're seeing some monthly contracts cancelling. We expect parking revenue will be \$3 million to \$8 million lower this year than our original outlook, which assumes a gradual recovery in building utilization over the third and fourth quarters.

Like many landlords, we've received rent relief requests and are working with those customers with a demonstrated financial need due to the COVID-19 pandemic. Based on our current outlook, we believe customers representing approximately 10% of our annual revenues warrant temporary financial assistance, including rent deferral, to bridge them through this period of reduced economic activity. In general, the businesses in need fall into a few broad categories: our amenity retail and restaurants, flexible office providers, elective medical practices, and businesses that cater to a customer base significantly impacted by social distancing measures.

We have established a process through which customers submit applications for relief. The requests must include cost mitigation and business plans, recent financial statements and evidence of application for government assistance, such as PPP loans. We have formed a task force, comprised of corporate officers and our market leaders, that meets daily, reviews each application and recommends a course of action. In general, most relief granted is for rent deferral for a period of one-to-three months with



payback typically over 12 months or less. There are certain instances where we've offered free rent in exchange for a meaningful lease extension – this is beneficial for Highwoods as it increases our average lease term and carries little-to-no leasing capex.

To date, we've agreed with customers to defer rent of \$4 million and have made proposals for another \$2 million of deferred rent. In total, this equates to less than 1% of our annualized revenue. We expect this to increase as additional customers who have a demonstrated need complete their applications. Turning to rent collection, we've received 96% of April's rents. Adjusting for 1% of April rent billed but that we have agreed to defer, our collection percentage is approximately 97%.

We're extremely proud of our local and legal teams exemplifying Highwoods "service not space" ethos in the great work they are doing for our customers with a focus on a return to more-normal times ahead. We have been proactive in reaching out to customers who are behind with their April payments, and will continue to monitor the portfolio with a laser-focus on credit.

Now, I'll turn to our current leasing activity and outlook for the remainder of the year. At this point, we aren't assuming a lot of new lease starts for the balance of the year and have little revenue at risk in 2020 attributable to speculative new leasing. We have shifted most of the spec leasing in our original 2020 outlook to the end of 2020 or into 2021. We do expect renewal activity will increase as certain customers previously projected to vacate have expressed interest in renewals, albeit some in the short-term.

While leasing activity has slowed, there still is activity with in-bound requests and assignments. With social distancing and work-from-home measures in place, our teams have quickly pivoted to producing virtual tours in every market with over 40 already completed and in-use. While we don't expect many new leases to be signed solely from virtual tours, we believe this proactive approach not only keeps our opportunities connected to potential customers, it provides us a jump-start on omnichannel engagement going forward.

Thankfully, construction has been deemed an essential business function across the vast majority of our markets, and as a result we expect little-to-no delay in the commencement of signed leases due to in-process TI jobs.

Similarly, the projects in our \$500 million development pipeline remain on schedule and budget. Our contractors have protocols in place to minimize the risk of infection for workers at our job sites, and fortunately we haven't experienced any major supply chain disruptions for materials. Since most materials are sourced from domestic producers, we don't expect many, if any, delays. We recently hosted a portfolio-wide forum with all of our general contractors to share best practices and to get the benefit of an up-to-the-minute conversation among the best and brightest in the business. A big thanks to these organizations and to our development team for convening such a group.

As Ted mentioned, our development pipeline will deliver over \$40 million of GAAP NOI upon stabilization. This includes \$32 million from the three projects that are fully pre-leased such as the previously announced 126,000 square foot full-building lease with Martin Marietta at GlenLake Seven in Raleigh.

In closing, we believe our sunbelt footprint, BBD located and high-quality portfolio, diversified customer base, and manageable near-term roll position us well in this period of economic uncertainty.



Mark Mulhern
Executive Vice President, Chief Financial Officer

In the first quarter, we delivered net income of \$185.5 million, or \$1.79 per share, and FFO of \$98.8 million, or 93 cents per share. The quarter included the net benefit of 2 cents per share from properties sold, which was offset by severance costs associated with the closure of the Greensboro and Memphis offices and higher G&A expense that we incur in the first quarter each year associated with our typical annual equity grants. As expected, occupancy declined 130 basis points sequentially to 90.9%, with approximately 30 basis points attributable to disposition of properties.

As mentioned previously, we completed the first phase of our market rotation plan with the sale of \$338 million of properties. Including \$90 million of properties sold in the fourth quarter, we received \$428 million of phase one disposition proceeds, which approximates the \$436 million acquisition of Bank of America Tower in Charlotte. GAAP NOI on the properties sold was projected to be \$29.2M for 2020, which compares to \$27.9M for BofA Tower, and we're more than making up for the slight shortfall in NOI with G&A savings. As we stated last August, we projected the market rotation plan to be FFO neutral and cash flow accretive. After completion of phase one, we now believe we're modestly ahead of our original expectations.

At quarter-end, we had over \$630 million of liquidity and returned our net debt-to-adjusted EBITDA ratio to prior levels at 4.86x. We used the sale proceeds from the last phase one disposition to fully repay the outstanding balance on our \$600 million revolving credit facility. We have no debt maturities until June 2021 and expect to fund approximately \$130 million on our development pipeline during the remainder of the year. As we disclosed in our press release, we have reduced 2020 planned BI capex and expect leasing capex will be lower than original expectations. We believe we have ample room to fund the remaining \$239 million on our development pipeline and repay our June 2021 bond maturity with our existing liquidity.

Turning to our outlook. Our original FFO range was \$3.60 to \$3.72 per share. As a result of the COVID-19 induced economic slowdown, we've made the following revisions:

- We lowered our parking forecast by 3 to 8 cents per share, which will be partially offset by lower op-ex, net of recoveries, of 3 to 5 cents per share for a net reduction of 0 to 3 cents.
- We assume rental revenues will be lower by 2 to 4 cents per share due primarily to lower anticipated spec leasing.
- Finally, we expect G&A will be lower by approximately 1 cent per share.

The net effect is an expected reduction of FFO by 1 to 6 cents per share.

In addition to these specified COVID-19 induced changes to our outlook, we lowered the top end of the prior range 3 cents per share and raised the low end 1 cent. The result is an updated range of \$3.55 to \$3.68 per share.

As we stated in the press release, our updated outlook excludes the potential impact of customers that file bankruptcy or otherwise irrevocably default on their leases and non-cash credit losses of straight-line rent receivables. Given the fluidity of the pandemic and its effect on the collectability of rents over the remainder of existing lease terms, such losses are too speculative to project at this time.

We don't provide quarterly guidance, but we assume parking revenues will bottom in the second quarter before gradually improving in the third and fourth quarters. Our year-end occupancy assumption is 89.0% to 92.0%, which compares to quarter-end occupancy of 90.9%. Given the uncertainty of the



economic and leasing environment for the remainder of the year, we have a wider than normal year-end occupancy range. Our same property cash NOI growth outlook is 1.5% to 3.0%, excluding potential lost rental revenues attributable to COVID-19. This change from our prior outlook is driven by an assumed reduction in parking revenues and lower projected average occupancy, partially offset by lower op-ex.

As is our custom, we don't include the effect of future acquisitions, dispositions or development announcements in our FFO outlook. We have maintained the original upper-end for each of these categories as a placeholder in our current outlook, while we've reduced the low-end to \$0 given the current uncertain economic environment.

To wrap up, we believe we are well-positioned to navigate the COVID-19 induced uncertainties. We have ample liquidity to fully fund our development pipeline and debt maturities through year-end 2021, our leverage is low, and we have proactively reduced our capex spend to further bolster our liquidity. We have a highly pre-leased development pipeline that will provide \$40 million of stabilized NOI. Finally, our lease rollover schedule is favorable with few large expirations remaining over the next few years. We're hopeful the economy will soon reopen and regain its footing, and we can then focus on driving improved portfolio performance, including pushing rents and occupancy, announcing development projects with strong risk-adjusted returns, and continuously improving our portfolio quality all while delivering strong results for shareholders.

