Highwoods PROPERTIES

Management's Prepared Remarks
Fourth Quarter 2016 Conference Call
February 8, 2017

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 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

Over the past few years, the macro-economic conditions have been fairly consistent. While there has been some volatility, historically low interest rates and a virtual absence of inflation has led to a steady cadence of modest economic growth. All the while new supply has been restricted in the office sector and cap rates for BBD office steadily declined. That environment generally led to steady performance across our markets as occupancies and rents have improved.

As we roll into 2017, we see the potential for a change in the trajectory of macro-economic factors. These would include the scale of economic growth, inflation, interest rates, tax reform, and the regulatory environment. It's difficult to predict what impact these variables may have on the overall U.S. economy…good, bad or indifferent…regardless, we believe Highwoods is well positioned for the following reasons:

First, the demographic trends across our footprint are strong: our markets have population growth roughly double the national average, high-performing job growth, driven by the business friendly environment in our right-to-work states, and a highly desirable quality of life with below average cost of living.

Second, strong fundamentals across our markets and an improved portfolio will continue to drive organic growth.

Third, office construction across our markets remains limited, and even if lending loosens up, the sustained march in the rise of construction costs continues to drive first generation rents upward, which is likely to keep a bridle on new supply.

Fourth, we have $371 million of development, which is 91% pre-leased on a dollar weighted basis, that is projected to stabilize by the end of 2018.

Fifth, we have acquired $511 million of value-add properties over the past 16 months that were collectively 77% occupied with known move-outs at closing. Over the next few years, these assets continue to offer significant NOI upside from lease-up to stabilization.

Sixth, even though interest rates have ticked up modestly of late, we still have some high coupon debt maturities over the next 14 months that offer the opportunity for us to reduce our average interest rate.

The 7th and final reason is our balance sheet. It has never been stronger with debt-to-EBITDA at 4.8 times and leverage, including preferreds, at 35%. If pricing for assets becomes more attractive, then we feel good about using our current balance sheet capacity. While we intend to continue growing on a leverage-neutral basis, we estimate that we can fully fund the remainder of our development pipeline, plus invest another $400 million in development and/or acquisitions without issuing any equity or garnering proceeds from dispositions, all while maintaining a debt-to-EBITDA ratio below 5.5 times.

Now turning to 2016…a significant year for Highwoods. We had $892 million of capital recycling and investing activity and raised $246 million on our ATM program. These efforts not only simplified our operations and improved our portfolio, but further transformed our balance sheet. Since the end of 2015, our leverage is down over 1,000 basis points and debt-to-EBITDA is down 1.3 turns. We believe our strategic execution in 2016 sets us up for steady earnings and cash flow growth over the next few years.

In the fourth quarter, we declared a special dividend, a first for Highwoods, of $0.80 per share that was paid in early January. Yesterday, we announced a 3.5% increase to our common dividend; our regular quarterly dividend is now $0.44 per share compared to our prior $0.425. Forecasted cash flow growth from our operating portfolio and continued strong cash flow from our development deliveries, combined with an increase in our taxable income, made us comfortable with this increase. As you may recall, we did not cut our dividend during the Great Recession or thereafter.

Given the multitude of investment options available to us and our commitment to maintaining a strong balance sheet, we continue to believe it is important and prudent to take a balanced view of excess cash flow…including investing in our operating properties and development pipeline, reducing debt to further bolster our dry powder and taking a conservative view of the amount of our regular dividend.

Now, our Q4 and full year 2016 results. We delivered FFO of $0.82/sh for Q4 and $3.28/sh for the full year. Q4 included a modest land sale gain. Same property NOI growth remained strong at 5.8% for Q4 and 5.2% for 2016 – above the high-end of our original outlook. Occupancy also ended the year strong at 93.1%. We leased 726,000 square feet of second gen office space in Q4 and 3.4 million square feet for the year. 2016 leasing volume was down versus the past few years as we had less available space and our lease rollover schedule was low. Rent growth was solid at 13.9% on a GAAP basis in Q4 and 15.0% for 2016, and cash rent growth was positive 3.0% for the quarter and positive 2.2% for the year. In short, the financial and operating performance of the company has been healthy and the backdrop of our markets is upbeat.

We believe we have set the table for a solid outlook for the next several years. Our initial guidance for 2017 is an FFO range of $3.27-3.40 per share. At the midpoint, this equates to year-over-year FFO growth of 3.6% stripping out 2016's land sale gains. Our leverage reduction during 2016 has reduced our near-term earnings outlook by at least 10 cents per share. We believe the trade-off is well worth the flexibility and investment capacity that this strategic transformation affords us. More importantly, given the high level of pre-leasing across our development pipeline, measured pace of scheduled development stabilizations over the next few years, and capacity to fully-fund investments on our balance sheet, we are well positioned to deliver solid FFO and cash flow growth over the next few

years…accompanied by a fortified dividend. Mark will go over details in his remarks, but here are a few highlights underpinning our 2017 outlook.

We expect same property NOI growth of 2.50 to 3.25% and year-end occupancy between 92.2% and 93.2%. As an aside, we're focused on the backfill of the 206,000 square foot HCA move-outs that occurred on January 1st. We've leased 8% of the space and have LOIs for an additional 31%. We don't expect much NOI from the backfill of the space during 2017 given the lag between lease signings and the commencement of rents, but we feel good about our ability get the space re-leased, and this should be a driver of growth in 2018.

We see few acquisition opportunities in the market at this point in time, and therefore our 2017 outlook is 0 to $200 million.

We continue to focus on improving the quality of our portfolio, not just through development and potential opportunistic acquisitions, but by cycling out of non-core assets. We project selling $50 to $150 million of non-core assets during 2017.

As far as development, our 2017 guidance outlook for announcements is $120 to $220 million. Yesterday, in conjunction with our earnings release, we announced the development of 751 Corporate Center, a $22 million, 90,000 square foot, 35% pre-leased office building in Raleigh Corporate Center. Our two existing Corporate Center buildings total 279,000 square feet and are 98% occupied. We believe the spec component of this project will add needed inventory for growing customers at Raleigh Corporate Center and the West Raleigh submarket, which is 92.2% occupied.

Also in development, we're in advanced discussions with a new customer for an approximate $100 million, 100% pre-leased build-to-suit, and we are in various stages of conversations regarding other potential development projects primarily on Highwoods-owned land. Based on this strong activity, we feel very comfortable establishing the low-end of our development announcement outlook at $120 million.

Our development pipeline has increased to $541 million, encompassing 1.8 million square feet, and is 78% pre-leased on a dollar-weighted basis and 70% pre-leased on a square footage basis.

Ted Klinck
Executive Vice President, Chief Operating and Investment Officer

We had solid activity this quarter, leasing 726,000 square feet of second gen office space, and year-over-year asking rents continue to increase. Average in-place cash rental rates across our office portfolio grew to $24.12 per square foot, nearly 3% higher than a year ago. Office occupancy in our same property portfolio was up 50 basis points compared to one year ago, and overall portfolio occupancy increased 40 basis points since the end of Q3.

For office leases signed in the fourth quarter, starting cash rent increased 3.0% while GAAP rent grew 13.9%. The average term was 6 years. For all of 2016, we signed 3.4 million square feet of second gen office leases with cash rent growth of positive 2.2% and GAAP rents were up a robust 15.0%. Given the health of our markets, the team continues to push rents upward.

Turning to our operational guidance for the year…same property NOI growth guidance is 2.50-3.25%, inclusive of the roughly 206,000 square foot move-out on January 1st from HCA. We continue to feel good about our ability to push rents higher and our asset management team has done a great job improving the efficiency of our portfolio and driving operating margins higher.

We expect occupancy to end the year between 92.2% and 93.2%. We don't provide guidance on rent spreads, but we feel good about the health of our markets and the ability to continue to garner improving rent economics in 2017.

Turning to our markets, while each city has its own local market dynamics, its own unique collection of BBDs and its own set of opportunities and challenges, there is a common theme across our markets, in that our markets generally benefit from:

- Population growth and other demographics that consistently outperform national averages;
- Affordability and a pro-business environment;
- Growing and diverse economies; and
- A high quality of life.

In Nashville the strong growth continues:

- Per Cushman & Wakefield, there was over 1 million square feet of positive net absorption during 2016, including nearly 200,000 square feet in the fourth quarter;
- The market's vacancy rate is 5.5%, among the lowest in the country, and the class A vacancy rate is only 4.7%; and
- Occupancy in our portfolio was 99.6% at year-end.

We've stated in the past that we're watchful of the level of development activity in Nashville. Cushman is tracking about 3 million square feet under construction that is approximately 75% pre-leased. While there is some shadow space that will come to the market as these projects deliver, the continued strong pace of net absorption and 'on the ground' demand that we see suggests solid fundamentals across the city will continue.

We signed another customer at our Seven Springs West development project, and we're now 91% leased with strong prospects that would bring us to the high 90s. At our Seven Springs II project, we're more than half pre-leased, 6 quarters before projected stabilization.

Turning to Atlanta, we've continued to generate strong rents across our portfolio where we posted GAAP rent growth of 16.0% on signed deals in Q4. We're seeing steady interest in our nearly 2 million square foot Buckhead concentration of towers at Alliance Center and Monarch Centre. We expect to see occupancy in our Buckhead portfolio dip in the third quarter as there are some larger customer move-outs, but fortunately rents are about 10% below market and we're encouraged that there are limited large blocks of high quality space. Our Riverwood 200 project is scheduled to deliver in the middle of the year, pro forma'd to stabilize 2Q'19, but we're already 73% pre-leased.

In Raleigh, rents continue to move steadily higher. Per Avison Young, Class A rents increased 5.6% year-over-year in Raleigh and vacancy dropped 200 basis points to 8.1%. New supply in Raleigh is modestly higher than some of our other markets where there has been little new supply. There is 2.1 million square feet under construction that is 42% pre-leased, and that compares to net absorption of 1.2 million square feet in 2016 – we believe the level of new supply is meeting market demand. Further, the construction is spread out across several submarkets.

At 5000 CentreGreen, we have an LOI for 26% of the building and a list of strong prospects. At Charter Square, the Raleigh CBD acquisition that we closed in September 2016, we have leases in hand that will take occupancy up 1000 basis points from closing, to 79%. We believe that having three downtown office towers with rental rates across the Class A spectrum affords us high flexibility with existing and prospective customers.

In Tampa, we've seen solid activity of late. Our portfolio is 90.9% occupied, up 350 basis points since the end of 2015. We are finishing up our Highwoodtizing efforts at SunTrust Financial Centre where we've already moved occupancy to 88%. We're encouraged with the level of activity we're seeing across our Tampa portfolio.

In conclusion, leasing volumes continue to be solid, reflecting positive momentum in our markets and demand for our well-located BBD office product. With the previously-disclosed known move-outs by HCA and a few other near-term expirations, we expect occupancy will dip to the low 92's during the early and middle part of the year before rebounding towards year-end.

Mark Mulhern
Executive Vice President, Chief Financial Officer
2016 was a successful and active year for the company. Our operational performance exceeded the high-end of our expectations across most metrics. Same property NOI growth was strong – at the high-end of our upwardly revised range, rent growth and occupancy continue to be solid. As Ed described, we were active on the capital recycling front. We used a portion of the proceeds from our dispositions, principally from the sales of the Country Club Plaza assets, plus issuance on the ATM to invest in our development pipeline and measurably reduce leverage. Our leverage metrics are now substantially stronger and the balance sheet is in great shape. We have the flexibility to fund our current development pipeline and other growth initiatives through a variety of sources.

Turning to 2016, for the fourth quarter, we delivered net income of $0.25 per share and FFO of $0.82 per share. Our FFO was flat compared to Q4'15 on a per share basis. As you may recall, we had elevated leverage in Q4'15 and we had a full quarter of NOI from the SunTrust and Monarch acquisitions, while the closing of the sales of our Country Club Plaza assets did not occur until March 2016. In the short term, we funded the acquisitions of SunTrust and Monarch with a bridge loan and capacity on our credit facility – low interest rate money. We also had 5.1 million more weighted average diluted shares outstanding during the fourth quarter of 2016 compared to 2015. Overall, delivering the same FFO per share in Q4 16 as compared to Q4'15 with an even better portfolio and a substantially lower risk balance sheet was a great result for our Company.

Our 2016 FFO of $3.28 per share is at the higher end of our original outlook 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 using the leftover proceeds to further de-lever and fund a special dividend; and
- Issuing $250 million in new equity through the sale of 5.1 million shares under the ATM.

On a year-over-year basis, the primary drivers of the 6.5% FFO per share growth were:

- Same property GAAP NOI growth of 5.2% year over year due to higher rents and higher average occupancy;
- Contributions from value-add acquisitions, particularly the Monarch Centre and SunTrust acquisitions; and
- Highly pre-leased developments that came on line.

Turning to 2017, we provided our initial FFO outlook of $3.27-3.40 per share. At the mid-point, our FFO growth is 3.6%, excluding 2016's land sale gains that we don't forecast in 2017.

To help with modeling, I want to provide a rollforward of our FFO outlook. Q4'16 FFO was 81 cents per share, excluding a modest land sale gain. Annualizing Q4's run rate and adjusting for the higher G&A costs by $0.03 per share that we routinely incur in Q1 every year related to incentive compensation, would imply $3.21 per share. Then, there are some known moving parts that will affect 2017:

First, the deducts:

- The HCA move-out on January 1 is expected to reduce 2017 FFO by about four cents per share.
- Other Income and FFO from JVs is expected to be 2 cents per share lower in 2017. We recorded higher “Other Income’ in 2015 and 2016 from a 3rd party fee development project that wrapped up late in 2016, and we anticipate lower occupancy in one of our few remaining JVs.
- Higher average share count for the full year in 2017 compared to 4Q16 is expected to reduce FFO by approximately 2 cents per share.

Now, the additions:

- Interest expense should be approximately 5 cents lower as we have an opportunity to refinance a $380 million bond maturity in March that has an effective rate of 5.85% with lower-cost debt;
- GAAP NOI growth from our Q416 same property pool is expected to add about 6 cents per share, excluding the impact from HCA; and
- Increased NOI from development properties should add around 10 cents per share, net of the change in capitalized interest.

I want to highlight that we expect $304 million of development projects to stabilize in 2017. 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 quarterly dividend. The largest project, our $200 million headquarters for Bridgestone Americas in Nashville, will deliver at the end of Q3’17. As an aside, GAAP requires us to begin recording straight-line rent due to “early possession” by Bridgestone Americas before delivery. This will aggregate $7.8 million over the second and third quarters of 2017.

Turning to our financing plans, on March 15, 2017 we have a $380 million bond maturity with an effective interest rate of 5.88% that will mature. As a reminder, early in 2016 we locked-in the 10-year treasury at 190 basis points on $150 million of principal. This hedge provides us partial protection against the recent rise in the 10 year treasury rate. With plenty of availability on our revolver and other access to capital, we have substantial flexibility to be opportunistic on this upcoming maturity.
We also anticipate refinancing approximately $100 million of secured financing with an effective rate of 4.22% that matures in November 2017 and is prepayable without penalty starting in May.

Finally, as you may have noticed, we made some routine SEC filings yesterday and this morning. Under SEC rules, S-3 shelf registration statements sunset every three years. It has been three years since our last shelf filing. As a result, last evening, we filed a new S-3 with the SEC. This was a joint shelf filing by the REIT and the Operating Partnership that registers an indeterminate number of debt securities, preferred stock and common stock for future capital markets transactions. With this new shelf in place, we also needed to refresh our ATM program, which we filed via Form 424(b) this morning. This new program allows us to raise, from time to time, up to $300 million of common equity at market prices, less a 1.5% discount. As you know, keeping an ATM program in place is one of the many arrows we like to keep in our capital-raising quiver.