Highwoods PROPERTIES

Management's Prepared Remarks
Second Quarter 2017 Conference Call
May 26, 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, 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
Each quarter, we typically start our call with a few brief comments regarding the economy and business conditions. In reviewing my prepared remarks from the past few years, the commentary has been consistently consistent:

- Economic growth at around 2% has been positive…albeit below the long-term trend;
- Inflation has been nominal;
- Interest rates have remained low;
- Job growth has been modest; and
- The capital markets have been accommodative for well capitalized companies

At the risk of sounding like a broken record, or a podcast stuck on repeat, the current conditions appear once again in sync with the recent past. While seemingly stuck in 2nd gear, this backdrop has proven to be a positive for our business:

- Office absorption has remained net positive
- Speculative new supply has been held in check, well below past peaks
- Net effective rents have continued to improve; and
- Demand for highly pre-leased development has been healthy

We believe we're well-positioned to continue to capitalize on this monotonous macro-economic environment. Our portfolio of BBD-located office properties continues to garner strong rent growth, our development projects will continue to strengthen our cash flows and drive value creation, and our balance sheet has never been stronger.

Other than the length of this cycle, we don't see any indications that current economic conditions will soon change. In addition, we believe we're well positioned if and when conditions were to change. Our BBD submarkets are typically the last to de-lease in a down market and first to re-lease in an up market, our strong balance sheet provides us with the flexibility to pursue prudent growth opportunities both via value-add acquisitions and our strong and proven development program.

Turning to the second quarter, we delivered 90 cents of FFO per share, 10% higher than this time last year. The quarter included a penny from debt extinguishment gains. Our strong financial performance was driven by:

- Better NOI in our same property pool
- Accretion from recently delivered development projects; and
- Savings from lower average interest rates.

Given our positive results, we have increased the mid-point of our FFO per share outlook by one cent after factoring in two cents of anticipated dilution from planned dispositions not previously included in our forecast. In summary, we are pleased to deliver steady FFO growth while continuing to recycle out of non-core properties.

On the operational front, we posted strong same-property cash NOI growth of positive 5.3%. Cash rent spreads on signed leases were positive 1.0% and GAAP rent spreads were positive 15.3%. This quarter was the 5th consecutive quarter of positive cash rent spreads and double digit positive GAAP rent spreads.

Our occupancy was 92.7% at the end of Q2, the same as at the end of the first quarter. An increase in occupancy in our same property pool was offset by placing in service our unoccupied 131,000 square foot industrial development project in Greensboro.

Behind the scenes, disposition activity was heavy during the quarter, and we expect those efforts will translate into closings that should occur in the latter part of the year. Therefore, we increased the low-end of our disposition outlook from $50 million to $105 million. The $105 million includes the $13 million sold in the first quarter, plus another $92 million of properties under contract with non-refundable earnest money deposits. We have additional properties entering the market for sale that could bring the total for the year to the high-end of our guidance of $150 million. We anticipate dispositions will be dilutive to 2017 FFO by 2 cents per share, with the impact primarily coming in the fourth quarter. As a reminder, in keeping with our strategic plan, we routinely evaluate our portfolio for non-core properties and expect to continue to be regular recyclers of assets.

We've kept our outlook for acquisitions unchanged at $0 to $200 million. The acquisition market is slow. For the few BBD-located, class A properties that have come to market, we concluded pricing was out-of-sync with our view of the risk profile. We continue to evaluate on and off-market opportunities with a focus on prudent investing.

Our development program continues to be a core competency of our company. At $225 million of 82% pre-leased development starts encompassing 769,000 square feet announced so far this year, we've already exceeded the high-end of our original outlook of $220 million. This $225 million includes $99 million of new projects announced subsequent to the end of the first quarter. In addition, during the second quarter we placed $208 million of 96% leased development in service and signed a total of 245,000 square feet of first gen leases. Our development pipeline now encompasses 1.5 million square feet, a total investment of $440 million, and is 76% pre-leased.

The largest of our recent development announcements is the $65 million, 219,000 square foot, third building for MetLife's Global Technology campus in Raleigh. The announcement comes less than two years after we delivered their first two buildings. This 50% expansion announcement is a flattering endorsement of the Triangle area and MetLife's confidence in the Highwoods team.

As part of yesterday's earnings release, we announced Virginia Springs I, a $34 million, 109,000 square foot, 34% pre-leased office building in the Brentwood sub-market, a Nashville BBD. Construction is

scheduled to commence in the fourth quarter and the building will be built on company-owned land we acquired last year. Brentwood has vacancy of 7%, and there is no office development underway. Our 1.7 million square foot portfolio in Brentwood is 92.6% occupied.

At our $107 million, 299,000 square foot Riverwood 200 development project in Atlanta, shell construction is complete and our first customers moved in during the second quarter. We're now 79% pre-leased with two years in advance of pro forma stabilization.

Shell construction is also complete at Seven Springs II, our $38 million, 135,000 square foot project in Nashville. We increased the pre-leasing percentage to 63% during the quarter, and we have a number of active prospects. Stabilization is projected for the third quarter of 2018.

We continue to see a pipeline for potential, highly pre-leased development projects. While it's always difficult to forecast if and when a sizable user will commit to a development, we're encouraged by the conversations and level of activity and therefore have increased the high-end of our development announcements from $220 million to $275 million. Our average development announcement is around $50 million, so the high end of guidance includes the potential for one additional announcement before year-end 2017. Again, development is a core competency for us and an ongoing engine of strengthening cash flow and earnings growth.

The combination of strong operating fundamentals, a solid balance sheet, and the delivery of well pre-leased development projects sets the table for continued growth over the next several years.

Ted Klinck
Executive Vice President, Chief Operating and Investment Officer

We had solid activity this quarter. Fundamentals across our markets have remained consistently healthy over the last several quarters. We continue to see long-term dynamics benefitting our markets – simply stated, people enjoy living and working in the southeast where population and job growth are routinely above the national average.

Raleigh had major employment growth announcements from numerous companies this quarter. Included in these are more than 1,000 expected new hires from both Credit Suisse and Infosys, a new entrant to Raleigh, plus MetLife's planned growth at our campus for them.

Nashville has been our highest growth market this cycle, and it continues to attract new residents and employers, and its existing companies continue to expand their office footprint.

Atlanta, our largest market, has garnered many corporate relocations and the organic growth of large corporate users has been strong. With limited new speculative supply and solid growth, the outlook in Atlanta continues to be bright.

This past weekend, a New York Times article highlighted Pittsburgh as a growing tech center. Demand from leading tech companies, such as Google, Uber, Facebook, Amazon and Apple, will help drive office absorption across the market. There is also healthy demand from legal, financial and professional services firms as well as corporate users. The combination of a palpable urban vibe, affordable cost of living and steady stream of graduates from local universities has Pittsburgh on the map for employers seeking well-educated talent.

Turning to our stats for the quarter, total portfolio occupancy held steady from Q1 at 92.7%, and office-only occupancy increased 50 basis points to 92.9%. As Ed noted, rents continue to move-up and this was the 5th consecutive quarter with both positive cash rent spreads and double digit positive GAAP rent growth. Further, our in-place cash rents per square foot are up 2.6% from the prior year, even with

Bridgestone's 500,000 square feet where we're not receiving cash rent as this lease is still under early possession GAAP rent recognition.

We leased 575,000 square feet of second gen office space with an average term of 6.1 years this quarter, and year-over-year asking rents continue to move higher. TIs are generally moving up with escalating construction costs, but we've been mostly successful in recouping these costs with higher rents. Over the last 4 years, average net effective rents on second gen office leases signed have increased approximately 25%.

Turning to our operational performance in the quarter, we grew same property cash NOI by 5.3% over the prior year. We attribute this to higher average occupancy and in-place rents, plus lower operating expenses. We expect NOI growth will moderate in the second half of 2017 due to the timing and seasonality of operating expenses and previously disclosed move-outs. Overall, we're pleased we were able to increase our same property NOI growth outlook again this quarter. Our updated outlook is 3.0 to 3.75% growth, which we view as positive considering average occupancy in the same property pool is projected to be modestly lower year-over-year. We ended the quarter with 92.7% occupancy and our year-end outlook remains unchanged at 92.2-93.2%.

I'll first start with a brief update on our work to backfill some of the larger 2017 move-outs we have previously disclosed. In Nashville, at the end of Q1, we had re-let 37% of the former 210,000 square foot HCA space. We're now at 44% and have strong prospects that would take us above our year-end goal of 50% re-let.

In Richmond, we mentioned last quarter that we already released 39% of the 163,000 square feet that SCI is scheduled to vacate in the third quarter. We moved the re-let percentage up to 64% at the end of the second quarter, and we have prospects for approximately half of the remaining space. We feel good about the level of interest we're seeing.

In Atlanta, as previously disclosed, we'll get back 136,000 square feet in two blocks in the third quarter. These move-outs are heavily driven by customer M&A activity. The positives are the blended in-place rents are approximately 10% below market and there aren't a lot of large blocks of Class A space available in Buckhead.

Sticking with Atlanta, we continue to generate strong rents as evidenced by GAAP rent spreads of +30.5% on signed deals in Q2. The positive backdrop of fundamentals and the quality of the blocks of space we will soon have available combine to make us confident we'll drive NOI upward as occupancy normalizes.

We've seen the most year-over-year improvement in our Tampa portfolio, where occupancy is up 420 basis points. Our occupancy is 93.1% and activity remains healthy. We signed 96,000 square feet of second gen leases in the quarter with GAAP rent growth of 19%. According to JLL, asking rents in Tampa are up 3.8% over the last 12 months. At SunTrust Financial Centre, we're now 89.7% occupied, up from 77% when we acquired it less than two years ago. With no new speculative office construction and healthy demand from a diverse group of users, we expect solid fundamentals to continue.

In Raleigh, the market continues to show steady growth. Per Avison Young, Class A rents are up 5% year-over-year and vacancy is down 140 basis points to 9.0%. Our portfolio is 93.3% occupied, up from 91.9% a year ago. We've been watchful of new supply, which is now 2.1 million square feet, 4.5% of the market. At 38% pre-leased, and spread across numerous sub-markets in Raleigh and Durham, we believe the level of supply is meeting market demand. Less than 1.0 million square feet of this new supply is competitive to our BBD-located office portfolio.

Finally, in Nashville, leasing activity and rents remain strong. Per Cushman and Wakefield, market vacancy is 6.9%, and 6.0% for class A properties. Class A asking rents are up 10% year-over-year. New supply is 2.5 million square feet, 6.7% of inventory, which is approximately 60% pre-leased. New supply levels are down from the peak in 2016 and net absorption was robust in Q2 at 667,000 square feet. The market's steady demand suggests the remainder of this new product will be appropriately absorbed. Our portfolio occupancy is 95.7%, up 150 bps from Q1, and we posted solid GAAP rent spreads of +15.0% in Q2.

In conclusion, the positive fundamentals across our markets offer a healthy backdrop for our business. Solid demand for our well-located BBD office product should support strong organic NOI growth going forward.

Mark Mulhern
Executive Vice President, Chief Financial Officer
During the quarter, we delivered net income of $37.6 million, or 37 cents per share, a 16% increase year over year, and FFO of $94.5 million, or 90 cents per share, a 10% increase year over year.

Rolling forward from the $0.80 per share of FFO we reported in Q1, the increase in Q2 was driven by the following items:

- NOI from our customer's early possession of Bridgestone Americas HQ of 4 cents per share;
- Debt extinguishment gains of a penny per share;
- The normalization in G&A that equated to 2 cents per share (as you know, 1st quarter G&A is customarily higher due to the routine expensing of equity incentive costs under our long-standing retirement plan);
- Sequential improvement in same property NOI of 2 cents per share – much of this improvement is driven by seasonality we usually see in Q2. As Ed noted, there were also other lower-than-anticipated operating expenses in the quarter; and finally
- Lower interest expense of a penny per share.

These items make up the 10 cent increase in FFO.

Turning to our balance sheet and financing activities, we ended the quarter with leverage of 35.3% and debt-to-EBITDA of 4.56 turns. Importantly, while we are committed to grow on a leverage- neutral basis over the long-term, we are able to fund the remaining $271 million of spending on our development pipeline without the issuance of new equity and still maintain a debt-to-EBITDA around the mid-point of our stated comfort range of 4.5 to 5.5 times.

We had several important financing transactions this quarter. The first is a new, $100 million secured loan with a twelve-year term that carries a 4.0% interest rate. The proceeds were used to pay off a $108 million maturing secured loan with an effective interest rate of 4.2%. This refinancing extends out our maturity ladder at a competitive fixed rate while further driving our unencumbered NOI to a record level for us at 96%.

Second, we entered into floating-to-fixed interest rate swaps through January 2022 with respect to an aggregate of $50 million of LIBOR based borrowings, which effectively fixes the one month LIBOR at a weighted average rate of 1.69%.

Third, as I mentioned on our last call, we obtained $150 million of forward-starting swaps that effectively lock the underlying 10-year treasury at 2.44% with respect to a forecasted debt issuance before May 15th of next year.

As Ed mentioned, we updated our FFO outlook to $3.33 to $3.38 per share, a penny increase from the previous midpoint of $3.345 per share. As noted in our earnings release, this increase incorporated anticipated dilution from planned dispositions we forecast will close in the remainder of 2017. Most of this dilution will affect our 4th quarter results. When factoring in this two cents of estimated dilution, our apples-to-apples FFO outlook is up three cents per share at the midpoint. While these dispositions are dilutive to FFO, we don't expect they will alter our trajectory of strengthening cash flows in 2017 and beyond.

It's worth considering a few modeling items for the second half of 2017 and going forward:

- Our same property cash NOI growth is expected to moderate in Q3 and Q4 due to the timing and seasonality of operating expenses, and the back half of the year impact of the known vacancies we have discussed;
- Other income is projected to drop due to the non-recurring debt extinguishment gains realized in Q2 that are not forecasted to repeat in the second half;
- Higher interest expense due to lower capitalized interest; and
- Higher share count.