Highwoods PROPERTIES

# Management's Prepared Remarks
# Second Quarter 2019 Conference Call
# July 24, 2019

**Brendan Maiorana**
**Executive 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*re*. 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.

**Ed Fritsch**
**Chief Executive Officer**

As we've stated on many prior earnings calls throughout this cycle, fundamentals in our business remain healthy. Demand is stable from existing and prospective customers while supply remains in-check across our markets. This backdrop, combined with healthy market occupancy levels across our footprint, supports continued rent growth. Long-term interest rates are back to hugging 2% and capital continues to be readily available for credit-worthy borrowers. Based on what we're experiencing 'on the ground' and evidenced in the metrics we reported last night, these "goldilocks" conditions are expected to continue, which we believe will support continued growth in NOI, additional high quality development projects, and increasing FFO and cash flow.

Our 2Q financial results support the basis for this favorable outlook. We delivered FFO of $0.87 per share and leased 1.1 million square feet, including 329,000 square feet of new leases and 108,000 square feet of expansions. This healthy leasing volume was accompanied by strong economics, including GAAP rent spreads of +16.8%, cash rent spreads of +2.5%, and net effective rents of $16.69 per square foot, 6% above our prior five quarter average. This volume of work supports our increased occupancy outlook for year-end. It also helped reduce our 2020 expirations, especially the 210,000 square foot renewal with Vanderbilt University Medical Center, our largest 2020 expiration. Given our second quarter performance and healthy outlook for the remainder of the year, we have revised our 2019 FFO outlook to $3.32 to $3.38 per share, representing a $0.01 increase at the mid-point.

Occupancy declined 30 basis points sequentially to 90.9%. Most of the drop was attributable to temporary downtime on leased space where occupancy has yet to commence. As I mentioned, we expect occupancy to improve by year-end. We increased our year-end outlook by 25 basis points at the mid-point. The low-end of 91.5% is 60 basis points higher than where we ended the second quarter, with the mid-point 100 basis points above our June 30th occupancy level.

At this time, our year-end occupancy outlook assumes no backfill of the space vacated by Laser Spine at 5332 Avion, our 176,000 square foot property in Tampa's Westshore submarket. We continue to run parallel paths for the reletting of this building. The first path we are pursuing is full building (or near full building) medical users. We continue to have dialogue with prospects who would use the medical FF&E already in the building. This path would require the least amount of out of pocket costs for us and the

shortest amount of downtime, though the number of prospects who need this much medical space is limited. Our second path is to convert the property to a traditional, multi-customer office building. Here too, we have active interest from several prospects. We've priced out conversion of the common areas and have detailed projections for lease-up costs. We don't want to provide specifics on our cost projections at this time given ongoing negotiations with prospects. Our plan is to fully vet the medical prospects to retain as much optionality as possible before pursuing a conversion to a single or multi-customer office building.

Our development program continues to deliver strong results. In the quarter, we placed two properties in-service that were 98.4% leased, had a total investment of $203 million and comprise 524,000 square feet. Riverwood 200, a $107 million, 300,000 square foot multi-customer development in Atlanta, which was 39% pre-leased when announced, is now 97% leased with top of market rents. In addition, we delivered the $96 million, 224,000 square foot, 100% occupied U.S. headquarters for Mars Petcare in Nashville on schedule and on budget.

In May, we announced Midtown One in Tampa in an 80/20 JV with the Bromley Companies. This $71 million, 150,000 square foot, 100% spec development is within the now underway 22-acre Midtown Tampa mixed-use project in the Westshore BBD. Bromley is the master developer for Midtown Tampa. The 390-unit multi-family portion will be developed by Crescent Communities; the 225-key, dual branded Element and Aloft hotel is being developed by Concord Hospitality; and the 220,000 square foot retail and restaurant portion is being developed by Casto, which is approximately 50% pre-leased and will be anchored by Whole Foods. All developers for Midtown Tampa are funded and committed on their portions of the project. Midtown One, the multi-family, hotel and substantially all the retail will be complete in 2021. We also have rights to partner with Bromley to build an additional 600,000 square feet in two future office buildings at this destined to be vibrant mixed-use environment. Needless to say, we're excited about being involved in this project…Tampa's first sizeable, true mixed-use development.

In Raleigh, we leased 5000 CentreGreen to 100% one quarter ahead of our projected stabilization date after starting this project 100% spec.

Given all I just said about our development program, the only two projects in our current development pipeline with spec space are Glenlake 7 in Raleigh and Midtown One in Tampa, neither of which has gone vertical yet. In addition, both have well over 2 years before reaching pro forma stabilization dates and we are pleased with the early level of interest in both projects.

Our development pipeline is now $503 million and 80% pre-leased. As a reminder, our 2019 development announcement outlook is now $112 to $375 million with GlenLake 7 and Midtown One making up the $112 million announced so far. We continue to have conversations with pre-lease prospects across several markets. This sustained level of interest leads us to believe the depth of demand should remain attractive which, when combined with our strong land position, balance sheet and track record, positions us to capture some wins.

Turning to non-core dispositions, early in the second quarter we sold MetroCenter in suburban Orlando, a two-building, 183,000 square foot property for $32.5 million. Subsequent to quarter-end, we sold Dogwood in Raleigh, a 42,000 square foot property for $4.7 million. We anticipate closing a number of sales during the second half of the year, and therefore our 2019 outlook for non-core building dispositions remains $100 to $150 million. Subsequent to quarter-end, we also sold 53 acres of industrial land in Atlanta for $7.3 million, and acquired a 0.7-acre office development site in CBD Raleigh for $6.6 million.

We've kept our property acquisition outlook unchanged at $0 to $200 million. While very few high-quality properties in prime BBD locations have been available for sale, we continue to be tenacious in

our search and evaluation of attractive on and off-market opportunities while maintaining a commitment to prudent investing and portfolio enhancement.

Moving to the balance sheet, we reported a debt-to-EBITDA ratio of 4.74 times, below the mid-point of our stated comfort range of 4.5 to 5.5 times, even while continuing to fund our development pipeline without issuing any shares on our ATM during the past two years.

Overall, our portfolio is performing well with rents continuing to rise and occupancy is projected to increase by the end of the year. Our recently delivered and highly pre-leased development pipeline will help drive increased FFO and cash flow, and we have a land bank that can support approximately $2 billion of future development. We continue to have a disciplined focus on capital recycling and portfolio improvement which, combined with carefully managing op-ex, will result in improved operating metrics. Atop this, we have a strong balance sheet with multiple avenues to fund our continued growth.

Before I turn the call over to Ted, as you know, on July 1st we announced a series of management succession moves that I initiated. After 37 years with Highwoods, basically the entirety of my adult life, I will retire as CEO and member of the Board effective September 1st.

Ted will assume the role of CEO and director at that time. Ted and I have worked closely together since we recruited him as Chief Investment Officer in 2012. Him potentially succeeding into my role was an aspect of our conversations back in 2012. His in-depth transaction experience, real estate intellect, leadership skills and industry contacts make for this to be a very smooth passing of the baton.

Brendan, who we recruited in 2016, has been promoted to EVP of Finance and Investor Relations. Brendan has been a terrific add to our team and he and Mark will continue to work together to communicate with our investors, preserve our fortress balance sheet and maintain ample liquidity to fund our growth on a leverage neutral basis.

We recruited Brian Leary to be our next COO. Brian joined us last week from Crescent Communities where he served as president of its commercial and mixed-use business unit. He will work closely with our divisions, which are led by a group of long-tenured, highly-experienced real estate professionals having, on average, 30 years of commercial real estate experience. With his background in architecture and development, Brian is also well-suited to work closely with the Company's proven development team, led by Randy Roberson our Senior VP of Development.

In addition to these moves, Highwoods is extremely fortunate to have a broad and capable team comprised of really good people. I am fully confident the right platform is in place for Highwoods continued success. I will dearly miss all those I have gotten to work with here at Highwoods, and across the industry … from Wall Street to NAREIT, from our customers to professional advisors, from our vendors to all of you on this call. Thank you for listening, prodding, challenging, supporting and sharing your candor and expertise. The timing is right for these moves, Highwoods is comprised of a wonderful collection of people and I believe the Company's best days have yet to come.

**Ted Klinck**
**President**

We had a strong operating performance during the quarter. Same property NOI growth was up 3.1% even with average occupancy down 100 basis points year-over-year. Our robust leasing volume and strong rent economics support future growth in occupancy and NOI. Second gen office leasing volume was 1.1 million square feet, including 329,000 square feet of new leases and 108,000 square feet of expansions. Atop the significant volume, rent economics were also stout. GAAP rent spreads were +16.8% and cash rent spreads were +2.5%, while net effective rents of $16.69 per square foot were 6% higher than our prior five quarter average. While virtually all of our leases have compounding annual

escalators, we've consistently posted positive cash rent spreads. In fact, 12 of the past 13 quarters we've reported positive cash rent spreads and over the same period increased net effective rents by 15% and in-place cash rents by 13%.

As expected, portfolio occupancy dipped 30 basis points to 90.9% at the end of the quarter before our projected improvement later in the year. Our year-end occupancy outlook has increased to 91.5% to 92.3%, with the mid-point of 91.9%, 100 basis points higher than where we ended the second quarter, and this assumes no year-end occupancy at 5332 Avion. Specifically, we expect occupancy to increase by approximately 300,000 square feet by the end of the year, and we have about 200,000 square feet of new leases signed on vacant space, but where occupancy hasn't commenced. To be clear, we have forecasted renewals yet to be signed along with known move-outs, so there is additional speculative leasing to be completed, but we're confident about our year-end outlook.

In addition to good activity on some of the vacant spaces in the portfolio, we're optimistic about the near-term expiration outlook. We made meaningful progress over the past several quarters reducing future near-term rollover risk, which leaves us with only 4% of revenues expiring for the remainder of 2019, and we made progress reducing our 2020 expirations.

In our typical review of expirations larger than 100,000 square feet, we have only one remaining in 2019 and two in 2020. The FAA is in a 100,000 square foot build to suit adjacent to the Atlanta airport that is scheduled to expire later this year. We remain confident in a renewal. For 2020, we renewed 210,000 square feet with Vanderbilt University Medical Center in Nashville in the quarter, which leaves us with only 138,000 square feet with the FBI and 116,000 square feet with T-Mobile, both in Tampa. We remain confident in a renewal with the FBI, while T-Mobile is an expected move-out.

Now to our markets.

Atlanta posted positive year-to-date net absorption of 930,000 square feet, as reported by JLL, with overall asking rents of $30 per square foot and Class A at $32 per square foot. We're tracking 3.6 million square feet of multi-customer office development underway, which is 27% pre-leased. This represents 3% of total stock. Midtown has the most activity with around 2 million square feet under construction, while Buckhead has one 340,000 square foot project under construction. We signed 171,000 square feet of second generation leases during the quarter with positive GAAP rent spreads of +17%. Occupancy was 88.4% at the end of the quarter, and as I mentioned earlier, we expect this to improve by the end of the year as occupancy commences on signed leases. As Ed mentioned, we placed Riverwood 200, our 300,000 square foot, $107 million, multi-customer development, into service at 94% occupied, and we have leases in place that will bring occupancy over 97% by early 2020. Based on our success at Riverwood 200, we're now marketing Riverwood 300, where can build a 175,000 square foot office building.

Turning to Raleigh, according to Avison Young first gen asking rates hit $40 per square foot during the quarter, a 7% year-over-year increase. Class A market occupancy ended the quarter at 90%. Currently, there is approximately 1.2 million square feet under construction spread over 6 submarkets that is 26% pre-leased, representing 2% of total stock. We signed 200,000 square feet of second generation leases during the second quarter with healthy GAAP rent spreads of 22%. Our largest opportunity to increase occupancy is the 178,000 square foot 11000 Weston building. We signed a lease for 46,000 square feet earlier this month, which will show up in our 3Q leasing stats, and we have a strong prospect for additional space in the building. Our Raleigh portfolio occupancy was 86.1% at the end of the second quarter, which was driven lower by temporary downtime between customers moving out and in to their space. Similar to Atlanta, we expect occupancy to improve by year-end as occupancy commences on signed leases.

Nashville finished the second quarter with year-to-date net absorption of over 250,000 square feet, as reported by Avison Young. Asking rates grew 2.7% year over year while overall vacancy remained flat. Class A vacancy decreased to 7.6%. We're tracking 2.5 million square feet under construction which is 25% pre-leased and represents 6% of total stock. During the quarter, we signed 352,000 square feet of second generation leases with GAAP rent spreads of 16.8%. As mentioned earlier, this included the 210,000 square foot renewal with Vanderbilt University Medical Center – our largest 2020 expiration. We also placed in service, with cash rent commencing, the 224,000 square foot, $96 million U.S. headquarters for Mars Petcare.

Lastly, in Tampa, Class A rental rates increased 8.7% in the CBD and 11.3% in Westshore. 92% of our Tampa portfolio is located in these two BBDs. We're tracking 930,000 square feet of new construction in Westshore and the CBD, which is 41% pre-leased and represents about 3% of total stock. We signed 128,000 square feet of second generation leases at GAAP rent spreads of 18%. We continue to focus on the T-Mobile space at Preserve V in North Tampa and Midtown One and 5332 Avion in Westshore. There are a number of differences among these three opportunities – geography, price point and timing.

In conclusion, we had an excellent quarter of leasing with robust volume, healthy rent spreads and strong net effective rents. We're making good progress with future expirations and backfilling the few sizable vacancies in the second generation portfolio. Our $503 million, 80% pre-leased, 1.2 million square foot development pipeline has only two projects with any availability and, in both cases, we are more than two years out before pro forma stabilization. The leasing environment remains healthy and is indicative of continued demand for quality, well-located 1st and 2nd gen office product.

Before I hand it over to Mark, I'd like to make a quick comment about Ed's retirement after 37 years at Highwoods. On behalf of our board of directors, management team and 445 co-workers, I say thank you Ed for everything you have done for Highwoods. Thank you for your leadership, dedication, professionalism and passion for everything Highwoods. Your presence will be missed but you won't be forgotten.

**Mark Mulhern**
**Executive Vice President, Chief Financial Officer**

We delivered net income of $39.4 million, or 38 cents per share, and FFO of $93.1 million, or 87 cents per share. FFO per share was flat year-over-year, although last year's second quarter included the $1.9 million final installment of the Fidelity restoration fee and full NOI contribution from Laser Spine. Fortunately, our growth has offset these two items, which illustrates the healthy fundamentals of our business.

Other than a half a penny of impairment charges on a non-core land parcel in Memphis, the quarter was "clean" from a reported FFO perspective. There was a gain on disposition from the sale of MetroCenter, which was not included in FFO, and there were no meaningful term fees. Compared to the first quarter, and adjusting for the credit losses and write-offs associated with Laser Spine's sudden closure, the sequential drivers of the improvement in FFO were:

- Higher NOI by a little less than $5 million. This was driven by higher average rents, improved operating margins, and contribution from development deliveries – primarily MetLife III and Mars Petcare.
- Lower G&A by a little less than $3 million. As you know from prior years, this is the normal annual pattern for us as we typically have higher expense in 1Q from long-term equity grants each year. We expect G&A to be roughly steady from Q2 levels over the remainder of the year.

These items were partially offset by higher net interest expense attributable to reduced capitalized interest following the delivery and stabilization of development projects and slightly higher miscellaneous other expenses.

We adjusted our 2019 FFO outlook to $3.32 to $3.38 per share, implying a 1 cent increase in the mid-point to $3.35 per share. The normal seasonal pattern for operating expenses traditionally results in the third quarter being the lowest operating margin quarter of the year. In addition, there were some operating expenses we originally forecasted for the second quarter that will actually occur in the third quarter. Occupancy at September 30 will likely be similar to June 30, with improvement by the end of the year as Ed and Ted mentioned. We kept our outlook unchanged for acquisitions and dispositions, and as you know, we don't include the impact of any future acquisitions or dispositions in our FFO outlook.

We kept our same property cash NOI growth outlook for the full year at +0.5% to +1.5%. As a reminder, this outlook includes the negative impact associated with Laser Spine's closure. Excluding 5332 Avion, same property cash NOI would be 150 basis points higher. We increased the straight line rental income outlook by a little over $1 million. This largely coincides with our improved year-end occupancy outlook as more occupancy is expected to commence before year-end where its meaningful cash flow contribution isn't expected until 2020.

With net debt-to-EBITDAre of 4.74 turns and leverage of 35.9%, our balance sheet remains in excellent shape. The contribution of MetLife III and Mars Petcare during the quarter helped drive our net debt to EBITDAre ratio lower in the quarter. Our strong leverage metrics put us towards the lower end of our stated comfort range of 4.5 to 5.5x net debt-to-EBITDAre. With the addition of Midtown One in Tampa, we have $310 million left to fund on our $503 million development pipeline.

We have ample flexibility to fund our development pipeline and additional growth opportunities and stay well within our stated comfort range. Further, we have no debt maturities until the middle of 2021, and therefore can be opportunistic raising additional capital to increase liquidity and further improve our maturity ladder. We expect to continue to fund our business on a leverage neutral basis. However, even if we were to fund the remainder of the development pipeline without any ATM issuance or non-core dispositions, we estimate upon stabilization of the development our net-debt to EBITDAre would rise less than half a turn from current levels. As a reminder, we've been able to keep our leverage metrics in the lower half of our stated comfort range while continuing to fund our development pipeline and issuing no shares on the ATM during the past eight quarters.

Before we take your questions one other item to note. As we have signaled for the past few years, our free cash flow continues to strengthen with the delivery of our well pre-leased development pipeline and consistent performance of our same store portfolio. 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.