

**Management's Prepared Remarks  
Fourth Quarter 2023 Conference Call  
February 7, 2024**

**Hannah True**

**Manager, Finance and Corporate Strategy**

If you have not received yesterday's earnings release or supplemental, they are both available on the Investors section of our website at [highwoods.com](https://www.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.

Forward-looking statements made during today's call are subject to risks and uncertainties. These risks and uncertainties 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.

**Ted Klinck**

**President, Chief Executive Officer**

Before I talk about our solid financial and operating results for 2023, let me start by first outlining our strategic priorities for the next several years:

First, we will continue to improve the quality of our portfolio. We are laser-focused on owning a portfolio that is resilient throughout all business cycles and is well-positioned to attract, retain and return our customers' most valuable resource, their employees, to their workplaces. We do this by developing best in-class properties, acquiring high-quality assets with attractive risk-adjusted returns, redeveloping and repositioning well-located properties where substantial upside exists, and selling buildings that no longer meet our criteria.

Second, we are focused on solidifying our rent roll and driving future occupancy. This means proactively renewing customers as early and prudently as possible and backfilling pockets of vacancy within the portfolio. We continue to be bullish on the long-term demographics of the SunBelt. Simply put, we are in the best markets and Best Business Districts (BBDs) to create long-term value for our shareholders.

Third, we are laying the groundwork for future investment opportunities. We believe this cycle will present us with opportunities to create shareholder value by acquiring high-quality assets in the BBDs of high-growth markets. We will be patient and we will be ready.

And fourth, we will continue to maintain a best-in-class balance sheet. As demonstrated over the past 90 days, having ample liquidity and access to multiple sources of capital throughout the cycle is an important differentiator for us.

We made meaningful progress on all of these strategic priorities during 2023.

We sold over \$100 million of non-core properties, including land, and made solid progress on our development pipeline with the completions of 2827 Peachtree, Granite Park 6 and GlenLake III. We expect these developments will provide meaningful growth in future years as they stabilize. Further, we completed significant Highwoodtizing projects on existing buildings in Nashville and Raleigh where we're already generating higher rental rates and increased leasing activity.



We also made progress solidifying our future rent roll. We remain focused on our larger near-term expirations – Brian will provide more detail shortly – and we're pleased with the traction we've had in Atlanta, Nashville and Tampa. Given the known move-outs that we've disclosed for some time, occupancy is likely to dip in late 2024 and early 2025, but we're encouraged by the activity we've seen throughout the portfolio, which has already translated into significant lease signings since the start of 2024.

It's early, and while we don't expect a lot of transaction activity in the near term, we are setting the stage for future investments through exploratory discussions with owners and lenders of attractive properties in our markets. This is similar to the playbook we deployed in the years following the GFC.

We further strengthened our balance sheet by raising nearly \$600 million of debt capital during 2023. Plus, just a few weeks ago, we extended the term of our \$750 million credit facility into 2029 with no change to the size or the borrowing spread. We now have over \$900 million of current liquidity and no consolidated debt maturities until May 2026.

We are confident in the long-term outlook for our markets and BBDs based on the limited new supply expected to be added over the next few years. The current supply pipeline in our markets is half of what it was just a few years ago, with most of these developments projected to deliver over the next four quarters. By this time next year, minimal new product is expected to be under construction. This tightening supply picture further adds to our confidence as we focus on leasing up high-quality blocks that are or will become available in our buildings. Our well-located and high-quality portfolio, reputation as a best-in-class operator and strong financial sponsorship positions us to continue to gain market share.

Turning to our results, we delivered FFO of \$0.99 per share in the fourth quarter, with the full year 2023 at \$3.83 per share. Both the quarter and full year results included unusual items that net out to 8 cents of higher FFO. Excluding these items, our core 2023 FFO was \$3.75 per share, a penny above the midpoint of our initial outlook. We are pleased with these financial results given asset sales and the unanticipated rise in interest rates during the year, neither of which were factored into our initial outlook.

We expect to be a net seller again in 2024 with \$75 to \$200 million of non-core dispositions. Similar to 2023, the volume and timing of dispositions will depend upon how conditions in the investment sales market play out. We do have about \$75 million of properties under contract and expect those sales to close in the first half of the year. While we're actively building the foundation for future investment opportunities, we don't have any acquisitions included in our 2024 outlook.

Our initial 2024 FFO outlook is \$3.46 to \$3.64 per share and same property cash NOI growth is projected to be positive 1.0% at the midpoint. In addition, we have backfilled a significant amount of the larger known move-outs that impacted 2023 NOI and occupancy and while these backfills won't meaningfully contribute to 2024, they will drive NOI in future years. We're also seeing good activity on backfilling some of the larger known move-outs later in 2024 and early 2025.

While there obviously continues to be headwinds for the office sector, we're optimistic about the future. First, we have significant organic growth potential within our current operating portfolio with high quality pockets of vacancy where we're seeing solid interest from prospects. Second, our \$518 million development pipeline will provide meaningful upside as it delivers and stabilizes in the next few years. Third, our balance sheet is in excellent shape with ample liquidity and no need to raise capital for the next couple years. And finally, our cash flows remain strong, even as we absorb headwinds from higher interest rates and invest Highwoodtizing capital to generate higher returns on our existing portfolio.



To wrap up, we're not only optimistic because of our markets and our portfolio, but also because of our engaged, hardworking and talented teammates who drive our success day after day. I would like to thank the entire Highwoods team for their commitment and tireless dedication. It is their effort that has positioned us for success for many years to come.

### **Brian Leary**

#### **Executive Vice President, Chief Operating Officer**

I'd like to briefly hit our fourth quarter performance, macro trends and then drill down on our markets where we're off to a strong start for 2024 and where we're making progress toward backfilling our upcoming vacancies.

In Q4 of 2023, our leasing team signed 698,000 square feet, with an average lease term of 6.6 years. Atlanta, Nashville and Raleigh led the way with two-thirds of the quarter's volume. Charlotte and Orlando had the highest occupancies at 95.6% and 93.5%, respectively. In addition, we signed a 105,000 square foot first generation lease at 23 Springs, our joint venture development in Uptown Dallas. While many of our leasing metrics reflect the downward pressure of the current market, we're encouraged by our portfolio's occupancy outperformance in comparison to our BBDs by over 640 basis points and with the fourth quarter's average rent bumps at 2.7%, we believe we have meaningful rent growth embedded in the quarter's results. The quality of our portfolio, our sponsorship and the commute-worthy lifestyle office experience we provide our customers gives us a clear edge in today's leasing environment. We're off to a strong start to 2024 having already signed over 500,000 square feet of second generation leases, including 150,000 square feet of new leases and 52,000 square feet of expansions since January 1st.

We continue to see return-to-work programs and mandates raise the tide on physical occupancy with the recognition that Fridays will be the lightest days in the office, just as they were before the pandemic. This also goes with the fact that our customers are telling us one-on-one and via their leasing activity that they value the physical workplace, where their best and brightest can collaborate and solve problems, where talent can be onboarded and mentored and where a company's culture can thrive. This flight to quality is a flight of quality – quality companies with quality jobs not easily exported to the couch today or to artificial intelligence tomorrow.

From a market perspective, let's start in Atlanta where we had the most leasing activity in the fourth quarter with 172,000 square feet signed. While the overall market saw another quarter of negative absorption, Cushman & Wakefield noted Buckhead broke from this trend with 240,000 square feet of positive absorption. With no new development underway and our four-building, 2,000,000 square foot "Buckhead Collection" of lifestyle office buildings being the beneficiaries of our upcoming Highwoodtizing project there, the team has backfilled 50,000 square feet and has more than 350,000 square feet of active prospects for the remainder of Novelis' Q3 2024 expiration. Staying in Atlanta, the Georgia Department of Revenue, as expected, will downsize and we are successfully relocating them within the portfolio in 110,000 square feet at the beginning of 2025.

To Music City where we own 5.1 million square feet in Nashville's four BBDs, our team signed 148,000 square feet in the quarter. Over the same period, Cushman noted that Nashville posted 170,000 square feet of positive absorption, one of five markets in the nation to post greater than 150,000 square feet of absorption for the quarter. Last year, we Highwoodtized roughly one million square feet in our Brentwood & Franklin BBDs, where we signed more than half of Nashville's deals for the quarter and where these commute-worthy workplaces are attracting customers. This supports our thesis that all things being equal, an exceptional experience trumps a trophy tower and that a lifestyle office building is more about the lifestyle than the building.



You may recall we shared an update last quarter on the five-story 264,000 square foot Cool Springs V building, formerly occupied by Tivity, and the substantial backfill of that space. We have modified the lease signed in the third quarter of 2022 from 223,000 square feet to 110,000 square feet. Under the modified terms of the lease, 55,000 square feet will commence in the fourth quarter of 2024 and the remaining 55,000 square feet in the fourth quarter of 2025. Free rent periods have been eliminated, Highwoods' tenant improvement commitment has been reduced and the per square foot rental rate has been increased. With the aforementioned Highwoodtizing of these assets, we have significant interest in the property and our other adjacent Cool Springs assets.

In downtown Nashville, we will begin the Highwoodtizing of our 520,000 square foot Pinnacle tower later this year in anticipation of Bass, Berry & Sims' known move out in January of 2025. In the heart of Nashville, this well-located asset is next door to the newly opened Four Seasons Hotel & Residences and is directly connected to the only pedestrian bridge spanning the Cumberland River, joining the new \$2 billion enclosed NFL stadium starting construction later this year. We already have several multi-floor prospects a year in advance of Bass Berry's expiration.

A quick update on our non-core Pittsburgh assets where we expect a 317,000 square foot customer at EQT Plaza to downsize in the fourth quarter of 2024. We've backfilled a full floor and have prospects for additional space.

I'd like to finish in the Sunshine State where Cushman noted Tampa ended 2023 number three in the nation for leasing as a percentage of inventory. Our Tampa team has been busy at Tampa Bay Park, our approximately one million square foot collection of assets in Westshore, by addressing prior move-outs, 120,000 square feet in aggregate across the park with 95,000 square feet of backfill leasing that has yet to commence.

In conclusion, while we expect 2024 to bring many of the same challenges we've faced over the past several years, we are encouraged by the level of activity we are seeing throughout our BBDs. Competitive development pipelines are at record lows, and we believe our resilient portfolio, ongoing Highwoodtizing efforts, strong balance sheet and sizeable land bank will enable us to capitalize on opportunities in our markets as they arise.

### **Brendan Maiorana**

#### **Executive Vice President, Chief Financial Officer**

In the fourth quarter, we delivered net income of \$38.0 million, or \$0.36 per share, and FFO of \$106.7 million, or \$0.99 per share. As Ted mentioned, there were unusual items in the quarter that netted to \$0.08 per share. None of these items were included in our updated FFO outlook provided in October. Excluding these items, FFO per share was \$0.91 in the fourth quarter and \$3.75 for the year, a penny above our initial 2023 FFO outlook provided last February. We are pleased with these full year results as \$0.04 of upside, mostly from higher NOI, overcame the \$0.03 we lost from the combination of higher interest rates, asset sales and the earlier than expected repayment of our preferred investment in M&O.

Just a few details on the unusual items. The pre-development costs written-off in the fourth quarter were \$3.6 million; \$2.6 million of this shows up in G&A, while \$1.0 million shows up in the form of reduced income from unconsolidated affiliates as it was attributable to a joint venture. The remaining unusual items – land sale gains, debt extinguishment costs and the write-off of straight-line rents due to moving a customer to cash basis accounting – are reflected as you would expect on the income statement.

During 2023, we further strengthened our balance sheet by pushing out our maturity ladder, which puts us in excellent shape for the next several years. During the fourth quarter, we raised \$350 million of 10-year bonds with strong support from a broad group of fixed income investors. We also obtained a \$45



million, five-year secured loan at Midtown West, a consolidated joint venture property in Tampa where we own an 80% interest. We also obtained a \$200 million secured loan in March. In total, we raised almost \$600 million of debt capital during the year. After year-end, we recast our \$750 million credit facility with no change to our borrowing capacity or credit spread. In the past twelve months, we've accessed the bond market, the mortgage market and the bank market for over \$1.3 billion of total capital. We now have no consolidated debt maturities until May 2026 and over \$900 million of available liquidity, having less than \$250 million of capital left to complete our development pipeline. Our strong balance sheet with ample liquidity, combined with our high-quality portfolio in the BBDs of high-growth SunBelt markets, is a large reason why Moody's affirmed our Baa2 credit rating with a stable outlook just last week.

I'd like to spend some time highlighting our cash flow trajectory. In 2023, we once again had healthy cash flows, demonstrating the resiliency of our portfolio and platform. Digging a little deeper, an even clearer picture emerges. First, as you know from prior calls, we had two sizable properties in 2023 that were vacant nearly the entire year, Cool Springs V and 2500 Century Center. These have now been substantially re-leased with additional solid interest in the balance of the space, but they generated negative NOI during 2023. Because our practice has long been not to take in-service properties available for lease out of our operating or same store portfolio regardless of occupancy, these two empty buildings negatively impacted FFO and cash flow. Second, we had above average TI spend during 2023 as we funded committed capital on the high volume of new leases signed in 2022. Third, we invested heavily in renovation and repositioning capital to Highwoodtize existing properties during the year. Even with these three factors, we still generated healthy cash flows that provided positive dividend coverage. We believe the resiliency of our cash flows should give our shareholders confidence in our long-term outlook.

As Ted mentioned, our FFO outlook for 2024 is \$3.46 to \$3.64 per share. You'll also note that we are now providing our full year outlook for average occupancy rather than a single-date, year-end projection as we have done in prior years. We think average occupancy should provide better insight into our overall outlook for the year. Same property cash NOI growth is projected to be flat to up 2%. This includes the full headwinds of the Cool Springs, Century Center and Tampa Bay Park vacancies we've detailed, as the backfill customers do not begin to take occupancy until later this year or early 2025, as well as the known pending vacancies at Two Alliance Center in Atlanta and EQT Plaza in Pittsburgh in the second half of the year.

While 2024 per share FFO is projected to be down compared to the core results in 2023, the decline is primarily attributable to higher financing costs associated with our capital raising activities in the fourth quarter of 2023 and the modification of the lease and accounting treatment related to our backfill customer at Cool Springs V in Nashville. These items have a combined dilutive impact of approximately \$0.15 per share, split roughly evenly between the two. We expect Cool Springs V will generate negative NOI in 2024, however, based on the modified lease we've discussed and the solid interest we're seeing from prospects, we believe Cool Springs V will be a significant driver of growth in future years. This is also the case in Tampa and Atlanta based on signed, but not yet commenced leases. In addition, we have meaningful future growth potential from our development pipeline. We delivered three properties in late 2023: 2827 Peachtree; Granite Park Six; and GlenLake III. On a combined basis, these properties are projected to be roughly neutral to 2024 FFO as we will stop capitalizing interest later this year. However, we have healthy prospect activity for these properties, which should provide growth to NOI, FFO and cash flow in future years.

In summary, our balance sheet is in excellent shape, our high-quality SunBelt portfolio is located in the BBDs where talent wants to be and our team is cycle-tested and optimistic about future value creation.

