Management's Prepared Remarks
Second Quarter 2025 Conference Call
July 30, 2025

Brendan Maiorana
Executive Vice President, Chief Financial Officer
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. On today's call, our review will include non-GAAP measures, such as FFO, NOI and EBITDAre. 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
We had another strong quarter with robust second generation leasing and excellent financial results. We entered 2025 with two key priorities:

- First, continue to upgrade our portfolio quality by rotating out of slower growth, more capex intensive properties and rotating into higher growth assets that are more capital efficient; and
- Second, make significant strides towards capturing the substantial NOI growth potential we have in our operating portfolio and development pipeline, which will drive meaningful organic growth in future years.

We continue to make progress towards both of these priorities. In the second quarter, our leasing volumes were strong, including signing several 2nd gen new leases on spaces that are currently vacant, and we continue to make progress on the remaining availability at our development properties. While we didn't close any acquisitions or dispositions during the period, we're actively underwriting potential new investments and have numerous assets in the market for sale. We will continue to deliver on our proven strategy of rotating out of older, slower growth properties that are more capex intensive into better located, higher growth assets that are more capital efficient.

We continued our healthy leasing volume during the quarter with 920,000 square feet of second gen leasing, including 370,000 square feet of new leasing. The consistent level of elevated leasing volumes for the past several quarters increases our confidence that our occupancy will steadily improve late in 2025 and escalate thereafter. We have also further unlocked the NOI growth potential in our four core assets with meaningful occupancy upside. As a reminder, our Core Four are Alliance Center in Buckhead and three assets in Nashville: Symphony Place in the CBD; Westwood South in Brentwood; and Park West in Franklin. We have forecasted $25 million of annual NOI upside just from stabilizing these Core Four. After our leasing performance this quarter, we now have 50% of this upside scotched with signed leases and we have strong prospects for another 20%.

Turning to our development pipeline…While we only signed 19,000 square feet during the quarter, we have advanced a number of prospects through the leasing process and remain confident we'll increase our leased rate by the end of the year. We have over $10 million of NOI growth potential at GlenLake Three in Raleigh and Granite Park Six in Dallas, two development properties that delivered in 2023 but are not yet stabilized. We have over $6 million of this NOI potential already signed, but where occupancy hasn't yet commenced. In addition, we have over $20 million of NOI growth potential at the two developments that delivered earlier this year, 23Springs in Dallas and Midtown East in Tampa. Our first customers at these developments recently moved in and additional customers will take occupancy late in 2025 and in 2026. Combined, these two properties are 59% leased and we have strong prospects for another roughly 15%.

Given the combination of high construction costs, elevated vacancy levels, limited financing availability and risk-adjusted yield requirements, starting a new spec development continues to be difficult for anyone in this environment. However, the absence of new deliveries and dwindling availability over the next few years creates an opportunity for meaningful rent growth at high-quality second gen product. We're already seeing the benefits of limited supply as large blocks of high-quality space across many of our markets are being absorbed, which is driving rent growth in the best locations across the SunBelt. The powerful combination of signed leases moving into occupancy in our operating portfolio, ongoing stabilization of our development pipeline and continuous portfolio improvement should drive significant growth in earnings and cash flows in the foreseeable future.

You may have seen some press recently about Ovation, our future mixed-use development in Franklin, outside of Nashville. We recently submitted our development plan to the city. We remain confident Ovation represents one of the best mixed-use ground-up development sites in the entire country and will be a significant opportunity to create sizable value for HIW shareholders. We are working with our partner and the city of Franklin to finalize development plans and do not expect any development announcements until late next year, at the earliest.

Turning to our performance…We delivered excellent financial results in the quarter, including cash flows that continue to be resilient even with elevated leasing capex due to future occupancy build. We delivered FFO of $0.89 per share in the quarter. Our occupancy was roughly flat from Q1 at 85.6% while our leased rate increased 80 basis points to 88.9%. Leasing is off to another strong start early in Q3 with over 300,000 square feet of second gen leases signed, including over 100,000 square feet of new leases. We remain optimistic we'll see the leased rate and occupancy levels increase by the end of the year. With our strong financial performance in Q2 and upbeat outlook for the balance of the year, we have once again raised the mid-point of our 2025 FFO outlook, up $0.02, to a range of $3.37 to $3.45 per share. Since the beginning of the year, we've increased our FFO outlook by $0.06 at the midpoint, or nearly 2%.

In conclusion, we're extremely excited about the next few years for Highwoods. We're operating in the strongest BBDs in the SunBelt that continually have proven to be the places where talent and companies want to be. We have a clear pathway to meaningful growth – growth in earnings, growth in cash flow and growth in NAV – from our existing portfolio and development pipeline. Plus, we believe the next 12 months represents an excellent opportunity to deploy capital into new investments with strong returns and recycle out of older, non-strategic properties where risk-adjusted returns don't meet our objectives. With a strong balance sheet, including limited near-term debt maturities and ample liquidity, we are well-positioned to execute on the opportunities ahead of us.

Brian Leary
Executive Vice President, Chief Operating Officer
Kudos to our tremendous team for the results they delivered in the 2nd quarter with 923,000 square feet of quarterly leasing, of which 371,000 square feet was new, signaling future occupancy gains as those leases commence.

Our SunBelt states are repeat best-for-business winners, our markets are outpacing the nation with higher population gains and lower unemployment rates and our BBD portfolio is outperforming as the beneficiary of our customers' preference for in-office occupancy and, in turn, their continued flight-to-quality, capital and owners. With corporate, and now federal, conviction behind the in-office value proposition, we believe equilibrium has been reached as it relates to remote work and no longer see it as an acute headwind to our portfolio.

With greater numbers returning to the office, there's not only less commute-worthy options available at the top of the market, the bottom is shrinking as well with CBRE reporting that over 23 million square feet of U.S. office space is on track for demolition or conversion to other uses this year, far outpacing the almost 13 million square feet of new office space being completed in 2025 which figure in itself is far below the 10-year annual average of 44 million square feet of annual deliveries. Coupled with a record low construction pipeline and with the development period of an office building being measured in years, this slow squeeze play has started to move the market in an owner's favor in certain instances such as new trophy development and in high-barrier-to-entry BBDs with the potential for a meaningful and extended shortage of Class A space in the not-too-distant future.

Our SunBelt BBD strategy, which is both urban and suburban in nature, is serving us well. All of our markets are in States that are repeatedly rated by CNBC as the "best for business" with North Carolina, Texas, Florida and Virgina taking the top four spots this year. With regard to the Tarheel State, between Charlotte and Raleigh, North Carolina is home to 33% of our revenue and 36% of our NOI. Georgia and Tennessee aren't far behind rounding out the top eight of CNBC's rankings. Bloomberg Economics brings this to bear highlighting that the Southeast accounted for more than two-thirds of all job growth across the US since early 2020.

These three forces, improving in-office utilization, declining competitive supply and strong demographics, all combined with a resilient economy, are bearing fruit in our leasing activity and make us optimistic our strong performance will continue. To that end, we signed 102 leases in the second quarter with expansions outpacing contractions almost three-to-one, net effective rents averaging $19.30 per square foot with an average payback of 17.2%. Of the 102 leases signed, 42 were new with almost 20% of those new-to-market. Cash and GAAP rent growth were strong at 3.6% and 17.6%, respectively.

Above all, we are most enthusiastic about the progress we've made, and continue to make, on our occupancy upside across four core assets in Atlanta and Nashville. Three of these four have completed, or are in the midst of completing, our Highwoodtizing redevelopment program, essentially positioning them to directly compete with new construction. The fourth, Westwood South, is in the highest-of-barrier-to-entry BBDs of Brentwood in suburban Nashville and it has a leasing prospect pipeline that would fill the building two times over.

Symphony Place in Downtown Nashville started the quarter strong. The seven-floor lease with Nashville-mainstay and global law firm Holland & Knight, was proof-positive that the environment and experience we are curating there is what Nashville's best-and-brightest are looking for and there are leasing prospects for over 80% of the building. While you never bat 1000%, with these prospects and inbound activity picking up in Nashville, Symphony Place is poised to deliver meaningful organic growth.

The backfill update from Nashville is a good segue into Music City's broader market performance with the nation's lowest large-metro unemployment rate. Cushman & Wakefield reported Nashville having the nation's third highest positive net absorption, and the market's robust demand generated almost 1 million square feet of leasing for the quarter, the highest for Nashville since the second quarter of 2021. JLL added that there are almost two million square feet of active requirements in the market and with a decade-low construction pipeline delivering at 79% preleased, and with no new starts in the foreseeable future, vacancy should decline, rents should increase and momentum should continue. The second quarter leasing we did in Nashville led our markets for both total and new volume, had our highest dollar-weighted average lease term at nine years and was tops with GAAP rent growth of 23.8% and cash rent spreads of 12.4%.

Southeast of Nashville, Charlotte continues to be a talent magnet with new data showing that the area's daily net migration count is up from 117 a day to 157 according to the Charlotte Regional Business Alliance and where Cushman highlighted the region as one of the nation's top quarterly job generators with a 2.2% growth rate. Cushman also noted Charlotte's 4th consecutive quarter with leasing activity over 500,000 square feet where over 80% occurred in the submarkets of Uptown, Midtown and South Park. Our 2.0 million square foot Charlotte portfolio, which is entirely located in the Uptown and South Park BBDs, leads the way at 96.6% occupied. Our 1.2 million square foot Legacy Union Uptown portfolio sits squarely at the geographic center of Charlotte's Class AA demand and is 95% occupied, while our six-building, 800,000 square foot portfolio in South Park is 98% occupied. With Charlotte's construction pipeline empty and with multiple large inbounds cited by the Charlotte Alliance, not including Citigroup or AssetMark's recent significant job announcements, market vacancy and rental rates should continue to move in opposite directions.

Of all of our markets, Dallas continues to be an economic juggernaut with continued job and population growth and positive net absorption. JLL noted that 60% of Dallas's office pipeline is build-to-suit construction for Goldman Sachs and Wells Fargo and that there are an additional 7.6 million square feet of requirements in the market. Our Dallas development pipeline is the beneficiary of this demand with prospect activity at both our 422,000 square foot Plano BBD Granite Park Six development, which is currently 59% preleased, and our 642,000 square foot 23 Springs development in Dallas' Uptown BBD, which itself is 63% preleased. Also in Uptown and down the street from 23Springs is our 557,000 square foot in-service asset, McKinney + Olive, which is over 99% leased.

I would be remiss if I didn't share highlights from Tampa, both as a market and from our portfolio's perspective. CBRE leads this quarter's Tampa market report with a headline that reads a "positive path ahead as the office market builds on Q1 surge." The report noted that Tampa posted its fifth consecutive quarter of positive net absorption and the pipeline for continued positive absorption is healthy with 1.3 million square feet of future tenant move-ins tied to already-executed leases. With an additional 1.4 million square feet of active prospects and one of the lowest market-wide vacancies in the nation per CBRE, we are very pleased with our market activity where we ended the quarter at 86.1% occupied but more than 92% leased. Our Midtown East development recently delivered 40% preleased and has strong prospects for another 40% of the building. Underwritten to stabilize in the second quarter of 2026, Midtown East was the only building under construction the better part of two years and is the tallest building in the Westshore BBD and in the heart of Midtown Tampa's thriving mixed-use district anchored by Whole Foods, two hotels and luxury apartments.

With a commute-worthy portfolio and a trophy-asset team, Highwoods is creating compelling environments and experiences that are giving our customers a competitive advantage in recruiting and retaining the very best. This advantage is recognized in our activity and economics and we are steadfast in our conviction that great value is created when the best and brightest are better together.

Brendan Maiorana
Executive Vice President, Chief Financial Officer

In the second quarter, we delivered net income of $18.3 million, or $0.17 per share, and FFO of $97.7 million, or $0.89 per share. The quarter included three atypical items. First, we received $3 million from the Florida Department of Transportation for the impact of roadway improvements adjacent to a non-core property in Tampa. This payment, which is reflected in other income, was expected and has been included in our FFO outlook since the beginning of the year. Second, we received $1 million of term fees. The largest was attributable to a customer where we proactively took back space early and have subsequently re-let this space to a new user with a long-term lease. This term fee temporarily boosted 2Q earnings but will be offset by downtime at the property. Third, we wrote off nearly $1 million of pre-development costs at sites where we no longer believe office to be the highest and best use. Otherwise, this was a very straightforward quarter. We are pleased with our results, which demonstrate the resiliency of our operations and cash flows.

Our balance sheet remains in excellent shape. Our debt-to-EBITDAre ratio was 6.3x at quarter-end. We only have $106 million left to fund on our development pipeline and are currently maintaining over $700 million of available liquidity. Our only debt maturity over the next 18 months is a $200 million variable rate term loan that is scheduled to mature in May 2026. Discussions with our bank group have been very positive and we remain comfortable in our ability to extend this loan.

As Ted mentioned, we have updated our 2025 FFO outlook to $3.37 to $3.45 per share, which equates to a $0.02 increase at the mid-point. The underlying picture is actually stronger than the headline implies. As I mentioned earlier, the second quarter included $0.01 of higher G&A due to the expensing of pre-development costs that were not included in our prior outlook. Plus, we pushed $0.02 of interest income out of the 2025 forecast and into future years. These items have been partially offset by a $0.01 increase to prior year property tax refunds expected during 2025. Overall, this equates to $0.02 of net headwinds that were not included in our April outlook, but these have been more than offset by $0.04 of higher anticipated NOI, resulting in the increase of $0.02 per share at the midpoint.

Turning to leasing and our occupancy outlook, we expect to be towards the low end of our year-end 2025 occupancy outlook of 86-87%, largely driven by proactively taking space back early from users where we've subsequently re-let these spaces to new users with leases that don't commence until after year-end. This activity, while reducing near-term occupancy, secures additional long-term tenancy across our portfolio and reduces our rollover risk in future years. We also proactively took back 35,000 square feet early from a user to secure a long-term lease extension on their remaining 70,000 square feet, on an as-is basis. Finally, we have one user that we originally expected would be able to take occupancy of their 50,000 square feet in 4Q'25, but now expect this lease to commence in 1Q'26. These timing issues have moved 130,000 square feet of previously projected occupancy at year-end 2025 into the future.

Lastly, I want to review in more detail the performance of the Core Four operating properties with meaningful occupancy upside that Ted highlighted, as well as our development properties. At the beginning of the year, we called attention to $25 million of embedded annual NOI growth potential upon stabilization of the Core Four. At that point, we had locked in $5 million of this future upside with signed leases. Today, this number is now up to over $12 million, and we have strong prospects for another $5 to $6 million. Our two 2023 development deliveries, Granite Park Six and GlenLake Three, have over $10 million of annual NOI growth potential upon stabilization, over $6 million of which has been secured with signed leases, up from $4 million at the beginning of the year. The two developments that delivered earlier this year, 23Springs and Midtown East, have over $20 million of annual NOI growth potential upon stabilization. We have secured $14 million of this upside with leases that will commence in the future, up from $11 million at the beginning of the year, plus we have strong prospects for another $3 million.

In total, these eight properties have over $55 million of annual NOI growth potential above our 2025 outlook. We have locked in over 60%, or more than $33 million, of this upside with leases that have been signed, but are not contributing to 2025, plus we have strong prospects for another $9 million. To be clear, it will take time for these signed leases to come online. We are also still capitalizing interest and operating expenses at 23Springs and Midtown East as these two development projects delivered earlier this year, so not all of the NOI from those two assets will be realized in future FFO or operating cash flow. However, the leasing activity is encouraging, and we expect all of the leases signed to date to commence by late 2026, which gives us confidence about the trajectory of earnings and cash flow as we move into 2026 and even into 2027.

To wrap up, we're ahead of our expectations in terms of executing on our embedded growth drivers, with the potential to secure even more of this upside over the next few quarters. We're also encouraged at the potential to recycle additional capital and thereby further improve our long-term growth profile. Given our strong markets, BBD locations, proven operating and asset recycling strategies and well-positioned balance sheet, we are encouraged about the next few years for Highwoods.