

**Management's Prepared Remarks
Third Quarter 2023 Conference Call
October 25, 2023**

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 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

During the third quarter, we once again had solid financial and operational results while maintaining a balance sheet that is among the strongest in the sector with healthy credit metrics and ample liquidity. At the beginning of the year, we predicted the operating environment and capital markets, particularly for the office sector, would remain challenged for an extended period of time. So far, this is playing out as expected. We remain laser-focused on operations and balance sheet management and believe that meaningful new investment opportunities will eventually surface.

With this backdrop, these are our priorities:

- First, ensuring our portfolio operations remain healthy. To that end, we're aggressively addressing future lease roll, proactively reinvesting in those assets with ample opportunity to drive outsized returns, focusing on net effective rents and maintaining strong cash flow by being even more disciplined on discretionary cap-ex.
- Second, continuing to sell non-core assets. Obviously, this is currently challenging, but we continue to believe there will be ready, willing and able buyers for stabilized assets, especially bite-sized deals.
- Third, further bolstering our already strong balance sheet by increasing liquidity.
- And finally, canvassing our markets for future growth opportunities.

We firmly believe having a high-quality resilient portfolio in the best markets and BBDs in the SunBelt, and the balance sheet strength to weather this capital-constrained environment, positions us well to capitalize on the long-term growth opportunities that will inevitably come with the next cycle, even if this current cycle lasts several more years.



Turning to the quarter, we delivered FFO of \$0.93 per share and grew same property cash NOI 2.0%. We signed 655,000 square feet of second gen leases, 19% lower than our trailing five-quarter average. With a steady, albeit modest, increase in return to office across our customer base since Labor Day, we're off to a solid start with our leasing volume so far in the fourth quarter. Our net effective rents continue to be resilient, as our year-to-date average is on pace to surpass our prior high-water mark and exceed 2019 by 5%. While rent spreads garner more headlines, we have long believed it's more important to measure leasing performance by considering the entirety of lease economics. We're pleased net effective rents have remained strong, a direct result of the flight to quality, not just a flight to quality assets, but also a flight to quality owners who have access to capital. Our sponsorship is a true differentiator when companies are making leasing decisions and this has only become more important since the pandemic.

I want to provide an update on the former Tivity building in Nashville. Last year, we substantially backfilled the building by signing a 223,000 square foot lease with a single customer that currently leases 50,000 square feet in another Highwoods building. Unfortunately, since that lease execution, this customer has experienced some challenging and unforeseen business conditions that are impacting their growth plans and cash flow. We are currently in discussions with our customer about what makes the most sense going forward, for both Highwoods and for them. It's possible we may ultimately decide it's in our best long-term interest to modify their new lease, which is scheduled to commence in early 2024.

The quarter was quiet on the investment front. We completed three development projects with a total projected investment of \$234 million, at our share, that were a combined 30% pre-leased. 2827 Peachtree is 88% pre-leased and we have an LOI to bring the property to 92%. The other two projects, GlenLake 3 in Raleigh and Granite Park Six in Dallas, aren't projected to stabilize until 2026. We signed a 20,000 square foot lease at Midtown East in Tampa, and we're seeing additional strong interest in this development, which isn't scheduled to be completed until early 2025 and stabilized until mid-2026. At 23Springs, our 642,000 square foot tower in Uptown Dallas, we have LOIs that would bring the pre-leased rate to over 50%.

While we didn't close any dispositions during the quarter, we've remained active marketing additional non-core properties for sale. The current environment is obviously challenging, but we're cautiously optimistic we'll close a few smaller deals in the coming months. We've been quiet on acquisition and development announcements this year. I mentioned earlier we believe there will be significant opportunities in the future. We're consistently in discussions with owners of "wishlist" assets across our footprint. Lenders are generally being patient with owners, but there is stress in the system, and it will take time for these future opportunities to arise.

Our 2023 FFO outlook is unchanged at the midpoint. The steadiness of this year's FFO outlook masks better-than-anticipated NOI being offset by higher interest expense. To that end, we increased the midpoint of our same property cash NOI outlook to a revised range of 0 to +1%.

Before I turn the call over to Brian, I'd like to summarize why we're optimistic about the future at Highwoods. The office business as a whole is under stress: leasing, portfolio metrics, cash flows, access to capital, etc. But, during periods of stress, the best-positioned companies rise to the top and eventually thrive. We're well-positioned to capitalize on dislocations in the office sector. Our high-quality Sun Belt portfolio is located in the best markets and BBDs. Our balance sheet is among the strongest in the sector. And, our team is cycle-tested and excited about the future opportunities that will arise.



Brian Leary**Executive Vice President, Chief Operating Officer**

Our leasing team was active for the quarter with our largest four markets each signing over 100,000 square feet. In the aggregate, we signed over 655,000 square feet and continued the trend of expansions outnumbering contractions, three to one for the quarter. 73% of leasing activity for the quarter and 60% year-to-date occurred in our suburban BBDs. We believe this supports our simple and steadfast strategy of delivering commute-worthy workplace experiences in both urban and suburban best business districts.

Our 16% payback was the lowest since the third quarter of 2022, while free rent was only 4.3% of the cash term, the lowest ratio since the third quarter of 2020. As Ted mentioned, these strong leasing economics translated into healthy net effective rents where we're trending above our pre-pandemic average. While we are seeing the cyclical demand headwinds of a lower-growth environment, Labor Day marked the next phase of return-to-the-office initiatives and uptick in physical occupancy with insurance, financial services and telecom leading activity for the quarter.

Now let's turn to our markets and, in particular, the Sunshine state where our team in Tampa had the highest volume in the quarter with 150,000 square feet signed and our Orlando portfolio ended the quarter over 92% occupied. CBRE highlighted that the Tampa market saw positive net absorption for the third consecutive quarter and is on pace to have the best year for positive absorption since 2017, vacancy is down and there are 2 million square feet of prospects looking for space. Office employment growth remains well above the national average with the Tampa metro ranking first in Florida for year-over-year job growth. As the only new building under construction in the market, Midtown East, our \$83 million, 143,000 square foot development in the Westshore BBD is seeing good inbound activity as evidenced by the recently signed 20,000 square foot new customer to our Tampa portfolio. This follows our successful completion and lease-up of our 152,000 square foot Midtown West building, now 100% occupied at rents above our underwriting.

In North Carolina, our Raleigh team signed 144,000 square feet in the quarter and the overall market achieved 248,000 square feet of positive net absorption according to CBRE. We completed our 218,000 square foot GlenLake III mixed-use development on-time and on-budget, which brings our total GlenLake development to nearly 1.0 million square feet. Prospect activity is picking up with the ability to tour the space and amenities. We estimate stabilization in early 2026.

Down I-85 in Charlotte, our two million square foot portfolio is now 95.6% occupied and 97.8% leased. Last year and adjacent to our 33-story Bank of America Tower, we acquired 650 South Tryon, a 367,000 square foot building that was 79% leased upon acquisition and is now 94% leased. The overall market is seeing healthy activity, including continued inbound corporate relocations and is underexposed to sublease availability compared to other markets – with equal amounts of space being leased and added to the market in recent quarters, according to JLL.

The Atlanta team was also busy in the third quarter with 127,000 square feet signed and, subsequent to quarter-end, inked an additional 50,000 square feet at Two Alliance in Buckhead bolstering the backfill of Novelis' Q3 2024 expiration. 2827 Peachtree, our 135,000 square foot development in Buckhead was delivered on-time and on-budget at 88.4% pre-leased. It is expected to stabilize well before our proforma stabilization date of early 2025.

We believe the quarter's overall leasing stats bear out our simple strategy and resilient portfolio if even across lower-than-average leasing volume. We continue to witness the evolving consensus between managers and workers on when and where they will be better together. To this point, there are real-



time evolutions across the portfolio where customers previously entertained subleasing, then signaled a downsize to-then-ultimately-renew at 100% of their existing footprint.

Self-performing our leasing, property management and maintenance across the majority of the portfolio has given us a unique position to increase the breadth and depth of our customer relationships through the pandemic and into today's choppy waters. Our relative performance to our markets and within our BBDs is bearing witness to this "under-one-roof" approach. We will remain proactive in addressing our future lease roll, are committed to delivering meaningful new revenue via our development pipeline and believe our continued ability to create commute-worthy workplaces yields a resilient portfolio and one positioned to thrive in the future.

Brendan Maiorana

Executive Vice President, Chief Financial Officer

In the third quarter, we delivered net income of \$22.1 million, or \$0.21 per share, and FFO of \$99.8 million, or \$0.93 per share. Results were in line with our expectations, with no significant unusual items. There wasn't much of change from the second quarter with overall FFO down a penny sequentially. The slight change was driven by modestly lower NOI, attributable to higher op-ex and the full quarter impact of dispositions completed in the second quarter, and higher interest expense.

Our cash flows continue to exhibit resilience even in the face of higher interest rates. We've been highlighting the benefits of our asset recycling program for a few years, but in a year when challenges are more apparent, these benefits become more obvious. So far this year, we've invested over \$115 million in our development pipeline, while receiving only \$40 million of net disposition proceeds and another \$40 million from the repayment of our preferred equity investment in our McKinney & Olive joint venture. Said differently, we've been a net investor, monetizing income-producing assets while investing in development that isn't yet providing NOI, while holding our debt-to-EBITDA metrics flat at 6.0x and keeping our overall debt balance essentially unchanged at \$3.2 billion. And, this doesn't count the approximate \$40 million of NOI we expect to garner upon stabilization of the development pipeline.

In addition to maintaining strong leverage metrics, we've further strengthened our liquidity throughout the year. As disclosed in last evening's press release, our Midtown West joint venture closed a 5-year mortgage for \$45 million at a fixed interest rate of 7.29%. The net proceeds received from the joint venture were used to pay down our credit facility. This further improves our current liquidity, which is now over \$770 million, and gives us ample dry powder to fund our \$270 million of remaining development expenditures. Since the beginning of the year, we've proactively increased our total available liquidity by over \$200 million while reducing future investment obligations by \$100 million. Our healthy current liquidity combined with limited near-term debt maturities provides us flexibility, and we do expect additional disposition proceeds in future quarters. However, as mentioned last quarter, we may be opportunistic and raise additional debt capital later this year or next.

As Ted mentioned, we've updated our outlook with no change to the mid-point of our FFO range, which is now \$3.73 to \$3.77 per share. Given our performance to date this year, we revised our same property cash NOI outlook upward to 0 to +1%. All other outlook line items that impact FFO are unchanged, but I will note we expect to be toward the low-end of the year-end occupancy range. As we've mentioned before, this is a challenging metric to forecast given it's a point estimate on the last day of the year.

A couple of items to keep in mind for the fourth quarter. First, we expect lower operating margins due to pushing some discretionary op-ex late into the year. And second, interest expense is expected to increase due to higher average SOFR rates and the new fixed rate mortgage at Midtown West.



Finally, as you know we plan to provide our 2024 outlook in February when we release our fourth quarter results. In the interim, there are some items I would like to highlight. First, operating margins in future years may move closer to our pre-pandemic average as we absorb the impact of higher inflation across major op-ex line items and portfolio utilization increases. Second, we may be opportunistic raising additional debt capital, which would likely result in higher interest expense. Finally, we are optimistic that we'll close additional dispositions over the next few months, which would likely be a headwind to FFO in the short-term, though could be a net benefit to cash flow.

In summary, we're encouraged by the resilience our portfolio and cash flows have exhibited in 2023 and over the past few years, and we're excited about the future. We have the right portfolio, balance sheet and team to weather the current environment and excel once the cycle turns.

