# Management's Prepared Remarks
# Fourth Quarter 2020 Conference Call
# February 10, 2021

**Brendan Maiorana**
**Executive Vice President, Finance**

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 EBITDAre. Also, 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 and the Company does not undertake a duty to update any forward-looking statements.

One of the most significant factors that could cause actual outcomes to differ materially from our forward-looking statements is the ongoing adverse effect of the COVID-19 pandemic on our financial condition, operating results and cash flows, our customers, the real estate market in which we operate, the global economy and the financial markets. The extent to which the pandemic impacts us and our customers will depend on future developments, which are highly uncertain and cannot be predicted with confidence, including the scope, severity and duration of the pandemic and its ongoing impact on the U.S. economy and potential changes in customer behavior, among others.

**Ted Klinck**
**President, Chief Executive Officer**

Let me start by saying I hope you are all well and your families continue to be safe and healthy. Our buildings have remained open throughout the pandemic with protocols in place to keep our customers and their guests as safe as possible. Across our entire portfolio, we estimate utilization is now 25% to 30% on average, up slightly from the end of last year as we've seen a modest increase during the past couple of weeks. In general, while it's difficult to draw trends across markets or submarkets, there is higher utilization by small and medium sized companies than larger companies. We aren't assuming a meaningful increase in utilization in our portfolio until the second half of the year. As mentioned on our last call, the Highwoods teams across our markets have safely returned to the office and we've heard from many customers who are eager for their full return.

As I mentioned last quarter, it remains difficult to predict the duration and severity of the current recession and when leasing activity will recover. Overall leasing volume dipped in the fourth quarter. However, new leasing volume was relatively steady at 160,000 square feet. While below our long-term quarterly average, new leasing volume was well above the low experienced earlier in the pandemic. We signed fewer renewals during the quarter partly due to low lease expirations. At year-end, we only had 8.0% of revenues expiring in 2021 and 8.3% in 2022. This two-year cumulative expiration total is among the lowest in our history. So far this year, we are seeing some modest green shoots with regard to prospective leasing activity. Since January 1st, we've already signed 100,000 square feet of new leases. We continue to be optimistic about the long-term population and job trends in our markets. Small and large users from outside of our footprint continue to seek office space in our markets, with some of our new leasing activity already in 2021 attributable to out of town users.

Turning to our results, we reported 2020 FFO of $3.58 per share. While our performance was impacted by the economic disruption caused by the pandemic, we were able to deliver per share FFO, excluding one-time charges, in-line with our original expectations of $3.60 to $3.72. Our ability to control expenses, maintain strong rent collections of over 99%, keep our buildings safely open, and continue to advance our development projects on time and on budget, is a testament to the tenacity and dedication of the entire Highwoods team.

Our fourth quarter FFO was $0.87 per share, including a $0.02 severance charge that was not in our outlook. Cash rent spreads were flat, down from the mid-single digits over the past several quarters. The sequential drop was attributable to a few short-term deals where we provided aggressive economics to support occupancy, which had an outsized impact on our quarterly stats given below average volume. Occupancy held steady from the third quarter to end the year at 90.3%. Same property cash NOI growth was a solid +3.7%, or +1.6% excluding the impact of temporary rent deferrals. As an aside, to date, we've already been repaid on more than 60% of the temporary rent deferrals granted earlier in the pandemic. The positive same-store result was achieved even though average occupancy was down 130 basis points year-over-year, as our average in-place rents were up 4.6%. Higher rents combined with a tight control on operating expenses were more than enough to offset lower year-over-year occupancy.

Turning to investments, we sold $129.7 million of non-core properties in the fourth quarter, all in Greensboro and Memphis. We now have only one office property in Memphis and four office buildings in one park in Greensboro. Subsequent to year-end, we sold a 100,000 square foot building in Atlanta for $30.7 million that is 100% leased to the FAA. This was our only building in the airport submarket in Atlanta. We delivered this build-to-suit in 2009 for a total cost of $18.2 million, which further illustrates the value creation from our development activities. We're planning to market additional non-core properties as we continue to strategically prune our portfolio and improve the overall quality.

We didn't close any acquisitions in 2020, but in January of this year we acquired our joint venture partner's 75% interest in the 636,000 square foot Forum office portfolio in Raleigh for $131.3 million. We have planned "Highwoodtizing" that will increase our investment to $138.4 million. We're bullish on the long-term upside for these assets given the wide array of walkable amenities, proximity to executive housing and easy access to Raleigh's major thoroughfares. We will continue to evaluate additional acquisition opportunities. Even after the Forum purchase, we have plenty of balance sheet capacity with zero drawn on our revolving line of credit and $100 million of cash on hand. However, pricing remains competitive for the few high-quality buildings that have come to market since the pandemic started. Rest assured, we'll remain disciplined allocators of capital and seek properties that we believe will deliver appropriate risk-adjusted returns over the long-term for our shareholders.

Our 1.2 million square foot, $503 million, 79% pre-leased development pipeline remains on budget and on schedule. To date, we've funded 79% and expect to spend most of the remaining $104 million by the end of 2021. Our pipeline will provide over $40 million of annual NOI upon stabilization, only $8 million of which is scheduled to be recognized in 2021.

Now to our 2021 FFO outlook of $3.50 to $3.66 per share. In 2020, we were able to offset lower parking revenue and rents by reducing op-ex. We assume utilization across our portfolio will remain low in the first half of the year and gradually increase over the third and fourth quarters. We expect higher utilization will cause operating expenses to increase while we're assuming parking revenues will be slower to recover. At the mid-point of our per share outlook, we assume net operating expenses will be $0.06 higher than last year, while parking revenues will only improve by $0.01. Over time, we expect parking revenues will fully recover the $0.07 drop we experienced in 2020. Same property cash NOI growth is projected to grow 3% to 5% in 2021.

Our outlook for dispositions in 2021 is $100 to $150 million, in addition to the $30.7 million sale of the FAA building completed in January. Our acquisition outlook is $0 to $200 million, which is in addition to the Forum acquisition. We have a placeholder for development announcements of $0 to $250 million. We continue to have conversations with build-to-suit and pre-lease prospects, but expect to be measured with regard to 2021 development commitments.

Before I turn the call to Brian, I would like to reiterate the strong financial and operating performance we delivered in the midst of an unprecedented economic environment. Since the start of the pandemic, we've:

- collected 99.9% of rents;
- sold $291 million of non-core properties;
- kept our $503 million, 79% pre-leased development pipeline on-time and on-budget; and
- maintained a strong balance sheet with leverage of 36% and a debt-to-EBITDAre ratio of 5.0X.

Even with ongoing economic disruption caused by the pandemic, we still expect FFO per share to be higher in 2021 compared to a normalized 2019, the last full year before the pandemic. Plus, we have significant embedded growth potential as our development pipeline delivers and stabilizes, parking revenues recover and occupancy improves. We're cognizant of the near-term challenges ahead, but we're confident we have the ingredients to drive sustainable growth over the long-term.

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

Our 26 million square foot portfolio is well-balanced across the BBDs of our markets and where we have exposure to many of the best submarkets in the southeast. Our diversification is purposeful – across markets, across urban and suburban submarkets, and across customer size and industry. This balance has served us well and provided noted resiliency as we posted healthy portfolio metrics in 2020 despite the most challenging of macro environments. We believe this will prove beneficial as the nation emerges from the pandemic and recession. The common belief shared by each and every member of the Highwoods team is that we are in the workplace-making business, and it is through our portfolio that our customers can achieve together what they cannot apart.

Before jumping into the quarterly statistics, I'd like to first reflect on our overall 2020 performance. We collected 99.9% of rents contractually due since the beginning of the pandemic – note that this is from all of our customers, including amenity retail, restaurants and co-working. This does not include the effect of temporary rent deferrals, which have totaled approximately $8 million, and of which 60% has already been repaid. Even with the traditional leasing environment shut down for three quarters of the year, we leased 2.8 million square feet with cash releasing spreads of +4.6% and net effective rents in-line with our high-water mark in 2019. This positive outcome is a testament to our diversified portfolio's resiliency and our team's ability to leverage technology and meet our customers' needs, in spite of the challenging environment. We achieved these leasing results while spending limited leasing cap-ex. We ended the year with portfolio occupancy of 90.3%, slightly lower than we expected at the beginning of 2020.

As Ted mentioned, we have only 8.0% of rents expiring in 2021 and 8.3% in 2022, and we have no remaining expirations in either year greater than 100,000 square feet. We're starting to see forward momentum in leasing activity across our markets based on the velocity of in-bound inquiries, the number of RFPs received and the amount of tours occurring in our buildings. Coupled with the portfolio's limited lease roll and a few pockets of high-quality vacancy, we're well-positioned to capture leasing demand when the recovery takes hold.

Focusing on the fourth quarter, we finished the year by executing 466,000 square feet of second-generation leases, including 160,000 square feet of new leases. As we've mentioned previously, overall volume can ebb and flow depending on expirations and renewals, while new leasing trends can often be more indicative of market activity. We've been pleased that new leasing volume has picked up measurably since the depths of the pandemic in the second quarter. As Ted noted, we've seen good new leasing volume already in the early part of 2021 and we're cautiously optimistic that recent activity will translate to additional signed deals. We posted GAAP rent spreads of +8.4% and flat cash rent spreads. We made the conscious decision to provide aggressive lease economics in a few instances where we felt it was important to maintain occupancy or bridge a customer through the pandemic, and while these deals were small, given the limited lease volume in the quarter they had an outsized impact on reported rent spreads.

Temporary rent deferrals granted since the start of the pandemic remained static in the quarter at 1.2% of our annual revenues. For some added color, we convened a rent relief task force starting in March that met daily for almost three months. Come summer, we were able to pare back our meetings to twice a week, and we now convene every other week to monitor customer progress and performance. I would like to commend our local teams – down to each and every Highwoods property manager, whose in-place relationships were key to supporting our customers and resulted in best-in-class rent collections throughout the pandemic.

Now to our markets, which continue to garner national attention for their above average population and job growth forecasts. Their fiscal health and low taxes, business-friendly climates, lack of dependence on mass transit, affordability and overall high quality of life has accelerated "the great migration" to our footprint. To this end, US News and World Report lists 3 of our markets in the top 8 of best places to live. Additionally, Green Street recently identified Raleigh, Charlotte, Tampa, Orlando and Nashville in the top quadrant of national cities in terms of both population growth and lower susceptibility to work from home risk.

Where else to start but Tampa, the "new" super City by the Bay where the Stanley Cup, American League pennant and the Vince Lombardi trophy all call home and where success on the field of play is begetting success in the halls of the City's economic developers as evidenced by Pfizer's decision to create a new 100,000 square foot "enabling functions hub." Tampa ranked number four in the U.S. for net residential growth in 2020. In addition to Pfizer's news, Fisher Investments, a Highwoods customer, has made a large commitment to growth in Tampa announcing the planned addition of 600 jobs in the year ahead.

Moving to our Tampa portfolio. At 5332 Avion we're seeing solid interest in the remainder of the availability we have there. Also in the Westshore BBD, our 150,000 square foot Midtown West development – that sits above an REI and next to a Whole Foods Market, Shake Shack and True Food Kitchen – is finishing construction, hosting hardhat tours and where we're seeing solid interests from prospects.

Now to Raleigh, where we saw another quarter with positive net absorption and where California-based Gilead Sciences just announced the addition of 275 new jobs with an average salary of $142,000 and national mortgage lender PennyMac Financial Services announced 322 new jobs last month. The Raleigh leasing team signed 130,000 square feet of deals in the quarter. Life science users continue to be the most active in the market, though we're also seeing good activity from technology, financial services and corporates.

In Atlanta, we posted a healthy volume of 130,000 square feet with solid rent spreads and we are seeing increasing prospect activity in Buckhead, which we believe can translate into signed leases later in the year.

And finally, back down to Central Florida to wrap up in Orlando where we leased 91,000 square feet, including 20,000 square feet of new deals. Our CBD portfolio and spec-suite program there are seeing good interest from prospects across a combination of small and medium sized requirements. We expect occupancy will continue to improve as we move throughout the year.

In closing, we're looking forward to 2021 when we'll deliver new trophy assets such as Asurion's headquarters in Nashville, and where we are fortunate to be well-positioned with our dynamic and growing markets, our high quality and diversified portfolio, our roster of strong and performing customers with limited forward lease roll across a wide array of industries.

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

In the fourth quarter, we delivered net income of $82.1 million, or $0.79 per share, and FFO of $92.5 million, or $0.87 per share. The quarter included a one-time severance charge, which reduced FFO by $0.02 per share. For full year 2020 we delivered FFO of $3.58 per share. Adjusting for the severance charge, our FFO was in line with the mid-point of our updated 2020 outlook provided in October.

I'd like to take a moment to review our 2020 results compared to our original expectations. As I mentioned, we reported FFO of $3.58 per share. Included in our full year numbers were $0.05 of one-time charges: the $0.02 severance charge I mentioned earlier that we took in the fourth quarter, and the $0.03 debt extinguishment charge we disclosed with our third quarter results. Adjusting for these items our FFO would've been $3.63 per share. In addition, we had $153 million of non-core dispositions and no acquisitions that were not in our original 2020 outlook, which reduced FFO by $0.02 for the year. Plus, we incurred a penny of additional interest expense from the excess cash we held on the balance sheet following our $400 million bond offering in the third quarter – this financing also wasn't included in our original FFO outlook. We believe all of these items – non-core dispositions, obtaining long-term financing, and reducing G&A – will benefit the company over the long-term. Excluding these non-operational items, our FFO would've been higher by $0.08, or $3.66 per share, which was the mid-point of our original FFO outlook. Given the economic harm and disruption to our industry caused by the pandemic we're extremely pleased our overall financial performance was generally in-line with our pre-pandemic expectations.

Our balance sheet is in excellent shape. Following the acquisition of our joint venture partner's 75% share of the Forum, we have $100 million of cash on hand and nothing outstanding on our $600 million revolving line of credit. We only have one remaining debt maturity before late 2022, which is the $150 million remaining on our 3.36% interest rate bonds that we plan to pay off at par in April. We have a little over $100 million left to fully fund our $503 million development pipeline, most of which will be spent by the end of this year. As Ted mentioned, our leverage remains low at 36.0% while our net debt-to-Adjusted EBITDAre is 5.0x. Clearly, we have plenty of liquidity and ample room to pursue additional investments if we see attractive opportunities.

Turning to 2021, in last night's release we provided our initial FFO outlook of $3.50 to $3.66 per share. This includes $0.04 to $0.08 per share of lower FFO due to higher anticipated year-over-year operating expenses as we assume higher utilization in the second half of the year. We're optimistic on the long-term prospects for our parking facilities recovering to pre-pandemic levels, but we don't expect significant improvement in 2021. At the mid-point of our range, we are assuming increased net operating expenses combined with higher parking revenue will have a $0.05 per share headwind compared to 2020. The annualized dilutive impact of the $153 million of dispositions late last year that were not included in our original 2020 outlook is expected to be offset by the accretive net impact of the Forum acquisition and FAA sale in 2021. We expect the $0.05 headwind from net op-ex and parking revenues in 2021 to offset the other non-operational charges in 2020 I mentioned earlier that are not forecasted to recur in 2021. As a result, we expect overall FFO results in 2021 to be in line with 2020.

Finally, last week we announced a quarterly dividend of $0.48 per share, which is unchanged from our prior dividend. The past few years we've announced dividend increases in conjunction with our fourth quarter earnings releases. As a reminder, our dividend strategy is to generally target a level that approximates our taxable income over time. Given our income projections, combined with the uncertain economic environment around the pandemic, we believe it is prudent to use our excess cash flow to fund our development pipeline and for other investment opportunities. We continue to be constructive on the long-term cash flow outlook of the company and expect strong dividend coverage in 2021.