Management's Prepared Remarks
First Quarter 2022 Conference Call
April 27, 2022

Hannah True
Manager, Finance and Corporate Strategy
If 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. 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 excellent financial and operational results in the first quarter, consistent with our performance since the start of the pandemic. Leasing activity was robust, same property cash NOI growth was solid, we had our third consecutive quarter of record core FFO per share, which excludes land sale gains, our cash flows continue to strengthen and our balance sheet is in excellent shape.

We believe our strong performance to start the year is largely attributable to continuing execution of our strategy. As we've stated before, our simple and straightforward investment strategy is to generate attractive and sustainable returns over the long term by developing, acquiring and owning a portfolio of high-quality, differentiated office buildings in the BBDs of our markets – or said another way – workplaces that are commute-worthy. We are actively putting together the building blocks to further strengthen the financial and operational performance, resiliency and long-term growth prospects of our portfolio. Our development team is exploring numerous potential starts, we are optimistic about the potential to acquire additional high-quality assets and we're continuing to make progress with our long-proven plan of cycling out of non-core assets.

Turning to our results, we delivered FFO of $1.03 per share in the first quarter. Excluding $0.04 of land sale gains, our FFO was $0.99 per share, more than 8% higher than the first quarter last year. In addition to FFO, our operations were also healthy. Same property cash NOI growth was consistent with last quarter at +3.1%. Occupancy held relatively steady at 91.1% and leasing maintained its momentum with 658,000 square feet of second gen space, including a robust 391,000 square feet of new leases. Rent spreads were +14.9% on a GAAP basis and roughly flat on a cash basis, with average term increasing to 6.4 years. Average rental rates per square foot in our 27.4 million square foot in-service portfolio were 4.2% higher on a cash basis compared to one year ago. The upbeat start to the year has given us confidence to increase our year-end occupancy outlook as many of the new leases signed will commence later in the year.

Utilization across our portfolio has increased to around 50%, up about 10 percentage points during the past couple of months, and we expect it to continue to pick up based on the return-to-work plans we are hearing from our customers. As we've stated before, even though utilization is below pre-pandemic levels and customers are figuring out their office workspace schedules, many of which are hybrid, we are encouraged by the consistently strong leasing activity we've seen across our markets since the start of last year.

Turning to investments, during the quarter we sold a land parcel in Tampa's Westshore BBD for $9.6 million, which included a $4.1 million gain. This sale is a good example of our strategy to maximize value from our existing assets, whether buildings or land. We sold the pad to a developer who will construct a luxury multi-family community adjacent to our 209,000 square foot Bay Center office building. Our land bank has a value of approximately $340 million and has never been more attractive. It can support $2.2 billion of future office and another almost $2 billion of adjacent mixed-use development via new apartments, shops, restaurants and hotels. These mixed-use sites create excellent optionality for us as we may choose to sell the parcels outright or participate in the ownership and development. Either way, the build-out of this mixed-use land will bring even more desirable amenities to our adjacent office properties, as will be the case at Bay Center.

Our $283 million, 615,000 square foot development pipeline is now 55% pre-leased, having leased another 23,000 square feet since our February call. We have healthy interest across our projects and remain confident that both Virginia Springs II and Midtown West will stabilize by the end of the year. As you may remember, we started both projects fully spec in 2019. While we didn't announce any new developments in the quarter, our team is busy working on potential build-to-suit and spec developments that could be announced later this year.

We're progressing with additional non-core dispositions. We have multiple properties under contract and we have others in various stages of the marketing process. As has been our plan, we're on pace to return our balance sheet to pre-PAC acquisition metrics by the middle of the year.

On the acquisition front, competition for high quality properties in our markets' BBDs has continued to be strong as institutional investors recognize the excellent long-term value of assets located within the best submarkets across our footprint. We're seeing opportunities arise in our BBDs, but rest assured we will continue to be disciplined with our capital allocation as we seek to acquire office assets that would further strengthen our performance, resiliency and long-term growth prospects.

Now to our 2022 FFO outlook. We project full year FFO of $3.82 to $3.98 per share, up $0.06 per share at the mid-point since our initial outlook in February. Same property cash NOI is projected to grow 0.5% to 2.0%, up 25 basis points at the midpoint, and we now expect to end the year with occupancy of 91.0% to 92.5%, also up 25 basis points at the midpoint. Our investment activities – acquisitions, dispositions and development announcements – are unchanged from our prior outlook.

Before I turn the call over to Brian, I would like to briefly recap our performance and outlook:

- Our leasing activity has rebounded to pre-pandemic levels, especially new leasing as evidenced by this quarter's 391,000 square feet;
- Our full-year 2022 outlook for all three of our primary financial and operational indicators, year-end occupancy, same property cash NOI and FFO per share, are higher at the respective midpoints than originally forecasted;
- Our $283 million development pipeline is 55% pre-leased and will generate meaningful cash flow as it delivers; and
- Our balance sheet is strong with leverage of 39% and a debt-to-EBITDA ratio of 5.3x.

We're confident that we continue to have the building blocks in place to drive sustainable growth over the long-term.

Brian Leary
Executive Vice President, Chief Operating Officer

Our team continued to deliver solid results for the quarter with a well-located, high-quality, and thus, resilient portfolio that's capturing latent and in-bound customer growth and is welcoming back its occupants, albeit on different timelines. Our simple strategy of owning commute-worthy workplaces in the best business districts of our markets, which are both urban and suburban in nature, has positioned Highwoods at the nexus of a number of accelerating trends and proven a capable formula for maintaining occupancy, growing rents and increasing term.

As important, our work-placemaking approach is providing our customers a compelling and competitive advantage for retaining, recruiting and returning talent to the office where they've told us they can achieve together what they cannot apart: culture, collaboration and collective creativity. The results for the first quarter bear evidence of this as our team signed 102 deals representing 658,000 square feet, of which 391,000 square feet were new. These 58 new deals represent our highest quarterly count since Q2'14. As this leasing comes online, we expect occupancy, currently at 91.1%, to increase in the latter half of the year.

To our markets, where the in-migration of residents and jobs continues and where unemployment rates have returned to pre-pandemic levels or below.

Let's start in Tampa where unemployment is below 3%, office employment is up almost 4% year-over-year and market rents have increased 8% from last year. Our leasing team has been busy signing 260,000 square feet for the quarter. We leased our portfolio's largest vacancy at 5332 Avion, which will bring this asset's occupancy to 95% by the end of the year. In addition, we backfilled our company's two largest remaining 2022 expirations, both at One Independence, with no downtime via a long-term 112,000 square foot lease to a tech company. Our success at One Independence is a clear marker for our work-placemaking strategy having taken the 44-acre single-use Independence Park site through a mixed-use rezoning to add residential and retail uses to the master plan. For the quarter, GAAP rents were up 23.8% in Tampa and the average term for the 260,000 square feet of signed leases was over seven years. These leases emphasize our strategy of owning, maintaining and operating the strongest, most "commute-worthy" buildings in the BBDs of our markets as they demonstrate the desirability of our properties to diverse corporate users.

Not to be outdone, the Richmond team posted a strong quarter signing 93,000 square feet of leases with market rents rising 4% year-over-year and where CoStar's commitment to Richmond was reinforced by their announcement of a $460 million expansion of their research and technology Innovation Campus where 2,000 new employees will occupy a new 26-story tower.

The Raleigh and Nashville markets posted positive net absorption for the quarter, their unemployment rates are at or below 3% and our collective 11.4 million square feet in these markets holds main-and-main positioning in each of these market's BBDs.

Raleigh's rents continue to grow, up 6% compared to last year and where JLL notes the market has averaged over 4% year-over-year increases in rent over the last 5 years. Our team there signed 83,000 square feet of leases and ended the quarter at 93.2% occupied.

In Nashville, we ended the quarter 95% occupied and our Virginia Springs II development is 90% leased and on-schedule to stabilize by the end of the year. Having acquired the balance of Ovation's 145 acres in Nashville's burgeoning Franklin/Cool Springs BBD, as master developer we are re-envisioning a more integrated mixed-use plan and will be working with the City and best-in-class third party retail and residential developers to advance a mixed-use town center over the next several quarters.

As Ted mentioned earlier, our development pipeline and potential is as solid as ever with either construction or design underway across our footprint with anchor or build-to-suit RFPs in hand. The team's success in delivering on-time, on-budget and leasing up throughout the pandemic gives us confidence looking ahead at the new development opportunities before us.

While we continue to operate in a dynamic and ever-changing industry, a few things have become clear. The first is that a hybrid work model that provides for flexibility – most specifically throughout the work week – is currently a matter of fact for many of our customers. This being said, these same customers have led us to believe that their teams are better together in the office where they can on-board new hires, mentor rising talent, cultivate culture and collaborate to solve problems or develop new products. It is our opportunity to provide these places and spaces and we couldn't be realizing the results we are without a total team effort. To our Highwoods teammates, thank you for giving our customers your very best every day. Your unwavering commitment to providing the best possible customer care has been the foundation from which the portfolio has proven resilient and from which we will continue to grow.

Brendan Maiorana
Executive Vice President, Chief Financial Officer
In the first quarter, we delivered net income of $40.3 million, or $0.38 per share, and FFO of $110.4 million, or $1.03 per share. As Ted mentioned, the quarter included a land sale gain of $0.04 and a termination fee of $0.01. While the $0.01 termination fee was factored into our original FFO outlook provided in February, the $0.04 land sale gain was not. Rolling forward from last quarter's FFO, and excluding land sales from both the fourth quarter and first quarter, our FFO increased $0.02 per share.

The increase in the first quarter compared to the fourth quarter was attributable to the following:

- Higher NOI contributed $0.04, including the aforementioned term fee, while the remaining $0.03 increase was driven by higher average occupancy and lower op-ex; and
- Lower interest expense contributed $0.01, primarily attributable to lower average debt balances; which were partially offset by
- $0.03 of higher G&A, mostly due to the accounting impact of our annual long-term equity incentive grants which are customarily made in the first quarter each year.

The combination of these items nets to the $0.02 increase in core FFO from the fourth quarter of 2021 to the first quarter of 2022.

Turning to our balance sheet, which remains in excellent shape. We ended the quarter with net debt-to-EBITDAre of 5.3x, down from 5.4x at the end of 2021. We're on pace to return our balance sheet to pre-PAC acquisition metrics as we complete the last few non-core dispositions we've planned. Even if we don't sell any additional non-core assets or raise equity, our balance sheet still has plenty of dry powder to be opportunistic with future investments. To this end, we estimate we can complete our existing development pipeline and invest up to half a billion dollars in additional opportunities without the prerequisite of selling any assets or raising equity, and still maintain a net debt-to-EBITDAre ratio of under 6x.

In addition, we have limited debt maturities, which creates optionality with our financing plans. Our only two debt maturities prior to 2026 are a $200 million term loan that matures in the fourth quarter of this year and a $250 million unsecured bond that matures in January 2023 that we can repay without penalty in October. We plan to satisfy these maturities with non-core disposition proceeds, retained cash flow and other financings.

Similar to recent quarters, we issued a modest amount of shares on our ATM program at an average price of $46.50 per share for net proceeds of $6.0 million. ATM issuances remain one of the tools we believe are an efficient and measured way to fund incremental investments, particularly our development pipeline, on a leverage-neutral basis. As Ted and Brian mentioned, our development team is busy exploring potential projects, and we believe creating some additional dry powder on our balance sheet ahead of future announcements is prudent and conservative financial planning.

As Ted mentioned, we've updated our FFO outlook to $3.82 to $3.98 per share, up $0.06 per share at the mid-point from the original range we introduced in February. The major changes from our prior outlook at the mid-point of the range are the following:

- $0.04 increase from land sale gains recorded in the first quarter;
- $0.05 increase from higher anticipated NOI attributable to stronger leasing, better parking revenues and lower opex; and
- $0.01 pick-up from lesser-anticipated dilution in 2022 from planned dispositions, primarily related to timing.

These items add up to $0.10 of upside, which are partially offset by $0.03 of higher projected interest expense due to rising interest rates and $0.01 higher projected G&A expense. These items equate to a net increase of $0.06 per share at the midpoint.

Finally, as we've mentioned many times during the past several years, our cash flows continue to strengthen. This quarter is an excellent example of this improvement as our cash available after distribution was $27 million. While CAD and cash flow can be lumpy from quarter-to-quarter or year-to-year, the trend is clear that our cash flows continue to strengthen. Cash flow improvement over the long run was one of the primary drivers behind the plan we executed in late 2019/early 2020 to cycle out of the slower-growth markets of Greensboro and Memphis and redeploy that capital into the higher-growth market of Charlotte. It was again a primary driver behind the more recent plan of funding the acquisition of a portfolio of high-quality office assets from PAC with the sale of additional non-core assets in our existing markets. As we recycle capital going forward, we expect to continue to improve our portfolio quality, resiliency and long-term growth rate, while also further strengthening our cash flows.