April 26, 2018

COPT Reports First Quarter 2018 Results

COLUMBIA, Md.--(BUSINESS WIRE)-- Corporate Office Properties Trust ("COPT" or the "Company") (NYSE: OFC) announced operating results for the first quarter ended March 31, 2018.

Management Comments

"Our first quarter results were solidly in line with expectations," stated Stephen E. Budorick, COPT's President & Chief Executive Officer. "The historic increase to the DOD's base budget authority included in the U.S. Government's fiscal year 2018 budget is driving defense contractors to lease additional space to accommodate mission growth, accelerating development leasing, and expanding our shadow development pipeline of opportunities."

Financial Highlights

1st Quarter Financial Results:

- Diluted earnings per share ("EPS") was $0.17 for the quarter ended March 31, 2018 as compared to $0.18 for the first quarter of 2017.
- Diluted funds from operations per share ("FFOPS"), as calculated in accordance with NAREIT's definition, was $0.49 for the first quarter of 2018 as compared to $0.51 for the first quarter of 2017.
- FFOPS, as adjusted for comparability, was $0.50 for the quarter ended March 31, 2018 and $0.47 for the first quarter of 2017.

Adjustments for comparability include demolition costs on redevelopment properties, executive transition costs, gains and losses from certain investing and financing activities, and certain other items that the Company believes are not closely correlated to (or associated with) its operating performance.

Operating Performance Highlights

Portfolio Summary:

- At March 31, 2018, the Company's core portfolio of 157 office and data center shell properties was 91.1% occupied and 91.9% leased.
- During the quarter, the Company placed 85,000 square feet of development into service that, at March 31, 2018, were 53% leased.

Same-Property Performance:

- At March 31, 2018, COPT's same-property portfolio of 148 buildings was 91.0% occupied and 91.7% leased.
- For the quarter ended March 31, 2018, the Company's same-property cash NOI from

Defense/IT locations increased 1.4% over the prior year quarter. The Company's total same-property cash NOI decreased 1.5% as compared to the quarter ended March 31, 2017.

Leasing:

- Square Feet Leased—For the quarter ended March 31, 2018, the Company leased 854,000 total square feet, including 712,000 square feet of renewing leases, 71,000 square feet of new leases on vacant space, and 71,000 square feet in development projects.
- Renewal Rates—During the first quarter, the Company renewed 72.6% of total expiring leases.
- Rent Spreads & Average Escalations on Renewing Leases—For the quarter ended March 31, 2018, rents on renewed space increased 11.1% on a GAAP basis and increased 1.2% on a cash basis; average annual escalations on renewing leases in the first quarter were 2.6%.
- Lease Terms—In the first quarter, lease terms averaged 4.4 years on renewing leases, 5.3 years on new leasing, and 9.2 years on development leasing, for a weighted average lease term of 4.9 years on all leasing.

Investment Activity Highlights

Development & Redevelopment Projects:

- The Company has six properties totaling 597,000 square feet under construction that, at March 31, 2018, were 88% leased. These projects have a total estimated cost of $119.8 million, of which $61.5 million has been incurred.
- COPT has one project under redevelopment totaling 22,000 square feet that, at March 31, 2018, was 100% leased. The Company has invested $3.3 million of the $3.4 million total incremental cost planned.
- **Pre-Construction.** At March 31, 2018, the Company had one property under pre-construction. Based on an expected size of 190,000 square feet, the project is 43% pre-leased. The Company expects to commence construction on the $170 million project during the second quarter of 2018.

Balance Sheet and Capital Transaction Highlights

- As of March 31, 2018, the Company's net debt plus preferred equity to adjusted book ratio was 41.3% and its net debt plus preferred equity to in-place adjusted EBITDA ratio was 6.4x. For the quarter ended March 31, 2018, the Company's adjusted EBITDA fixed charge coverage ratio was 3.5x.
- As of March 31, 2018 and including the effect of interest rate swaps, the Company's weighted average effective interest rate was 4.1%. Additionally, 91.8% of the Company's debt was subject to fixed interest rates and the debt portfolio had a weighted average maturity of 4.8 years.

2018 Guidance

Management is narrowing its previously issued guidance range for full year EPS and FFOPS, as adjusted for comparability, to revised ranges of $0.56—$0.64 and $1.96—$2.04, respectively. Management also is establishing EPS and FFOPS, as adjusted for comparability, guidance for the second quarter ending June 30, 2018 at a ranges of $0.13—$0.15 and $0.48—$0.50, respectively. Reconciliations of projected diluted EPS to projected FFOPS are as follows:

Table 1: Reconciliation of EPS to FFOPS, per NAREIT and As Adjusted for Comparability	Quarter ending June 30, 2018		Year ending December 31, 2018	
	Low	High	Low	High
EPS	$0.13	$0.15	$0.56	$0.64
Real estate depreciation and amortization	0.35	0.35	1.40	1.40
FFOPS per NAREIT definition & as adjusted for comparability	$0.48	$0.50	$1.96	$2.04

Associated Supplemental Presentation

Prior to the call, the Company will post a slide presentation to accompany management's prepared remarks for its first quarter 2018 conference call, the details of which are provided below. The accompanying slide presentation can be viewed on and downloaded from the 'Investors' section of the Company's website (www.copt.com).

Conference Call Information

Management will discuss first quarter 2018 results on its conference call tomorrow at 12:00 p.m. Eastern Time, details of which are listed below:

Conference Call Date:	Friday, April 27, 2018
Time:	12:00 p.m. Eastern Time
Telephone Number (within the U.S.):	855-463-9057
Telephone Number (outside the U.S.):	661-378-9894
Passcode:	3975897

The conference call will also be available via live webcast in the 'Investors' section of the Company's website at www.copt.com.

Replay Information

A replay of this call will be available beginning at 3:00 p.m. Eastern Time on Friday, April 27, through 3:00 p.m. Eastern Time on Friday, May 11. To access the replay within the United States, please call 855-859-2056 and use passcode 3975897. To access the replay outside the United States, please call 404-537-3406 and use passcode 3975897. A replay of the conference call will be immediately available via webcast in the 'Investors' section of the Company's website.

Definitions

For definitions of certain terms used in this press release, please refer to the information furnished in our Supplemental Information Package filed as a Form 8-K which can be found on our website (www.copt.com). Reconciliations of non-GAAP measures to the most directly

comparable GAAP measures are included in the attached tables.

Company Information

COPT is a REIT that owns, manages, leases, develops and selectively acquires office and data center properties in locations that support the United States Government and its contractors, most of whom are engaged in national security, defense and information technology ("IT") related activities servicing what it believes are growing, durable, priority missions ("Defense/IT Locations"). The Company also owns a portfolio of office properties located in select urban/urban-like submarkets in the Greater Washington, DC/Baltimore region with durable Class-A office fundamentals and characteristics ("Regional Office Properties"). As of March 31, 2018, the Company derived 88% of its core portfolio annualized revenue from Defense/IT Locations and 12% from its Regional Office Properties. As of the same date and including six buildings owned through an unconsolidated joint venture, COPT's core portfolio of 157 office and data center shell properties encompassed 17.5 million square feet and was 91.9% leased. As of the same date, the Company also owned one wholesale data center with a critical load of 19.25 megawatts.

Forward-Looking Information

This press release may contain "forward-looking" statements, as defined in Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934, that are based on the Company's current expectations, estimates and projections about future events and financial trends affecting the Company. Forward-looking statements can be identified by the use of words such as "may," "will," "should," "could," "believe," "anticipate," "expect," "estimate," "plan" or other comparable terminology. Forward-looking statements are inherently subject to risks and uncertainties, many of which the Company cannot predict with accuracy and some of which the Company might not even anticipate. Although the Company believes that the expectations, estimates and projections reflected in such forward-looking statements are based on reasonable assumptions at the time made, the Company can give no assurance that these expectations, estimates and projections will be achieved. Future events and actual results may differ materially from those discussed in the forward-looking statements.

Important factors that may affect these expectations, estimates, and projections include, but are not limited to:

- *general economic and business conditions, which will, among other things, affect office property and data center demand and rents, tenant creditworthiness, interest rates, financing availability and property values;*
- *adverse changes in the real estate markets including, among other things, increased competition with other companies;*
- *governmental actions and initiatives, including risks associated with the impact of a prolonged government shutdown or budgetary reductions or impasses, such as a reduction in rental revenues, non-renewal of leases, and/or a curtailment of demand for additional space by the Company's strategic customers;*
- *the Company's ability to borrow on favorable terms;*
- *risks of real estate acquisition and development activities, including, among other*

things, risks that development projects may not be completed on schedule, that tenants may not take occupancy or pay rent or that development or operating costs may be greater than anticipated;

- *risks of investing through joint venture structures, including risks that the Company's joint venture partners may not fulfill their financial obligations as investors or may take actions that are inconsistent with the Company's objectives;*
- *changes in the Company's plans for properties or views of market economic conditions or failure to obtain development rights, either of which could result in recognition of significant impairment losses;*
- *the Company's ability to satisfy and operate effectively under Federal income tax rules relating to real estate investment trusts and partnerships;*
- *possible adverse changes in tax laws;*
- *the Company's ability to achieve projected results;*
- *the dilutive effects of issuing additional common shares; and*
- *environmental requirements.*

The Company undertakes no obligation to update or supplement any forward-looking statements. For further information, please refer to the Company's filings with the Securities and Exchange Commission, particularly the section entitled "Risk Factors" in Item 1A of the Company's Annual Report on Form 10-K for the year ended December 31, 2017.

Corporate Office Properties Trust
Summary Financial Data
(unaudited)
(in thousands, except per share data)

	For the Three Months Ended March 31,	
	2018	**2017**
Revenues		
Real estate revenues	$ 128,278	$ 126,767
Construction contract and other service revenues	27,198	13,034
Total revenues	155,476	139,801
Expenses		
Property operating expenses	50,951	48,519
Depreciation and amortization associated with real estate operations	33,512	33,059
Construction contract and other service expenses	26,216	12,486
General and administrative expenses	5,861	6,747
Leasing expenses	1,431	1,864
Business development expenses and land carry costs	1,614	1,693
Total operating expenses	119,585	104,368
Operating income	35,891	35,433
Interest expense	(18,784)	(18,994)
Interest and other income	1,359	1,726
Income before equity in income of unconsolidated entities and income taxes	18,466	18,165
Equity in income of unconsolidated entities	373	377
Income tax expense	(55)	(40)
Gain on sales of real estate	(4)	4,238
Net income	18,780	22,740
Net income attributable to noncontrolling interests		
Common units in the Operating Partnership ("OP")	(544)	(622)
Preferred units in the OP	(165)	(165)
Other consolidated entities	(921)	(934)
Net income attributable to COPT	17,150	21,019
Preferred share dividends	—	(3,180)
Net income attributable to COPT common shareholders	$ 17,150	$ 17,839
Earnings per share ("EPS") computation:		
Numerator for diluted EPS:		
Net income attributable to COPT common shareholders	$ 17,150	$ 17,839
Amount allocable to share-based compensation awards	(117)	(125)
Numerator for diluted EPS	$ 17,033	$ 17,714
Denominator:		
Weighted average common shares - basic	100,999	98,411
Dilutive effect of share-based compensation awards	144	155
Weighted average common shares - diluted	101,143	98,566
Diluted EPS	$ 0.17	$ 0.18

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Summary Financial Data
(unaudited)
(in thousands, except per share data)

	For the Three Months Ended March 31,	
	2018	**2017**
Net income	$ 18,780	$ 22,740
Real estate-related depreciation and amortization	33,512	33,059
Gain on sales of previously depreciated operating properties	4	(19)
Depreciation and amortization on unconsolidated real estate JV	563	563
Funds from operations ("FFO")	52,859	56,343
Preferred share dividends	—	(3,180)
Noncontrolling interests - preferred units in the OP	(165)	(165)
FFO allocable to other noncontrolling interests	(944)	(978)
Basic and diluted FFO allocable to share-based compensation awards	(213)	(216)
Basic and Diluted FFO available to common share and common unit holders ("Diluted FFO")	51,537	51,804
Gain on sales of non-operating properties	—	(4,219)
Gain on interest rate derivatives	—	(453)
Demolition costs on redevelopment properties and nonrecurring improvements	39	222
Executive transition costs	163	699
Diluted FFO comparability adjustments allocable to share-based compensation awards	(1)	14
Diluted FFO available to common share and common unit holders, as adjusted for comparability	51,738	48,067
Straight line rent adjustments and lease incentive amortization	(828)	433
Amortization of intangibles included in net operating income	356	359
Share-based compensation, net of amounts capitalized	1,485	1,249
Amortization of deferred financing costs	468	1,009
Amortization of net debt discounts, net of amounts capitalized	354	339
Accum. other comprehensive loss on derivatives amortized to expense	34	—
Replacement capital expenditures	(15,520)	(13,049)
Other diluted AFFO adjustments associated with real estate JVs	131	(60)
Diluted adjusted funds from operations available to common share and common unit holders ("Diluted AFFO")	$ 38,218	$ 38,347
Diluted FFO per share	$ 0.49	$ 0.51
Diluted FFO per share, as adjusted for comparability	$ 0.50	$ 0.47
Dividends/distributions per common share/unit	$ 0.275	$ 0.275

Corporate Office Properties Trust
Summary Financial Data
(unaudited)
(Dollars and shares in thousands, except per share data)

	March 31, 2018	December 31, 2017
Balance Sheet Data		
Properties, net of accumulated depreciation	$ 3,158,279	$ 3,141,105
Total assets	3,596,238	3,595,205
Debt, per balance sheet	1,854,886	1,828,333
Total liabilities	2,090,366	2,103,773
Redeemable noncontrolling interest	23,848	23,125
Equity	1,482,024	1,468,307
Net debt to adjusted book	41.2%	40.8%
Core Portfolio Data (as of period end) (1)		
Number of operating properties	157	156
Total net rentable square feet owned (in thousands)	17,456	17,059
Occupancy %	91.1%	94.5%
Leased %	91.9%	95.1%

	For the Three Months Ended March 31,	
	2018	2017
Payout ratios		
Diluted FFO	56.0%	54.3%
Diluted FFO, as adjusted for comparability	55.8%	58.6%
Diluted AFFO	75.5%	73.4%
Adjusted EBITDA fixed charge coverage ratio	3.5x	3.0x
Net debt to in-place adjusted EBITDA ratio (2)	6.4x	5.9x
Net debt plus preferred equity to in-place adjusted EBITDA ratio (3)	6.4x	6.5x
Reconciliation of denominators for per share measures		
Denominator for diluted EPS	101,143	98,566
Weighted average common units	3,221	3,446
Denominator for diluted FFO per share and as adjusted for comparability	104,364	102,012

(1) Represents Defense/IT Locations and Regional Office properties.
(2) Represents net debt as of period end divided by in-place adjusted EBITDA for the period, as annualized (i.e. three month periods are multiplied by four).
(3) Represents net debt plus the total liquidation preference of preferred equity as of period end divided by in-place adjusted EBITDA for the period, as annualized (i.e. three month periods are multiplied by four).

Corporate Office Properties Trust
Summary Financial Data
(unaudited)
(Dollars in thousands)

	For the Three Months Ended March 31,	
	2018	**2017**
Reconciliation of common share dividends to dividends and distributions for payout ratios		
Common share dividends - unrestricted shares	$27,974	$27,219
Common unit distributions	879	936
Dividends and distributions for payout ratios	$28,853	$28,155
Reconciliation of GAAP net income to earnings before interest, income taxes, depreciation and amortization for real estate ("EBITDAre"), adjusted EBITDA and in-place adjusted EBITDA		
Net income	$18,780	$22,740
Interest expense	18,784	18,994
Income tax expense	55	40
Real estate-related depreciation and amortization	33,512	33,059
Depreciation of furniture, fixtures and equipment	523	511
Gain on sales of operating properties	4	(19)
Adjustments from unconsolidated real estate JV	824	824
EBITDAre	72,482	76,149
Gain on sales of non-operating properties	—	(4,219)
Business development expenses	1,023	938
Demolition costs on redevelopment and nonrecurring improvements	39	222
Executive transition costs	163	699
Adjusted EBITDA	73,707	73,789
Proforma net operating income adjustment for property changes within period	—	(440)
In-place adjusted EBITDA	$73,707	$73,349
Reconciliation of interest expense to the denominators for fixed charge coverage-Adjusted EBITDA		
Interest expense	$18,784	$18,994
Less: Amortization of deferred financing costs	(468)	(1,009)
Less: Amortization of net debt discounts, net of amounts capitalized	(354)	(339)
Less: Accum. other comprehensive loss on derivatives amortized to expense	(34)	—
Gain on interest rate derivatives	—	453
COPT's share of interest expense of unconsolidated real estate JV, excluding deferred financing costs	255	255
Scheduled principal amortization	1,052	1,008
Capitalized interest	1,374	1,531
Preferred share dividends	—	3,180
Preferred unit distributions	165	165
Denominator for fixed charge coverage-Adjusted EBITDA	$20,774	$24,238

Corporate Office Properties Trust
Summary Financial Data
(unaudited)
(Dollars in thousands)

	For the Three Months Ended March 31,	
	2018	2017
Reconciliations of tenant improvements and incentives, capital improvements and leasing costs for operating properties to replacement capital expenditures		
Tenant improvements and incentives	$ 8,615	$4,740
Building improvements	1,921	3,230
Leasing costs	1,280	1,151
Net additions to tenant improvements and incentives	3,289	6,796
Excluded building improvements	415	(2,868)
Replacement capital expenditures	$ 15,520	$13,049
Same Properties cash NOI	$ 69,376	$70,466
Straight line rent adjustments and lease incentive amortization	(1,627)	76
Amortization of acquired above- and below-market rents	(300)	(303)
Amortization of below-market cost arrangements	(146)	(147)
Lease termination fees, gross	1,008	706
Tenant funded landlord assets and lease incentives	1,863	1,109
Cash NOI adjustments in unconsolidated real estate JV	67	92
Same Properties NOI	$ 70,241	$71,999

	March 31, 2018	December 31, 2017
Reconciliation of total assets to adjusted book		
Total assets	$3,596,238	$3,595,205
Accumulated depreciation	813,457	786,193
Accumulated amortization of real estate intangibles and deferred leasing costs	197,520	193,151
COPT's share of liabilities of unconsolidated real estate JV	30,100	29,908
COPT's share of accumulated depreciation and amortization of unconsolidated real estate JV	3,752	3,189
Less: Disposed property included in assets held for sale	(42,226)	(42,226)
Less: Cash and cash equivalents	(8,888)	(12,261)
Less: COPT's share of cash of unconsolidated real estate JV	(295)	(371)
Adjusted book	$4,589,658	$4,552,788
Reconciliation of debt outstanding to net debt and net debt plus preferred equity		
Debt outstanding (excluding net debt discounts and deferred financing costs)	$1,898,115	$1,872,167
Less: Cash and cash equivalents	(8,888)	(12,261)
Less: COPT's share of cash of unconsolidated real estate JV	(295)	(371)
Net debt	$1,888,932	$1,859,535
Preferred equity	8,800	8,800
Net debt plus preferred equity	$1,897,732	$1,868,335

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