October 25, 2018

COPT Reports Third Quarter 2018 Results

COLUMBIA, Md.--(BUSINESS WIRE)-- Corporate Office Properties Trust ("COPT" or the "Company") (NYSE: OFC) announced financial and operating results for the third quarter and nine months ended September 30, 2018.

Management Comments

"We had a solid third quarter during which results met or modestly exceeded our quarterly guidance," stated Stephen E. Budorick, COPT's President & Chief Executive Officer. "Momentum from the fiscal year 2017 Defense budget continues to drive leasing, as defense contractors and U.S. Government agencies advance plans for new, strategically located facilities to accommodate mission growth and to comply with security mandates. We completed 2.9 million square feet of leasing in the first nine months of the year, including 694,000 square feet of development leasing. With the two build to suit projects announced earlier today, we have completed over one million square feet of development leasing to-date. We also completed 348,000 square feet of new leasing in the first nine months, which is 50% more volume than leasing achieved in the prior year period." He continued, "We expect to see new demand related to the 2018 budget emerge and to broaden the scope of leasing opportunities next year."

Financial Highlights

3rd Quarter Financial Results:

- Diluted earnings per share ("EPS") was $0.18 for the quarter ended September 30, 2018 as compared to $0.21 for the third quarter of 2017.
- Diluted funds from operations per share ("FFOPS"), as calculated in accordance with NAREIT's definition, was $0.50 for the third quarter of 2018 as compared to $0.54 for the third quarter of 2017.
- FFOPS, as adjusted for comparability, was $0.50 for the quarter ended September 30, 2018 as compared to $0.53 for the third quarter of 2017.

Adjustments for comparability encompass items such as gains and impairment losses on non-operating properties, derivative gains (losses), demolition costs of redevelopment and nonrecurring improvements, and executive transition costs.

Operating Performance Highlights

Operating Portfolio Summary:

- At September 30, 2018, the Company's core portfolio of 159 operating office properties was 92.2% occupied and 94.0% leased.
- During the quarter, the Company placed 214,000 square feet of development into service that were 100% leased. During the nine months ended September 30, 2018,

the Company placed 450,000 square feet into service in properties that were 86% leased.

Same-Property Performance:

- At September 30, 2018, COPT's same-property portfolio of 147 buildings was 92.1% occupied and 93.8% leased.
- For the quarter and nine months ended September 30, 2018, the Company's same-property cash NOI from Defense/IT locations increased 2.9% and 2.6%, respectively, over the prior year's comparable periods. For the same time periods, the Company's total same-property cash NOI increased 0.3% and decreased 0.1%, respectively, over the prior year's comparable periods.

Leasing:

- Square Feet Leased—For the quarter ended September 30, 2018, the Company leased 798,000 total square feet, including 618,000 square feet of renewing leases, 161,000 square feet of new leases on vacant space, and 19,000 square feet in development projects.

  For the nine months ended September 30, 2018, the Company leased 2.9 million total square feet, including 1.8 million square feet of renewing leases, 348,000 square feet of new leases on vacant space, and 694,000 square feet in development projects.
- Renewal Rates—During the third quarter and for the nine months ended September 30, 2018, the Company renewed 77% of total expiring leases.
- Rent Spreads & Average Escalations on Renewing Leases—For the quarter ended September 30, 2018, rents on renewed space increased 6.9% on a GAAP basis and decreased 1.6% on a cash basis; average annual escalations on renewing leases in the third quarter were 2.4%. For the nine months ended September 30, 2018, rents on renewed space increased 8.4% on a GAAP basis and 0.2% on a cash basis; average annual escalations on renewing leases for the nine months were 2.5%.
- Lease Terms—In the third quarter, lease terms averaged 3.8 years on renewing leases, 6.7 years on new leasing of vacant space, and 7.8 years on development leasing. For the nine months, lease terms averaged 3.4 years on renewing leases, 6.7 years on new leasing of vacant space, and 11.1 years on development leasing.

Investment Activity Highlights

Development & Redevelopment Projects:

- **Construction Pipeline.** At October 24, 2018, the Company's construction pipeline consisted of ten properties totaling 1.3 million square feet that were 89% leased. These projects have a total estimated cost of $377.7 million, of which $168.8 million has been incurred.
- **Redevelopment.** At the end of the quarter, two projects were under redevelopment totaling 128,000 square feet that were 17% leased. The Company has invested $15.5 million of the $30.0 million anticipated total cost.

Balance Sheet and Capital Transaction Highlights

- As of September 30, 2018, the Company's net debt plus preferred equity to adjusted book ratio was 39.4% and its net debt plus preferred equity to in-place adjusted EBITDA ratio was 6.1x. For the same period, the Company's adjusted EBITDA fixed charge coverage ratio was 3.6x.
- As of September 30, 2018 and including the effect of interest rate swaps, the Company's weighted average effective interest rate was 4.14%; additionally, 94% of the Company's debt was subject to fixed interest rates and the consolidated debt portfolio had a weighted average maturity of 4.4 years.
- During the third quarter, the Company issued 2.75 million common shares under its forward equity sale agreement for net proceeds of $80.2 million. Also during the quarter, the Company issued 992,000 common shares through its At-the-Market ("ATM") program at an average gross price of $30.46 per share for net proceeds of $29.8 million.
- After the quarter, the Company entered into a new $800 million credit agreement to replace its existing $800 million revolving credit facility that was scheduled to mature in May 2019. The new credit facility has a maturity date of March 2023, plus two six-month extension options. The new facility's interest rate is calculated as LIBOR plus 77.5—145 basis points; based on the Company's current credit ratings, the initial spread over LIBOR is 110 basis points.

2018 Guidance

Management is tightening its previously issued guidance range for full year EPS and FFOPS, as adjusted for comparability, to revised ranges of $0.65—$0.67 and $2.00—$2.02, respectively. Management is also tightening its previously issued EPS and FFOPS, as adjusted for comparability, guidance for the fourth quarter ending December 31, 2018, to ranges of $0.15—$0.17 and $0.49—$0.51, respectively. Reconciliations of projected diluted EPS to projected FFOPS are as follows:

	Quarter Ending December 31, 2018		Year Ending December 31, 2018	
	Low	High	Low	High
EPS	$ 0.15	$ 0.17	$ 0.65	$ 0.67
Real estate depreciation and amortization	0.35	0.35	1.35	1.35
Gain on sales of depreciable real estate	(0.01)	(0.01)	(0.01)	(0.01)
FFOPS, NAREIT definition	0.49	0.51	1.99	2.01
Other	-	-	0.01	0.01
FFOPS as adjusted for comparability	$ 0.49	$ 0.51	$ 2.00	$ 2.02

Associated Supplemental Presentation

Prior to the call, the Company will post a slide presentation to accompany management's prepared remarks for its third quarter 2018 conference call, the details of which are provided below. The accompanying slide presentation can be viewed on and downloaded from the 'Latest Updates' section of COPT's Investors website: https://investors.copt.com/

Conference Call Information

Management will discuss third 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, October 26, 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:	7587659

The conference call will also be available via live webcast in the 'Latest Updates' section of COPT's Investors website: https://investors.copt.com/

Replay Information

A replay of the conference call will be immediately available via webcast on COPT's Investors website. Additionally, a telephonic replay of this call will be available beginning at 3:00 p.m. Eastern Time on Friday, October 26, through 2:00 p.m. Eastern Time on Friday, November 9. To access the replay within the United States, please call 855-859-2056; to access it from outside the United States, please call 404-537-3406. In either case, use passcode 7587659.

Definitions

For definitions of certain terms used in this press release, please refer to the information furnished in the Company's Supplemental Information Package furnished on a Form 8-K which can be found on its 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 September 30, 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 159 office and data center shell properties encompassed 17.7 million square feet and was 94.0% leased; 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 September 30,		For the Nine Months Ended September 30,	
	2018	**2017**	**2018**	**2017**
Revenues				
Real estate revenues	$ 128,988	$ 127,231	$ 386,428	$ 382,295
Construction contract and other service revenues	8,423	29,786	53,202	65,958
Total revenues	137,411	157,017	439,630	448,253
Expenses				
Property operating expenses	49,340	46,368	149,737	143,515
Depreciation and amortization associated with real estate operations	34,195	34,438	100,897	100,290
Construction contract and other service expenses	8,058	28,788	51,215	63,589
Impairment (recoveries) losses	—	(161)	—	1,464
General and administrative expenses	5,796	5,692	17,724	18,456
Leasing expenses	1,103	1,676	4,095	5,382
Business development expenses and land carry costs	1,567	1,277	4,415	4,567
Total operating expenses	100,059	118,078	328,083	337,263
Operating income	37,352	38,939	111,547	110,990
Interest expense	(19,181)	(19,615)	(56,910)	(57,772)
Interest and other income	1,486	1,508	4,284	4,817
Loss on early extinguishment of debt	—	—	—	(513)
Income before equity in income of unconsolidated entities and income taxes	19,657	20,832	58,921	57,522
Equity in income of unconsolidated entities	374	371	1,120	1,118
Income tax benefit (expense)	291	(57)	173	(145)
Gain on sales of real estate	—	1,188	(27)	5,438
Net income	20,322	22,334	60,187	63,933
Net income attributable to noncontrolling interests:				
Common units in the Operating Partnership ("OP")	(380)	(693)	(1,532)	(1,576)
Preferred units in the OP	(165)	(165)	(495)	(495)
Other consolidated entities	(1,080)	(897)	(2,879)	(2,738)
Net income attributable to COPT	18,697	20,579	55,281	59,124
Preferred share dividends	—	—	—	(6,219)
Issuance costs associated with redeemed preferred shares	—	—	—	(6,847)
Net income attributable to COPT common shareholders	$ 18,697	$ 20,579	$ 55,281	$ 46,058
Earnings per share ("EPS") computation:				
Numerator for diluted EPS:				
Net income attributable to COPT common shareholders	$ 18,697	$ 20,579	$ 55,281	$ 46,058
Amount allocable to share-based compensation awards	(114)	(95)	(348)	(337)
Numerator for diluted EPS	$ 18,583	$ 20,484	$ 54,933	$ 45,721
Denominator:				
Weighted average common shares - basic	104,379	99,112	102,401	98,855
Dilutive effect of share-based compensation awards	231	146	165	154
Dilutive effect of forward equity sale agreements	178	—	60	—
Weighted average common shares - diluted	104,788	99,258	102,626	99,009
Diluted EPS	$ 0.18	$ 0.21	$ 0.54	$ 0.46

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

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2018	2017	2018	2017
Net income	$ 20,322	$ 22,334	$ 60,187	$ 63,933
Real estate-related depreciation and amortization	34,195	34,438	100,897	100,290
Impairment (recoveries) losses on previously depreciated operating properties	—	(159)	—	1,451
Gain on sales of previously depreciated operating properties	—	(8)	27	(39)
Depreciation and amortization on unconsolidated real estate JV	564	563	1,691	1,689
Funds from operations (“FFO”)	55,081	57,168	162,802	167,324
Preferred share dividends	—	—	—	(6,219)
Issuance costs associated with redeemed preferred shares	—	—	—	(6,847)
Noncontrolling interests - preferred units in the OP	(165)	(165)	(495)	(495)
FFO allocable to other noncontrolling interests	(1,060)	(917)	(2,757)	(2,801)
Basic and diluted FFO allocable to share-based compensation awards	(214)	(215)	(651)	(616)
Basic and Diluted FFO available to common share and common unit holders (“Diluted FFO”)	53,642	55,871	158,899	150,346
Gain on sales of non-operating properties	—	(1,180)	—	(5,399)
Impairment (recoveries) losses on non-operating properties	—	(2)	—	13
Gain on interest rate derivatives	—	(34)	—	(43)
Loss on early extinguishment of debt	—	—	—	513
Issuance costs associated with redeemed preferred shares	—	—	—	6,847
Demolition costs on redevelopment and nonrecurring improvements	251	—	299	294
Executive transition costs	46	2	422	732
Diluted FFO comparability adjustments allocable to share-based compensation awards	(1)	5	(3)	(12)
Diluted FFO available to common share and common unit holders, as adjusted for comparability	53,938	54,662	159,617	153,291
Straight line rent adjustments and lease incentive amortization	582	(561)	(1,441)	1,389
Amortization of intangibles included in net operating income	153	318	740	1,002
Share-based compensation, net of amounts capitalized	1,557	1,272	4,592	3,830
Amortization of deferred financing costs	468	554	1,404	2,485
Amortization of net debt discounts, net of amounts capitalized	362	347	1,074	1,029
Accum. other comprehensive loss on derivatives amortized to expense	33	53	101	89
Replacement capital expenditures	(18,803)	(15,233)	(49,936)	(39,551)
Other diluted AFFO adjustments associated with real estate JVs	50	(53)	149	(171)
Diluted adjusted funds from operations available to common share and common unit holders (“Diluted AFFO”)	$ 38,340	$ 41,359	$ 116,300	$ 123,393
Diluted FFO per share	$ 0.50	$ 0.54	$ 1.51	$ 1.47
Diluted FFO per share, as adjusted for comparability	$ 0.50	$ 0.53	$ 1.51	$ 1.50
Dividends/distributions per common share/unit	$ 0.275	$ 0.275	$ 0.825	$ 0.825

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

	September 30, 2018	December 31, 2017
Balance Sheet Data		
Properties, net of accumulated depreciation	$ 3,207,427	$ 3,141,105
Total assets	3,650,366	3,595,205
Debt, per balance sheet	1,808,030	1,828,333
Total liabilities	2,015,206	2,103,773
Redeemable noncontrolling interest	25,431	23,125
Equity	1,609,729	1,468,307
Net debt to adjusted book	39.2%	40.8%
Core Portfolio Data (as of period end) (1)		
Number of operating properties	159	156
Total net rentable square feet owned (in thousands)	17,710	17,059
Occupancy %	92.2%	94.5%
Leased %	94.0%	95.1%

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2018	2017	2018	2017
Payout ratios				
Diluted FFO	56.3%	50.4%	55.5%	56.2%
Diluted FFO, as adjusted for comparability	56.0%	51.5%	55.3%	55.1%
Diluted AFFO	78.8%	68.1%	75.8%	68.5%
Adjusted EBITDA fixed charge coverage ratio	3.6x	3.6x	3.6x	3.3x
Net debt to in-place adjusted EBITDA ratio (2)	6.1x	6.2x	N/A	N/A
Net debt plus preferred equity to in-place adjusted EBITDA ratio (3)	6.1x	6.2x	N/A	N/A
Reconciliation of denominators for per share measures				
Denominator for diluted EPS	104,788	99,258	102,626	99,009
Weighted average common units	2,135	3,350	2,847	3,400
Denominator for diluted FFO per share and as adjusted for comparability	106,923	102,608	105,473	102,409

(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 September 30,		For the Nine Months Ended September 30,	
	2018	2017	2018	2017
Reconciliation of common share dividends to dividends and distributions for payout ratios				
Common share dividends - unrestricted shares	$29,821	$27,282	$ 86,079	$ 81,742
Common unit distributions	373	895	2,131	2,767
Dividends and distributions for payout ratios	$30,194	$28,177	$ 88,210	$ 84,509
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	$20,322	$22,334	$ 60,187	$ 63,933
Interest expense	19,181	19,615	56,910	57,772
Income tax (benefit) expense	(291)	57	(173)	145
Depreciation of furniture, fixtures and equipment	561	577	1,543	1,673
Real estate-related depreciation and amortization	34,195	34,438	100,897	100,290
Impairment (recoveries) losses on previously depreciated operating properties	—	(159)	—	1,451
Gain on sales of previously depreciated operating properties	—	(8)	27	(39)
Adjustments from unconsolidated real estate JV	830	830	2,482	2,481
EBITDAre	74,798	77,684	221,873	227,706
Impairment (recoveries) losses on non-operating properties	—	(2)	—	13
Loss on early extinguishment of debt	—	—	—	513
Gain on sales of non-operating properties	—	(1,180)	—	(5,399)
Business development expenses	673	737	2,453	2,670
Demolition costs on redevelopment and nonrecurring improvements	251	—	299	294
Executive transition costs	46	2	422	732
Adjusted EBITDA	75,768	77,241	$225,047	$226,529
Proforma net operating income adjustment for property changes within period	166	(410)		
In-place adjusted EBITDA	$75,934	$76,831		
Reconciliation of interest expense to the denominators for fixed charge coverage-Adjusted EBITDA				
Interest expense	$19,181	$19,615	$ 56,910	$ 57,772
Less: Amortization of deferred financing costs	(468)	(554)	(1,404)	(2,485)
Less: Amortization of net debt discounts, net of amounts capitalized	(362)	(347)	(1,074)	(1,029)
Less: Accum. other comprehensive loss on derivatives amortized to expense	(33)	(53)	(101)	(89)
Gain on interest rate derivatives	—	34	—	43
COPT's share of interest expense of unconsolidated real estate JV, excluding deferred financing costs	261	261	774	774
Scheduled principal amortization	1,060	1,015	3,161	3,028
Capitalized interest	1,410	1,055	4,181	4,197
Preferred share dividends	—	—	—	6,219
Preferred unit distributions	165	165	495	495
Denominator for fixed charge coverage-Adjusted EBITDA	$21,214	$21,191	$ 62,942	$ 68,925

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

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2018	2017	2018	2017
Reconciliations of tenant improvements and incentives, capital improvements and leasing costs for operating properties to replacement capital expenditures				
Tenant improvements and incentives	$12,894	$11,342	$ 29,626	$ 22,230
Building improvements	5,975	3,865	13,671	13,067
Leasing costs	2,945	2,428	6,047	5,245
Net (exclusions from) additions to tenant improvements and incentives	(896)	(1,509)	3,708	5,913
Excluded building improvements	(2,134)	(893)	(3,089)	(6,904)
Excluded leasing costs	19	—	(27)	—
Replacement capital expenditures	$18,803	$15,233	$ 49,936	$ 39,551
Same Properties cash NOI	$71,813	$71,616	$ 212,527	$ 212,759
Straight line rent adjustments and lease incentive amortization	(1,088)	(1,298)	(3,649)	(1,758)
Amortization of acquired above- and below-market rents	(98)	(263)	(574)	(836)
Amortization of below-market cost arrangements	(147)	(148)	(442)	(443)
Lease termination fees, gross	759	860	2,325	2,083
Tenant funded landlord assets and lease incentives	318	791	3,012	3,370
Cash NOI adjustments in unconsolidated real estate JV	62	82	197	263
Same Properties NOI	$71,619	$71,640	$ 213,396	$ 215,438

	September 30, 2018	December 31, 2017
Reconciliation of total assets to adjusted book		
Total assets	$3,650,366	$3,595,205
Accumulated depreciation	867,659	786,193
Accumulated amortization of real estate intangibles and deferred leasing costs	200,229	193,151
COPT's share of liabilities of unconsolidated real estate JV	30,103	29,908
COPT's share of accumulated depreciation and amortization of unconsolidated real estate JV	4,881	3,189
Less: Disposed property included in assets held for sale	(42,226)	(42,226)
Less: Cash and cash equivalents	(9,492)	(12,261)
Less: COPT's share of cash of unconsolidated real estate JV	(444)	(371)
Adjusted book	$4,701,076	$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)	$1,853,312	$1,872,167
Less: Cash and cash equivalents	(9,492)	(12,261)
Less: COPT's share of cash of unconsolidated real estate JV	(444)	(371)
Net debt	$1,843,376	$1,859,535
Preferred equity	8,800	8,800
Net debt plus preferred equity	$1,852,176	$1,868,335

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Corporate Office Properties Trust
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