February 7, 2019

COPT Reports 4Q and Full Year 2018 Results

COLUMBIA, Md.--(BUSINESS WIRE)-- Corporate Office Properties Trust ("COPT" or the "Company") (NYSE: OFC) announced financial and operating results for the fourth quarter and full year ended December 31, 2018.

Management Comments

"Our fourth quarter represented a strong finish to a solid year," stated Stephen E. Budorick, COPT's President & Chief Executive Officer. "Leasing further accelerated during the fourth quarter, resulting in nearly 250,000 square feet of vacancy leasing, 377,000 square feet of development leasing, and 700,000 square feet of renewals, resulting in a robust 82% retention rate. For the year, we leased over 4.2 million square feet, including nearly 600,000 square feet of vacancy leasing, and 1.1 million square feet of development leasing—the second highest level in our 20 year history as a public company." He continued, "Thus far in 2019, we have completed the lease for the second floor at 310 NBP with the U.S. Government, are in advanced negotiations on a significant level of development leasing, and are on track to register another strong year of leasing in the operating portfolio."

Financial Highlights

4th Quarter Financial Results:

- Diluted earnings per share ("EPS") was $0.16 for the quarter ended December 31, 2018 as compared to $0.10 for the fourth quarter of 2017.
- Diluted funds from operations per share ("FFOPS"), as calculated in accordance with NAREIT's definition, was $0.47 for the fourth quarter of 2018, equal to fourth quarter 2017 results.
- FFOPS, as adjusted for comparability, was $0.50 for the quarter ended December 31, 2018 as compared to $0.53 for the fourth quarter of 2017.

Full Year 2018 Financial Results:

- EPS for the year ended December 31, 2018 was $0.69 as compared to $0.56 for 2017.
- Per NAREIT's definition, FFOPS for 2018 was $1.97 as compared to $1.94 for 2017.
- FFOPS, as adjusted for comparability, for 2018 was $2.01 as compared to $2.02 for 2017.

Adjustments for comparability encompass items such as gains and impairment losses on non-operating properties, losses on early extinguishment of debt, derivative gains (losses), issuance costs associated with redeemed preferred shares, demolition costs of redevelopment and nonrecurring improvements, and executive transition costs.

Operating Performance Highlights

Operating Portfolio Summary:

- At December 31, 2018, the Company's core portfolio of 161 operating office properties was 93.1% occupied and 94.0% leased.

  During the quarter, the Company placed two developments aggregating 238,000 square feet plus our build-to-suit for a defense contractor into service; all three developments were 100% leased. During the year, the Company placed seven developments totaling 688,000 square feet that were 90% leased and the build-to-suit for a defense contractor that was 100% leased into service.

Same-Property Performance:

- At December 31, 2018, COPT's same-property portfolio of 147 buildings was 93.0% occupied and 93.8% leased.
- For the quarter and year ended December 31, 2018, the Company's same-property cash NOI from Defense/IT locations increased 1.0% and 2.1%, respectively, over the prior year's comparable periods. For the same time periods, the Company's total same-property cash NOI decreased 1.1% and 0.4%, respectively, over the prior year's comparable periods.

Leasing:

- Square Feet Leased—For the quarter ended December 31, 2018, the Company leased 1.3 million total square feet, including 704,000 square feet of renewing leases, 248,000 square feet of new leases on vacant space, and 377,000 square feet in development projects.

  For the year ended December 31, 2018, the Company leased 4.2 million total square feet, including 2.5 million square feet of renewing leases, 596,000 square feet of new leases on vacant space, and 1.1 million square feet in development projects.

- Renewal Rates—During the fourth quarter and year ended December 31, 2018, the Company renewed 82.2% and 78.4%, respectively, of total expiring leases.
- Rent Spreads & Average Escalations on Renewing Leases—For the quarter ended December 31, 2018, rents on renewed space increased 3.0% on a GAAP basis and decreased 6.9% on a cash basis; average annual escalations on renewing leases in the fourth quarter were 2.7%. For the year ended December 31, 2018, rents on renewed space increased 6.8% on a GAAP basis and decreased 2.0% on a cash basis; average annual escalations on renewing leases for the year were 2.6%.
- Lease Terms—In the fourth quarter, lease terms averaged 4.6 years on renewing leases, 8.5 years on new leasing of vacant space, and 14.7 years on development leasing. For the year, lease terms averaged 3.8 years on renewing leases, 7.4 years on new leasing of vacant space, and 12.4 years on development leasing.

Investment Activity Highlights

Development & Redevelopment Projects:

- **Construction Pipeline.** At January 2, 2019, the Company's construction pipeline consisted of nine properties totaling 1.1 million square feet that were 81% leased. These projects have a total estimated cost of $332.5 million, of which $162.4 million has been incurred.
- **Redevelopment.** At the end of the quarter, one project was under redevelopment totaling 106,000 square feet that was 0% leased. Subsequent to the quarter, the Company executed a 10,000 square foot pre-lease, bringing the project to 9% leased. The Company has invested $11.6 million of the $25.1 million anticipated total cost.

Balance Sheet and Capital Transaction Highlights

- As of December 31, 2018, the Company's net debt plus preferred equity to adjusted book ratio was 39.1% and its net debt plus preferred equity to in-place adjusted EBITDA ratio was 6.0x. For the same period, the Company's adjusted EBITDA fixed charge coverage ratio was 3.6x.
- As of December 31, 2018 and including the effect of interest rate swaps, the Company's weighted average effective interest rate was 4.1%; additionally, 93% of the Company's debt was subject to fixed interest rates and the consolidated debt portfolio had a weighted average maturity of 4.5 years.
- During the fourth quarter and year ended December 31, 2018, the Company issued 1.4 million and 5.9 million common shares under its forward equity sale agreement for net proceeds of $40.0 million and $172.5 million, respectively. Also during the year, 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.
- In October, the Company entered into a new $800 million credit agreement to replace its existing $800 million revolving credit facility. 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.

Associated Supplemental Presentation

Prior to the call, the Company will post a slide presentation to accompany management's prepared remarks for its fourth quarter and year end 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 fourth quarter and year end 2018 results on its conference call tomorrow at 12:00 p.m. Eastern Time, details of which are listed below:

Conference Call Date:	Friday, February 8, 2019
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:	1485747

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 the Investors website. Additionally, a telephonic replay of this call will be available beginning at 3:00 p.m. Eastern Time on Friday, February 8, through 3:00 p.m. Eastern Time on Friday, February 22. 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 1485747.

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 December 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 161 office and data center shell properties encompassed 17.9 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 dilutive effects of issuing additional common shares;*
- *the Company's ability to achieve projected results;*
- *security breaches relating to cyber attacks, cyber intrusions or other factors; 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 December 31,		For the Years Ended December 31,	
	2018	2017	2018	2017
Revenues				
Real estate revenues	$130,825	$ 127,685	$517,253	$509,980
Construction contract and other service revenues	7,657	36,882	60,859	102,840
Total revenues	138,482	164,567	578,112	612,820
Expenses				
Property operating expenses	51,298	47,449	201,035	190,964
Depreciation and amortization associated with real estate operations	36,219	33,938	137,116	134,228
Construction contract and other service expenses	7,111	36,029	58,326	99,618
Impairment losses	2,367	13,659	2,367	15,123
General and administrative expenses	5,105	5,552	22,829	24,008
Leasing expenses	1,976	1,447	6,071	6,829
Business development expenses and land carry costs	1,425	1,646	5,840	6,213
Total operating expenses	105,501	139,720	433,584	476,983
Operating income	32,981	24,847	144,528	135,837
Interest expense	(18,475)	(19,211)	(75,385)	(76,983)
Interest and other income	74	1,501	4,358	6,318
Gain on sales of real estate	2,367	4,452	2,340	9,890
Loss on early extinguishment of debt	(258)	—	(258)	(513)
Income before equity in income of unconsolidated entities and income taxes	16,689	11,589	75,583	74,549
Equity in income of unconsolidated entities	1,577	372	2,697	1,490
Income tax benefit (expense)	190	(953)	363	(1,098)
Net income	18,456	11,008	78,643	74,941
Net income attributable to noncontrolling interests:				
Common units in the Operating Partnership ("OP")	(210)	(314)	(1,742)	(1,890)
Preferred units in the OP	(165)	(165)	(660)	(660)
Other consolidated entities	(1,061)	(908)	(3,940)	(3,646)
Net income attributable to COPT	17,020	9,621	72,301	68,745
Preferred share dividends	—	—	—	(6,219)
Issuance costs associated with redeemed preferred shares	—	—	—	(6,847)
Net income attributable to COPT common shareholders	$ 17,020	$ 9,621	$ 72,301	$ 55,679
Earnings per share ("EPS") computation:				
Numerator for diluted EPS:				
Net income attributable to COPT common shareholders	$ 17,020	$ 9,621	$ 72,301	$ 55,679
Amount allocable to share-based compensation awards	(114)	(112)	(462)	(449)
Numerator for diluted EPS	$ 16,906	$ 9,509	$ 71,839	$ 55,230
Denominator:				
Weighted average common shares - basic	108,528	99,304	103,946	98,969
Dilutive effect of share-based compensation awards	45	68	134	132
Dilutive effect of forward equity sale agreements	—	215	45	54
Weighted average common shares - diluted	108,573	99,587	104,125	99,155
Diluted EPS	$ 0.16	$ 0.10	$ 0.69	$ 0.56

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

	For the Three Months Ended December 31,		For the Years Ended December 31,	
	2018	**2017**	**2018**	**2017**
Net income	$18,456	$11,008	$ 78,643	$ 74,941
Real estate-related depreciation and amortization	36,219	33,938	137,116	134,228
Impairment losses on previously depreciated operating properties	6	9,004	6	10,455
Gain on sales of previously depreciated operating properties	(2,367)	(4,452)	(2,340)	(4,491)
Depreciation and amortization on unconsolidated real estate JV	565	563	2,256	2,252
Funds from operations (“FFO”)	52,879	50,061	215,681	217,385
Preferred share dividends	—	—	—	(6,219)
Issuance costs associated with redeemed preferred shares	—	—	—	(6,847)
Noncontrolling interests - preferred units in the OP	(165)	(165)	(660)	(660)
FFO allocable to other noncontrolling interests	(1,011)	(874)	(3,768)	(3,675)
Basic and diluted FFO allocable to share-based compensation awards	(200)	(198)	(851)	(814)
Basic FFO available to common share and common unit holders (“Basic FFO”)	51,503	48,824	210,402	199,170
Redeemable noncontrolling interests	331	—	1,540	—
Diluted FFO available to common share and common unit holders (“Diluted FFO”)	51,834	48,824	211,942	199,170
Gain on sales of non-operating properties	—	—	—	(5,399)
Impairment losses on non-operating properties	2,361	4,655	2,361	4,668
Income tax expense associated with FFO comparability adjustments	—	800	—	800
Gain on interest rate derivatives	—	(191)	—	(234)
Loss on early extinguishment of debt	258	—	258	513
Issuance costs associated with redeemed preferred shares	—	—	—	6,847
Demolition costs on redevelopment and nonrecurring improvements	163	—	462	294
Executive transition costs	371	—	793	732
Diluted FFO comparability adjustments allocable to share-based compensation awards	(13)	(23)	(16)	(35)
Diluted FFO available to common share and common unit holders, as adjusted for comparability	54,974	54,065	215,800	207,356
Straight line rent adjustments and lease incentive amortization	(46)	(1,343)	(1,487)	46
Amortization of intangibles included in net operating income	153	342	893	1,344
Share-based compensation, net of amounts capitalized	1,601	1,523	6,193	5,353
Amortization of deferred financing costs	550	443	1,954	2,928
Amortization of net debt discounts, net of amounts capitalized	365	350	1,439	1,379
Accum. other comprehensive loss on derivatives amortized to expense	34	54	135	143
Replacement capital expenditures	(14,848)	(23,475)	(64,784)	(63,026)
Other diluted AFFO adjustments associated with real estate JVs	(28)	(39)	121	(210)
Diluted adjusted funds from operations available to common share and common unit holders (“Diluted AFFO”)	$42,755	$31,920	$160,264	$155,313
Diluted FFO per share	$ 0.47	$ 0.47	$ 1.97	$ 1.94
Diluted FFO per share, as adjusted for comparability	$ 0.50	$ 0.53	$ 2.01	$ 2.02
Dividends/distributions per common share/unit	$ 0.275	$ 0.275	$ 1.100	$ 1.100

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

	December 31, 2018	December 31, 2017
Balance Sheet Data		
Properties, net of accumulated depreciation	$ 3,250,626	$ 3,141,105
Total assets	3,656,005	3,595,205
Debt, per balance sheet	1,823,909	1,828,333
Total liabilities	2,002,697	2,103,773
Redeemable noncontrolling interest	26,260	23,125
Equity	1,627,048	1,468,307
Net debt to adjusted book	38.9%	40.8%
Core Portfolio Data (as of period end) (1)		
Number of operating properties	161	156
Total net rentable square feet owned (in thousands)	17,937	17,059
Occupancy %	93.1%	94.5%
Leased %	94.0%	95.1%

	For the Three Months Ended December 31,		For the Years Ended December 31,	
	2018	2017	2018	2017
Payout ratios				
Diluted FFO	59.0%	58.7%	56.0%	56.8%
Diluted FFO, as adjusted for comparability	55.6%	53.0%	55.0%	54.6%
Diluted AFFO	71.5%	89.7%	74.1%	72.9%
Adjusted EBITDA fixed charge coverage ratio	3.6x	3.7x	3.6x	3.4x
Net debt to in-place adjusted EBITDA ratio (2)	6.0x	6.1x	N/A	N/A
Net debt plus preferred equity to in-place adjusted EBITDA ratio (3)	6.0x	6.1x	N/A	N/A
Reconciliation of denominators for per share measures				
Denominator for diluted EPS	108,573	99,587	104,125	99,155
Weighted average common units	1,345	3,252	2,468	3,362
Redeemable noncontrolling interests	1,126	—	936	—
Denominator for diluted FFO per share and as adjusted for comparability	111,044	102,839	107,529	102,517

(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 December 31,		For the Years Ended December 31,	
	2018	2017	2018	2017
Reconciliation of common share dividends to dividends and distributions for payout ratios				
Common share dividends - unrestricted shares	$30,206	$27,747	$116,285	$109,489
Common unit distributions	367	894	2,498	3,661
Dividends and distributions for payout ratios	$30,573	$28,641	$118,783	$113,150
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	$18,456	$11,008	$ 78,643	$ 74,941
Interest expense	18,475	19,211	75,385	76,983
Income tax (benefit) expense	(190)	953	(363)	1,098
Depreciation of furniture, fixtures and equipment	404	600	1,947	2,273
Real estate-related depreciation and amortization	36,219	33,938	137,116	134,228
Impairment losses on previously depreciated operating properties	6	9,004	6	10,455
Gain on sales of previously depreciated operating properties	(2,367)	(4,452)	(2,340)	(4,491)
Adjustments from unconsolidated real estate JV	832	829	3,314	3,310
EBITDAre	71,835	71,091	293,708	298,797
Impairment losses on non-operating properties	2,361	4,655	2,361	4,668
Loss on early extinguishment of debt	258	—	258	513
Gain on sales of non-operating properties	—	—	—	(5,399)
Net gain on other investments	(449)	—	(449)	—
Business development expenses	661	1,116	3,114	3,786
Demolition costs on redevelopment and nonrecurring improvements	163	—	462	294
Executive transition costs	371	—	793	732
Adjusted EBITDA	75,200	76,862	$300,247	$303,391
Proforma net operating income adjustment for property changes within period	2,052	(578)		
In-place adjusted EBITDA	$77,252	$76,284		
Reconciliation of interest expense to the denominators for fixed charge coverage-Adjusted EBITDA				
Interest expense	$18,475	$19,211	$ 75,385	$ 76,983
Less: Amortization of deferred financing costs	(550)	(443)	(1,954)	(2,928)
Less: Amortization of net debt discounts, net of amounts capitalized	(365)	(350)	(1,439)	(1,379)
Less: Accum. other comprehensive loss on derivatives amortized to expense	(34)	(54)	(135)	(143)
Gain on interest rate derivatives	—	191	—	234
COPT's share of interest expense of unconsolidated real estate JV, excluding deferred financing costs	260	260	1,034	1,034
Scheduled principal amortization	1,079	1,034	4,240	4,062
Capitalized interest	1,748	1,032	5,929	5,229
Preferred share dividends	—	—	—	6,219
Preferred unit distributions	165	165	660	660
Denominator for fixed charge coverage-Adjusted EBITDA	$20,778	$21,046	$ 83,720	$ 89,971

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

	For the Three Months Ended December 31,		For the Years Ended December 31,	
	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	$ 7,876	$14,804	$ 37,502	$ 37,034
Building improvements	9,306	9,241	22,977	22,308
Leasing costs	3,800	3,242	9,847	8,487
Net (exclusions from) additions to tenant improvements and incentives	(2,131)	(2,929)	1,577	2,984
Excluded building improvements	(3,984)	(853)	(7,073)	(7,757)
Excluded leasing costs	(19)	(30)	(46)	(30)
Replacement capital expenditures	$14,848	$23,475	$ 64,784	$ 63,026
Same Properties cash NOI	$70,923	$71,711	$ 283,450	$ 284,470
Straight line rent adjustments and lease incentive amortization	(638)	(1,050)	(4,287)	(2,808)
Amortization of acquired above- and below-market rents	(97)	(287)	(671)	(1,123)
Amortization of below-market cost arrangements	(147)	(147)	(589)	(590)
Lease termination fees, gross	906	828	3,231	2,911
Tenant funded landlord assets and lease incentives	409	1,118	3,421	4,488
Cash NOI adjustments in unconsolidated real estate JV	57	73	254	336
Same Properties NOI	$71,413	$72,246	$ 284,809	$ 287,684

	December 31, 2018	December 31, 2017
Reconciliation of total assets to adjusted book		
Total assets	$3,656,005	$3,595,205
Accumulated depreciation	897,903	786,193
Accumulated amortization of real estate intangibles and deferred leasing costs	204,882	193,151
COPT's share of liabilities of unconsolidated real estate JV	29,917	29,908
COPT's share of accumulated depreciation and amortization of unconsolidated real estate JV	5,446	3,189
Less: Disposed property included in assets held for sale	—	(42,226)
Less: Cash and cash equivalents	(8,066)	(12,261)
Less: COPT's share of cash of unconsolidated real estate JV	(293)	(371)
Adjusted book	$4,785,794	$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)	$1,868,504	$1,872,167
Less: Cash and cash equivalents	(8,066)	(12,261)
Less: COPT's share of cash of unconsolidated real estate JV	(293)	(371)
Net debt	$1,860,145	$1,859,535
Preferred equity	8,800	8,800
Net debt plus preferred equity	$1,868,945	$1,868,335

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Source: Corporate Office Properties Trust