October 28, 2019

COPT Reports Third Quarter 2019 Results

EPS of $0.19 Exceeded & FFO per Share of $0.51 Met High-End of Guidance
Achieved Same-Property Cash NOI Growth of 0.5% in 3Q19 and 3.2% in First Nine Months
Core Portfolio 92.8% Occupied & 94.5% Leased
804,000 SF of 100% Leased Developments Placed into Service through 9/30/19
2.6 Million SF Under Construction are 82% Leased; Should Drive Outsized FFO Growth in 2021

Record Leasing Volumes
1.7 Million & 4.2 Million SF of Total Leasing Completed, Respectively, in 3Q19 & First Nine Months
Record U.S. Government Total Leasing Volume of 546,000 SF in First Nine Months
622,000 SF of Vacancy Leasing in First Nine Months Exceeds 2018's Entire Annual Volume
164,000 SF of U.S. Government Leasing in Operating Portfolio Sets New Annual Record
Solid Tenant Retention of 72% in 3Q19 & 75% in First Nine Months
Development Leasing of 875,000 SF in 3Q19; Record 2.1 Million SF Year-to-Date
Raising 2019 Development Leasing Goal Further, to 2.2 Million SF

Tightening Full-Year FFO per Share Guidance to $2.02–$2.04
Establishing 4Q19 FFO per Share Guidance of $0.49–$0.51

COLUMBIA, Md.--(BUSINESS WIRE)-- Corporate Office Properties Trust ("COPT" or the "Company") (NYSE:OFC) announced financial and operating results for the third quarter ended September 30, 2019.

Management Comments

Stephen E. Budorick, COPT's President & Chief Executive Officer, commented, "Third quarter FFO per share met the high-end of our guidance, and the strengthening demand taking place throughout our Defense/IT locations continued to support record-levels of leasing, both for new developments and within our operating portfolio. Our 2.1 million square feet of development leasing through the third quarter is 68% greater than our prior full-year record set in 2012, and our 622,000 square feet of vacancy leasing this year is on-pace to set a new annual record." He continued, "We expect to finish the year with strength, and for leasing momentum to carry into 2020."

Financial Highlights

3rd Quarter Financial Results:

- Diluted earnings per share ("EPS") was $0.19 for the quarter ended September 30, 2019 as compared to $0.18 for the third quarter of 2018.
- Diluted funds from operations per share ("FFOPS"), as calculated in accordance with Nareit's definition and as adjusted for comparability, was $0.51 for the third quarter of 2019 as compared to $0.50 for third quarter 2018 results.

Operating Performance Highlights

Operating Portfolio Summary:

- At September 30, 2019, the Company's core portfolio of 167 operating office and data center shell properties was 92.8% occupied and 94.5% leased.
- During the quarter, the Company placed portions of two developments aggregating 17,000 square feet into service that were 100% leased. During the nine months ended September 30, 2019, the Company placed 804,000 square feet into service in properties that were 100% leased.

Same-Property Performance:

- At September 30, 2019, COPT's same-property portfolio of 150 buildings was 91.9% occupied and 93.8% leased.
- For the quarter and nine months ended September 30, 2019, the Company's same-property cash NOI increased 0.5% and 3.2%, respectively, over the prior year's comparable periods.

Leasing:

- Total Square Feet Leased—For the quarter ended September 30, 2019, the Company leased 1.7 million total square feet, including 592,000 square feet of renewals, 251,000 square feet of new leases on vacant space, and 875,000 square feet in development projects.

  During the nine months ended September 30, 2019, the Company leased 4.2 million total square feet, including 1.5 million square feet of renewals, 622,000 square feet of new leases on vacant space, and 2.1 million square feet in development projects.

- Renewal Rates—During the quarter and nine months ended September 30, 2019, the Company respectively renewed 71.9% and 75.4% of total expiring leases.
- Cash Rent Spreads & Average Escalations on Renewing Leases—For the quarter and nine months ended September 30, 2019, cash rents on renewed space decreased 6.3% and 5.3%, respectively. For the same time periods, average annual escalations on renewing leases were 2.2% and 2.4%, respectively.
- Lease Terms—In the third quarter, lease terms averaged 3.8 years on renewing leases, 5.8 years on new leasing of vacant space, and 13.6 years on development leasing. For the nine months, lease terms averaged 3.4 years on renewing leases, 6.0 years on new leasing of vacant space, and 12.7 years on development leasing.

Investment Activity Highlights

Development & Redevelopment Projects:

- Construction Pipeline—At October 9, 2019, the Company's construction pipeline consisted of 14 properties totaling 2.5 million square feet that were 82% leased. These projects have a total estimated cost of $715.4 million, of which $304.5 million has been incurred.
- Redevelopment—At September 30, 2019, one project was under redevelopment

totaling 106,000 square feet that was 80% leased. The Company has invested $22.4 million of the $25.9 million anticipated total cost.

Balance Sheet and Capital Transaction Highlights

- As of September 30, 2019, the Company's net debt plus preferred equity to adjusted book ratio was 37.5% 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 3.7x.
- As of September 30, 2019, and including the effect of interest rate swaps, the Company's weighted average effective interest rate was 4.1%; additionally, 86.4% of the Company's debt was subject to fixed interest rates and the consolidated debt portfolio had a weighted average maturity of 3.8 years.
- During the third quarter, the Company's joint venture with Blackstone Real Estate Income Trust, Inc. ("BREIT") placed $154 million of mortgage debt on its seven data center shells. The mortgage debt matures in July 2029, is interest-only for the term, and bears interest at 3.64%. COPT received its 10% share of the mortgage proceeds.

2019 Guidance

Management is updating its previously issued guidance range of $1.52—$1.56 for full year EPS to a new range of $1.53–$1.55. The Company is tightening its previously issued guidance range for full year FFOPS, as adjusted for comparability, of $2.01—$2.05, to a new range of $2.02—$2.04.

Management also is establishing EPS and FFOPS, as adjusted for comparability, guidance for the fourth quarter ending December 31, 2019 at ranges of $0.30—$0.32 and $0.49—$0.51, 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 December 31, 2019		Year ending December 31, 2019	
	Low	High	Low	High
EPS	$0.30	$0.32	$1.53	$1.55
Real estate depreciation and amortization	0.35	0.35	1.40	1.40
Gain on sales of real estate	(0.16)	(0.16)	(0.91)	(0.91)
FFOPS, Nareit definition and as adjusted for comparability	$0.49	$0.51	$2.02	$2.04

Updated Full-Year Guidance Assumptions—As a reminder, Management expects to complete the sale of two additional data center shells to the BREIT joint venture during 4Q19 to fund additional development. Management is updating the following assumptions for its full-year guidance:

- **Development Leasing Objective.** Management is increasing its development leasing goal for the year, from the previously elevated target of 2.0 million square feet, to a new target of 2.2 million square feet.
- **Same-Property Cash NOI Growth.** Management is increasing and tightening its previously increased guidance for full-year same-property cash NOI growth, from the prior range of 2.75%–3.25% to the new range of 3.25%–3.5%. The increase reflects expense management improvements at the property level.
- **Same-Property Year-End Occupancy.** The Company is adjusting its expectation for

same-property occupancy at year end from the prior range of 92%–93%, to 91.5%–92.0%. The decrease reflects expected occupancy dates on approximately 50,000 square feet of new tenancy slipping from late 4Q19 into 1Q20.

Associated Supplemental Presentation

Prior to the call, the Company will post a slide presentation to accompany management's prepared remarks for its third quarter 2019 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 2019 results on its conference call tomorrow at 12:00 p.m. Eastern Time, details of which are listed below:

Conference Call Date:	Tuesday, October 29, 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:	3489935

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 available immediately 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 Tuesday, October 29 through 2:00 p.m. Eastern Time on Tuesday, November 12. 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 3489935.

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, 2019, 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 13 buildings owned through unconsolidated joint

ventures, COPT's core portfolio of 167 office and data center shell properties encompassed 18.8 million square feet and was 94.5% 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 and the Company undertakes no obligation to update or supplement any forward-looking statements.

The areas of risk that may affect these expectations, estimates and projections include, but are not limited to, those risks described in Item 1A of the Company's Annual Report on Form 10-K for the year ended December 31, 2018 and Quarterly Report on Form 10-Q for the quarter ended June 30, 2019.

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,	
	2019	2018	2019	2018
Revenues				
Revenues from real estate operations	$ 130,734	$ 128,988	$ 395,495	$ 386,428
Construction contract and other service revenues	28,697	8,423	87,946	53,202
Total revenues	159,431	137,411	483,441	439,630
Operating expenses				
Property operating expenses	49,714	49,340	147,045	149,737
Depreciation and amortization associated with real estate operations	34,692	34,195	104,290	100,897
Construction contract and other service expenses	27,802	8,058	85,130	51,215
Impairment losses	327	—	327	—
General and administrative expenses	6,105	5,796	20,474	17,724
Leasing expenses	1,824	1,103	5,592	4,095
Business development expenses and land carry costs	964	1,567	2,947	4,415
Total operating expenses	121,428	100,059	365,805	328,083
Interest expense	(17,126)	(19,181)	(54,275)	(56,910)
Interest and other income	1,842	1,486	5,977	4,284
Gain on sales of real estate	—	—	84,469	(27)
Income before equity in income of unconsolidated entities and income taxes	22,719	19,657	153,807	58,894
Equity in income of unconsolidated entities	396	374	1,207	1,120
Income tax benefit	131	291	113	173
Net income	23,246	20,322	155,127	60,187
Net income attributable to noncontrolling interests:				
Common units in the Operating Partnership ("OP")	(267)	(380)	(1,863)	(1,532)
Preferred units in the OP	(157)	(165)	(487)	(495)
Other consolidated entities	(1,565)	(1,080)	(3,870)	(2,879)
Net income attributable to COPT common shareholders	$ 21,257	$ 18,697	$ 148,907	$ 55,281
Earnings per share ("EPS") computation:				
Numerator for diluted EPS:				
Net income attributable to COPT common shareholders	$ 21,257	$ 18,697	$ 148,907	$ 55,281
Redeemable noncontrolling interests	—	—	100	—
Amount allocable to share-based compensation awards	(118)	(114)	(469)	(348)
Numerator for diluted EPS	$ 21,139	$ 18,583	$ 148,538	$ 54,933
Denominator:				
Weighted average common shares - basic	111,582	104,379	111,036	102,401
Dilutive effect of share-based compensation awards	361	231	313	165
Dilutive effect of redeemable noncontrolling interests	—	—	123	—
Dilutive effect of forward equity sale agreements	—	178	—	60
Weighted average common shares - diluted	111,943	104,788	111,472	102,626
Diluted EPS	$ 0.19	$ 0.18	$ 1.33	$ 0.54

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,	
	2019	**2018**	**2019**	**2018**
Net income	$ 23,246	$ 20,322	$155,127	$ 60,187
Real estate-related depreciation and amortization	34,692	34,195	104,290	100,897
Impairment losses on real estate	327	—	327	—
Gain on sales of real estate	—	—	(84,469)	27
Depreciation and amortization on unconsolidated real estate JVs	790	564	1,922	1,691
Funds from operations ("FFO")	59,055	55,081	177,197	162,802
Noncontrolling interests - preferred units in the OP	(157)	(165)	(487)	(495)
FFO allocable to other noncontrolling interests	(1,429)	(1,060)	(3,588)	(2,757)
Basic and diluted FFO allocable to share-based compensation awards	(248)	(214)	(662)	(651)
Basic FFO available to common share and common unit holders ("Basic FFO")	57,221	53,642	172,460	158,899
Redeemable noncontrolling interests	34	—	100	—
Diluted FFO available to common share and common unit holders ("Diluted FFO")	57,255	53,642	172,560	158,899
Demolition costs on redevelopment and nonrecurring improvements	—	251	44	299
Executive transition costs	—	46	4	422
Non-comparable professional and legal expenses	175	—	486	—
Diluted FFO comparability adjustments allocable to share-based compensation awards	—	(1)	(2)	(3)
Diluted FFO available to common share and common unit holders, as adjusted for comparability	57,430	53,938	173,092	159,617
Straight line rent adjustments and lease incentive amortization	(515)	582	(1,131)	(1,441)
Amortization of intangibles included in net operating income	(59)	153	(47)	740
Share-based compensation, net of amounts capitalized	1,697	1,557	4,993	4,592
Amortization of deferred financing costs	538	468	1,595	1,404
Amortization of net debt discounts, net of amounts capitalized	377	362	1,121	1,074
Accum. other comprehensive loss on derivatives amortized to expense	12	33	79	101
Replacement capital expenditures	(16,752)	(18,803)	(43,927)	(49,936)
Other diluted AFFO adjustments associated with real estate JVs	66	50	280	149
Diluted adjusted funds from operations available to common share and common unit holders ("Diluted AFFO")	$ 42,794	$ 38,340	$136,055	$116,300
Diluted FFO per share	$ 0.51	$ 0.50	$ 1.53	$ 1.51
Diluted FFO per share, as adjusted for comparability	$ 0.51	$ 0.50	$ 1.53	$ 1.51
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, 2019	December 31, 2018
Balance Sheet Data		
Properties, net of accumulated depreciation	$ 3,258,823	$ 3,250,626
Total assets	3,855,369	3,656,005
Debt, per balance sheet	1,862,301	1,823,909
Total liabilities	2,130,745	2,002,697
Redeemable noncontrolling interest	28,677	26,260
Equity	1,695,947	1,627,048
Net debt to adjusted book	37.3%	38.9%
Core Portfolio Data (as of period end) (1)		
Number of operating properties	167	161
Total net rentable square feet owned (in thousands)	18,799	17,937
% Occupied	92.8%	93.1%
% Leased	94.5%	94.0%

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2019	2018	2019	2018
Payout ratios				
Diluted FFO	54.2%	56.3%	54.0%	55.5%
Diluted FFO, as adjusted for comparability	54.1%	56.0%	53.8%	55.3%
Diluted AFFO	72.6%	78.8%	68.5%	75.8%
Adjusted EBITDA fixed charge coverage ratio	3.7x	3.6x	3.7x	3.6x
Net debt to in-place adjusted EBITDA ratio (2)	6.1x	6.1x	N/A	N/A
Net debt plus preferred equity to in-place adjusted EBITDA ratio (3)	6.1x	6.1x	N/A	N/A
Reconciliation of denominators for per share measures				
Denominator for diluted EPS	111,943	104,788	111,472	102,626
Weighted average common units	1,312	2,135	1,323	2,847
Redeemable noncontrolling interests	109	—	—	—
Denominator for diluted FFO per share and as adjusted for comparability	113,364	106,923	112,795	105,473

(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,	
	2019	2018	2019	2018
Reconciliation of common share dividends to dividends and distributions for payout ratios				
Common share dividends - unrestricted shares and deferred shares	$30,721	$29,821	$ 92,099	$ 86,079
Common unit distributions - unrestricted units	338	373	1,068	2,131
Dividends and distributions for payout ratios	$31,059	$30,194	$ 93,167	$ 88,210
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	$23,246	$20,322	$155,127	$ 60,187
Interest expense	17,126	19,181	54,275	56,910
Income tax benefit	(131)	(291)	(113)	(173)
Depreciation of furniture, fixtures and equipment	467	561	1,396	1,543
Real estate-related depreciation and amortization	34,692	34,195	104,290	100,897
Impairment losses on real estate	327	—	327	—
Gain on sales of real estate	—	—	(84,469)	27
Adjustments from unconsolidated real estate JVs	1,202	830	2,859	2,482
EBITDAre	76,929	74,798	233,692	221,873
Net gain on other investments	—	—	(400)	—
Business development expenses	419	673	1,427	2,453
Non-comparable professional and legal expenses	175	—	486	—
Demolition costs on redevelopment and nonrecurring improvements	—	251	44	299
Executive transition costs	—	46	4	422
Adjusted EBITDA	77,523	75,768	$235,253	$225,047
Proforma net operating income adjustment for property changes within period	—	166		
In-place adjusted EBITDA	$77,523	$75,934		
Reconciliation of interest expense to the denominators for fixed charge coverage-Adjusted EBITDA				
Interest expense	$17,126	$19,181	$ 54,275	$ 56,910
Less: Amortization of deferred financing costs	(538)	(468)	(1,595)	(1,404)
Less: Amortization of net debt discounts, net of amounts capitalized	(377)	(362)	(1,121)	(1,074)
Less: Accum. other comprehensive loss on derivatives amortized to expense	(12)	(33)	(79)	(101)
COPT's share of interest expense of unconsolidated real estate JVs, excluding deferred financing costs	403	261	916	774
Scheduled principal amortization	1,107	1,060	3,300	3,161
Capitalized interest	2,927	1,410	7,319	4,181
Preferred unit distributions	157	165	487	495
Denominator for fixed charge coverage-Adjusted EBITDA	$20,793	$21,214	$ 63,502	$ 62,942

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,	
	2019	2018	2019	2018
Reconciliations of tenant improvements and incentives, building improvements and leasing costs for operating properties to replacement capital expenditures				
Tenant improvements and incentives	$10,880	$12,894	$ 26,600	$ 29,626
Building improvements	8,908	5,975	17,772	13,671
Leasing costs	2,722	2,945	8,665	6,047
Net (exclusions from) additions to tenant improvements and incentives	(2,156)	(896)	(1,866)	3,708
Excluded building improvements	(3,602)	(2,134)	(7,244)	(3,089)
Excluded leasing costs	—	19	—	(27)
Replacement capital expenditures	$16,752	$18,803	$ 43,927	$ 49,936
Same Properties cash NOI	$72,792	$72,406	$ 217,114	$ 210,468
Straight line rent adjustments and lease incentive amortization	(735)	(1,699)	(1,871)	(1,683)
Amortization of acquired above- and below-market rents	82	(98)	115	(574)
Amortization of below-market cost arrangements	(23)	(56)	(69)	(166)
Lease termination fees, gross	823	759	1,629	2,325
Tenant funded landlord assets and lease incentives	519	318	1,429	3,012
Cash NOI adjustments in unconsolidated real estate JV	42	62	147	197
Same Properties NOI	$73,500	$71,692	$ 218,494	$ 213,579

	September 30, 2019	December 31, 2018
Reconciliation of total assets to adjusted book		
Total assets	$3,855,369	$3,656,005
Accumulated depreciation	979,353	897,903
Accumulated depreciation included in assets held for sale	1,397	—
Accumulated amortization of real estate intangibles and deferred leasing costs	212,222	204,882
Accumulated amortization of real estate intangibles and deferred leasing costs included in assets held for sale	4	—
COPT's share of liabilities of unconsolidated real estate JVs	46,061	29,917
COPT's share of accumulated depreciation and amortization of unconsolidated real estate JVs	7,376	5,446
Less: Property - operating lease liabilities	(16,686)	—
Less: Property - finance lease liabilities	(702)	(660)
Less: Cash and cash equivalents	(34,005)	(8,066)
Less: COPT's share of cash of unconsolidated real estate JVs	(505)	(293)
Adjusted book	$5,049,884	$4,785,134
Reconciliation of debt outstanding to net debt and net debt plus preferred equity		
Debt outstanding (excluding net debt discounts and deferred financing costs)	$1,920,179	$1,868,504
Less: Cash and cash equivalents	(34,005)	(8,066)
Less: COPT's share of cash of unconsolidated real estate JVs	(505)	(293)
Net debt	$1,885,669	$1,860,145
Preferred equity	8,800	8,800
Net debt plus preferred equity	$1,894,469	$1,868,945

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