April 30, 2020

COPT Reports First Quarter 2020 Results

EPS and FFO per Share Exceeded Guidance

Same-Property Cash NOI Growth of 5% in 1Q20 Exceeded Expectations

Core Portfolio 94% Occupied & 95.2% Leased

230,000 SF of 100% Leased Developments Placed in Service

2.2 Million SF Under Development are 78% Leased

Solid Leasing Volumes

Total Leasing of 631,000 SF

Strong Tenant Retention of 89%; Increasing Full-Year Retention Guidance to 75-80%

Minimal COVID-19 Impact on Operations and Results Expected

Lowering Mid-Point of Full-Year Guidance for FFO per Share, As Adjusted for Comparability, to $2.07, a 1-Cent Reduction

COLUMBIA, Md.--(BUSINESS WIRE)-- Corporate Office Properties Trust ("COPT" or the "Company") (NYSE: OFC) announced financial and operating results for the first quarter ended March 31, 2020.

Management Comments

Stephen E. Budorick, COPT's President & Chief Executive Officer, commented, "The Company delivered solid first quarter results, with FFO per share, as adjusted for comparability, exceeding the high end of our guidance range. Cost savings associated with the mild winter and solid overall performance drove same-office cash NOI growth of 5%." He continued, "Importantly, I am pleased to report that the COVID-19 pandemic and related responses have had minimal impact on our operations due to the high concentration of U.S. Government National Security activity in our tenancy and markets, all of which are essential business activities and have not been materially affected. Construction activity on our 2.2 million square foot, highly leased development pipeline continues unabated, with no schedule delays from virus-related shutdowns or delivery of materials. New lease negotiations that commenced before the shutdowns continue to advance, albeit at a slower pace, and renewal leasing has been robust. Notwithstanding the negligible impact the pandemic-related shutdowns have had on our business, in order to create capacity to absorb unforeseen events that may occur, we are lowering the mid-point of our 2020 guidance for FFO per share, as adjusted for comparability, by one-cent, to $2.07."

Financial Highlights

1st Quarter Financial Results:

- Diluted earnings per share ("EPS") was $0.21 for the quarter ended March 31, 2020 as compared to $0.19 for the first quarter of 2019.

- Diluted funds from operations per share ("FFOPS"), as calculated in accordance with Nareit's definition, was $0.41 for the first quarter of 2020 as compared to $0.50 for first quarter 2019 results.

- FFOPS, as adjusted for comparability, was $0.51 for the first quarter of 2020 as compared to $0.50 for first quarter 2019 results.

Adjustments for comparability encompass items such as demolition costs of redevelopment and noncontrolling interest allocations resulting from a capital event.

Operating Performance Highlights

Operating Portfolio Summary:

- At March 31, 2020, the Company's core portfolio of 169 operating office and data center shell properties was 94.0% occupied and 95.2% leased.

- During the quarter, the Company placed into service 230,000 square feet that were 100% leased.

Same-Property Performance:

- At March 31, 2020, COPT's same-property portfolio of 152 buildings was 92.7% occupied and 94.1% leased.

- For the quarter ended March 31, 2020, the Company's same-property cash NOI increased 5.0% over the prior year's comparable period.

Leasing:

- Total Square Feet Leased: For the quarter ended March 31, 2020, the Company leased 631,000 total square feet, including 488,000 square feet of renewals and 143,000 square feet of new leases on vacant space.

- Renewal Rates: During the quarter ended March 31, 2020, the Company renewed 89% of total expiring square feet.

- Cash Rent Spreads & Average Escalations on Renewing Leases: For the quarter ended March 31, 2020, cash rents on renewed space decreased 1.0%. For the same time period, average annual escalations on renewing leases were 2.4%.

- Lease Terms: In the first quarter, lease terms averaged 4.9 years on renewing leases and 7.5 years on new leasing of vacant space.

Investment Activity Highlights

Development & Redevelopment Projects:

- Development Pipeline: At April 8, 2020, the Company's development pipeline consisted of 13 properties totaling 2.2 million square feet that were 78% leased. These projects have a total estimated cost of $640.7 million, of which $352.9 million had been incurred as of March 31, 2020.

- Redevelopment: At March 31, 2020, one project was under redevelopment totaling 106,000 square feet that was 80% leased. The Company has invested $23.4 million of the $25.4 million anticipated total cost.

Balance Sheet and Capital Transaction Highlights

- As of March 31, 2020, the Company's net debt plus preferred equity to adjusted book ratio was 38.3% and its net debt plus preferred equity to in-place adjusted EBITDA ratio was 6.3x. For the quarter ended March 31, 2020, the Company's adjusted EBITDA fixed charge coverage ratio was 3.8x.

- As of March 31, 2020, and including the effect of interest rate swaps, the Company's weighted average effective interest rate was 3.68%; additionally, 85.7% of the Company's debt was subject to fixed interest rates and the consolidated debt portfolio had a weighted average maturity of 3.2 years.

- In March, the Company amended its bank term loan scheduled to mature December 2022 to increase the loan amount by $150 million and to lower the interest rate.

2020 Guidance

To create capacity for unknown impacts on results that may emerge as a result of the COVID-19 pandemic shutdowns, management is lowering its previously issued full-year guidance ranges of $0.66-$0.70 for EPS, $2.06-$2.10 for FFOPS per Nareit, and $2.06-$2.10 for FFOPS, as adjusted for comparability, to new ranges of $0.65-$0.69, $1.95-$1.99, and $2.05-$2.09, respectively.

Management also is establishing guidance for EPS and FFOPS, per Nareit and as adjusted for comparability, for the second quarter ending June 30, 2020 at 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, 2020		Year ending December 31, 2020	
	Low	High	Low	High
EPS	$ 0.13	$ 0.15	$ 0.65	$ 0.69
Real estate-related depreciation and amortization	0.35	0.35	1.40	1.40
FFO allocation to other noncontrolling interest resulting from capital event	-	-	(0.10)	(0.10)
FFOPS, Nareit definition	0.48	0.50	1.95	1.99
FFO allocation to other noncontrolling interest resulting from capital event	-	-	0.10	0.10
FFOPS, as adjusted for comparability	$ 0.48	$ 0.50	$ 2.05	$ 2.09

Associated Supplemental Presentation

Prior to the call, the Company will post a slide presentation to accompany management's prepared remarks for its first quarter 2020 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 first quarter 2020 results on its conference call tomorrow at 12:00 p.m. Eastern Time, details of which are listed below:

Conference Call Date:	Friday, May 1, 2020
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:	8873456

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, May 1, through 3:00 p.m. Eastern Time on Friday, May 15. 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 8873456.

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.

About COPT

COPT is a REIT that owns, manages, leases, develops and selectively acquires office and data center properties. The majority of its portfolio is 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, 2020, the Company derived 88% of its core portfolio annualized rental revenue from Defense/IT Locations and 12% from its Regional Office Properties. As of the same date and including 15 buildings owned through unconsolidated joint ventures, COPT's core portfolio of 169 office and data center shell properties encompassed 19.2 million square feet and was 95.2% leased; the Company also owned one wholesale data center with a critical load of 19.25 megawatts that was 76.9% leased.

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, 2019, as well as risks associated with uncertainties regarding the impact of the COVID-19 pandemic on the Company's business and national, regional and local economic conditions.

Category: Quarterly Results

Source: Corporate Office Properties Trust

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

	For the Three Months Ended March 31,	
	2020	**2019**
Revenues		
Revenues from real estate operations	$ 132,116	$ 131,990
Construction contract and other service revenues	13,681	16,950
Total revenues	145,797	148,940
Operating expenses		
Property operating expenses	49,999	49,445
Depreciation and amortization associated with real estate operations	32,596	34,796
Construction contract and other service expenses	13,121	16,326
General and administrative expenses	5,303	6,719
Leasing expenses	2,183	2,032
Business development expenses and land carry costs	1,118	1,113
Total operating expenses	104,320	110,431
Interest expense	(16,840)	(18,674)
Interest and other income	1,205	2,286
Credit loss expense	(689)	—
Gain on sales of real estate	5	—
Income before equity in income of unconsolidated entities and income taxes	25,158	22,121
Equity in income of unconsolidated entities	441	391
Income tax expense	(49)	(194)
Net income	25,550	22,318
Net income attributable to noncontrolling interests:		
Common units in the Operating Partnership ("OP")	(287)	(257)
Preferred units in the OP	(77)	(165)
Other consolidated entities	(1,132)	(1,037)
Net income attributable to COPT common shareholders	$ 24,054	$ 20,859
Earnings per share ("EPS") computation:		
Numerator for diluted EPS:		
Net income attributable to COPT common shareholders	$ 24,054	$ 20,859
Amount allocable to share-based compensation awards	(97)	(86)
Numerator for diluted EPS	$ 23,957	$ 20,773
Denominator:		
Weighted average common shares - basic	111,724	109,951
Dilutive effect of share-based compensation awards	239	267
Weighted average common shares - diluted	111,963	110,218
Diluted EPS	$ 0.21	$ 0.19

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

	For the Three Months Ended March 31,	
	2020	2019
Net income	$ 25,550	$ 22,318
Real estate-related depreciation and amortization	32,596	34,796
Gain on sales of real estate	(5)	—
Depreciation and amortization on unconsolidated real estate JVs	818	566
Funds from operations ("FFO")	58,959	57,680
Noncontrolling interests - preferred units in the OP	(77)	(165)
FFO allocable to other noncontrolling interests	(12,015)	(971)
Basic FFO allocable to share-based compensation awards	(193)	(185)
Basic FFO available to common share and common unit holders ("Basic FFO")	46,674	56,359
Redeemable noncontrolling interests	32	381
Diluted FFO available to common share and common unit holders ("Diluted FFO")	46,706	56,740
Demolition costs on redevelopment and nonrecurring improvements	43	44
Executive transition costs	—	4
Dilutive preferred units in the Operating Partnership	77	—
FFO allocation to other noncontrolling interests resulting from capital event	11,090	—
Diluted FFO comparability adjustments allocable to share-based compensation awards	(50)	—
Diluted FFO available to common share and common unit holders, as adjusted for comparability	57,866	56,788
Straight line rent adjustments and lease incentive amortization	(852)	(1,667)
Amortization of intangibles included in net operating income	(74)	62
Share-based compensation, net of amounts capitalized	1,389	1,673
Amortization of deferred financing costs	575	528
Amortization of net debt discounts, net of amounts capitalized	386	370
Accum. other comprehensive loss on derivatives amortized to expense	—	34
Replacement capital expenditures	(17,754)	(11,173)
Other diluted AFFO adjustments associated with real estate JVs	(41)	33
Diluted adjusted funds from operations available to common share and common unit holders ("Diluted AFFO")	$ 41,495	$ 46,648
Diluted FFO per share	$ 0.41	$ 0.50
Diluted FFO per share, as adjusted for comparability	$ 0.51	$ 0.50
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, 2020	December 31, 2019
Balance Sheet Data		
Properties, net of accumulated depreciation	$3,419,628	$ 3,340,886
Total assets	4,054,457	3,854,453
Debt, per balance sheet	2,076,839	1,831,139
Total liabilities	2,366,359	2,105,777
Redeemable noncontrolling interest	22,912	29,431
Equity	1,665,186	1,719,245
Net debt to adjusted book	38.2%	36.8%
Core Portfolio Data (as of period end) (1)		
Number of operating properties	169	168
Total net rentable square feet owned (in thousands)	19,221	19,016
% Occupied	94.0%	93.1%
% Leased	95.2%	94.6%

	For the Three Months Ended March 31,	
	2020	2019
Payout ratios		
Diluted FFO	66.6%	54.7%
Diluted FFO, as adjusted for comparability	53.9%	54.7%
Diluted AFFO	75.1%	66.6%
Adjusted EBITDA fixed charge coverage ratio	3.8x	3.6x
Net debt to in-place adjusted EBITDA ratio (2)	6.3x	6.2x
Net debt plus preferred equity to in-place adjusted EBITDA ratio (3)	6.3x	6.2x
Reconciliation of denominators for per share measures		
Denominator for diluted EPS	111,963	110,218
Weighted average common units	1,226	1,331
Redeemable noncontrolling interests	110	1,013
Anti-dilutive EPS effect of share-based compensation awards	—	35
Denominator for diluted FFO per share	113,299	112,597
Dilutive convertible preferred units	176	—
Denominator for diluted FFO per share, as adjusted for comparability	113,475	112,597

(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,	
	2020	2019
Reconciliation of common share dividends to dividends and distributions for payout ratios		
Common share dividends - unrestricted shares and deferred shares	$30,754	$30,685
Common unit distributions - unrestricted units	339	365
Dividends and distributions for diluted FFO payout ratio	31,093	31,050
Distributions on dilutive preferred units	77	—
Dividends and distributions for other payout ratios	$31,170	$31,050
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	$25,550	$22,318
Interest expense	16,840	18,674
Income tax expense	49	194
Depreciation of furniture, fixtures and equipment	419	433
Real estate-related depreciation and amortization	32,596	34,796
Gain on sales of real estate	(5)	—
Adjustments from unconsolidated real estate JVs	1,270	827
EBITDAre	76,719	77,242
Net gain on other investments	—	(388)
Credit loss expense	689	—
Business development expenses	538	548
Demolition costs on redevelopment and nonrecurring improvements	43	44
Executive transition costs	—	4
Adjusted EBITDA	77,989	77,450
Proforma net operating income adjustment for property changes within period	734	252
In-place adjusted EBITDA	$78,723	$77,702
Reconciliation of interest expense to the denominators for fixed charge coverage-Adjusted EBITDA		
Interest expense	$16,840	$18,674
Less: Amortization of deferred financing costs	(575)	(528)
Less: Amortization of net debt discounts, net of amounts capitalized	(386)	(370)
Less: Accum. other comprehensive loss on derivatives amortized to expense	—	(34)
COPT's share of interest expense of unconsolidated real estate JVs, excluding deferred financing costs	441	255
Scheduled principal amortization	1,021	1,098
Capitalized interest	3,358	2,004
Preferred unit distributions	77	165
Denominator for fixed charge coverage-Adjusted EBITDA	$20,776	$21,264

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

	For the Three Months Ended March 31,	
	2020	**2019**
Reconciliations of tenant improvements and incentives, building improvements and leasing costs for operating properties to replacement capital expenditures		
Tenant improvements and incentives	$ 11,357	$ 7,152
Building improvements	2,475	4,531
Leasing costs	2,762	3,182
Net additions to (exclusions from) tenant improvements and incentives	2,026	(1,469)
Excluded building improvements	(866)	(2,223)
Replacement capital expenditures	$ 17,754	$ 11,173
Same Properties cash NOI	$ 74,962	$ 71,408
Straight line rent adjustments and lease incentive amortization	(567)	686
Amortization of acquired above- and below-market rents	96	(40)
Amortization of below-market cost arrangements	(23)	(23)
Lease termination fees, gross	85	521
Tenant funded landlord assets and lease incentives	369	396
Cash NOI adjustments in unconsolidated real estate JV	28	59
Same Properties NOI	$ 74,950	$ 73,007

	March 31, 2020	December 31, 2019
Reconciliation of total assets to adjusted book		
Total assets	$4,054,457	$3,854,453
Accumulated depreciation	1,035,703	1,007,120
Accumulated amortization of real estate intangibles and deferred leasing costs	214,693	212,547
COPT's share of liabilities of unconsolidated real estate JVs	50,966	50,734
COPT's share of accumulated depreciation and amortization of unconsolidated real estate JVs	8,990	8,164
Less: Property - operating lease liabilities	(17,365)	(17,317)
Less: Property - finance lease liabilities	(702)	(702)
Less: Cash and cash equivalents	(159,061)	(14,733)
Less: COPT's share of cash of unconsolidated real estate JVs	(593)	(498)
Adjusted book	$5,187,088	$5,099,768
Reconciliation of debt outstanding to net debt and net debt plus preferred equity		
Debt outstanding (excluding net debt discounts and deferred financing costs)	$2,139,130	$1,893,057
Less: Cash and cash equivalents	(159,061)	(14,733)
Less: COPT's share of cash of unconsolidated real estate JVs	(593)	(498)
Net debt	$1,979,476	$1,877,826
Preferred equity	8,800	8,800
Net debt plus preferred equity	$1,988,276	$1,886,626

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