April 28, 2015

COPT Reports First Quarter 2015 Results

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, 2015.

"First quarter results were in line with our guidance, despite having to absorb heavier than expected weather-related expenses," stated Roger A. Waesche, Jr., COPT's President & Chief Executive Officer. "During the quarter we placed into service 550,000 square feet of fully leased development projects that were primarily leased to customers in our Strategic Tenant Niche, stabilized COPT DC-6, our wholesale data center in Manassas, Virginia, with an 11.25 mega watt lease and launched the strategic shift of upgrading the composition of our Regional Office portfolio to focus on urban, supply-constrained locations."

Results:

Diluted earnings per share ("EPS") was $0.10 for the quarter ended March 31, 2015 as compared to $0.00 in the first quarter of 2014. Per NAREIT's definition, diluted funds from operations per share ("FFOPS") for the first quarter of 2015 was $0.43 versus $0.48 reported in the first quarter of 2014. FFOPS, as adjusted for comparability, was $0.45 for the quarter ended March 31, 2015 as compared to $0.48 reported for the first quarter of 2014. Adjustments for comparability could encompass items such as acquisition costs, impairment losses and gains on non-operating properties (net of related tax adjustments), losses (gains) on early extinguishment of debt and write-offs of original issuance costs for redeemed preferred stock. Please refer to the reconciliation tables that appear later in this press release.

Operating Performance:

Portfolio Summary – At March 31, 2015, the Company's portfolio of 178 operating office properties totaled 17.7 million square feet. The Company's portfolio was 91.3% occupied and 92.4% leased as of March 31, 2015. During the quarter, the Company placed 550,000 square feet of development in service that was 100% occupied.

Same Office Performance – The Company's same office portfolio for the quarter ended March 31, 2015 consists of 168 properties and represents 91% of the operating portfolio's total rentable square feet. The Company's same office portfolio was 90.7% occupied and 91.9% leased at March 31, 2015. For the first quarter ended March 31, 2015, the Company's same office property cash NOI, which excludes gross lease termination fees and rent from tenant-funded landlord assets, decreased 1.1% as compared to the first quarter of 2014.

Office Leasing – COPT completed a total of 601,000 square feet of leasing in the quarter ended March 31, 2015 and achieved a 60% renewal rate.

In the quarter, lease terms on renewals averaged 4.7 years and for development and other new leases averaged 10.0 and 5.1 years, respectively.

For the quarter, total rent on renewed space increased 2.7% on a GAAP basis; on a cash basis, renewal rates declined 4.6% compared to the expiring rents.

Wholesale Data Center Leasing – During the quarter, COPT completed a lease with a strategic tenant for 11.25 mega watts ("MW") at its wholesale data center in Manassas, Virginia ("COPT DC-6"). At March 31, 2015, 17.81 MW, or 92.5%, of the facility's 19.25 MW's of capacity were leased.

Investment Activity:

Construction – At March 31, 2015, the Company had seven properties totaling 1.1 million square feet under construction for a total projected cost of $233.5 million, of which $110.1 million had been invested. These seven projects were 65% pre-leased at March 31, 2015. As of the same date, COPT had five properties under redevelopment representing a total projected cost of $60.9 million, of which $35.6 million has been invested. The five redevelopment properties totaled approximately 344,000 square feet that, at March 31, 2015, were 41% pre-leased.

Acquisitions – During the quarter, the Company acquired 250 West Pratt Street, a 367,000 square foot building that is 96% leased in a premium office address in Baltimore, Maryland's Pratt Street Corridor near the Inner Harbor, for $62 million.

Subsequent to the quarter's end, COPT acquired Metro Place II, a 240,000 square foot, Class-A office building that is 100% leased to customers in COPT's Strategic Tenant Niche, for $83 million. The building is located at 2600 Park Tower Drive, a Metro-served, mixed-use and amenity-rich location within the Merrifield sub-market of Northern Virginia.

Dispositions – During the quarter ended March 31, 2015, the Company disposed of 56 acres of non-strategic land in the White Marsh submarket of Greater Baltimore for $18 million and for the quarter ended March 31, 2015, recognized GAAP gains on sales of approximately $4.0 million. The gains are included in FFO per share per NAREIT, but excluded in the Company's calculation of FFO per share, as adjusted for comparability.

Balance Sheet and Capital Transactions:

As of March 31, 2015, the Company's debt to adjusted book ratio was 40.3% and its adjusted EBITDA fixed charge coverage ratio was 2.9x. Also, the Company's weighted average interest rate was 4.0% for the quarter ended March 31, 2015 and 86% of the Company's debt was subject to fixed interest rates, including the effect of interest rate swaps.

During the quarter ended March 31, 2015, the Company issued $26.6 million of equity from its ATM facility.

2015 FFO Guidance:

Management is narrowing its previously issued guidance for 2015 FFOPS, as adjusted for comparability, from the prior range of $1.97–$2.03, to a new range of $1.99–$2.03. Management is establishing guidance for second quarter 2015 FFOPS, as adjusted for comparability, of $0.48–$0.50. Reconciliations of projected diluted EPS to projected FFOPS are provided as follows:

	Three months ending June 30, 2015		Year ending December 31, 2015	
	Low	High	Low	High
EPS	$ 0.11	$ 0.13	$ 1.25	$ 1.29
Real estate depreciation and amortization	0.35	0.35	1.50	1.50
FFOPS, NAREIT definition	0.46	0.48	2.75	2.79
Operating property acquisition costs	--	--	0.01	0.01
NOI from properties to be conveyed (a)	(0.01)	(0.01)	(0.04)	(0.04)
Interest expense on loan secured by properties to be conveyed(a)	0.03	0.03	0.12	0.12
Gains on sales of undepreciated properties	--	--	(0.04)	(0.04)
Net gains on extinguishment of debt (b)	--	--	(0.81)	(0.81)
FFOPS, as adjusted for comparability	$ 0.48	$ 0.50	$ 1.99	$ 2.03

a. The Company expects to transfer two operating properties in satisfaction of non-recourse secured indebtedness. These amounts represent the Company's forecast of net operating income generated by these assets and interest expense (accrued at the default rate) in 2015, and assuming a transfer date of December 31, 2015.

b. Represents debt and accrued interest in excess of the book value of the assets to be conveyed.

1Q 2015 Conference Call Information:

Earnings Release Date:	Tuesday, April 28, 2015 at 6:00 a.m. Eastern Time
Conference Call Date:	Tuesday, April 28, 2015
Time:	12:00 p.m. Eastern Time
Telephone Number: (within the U.S.)	888-680-0878
Telephone Number: (outside the U.S.)	617-213-4855
Passcode:	81054690

Please use the following link to pre-register and view important information about this conference call. Pre-registering is not mandatory but is recommended as it will provide you immediate entry into the call and will facilitate the timely start of the conference. Pre-registration only takes a few moments and you may pre-register at anytime, including up to and after the call start time. To pre-register, please click on the below link: https://www.theconferencingservice.com/prereg/key.process?key=PY6LVUPLN

You may also pre-register in the Investors section of the Company's website at www.copt.com. Alternatively, you may be placed into the call by an operator by calling the number provided above at least 5 to 10 minutes before the start of the call.

A replay of this call will be available beginning Tuesday, April 28 at 4:00 p.m. Eastern Time through Tuesday, May 12 at midnight Eastern Time. To access the replay within the United States, please call 888-286-8010 and use passcode 53567548. To access the replay outside the United States, please call 617-801-6888 and use passcode 53567548.

The conference call will also be available via live webcast in the Investor Relations section of the Company's website at www.copt.com. A replay of the conference calls will be immediately available via webcast in the Investor Relations section of the Company's website.

Definitions:

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

Company Information

COPT is an office REIT that focuses primarily on serving the specialized requirements of U.S. Government agencies and defense contractors, most of which are engaged in defense information technology and national security-related activities. As of March 31, 2015, COPT derived 75% of its annualized revenue from its strategic tenant niche properties and 25% from its regional office properties. The Company generally acquires, develops, manages and leases office and data center properties concentrated in large office parks primarily located near knowledge-based government demand drivers and/or in targeted markets or submarkets in the Greater Washington, DC/Baltimore region. As of March 31, 2015, the Company's consolidated portfolio consisted of 178 office properties totaling 17.7 million rentable square feet. COPT is an S&P MidCap 400 company.

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. Accordingly, 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;*
- *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, 2014.

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

	For the Three Months Ended March 31, 2015	For the Three Months Ended March 31, 2014
Revenues		
Real estate revenues	$ 122,710	$ 124,877
Construction contract and other service revenues	38,324	21,790
Total revenues	161,034	146,667
Expenses		
Property operating expenses	50,681	49,772
Depreciation and amortization associated with real estate operations	31,599	43,596
Construction contract and other service expenses	37,498	18,624
General and administrative expenses	6,250	6,158
Leasing expenses	1,641	1,985
Business development expenses and land carry costs	2,790	1,326
Total operating expenses	130,459	121,461
Operating income	30,575	25,206
Interest expense	(20,838)	(20,827)
Interest and other income	1,283	1,285
Loss on early extinguishment of debt	(3)	—
Income from continuing operations before equity in income of unconsolidated entities and income taxes	11,017	5,664
Equity in income of unconsolidated entities	25	60
Income tax expense	(55)	(64)
Income from continuing operations	10,987	5,660
Discontinued operations	(238)	11
Income before gain on sales of real estate	10,749	5,671
Gain on sales of real estate, net of income taxes	3,986	—
Net income	14,735	5,671
Net income attributable to noncontrolling interests		
Common units in the Operating Partnership	(398)	(16)
Preferred units in the Operating Partnership	(165)	(165)
Other consolidated entities	(817)	(749)
Net income attributable to COPT	13,355	4,741
Preferred share dividends	(3,552)	(4,490)
Net income attributable to COPT common shareholders	$ 9,803	$ 251
Earnings per share ("EPS") computation:		
Numerator for diluted EPS:		
Net income attributable to common shareholders	$ 9,803	$ 251
Amount allocable to restricted shares	(122)	(121)
Numerator for diluted EPS	$ 9,681	$ 130
Denominator:		
Weighted average common shares - basic	93,199	87,080
Dilutive effect of share-based compensation awards	198	112
Weighted average common shares - diluted	93,397	87,192
Diluted EPS	$ 0.10	$ 0.00

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

	For the Three Months Ended March 31,	
	2015	2014
Net income	$ 14,735	$ 5,671
Real estate-related depreciation and amortization	31,599	43,596
Impairment losses on previously depreciated operating properties	233	1
Loss on sales of previously depreciated operating properties	—	4
Funds from operations (“FFO”)	46,567	49,272
Noncontrolling interests - preferred units in the Operating Partnership	(165)	(165)
FFO allocable to other noncontrolling interests	(670)	(761)
Preferred share dividends	(3,552)	(4,490)
Basic and diluted FFO allocable to restricted shares	(183)	(205)
Basic and diluted FFO available to common share and common unit holders (“Basic and diluted FFO”)	41,997	43,651
Operating property acquisition costs	1,046	—
Gain on sales of non-operating properties	(3,986)	—
Loss on early extinguishment of debt	3	23
Add: Negative FFO of properties to be conveyed to extinguish debt in default (1)	4,271	—
Demolition costs on redevelopment properties	175	—
Diluted FFO comparability adjustments allocable to restricted shares	(7)	—
Diluted FFO available to common share and common unit holders, as adjusted for comparability	43,499	43,674
Straight line rent adjustments	(1,271)	760
Straight line rent adjustments - properties in default to be conveyed	(72)	—
Amortization of intangibles included in net operating income	111	217
Share-based compensation, net of amounts capitalized	1,552	1,555
Amortization of deferred financing costs	990	1,167
Amortization of net debt discounts, net of amounts capitalized	264	171
Amortization of settled debt hedges	—	15
Recurring capital expenditures	(7,349)	(11,052)
Diluted adjusted funds from operations available to common share and common unit holders (“Diluted AFFO”)	$ 37,724	$ 36,507
Diluted FFO per share	$ 0.43	$ 0.48
Diluted FFO per share, as adjusted for comparability	$ 0.45	$ 0.48
Dividends/distributions per common share/unit	$ 0.275	$ 0.275

(1) Interest expense exceeded net operating income from these properties by the amounts in the statement.

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

	March 31, 2015	December 31, 2014
Balance Sheet Data		
Properties, net of accumulated depreciation	$3,378,152	$ 3,296,914
Total assets	3,777,155	3,670,257
Debt, net	1,999,622	1,920,057
Total liabilities	2,228,530	2,130,956
Redeemable noncontrolling interest	18,895	18,417
Equity	1,529,730	1,520,884
Debt to adjusted book	40.3%	39.7 %
Debt to total market capitalization	39.3%	39.3 %
Core Portfolio Data (as of period end) (1)		
Number of operating properties	178	173
Total net rentable square feet owned (in thousands)	17,706	16,790
Occupancy %	91.3%	90.9 %
Leased %	92.4%	92.4 %

	For the Three Months Ended March 31, 2015	2014
Payout ratios		
Diluted FFO	64.3%	57.7 %
Diluted FFO, as adjusted for comparability	62.1%	57.6 %
Diluted AFFO	71.6%	69.0 %
Adjusted EBITDA interest coverage ratio	4.2x	3.6x
Adjusted EBITDA fixed charge coverage ratio	2.9x	2.6x
Adjusted debt to in-place adjusted EBITDA ratio (2)	7.0x	6.8x
Reconciliation of denominators for diluted EPS and diluted FFO per share		
Denominator for diluted EPS	93,397	87,192
Weighted average common units	3,732	3,958
Denominator for diluted FFO per share	97,129	91,150
Reconciliation of FFO to FFO, as adjusted for comparability		
FFO, per NAREIT	$ 46,567	$ 49,272
Gain on sales of non-operating properties	(3,986)	—
Operating property acquisition costs	1,046	—
Loss on early extinguishment of debt, continuing and discontinued operations	3	23
Add: Negative FFO of properties to be conveyed to extinguish debt in default	4,271	—
Demolition costs on redevelopment properties	175	—
FFO, as adjusted for comparability	$ 48,076	$ 49,295

(1) Represents operating properties held for long-term investment.
(2) Represents 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).

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

	For the Three Months Ended March 31,	
	2015	2014
Reconciliation of common share dividends to dividends and distributions for payout ratios		
Common share dividends	$25,998	$24,091
Common unit distributions	1,012	1,081
Dividends and distributions for payout ratios	$27,010	$25,172
Reconciliation of GAAP net income to adjusted earnings before interest, income taxes, depreciation and amortization ("Adjusted EBITDA") and in-place adjusted EBITDA		
Net income	$14,735	$ 5,671
Interest expense on continuing operations	20,838	20,827
Income tax expense	55	64
Real estate-related depreciation and amortization	31,599	43,596
Depreciation of furniture, fixtures and equipment	492	505
Impairment losses	233	1
Loss on early extinguishment of debt on continuing and discontinued operations	3	23
Loss on sales of operating properties	—	4
Gain on sales of non-operational properties	(3,986)	—
Net loss on investments in unconsolidated entities included in interest and other income	75	20
Operating property acquisition costs	1,046	—
EBITDA of properties to be conveyed to extinguish debt in default	90	—
Demolition costs on redevelopment properties	175	—
Adjusted EBITDA	$65,355	$70,711
Proforma net operating income adjustment from property in quarter of acquisition	737	—
In-place adjusted EBITDA	$66,092	$70,711
Reconciliation of interest expense from continuing operations to the denominators for interest coverage-Adjusted EBITDA and fixed charge coverage-Adjusted EBITDA		
Interest expense from continuing operations	$20,838	$20,827
Less: Amortization of deferred financing costs	(990)	(1,167)
Less: Amortization of net debt discount, net of amounts capitalized	(264)	(171)
Less: Interest exp. on debt in default to be extin. via conveyance of properties	(4,182)	—
Denominator for interest coverage-Adjusted EBITDA	15,402	19,489
Scheduled principal amortization	1,649	1,855
Capitalized interest	2,132	1,589
Preferred share dividends	3,552	4,490
Preferred unit distributions	165	165
Denominator for fixed charge coverage-Adjusted EBITDA	$22,900	$27,588

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

	For the Three Months Ended March 31,	
	2015	2014
Reconciliations of tenant improvements and incentives, capital improvements and leasing costs for operating properties to recurring capital expenditures		
Tenant improvements and incentives on operating properties	$ 4,390	$ 6,319
Building improvements on operating properties	3,203	3,982
Leasing costs for operating properties	954	1,528
Less: Nonrecurring tenant improvements and incentives on operating properties	(264)	(16)
Less: Nonrecurring building improvements on operating properties	(875)	(568)
Less: Nonrecurring leasing costs for operating properties	(59)	(193)
Recurring capital expenditures	$ 7,349	$11,052
Same office property cash NOI	**$66,387**	**$67,108**
Straight line rent adjustments	580	(1,395)
Add: Amortization of deferred market rental revenue	57	(8)
Less: Amortization of below-market cost arrangements	(245)	(291)
Add: Lease termination fee, gross	753	512
Add: Cash NOI on tenant-funded landlord assets	—	3,182
Same office property NOI	**$67,532**	**$69,108**

	March 31, 2015	December 31, 2014
Reconciliation of total assets to adjusted book		
Total assets	$3,777,155	$ 3,670,257
Accumulated depreciation	724,539	703,083
Accumulated amortization of real estate intangibles and deferred leasing costs	219,437	214,611
Less: Adjusted book assoc. with properties to be conveyed to extinguish debt in default	(131,623)	(131,118)
Adjusted book	$4,589,508	$ 4,456,833
Reconciliation of debt to adjusted debt		
Debt, net	$1,999,622	$ 1,920,057
Less: Debt in default to be extinguished via conveyance of properties	(150,000)	(150,000)
Numerator for debt to adjusted book ratio	1,849,622	1,770,057
Less: Cash and cash equivalents	(4,429)	(6,077)
Adjusted debt	$1,845,193	$ 1,763,980

Corporate Office Properties Trust
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Source: Corporate Office Properties Trust