April 27, 2017

COPT Reports First Quarter 2017 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, 2017.

Management Comments

"Our first quarter results were on track with our business plan and represents a solid start to the year. Our FFO per share, as adjusted for comparability, result of $0.47 exceeded the high end of our guidance, and was boosted by the timing of some operating expenses and favorable net weather related expenses. Accordingly, we are narrowing our guidance for the full year, but maintaining the original mid-point of $2.04. Our first quarter same office cash NOI increase of 5% represents our eighth consecutive quarter of increases, and reaffirms our confidence in our forecast for increasing same office cash NOI by 3% to 3.5% for the full year," stated Stephen E. Budorick, COPT's President & Chief Executive Officer.

"The defense industry we serve continues to strengthen, confidence levels are high, but progress is correlated with defense spending appropriations. In the near term, we patiently await the Fiscal Year 2017 defense appropriation, and remain confident in our ability to accelerate our leasing progress once the budget is signed into law. Long term, given our portfolio's unique geographic alignment with the Pentagon's spending priorities, we remain bullish regarding our growth prospects from the increased levels of defense spending that initially occurred in Fiscal Year 2016 and are expected to continue once the current budget delay is resolved," added Mr. Budorick.

Financial Highlights

1st Quarter Financial Results:

- Diluted earnings per share ("EPS") was $0.18 for the quarter ended March 31, 2017 as compared to $0.03 for the first quarter of 2016.
- Diluted funds from operations per share ("FFOPS"), as calculated in accordance with NAREIT's definition, was $0.51 for the first quarter of 2017 as compared to $0.39 for the first quarter of 2016.
- FFOPS, as adjusted for comparability, was $0.47 for the quarter ended March 31, 2017 and $0.47 for the first quarter of 2016.

Adjustments for comparability encompass items such as gains and impairment losses on non-operating properties, gains (losses) on early extinguishment of debt, derivative gains (losses), executive transition costs and write-offs of original issuance costs for redeemed preferred shares.

Operating Performance Highlights

Portfolio Summary:

- At March 31, 2017, the Company's core portfolio of 152 operating office properties was 93.3% occupied and 94.2% leased.
- During the quarter, the Company placed 86,000 square feet of development into service that was 64% leased.
- At March 31, 2017, the Company had seven operating properties and land held for sale with an aggregate book value of $41.4 million. The buildings contain a total of 378,000 square feet that were 90.7% occupied and leased at March 31, 2017.

Same Office Performance:

- At March 31, 2017, COPT's same office portfolio of 141 buildings was 92.4% occupied and 93.1% leased.
- For the quarter ended March 31, 2017, the Company's same office property cash NOI increased 5.0% as compared to the quarter ended March 31, 2016.

Leasing: In January, the Company executed a lease for a 125,000 square foot, full-building renewal with the U.S. Government that had been negotiated during the fourth quarter of 2016. Because the Company already disclosed this renewal in its fourth quarter 2016 supplemental leasing statistics, the following leasing statistics for the first quarter of 2017 exclude it:

- <u>Square Feet Leased</u>—For the quarter ended March 31, 2017, the Company leased 240,000 total square feet, including 116,000 square feet of renewing leases, 66,000 square feet of new leases on previously vacant space, and 58,000 square feet on development projects.
- <u>Renewal Rates & Rent Spreads on Renewing Leases</u>—During the first quarter, the Company renewed 44% of expiring leases. For the quarter ended March 31, 2017, rents on renewed space increased 6.5% on a GAAP basis and increased 0.2% on a cash basis.
- <u>Lease Terms</u>—In the first quarter, lease terms averaged 1.6 years on renewing leases, 6.8 years on development leasing and 5.0 years on vacancy leasing, for a weighted average lease term of 3.8 years on all leasing.

<u>Investment Activity Highlights</u>

Development & Redevelopment Projects:

- The Company has six properties totaling 907,000 square feet under construction that, at March 31, 2017, were 83% leased.
- The Company also has two completed properties that total 352,000 square feet which are being held for the U.S. Government and which currently are 4% leased. Including these two projects, the Company's construction pipeline totals 1.3 million square feet, is 61% leased, and represents a total estimated cost of $277.5 million.
- COPT has 14,000 square feet in one property under redevelopment, representing a

total expected cost of $7.2 million. This project was 55% leased as of March 31, 2017.

Dispositions:

- During the quarter, the Company completed $53 million of dispositions consisting of one, 190,000 square foot operating property for $39 million and a land parcel for $14 million, both in Northern Virginia.

Balance Sheet and Capital Transaction Highlights

- As of March 31, 2017, the Company's net debt plus preferred equity to adjusted book ratio was 42.2% and its net debt plus preferred equity to in-place adjusted EBITDA ratio was 6.5x. For the same period, the Company's net debt to adjusted book ratio was 38.2% and its net debt to in-place adjusted EBITDA ratio was 5.9x. For the quarter ended March 31, 2017, the Company's adjusted EBITDA fixed charge coverage ratio was 3.1x.
- As of March 31, 2017 and including the effect of interest rate swaps, the Company's weighted average effective interest rate was 4.1%; additionally, 95% of the Company's debt was subject to fixed interest rates and the debt portfolio had a weighted average maturity of 5.8 years.

2017 Guidance

Management is narrowing its previously issued guidance range for full year EPS and FFOPS, as adjusted for comparability, to revised ranges of $0.60—$0.66 and $2.01—$2.07, respectively. Management also is establishing EPS and FFOPS, as adjusted for comparability, guidance for the second quarter ending June 30, 2017 at a ranges of $0.05—$0.07 and $0.47—$0.49, respectively. Reconciliations of projected diluted EPS to projected FFOPS are as follows:

	Quarter ending June 30, 2017		Year ending December 31, 2017	
	Low	High	Low	High
EPS	$ 0.05	$ 0.07	$ 0.60	$ 0.66
Real estate depreciation and amortization	0.35	0.35	1.40	1.40
FFOPS, NAREIT definition	0.40	0.42	2.00	2.06
Original issuance costs of redeemed preferred shares	0.07	0.07	0.07	0.07
Gains on sales of non-operating properties	-	-	(0.06)	(0.06)
FFOPS, as adjusted for comparability	$ 0.47	$ 0.49	$ 2.01	$ 2.07

Associated Supplemental Presentation

Prior to the call, the Company will post a slide presentation to accompany management's prepared remarks for its first quarter 2017 conference call, the details of which are provided below. The accompanying slide presentation can be viewed on and downloaded from the 'Investors' section of the Company's website (www.copt.com).

Conference Call Information

Management will discuss first quarter 2017 earnings results on its conference call tomorrow at 12:00 p.m. Eastern Time, details of which are listed below:

Conference Call Date:	Friday, April 28, 2017
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:	99028882

Replay Information

A replay of this call will be available beginning at 4:00 p.m. Eastern Time on Friday, April 28, through 4:00 p.m. Eastern Time on Friday, May 12. To access the replay within the United States, please call 855-859-2056 and use passcode 99028882. To access the replay outside the United States, please call 404-537-3406 and use passcode 99028882.

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 call 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 furnished on 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 owns, manages, 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 priority missions ("Defense/IT Locations"). We also own a portfolio of office properties located in select urban/urban-like submarkets within our regional footprint with durable Class-A office fundamentals and characteristics ("Regional Office Properties"). As of March 31, 2017, we derived 87% of core portfolio annualized revenue from Defense/IT Locations and 13% from our Regional Office Properties. As of March 31, 2017, and including six buildings that are owned through an unconsolidated joint venture, our core portfolio of 152 office properties, encompassed 16.3 million square feet and was 94.2% leased. As of the same date, we 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. 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, 2016.

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

	For the Three Months Ended March 31,	
	2017	2016
Revenues		
Real estate revenues	$126,767	$ 133,087
Construction contract and other service revenues	13,034	11,220
Total revenues	139,801	144,307
Expenses		
Property operating expenses	48,519	51,875
Depreciation and amortization associated with real estate operations	33,059	34,527
Construction contract and other service expenses	12,486	10,694
Impairment losses	—	2,446
General and administrative expenses	6,747	10,130
Leasing expenses	1,864	1,753
Business development expenses and land carry costs	1,693	2,418
Total operating expenses	104,368	113,843
Operating income	35,433	30,464
Interest expense	(18,994)	(23,559)
Interest and other income	1,726	1,156
Gain on early extinguishment of debt	—	17
Income before equity in income of unconsolidated entities and income taxes	18,165	8,078
Equity in income of unconsolidated entities	725	10
Income tax (expense) benefit	(40)	8
Gain on sales of real estate	4,238	—
Net income	23,088	8,096
Net income attributable to noncontrolling interests		
Common units in the Operating Partnership (“OP”)	(634)	(127)
Preferred units in the OP	(165)	(165)
Other consolidated entities	(934)	(978)
Net income attributable to COPT	21,355	6,826
Preferred share dividends	(3,180)	(3,552)
Net income attributable to COPT common shareholders	$ 18,175	$ 3,274
Earnings per share (“EPS”) computation:		
Numerator for diluted EPS:		
Net income attributable to common shareholders	$ 18,175	$ 3,274
Amount allocable to share-based compensation awards	(125)	(118)
Numerator for diluted EPS	$ 18,050	$ 3,156
Denominator:		
Weighted average common shares - basic	98,411	94,203
Dilutive effect of share-based compensation awards	155	95
Weighted average common shares - diluted	98,566	94,298
Diluted EPS	$ 0.18	$ 0.03

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

	For the Three Months Ended March 31,	
	2017	2016
Net income	$ 23,088	$ 8,096
Real estate-related depreciation and amortization	33,059	34,527
Impairment losses on previously depreciated operating properties	—	847
Gain on sales of previously depreciated operating properties	(19)	—
Depreciation and amortization on unconsolidated real estate entities	311	—
Funds from operations (“FFO”)	56,439	43,470
Preferred share dividends	(3,180)	(3,552)
Noncontrolling interests - preferred units in the OP	(165)	(165)
FFO allocable to other noncontrolling interests	(978)	(1,027)
Basic and diluted FFO allocable to share-based compensation awards	(216)	(166)
Basic and Diluted FFO available to common share and common unit holders (“Diluted FFO”)	51,900	38,560
Gain on sales of non-operating properties	(4,219)	—
Impairment losses on non-operating properties	—	1,599
(Gain) loss on interest rate derivatives	(453)	1,551
Gain on early extinguishment of debt	—	(17)
Demolition costs on redevelopment properties	222	208
Executive transition costs	699	4,137
Diluted FFO comparability adjustments allocable to share-based compensation awards	14	(31)
Diluted FFO available to common share and common unit holders, as adjusted for comparability	48,163	46,007
Straight line rent adjustments and lease incentive amortization	433	(965)
Amortization of intangibles included in net operating income	359	338
Share-based compensation, net of amounts capitalized	1,249	1,632
Amortization of deferred financing costs	1,009	1,176
Amortization of net debt discounts, net of amounts capitalized	339	319
Replacement capital expenditures	(13,049)	(11,720)
Diluted AFFO adjustments allocable to other noncontrolling interests	26	48
Diluted AFFO adjustments on unconsolidated real estate JV	(182)	—
Diluted adjusted funds from operations available to common share and common unit holders (“Diluted AFFO”)	$ 38,347	$ 36,835
Diluted FFO per share	$ 0.51	$ 0.39
Diluted FFO per share, as adjusted for comparability	$ 0.47	$ 0.47
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, 2017	December 31, 2016
Balance Sheet Data		
Properties, net of accumulated depreciation	$3,093,014	$ 3,073,362
Total assets	3,739,366	3,780,885
Debt, per balance sheet	1,903,657	1,904,001
Total liabilities	2,113,822	2,163,242
Redeemable noncontrolling interest	23,676	22,979
Equity	1,601,868	1,594,664
Net debt to adjusted book	38.2%	38.3%
Core Portfolio Data (as of period end) (1)		
Number of operating properties	152	152
Total net rentable square feet owned (in thousands)	16,347	16,301
Occupancy %	93.3%	92.9%
Leased %	94.2%	94.4%

	For the Three Months Ended March 31,	
	2017	2016
Payout ratios		
Diluted FFO	54.2%	69.8%
Diluted FFO, as adjusted for comparability	58.5%	58.5%
Diluted AFFO	73.4%	73.1%
Adjusted EBITDA fixed charge coverage ratio	3.1x	2.7x
Net debt to in-place adjusted EBITDA ratio (2)	5.9x	7.0x
Net debt plus preferred equity to in-place adjusted EBITDA ratio (3)	6.5x	7.6x
Reconciliation of denominators for per share measures		
Denominator for diluted EPS	98,566	94,298
Weighted average common units	3,446	3,677
Denominator for diluted FFO per share and as adjusted for comparability	102,012	97,975

(1) Represents Defense/IT Locations and Regional Office properties excluding properties held for sale, and includes six properties owned through an unconsolidated joint venture totaling 962,000 square feet that were 100% occupied and leased.
(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,	
	2017	**2016**
Reconciliation of common share dividends to dividends and distributions for payout ratios		
Common share dividends - unrestricted shares	$ 27,219	$ 25,919
Common unit distributions	936	1,011
Dividends and distributions for payout ratios	$ 28,155	$ 26,930
Reconciliation of GAAP net income to adjusted earnings before interest, income taxes, depreciation and amortization ("Adjusted EBITDA") and in-place adjusted EBITDA		
Net income	$ 23,088	$ 8,096
Interest expense	18,994	23,559
Income tax expense (benefit)	40	(8)
Real estate-related depreciation and amortization	33,059	34,527
Depreciation of furniture, fixtures and equipment	511	602
Impairment losses	—	2,446
Gain on early extinguishment of debt	—	(17)
Gain on sales of operating properties	(19)	—
Gain on sales of non-operational properties	(4,219)	—
Net gain on investments in unconsolidated entities included in interest and other income	—	(23)
Business development expenses	938	1,379
Demolition costs on redevelopment properties	222	208
Adjustments from unconsolidated real estate JV	572	—
Executive transition costs	699	4,137
Adjusted EBITDA	$ 73,885	$ 74,906
Proforma net operating income adjustment for property changes within period	(440)	471
In-place adjusted EBITDA	$ 73,445	$ 75,377
Reconciliation of interest expense to the denominators for fixed charge coverage-Adjusted EBITDA		
Interest expense	$ 18,994	$ 23,559
Less: Amortization of deferred financing costs	(1,009)	(1,176)
Less: Amortization of net debt discounts, net of amounts capitalized	(339)	(319)
Less: Gain (loss) on interest rate derivatives	453	(1,551)
COPT's share of interest expense of unconsolidated real estate JV, excluding deferred financing costs	255	—
Scheduled principal amortization	958	1,800
Capitalized interest	1,531	1,753
Preferred share dividends	3,180	3,552
Preferred unit distributions	165	165
Denominator for fixed charge coverage-Adjusted EBITDA	$ 24,188	$ 27,783

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

	For the Three Months Ended March 31,	
	2017	**2016**
Reconciliations of tenant improvements and incentives, capital improvements and leasing costs for operating properties to replacement capital expenditures		
Tenant improvements and incentives	$ 4,740	$ 8,766
Building improvements	3,230	3,953
Leasing costs	1,151	1,183
Net additions to (exclusions from) tenant improvements and incentives	6,796	(1,353)
Excluded building improvements	(2,868)	(557)
Excluded leasing costs	—	(272)
Replacement capital expenditures	$13,049	$11,720
Same office property cash NOI	**$70,888**	**$67,522**
Straight line rent adjustments and lease incentive amortization	(288)	(874)
Amortization of acquired above- and below-market rents	(303)	(190)
Amortization of below-market cost arrangements	(146)	(239)
Lease termination fee, gross	706	953
Tenant funded landlord assets	267	563
Same office property NOI	**$71,124**	**$67,735**

	March 31, 2017	**December 31, 2016**
Reconciliation of total assets to adjusted book		
Total assets	$3,739,366	$ 3,780,885
Accumulated depreciation	732,371	706,385
Accumulated depreciation included in assets held for sale	7,104	9,566
Accumulated amortization of real estate intangibles and deferred leasing costs	218,336	210,692
Accumulated amortization of real estate intangibles and deferred leasing costs included in assets held for sale	9,259	11,575
COPT's share of liabilities of unconsolidated real estate JV	30,037	29,873
COPT's share of accumulated depreciation and amortization of unconsolidated real estate JV	1,501	938
Less: Cash and cash equivalents	(226,470)	(209,863)
COPT's share of cash of unconsolidated real estate JV	(370)	(283)
Adjusted book	$4,511,134	$ 4,539,768
Reconciliation of debt outstanding to net debt and net debt plus preferred equity		
Debt outstanding (excluding net debt discounts and deferred financing costs)	$1,949,221	$ 1,950,229
Less: Cash and cash equivalents	(226,470)	(209,863)
COPT's share of cash of unconsolidated real estate JV	(370)	(283)
Net debt	$1,722,381	$ 1,740,083
Preferred equity	181,300	207,883
Net debt plus preferred equity	$1,903,681	$ 1,947,966

Corporate Office Properties Trust
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Source: Corporate Office Properties Trust