

April 26, 2018



# COPT Reports First Quarter 2018 Results

COLUMBIA, Md.--(BUSINESS WIRE)-- Corporate Office Properties Trust ("COPT" or the "Company") (NYSE: OFC) announced operating results for the first quarter ended March 31, 2018.

## **Management Comments**

"Our first quarter results were solidly in line with expectations," stated Stephen E. Budorick, COPT's President & Chief Executive Officer. "The historic increase to the DOD's base budget authority included in the U.S. Government's fiscal year 2018 budget is driving defense contractors to lease additional space to accommodate mission growth, accelerating development leasing, and expanding our shadow development pipeline of opportunities."

## **Financial Highlights**

### **1<sup>st</sup> Quarter Financial Results:**

- Diluted earnings per share ("EPS") was \$0.17 for the quarter ended March 31, 2018 as compared to \$0.18 for the first quarter of 2017.
- Diluted funds from operations per share ("FFOPS"), as calculated in accordance with NAREIT's definition, was \$0.49 for the first quarter of 2018 as compared to \$0.51 for the first quarter of 2017.
- FFOPS, as adjusted for comparability, was \$0.50 for the quarter ended March 31, 2018 and \$0.47 for the first quarter of 2017.

Adjustments for comparability include demolition costs on redevelopment properties, executive transition costs, gains and losses from certain investing and financing activities, and certain other items that the Company believes are not closely correlated to (or associated with) its operating performance.

## **Operating Performance Highlights**

### **Portfolio Summary:**

- At March 31, 2018, the Company's core portfolio of 157 office and data center shell properties was 91.1% occupied and 91.9% leased.
- During the quarter, the Company placed 85,000 square feet of development into service that, at March 31, 2018, were 53% leased.

### **Same-Property Performance:**

- At March 31, 2018, COPT's same-property portfolio of 148 buildings was 91.0% occupied and 91.7% leased.
- For the quarter ended March 31, 2018, the Company's same-property cash NOI from

Defense/IT locations increased 1.4% over the prior year quarter. The Company's total same-property cash NOI decreased 1.5% as compared to the quarter ended March 31, 2017.

### **Leasing:**

- Square Feet Leased—For the quarter ended March 31, 2018, the Company leased 854,000 total square feet, including 712,000 square feet of renewing leases, 71,000 square feet of new leases on vacant space, and 71,000 square feet in development projects.
- Renewal Rates—During the first quarter, the Company renewed 72.6% of total expiring leases.
- Rent Spreads & Average Escalations on Renewing Leases—For the quarter ended March 31, 2018, rents on renewed space increased 11.1% on a GAAP basis and increased 1.2% on a cash basis; average annual escalations on renewing leases in the first quarter were 2.6%.
- Lease Terms—In the first quarter, lease terms averaged 4.4 years on renewing leases, 5.3 years on new leasing, and 9.2 years on development leasing, for a weighted average lease term of 4.9 years on all leasing.

### **Investment Activity Highlights**

#### **Development & Redevelopment Projects:**

- The Company has six properties totaling 597,000 square feet under construction that, at March 31, 2018, were 88% leased. These projects have a total estimated cost of \$119.8 million, of which \$61.5 million has been incurred.
- COPT has one project under redevelopment totaling 22,000 square feet that, at March 31, 2018, was 100% leased. The Company has invested \$3.3 million of the \$3.4 million total incremental cost planned.
- **Pre-Construction.** At March 31, 2018, the Company had one property under pre-construction. Based on an expected size of 190,000 square feet, the project is 43% pre-leased. The Company expects to commence construction on the \$170 million project during the second quarter of 2018.

### **Balance Sheet and Capital Transaction Highlights**

- As of March 31, 2018, the Company's net debt plus preferred equity to adjusted book ratio was 41.3% and its net debt plus preferred equity to in-place adjusted EBITDA ratio was 6.4x. For the quarter ended March 31, 2018, the Company's adjusted EBITDA fixed charge coverage ratio was 3.5x.
- As of March 31, 2018 and including the effect of interest rate swaps, the Company's weighted average effective interest rate was 4.1%. Additionally, 91.8% of the Company's debt was subject to fixed interest rates and the debt portfolio had a weighted average maturity of 4.8 years.

### **2018 Guidance**

Management is narrowing its previously issued guidance range for full year EPS and FFOPS, as adjusted for comparability, to revised ranges of \$0.56—\$0.64 and \$1.96—\$2.04, respectively. Management also is establishing EPS and FFOPS, as adjusted for comparability, guidance for the second quarter ending June 30, 2018 at a ranges of \$0.13—\$0.15 and \$0.48—\$0.50, respectively. Reconciliations of projected diluted EPS to projected FFOPS are as follows:

| <b>Table 1: Reconciliation of EPS to FFOPS, per NAREIT and As Adjusted for Comparability</b> | Quarter ending<br>June 30, 2018 |               | Year ending<br>December 31, 2018 |               |
|--|---------------------------------|---------------|----------------------------------|---------------|
|  | Low                             | High          | Low                              | High          |
| EPS  | \$0.13                          | \$0.15        | \$0.56                           | \$0.64        |
| Real estate depreciation and amortization  | 0.35                            | 0.35          | 1.40                             | 1.40          |
| FFOPS per NAREIT definition & as adjusted for comparability                                  | <u>\$0.48</u>                   | <u>\$0.50</u> | <u>\$1.96</u>                    | <u>\$2.04</u> |

### **Associated Supplemental Presentation**

Prior to the call, the Company will post a slide presentation to accompany management's prepared remarks for its first quarter 2018 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](http://www.copt.com)).

### **Conference Call Information**

Management will discuss first quarter 2018 results on its conference call tomorrow at 12:00 p.m. Eastern Time, details of which are listed below:

|                                      |                         |
|--------------------------------------|-------------------------|
| Conference Call Date:                | Friday, April 27, 2018  |
| 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:                            | 3975897                 |

The conference call will also be available via live webcast in the 'Investors' section of the Company's website at [www.copt.com](http://www.copt.com).

### **Replay Information**

A replay of this call will be available beginning at 3:00 p.m. Eastern Time on Friday, April 27, through 3:00 p.m. Eastern Time on Friday, May 11. To access the replay within the United States, please call 855-859-2056 and use passcode 3975897. To access the replay outside the United States, please call 404-537-3406 and use passcode 3975897. A replay of the conference call will be immediately available via webcast in the 'Investors' 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](http://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 March 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 157 office and data center shell properties encompassed 17.5 million square feet and was 91.9% leased. As of the same date, 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 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, 2017.*

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

|  | <b>For the Three<br/>Months<br/>Ended March 31,</b> |                  |
|--|---|------------------|
|  | <b>2018</b>   | <b>2017</b>      |
| Revenues   |   |                  |
| Real estate revenues   | \$ 128,278  | \$ 126,767       |
| Construction contract and other service revenues                           | 27,198  | 13,034           |
| Total revenues   | <u>155,476</u>                                      | <u>139,801</u>   |
| Expenses   |   |                  |
| Property operating expenses  | 50,951  | 48,519           |
| Depreciation and amortization associated with real estate operations       | 33,512  | 33,059           |
|  | 26,216  | 12,486           |
| Construction contract and other service expenses                           |   |                  |
| General and administrative expenses  | 5,861   | 6,747            |
| Leasing expenses   | 1,431   | 1,864            |
| Business development expenses and land carry costs                         | 1,614   | 1,693            |
| Total operating expenses   | <u>119,585</u>                                      | <u>104,368</u>   |
| Operating income   | 35,891  | 35,433           |
| Interest expense   | (18,784)  | (18,994)         |
| Interest and other income  | 1,359   | 1,726            |
| Income before equity in income of unconsolidated entities and income taxes | 18,466  | 18,165           |
| Equity in income of unconsolidated entities                                | 373   | 377              |
| Income tax expense   | (55)  | (40)             |
| Gain on sales of real estate   | (4)   | 4,238            |
| Net income   | <u>18,780</u>                                       | <u>22,740</u>    |
| Net income attributable to noncontrolling interests                        |   |                  |
| Common units in the Operating Partnership ("OP")                           | (544)   | (622)            |
| Preferred units in the OP  | (165)   | (165)            |
| Other consolidated entities  | (921)   | (934)            |
| Net income attributable to COPT  | <u>17,150</u>                                       | <u>21,019</u>    |
| Preferred share dividends  | —   | (3,180)          |
| Net income attributable to COPT common shareholders                        | <u>\$ 17,150</u>                                    | <u>\$ 17,839</u> |
| Earnings per share ("EPS") computation:                                    |   |                  |
| Numerator for diluted EPS:   |   |                  |
| Net income attributable to COPT common shareholders                        | \$ 17,150   | \$ 17,839        |
| Amount allocable to share-based compensation awards                        | (117)   | (125)            |
| Numerator for diluted EPS  | <u>\$ 17,033</u>                                    | <u>\$ 17,714</u> |
| Denominator:   |   |                  |
| Weighted average common shares - basic                                     | 100,999   | 98,411           |
| Dilutive effect of share-based compensation awards                         | 144   | 155              |
| Weighted average common shares - diluted                                   | <u>101,143</u>                                      | <u>98,566</u>    |
| Diluted EPS  | <u>\$ 0.17</u>                                      | <u>\$ 0.18</u>   |

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

|   | <b>For the Three<br/>Months<br/>Ended March 31,</b> |             |
|---|---|-------------|
|   | <b>2018</b>   | <b>2017</b> |
| Net income  | \$ 18,780   | \$ 22,740   |
| Real estate-related depreciation and amortization   | 33,512  | 33,059      |
| Gain on sales of previously depreciated operating properties  | 4   | (19)        |
| Depreciation and amortization on unconsolidated real estate JV  | 563   | 563         |
| Funds from operations ("FFO")   | 52,859  | 56,343      |
| Preferred share dividends   | —   | (3,180)     |
| Noncontrolling interests - preferred units in the OP  | (165)   | (165)       |
| FFO allocable to other noncontrolling interests   | (944)   | (978)       |
| Basic and diluted FFO allocable to share-based compensation awards  | (213)   | (216)       |
| Basic and Diluted FFO available to common share and common unit holders ("Diluted FFO")                   | 51,537  | 51,804      |
| Gain on sales of non-operating properties   | —   | (4,219)     |
| Gain on interest rate derivatives   | —   | (453)       |
| Demolition costs on redevelopment properties and nonrecurring improvements                                | 39  | 222         |
| Executive transition costs  | 163   | 699         |
| Diluted FFO comparability adjustments allocable to share-based compensation awards                        | (1)   | 14          |
| Diluted FFO available to common share and common unit holders, as adjusted for comparability              | 51,738  | 48,067      |
| Straight line rent adjustments and lease incentive amortization   | (828)   | 433         |
| Amortization of intangibles included in net operating income  | 356   | 359         |
| Share-based compensation, net of amounts capitalized  | 1,485   | 1,249       |
| Amortization of deferred financing costs  | 468   | 1,009       |
| Amortization of net debt discounts, net of amounts capitalized  | 354   | 339         |
| Accum. other comprehensive loss on derivatives amortized to expense                                       | 34  | —           |
| Replacement capital expenditures  | (15,520)  | (13,049)    |
| Other diluted AFFO adjustments associated with real estate JVs  | 131   | (60)        |
| Diluted adjusted funds from operations available to common share and common unit holders ("Diluted AFFO") | \$ 38,218   | \$ 38,347   |
| Diluted FFO per share   | \$ 0.49   | \$ 0.51     |
| Diluted FFO per share, as adjusted for comparability  | \$ 0.50   | \$ 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)

|   | <b>March 31,<br/>2018</b> | <b>December 31,<br/>2017</b> |
|---|---------------------------|------------------------------|
| <b>Balance Sheet Data</b>   |                           |                              |
| Properties, net of accumulated depreciation                             | \$ 3,158,279              | \$ 3,141,105                 |
| Total assets  | 3,596,238                 | 3,595,205                    |
| Debt, per balance sheet   | 1,854,886                 | 1,828,333                    |
| Total liabilities   | 2,090,366                 | 2,103,773                    |
| Redeemable noncontrolling interest                                      | 23,848                    | 23,125                       |
| Equity  | 1,482,024                 | 1,468,307                    |
| Net debt to adjusted book   | 41.2%                     | 40.8%                        |
| <b>Core Portfolio Data (as of period end) (1)</b>                       |                           |                              |
| Number of operating properties  | 157                       | 156                          |
| Total net rentable square feet owned (in thousands)                     | 17,456                    | 17,059                       |
| Occupancy %   | 91.1%                     | 94.5%                        |
| Leased %  | 91.9%                     | 95.1%                        |
| <b>For the Three Months Ended<br/>March 31,</b>                         |                           |                              |
|   | <b>2018</b>               | <b>2017</b>                  |
| <b>Payout ratios</b>  |                           |                              |
| Diluted FFO   | 56.0%                     | 54.3%                        |
| Diluted FFO, as adjusted for comparability                              | 55.8%                     | 58.6%                        |
| Diluted AFFO  | 75.5%                     | 73.4%                        |
| Adjusted EBITDA fixed charge coverage ratio                             | 3.5x                      | 3.0x                         |
| Net debt to in-place adjusted EBITDA ratio (2)                          | 6.4x                      | 5.9x                         |
| Net debt plus preferred equity to in-place adjusted EBITDA ratio (3)    | 6.4x                      | 6.5x                         |
| <b>Reconciliation of denominators for per share measures</b>            |                           |                              |
| Denominator for diluted EPS   | 101,143                   | 98,566                       |
| Weighted average common units   | 3,221                     | 3,446                        |
| Denominator for diluted FFO per share and as adjusted for comparability | 104,364                   | 102,012                      |

(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)

|  | <b>For the Three<br/>Months<br/>Ended March 31,</b> |                 |
|--|---|-----------------|
|  | <b>2018</b>   | <b>2017</b>     |
| <b>Reconciliation of common share dividends to dividends and distributions for payout ratios</b>   |   |                 |
| Common share dividends - unrestricted shares   | \$27,974  | \$27,219        |
| Common unit distributions  | 879   | 936             |
| Dividends and distributions for payout ratios  | <u>\$28,853</u>                                     | <u>\$28,155</u> |
| <b>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</b> |   |                 |
| Net income   | \$18,780  | \$22,740        |
| Interest expense   | 18,784  | 18,994          |
| Income tax expense   | 55  | 40              |
| Real estate-related depreciation and amortization  | 33,512  | 33,059          |
| Depreciation of furniture, fixtures and equipment  | 523   | 511             |
| Gain on sales of operating properties  | 4   | (19)            |
| Adjustments from unconsolidated real estate JV   | 824   | 824             |
| EBITDAre   | <u>72,482</u>                                       | <u>76,149</u>   |
| Gain on sales of non-operating properties  | —   | (4,219)         |
| Business development expenses  | 1,023   | 938             |
| Demolition costs on redevelopment and nonrecurring improvements  | 39  | 222             |
| Executive transition costs   | 163   | 699             |
| Adjusted EBITDA  | <u>73,707</u>                                       | <u>73,789</u>   |
| Proforma net operating income adjustment for property changes within period  | —   | (440)           |
| In-place adjusted EBITDA   | <u>\$73,707</u>                                     | <u>\$73,349</u> |
| <b>Reconciliation of interest expense to the denominators for fixed charge coverage-Adjusted EBITDA</b>  |   |                 |
| Interest expense   | \$18,784  | \$18,994        |
| Less: Amortization of deferred financing costs   | (468)   | (1,009)         |
| Less: Amortization of net debt discounts, net of amounts capitalized   | (354)   | (339)           |
| Less: Accum. other comprehensive loss on derivatives amortized to expense  | (34)  | —               |
| Gain on interest rate derivatives  | —   | 453             |
| COPT's share of interest expense of unconsolidated real estate JV, excluding deferred financing costs  | 255   | 255             |
| Scheduled principal amortization   | 1,052   | 1,008           |
| Capitalized interest   | 1,374   | 1,531           |
| Preferred share dividends  | —   | 3,180           |
| Preferred unit distributions   | 165   | 165             |
| Denominator for fixed charge coverage-Adjusted EBITDA  | <u>\$20,774</u>                                     | <u>\$24,238</u> |

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

|   | For the Three Months<br>Ended March 31, |                    |
|---|---|--------------------|
|   | 2018                                    | 2017               |
| <b>Reconciliations of tenant improvements and incentives, capital improvements and leasing costs for operating properties to replacement capital expenditures</b> |   |                    |
| Tenant improvements and incentives  | \$ 8,615                                | \$4,740            |
| Building improvements   | 1,921                                   | 3,230              |
| Leasing costs   | 1,280                                   | 1,151              |
| Net additions to tenant improvements and incentives   | 3,289                                   | 6,796              |
| Excluded building improvements  | 415                                     | (2,868)            |
| Replacement capital expenditures  | <u>\$ 15,520</u>                        | <u>\$13,049</u>    |
| <b>Same Properties cash NOI</b>   |   |                    |
| Straight line rent adjustments and lease incentive amortization   | \$ 69,376                               | \$70,466           |
| Amortization of acquired above- and below-market rents  | (1,627)                                 | 76                 |
| Amortization of below-market cost arrangements  | (300)                                   | (303)              |
|   | (146)                                   | (147)              |
| Lease termination fees, gross   | 1,008                                   | 706                |
| Tenant funded landlord assets and lease incentives  | 1,863                                   | 1,109              |
| Cash NOI adjustments in unconsolidated real estate JV   | 67                                      | 92                 |
| Same Properties NOI   | <u>\$ 70,241</u>                        | <u>\$71,999</u>    |
| <b>Reconciliation of total assets to adjusted book</b>  |   |                    |
| Total assets  | \$3,596,238                             | \$3,595,205        |
| Accumulated depreciation  | 813,457                                 | 786,193            |
| Accumulated amortization of real estate intangibles and deferred leasing costs  | 197,520                                 | 193,151            |
| COPT's share of liabilities of unconsolidated real estate JV  | 30,100                                  | 29,908             |
| COPT's share of accumulated depreciation and amortization of unconsolidated real estate JV  | 3,752                                   | 3,189              |
| Less: Disposed property included in assets held for sale  | (42,226)                                | (42,226)           |
| Less: Cash and cash equivalents   | (8,888)                                 | (12,261)           |
| Less: COPT's share of cash of unconsolidated real estate JV   | (295)                                   | (371)              |
| Adjusted book   | <u>\$4,589,658</u>                      | <u>\$4,552,788</u> |
| <b>Reconciliation of debt outstanding to net debt and net debt plus preferred equity</b>  |   |                    |
| Debt outstanding (excluding net debt discounts and deferred financing costs)  | \$1,898,115                             | \$1,872,167        |
| Less: Cash and cash equivalents   | (8,888)                                 | (12,261)           |
| Less: COPT's share of cash of unconsolidated real estate JV   | (295)                                   | (371)              |
| Net debt  | <u>\$1,888,932</u>                      | <u>\$1,859,535</u> |
| Preferred equity  | 8,800                                   | 8,800              |
| Net debt plus preferred equity  | <u>\$1,897,732</u>                      | <u>\$1,868,335</u> |

View source version on businesswire.com:  
<https://www.businesswire.com/news/home/20180426006821/en/>

Corporate Office Properties Trust  
IR Contacts:  
Stephanie Krewson-Kelly, 443-285-5453  
[stephanie.kelly@copt.com](mailto:stephanie.kelly@copt.com)  
or

Michelle Layne, 443-285-5452  
[michelle.layne@copt.com](mailto:michelle.layne@copt.com)

Source: Corporate Office Properties Trust