April 30, 2019

COPT Reports First Quarter 2019 Results

EPS of $0.19 Exceeds Guidance; FFO per Share of $0.50 Meets High-End of Range
Strong Same-Property Cash NOI Growth of 4.7%
Core Portfolio 92.8% Occupied & 93.7% Leased
Solid Tenant Retention of 71.3%
181,000 SF of Development Placed into Service 100% Leased
1Q19 Cash Rent Spreads Anticipated; Full Year 2019 Rent Spread Guidance Maintained

Leasing Volumes Ahead of Expectations
956,000 SF Total Leasing Completed in 1Q19
1Q19 Vacancy Leasing of 126,000 SF is 77% Greater than 1Q18 Volume
Four Month Vacancy Leasing of 236,000 SF is 26% Greater than First Half 2018 Volume
Development Leasing of 539,000 SF in 1Q19
Completed Over 350,000 SF of Development Leases in April with Defense Contractors at Redstone Gateway
900,000 SF Development Leasing Goal Achieved; Raising Target to 1.4 Million SF

Adjusting Guidance to Accommodate Higher Growth Opportunities
Increasing Development Spend Guidance to $325–$350 Million
Increasing Dispositions Commensurately
Attractive Capital Recycling Transaction is On-Track
Adjusting Mid-Point of Full Year 2019 FFO per Share Down 1-Cent
Development Pipeline Supports Outsized FFO Growth in 4Q20 & Full Year 2021

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, 2019.

Management Comments

Stephen E. Budorick, COPT’s President & Chief Executive Officer, commented, “Our first quarter results combined with our leasing successes in April represent a strong start to the year, and demonstrate the strength of demand recovery throughout our Defense/IT locations. We have achieved our full-year goal of leasing 900,000 square feet in development projects and, based on the pipeline of opportunities before us, are increasing our target to 1.4 million square feet.” He continued, “Including development starts for the four-building campus we announced today and a new building for U.S. Government use, our construction pipeline now includes 1.9 million square feet of projects that, on average are 81% leased. To fund this elevated level of development, we are increasing our disposition objective. Our patience with the DoD’s lease procurement process and our willingness to engage in long-term solutions for customers at our Defense/IT locations are starting to pay off with increased levels of development opportunities.”

Financial Highlights

1st Quarter Financial Results:

- Diluted earnings per share (“EPS”) was $0.19 for the quarter ended March 31, 2019 as compared to $0.17 for the first quarter of 2018.
- Diluted funds from operations per share (“FFOPS”), as calculated in accordance with Nareit’s definition, was $0.50 for the first quarter of 2019 as compared to $0.49 for first quarter 2018 results.
- FFOPS, as adjusted for comparability, was $0.50 for the quarter ended March 31, 2019, equal to first quarter of 2018. Adjustments for comparability encompass items such as losses on early extinguishment of debt, demolition costs of redevelopment, and executive transition costs.

Operating Performance Highlights

Operating Portfolio Summary:

- At March 31, 2019, the Company’s core portfolio of 163 operating office properties was 92.8% occupied and 93.7% leased.
- During the quarter, the Company placed three developments aggregating 181,000 square feet into service; all three developments were 100% leased.

Same-Property Performance:

- At March 31, 2019, COPT’s same-property portfolio of 156 buildings was 92.7% occupied and 93.5% leased.
- For the quarter ended March 31, 2019, the Company’s same-property cash NOI from Defense/IT locations increased 4.9%, over the prior year’s comparable period. For the same time periods, the Company’s total same-property cash NOI increased 4.7%, over the prior year’s comparable period.

Leasing:

- Total Square Feet Leased—For the quarter ended March 31, 2019, the Company leased 956,000 total square feet, including 291,000 square feet of renewing leases, 126,000 square feet of new leases on vacant space, and 539,000 square feet in development projects. During the month of April, the Company completed an additional 110,000 square feet of vacancy leasing and over 350,000 square feet of development leasing.
- Renewal Rates—During the first quarter ended March 31, 2019, the Company renewed 71.3% of total expiring leases, which was in-line with its full year guidance for retaining 70%-75% of expiring leases.
- Rent Spreads & Average Escalations on Renewing Leases—For the quarter ended March 31, 2019, rents on renewed space decreased 4.8% on a GAAP basis and 6.8% on a cash basis; average annual escalations on renewing leases in the first quarter were 2.5%. The first quarter decline in renewing rents was incorporated into the Company’s initial guidance, and management reiterates its full-year guidance for cash rents on renewing leases to roll flat to down 2%.

- Lease Terms—In the first quarter, lease terms averaged 3.9 years on renewing leases, 5.6 years on new leasing of vacant space, and 13.2 years on development leasing.

Investment Activity Highlights

Development & Redevelopment Projects:

- **Construction Pipeline.** At April 30, 2019, the Company's construction pipeline consisted of 14 properties totaling 1.9 million square feet that were 81% leased. These projects have a total estimated cost of $496.1 million, of which $195.5 million has been incurred.
- **Redevelopment.** At the end of the quarter, one project was under redevelopment totaling 106,000 square feet that was 10% leased. The Company has invested $13.7 million of the $25.1 million anticipated total cost.

Balance Sheet and Capital Transaction Highlights

- During the quarter ended March 31, 2019, the Company issued the remaining 1.6 million common shares under its forward equity sale agreements for net proceeds of $46.5 million.
- As of March 31, 2019, the Company's net debt plus preferred equity to adjusted book ratio was 39.0% and its net debt plus preferred equity to in-place adjusted EBITDA ratio was 6.2x. For the same period, the Company's adjusted EBITDA fixed charge coverage ratio was 3.6x.
- As of March 31, 2019, and including the effect of interest rate swaps, the Company's weighted average effective interest rate was 4.1%; additionally, 90.5% of the Company's debt was subject to fixed interest rates and the consolidated debt portfolio had a weighted average maturity of 4.2 years.

2019 Guidance

Due to the greater volume of development opportunities and related funding needs, management is lowering its previously issued guidance ranges of $0.62—$0.66 and $2.02—$2.06, respectively, for full year EPS and FFOPS, as adjusted for comparability, to revised ranges of $0.61—$0.65 and $2.01—$2.05. Management also is establishing EPS and FFOPS, as adjusted for comparability, guidance for the second quarter ending June 30, 2019 at ranges of $0.15—$0.16 and $0.50—$0.51, respectively. Reconciliations of projected diluted EPS to projected FFOPS are as follows:

Reconciliation of EPS to FFOPS, per Nareit and As Adjusted for Comparability	Quarter ending June 30, 2019		Year ending December 31, 2019	
	Low	High	Low	High
EPS	$ 0.15	$ 0.16	$ 0.61	$ 0.65
Real estate depreciation and amortization	0.35	0.35	1.40	1.40
FFOPS, Nareit definition and as adjusted for comparability	$ 0.50	$ 0.51	$ 2.01	$ 2.05

Associated Supplemental Presentation

Prior to the call, the Company will post a slide presentation to accompany management's prepared remarks for its first quarter 2019 conference call, the details of which are provided below. The accompanying slide presentation can be viewed on and downloaded from the 'Latest Updates' section of COPT's Investors website: https://investors.copt.com/

Conference Call Information

Management will discuss first quarter 2019 results on its conference call tomorrow at 12:00 p.m. Eastern Time, details of which are listed below:

Conference Call Date:	Wednesday, May 1, 2019
Time:	12:00 p.m. Eastern Time
Telephone Number: (within the U.S.)	855-463-9057
Telephone Number: (outside the U.S.)	661-378-9894
Passcode:	3888259

The conference call will also be available via live webcast in the 'Latest Updates' section of COPT's Investors website: https://investors.copt.com/

Replay Information

A replay of the conference call will be available immediately via webcast on the Investors website. Additionally, a telephonic replay of this call will be available beginning at 3:00 p.m. Eastern Time on Wednesday, May 1 through 3:00 p.m. Eastern Time on Wednesday, 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 3888259.

Definitions

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

Company Information

COPT is a REIT that owns, manages, leases, develops and selectively acquires office and data center properties in locations that support the United States Government and its contractors, most of whom are engaged in national security, defense and information technology ("IT") related activities servicing what it believes are growing, durable, priority missions ("Defense/IT Locations"). The Company also owns a portfolio of office properties located in select urban/urban-like submarkets in the Greater Washington, DC/Baltimore region with durable Class-A office fundamentals and characteristics ("Regional Office Properties"). As of March 31, 2019, the Company derived 89% of its core portfolio annualized revenue from Defense/IT Locations and 11% 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 163 office and data center shell properties encompassed 18.2 million square feet and was 93.7% leased; the Company also owned one wholesale data center with a critical load of 19.25 megawatts.

Forward-Looking Information

This press release may contain “forward-looking” statements, as defined in Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934, that are based on the Company’s current expectations, estimates and projections about future events and financial trends affecting the Company. Forward-looking statements can be identified by the use of words such as “may,” “will,” “should,” “could,” “believe,” “anticipate,” “expect,” “estimate,” “plan” or other comparable terminology. Forward-looking statements are inherently subject to risks and uncertainties, many of which the Company cannot predict with accuracy and some of which the Company might not even anticipate. Although the Company believes that the expectations, estimates and projections reflected in such forward-looking statements are based on reasonable assumptions at the time made, the Company can give no assurance that these expectations, estimates and projections will be achieved. Future events and actual results may differ materially from those discussed in the forward-looking statements.

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 reduced or delayed 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 dilutive effects of issuing additional common shares;*
- *the Company's ability to achieve projected results;*
- *security breaches relating to cyber attacks, cyber intrusions or other factors; 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, 2018.

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

	For the Three Months Ended March 31,	
	2019	**2018**
Revenues		
Revenues from real estate operations	$ 131,990	$ 128,278
Construction contract and other service revenues	16,950	27,198
Total revenues	148,940	155,476
Operating expenses		
Property operating expenses	49,445	50,951
Depreciation and amortization associated with real estate operations	34,796	33,512
Construction contract and other service expenses	16,326	26,216
General and administrative expenses	6,719	5,861
Leasing expenses	2,032	1,431
Business development expenses and land carry costs	1,113	1,614
Total operating expenses	110,431	119,585
Interest expense	(18,674)	(18,784)
Interest and other income	2,286	1,359
Gain on sales of real estate	—	(4)
Income before equity in income of unconsolidated entities and income taxes	22,121	18,462
Equity in income of unconsolidated entities	391	373
Income tax expense	(194)	(55)
Net income	22,318	18,780
Net income attributable to noncontrolling interests:		
Common units in the Operating Partnership ("OP")	(257)	(544)
Preferred units in the OP	(165)	(165)
Other consolidated entities	(1,037)	(921)
Net income attributable to COPT common shareholders	$ 20,859	$ 17,150
Earnings per share ("EPS") computation:		
Numerator for diluted EPS:		
Net income attributable to COPT common shareholders	$ 20,859	$ 17,150
Amount allocable to share-based compensation awards	(86)	(117)
Numerator for diluted EPS	$ 20,773	$ 17,033
Denominator:		
Weighted average common shares - basic	109,951	100,999
Dilutive effect of share-based compensation awards	267	144
Weighted average common shares - diluted	110,218	101,143
Diluted EPS	$ 0.19	$ 0.17

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

	For the Three Months Ended March 31,	
	2019	2018
Net income	$ 22,318	$ 18,780
Real estate-related depreciation and amortization	34,796	33,512
Gain on sales of real estate	—	4
Depreciation and amortization on unconsolidated real estate JV	566	563
Funds from operations (“FFO”)	57,680	52,859
Noncontrolling interests - preferred units in the OP	(165)	(165)
FFO allocable to other noncontrolling interests	(971)	(944)
Basic and diluted FFO allocable to share-based compensation awards	(185)	(213)
Basic FFO available to common share and common unit holders (“Basic FFO”)	56,359	51,537
Redeemable noncontrolling interests	381	—
Diluted FFO available to common share and common unit holders (“Diluted FFO”)	56,740	51,537
Demolition costs on redevelopment and nonrecurring improvements	44	39
Executive transition costs	4	163
Diluted FFO comparability adjustments allocable to share-based compensation awards	—	(1)
Diluted FFO available to common share and common unit holders, as adjusted for comparability	56,788	51,738
Straight line rent adjustments and lease incentive amortization	(1,667)	(828)
Amortization of intangibles included in net operating income	62	356
Share-based compensation, net of amounts capitalized	1,673	1,485
Amortization of deferred financing costs	528	468
Amortization of net debt discounts, net of amounts capitalized	370	354
Accum. other comprehensive loss on derivatives amortized to expense	34	34
Replacement capital expenditures	(11,173)	(15,520)
Other diluted AFFO adjustments associated with real estate JVs	33	131
Diluted adjusted funds from operations available to common share and common unit holders (“Diluted AFFO”)	$ 46,648	$ 38,218
Diluted FFO per share	$ 0.50	$ 0.49
Diluted FFO per share, as adjusted for comparability	$ 0.50	$ 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, 2019	December 31, 2018
Balance Sheet Data		
Properties, net of accumulated depreciation	$ 3,303,002	$ 3,250,626
Total assets	3,775,859	3,656,005
Debt, per balance sheet	1,876,149	1,823,909
Total liabilities	2,092,296	2,002,697
Redeemable noncontrolling interest	27,385	26,260
Equity	1,656,178	1,627,048
Net debt to adjusted book	38.8%	38.9%
Core Portfolio Data (as of period end) (1)		
Number of operating properties	163	161
Total net rentable square feet owned (in thousands)	18,181	17,937
Occupancy %	92.8%	93.1%
Leased %	93.7%	94.0%

	For the Three Months Ended March 31,	
	2019	2018
Payout ratios		
Diluted FFO	54.7%	56.0%
Diluted FFO, as adjusted for comparability	54.7%	55.8%
Diluted AFFO	66.6%	75.5%
Adjusted EBITDA fixed charge coverage ratio	3.6x	3.5x
Net debt to in-place adjusted EBITDA ratio (2)	6.2x	6.4x
Net debt plus preferred equity to in-place adjusted EBITDA ratio (3)	6.2x	6.4x
Reconciliation of denominators for per share measures		
Denominator for diluted EPS	110,218	101,143
Weighted average common units	1,331	3,221
Redeemable noncontrolling interests	1,013	—
Anti-dilutive EPS effect of share-based compensation awards	35	—
Denominator for diluted FFO per share and as adjusted for comparability	112,597	104,364

(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,	
	2019	2018
Reconciliation of common share dividends to dividends and distributions for payout ratios		
Common share dividends - unrestricted shares	$30,685	$27,974
Common unit distributions - unrestricted units	365	879
Dividends and distributions for payout ratios	$31,050	$28,853
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	$22,318	$18,780
Interest expense	18,674	18,784
Income tax expense	194	55
Depreciation of furniture, fixtures and equipment	433	523
Real estate-related depreciation and amortization	34,796	33,512
Gain on sales of real estate	—	4
Adjustments from unconsolidated real estate JV	827	824
EBITDAre	77,242	72,482
Net gain on other investments	(388)	—
Business development expenses	548	1,023
Demolition costs on redevelopment and nonrecurring improvements	44	39
Executive transition costs	4	163
Adjusted EBITDA	77,450	73,707
Proforma net operating income adjustment for property changes within period	252	—
In-place adjusted EBITDA	$77,702	$73,707
Reconciliation of interest expense to the denominators for fixed charge coverage-Adjusted EBITDA		
Interest expense	$18,674	$18,784
Less: Amortization of deferred financing costs	(528)	(468)
Less: Amortization of net debt discounts, net of amounts capitalized	(370)	(354)
Less: Accum. other comprehensive loss on derivatives amortized to expense	(34)	(34)
COPT's share of interest expense of unconsolidated real estate JV, excluding deferred financing costs	255	255
Scheduled principal amortization	1,098	1,052
Capitalized interest	2,004	1,374
Preferred unit distributions	165	165
Denominator for fixed charge coverage-Adjusted EBITDA	$21,264	$20,774

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

	For the Three Months Ended March 31, 2019	For the Three Months Ended March 31, 2018
Reconciliations of tenant improvements and incentives, building improvements and leasing costs for operating properties to replacement capital expenditures		
Tenant improvements and incentives	$ 7,152	$ 8,615
Building improvements	4,531	1,921
Leasing costs	3,182	1,280
Net (exclusions from) additions to tenant improvements and incentives	(1,469)	3,289
Excluded building improvements	(2,223)	415
Replacement capital expenditures	$ 11,173	$ 15,520
Same Properties cash NOI	$ 73,868	$ 70,534
Straight line rent adjustments and lease incentive amortization	123	47
Amortization of acquired above- and below-market rents	(40)	(300)
Amortization of below-market cost arrangements	(23)	(55)
Lease termination fees, gross	521	1,008
Tenant funded landlord assets and lease incentives	388	1,863
Cash NOI adjustments in unconsolidated real estate JV	59	67
Same Properties NOI	$ 74,896	$ 73,164

	March 31, 2019	December 31, 2018
Reconciliation of total assets to adjusted book		
Total assets	$3,775,859	$3,656,005
Accumulated depreciation	927,266	897,903
Accumulated amortization of real estate intangibles and deferred leasing costs	208,973	204,882
COPT’s share of liabilities of unconsolidated real estate JV	30,156	29,917
COPT’s share of accumulated depreciation and amortization of unconsolidated real estate JV	6,012	5,446
Less: Property - operating lease liabilities	(16,619)	—
Less: Property - finance lease liabilities	(716)	(660)
Less: Cash and cash equivalents	(7,780)	(8,066)
Less: COPT’s share of cash of unconsolidated real estate JV	(377)	(293)
Adjusted book	$4,922,774	$4,785,134
Reconciliation of debt outstanding to net debt and net debt plus preferred equity		
Debt outstanding (excluding net debt discounts and deferred financing costs)	$1,919,920	$1,868,504
Less: Cash and cash equivalents	(7,780)	(8,066)
Less: COPT’s share of cash of unconsolidated real estate JV	(377)	(293)
Net debt	$1,911,763	$1,860,145
Preferred equity	8,800	8,800
Net debt plus preferred equity	$1,920,563	$1,868,945

View source version on businesswire.com: https://www.businesswire.com/news/home/20190430006232/en/

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