

July 28, 2016



# COPT Reports Second Quarter 2016 Results

COLUMBIA, Md.--(BUSINESS WIRE)-- Corporate Office Properties Trust ("COPT" or the "Company") (NYSE: OFC) announced financial and operating results for the second quarter ended June 30, 2016.

## **Management Comments**

"Our second quarter results and post-quarter dispositions demonstrate our solid execution on leasing, asset sales, and value creation," stated Stephen E. Budorick, COPT's President & Chief Executive Officer. "Same office cash NOI grew 5.1% in the quarter and 5.7% for the first half of the year. Furthermore, our tenant retention of 82% in the quarter bodes well for future results." He added, "We recently generated \$74 million from joint venturing six data center shell assets, and expect to complete another \$235 million of asset sales before the end of the third quarter, bringing total disposition proceeds to \$314 million. In short, we are on track to achieve our operational, portfolio, and balance sheet objectives for 2016."

## **Financial Highlights**

### **2<sup>nd</sup> Quarter Financial Results:**

- Diluted earnings (loss) per share ("EPS") was (\$0.54) for the quarter ended June 30, 2016 as compared to \$0.13 for the second quarter of 2015.
- Diluted funds from operations per share ("FFOPS"), as calculated in accordance with NAREIT's definition, was \$0.36 for the second quarter of 2016 as compared to \$0.48 for the second quarter of 2015.
- FFOPS, as adjusted for comparability, was \$0.52 for the quarter ended June 30, 2016 and for the second quarter of 2015.

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

## **Operating Performance Highlights**

### **Portfolio Summary:**

- At June 30, 2016, the Company's core portfolio of 146 operating office properties totaled 16.0 million square feet that were 92.3% occupied and 93.8% leased.
- During the quarter, the Company placed 153,000 square feet of development in service that were 100% leased. This excludes an additional 161,000 square feet in Northern Virginia that were completed but being held for future lease to the United

States Government.

- At June 30, 2016, the Company had approximately \$300 million of assets held for sale: 30 operating properties and 136 acres of land. The held for sale properties contain a total of 2.0 million square feet.

#### **Same Office Performance:**

- At June 30, 2016, COPT's same office portfolio of 136 buildings were 90.8% occupied and 92.4% leased.
- For the quarter ended June 30, 2016, the Company's same office property cash NOI increased 5.1% as compared to the quarter ended June 30, 2015. For the six months ended June 30, 2016, same office cash NOI grew 5.7% versus the comparable period in 2015.

#### **Leasing:**

- Square Feet Leased – For the quarter ended June 30, 2016, the Company leased a total of 1.0 million square feet, including 382,000 square feet in development projects. During the first half of the year, we completed 1.6 million square feet of leasing, including 546,000 square feet in development projects.
- Renewal Rates – During the second quarter, the Company renewed 82% of expiring leases. For the six months ended June 30, 2016, the Company renewed 75% of expiring leases.
- Solid Rent Spreads on Renewing Leases – For the quarter ended June 30, 2016 and as compared to expiring rents, rents on renewed space increased 9.8% on a GAAP basis and decreased 0.8% on a cash basis. For the first half of 2016, GAAP rents in renewing leases rolled up 10.3% and cash rents were flat.
- Lease Terms Continue to Lengthen – In the second quarter, lease terms averaged 4.7 years on the 508,000 square feet of renewing leases, and 9.1 years on the 497,000 square feet of development and other new leasing, for an average lease term of 6.9 years on all leasing completed in the quarter.

For the six months ended June 30, 2016, lease terms averaged 4.8 years on the 756,000 square feet of renewing leases, and 8.8 years on the 795,000 square feet of development and other new leasing, for an average lease term of 6.8 years on all leasing completed in the first half.

#### **Investment Activity Highlights**

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

- The Company has seven properties totaling 1.0 million square feet under construction that, at June 30, 2016, were 89% pre-leased. The seven projects have a total estimated cost of \$204.6 million, of which \$85.6 million has been incurred.
- The Company also has two recently completed properties totaling 352,000 square feet that are being held for the United States Government but not currently leased. Including these two projects, the Company's construction pipeline totals 1.4 million

square feet that are 67% leased.

- COPT has 104,000 square feet in three properties under redevelopment, representing a total expected cost of \$27.1 million, of which \$18.2 million has been invested. The three projects were 16% leased at quarter end.

**Dispositions:** In July, the Company generated \$74 million of equity proceeds from six data center properties it contributed to a newly-formed, 50% unconsolidated joint venture with an institutional partner. Please refer to the Company's press release dated July 21, 2016, for additional detail.

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

- In May, the Company refinanced a \$36 million loan secured by two properties the Company owns in joint venture with an affiliate of the University of Maryland. The new, \$45 million loan bears interest at 3.82% and matures in 2026.
- As of June 30, 2016, the Company's debt to adjusted book ratio was 43.8%, net debt to in-place adjusted EBITDA ratio was 6.6x. For the quarter ended June 30, 2016, its adjusted EBITDA fixed charge coverage ratio was 2.9x.
- The Company's weighted average effective interest rate was 4.0% as of June 30, 2016 and, including the effect of interest rate swaps, 92% of the Company's debt was subject to fixed interest rates and the debt portfolio had a weighted average maturity of 5.8 years.
- On July 1, 2016, the Company used capacity on its line of credit to repay at par a \$162.5 million secured loan that bore interest at 7.25%. The Company intends to repay \$150 million of the balance on its line of credit in September using capacity on its seven-year term loan. (Please see Company press release dated December 17, 2015, for additional detail.)

### **2016 FFO Guidance**

Management is narrowing its guidance range for full year FFOPS, as adjusted for comparability, of \$1.99—\$2.03. The Company also is establishing guidance for the third and fourth quarters ending September 30 and December 31, 2016, for EPS and FFO per share, as adjusted for comparability, of \$0.50—\$ 0.52. Reconciliations of projected diluted EPS to projected FFOPS are as follows:

|                                               | Three Months Ending<br>September 30, 2016 |                | Three Months Ending<br>December 31, 2016 |                | Year Ending<br>December 31, 2016 |                |
|-----------------------------------------------|-------------------------------------------|----------------|------------------------------------------|----------------|----------------------------------|----------------|
|                                               | Low                                       | High           | Low                                      | High           | Low                              | High           |
| EPS                                           | \$ 0.50                                   | \$ 0.52        | \$ 0.32                                  | \$ 0.34        | \$ 0.31                          | \$ 0.35        |
| Real estate depreciation and amortization     | 0.34                                      | 0.34           | 0.34                                     | 0.34           | 1.37                             | 1.37           |
| Impairment losses on operating properties     | -                                         | -              | -                                        | -              | 0.57                             | 0.57           |
| Gains on sales of operating properties        | (0.35)                                    | (0.35)         | (0.03)                                   | (0.03)         | (0.38)                           | (0.38)         |
| FFOPS, NAREIT definition                      | 0.49                                      | 0.51           | 0.63                                     | 0.65           | 1.87                             | 1.91           |
| Executive transition costs                    | 0.01                                      | 0.01           | -                                        | -              | 0.05                             | 0.05           |
| Impairment losses on non-operating properties | -                                         | -              | -                                        | -              | 0.18                             | 0.18           |
| Gains on sales of non-operating properties    | -                                         | -              | (0.13)                                   | (0.13)         | (0.13)                           | (0.13)         |
| Other                                         | -                                         | -              | -                                        | -              | 0.02                             | 0.02           |
| FFOPS, as adjusted for comparability          | <u>\$ 0.50</u>                            | <u>\$ 0.52</u> | <u>\$ 0.50</u>                           | <u>\$ 0.52</u> | <u>\$ 1.99</u>                   | <u>\$ 2.03</u> |

### **Associated Supplemental Presentation**

Prior to the call, the Company will post a slide presentation to accompany management's prepared remarks for its second quarter 2016 conference call, the details of which are provided below. You may access the slide presentation on the 'Investors' section of the website ([www.copt.com](http://www.copt.com)). Please have the slides available to review during management's comments.

### **Conference Call Information**

Management will discuss second quarter 2016 earnings results on its conference call tomorrow at 12:00 p.m. Eastern Time, details of which are listed below:

|                                      |                                                      |
|--------------------------------------|------------------------------------------------------|
| Earnings Release Date:               | Thursday, July 28, 2016 after 4:15 p.m. Eastern Time |
| Conference Call Date:                | Friday, July 29, 2016                                |
| Time:                                | 12:00 p.m. Eastern Time                              |
| Telephone Number: (within the U.S.)  | 888-679-8033                                         |
| Telephone Number: (outside the U.S.) | 617-213-4846                                         |
| Passcode:                            | 87985597#                                            |

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. To pre-register, please click on the below link:

<https://www.theconferencingservice.com/prereg/key.process?key=P84MJUARE>

You may also pre-register in the Investors section of the Company's website at [www.copt.com](http://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.

### **Replay Information**

A replay of this call will be available beginning at 6:00 p.m. Eastern Time on Friday, July 29, through midnight Eastern Time on Friday, August 12. To access the replay within the United States, please call 888-286-8010 and use passcode 29841980. To access the replay outside the United States, please call 617-801-6888 and use the same passcode.

The conference call will also be available via live webcast in the Investor Relations section of the Company's website at [www.copt.com](http://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](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 an office REIT that owns, manages, develops and selectively acquires office and data center properties in locations that support United States Government agencies and their 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 complementary portfolio of traditional Class-A office properties located in select urban/urban-like submarkets within our regional footprint ("Regional Office Properties"). As of June 30, 2016, we derived 86% of core portfolio annualized revenue from Defense/IT Locations and 14% from our Regional Office Properties. As of June 30, 2016, our core portfolio of 146 office properties encompassed 16.0 million square feet and was 93.8% leased.

## **Forward-Looking Information**

*This press release may contain "forward-looking" statements, as defined in Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934, that are based on the Company's current expectations, estimates and projections about future events and financial trends affecting the Company. Forward-looking statements can be identified by the use of words such as "may," "will," "should," "could," "believe," "anticipate," "expect," "estimate," "plan" or other comparable terminology. Forward-looking statements are inherently subject to risks and uncertainties, many of which the Company cannot predict with accuracy and some of which the Company might not even anticipate. 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, 2015.*

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

|                                                                                                              | For the Three<br>Months<br>Ended June 30, |           | For the Six Months<br>Ended June 30, |           |
|--------------------------------------------------------------------------------------------------------------|-------------------------------------------|-----------|--------------------------------------|-----------|
|                                                                                                              | 2016                                      | 2015      | 2016                                 | 2015      |
| Revenues                                                                                                     |                                           |           |                                      |           |
| Real estate revenues                                                                                         | \$133,924                                 | \$128,191 | \$267,011                            | \$250,901 |
| Construction contract and other service revenues                                                             | 12,003                                    | 42,172    | 23,223                               | 80,496    |
| Total revenues                                                                                               | 145,927                                   | 170,363   | 290,234                              | 331,397   |
| Expenses                                                                                                     |                                           |           |                                      |           |
| Property operating expenses                                                                                  | 48,141                                    | 46,418    | 100,016                              | 97,099    |
| Depreciation and amortization associated with real estate operations                                         | 33,248                                    | 33,786    | 67,775                               | 65,385    |
| Construction contract and other service expenses                                                             | 11,478                                    | 41,293    | 22,172                               | 78,791    |
| Impairment losses                                                                                            | 69,692                                    | 1,238     | 72,138                               | 1,238     |
| General and administrative expenses                                                                          | 6,512                                     | 5,884     | 16,642                               | 12,134    |
| Leasing expenses                                                                                             | 1,514                                     | 1,650     | 3,267                                | 3,291     |
| Business development expenses and land carry costs                                                           | 2,363                                     | 2,623     | 4,781                                | 5,413     |
| Total operating expenses                                                                                     | 172,948                                   | 132,892   | 286,791                              | 263,351   |
| Operating (loss) income                                                                                      | (27,021)                                  | 37,471    | 3,443                                | 68,046    |
| Interest expense                                                                                             | (22,639)                                  | (21,768)  | (46,198)                             | (42,606)  |
| Interest and other income                                                                                    | 1,330                                     | 1,242     | 2,486                                | 2,525     |
| Gain (loss) on early extinguishment of debt                                                                  | 5                                         | (65)      | 22                                   | (68)      |
| (Loss) income from continuing operations before equity in income of unconsolidated entities and income taxes | (48,325)                                  | 16,880    | (40,247)                             | 27,897    |
| Equity in income of unconsolidated entities                                                                  | 10                                        | 9         | 20                                   | 34        |
| Income tax (expense) benefit                                                                                 | (1)                                       | (50)      | 7                                    | (105)     |
| (Loss) income from continuing operations                                                                     | (48,316)                                  | 16,839    | (40,220)                             | 27,826    |
| Discontinued operations                                                                                      | —                                         | 394       | —                                    | 156       |
| (Loss) income before gain on sales of real estate                                                            | (48,316)                                  | 17,233    | (40,220)                             | 27,982    |
| Gain on sales of real estate, net of income taxes                                                            | —                                         | (1)       | —                                    | 3,985     |
| Net (loss) income                                                                                            | (48,316)                                  | 17,232    | (40,220)                             | 31,967    |
| Net loss (income) attributable to noncontrolling interests                                                   |                                           |           |                                      |           |
| Common units in the Operating Partnership ("OP")                                                             | 1,976                                     | (476)     | 1,849                                | (874)     |
| Preferred units in the OP                                                                                    | (165)                                     | (165)     | (330)                                | (330)     |
| Other consolidated entities                                                                                  | (914)                                     | (810)     | (1,892)                              | (1,627)   |
| Net (loss) income attributable to COPT                                                                       | (47,419)                                  | 15,781    | (40,593)                             | 29,136    |
| Preferred share dividends                                                                                    | (3,553)                                   | (3,553)   | (7,105)                              | (7,105)   |
| Net (loss) income attributable to COPT common shareholders                                                   | \$ (50,972)                               | \$ 12,228 | \$ (47,698)                          | \$ 22,031 |
| Earnings per share ("EPS") computation:                                                                      |                                           |           |                                      |           |
| Numerator for diluted EPS:                                                                                   |                                           |           |                                      |           |
| Net (loss) income attributable to common shareholders                                                        | \$ (50,972)                               | \$ 12,228 | \$ (47,698)                          | \$ 22,031 |
| Amount allocable to share-based compensation awards                                                          | (96)                                      | (113)     | (214)                                | (235)     |
| Numerator for diluted EPS                                                                                    | \$ (51,068)                               | \$ 12,115 | \$ (47,912)                          | \$ 21,796 |
| Denominator:                                                                                                 |                                           |           |                                      |           |
| Weighted average common shares - basic                                                                       | 94,300                                    | 94,128    | 94,251                               | 93,666    |
| Dilutive effect of share-based compensation awards                                                           | —                                         | 35        | —                                    | 114       |
| Weighted average common shares - diluted                                                                     | 94,300                                    | 94,163    | 94,251                               | 93,780    |
| Diluted EPS                                                                                                  | \$ (0.54)                                 | \$ 0.13   | \$ (0.51)                            | \$ 0.23   |

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

|                                                                                                           | For the Three Months Ended June 30, |          | For the Six Months Ended June 30, |           |
|-----------------------------------------------------------------------------------------------------------|-------------------------------------|----------|-----------------------------------|-----------|
|                                                                                                           | 2016                                | 2015     | 2016                              | 2015      |
| Net (loss) income                                                                                         | \$(48,316)                          | \$17,232 | \$(40,220)                        | \$ 31,967 |
| Real estate-related depreciation and amortization                                                         | 33,248                              | 33,786   | 67,775                            | 65,385    |
| Impairment losses on previously depreciated operating properties                                          | 55,124                              | 1,239    | 55,971                            | 1,472     |
| Funds from operations ("FFO")                                                                             | 40,056                              | 52,257   | 83,526                            | 98,824    |
| Noncontrolling interests - preferred units in the OP                                                      | (165)                               | (165)    | (330)                             | (330)     |
| FFO allocable to other noncontrolling interests                                                           | (1,014)                             | (1,072)  | (2,041)                           | (1,742)   |
| Preferred share dividends                                                                                 | (3,553)                             | (3,553)  | (7,105)                           | (7,105)   |
| Basic and diluted FFO allocable to share-based compensation awards                                        | (130)                               | (202)    | (296)                             | (385)     |
| Basic and diluted FFO available to common share and common unit holders ("Diluted FFO")                   | 35,194                              | 47,265   | 73,754                            | 89,262    |
| Operating property acquisition costs                                                                      | —                                   | 361      | —                                 | 1,407     |
| Gain on sales of non-operating properties                                                                 | —                                   | 1        | —                                 | (3,985)   |
| Impairment losses on other properties                                                                     | 14,568                              | —        | 16,167                            | —         |
| Loss on interest rate derivatives                                                                         | 319                                 | —        | 1,870                             | —         |
| (Gain) loss on early extinguishment of debt                                                               | (5)                                 | (315)    | (22)                              | (312)     |
| Add: Negative FFO of properties conveyed to extinguish debt in default (1)                                | —                                   | 3,419    | —                                 | 7,690     |
| Demolition costs on redevelopment properties                                                              | 370                                 | 66       | 578                               | 241       |
| Executive transition costs                                                                                | 247                                 | —        | 4,384                             | —         |
| Diluted FFO comparability adjustments allocable to share-based compensation awards                        | (63)                                | (14)     | (94)                              | (21)      |
| Diluted FFO available to common share and common unit holders, as adjusted for comparability              | 50,630                              | 50,783   | 96,637                            | 94,282    |
| Straight line rent adjustments                                                                            | 527                                 | (3,788)  | (390)                             | (5,059)   |
| Straight line rent adjustments - properties in default conveyed                                           | —                                   | (24)     | —                                 | (96)      |
| Amortization of intangibles included in net operating income                                              | 338                                 | 478      | 676                               | 589       |
| Share-based compensation, net of amounts capitalized                                                      | 1,485                               | 1,658    | 3,117                             | 3,210     |
| Amortization of deferred financing costs                                                                  | 1,178                               | 1,146    | 2,354                             | 2,136     |
| Amortization of net debt discounts, net of amounts capitalized                                            | 325                                 | 264      | 644                               | 528       |
| Replacement capital expenditures                                                                          | (11,546)                            | (9,705)  | (23,266)                          | (17,054)  |
| Diluted adjusted funds from operations available to common share and common unit holders ("Diluted AFFO") | \$ 42,937                           | \$40,812 | \$ 79,772                         | \$ 78,536 |
| Diluted FFO per share                                                                                     | \$ 0.36                             | \$ 0.48  | \$ 0.75                           | \$ 0.92   |
| Diluted FFO per share, as adjusted for comparability                                                      | \$ 0.52                             | \$ 0.52  | \$ 0.99                           | \$ 0.97   |
| Dividends/distributions per common share/unit                                                             | \$ 0.275                            | \$ 0.275 | \$ 0.550                          | \$ 0.550  |

(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)

|                                             | June 30,<br>2016 | December 31,<br>2015 |
|---------------------------------------------|------------------|----------------------|
| <b>Balance Sheet Data</b>                   |                  |                      |
| Properties, net of accumulated depreciation | \$3,169,727      | \$ 3,349,748         |
| Total assets                                | 3,841,692        | 3,909,312            |
| Debt, per balance sheet                     | 2,094,486        | 2,077,752            |
| Total liabilities                           | 2,318,516        | 2,273,530            |
| Redeemable noncontrolling interest          | 22,473           | 19,218               |
| Equity                                      | 1,500,703        | 1,616,564            |
| Debt to adjusted book                       | 43.8%            | 43.3%                |

**Core Portfolio Data (as of period end) (1)**

|                                                     |        |        |
|-----------------------------------------------------|--------|--------|
| Number of operating properties                      | 146    | 157    |
| Total net rentable square feet owned (in thousands) | 16,018 | 17,038 |
| Occupancy %                                         | 92.3%  | 92.7%  |
| Leased %                                            | 93.8%  | 93.9%  |

|                                                | For the Three<br>Months<br>Ended June 30, |       | For the Six Months Ended<br>June 30, |       |
|------------------------------------------------|-------------------------------------------|-------|--------------------------------------|-------|
|                                                | 2016                                      | 2015  | 2016                                 | 2015  |
| <b>Payout ratios</b>                           |                                           |       |                                      |       |
| Diluted FFO                                    | 76.8%                                     | 57.2% | 73.3%                                | 60.5% |
| Diluted FFO, as adjusted for comparability     | 53.4%                                     | 53.2% | 56.0%                                | 57.3% |
| Diluted AFFO                                   | 63.0%                                     | 66.2% | 67.8%                                | 68.8% |
| Adjusted EBITDA fixed charge coverage ratio    | 2.9x                                      | 3.2x  | 2.8x                                 | 3.0x  |
| Net debt to in-place adjusted EBITDA ratio (2) | 6.6x                                      | 6.5x  | N/A                                  | N/A   |

**Reconciliation of denominators for per share measures**

|                                                             |               |               |               |               |
|-------------------------------------------------------------|---------------|---------------|---------------|---------------|
| Denominator for diluted EPS                                 | 94,300        | 94,163        | 94,251        | 93,780        |
| Weighted average common units                               | 3,676         | 3,680         | 3,676         | 3,706         |
| Anti-dilutive EPS effect of share-based compensation awards | 117           | —             | 107           | —             |
| Denominator for diluted FFO per share                       | <u>98,093</u> | <u>97,843</u> | <u>98,034</u> | <u>97,486</u> |

(1) Represents Defense/IT Locations and Regional Office properties excluding properties held for sale.

(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).

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

|                                                                                                                                                                             | For the Three<br>Months<br>Ended June 30, |                 | For the Six Months<br>Ended<br>June 30, |                  |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------|-----------------|-----------------------------------------|------------------|
|                                                                                                                                                                             | 2016                                      | 2015            | 2016                                    | 2015             |
| <b>Reconciliation of common share dividends to dividends and distributions for payout ratios</b>                                                                            |                                           |                 |                                         |                  |
| Common share dividends                                                                                                                                                      | \$ 26,034                                 | \$26,002        | \$ 52,071                               | \$ 52,000        |
| Common unit distributions                                                                                                                                                   | 1,004                                     | 1,012           | 2,015                                   | 2,024            |
| Dividends and distributions for payout ratios                                                                                                                               | <u>\$ 27,038</u>                          | <u>\$27,014</u> | <u>\$ 54,086</u>                        | <u>\$ 54,024</u> |
| <b>Reconciliation of GAAP net income to adjusted earnings before interest, income taxes, depreciation and amortization ("Adjusted EBITDA") and in-place adjusted EBITDA</b> |                                           |                 |                                         |                  |
| Net (loss) income                                                                                                                                                           | \$(48,316)                                | \$17,232        | \$ (40,220)                             | \$ 31,967        |
| Interest expense on continuing operations                                                                                                                                   | 22,639                                    | 21,768          | 46,198                                  | 42,606           |
| Income tax expense (benefit)                                                                                                                                                | 1                                         | 50              | (7)                                     | 105              |
| Real estate-related depreciation and amortization                                                                                                                           | 33,248                                    | 33,786          | 67,775                                  | 65,385           |
| Depreciation of furniture, fixtures and equipment                                                                                                                           | 524                                       | 527             | 1,126                                   | 1,019            |
| Impairment losses                                                                                                                                                           | 69,692                                    | 1,239           | 72,138                                  | 1,472            |
| Gain on early extinguishment of debt on continuing and discontinued operations                                                                                              | (5)                                       | (315)           | (22)                                    | (312)            |
| Gain on sales of non-operational properties                                                                                                                                 | —                                         | 1               | —                                       | (3,985)          |
| Net (gain) loss on investments in unconsolidated entities included in interest and other income                                                                             | (36)                                      | (52)            | (59)                                    | 23               |
| Business development expenses                                                                                                                                               | 1,261                                     | 1,181           | 2,640                                   | 2,042            |
| Operating property acquisition costs                                                                                                                                        | —                                         | 361             | —                                       | 1,407            |
| EBITDA from properties conveyed to extinguish debt in default                                                                                                               | —                                         | (843)           | —                                       | (753)            |
| Demolition costs on redevelopment properties                                                                                                                                | 370                                       | 66              | 578                                     | 241              |
| Executive transition costs                                                                                                                                                  | 247                                       | —               | 4,384                                   | —                |
| Adjusted EBITDA                                                                                                                                                             | <u>\$ 79,625</u>                          | <u>\$75,001</u> | <u>\$154,531</u>                        | <u>\$141,217</u> |
| Proforma net operating income adjustment for property changes within period                                                                                                 | 109                                       | 509             | —                                       | —                |
| In-place adjusted EBITDA                                                                                                                                                    | <u>\$ 79,734</u>                          | <u>\$75,510</u> | —                                       | —                |
| <b>Reconciliation of interest expense to the denominators for fixed charge coverage-Adjusted EBITDA</b>                                                                     |                                           |                 |                                         |                  |
| Interest expense                                                                                                                                                            | \$ 22,639                                 | \$21,768        | \$ 46,198                               | \$ 42,606        |
| Less: Amortization of deferred financing costs                                                                                                                              | (1,178)                                   | (1,146)         | (2,354)                                 | (2,136)          |
| Less: Amortization of net debt discount, net of amounts capitalized                                                                                                         | (325)                                     | (264)           | (644)                                   | (528)            |
| Less: Loss on interest rate derivatives                                                                                                                                     | (319)                                     | —               | (1,870)                                 | —                |
| Less: Interest expense on debt in default extinguished via conveyance of properties                                                                                         | —                                         | (4,261)         | —                                       | (8,443)          |
| Scheduled principal amortization                                                                                                                                            | 1,732                                     | 1,670           | 3,532                                   | 3,319            |
| Capitalized interest                                                                                                                                                        | 1,309                                     | 1,950           | 3,062                                   | 4,082            |
| Preferred share dividends                                                                                                                                                   | 3,553                                     | 3,553           | 7,105                                   | 7,105            |
| Preferred unit distributions                                                                                                                                                | 165                                       | 165             | 330                                     | 330              |
| Denominator for fixed charge coverage-Adjusted EBITDA                                                                                                                       | <u>\$ 27,576</u>                          | <u>\$23,435</u> | <u>\$ 55,359</u>                        | <u>\$ 46,335</u> |

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

|                                                                                                                                                                   | For the Three<br>Months<br>Ended June 30, |                        | For the Six Months<br>Ended<br>June 30, |                          |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------|------------------------|-----------------------------------------|--------------------------|
|                                                                                                                                                                   | 2016                                      | 2015                   | 2016                                    | 2015                     |
| <b>Reconciliations of tenant improvements and incentives, capital improvements and leasing costs for operating properties to replacement capital expenditures</b> |                                           |                        |                                         |                          |
| Tenant improvements and incentives                                                                                                                                | \$ 6,784                                  | \$ 6,644               | \$ 15,550                               | \$ 11,034                |
| Building improvements                                                                                                                                             | 5,302                                     | 4,543                  | 9,255                                   | 7,746                    |
| Leasing costs                                                                                                                                                     | 1,613                                     | 1,485                  | 2,796                                   | 2,439                    |
| Less: Excluded tenant improvements and incentives                                                                                                                 | (885)                                     | (986)                  | (2,238)                                 | (1,250)                  |
| Less: Excluded building improvements                                                                                                                              | (1,121)                                   | (1,298)                | (1,678)                                 | (2,173)                  |
| Less: Excluded leasing costs                                                                                                                                      | (147)                                     | (683)                  | (419)                                   | (742)                    |
| Replacement capital expenditures                                                                                                                                  | <u>\$11,546</u>                           | <u>\$ 9,705</u>        | <u>\$ 23,266</u>                        | <u>\$ 17,054</u>         |
| <b>Same office property cash NOI</b>                                                                                                                              | <b>\$63,497</b>                           | <b>\$60,415</b>        | <b>\$ 125,125</b>                       | <b>\$ 118,385</b>        |
| Straight line rent adjustments                                                                                                                                    | (2,436)                                   | 1,497                  | (3,797)                                 | 3,075                    |
| Add: Amortization of deferred market rental revenue                                                                                                               | 34                                        | 16                     | 68                                      | 55                       |
| Less: Amortization of below-market cost arrangements                                                                                                              | (219)                                     | (258)                  | (437)                                   | (511)                    |
| Add: Lease termination fee, gross                                                                                                                                 | 336                                       | 1,012                  | 1,289                                   | 1,765                    |
| Add: Cash NOI on tenant-funded landlord assets                                                                                                                    | 2,848                                     | —                      | 3,495                                   | 416                      |
| <b>Same office property NOI</b>                                                                                                                                   | <b><u>\$64,060</u></b>                    | <b><u>\$62,682</u></b> | <b><u>\$ 125,743</u></b>                | <b><u>\$ 123,185</u></b> |
|                                                                                                                                                                   |                                           |                        | <b>June 30,</b>                         | <b>December</b>          |
|                                                                                                                                                                   |                                           |                        | <b>2016</b>                             | <b>31,</b>               |
|                                                                                                                                                                   |                                           |                        |                                         | <b>2015</b>              |
| <b>Reconciliation of total assets to adjusted book</b>                                                                                                            |                                           |                        |                                         |                          |
| Total assets                                                                                                                                                      |                                           |                        | \$3,841,692                             | \$3,909,312              |
| Accumulated depreciation                                                                                                                                          |                                           |                        | 692,540                                 | 700,363                  |
| Accumulated depreciation included in assets held for sale                                                                                                         |                                           |                        | 62,940                                  | 18,317                   |
| Accumulated amortization of real estate intangibles and deferred leasing costs                                                                                    |                                           |                        | 199,038                                 | 195,506                  |
| Accumulated amortization of real estate intangibles and deferred leasing costs included in assets held for sale                                                   |                                           |                        | 27,206                                  | 17,456                   |
| Adjusted book                                                                                                                                                     |                                           |                        | <u>\$4,823,416</u>                      | <u>\$4,840,954</u>       |
| <b>Reconciliation of debt outstanding to net debt</b>                                                                                                             |                                           |                        |                                         |                          |
| Debt outstanding (excluding net debt discounts and deferred financing costs)                                                                                      |                                           |                        | \$2,112,700                             | \$2,097,230              |
| Less: Cash and cash equivalents                                                                                                                                   |                                           |                        | (13,317)                                | (60,310)                 |
| Net debt                                                                                                                                                          |                                           |                        | <u>\$2,099,383</u>                      | <u>\$2,036,920</u>       |

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Corporate Office Properties Trust

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Source: Corporate Office Properties Trust

