

July 30, 2020



COPT Reports Strong Second Quarter 2020 Results

2Q20 Results Outperform Expectations

FFO per share of \$0.51 in 2Q Exceeded High-End of Guidance by \$0.01

Solid Same-Property Cash NOI Growth of 1.7% in 2Q Outperformed Guidance

Core Portfolio 93.6% Occupied & 94.7% Leased

412,000 SF of 97.5% Leased Developments Placed in Service during 2Q; 642,000 SF of 99% Leased Developments Placed in Service During First Half of 2020

Solid Leasing Volumes

Total Leasing in 2Q of 959,000 SF included 276,000 SF of Development Leasing and 70,000 SF of Vacancy Leasing

Continued Strong Tenant Retention of 76% in 2Q; 81% for First Half of 2020

1.9 Million SF Under Development are 84% Leased

Executed a New, 3.1MW Lease with Defense Contractor at DC-6

COVID-19 Impact on Operations Continues to be Minimal

Maintaining Mid-Point of Full-Year Guidance for FFO per Share, As Adjusted for Comparability, of \$2.07

Monthly Rent Collections, Net of Rent Accommodations, Continue to Exceed 99%

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, 2020.

Management Comments

Stephen E. Budorick, COPT's President & Chief Executive Officer, commented, "The Company delivered strong second quarter results, with FFO per share exceeding the high-end of our guidance range by 1-cent. Cost savings and the timing of repair and maintenance costs more than offset the reserves we took on tenants impacted by the shutdowns and drove same-property cash NOI growth of 1.7%." He continued, "Our operations and ability to execute development and renewal leasing continue to be minimally impacted by the pandemic due to the high concentration of U.S. Government national security activity in our portfolio. Accordingly, we affirm the \$2.07 mid-point of our updated 2020 guidance for FFO

per share, as adjusted for comparability.”

Financial Highlights

2nd Quarter Financial Results:

- Diluted earnings per share (“EPS”) was \$0.21 for the quarter ended June 30, 2020 as compared to \$0.95 for the second quarter of 2019.
- Diluted funds from operations per share (“FFOPS”), as calculated in accordance with Nareit’s definition and as adjusted for comparability, was \$0.51 for the second quarter of 2020 as compared to \$0.52 for second quarter 2019 results.

Operating Performance Highlights

Operating Portfolio Summary:

- At June 30, 2020, the Company’s core portfolio of 172 operating office and data center shell properties was 93.6% occupied and 94.7% leased.
- During the quarter, the Company placed into service 412,000 square feet that were 97.5% leased.

Same-Property Performance:

- At June 30, 2020, COPT’s same-property portfolio of 152 buildings was 92.3% occupied and 93.5% leased.
- For the quarter and six months ended June 30, 2020, the Company’s same-property cash NOI increased 1.7% and 3.3%, respectively, over the prior year’s comparable periods.

Leasing:

- Total Square Feet Leased: For the quarter ended June 30, 2020, the Company leased 959,000 total square feet, including 613,000 square feet of renewals, 70,000 square feet of new leases on vacant space, and 276,000 square feet in development projects. For the six months ended June 30, 2020, the Company executed 1.6 million square feet of total leasing.
- Renewal Rates: During the quarter and six months ended June 30, 2020, the Company respectively renewed 75.6% and 81.0% of total expiring square feet.
- Cash Rent Spreads & Average Escalations on Renewing Leases: For the quarter and six months ended June 30, 2020, cash rents on renewed space decreased 3.2% and 2.0%, respectively. For the same time periods, annual escalations on renewing leases averaged 2.4%.
- Lease Terms: In the second quarter, lease terms averaged 5.2 years on renewing leases, 4.9 years on new leasing of vacant space, and 16.3 years on development leasing. For the first six months, lease terms averaged 5.1 years on renewing leases,

6.7 years on vacancy leasing, and 16.3 years on development leasing.

- DC-6: At the Company's wholesale data center, COPT executed a new, 3.1 megawatt lease with a defense contractor in April, increasing DC-6 to 90.6% leased.

Investment Activity Highlights

Development & Redevelopment Projects:

- Development Pipeline: At July 7, 2020, the Company's development pipeline consisted of 11 properties and expansions in three fully-operational properties totaling 1.9 million square feet that were 84% leased. These projects have a total estimated cost of \$612.2 million, of which \$379.1 million had been incurred as of June 30, 2020.

Balance Sheet and Capital Transaction Highlights

- As of June 30, 2020, the Company's net debt plus preferred equity to adjusted book ratio was 38.8% and its net debt plus preferred equity to in-place adjusted EBITDA ratio was 6.4x. For the quarter ended June 30, 2020, the Company's adjusted EBITDA fixed charge coverage ratio was 3.8x.
- As of June 30, 2020, and including the effect of interest rate swaps, the Company's weighted average effective interest rate on its consolidated debt portfolio was 3.66% with a weighted average maturity of 3.0 years; additionally, 88.5% of the Company's debt was subject to fixed interest rates.

2020 Guidance

Management is increasing its prior full-year guidance ranges of \$0.65-\$0.69 for EPS to a new range of \$0.76-\$0.80. Management is maintaining its full-year guidance ranges for FFOPS per Nareit and FFOPS, as adjusted for comparability, at \$1.95-\$1.99 and \$2.05-\$2.09, respectively.

Management also is establishing guidance for EPS and FFOPS, per Nareit and as adjusted for comparability, for the third quarter ending September 30, 2020 at ranges of \$0.16-\$0.18 and \$0.51-\$0.53, respectively; and for the fourth quarter ending December 31, 2020, management is establishing guidance ranges for EPS and FFOPS, per Nareit and as adjusted for comparability, at \$0.17-\$0.19 and \$0.52-\$0.54, respectively. Reconciliations of projected diluted EPS to projected FFOPS are as follows:

Table 1: Reconciliation of EPS to FFOPS, per Nareit and**As Adjusted for Comparability**

	Quarter ending September 30, 2020		Quarter ending December 31, 2020		Year ending December 31, 2020	
	Low	High	Low	High	Low	High
EPS	\$ 0.16	\$ 0.18	\$ 0.17	\$ 0.19	\$ 0.76	\$ 0.80
Real estate-related depreciation and amortization	0.35	0.35	0.35	0.35	1.29	1.29
FFO allocation to other noncontrolling interests resulting from capital event	-	-	-	-	(0.10)	(0.10)
FFOPS, Nareit definition	0.51	0.53	0.52	0.54	1.95	1.99
FFO allocation to other noncontrolling interests resulting from capital event	-	-	-	-	0.10	0.10
FFOPS, as adjusted for comparability	<u>\$ 0.51</u>	<u>\$ 0.53</u>	<u>\$ 0.52</u>	<u>\$ 0.54</u>	<u>\$ 2.05</u>	<u>\$ 2.09</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 2020 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 second quarter 2020 results on its conference call tomorrow at 12:00 p.m. Eastern Time, details of which are listed below:

Conference Call Date:	Friday, July 31, 2020
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:	4686936

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 immediately available 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 Friday, July 31, through 3:00 p.m. Eastern Time on Friday, August 14. 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 4686936.

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.

About COPT

COPT is a REIT that owns, manages, leases, develops and selectively acquires office and data center properties. The majority of its portfolio is 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 June 30, 2020, the Company derived 88% of its core portfolio annualized rental revenue from Defense/IT Locations and 12% from its Regional Office Properties. As of the same date and including 15 properties owned through unconsolidated joint ventures, COPT's core portfolio of 172 office and data center shell properties encompassed 19.6 million square feet and was 94.7% leased; the Company also owned one wholesale data center with a critical load of 19.25 megawatts that was 90.6% 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. 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 and the Company undertakes no obligation to update or supplement any forward-looking statements.

The areas of risk that may affect these expectations, estimates and projections include, but are not limited to, those risks described in Item 1A of the Company's Annual Report on Form 10-K for the year ended December 31, 2019 and Quarterly Report on Form 10-Q for the quarter ended March 31, 2020.

Category: Quarterly Results

Source: Corporate Office Properties Trust

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,	
	2020	2019	2020	2019
Revenues				
Revenues from real estate operations	\$ 132,538	\$ 132,771	\$ 264,654	\$ 264,761
Construction contract and other service revenues	12,236	42,299	25,917	59,249
Total revenues	144,774	175,070	290,571	324,010
Operating expenses				
Property operating expenses	50,204	47,886	100,203	97,331
Depreciation and amortization associated with real estate operations	33,612	34,802	66,208	69,598
Construction contract and other service expenses	11,711	41,002	24,832	57,328
General and administrative expenses	6,511	7,650	11,814	14,369
Leasing expenses	1,647	1,736	3,830	3,768
Business development expenses and land carry costs	1,262	870	2,380	1,983
Total operating expenses	104,947	133,946	209,267	244,377
Interest expense	(16,797)	(18,475)	(33,637)	(37,149)
Interest and other income	2,282	1,849	3,487	4,135
Credit loss expense	(615)	—	(1,304)	—
Gain on sales of real estate	—	84,469	5	84,469
Income before equity in income of unconsolidated entities and income taxes	24,697	108,967	49,855	131,088
Equity in income of unconsolidated entities	454	420	895	811
Income tax (expense) benefit	(30)	176	(79)	(18)
Net income	25,121	109,563	50,671	131,881
Net income attributable to noncontrolling interests:				
Common units in the Operating Partnership ("OP")	(284)	(1,339)	(571)	(1,596)
Preferred units in the OP	(77)	(165)	(154)	(330)
Other consolidated entities	(1,263)	(1,268)	(2,395)	(2,305)
Net income attributable to COPT common shareholders	<u>\$ 23,497</u>	<u>\$ 106,791</u>	<u>\$ 47,551</u>	<u>\$ 127,650</u>
Earnings per share ("EPS") computation:				
Numerator for diluted EPS:				
Net income attributable to COPT common shareholders	\$ 23,497	\$ 106,791	\$ 47,551	\$ 127,650
Distributions on dilutive convertible preferred units	—	165	—	—
Redeemable noncontrolling interests	—	902	—	66
Common units in the OP	—	—	—	1,515
Amount allocable to share-based compensation awards	(109)	(346)	(206)	(391)
Numerator for diluted EPS	<u>\$ 23,388</u>	<u>\$ 107,512</u>	<u>\$ 47,345</u>	<u>\$ 128,840</u>
Denominator:				
Weighted average common shares - basic	111,800	111,557	111,762	110,759
Dilutive convertible preferred units	—	176	—	—
Dilutive effect of redeemable noncontrolling interests	—	1,062	—	130
Common units in the OP	—	—	—	1,329
Dilutive effect of share-based compensation awards	321	310	280	289
Weighted average common shares - diluted	<u>112,121</u>	<u>113,105</u>	<u>112,042</u>	<u>112,507</u>
Diluted EPS	<u>\$ 0.21</u>	<u>\$ 0.95</u>	<u>\$ 0.42</u>	<u>\$ 1.15</u>

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,	
	2020	2019	2020	2019
Net income	\$25,121	\$109,563	\$50,671	\$131,881
Real estate-related depreciation and amortization	33,612	34,802	66,208	69,598
Gain on sales of real estate	—	(84,469)	(5)	(84,469)
Depreciation and amortization on unconsolidated real estate JVs	818	566	1,636	1,132
Funds from operations ("FFO")	59,551	60,462	118,510	118,142
Noncontrolling interests - preferred units in the OP	(77)	(165)	(154)	(330)
FFO allocable to other noncontrolling interests	(1,525)	(1,188)	(13,540)	(2,159)
Basic FFO allocable to share-based compensation awards	(254)	(229)	(447)	(414)
Basic FFO available to common share and common unit holders ("Basic FFO")	57,695	58,880	104,369	115,239
Dilutive preferred units in the OP	77	—	154	—
Redeemable noncontrolling interests	37	33	69	942
Diluted FFO available to common share and common unit holders ("Diluted FFO")	57,809	58,913	104,592	116,181
Demolition costs on redevelopment and nonrecurring improvements	9	—	52	44
Executive transition costs	—	—	—	4
Non-comparable professional and legal expenses	—	311	—	311
FFO allocation to other noncontrolling interests resulting from capital event	—	—	11,090	—
Diluted FFO comparability adjustments allocable to share-based compensation awards	(1)	(2)	(51)	(2)
Diluted FFO available to common share and common unit holders, as adjusted for comparability	57,817	59,222	115,683	116,538
Straight line rent adjustments and lease incentive amortization	2,523	1,051	1,671	(616)
Amortization of intangibles included in net operating income	(73)	(50)	(147)	12
Share-based compensation, net of amounts capitalized	1,638	1,623	3,027	3,296
Amortization of deferred financing costs	642	529	1,217	1,057
Amortization of net debt discounts, net of amounts capitalized	390	374	776	744
Accum. other comprehensive loss on derivatives amortized to expense	—	33	—	67
Replacement capital expenditures	(16,132)	(16,002)	(33,886)	(27,175)
Other diluted AFFO adjustments associated with real estate JVs	(115)	181	(156)	214
Diluted adjusted funds from operations available to common share and common unit holders ("Diluted AFFO")	\$46,690	\$ 46,961	\$88,185	\$ 94,137
Diluted FFO per share	\$ 0.51	\$ 0.52	\$ 0.92	\$ 1.02
Diluted FFO per share, as adjusted for comparability	\$ 0.51	\$ 0.52	\$ 1.02	\$ 1.03
Dividends/distributions per common share/unit	\$ 0.275	\$ 0.275	\$ 0.550	\$ 0.550

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

	June 30, 2020	December 31, 2019
Balance Sheet Data		
Properties, net of accumulated depreciation	\$3,513,099	\$3,340,886
Total assets	4,011,325	3,854,453
Debt, per balance sheet	2,012,019	1,831,139
Total liabilities	2,331,253	2,105,777
Redeemable noncontrolling interests	23,148	29,431
Equity	1,656,924	1,719,245
Net debt to adjusted book	38.6%	36.8%
Core Portfolio Data (as of period end) (1)		
Number of operating properties	172	168
Total operational square feet (in thousands)	19,624	19,016
% Occupied	93.6%	93.1%
% Leased	94.7%	94.6%

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2020	2019	2020	2019
Payout ratios				
Diluted FFO	53.9%	52.7%	59.6%	53.5%
Diluted FFO, as adjusted for comparability	53.9%	52.4%	53.9%	53.3%
Diluted AFFO	66.8%	66.1%	70.7%	66.0%
Adjusted EBITDA fixed charge coverage ratio	3.8x	3.7x	3.8x	3.7x
Net debt to in-place adjusted EBITDA ratio (2)	6.4x	5.7x	N/A	N/A
Net debt plus preferred equity to in-place adjusted EBITDA ratio (3)	6.4x	5.7x	N/A	N/A
Reconciliation of denominators for per share measures				
Denominator for diluted EPS	112,121	113,105	112,042	112,507
Weighted average common units	1,237	1,327	1,232	—
Redeemable noncontrolling interests	157	(926)	133	907
Dilutive convertible preferred units	176	(176)	176	—
Denominator for diluted FFO per share and as adjusted for comparability	113,691	113,330	113,583	113,414

(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 June 30,		For the Six Months Ended June 30,	
	2020	2019	2020	2019
Reconciliation of common share dividends to dividends and distributions for payout ratios				
Common share dividends - unrestricted shares and deferred shares	\$30,761	\$ 30,693	\$ 61,515	\$ 61,378
Common unit distributions - unrestricted units	341	365	680	730
Distributions on dilutive preferred units	77	—	154	—
Dividends and distributions for payout ratios	<u>\$31,179</u>	<u>\$ 31,058</u>	<u>\$ 62,349</u>	<u>\$ 62,108</u>
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	\$25,121	\$109,563	\$ 50,671	\$131,881
Interest expense	16,797	18,475	33,637	37,149
Income tax expense (benefit)	30	(176)	79	18
Depreciation of furniture, fixtures and equipment	448	496	867	929
Real estate-related depreciation and amortization	33,612	34,802	66,208	69,598
Gain on sales of real estate	—	(84,469)	(5)	(84,469)
Adjustments from unconsolidated real estate JVs	1,270	830	2,540	1,657
EBITDAre	<u>77,278</u>	<u>79,521</u>	<u>153,997</u>	<u>156,763</u>
Net loss (gain) on other investments	2	(12)	2	(400)
Credit loss expense	615	—	1,304	—
Business development expenses	678	460	1,216	1,008
Non-comparable professional and legal expenses	—	311	—	311
Demolition costs on redevelopment and nonrecurring improvements	9	—	52	44
Executive transition costs	—	—	—	4
Adjusted EBITDA	<u>78,582</u>	<u>80,280</u>	<u>\$156,571</u>	<u>\$157,730</u>
Proforma net operating income adjustment for property changes within period	959	(1,981)		
Change in collectability of deferred rental revenue	1,007	—		
In-place adjusted EBITDA	<u>\$80,548</u>	<u>\$ 78,299</u>		
Reconciliation of interest expense to the denominators for fixed charge coverage-Adjusted EBITDA				
Interest expense	\$16,797	\$ 18,475	\$ 33,637	\$ 37,149
Less: Amortization of deferred financing costs	(642)	(529)	(1,217)	(1,057)
Less: Amortization of net debt discounts, net of amounts capitalized	(390)	(374)	(776)	(744)
Less: Accum. other comprehensive loss on derivatives amortized to expense	—	(33)	—	(67)
COPT's share of interest expense of unconsolidated real estate JVs, excluding deferred financing costs	442	258	883	513
Scheduled principal amortization	1,023	1,095	2,044	2,193
Capitalized interest	3,174	2,388	6,532	4,392
Preferred unit distributions	77	165	154	330
Denominator for fixed charge coverage-Adjusted EBITDA	<u>\$20,481</u>	<u>\$ 21,445</u>	<u>\$ 41,257</u>	<u>\$ 42,709</u>

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

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2020	2019	2020	2019
Reconciliations of tenant improvements and incentives, building improvements and leasing costs for operating properties to replacement capital expenditures				
Tenant improvements and incentives	\$ 8,870	\$ 8,568	\$ 20,227	\$ 15,720
Building improvements	13,662	4,333	16,137	8,864
Leasing costs	2,222	2,761	4,984	5,943
Net additions to tenant improvements and incentives	329	1,759	2,355	290
Excluded building improvements and leasing costs	(8,951)	(1,419)	(9,817)	(3,642)
Replacement capital expenditures	<u>\$16,132</u>	<u>\$16,002</u>	<u>\$ 33,886</u>	<u>\$ 27,175</u>
Same Properties cash NOI	\$75,837	\$74,584	\$150,799	\$145,992
Straight line rent adjustments and lease incentive amortization	(1,513)	(701)	(2,080)	(15)
Amortization of acquired above- and below-market rents	97	73	193	33
Amortization of below-market cost arrangements	(23)	(23)	(46)	(46)
Lease termination fees, gross	358	285	443	806
Tenant funded landlord assets and lease incentives	(147)	530	222	926
Cash NOI adjustments in unconsolidated real estate JV	35	46	63	105
Same Properties NOI	<u>\$74,644</u>	<u>\$74,794</u>	<u>\$149,594</u>	<u>\$147,801</u>

	June 30, 2020	December 31, 2019
Reconciliation of total assets to adjusted book		
Total assets	\$4,011,325	\$3,854,453
Accumulated depreciation	1,065,094	1,007,120
Accumulated amortization of real estate intangibles and deferred leasing costs	216,267	212,547
COPT's share of liabilities of unconsolidated real estate JVs	50,984	50,734
COPT's share of accumulated depreciation and amortization of unconsolidated real estate JVs	9,815	8,164
Less: Property - operating lease liabilities	(20,796)	(17,317)
Less: Property - finance lease liabilities	(688)	(702)
Less: Cash and cash equivalents	(21,596)	(14,733)
Less: COPT's share of cash of unconsolidated real estate JVs	(627)	(498)
Adjusted book	<u>\$5,309,778</u>	<u>\$5,099,768</u>
Reconciliation of debt outstanding to net debt and net debt plus preferred equity		
Debt outstanding (excluding net debt discounts and deferred financing costs)	\$2,073,351	\$1,893,057
Less: Cash and cash equivalents	(21,596)	(14,733)
Less: COPT's share of cash of unconsolidated real estate JVs	(627)	(498)
Net debt	<u>\$2,051,128</u>	<u>\$1,877,826</u>
Preferred equity	8,800	8,800
Net debt plus preferred equity	<u>\$2,059,928</u>	<u>\$1,886,626</u>

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Source: Corporate Office Properties Trust