

NEWS RELEASE

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COPT Defense Establishes 2024 Guidance

FFO per Share to Increase 3.7% at Midpoint

COLUMBIA, MD (BUSINESS WIRE) February 8, 2024—COPT Defense Properties (NYSE: CDP) (“COPT Defense” or the “Company”) is establishing the following guidance for the year ending December 31, 2024:

2024 Guidance.

- Diluted earnings per share (“EPS”) in the range of \$1.15–\$1.23; and
- Diluted FFO per share (“FFOPS”) - Nareit and as adjusted for comparability, in the range of \$2.47–\$2.55.

1Q24 Guidance. For the quarter ending March 31, 2024, the Company is establishing the following guidance:

- EPS in the range of \$0.26–\$0.28; and
- FFOPS - Nareit and as adjusted for comparability, in the range of \$0.59–\$0.61.

2024 Guidance Reconciliation Tables. Reconciliations of projected EPS to projected FFOPS - Nareit and as adjusted for comparability, are as follows:

Table 1: Reconciliation of EPS to FFOPS, per Nareit and As Adjusted for Comparability	Quarter ending		Year ending	
	March 31, 2024		December 31, 2024	
	Low	High	Low	High
EPS	\$ 0.26	\$ 0.28	\$ 1.15	\$ 1.23
Real estate-related depreciation and amortization	0.33	0.33	1.32	1.32
FFOPS, Nareit and as adjusted for comparability	<u>\$ 0.59</u>	<u>\$ 0.61</u>	<u>\$ 2.47</u>	<u>\$ 2.55</u>



Assumptions Underpinning 2024 Guidance. Table 2 details assumptions that underpin the Company's 2024 and 1Q24 full year EPS and FFOPS guidance, respectively:

Table 2: Full Year 2024 and 1Q24 Guidance Assumptions (a)

Metric	2023 Actual	2024			Management Commentary
		Low	Midpoint	High	
Earnings:					
EPS	\$ (0.67)	\$ 1.15	\$ 1.19	\$ 1.23	Recognized non-recurring asset impairments in 2023
					Y/Y growth driven by an increase in NOI from the Same Property portfolio and developments placed into service, partially offset by higher interest expense and G&A
FFOPS - as adjusted for comparability	\$ 2.42	\$ 2.47	\$ 2.51	\$ 2.55	
Key Assumptions:					
2024 Same Property Pool:					
% Change in Cash NOI	5.7% (b)	5.0%	6.0%	7.0%	Growth in 2024 driven by embedded cash rent increases in leases, commencements of rents from 2022 and 2023 leasing activity, and increases in cash rent at properties added into the 2024 pool
Year-end Occupancy	93.4% (b)	93.0%	93.5%	94.0%	Occupancy will be positively impacted by the commencement of leasing executed in 2023, offset by several known non-renewals, primarily in 1Q24
Change in Cash Rents on Renewals	1.5%	(1.0%)	0.0%	1.0%	
Tenant Retention	80%	75%	80%	85%	
Cash NOI from Developments (c)	\$ 12.5	\$ 10.0	\$ 11.0	\$ 12.0	\$275M delivered in 2023 (~850K SF, 98% leased), with another \$147M delivering in 2024 (~400K SF, 81% leased). Range is driven by timing of rent commencement, not lease execution risk
Straight-line Rent & other GAAP Adjustments	\$ (6.5)	\$ 6.0	\$ 6.5	\$ 7.0	Change is primarily driven by GAAP rent commencements on 2022 and 2023 leasing activity and the impact of prior year tenant funded landlord assets, partially offset by free rent burnoff
Net Construction Contract and Other Service Revenues	\$ 2.8	\$ 1.5	\$ 2.0	\$ 2.5	Slight reduction in overall activity and conclusion of work on a major project in 2023
Total G&A Expenses (d)	\$ 42.8	\$ 44.0	\$ 45.0	\$ 46.0	Increase due to the impact of inflation on wages and other costs, and filling the vacant COO position in December 2023
Consolidated Interest Expense (net of Capitalized Interest)	\$ 71.1	\$ 80.0	\$ 82.0	\$ 84.0	Increase in interest expense due to a higher projected debt balance and lower capitalized interest resulting from highly leased developments placed in service
Dividend / Diluted AFFO Payout Ratio	63.9%	Below 65%			
Investment Activity:					
Capital Invested in Development	\$ 249	\$ 240	\$ 260	\$ 280	Costs incurred on development projects
Capital Commitment to New Investments	\$ 280	\$ 200	\$ 220	\$ 240	Capital commitments to investments in 2024
Property Sales	\$ 190	none			Equity required for development spend to be funded with cash flow from operations after the dividend
1Q24 Metric	4Q23 Actual	1Q24			Management Commentary
		Low	Midpoint	High	
Earnings:					
EPS	\$ 0.30	\$ 0.26	\$ 0.27	\$ 0.28	
					4Q23 to 1Q24 decline driven by higher seasonal operating expenses and a slight decline in occupancy due to several known non-renewals
FFOPS - as adjusted for comparability	\$ 0.62	\$ 0.59	\$ 0.60	\$ 0.61	

a) Dollars are in millions (except per share data).

b) Same Property metrics in 2023 refer to the 2023 Pool

c) The 2023 actual amount represents cash NOI from developments placed into service during 2022 and 2023. The 2024 assumption amount represents cash NOI from developments placed into service during 2023 and expected to be placed into service during 2024 and, as such, are not yet in the Company's same property portfolio.

d) Includes G&A, leasing expenses, business development expenses, and land carry cost.

FOR IMMEDIATE RELEASE

About COPT Defense

COPT Defense, an S&P MidCap 400 Company, is a self-managed REIT focused on owning, operating and developing properties in locations proximate to, or sometimes containing, key U.S. Government (“USG”) defense installations and missions (referred to as its Defense/IT Portfolio). The Company’s tenants include the USG and their defense contractors, who are primarily engaged in priority national security activities, and who generally require mission-critical and high security property enhancements. As of December 31, 2023, the Company’s Defense/IT Portfolio of 190 properties, including 24 owned through unconsolidated joint ventures, encompassed 21.7 million square feet and was 97.2% leased.

Non-GAAP Measures

The Company believes that the measures defined below that are not determined in accordance with generally accepted accounting principles (“GAAP”) are helpful to investors in measuring its performance and comparing it to that of other real estate investment trusts (“REITs”). Since these measures exclude certain items includable in their respective most comparable GAAP measures, reliance on the measures has limitations; the Company’s management compensates for these limitations by using the measures simply as supplemental measures that are weighed in balance with other GAAP and non-GAAP measures. These measures should not be used as an alternative to the respective most comparable GAAP measures when evaluating the Company’s financial performance or to cash flow from operating, investing and financing activities when evaluating its liquidity or ability to make cash distributions or pay debt service.

Basic FFO available to common share and common unit holders (“Basic FFO”) – FFO adjusted to subtract (1) preferred share dividends, (2) income or loss attributable to noncontrolling interests through ownership of preferred units in COPT Defense Properties, L.P. (the “Operating Partnership”) or interests in other consolidated entities not owned by us, (3) depreciation and amortization allocable to noncontrolling interests in other consolidated entities, (4) Basic FFO allocable to share-based compensation awards and (5) issuance costs associated with redeemed preferred shares. With these adjustments, Basic FFO represents FFO available to common shareholders and holders of common units in the Operating Partnership (“common units”). Common units are substantially similar to our

common shares of beneficial interest ("common shares") and are exchangeable into common shares, subject to certain conditions.

Cash net operating income ("Cash NOI") – NOI from real estate operations adjusted to eliminate the effects of: straight-line rental adjustments, amortization of tenant incentives, amortization of intangibles and other assets included in FFO and NOI, lease termination fees from tenants to terminate their lease obligations prior to the end of the agreed upon lease terms and rental revenue recognized under GAAP resulting from landlord assets and lease incentives funded by tenants. Cash NOI also includes adjustments to NOI from real estate operations for the effects of the items noted above pertaining to unconsolidated real estate JVs that were allocable to our ownership interest in the JVs. Under GAAP, rental revenue is recognized evenly over the term of tenant leases (through straight-line rental adjustments and amortization of tenant incentives), which, given the long term nature of our leases, does not align with the economics of when tenant payments are due to us under the arrangements. Also under GAAP, when a property is acquired, we allocate the acquisition to certain intangible components, which are then amortized into NOI over their estimated lives, even though the resulting revenue adjustments are not reflective of our lease economics. In addition, revenue from lease termination fees and tenant-funded landlord improvements, absent an adjustment from us, would result in large one-time lump sum amounts in Cash NOI that we do not believe are reflective of a property's long-term value.

Diluted adjusted funds from operations available to common share and common unit holders ("Diluted AFFO") – Diluted FFO, as adjusted for comparability, adjusted for the following: (1) the elimination of the effect of (a) noncash rental revenues and property operating expenses (comprised of straight-line rental adjustments, which includes the amortization of recurring tenant incentives, and amortization of acquisition intangibles included in FFO and NOI, both of which are described under "Cash NOI" above), (b) share-based compensation, net of amounts capitalized, (c) amortization of deferred financing costs, (d) amortization of debt discounts and premiums and (e) amortization of settlements of debt hedges; and (2) replacement capital expenditures (defined below). Diluted AFFO also includes adjustments to Diluted FFO, as adjusted for comparability for the effects of the items noted above pertaining to unconsolidated real estate JVs that were allocable to our ownership interest in the JVs.



Diluted FFO available to common share and common unit holders (“Diluted FFO”) – Basic FFO adjusted to add back any changes in Basic FFO that would result from the assumed conversion of securities that are convertible or exchangeable into common shares. The computation of Diluted FFO (which includes discontinued operations) assumes the conversion of common units but does not assume the conversion of other securities that are convertible into common shares if the conversion of those securities would increase Diluted FFO per share in a given period.

Diluted FFO available to common share and common unit holders, as adjusted for comparability (“Diluted FFO, as adjusted for comparability”) – Diluted FFO or FFO adjusted to exclude: operating property acquisition costs; gain or loss on early extinguishment of debt; FFO associated with properties that secured non-recourse debt on which we defaulted and, subsequently, extinguished via conveyance of such properties (including property NOI, interest expense and gains on debt extinguishment); loss on interest rate derivatives; executive transition costs associated with named executive officers; and, for periods prior to 10/1/22, demolition costs on redevelopment and nonrecurring improvements and executive transition costs associated with other senior management team members. Diluted FFO, as adjusted for comparability also includes adjustments to Diluted FFO for the effects of the items noted above pertaining to unconsolidated real estate JVs that were allocable to our ownership interest in the JVs.

Diluted FFO per share – Defined as (1) Diluted FFO divided by (2) the sum of the (a) weighted average common shares outstanding during a period, (b) weighted average common units outstanding during a period and (c) weighted average number of potential additional common shares that would have been outstanding during a period if other securities that are convertible or exchangeable into common shares were converted or exchanged. The computation of Diluted FFO per share assumes the conversion of common units but does not assume the conversion of other securities that are convertible into common shares if the conversion of those securities would increase Diluted FFO per share in a given period.

Diluted FFO per share, as adjusted for comparability – Defined as (1) Diluted FFO available to common share and common unit holders, as adjusted for comparability divided by (2) the sum of the (a) weighted average common shares outstanding during a period, (b) weighted average common units outstanding during a period and (c) weighted average number of potential additional common shares

that would have been outstanding during a period if other securities that are convertible or exchangeable into common shares were converted or exchanged. The computation of this measure assumes the conversion of common units but does not assume the conversion of other securities that are convertible into common shares if the conversion of those securities would increase the per share measure in a given period.

Reconciliations of Diluted EPS to Diluted FFOPS

Diluted EPS to Diluted FFOPS per Nareit and as adjusted for comparability (in dollars per share)	Actuals	
	Quarter Ended December 31, 2023	Year Ended December 31, 2023
Diluted EPS	\$ 0.30	\$ (0.67)
Real estate-related depreciation and amortization	0.32	1.33
Gain on sales of real estate	-	(0.43)
Impairment losses	-	2.21
Other FFO adjustments	-	(0.03)
Diluted FFOPS, Nareit	0.62	2.41
Executive transition costs	-	0.01
Diluted FFOPS, as adjusted for comparability	\$ 0.62	\$ 2.42

Funds from operations (“FFO” or “FFO per Nareit”) – Defined as net income or loss computed using GAAP, excluding gains on sales and impairment losses of real estate and investments in unconsolidated real estate JVs (net of associated income tax) and real estate-related depreciation and amortization. FFO also includes adjustments to net income or loss for the effects of the items noted above pertaining to unconsolidated real estate JVs that were allocable to our ownership interest in the JVs. We believe that we use the National Association of Real Estate Investment Trust’s (“Nareit”) definition of FFO, although others may interpret the definition differently and, accordingly, our presentation of FFO may differ from those of other REITs.

Net operating income from real estate operations (“NOI”) – Includes: consolidated real estate revenues from continuing and discontinued operations; consolidated property operating expenses from continuing and discontinued operations; and the net of revenues and property operating expenses of real estate operations owned through unconsolidated real estate JVs that are allocable to COPT Defense’s ownership interest in the JVs.

Net construction contract and other service revenues – Defined as net operating income from real estate services such as property management, development and construction services primarily for the Company's properties but also for third parties. Construction contract and other service revenues and expenses consist primarily of subcontracted costs that are reimbursed to the Company by the customer along with a management fee. The operating margins from these activities are small relative to the revenue. The Company believes NOI from service operations is a useful measure in assessing both its level of activity and its profitability in conducting such operations.

Reconciliation of Net Construction Contract and Other Service Revenues (in millions)

	Actuals	Guidance
	Year Ended	Year Ending
	December 31, 2023	December 31, 2024
Construction contract and other service revenues	\$ 60	\$ 73
Construction contract and other service expenses	(57)	(71)
Net construction contract and other service revenues	\$ 3	\$ 2

Payout ratios based on: Diluted FFO; Diluted FFO, as adjusted for comparability; and Diluted AFFO – These payout ratios are defined as (1) the sum of dividends on common and deferred shares and distributions to holders of interests in the Operating Partnership and dividends on convertible preferred shares to the extent they are dilutive in the respective FFO per share numerators divided by (2) the respective non-GAAP measures.

Replacement capital expenditures – Tenant improvements and incentives, building improvements and leasing costs incurred during the period for operating properties that are not (1) items contemplated prior to the acquisition of a property, (2) improvements associated with the expansion of a building or its improvements, (3) renovations to a building which change the underlying classification of the building (for example, from industrial to office or Class C office to Class B office), (4) capital improvements that represent the addition of something new to the property rather than the replacement of something (for example, the addition of a new heating and air conditioning unit that is not replacing one that was previously there) or (5) replacements of significant components of a building after the building has reached the end of its original useful life. Replacement capital expenditures excludes expenditures of operating properties included in disposition plans during the period that were already sold or are held

for future disposition. For cash tenant incentives not due to the tenant for a period exceeding three months past the date on which such incentives were incurred, we recognize such incentives as replacement capital expenditures in the periods such incentives are due to the tenant. Replacement capital expenditures, which is included in the computation of Diluted AFFO, is intended to represent non-transformative capital expenditures of existing properties held for long-term investment.

Same Property – Operating office and data center shell properties stably owned and 100% operational since at least the beginning of the prior year.

Same Property NOI and Same Property cash NOI – NOI, or Cash NOI, from real estate operations of Same Property groupings.

Reconciliations of Developments Property NOI to Cash NOI (in millions)

	Actuals	Guidance
	Year Ended	Year Ending
	December 31, 2023	December 31, 2024
Property NOI	\$ 36	\$ 24
Straight line rent adjustments	(23)	(13)
Cash NOI	\$ 13	\$ 11

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, 2022.

Source: COPT Defense Properties