

FOR IMMEDIATE RELEASE

Ref: 19-10

Contact: Brendan Maiorana
Senior Vice President, Finance and Investor Relations
919-431-1529

Highwoods Reports First Quarter 2019 Results

\$0.07 Net Income per Share

\$0.72 FFO per Share

*Includes \$0.12 FFO Impact Related to Sudden Closure of Laser Spine
Achieved 17.5% GAAP Rent Growth on 2nd Gen Signed Office Leases*

Placed in Service \$56M of 99% Occupied Development

Two Buildings, 204,000 Square Feet, in Nashville and Raleigh

Issued \$350M of 10-Year Notes at 4.38% Effective Interest Rate

Issued No Shares Under the ATM Program

Updates 2019 FFO Outlook to \$3.29 to \$3.39 per Share

Previously \$3.44 to \$3.56 per Share

*Includes \$0.17 per Share Dilutive Impact Related to Laser Spine
Includes \$0.01 per Share Dilutive Impact Related to April Disposition*

RALEIGH, NC – April 23, 2019 – Highwoods Properties, Inc. (NYSE: HIW) today reported its first quarter 2019 financial and operating results.

Ed Fritsch, CEO, stated, “Our financial results were significantly impacted by the sudden closure of Laser Spine. While this news was undoubtedly disappointing, we’re encouraged by the level and quality of interest from potential users and are upbeat about the long-term outlook of our 5332 Avion building.

Aside from Laser Spine, our operating performance was strong throughout the quarter. We posted robust GAAP rent spreads of +17.5% with modest leasing costs resulting in strong net effective rents that were 8% higher than our prior five quarter average. Solid business conditions and our first quarter performance position us to raise the mid-point of our full-year per share FFO outlook by \$0.02, excluding the impact of Laser Spine and the \$32.5 million sale of a non-core property subsequent to quarter-end.”



For the quarter ended March 31, 2019, the Company delivered \$0.72 per share of funds from operations available for common stockholders (“FFO”). FFO per share for the quarter was impacted by \$0.12 per share of previously-disclosed credit losses of accounts and straight-line rents receivable and write-offs of notes receivable and lease incentives associated with the closure of Laser Spine Institute. This includes non-cash items of \$0.06 per share.

The Company previously provided information on Laser Spine’s lease at 5332 Avion Drive, a 176,000 square-foot, six-story building with structured parking in Tampa’s Westshore submarket, a BBD (Best Business District). The building, developed by Highwoods, had been used by Laser Spine for both its company headquarters and an ambulatory surgery center. After the market closed on March 1, 2019, Laser Spine announced it would immediately discontinue its operations. This unexpected announcement affected all of its locations.

During the quarter, the Company also wrote off tenant improvements and deferred leasing costs associated with the building, which aggregated \$11.6 million, or \$0.11 per share. The write-off of tenant improvements and deferred leasing costs affected net income, but not FFO. The Company also noted the closure of Laser Spine is expected to reduce GAAP net operating income (NOI) and other income/(loss) by an aggregate of \$0.05 per share during the final three quarters of 2019.

2019 Outlook

The Company has updated its 2019 FFO outlook to \$3.29 to \$3.39 per share from \$3.44 to \$3.56 per share, which represents a \$0.16 per share decrease at the midpoint. The Company noted the full impact of Laser Spine’s closure on 2019 FFO is projected to be \$0.17 per share in the aggregate and the dilutive impact from the sale of MetroCenter in Orlando subsequent to quarter-end is projected to be \$0.01 per share (see “April Disposition Activity” below). Neither of these items were included in the Company’s initial 2019 per share FFO outlook published on February 5, 2019.

This outlook reflects management’s view of current and future market conditions, including assumptions such as rental rates, occupancy levels, operating and general and administrative expenses, weighted average diluted shares outstanding and interest rates. The outlook does not include any effects related to potential acquisitions and dispositions that occur after the date of this release. Factors that could cause actual results to differ materially from Highwoods current expectations are discussed below and are also detailed in the Company’s 2018 Annual Report on Form 10-K and subsequent SEC reports.

Management’s outlook for 2019 includes the following assumptions:

	Low	High
Growth in Same Property Cash NOI (1) (2)	0.5%	1.5%
Straight-Line Rental Income (3)	\$19.5M	\$21.5M
G&A Expenses	\$39.5M	\$41.5M
Year-End Occupancy (4)	91.0%	92.3%
Weighted Average Diluted Shares and Units Outstanding	106.4M	106.7M
Dispositions	\$100M	\$150M
Acquisitions	\$0M	\$200M
Development Announcements	\$100M	\$375M

- (1) Excludes termination fees.
- (2) Reduced the low and high end of year-end projected growth in same property cash NOI entirely due to the impact of Laser Spine. Excluding Laser Spine, growth in same property cash NOI is expected to be 2.0% to 3.0%.
- (3) First quarter 2019 includes \$4.5 million of credit losses from Laser Spine.
- (4) Assumes no backfill of Laser Spine, which has a 60 basis point negative impact on projected year-end occupancy.



First Quarter 2019 Highlights

Financials:

- Earned net income of \$0.07 per share
 - Includes \$0.23 per share impact from Laser Spine
- Earned FFO of \$0.72 per share
 - Includes \$0.12 per share impact from Laser Spine

Operations:

- Grew same property cash NOI by 0.1% year-over-year
- Grew same property cash NOI by 1.6% excluding the impact from Laser Spine
- Ended the quarter with occupancy of 91.2%
 - Includes 60 basis point impact from Laser Spine

Second Generation Office Leasing Activity:

- Leased 723,000 square feet
- Committed leasing costs of \$21.61 per square foot, 20% below our prior five-quarter average
- Garnered net effective rents of \$16.64 per square foot, 8% above our prior five-quarter average
- Achieved GAAP rent growth of +17.5% and cash rent growth of +4.3%

Development Activity:

- \$635 million pipeline now 93.3% pre-leased on a dollar-weighted basis
- Placed in service two office properties, totaling 204,000 square feet with a total anticipated investment of \$56 million, that were 99.3% occupied

Financing Activity:

- Issued \$350 million 10-year notes with an effective interest rate of 4.38%
- Repaid \$225 million bank term loan with a rate of LIBOR plus 110 basis points
- Ended the quarter with a net debt-to-EBITDA ratio of 5.01x excluding the credit losses and write-offs from Laser Spine
- Issued no shares of common stock under the Company's ATM program

First Quarter 2019 Financial Results

For the first quarter of 2019, net income available for common stockholders ("net income") was \$7.3 million, or \$0.07 per diluted share, compared to net income of \$32.4 million, or \$0.31 per diluted share, for the first quarter of 2018.

For the first quarter of 2019, FFO was \$76.5 million, or \$0.72 per diluted share, compared to FFO of \$90.7 million, or \$0.85 per diluted share, for the first quarter of 2018.

Except as noted below, the following items were included in the determination of net income and FFO for the three months ended March 31, 2019 and 2018:

	Three Months Ended 3/31/2019		Three Months Ended 3/31/2018	
	(000)	Per Share	(000)	Per Share
Lease Termination Income, Net (1)	\$ 402	\$ 0.004	\$ 666	\$ 0.006
Straight-Line Rental Income (1) (2)	1,438	0.014	6,509	0.061
Capitalized Interest	1,866	0.018	1,326	0.012
Losses on Debt Extinguishment	(375)	(0.004)	-	-

(1) Credit losses on straight-line rent receivables related to lease terminations are reflected as a reduction of lease termination income.

(2) First quarter 2019 includes \$4.5 million of credit losses from Laser Spine.



April 2019 Disposition

On April 12, 2019, the Company sold MetroCenter, a two-building complex encompassing 183,000 square feet in suburban Orlando, for total gross proceeds of \$32.5 million. These non-core buildings were 89.1% occupied on March 31, 2019.

Supplemental Information

The Company's first quarter 2019 Supplemental Information, which includes financial, leasing and operational statistics, is available in the "Investors/Financials" section of the Company's website at www.highwoods.com. You may also obtain the Supplemental Information by contacting Highwoods Investor Relations at 800-256-2963 or by e-mail to HIW-IR@highwoods.com.

Conference Call

Tomorrow, Wednesday, April 24th, at 11:00 a.m. Eastern time, Highwoods will host a teleconference call to discuss the matters highlighted in this release. For US/Canada callers, dial (800) 756-3565. A live, listen-only webcast and a subsequent replay can be accessed through the Company's website at www.highwoods.com under the "Investors" section.

Planned Dates for Financial Releases and Conference Calls in 2019

The Company has set the following dates for the release of its 2019 financial results. Quarterly financial releases will be distributed after the market closes and conference calls will be held at 11:00 a.m. Eastern time.

Quarter	Tuesday Release	Wednesday Call
Second	July 23	July 24
Third	October 22	October 23

Non-GAAP Information

FFO: We believe that FFO and FFO per share are beneficial to management and investors and are important indicators of the performance of any equity REIT. Because FFO and FFO per share calculations exclude such factors as depreciation, amortization and impairments of real estate assets and gains or losses from sales of operating real estate assets, which can vary among owners of identical assets in similar conditions based on historical cost accounting and useful life estimates, they facilitate comparisons of operating performance between periods and between other REITs. Management believes that historical cost accounting for real estate assets in accordance with GAAP implicitly assumes that the value of real estate assets diminishes predictably over time. Since real estate values have historically risen or fallen with market conditions, management believes that the use of FFO and FFO per share, together with the required GAAP presentations, provide a more complete understanding of our performance relative to our competitors and a more informed and appropriate basis on which to make decisions involving operating, financing and investing activities.

FFO and FFO per share are non-GAAP financial measures and therefore do not represent net income or net income per share as defined by GAAP. Net income and net income per share as defined by GAAP are the most relevant measures in determining our operating performance because FFO and FFO per share include adjustments that investors may deem subjective, such as adding back expenses such as depreciation, amortization and impairment. Furthermore, FFO per share does not depict the amount that accrues directly to the stockholders' benefit. Accordingly, FFO and FFO per share should never be considered as alternatives to net income or net income per share as indicators of our operating performance.



Our presentation of FFO is consistent with FFO as defined by NAREIT, which is calculated as follows:

- Net income/(loss) computed in accordance with GAAP;
- Less net income attributable to noncontrolling interests in consolidated affiliates;
- Plus depreciation and amortization of depreciable operating properties;
- Less gains, or plus losses, from sales of depreciable operating properties, plus impairments on depreciable operating properties and excluding items that are classified as extraordinary items under GAAP;
- Plus or minus our share of adjustments, including depreciation and amortization of depreciable operating properties, for unconsolidated joint venture investments (to reflect funds from operations on the same basis); and
- Plus or minus adjustments for depreciation and amortization and gains/(losses) on sales of depreciable operating properties, plus impairments on depreciable operating properties, and noncontrolling interests in consolidated affiliates related to discontinued operations.

In calculating FFO, the Company includes net income attributable to noncontrolling interests in its operating partnership, which we believe is consistent with standard industry practice for REITs that operate through an UPREIT structure. We believe that it is important to present FFO on an as-converted basis since all of the operating partnership units not owned by the Company are redeemable on a one-for-one basis for shares of the Company's common stock. In calculating FFO available for common stockholders and FFO per diluted share, the Company further deducts dividends on preferred stock. The Company's FFO calculations are reconciled to net income in a table included with this release.

Net operating income ("NOI"): We define NOI as "Rental and other revenues" less "Rental property and other expenses". We define cash NOI as NOI less lease termination fees, straight-line rental income, amortization of lease incentives and amortization of acquired above and below market leases. Management believes that NOI and cash NOI are useful supplemental measures of the Company's property operating performance because they provide performance measures of the revenues and expenses directly involved in owning real estate assets and a perspective not immediately apparent from net income or FFO. Other REITs may use different methodologies to calculate NOI and accordingly the Company's NOI may not be comparable to other REITs. The Company's NOI calculations are reconciled to net income in a table included with this release.

Same property NOI: We define same property NOI as NOI for in-service properties that were wholly-owned during the entirety of the periods presented (from January 1, 2018 to March 31, 2019). The Company's same property NOI calculations are reconciled to NOI in a table included with this release.

Earnings before interest, taxes, depreciation and amortization for real estate ("EBITDAre"): Our presentation of EBITDAre is consistent with EBITDAre as defined by NAREIT, which is calculated as follows:

- Net income/(loss) computed in accordance with GAAP;
- Plus interest expense;
- Plus income tax expense;
- Plus depreciation and amortization;
- Less gains, or plus losses, from sales of depreciable operating properties, plus impairments on depreciable operating properties; and
- Plus or minus our share of the same adjustments for unconsolidated joint venture investments.



Management believes EBITDAre is an appropriate supplemental measure to use in ratios that evaluate the Company's liquidity and financial condition and ability to service its long-term debt obligations. Other REITs may use different methodologies to calculate EBITDAre and accordingly the Company's EBITDAre may not be comparable to other REITs. The Company's EBITDAre calculations are reconciled to net income in a table included with this release.

About Highwoods

Highwoods Properties, Inc., headquartered in Raleigh, is a publicly-traded (NYSE:HIW) real estate investment trust ("REIT") and a member of the S&P MidCap 400 Index. The Company is a fully-integrated office REIT that owns, develops, acquires, leases and manages properties primarily in the best business districts (BBDs) of Atlanta, Greensboro, Memphis, Nashville, Orlando, Pittsburgh, Raleigh, Richmond and Tampa. For more information about Highwoods, please visit our website at www.highwoods.com.

Certain matters discussed in this press release are forward-looking statements within the meaning of the federal securities laws, such as the following: the expected financial and operational results and the related assumptions underlying our expected results; and anticipated total investment, projected leasing activity, estimated replacement cost and expected net operating income of acquired properties and properties to be developed. These statements are distinguished by use of the words "will", "expect", "intend" and words of similar meaning. Although Highwoods believes the expectations reflected in such forward-looking statements are based upon reasonable assumptions, it can give no assurance that its expectations will be achieved.

Factors that could cause actual results to differ materially from the Company's current expectations include, among others, the following: development activity by our competitors in our existing markets could result in excessive supply of properties relative to customer demand; development, acquisition, reinvestment, disposition or joint venture projects may not be completed as quickly or on as favorable terms as anticipated; we may not be able to lease or re-lease second generation space quickly or on as favorable terms as old leases; our markets may suffer declines in economic growth; we may not be able to lease our newly constructed buildings as quickly or on as favorable terms as originally anticipated; unanticipated increases in interest rates could increase our debt service costs; unanticipated increases in operating expenses could negatively impact our NOI; we may not be able to meet our liquidity requirements or obtain capital on favorable terms to fund our working capital needs and growth initiatives or to repay or refinance outstanding debt upon maturity; the Company could lose key executive officers; and others detailed in the Company's 2018 Annual Report on Form 10-K and subsequent SEC reports.

Tables Follow



Highwoods Properties, Inc.
Consolidated Statements of Income
(Unaudited and in thousands, except per share amounts)

	Three Months Ended	
	March 31,	
	2019	2018
Rental and other revenues	\$ 172,363	\$ 180,438
Operating expenses:		
Rental property and other expenses	60,551	59,432
Depreciation and amortization	69,204	57,568
General and administrative	12,381	11,778
Total operating expenses	<u>142,136</u>	<u>128,778</u>
Interest expense	18,739	18,391
Other income/(loss)	(3,766)	455
Equity in earnings of unconsolidated affiliates	664	522
Net income	8,386	34,246
Net (income) attributable to noncontrolling interests in the Operating Partnership	(193)	(888)
Net (income) attributable to noncontrolling interests in consolidated affiliates	(316)	(286)
Dividends on Preferred Stock	(622)	(623)
Net income available for common stockholders	<u>\$ 7,255</u>	<u>\$ 32,449</u>
Earnings per Common Share - basic:		
Net income available for common stockholders	<u>\$ 0.07</u>	<u>\$ 0.31</u>
Weighted average Common Shares outstanding - basic	<u>103,600</u>	<u>103,324</u>
Earnings per Common Share - diluted:		
Net income available for common stockholders	<u>\$ 0.07</u>	<u>\$ 0.31</u>
Weighted average Common Shares outstanding - diluted	<u>106,357</u>	<u>106,165</u>

Highwoods Properties, Inc.
Consolidated Balance Sheets
(Unaudited and in thousands, except share and per share data)

	<u>March 31,</u> <u>2019</u>	<u>December 31,</u> <u>2018</u>
Assets:		
Real estate assets, at cost:		
Land	\$ 491,613	\$ 491,441
Buildings and tenant improvements	4,728,637	4,676,862
Development in-process	162,076	165,537
Land held for development	94,312	128,248
	<u>5,476,638</u>	<u>5,462,088</u>
Less-accumulated depreciation	(1,324,447)	(1,296,562)
Net real estate assets	4,152,191	4,165,526
Real estate and other assets, net, held for sale	24,893	-
Cash and cash equivalents	4,827	3,769
Restricted cash	7,640	6,374
Accounts receivable	30,646	25,952
Mortgages and notes receivable, net of allowance of \$36 and \$44, respectively	1,623	5,599
Accrued straight-line rents receivable	219,870	220,088
Investments in and advances to unconsolidated affiliates	23,296	23,585
Deferred leasing costs, net of accumulated amortization of \$149,863 and \$149,275, respectively	194,848	195,273
Prepaid expenses and other assets, net of accumulated depreciation of \$18,751 and \$18,074, respectively	66,282	28,843
Total Assets	<u>\$ 4,726,116</u>	<u>\$ 4,675,009</u>
Liabilities, Noncontrolling Interests in the Operating Partnership and Equity:		
Mortgages and notes payable, net	\$ 2,160,594	\$ 2,085,831
Accounts payable, accrued expenses and other liabilities	237,278	218,922
Total Liabilities	<u>2,397,872</u>	<u>2,304,753</u>
Commitments and contingencies		
Noncontrolling interests in the Operating Partnership	127,976	105,960
Equity:		
Preferred Stock, \$.01 par value, 50,000,000 authorized shares; 8.625% Series A Cumulative Redeemable Preferred Shares (liquidation preference \$1,000 per share), 28,859 and 28,877 shares issued and outstanding, respectively	28,859	28,877
Common Stock, \$.01 par value, 200,000,000 authorized shares; 103,690,619 and 103,557,065 shares issued and outstanding, respectively	1,037	1,036
Additional paid-in capital	2,956,517	2,976,197
Distributions in excess of net income available for common stockholders	(811,223)	(769,303)
Accumulated other comprehensive income	7,494	9,913
Total Stockholders' Equity	<u>2,182,684</u>	<u>2,246,720</u>
Noncontrolling interests in consolidated affiliates	17,584	17,576
Total Equity	<u>2,200,268</u>	<u>2,264,296</u>
Total Liabilities, Noncontrolling Interests in the Operating Partnership and Equity	<u>\$ 4,726,116</u>	<u>\$ 4,675,009</u>

Highwoods Properties, Inc.
Funds from Operations
(Unaudited and in thousands, except per share amounts)

	Three Months Ended	
	March 31,	
	2019	2018
Funds from operations:		
Net income	\$ 8,386	\$ 34,246
Net (income) attributable to noncontrolling interests in consolidated affiliates	(316)	(286)
Depreciation and amortization of real estate assets	68,482	56,835
Unconsolidated affiliates:		
Depreciation and amortization of real estate assets	580	511
Funds from operations	<u>77,132</u>	<u>91,306</u>
Dividends on Preferred Stock	(622)	(623)
Funds from operations available for common stockholders	<u>\$ 76,510</u>	<u>\$ 90,683</u>
Funds from operations available for common stockholders per share	<u>\$ 0.72</u>	<u>\$ 0.85</u>
Weighted average shares outstanding ⁽¹⁾	<u>106,357</u>	<u>106,165</u>

(1) Includes assumed conversion of all potentially dilutive Common Stock equivalents.

Highwoods Properties, Inc.
Net Operating Income Reconciliation
(Unaudited and in thousands)

	Three Months Ended	
	March 31,	
	2019	2018
Net income	\$ 8,386	\$ 34,246
Equity in earnings of unconsolidated affiliates	(664)	(522)
Other (income)/loss	3,766	(455)
Interest expense	18,739	18,391
General and administrative expenses	12,381	11,778
Depreciation and amortization	69,204	57,568
Net operating income	<u>111,812</u>	<u>121,006</u>
Non same property and other net operating income	(5,514)	(6,406)
Same property net operating income	<u>\$ 106,298</u>	<u>\$ 114,600</u>
Same property net operating income	\$ 106,298	\$ 114,600
Lease termination fees, straight-line rent and other non-cash adjustments	1,967	(6,404)
Same property cash net operating income	<u>\$ 108,265</u>	<u>\$ 108,196</u>

Highwoods Properties, Inc.
Net Debt-to-EBITDAre
(Unaudited and in thousands, except ratios)

	Three Months Ended	
	March 31,	
	2019	2018
Net debt-to-EBITDAre:		
Net income	\$ 8,386	\$ 34,246
Interest expense	18,739	18,391
Depreciation and amortization	69,204	57,568
Adjustments to reflect our share of EBITDAre from unconsolidated affiliates	957	896
EBITDAre	\$ 97,286	\$ 111,101
EBITDAre (annualized) (1)	\$ 425,303	\$ 444,404
Mortgages and notes payable (2)	\$ 2,198,842	\$ 2,151,656
Less - cash and cash equivalents (2)	(8,285)	(33,945)
Net debt (3)	\$ 2,190,557	\$ 2,117,711
Preferred Stock	28,859	28,887
Net debt plus Preferred Stock	\$ 2,219,416	\$ 2,146,598
Net debt-to-EBITDAre (4)	5.15x	4.77x
Net debt plus Preferred Stock-to-EBITDAre (5)	5.22x	4.83x

(1) EBITDAre (annualized) is EBITDAre multiplied by four. For the quarter ended March 31, 2019, credit losses and write-offs of \$12.1M associated with the sudden closure of Laser Spine Institute are not annualized.

(2) Includes our share of unconsolidated affiliates.

(3) Net debt is calculated as mortgages and notes payable at quarter-end less cash and cash equivalents at quarter-end.

(4) Net debt at quarter-end divided by EBITDAre (annualized). Excluding credit losses and write-offs associated with the sudden closure of Laser Spine Institute, net debt-to-EBITDAre at March 31, 2019 would have been 5.01x.

(5) Net debt plus Preferred Stock at quarter-end divided by EBITDAre (annualized). Excluding credit losses and write-offs associated with the sudden closure of Laser Spine Institute, net debt plus Preferred Stock-to-EBITDAre at March 31, 2019 would have been 5.07x.