

Piedmont Office Realty Trust Reports Third Quarter 2019 Results

October 30, 2019

Atlanta, GA, Oct. 30, 2019 (GLOBE NEWSWIRE) -- Piedmont Office Realty Trust, Inc. ("Piedmont" or the "Company") (NYSE:PDM), an owner of Class A office properties located primarily in select sub-markets within seven major Eastern U.S. office markets, today announced its results for the quarter ended September 30, 2019.

Highlights for the Quarter Ended September 30, 2019:

- Reported net income applicable to common stockholders of \$8.4 million, or \$0.07 per diluted share, for the quarter ended September 30, 2019, as compared with \$16.1 million, or \$0.13 per diluted share, for the quarter ended September 30, 2018;
- Achieved Core Funds From Operations ("Core FFO") of \$0.45 per diluted share for the quarter ended September 30, 2019, comparable to \$0.45 per diluted share for the quarter ended September 30, 2018;
- Completed approximately 564,000 square feet of leasing during the quarter ended September 30, 2019, with approximately 195,000 square feet related to new leasing;
- Reported a 9.8% and 23.5% roll up in cash and accrual rents, respectively, on executed leases for space vacant one year or less and a 5.0% increase in Same Store NOI-Cash Basis as compared to the quarter ended September 30, 2018;
- Acquired Galleria 400 and 600, totaling approximately 860,000 square feet, and an adjacent land parcel. The Galleria is a master-planned, mixed-use development in northwest Atlanta that includes five buildings and three development sites. Piedmont's acquisition of Galleria 400 and 600 consolidates the 2.1 million square foot, multi-tenant, office component under a single owner for the first time in the development's existence;
- Sold one non-strategic asset during the quarter, The Dupree, a six-story, approximately 138,000-square foot, office building located in Atlanta;

Subsequent to Quarter End:

- On October 28, 2019, completed the sale of 500 West Monroe Street, a 46-story, approximately 967,000 square foot, 100% leased, trophy office building located in the West Loop submarket of downtown Chicago, IL for a gross sales price of \$412 million, or \$426 psf; and
- The New York State Commissioner of General Services executed an approximately 20-year, 523,000-square foot, renewal and expansion on behalf of the State of New York at 60 Broad Street in New York City.

Commenting on the quarter's results, Brent Smith, Piedmont's President and Chief Executive Officer, said, "We are extremely pleased with our third quarter results. Leasing activity was robust, and overall, completed transactions had very attractive economics. The quarter also includes the acquisition of Galleria 400 and 600 which culminates our efforts to control the entire 2.1 million square foot Galleria office development. These acquisitions with great growth potential were ultimately funded by the redeployment of 1031 exchange proceeds from the disposition of 500 West Monroe Street in Chicago earlier this week; as a result, no special distribution of the gain on 500 West Monroe Street will be required. Furthermore, the disposition substantially reduces Piedmont's exposure to the market, with Chicago now generating less than 1% of the Company's annualized lease revenue.

'Equally exciting is the execution post quarter-end of an approximately 20-year lease with the State of New York commencing November 1, 2019. The \$550 million lease is a phenomenal outcome for Piedmont and encompasses more space and better economics than were originally anticipated," added Smith.

Results for the Quarter ended September 30, 2019

Piedmont recognized net income applicable to common stockholders for the three months ended September 30, 2019 of \$8.4 million, or \$0.07 per diluted share, as compared with \$16.1 million, or \$0.13 per diluted share, for the three months ended September 30, 2018. The decrease in the current quarter's results was primarily a result of approximately \$4.7 million of additional amortization expense related to intangibles of the recently acquired Galleria 100, 400 and 600. In addition, the current quarter's results also included a \$2.0 million loss on impairment of real estate assets associated with the sale of a non-strategic building, The Dupree, during the quarter.

Funds From Operations ("FFO") and Core FFO, which remove the impact of the impairment loss mentioned above, as well as depreciation and amortization, were both \$0.45 per diluted share for the three months ended September 30, 2019 and 2018.

Total revenues and property operating costs were \$135.4 million and \$54.6 million, respectively, for the three months ended

September 30, 2019, compared to \$129.7 million and \$49.7 million, respectively, for the third quarter of 2018, with both line items reflecting the commencement of new leases, the expiration of abatements, and net acquisition activity during the twelve months ended September 30, 2019.

General and administrative expense was \$7.9 million for the third quarter of 2019 compared to \$6.7 million for the same period in 2018, reflecting approximately \$2.0 million of additional expense related to increased accruals for potential performance-based equity compensation as a result of the Company's relative stock performance during the current period, partially offset by lower compensation expense associated with the senior management transition that occurred at the end of the second quarter of 2019.

Leasing Update

During the three months ended September 30, 2019, Piedmont completed approximately 564,000 square feet of leasing across its portfolio, with approximately 195,000 square feet of that activity related to new tenant leases. Overall, the third quarter's executed leases for recently occupied space reflected a 9.8% roll up in cash rents and 23.5% increase in accrual rents. Highlights of the largest leases executed during the quarter include the following:

- **In Dallas:** Commercial Metals Company renewed approximately 106,000 sf at 6565 North MacArthur Blvd, and Gartner, Inc. expanded their footprint with a new lease for approximately 55,000 sf at 6031 Connection Drive;
- **In Atlanta:** WeWork signed a new lease for approximately 72,000 sf at 1155 Perimeter Center West;
- **In Minneapolis:** Siemens Corporation renewed approximately 69,000 sf at Crescent Ridge II; and,
- **In Boston:** Qualcomm Incorporated renewed approximately 49,000 sf at 90 Central Street.

Additionally, subsequent to quarter end the New York State Commissioner of General Services executed an approximately 20-year, 523,000-square foot, renewal and expansion on behalf of the State of New York at 60 Broad Street in New York City.

As of September 30, 2019, the Company's reported leased percentage and weighted average remaining lease term were approximately 92% and 6.4 years, respectively, with approximately 1.1 million square feet of executed leases for vacant space yet to commence or under rental abatement. Same Store NOI ("SSNOI") increased 5.0% and 0.5% on a cash and accrual basis, respectively, for the three months ended September 30, 2019 as compared to the three months ended September 30, 2018. The increase in cash basis SSNOI was attributable to the expiration of lease abatements. The slight increase in accrual basis SSNOI was related to the commencement of leases with higher straight-line rents, offset by down times between leases at 200 South Orange Avenue and 1155 Perimeter Center West, and lower overall occupancy levels. Details outlining Piedmont's largest upcoming lease expirations, the status of certain major leasing activity and a schedule of the largest lease abatement periods can be found in the Company's quarterly supplemental information package available at www.piedmontreit.com.

Transactional Update

During the three months ended September 30, 2019, Piedmont acquired Galleria 400 and 600, two office towers totaling approximately 860,000 square feet, and an adjacent 10.2 acre land parcel entitled for one million square feet of additional development, for a total of \$231.2 million. The acquisitions are located within The Galleria, a master-planned, mixed-use development in northwest Atlanta with prominent visibility and access to I-75 and I-285. Since 2015, Piedmont has assembled 2.1 million square feet of office space across five buildings along with three development sites, consolidating the project's multi-tenant office buildings and 6,000-space structured parking facilities under a single owner for the first time. Piedmont's total investment in The Galleria is just under \$500 million, or \$216 psf, which represents a significant discount to estimated replacement cost.

Additionally during the third quarter, Piedmont sold a non-core asset, The Dupree, a six-story, approximately 138,000 square foot, office building located in Atlanta for \$12.7 million.

Subsequent to the end of the third quarter, Piedmont also sold 500 West Monroe Street, a 46-story, approximately 967,000 square foot, 100% leased, trophy office building located in the West Loop submarket of downtown Chicago, IL for a gross sales price of \$412 million, or \$426 psf. Under the terms of the purchase and sale agreement, Piedmont will continue to manage the building for the buyer for an initial three year term.

Fourth Quarter 2019 Dividend Declaration

On October 30, 2019, the board of directors of Piedmont declared a dividend for the fourth quarter of 2019 in the amount of \$0.21 per share on its common stock to stockholders of record as of the close of business on November 29, 2019, payable on January 3, 2020.

Guidance for 2019

Based on management's expectations, the Company has narrowed its previously provided guidance for the year ending December 31, 2019 by raising the low end of the range as follows:

(in millions, except per share data)

Low High

Net Income	\$ 238 - \$ 240
Add:	
Depreciation	105 - 107
Amortization	73 - 75
Impairment Loss	2 - 2
Less: Gain on Sale of Real Estate Assets	(198) - (201)
NAREIT FFO applicable to common stock	\$ 220 - \$ 223
NAREIT FFO per diluted share	\$1.74 - \$1.77
Less: Retirement and Separation Expenses Associated with Senior Management Transition	3 - 3
Core FFO applicable to common stock	\$ 223 - \$ 226
Core FFO per diluted share	\$1.77 - \$1.79

These estimates reflect management's view of current market conditions and incorporate certain economic and operational assumptions and projections, including the impacts of completed transactional activity. The guidance does not include any speculative acquisition or disposition activity for the remainder of the year. Actual results could differ materially from these estimates based on a variety of factors, particularly the timing of any future acquisitions and dispositions, as well as those factors discussed under "Forward Looking Statements" below.

Note that individual quarters may fluctuate on both a cash basis and an accrual basis due to lease commencements and expirations, abatement periods, the timing of repairs and maintenance expenses, capital expenditures, capital markets activities, seasonal general and administrative expenses, accrued potential performance-based compensation expenses, and one-time revenue or expense events. In addition, the Company's guidance is based on information available to management as of the date of this release.

Non-GAAP Financial Measures

To supplement the presentation of the Company's financial results prepared in accordance with U.S. generally accepted accounting principles ("GAAP"), this release and the accompanying quarterly supplemental information as of and for the period ended September 30, 2019 contain certain financial measures that are not prepared in accordance with GAAP, including FFO, Core FFO, AFFO, Same Store NOI (cash and accrual basis), Property NOI (cash and accrual basis), EBITDA, and Core EBITDA. Definitions and reconciliations of each of these non-GAAP measures to their most comparable GAAP metrics are included below and in the accompanying quarterly supplemental information.

Each of the non-GAAP measures included in this release and the accompanying quarterly supplemental financial information has limitations as an analytical tool and should not be considered in isolation or as a substitute for an analysis of the Company's results calculated in accordance with GAAP. In addition, because not all companies use identical calculations, the Company's presentation of non-GAAP measures in this release and the accompanying quarterly supplemental information may not be comparable to similarly titled measures disclosed by other companies, including other REITs. The Company may also change the calculation of any of the non-GAAP measures included in this news release and the accompanying supplemental financial information from time to time in light of its then existing operations.

Conference Call Information

Piedmont has scheduled a conference call and an audio web cast for Thursday, October 31, 2019 at 11:00 A.M. Eastern daylight time. The live audio web cast of the call may be accessed on the Company's website at www.piedmontreit.com in the Investor Relations section. Dial-in numbers are (844) 602-0380 for participants in the United States and Canada and (862) 298-0970 for international participants. A replay of the conference call will be available through 11 A.M. Eastern time on November 14, 2019, and may be accessed by dialing (877) 481-4010 for participants in the United States and Canada and (919) 882-2331 for international participants, followed by conference identification code 54355. A web cast replay will also be available after the conference call in the Investor Relations section of the Company's website. During the audio web cast and conference call, the Company's management team will review third quarter 2019 performance, discuss recent events, and conduct a question-and-answer period.

Supplemental Information

Quarterly supplemental information as of and for the period ended September 30, 2019 can be accessed on the Company's website under the Investor Relations section at www.piedmontreit.com.

About Piedmont Office Realty Trust

Piedmont Office Realty Trust, Inc. (NYSE: PDM) is an owner, manager, developer, redeveloper, and operator of high-quality, Class A office properties located primarily in select sub-markets within seven major Eastern U.S. office markets. Its geographically-diversified, almost \$5 billion portfolio is currently comprised of approximately 17 million square feet (after the sale of 500 West Monroe Street). The Company is a fully-integrated, self-managed real estate investment trust (REIT) with local management

offices in each of its major markets and is investment-grade rated by Standard & Poor's (BBB) and Moody's (Baa2). At the end of the third quarter, three-fourths of the company's portfolio was ENERGY STAR certified and approximately 40% was LEED certified. For more information, see www.piedmontreit.com.

Forward Looking Statements

Certain statements contained in this press release constitute forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the "Securities Act"), and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). The Company intends for all such forward-looking statements to be covered by the safe-harbor provisions for forward-looking statements contained in Section 27A of the Securities Act and Section 21E of the Exchange Act, as applicable. Such information is subject to certain risks and uncertainties, as well as known and unknown risks, which could cause actual results to differ materially from those projected or anticipated. Therefore, such statements are not intended to be a guarantee of the Company's performance in future periods. Such forward-looking statements can generally be identified by our use of forward-looking terminology such as "may," "will," "expect," "intend," "anticipate," "believe," "continue" or similar words or phrases that are predictions of future events or trends and which do not relate solely to historical matters. Examples of such statements in this press release include the Company's estimated range of Net Income, Depreciation, Amortization, Gain on Sale of Real Estate Assets, NAREIT FFO/Core FFO and NAREIT FFO/Core FFO per diluted share for the year ending December 31, 2019.

The following are some of the factors that could cause the Company's actual results and its expectations to differ materially from those described in the Company's forward-looking statements: Economic, regulatory, socio-economic and/or technology changes (including accounting standards) that impact the real estate market generally, or that could affect patterns of use of commercial office space; the impact of competition on our efforts to renew existing leases or re-let space on terms similar to existing leases; changes in the economies and other conditions affecting the office sector in general and the specific markets in which we operate; lease terminations or lease defaults, particularly by one of our large lead tenants; adverse market and economic conditions, including any resulting impairment charges on both our long-lived assets or goodwill resulting therefrom; the success of our real estate strategies and investment objectives, including our ability to identify and consummate suitable acquisitions and divestitures; the illiquidity of real estate investments, including regulatory restrictions to which REITs are subject and the resulting impediment on our ability to quickly respond to adverse changes in the performance of our properties; the risks and uncertainties associated with our acquisition and disposition of properties, many of which risks and uncertainties may not be known at the time of acquisition or disposition; development and construction delays and resultant increased costs and risks; our real estate development strategies may not be successful; future acts of terrorism in any of the major metropolitan areas in which we own properties, or future cybersecurity attacks against us or any of our tenants; costs of complying with governmental laws and regulations; additional risks and costs associated with directly managing properties occupied by government tenants; significant price and volume fluctuations in the public markets, including on the exchange which we listed our common stock; the effect of future offerings of debt or equity securities or changes in market interest rates on the value of our common stock; changes in the method pursuant to which the LIBOR rates are determined and the potential phasing out of LIBOR; uncertainties associated with environmental and other regulatory matters; potential changes in political environment and reduction in federal and/or state funding of our governmental tenants, including an increased risk of default by government tenants during periods in which state or federal governments are shut down or on furlough; any change in the financial condition of any of our large lead tenants; changes in the financial condition of our tenants directly or indirectly resulting from the United Kingdom's referendum to withdraw from the European Union; the effect of any litigation to which we are, or may become, subject; changes in tax laws impacting REITs and real estate in general, as well as our ability to continue to qualify as a REIT under the Internal Revenue Code of 1986 (the "Code"); the future effectiveness of our internal controls and procedures; and other factors, including the risk factors discussed under Item 1A. of Piedmont's Annual Report on Form 10-K for the year ended December 31, 2018.

Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date of this press release. The Company cannot guarantee the accuracy of any such forward-looking statements contained in this press release, and the Company does not intend to publicly update or revise any forward-looking statements, whether as a result of new information, future events, or otherwise.

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Attachment

- [PDM Q3 2019 EARNINGS RELEASE FINANCIALS](#)



Source: Piedmont Office Realty Trust, Inc.