Piedmont Office Realty Trust Reports Second Quarter 2024 Results

Jul 31, 2024

- Completes over one million square feet of leasing during the quarter -

Atlanta, July 31, 2024 (GLOBE NEWSWIRE) -- Piedmont Office Realty Trust, Inc. ("Piedmont" or the "Company") (NYSE:PDM), an owner of Class A office properties located primarily in major U.S. Sunbelt markets, today announced its results for the quarter ended June 30, 2024, including the completion of over one million square feet of leasing, the largest amount of leasing the Company has completed in a single quarter in over a decade.

Highlights for the Three Months Ended June 30, 2024:

Financial Results:

	Three Months Ended	
(in 000s other than per share amounts)	**June 30, 2024**	**June 30, 2023**
Net loss applicable to Piedmont	$ (9,809)	$ (1,988)
Net loss per share applicable to common stockholders - diluted	$ (0.08)	$ (0.02)
Interest expense, net of interest income	$ 29,381	$ 21,858
NAREIT and Core FFO applicable to common stock	$ 46,751	$ 55,535
NAREIT and Core FFO per diluted share	$ 0.37	$ 0.45
Adjusted FFO applicable to common stock	$ 27,758	$ 44,444
Same Store NOI - cash basis	*5.7 %*	
Same Store NOI - accrual basis	*3.7 %*	

- Piedmont recognized a net loss of $9.8 million, or $0.08 per diluted share, for the second quarter of 2024, as compared to a net loss of $2.0 million, or $0.02 per diluted share, for the second quarter of 2023, with the second quarter of 2024 reflecting an approximately $7.5 million, or $0.06 per diluted share, increase in interest expense, net of interest income, as compared to the second quarter of 2023.
- Core FFO, which removes depreciation and amortization expense, was $0.37 per diluted share for the second quarter of 2024, as compared to $0.45 per diluted share for the second quarter of 2023. Approximately $0.06 of the decrease is due to the increased interest expense, net of interest income mentioned above, with the remaining decrease attributable to a combination of the sale of One Lincoln Park during the first quarter of 2024, as well as the expiration of two large leases during the six months ended June 30, 2024.
- Same Store NOI - Cash basis and Same Store NOI - Accrual basis increased 5.7% and 3.7%, respectively, for the three months ended June 30, 2024, as compared to the same period in the prior year, as newly commenced leases or those with expiring abatements outweighed expiring leases.

Leasing:

	Three Months Ended June 30, 2024
# of lease transactions	65
Total leasing sf *(in 000s)*	1,038
New tenant leasing sf *(in 000s)*	404
Cash rent roll up	15.2 %
Accrual rent roll up	23.0 %
Leased Percentage as of period end	87.3 %

- The Company completed over one million square feet of leasing during the second quarter, the largest amount of leasing the Company has completed in a single quarter in over a decade, which included over 400,000 square feet of new tenant leasing.

- The largest new lease completed during the quarter was for the relocation of Travel + Leisure Co.'s (NYSE:TNL) headquarters to the Company's 182,000 square foot 501 West Church Street building in downtown Orlando, FL.
- The largest renewal completed during the quarter was for over 240,000 square feet through 2030 for an e-commerce retailer at Dallas Galleria Office Towers.
- The average size lease executed during the quarter was approximately 16,000 square feet and the weighted average lease term was approximately eight years.
- Rents on leases executed during the three months ended June 30, 2024 for space vacant one year or less increased approximately 15.2% and 23.0% on a cash and accrual basis, respectively.
- The Company's leased percentage for its in-service portfolio as of June 30, 2024 was 87.3%, as compared to 87.1% as of December 31, 2023, with the increase attributable to net leasing activity completed during the first six months of 2024, and reflecting the sale of the One Lincoln Park building during the first quarter of 2024 and the reclassification of the 9320 Excelsior and Meridian Crossings projects in Minneapolis, MN to out-of-service as of June 30, 2024. Both projects are being redeveloped into multi-tenant assets following the expiration of the sole tenant lease at each project during the six months ended June 30, 2024.
- As of June 30, 2024, the Company had approximately 1.6 million square feet of executed leases for vacant space that is yet to commence or is currently under rental abatement, representing approximately $51 million of future additional annual cash rents.

Balance Sheet:

(in 000s except for ratios)	**June 30, 2024**	**December 31, 2023**
Total Real Estate Assets	$ 3,468,030	$ 3,512,527
Total Assets	$ 4,158,643	$ 4,057,082
Total Debt	$ 2,221,738	$ 2,054,596
Weighted Average Cost of Debt	6.08%	5.82%
Net Principal Amount of Debt/Total Gross Assets less Cash and Cash Equivalents	39.1%	38.2%
Average Net Debt-to-Core EBITDA (ttm*)	6.6 x	6.4 x

- During the three months ended June 30, 2024, the Company issued $400 million of 6.875% senior notes due in 2029 and used the net proceeds to repay the balance outstanding on its $600 million line of credit, as well as a $25 million unsecured bank term loan that was scheduled to mature in January of 2025. The remaining proceeds have been invested until they will be used (along with any disposition proceeds and the Company's line of credit if necessary) to repay a $250 million unsecured bank term loan that matures in March of 2025. The Company has no other debt with a final maturity until 2027.
- As of June 30, 2024, our liquidity position was comprised of our $600 million line of credit and $138.5 million in cash and cash equivalents.

ESG and Operations:

- Four projects: The Exchange and 400&500 TownPark Commons in Orlando, FL; Crescent Ridge II, in Minneapolis, MN; and Wayside Office Park in Boston, MA won Regional The Outstanding Building of the Year ("TOBY") awards during the second quarter of 2024 and Wayside Office Park won at the International level during the third quarter of 2024. The award is presented by the Building Owners and Managers Association ("BOMA") and recognizes excellence in building management.
- As of June 30, 2024, approximately 84% and 72% of the Company's portfolio was ENERGY STAR rated and LEED certified, respectively, and 57% of its portfolio is certified LEED gold or higher.

Commenting on second quarter results, Brent Smith, Piedmont's President and Chief Executive Officer, said, "Our portfolio of well-located, hospitality-inspired workplaces is resonating with the market, delivering continued leasing success across our portfolio. We achieved the largest level of quarterly leasing volume since 2013 with over a million square feet spread across 65 transactions. Approximately 40% of the second quarter’s leasing volume was related to new tenancy, and transaction activity reflected a cash rental rate roll-up of greater than 15%. Additionally, we completed a significant debt refinancing, essentially addressing our debt maturities through early 2027 at a much improved interest rate compared to our 2023 issuance, demonstrating increased confidence from unsecured bond investors in the office sector, and specifically for our high-quality portfolio."

Third Quarter 2024 Dividend

As previously announced, on July 25, 2024, the board of directors of Piedmont declared a dividend for the third quarter of 2024 in the amount of $0.125 per share on its common stock to stockholders of record as of the close of business on August 23, 2024, payable on September 20, 2024.

Guidance for 2024

The Company is narrowing its previous guidance for the year ending December 31, 2024 primarily to reflect the impact of its recent $400 million bond issuance as follows:

	Current		Previous	
(in millions, except per share data)	**Low**	**High**	Low	High
Net loss	**$ (63)**	**$ (60)**	$ (47)	$ (41)
Add:				
Depreciation	**147**	**149**	148	151
Amortization	**80**	**82**	81	84
Impairment Charges	**18**	**18**	—	—
Core FFO applicable to common stock	**$ 182**	**$ 189**	$ 182	$ 194
Core FFO applicable to common stock per diluted share	**$ 1.46**	**$ 1.52**	$ 1.46	$ 1.56

This guidance is based on information available to management as of the date of this release and reflects management's view of current market conditions, including the following specific assumptions and projections:

- Executed leasing in the range of 2-2.3 million square feet with year-end leased percentage for the Company's in-service portfolio anticipated to be approximately 87.5-88.5%, exclusive of any speculative acquisition or disposition activity;
- Same Store NOI raised from flat to 2% increase to a 2-3% increase on both a cash and accrual basis for the year;
- Interest expense of approximately $123-126 million, reflecting a full year of higher interest rates as a result of refinancing activity completed by the Company during the latter half of 2023 and in the first half of 2024;
- Updated interest income to approximately $4 million due to temporarily investing a portion of the net proceeds from the Company's recent bond offering which it anticipates using to repay a $250 million term loan in March of 2025; and,
- General and administrative expense adjusted to approximately $30 million based on mid-year estimates of potential performance based compensation as a result of year-to-date leasing results.

No speculative acquisitions, dispositions, or refinancings are included in the above guidance. The Company will adjust guidance if such transactions occur.

Note that actual results could differ materially from these estimates and individual quarters may fluctuate on both a cash basis and an accrual basis due to the timing of any future dispositions, significant lease commencements and expirations, abatement periods, repairs and maintenance expenses, capital expenditures, capital markets activities, general and administrative expenses, accrued potential performance-based compensation expense, one-time revenue or expense events, and other factors discussed under "Forward Looking Statements" below.

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 June 30, 2024 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), EBITDAre, 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 release and the accompanying quarterly 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, August 1, 2024, at 9:00 A.M. Eastern time. The live, listen-only, audio web cast of the call may be accessed on the Company's website at http://investor.piedmontreit.com/news-and-events/events-calendar. Dial-in numbers for analysts who plan to actively participate in the call are (888) 506-0062 for participants in the United States and Canada and (973) 528-0011 for international participants. Participant Access Code is 453069. A replay of the conference call will be available through August 15, 2024, 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 50877. 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 second quarter 2024 performance, discuss recent events, and conduct a question-and-answer period.

Supplemental Information

Quarterly supplemental information as of and for the period ended June 30, 2024 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 major U.S. Sunbelt markets. Its approximately $5 billion portfolio is currently comprised of approximately 16 million square feet. The Company is a fully integrated, self-managed real estate investment trust (REIT) with local management offices in each of its markets and is investment-grade rated by S&P Global Ratings (BBB-) and Moody’s (Baa3). Piedmont is a 2024 ENERGY STAR Partner of the Year - Sustained Excellence. 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 known and unknown risks and uncertainties, which could cause actual results to differ materially from those 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 the Company's use of forward-looking terminology such as "may," "will," "expect," "intend," "anticipate," "estimate," "believe," "continue" or similar words or phrases that indicate predictions of future events or trends or that do not relate solely to historical matters. Examples of such statements in this press release include the Company's estimated range of Net Income/(Loss), Depreciation, Amortization, Core FFO and Core FFO per diluted share for the year ending December 31, 2024. These statements are based on beliefs and assumptions of Piedmont’s management, which in turn are based on information available at the time the statements are made.

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 (including work from home and "hybrid" work policies), technological (e.g. artificial intelligence and machine learning, Zoom, etc.), and other changes that impact the real estate market generally, the office sector or the patterns of use of commercial office space in general, or the markets where we primarily operate or have high concentrations of revenue;
- The impact of competition on our efforts to renew existing leases or re-let space on terms similar to existing leases;
- Lease terminations, lease defaults, lease contractions, or changes in the financial condition of our tenants, particularly by one of our large lead tenants;
- Impairment charges on our long-lived assets or goodwill resulting therefrom;
- The success of our real estate strategies and investment objectives, including our ability to implement successful redevelopment and development strategies or identify and consummate suitable acquisitions and divestitures;
- The illiquidity of real estate investments, including economic changes, such as rising interest rates and available financing, which could impact the number of buyers/sellers of our target properties, and regulatory restrictions to which real estate investment trusts ("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, including the potential of supply chain disruptions, and resultant increased costs and risks;
- Future acts of terrorism, civil unrest, or armed hostilities in any of the major metropolitan areas in which we own properties;
- Risks related to the occurrence of cybersecurity incidents, including cybersecurity incidents against us or any of our properties or tenants, or a deficiency in our identification, assessment or management of cybersecurity threats impacting our operations and the public's reaction to reported cybersecurity incidents, including the reputational impact on our business and value of our common stock;
- Costs of complying with governmental laws and regulations, including environmental standards imposed on office building owners;
- Uninsured losses or losses in excess of our insurance coverage, and our inability to obtain adequate insurance coverage at a reasonable cost;
- Additional risks and costs associated with directly managing properties occupied by government tenants, such as potential changes in the political environment, a reduction in federal or state funding of our governmental tenants, or an increased risk of default by government tenants during periods in which state or federal governments are shut down or on furlough;
- Significant price and volume fluctuations in the public markets, including on the exchange which we listed our common stock;
- Risks associated with incurring mortgage and other indebtedness, including changing capital reserve requirements on our lenders and rising interest rates for new debt financings;
- A downgrade in our credit ratings, the credit ratings of Piedmont Operating Partnership, L.P. (the "Operating Partnership") or the credit ratings of our or the Operating Partnership's unsecured debt securities, which could, among other effects, trigger an increase in the stated rate of one or more of our unsecured debt instruments;

- The effect of future offerings of debt or equity securities on the value of our common stock;
- Additional risks and costs associated with inflation and potential increases in the rate of inflation, including the impact of a possible recession, and any changes in governmental rules, regulations, and fiscal policies;
- Uncertainties associated with environmental and regulatory matters;
- Changes in the financial condition of our tenants directly or indirectly resulting from geopolitical developments that could negatively affect important supply chains and international trade, the termination or threatened termination of existing international trade agreements, or the implementation of tariffs or retaliatory tariffs on imported or exported goods;
- The effect of any litigation to which we are, or may become, subject;
- Additional risks and costs associated with owning properties occupied by tenants in particular industries, such as oil and gas, hospitality, travel, co-working, etc., including risks of default during start-up and during economic downturns;
- 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, as amended (the “Code”), or other tax law changes which may adversely affect our stockholders;
- The future effectiveness of our internal controls and procedures;
- Actual or threatened public health epidemics or outbreaks, such as the COVID-19 pandemic, as well as governmental and private measures taken to combat such health crises; and
- Other factors, including the risk factors described in Item 1A. of our Annual Report on Form 10-K for the year ended December 31, 2023.

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

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