

Piedmont Office Realty Trust Reports Second Quarter 2015 Results

July 29, 2015



ATLANTA, July 29, 2015 --Piedmont Office Realty Trust, Inc. ("Piedmont" or the "Company") (NYSE:PDM), an owner of primarily Class A office properties located in select sub-markets of major U.S. cities, today announced its results for the quarter ended June 30, 2015.

Highlights for the Three Months Ended June 30, 2015:

- Achieved Core Funds From Operations ("Core FFO") of \$0.39 per diluted share and Adjusted Funds from Operations ("AFFO") of \$0.30 per diluted share;
- Achieved 11% growth in both cash-basis Property Net Operating Income ("NOI") and Same Store NOI over second quarter of the prior year;
- Completed approximately 572,000 square feet of leasing, including approximately 325,000 square feet of new leasing;
- Sold three assets totaling approximately \$109 million and entered into binding contracts to sell two additional properties totaling approximately \$33 million;
- Recast its \$500 million line of credit and secured a \$160 million mortgage; and
- Repurchased 2.6 million shares of its common stock at an average price of \$17.45 per share.

Donald A. Miller, CFA, President and Chief Executive Officer said, "Second quarter was a very busy one for us as we continued to deliver solid financial results, executed over a half million square feet of leasing, recycled out of three non-strategic assets, positioned ourselves to recycle out of three more, and successfully refinanced over half a billion of maturing debt. Overall, we are pleased with our accomplishments this quarter and believe we are well-positioned from both a balance sheet and leasing and transaction pipeline perspective as we head into the second half of the year. "

Results for the Quarter ended June 30, 2015

Piedmont's net income available to common stockholders for the second quarter of 2015 was \$30.0 million, or \$0.20 per diluted share, as compared with \$12.3 million, or \$0.08 per diluted share, for the second quarter of 2014. The current quarter's results reflect approximately \$0.14 per diluted share in non-recurring items consisting of \$0.17 per diluted share gain on sales of three assets during the quarter, offset by a \$0.03 per diluted share impairment charge as a result of classifying two assets as held for sale as of June 30, 2015. The second quarter of the prior year included \$0.03 per diluted share in non-recurring items consisting of \$0.02 per diluted share in gains on sales of assets and \$0.01 per diluted share in insurance recoveries. The current quarter's results also reflect increased revenue due to properties acquired since the second quarter of the prior year, offset by increased depreciation and amortization expense.

Revenues for the quarter ended June 30, 2015 were \$146.7 million, as compared with \$138.6 million for the same period a year ago, primarily attributable to properties acquired since the second quarter of the prior year.

Property operating costs increased to \$61.5 million for the quarter ended June 30, 2015, as compared to the prior period of \$57.1 million, primarily as a result of properties acquired since the second quarter of 2014 and increases in recoverable property tax expense at certain properties. General and administrative expenses were \$8.1 million for the quarter ended June 30, 2015 as compared to \$7.1 million for the quarter ended June 30, 2014 primarily due to increased performance-based compensation costs driven by improved operating results and stock performance.

Funds From Operations ("FFO") for the current quarter totaled \$59.6 million, or \$0.39 per diluted share, compared to \$57.7 million, or \$0.37 per diluted share, for the quarter ended June 30, 2014, reflecting increased contributions from properties acquired over the last twelve months, the commencement of several significant leases, and the expiration of various operating expense abatement periods since the second quarter of the prior year. Such increases were partially offset by decreased insurance recoveries in the current quarter as compared to the second quarter of the prior year.

Core FFO, which excludes acquisition costs, loss on extinguishment of an interest rate swap during the quarter, and the above-mentioned insurance recoveries, totaled \$59.8 million, or \$0.39 per diluted share, compared to \$56.6 million, or \$0.37 per diluted

share, for the quarter ended June 30, 2014 with the increase being primarily attributable to increased contributions from properties acquired over the last twelve months, the commencement of several significant leases, and the expiration of various operating expense abatement periods since the second quarter of the prior year.

AFFO for the second quarter of 2015 totaled \$45.7 million, or \$0.30 per diluted share, compared to \$23.1 million, or \$0.15 per diluted share, in the second quarter of 2014 primarily due to the same factors mentioned above, as well as decreased non-incremental capital expenditures and effect of straight-line rent adjustments as a result of the completion of certain large tenant build outs and the expiration of rental abatement periods, respectively, since the second quarter of the prior year.

Leasing Update

The Company's total leasing volume for the three months ended June 30, 2015 was approximately 572,000 square feet, including approximately 325,000 square feet, or 57%, related to new leasing. Highlights for the quarter included a 108,000 square foot, 13-year anchor tenant lease for 500 TownPark in Lake Mary, FL, a new 135,000 square foot building to be developed adjacent to the Company's existing 400 TownPark property; an approximately 62,000 square foot, 13-year new lease with Norris McLaghlin & Marcus, P.A. at 400 Bridgewater Crossing in Bridgewater, NJ; an approximately 19,000, 10-year new lease with the Economic Policy Institute at 1225 Eye Street in Washington, D.C. and an approximately 78,000, 12-year renewal with AT&T at Aon Center in downtown Chicago. Other notable renewals included an approximately 47,000 square foot, 10+ year renewal at Arlington Gateway in Arlington, VA, and a 10-year renewal totaling over 38,000 square feet at 1225 Eye Street in Washington, D.C.

The Company's overall portfolio was approximately 89% leased as of June 30, 2015, up 200 basis points from 87% a year ago, and the weighted average lease term remaining was approximately 7.1 years as of June 30, 2015. Cash basis Property NOI for the quarter was \$80.4 million, up from \$72.6 million in the second quarter of 2014, primarily reflecting continued improvement in the Company's economic occupancy as certain significant leases commenced and abatement periods continued to expire, as well as the contribution from acquisitions over the last twelve months. As of June 30, 2015, the Company had approximately 1.1 million square feet of commenced leases that were in some form of abatement, as well as approximately 0.6 million square feet of executed leases for currently vacant space yet to commence. Details outlining Piedmont's significant upcoming lease expirations, the status of current leasing activity, and a schedule of significant near-term abatement periods can be found in the Company's quarterly supplemental information package available at www.piedmontreit.com.

Acquisition and Disposition Activity

As previously announced, during the three months ended June 30, 2015, Piedmont disposed of the following properties:

- 5601 Headquarters Drive in Plano, TX, an approximately 166,000 square foot office building constructed in 2001 and 100% leased to Intuit, Inc for \$33.7 million (or \$203 per square foot);
- River Corporate Center in Tempe, AZ, an approximately 133,000 square foot office building constructed in 1998 and 100% leased to US Foods, Inc. for \$24.6 million (\$185 per square foot); and,
- Copper Ridge in Lyndhurst, NJ, an approximately 268,000 square foot, Class A, multi-tenant office building constructed in 1989, and 86.6% leased to various tenants, including anchor tenant, Ralph Lauren. Copper Ridge was purchased by a regional real estate operator for approximately \$50.6 million (\$189 per square foot).

The sales of the above assets resulted in a \$26.6 million gain that is included in the Company's operational results for the three months ended June 30, 2015.

Additionally, during the quarter ended June 30, 2015, the Company entered into binding contracts to dispose of:

- Eastpoint I & II, sister buildings totaling approximately 171,000 square feet, in Mayfield Heights, OH for \$18.5 million (\$108 per square foot). The properties were reclassified as held for sale as of June 30, 2015, which resulted in the recognition of a \$5.4 million impairment charge during the quarter. The sale of these two assets was consummated on July 28, 2015 and concludes the Company's exit from the Cleveland, OH market; and,
- 3750 Brookside Pkwy, an approximate 105,000 square foot, building located in Alpharetta, GA, and 92% leased to four tenants for approximately \$14.1 million (\$134 per square foot). The transaction is expected to close during the third quarter of 2015.

Subsequent to quarter end, Piedmont's transactional activity included:

- the acquisition of 80 Central Street, an approximately 150,000 square foot, Class A, office building located in the Interstate 495/Route 2 sub-market of Boxborough, MA. 80 Central Street is adjacent to and shares certain building systems with the Company's existing 90 Central Street asset. The building, which is currently 93% leased to seven tenants, was acquired for \$13.5 million (\$90 per square foot);
- the execution of a binding contract to sell Chandler Forum, a 150,000 square foot building located in Phoenix, AZ and leased to a single tenant. The transaction is anticipated to close during third quarter of 2015; and,
- the execution of a binding contract to sell Aon Center, a 2.7 million square foot trophy tower located at 200 East Randolph Street in downtown Chicago and 86% leased to multiple tenants for a gross sales price of \$712 million (approximately \$260 per square foot). Estimated net sales proceeds from the transaction, which is expected to close during the fourth quarter of 2015, are anticipated to be \$640 million after deducting buyer-assumed lease abatements and approximately

\$48.0 million in contractual tenant capital improvements and leasing commissions. Piedmont intends to use the proceeds to enhance the Company's balance sheet through the pay-down of debt and to position the Company to potentially fund strategic acquisitions and/or selective share repurchases, depending upon the opportunities that arise.

Financing Activity

During the three months ended June 30, 2015, Piedmont replaced its existing \$500 Million Unsecured Line of Credit with a new \$500 million unsecured line of credit facility priced at LIBOR plus 100 basis points and entered into a \$160 million 3.48% note payable secured by a mortgage against its 1901 Market Street building located in Philadelphia, PA (the "\$160 Million Mortgage Note"). The \$160 Million Mortgage Note replaced a \$105 million mortgage that was secured by a separate property and paid off earlier in the second quarter. In connection with the mortgage, the Company utilized \$160 million of 7 year, forward-starting interest rate swaps.

Additionally, during the second quarter, Piedmont repurchased 2.6 million shares of its common stock at an average price of \$17.45 per share and the Board of Directors of Piedmont renewed the Company's stock repurchase program, authorizing an additional \$200 million in repurchases of the Registrant's common stock over the next two years. Piedmont intends to use the sales proceeds from recent and potential future property dispositions for general corporate purposes including, but not limited to, funding the repurchase of shares under the stock repurchase program, paying down debt, or funding future acquisitions, while maintaining or improving the Company's leverage metrics.

Other Events

Third Quarter Dividend Declaration

On July 29, 2015, the board of directors of Piedmont declared dividends for the third quarter 2015 in the amount of \$0.21 per share on its common stock to stockholders of record as of the close of business on August 28, 2015, payable on September 18, 2015.

Guidance for 2015

Including the anticipated disposition of Aon Center, combined with management's expectations of operational results for the remainder of 2015, the Company is narrowing its previous guidance and increasing the midpoint for full-year 2015 as follows:

<i>(in millions, except per share data)</i>	<u>Low</u>	<u>High</u>
Net Income	\$152	\$160
Add: Depreciation, Amortization, and Other	208	-214
Less: Gain on Sale of Real Estate Assets	(120)	(126)
Core FFO	\$240	\$248
Core FFO per diluted share	\$1.58	\$1.62

These estimates reflect management's view of current market conditions and incorporate certain economic and operational assumptions and projections. Actual results could differ materially from these estimates based on a variety of factors, including those 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, capital expenditures, capital markets activities, seasonal general and administrative 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

This release contains certain supplemental non-GAAP financial measures, such as FFO, AFFO, Core FFO, Same Store NOI, Property NOI, and Core EBITDA. See below for definitions and reconciliations of these metrics to their most comparable GAAP metric.

Conference Call Information

Piedmont has scheduled a conference call and an audio web cast for Thursday, July 30, 2015 at 10:00 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 (877) 407-0778 for participants in the United States and Canada and (201)689-8565 for international participants. A replay of the conference call will be available through August 13, 2015, and may be accessed by dialing (877)660-6853 for participants in the United States and Canada and (201)612-7415 for international participants, followed by conference identification code 13612422. 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 2015 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, 2015 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, and operator of high-quality, Class A office properties located in select sub-markets of major U.S. cities. Its geographically-diversified, over \$6 billion portfolio is comprised of more than 21 million square feet. 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). 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, but are not limited to, whether the Company's balance sheet and leasing and transaction pipeline will remain well positioned for the remainder of 2015; whether the Company's dispositions of assets will close; the Company's anticipated use of the net sales proceeds of Aon Center; and the Company's estimated range of Net Income, Depreciation, Amortization and Other, Gain on Sale of Real Estate Assets, Core FFO and Core FFO per diluted share for the year ending December 31, 2015.

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: market and economic conditions remain challenging and the demand for office space, rental rates and property values may continue to lag the general economic recovery causing the Company's business, results of operations, cash flows, financial condition and access to capital to be adversely affected or otherwise impact performance, including the potential recognition of impairment charges; the success of the Company's real estate strategies and investment objectives, including the Company's ability to identify and consummate suitable acquisitions; lease terminations or lease defaults, particularly by one of the Company's large lead tenants; the impact of competition on the Company's 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 market in general and the specific markets in which the Company operates, particularly in Chicago, Washington, D.C., and the New York metropolitan area; economic and regulatory changes, including accounting standards, that impact the real estate market generally; additional risks and costs associated with directly managing properties occupied by government tenants; adverse market and economic conditions may continue to adversely affect the Company and could cause the Company to recognize impairment charges or otherwise impact the Company's performance; availability of financing and the Company's lending banks' ability to honor existing line of credit commitments; costs of complying with governmental laws and regulations; uncertainties associated with environmental and other regulatory matters; potential changes in political environment and reduction in federal and/or state funding of the Company's governmental tenants; the Company may be subject to litigation, which could have a material adverse effect on the Company's financial condition; the Company's ability to continue to qualify as a real estate investment trust under the Internal Revenue Code; and other factors detailed in the Company's most recent Annual Report on Form 10-K for the period ended December 31, 2014, and other documents the Company files with the Securities and Exchange Commission.

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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[PDM Q2 2015 Financials](#)