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PRESENTATION

Emmanuel Korchman - *Citigroup Inc, Research Division - VP and Senior Analyst*

Welcome, everyone. Welcome to the 3:50 p.m. session at Day 2 of Citi's 2020 Global Property CEO Conference. I'm Manny Korchman, Citi Research. We're pleased to have with us Highwoods, and CEO, Ted Klinck. This session is for investing clients only. And if media or other individuals are on the line, please disconnect now. Disclosure is available here and on the webcast. For those in the room or the webcast, you can sign into liveqa.com, enter code citi2020, and submit any questions or raise your hands.

Ted, I'll turn it over to you to introduce your company and management team, provide the audience 3 reasons why investors should buy your stock today.

Theodore J. Klinck - *Highwoods Properties, Inc. - President, CEO & Director*

Thank you, Manny, and good afternoon, everybody. Quick introductions. To my left is Mark Mulhern, our Chief Financial Officer; and to my right is Brendan Maiorana, our Executive Vice President of Finance and Investor Relations.

Before I go into the questions, I think I just -- let me just give you a little bit of an overview of Highwoods. Company was founded in 1978 in Raleigh, North Carolina. We're primarily an office owner in the Sun Belt markets, high-growth markets in the southeast.

2019 was a significant year of significant change for the company. We entered the Charlotte market and announced our plan to exit both Memphis and the Greensboro markets. And Ed Fritsch, our long-time CEO, retired after 37 years of service with the company. We also hired a new COO, Brian Leary, moved here, and his family moved up from Charlotte to Raleigh.

Ed's legacy is going to -- and his imprint in the company is going to endure. Strategic plan that we put in place back in '19 -- in 2005 is going to continue to guide what we do. We focus on our portfolio. We want to own and develop high-quality assets in the best business districts and high-growth markets. On a balance sheet, we want to maintain a fortress balance sheet, very conservative leverage. And we focus on our people. We want to attract and retain the great team and have a collaborative environment. And then communications, we want to be open and transparent with investors, customers and other stakeholders.

Now we've passed out At-A-Glance, our standard At-A-Glance. I'd like to walk through that as well. Then I'll turn it back over to Manny and get to the Q&A.

So 2019 was a strong year for us operationally. Our FFO was impacted by onetime costs from the sudden closure of Laser Spine Institute last March as well as the costs associated with our market rotation plan. Excluding these costs, our FFO in 2019 was $3.50 a share.

In-place rents in our portfolio, and you can see on Page 2, have grown at a compound annual growth rate of about 3.9% since 2013, and we've achieved 18%-plus GAAP rent spreads the last few years.

The way we look at leasing, we paid most attention to net effective rents, and these have increased significantly over the past several years as well.

In terms of our future expirations on Page 3. Our large expirations, as we define, greater than 100,000 square feet have substantially been reduced and are manageable for the next couple of years. Only 3 expirations are greater than 100,000 square feet in 2020, and we don't have any in 2021 or '22. And we feel good about 2 of the 3 in terms of renewals. T-Mobile will be leaving midyear.

Quickly on Pages 4 and 5, through the 2020 outlook. Our FFO guidance of $3.60 to $3.72 per share, which is about 4.5% growth at the midpoint compared to our normalized 2019 operations. Same-property growth outlook is 3.25% to 4.25%. Our year-end 2020 office occupancy is roughly flat with where we ended 2019. But our cash flow does continue to strengthen, and we expect this to continue to improve upon completion of the market rotation plan and delivery of our development pipeline.

The top of Page 5 just shows our historical investment activity. We sold more than we've acquired this cycle. But still have been a net investor when you add in the delivery announcements in our development pipeline. And while we've been a heavy-asset recycler and we've also improved the portfolio through the recycling, but we've also continued to grow FFO per share, as you can see on the bottom left of Page 5, and we've also increased our dividend in the last 4 years at roughly 13% cumulative increase.

Pages 6 and 7, on our development. Our development pipeline continues to be a driver of growth for the company and it has for really a long time. Our current pipeline is about $500 million, at 77% pre-leased. We have about $280 million left to fund at the year-end 2019. And really, of our projects under construction, we only have 2 that have speculative space, one in Midtown, Tampa and one in Brentwood, submarket of Nashville. We're seeing good activity on both of those.

Our land bank on Page 7. We can accommodate roughly $2.2 billion of development. And this is our -- it's our raw material, enables us to compete well on the development side. And so we feel good that we've got land that we can take advantage of additional development opportunities.

Switching to Page 8 and 9, our balance sheet. Our balance sheet remains in great shape. We've got a well-laddered maturity schedule of nothing due to 2021. We've got plenty of capacity to fund our development pipeline and take advantage of any opportunities that may arise. We do expect a drop in leverage as we complete the final sales of our market rotation plan.

Page 9 is just sustainability. We remain highly committed to the ESG initiatives. You can sort of see where we are or how we've completed thus far relative to our goals on Page 9.

Pages 10 and 11, those are our market rotation plan.

Last August, we announced our plan to enter Charlotte and exit Greensboro and Memphis. We've made great progress so far. We acquired BofA Tower for $436 million, and we've sold $323 million of properties so far. And we're on track to complete the remaining Phase 1 sales in the next several weeks. And as we stated back in August, we do expect the plan to be leverage-neutral, FFO-neutral and cash flow accretive.

Phase 2 of the market rotation plan, which is selling the remainder of our assets in Memphis and Greensboro, we continue to feel good about. But there's no preset timetable to complete these sales. We do have many assets that are attractive to buyers. We have some MOB, medical office building properties. We have good office along Poplar corridor in Memphis as well as some high-quality buildings in Greensboro.

The last page is an overview really of Charlotte, Pages 12 and 13. And you can tell why -- you can see why we're interested in growing the Charlotte market. We're very positive on the outlook, and it's continued to garner a significant amount of corporate relocations and expansions in the last several years.

So I'll stop there and answer the initial question from Manny on, why invest in the Highwoods stock?

First and foremost, I think it's our development pipeline. We've consistently been able to deliver development over the long term, and that's been a great driver of our growth. Then the lease expirations that I mentioned a couple of minutes ago. We're the -- we have the lowest forward 3-year expiration schedule that we've had in over 10 years. So we think we've been able to pull and take care of a lot of our forward expirations in the next couple of years. So our lease rollover is very, very manageable. And then as I mentioned, our balance sheet. Our balance sheet is in fantastic shape, and we've got capacity to how do we fund our development, but also take advantage of any opportunities that come up.

Manny?

QUESTIONS AND ANSWERS

Emmanuel Korchman - *Citigroup Inc, Research Division - VP and Senior Analyst*

Great. Thank you for that. We've also been asking each CEO to help us with some ESG thoughts we're having. And the question is, ESG is of increasing importance for all company stakeholders. What's one thing your company is doing to improve your overall ESG score over the next 12 months?

Brendan C. Maiorana - *Highwoods Properties, Inc. - EVP of Finance*

So I'll take that one. So I'd say there's maybe, in terms of ESG score, there's probably 2 things that I would highlight. So first, this will be the first year that we participate in the GRESB survey. So we're going through that now. So that will be out there, which I think a number of our shareholders have asked us to do to be scored by GRESB. So that will be something that we're doing.

The second thing is, we have a team of folks that are going through the data aggregators and looking at the data that they're pulling that we have publicly available and seeing where some of that information is not correct, and then trying to work with those data aggregators to get the correct information in there, which should drive our scores higher. So I think in general, we've done a good job in terms of what the ESG initiatives are. We think we've been doing that for a long time. We probably have been a little bit further behind in terms of documentation and communication to our shareholders. And so that's kind of the initiative that we're looking to do in 2020.

Emmanuel Korchman - *Citigroup Inc, Research Division - VP and Senior Analyst*

Great. Thanks. Maybe we'll start with Charlotte. Sort of, I guess the question being, you talked about it's a great market where you want to grow. What brought you there when you did rather than earlier? And sort of why isn't the concentration higher considering it fits so well into your other markets?

Theodore J. Klinck - *Highwoods Properties, Inc. - President, CEO & Director*

Sure. Certainly, it's in our backyard. It's a logical market for us to go into. It's been our -- really at the top of our new market wish list within the last several years. We've chased several opportunities. So not getting there earlier wasn't for the lack of effort. Just for one reason or another, getting price according to -- within our risk-return parameters. So this was an asset that enabled us to get in the market and scale. We like the profile of it. We like the -- obviously, the credit tendency of it and all that. So we're able to get in and get in with scale and give us a beachhead that we can grow from.

Emmanuel Korchman - *Citigroup Inc, Research Division - VP and Senior Analyst*

Do you think being there and already having that beachhead will either open your opportunity set or change your views on acceptable pricing to continue to grow there? Because if you couldn't get there because things were too expensive, now you found the deal, how do you grow when things are too expensive to get into anyone?

Theodore J. Klinck - *Highwoods Properties, Inc. - President, CEO & Director*

Well, certainly, we plan to grow. I think there's 3 ways we can grow. One is via development. As we've talked about, development is a great driver for us. So we're actively in the market looking for land to get in the middle of some of these corporate relocations that are going. So over the long term, I would expect development is going to be a driver of our growth in the market.

In terms of the acquisitions, certainly, without a doubt, it's a competitive market. We're not the only ones that have found Charlotte. I think the institutional investors have as well. So we're going to compete, and we'll see how there -- on the core acquisitions, how that goes.

The third way is really on the value-add acquisitions. So being in the leasing business, we're not afraid to take leasing risks. So if we can find a mispriced asset that still got good growth qualities on it, we can grow via value-add acquisition. I think that pricing is more in line or is achievable.

Emmanuel Korchman - *Citigroup Inc, Research Division - VP and Senior Analyst*

And if we go back to sort of the scenario where you exited Memphis and Greensboro to fund Charlotte. If the Charlotte asset you bought were bigger, would it have led to more Phase 1 dispositions in those 2 markets? Or would there have been a third market as Phase 1?

Theodore J. Klinck - *Highwoods Properties, Inc. - President, CEO & Director*

Yes. It obviously depends on the size, but we still have -- Phase 2 is still somewhere in that mid-200 range. So if it was anything within that range, I think we will continue with the exit of Greensboro and Memphis, which is our plan for Phase 2.

Emmanuel Korchman - *Citigroup Inc, Research Division - VP and Senior Analyst*

So phase -- the phasing was more based on use of capital than on...

Theodore J. Klinck - *Highwoods Properties, Inc. - President, CEO & Director*

Correct.

Emmanuel Korchman - *Citigroup Inc, Research Division - VP and Senior Analyst*

Throttling of sales?

Theodore J. Klinck - *Highwoods Properties, Inc. - President, CEO & Director*

Our objective was to match fund. So Phase 1 equaled the purchase price of Bank of America Plaza, which is what we said we're going to do on a FFO-neutral standpoint.

Brendan C. Maiorana - *Highwoods Properties, Inc. - EVP of Finance*

And I think we were -- we obviously were trading maybe a higher growth opportunity in Charlotte for lower growth opportunities in Memphis. And in Greensboro, we were fortunate. Obviously, we have a mix of assets that we felt were going to bring good pricing in the market with the industrial portfolio in Greensboro. We've got some MOB assets in the second phase in Greensboro and Memphis. So trying to get all that to work just on a financial basis made sense to us.

Emmanuel Korchman - *Citigroup Inc, Research Division - VP and Senior Analyst*

Yes. Okay. Maybe we'll just kind of go market by market. Nashville is a market that you're building in at scale. You have a couple of other pads there. What are the prospects on those other sites?

Theodore J. Klinck - *Highwoods Properties, Inc. - President, CEO & Director*

So there are many land we have in Nashville. It continues to be a great market for us. We have one building that's under construction in the Brentwood submarket. It's called Virginia Springs II. So that's under construction right now, got good prospects. It's right now, it finishes up in the third or fourth quarter of this year. So we're seeing good activity on that.

And the remaining land we have is in the Gulch. It's in the CBD. And likely, given the amount of what's under construction right now in downtown Nashville, we're not jumping in to go do a spec building there. We're going to wait and see how demand if it keeps up with the supply that's going to deliver in downtown Nashville over the next 18 to 24 months. So we're pitching when there's opportunities on the build-to-suits and all that. But there's no imminent spec building going to be started by us in the Gulch.

And then we've got land down innovation, which is in Cool Springs. We continue to pitch pre-lease opportunities on that as well. So we've got a fair amount of acreage we can build, about 1.2 million, down in Cool Springs, I think, remaining, and we can do about 1 million or so in the Gulch.

So nothing is imminent in terms of getting anything started. But we've got a fair amount of land, great land bank to continue to pitch, build-to-suits and pre-lease spec buildings.

Emmanuel Korchman - *Citigroup Inc, Research Division - VP and Senior Analyst*

It doesn't sound like anything is going to kick off in either one of those anytime soon. Is that the right read on that?

Theodore J. Klinck - *Highwoods Properties, Inc. - President, CEO & Director*

That's right, unless we had a build-to-suit. I mean, obviously, we're pitching some of those. So if we land that, but short of that, we want to get Virginia Springs II leased up before we would start anything else with a spec component.

Emmanuel Korchman - *Citigroup Inc, Research Division - VP and Senior Analyst*

In terms of the build-to-suit landscape at the moment, where are those tenants in whatever market? It doesn't have to just be Nashville. But where are the tenants coming from? And sort of when they look to say, "Oh, we're going to go to into wherever." How wide a net is that? Is it -- we're going to go down Nashville or Tampa, Tempe or Seattle? Or is it, we've drilled down, we know we want to be in Nashville?

Theodore J. Klinck - *Highwoods Properties, Inc. - President, CEO & Director*

Yes. That's a good question, Manny. I think you're seeing both, right? So some of these that we're chasing are multicity opportunities. When I say multicity, meaning we're competing -- our sites competing against Dallas or Charlotte or Atlanta. We've competed Nashville and Raleigh before. So it just varies by the different site selection guys and what they're looking for. I know Charlotte competed against Tampa on one recently. So it's largely southeast. Very rarely we look competing on a corporate relocation, call it, New York versus Atlanta or New York versus a Nashville or whatever. So a lot of it's regional, southeast based regional. Some of it's already in the market. They're not coming from out of market. They just want to get a new facility or whatever, and we're competing against various local developers. So it's really a combination of both.

Emmanuel Korchman - *Citigroup Inc, Research Division - VP and Senior Analyst*

Do you feel like once they've gotten to the point where they're reaching out to you and having those discussions, they've made -- sorry, to be clear, the guys that are coming from New York or Philly or DC, that they've made a decision to move, and now they're definitely going to go? Or are they still weighing the option of a southeast move versus staying wherever they were?

Theodore J. Klinck - *Highwoods Properties, Inc. - President, CEO & Director*

I think largely, they're still weighing the options, or either that or they're playing us off other cities to try and get state incentives, right? So they're not going to tell us. They're definitely coming to the market because they want to leave their options open to try and get as many incentives as they can.

Emmanuel Korchman - *Citigroup Inc, Research Division - VP and Senior Analyst*

Yes. And have you seen any changes in sort of the magnitude of -- or the momentum of companies coming and looking at those types of options?

Theodore J. Klinck - *Highwoods Properties, Inc. - President, CEO & Director*

No, not really. I think we've had -- we've spoken with the economic development folks in Tampa and Nashville. Our team has met with them in both in the last couple of months. And both of them would tell you they're as busy as they've been in a really long time. I think we're hearing the same thing in Raleigh as well. So the inbound calls are continuing. Obviously, we've got more than a handful of discussions going on. And -- but they're all just take time to cycle through. From whether it's -- again, they're waiting on incentives or trying to make decisions between cities or just internally, whether they're going to renew or not.

Emmanuel Korchman - *Citigroup Inc, Research Division - VP and Senior Analyst*

Do you think that the political environment or landscape or results of this election have any impact on the propensity of these companies to move into your jurisdictions versus sort of the higher cost days?

Brendan C. Maiorana - *Highwoods Properties, Inc. - EVP of Finance*

Well, I think it could. I mean, obviously, we don't know what's going to happen here with ...

Emmanuel Korchman - *Citigroup Inc, Research Division - VP and Senior Analyst*

I want to know why you both looked at him right away.

Theodore J. Klinck - *Highwoods Properties, Inc. - President, CEO & Director*

Well, he is our political analyst.

Brendan C. Maiorana - *Highwoods Properties, Inc. - EVP of Finance*

Not really. Obviously, tax policy has had something to do with some of the desire to move south, with some of the tax burdens in some of the states. So I mean it's certainly something we would be mindful of and be paying attention to, but nothing ripe immediate.

Emmanuel Korchman - *Citigroup Inc, Research Division - VP and Senior Analyst*

Do you feel like there's any of the opposite where people are waiting to see the results of the election before making these decisions? Is this just going to be a quiet year for those sort of larger location type moves?

Brendan C. Maiorana - *Highwoods Properties, Inc. - EVP of Finance*

Yes. I wouldn't -- I don't think we've noticed any of that. I do think these are broad cultural decisions that people make around choosing space and location and all that. So I wouldn't say anything in particular. Obviously, the last week of coronavirus and all those things, we're obviously going to be mindful of what it does to people's planning and what they may do. So I think that's another thing just to watch here.

You might say something about the market, 222 in Nashville, just before we leave Nashville.

Theodore J. Klinck - *Highwoods Properties, Inc. - President, CEO & Director*

So yes. Staying on Nashville. Just to show the investor interest that continues in our markets, there's a high watermark sale that occurred, I think, 10 days ago, a week ago, last Friday. An asset called 222 2nd Avenue, that traded for about $730 a square foot, which is obviously, certainly a high watermark in the southeast outside of maybe Texas. So I think that just continues to demonstrate the investor appetite for Nashville, and I think it bodes well for showing the value creation out of our development pipeline that we've been able to garner in Nashville.

Emmanuel Korchman - *Citigroup Inc, Research Division - VP and Senior Analyst*

Any updates on demand for the rest of the former LSI space?

Theodore J. Klinck - *Highwoods Properties, Inc. - President, CEO & Director*

So we toured somebody through it for all 3 floors last week. It was the CEO of the company. He seemed to like it. But I think it's still very early. I'd call those guys a suspect at this point given that we haven't traded paper or not. So the tours continue. We've had a couple of single floor tours as well. But we're just getting started with the white boxing of the floors. So just a reminder, we leased the first fourth floors, 4, 5 and 6, to Fanatics late last year. So floors 1, 2 and 3 are the ones that were the medical use, 4, 5 and 6 were already generic office. So we've got to white box that, take that back where you can begin doing the fit up for an office user. So this is going to take a few months to do that. But we are seeing activity. The Tampa market continues to be very strong. Robust demand. There's good job growth there. So we're pleased with the activity that we're seeing so far. And I guess that to move into, we have a development project there called Midtown Tampa. We're started about 158,000 square foot building. It will be done in a year, and we've got strong prospects for 3 of the 7 floors. 2 different companies comprising 3 floors. So those aren't done either. It's just prospects that -- but very interested and we're trading paper. So we're hopeful on that.

Emmanuel Korchman - *Citigroup Inc, Research Division - VP and Senior Analyst*

On the development side, one of my favorite topics or at least it used to be. Development yields, you guys have always sort of avoided speaking about them. But have you seen any pressure on them, especially given where construction costs have gone?

Theodore J. Klinck - *Highwoods Properties, Inc. - President, CEO & Director*

Sure. So what we've said consistently is, remains true, is we've been able to garner an 8-plus gap yield on our development. So a lot of our build-to-suits that we do are really open book where we don't take a cost overrun risk. So that it's really -- we build it on a yield. So any cost -- the pressure, costs are going up. The customers know they're just building. They know what our costs are. It's an open book. So they've just been able to -- we've been able to maintain the yield on those. I think there might be a little pressure on the spec deals, right? But generally, we've been able to keep that 8-plus yield constant over the last several years. There hadn't been a whole lot of erosion there.

Emmanuel Korchman - *Citigroup Inc, Research Division - VP and Senior Analyst*

So what -- going back to sort of the corporate policy of not talking about yields by project as your peers do. What stops you from doing that?

Theodore J. Klinck - *Highwoods Properties, Inc. - President, CEO & Director*

I just think it's from a competitive standpoint. I think if one company sees, if we build to a 7.5 and we don't offer those guys 7.5, it's -- they're going to think their credits as good as you got credit term, you got location, you've got all kinds of different factors that go into it. So I think just from a competitive standpoint, and as well as our other competitors as well, we just prefer to be more vague on it.

Emmanuel Korchman - *Citigroup Inc, Research Division - VP and Senior Analyst*

But if you're doing open book with the tenant and the broker, then the only people left out of the loop here is the public market, not your competitors, and not the broker, not the tenants. So what's the point?

Theodore J. Klinck - *Highwoods Properties, Inc. - President, CEO & Director*

Again, I just think from a competitive standpoint...

Brendan C. Maiorana - *Highwoods Properties, Inc. - EVP of Finance*

It's for the next deal.

Theodore J. Klinck - *Highwoods Properties, Inc. - President, CEO & Director*

It's for the next deal, right? The next time they come along and we don't offer him the exact same deal that the guy we just announced, and it might be a credit concern or might -- so there's a lot of variables that go into it. And I think the next prospect is going to pick and choose whatever he likes from the prior deal.

Emmanuel Korchman - *Citigroup Inc, Research Division - VP and Senior Analyst*

Right. Let me just -- with stuff like that, it always feels like the brokers are the ones that are going to spread, whether it be good or bad information, and the tendencies of the broker season, or I'm just [hampering] it up.

Questions in the room?

Unidentified Analyst

Looking at the market location plan, is there an impact for Phase 1 for 2021 versus in 2020? And on Phase 2, can you give any like rough estimates of maybe average cap rates that just a range that we should think of?

Brendan C. Maiorana - *Highwoods Properties, Inc. - EVP of Finance*

Yes. So in our -- if you take -- so we had -- what we've announced year-to-date is about $233 million of sales that roughly closed at kind of end of January, early February. And then we have another a little over $100 million left to go. We also took some severance charges that we included in our first quarter, that we included in guidance. So when you kind of net all of that out, it's probably additive to our 2020 numbers by about $0.015 to maybe $0.02 a share. So you could sort of strip that out as the run rate once we get through the sales that's kind of out for 2021. So that would really be the only sort of impact to our run rate as you think about 2021 versus 2020 in terms of the market sales.

And then on the Phase 2 assets, it's probably in the, call it, mid to high 7s in terms of kind of overall cap rate on exit. It depends a little bit on where the market ultimately shakes out. But that's in the range of where we've sold most of the noncore during the past several years, and we would expect that to be in line for our Phase 2 assets as well.

Unidentified Analyst

And then it's unlikely that there's a scenario where that would be done ex buying additional properties, so that, that would be matched, right?

Brendan C. Maiorana - *Highwoods Properties, Inc. - EVP of Finance*

I guess the -- I would say, over -- 2019 excluded, if you go back to 2017 and 2018, we sold about $100 million to $150 million of noncore and didn't have acquisitions to offset that. That is something that's possible where we would use those proceeds to largely help fund development. So that's an option, but I think our preference would be to find some capital to recycle -- the disposition capital, find uses of that to recycle into acquisitions if we could.

Emmanuel Korchman - *Citigroup Inc, Research Division - VP and Senior Analyst*

And rough dollars, Brendan, how big is Phase 2?

Brendan C. Maiorana - *Highwoods Properties, Inc. - EVP of Finance*

It's about $250 million kind of give or take.

Unidentified Analyst

And just a question on that topic. Think of the time line, is that -- I know there's no date on that. But is that because there's a lighter buyer pool? Or what's kind of the thing -- is there opportunities that you still want to have people on the ground that you can talk to? What's the kind of reason behind that?

Theodore J. Klinck - *Highwoods Properties, Inc. - President, CEO & Director*

In terms of no time line?

Unidentified Analyst

Yes.

Theodore J. Klinck - *Highwoods Properties, Inc. - President, CEO & Director*

I just think we've got -- some of the assets, we still got some work to do, some leasing to do, so they're not all stabilized. So I think we just want to work through the assets. Again, historically, we average $100 million to $150 million. We just think this is a normal cadence that we can do as we get the right assets ready to monetize and stabilize.

Brendan C. Maiorana - *Highwoods Properties, Inc. - EVP of Finance*

And then just from a balance sheet perspective. So when we received this last set of proceeds on Phase 1, we will have nothing outstanding on the line. And we have, again, we said about $280 million left to fund on the development pipeline. That may -- call it over the next 24 months, call that maybe $1.50 of development spending in 2020. So we really don't have -- and we don't necessarily today have a use of proceeds for that. So I mean I think we'll just be judicious about it and manage the tax gains and just be careful about it.

Emmanuel Korchman - *Citigroup Inc, Research Division - VP and Senior Analyst*

Brendan, how much do you think your sort of cash flow growth benefits from moving out of those -- the Greensboro Memphis markets into the Charlotte market? We've talked about sort of the FFO drag from the cap rate differential. We're fully loaded for the CapEx savings for having the newer asset and also less of sort of the higher needing CapEx assets. What's the benefit?

Brendan C. Maiorana - *Highwoods Properties, Inc. - EVP of Finance*

Yes. So see -- so you're right. So we've said it's FFO-neutral. The plan is FFO-neutral, and it's cash flow accretive. So in general, what we're -- the FFO-neutral, so just to get into a little bit of details here. The GAAP cap rate on the acquisition is higher than the cash cap rate on the acquisition because there's long-term leases with bumps throughout there. So the going-in gap is higher. On the exit, the gap and cash are effectively about the same. So on a -- just cash NOI basis, there's a little bit of a delta between there's less cash NOI coming in the door than cash NOI going out the door on that leverage neutral plan. But that's more than made up for by the amount of TI, leasing commission and building improvement capital that we spend on average for the Phase 1 asset. So on average, that capital spend is about $8 million to $10 million a year. So we probably pick up about -- there's probably about half of that pickup. So I'd say it's in the $4 million-ish, $0.04 a share range in terms of the -- what we expect the cash flow accretion to be upon completion of Phase 1.

Emmanuel Korchman - *Citigroup Inc, Research Division - VP and Senior Analyst*

And Phase 2 will be about the same just from a -- if we just run the math out into Phase 2?

Brendan C. Maiorana - *Highwoods Properties, Inc. - EVP of Finance*

So the math is about the same with respect to the CapEx drag as a percent of NOI. So yes, you're correct about that. I think it depends on what the use of proceeds are to determine what that accretion would be. But yes, that is correct.

Emmanuel Korchman - *Citigroup Inc, Research Division - VP and Senior Analyst*

But there's nothing different about it. So when you're splitting this, it wasn't like these are newest assets, these are older assets. MOB assets and office assets are probably about the same from a CapEx perspective. There's nothing else sort of...

Brendan C. Maiorana - *Highwoods Properties, Inc. - EVP of Finance*

Yes, yes. The Phase 1, I would say, in terms of like why we picked those assets versus the remainder that was there, I'd say it's largely driven by liquidity. So we had a 6-month window to kind of get those sold without realizing any tax consequences. And so I'd say it was tax gains and liquidity were the major drivers of picking what those Phase 1 assets were.

Emmanuel Korchman - *Citigroup Inc, Research Division - VP and Senior Analyst*

Anyone else in the room?

I guess the other topic. It was a big topic last year, not a big topic this year. Co-working. And it was one that never really got big in your markets. But where it did, is that a risk? Is that a tenant that sort of falls out? Or do you think that's a trend that could stay in the limited spots where it did come into your markets?

Theodore J. Klinck - *Highwoods Properties, Inc. - President, CEO & Director*

Sure. As you stated, co-working wasn't nearly as prevalent in our markets as it has been in the gateway markets. I think on Page 3 of the At-A-Glance, you can sort of see, as a percentage of stock, we put our markets relative to the gateway markets. The only couple that are approaching what might be the DC exposure is Atlanta and Charlotte. I think Atlanta, there's a lot that's currently being built out. So I think there is a risk in Atlanta from being overbuilding. They signed a lot of leases. They've been in several co-working, whether it be rework or some of the others, signed a lot of leases last year that are currently being built out, that will have a lease-up perspective. But other than that -- other than Atlanta -- then Charlotte has got a little elevated level as well. Other than that, co-working has just not been a -- it's been more additive to the market than anything else, I think. I think a lot of companies and users see that as a way to flex their space, and I think we've seen that in our own portfolio. So co-working has been a net positive to Highwoods, and I think a net positive to many of our markets given that it hasn't gotten overbuilt.

Emmanuel Korchman - *Citigroup Inc, Research Division - VP and Senior Analyst*

Okay. Last chance for questions. Anyone? All right.

Will there be more or fewer public office companies a year from now?

Theodore J. Klinck - *Highwoods Properties, Inc. - President, CEO & Director*

Fewer.

Emmanuel Korchman - *Citigroup Inc, Research Division - VP and Senior Analyst*

What will same-store NOI growth be for the office sector overall in 2021?

Theodore J. Klinck - *Highwoods Properties, Inc. - President, CEO & Director*

2021, 3%.

Emmanuel Korchman - *Citigroup Inc, Research Division - VP and Senior Analyst*

What will the 10-year treasury yield be one year from today?

Theodore J. Klinck - *Highwoods Properties, Inc. - President, CEO & Director*

1.5.

Emmanuel Korchman - *Citigroup Inc, Research Division - VP and Senior Analyst*

And what year will the U.S. enter a recession?

Theodore J. Klinck - *Highwoods Properties, Inc. - President, CEO & Director*

2022.

Emmanuel Korchman - *Citigroup Inc, Research Division - VP and Senior Analyst*

Thank you.

Theodore J. Klinck - *Highwoods Properties, Inc. - President, CEO & Director*

Thank you.

Brendan C. Maiorana - *Highwoods Properties, Inc. - EVP of Finance*

Thanks.