

Today's featured company is:



**CORPORATE OFFICE  
PROPERTIES TRUST**

### **A Unique Office REIT that Creates Value with Defense**

**Corporate Office Properties Trust (COPT)** (NYSE: OFC) is an office REIT headquartered in Columbia, Maryland, equidistant between Baltimore and Washington, DC. As of Sept. 30, 2019, COPT's core portfolio of 167 office and data center properties encompassed 18.8 million square feet and was 94.5% leased. What differentiates COPT from other office REITs is its unique franchise of U.S. Government, information technology-oriented locations (Defense/IT Locations). These Defense/IT Locations are adjacent to knowledge-based defense installations that execute high-tech and research-oriented defense missions encompassing intelligence, surveillance, and reconnaissance (ISR), research and development (R&D) for unmanned drones, missile defense, space, and cybersecurity.

- The healthy defense spending environment in the United States is driving strong demand for COPT's existing space and for newly developed facilities, resulting in record volumes of leasing in 2019
- COPT owns and controls nearly 900 acres of the most relevant land locations, limiting competing supply, and can accommodate over 10 million square feet of future mission growth
- 2.6 million square feet of active development projects are 82% pre-leased and should support impressive growth in the coming quarters
- An attractive and secure quarterly dividend of \$0.275/share represents a 3.7% yield and an attractive premium to the yield from 10-year U.S. Treasuries
- Investment grade-rated balance sheet supports future growth through development, and ensures dividend safety

[Click here to view the Corporate Office Properties Fact Sheet.](#)

[Click here to view the Corporate Office Properties Investor Presentation.](#)

Advisor Access spoke with Corporate Office Properties' President and CEO, **Stephen Budorick**, about the trust's business model and growth strategy.



**Advisor Access: Please tell us about COPT's business model.**

**Stephen Budorick:** As of Sept. 30, 2019, we derived 88% of our business from Defense/IT Locations, which encompass 16.8 million square feet of office space and approximately 900 acres of strategic developable land. Our buildings and land positions are unique, as is our decades-long track record of successful execution and mutual trust with our U.S. Government customers. An important distinction is that the government locations we support are not involved with weapons manufacturing or in the training and deployment of troops; rather, the missions involve high-tech R&D and cybersecurity aspects of national defense.

**AA: Does the U.S. Government lease space with you through the General Services Administration (GSA)?**

**SB:** We have very little GSA business. Within the 4.4 million square feet the U.S. Government leases in our portfolio, less than 90,000 square feet are leased through the GSA, representing less than 0.5% of our annualized revenues. In contrast to other REITs that lease to the government, our government customers and related defense contractors are location sensitive; they need to be in specific locations to execute their missions. Our government customers also have their own independent procurement authorities and procedures to accommodate their location sensitivity, which the GSA lease procurement process cannot achieve.

**AA: Which are COPT's strongest Defense/IT Locations?**

**SB:** Strongest is an interesting word, as all our locations are performing well. Our most established park is The National Business Park (NBP), which supports the missions at Fort Meade in Annapolis Junction, Maryland, where U.S. Cyber Command and other priority missions are located. As of Sept. 30, 2019, The NBP consisted of 3.8 million square feet, 25% of which is behind a secure government fence and is essentially an extension of Fort Meade.

Our newest and fastest growing park is Redstone Gateway, which we are developing on a land lease from the U.S. Government at the main gate of Redstone Arsenal in Huntsville, Alabama. That park consists of approximately 600,000 square feet of operating properties that are 100% leased, and we have another 700,000 square feet under development, including a 250,000-square-foot facility we are building behind the fence in the park's secure campus to meet government demand. The 450,000 square feet of contractor buildings we're developing are 95% pre-leased, and we are negotiating a lease for the balance. Similarly, the secure facility, while only 16% pre-leased today, should be at least 80% leased when we complete construction in 2020.

**Square Feet of Development Leasing**



\* As of October 25, 2019

**AA: What is COPT's growth strategy?**

**SB:** Our growth strategy is very straightforward and low risk. We generate reliable earnings growth from operating properties in irreplaceable locations, plus we create additional value from low-risk (highly pre-released) developments, primarily at Defense/IT Locations. This combination of tactics should produce attractive cash flow growth annually, regardless of broader economic conditions that affect other office landlords.

**AA: COPT recently announced its 88th consecutive quarterly dividend. What financial strategies support this remarkable consistency?**

**SB:** One of the main reasons investors buy shares in a REIT is for dividend income. We manage our operations to ensure the safety of our dividend, regardless of what economic or capital market trends may occur.

In addition to generating 88% of our revenues from Defense/IT Locations, where the government and defense contractor tenants need to lease space to support essential national security missions and therefore have high renewal rates, we also operate with conservative levels of debt. In fact, when our development opportunities elevated rapidly this year, resulting in 2.1 million square feet of new development leases in 2019 alone—which is 70% higher than our prior annual record—we also proactively raised twice as much equity as we originally planned. By doing so, we ensured that the current pipeline of 2.6 million square feet under construction or redevelopment is responsibly funded, and that we enter 2020 with minimal capital markets risk.

That combination of robust growth opportunities, reinforced by an investment grade balance sheet and conservative leverage, supports attractive cash flow growth, as well as the safety of our dividend.

**AA: Thanks for the update and your time, Steve.**


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Stephen E. Budorick is president and chief executive officer of Corporate Office Properties Trust (COPT). Mr. Budorick was elected Trustee in May 2016, and was COPT's executive vice president and chief operating officer from September 2011 through May 2016. Prior to joining COPT, he served as executive vice president of asset management at Callahan Capital Partners LLC, beginning in 2006. Before his tenure at Callahan Capital Partners, Mr. Budorick was executive vice president in charge of Trizec Properties Inc.'s Central Region from 1997–2006, and executive vice president in charge of third-party management and leasing at Miglin Beitler Management Co. from 1991–1997. Mr. Budorick also worked in asset management at LaSalle Partners Inc. from 1988–1991, and in facilities management and planning at American Hospital Association from 1983–1988. Mr. Budorick earned a bachelor's degree in Industrial Engineering from the University of Illinois, and master's degrees in Business Administration and Finance from the University of Chicago in 1982 and 1988, respectively. He was elected a member of the 2018 Nareit Advisory Board of Governors in November 2017.

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**Analyst Commentary**

***“Our investment thesis for Corporate Office is that the slow, yet deliberate roll out of increased DoD spending would lead to a steady increase in tenant demand for both new and existing space. 3Q19 results support our thesis. Leasing volume was up 10.5% YoY . . . and the company's development pipeline has grown 89.4% since 3Q18.”***

**—Thomas Catherwood, BTIG**  
Oct. 28, 2019

***“What We Liked: 1) OFC completed 1.1M in new and development leases, above 897K SF in 2Q19 and nearly double the prior 4-qtr avg of 592K SF; 2) SS avg occupancy increased 50 bps YoY to 91.9% but declined 10 bps QoQ.”***

**—Jonathan Peterson, Jeffries**  
Oct. 28, 2019

***“OFC has substantially outperformed the broader REIT and Office sector index. On a YTD basis, OFC has posted total returns of 40.4% compared to 23.2% for the RMZ, 21.7% for the S&P 500, and 18.1% for REIT Office Sector.”***

**—Chris Lucas, Capital One Securities**  
Sept. 15, 2019

### **Disclosure**

Investors and others should note that Corporate Office Properties Trust posts important financial information using the investor relations section of the Corporate Office Properties Trust website, <https://www.copt.com/>, and Securities and Exchange Commission filings.

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### **About Advisor Access**

Advisor-Access LLC was designed to bring compelling investment ideas to investors in the form of in-depth interviews with company management and the latest fact sheets and corporate presentations, in a concise format: the critical pieces of information an investor needs to make an informed investment decision.

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