

Highwoods Properties (HIW)

\$48.01 (As of 03/05/20)

Price Target (6-12 Months): **\$51.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 04/05/19)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

2-Buy

Zacks Style Scores:

VGM:D

Value: D

Growth: C

Momentum: C

Summary

Highwoods Properties' better-than-expected fourth-quarter 2019 funds from operations (FFO) per share reflects encouraging business conditions across its markets facilitated healthy leasing metrics. The company is on track with the market-rotation plan aimed to fortify its portfolio in BBDs of higher-growth markets such as Charlotte and exit the Greensboro and Memphis markets. Backed by its solid cash flow, the company also announced a dividend hike of 1.1%. Amid healthy job-market environment, Highwoods is well poised to capitalize on solid demand for office space. A robust balance sheet positions it well to pursue growth endeavors. However, large-scale asset disposition is expected to result in near-term earnings dilution. Moreover, an extensive development pipeline exposes the company to operational risks such as higher development costs.

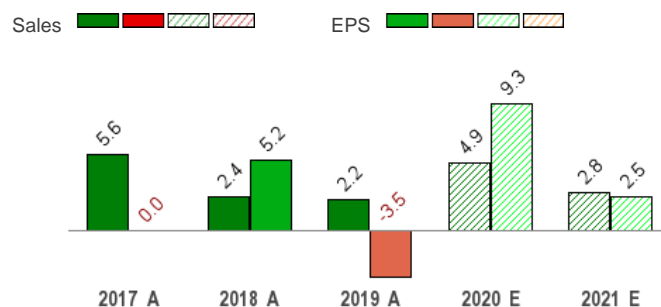
Price, Consensus & Surprise



Data Overview

| | |
|----------------------------|--|
| 52 Week High-Low | \$52.76 - \$40.75 |
| 20 Day Average Volume (sh) | 711,744 |
| Market Cap | \$5.0 B |
| YTD Price Change | -1.8% |
| Beta | 0.91 |
| Dividend / Div Yld | \$1.92 / 4.0% |
| Industry | REIT and Equity Trust - Other |
| Zacks Industry Rank | Top 44% (111 out of 255) |

Sales and EPS Growth Rates (Y/Y %)



| | |
|---------------------------|-------------------|
| Last EPS Surprise | 1.1% |
| Last Sales Surprise | -0.3% |
| EPS F1 Est- 4 week change | 1.0% |
| Expected Report Date | 04/28/2020 |
| Earnings ESP | 0.3% |
| P/E TTM | 14.2 |
| P/E F1 | 13.2 |
| PEG F1 | 3.3 |
| P/S TTM | 6.8 |

Sales Estimates (millions of \$)

| | Q1 | Q2 | Q3 | Q4 | Annual* |
|------|-------|-------|-------|-------|---------|
| 2021 | 197 E | 200 E | 201 E | 205 E | 794 E |
| 2020 | 194 E | 193 E | 193 E | 194 E | 772 E |
| 2019 | 172 A | 184 A | 187 A | 192 A | 736 A |

EPS Estimates

| | Q1 | Q2 | Q3 | Q4 | Annual* |
|------|----------|----------|----------|----------|----------|
| 2021 | \$0.91 E | \$0.95 E | \$0.94 E | \$0.96 E | \$3.73 E |
| 2020 | \$0.90 E | \$0.92 E | \$0.91 E | \$0.93 E | \$3.64 E |
| 2019 | \$0.72 A | \$0.87 A | \$0.88 A | \$0.91 A | \$3.33 A |

*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 03/05/2020. The reports text is as of 03/06/2020.

Overview

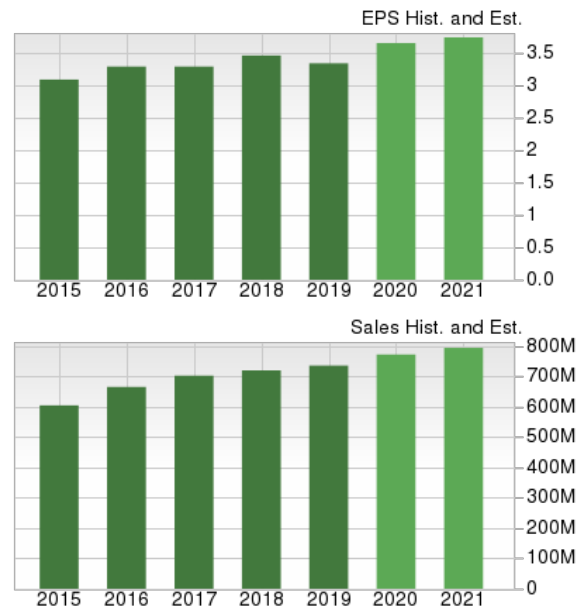
Raleigh, NC-based Highwoods Properties, Inc. is a real estate investment trust (REIT) that owns, develops, acquires, leases and manages office properties. Its core portfolio consists of properties in the best business districts (BBDs) of Atlanta, Charlotte, Nashville, Orlando, Pittsburgh, Raleigh, Richmond and Tampa.

The company's long-term strategic plan entails acquisition of high-quality, trophy office buildings in the BBDs of markets that enjoy favorable economic and demographic trends. In August 2019, Highwoods announced a market-rotation plan, per which it aims to fortify its BBD office focus, and exit Greensboro and Memphis, through a two-phased planned departure.

In November, the company entered the Charlotte market through the acquisition of Bank of America Tower. Further, in December, it announced \$89.6 million of office properties sale in Memphis and in January, the company announced \$233.4 million worth of asset sales in Greensboro. With these dispositions, the company accomplished around 75% of the first phase of dispositions in Greensboro and Memphis and remains on track to complete the first phase by mid-2020. The rest of the assets will be sold in the second phase, which has no pre-planned schedule.

As of Dec 31, 2019, Highwoods had ownership or interest in 31.7 million rentable square feet of in-service assets as well as 1.2 million rentable square feet of office properties under development. The company also owns nearly 275 acres of development land as of the same date.

Note: All EPS numbers presented in this report represent FFO per share. FFO, a widely used metric to gauge the performance of REITs, is obtained after adding depreciation and amortization and other non-cash expenses to net income.



Reasons To Buy:

- ▲ Highwoods provides comprehensive real estate services to customers and third parties through a fully integrated platform and the company has a well-diversified tenant base that includes several bellwethers. The company's average in-place rent witnessed a CAGR of 3.9% over the past seven years. Further, a large part of its portfolio is concentrated in high-growth Sun Belt markets, which have long-term favorable demographic trends and are expected to continue experiencing above-average job growth. This bodes well for Highwoods' long-term growth.
- ▲ With a resilient economy and encouraging job market environment, demand for office spaces is expected to remain stable. This is because, as the economy remains healthy, business grows and therefore, corporate sectors seek expansion, renting more space to accommodate the increased workforce. As such, encouraging business conditions across its markets facilitated healthy leasing metrics and Highwoods is also on track with the company's market-rotation plan. The company is also well addressing its upcoming lease expirations.
- ▲ Highwoods has been making concerted efforts to expand its footprint in high-growth markets and improve portfolio quality. In addition, the company is following a disciplined capital-recycling strategy that entails disposing of non-core assets and investing the proceeds in premium asset acquisitions and for undertaking accretive development projects. In sync with this strategy, in August, Highwoods announced a market-rotation plan, per which it aims to fortify its BBD office focus, and exit Greensboro and Memphis, through a two-phased planned departure. In fact, in November, it entered the Charlotte market through the acquisition of Bank of America Tower. Further, in December, it announced \$89.6 million of office properties sale in Memphis and in January, the company announced \$233.4 million worth of asset sales in Greensboro. The company is also focused on development efforts in key markets. At the end of the fourth quarter, Highwoods' \$500-million development pipeline is 77% pre-leased on a dollar-weighted basis. The company also placed five developments in service, comprising 900,000 square feet, representing \$300 million of investment, that are a combined 99% occupied. Moreover, the company's development announcement outlook is \$100-\$250 million for 2020. These efforts will strengthen its portfolio and stoke long-term growth.
- ▲ The company already has a strong balance sheet and is trying to lower its leverage further. As of fourth-quarter end, the company's debt had a weighted average maturity of 6.4 years, while unencumbered net operating income stood at 96.5%. The company exited the reported quarter with a net debt-to-EBITDA ratio of 5.2x and a leverage ratio of 39.3%. Though leverage levels increased at year-end following the acquisition of Bank of America Tower and prior to receipt of majority of proceeds from phase one of the market rotation plan, still balance sheet seems healthy. A robust balance sheet, along with capital reaped through debt and equity, including an ATM program, position Highwoods to adequately capitalize on future growth opportunities.
- ▲ In addition, dividend payouts are arguably the biggest enticement for REIT investors and Highwoods has consistently increased its dividend rate. In February 2020, the company increased its quarterly cash dividend to 48 cents per share, resulting in an annualized dividend of \$1.92 per share. This marks a 1.1% increase over the prior quarter's dividend. Notably, the company's dividend has increased at a CAGR of 3% over the past five years. Given the company's financial position compared to that of the industry, this dividend rate is expected to be sustainable.
- ▲ Shares of Highwoods have underperformed the industry it belongs to. During this period, shares of the company have appreciated 7.8% while the industry rallied 12.8%. However, the trend in estimate revisions of 2020 FFO per share indicates a favorable outlook for the company as the Zacks Consensus estimate for FFO per share has been revised 1.1% upward over the past month. Therefore, given its progress on fundamentals and positive estimate revisions, the stock has decent upside potential in the near term.

Highwoods' diversified real estate portfolio, efforts to expand in high-growth markets, non-core assets sale and investing the proceeds for further expansion bode well for long term growth.

Reasons To Sell:

- ▼ Highwoods faces intense competition from developers, owners and operators of office properties as well as other commercial real estates, including sublease space available from its tenants. This restricts its ability to attract and retain tenants at relatively higher rents than its competitors. It also impacts the company's ability to acquire properties at favorable prices. Further, higher development activities across the company's markets will likely result in new supply in the upcoming periods. This will likely impact the occupancy levels of its office properties.
- ▼ The company also has an extensive development pipeline worth \$500 million, which is 77% pre-leased. Although this is encouraging for long-term effect, it exposes the company to various operational risks such as construction cost overruns. In addition, the company is shedding non-core assets to enhance its portfolio mix. As part of its market rotation plan, the company already completed \$323 million, or roughly 75%, of phase one dispositions. Moreover, additional dispositions are anticipated to be in the range of \$100-\$150 million in 2020. While dispositions are a strategic fit for long-term growth, the near-term dilutive effect on earnings is unavoidable.
- ▼ The company's assets are mainly concentrated in Atlanta, Nashville, Raleigh, and Tampa. As of Dec 31, 2019, the contribution from these markets to the company's annualized cash revenues were 19.3%, 18.5%, 16.9% and 12.9%, respectively. Hence, any economic or political downturn in these markets might affect Highwoods' performance.
- ▼ Although interest rate levels are low presently, any hike in future is likely to be a challenge for the company. Essentially, rising rates imply higher borrowing cost for the company, which would affect its ability to purchase or develop real estate and lower dividend payouts as well. Moreover, the dividend payout itself might become less attractive than the yields on fixed income and money market accounts.

Near-term earnings dilution on account of large-scale asset dispositions is a concern for Highwoods. Further, an extensive development pipeline exposes the company to higher development costs.

Last Earnings Report

Highwoods Properties Q4 FFO Beats Estimates

Highwoods Properties' fourth-quarter 2019 FFO per share of 91 cents surpassed the Zacks Consensus Estimate of 90 cents. The figure also improved from 86 cents reported in the year-ago period.

Encouraging business conditions across its markets facilitated healthy leasing metrics and Highwoods is also on track with the company's market-rotation plan. Also, backed by its solid cash flow, the company increased the annualized dividend to \$1.92 per share from the \$1.90 paid earlier.

Rental and other revenues of approximately \$192.1 million in the quarter increased 5.9% year over year. However, the reported figure narrowly missed the Zacks Consensus Estimate of \$192.7 million.

For full-year 2019, FFO per share came in at \$3.33, lower than the prior-year tally of \$3.45. Nevertheless, rental and other revenues of nearly \$736 million increased 2.2% year over year.

Quarter in Detail

Highwoods leased 1.2 million square feet of second-generation office space during the fourth quarter, including 398,000 square feet of new leases. Rents were up 19.8% on a GAAP basis and 6.1% on a cash basis.

Highwoods achieved a dollar weighted average term of 6.1 years. Moreover, the company reaped net effective rents of \$18.17 per square foot, 14.3% above the prior five-quarter average.

Same-property cash net operating income (NOI) inched up 1.1% year over year and 2.6%, excluding the effect from Laser Spine's sudden closure. The company ended the October-December quarter with in-service portfolio occupancy of 92.2%.

Notably, the fourth quarter has been a notable one for Highwoods, as the company progressed well with its market-rotation plan aimed to fortify its portfolio in BBDs of higher-growth markets, such as Charlotte, and exit the Greensboro and Memphis markets. Particularly, in the quarter, the company acquired Bank of America Tower at Legacy Union in Charlotte for a total investment of \$436 million. The company also sold \$89.6 million of assets in Memphis, comprising 332,000 square feet with a combined occupancy of 95.6%.

Apart from these, the company acquired a development parcel in Pittsburgh for \$2.5 million and purchased a mixed-use development parcel in Richmond for \$3.3 million.

At the end of the quarter, Highwoods' \$500-million development pipeline is 77% pre-leased on a dollar-weighted basis.

As of Dec 31, 2019, Highwoods had around \$9.5 million of cash and cash-equivalents compared with around \$3.8 million reported as of Dec 31, 2018. The company exited the reported quarter with a net debt-to-EBITDA ratio of 5.18x and a leverage ratio of 39.3%. It did not issue any shares under the ATM program.

Outlook

For 2020, Highwoods expects FFO per share of \$3.60-\$3.72.

The company's full-year outlook is backed by expectations of same-property cash NOI growth of 3.25-4.25% and year-end occupancy of 91-92.3%. Moreover, the company assumes completion of the first phase of its two-phased plan to exit the Greensboro and Memphis markets. In the first phase, the company planned selling a select portfolio of assets in Greensboro and Memphis by mid-2020 for a total sales price that approximates the \$436 million total investment for Bank of America Tower at Legacy Union.

Quarter Ending **12/2019**

| Report Date | Feb 04, 2020 |
|------------------|--------------|
| Sales Surprise | -0.31% |
| EPS Surprise | 1.11% |
| Quarterly EPS | 0.91 |
| Annual EPS (TTM) | 3.38 |

Recent News

Highwoods Assets Suffers No Damage From Tornado in Nashville - Mar 3, 2020

After conducting a thorough assessment, Highwoods Properties noted that none of its assets have suffered any damage due to Nashville tornado. The assessment includes the company's underway development projects as well.

Highwoods Announces Lease with Martin Marietta at GlenLake - Feb 19, 2020

Highwoods announced a long-term lease with Martin Marietta at GlenLake. Particularly, Martin Marietta will be the sole tenant at the company's GlenLake Seven, a new building which is presently under construction in West Raleigh.

Construction of GlenLake Seven commenced in first-quarter 2019 and its completion is targeted for first-quarter of 2021. Notably, this is the fifth office building comprising 125,000-square-feet of space in GlenLake Office Park, positioned close to Glenwood Avenue between I-440 and I-40.

Highwoods Progresses With Rotation Plan With Greensboro Asset Sales – Jan 31, 2020

Highwoods announced \$233.4 million worth of asset sales in Greensboro. The move marks a significant step towards completion of the first phase of the company's market-rotation plan, which entails exiting the Greensboro and Memphis markets and fortifying its portfolio in BBDs of higher-growth markets such as Charlotte.

Particularly, the company sold its industrial and single-story flex portfolio encompassing 2.8 million square feet for \$193.4 million. Further, the company expects to close on the sale of The Knollwood, a two-building office complex comprising 250,000 square feet, on or before Feb 15, 2020 for \$40 million. In relation to these, the company expects to record non-FFO gains of around \$123.5 million in first-quarter 2020.

Notably, with these dispositions, the company will accomplish around 75% of the first phase of sales and remains on track to complete the first phase by mid-2020, the management said.

Dividend Update

On Feb 4, Highwoods increased its quarterly cash dividend to 48 cents per share, resulting in an annualized dividend of \$1.92 per share. This marks a 1.1% increase over the prior quarter's dividend. The increased quarterly dividend will be paid on Mar 10, to shareholders of record as of Feb 18, 2020.

Valuation

Highwoods' shares have been up 7.8% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Finance sector have gained 12.8% and 1.7% in the past year, respectively.

The S&P 500 index is up 12.6% in the past year.

The stock is currently trading at 13.11X forward 12-month FFO, which compares to 18.29X for the Zacks sub-industry, 13.75X for the Zacks sector and 17.89X for the S&P 500 index.

Over the past five years, the stock has traded as high as 16.47X and as low as 10.62X, with a 5-year median of 13.77X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$51 price target reflects 13.93X FFO per share.

The table below shows summary valuation data for HIW.

| Valuation Multiples - HIW | | | | | |
|---------------------------|---------------|-------|--------------|--------|---------|
| | | Stock | Sub-Industry | Sector | S&P 500 |
| P/E F12M | Current | 13.11 | 18.29 | 13.75 | 17.89 |
| | 5-Year High | 16.47 | 18.7 | 16.21 | 19.34 |
| | 5-Year Low | 10.62 | 14.32 | 12.01 | 15.18 |
| | 5-Year Median | 13.77 | 16.1 | 13.97 | 17.46 |
| P/S F12M | Current | 6.42 | 8.25 | 6.55 | 3.3 |
| | 5-Year High | 7.88 | 8.25 | 6.65 | 3.43 |
| | 5-Year Low | 5.2 | 5.91 | 5.39 | 2.54 |
| | 5-Year Median | 6.52 | 6.87 | 6.04 | 3.01 |
| P/B TTM | Current | 2.32 | 2.7 | 2.61 | 4.18 |
| | 5-Year High | 2.87 | 2.87 | 2.89 | 4.54 |
| | 5-Year Low | 1.75 | 2.07 | 1.83 | 2.85 |
| | 5-Year Median | 2.35 | 2.52 | 2.52 | 3.63 |

As of 03/05/2020

Industry Analysis Zacks Industry Rank: Top 44% (111 out of 255)



Top Peers

| | |
|---|---------|
| Alexandria Real Estate Equities, Inc. (ARE) | Neutral |
| Boston Properties, Inc. (BXP) | Neutral |
| Cousins Properties Incorporated (CUZ) | Neutral |
| Douglas Emmett, Inc. (DEI) | Neutral |
| Hudson Pacific Properties, Inc. (HPP) | Neutral |
| Kilroy Realty Corporation (KRC) | Neutral |
| Piedmont Office Realty Trust, Inc. (PDM) | Neutral |
| SL Green Realty Corporation (SLG) | Neutral |

| Industry Comparison Industry: Reit And Equity Trust - Other | | | | Industry Peers | | |
|---|-------------|------------|-----------|----------------|-------------|-------------|
| | HIW Neutral | X Industry | S&P 500 | ARE Neutral | BXP Neutral | SLG Neutral |
| VGM Score | D | - | - | D | D | D |
| Market Cap | 4.98 B | 2.63 B | 21.47 B | 19.75 B | 21.21 B | 6.45 B |
| # of Analysts | 9 | 4 | 13 | 3 | 9 | 9 |
| Dividend Yield | 4.00% | 4.28% | 2.04% | 2.56% | 2.87% | 4.28% |
| Value Score | D | - | - | F | D | D |
| Cash/Price | 0.00 | 0.02 | 0.05 | 0.01 | 0.03 | 0.04 |
| EV/EBITDA | 15.69 | 16.55 | 12.81 | 23.95 | 18.73 | 16.90 |
| PEG Ratio | 3.19 | 3.33 | 1.88 | 4.80 | 2.84 | 2.69 |
| Price/Book (P/B) | 2.32 | 1.54 | 2.95 | 1.94 | 2.71 | 1.16 |
| Price/Cash Flow (P/CF) | 12.72 | 13.69 | 11.75 | 22.36 | 17.59 | 11.95 |
| P/E (F1) | 12.81 | 14.83 | 17.19 | 21.78 | 18.02 | 11.38 |
| Price/Sales (P/S) | 6.77 | 6.23 | 2.32 | 12.90 | 7.16 | 5.20 |
| Earnings Yield | 7.58% | 6.75% | 5.81% | 4.59% | 5.55% | 8.79% |
| Debt/Equity | 1.19 | 0.88 | 0.70 | 0.67 | 1.51 | 0.97 |
| Cash Flow (\$/share) | 3.77 | 2.01 | 7.01 | 7.20 | 7.77 | 6.92 |
| Growth Score | C | - | - | B | C | F |
| Hist. EPS Growth (3-5 yrs) | 2.80% | 2.75% | 10.85% | 7.84% | 5.43% | -0.14% |
| Proj. EPS Growth (F1/F0) | 9.34% | 2.90% | 6.27% | 6.18% | 8.24% | 3.89% |
| Curr. Cash Flow Growth | -1.95% | 4.79% | 6.07% | 4.79% | -2.18% | -27.69% |
| Hist. Cash Flow Growth (3-5 yrs) | 4.75% | 12.96% | 8.52% | 23.85% | 2.27% | -0.78% |
| Current Ratio | 0.96 | 1.28 | 1.23 | 0.19 | 4.15 | 1.62 |
| Debt/Capital | 55.18% | 47.05% | 42.57% | 40.07% | 59.58% | 47.20% |
| Net Margin | 18.52% | 13.67% | 11.69% | 23.72% | 17.62% | 21.83% |
| Return on Equity | 6.31% | 4.47% | 16.66% | 4.07% | 6.64% | 4.56% |
| Sales/Assets | 0.15 | 0.13 | 0.54 | 0.09 | 0.14 | 0.09 |
| Proj. Sales Growth (F1/F0) | 4.94% | 4.07% | 3.90% | 0.00% | 3.69% | 0.08% |
| Momentum Score | C | - | - | C | F | B |
| Daily Price Chg | -2.42% | -1.98% | -3.79% | -1.53% | -1.01% | -2.22% |
| 1 Week Price Chg | -13.38% | -12.19% | -12.06% | -9.58% | -11.55% | -16.00% |
| 4 Week Price Chg | -7.62% | -5.96% | -10.92% | -4.11% | -5.30% | -12.23% |
| 12 Week Price Chg | 4.67% | -0.98% | -8.10% | 2.61% | 1.18% | -6.67% |
| 52 Week Price Chg | 7.72% | 6.01% | 4.09% | 17.73% | 3.22% | -8.61% |
| 20 Day Average Volume | 711,744 | 650,951 | 2,483,920 | 834,023 | 841,089 | 773,308 |
| (F1) EPS Est 1 week change | -0.03% | 0.00% | 0.00% | 0.00% | 0.00% | 0.49% |
| (F1) EPS Est 4 week change | 0.98% | -0.16% | -0.06% | 0.05% | 0.00% | 0.49% |
| (F1) EPS Est 12 week change | 1.51% | -0.34% | -0.42% | 0.45% | 0.52% | 4.62% |
| (Q1) EPS Est Mthly Chg | 1.78% | -0.17% | -0.29% | -1.89% | 0.00% | 0.00% |

Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

| | |
|----------------|---|
| Value Score | D |
| Growth Score | C |
| Momentum Score | C |
| VGM Score | D |

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

Disclosures

This report contains independent commentary to be used for informational purposes only. The analysts contributing to this report do not hold any shares of this stock. The analysts contributing to this report do not serve on the board of the company that issued this stock. The EPS and revenue forecasts are the Zacks Consensus estimates, unless indicated otherwise on the reports first page. Additionally, the analysts contributing to this report certify that the views expressed herein accurately reflect the analysts personal views as to the subject securities and issuers. ZIR certifies that no part of the analysts compensation was, is, or will be, directly or indirectly, related to the specific recommendation or views expressed by the analyst in the report.

Additional information on the securities mentioned in this report is available upon request. This report is based on data obtained from sources we believe to be reliable, but is not guaranteed as to accuracy and does not purport to be complete. Any opinions expressed herein are subject to change.

ZIR is not an investment advisor and the report should not be construed as advice designed to meet the particular investment needs of any investor. Prior to making any investment decision, you are advised to consult with your broker, investment advisor, or other appropriate tax or financial professional to determine the suitability of any investment. This report and others like it are published regularly and not in response to episodic market activity or events affecting the securities industry.

This report is not to be construed as an offer or the solicitation of an offer to buy or sell the securities herein mentioned. ZIR or its officers, employees or customers may have a position long or short in the securities mentioned and buy or sell the securities from time to time. ZIR is not a broker-dealer. ZIR may enter into arms-length agreements with broker-dealers to provide this research to their clients. Zacks and its staff are not involved in investment banking activities for the stock issuer covered in this report.

ZIR uses the following rating system for the securities it covers. **Outperform-** ZIR expects that the subject company will outperform the broader U.S. equities markets over the next six to twelve months. **Neutral-** ZIR expects that the company will perform in line with the broader U.S. equities markets over the next six to twelve months. **Underperform-** ZIR expects the company will underperform the broader U.S. equities markets over the next six to twelve months.

No part of this report can be reprinted, republished or transmitted electronically without the prior written authorization of ZIR.