

# 2017 Annual Report

CORPORATE OFFICE PROPERTIES TRUST

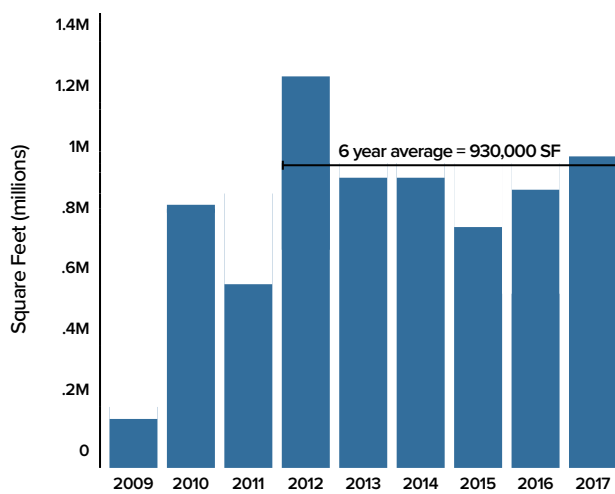


# Letter to Shareholders

By many measures, 2017 was a very successful year. We achieved record and near-record milestones in total leasing volume, tenant retention rates, and development leasing. Additionally, we completed seven years of programmatic asset sales that improved our portfolio and balance sheet that, we believe, position our Company to deliver steady, high quality cash flow growth to stakeholders in the future. It was also a year of challenges, as a record length Continuing Resolution (“CR”) on the U.S. Government’s fiscal year 2017 budget combined with a very deliberate government appropriation process to delay until 2018 the lease actions on our two development projects held for Government use.<sup>1</sup>

Despite the protracted CR, demand built throughout the year due in part to tailwinds generated by the eventual passage of the larger than expected fiscal 2017 budget in early May. We completed 3.3 million square feet of total leasing in 2017, the most since 2013. Our 81% tenant retention rate was our highest since 1999 and illustrates the increased strength of the defense economy, and the very durable nature of our portfolio. We renewed 1.9 million square feet, incurring modest average lease costs<sup>2</sup> of \$2.60 per square foot per year, the lowest figure since 2012. Other New Leasing (i.e., filling vacant space) totaled 431,000 square feet, and we placed 1.2 million square feet of developments into service that were 98% leased.

**Figure 1: Historical Development Leasing**



<sup>1</sup> The 210-day long CR in fiscal 2017 is the longest in U.S. history, surpassing the previous 196-day CR in fiscal year 2011.  
<sup>2</sup> Lease costs are tenant improvement allowances (“TIs”) plus leasing commissions.

*Continued on Inside Back Cover*

As **Figure 1** shows, we achieved significant milestones in development leasing, as the 975,000 square feet of development leasing executed in 2017 was the second highest volume in the company’s history. Five build-to-suits totaling 743,000 square feet of Data Center Shells drove the bulk of development leasing for the year, and the three leases signed in the fourth quarter kicked off a multi-year program to develop an additional two million square feet with hyper scale cloud computing U.S. Government contractors. These transactions will increase NOI and NAV significantly, diversify our avenues of growth, and advance our mission-critical Defense/IT platform.

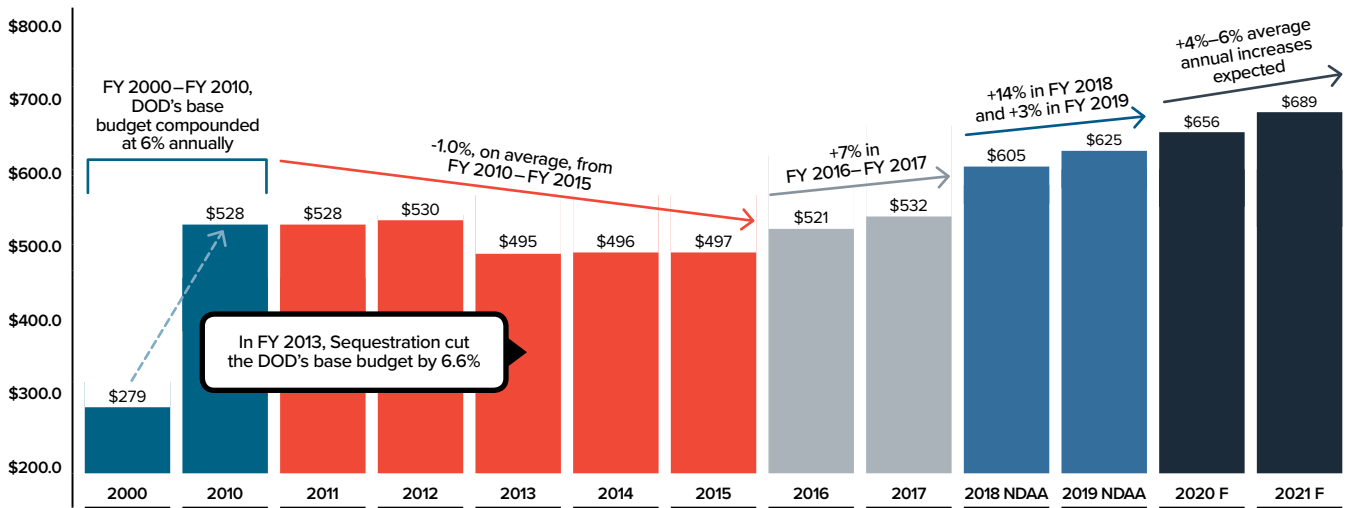
Between 2011–2017, we disposed of 11 million square feet of properties for \$1.6 billion of proceeds, which we used to transform our balance sheet and to enhance our competitive advantage at our proven Defense/IT locations, summarized in **Figure 2**. Over that period, we also developed 6.3 million square feet of new properties primarily for our U.S. Government and defense contractor customers and, at the end of 2017, our Defense/IT locations generated 87.4% of our Company’s annualized revenues. We expect the majority of our future developments to be at these proven locations.

**Figure 2: COPT’s Defense/IT Locations**

> DEMAND DRIVER	> COPT ASSET(S)	> MISSIONS
Ft. Meade	NBP Arundel Preserve Columbia Gateway Airport Square	Cyber, Signals Intelligence, Info Assurance, DOD IT Function
Redstone Arsenal	Redstone Gateway	Missile Defense, Aviation & Rocket Testing Army Materiel Command NASA Space Program & Others
Lackland AFB	USG Campus	Air Force Cyber & Others
Ft. Belvoir	Patriot Ridge	Geospatial Intelligence
NoVA Agencies	Westfields	Intelligence Activities FBI Cyber NRO
Washington Navy Yard NAS Pax River NSWCDD Dahlgren	Navy Support Portfolio*	NAVSEA NAVAIR NAVFAC NAWCAD
MAE-East	Data Centers	Cloud Computing NAP

\*Maritime Plaza // Exploration & Expedition Office Parks (“Pax I”) // Wildewood Technology Park (“Pax II”) // Dahlgren Technology Center

**Figure 3: DOD’s Discretionary Budget Authority (“Base Budget”)\***



Current dollars, in billions.

**Source:** Tables 1-9 and 2-1 of the FY 2018 National Defense Budget Estimates (“Green Book”); CRS June 28, 2017 report: Defense: FY 2018 Budget Request, Authorization, and Appropriations; Capital Alpha Partners; COPT’s IR Department  
 FY 2020–FY 2021 are forecasted assuming a 5% annual increase over the fiscal 2019 NDAAs level.

During these same seven years, we dramatically reduced our leverage and, in 2013, earned an investment grade rating from all three major ratings agencies. Since then, we have further strengthened our balance sheet, evidenced by Moody’s revising our rating outlook from “stable” to “positive” in August 2017.

Looking forward, as shown in **Figure 3**, the U.S. Government’s authorized but not yet appropriated fiscal 2018 budget includes a \$73 billion increase to the Department of Defense’s base budget, to \$605 billion. The 14% increase over the fiscal 2017 budget will represent the largest increase in spending since 2002, and, we believe, bodes well for higher demand in our markets. Major defense contractors convey a highly optimistic outlook for their businesses, supported by the consensus view that the defense

industry is at the advent of a multi-year expansion to rebuild, restore, and reinvigorate our nation’s military strength. Having disposed of our non-strategic assets and their drag on cash flow growth, we believe that we have never been in a greater position of strength to capitalize on the opportunities present and emerging in our markets.

Stephen E. Budorick  
 President & Chief Executive Officer



**FROM LEFT TO RIGHT:**  
 Paul R. Adkins  
 EVP & Chief Operating Officer  
 Stephen E. Budorick  
 President & Chief Executive Officer  
 Anthony Mifsud  
 EVP & Chief Financial Officer



## CORPORATE INFORMATION

### ANNUAL MEETING

The 2018 Annual Meeting of Shareholders will be held at 9:30 a.m. Eastern Time on May 10, 2018, at Corporate Office Properties Trust's headquarters, located at 6711 Columbia Gateway Drive, Columbia, Maryland 21046.

### BOARD OF TRUSTEES

Thomas F. Brady  
Chairman  
Stephen E. Budorick  
Robert L. Denton, Sr.  
Philip L. Hawkins  
Elizabeth A. Hight  
David M. Jacobstein  
Steven D. Kesler  
C. Taylor Pickett  
Richard Szafranski  
Lisa G. Trimberger

### EXECUTIVE OFFICERS

Stephen E. Budorick  
President  
+ Chief Executive Officer  
Paul R. Adkins  
Executive Vice President  
+ Chief Operating Officer  
Anthony Mifsud  
Executive Vice President  
+ Chief Financial Officer

### INVESTOR RELATIONS

For help with questions about the Company, or for additional corporate information, please contact:

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