

Baltimore Washington Corridor Market, Fort Meade, Cybersecurity. Hold.

- After a number of conversations with local market participants, we are updating our bull/bear case points for Corporate Office Properties Trust, and updating our thoughts on Fort Meade and the Baltimore-Washington Corridor (BW Corridor) office market. Please reference our recent industry note entitled [Conference Call 9/7/16 - Value Creation or Destruction and Lease Economics Analysis](#). [SLIDES ATTACHED](#). [Dial-in Info Below](#) for detail on leasing economics and value creation potential.

- The Corporate Office Properties Trust bull case is: 1) core portfolio fundamentals continue the bounce off the 3Q15 bottom, 2) cybersecurity spending (government, military, corporate) is expected to aggressively increase, 3) defense contractor demand is expected to pick up, 4) the defense IT niche is unique and 5) dispositions are providing a source of capital for development.
- OFC bear case: 1) leasing economics are weak, but middle of the pack for Office REITs, 2) while Fort Meade and the BW corridor is the epicenter for military cybersecurity, other government and corporate cybersecurity has more of a Northern Virginia presence, 3) smaller defense contractors appear to be in an expansion mode, while the larger defense contractors do not appear to be taking more space, 4) defense contractors and the federal government are both notoriously frugal when it comes to leasing space, 5) leasing of informed federal government build-to-suits at National Business Park and Westfield Park totaling 352k SF, may not generate lease revenue until mid 2018.
- A recent environmental impact report indicates that 2.9mm SF of new development on Fort Meade will be offset by 1.9mm SF of demolition. The timing is 5-10 years. This is in addition to 1) the recently completed 600k SF data center, 2) the 242k SF Joint Cyber Command HQ under construction, 3) the 148k SF Marine Corps Cyber Command about to commence, 4) an estimated \$50mm spent annually on infrastructure.
- Fort Meade is the headquarters for the National Security Administration (NSA), Defense Information Systems Agency (DISA) and roughly 100 other federal government agencies. The federal government appears to have a preference for owning on Fort Meade or leasing 100% of a building at three primary off-base, but fenced and fully secure locations -- National Business Park, Annapolis Junction, Emerson Corporate Center. Interestingly, while the projects on base appear to be very costly, the off-base lease economics appear to be RFP driven and very thin.

Changes	Previous	Current
Rating	—	Hold
Target Price	—	NA
FY16E FFO	—	\$2.02
FY17E FFO	—	\$2.09
FY16E FAD	—	1.55
FY17E FAD	—	1.64

Price (09/08/16):	\$29.15
52-Week Range:	\$31 – \$20
Market Cap.(mm):	2,880.0
Shr.O/S-Diluted (mm):	98.8
Enterprise Val. (mm):	\$5,358.4
Avg Daily Vol (3 Mo):	718,987
LT Debt/Total Cap.:	44.4%
Dividend(\$ / %)	\$1.10 / 3.8%
S&P Index	2,182.50
<i>Intraday pricing 9-8-16</i>	

FFO	2015A	2016E	2017E
Q1	\$0.45	\$0.47A	\$0.48
Q2	0.52	0.52A	0.51
Q3	0.52	0.52	0.55
Q4	0.52	0.51	0.55
FY Dec	\$2.01A	\$2.02	\$2.09
P/FFO	14.5x	14.4x	13.9x

FAD	2015A	2016E	2017E
Q1	0.37	0.36A	0.36
Q2	0.40	0.42A	0.40
Q3	0.35	0.38	0.44
Q4	0.31	0.39	0.44
FY Dec	1.43A	1.55	1.64
P/FAD	20.4x	18.8x	17.8x

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- The 3.9mm SF National Business Park appears to have total availability of roughly 7%, plus the 7% availability in two OFC developments; 310 Sentinel and 540 NB Parkway.
- Leasing statistics through 2Q16 for the BWI/Anne Arundel submarket (essentially east of Rte. 1). While absorption averaged 360k SF during 2006-2013, total absorption 2014-1H16 was 132k SF.
- We think OFC is appropriately valued at 1) 7.0%/5.9%/5.0% implied NOI/cash flow/CF less G&A cap rates, 2) below our NAV cap rate range of 7.5%-8.0%, 3) 2017E FFO/FAD multiples of 13.9x/17.8x.
- We are not adjusting our estimates at this time.

Company Description

Corporate Office Properties Trust is a self-managed, self-advised real estate investment trust focused on developing, owning, and managing suburban office properties in select Mid-Atlantic submarkets, primarily within Maryland and northern Virginia. As of June 30, 2016, the core portfolio encompassed 146 office properties, totaling 16.0 million rentable square feet.

Corporate Office Properties Trust
Quarterly Earnings Model
(in thousands, except per share data)

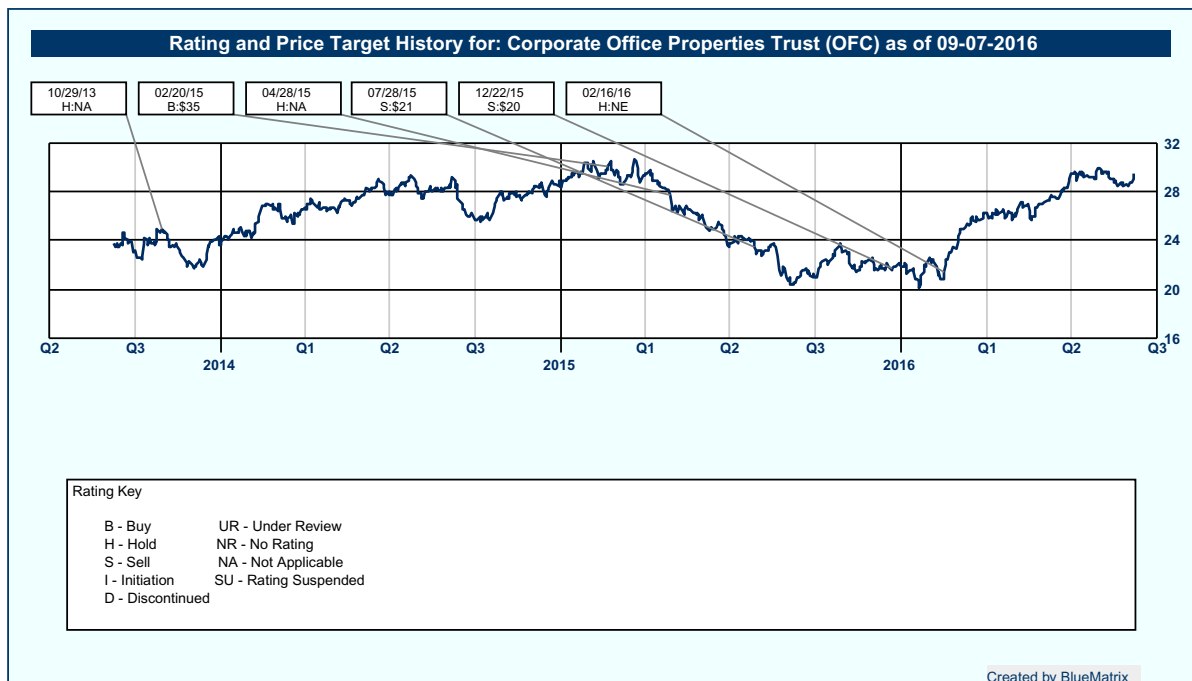
9/8/2016

Main data table with columns for years 2015 A, 1Q16 A, 2Q16 A, 3Q16 E, 4Q16 E, 2016 E, 1Q17 E, 2Q17 E, 3Q17 E, 4Q17 E, 2017 E. Rows include Assumptions, NOI, EBITDA, Funds from operations, FAD, and Ratios.

(1) Assumes midperiod acquisition or development revenue convention.
(2) Net operating income (NOI) is defined as rental revenue plus tenant reimbursements...
(3) \$50mm incremental spend on DC-6 in 2015
Sources: Company data and S&P estimates.

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For a price chart with our ratings and any applicable target price changes for OFC go to <http://sf.bluematrix.com/bluematrix/Disclosure?ticker=OFC>

The rating and target price history for Corporate Office Properties Trust and its securities prior to February 25, 2015, on the above price chart reflects the research analyst's views under a different rating system than currently utilized at Stifel. For a description of the investment rating system previously utilized go to www.stifel.com.

Stifel or an affiliate expects to receive or intends to seek compensation for investment banking services from Corporate Office Properties Trust in the next 3 months.

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The equity research analyst(s) responsible for the preparation of this report receive(s) compensation based on various factors, including Stifel's overall revenue, which includes investment banking revenue.

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