CEO CFO

Issue:
March 26, 2009

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Since Its Founding Over 50 Years Ago, Cousins Properties Has Proven That A Conservative Company Can Still Be On The Leading Edge Of The Real Estate Industry, Managing Risk While Taking Advantage Of Opportunities

Financial
REIT - Diversified
(CUZ-NYSE)

Cousins Properties Incorporated

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James A. Fleming
Executive Vice President and CFO

BIO:
Jim is responsible for overseeing the financial operations of the Company, including tax, treasury and finance. He also oversees a number of corporate functions including investor relations, human resources, and information technology. Fleming joined Cousins as Senior Vice President and General Counsel in July 2001 and became Executive Vice President and CFO in August 2004.

Education: B.E.E., Auburn University, Auburn, Ala.; J.D., University of Virginia School of Law, Charlottesville, Va.
Company Profile:
Cousins Properties Incorporated is a leading diversified real estate company with extensive experience in development, acquisition, financing, management and leasing. Based in Atlanta, the Company actively invests in office, multi-family, retail, and land development projects. Since its founding in 1958, Cousins has developed 20 million square feet of office space, 20 million square feet of retail space, more than 3,500 multi-family units and more than 60 single-family neighborhoods. The Company is a fully integrated equity real estate investment trust (REIT) and trades on the New York Stock Exchange under the symbol CUZ.

Interview conducted by:
Lynn Fosse, Senior Editor
CEOCFOinterviews.com

CEOCFO: Mr. Fleming, what is the vision at Cousins today?
Mr. Fleming: "A lot is changing in the real estate business right now. For the past 10-15 years, it has been easy for under-financed real estate firms to build real estate projects with inexpensive capital because money was so available. Now that the financial world has changed, these undercapitalized, underfinanced, largely private real estate developers we would be competing with, in many cases will not be able to stay in business and clearly will not be able to do business as they did before. Cousins, on the other hand, has been publicly traded for more than 50 years and has always maintained a very strong capital base. We are being very patient right now, but do anticipate that several attractive opportunities will present themselves over the next few years, starting with distressed real estate and then probably moving to new developments. Ultimately, we are going to be in a much stronger relative position than many of our competitors."

CEOCFO: Cousins focuses on a variety of types of property; why that strategy?
Mr. Fleming: "The investment community generally prefers to see a public real estate company focus on one property type and preferably one market; this enables them to piece together a portfolio of multiple companies that suits their overall strategy. This model works fine if you are a property company and all you are trying to do is manage the properties and deal with the leasing and the maintenance of properties. It doesn't work so well if you are an opportunistic development company like Cousins, because the market may be down in one area but may be up in another. We have focused mainly on retail and office although we have worked in a number of other property types. Our diversification provides us flexibility so we don't have to force development when there isn't a strong market for a particular product. It also gives us the opportunity to invest our capital at the most opportune points in the cycle for different product types."

CEOCFO: What is your geographic focus?
Mr. Fleming: "Generally the Sunbelt. Office tends to be a local business, so it makes sense that our strongest market is Atlanta. Having been in business here for fifty years, we have very good business, political, and civic connections here in Atlanta. We also have offices and strong relationships in Dallas and Austin, Texas. We have ventured to San Francisco, Los Angeles, northern Virginia, the Carolinas, and some other places for office opportunities, but we typically have done those with a local partner who brought local knowledge and strong ties to the community. Retail is a bit different. Probably 75% of our retail tenants are national retailers; we are typically dealing with the same decision makers about a retail center in San Jose California as Melbourne Florida. The retail products we develop tend to work better in the Sunbelt, so naturally a lot of our focus is in those markets."

CEOCFO: In general, why do tenants want to be in a Cousins property?
Mr. Fleming: "Cousins is known as an owner that builds a first rate property and does an extremely good job with property management. Our office and retail customers tend to identify Cousins with top-of-the-line quality. We constantly focus on doing the right thing and treating our customers well. This approach has enabled us to build successful long lasting relationships with a number of well-known institutions; IBM and Bank of America are two good examples. Partnerships are a key to our success; for instance, we have two tenants so far at our new office project in Austin, and both of them are partners of ours."

"Cousins has a strong balance sheet relative to the rest of the real estate world. We also have relationships with additional money sources, which enables us to limit the amount of risk associated with any one deal. Our team is actively out there looking for opportunities. Although we haven't seen anything that meets our investment thresholds from the distressed side yet, I really believe that within the next 12 -24 months we are going to see some incredible opportunities."
- James A. Fleming

CEOCFO: How is occupancy these days?
Mr. Fleming: "On the office side we are over 97% leased in our operating properties. It is important to note that over the past several years, real estate asset pricing reached a level that, in our opinion, was not sustainable. For that reason, we sold a very large number of assets from 2003-2006. The total sales price was about $2.8 billion; our share after the joint venture interests was about $2.1 billion. In these properties, we had value creation over undepreciated cost of about $600 million, which we paid to our shareholders as special dividends. The rest we retained to fund new acquisitions and developments. When we sold these properties, we did so with assets that were generally well leased, with rental rates at or above market rates. We kept assets that were not really in a position to be sold, where we either had some vacancy or we had some work to be done on the building or had near term roll-over. Because of this, our office occupancy dropped significantly after the sales. As I said earlier, by the end of last year, our operating office portfolio was back up to 97%; quite a feat for our leasing team. On the retail side, occupancy has fallen some. It dropped from

in the 90% range to 84% at the end of the year, which was largely a function of the Circuit City and Linens N' Things bankruptcies. We have some work to do on the retail side."

CEOCFO: That is typical of the industry now though isn't it?
Mr. Fleming: "It is and retailers are under a lot of stress now. We are watching it very closely, but it is a very difficult time for retailers. Our centers are typically very well located, which hopefully keeps us somewhat insulated from these issues."

CEOCFO: What does Cousins know after all these years that sets you apart?
Mr. Fleming: "Cousins has always been about trying to make money for our shareholders. Cousins has about 30% inside ownership and in a lot of ways we run it like a private company. Cousins is not focused on pleasing the market in the short-term; we are focused on making money in the long-term. This may seem contradictory, but for the same reasons we focus on ways to create value so that we can have higher shareholder returns, we also focus on ways to limit our risks; we are very conservative for a development company. Our capital structure is conservative, our underwriting process is conservative, and that really sums up what we are about at Cousins. If you look back from the beginning, even though 2007 and 2008 were very bad years in terms of the Cousins' stock price and Cousins' return, from inception through the end of 2008 the total shareholder return on a compounded basis is was over 15% per year. We were able to achieve these results because we were opportunistic. We invested in good projects; we sold when it was appropriate to sell. I'm sure we've made some mistakes along the way, but in general things have worked quite well for the company. Our strategy going forward is to continue to do more of the same."

CEOCFO: What is the financial picture like for Cousins today?
Mr. Fleming: "In times like these, it is crucial to have a strong balance sheet with limited loan maturities in the short term. Cousins is in good financial shape with less than $9 million in loans maturing this year and relatively limited maturities in 2010. The credit markets are very tough right now. If you look at what happened in commercial real estate lending, historically the lenders were banks and life insurance companies. Starting in the early 1990's the public markets got involved in commercial real estate finance. The investment banks, the commercial banks and a number of others started originating what are called CMBS (commercial mortgage bank securities) loans that were securitized into the market place. The volume for those CMBS loans averaged about $75 billion a year for the first half of the decade, but then in 2005 to 2007 averaged about $200 billion. In fact, at that level they were about half of the total originations of all commercial real estate loans. By the end of 2007 that market essentially went away and there are virtually no CMBS loans being made anymore. So that left the banks and the life insurance companies. To give you some perspective, CMBS was $230 billion in 2007, life insurance was $40 billion. The banks initially picked up a lot of the slack, but we all know what is happening to the banks. We are in a situation where it is very tough to get any type of financing on a real estate project. If you have a loan that matures in the next couple of years, it is likely to be an issue because underwriting standards have gotten a lot harder. Thankfully, our conservative balance sheet has left us well equipped to handle this downturn."

CEOCFO: In closing, why should investors pay attention to Cousins?
Mr. Fleming: "First, you have to do your own investment analysis, but in general you look at how far stock prices of the public REITs have fallen and it is hard to do the math and understand why they have fallen as much as they have. A lot of the analysts and investors talk about how they value companies and they start by valuing certain assets that they can put a price on readily. They know how much debt is there and then they will back in to what they call an implied cap rate, which is the initial yield you would get on an investment in a real estate asset based on the income in place. So for instance if you pay $100 for a building at a cap rate of 8% you would be getting $8.00 in income that first year. If you bought at a 10% cap rate you would be getting $10.00. Although very few transactions are occurring, cap rates generally are thought to be in the high single digits right now, substantially higher than a few years ago. However, if you look at the public REITs and where they are trading, most analysts will tell you the implied cap rates are in the low teens. Essentially, public REIT stocks have dropped far more in value than their underlying real estate assets. That is one answer, the other is Cousins has a strong balance sheet relative to the rest of the real estate world. We also have relationships with additional money sources, which enables us to limit the amount of risk associated with any one deal. Our team is actively out there looking for opportunities. Although we haven't seen anything that meets our investment thresholds from the distressed side yet, I really believe that within the next 12-24 months we are going to see some incredible opportunities."

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