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Easterly Government Properties

Second Quarter 2017 Earnings Conference Call

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CORPORATE PARTICIPANTS

Lindsay Winterhalter, *Vice President, Investor Relations and Operations*

Darrell Crate, *Chairman of the Board of Directors*

William Trimble, *President, Chief Executive Officer and Director*

Meghan Baivier, *Executive Vice President, Chief Financial Officer and Chief Operating Officer*

CONFERENCE CALL PARTICIPANTS

Jill Sawyer, *Citi*

Michael Lewis, *SunTrust*

Paul Puryear, *Raymond James & Associates*

Jon Petersen, *Jefferies*

Michael Carroll, *RBC Capital Markets*

PRESENTATION

Operator:

Greetings and welcome to the Easterly Government Properties' Second Quarter 2017 Earnings Conference Call. At this time, all participants are in a listen-only mode. A brief question-and-answer session will follow the formal presentation. If anyone should require Operator assistance during the conference, please press star, zero on your telephone keypad. As a reminder, this conference is being recorded.

It is now my pleasure to introduce your host, Lindsay Winterhalter, Vice President of Investor Relations. Thank you. You may now begin.

Lindsay Winterhalter:

Good morning. Before the call begins, please note the use of forward-looking statements by the Company on this conference call. Statements made on this call may include statements which are not historical facts and are considered forward-looking. The Company intends these forward-looking statements to be covered by the Safe Harbor provisions for the forward-looking statements contained in the Private Securities Litigation Act Reform of 1995 and is making this statement for the purpose of complying with those Safe Harbor provisions.

Although the Company believes that its plans, intentions, expectations, strategies and prospects, as reflected in or suggested by those forward-looking statements are reasonable, it can give no assurance that these plans, intentions, expectations or strategies will be attained or achieved. Furthermore, actual results may differ materially from those described in the forward-looking statements and will be affected by a variety of risks and factors that are beyond the Company's control including, without limitation, those contained in Item 1A Risk Factors of its Annual Report on Form 10-K for the year-end December 31, 2016, filed with the SEC on March 2, 2017, and in its other SEC filings.

The Company assumes no obligations to update publicly any forward-looking statements whether as a result of new information, future events, or otherwise.

Additionally, on this conference call, the Company may refer to certain non-GAAP financial measures such as funds from operation and cash available for distribution. You can find a tabular reconciliation of these non-GAAP financial measures to the most comparable current GAAP numbers in the Company's earnings release and separate supplemental information package on the Investor Relations page of the Company's website at ir.easterlyreit.com.

I would now like to turn the conference call over to Darrell Crate, Chairman of Easterly Government Properties.

Darrell Crate:

Thank you, Lindsay. Good morning everyone and thanks for joining the second quarter conference call. Today, in addition to Lindsay, I'm joined by Bill Trimble, our CEO, and Meghan Baivier, our CFO and COO.

We're pleased with the Company's performance for the first half of 2017. We continue to deliver strong and consistent financial results, as well as to make meaningful progress in advancing our strategic goals for the year. The Team continues to apply and enhance its definable edge in identifying, underwriting, and servicing a portfolio of buildings leased to and backed by the full faith and credit of the United States Government.

Bill and the Team continue to chart a path for sustained earnings growth through the successful re-leasing, acquiring, and developing of mission-critical facilities. Additionally, we've made great progress in advancing our strategic objective. Easterly has positioned its balance sheet to provide strong support for its growth. Meghan and the Team have diversified the sources of capital by cultivating investors in the private placement market and the secured debt market. This has resulted in the Company delivering FFO growth while also meaningfully extending the duration of its liabilities to just under nine years.

We don't pretend to know the direction of interest rates, but with our liabilities having a longer duration than our leases, we are comfortable that any movements in rates will not have a material impact on our enterprise value. We've also made strong progress in scaling the Company. With the purchase of Loma Linda, we grew enterprise value, increased our diversification, and enhanced our posture with the VA, an agency targeted for future development projects.

Lastly, Mike and his Team have made meaningful strides in building the pipeline of development opportunities that will serve us well for the next several years. Development opportunities are not only accretive as we add real value to both the Government and our Shareholders, but they also give us longer valuable leases, many being 20 years in duration, which provides earnings stability and additional opportunities to be opportunistic in managing our liabilities. We very much look forward to a strong finish to the year and growth in 2018.

With that, I'll turn the call over to Bill to provide color on the initiatives at Easterly that drive Shareholder return.

William Trimble:

Thanks, Darrell, and good morning. I would like to begin by highlighting the Company's achievements in the second quarter of 2017.

We were very pleased to close the 327,000 square foot Loma Linda California Department of Veterans Affairs Ambulatory Care Center which, when combined with our other properties, represents a portfolio of 3.5 million square feet comprised of 45 buildings, of which over 97% of its annualized leased income is derived from the full faith and credit of the United States Federal Government.

VA Loma Linda is truly a one-of-a-kind premiere asset in the VA health system. Located just two miles from the Federally-owned VA hospital, this brand-new ambulatory care facility, which is the second largest of its kind in the country, sits on a 37-acre campus, is surrounded by over 2,000 parking spaces, and addresses the outpatient needs of the surrounding 72,000 veterans in the region. The facility employs approximately 500 VA health professionals and provides 50% of VA Loma Linda's outpatient visits for the region. Services provided within the Loma Linda Ambulatory Care Center include primary care, women's health, dental imaging, employee health, and blood draw services. The facility carries an initial 20-year non-cancelable lease with the VA which will not expire until May of 2036.

As we mentioned on the first quarter call, Easterly's also under contract to acquire a second VA outpatient facility that is located just outside of South Bend, Indiana and is just finishing up construction. The VA South Bend Outpatient Clinic is very similar to VA Loma Linda, but on a smaller scale of 86,000 square feet. This facility is expected to employ 190 VA health professionals and provide outpatient services to the many veterans surrounding the region. The VA estimates the facility will see 12,000 patients in its first year of operation, 14,000 patients in its second year of operation, and 16,000 patients in its third year of operation. The services that are expected to be provided at VA South Bend include primary care, mental health care, audiology, optometry, radiology, cardiology, pulmonology, podiatry, urology, and gastrointestinal endoscopy.

When construction is complete, which we expect will occur in the third quarter of this year, this outpatient facility will be leased to the VA for an initial 15-year non-cancelable term. Once the VA South Bend acquisition is complete, Easterly will own two new state-of-the-art Class A VA outpatient facilities totaling a combined 414,000 square feet of leased space, all backed by the full faith and credit of the U.S. Government.

These two mission-critical facilities fall within a very important Department of the U.S. Government. In fact, it is the second largest Department in the Federal Government in terms of total appropriation and staffing. Because these leases are done under the delegation of GSA Leasing Authority, while rent payments are made by the VA, GSA and its Federal Buildings Fund serve as the guarantor of the VA's monetary obligations, and, as a reminder, the Federal Buildings Fund is not subject to direct appropriations. For these reasons, you can expect to see the Company continue to target these select newly constructed VA outpatient facilities located throughout the country.

Turning to development, in the second quarter, our Company announced the lease award for the development of a 52,870 square foot Food and Drug Administration laboratory in Lenexa, Kansas, located just outside of Kansas City. This exciting project, which will be led by Mike Ibe and his Team, will be a relocation of the current Kansas City district laboratory, one of 13 critical laboratories for the FDA located strategically throughout the country. This brand-new state-of-the-art facility will be approximately 40% larger than the lab it is replacing and will feature highly specialized and specific designed features and functionality for the needs of the FDA for decades to come.

The laboratory will be fully equipped to perform the chemical analysis of food and drugs regulated by the agency, which heavily contributes to the FDA's overarching mission of protecting and promoting the health and safety of the American public. Joined by our currently under construction 66,000 square foot FDA laboratory in Alameda California, the Company is deepening its relationship with the U.S.

Government now marking two active development projects with the GSA for the beneficial use of the Food and Drug Administration.

Our acquisition and develop teams are constantly sourcing new high-quality opportunities that mirror our average portfolio building size as well as larger facilities that we would feel would be value-enhancing addition to the portfolio and drive FFO growth. We have a strong pipeline of accretive bullseye opportunities in the $20-$40 million range and have identified properties of larger scale as well. As was demonstrated with the VA Loma Linda acquisition, the large-scale buildings, while still accretive, provid important scale of the Company. Facilities of this type also provide greater visibility to the agencies that advance our relationship and future standing for development projects. Using this enhanced visibility, our Team also remains active in responding to mission-critical bullseye build-to-suit opportunities for the U.S. government. These non-speculative Class A facilities carry attractive lease terms with a stable and dependable cash flow backed by the full faith and credit of the U.S. Government.

Turning to Asset Management, we're pleased to announce our Team has renewed our lease at the DEA secured evidence storage facility located in San Diego California. Folks on this call have likely heard me talk about our acquisition and development market, which we've referred to as the bullseye. But please allow me to spend a little time talking about the importance of the bullseye from a releasing perspective.
To reiterate, our target market includes buildings leased to a single tenant of the U.S. Federal Government. They're often the result of a design build award and are usually over 40,000 square feet in size. As a building of this nature is occupied by the right tenant, fulfilling the right mission and meets the tradition of real estate underwriting requirements, then we will evaluate a potential acquisition. From a releasing perspective, all of the elements just mentioned are of critical importance.

Now, turning to the details of this quarter's renewal, we're pleased to report that this facility has been renewed for another 15 year / 10 year firm term. Our Asset Management Team negotiated a lease renewal with the GSA and achieved an estimated 25% increase. This renewal spread matches our previously stated belief that mission-critical build-to-suit facilities like this should receive lease renewals in the high teens to low 20s.

Finally, our Asset Management Team is currently working on a number of value-added projects to our existing portfolio. Easterly is actively engaged in 14 tenant-funded projects valued at roughly $3 million, with an additional $2 million in contemplative projects currently in discussion with the various tenant agencies. An example of a current government funded improvement project can be found at our United States Forest Service headquarters in Albuquerque New Mexico. Here, the Forest Service is looking to align and consolidate functions into our two buildings, co-located alongside one another. The Team is working with a regional architect to facilitate the design and reconfiguration of the facility. The tenant anticipates another 50 to 100 new government employees will be relocated to our buildings, which will be achieved through shrinking work station sizes and rearranging some of the locations of the key functions for greater efficiency. While still in the design stage, this project is estimated to cost roughly $450,000, fully funded by the government, and will take place over the course of the next 6 to 8 months.

Thank you all for your time this morning. I'll now turn the call over to Meghan for discussion of the quarterly results and earnings guidance.

Meghan Baivier:

Thank you, Bill. Today I will touch upon our current portfolio, discuss our second quarter results, provide an update on our balance sheet, review our earnings guidance, and cover this quarter's capital markets activity. Additional details regarding our second quarter results can be found in the Company's Second Quarter Earnings Release and supplemental information package.

As of June 30th, we owned 45 operating properties comprising approximately 3.5 million square feet of commercial real estate. The weighted average remaining lease term for our portfolio was 6.8 years. The average age of our portfolio was 12.1 years, and our portfolio occupancy remained at 100%. In addition, over 97% of our annualized lease income is backed by the full faith and credit of the United States Government.

For the second quarter, FFO per share on a fully diluted basis was $0.31. FFO as adjusted per share on a fully diluted basis was $0.29, and our cash available for distribution was $11.4 million. GAAP measures and reconciliations to GAAP measures have been provided in our supplemental information package.

For the 12 months ending December 31, 2017, the Company is reiterating its guidance for FFO, $1.25 to $1.29 per share on a fully diluted basis. This guidance assumes acquisitions of $350 million in 2017, including the OSHA Sandy acquisition completed the first quarter 2017, the VA Loma Linda acquisition completed in the second quarter of 2017, as well as the announced VA South Bend acquisition with an anticipated closing date in the third quarter of 2017 and does not contemplate any dispositions. This guidance is forward-looking and reflects Management's view of current and future market conditions. The Company's actual results may differ materially from this guidance.

Turning to the balance sheet, at quarter-end the Company had total indebtedness of $549.4 million, which was comprised of $68 million outstanding on our unsecured revolving line of credit, $100 million outstanding on our unsecured term facility, $175 million of senior unsecured notes, and $206.4 million of mortgage debt. Availability on our line of credit stood at $332 million.

As of June 30th and pro forma for the full physical settlement of our outstanding forward equity sales agreement, and a full quarter of operations from the VA Loma Linda, Easterly's debt to total enterprise value was 30.2% and its net debt to annualized quarterly EBITDA ratio was 5.6 times.

On May 31, 2017 the Company announced the completion of $175 million private placement of senior unsecured notes. The fixed-rate notes were issued in three tranches, $95 million with an interest rate of 4.05% maturing in May 2027, $50 million with an interest rate of 4.15% maturing in May 2029, and $30 million with an interest rate of 4.3% maturing in May 2032. The weighted average maturity of the notes of June 30th was 11.3 years and the weighted average interest rate is 4.12%.

Further, on June 29th, the Company announced the closing of $127.5 million, 3.59% fixed interest only mortgage financing on the Department of Veterans Affairs Ambulatory Care Facility in Loma Linda California. This ten-year non-amortizing loan matures in July 2027. These two capital markets activities meaningfully extended the average maturity of the Company's liabilities and shifted its ratio of fixed versus floating rate debt.

At June 30th, the weighted average maturities of the Company's debt was 6.7 years and it's debt was 85% fixed and 15% floating. The Company believes the strength of the execution on both its private placement senior notes and the VA Loma Linda mortgage speaks to the superiority of the Company's portfolio and the high credit quality of its underlying tenant, the U.S. Government.

Finally, as previously announced last week, our Board of Directors declared a dividend related to our second quarter of operations of $0.25 per share. This dividend will be paid on September 28, 2017 to shareholders of record on September 13, 2017.

I will now turn the call back to the operator for questions.

Operator:

Thank you. We will now be conducting a question-and-answer session. If you would like to ask a question, please press star, one on your telephone keypad. A confirmation tone will indicate your line is in the question queue. You may press star, two if you would like to remove your question from the queue. For participants using speaker equipment, may be necessary to pick up your handset before pressing the star keys. One moment please while we poll for questions.

Our first question comes from the line of Manny Korchman with Citi. Please proceed with your question.

Jill Sawyer:

Hey. Good morning, everyone. It's Jill Sawyer here in for Manny. I'm just wondering your read on the FBI scrapping plans to build a headquarters and how you're approaching discussions in given the likelihood of the Bureau renewing their expirations in your portfolio.

William Trimble:

Sure. Good morning. First of all, it's Bill Trimble. It was not surprising that the headquarters got changed, I think the temperature was getting a little hot in Washington with the various groups that were even perhaps related to the President on the construction of the project. This is a project that will go through eventually and that's the headquarters as the existing Hoover Building is basically a 1960s, as you know, facility downtime, and it's a very expensive, several billion-dollar project going forward.

We view this actually as a positive for our portfolio as it only means that our new start of the art FBI facilities are going to be housing the current FBI folks for literally generations to come. The first one that's up for us is the FBI facility in Albany next year. We have a terrific relationship with SAC and all the folks in that facility and are confident in its renewal. So, we believe that as they continue to plan to build the new headquarters facility, it's only going to remove resources from the FBI if they ever wanted to move some of their field offices. So I think they stay in place, not a surprise to us.

Jill Sawyer:

Okay. Great. Thanks for that. Just one more for me. Also your preliminary read on the GSA's newly appointed building services commissioner, Dan Matthews

William Trimble:

Yes. Basically Dan has been a longtime Hill staffer with 20 year career the House T&I Committee which basically overseas every we do. I think with his terrific background, he's going to be quite adept with work in Congress and I think you can get the GSA prospectus projects quickly and efficiently, including leases. His focuses are government utilization rates, something, I think, he's very much the center, which is basically square feet per person, and the disposal of underutilized Federally owned properties, which they have lots of, an abundance of, and a lot of spaces throughout the United States. In other words, leasing is the most efficient form going forward and I think he's a real believer in that. I think basically his presence with the Public Building Service, which of course is the division of the GSA that we're concerned with, pretty much maintains what we say perennial drumbeat from his prior Republican and Democratic administrations basically on continuing to move towards a more efficient and economic operating stance going forward, which would very much, comport with what DEA is looking to do.

Jill Sawyer:

Great. Thanks, Bill.

William Trimble:

Sure.

Operator:

Our next question comes from the line of Michael Lewis with SunTrust. Please proceed with your question.

Michael Lewis:

Good morning. Thank you. It looks like you've got about,--so you have three DEA leases set to expire this year. It sounds like maybe you already addressed the one in San Diego. Then four expirations next year, including the IRS in Fresno, which is fairly large. Is there anybody in this group, this year or next year, that you think may not renew? Then also, is there anybody there that stands out from a mark-to-market perspective outside of that normal range that you gave earlier?

William Trimble:

I'm going to make this simple. No.

Michael Lewis:

No one both?

William Trimble:

Yes. Were very much bullseye properties, and of course, we're already in discussions on all of those properties we're very sanguine about the renewal.

Michael Lewis:

Okay. Then on the acquisition guidance, correct me if I'm wrong here, it looks like if you add up the three that are basically locked after you closed the third quarter one, it doesn't quite add up to the $350. So are you assuming another acquisition in there this year? Then, how highly variable do you think that guidance is? You put a range out there, but would you say the odds of being over or under that range are highly variable or you have a pretty good visibility at this point?

William Trimble:

Mike, I'll let Meghan go through the numbers, but I can tell you we have a very robust pipeline and as you've seen since basically even in our private equity days, we like to deliver consistent growth through accretive acquisitions and also opportunistic development, obviously and no risk, as we don't do it unless we have the property already signed for. But I will say that we are very confident that there will be terrific announcements, terrific properties continuing for years to come. We don't go to sleep just because it's August and we're looking forward to some great announcements in the future. Meghan?

Meghan Baivier:

Michael you're correct on your question that there is obviously some additional acquisitions assumed in the remainder of the $350 for this year in addition to the three that we've either completed or announced.

Michael Lewis:

Okay. I have just one more. No dispositions in guidance, obviously, you don't need any, obviously, with the funding that you have. But I'm curious, when you think might be the right time to sell some of these non-core properties? That cost of capital may or may not be attractive, but, for example, you have this Cosmetics Company, I think, expiring in Florida the next few months. Do you sell, we are sharing hope and Pratt & Whitney now while they still have four to seven years left on the lease or do you feel comfortable kind of being patient there?

William Trimble:

Well, I think it's a great question. Obviously, it's something we have thought of since we took on our first part of a portfolio non-GSA bullseye properties. So, of course, we are looking at ways to drive our portfolio to 100% full faith and credit. I think we're iat 97.5%, I'm sorry about the 2.5%, but I think one of my jobs is to make sure we can do that in an efficient way, but I think that is a good idea and I think it's something we'll be look forward to executing on certainly in the months and years to come, to drive it towards 100%.

Michael Lewis:

All right. Thanks, guys.

Operator:

Our next question comes from the line of Paul Puryear with Raymond James. Please proceed with your question.

Paul Puryear:

Thank you. Good morning. A couple of questions. Bill, would like to have your comments on what's taking place in Washington generally. Is all the turmoil affecting any of the other agencies that you're targeting?

William Trimble:

I would say that there is so much turmoil that there isn't turmoil, if that makes sense. I'm not an expert. We see 24/7 news talking about some issues I think in Washington right now. I think from a standpoint of the GSA; however, we're seeing, I think, some very steady hands on the helm. Certainly the regional GSA headquarters, which we deal with mostly on the non-prospectus leases, are continuing to sail on and we aren't seeing any issues. Obviously we've been—we've won two new development awards and they continue to move on track. We're not obviously looking to expand any exposure to non-gun toting agencies, I think is fair, or unless that agency and the specific hierarchy of mission of the building has such an overriding reason that we want to own it, that we will. So we're really keeping to our knitting, but from our standpoint, things seem to be getting done and being executed, and so we don't see any problems at this point.

Paul Puryear:

Are you seeing anyone else get into this market against you, any other sources of capital coming in to buy these assets?

William Trimble:

Not particularly. We don't see anybody from the public side at all. From the standpoint of a larger elephant trophy hunting size properties, obviously you're dealing with an international clientele as well. These are, I mean, there's no mystery with these properties are worth to international buyers, sovereign wealth funds and insurance companies—the VA Loma Linda's. But from a standpoint of the middle market where we spend most of our time and frankly most of our pipeline resides, there are several private equity players that dependent on whether they've raised capital or whether they're doing their job from an acquisition standpoint, we will occasionally see. On the lower end of the size, I'm thinking like $10 million to $15 million, you're going to see more syndicators. I mean, we don't tend to really meddle in that area particularly, so I really would say really, really no change and, of course, the overriding thing is that basically 85% of what we've purchased has been purchased from the actual developer/owner of the property. So were doing it off market.

Paul Puryear:

Terrific. Thank you.

Operator:

Our next question comes from the line of Jon Petersen with Jefferies. Please proceed with your question.

Jon Petersen:

Great. Thanks. On the FDA lab, you obviously had the one in Lenexa, Kansas going up right now. Curious, I think they have, what, 12 or 13 of 14 labs in different districts across the country. Can you just talk about kind of the greater opportunity there to help the FDA develop new labs and, and I don't know if there's certain markets where that's more of a near-term than others.

William Trimble:

Sure. I will say that the first one are the constructions in the Bay Area, which is the Alameda laboratory. The second one that we were just awarded is Lenexa and they are incredibly important facilities to the FDA. I would say that a shot out to our head of development Mike Ibe, who has a tremendous decades-long career in building not only secured build-to-suit facilities, but particular expertise in the laboratory space that is not lost on the government. So I think we're a very attractive partner of choice when it comes to these high-end laboratories, and so you can be rest assured that we will be out there as RFPs are issued as some of these other laboratories need to be refreshed or changed or hopefully new. You will see Mike Ibe and has incredible Team obviously bidding on those projects, and so I do think that is an opportunity going forward, yes.

Jon Petersen:

Okay. Then obviously, the current administration is really big on controlling immigration and increasing border patrol agents. Do you have some opportunity there? I know you have some in your portfolio, but we have 5,000, 10,000 more border patrol agents. Does that create any opportunities for Easterly or not really because they're kind of in (inaudible)?

William Trimble:

Sure. I mean I guess it's not lost on us if the business is up at CBP. So we tend to concentrate more on the facilities off of the border so that we're not seeing the wild swings as you could have one administration add a lot of people and the next administration cut back. Sort of more in the headquarters range. But having said that, we do have an important CBP facility on the northern border on the only 24 hour crossing in Montana and connects basically Los Angeles, Salt Lake City with Edmonton and Calgary. So that facility is obviously working hard. We want to make sure that if we were ever to do a new one or to buy an existing property, that there'd be no problems with not being able to expand that property. So, I'd say it's terrific from a standpoint as these gun toting agencies are being fully funded, as we've mentioned before, 63% of our properties fall within the zone, so I think you're going to see more Asset Management projects, projects where the Federal Government is enhancing our facilities at their costs going forward. But opportunities always abound and our developing Team will look at something if we think there's going to be a look at 20 or 30 year mission for that building.

Jon Petersen:

Great. That's all for me.

Operator:

As a reminder, if you would like to ask a question, press star, one on your telephone keypad.

Our next question comes from the line of Michael Carroll with RBC. Please proceed with your question.

Michael Carroll:

Yes. Thanks. Bill, sorry if I missed this. Can you give us some additional color on the renovation project in Albuquerque that you are kind were kind of mentioning? Is this is going to be kind of expanding the building and do you have an idea of what the expected budget of that project for that will be?

William Trimble:

Yes. As mentioned, I think the facilities, just to refresh everybody on these two buildings, they're gorgeous, they were build-to-suit, two facilities located in one of the most handsome office parks in Albuquerque New Mexico. It serves as the National Operation Center for the Forest Service, which basically handles 198 million acres of land. So, really important. Surrounding those facilities were a number of smaller leased assets, including the facility that handles all the firefighting budgeting and so forth that control for the country. What we've seen with our facilities, there's going to be no change, Michael, to the actual footprint of either one of the buildings, but the space utilization is going to go up and, and as I mentioned, it's about a $450,000 project going forward. But were seeing these sorts of things, especially in our newer buildings, and again, they do have that room sort of for expansion which we think are important. As we go forward, that's why we have, I think, one of, certainly the youngest portfolio out there, which we think is really important. So these buildings will be able to serve the mission and the expanding mission of these agencies to come.

Michael Carroll:

Is the tenant making that investment to the properties?

William Trimble:

Yes. Yes.

Michael Carroll:

Okay. Then can you give us an update on, I guess, the VA-type properties that you're tracking out there right now. Is there anything in the marketplace that's really interesting that you would expand and exposure are you think are done for a while after the Loma Linda and the South Bend acquisitions?

William Trimble:

Well, I think we've said there's $3 billion to $4 billion of opportunities in 50 properties, so, we've got 48 left, Michael, that will get busy on. So, not only in development but also in acquisition. Basically, we've seen a real sort of watershed event as this new $62 billion 10-year project with the VA project to refresh, enhance and develop new facilities so that our 22 million servicemen and women can be properly taken care of. So this whole new initiative is basically bearing a lot of fruit. We're looking at a lot of opportunities there as well and again that goes back to why we're so confident in our pipeline going forward.

Michael Carroll:

Okay. Great. Thank you.

Operator:

Thank you. It appears we have no further questions at this time. Would now like to turn the floor back over to management for closing comments.

Darrell Crate:

Great. Thank you very much, everyone for joining the Easterly Government properties on our second quarter 2017 earnings call. We look forward to discussing the second half of 2017 and delivering strong results for the coming year and years to come.

Operator:

Ladies and gentlemen, this does conclude today's teleconference. You may disconnect at this time. Thank you for your participation and have a great day.

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