



Easterly Government Properties, Inc.
Third Quarter 2018 Earnings Conference Call
November 5, 2018

C O R P O R A T E P A R T I C I P A N T S

Lindsay Winterhalter, *Vice President, Investor Relations*

Darrell W. Crate, *Chairman of the Board of Directors*

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

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

C O N F E R E N C E C A L L P A R T I C I P A N T S

Michael Lewis, *SunTrust Robinson Humphrey, Inc.*

Manny Korchman, *Citigroup*

Michael Billerman, *Citigroup*

P R E S E N T A T I O N

Operator:

Greetings, and welcome to the Easterly Government Properties Third Quarter 2018 Earnings Conference Call. At this time, all participants are in a listen-only mode. A question and answer session will follow the 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.

I would now like to turn the conference over to Lindsay Winterhalter, Vice President, Investor Relations. Thank you. Please go ahead.

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 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 ended December 31, 2017, filed with the SEC on March 1, 2018, 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 W. Crate:

Thank you, Lindsay. Good morning, everyone, and thank you for joining us for the third quarter conference call. Today, in addition to Lindsay, I'm also joined by Bill Trimble, the Company's CEO, and Meghan Baivier, the Company's CFO and COO.

Through the third quarter of 2018, Easterly remained focused on its strategic goals, to first achieve long-term distributable cash flow growth backed by the full faith and credit of the U.S. government, along with value creation through the releasing acquisition and development of mission-critical facilities leased to the United States government, and second, to scale the business through the acquisition and development of high-quality accretive assets, which enables us to reduce risk through diversification and also achieving the lowest cost to capital for our investors.

The third quarter of 2018 has been the single largest quarter of acquisition activity for the Company since IPO. In September, we closed on eight of the 14 properties in the previously announced Saban portfolio, and subsequent to quarter end, we closed on another three of these properties. This brings our 2018 closed acquisition volume to \$362 million, and we expect to complete the year at a total of \$540 million in accretive deals.

The Acquisition Team has demonstrated its definable edge in the ability to source and execute on accretive mission-critical facilities that match our strict investment criteria. We are firmly focused on accretive growth and scaling the Easterly platform and look to achieve both without diluting the pristine nature of our portfolio.

The acquisition of the Saban portfolio this year introduces the Company to several new important mission-critical agencies within the United States federal government. To date, in 2018, primarily through the Saban acquisition, we have materially scaled the Company, growing the Company's enterprise value by nearly 20% and increasing the Company's float by nearly one-third, while remaining true to our stated bullseye acquisition strategy.

During a time of rising interest rates, we believe our fixed rate debt structure and our seven years of debt maturity, which exceeds 6.8 years of the portfolio's average remaining lease terms, helps us insulate us from future earnings volatility and preserves equity value. This protection, coupled with 99% of our annualized lease income backed by the full faith and credit of the U.S. government, we believe makes Easterly a safe haven for investors in times of potential uncertainty.

As we look ahead, we're going to continue to curate our portfolio by placing incremental, and potentially recycled, capital into the agencies where we have the most insight and where we can become an even stronger private partner to the United States government.

In closing, I'd like to thank our team for their hard work and thank our shareholders for their partnership as we work to complete 2018 and start generating value in 2019.

With that, I will turn the call over to Bill to provide color on the initiatives at Easterly that are driving shareholder return.

William C. Trimble:

Thanks, Darrell, and good morning. Thank you for joining us for our third quarter earnings call. As Darrell mentioned, the third quarter of 2018 was a quarter of significant growth for Easterly. In this quarter, we successfully closed on eight of the 14 properties previously announced as part of the Saban portfolio acquisition. As a reminder, this portfolio has a combined acquisition value of \$430 million and is comprised of high-quality assets that closely mirror the profile of our existing portfolio. This acquisition equates to approximately 1.5 million square feet of rentable space, 99% of which is leased with a weighted average lease expiration year of 2022. Additionally, 79% of the assets were build-to-suit construction, meaning the design and functionality of the building was constructed to meet the specific needs of the underlying tenants. Further, these assets significantly scale the portfolio in an accretive manner and increase Easterly's already strong relationship with the U.S. federal government. With this portfolio, Easterly will now meet the leased real estate needs of 31 different U.S. government tenants. As mentioned, we have closed on 11 of the 14 properties to date and we still expect to complete the acquisition of the remaining three assets prior to the end of 2018.

You may recall the portfolio acquisition is one we have been watching and anticipating since prior to IPO. We feel we were the natural buyers for this portfolio given our distinct ability to underwrite these assets and monitor the missions being fulfilled in each asset. We have been pleased with our ability to seamlessly integrate these new assets into our portfolio and materially scale the Company, while remaining efficient in our staffing needs. We believe that years from now, when we look back at 2018, we will see this as the year that materially scaled the Company and really demonstrated our ability to drive long-term growth through accretive acquisitions.

While 2018 may be marked by the acquisition of this 14-property portfolio, it is by no means the only acquisition activity of this year.

With that, I'm excited to announce the upcoming acquisition of a modern Class A laboratory, 100% leased to the GSA and occupied by the DEA, located in Upper Marlboro, Maryland. This 50,978 square foot laboratory serves as the DEA Mid-Atlantic regional laboratory, one of the DEA's seven regional and two specialized laboratories located strategically throughout the country. This laboratory provides scientific, technical and administrative support to various law enforcement and intelligence communities. This state-of-the-art, mission-critical facility was constructed in 2002, and is still in its initial 20-year lease term, which expires in 2022. With this acquisition, and the pending acquisition of the DEA's Sterling laboratory, the Company will now have five highly technical laboratories occupied by the DEA. Having both developed and acquired laboratories leased to the DEA in the past, we believe we are well poised to become even stronger partners with this extremely important agency within the federal government.

Acquisitions like DEA Upper Marlboro are what we like to refer to as the Company's "bread-and-butter" acquisitions. These are single targeted properties that fit squarely within the Company's bullseye acquisition strategy. Properties like these fulfill mission-critical functions for extremely important bureaus, departments or agencies within the U.S. federal government. In this situation, short-term lease roll provides an excellent potential to capture significant re-leasing spreads.

Our pipeline remains robust as Easterly continues to evaluate opportunities and pursue our pipeline of actionable deals. We continue to see ample opportunity to grow in this highly fragmented market and acquisitions like DEA Upper Marlboro highlight the continued ability to source and execute on accretive transactions.

Turning to development, I'm pleased to report we have substantially completed the work at our FEMA Tracy site and have started receiving rent checks from the U.S. government as of October 1. Mike Ibe, Vice Chairman and Head of Acquisitions and Development, is a seasoned developer with decades of experience in federal leased assets, and his skill in this unique business was really well demonstrated in this project. Recall, we took over the project from another developer who had won the lease award from the GSA. Our understanding of this requirement for completion of this project allowed us to relieve the developer and apply our skill set to ultimately deliver this project on time and on budget.

We also continue to make meaningful progress at our two other development sites. FDA Alameda is still expected to deliver in the fourth quarter of 2019, and FDA Lenexa is still expected to deliver in the second quarter of 2020. As a reminder, these non-speculative development projects provide for great opportunities to seek increased yields on brand new facilities with long-term lease expirations. We continue to monitor potential development opportunities that would closely mirror the strict set of underwriting requirements we maintain for our select portfolio.

Turning to lease renewals, we were pleased to report that, subsequent to quarter end, Easterly successfully renewed the lease at the Patent and Trademark Office located in Arlington, Virginia. The renewal bidding process was highly competitive and Easterly was successful in executing a lease with the federal government for a new 15-year firm term that runs through January 2035. The larger of our two existing leases with the PTO will be extended to January of 2020, making it coterminous with the existing smaller lease, and one new lease for the entire PTO occupancy will then commence. The PTO will continue to occupy the same footprint in the building and continues to make investments into the facility at the tenant's expense. I would like to thank our Asset Management Team for their tireless effort and successfully navigating the re-leasing process with the GSA. We are very excited to remain partners to such an important agency within the federal government.

2018 has seen the renewal of two of our larger assets, IRS Fresno and PTO Arlington, which equates to a combined total of just over 370,000 square feet of rental space or 8.4% of the total annualized lease income as of September 30. While these assets are extremely valuable to the underlying tenants, they fall on the plain-vanilla office end of the spectrum. Because of this designation, local office market leasing conditions matter much more to the outcome of a renewal than what we call our bullseye properties. Due to the location of these two plain-vanilla facilities, Fresno, California, and Northern Virginia, we are not in a position to command bullseye-like renewal spreads. While we have not yet finalized the government's usage of its TI allowance on these renewals, you can expect to see a potential rent reduction of approximately 5% in the case of IRS Fresno and 25% in the case of PTO Arlington. We were very happy to keep these tenants and maintain our 100% leased portfolio. Both of these buildings have emphasized to us the value of adhering to the bullseye acquisition strategy, as we have done since IPO. Only highly specialized build-to-suit facilities allow us to negotiate renewals based upon replacement cost at the time of lease renewal, rather than local market rents. With these two renewals completed, we have maintained our tenant occupancy under the new 15-year leases in both cases and we will continue to adhere to this market knowledge going forward as we pursue future assets down the road.

Further, you've heard me address the short-term leasing activity for the 14-property Saban portfolio in the prior quarter call and I'm pleased to report we've only received good news with regard to leasing thus far. The GSA has reaffirmed its commitment to its Clarksburg location and exercised its pre-negotiated five-year renewal option for the 63,750 square foot fully occupied facility, thus extending the lease to January of 2024. This was an anticipated event by our team and we look forward to continuing to develop our relationship with the federal government in Clarksburg.

With that, let me reiterate just how comfortable we are with this portfolio. When bidding, the team underwrote each of these properties appropriately with a very strong understanding of the strength of their tenancies. You will continue to see us focus on the portfolio's renewals and work to drive additional value through extended lease terms and increased U.S. government cash flows.

Finally, on the subject of recycling capital, when the time is right we will be selling assets. I will say we are always assessing that optionality as we strive to cultivate a portfolio of assets that meet our bullseye investment criteria. If we see an opportunity, we will not hesitate to pursue that prospect and further refine our portfolio to center around our strict investment criteria.

In conclusion, our Company is successfully enhancing value through long-term lease renewals, growing through accretive acquisitions, and beginning to generate cash flows at attractive yields from our completed development projects. Furthermore, our pipeline of future growth opportunities remains robust.

With that, I thank you for your continued support and partnership, and your time on this call today. With that, I will also turn the call over to Meghan to discuss the Company's quarterly financial results.

Meghan G. Baivier:

Thank you, Bill. Today, I will review our current portfolio, discuss our third quarter results, provide an update on our balance sheet, discuss our 2018 guidance and introduce our 2019 guidance. Additional details regarding our third quarter results can be found in the Company's third quarter earnings release and supplemental information package.

As of September 30, we owned 56 operating properties comprising approximately 4.8 million square feet of commercial real estate, with an additional 340,000 square feet under development. The weighted average remaining lease term for our portfolio was 6.8 years, the average age of our portfolio was 15.8 years, and our portfolio occupancy remained at 100%. In addition, 99% of our annualized lease income was backed by the full faith and credit of the United States government.

Pro forma for the recently substantially completed FEMA Tracy development project, for the announced future acquisition of DEA Upper Marlboro, and for the closing of the remaining three Saban portfolio properties, Easterly will own 64 operating properties comprising approximately 5.5 million square feet. The pro forma weighted average remaining lease term for our portfolio would be 7.1 years and the average age of our portfolio would be 13.3 years.

For the third quarter, net income per share on a fully diluted basis was \$0.04, FFO per share on a fully diluted basis was \$0.27, and FFO as adjusted per share on a fully diluted basis was \$0.24, and our cash available for distribution was \$13.7 million. GAAP measures and reconciliations of these non-GAAP measures to GAAP measures have been provided in our supplemental information package.

Turning to the balance sheet, at quarter end, the Company had total indebtedness of \$670 million, which was comprised of \$33 million outstanding on its unsecured revolving credit facility, \$250 million outstanding on its 2018 and 2016 senior unsecured term loan facilities, \$175 million of senior unsecured notes, and \$212 million of mortgage debt. Availability on our revolving line of credit stood at \$417 million. As of September 30, Easterly's net debt to total enterprise value was 33% and its net debt to annualized quarterly EBITDA ratio was 7 times. Net debt to annualized quarterly EBITDA on a pro forma basis for a full quarter of operations from the nine acquisitions completed in the third quarter was 6 times.

For the 12 months ending December 30, 2018, the Company is narrowing its range of guidance for FFO per share on a fully diluted basis to \$1.17 to \$1.20. This guidance is based on the Company completing the approximately \$540 million of acquisitions announced to date this year. With respect to the Saban portfolio, the Company closed on \$244 million of acquisition volume in the third quarter of 2018, another \$33 million of acquisition volume in October, and anticipates the remaining \$153 million in the final quarter of 2018. The Company's guidance further assumes \$50 million to \$75 million of development-related investments during 2018.

The Company is also introducing its 2019 guidance of FFO per share on a fully diluted basis in a range of \$1.16 to \$1.20. This 2019 guidance assumes \$200 million of acquisitions and \$75 million to \$100 million

of gross development-related investments during 2019. The Company's 2018 and 2019 FFO guidance is forward-looking and reflects Management's view of current and future market conditions.

As I touched on last quarter, the year-over-year comparison between our 2019 and 2018 guidance for FFO per share on a fully diluted basis may confuse some investors regarding the economic strength and cash generating power of our business. With the expiration of significant in-place leases at IRS Fresno and PTO Arlington, in 2019, there are positive non-cash adjustments to revenue which will cease. In 2019, specifically, revenue, and thus FFO per share on a fully diluted basis, faces a non-cash headwind of \$2.5 million related to the cessation, or completion, of the amortization of lease-related assets and liabilities. This \$2.5 million will negatively impact our year-over-year FFO comparison, yet has no bearing on the Company's distributable cash flow, the metric upon which, as Management, we are most highly focused.

Additionally, weighted average shares outstanding on a fully diluted basis in 2019 will include approximately 1 million units that are the result of long-term incentive plan grants that were made at the time of IPO. In combination, these two factors diminish our 2019 FFO guidance by approximately \$0.045 per share. Pro forma for these two factors, the midpoint of 2019 guidance represents year-over-year FFO per share growth from the midpoint of our 2018 guidance of 3.5%.

Recall, as well, that FFO per share on a fully diluted basis also understates our distributable cash flow, as our VA Loma Linda property will experience an approximately 40% increase in shell rent in May of 2019, which will positively contribute to distributable cash flow by approximately \$3.5 million.

Our objective is to deliver a growing cash dividend backed by the full faith and credit of the U.S. government and we believe the Company's current portfolio and in-process development will allow us to deliver on this goal. As previously announced last week, our Board of Directors declared a dividend relating to our third quarter of operations of \$0.26 per share. The dividend will be paid on December 27, 2018 to shareholders of record on December 13, 2018.

Finally, before turning the call over to the Operator for questions, allow me to step back and look at how far we have come since this time last year. Since the third quarter of 2017, we have maintained a conservative balance sheet which sits in a position where we can deploy capital accretively, thus allowing for future growth that remains consistent with our acquisition and development fundamentals. We increased liquidity from the June 2018 equity offering, which puts the Company in a position of strength and allows the dry powder to execute on future acquisitions and remain number one in the market. We have maintained a healthy duration on our liabilities, which continues to exceed our weighted average remaining lease term. Additionally, we have maintained a predominantly fixed rate structure with our weighted average interest rate of 3.7%. This is in line with the rate seen this time last year when the 10-year Treasury was 72 basis points lower. Using the strength of our growing portfolio, we've been active in the capital markets to term out our debt, with the completion of an amended and upsized senior unsecured credit facility. We've also raised equity accretively in connection with the announcement of the Saban portfolio acquisition, thus increasing the liquidity in our stock, and we remain active in our ATM offering program.

With that, we would like to thank our capital providers on both the debt and equity side for their ongoing partnership and confidence in Easterly. We look towards the future with excitement as we continue to pursue opportunities which we believe will drive earnings and distributable cash flow into 2019, and beyond.

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

Operator:

Thank you. If you'd like to ask a question at this time, 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'd like to

remove your question from the queue. For participants using speaker equipment, it may be necessary to pick up your handset before pressing the star key. Again, that is star, one to ask a question at this time.

Our first question comes from the line of Michael Lewis with SunTrust.

Michael Lewis:

Good morning, and thank you. Meghan, you guys gave the 2019 FFO guide, and you did a good job there, I think, of explaining some of those differences between the FFO and the cash, so we could do some math ourselves, but is there anything you could say to be more specific about what you expect the cash flow growth to be in 2019?

Meghan Baivier:

That was my intent in sharing that 3.5% pro forma FFO growth. Obviously, some of those of factors flow through to FFO, as adjusted, and CAD, but I think that's a great place to be in terms of 2019, as a starting point.

Michael Lewis:

Okay, and the acquisition you announced this morning, I was wondering if you could be more specific on some of the details around cost, cap rate, financing, and then also what you think that mark to market in 2022, you know, what that spread might be today.

William C. Trimble:

Good morning, it's Bill. I think, first of all, we're very familiar with DEA labs, we develop them, we own them, and especially this model, which a large number were in built in the 2002 timeframe. I would say that we acquired it right in our bullseye, from a cap rate, as we think we would, at 6.4, 6.5 range. I think, from a standpoint of renewal rents on these, we have been, I think, very pleased with how the government has been using this building and I think you're going to see that in the high teens to low-20s upon renewal. So, we're very pleased. It's a shorter term lease. Obviously, running a whole pile of their sister labs throughout the country, we have a very good idea how they fit in with the mission of the DEA and we look forward to renewing it in 2022.

Michael Lewis:

Great, and then just one more for me. You had these Fresno and Northern Virginia renewals. You called them kind of more plain vanilla than your bullseye properties. How much of the portfolio would you say is kind of this plain vanilla versus bullseye? Then, deals like this, where you sign the lease, do you think about putting those properties on the market or do you think you'll always have a portion of the portfolio that's more in the suite of plain vanilla?

William C. Trimble:

Well, first of all, when we—these two properties, certainly one of them, with PTO Arlington, we were in a very different world when we purchased that building a number of years ago. In fact, we purchased it way under local market rent. But, I think the good news is we do have a wonderful asset in a good location, and as Northern Virginia comes back, if we're all together 15 years from now, we will see a lot of growth and value there. But, I will also say that the super-majority of our properties are bullseye and these two properties are the super-majority of the plain vanilla assets going forward. So, this is very much the exception to the rule on what we own. We certainly understand that the problem is when you mark a lease, you don't always know what the local market's doing on a plain vanilla asset, and that's why you see us not particularly buying them. They really don't have a very large portion of our portfolio. Meghan, what's the percentage, do you think? Probably 13—

Meghan G. Baivier:

Yes, closer to 10.

William C. Trimble:

So, we've pretty much taken all of the plain vanilla lease renewal risk out of our portfolio with these two renewals.

Michael Lewis:

I got it. Thank you.

Operator:

Thank you. Once again, as a reminder, you may press star, one to ask a question at this time. Our next question is from the line of Manny Korchman with Citi.

Manny Korchman:

Hey, good morning, everyone. I believe this is the first time you spent any amount of time talking about recycling and selling assets. Just sort of curious, what's the potential spread that you think you could see between a sale and a recycling of those assets, and so is there something newer or something different?

Meghan G. Baivier:

Yes. So, Manny, very perceptive there. We are always looking at that, and especially in 2019, we'll continue to look at that. I think there are a couple of factors that could go into that spread, but, obviously, in terms of primarily lease term, if it were to be a U.S. government asset, I think we could certainly look to breakeven, if not pick up 25 basis points plus, and then also the private tenants are always on the list as potential for recycling capital. Does that (inaudible)?

Manny Korchman:

I mean, I guess the question then is, if it is one of those private assets you're selling, given Darrell's comments on them pricing at local market rates versus replacement cost, you are recycling that capital into U.S. government lease, does that mean that that would be sort of a dilutive use of capital, but an improvement in your portfolio quality? Is that the right way for us to think about it?

Meghan G. Baivier:

Yes, I think we're going to be opportunistic, we're not going to look to do anything. Those assets are good assets, and so we're not going to look to do anything that would be dilutive from that nature. But, you're correct, that if it was neutral to accretive, it would also enhance our portfolio quality.

Manny Korchman:

Got it. Then, Meghan, as we think about your 2019 guidance, the \$200 million of acquisitions, how much of that is just a placeholder, that's sort of the number you put in when you give guidance, versus you're looking at a billion and you think you'll close 20% of it?

Meghan G. Baivier:

Yes, it's obviously informed from our knowledge of sort of market volumes and our competitiveness, but also what we have certainly circled in our pipeline, so it's a combination of both of those, but it's not purely from the first source.

Manny Korchman:

Then, are you looking at any larger deals, similar to Saban, that you're just not including in guidance because of the likelihood of them happening is just lower?

Meghan G. Baivier:

I'm sorry, say that again.

William C. Trimble:

Yes, I think that's fair to say. We're looking at a number of large portfolios and they would not be in that number.

Meghan G. Baivier:

No.

William C. Trimble:

I think that we heard it loud and clear, that people like to see the plain vanilla—actually, it's not plain vanilla, there's a Freudian slip, but actually the bullseye properties, the ones and two-offs, and we have a large \$700 million pipeline of those opportunities going forward and that's what we've put forward for next year, but at the same time we're doing a lot of work to identify the existing portfolios, obviously talking to folks that own them, and at some point we'll be looking forward to getting them in, as well, but that's based just on the plain regular business that we do.

Manny Korchman:

That's it for my end. Thanks, guys.

Operator:

Thank you, and our next question comes from the line of Michael Bilerman with Citi.

Michael Bilerman:

Hey, it's Michael. A question just on guidance. As you think about—and, Meghan, you went over some of the FFO versus AFFO numbers.

Meghan G. Baivier:

Mm-hmm.

Michael Bilerman:

Do you want to give, going forward, a little bit more specific AFFO guidance and reporting, to be able to highlight the differences? What you're running now is probably close to your cash dividend. We went over this a lot last quarter. Street estimates have come down, I think, \$0.06 or \$0.07 already for 2019, since then. So, do you want to start giving—if you're going to focus on cash flows, start reporting guidance and giving some of the guidance metrics and details on that basis?

Meghan G. Baivier:

Yes, good morning, Michael. At this stage, rather than introduce multiple additional non-GAAP measures—because I know you—you, yourself, are not in support of—we are going to ensure that investors have a clear understanding of the major drivers that may be influencing FFO, or things that come below FFO, as our bridge to distributable cash flow. So, that's what you could expect from us, very, very transparent on the drivers, so sticking with one guidance metric.

Michael Bilerman:

Well, if your focus is going to be on AFFO and given there are a number of adjustments that are impacting your reported earnings, given that you have the burn-off of FAS 141 and 142, you do have the cap ex numbers, why not just report and give AFFO guidance, rather than FFO guidance?

Meghan G. Baivier:

We hear from investors, analysts, that we are being very clear about the drivers in the business, and so I just repeat what I said before, we're going to stick with the one number for now and make sure that people have the tools they need for their models.

Michael Bilerman:

All right. So, then, as we think about 2019, can you break out straight-line in totality '19 versus '18, FAS 141 '18 versus '19 aggregate numbers, so we understand the difference between '18 and '19 for those two non-cash items, please?

Meghan G. Baivier:

Yes. So, with regard to the in-place portfolio, those are obviously impacts from our purchase price accounting that we have visibility into. The acquisition portfolio is a place where I am not able to opine on that, as you can understand, Michael. But, in terms of those two numbers, you're looking at in excess of \$4 million of incremental cash flow generation.

Michael Bilerman:

So, straight-line and FAS should come down in totality by \$4 million off of the current run rate on an annualized basis?

Meghan G. Baivier:

That's on a year-over-year basis.

Michael Bilerman:

Right. Then, in terms of the acquisition, what's the spread between GAAP versus cash from an FFO and AFFO basis for the deals that you did, because I would assume that it's got a much higher GAAP as mark-to-market a lot of those leases that you bought?

Meghan G. Baivier:

Yes. So, I'll take the Saban portfolio as a representative example, and there's typically—there's an exception, as you know, is VA Loma Linda, where the rent profile isn't particularly different, but most GSA leases are flat or with minimal contractual rent bumps. So, there was nothing material in that portfolio from a straight-line adjustment. Then, the above and below market lease adjustment is going to depend on an

asset-by-asset basis, with regard to primarily lease terms. I'm trying to be helpful with my in excess of \$4 million number, but the above and below is very, very asset-by-asset dependent.

Michael Bilerman:

Then, G&A for next year is estimated at what in your guidance relative to 2018?

Meghan G. Baivier:

We obviously don't give specific guidance on G&A, but we are fully ramped now for the Saban acquisition integration and in support of that, we will be growing our G&A in 2019. We added two asset managers and a property accountant.

Michael Bilerman:

Do you have any plans of any financings or refinancings for next year that would be impacting 2019?

Meghan G. Baivier:

With the current plans, in terms of deployment of \$200 million of acquisition capital and the development range that I mentioned, it may be prudent at some point for us to look to term out our revolver. There's obviously nothing specific that I can outline at this point today.

Michael Bilerman:

Then, just lastly, just in terms of cap ex and spend, anything in 2019 that would look different from your run rate that you've been handling in 2018?

Meghan G. Baivier:

No, we've outlined that we anticipate maintenance capital and contractual capital on the assets to run between \$1.00 and \$1.50 per square foot, and that is anticipated in 2019, as well.

Michael Bilerman:

Okay, thank you.

Meghan G. Baivier:

You're welcome.

Operator:

Thank you. We have reached the end of our question and answer session. I'd like to turn the floor back to Darrell Crate for closing comments.

Darrel W. Crate:

Thank you, everybody, for joining the Easterly Government Properties Third Quarter 2018 Conference Call. We hope you found this call to be informative and meaningful, as you view today's attractive pricing as a platform potential to achieve future, strong, risk-adjusted returns. The Company is growing on a foundation of premiere assets backed by the full faith and credit of the U.S. government. We appreciate your continued partnership and look forward to speaking with you again soon.

Operator:

This concludes today's teleconference, you may disconnect your lines at this time, and thank you for your participation.