Easterly Government Properties Inc (Q2 2025 Earnings)

August 05, 2025

Corporate Speakers:

- Allison Marino; Easterly Government Properties Inc; Executive Vice President and Chief Financial Officer
- Darrell Crate; Easterly Government Properties Inc; President and Chief Executive Officer

Participants:

- Seth Bergey; Citi; Analyst

PRESENTATION

Operator^ Greetings. Welcome to Easterly Government Properties' Second Quarter 2025 Earnings Conference Call. (Operator Instructions) Please be advised that today's conference is being recorded. I would now like to hand the conference over to the speaker today, Allison Marino, Executive Vice President and Chief Financial Officer. Please go ahead.

Allison Marino^ Good morning. Before the call begins, please note that certain statements made during this conference call may include statements that are not historical facts and are considered forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995.

Although the company believes that its expectations as reflected in any forward-looking statements are reasonable, it can give no assurance that these expectations 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 as contained in the company's most recent Form 10-K filed with the SEC and in its other SEC filings.

The company assumes no obligation to update publicly any forward-looking statements. Additionally, on this conference call the company may refer to certain non-GAAP financial measures such as funds from operations, core funds from operations 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 over the conference call to Darrell Crate, President and CEO of Easterly Government Properties.

Darrell Crate^ Thanks, Allison. Good morning. And thank you for joining us today. The second quarter of 2025 reflects continued execution on our long-term strategy, disciplined growth, essential real estate and enduring value creation. At Easterly, we've always focused on delivering reliable performance in uncertain times. This quarter is no exception.

Our business remains grounded in mission-critical infrastructure, long-term leases and tenants whose work is vital to the safety, health and security of our country. Our portfolio continues to be a source of strength, diversified across geographies and agencies with long-term leases and outstanding credit quality.

We own and operate the kind of facilities that are indispensable to the day-to-day functioning of government, courthouses, law enforcement labs, public health clinics and secured facilities. These are buildings that will stay full, perform well and stand the test of time.

In the second quarter, we made continued progress across our platform. We advanced several key development projects, each backed by long-term noncancelable leases.

We strengthened relationships with federal, state and local partners who rely on our expertise to deliver secure, efficient and modern facilities. And we remain disciplined in our capital deployment, pursuing opportunities that meet our standards for credit, mission alignment and value creation.

We're not in the business of chasing yield at the expense of long-term portfolio value. Our platform is designed to deliver durable returns supported by stable cash flows and thoughtful stewardship.

A big part of that disciplined growth comes from the good work being done by Mike Ibe, Chris Wang and Mark Bauer, Together, they lead our efforts in identifying, underwriting and executing on accretive development and acquisition opportunities that meet our standards, high credit quality, strong alignment with government missions, and the potential to enhance the long-term value and durability of our portfolio. Our work continues to be a core differentiator for Easterly.

It enables us to selectively grow into assets that are not only contributing to earnings, but strengthening our overall strategic position as the go-to partner for government tenancy. At the same time, we're mindful of today's market environment.

Our stock price and cost of capital remain modestly challenging in part due to the near-term overhang from our dividend reset earlier this year. That was a difficult decision, but a necessary one to preserve flexibility and position ourselves for sustainable growth.

As we work through this phase, our priority is to rebuild our shareholder base with long-term public investors who understand our mission, believe in our strategy and have the resources to help fuel our growth.

We're confident that our fundamentals, our people and our execution will attract the right partners over time. What's particularly gratifying this quarter is that the results, both operational and financial, continue to validate our approach.

We've been preparing for an environment where government real estate decisions are more strategic, more cost conscious and more mission-driven. That environment is now here.

Whether it's the federal government streamlining of agency footprints or state and local agencies investing in modernized infrastructure, we're increasingly seen as a trusted partner, a firm that delivers what's promised and understands the nuance of public sector leasing.

This reputation has taken years to build, and we protect it by staying consistent in how we operate and selective in what we pursue.

While I'll leave the detailed results to Allison in a moment, I want to highlight that our second quarter reflects strong growth, a solid and improving balance sheet and continued alignment between our financial outcomes and our long-term strategy. The numbers you'll hear today reinforce what we've always believed that a focused strategy executed with discipline delivers real and lasting value.

As we enter the second half of 2025, our focus remains clear, continue to execute our development pipeline with excellence, deepen our relationships across federal, state and local agencies, remain agile and disciplined in capital allocation and above all, stay true to our mission of delivering critical real estate for the public good.

We're proud of the platform we've built, proud of the role we play in supporting government operations and proud of the team that continues to execute at the highest level.

To our shareholders, thank you for your continued trust. We remain focused on delivering reliable performance today and building value for tomorrow. And with that, I'll turn the call over to Allison for a deeper look at our financial results.

Allison Marino^ Thanks, Darrell. Easterly delivered a solid second quarter, one that reflects both the strength of our real estate portfolio and the consistency of our execution. Net income per share was $0.09 on a fully diluted basis, Core FFO per share was $0.74, a 3% increase year-over-year and cash available for distribution was $29.3 million.

We exceeded consensus expectations for the quarter and remain firmly on track to achieve our full year core FFO per share guidance, reflecting 2% to 3% growth trajectories in 2025.

We continue to actively manage a set of federal lease expirations, and our second quarter execution demonstrates steady progress on both 2025 and 2026 renewals. While a few leases remain in process, I want to emphasize, we are not seeing any breaks in tenancy or performance.

We believe this reinforces the mission-critical nature of our facilities and the value of our proactive approach to tenant engagement. A great example is the recently finalized 5-year firm term renewal with the U.S. Forest Service in Albuquerque. This lease includes built-in annual rent escalators, and we view it as a positive signal that the federal government is modernizing its approach to real estate procurement.

This renewal validates both the quality of our assets and the strength of our tenant relationship. It also highlights our team's ability to manage renewal risk in a complex leasing environment.

As of quarter end, our soft term lease exposure declined from 5.2% at year-end to 4.7%, a clear indication of two key strengths, one, continued progress on renewals and, two, our ability to work closely with federal agencies to meet evolving mission needs.

We remain engaged on the remaining three leases that are set to roll this year and expect resolution consistent with government timelines. Turning to the balance sheet, we remain well positioned to support continued growth. We have $122 million of revolver capacity available.

We expect an additional $115 million in liquidity later this year from the FDA Atlanta lump sum repayment and our leverage ratio remains within our target range of 6.5 to 7.5x This combination of current liquidity and projected inflows gives us the flexibility to pursue high-quality development and acquisition opportunities without stretching our balance sheet.

As Darrell noted, we continue to operate in an environment where our cost of capital is elevated, a challenge largely driven by the near-term overhang from our dividend reset. Our posture remains unchanged, though. We are focused on selectivity, quality and discipline. We are not pursuing growth for its own sake.

We are targeting opportunities that create durable value that align with our strategic mission and that will ultimately attract long-term capital support from aligned shareholders.

Looking ahead, we are maintaining our full year 2025 core FFO per share guidance in the range of $2.98 to $3.03 on a fully diluted basis.

This guidance reflects the impact of $141 million in operating properties acquired year-to-date and an expected $25 million to $75 million in development-related investment over the course of 2025.

We're pleased with the balance of stability and growth that this outlook represents, and we look forward to keeping you updated on the progress of our pipeline in the second half of this year. To wrap up, Easterly remains strong, stable and focused.

We're executing on renewals, adding high-quality assets, managing risk proactively and maintaining financial flexibility. Most importantly, we're continuing to deliver on the mission our platform was built for, providing critical real estate for the agencies that serve the American people.

Thank you again for your time and continued partnership. I'll now turn the call back to Shannon to open the line for questions.

QUESTIONS AND ANSWERS

Operator^ (Operator Instructions) Our first question is from Seth Bergey of Citi.

Seth Bergey^ Can you talk about kind of your return expectations for the crime lab development project whether that's on an unlevered IRR basis or cap rate?

Allison Marino^ Sure. So that development is very consistent with our other sort of development growth targets in that we seek to create about a 150 basis point spread to our cost of capital. So that is certainly in line and that is being developed in the 10s on a cap rate basis.

Seth Bergey^ And then looking at the guidance assumptions, acquisitions and dispositions kind of underpinning guidance didn't change. I'm curious kind of what's the size of the pipeline of opportunities you're looking at? And just how do you think about kind of what the optimal capital structure is for you guys?

Allison Marino^ Sure. So in terms of the pipeline, I think we've shared a ton how we're seeing volume, $1 billion, $1.5 billion. But we're really looking at many deals to find the best view that allow us to meet our growth goals.

So in terms of profiles going forward, we do seek to manage leverage typically on a 50-50 basis cost of equity, cost of debt. And we're in the 8s today from a cost of capital perspective. So that allows us to be accretive in the 9s.

Operator^ (Operator Instructions) I'm currently showing no further questions at this time. I would now like to hand the conference back to Darrell Crate, President and CEO of Easterly Government Properties for closing remarks.

Darrell Crate^ Great. Thanks, everybody, for joining us today for our second quarter conference call. We look forward to continuing to deliver strong, stable results and look forward to seeing all of you next quarter. All the best.

Operator^ This concludes today's conference call. Thank you for participating. You may now disconnect.