Easterly Government Properties (Q1 2025)
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Corporate Speakers:

- Lindsay Winterhalter; Easterly Government Properties; Head of Investor Relations
- Darrell Crate; Easterly Government Properties; President and Chief Executive Officer
- Allison Marino; Easterly Government Properties; Chief Financial Officer

Participants:

- Unidentified Participant; Unknown; Analyst
- Peter Abramowitz; Jefferies; Analyst
- Michael Carroll; RBC; Analyst
- John Kim; BMO Capital Markets; Analyst

PRESENTATION

Operator^ Greetings. Welcome to Easterly Government Properties' First 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 your speaker today, Lindsay Winterhalter, Head of Investor Relations. Please go ahead.

Lindsay Winterhalter^ 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, those contained in the company's Form 10-K 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 the conference call over to Darrell Crate, President and CEO of Easterly Government Properties.

Darrell Crate^ Thank you, Lindsay. Good morning, everyone. Thank you for joining us for our first quarter 2025 conference call. This quarter, we implemented key changes to our capital allocation strategy to create more flexibility for growth and to position Easterly to capitalize on a major shift underway in the government real estate market.

Earlier this month, we announced a reduction of our quarterly dividend and a two for five reverse stock split, which became effective yesterday. We made these strategic corporate actions intentionally to position Easterly for long-term growth and to free up significant capital for accretive investments.

Our updated capital strategy reflects three critical priorities. First, we aligned our dividend philosophy to better match our peers. Our focus is firmly on return on equity and value creation over time. Second, we created substantial flexibility to accelerate our growth initiatives, particularly acquisitions and new development opportunities at a moment when demand for leased government facilities is increasing dramatically. Third, we strengthened our balance sheet by rightsizing our payout ratio, improving dividend coverage and maintaining our investment-grade foundation. We are strategically reinvesting to drive future cash flow growth and long-term shareholder value rather than simply recycling discounted capital into the market.

Today the federal government is undergoing a historic transformation through the DOGE initiative. DOGE is focused on shifting the government's real estate strategy moving the government away from its traditional model of owning its office space and toward a more flexible lease model to drive cost efficiencies.

Easterly is uniquely positioned to benefit. We've built a strong track record as a private sector leader in delivering mission-critical leased government facilities on time, on budget, and at a reduced cost to taxpayers. Importantly, our exposure to DOGE-related risks remains minimal. To date, we have not had a single lease canceled due to DOGE. In fact, we see opportunities to expand our leasing relationships with key government agencies as DOGE accelerates.

In line with our growth strategy, this morning we announced two highly accretive additions to our portfolio. The first is our award to develop a roughly 40,000 square foot federal courthouse facility in Medford, Oregon under a 20-year non-cancelable lease. This facility will house multiple agencies, including U.S. senators offices, the U.S. Marshal Office and the U.S. Attorneys Offices and a probation office all under the same lease. This project highlights our advantage in today's market with development contracts structured to protect us against cost increases and backed by the full faith and credit of the U.S. government. This [quartile] strengthens our presence in a mission-critical sector and supports our long-term earnings growth objectives.

The second addition is the acquisition of a 290,000 square-foot facility, 98% leased to the AA+ rated District of Columbia government. With strong mission-critical tenants in public education and environmental management, the D.C. government recently extended its tenancy through the year 2038 with many renewal options. And under new mandatory return to office policies, the facility is consistently occupied at high levels. This acquisition aligns perfectly with national trends of decentralizing education oversight to the state and local level, ensuring strong stable demand for this property going forward.

Across our portfolio, we continue to actively manage our assets to enhance cash flow and portfolio quality. One example is our recent retenanting of the U.S. Forest Service facility in Albuquerque. Anticipating a possible reduction in the footprint of the U.S. Department of Agriculture, the parent agency of the U.S. Forest Service, we proactively repositioned this facility. We secured a new 10-year noncancelable lease with the state of New Mexico, a tenant deeply committed to the local community and to the strategic use of this facility. In fact, the state has already expressed interest in future expansion within the building, making it not a strong replacement tenant, but also a potential source of future growth.

This repositioning effort demonstrates our proactive asset management strategy and our focus on maximizing long-term value at the property level. We are operating from a position of strength, making deliberate forward-looking changes to capitalize on a rapidly shifting market. The DOGE initiative represents a significant tailwind for leased government real estate and Easterly is exceptionally well-positioned to grow with it. We remain committed to delivering predictable, stable and growing value to our shareholders for years to come.

Thank you, again for joining us this morning, and I'll now turn the call over to Allison Marino, our Chief Financial Officer.

Allison Marino^ Thanks, Darrell. Good morning, everyone. I'm pleased to report the financial results for the first quarter of 2025. For the quarter, both on a fully diluted basis, net income per share was $0.07 and core FFO per share was $0.73. Our cash available for distribution was $31.1 million. We met consensus and remain on track to deliver an estimated 2% to 3% core FFO per share growth in 2025.

This, coupled with our rightsized dividend yield of roughly 8% today. presents a highly attractive total return opportunity for shareholders through long-standing investment-grade tenancy. The first quarter performed as expected, with no lease terminations from DOGE or otherwise. Our weighted average remaining lease term remains strong at 9.8 years. With over 95% of our lease income in firm term, which means the government has self-acknowledged they cannot cancel, we feel very good about the performance of this portfolio and our ability to provide mission-critical real estate solutions for key government agencies.

We continue to increase our borrowing capacity and extend the maturity date of our debt obligations. As previously announced this quarter, we amended our $100 million senior

unsecured term loan agreement originally executed in 2016. We also executed in the private placement market, raising an additional $125 million of debt capacity with a combination of new and existing investors. With a successful first quarter concluded, I would like to turn to the recent corporate actions that took place subsequent to quarter end.

As mentioned in Darrell's remarks, we elected to undertake a thorough review of our capital allocation strategy. We believe resetting our dividend helps position the company for durable long-term value creation, and this was done with a clear focus on shareholder return. Through this action, we are proactively positioning the company for sustainable earnings growth, increased flexibility and improved capital efficiency.

Cutting our dividend was the prudent decision for growth. While we saw a path to full dividend coverage by year-end 2026 and some of you may have even noticed that we achieved dividend coverage this current quarter at our old level, we believe the capital markets were not valuing our dividend at a premium nor were we being rewarded with a multiple that reflected the cash we were distributing.

Maintaining an outsized dividend in that environment was inefficient and a poor use of capital. The reset allows us to better align with our peers and adopt a more sustainable performance-driven dividend policy going forward. As Darrell mentioned, we are excited to put our capital to work for our recently awarded federal courthouse development project in Medford, Oregon. Like our flagstaff Court House, this highly secured asset, once delivered, will carry a 20-year noncancelable lease term, and we look forward to partnering with the GSA and the Judiciary branch to get started on this exciting new opportunity.

Additionally, I'd like to highlight the ongoing development of the FDA laboratory facility in Atlanta, Georgia. This mission-critical project remains on budget and is on track for completion by the end of this year. Importantly, the cost structure is not expected to be impacted by recent tariff uncertainty as our contracts are largely insulated from these market variables. Between now and the commissioning of the building, the company anticipates receiving approximately $115 million in lump sum payments. This project not only enhances our long-term cash flow profile but also underscores the strength of our development platform and the value we bring as a trusted federal partner.

Additionally, we acquired a highly accretive asset leased primarily to the AA+ rated District of Columbia government through 2038. With a long-standing tenancy in this facility, the asset furthers our duration of investment-grade cash flows and delivers accretion to shareholders at a spread to our cost of capital. This asset was acquired and funded accretively and helps us to achieve our growth goals in 2025.

By [investing] our dividend, Easterly is poised to take advantage of the opportunity set in front of us today fully. We have a robust pipeline of many opportunities, and with over $200 million of dry powder comprised of savings from our dividend, lump sum

reimbursements from Atlanta, and revolver capacity, we feel our balance sheet is well positioned to execute on the growth strategy.

Before handing the call back to our operator, I am pleased to report that we are bringing up the bottom end of our full year core FFO per share guidance for 2025 for the second consecutive quarter to a range of $2.98 to $3.03 on a fully diluted basis. This guidance assumes an additional $20 million in wholly owned acquisitions on top of the roughly $120 million we already closed and $25 million to $75 million of gross development-related investment during the year.

To be clear, that 2% to 3% earnings growth target is inclusive of known outcomes in the portfolio including the FDA finally moving from our (inaudible) facility. This is consistent with our established goal of delivering 2% to 3% core FFO per share growth year-over-year for shareholders. We are proud of the earnings power of the portfolio and the growth it can deliver to shareholders.

With that, we thank you for your time this morning and for your ongoing support and commitment to our shared goals. I will now turn the call back to [Shannon].

QUESTIONS AND ANSWERS

Operator^ (Operator Instructions) Our first question is from [Seth Berge] of Citi.

Unidentified Participant^ I was just kind of wondering if you could kind of get into the economics of the acquisition and the development, whether that's the cap rate or unlevered IRR, just however you think about it?

Allison Marino^ Sure. So I'll touch on the DC acquisition first, and then I'll hit on the development at Medford. So for D.C., that asset was roughly $120 million in acquisition costs, and we acquired that in the high 9s, which does provide for that 100 -- magic 100 basis point premium to our cost of capital that we hope to achieve. So we're very pleased with that acquisition. We got a ton of underwriting on it, and we think it really complements and augments the state and local exposure that we're growing within the portfolio.

On Medford, we are still in the very beginning stages of design on that lease award. So without the final determination of the lump sum, it would be hard to put a very specific number to it. But broadly, we achieve and seek to achieve 150 basis point spread to our cost of capital, particularly on a yield basis, and you'll continue to see us execute at that level on this particular project.

Operator^ Our next question comes from Peter Abramowitz of Jefferies.

Peter Abramowitz^ Just wondering, could you quantify kind of what the size of the pipeline of opportunities you're looking at right now and sort of how that breaks down

between GSA opportunities versus developments versus state and local government facilities?

Darrell Crate^ Yes. Thanks, Peter. We have about $1.5 billion in our pipeline. That doesn't mean that's what we're executing, but we really have a choice of opportunities not only the GSA opportunities, U.S. federal, but also some state and local, as well as these government-adjacent facilities.

And it's really a unique time in our history. There are certain developments for the U.S. government that we are looking at where not one but two or three folks who are also looking at that have come to partner with us on those projects. Why is that? Because, as I've shared on some prior calls, the government lease backed by the full faith and credit of the U.S. government, it was terrific collateral in going to banks. So like two people and a dog could start a development company and be able to get an exceptional amount of financing.

With the DOGE overhang and folks not being able to actually underwrite to the agencies, many of the mid-tier banks that don't have insights into this have stepped away from the market and are no longer providing those folks with the capital that they would need in order to begin the development project.

What's also happened with DOGE is that they do understand the capital markets. Today more than ever the government actually has to look at the balance sheet quality of a developer, particularly in larger products, before they award a development award. So with that, obviously we're very well positioned relative to some other folks that we've competed with. Our Medford, Oregon Courthouse is a terrific win for us. It speaks to our strengths. And as you could hear from Allison, our ability to develop at a premium is robust.

So for us to continue to achieve our 2% to 3% growth going forward, we feel very well positioned with our existing portfolio to do exactly that, and we continue to see ways to put our money to work in a very accretive way that will build our portfolio with each of the three areas that we focused on. We would, over the next 3 to 5 years, like 15% of our portfolio to be state and local and 15% of it to be government and adjacent. And we will see -- given that development is our most accretive way to put capital to work, I think you'll see most of what we do in the federal space is development going forward.

Peter Abramowitz^ Okay. That's helpful. Thank you, Darrell. Then a question for Allison, just on the balance sheet. So you executed that senior unsecured deal, I guess just before we got the Liberation Day announcement, which has sent I guess the credit market into a bit of a frenzy. So just curious, do you have a sense of where you think comparable pricing would be on a similar deal if you were to do that today? And then the second part to that, just wonder if you can comment just given the terms were pretty favorable there, especially relative to your cost of equity, which is maybe not cooperating. Just how you're thinking about kind of the range for your leverage target longer term.

Allison Marino^ Yes. Sure. So we -- we've definitely heard in the market that spreads have widened anywhere from 25 to 50 basis points for more recent deals. So I think we do very much believe that we timed the market well and took advantage of some of the slide and the treasuries when we price that deal. So we're very pleased with that execution. And I think the credit quality of the portfolio and the long-term nature of the leases really continues to resonate with those investors. It's very clear to that group that this is a different portfolio than just office or just GSA exposure. It really speaks to the mission of each of the buildings, and I think that's shown through in getting that deal done.

In terms of leverage, we do have that stated range of 6.5 to 7.5x adjusted obviously for development. As we look forward, we're navigating to that range. We're certainly aware that our cost of equity is maybe not as favorable to our cost of debt. But that's something we look forward to continue to providing total shareholder return to shareholders and core FFO growth hopefully driving some change in that to our favor.

So when we look to incremental cost of equity and cost of debt, we're still able to do deals at an accretive level. They certainly take a lot more effort and a lot more creativity and volume, but there -- as you can see from the DC building, there's opportunities in the market where we can acquire and provide value to core FFO growth.

Darrell Crate^ And maybe just to speak to D.C. a little bit, I mean because some might imagine that to be a bit of a contrarian investment, but I would say it was a place where we really could apply our underwriting. I mean obviously we're based in Washington. We work with the federal government. We work with state and local, and we really had an opportunity to diligence the building, the mission, the structure of leases, how DC works, how it interfaces with the federal government, and we had access to many of the folks who have control over the long-term planning on how these leases work. So we are very excited, again, to take advantage of the edge and information edge that we've developed over time in order to find a very attractive asset for our investors.

Operator^ Our next question comes from Michael Carroll of RBC.

Michael Carroll^ Darrell, I wanted to circle back on your prepared remarks regarding the Department of Forestry building in Albuquerque. I think you said that you brought in the state of New Mexico. I mean, can you provide some details on this? Did the Department of Forestry hand back some space and then you backfilled it with the state of New Mexico?

Darrell Crate^ Well yes. So in -- we've been working with the State of New Mexico for some time. There's an interest in that space. We have two agencies there, the New Mexico Education Department and New Mexico Healthcare Authority. We were in a place where the U.S. Forestry Services, we were reading headlines and is back in sort of the early times of DOGE uncertainty, and we knew that was a place where there may be some consolidation.

We ended up creating not only a -- not say an auction, but we created some alternatives to working with the Forestry Service and we ended up going with the state of New Mexico as a better alternative for the building and also their desire to continue to expand into that space made it seem like a better portfolio decision for us. So lower volatility in the future, more certainty. We've got some nice OpEx bumps in that lease that will make it a little more attractive than a traditional federal lease. (inaudible)

Michael Carroll^ Okay. So Dave, the department of --

Darrell Crate^ Allison, do you have anything else to share just about that or no?

Allison Marino^ Yes. I would also add that the term of the lease is very attractive. That's a 10-year firm term with an additional two 5-year renewal options, so for a total term of 30 years, that's certainly better than the U.S. government provides today. So we think on a durability and length of cash flows that was a really attractive opportunity as well as the rents are more or less the same as what was in the building. So from a cash basis, we feel like this was a great opportunity to, again, expand our exposure to state and local and really get commitment to the building.

Michael Carroll^ Then just to be clear, did the Department of Forestry completely vacate? Or do they only give back some of the space to the state of New Mexico?

Allison Marino^ Yes. The building consolidated into our other building, which is sort of like across the business park, and we sort of saw that in some of the discussions with them that, that was the plan. Hence we enacted our marketing process through which we were very successful in retenanting with the state of New Mexico.

Michael Carroll^ Okay. So the two buildings now are 100% leased, one to the Department of Forestry and one to the state of New Mexico?

Allison Marino^ Correct.

Michael Carroll^ Okay. Then can you remind us when the Department of Forestry lease actually expires? I think it's still pretty far out there in the 2034 region, if I remember correctly. But is there any soft term related to that or anything we need to know about?

Allison Marino^ I believe it's end of next year, but let me grab it for you.

Darrell Crate^ [And again] Michael, good question. And just to give just a little bit more color. I think that -- and these things obviously take time and months and -- the -- we work closely with the agencies that are in our building. And before the return to work mandate, I think there was real interest in consolidating space and finding opportunities. We moved in that direction. I think the government now as they've had a return to work and demand for more space, we're seeing some of the buildings where we were trying to find efficiencies to -- we're seeing demand for more space or some needing to rejigger space to accommodate more folks.

Allison Marino^ Then just coming back to your question, it expires in 2026. We are -- as we are with other expirations and renewals working through that process with the government to define terms. There is soft term on the second building though.

Michael Carroll^ Okay. So those discussions haven't happened already since that you've already downsized it in one building. I mean do you have an idea of what they're thinking about if they want to keep that space at all?

Allison Marino^ Yes. I mean -- as you can probably imagine, speed has never been the hallmark of a government lease procurement process. So we have been in discussions on that renewal for some time now. We expect that it will continue over the rest of 2025. Then our hope would be to share any news as it does come along.

Darrell Crate^ Yes. I think they're pleased with the space, and I think they find themselves in need of the space, given the reduced footprint size and then -- and the stabilization of the number of folks who are working in that department post the reduction in force.

Michael Carroll^ Okay. Great. Then just my last question, going to the D.C. acquisition. I know, Darrell, on the beginning of like the IPO Easterly used always talk about how there are unique functions to these buildings that keep the tenants kind of locked into that space, kind of like the FBI and DEA spaces. I mean does the DC acquisition have anything similar to that? Or is it just a good credit with a long-term lease?

Darrell Crate^ I would say it's a good credit with a long-term lease, but it's a little bit more than that, which it is the center. If you think about building hierarchy among the Washington, the state government, education is one of the primary purposes. If they are -- if they've developed really a center of excellence around running D.C. schools from this building, and it is very high in the hierarchy of D.C. government of the facilities that they're looking at.

Allison?

Allison Marino^ It's also located physically and geographically within the District of Columbia and one of the D.C. government sort of economic focused zone. So they're trying to drive more demand and redevelopment in that area, and they purposely choose areas like that to commit to long term to sort of augment the sort of economic [ferocity] in the area. So we do see them having expanded in the building over the last few years, and I think that sort of demonstrates their commitment to that local market as well specifically.

Darrell Crate^ And maybe following on that, and one of the things that we learned in our diligence and with the dozens of people that we spoke with, I think D.C. is one of the second to last, I believe, in the country to remove the mask mandate. The city was sort of drained of commuters. And I think the D.C. government looks today and says, from an

economic development perspective, maybe they overreacted relative to other cities around the country, so they have a real renewed energy and effort to build economic activity in these centers, and we know this building, as Allison pointed out, isn't one of the target areas where D.C. wants the city to remain strong, vibrant growing. It's got plenty of residential space as well as retail, a robust retailer to a neighborhood, and it's an affordable place to live.

So it's an exciting space and I think our diligence got us very comfortable that the -- that we were able to buy at a very attractive -- a surprisingly attractive price, just given that when we were negotiating this, it was in the middle of some of the great headline uncertainties related to D.C. So we're very grateful for it. We're -- this will probably be the only building that we own in D.C. I mean I don't mean to say that's forever, but it was a special asset and we're very excited to acquire it.

Operator^ (Operator Instructions) Our next question is from John Kim of BMO Capital Markets.

John Kim^ Can I just clarify? So now you've had no lease terminations with DOGE, do you believe now you're in the clear with DOGE, especially with Elon Musk stepping back? Or is there still some assessing and rightsizing of the office footprint that DOGE is looking at?

Darrell Crate^ Yes. I mean I think to say we're in the clear and it's over would be sort of brash and inappropriate. But what we absolutely know today is what DOGE's specific objectives are, and I think as we've said along the way we spend time with folks in the Senate, which are -- they're the next chapter of all these things that are going on with the administrative agencies. And working with the GSA, we understand what they're trying to maximize too. And [they be] -- as I've said, we find them to be more receptive to our ideas for efficiency than ever before in our history.

So the opportunity for us to demonstrate value and bring value to this very important client is right in front of us. So I think that we -- when we -- so the statement that I made knowing our portfolio and looking at the assets we have, the weighted average lease term that we have and what is happening in those buildings, we feel very good about our portfolio's ability and the power of the portfolio going forward.

I mean as you know, 95% of our leases are firm term and some of the leases that we have that are nearing their renewal are mission-critical, are buildings that for a set of reasons will be very attractive to the U.S. government. So we've -- while DOGE is a -- continues to be in the headlines, I think we feel like we understand what it's trying to do and in fact, I think can be a very good partner in helping DOGE achieve its objectives beyond what it could achieve on its own.

John Kim^ On the D.C. acquisition, is there anything you could share as far as the lease structure, whether it's a triple net or gross modified, annual escalators that has or CapEx

requirements? And maybe just if you could provide any insight as to why the seller principle was looking to exit this asset at a non-cap?

Darrell Crate^ Allison, why don't you do a little on lease structure? Again we really appreciate the lease structure of this facility. So I'll let Allison give you the details.

Allison Marino^ Sure. So it would be a typical modified gross lease. It provides a -- roughly a 1% annual escalation for a majority of the space. The RFP private tenants as well, those would have typical retail CDS, Wells Fargo, those types of stakeholders. So that would have kind of like your standard retail lease associated with it. But for the D.C. government, it does have escalators. It would have a modified gross recovery structure and would be -- have real estate tax and sort of operating expense escalations as well.

Darrell Crate^ Yes, as we think about, again the long-term growth strategy, especially with the dividend cut and repositioning the cash flows of the business, we've been trying to -- we're focused on long-term growth of 2% to 3%, which we think is very achievable. With that additional capital, I think we're going to be pushing -- I think for this call we'll say to the upper end of that growth range. And we're also trying to build a portion of the portfolio that leads us to have sort of 60 to 100 basis points of escalating growth in the portfolio over time so we can continue to get those long-term growth rates to be even higher.

Why the seller was selling, I think they had a renewal. I think they were certainly in a place where this would be an appropriate time for them to think about exiting. And I think with the confusion in the DC market generally, that led them to probably make a decision. I think we were able to acquire this property at a significant discount to the original broker talk. And we were very pleased when it ends up coming our way.

John Kim^ Okay. And my final question, Allison, you talked about your balance sheet and maybe using a little bit more leverage and being more [creative] to make accretive acquisitions work. Can you just talk about other funding sources you may have in case or in the event that your stock continues to trade where it is today?

Allison Marino^ Sure. So we obviously have a number of debt products at our disposal. We have been very active in the private placement market over the last few years has been five times. Certainly, we have a broad and well-positioned syndicate of banks that have provided us term loan capacity as well as the revolver capacity of our -- the last few years, and we think those relationships have really been a great partnership, and we are excited to continue there.

In terms of -- and maybe one of the areas that we don't talk about as much is our joint venture partner. They have been a wonderful partner to us, and we have -- we think that portfolio has really demonstrated an ability to create return. They're broadly looking to -- for ways to continue to partner with Easterly. So we are excited to find ways that we can continue to work with them accretively on deals as well.

Darrell Crate^ I mean I'd just add to that, maybe just to punctuate it a bit. For us to continue on our growth strategy as we look forward, we don't have to access the equity markets in order to accomplish what we are intending to accomplish. We would issue equity if we can do that on an accretive basis. But we feel like we have the resources both from debt, both from internal cash, from lump sum payment money, as well as our joint venture partner that can continue to enable us to achieve all of our strategic objectives and repositioning our portfolio and continuing to produce an elevated compounding growth rate to shareholders.

Operator^ I would now like to turn the conference back to Darrell Crate, President and CEO of Easterly Government Properties, for closing remarks.

Darrell Crate^ Thank you, again to everybody for joining us on the Easterly Government Properties first quarter conference call. We very much look forward to continuing to work to build shareholder value, cultivate our pipeline, and we look forward to getting together here in the quarter and reporting those results.

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