

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2022

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission file number: 001-36834

EASTERLY GOVERNMENT PROPERTIES, INC.

(Exact Name of Registrant as Specified in Its Charter)

Maryland
(State of Incorporation)

2001 K Street NW, Suite 775 North, Washington, D.C.
(Address of Principal Executive Offices)

47-2047728
(IRS Employer Identification No.)

20006
(Zip Code)

(202) 595-9500

(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

| Title of each class | Trading Symbol(s) | Name of each exchange on which registered |
|---------------------|-------------------|---|
| Common Stock | DEA | New York Stock Exchange |

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

| | | | |
|-------------------------|-------------------------------------|---------------------------|--------------------------|
| Large accelerated filer | <input checked="" type="checkbox"/> | Accelerated filer | <input type="checkbox"/> |
| Non-accelerated filer | <input type="checkbox"/> | Smaller reporting company | <input type="checkbox"/> |
| | | Emerging growth company | <input type="checkbox"/> |

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes No

As of July 26, 2022, the registrant had 90,816,622 shares of common stock, \$0.01 par value per share, outstanding.

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Easterly Government Properties, Inc.
Consolidated Balance Sheets (unaudited)
(Amounts in thousands, except share amounts)

| | <u>June 30, 2022</u> | <u>December 31, 2021</u> |
|---|----------------------|--------------------------|
| Assets | | |
| Real estate properties, net | \$ 2,464,280 | \$ 2,399,188 |
| Cash and cash equivalents | 8,259 | 11,132 |
| Restricted cash | 9,785 | 9,011 |
| Tenant accounts receivable | 57,120 | 58,733 |
| Investment in unconsolidated real estate venture | 182,343 | 131,840 |
| Intangible assets, net | 183,088 | 186,307 |
| Interest rate swaps | 2,710 | — |
| Prepaid expenses and other assets | 33,465 | 29,901 |
| Total assets | <u>\$ 2,941,050</u> | <u>\$ 2,826,112</u> |
| Liabilities | | |
| Revolving credit facility | 142,750 | 14,500 |
| Term loan facilities, net | 248,779 | 248,579 |
| Notes payable, net | 695,819 | 695,589 |
| Mortgage notes payable, net | 249,450 | 252,421 |
| Intangible liabilities, net | 20,257 | 19,718 |
| Deferred revenue | 85,756 | 87,134 |
| Interest rate swaps | — | 5,700 |
| Accounts payable, accrued expenses and other liabilities | 56,244 | 60,890 |
| Total liabilities | <u>1,499,055</u> | <u>1,384,531</u> |
| Equity | | |
| Common stock, par value \$0.01, 200,000,000 shares authorized, 90,816,622 and 90,147,868 shares issued and outstanding at June 30, 2022 and December 31, 2021, respectively | 908 | 901 |
| Additional paid-in capital | 1,621,288 | 1,604,712 |
| Retained earnings | 76,561 | 62,023 |
| Cumulative dividends | (427,851) | (379,895) |
| Accumulated other comprehensive income (loss) | 2,393 | (5,072) |
| Total stockholders' equity | <u>1,273,299</u> | <u>1,282,669</u> |
| Non-controlling interest in Operating Partnership | 168,696 | 158,912 |
| Total equity | <u>1,441,995</u> | <u>1,441,581</u> |
| Total liabilities and equity | <u>\$ 2,941,050</u> | <u>\$ 2,826,112</u> |

The accompanying notes are an integral part of these consolidated financial statements.

Easterly Government Properties, Inc.
Consolidated Statements of Operations (unaudited)
(Amounts in thousands, except share and per share amounts)

| | <u>For the three months ended June 30,</u> | | <u>For the six months ended June 30,</u> | |
|--|--|-----------------|--|------------------|
| | <u>2022</u> | <u>2021</u> | <u>2022</u> | <u>2021</u> |
| Revenues | | | | |
| Rental income | \$ 71,156 | \$ 66,095 | \$ 141,595 | \$ 130,274 |
| Tenant reimbursements | 916 | 1,899 | 2,060 | 2,219 |
| Asset management income | 317 | — | 565 | — |
| Other income | 368 | 620 | 839 | 1,122 |
| Total revenues | <u>72,757</u> | <u>68,614</u> | <u>145,059</u> | <u>133,615</u> |
| Expenses | | | | |
| Property operating | 15,551 | 14,296 | 31,009 | 26,390 |
| Real estate taxes | 7,851 | 7,553 | 15,677 | 14,839 |
| Depreciation and amortization | 24,343 | 22,525 | 48,502 | 44,850 |
| Acquisition costs | 302 | 483 | 664 | 970 |
| Corporate general and administrative | 5,966 | 5,768 | 11,949 | 11,576 |
| Total expenses | <u>54,013</u> | <u>50,625</u> | <u>107,801</u> | <u>98,625</u> |
| Other income (expense) | | | | |
| Income from unconsolidated real estate venture | 825 | — | 1,456 | — |
| Interest expense, net | (11,439) | (9,265) | (22,321) | (18,386) |
| Gain on the sale of operating property | — | 530 | — | 530 |
| Net income | <u>8,130</u> | <u>9,254</u> | <u>16,393</u> | <u>17,134</u> |
| Non-controlling interest in Operating Partnership | <u>(933)</u> | <u>(1,053)</u> | <u>(1,855)</u> | <u>(1,942)</u> |
| Net income available to Easterly Government Properties, Inc. | <u>\$ 7,197</u> | <u>\$ 8,201</u> | <u>\$ 14,538</u> | <u>\$ 15,192</u> |
| Net income available to Easterly Government Properties, Inc. per share: | | | | |
| Basic | \$ 0.08 | \$ 0.10 | \$ 0.16 | \$ 0.18 |
| Diluted | \$ 0.08 | \$ 0.10 | \$ 0.16 | \$ 0.18 |
| Weighted-average common shares outstanding | | | | |
| Basic | 90,751,351 | 83,817,680 | 90,452,594 | 82,973,705 |
| Diluted | 91,083,980 | 84,247,285 | 90,799,647 | 83,398,931 |
| Dividends declared per common share | \$ 0.265 | \$ 0.260 | \$ 0.530 | \$ 0.520 |

The accompanying notes are an integral part of these consolidated financial statements.

Easterly Government Properties, Inc.
Consolidated Statements of Comprehensive Income (unaudited)
(Amounts in thousands)

| | <u>For the three months ended June 30,</u> | | <u>For the six months ended June 30,</u> | |
|---|--|-----------------|--|------------------|
| | <u>2022</u> | <u>2021</u> | <u>2022</u> | <u>2021</u> |
| Net income | \$ 8,130 | \$ 9,254 | \$ 16,393 | \$ 17,134 |
| Other comprehensive income: | | | | |
| Unrealized gain on interest rate swaps, net | 2,903 | 1,257 | 8,410 | 3,095 |
| Other comprehensive income | 2,903 | 1,257 | 8,410 | 3,095 |
| Comprehensive income | 11,033 | 10,511 | 24,803 | 20,229 |
| Non-controlling interest in Operating Partnership | (933) | (1,053) | (1,855) | (1,942) |
| Other comprehensive income attributable to non-controlling interest | (338) | (55) | (945) | (283) |
| Comprehensive income attributable to Easterly Government Properties, Inc. | <u>\$ 9,762</u> | <u>\$ 9,403</u> | <u>\$ 22,003</u> | <u>\$ 18,004</u> |

The accompanying notes are an integral part of these consolidated financial statements.

Easterly Government Properties, Inc.
Consolidated Statements of Cash Flows (unaudited)
(Amounts in thousands)

| | For the six months ended June 30, | |
|--|--|------------------|
| | 2022 | 2021 |
| Cash flows from operating activities | | |
| Net income | \$ 16,393 | \$ 17,134 |
| Adjustments to reconcile net income to net cash provided by operating activities | | |
| Depreciation and amortization | 48,502 | 44,850 |
| Straight line rent | (531) | (2,737) |
| Income from unconsolidated real estate venture | (1,456) | — |
| Amortization of above- / below-market leases | (1,604) | (2,511) |
| Amortization of unearned revenue | (2,841) | (2,819) |
| Amortization of loan premium / discount | (563) | (38) |
| Amortization of deferred financing costs | 1,022 | 765 |
| Amortization of lease inducements | 428 | 430 |
| Gain on the sale of operating property | — | (530) |
| Distributions from investment in unconsolidated real estate venture | 3,369 | — |
| Non-cash compensation | 3,266 | 2,367 |
| Other | — | 7 |
| Net change in: | | |
| Tenant accounts receivable | 2,712 | (781) |
| Prepaid expenses and other assets | (1,510) | (7,587) |
| Deferred revenue associated with operating leases | 1,464 | 746 |
| Principal payments on operating lease obligations | (195) | (44) |
| Accounts payable, accrued expenses and other liabilities | (4,102) | 7,465 |
| Net cash provided by operating activities | <u>64,354</u> | <u>56,717</u> |
| Cash flows from investing activities | | |
| Real estate acquisitions and deposits | (78,771) | (93,037) |
| Additions to operating properties | (10,891) | (9,573) |
| Additions to development properties | (4,949) | (4,518) |
| Proceeds from sale of operating property, net | — | 3,326 |
| Distributions from investment in unconsolidated real estate venture | 304 | — |
| Investment in unconsolidated real estate venture | (52,721) | — |
| Net cash used in investing activities | <u>(147,028)</u> | <u>(103,802)</u> |
| Cash flows from financing activities | | |
| Payment of deferred financing costs | — | (81) |
| Issuance of common shares | 9,504 | 40,403 |
| Credit facility draws | 157,250 | 125,250 |
| Credit facility repayments | (29,000) | (67,250) |
| Repayments of mortgage notes payable | (2,628) | (1,886) |
| Dividends and distributions paid | (54,415) | (48,777) |
| Payment of offering costs | (136) | (565) |
| Net cash provided by financing activities | <u>80,575</u> | <u>47,094</u> |
| Net increase (decrease) in Cash and cash equivalents and Restricted cash | (2,099) | 9 |
| Cash and cash equivalents and Restricted cash, beginning of period | 20,143 | 14,669 |
| Cash and cash equivalents and Restricted cash, end of period | <u>\$ 18,044</u> | <u>\$ 14,678</u> |

The accompanying notes are an integral part of these consolidated financial statements.

Easterly Government Properties, Inc.
Consolidated Statements of Cash Flows (unaudited)
(Amounts in thousands)

Supplemental disclosure of cash flow information is as follows:

| | For the six months ended June 30, | |
|---|--|-------------|
| | 2022 | 2021 |
| Cash paid for interest, net of capitalized interest | \$ 21,766 | \$ 17,671 |
| Supplemental disclosure of non-cash information | | |
| Additions to operating properties accrued, not paid | \$ 1,207 | \$ 2,417 |
| Additions to development properties accrued, not paid | 2,534 | 1,330 |
| Financing costs accrued, not paid | — | 77 |
| Offering costs accrued, not paid | — | 166 |
| Deferred asset acquisition costs accrued, not paid | 128 | 291 |
| Contingent consideration accrued, not paid | — | 336 |
| Unrealized gain on interest rate swaps, net | 8,410 | 3,095 |
| Properties acquired for Common Units | 17,361 | 20,790 |
| Recognition of operating lease right-of-use assets | 101 | — |
| Recognition of liabilities related to operating lease right-of-use assets | 101 | — |
| Exchange of Common Units for Shares of Common Stock | | |
| Non-controlling interest in Operating Partnership | \$ (2,911) | \$ (3,424) |
| Common stock | 2 | 2 |
| Additional paid-in capital | 2,909 | 3,422 |
| Total | <u>\$ —</u> | <u>\$ —</u> |

The accompanying notes are an integral part of these consolidated financial statements.

1. Organization and Basis of Presentation

The information contained in the following notes to the consolidated financial statements is condensed from that which would appear in the annual consolidated financial statements; accordingly, the consolidated financial statements included herein should be reviewed in conjunction with the consolidated financial statements for the fiscal year ended December 31, 2021, and related notes thereto, included in the Annual Report on Form 10-K of Easterly Government Properties, Inc. (the “Company”) for the year ended December 31, 2021 filed with the U.S. Securities and Exchange Commission (the “SEC”) on February 28, 2022.

The Company is a Maryland corporation that has elected to be taxed as a real estate investment trust (“REIT”) under the Internal Revenue Code of 1986, as amended (the “Code”), commencing with its taxable year ended December 31, 2015. The operations of the Company are carried on primarily through Easterly Government Properties LP (the “Operating Partnership”) and the wholly owned subsidiaries of the Operating Partnership. As used herein, the “Company,” “we,” “us,” or “our” refer to Easterly Government Properties, Inc. and its consolidated subsidiaries and partnerships, including the Operating Partnership, except where context otherwise requires.

We are an internally managed REIT, focused primarily on the acquisition, development, and management of Class A commercial properties that are leased to U.S. Government agencies that serve essential functions. We generate substantially all of our revenue by leasing our properties to such agencies, either directly or through the U.S. General Services Administration (“GSA”). Our objective is to generate attractive risk-adjusted returns for our stockholders over the long-term through dividends and capital appreciation.

We focus on acquiring, developing and managing U.S. Government leased properties that are essential to supporting the mission of the tenant agency and strive to be a partner of choice for the U.S. Government, working closely with the tenant agency to meet its needs and objectives. As of June 30, 2022, we wholly owned 87 operating properties and six operating properties through an unconsolidated joint venture (the “JV”) in the United States, encompassing approximately 9.0 million leased square feet, including 92 operating properties that were leased primarily to U.S. Government tenant agencies and one operating property that was entirely leased to a private tenant. As of June 30, 2022, our operating properties were 99% leased. For purposes of calculating percentage leased, we exclude from the denominator total square feet that was unleased and to which we attributed no value at the time of acquisition. In addition, we wholly owned one property under development that we expect will encompass approximately 0.2 million leased square feet upon completion.

The Operating Partnership holds substantially all of our assets and conducts substantially all of our business. We are the sole general partner of the Operating Partnership. We owned approximately 88.3% of the aggregate limited partnership interests in the Operating Partnership (“common units”) at June 30, 2022. We believe that we have operated and have been organized in conformity with the requirements for qualification and taxation as a REIT for U.S. federal income tax purposes commencing with our taxable year ended December 31, 2015.

Principles of Consolidation

The accompanying consolidated financial statements are presented on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (“GAAP”) and include the accounts of the Company, Easterly Government Properties TRS, LLC, Easterly Government Services, LLC, the Operating Partnership and its other subsidiaries. All significant intercompany balances and transactions have been eliminated in consolidation.

Basis of Presentation

The condensed consolidated financial statements included herein are unaudited; however, they include all adjustments (consisting only of normal recurring adjustments) which, in the opinion of management, are necessary to state fairly the consolidated financial position of the Company at June 30, 2022 and December 31, 2021, the consolidated results of operations for the three and six months ended June 30, 2022 and 2021, and the consolidated cash flows for the six months ended June 30, 2022 and 2021. The year-end condensed consolidated balance sheet data was derived from audited financial statements but does not include all disclosures required by GAAP. The results of operations for the interim periods presented are not necessarily indicative of the results to be expected for the full year.

The preparation of the consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosures of contingent assets and liabilities at the date of the balance sheet, and the reported amounts of revenues and expenses during the reporting period. We base our estimates on historical experience and on various

other assumptions that are believed to be reasonable under the circumstances, including the impact of extraordinary events such as the novel coronavirus (COVID-19) pandemic, the results of which form the basis for making judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

2. Summary of Significant Accounting Policies

The significant accounting policies used in the preparation of the Company's condensed consolidated financial statements are disclosed in the Company's Annual Report on Form 10-K for the year ended December 31, 2021.

Reclassifications

Certain prior year amounts have been reclassified to conform to the current year presentation.

3. Real Estate and Intangibles

Acquisitions

During the six months ended June 30, 2022, we acquired two operating properties in asset acquisitions, FBI – Tampa and NARA – Broomfield for an aggregate purchase price of \$93.1 million. We allocated the aggregate purchase price of these acquisitions based on the estimated fair values of the acquired assets and assumed liabilities as follows (amounts in thousands):

| | <u>Total</u> |
|-------------------------------------|------------------|
| <u>Real estate</u> | |
| Land | \$ 9,003 |
| Building | 75,874 |
| Acquired tenant improvements | 932 |
| Total real estate | 85,809 |
| <u>Intangible assets</u> | |
| In-place leases | 6,450 |
| Acquired leasing commissions | 3,686 |
| Total intangible assets | 10,136 |
| <u>Intangible liabilities</u> | |
| Below-market leases | (2,858) |
| Total intangible liabilities | (2,858) |
| Purchase price | \$ 93,087 |

The intangible assets and liabilities of operating properties acquired during the six months ended June 30, 2022 have a weighted average amortization period of 13.7 years as of June 30, 2022. During the six months ended June 30, 2022, we included \$1.0 million of revenues and \$0.4 million of net income in our Consolidated Statements of Operations related to the operating properties acquired.

During the six months ended June 30, 2022, we incurred \$0.7 million of acquisition-related expenses mainly consisting of internal costs associated with property acquisitions and future acquisitions.

Consolidated Real Estate and Intangibles

Real estate and intangibles consisted of the following as of June 30, 2022 (amounts in thousands):

| | <u>Total</u> |
|---|------------------|
| <u>Real estate properties, net</u> | |
| Land | \$ 231,842 |
| Building and improvements | 2,418,590 |
| Acquired tenant improvements | 90,950 |
| Construction in progress | 35,467 |
| Accumulated depreciation | (312,569) |
| Total Real estate properties, net | 2,464,280 |
| <u>Intangible assets, net</u> | |
| In-place leases | 292,175 |
| Acquired leasing commissions | 75,199 |
| Above market leases | 17,541 |
| Payment in lieu of taxes | 6,394 |
| Accumulated amortization | (208,221) |
| Total Intangible assets, net | 183,088 |
| <u>Intangible liabilities, net</u> | |
| Below market leases | (76,751) |
| Accumulated amortization | 56,494 |
| Total Intangible liabilities, net | (20,257) |

No operating properties were disposed of during the six months ended June 30, 2022.

The following table summarizes the scheduled amortization of the Company's acquired above- and below-market lease intangibles for each of the five succeeding years as of June 30, 2022 (amounts in thousands):

| | <u>Acquired Above-Market Lease Intangibles</u> | | <u>Acquired Below-Market Lease Intangibles</u> | |
|------|--|-------|--|---------|
| 2022 | \$ | 698 | \$ | (2,235) |
| 2023 | | 1,390 | | (4,307) |
| 2024 | | 1,341 | | (3,160) |
| 2025 | | 1,286 | | (2,454) |
| 2026 | | 1,217 | | (2,216) |

Above-market lease amortization reduces Rental income on our Consolidated Statements of Operations and below-market lease amortization increases Rental income on our Consolidated Statements of Operations.

4. Investment in Unconsolidated Real Estate Venture

The following is a summary of our investment in the JV (dollars in thousands):

| | <u>Joint Venture</u> | <u>Ownership Interest</u> | <u>As of June 30,</u> |
|-----------------|----------------------|---------------------------|-----------------------|
| | | | <u>2022</u> |
| MedBase Venture | | 53.0% | \$ 182,343 |

On October 13, 2021, we formed an unconsolidated real estate venture, which we refer to as the JV, with a global investor to fund the acquisition of a portfolio of ten properties anticipated to encompass 1,214,165 leased square feet. We own a 53.0% interest in the JV, subject to preferred allocations as provided in the JV agreement.

During the three and six months ended June 30, 2022, the JV acquired two properties VA – Birmingham and VA – Marietta for an aggregate purchase price of \$100.6 million. These properties are the fifth and sixth properties acquired in the VA Portfolio.

We provide asset management services to the JV. We recognized asset management service revenue of \$0.3 million and \$0.6 million for the three and six months ended June 30, 2022, respectively.

On January 20, 2022, the JV issued 125 Series A Preferred Units (“preferred units”) which resulted in net proceeds of \$0.1 million. Holders of the preferred units are entitled to receive, when declared, cumulative preferential cash distributions.

The following is a summary of financial information for the JV (amounts in thousands):

| | <u>As of June 30,</u> | |
|--|-----------------------|----------------|
| | <u>2022</u> | |
| Balance sheet information: | | |
| Real estate, net (1) | \$ | 284,552 |
| Other assets, net | | 66,350 |
| Total assets | \$ | <u>350,902</u> |
| Total liabilities (2) | \$ | 7,490 |
| Total equity | | 343,412 |
| Total liabilities and equity | \$ | <u>350,902</u> |
| Company’s share of equity | \$ | 181,968 |
| Basis differential (3) | | 375 |
| Carrying value of the Company’s investment in the unconsolidated venture | \$ | <u>182,343</u> |

- (1) At June 30, 2022, this amount included right-of-use assets - finance leases totaling approximately \$5.0 million representing a ground lease at VA – Lubbock.
- (2) At June 30, 2022, this amount included lease liabilities - finance leases totaling approximately \$5.0 million representing a ground lease at VA – Lubbock.
- (3) This amount represents the aggregate difference between the Company’s historical cost basis and the basis reflected at the joint venture level.

| | <u>For the three months ended June 30,</u> | | <u>For the six months ended June 30,</u> | |
|--------------------------------------|--|-------------|--|-------------|
| | <u>2022</u> | <u>2021</u> | <u>2022</u> | <u>2021</u> |
| Income statement information: | | | | |
| Total revenue | \$ 5,965 | \$ — | \$ 10,663 | \$ — |
| Operating income | 1,597 | — | 2,828 | — |
| Net income | 1,556 | — | 2,746 | — |
| Company’s share of net income | \$ 825 | \$ — | \$ 1,456 | \$ — |

5. Debt

At June 30, 2022, our consolidated borrowings consisted of the following (amounts in thousands):

| Loan | Principal Outstanding June 30, 2022 | Interest Rate (1) | Current Maturity |
|---|--|----------------------|---------------------|
| Revolving credit facility: | | | |
| Revolving credit facility (2) | \$ 142,750 | L + 125 bps | July 2025 (3) |
| Total revolving credit facility | 142,750 | | |
| Term loan facilities: | | | |
| 2016 term loan facility | 100,000 | 2.67% (5) | March 2024 |
| 2018 term loan facility (4) | 150,000 | 3.91% (6) | July 2026 |
| Total term loan facilities | 250,000 | | |
| Less: Total unamortized deferred financing fees | (1,221) | | |
| Total term loan facilities, net | 248,779 | | |
| Notes payable: | | | |
| 2017 series A senior notes | 95,000 | 4.05% | May 2027 |
| 2017 series B senior notes | 50,000 | 4.15% | May 2029 |
| 2017 series C senior notes | 30,000 | 4.30% | May 2032 |
| 2019 series A senior notes | 85,000 | 3.73% | September 2029 |
| 2019 series B senior notes | 100,000 | 3.83% | September 2031 |
| 2019 series C senior notes | 90,000 | 3.98% | September 2034 |
| 2021 series A senior notes | 50,000 | 2.62% | October 2028 |
| 2021 series B senior notes | 200,000 | 2.89% | October 2030 |
| Total notes payable | 700,000 | | |
| Less: Total unamortized deferred financing fees | (4,181) | | |
| Total notes payable, net | 695,819 | | |
| Mortgage notes payable: | | | |
| DEA – Pleasanton | 15,700 | L + 150bps (7) | October 2023 |
| VA – Golden | 8,723 | 5.00% (7) | April 2024 |
| MEPCOM – Jacksonville | 6,163 | 4.41% (7) | October 2025 |
| USFS II – Albuquerque | 14,306 | 4.46% (7) | July 2026 |
| ICE – Charleston | 14,140 | 4.21% (7) | January 2027 |
| VA – Loma Linda | 127,500 | 3.59% (7) | July 2027 |
| CBP – Savannah | 10,799 | 3.40% (7) | July 2033 |
| USCIS – Kansas City | 51,500 | 3.68% (7) | August 2024 |
| Total mortgage notes payable | 248,831 | | |
| Less: Total unamortized deferred financing fees | (1,633) | | |
| Less: Total unamortized premium/discount | 2,252 | | |
| Total mortgage notes payable, net | 249,450 | | |
| Total debt | \$ 1,336,798 | | |

- (1) At June 30, 2022, the one-month LIBOR (“L”) was 1.79%. The current interest rate is not adjusted to include the amortization of deferred financing fees or debt issuance costs incurred in obtaining debt or any unamortized fair market value premiums. The spread over the applicable rate for each of our \$450.0 million senior unsecured revolving credit facility (our “revolving credit facility”), our \$200.0 million senior unsecured term loan facility (as amended, our “2018 term loan facility”) and our \$100.0 million senior unsecured term loan facility (our “2016 term loan facility”) is based on the Company’s consolidated leverage ratio, as set forth in the respective loan agreements.
- (2) Our revolving credit facility had available capacity of \$307.1 million at June 30, 2022 with an accordion feature that permits us to request additional lender commitments for up to \$250.0 million of additional capacity, subject to the satisfaction of customary terms and conditions.
- (3) Our revolving credit facility has two six-month as-of-right extension options subject to certain conditions and the payment of an extension fee.

- (4) Our 2018 term loan facility has undrawn capacity up to \$50.0 million of which is available during a delayed draw period.
- (5) Entered into two interest rate swaps with an effective date of March 29, 2017 with an aggregate notional value of \$100.0 million to effectively fix the interest rate at 2.67% annually, based on our consolidated leverage ratio, as defined in our 2016 term loan facility agreement.
- (6) Entered into four interest rate swaps with an effective date of December 13, 2018 with an aggregate notional value of \$150.0 million to effectively fix the interest rate at 3.91% annually, based on our consolidated leverage ratio, as defined in our 2018 term loan facility agreement.
- (7) Effective interest rates are as follows: DEA – Pleasanton 1.80%, VA – Golden 5.03%, MEPCOM – Jacksonville 3.89%, USFS II Albuquerque 3.92%, ICE – Charleston 3.93%, VA – Loma Linda 3.78%, CBP – Savannah 4.12%, USCIS – Kansas City 2.05%.

As of June 30, 2022, the net carrying value of real estate collateralizing our mortgages payable totaled \$375.9 million. See Note 7 to the Consolidated Financial Statements, for the fair value of our debt instruments.

On July 22, 2022, we entered into the first amendment to our second amended and restated senior credit agreement (the “first amendment”). The first amendment extended the deadline for the \$50.0 million delayed draw portion of the 2018 term loan to July 24, 2023 (from July 22, 2022).

Financial Covenant Considerations

As of June 30, 2022, we were in compliance with all financial and other covenants related to our debt.

6. Derivatives and Hedging Activities

The following table sets forth the key terms and fair values of our interest rate swap derivatives, each of which was designated as a cash flow hedge as of June 30, 2022 (amounts in thousands):

| <u>Notional Amount</u> | <u>Fixed Rate</u> | <u>Floating Rate Index</u> | <u>Effective Date</u> | <u>Expiration Date</u> | <u>Fair Value</u> |
|------------------------|-------------------|----------------------------|-----------------------|------------------------|-------------------|
| \$ 100,000 | 1.41% | One-Month LIBOR | March 29, 2017 | September 29, 2023 | \$ 2,157 |
| \$ 150,000 | 2.71% | One-Month LIBOR | December 13, 2018 | June 19, 2023 | \$ 553 |

The table below sets forth the fair value of our interest rate derivatives as well as their classification on our Consolidated Balance Sheet (amounts in thousands):

| <u>Balance Sheet Line Item</u> | <u>As of June 30, 2022</u> | |
|---------------------------------|----------------------------|-------|
| Interest rate swaps - Asset | \$ | 2,710 |
| Interest rate swaps - Liability | \$ | — |

Cash Flow Hedges of Interest Rate Risk

The gains or losses on derivatives designated and that qualify as cash flow hedges is recorded in Accumulated other comprehensive income (loss) (“AOCI”) and will be reclassified to interest expense in the period that the hedged forecasted transactions affect earnings on the Company’s variable rate debt.

The Company estimates that \$2.2 million will be reclassified from AOCI as a decrease to interest expense over the next 12 months.

The table below presents the effects of our interest rate derivatives on our Consolidated Statements of Operations and Comprehensive Income (amounts in thousands):

| | <u>For the three months ended June 30,</u> | | <u>For the six months ended June 30,</u> | |
|---|--|-------------|--|-------------|
| | <u>2022</u> | <u>2021</u> | <u>2022</u> | <u>2021</u> |
| Unrealized gain (loss) recognized in AOCI | \$ 2,005 | \$ (63) | \$ 6,244 | \$ 483 |
| Loss reclassified from AOCI into interest expense | (898) | (1,320) | (2,166) | (2,611) |

Credit-Risk-Related Contingent Features

The Company has agreements with each of its derivative counterparties that contain a provision where the Company could be declared in default on its derivative obligations if repayment of the underlying indebtedness is accelerated by the lender due to the Company's default on such indebtedness. As of June 30, 2022, the Company did not have any derivatives in a net liability position.

7. Fair Value Measurements

Accounting standards define fair value as the exit price, or the amount that would be received upon sale of an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The standards also establish a hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. Observable inputs are inputs market participants would use in valuing the asset or liability developed based on market data obtained from sources independent of us. Unobservable inputs are inputs that reflect our assumptions about the factors market participants would use in valuing the asset or liability developed based upon the best information available in the circumstances. The hierarchy of these inputs is broken down into three levels: Level 1, defined as observable inputs such as quoted prices in active markets; Level 2, defined as inputs other than quoted prices in active markets that are either directly or indirectly observable; and Level 3, defined as unobservable inputs in which little or no market data exists, therefore requiring an entity to develop its own assumptions. Categorization within the valuation hierarchy is based upon the lowest level of input that is most significant to the fair value measurement.

Recurring fair value measurements

The fair values of our interest rate swaps are determined using widely accepted valuation techniques, including discounted cash flow analysis on the expected cash flows of each derivative. This analysis reflects the contractual terms of the derivatives, including the period to maturity, and uses observable market-based inputs, including interest rate curves and implied volatilities in such interest rates. While the Company determined that the majority of the inputs used to value its derivatives fall within Level 2 of the fair value hierarchy, the credit valuation adjustments associated with its derivatives utilize Level 3 inputs, such as estimates of current credit spreads to evaluate the likelihood of default by the Company and its counterparties. The Company has determined that the significance of the impact of the credit valuation adjustments made to its derivative contracts, which determination was based on the fair value of each individual contract, was not significant to the overall valuation. As a result, all of the Company's derivatives held as of June 30, 2022 were classified as Level 2 of the fair value hierarchy.

The carrying values of cash and cash equivalents, restricted cash, accounts receivable, other assets and accounts payable and accrued expenses are reasonable estimates of fair values because of the short maturities of these instruments. The table below presents the Company's assets and liabilities measured at fair value on a recurring basis as of June 30, 2022, aggregated by the level in the fair value hierarchy within which those measurements fall (amounts in thousands):

| Balance Sheet Line Item | As of June 30, 2022 | | |
|---------------------------------|---------------------|----------|---------|
| | Level 1 | Level 2 | Level 3 |
| Interest rate swaps - Asset | \$ — | \$ 2,710 | \$ — |
| Interest rate swaps - Liability | \$ — | \$ — | \$ — |

For our disclosure of debt fair values, we estimated the fair value of our 2016 term loan facility and our 2018 term loan facility based on the variable interest rate and credit spreads (categorized within Level 3 of the fair value hierarchy) and estimated the fair value of our other debt based on the discounted estimated future cash payments to be made on such debt (categorized within Level 3 of the fair value hierarchy); the discount rates used approximate current market rates for loans, or groups of loans, with similar maturities and credit quality, and the estimated future payments included scheduled principal and interest payments. Fair value estimates are made as of a specific point in time, are subjective in nature and involve uncertainties and matters of significant judgment. Settlement at such fair value amounts may not be possible and may not be a prudent management decision.

Financial assets and liabilities not measured at fair value

As of June 30, 2022, all financial instruments and liabilities were reflected in our balance sheets at amounts which, in our estimation, reasonably approximated their fair values, except for the following:

| Financial liabilities | As of June 30, 2022 | |
|---------------------------|---------------------|----------------|
| | Carrying Amount (1) | Fair Value (2) |
| Revolving credit facility | \$ 142,750 | \$ 142,750 |
| 2016 term loan facility | \$ 100,000 | \$ 100,000 |
| 2018 term loan facility | \$ 150,000 | \$ 150,000 |
| Notes payable | \$ 700,000 | \$ 634,451 |
| Mortgages payable | \$ 248,831 | \$ 244,586 |

(1) The carrying amount consists of principal only.

(2) We deem the fair value measurement of the financial liability instrument a Level 3 measurement.

8. Equity Incentive Plan

Restricted Shares

The Company awards restricted stock to certain members of management and non-employee directors. Management awards generally vest over a range of two to four years. Non-employee director shares vest upon the earlier of the anniversary of the date of the grant or the next annual stockholder meeting, as long as the grantee remains a director or employee on such date. Restricted stock awards issued under the 2015 Equity Incentive Plan, as amended (the "2015 Equity Incentive Plan"), may not be sold or otherwise transferred until restrictions have lapsed, as established by the compensation committee.

We value our non-vested restricted share awards at the grant date fair value, which was the market price of our common stock as of the applicable grant date. Compensation expense related to restricted common stock awards was \$0.2 million for each of the three months ended June 30, 2022 and 2021 and \$0.4 million for each of the six months ended June 30, 2022 and 2021.

The fair value of restricted stock that vested was \$1.5 million and \$0.9 million during the six months ended June 30, 2022 and 2021, respectively, based on the market price at the vesting date. The balance of unamortized restricted stock expense as of June 30, 2022 was \$0.7 million, which is expected to be recognized over a weighted-average period of 1.3 years.

A summary of the status of our restricted shares as of June 30, 2022 and changes during the six months ended June 30, 2022 is presented below:

| | Restricted Shares | | Restricted Shares Weighted Average Grant Date Fair Value Per Share |
|--------------------------------|-------------------|----|--|
| Outstanding, December 31, 2021 | 86,006 | \$ | 19.16 |
| Vested | (71,168) | | 18.49 |
| Granted | 29,078 | | 18.81 |
| Forfeited | — | | — |
| Outstanding, June 30, 2022 | 43,916 | \$ | 20.01 |

LTIP Units

The Company grants LTIP units to certain members of management and non-employee directors. Management awards generally vest immediately or over a range of two to four years. Non-employee director shares vest upon the earlier of the anniversary of the date of the grant or the next annual stockholder meeting, as long as the grantee remains a director or employee on such date. Performance-based LTIP units are earned subject to the Company achieving certain thresholds, including absolute total shareholder returns, relative total shareholder returns, or operational hurdles through the performance period. Service-based LTIP units vest over time, subject to continued employment and other terms of the awards.

The following is a summary of our granted LTIP unit awards during the six months ended June 30, 2022:

| Award Type | Grant Date | Performance Period End Date | Vest Date | Units Granted |
|-----------------|-----------------|-----------------------------|-------------------|----------------|
| Service | January 3, 2022 | — | December 31, 2024 | 110,906 |
| Operational | January 3, 2022 | December 31, 2024 | 1 | 80,160 |
| Performance | January 3, 2022 | December 31, 2024 | 1 | 158,535 |
| Service | May 11, 2022 | — | 2 | 11,238 |
| 2022 LTIP Grant | | | | <u>360,839</u> |

- (1) Earned units will vest on date of compensation committee determination of performance.
- (2) Units will vest on the earlier of the anniversary of the grant date or the 2023 annual stockholder meeting.

We value our operational LTIP unit awards that are subject to the Company achieving certain performance conditions at the grant date fair value, which is the market price of our common stock as of the applicable grant date. We value our service-based LTIP unit awards at the grant date fair value, which is the market price of our common stock as of the applicable grant date, discounted by the risk related to the timing of book-up events. For the performance LTIP unit awards granted that are subject to the Company achieving certain total shareholder return thresholds, we used a Monte Carlo Simulation (risk-neutral approach) to determine the grant date fair value.

The following is a summary of the significant assumptions used to value the total shareholder return performance-based LTIP units during the six months ended June 30, 2022:

| | |
|-------------------------|---------|
| Expected volatility | 27.0% |
| Dividend yield | 4.8% |
| Risk-free interest rate | 1.0% |
| Expected life | 3 years |

The fair value of LTIP units that vested were \$5.5 million and \$4.5 million during the six months ended June 30, 2022 and 2021, respectively, based on the market price at the vesting date. Compensation expense related to LTIP unit awards was \$1.5 million and \$0.9 million for the three months ended June 30, 2022 and 2021, respectively, and \$2.9 million and \$2.0 million for the six months ended June 30, 2022 and 2021, respectively. The balance of unamortized LTIP expense as of June 30, 2022 was \$9.4 million, which is expected to be recognized over a weighted-average period of 2.0 years. As of June 30, 2022, management considers it probable that the operational performance conditions on our unvested grants will be achieved.

A summary of the status of our LTIP units as of June 30, 2022 and changes during the six months ended June 30, 2022 are presented below:

| | LTIP Units (1) | LTIP Units Weighted Average Grant Date Fair Value Per Share |
|--------------------------------|----------------|---|
| Outstanding, December 31, 2021 | 651,238 | \$ 21.02 |
| Vested | (115,412) | 18.66 |
| Granted | 360,839 | 17.48 |
| Forfeited | — | — |
| Outstanding, June 30, 2022 | <u>896,665</u> | <u>\$ 19.90</u> |

- (1) Reflects the number of LTIP units issued to the grantee on the date which may be different from the number of LTIP units actually earned in the case of performance-based LTIP units.

9. Equity

The following table summarizes the changes in the Company's stockholders' equity for the three months ended June 30, 2022 and 2021 (amounts in thousands, except share amounts):

| | Shares | Common Stock Par Value | Additional Paid-in Capital | Retained Earnings | Cumulative Dividends | Accumulated Other Comprehensive Income (Loss) | Non- controlling Interest in Operating Partnership | Total Equity |
|--|-------------------|---------------------------------|----------------------------------|----------------------|-------------------------|--|--|---------------------|
| Three months ended June 30, 2022 | | | | | | | | |
| Balance at March 31, 2022 | 90,779,897 | \$ 908 | \$ 1,614,798 | \$ 69,364 | \$ (403,788) | \$ (172) | \$ 158,235 | \$ 1,439,345 |
| Stock based compensation | — | — | 169 | — | — | — | 1,468 | 1,637 |
| Dividends and distributions paid (\$0.265 per share) | — | — | — | — | (24,063) | — | (3,318) | (27,381) |
| Grant of unvested restricted stock | 21,725 | — | — | — | — | — | — | — |
| Redemption of common units for shares of common stock | 15,000 | — | 211 | — | — | — | (211) | — |
| Contribution of property for common units | — | — | — | — | — | — | 17,361 | 17,361 |
| Unrealized gain on interest rate swaps, net | — | — | — | — | — | 2,565 | 338 | 2,903 |
| Net income | — | — | — | 7,197 | — | — | 933 | 8,130 |
| Allocation of non-controlling interest in Operating Partnership | — | — | 6,110 | — | — | — | (6,110) | — |
| Balance at June 30, 2022 | <u>90,816,622</u> | <u>\$ 908</u> | <u>\$ 1,621,288</u> | <u>\$ 76,561</u> | <u>\$ (427,851)</u> | <u>\$ 2,393</u> | <u>\$ 168,696</u> | <u>\$ 1,441,995</u> |
| Three months ended June 30, 2021 | | | | | | | | |
| Balance at March 31, 2021 | 83,856,953 | \$ 839 | \$ 1,464,014 | \$ 38,956 | \$ (313,007) | \$ (9,741) | \$ 145,733 | \$ 1,326,794 |
| Stock based compensation | — | — | 166 | — | — | — | 867 | 1,033 |
| Dividends and distributions paid (\$0.260 per share) | — | — | — | — | (21,808) | — | (2,783) | (24,591) |
| Grant of unvested restricted stock, net | 20,337 | — | — | — | — | — | — | — |
| Redemption of common units for shares of common stock | 54,000 | — | 760 | — | — | — | (760) | — |
| Contribution of property for common units | — | — | — | — | — | — | 20,790 | 20,790 |
| Unrealized gain on interest rate swaps, net | — | — | — | — | — | 1,202 | 55 | 1,257 |
| Net income | — | — | — | 8,201 | — | — | 1,053 | 9,254 |
| Allocation of non-controlling interest in Operating Partnership | — | — | 6,988 | — | — | — | (6,988) | — |
| Balance at June 30, 2021 | <u>83,931,290</u> | <u>\$ 839</u> | <u>\$ 1,471,928</u> | <u>\$ 47,157</u> | <u>\$ (334,815)</u> | <u>\$ (8,539)</u> | <u>\$ 157,967</u> | <u>\$ 1,334,537</u> |

The following table summarizes the changes in the Company's stockholders' equity for the six months ended June 30, 2022 and 2021 (amounts in thousands, except share amounts):

| | Shares | Common Stock Par Value | Additional Paid-in Capital | Retained Earnings | Cumulative Dividends | Accumulated Other Comprehensive Income (Loss) | Non-controlling Interest in Operating Partnership | Total Equity |
|---|-------------------|------------------------|----------------------------|-------------------|----------------------|---|---|---------------------|
| Six months ended June 30, 2022 | | | | | | | | |
| Balance at December 31, 2021 | 90,147,868 | \$ 901 | \$ 1,604,712 | \$ 62,023 | \$ (379,895) | \$ (5,072) | \$ 158,912 | \$ 1,441,581 |
| Stock based compensation | — | — | 352 | — | — | — | 2,914 | 3,266 |
| Dividends and distributions paid (\$0.530 per share) | — | — | — | — | (47,956) | — | (6,459) | (54,415) |
| Grant of unvested restricted stock | 29,078 | — | — | — | — | — | — | — |
| Redemption of common units for shares of common stock | 204,751 | 2 | 2,909 | — | — | — | (2,911) | — |
| Issuance of common stock, net | 434,925 | 5 | 9,394 | — | — | — | — | 9,399 |
| Contribution of property for common units | — | — | — | — | — | — | 17,361 | 17,361 |
| Unrealized gain on interest rate swaps, net | — | — | — | — | — | 7,465 | 945 | 8,410 |
| Net income | — | — | — | 14,538 | — | — | 1,855 | 16,393 |
| Allocation of non-controlling interest in Operating Partnership | — | — | 3,921 | — | — | — | (3,921) | — |
| Balance at June 30, 2022 | 90,816,622 | \$ 908 | \$ 1,621,288 | \$ 76,561 | \$ (427,851) | \$ 2,393 | \$ 168,696 | \$ 1,441,995 |
| Six months ended June 30, 2021 | | | | | | | | |
| Balance at December 31, 2020 | 82,106,256 | \$ 821 | \$ 1,424,787 | \$ 31,965 | \$ (291,652) | \$ (11,351) | \$ 145,400 | \$ 1,299,970 |
| Stock based compensation | — | — | 384 | — | — | — | 1,983 | 2,367 |
| Dividends and distributions paid (\$0.520 per share) | — | — | — | — | (43,163) | — | (5,614) | (48,777) |
| Grant of unvested restricted stock, net | 24,799 | — | — | — | — | — | — | — |
| Redemption of common units for shares of common stock | 243,411 | 2 | 3,422 | — | — | — | (3,424) | — |
| Issuance of common stock, net | 1,556,824 | 16 | 39,942 | — | — | — | — | 39,958 |
| Contribution of property for common units | — | — | — | — | — | — | 20,790 | 20,790 |
| Unrealized loss on interest rate swaps, net | — | — | — | — | — | 2,812 | 283 | 3,095 |
| Net income | — | — | — | 15,192 | — | — | 1,942 | 17,134 |
| Allocation of non-controlling interest in Operating Partnership | — | — | 3,393 | — | — | — | (3,393) | — |
| Balance at June 30, 2021 | 83,931,290 | \$ 839 | \$ 1,471,928 | \$ 47,157 | \$ (334,815) | \$ (8,539) | \$ 157,967 | \$ 1,334,537 |

A summary of dividends declared by the Company's board of directors per share of common stock and per common unit at the date of record is as follows:

| Quarter | Declaration Date | Record Date | Payment Date | Dividend (1) |
|---------|------------------|-----------------|-----------------|--------------|
| Q1 2022 | April 27, 2022 | May 13, 2022 | May 25, 2022 | \$ 0.265 |
| Q2 2022 | July 27, 2022 | August 11, 2022 | August 23, 2022 | \$ 0.265 |

- (1) Prior to the end of the performance period as set forth in the applicable LTIP unit award, holders of performance-based LTIP units are entitled to receive dividends per LTIP unit equal to 10% of the dividend paid per common unit. After the end of the performance period, the number of LTIP units, both vested and unvested, that LTIP award recipients have earned, if any, are entitled to receive dividends in an amount per LTIP unit equal to dividends, both regular and special, payable per common unit. Holders of LTIP units that are not subject to the attainment of performance goals are entitled to receive dividends per LTIP unit equal to 100% of the dividend paid per common unit beginning on the grant date.

Offering of Common Stock on a Forward Basis

On August 11, 2021, the Company and the Operating Partnership completed an underwritten public offering of 6,300,000 shares of common stock offered on a forward basis. In connection with the offering, the Company also entered into separate forward sale agreements with each of the forward purchasers (the "Forward Sales Agreements"), pursuant to which the forward purchasers borrowed and sold to the underwriters an aggregate of 6,300,000 shares of the Company's common stock. On December 28, 2021, the Company issued 3,991,000 shares of its common stock for net proceeds of \$85.0 million, which shares were issued in partial settlement of the Forward Sales Agreements entered into in connection with the underwritten public offering. No shares were issued during the six months ended June 30, 2022. The Company expects to physically settle the remaining Forward Sales Agreements and receive proceeds, subject to certain adjustments, from the sale of those shares of common stock upon one or more such physical settlements within approximately two years from the date of the offering (which was extended by one year). Although the Company expects to settle the Forward Sales Agreements entirely by the physical delivery of shares of its common stock for cash proceeds, the Company may also elect to cash or net-share settle all or a portion of its obligations under the Forward Sales Agreements, in which case, the Company may receive, or may owe, cash or shares of its common stock from or to the forward purchasers. The Forward Sales Agreements provide for an initial forward price of \$21.64 per share, subject to certain adjustments pursuant to the terms of each of the Forward Sales Agreements. The Forward Sales Agreements are subject to early termination or settlement under certain circumstances.

ATM Programs

The Company entered into separate equity distribution agreements on each of December 20, 2019 (the “2019 ATM Program”) and June 22, 2021 (the “2021 ATM Program” and, together with the 2019 ATM Program, the “ATM Programs”) with various financial institutions pursuant to which it may issue and sell shares of its common stock having an aggregate offering price of up to \$300.0 million under each ATM Program from time to time in negotiated transactions or transactions that are deemed to be “at the market” offerings as defined in Rule 415 under the Securities Act of 1933, as amended (the “Securities Act”). Under each of the ATM Programs, the Company may enter into one or more forward transactions (each, a “forward sale transaction”) under separate master forward sale confirmations and related supplemental confirmations with each of the various financial institutions party to the respective ATM Program for the sale of shares of its common stock on a forward basis.

The following table sets forth certain information with respect to issuances under the 2019 ATM Program during the six months ended June 30, 2022 (amounts in thousands except share amounts):

| For the three months ended | 2019 ATM Program | |
|----------------------------|----------------------------|-----------------|
| | Number of Shares Issued(1) | Net Proceeds(1) |
| March 31, 2022 | 434,925 | \$ 9,409 |
| June 30, 2022 | — | — |
| Total | 434,925 | \$ 9,409 |

- (1) Shares issued by the Company, which were all issued in settlement of forward sales transactions. Additionally, as of June 30, 2022, the Company had entered into forward sales transactions under the 2019 ATM Program for the sale of an additional 1,950,000 shares of its common stock that have not yet been settled. Subject to its right to elect net share settlement, the Company expects to physically settle the forward sales transactions by the maturity dates set forth in each applicable forward sale transaction placement notice, which dates range from July 2022 to June 2023. Assuming the forward sales transactions are physically settled in full utilizing a net weighted average initial forward sales price of \$21.82 per share, the Company expects to receive net proceeds of approximately \$42.6 million, after deducting offering costs, subject to adjustments in accordance with the applicable forward sale transaction. The Company accounted for the forward sale transactions as equity.

No sales of shares of the Company’s common stock were made under the 2021 ATM Program during the six months ended June 30, 2022.

The Company used the net proceeds received from such sales for general corporate purposes. As of June 30, 2022, the Company had approximately \$300.0 million of gross sales of its common stock available under the 2021 ATM Program and \$87.4 million of gross sales of its common stock available under the 2019 ATM Program.

Share Repurchase Program

On April 28, 2022, the Company’s Board of Directors authorized a share repurchase program whereby the Company may repurchase up to 4,538,994 shares of its common stock, or approximately 5% of its outstanding shares as of the authorization date. The Company is not required to purchase shares under the share repurchase program, but may choose to do so in the open market or through privately negotiated transactions at times and amounts based on its evaluation of market conditions and other factors.

No repurchases of shares of the Company’s common stock were made under the share repurchase program during the six months ended June 30, 2022.

Contribution of Property for Common Units

On May 10, 2022, the Company acquired NARA – Broomfield for which it issued, as partial consideration, 827,791 common units. The issuance of common units was effected in reliance upon an exemption from registration provided by Section 4(a)(2) under the Securities Act.

10. Earnings Per Share

Basic earnings or loss per share of common stock (“EPS”) is calculated by dividing net income attributable to common stockholders by the weighted average shares of common stock outstanding for the periods presented. Diluted EPS is computed after adjusting the basic EPS computation for the effect of dilutive common equivalent shares outstanding during the periods presented. Unvested restricted shares of common stock and unvested LTIP units are considered participating securities, which require the use of the two-class method for the computation of basic and diluted earnings per share.

The following table sets forth the computation of the Company’s basic and diluted earnings per share of common stock for the three and six months ended June 30, 2022 and 2021 (amounts in thousands, except per share amounts):

| | For the three months ended June 30, | | For the six months ended June 30, | |
|--|-------------------------------------|------------|-----------------------------------|------------|
| | 2022 | 2021 | 2022 | 2021 |
| Numerator | | | | |
| Net income | \$ 8,130 | \$ 9,254 | \$ 16,393 | \$ 17,134 |
| Less: Non-controlling interest in Operating Partnership | (933) | (1,053) | (1,855) | (1,942) |
| Net income available to Easterly Government Properties, Inc. | 7,197 | 8,201 | 14,538 | 15,192 |
| Less: Dividends on participating securities | (137) | (113) | (272) | (230) |
| Net income available to common stockholders | \$ 7,060 | \$ 8,088 | \$ 14,266 | \$ 14,962 |
| Denominator for basic EPS | | | | |
| | 90,751,351 | 83,817,680 | 90,452,594 | 82,973,705 |
| Dilutive effect of share-based compensation awards | 13,666 | 47,276 | 25,683 | 50,878 |
| Dilutive effect of LTIP units (1) | 318,963 | 382,329 | 309,067 | 364,023 |
| Dilutive effect of shares issuable under forward sale agreements (2) | — | — | 12,303 | 10,325 |
| Denominator for diluted EPS | 91,083,980 | 84,247,285 | 90,799,647 | 83,398,931 |
| Basic EPS | \$ 0.08 | \$ 0.10 | \$ 0.16 | \$ 0.18 |
| Diluted EPS | \$ 0.08 | \$ 0.10 | \$ 0.16 | \$ 0.18 |

- (1) During both the three and six months ended June 30, 2022, there were 338,569 unvested performance-based LTIP units that were not included in the computation of diluted earnings per share because to do so would have been antidilutive for the period. During both the three and six months ended June 30, 2021, there were 155,994 unvested performance-based LTIP units that were not included in the computation of diluted earnings per share because to do so would have been antidilutive for the period.
- (2) During the three and six months ended June 30, 2022, there were 4,259,000 and 2,809,000 shares, respectively, of underlying unsettled forward sales transactions that were not included in the computation of diluted earnings per share because to do so would have been antidilutive for the period. During the three and six months ended June 30, 2021, there were 3,499,697 and 2,549,697 shares, respectively, of underlying unsettled forward sales transactions that were not included in the computation of diluted earnings per share because to do so would have been antidilutive for the period.

11. Leases

Lessor

The Company leases commercial space to the U.S. Government through the GSA or other federal agencies or nongovernmental tenants. These leases may contain extension options that are predominately at the sole discretion of the tenant. Certain of our leases contain a “soft-term” period of the lease, meaning that the U.S. Government tenant agency has the right to terminate the lease prior to its stated lease end date. While certain of our leases are contractually subject to early termination, we do not believe that our tenant agencies are likely to terminate these leases early given the build-to-suit features at the properties subject to the leases, the weighted average age of these properties based on the date the property was built or renovated-to-suit, where applicable (approximately 17.6 years as of June 30, 2022), the mission-critical focus of the properties subject to the leases and the current level of operations at such

properties. Certain lease agreements include variable lease payments that, in the future, will vary based on changes in inflationary measures, real estate tax rates, usage, or share of expenditures of the leased premises.

The following table summarizes the maturity of fixed lease payments under the Company's leases as of June 30, 2022 (amounts in thousands):

| | Payments due by period | | | | | | |
|----------------------|------------------------|----------|---------|---------|---------|---------|------------|
| | Total | 2022 (1) | 2023 | 2024 | 2025 | 2026 | Thereafter |
| Fixed lease payments | \$ 2,261,799 | 121,653 | 232,666 | 213,508 | 201,846 | 192,718 | 1,299,408 |

(1) Represents the six months ending December 31, 2022.

The table below sets forth our composition of lease revenue recognized between fixed and variable components (amounts in thousands):

| | For the three months ended June 30, | | For the six months ended June 30, | |
|---------------|-------------------------------------|-----------|-----------------------------------|------------|
| | 2022 | 2021 | 2022 | 2021 |
| Fixed | \$ 65,931 | \$ 61,530 | \$ 131,378 | \$ 121,170 |
| Variable | 5,225 | 4,565 | 10,217 | 9,104 |
| Rental income | 71,156 | 66,095 | 141,595 | 130,274 |

Lessee

The Company leases corporate office space under operating lease arrangements in Washington, D.C. and San Diego, CA. The San Diego, CA operating lease is set to terminate on October 1, 2022. In April 2022, the Company entered into a lease agreement for new office space in San Diego, CA. This lease has a seven year term and an estimated commencement date of October 1, 2022.

The leases include variable lease payments that, in the future, will vary based on changes in real estate tax rates, usage, or share of expenditures of the leased premises. The Company has elected not to separate lease and non-lease components for its corporate office leases.

As of June 30, 2022, the unamortized balances associated with the Company's right-of-use operating lease asset and operating lease liability were \$1.4 million and \$1.5 million, respectively. The Company used its incremental borrowing rate, which was arrived at utilizing prevailing market rates and the spread on its revolving credit facility, in order to determine the net present value of the minimum lease payments.

The following table provides quantitative information for the Company's commenced operating leases for the three and six months ended June 30, 2022 and 2021 (amounts in thousands):

| | For the three months ended June 30, | | For the six months ended June 30, | |
|---------------------------------------|-------------------------------------|--------|-----------------------------------|--------|
| | 2022 | 2021 | 2022 | 2021 |
| Cash flows from operating lease costs | \$ 102 | \$ 119 | \$ 204 | \$ 268 |

In addition, the maturity of fixed lease payments under the Company's commenced corporate office leases as of June 30, 2022 is summarized in the table below (amounts in thousands):

| Corporate office leases | Payments due by period |
|-------------------------------------|------------------------|
| 2022 (1) | 175 |
| 2023 | 277 |
| 2024 | 446 |
| 2025 | 456 |
| 2026 | 309 |
| Thereafter | — |
| Total future minimum lease payments | \$ 1,663 |
| Imputed interest | (126) |
| Total | \$ 1,537 |

(1) Represents the six months ended December 31, 2022.

12. Revenue

The table below sets forth revenue from tenant construction projects and the associated project management income disaggregated by tenant agency for the three and six months ended June 30, 2022 and 2021 (amounts in thousands):

| Tenant | For the three months ended June 30, | | For the six months ended June 30, | |
|--|-------------------------------------|-----------------|-----------------------------------|-----------------|
| | 2022 | 2021 | 2022 | 2021 |
| Federal Bureau of Investigation (“FBI”) | \$ 619 | \$ 645 | \$ 845 | \$ 650 |
| U.S. Joint Staff Command (“JSC”) | 164 | 25 | 456 | 26 |
| Department of Veteran Affairs (“VA”) | 203 | 997 | 302 | 1,108 |
| Food and Drug Administration (“FDA”) | — | 6 | 204 | 24 |
| Customs and Border Protection (“CBP”) | 35 | — | 155 | — |
| U.S. Citizenship and Immigration Services (“USCIS”) | — | 91 | 110 | 108 |
| National Park Services (“NPS”) | 1 | — | 100 | — |
| Occupational Safety and Health Administration (“OSHA”) | 22 | — | 68 | — |
| Drug Enforcement Agency (“DEA”) | 40 | — | 40 | — |
| Internal Revenue Service (“IRS”) | — | 116 | 33 | 127 |
| U.S. Coast Guard (“USCG”) | — | — | 33 | — |
| Patent and Trademark Office (“PTO”) | 12 | — | 14 | — |
| General Services Administration - Other | 6 | — | 6 | 25 |
| The Judiciary of the U.S. Government (“JUD”) | — | 4 | 4 | 4 |
| Health Resources and Services Administration (“HRSA”) | — | — | 4 | 3 |
| Department of Energy (“DOE”) | — | 95 | — | 95 |
| Environmental Protection Agency (“EPA”) | — | 115 | — | 204 |
| Department of Transportation (“DOT”) | — | — | — | 40 |
| Military Entrance Processing Command (“MEPCOM”) | — | — | — | 18 |
| Federal Emergency Management Agency (“FEMA”) | — | — | — | 15 |
| Bureau of the Fiscal Service (“BFS”) | — | — | — | 4 |
| | <u>\$ 1,102</u> | <u>\$ 2,094</u> | <u>\$ 2,374</u> | <u>\$ 2,451</u> |

The balance in Accounts receivable related to tenant construction projects and the associated project management income was \$4.2 million as of June 30, 2022 and \$5.0 million as of December 31, 2021.

The duration of the majority of tenant construction project reimbursement arrangements are less than a year and payment is typically due once a project is complete and work has been accepted by the tenant. There were no projects on-going as of June 30, 2022 with a duration of greater than one year.

During each of the three and six months ended June 30, 2022, the Company recognized \$0.1 million in parking garage income generated from the operations of parking garages situated on the Various GSA – Buffalo property and on the Various GSA – Portland property. During the three and six months ended June 30, 2021, the Company recognized less than \$0.1 million and \$0.1 million, respectively, in parking garage income generated from the operations of parking garages situated on the Various GSA – Buffalo property and on the Various GSA – Portland property. The monthly and transient daily parking revenue falls within the scope of Revenue from Contracts with Customers (“ASC 606”) and is accounted for at the point in time when control of the goods or services transfers to the customer and the Company’s performance obligation is satisfied. The balance in Accounts receivable related to parking garage income was less than \$0.1 million as of each of June 30, 2022 and December 31, 2021.

During the three and six months ended June 30, 2022, the Company recognized less than \$0.1 million and \$0.1 million, respectively, in income for providing COVID-19 related cleaning services to certain tenants. During the three and six months ended June 30, 2021, the Company recognized \$0.3 million and \$0.6 million, respectively, in income for providing COVID-19 related cleaning services to certain tenants. The income falls within the scope of ASC 606 and is recognized over time as the performance obligation is satisfied. The balance in Accounts receivable related to these services was less than \$0.1 million as of June 30, 2022, and \$0.1 million as of December 31, 2021.

There were no contract assets or liabilities as of June 30, 2022 or December 31, 2021.

13. Concentrations Risk

Concentrations of credit risk arise for the Company when multiple tenants of the Company are engaged in similar business activities, are located in the same geographic region or have similar economic features that impact in a similar manner their ability to meet contractual obligations, including those to the Company. The Company regularly monitors its tenant base to assess potential concentrations of credit risk.

As stated in Note 1 above, the Company leases commercial space to the U.S. Government or non-governmental tenants. At June 30, 2022, the U.S. Government accounted for approximately 98.0% of our total annualized lease income and non-governmental tenants accounted for the remaining approximately 2.0%.

Seventeen of our 93 wholly-owned and unconsolidated operating properties are located in California, accounting for approximately 14.8% of our total leased square feet and approximately 19.9% of our total annualized lease income as of June 30, 2022. To the extent that weak economic or real estate conditions or natural disasters affect California more severely than other areas of the country, our business, financial condition and results of operations could be significantly impacted.

14. Related Parties

The Company provides asset management services to properties owned by the JV. For the three and six months ended June 30, 2022, we recognized Asset management income of \$0.3 million and \$0.6 million, respectively. We did not recognize Asset management income for the six months ended June 30, 2021.

15. Subsequent Events

For its consolidated financial statements as of June 30, 2022, the Company evaluated subsequent events and noted the following significant events.

On July 14, 2022, the JV acquired a 67,793 square foot VA outpatient facility located in Columbus, Georgia. The building is a build-to-suit property that was completed during 2021. The outpatient facility is leased to the VA and has a lease expiration of January 2042.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Forward-Looking Statements

This Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, Section 27A of the Securities Act of 1933, as amended (the "Securities Act") and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). We caution investors that forward-looking statements are based on management's beliefs and on assumptions made by, and information currently available to, management. When used, the words "anticipate", "believe", "estimate", "expect", "intend", "may", "might", "plan", "potential", "project", "result", "seek", "should", "target", "will", and similar expressions which do not relate solely to historical matters are intended to identify forward-looking statements. These statements are subject to risks, uncertainties, and assumptions and are not guarantees of future performance, which may be affected by known and unknown risks, trends, uncertainties, and factors that are beyond our control. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those anticipated, estimated, or projected. We expressly disclaim any responsibility to update our forward-looking statements, whether as a result of new information, future events, or otherwise. Accordingly, investors should use caution in relying on forward-looking statements, which are based on results and trends at the time they are made, to anticipate future results or trends.

Some of the risks and uncertainties that may cause our actual results, performance, or achievements to differ materially from those expressed or implied by forward-looking statements include, among others, the following:

- the factors included under the heading "Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2021 and the factors included under the heading "Risk Factors" in our other public filings;
- risks associated with our dependence on the U.S. Government and its agencies for substantially all of our revenues, including credit risk and risk that the U.S. Government reduces its spending on real estate or that it changes its preference away from leased properties;
- risks associated with ownership and development of real estate;
- the risk of decreased rental rates or increased vacancy rates;
- loss of key personnel;
- the continuing adverse impact of the novel coronavirus ("COVID-19") pandemic on the U.S., regional and global economies and our financial condition and results of operations;
- general volatility of the capital and credit markets and the market price of our common stock;
- the risk we may lose one or more major tenants;
- difficulties in completing and successfully integrating acquisitions;
- failure of acquisitions or development projects to occur at anticipated levels or yield anticipated results;
- risks associated with actual or threatened terrorist attacks;
- risks associated with our joint venture activities;
- intense competition in the real estate market that may limit our ability to attract or retain tenants or re-lease space;
- insufficient amounts of insurance or exposure to events that are either uninsured or underinsured;
- uncertainties and risks related to adverse weather conditions, natural disasters and climate change;
- exposure to liability relating to environmental and health and safety matters;
- limited ability to dispose of assets because of the relative illiquidity of real estate investments and the nature of our assets;
- exposure to litigation or other claims;
- risks associated with breaches of our data security;
- risks associated with our indebtedness, including failure to refinance current or future indebtedness on favorable terms, or at all; failure to meet the restrictive covenants and requirements in our existing and new debt agreements; fluctuations in interest rates and increased costs to refinance or issue new debt;
- risks associated with capital allocation strategies, including any share repurchases;

- risks associated with derivatives or hedging activity; and
- risks associated with mortgage debt or unsecured financing or the unavailability thereof, which could make it difficult to finance or refinance properties and could subject us to foreclosure.

For a further discussion of these and other factors, see the section entitled “Item 1A. Risk Factors” in our Annual Report on Form 10-K for the year ended December 31, 2021, as may be supplemented or amended from time to time.

Overview

References to “we,” “our,” “us” and “the Company” refer to Easterly Government Properties, Inc., a Maryland corporation, together with our consolidated subsidiaries, including Easterly Government Properties LP, a Delaware limited partnership, which we refer to herein as the “operating partnership.” We present certain financial information and metrics “at Easterly Share,” which is calculated on an entity-by-entity basis. “At Easterly Share” information, which we also refer to as being “at share,” “pro rata,” “our pro rata share” or “our share” is not, and is not intended to be, a presentation in accordance with GAAP.

We are an internally managed real estate investment trust, or REIT, focused primarily on the acquisition, development and management of Class A commercial properties that are leased to U.S. Government agencies that serve essential functions. We generate substantially all of our revenue by leasing our properties to such agencies, either directly or through the U.S. General Services Administration (“GSA”). Our objective is to generate attractive risk-adjusted returns for our stockholders over the long term through dividends and capital appreciation.

We focus on acquiring, developing and managing U.S. Government-leased properties that are essential to supporting the mission of the tenant agency and strive to be a partner of choice for the U.S. Government, working closely with the tenant agency to meet its needs and objectives. As of June 30, 2022, we wholly owned 87 operating properties and six operating properties through an unconsolidated joint venture, which we refer to herein as the “JV,” in the United States encompassing approximately 9.0 million leased square feet (8.7 million pro rata), including 92 operating properties that were leased primarily to U.S. Government tenant agencies and one operating property with approximately 0.1 million leased square feet that was entirely leased to a private tenant. As of June 30, 2022, our operating properties were 99% leased. For purposes of calculating percentage leased, we exclude from the denominator total square feet that was unleased and to which we attributed no value at the time of acquisition. In addition, we wholly owned one property under development that we expect will encompass approximately 0.2 million leased square feet upon completion.

The operating partnership holds substantially all of our assets and conducts substantially all of our business. We are the sole general partner of the operating partnership and owned approximately 88.3% of the aggregate limited partnership interests in the operating partnership, which we refer to herein as common units, as of June 30, 2022. We have elected to be taxed as a REIT and we believe that we have operated and have been organized in conformity with the requirements for qualification and taxation as a REIT for U.S. federal income tax purposes commencing with our taxable year ended December 31, 2015.

2022 Activity

Acquisitions

On May 10, 2022, we acquired a 161,730 leased square foot National Archives and Record Administration (“NARA”) federal records center in Broomfield, Colorado. The building is a build-to-suit warehouse completed in 2012. The facility is leased to the GSA for beneficial use of the NARA with a lease expiration of May 2032.

On May 18, 2022, we acquired a 138,000 leased square foot Federal Bureau of Investigation (“FBI”) field office in Tampa, Florida. The building is a build-to suit property completed in 2005. The facility is leased to the GSA for beneficial use of the FBI with a lease expiration of November 2040.

Investment in unconsolidated real estate venture

On October 13, 2021, we formed a new JV with a global investor to fund the acquisition of a portfolio of ten properties anticipated to encompass 1,214,165 leased square feet (the “Portfolio Acquisition”). We own a 53.0% interest in the JV, subject to preferred allocations as provided in the JV agreement. During 2021, the JV closed on four of the ten properties included in the Portfolio Acquisition.

On April 1, 2022, the JV acquired a 77,128 square foot Veterans Affairs (“VA”) outpatient facility located in Birmingham, Alabama. The building is a build-to-suit property that was completed during 2021. The outpatient facility is leased to the VA and has a lease expiration of October 2041.

On May 20, 2022, the JV acquired a 76,882 square foot VA outpatient facility located in Marietta, Georgia. The building is a build-to-suit property that was completed during 2021. The outpatient facility is leased to the VA and has a lease expiration of December 2041.

On July 14, 2022, the JV acquired a 67,793 square foot VA outpatient facility located in Columbus, Georgia. The building is a build-to-suit property that was completed during 2021. The outpatient facility is leased to the VA and has a lease expiration of January 2042.

We expect the JV to close the three remaining properties in the Portfolio Acquisition during 2022 and 2023.

Impact of the COVID-19 Pandemic

The COVID-19 pandemic has caused, and continues to cause significant disruptions to the U.S., regional and global economies and has contributed to significant volatility and negative pressure in financial markets.

We continue to carefully monitor the COVID-19 pandemic, including the emergence of new variants, and its potential impact on our business. We are following guidelines established by the Centers for Disease Control and the World Health Organization and orders issued by the state and local governments where we operate. In addition, we have taken a number of precautionary steps to safeguard our business and our employees from the COVID-19 pandemic, including, but not limited to, implementing non-essential travel restrictions when necessary and facilitating telecommuting arrangements for our employees. We have taken these precautionary steps while maintaining business continuity so that we can continue to deliver service to and meet the demands of our tenants, including our U.S. Government tenant agencies.

To date, the impact of the COVID-19 pandemic on our business and financial condition has not been significant. The future impact of the COVID-19 pandemic on our operations and financial condition will, however, depend on future developments, which are highly uncertain and cannot be predicted with confidence, including the scope, severity and duration of the pandemic, the actions taken to contain the pandemic or mitigate its impact, and the direct and indirect economic effects of the pandemic and containment measures, among others. See the section entitled “Item 1A. Risk Factors” in our Annual Report on Form 10-K for the year ended December 31, 2021 for a discussion of the potential adverse impact of the COVID-19 pandemic on our business, results of operations and financial condition.

Operating Properties

As of June 30, 2022, our operating properties were 99% leased with a weighted average annualized lease income per leased square foot of \$34.23 (\$33.99 pro rata) and a weighted average age of approximately 13.9 years based on the date the property was built or renovated-to-suit, where applicable. We calculate annualized lease income as annualized contractual base rent for the last month in a specified period, plus the annualized straight line rent adjustments for the last month in such period and the annualized net expense reimbursements earned by us for the last month in such period.

The table set forth below shows information relating to the properties we owned, or in which we had an ownership interest, at June 30, 2022, and it includes properties held by the JV:

| Property Name | Location | Property Type (1) | Tenant Lease Expiration Year (2) | Leased Square Feet | Annualized Lease Income | Percentage of Total Annualized Lease Income | Annualized Lease Income per Leased Square Foot |
|---|----------------------|-------------------|----------------------------------|--------------------|-------------------------|---|--|
| Wholly Owned U.S. Government Leased Properties | | | | | | | |
| VA - Loma Linda | Loma Linda, CA | OC | 2036 | 327,614 | \$16,475,732 | 5.4% | \$ 50.29 |
| USCIS - Kansas City (3) | Lee's Summit, MO | O/W | 2042 | 489,316 | 11,604,014 | 3.8% | 23.71 |
| JSC - Suffolk | Suffolk, VA | O | 2028 | 403,737 | 8,310,226 | 2.7% | 20.58 |
| Various GSA - Buffalo (4) | Buffalo, NY | O | 2036 | 270,809 | 7,070,734 | 2.3% | 26.11 |
| IRS - Fresno | Fresno, CA | O | 2033 | 180,481 | 6,957,301 | 2.3% | 38.55 |
| FBI - Salt Lake | Salt Lake City, UT | O | 2032 | 169,542 | 6,890,852 | 2.2% | 40.64 |
| Various GSA - Chicago | Des Plaines, IL | O | 2023 | 202,185 | 6,812,395 | 2.2% | 33.69 |
| Various GSA - Portland (5) | Portland, OR | O | 2025 | 210,239 | 6,600,241 | 2.1% | 31.39 |
| PTO - Arlington | Arlington, VA | O | 2035 | 190,546 | 6,059,382 | 2.0% | 31.80 |
| VA - San Jose | San Jose, CA | OC | 2038 | 90,085 | 5,719,264 | 1.9% | 63.49 |
| EPA - Lenexa | Lenexa, KS | O | 2027 | 169,585 | 5,603,247 | 1.8% | 33.04 |
| FBI - San Antonio | San Antonio, TX | O | 2025 | 148,584 | 5,189,147 | 1.7% | 34.92 |
| FBI - Tampa | Tampa, FL | O | 2040 | 138,000 | 5,057,412 | 1.6% | 36.65 |
| FDA - Alameda | Alameda, CA | L | 2039 | 69,624 | 4,667,346 | 1.5% | 67.04 |
| FEMA - Tracy | Tracy, CA | W | 2038 | 210,373 | 4,611,775 | 1.5% | 21.92 |
| FBI - Omaha | Omaha, NE | O | 2024 | 112,196 | 4,431,693 | 1.4% | 39.50 |
| TREAS - Parkersburg | Parkersburg, WV | O | 2041 | 182,500 | 4,299,472 | 1.4% | 23.56 |
| EPA - Kansas City | Kansas City, KS | L | 2042 | 71,979 | 4,291,659 | 1.4% | 59.62 |
| FBI / DEA - El Paso | El Paso, TX | O/W | 2028 | 203,683 | 4,125,896 | 1.3% | 20.26 |
| FBI - Pittsburgh | Pittsburgh, PA | O | 2027 | 100,054 | 4,059,046 | 1.3% | 40.57 |
| VA - South Bend | Mishakawa, IN | OC | 2032 | 86,363 | 4,000,046 | 1.3% | 46.32 |
| FDA - Lenexa | Lenexa, KS | L | 2040 | 59,690 | 3,966,224 | 1.3% | 66.45 |
| DOI - Billings | Billings, MT | O/W | 2033 | 149,110 | 3,886,057 | 1.3% | 26.06 |
| USCIS - Lincoln | Lincoln, NE | O | 2025 | 137,671 | 3,879,753 | 1.3% | 28.18 |
| VA - Mobile | Mobile, AL | OC | 2033 | 79,212 | 3,835,525 | 1.2% | 48.42 |
| FBI - New Orleans | New Orleans, LA | O | 2029 | 137,679 | 3,667,889 | 1.2% | 26.64 |
| DOT - Lakewood | Lakewood, CO | O | 2024 | 122,225 | 3,638,432 | 1.2% | 29.77 |
| FBI - Knoxville | Knoxville, TN | O | 2025 | 99,130 | 3,504,570 | 1.1% | 35.35 |
| FBI - Birmingham | Birmingham, AL | O | 2042 | 96,278 | 3,433,823 | 1.1% | 35.67 |
| ICE - Charleston | North Charleston, SC | O | 2027 | 65,124 | 3,301,630 | 1.1% | 50.70 |
| VA - Chico | Chico, CA | OC | 2034 | 51,647 | 3,258,331 | 1.1% | 63.09 |
| FBI - Richmond | Richmond, VA | O | 2041 | 96,607 | 3,252,338 | 1.1% | 33.67 |
| USFS II - Albuquerque | Albuquerque, NM | O | 2026 | 98,720 | 3,141,254 | 1.0% | 31.82 |
| USFS I - Albuquerque | Albuquerque, NM | O | 2026 | 92,455 | 3,100,080 | 1.0% | 33.53 |
| DEA - Vista | Vista, CA | L | 2035 | 52,293 | 3,067,840 | 1.0% | 58.67 |
| FDA - College Park | College Park, MD | L | 2029 | 80,677 | 3,060,351 | 1.0% | 37.93 |
| USCIS - Tustin | Tustin, CA | O | 2034 | 66,818 | 3,042,740 | 1.0% | 45.54 |
| OSHA - Sandy | Sandy, UT | L | 2024 | 75,000 | 3,039,951 | 1.0% | 40.53 |
| VA - Orange | Orange, CT | OC | 2034 | 56,330 | 2,918,411 | 0.9% | 51.81 |
| VA - Indianapolis | Brownsburg, IN | OC | 2041 | 80,000 | 2,913,914 | 0.9% | 36.42 |

| Property Name | Location | Property Type (1) | Tenant Lease Expiration Year (2) | Leased Square Feet | Annualized Lease Income | Percentage of Total Annualized Lease Income | Annualized Lease Income per Leased Square Foot |
|---|----------------------|-------------------|----------------------------------|--------------------|-------------------------|---|--|
| Wholly Owned U.S. Government Leased Properties (Cont.) | | | | | | | |
| JUD - Del Rio | Del Rio, TX | C/O | 2024 | 89,880 | 2,791,775 | 0.9% | 31.06 |
| ICE - Albuquerque | Albuquerque, NM | O | 2027 | 71,100 | 2,789,429 | 0.9% | 39.23 |
| DEA - Pleasanton | Pleasanton, CA | L | 2035 | 42,480 | 2,716,215 | 0.9% | 63.94 |
| JUD - El Centro | El Centro, CA | C/O | 2034 | 43,345 | 2,701,670 | 0.9% | 62.33 |
| FBI - Mobile | Mobile, AL | O | 2029 | 76,112 | 2,681,962 | 0.9% | 35.24 |
| SSA - Charleston | Charleston, WV | O | 2024 | 110,000 | 2,648,898 | 0.9% | 24.08 |
| FBI - Albany | Albany, NY | O | 2036 | 69,476 | 2,611,361 | 0.8% | 37.59 |
| DEA - Sterling | Sterling, VA | L | 2037 | 49,692 | 2,605,686 | 0.8% | 52.44 |
| DEA - Upper Marlboro | Upper Marlboro, MD | L | 2037 | 50,978 | 2,508,422 | 0.8% | 49.21 |
| USAO - Louisville | Louisville, KY | O | 2031 | 60,000 | 2,506,169 | 0.8% | 41.77 |
| TREAS - Birmingham | Birmingham, AL | O | 2029 | 83,676 | 2,487,887 | 0.8% | 29.73 |
| DHA - Aurora | Aurora, CO | O | 2034 | 101,285 | 2,392,674 | 0.8% | 23.62 |
| DEA - Dallas Lab | Dallas, TX | L | 2022 | 49,723 | 2,356,701 | 0.8% | 47.40 |
| NARA - Broomfield | Broomfield, CO | O/W | 2032 | 161,730 | 2,346,885 | 0.8% | 14.51 |
| JUD - Charleston | Charleston, SC | C/O | 2040 | 52,339 | 2,333,282 | 0.8% | 44.58 |
| FBI - Little Rock | Little Rock, AR | O | 2022 | 102,377 | 2,316,507 | 0.8% | 22.63 |
| DEA - Dallas | Dallas, TX | O | 2041 | 71,827 | 2,263,430 | 0.7% | 31.51 |
| Various GSA - Cleveland (6) | Brooklyn Heights, OH | O | 2031 | 61,384 | 2,229,291 | 0.7% | 36.32 |
| CBP - Savannah | Savannah, GA | L | 2033 | 35,000 | 2,227,652 | 0.7% | 63.65 |
| MEPCOM - Jacksonville | Jacksonville, FL | O | 2025 | 30,000 | 2,215,373 | 0.7% | 73.85 |
| DOE - Lakewood | Lakewood, CO | O | 2029 | 115,650 | 2,126,332 | 0.7% | 18.39 |
| NWS - Kansas City | Kansas City, MO | O | 2033 | 94,378 | 2,114,807 | 0.7% | 22.41 |
| JUD - Jackson | Jackson, TN | C/O | 2023 | 73,397 | 2,071,774 | 0.7% | 28.23 |
| DEA - Santa Ana | Santa Ana, CA | O | 2024 | 39,905 | 1,933,254 | 0.6% | 48.45 |
| DEA - North Highlands | Sacramento, CA | O | 2033 | 37,975 | 1,919,640 | 0.6% | 50.55 |
| NPS - Omaha | Omaha, NE | O | 2024 | 62,772 | 1,802,036 | 0.6% | 28.71 |
| ICE - Otay | San Diego, CA | O | 2022 | 47,919 | 1,761,864 | 0.6% | 36.77 |
| VA - Golden | Golden, CO | O/W | 2026 | 56,753 | 1,735,882 | 0.6% | 30.59 |
| CBP - Sunburst | Sunburst, MT | O | 2028 | 33,000 | 1,641,202 | 0.5% | 49.73 |
| USCG - Martinsburg | Martinsburg, WV | O | 2027 | 59,547 | 1,640,946 | 0.5% | 27.56 |
| JUD - Aberdeen | Aberdeen, MS | C/O | 2025 | 46,979 | 1,552,942 | 0.5% | 33.06 |
| VA - Charleston | North Charleston, SC | W | 2040 | 97,718 | 1,539,323 | 0.5% | 15.75 |
| GSA - Clarksburg | Clarksburg, WV | O | 2024 | 63,750 | 1,498,199 | 0.5% | 23.50 |
| DEA - Birmingham | Birmingham, AL | O | 2023 | 35,616 | 1,392,673 | 0.5% | 39.10 |
| DEA - Albany | Albany, NY | O | 2025 | 31,976 | 1,379,850 | 0.4% | 43.15 |
| USAO - Springfield | Springfield, IL | O | 2038 | 43,600 | 1,372,735 | 0.4% | 31.48 |
| DEA - Riverside | Riverside, CA | O | 2032 | 34,354 | 1,278,254 | 0.4% | 37.21 |
| SSA - Dallas | Dallas, TX | O | 2035 | 27,200 | 1,036,871 | 0.3% | 38.12 |
| HRSA - Baton Rouge | Baton Rouge, LA | O | 2040 | 27,569 | 945,283 | 0.3% | 34.29 |
| VA - Baton Rouge | Baton Rouge, LA | OC | 2024 | 30,000 | 821,612 | 0.3% | 27.39 |
| ICE - Louisville | Louisville, KY | O | 2036 | 17,420 | 820,941 | 0.3% | 47.13 |
| ICE - Pittsburgh (7) | Pittsburgh, PA | O | 2032 | 25,369 | 803,239 | 0.3% | 31.66 |

| Property Name | Location | Property Type (1) | Tenant Lease Expiration Year (2) | Leased Square Feet | Annualized Lease Income | Percentage of Total Annualized Lease Income | Annualized Lease Income per Leased Square Foot |
|---|-----------------|-------------------|----------------------------------|--------------------|-------------------------|---|--|
| Wholly Owned U.S. Government Leased Properties (Cont.) | | | | | | | |
| JUD - South Bend | South Bend, IN | C/O | 2027 | 30,119 | 784,341 | 0.3% | 26.04 |
| DEA - San Diego | San Diego, CA | W | 2032 | 16,100 | 551,697 | 0.2% | 34.27 |
| SSA - San Diego | San Diego, CA | O | 2032 | 10,059 | 433,097 | 0.1% | 43.06 |
| DEA - Bakersfield | Bakersfield, CA | O | 2038 | 9,800 | 401,991 | 0.1% | 41.02 |
| Subtotal | | | | <u>8,305,490</u> | <u>\$ 281,838,047</u> | <u>91.6%</u> | <u>\$ 33.93</u> |
| Wholly Owned Privately Leased Property | | | | | | | |
| 501 East Hunter Street - Lummus Corporation | Lubbock, TX | W/D | 2028 | 70,078 | 410,344 | 0.1% | 5.86 |
| Subtotal | | | | <u>70,078</u> | <u>\$ 410,344</u> | <u>0.1%</u> | <u>\$ 5.86</u> |
| Wholly Owned Properties Total / Weighted Average | | | | <u>8,375,568</u> | <u>\$ 282,248,391</u> | <u>91.7%</u> | <u>\$ 33.70</u> |
| Unconsolidated Real Estate Venture U.S. Government Leased Properties | | | | | | | |
| VA - San Antonio (8) | San Antonio, TX | OC | 2041 | 226,148 | \$ 9,589,161 | 3.1% | \$ 42.40 |
| VA - Chattanooga (8) | Chattanooga, TN | OC | 2035 | 94,566 | 4,154,710 | 1.3% | 43.93 |
| VA - Lubbock (8) (9) | Lubbock, TX | OC | 2040 | 120,916 | 3,961,655 | 1.3% | 32.76 |
| VA - Marietta (8) | Marietta, GA | OC | 2041 | 76,882 | 3,816,412 | 1.2% | 49.64 |
| VA - Birmingham (8) | Irondale, AL | OC | 2041 | 77,128 | 3,105,255 | 1.0% | 40.26 |
| VA - Lenexa (8) | Lenexa, KS | OC | 2041 | 31,062 | 1,298,203 | 0.4% | 41.79 |
| Subtotal | | | | <u>626,702</u> | <u>\$ 25,925,396</u> | <u>8.3%</u> | <u>\$ 41.37</u> |
| Total / Weighted Average | | | | <u>9,002,270</u> | <u>\$ 308,173,787</u> | <u>100.0%</u> | <u>\$ 34.23</u> |
| Total / Weighted Average at Easterly's Share | | | | <u>8,707,719</u> | <u>\$ 295,988,850</u> | | <u>\$ 33.99</u> |

- (1) OC=Outpatient Clinic; O=Office; C=Courthouse; L=Laboratory; W=Warehouse; D=Distribution.
- (2) The year of lease expiration does not include renewal options.
- (3) Private tenants occupy 172,998 leased square feet.
- (4) Private tenants occupy 14,274 leased square feet.
- (5) Private tenants occupy 41,108 leased square feet.
- (6) A private tenant occupies 11,402 leased square feet.
- (7) A private tenant occupies 3,854 leased square feet.
- (8) We own 53.0% of the property through an unconsolidated joint venture.
- (9) Asset is subject to a ground lease where we are the lessee.

Certain of our leases are currently in the “soft-term” period of the lease, meaning that the U.S. Government tenant agency has the right to terminate the lease prior to its stated lease end date. We believe that, from the U.S. Government’s perspective, leases with such provisions are helpful for budgetary purposes. While some of our leases are contractually subject to early termination, we do not believe that our tenant agencies are likely to terminate these leases early given the build-to-suit features at the properties subject to the leases, the weighted average age of these properties based on the date the property was built or renovated-to-suit, where applicable (approximately 17.6 years as of June 30, 2022), the mission-critical focus of the properties subject to the leases and the current level of operations at such properties.

The following table sets forth a schedule of lease expirations for leases in place (including for wholly owned properties and properties held by the JV) as of June 30, 2022:

| <u>Year of Lease Expiration (1)</u> | <u>Number of Leases Expiring</u> | <u>Leased Square Footage Expiring</u> | <u>Percentage of Portfolio Leased Square Footage Expiring</u> | <u>Annualized Lease Income Expiring</u> | <u>Percentage of Total Annualized Lease Income Expiring</u> | <u>Annualized Lease Income per Leased Square Foot Expiring</u> |
|-------------------------------------|----------------------------------|---------------------------------------|---|---|---|--|
| 2022 | 5 | 194,985 | 2.2% | \$ 6,240,908 | 2.0% | \$ 32.01 |
| 2023 | 12 | 375,974 | 4.2% | 12,204,076 | 4.0% | 32.46 |
| 2024 | 12 | 790,700 | 8.8% | 24,481,894 | 7.9% | 30.96 |
| 2025 | 15 | 679,124 | 7.5% | 22,877,663 | 7.4% | 33.69 |
| 2026 | 5 | 294,245 | 3.3% | 9,328,986 | 3.0% | 31.70 |
| 2027 | 7 | 502,963 | 5.6% | 18,434,703 | 6.0% | 36.65 |
| 2028 | 9 | 794,819 | 8.8% | 17,064,413 | 5.5% | 21.47 |
| 2029 | 5 | 493,794 | 5.5% | 14,024,421 | 4.6% | 28.40 |
| 2030 | — | — | 0.0% | — | 0.0% | — |
| 2031 | 2 | 100,502 | 1.1% | 4,022,326 | 1.3% | 40.02 |
| Thereafter | 54 | 4,775,164 | 53.0% | 179,494,397 | 58.3% | 37.59 |
| Total / Weighted Average | 126 | 9,002,270 | 100.0% | \$ 308,173,787 | 100.0% | \$ 34.23 |

- (1) The year of lease expirations is pursuant to current contract terms. Some tenants have the right to vacate their space during a specified period, or “soft term,” before the stated terms of their leases expire. As of June 30, 2022, 18 tenants occupying approximately 5.6% of our leased square feet and contributing approximately 5.2% of our annualized lease income have exercisable rights to terminate their lease before the stated term of their respective lease expires.

Information about our development property as of June 30, 2022 is set forth in the table below:

| <u>Property Name</u> | <u>Location</u> | <u>Tenant</u> | <u>Property Type (1)</u> | <u>Lease Term</u> | <u>Estimated Leased Square Feet</u> |
|----------------------|-----------------|------------------------------|--------------------------|-------------------|-------------------------------------|
| FDA - Atlanta | Atlanta, GA | Food and Drug Administration | L | 20-year | 162,000 |

- (1) L=Laboratory.

Results of Operations

Comparison of Results of Operations for the three months ended June 30, 2022 and 2021

The financial information presented below summarizes our results of operations for the three months ended June 30, 2022 and 2021 (amounts in thousands).

| | For the three months ended June 30, | | |
|--|-------------------------------------|-----------|------------|
| | 2022 | 2021 | Change |
| Revenues | | | |
| Rental income | \$ 71,156 | \$ 66,095 | \$ 5,061 |
| Tenant reimbursements | 916 | 1,899 | (983) |
| Asset management income | 317 | — | 317 |
| Other income | 368 | 620 | (252) |
| Total revenues | 72,757 | 68,614 | 4,143 |
| Expenses | | | |
| Property operating | 15,551 | 14,296 | 1,255 |
| Real estate taxes | 7,851 | 7,553 | 298 |
| Depreciation and amortization | 24,343 | 22,525 | 1,818 |
| Acquisition costs | 302 | 483 | (181) |
| Corporate general and administrative | 5,966 | 5,768 | 198 |
| Total expenses | 54,013 | 50,625 | 3,388 |
| Other income (expense) | | | |
| Income from unconsolidated real estate venture | 825 | — | 825 |
| Interest expense, net | (11,439) | (9,265) | (2,174) |
| Gain on the sale of operating property | — | 530 | (530) |
| Net income | \$ 8,130 | \$ 9,254 | \$ (1,124) |

Revenues

Total revenues increased \$4.1 million to \$72.8 million for the three months ended June 30, 2022 compared to \$68.6 million for the three months ended June 30, 2021.

The \$5.1 million increase in Rental income is primarily attributable to an increase in revenues from the five operating properties acquired since June 30, 2021, as well as a full period of operations from the two operating properties acquired during the three months ended June 30, 2021, offset by one property disposed of since June 30, 2021.

The \$1.0 million decrease in Tenant reimbursements is primarily attributable to a decrease in tenant project reimbursements.

The \$0.3 million increase in Asset management income is attributable to the fee we earned for asset management of the JV.

Expenses

Total expenses increased \$3.4 million to \$54.0 million for the three months ended June 30, 2022 compared to \$50.6 million for the three months ended June 30, 2021.

The \$1.3 million increase in Property operating expenses is primarily attributable to the five operating properties acquired since June 30, 2021, as well as a full period of operations from the two operating properties acquired during the three months ended June 30, 2021, offset by one property disposed of since June 30, 2021.

The \$0.3 million increase in Real estate taxes is also primarily attributable to the five operating properties acquired since June 30, 2021, as well as a full period of operations from the two operating properties acquired during the three months ended June 30, 2021, offset by one property disposed of since June 30, 2021.

The \$1.8 million increase in Depreciation and amortization is primarily related to depreciation attributable to the five operating properties acquired since June 30, 2021, as well as a full period of operations from the two operating properties acquired during the three months ended June 30, 2021, offset by a decrease in fully amortized lease intangibles.

Additionally, Corporate general and administrative costs increased by \$0.2 million, primarily due to an increase in employee costs.

Income from unconsolidated real estate venture

On October 13, 2021, we formed the JV, in which we own a 53.0% interest, to fund the Portfolio Acquisition. The increase in Income from unconsolidated real estate venture is attributable to our pro rata share of operations from properties acquired by the JV in the fourth quarter of 2021 and second quarter of 2022.

Interest expense

The \$2.2 million increase in Interest expense is primarily related to the issuance of our 2021 series of unsecured senior notes.

Gain on sale of operating property

Gain on the sale of operating properties decreased by \$0.5 million for the three months ended June 30, 2022. The gain on sale of operating property for the three months ended June 30, 2021 was attributable to the sale of SSA – Mission Viejo in the second quarter of 2021.

Comparison of Results of Operations for the six months ended June 30, 2022 and 2021

The financial information presented below summarizes our results of operations for the six months ended June 30, 2022 and 2021.

| | For the six months ended June 30, | | |
|--|-----------------------------------|------------------|-----------------|
| | 2022 | 2021 | Change |
| Revenues | | | |
| Rental income | \$ 141,595 | \$ 130,274 | \$ 11,321 |
| Tenant reimbursements | 2,060 | 2,219 | (159) |
| Asset management income | 565 | — | 565 |
| Other income | 839 | 1,122 | (283) |
| Total revenues | <u>145,059</u> | <u>133,615</u> | <u>11,444</u> |
| Expenses | | | |
| Property operating | 31,009 | 26,390 | 4,619 |
| Real estate taxes | 15,677 | 14,839 | 838 |
| Depreciation and amortization | 48,502 | 44,850 | 3,652 |
| Acquisition costs | 664 | 970 | (306) |
| Corporate general and administrative | 11,949 | 11,576 | 373 |
| Total expenses | <u>107,801</u> | <u>98,625</u> | <u>9,176</u> |
| Other income (expense) | | | |
| Income from unconsolidated real estate venture | 1,456 | — | 1,456 |
| Interest expense, net | (22,321) | (18,386) | (3,935) |
| Gain on the sale of operating property | — | 530 | (530) |
| Net income | <u>\$ 16,393</u> | <u>\$ 17,134</u> | <u>\$ (741)</u> |

Revenues

Total revenues increased \$11.4 million to \$145.1 million for the six months ended June 30, 2022 compared to \$133.6 million for the six months ended June 30, 2021.

The \$11.3 million increase in Rental income is primarily attributable to an increase in revenues from the five operating properties acquired since June 30, 2021, as well as a full period of operations from the five operating properties acquired during the six months ended June 30, 2021, offset by one property disposed of since June 30, 2021.

The \$0.2 million decrease in Tenant reimbursements is primarily attributable to a decrease in tenant project reimbursements.

The \$0.6 million increase in Asset management income is attributable to the fee we earned for asset management of the JV.

Expenses

Total expenses increased \$9.2 million to \$107.8 million for the six months ended June 30, 2022 compared to \$98.6 million for the six months ended June 30, 2021.

The \$4.6 million increase in Property operating expenses is primarily attributable to the five operating properties acquired since June 30, 2021, as well as a full period of operations from the five operating properties acquired during the six months ended June 30, 2021, offset by one property disposed of since June 30, 2021.

The \$0.8 million increase in Real estate taxes is also primarily attributable to the five operating properties acquired since June 30, 2021, as well as a full period of operations from the five operating properties acquired during the six months ended June 30, 2021, offset by one property disposed of since June 30, 2021.

The \$3.7 million increase in Depreciation and amortization is primarily related to depreciation attributable to the five operating properties acquired since June 30, 2021, as well as a full period of operations from the five operating properties acquired during the six months ended June 30, 2021, offset by a decrease in fully amortized lease intangibles.

Additionally, Corporate general and administrative costs increased by \$0.4 million, primarily due to an increase in employee costs.

Income from unconsolidated real estate venture

On October 13, 2021, we formed the JV, in which we own a 53.0% interest, to fund the Portfolio Acquisition. The increase in Income from unconsolidated real estate venture is attributable to our pro rata share of operations from properties acquired by the JV in the fourth quarter of 2021 and second quarter of 2022.

Interest expense

The \$3.9 million increase in Interest expense is primarily related to the issuance of our 2021 series of unsecured senior notes.

Gain on sale of operating property

Gain on the sale of operating properties decreased by \$0.5 million for the six months ended June 30, 2022. The gain on sale of operating property for the six months ended June 30, 2021, was attributable to the sale of SSA – Mission Viejo in the second quarter of 2021.

Liquidity and Capital Resources

We anticipate that our cash flows from the sources listed below will provide adequate capital for the next 12 months for all anticipated uses, including all scheduled principal and interest payments on our outstanding indebtedness, current and anticipated tenant improvements, planned and possible acquisitions of properties, including the remaining Portfolio Acquisition properties through the JV, stockholder distributions to maintain our qualification as a REIT, repurchases of common stock under our share repurchase program and other capital obligations associated with conducting our business. At June 30, 2022, we had \$8.3 million available in cash and cash equivalents and there was \$307.1 million available under our revolving credit facility.

Our primary expected sources of capital are as follows:

- cash and cash equivalents;
- operating cash flow;
- distribution of cash flows from the JV;
- available borrowings under our revolving credit facility;
- issuance of long-term debt;
- issuance of equity, including under our ATM Programs (as described below); and
- asset sales.

Our short-term liquidity requirements consist primarily of funds to pay for the following:

- development and redevelopment activities, including major redevelopment, renovation or expansion programs at individual properties;
- property acquisitions under contract, including our pro rata share of the remaining Portfolio Acquisition properties;
- tenant improvements, allowances and leasing costs;
- recurring maintenance and capital expenditures;
- debt repayment requirements;
- corporate and administrative costs;
- interest payments on our outstanding indebtedness;
- interest swap payments;
- distribution payments; and
- repurchases of common stock under our share repurchase program.

Our long-term liquidity needs, in addition to recurring short-term liquidity needs as discussed above, consist primarily of funds necessary to pay for acquisitions, non-recurring capital expenditures, and scheduled debt maturities. Although we may be able to anticipate and plan for certain of our liquidity needs, unexpected increases in uses of cash that are beyond our control and which affect our financial condition and results of operations may arise, or our sources of liquidity may be fewer than, and the funds available from such sources may be less than, anticipated or required. As of the date of this filing, there were no known commitments or events that would have a material impact on our liquidity.

Equity

Offering of Common Stock on a Forward Basis

On August 11, 2021, we and the operating partnership completed an underwritten public offering of 6,300,000 shares of common stock offered on a forward basis. In connection with the offering, we also entered into separate forward sale agreements with each of the forward purchasers (the “Forward Sales Agreements”), pursuant to which the forward purchasers borrowed and sold to the underwriters an aggregate of 6,300,000 shares of our common stock. On December 28, 2021, we issued 3,991,000 shares of our common stock for net proceeds of \$85.0 million, which shares were issued in partial settlement of the Forward Sales Agreements entered into in connection with the underwritten public offering. No shares were issued during the three and six months ended June 30, 2022. We expect to physically settle the remaining Forward Sales Agreements and receive proceeds, subject to certain adjustments, from the sale of those shares of common stock upon one or more such physical settlements within approximately two years from the date of the offering (which was extended by one year). Although we expect to settle the Forward Sales Agreements entirely by the physical delivery of shares of our common stock for cash proceeds, we may also elect to cash or net-share settle all or a portion of our obligations under the Forward Sales Agreements, in which case, we may receive, or may owe, cash or shares of our common stock from or to the forward purchasers. The Forward Sales Agreements provide for an initial forward price of \$21.64 per share, subject to certain adjustments pursuant to the terms of each of the Forward Sales Agreements. The Forward Sales Agreements are subject to early termination or settlement under certain circumstances.

ATM Programs

We entered into separate equity distribution agreements on each of December 20, 2019 (the “2019 ATM Program”) and June 22, 2021 (the “2021 ATM Program”) and, together with the 2019 ATM Program, the “ATM Programs”) with various financial institutions pursuant to which we may issue and sell shares of our common stock having an aggregate offering price of up to \$300.0 million under each ATM Program from time to time in negotiated transactions or transactions that are deemed to be “at the market” offerings as defined in Rule 415 under the Securities Act. Under each of the ATM Programs, we may enter into one or more forward transactions (each, a “forward sale transaction”) under separate master forward sale confirmations and related supplemental confirmations with each of the various financial institutions party to the respective ATM Program for the sale of shares of our common stock on a forward basis.

The following table sets forth certain information with respect to issuances under the 2019 ATM Program during the six months ended June 30, 2022 (amounts in thousands, except share amounts):

| For the three months ended | 2019 ATM Program | |
|----------------------------|----------------------------|-----------------|
| | Number of Shares Issued(1) | Net Proceeds(1) |
| March 31, 2022 | 434,925 | \$ 9,409 |
| June 30, 2022 | — | — |
| Total | 434,925 | \$ 9,409 |

- (1) Shares issued by us, which were all issued in settlement of forward sales transactions. Additionally, as of June 30, 2022, we had entered into forward sales transactions under the 2019 ATM Program for the sale of an additional 1,950,000 shares of our common stock that have not yet been settled. Subject to our right to elect net share settlement, we expect to physically settle the forward sales transactions by the maturity dates set forth in each applicable forward sale transaction placement notice, which dates range from July 2022 to June 2023. Assuming the forward sales transactions are physically settled in full utilizing a net weighted average initial forward sales price of \$21.82 per share, we expect to receive net proceeds of approximately \$42.6 million, after deducting offering costs, subject to adjustments in accordance with the applicable forward sale transaction. We accounted for the forward sale transactions as equity.

No sales of shares of our common stock were made under the 2021 ATM Program during the six months ended June 30, 2022.

We used the net proceeds received from such sales for general corporate purposes. As of June 30, 2022, we had approximately \$300.0 million of gross sales of our common stock available under the 2021 ATM Program and \$87.4 million of gross sales of our common stock available under the 2019 ATM Program.

Share Repurchase Program

On April 28, 2022, our Board of Directors authorized a share repurchase program whereby we may repurchase up to 4,538,994 shares of our common stock, or approximately 5% of our outstanding shares as of the authorization date. We are not required to purchase shares under the share repurchase program, but may choose to do so in the open market or through privately negotiated transactions at times and amounts based on its evaluation of market conditions and other factors.

No repurchases of shares of our common stock were made under the share repurchase program during the six months ended June 30, 2022.

Contribution of Property for Common Units

On May 10, 2022, we acquired NARA – Broomfield for which we issued, as partial consideration, 827,791 common units. The issuance of common units was effected in reliance upon an exemption from registration provided by Section 4(a)(2) under the Securities Act.

Debt

The following table sets forth certain information with respect to our outstanding indebtedness as of June 30, 2022 (amounts in thousands):

| Loan | Principal Outstanding June 30, 2022 | Interest Rate (1) | Current Maturity |
|---|--|----------------------|---------------------|
| Revolving credit facility: | | | |
| Revolving credit facility (2) | \$ 142,750 | L + 125 bps | July 2025 (3) |
| Total revolving credit facility | 142,750 | | |
| Term loan facilities: | | | |
| 2016 term loan facility | 100,000 | 2.67% (5) | March 2024 |
| 2018 term loan facility (4) | 150,000 | 3.91% (6) | July 2026 |
| Total term loan facilities | 250,000 | | |
| Less: Total unamortized deferred financing fees | (1,221) | | |
| Total term loan facilities, net | 248,779 | | |
| Notes payable: | | | |
| 2017 series A senior notes | 95,000 | 4.05% | May 2027 |
| 2017 series B senior notes | 50,000 | 4.15% | May 2029 |
| 2017 series C senior notes | 30,000 | 4.30% | May 2032 |
| 2019 series A senior notes | 85,000 | 3.73% | September 2029 |
| 2019 series B senior notes | 100,000 | 3.83% | September 2031 |
| 2019 series C senior notes | 90,000 | 3.98% | September 2034 |
| 2021 series A senior notes | 50,000 | 2.62% | October 2028 |
| 2021 series B senior notes | 200,000 | 2.89% | October 2030 |
| Total notes payable | 700,000 | | |
| Less: Total unamortized deferred financing fees | (4,181) | | |
| Total notes payable, net | 695,819 | | |
| Mortgage notes payable: | | | |
| DEA – Pleasanton | 15,700 | L + 150bps (7) | October 2023 |
| VA – Golden | 8,723 | 5.00% (7) | April 2024 |
| MEPCOM – Jacksonville | 6,163 | 4.41% (7) | October 2025 |
| USFS II – Albuquerque | 14,306 | 4.46% (7) | July 2026 |
| ICE – Charleston | 14,140 | 4.21% (7) | January 2027 |
| VA – Loma Linda | 127,500 | 3.59% (7) | July 2027 |
| CBP – Savannah | 10,799 | 3.40% (7) | July 2033 |
| USCIS – Kansas City | 51,500 | 3.68% (7) | August 2024 |
| Total mortgage notes payable | 248,831 | | |
| Less: Total unamortized deferred financing fees | (1,633) | | |
| Less: Total unamortized premium/discount | 2,252 | | |
| Total mortgage notes payable, net | 249,450 | | |
| Total debt | \$ 1,336,798 | | |

- (1) At June 30, 2022, the one-month LIBOR (“L”) was 1.79%. The current interest rate is not adjusted to include the amortization of deferred financing fees or debt issuance costs incurred in obtaining debt or any unamortized fair market value premiums. The spread over the applicable rate for each of our \$450.0 million senior unsecured revolving credit facility (our “revolving credit facility”), our \$200.0 million senior unsecured term loan facility (as amended, our “2018 term loan facility”) and our \$100.0 million senior unsecured term loan facility (our “2016 term loan facility”) is based on our consolidated leverage ratio, as defined in the respective loan agreements.
- (2) Our revolving credit facility had available capacity of \$307.1 million at June 30, 2022 with an accordion feature that permits us to request additional lender commitments for up to \$250.0 million of additional capacity, subject to the satisfaction of customary terms and conditions.

- (3) Our revolving credit facility has two six-month as-of-right extension options subject to certain conditions and the payment of an extension fee.
- (4) Our 2018 term loan facility has undrawn capacity up to \$50.0 million of which is available during a delayed draw period.
- (5) Entered into two interest rate swaps with an effective date of March 29, 2017 with an aggregate notional value of \$100.0 million to effectively fix the interest rate at 2.67% annually, based on our consolidated leverage ratio, as defined in our 2016 term loan facility agreement.
- (6) Entered into four interest rate swaps with an effective date of December 13, 2018 with an aggregate notional value of \$150.0 million to effectively fix the interest rate at 3.91% annually, based on our consolidated leverage ratio, as defined in our 2018 term loan facility agreement.
- (7) Effective interest rates are as follows: DEA – Pleasanton 1.80%, VA – Golden 5.03%, MEPCOM – Jacksonville 3.89%, USFS II Albuquerque 3.92%, ICE – Charleston 3.93%, VA – Loma Linda 3.78%, CBP – Savannah 4.12%, USCIS – Kansas City 2.05%.

Our revolving credit facility, term loan facilities, notes payable, and mortgage notes payable are subject to ongoing compliance with a number of financial and other covenants. As of June 30, 2022, we were in compliance with all applicable financial covenants.

On July 22, 2022, we entered into the first amendment to our second amended and restated senior credit agreement (the “first amendment”). The first amendment extended the deadline for the \$50.0 million delayed draw portion of the 2018 term loan facility to July 24, 2023 (from July 22, 2022).

The chart below details our debt capital structure as of June 30, 2022 (dollar amounts in thousands):

| Debt Capital Structure | June 30, 2022 | |
|--------------------------------|----------------------|-----------|
| Total principal outstanding | \$ | 1,341,581 |
| Weighted average maturity | | 6.0 years |
| Weighted average interest rate | | 3.5% |
| % Variable debt | | 11.8% |
| % Fixed debt ⁽¹⁾ | | 88.2% |
| % Secured debt | | 18.6% |

- (1) Our 2016 term loan facility and 2018 term loan facility are swapped to be fixed and as such are included as fixed rate debt in the table above.

Material Cash Commitments

During the six months ended June 30, 2022, there were no material changes to the cash commitment information presented in Item 7 of Part II of our Annual Report on Form 10-K for the year ended December 31, 2021.

Unconsolidated Real Estate Venture

We consolidate entities in which we have a controlling interest or are the primary beneficiary in a variable interest entity. From time to time, we may have off-balance sheet unconsolidated real estate ventures and other unconsolidated arrangements with varying structures.

As of June 30, 2022, we have invested \$182.3 million in the JV. For a more complete description of the JV, see Note 4 to the Consolidated Financial Statements.

As of June 30, 2022, we had capital commitments to the JV totaling \$183.9 million and none of the properties owned by the JV were encumbered by mortgage indebtedness.

Dividend Policy

In order to qualify as a REIT, we are required to distribute to our stockholders, on an annual basis, at least 90% of our REIT taxable income, determined without regard to the deduction for dividends paid and excluding net capital gains. We anticipate distributing all of our taxable income. We expect to make quarterly distributions to our stockholders in a manner intended to satisfy this requirement. Prior to making any distributions for U.S. federal tax purposes or otherwise, we must first satisfy our operating and debt service obligations. It is possible that it would be necessary to utilize cash reserves, liquidate assets at unfavorable prices or incur additional indebtedness in order to make required distributions. It is also possible that our board of directors could decide to make required distributions in part by using shares of our common stock.

A summary of dividends declared by the board of directors per share of common stock and per common unit at the date of record is as follows:

| Quarter | Declaration Date | Record Date | Payment Date | Dividend (1) |
|---------|------------------|-----------------|-----------------|--------------|
| Q1 2022 | April 27, 2022 | May 13, 2022 | May 25, 2022 | \$ 0.265 |
| Q2 2022 | July 27, 2022 | August 11, 2022 | August 23, 2022 | \$ 0.265 |

- (1) Prior to the end of the performance period as set forth in the applicable LTIP unit award, holders of performance-based LTIP units are entitled to receive dividends per LTIP unit equal to 10% of the dividend paid per common unit. After the end of the performance period, the number of LTIP units, both vested and unvested, that LTIP award recipients have earned, if any, are entitled to receive dividends in an amount per LTIP unit equal to dividends, both regular and special, payable per common unit. Holders of LTIP units that are not subject to the attainment of performance goals are entitled to receive dividends per LTIP unit equal to 100% of the dividend paid per common unit beginning on the grant date.

Inflation

Substantially all of our leases provide for operating expense escalations. We believe inflationary increases in expenses may be at least partially offset by the operating expenses that are passed through to our tenants and by contractual rent increases. We do not believe inflation has had a material impact on our historical financial position or results of operations.

Cash Flows

The following table sets forth a summary of cash flows for the six months ended June 30, 2022 and 2021 (amounts in thousands):

| | For the six months ended June 30, | |
|---------------------------------|-----------------------------------|-----------|
| | 2022 | 2021 |
| Net cash (used in) provided by: | | |
| Operating activities | \$ 64,354 | \$ 56,717 |
| Investing activities | (147,028) | (103,802) |
| Financing activities | 80,575 | 47,094 |

Operating Activities

We generated \$64.4 million and \$56.7 million of cash from operating activities during the six months ended June 30, 2022 and 2021, respectively. Net cash provided by operating activities for the six months ended June 30, 2022 includes \$62.6 million in net cash from rental activities net of expenses and \$3.4 million related to distributions from investment in unconsolidated real estate venture, offset by \$1.6 million related to the change in tenant accounts receivable, prepaid expenses and other assets, deferred revenue associated with operating leases, principal payments on operating lease obligations, and accounts payable, accrued expenses and other liabilities. Net cash provided by operating activities for the six months ended June 30, 2021 includes \$56.9 million in net cash from rental activities net of expenses, offset by \$0.2 million related to the change in tenant accounts receivable, prepaid expenses and other assets, deferred revenue associated with operating leases, principal payments on operating lease obligations, and accounts payable, accrued expenses and other liabilities.

Investing Activities

We used \$147.0 million and \$103.8 million in cash for investing activities during the six months ended June 30, 2022 and 2021, respectively. Net cash used in investing activities for the six months ended June 30, 2022 includes \$78.8 million in real estate acquisitions and deposits, \$52.7 million in investment in unconsolidated real estate venture, \$10.9 million in additions to operating properties and \$4.9 million in additions to development properties, offset by \$0.3 million in distributions of capital from unconsolidated real estate venture. Net cash used in investing activities for the six months ended June 30, 2021 includes \$93.0 million in real estate acquisitions, \$9.6 million in additions to operating properties and \$4.5 million in additions to development properties, offset by \$3.3 million in proceeds from the sale of SSA – Mission Viejo during the second quarter of 2021.

Financing Activities

We generated \$80.6 million and \$47.1 million in cash from financing activities during the six months ended June 30, 2022 and 2021, respectively. Net cash generated by financing activities for the six months ended June 30, 2022 includes \$157.3 million in draws under our revolving credit facility and \$9.5 million in gross proceeds from issuances of shares of our common stock, offset by \$54.4 million in dividend payments, \$29.0 million in net pay downs under our revolving credit facility, \$2.6 million in mortgage notes payable repayment and \$0.1 million in the payment of offering costs. Net cash generated by financing activities for the six months ended June 30, 2021 includes \$125.3 million in draws under our revolving credit facility and \$40.4 million in gross proceeds from issuances of shares of our common stock, offset by \$67.3 million in net pay downs under our revolving credit facility, \$48.8 million in dividend payments, \$1.9 million in mortgage notes payable repayment, \$0.6 million in the payment of offering costs and \$0.1 million in payment of deferred financing fees.

Non-GAAP Financial Measures

We use and present Funds From Operations (“FFO”), and FFO, as Adjusted as supplemental measures of our performance. The summary below describes our use of FFO and FFO, as Adjusted, provides information regarding why we believe these measures are meaningful supplemental measures of our performance and reconciles these measures from net income, presented in accordance with GAAP.

Funds From Operations and Funds From Operations, as Adjusted

FFO is a supplemental measure of our performance. We present FFO calculated in accordance with the current National Association of Real Estate Investment Trusts, or Nareit, definition set forth in the Nareit FFO White Paper – Restatement 2018. FFO includes the REIT’s share of FFO generated by unconsolidated affiliates. In addition, we present FFO, as Adjusted for certain other adjustments that we believe enhance the comparability of our FFO across periods and to the FFO reported by other publicly traded REITs. FFO is a supplemental performance measure that is commonly used in the real estate industry to assist investors and analysts in comparing results of REITs.

FFO is defined by Nareit as net income (calculated in accordance with GAAP), excluding:

- Depreciation and amortization related to real estate.
- Gains and losses from the sale of certain real estate assets.
- Gains and losses from change in control.
- Impairment write-downs of certain real estate assets and investments in entities when the impairment is directly attributable to decreases in the value of depreciable real estate held by the entity.

We present FFO because we consider it an important supplemental measure of our operating performance, and we believe it is frequently used by securities analysts, investors and other interested parties in the evaluation of REITs, many of which present FFO when reporting results.

We adjust FFO to present FFO, as Adjusted as an alternative measure of our operating performance, which, when applicable, excludes the impact of acquisition costs, straight-line rent, amortization of above-/below-market leases, amortization of deferred revenue (which results from landlord assets funded by tenants), non-cash interest expense, non-cash compensation, depreciation of non-real estate assets and other non-cash items and the unconsolidated real estate venture’s allocated share of these adjustments. By excluding these income and expense items from FFO, as Adjusted, we believe we provide useful information as these items have no cash impact. In addition, by excluding acquisition related costs we believe FFO, as Adjusted provides useful information that is comparable across periods and more accurately reflects the operating performance of our properties.

FFO and FFO, as Adjusted are presented as supplemental financial measures and do not fully represent our operating performance. Other REITs may use different methodologies for calculating FFO and FFO, as Adjusted or use other definitions of FFO and FFO, as Adjusted and, accordingly, our presentation of these measures may not be comparable to other REITs. Neither FFO nor FFO, as Adjusted is intended to be a measure of cash flow or liquidity. Please refer to our financial statements, prepared in accordance with GAAP, for purposes of evaluating our financial condition, results of operations and cash flows.

The following table sets forth a reconciliation of our net income to FFO and FFO, as Adjusted for the three and six months ended June 30, 2022 and 2021 (amounts in thousands):

| | <u>For the three months ended June 30,</u> | | <u>For the six months ended June 30,</u> | |
|---|--|------------------|--|------------------|
| | 2022 | 2021 | 2022 | 2021 |
| Net income | \$ 8,130 | \$ 9,254 | \$ 16,393 | \$ 17,134 |
| Depreciation of real estate assets | 24,096 | 22,502 | 48,008 | 44,820 |
| Gain on sale of operating property | — | (530) | — | (530) |
| Unconsolidated real estate venture allocated share of above adjustments | 1,127 | — | 2,005 | — |
| FFO | <u>33,353</u> | <u>31,226</u> | <u>66,406</u> | <u>61,424</u> |
| Adjustments to FFO: | | | | |
| Acquisition costs | 302 | 483 | 664 | 970 |
| Straight-line rent and other non-cash adjustments | 451 | (1,324) | (531) | (2,737) |
| Amortization of above-/below-market leases | (743) | (1,225) | (1,604) | (2,511) |
| Amortization of deferred revenue | (1,443) | (1,398) | (2,841) | (2,819) |
| Non-cash interest expense | 235 | 364 | 460 | 727 |
| Non-cash compensation | 1,637 | 1,033 | 3,266 | 2,367 |
| Depreciation of non-real estate assets | 247 | 23 | 494 | 30 |
| Unconsolidated real estate venture allocated share of above adjustments | (378) | — | (677) | — |
| FFO, as Adjusted | <u>\$ 33,661</u> | <u>\$ 29,182</u> | <u>\$ 65,637</u> | <u>\$ 57,451</u> |

Critical Accounting Estimates

The preparation of financial statements in conformity with GAAP requires management to use judgment in the application of accounting policies, including making estimates and assumptions. We base these estimates, judgments, and assumptions on historical experience, current trends, and various other factors that we believe to be reasonable under the circumstances. If our judgment or interpretation of the facts and circumstances relating to various transactions had been different, or different assumptions were made, it is possible that different accounting policies would have been applied, resulting in different financial results or a different presentation of our financial statements.

Our Annual Report on Form 10-K for the year ended December 31, 2021 contains a discussion of our significant accounting policies, which utilize relevant critical accounting estimates.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Market risk is the risk of loss from adverse changes in market prices and interest rates. Our future earnings, cash flows and fair values relevant to financial instruments are dependent upon prevailing market interest rates. Our primary market risk results from our indebtedness, which bears interest at both fixed and variable rates. We manage and may continue to manage our market risk on variable rate debt by entering into swap arrangements to, in effect, fix the rate on all or a portion of the debt for varying periods up to maturity. This in turn, reduces the risks of variability of cash flows created by variable rate debt and mitigates the risk of increases in interest rates. Our objective when undertaking such arrangements is to reduce our floating rate exposure and we do not intend to enter into hedging arrangements for speculative purposes.

As of June 30, 2022, \$1.2 billion, or 88.2% of our debt, excluding unamortized premiums and discounts, had fixed interest rates and \$158.5 million, or 11.8% had variable interest rates. If market rates of interest on our variable rate debt fluctuate by 25 basis points, interest expense would increase or decrease, depending on rate movement, future earnings and cash flows, by \$0.4 million annually.

In July 2017, the Financial Conduct Authority announced it intended to stop compelling banks to submit rates for the calculation of LIBOR after 2021. In March 2021, the ICE Benchmark Administration, the administrator of LIBOR, announced its intention to cease publication of certain LIBOR settings after 2021, while continuing to publish overnight and one-, three-, six-, and twelve-month U.S. dollar LIBOR rates through June 30, 2023. While this announcement extended the transition period to June 2023, the United States Federal Reserve Board and other regulatory bodies concurrently issued guidance encouraging banks and other financial market participants to cease entering into new contracts that use U.S. dollar LIBOR as a reference rate as soon as practicable and in any event no later than December 31, 2021. In the U.S., the Alternative Reference Rates Committee (“AARC”), which was convened by the Federal Reserve Board and the Federal Reserve Bank of New York, has recommended that the Secured Overnight Financing Rate (“SOFR”) plus a recommended spread adjustment as its preferred alternative to USD-LIBOR. There are significant differences between LIBOR and SOFR, such as LIBOR being an unsecured lending rate while SOFR is a secured rate, and SOFR is an overnight rate while LIBOR reflects term rates at different maturities.

We expect that all LIBOR settings relevant to us will cease to be published or will no longer be representative after June 30, 2023. As a result, any of our LIBOR-based borrowings that extend beyond such date will need to be converted to a replacement rate. Certain risks may arise in connection with transitioning contracts to SOFR or any other alternative variable rate, including any resulting value transfer that may occur. The value of loans, securities, or derivative instruments tied to LIBOR could also be impacted. Our senior unsecured revolving credit facility and term loan facilities provide for replacement of LIBOR if it becomes unavailable during the term of the facilities. However, for instruments into which we may enter in the future, the method of transitioning to an alternative rate may be challenging, as they may require substantial negotiation with each respective counterparty. If a contract is not transitioned to an alternative variable rate and LIBOR is discontinued, the impact is likely to vary by contract.

The discontinuation of LIBOR will not affect our ability to borrow or maintain already outstanding borrowings or swaps, but if our contracts indexed to LIBOR, including certain contracts governing our variable rate debt and our interest rate swaps, are converted to SOFR, the differences between LIBOR and SOFR, plus the recommended spread adjustment, could result in interest costs that are higher than if LIBOR remained available. Additionally, although SOFR is the AARC’s recommended replacement rate, it is also possible that lenders may instead choose alternative replacement rates that may differ from LIBOR in ways similar to SOFR or in ways that would result in higher interest costs for us. It is not yet possible to predict the magnitude of LIBOR’s end on our borrowing costs given the remaining uncertainty about which rates will replace LIBOR.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

We carried out an evaluation required by the Exchange Act, under the supervision and with the participation of our principal executive officer and principal financial officer, of the effectiveness of the design and operation of our disclosure controls and procedures, as defined in Rule 13a-15(e) and Rule 15d-15 of the Exchange Act, as of June 30, 2022. Based on this evaluation, our principal executive officer and principal financial officer concluded that, as of June 30, 2022, our disclosure controls and procedures were effective to provide reasonable assurance that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms and to provide reasonable assurance that such information is accumulated and communicated to our management, including our principal executive officer and principal financial officer, as appropriate, to allow timely decisions regarding required disclosures.

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting during the quarter ended June 30, 2022 that have materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Part II

Item 1. Legal Proceedings

We are not currently involved in any material litigation nor, to our knowledge, is any material litigation currently threatened against us.

Item 1A. Risk Factors

Except to the extent updated below or to the extent additional factual information disclosed elsewhere in this Quarterly Report on Form 10-Q relates to such risk factors (including, without limitation, the matters discussed in Part I, “Item 2—Management’s Discussion and Analysis of Financial Condition and Results of Operations”), there were no material changes to the risk factors disclosed in Part I, “Item 1A. Risk Factors” of our Annual Report on Form 10-K for the year ended December 31, 2021.

We cannot guarantee that we will repurchase our common stock pursuant to our share repurchase program or that our share repurchase program will enhance long-term stockholder value. Share repurchases could also increase the volatility of the price of our common stock and could diminish our cash reserves.

The timing and amount of repurchases of shares of our common stock, if any, will depend upon several factors, including market and business conditions, the trading price of our common stock, our cost of capital and the nature of other investment opportunities. Our share repurchase program may be limited, suspended or discontinued at any time without prior notice. In addition, repurchases of our common stock pursuant to our share repurchase program could affect our stock price and increase its volatility. The existence of our share repurchase program could cause our stock price to be higher than it would be in the absence of such a program and could potentially reduce the market liquidity for our stock. Additionally, our share repurchase program could diminish our cash reserves, which may impact our ability to finance future growth and to pursue possible future strategic opportunities and acquisitions. There can be no assurance that any share repurchases will enhance stockholder value because the market price of our common stock may decline below the levels at which we repurchased shares of stock. Although our share repurchase program is intended to enhance long-term stockholder value, there is no assurance that it will do so and short-term stock price fluctuations could reduce the program’s effectiveness.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

None.

Item 3. Defaults Upon Senior Securities

Not applicable.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None.

Item 6. Exhibits

The following exhibits are included, or incorporated by reference, in this Quarterly Report on Form 10-Q:

| <u>Exhibit</u> | <u>Exhibit Description</u> |
|----------------|--|
| 3.1 | <u>Amended and Restated Articles of Amendment and Restatement of Easterly Government Properties, Inc. (previously filed as Exhibit 3.1 to Amendment No. 2 to the Company's Registration Statement on Form S-11 on January 30, 2015 and incorporated herein by reference)</u> |
| 3.2 | <u>Amended and Restated Bylaws of Easterly Government Properties, Inc. (previously filed as Exhibit 3.2 to Amendment No. 2 to the Company's Registration Statement on Form S-11 on January 30, 2015 and incorporated herein by reference)</u> |
| 3.3 | <u>First Amendment to Amended and Restated Bylaws of Easterly Government Properties, Inc. (previously filed as Exhibit 3.1 to the Company's Current Report on Form 8-K on February 27, 2019 and incorporated herein by reference)</u> |
| 3.4 | <u>Second Amendment to Amended and Restated Bylaws of Easterly Government Properties, Inc. (previously filed as Exhibit 3.1 to the Company's Current Report on Form 8-K on May 20, 2021 and incorporated herein by reference)</u> |
| 4.1 | <u>Specimen Certificate of Common Stock of Easterly Government Properties, Inc. (previously filed as Exhibit 4.1 to Amendment No. 2 to the Company's Registration Statement on Form S-11 on January 30, 2015 and incorporated herein by reference)</u> |
| 10.1 | <u>First Amendment to Second Amended and Restated Credit Agreement, dated as of July 22, 2022, by and among Easterly Government Properties, Inc., Easterly Government Properties LP, the Guarantors named therein, the Initial Lenders and Initial Issuing Banks named therein, and Citibank, N.A., as administrative agent, Wells Fargo Bank, N.A. and PNC Bank, National Association, as co-syndication agents, BMO Harris Bank, N.A., Raymond James Bank, Royal Bank of Canada and Truist Bank, as co-syndication agents, BMO Harris Bank, N.A., Raymond James Bank, Royal Bank of Canada and Truist Bank as co-documentation agents, and Citibank, N.A., Wells Fargo Securities, LLC and PNC Capital Markets LLC, as joint lead arrangers and joint book running managers (previously filed as Exhibit 10.1 to the Company's Current Report on Form 8-K on July 26, 2022 and incorporated herein by reference)</u> |
| 31.1* | <u>Certification of Chief Executive Officer Required by Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended</u> |
| 31.2* | <u>Certification of Chief Financial Officer Required by Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended</u> |
| 32.1** | <u>Certification of Chief Executive Officer and Chief Financial Officer Required by Rule 13a-14(b) of the Securities Exchange Act of 1934, as amended</u> |
| 101.INS* | Inline XBRL Instance Document – the instance document does not appear in the Interactive Data File because XBRL tags are embedded within the Inline XBRL document. |
| 101.SCH* | Inline XBRL Taxonomy Extension Schema Document |
| 101.CAL* | Inline XBRL Taxonomy Extension Calculation Linkbase Document |
| 101.DEF* | Inline XBRL Taxonomy Extension Definition Linkbase Document |
| 101.LAB* | Inline XBRL Taxonomy Extension Label Linkbase Document |
| 101.PRE* | Inline XBRL Taxonomy Extension Presentation Linkbase Document |
| 104* | Cover Page Interactive Data File (formatted as inline XBRL with applicable taxonomy extension information contained in Exhibits 101.*) |

* Filed herewith

** Furnished herewith

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Easterly Government Properties, Inc.

Date: August 2, 2022

/s/ William C. Trimble, III
William C. Trimble, III
Chief Executive Officer and President
(Principal Executive Officer)

Date: August 2, 2022

/s/ Meghan G. Baivier
Meghan G. Baivier
Executive Vice President, Chief Financial Officer and Chief Operating
Officer
(Principal Financial Officer)

Certification of Chief Executive Officer
Pursuant to Rule 13a-14(a) and Rule 15d-14(a)

I, William C. Trimble, III, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Easterly Government Properties, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 2, 2022

/s/ William C. Trimble, III

William C. Trimble, III
Chief Executive Officer and President
(Principal Executive Officer)

Certification of Chief Financial Officer
Pursuant to Rule 13a-14(a) and Rule 15d-14(a)

I, Meghan G. Baivier, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Easterly Government Properties, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 2, 2022

/s/ Meghan G. Baivier

Meghan G. Baivier
Executive Vice President, Chief Financial Officer and Chief
Operating Officer
(Principal Financial Officer)

Certification
Pursuant to 18 U.S.C. Section 1350

The undersigned officers, who are the Chief Executive Officer and Chief Financial Officer of Easterly Government Properties, Inc. (the “Company”), each hereby certifies to the best of his or her knowledge, that the Company’s Quarterly Report on Form 10-Q to which this certification is attached (the “Report”), as filed with the Securities and Exchange Commission on the date hereof, fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934, as amended, and that the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ William C. Trimble, III

William C. Trimble, III

Chief Executive Officer and President

August 2, 2022

/s/ Meghan G. Baivier

Meghan G. Baivier

Executive Vice President, Chief Financial Officer and Chief Operating Officer

August 2, 2022