Easterly Government Prop (Q4 2025 Earnings)

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Corporate Speakers:

- Cole Bardawill; Easterly Government Properties; Director of Investor Relations
- Darrell Crate; Easterly Government Properties; President, Chief Executive Officer
- Allison Marino; Easterly Government Properties; Chief Financial Officer

Participants:

- Seth Bergey; Citi; Analyst
- Michael Lewis; Truist Securities; Analyst

PRESENTATION

Operator^ Greetings. Welcome to the Easterly Government Properties Fourth Quarter 2025 Earnings Conference Call. (Operator Instructions) Please be advised that today's conference is being recorded. I would now like to hand the conference over to your speaker today Cole Bardawill, Director of Investor Relations.

Please go ahead.

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

Although the company believes that expectations as reflected in any forward-looking statements are reasonable, it can give no assurance that these expectations will be attained or achieved. Furthermore, actual results may differ materially from those described in the forward-looking statements and will be affected by a variety of risks and factors that are beyond the company's control, including, without limitation, those contained in the company's most recent Form 10-K filed with the SEC and in its other SEC filings. The company assumes no obligation to update publicly any forward-looking statements.

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

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

Darrell Crate^ Thank you, Cole. And good morning, everyone.

In 2025, Easterly continued to execute on our stated strategy. This year represents another year of delivering 2% to 3% core FFO per share growth, reinforcing that our strategy is not only durable, but repeatable. Over the past two years, we've remained focused on steady earnings growth, driven by our government-related cash flows, disciplined capital allocation and additional diversification while facing difficult external conditions.

Importantly, this momentum extends beyond 2025. The midpoint of our current 2026 guidance reflects our third year in a row of at least 2% to 3% core FFO per share growth demonstrating both the embedded growth in our portfolio and the visibility created by our long-term leases and high credit quality.

As we enter 2026, our strategic priorities remain unchanged and continue to guide our approach to disciplined growth and portfolio enhancement. One, core FFO growth per share of 2% to 3% annually; number two, increasing same-store performance through thoughtful diversification in the state, local and high-credit government adjacent tenancy; and three, executing value-creating development opportunities into high credit stabilized assets.

This strategy is designed to balance growth and durability and build a portfolio that performs consistently regardless of the economic or policy backdrop.

Easterly's portfolio is comprised of mission-critical government facilities including courthouses, public health laboratories, law enforcement offices and secure administrative buildings. These assets are purpose-built, long term leased and integral to the ongoing operations of federal, state and municipal agencies.

The durability of our tenant's mission, independent of political or economic cycles, support stable, predictable cash flows and underpins our ability to generate consistent long-term earnings growth. As demand for secure, modern government facilities continues to increase across all levels of government, we believe our portfolio and our platform are well positioned to meet the demand.

We recently visited our Veterans Affairs and federal law enforcement facilities in Florida. And it was powerful to see firsthand how busy these buildings are as they truly support mission-critical work. From Homeland security investigation teams to the doctors and staff caring for our nation's veterans, the level of activity underscores the essential role our properties play. It reinforces our commitment to providing high-quality environments that support these dedicated public servants and the important missions they carry out.

Turning to specifics of the quarter. We continue to demonstrate the durability of our platform anchored by high portfolio occupancy and strong long-standing relationships across a broad range of government agencies. Demand for our mission-critical facilities

remains resilient, supporting stable cash flows and predictable operating performance. We remain highly disciplined in our capital allocation maintaining a strong balance sheet and significant financial flexibility while prioritizing investments that enhance long-term value.

Our portfolio continues to perform at a very high level with occupancy near historical highs at 97% and weighted average lease terms of roughly a decade. This performance reflects the durability of our tenant base and reinforces the strength of our mission-critical strategy.

On the acquisition front, I'm pleased to share that subsequent to quarter end, we completed the acquisition of a three asset portfolio by the Commonwealth of Virginia. The long-term nature of the leases and built-in rent growth added another layer of durable cash flow to the portfolio. And Allison will walk through the details in her remarks.

We like partnering with state agencies because the credit quality is comparable to federal tenants given the essential nature of the services they provide and the stability of their funding. State leases often include contractual rent escalations, which provides built-in growth and enhances long-term cash flow visibility.

Our development pipeline remains active with key projects progressing well. We continue to see accretive opportunities that meet our standards for credit quality, mission alignment and durable returns.

Looking ahead to 2026, recent federal developments, specifically DOGE are in the rearview mirror and did not change how our portfolio performs or how we operate the business. At the midpoint, we are guiding to approximately 3% core FFO per share growth in 2026.

Ongoing federal real estate discussions continue to highlight a long-standing reality, many government agencies are best served by focusing their time, their resources, and their expertise on mission execution rather than real estate ownership. Managing and modernizing specialized facilities can be complex and requires consistent attention. We excel at both of these capabilities.

Easterly was built to support agencies in addressing this need. As a private sector partner, we deploy capital to provide modern mission-critical infrastructure that supports agency operations allowing our tenants to remain focused on their core missions. Importantly, this dynamic continues to drive a strong and expanding growth pipeline for Easterly, as agencies increasingly look to us to be their long-term partner to recapitalize and modernize essential facilities at scale.
Against this backdrop, our acquisitions team has built a high-quality, robust pipeline that supports consistent capital deployment at returns in excess of 100 basis points over our weighted average cost of capital. This disciplined approach to underwriting and execution underpins durable long-term growth.

We continue to focus on improving our cost of capital with leverage, an important part of that effort. Cash leverage trending lower again this quarter as we move toward a more conventional profile with a medium-term objective of approximately 6x. We believe this will structurally support lower funding costs while preserving our ability to pursue accretive growth in excess of our target range.

To wrap up, we're delivering on the strategy we laid out, delivering long-term core FFO growth of 2% to 3% and advancing a robust acquisition and development pipeline while deepening our relationships across federal, state and local agencies that we serve and strengthening the balance sheet as we move forward toward our medium-term leverage objective without sacrificing growth.

All while staying true to our mission of providing modern mission-critical facilities for the agencies we serve. I want to thank the entire Easterly team for their continued focus, discipline and commitment to execution which underpins everything we deliver to our tenants and our shareholders. We also appreciate the trust and partnership of our tenants and investors as we move forward with confidence with clear visibility into our goals. At our core, we're built to support the mission, ensuring the essential work of our talent tenants can continue seamlessly today and for years to come.

Now I would also like to take a moment to applaud the appointment of Ed Forst as administrator of the GSA that was recently confirmed by the Senate, and Ed brings decades of private sector experience and first-class business acumen to the position, having held meaningful senior leadership roles at both Cushman Wakefield and Goldman Sachs. We look forward to working with the new administrator who we believe is the right person to take on the important responsibilities of GSA. We're looking forward to collaborating with Mr. Forst and his team as we seek to maximize value for both our shareholders and the American people.

And with that, I'll turn the call over to Allison Marino, our Chief Financial Officer.

Allison Marino^ Thanks, Darrell and good morning, everyone.

I'm pleased to report the financial results for the fourth quarter and full year 2025.

For the quarter, both on a fully diluted basis, net income per share was $0.10, and core FFO per share grew by nearly 6% year-over-year to $0.77. Our cash available for distribution was $29.1 million, reflecting steady operational performance.

For the year, both on a fully diluted basis, net income per share was $0.29 and core FFO per share grew by nearly 3% year-over-year to $2.99. Our full year cash available for distribution was $118.8 million dollars. As Darrell highlighted, these results demonstrate continued execution on our stated strategy including delivering 2% to 3% core FFO per share growth and advancing our leverage and capital structure objectives.

During the quarter, we successfully extended the lease at FBI Knoxville and subsequent to quarter end, we executed a long-term renewal on FBI San Antonio. With the majority of our 2026 renewals already completed, we've begun to shift our focus towards 2027.

As of December 31, 2025, we have renewed 38 leases since our IPO. Of that 38, 27 are renewals for which there was no associated renewal TI work or renewal TI work has been completed and accepted by the government. The other 11 are renewals with pending TI projects. This combined 2.6 million square feet across 38 renewals includes PTO Arlington, IRS Fresno and various smaller leases in Buffalo. When we exclude these assets, the average rent spread achieved on the remaining renewals is anticipated to be 14% including an estimated amount of $37.14 a square foot of TI utilized by the government. The weighted average total renewal term for these leases was 15.7 years. While we've shared specific details, we believe this is a good proxy for how we think about renewals going forward.

Our development portfolio also continues to progress in line with expectations. We broke ground in the third quarter on state Crime lab in Fort Myers, Florida and construction is advancing as planned with delivery targeted for the fourth quarter of 2026. Our U.S. courthouse project in Flagstaff, Arizona, is currently under construction and progressing well with delivery expected in the first quarter of 2027. In addition, we commenced construction in the fourth quarter on the previously announced U.S. Courthouse in Medford, Oregon which is scheduled for delivery in the second half of 2027. All three represent 200,000 rentable square feet that will deliver high credit cash flows.

Our largest project to date, the FDA Atlanta facility was completed and formally delivered to the government on December 15th. As of December 31, 2025, we had received $138.1 million in lump sum reimbursements relating to the project. And since then, we have received an additional $12.6 million earlier this week and expect approximately another $3 million in the next few months.

Our current net debt to annualized quarterly EBITDA which we refer to as cash leverage stands at 7.5x. We expect remaining reimbursements to drive additional improvement, bringing cash leverage below this level. As Darrell noted, this represents an important step in our continued progress towards our medium-term leverage objectives and reflects disciplined execution across both development and balance sheet management. We think this is an important step as we continue to work towards additional investment-grade ratings which we believe will position us to attractively access well-priced debt capital and unlock pipeline value over the medium term.

On the acquisition front, we completed the acquisition of a three asset portfolio in Virginia for $44.5 million, totaling approximately 298,000 square feet. The Commonwealth of Virginia occupies the majority of the portfolio under long-dated leases with 2.5% annual rent escalations and a weighted average lease term of 7.5 years. Both stats support stable and growing cash flows.

This acquisition was completed at a going in cash cap rate of approximately 11% which is in excess of our cost of capital and immediately accretive. The high cap rate is largely attributable to a motivated seller seeking to redeploy capital, creating an opportunity to acquire the assets at an attractive yield despite the strong tenancy. Our all-cash bid and ability to execute also really swung in our favor. Given where our cost capital is, our acquisitions team is tasked with sorting through many deals to find high-quality assets that meet our underwriting criteria and return objectives. They have probably risen to the challenge with this asset.

As Darrell mentioned, we continue to favor partnerships with state governments, given their strong credit profiles, often comparable to the federal government and lease structures that typically include built-in rent growth providing long-term visibility into cash flows. Overall, this transaction reflects our disciplined approach to capital allocation, deploying capital where we see attractive risk-adjusted returns and supports our ability to drive consistent long-term growth.

Turning to guidance, we are maintaining our full year core FFO per share guidance range for 2026 of $3.05 to $3.12. This comes out to approximately 3% core FFO per share growth at the midpoint which is just above the higher end of our stated 2% to 3% core FFO per share growth target. Our growth rate in 2026 is supported by the delivery of FDA Atlanta, successes on our 2025 and 2026 renewal execution, sustained operational efficiencies and our Cox Road acquisition.

At the midpoint, the guidance assumes we will have $50 million to $100 million of gross development-related investment during the year and $50 million in wholly-owned acquisitions. While our acquisition guidance remains unchanged. Given our $1.5 billion pipeline, we are monitoring the market for attractive opportunities where we can acquire at spread to our cost of capital.

We remain focused on disciplined capital management, tenant retention and execution across our development pipeline, and we continue to deliver across the strategic objectives we've outlined. Together, these fundamentals underpin Easterly's ability to generate stable, growing cash flows which we will believe -- which we believe will translate to increasing shareholder value.

Thank you for your time this morning.

We appreciate your partnership and look forward to updating you on our progress.

With that, I will now turn the call back to Shannon.

QUESTIONS AND ANSWERS

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

Seth Bergey^ I guess just to start off on the acquisition guidance. It would remain kind of unchanged, after doing the Virginia acquisition. Can you just kind of touch on the $1.5 billion pipeline that you see and kind of touch on if anything kind of in that pipeline is more near term or where you are in various stages and evaluating those opportunities?

Darrell Crate^ Yes. Thanks for the question. As we look to '26, we have a level of optimism, but it's early in the year. And as Allison said, our team, again is sorting through a significant number of transactions in our pipeline. I think the market is in a place where buyers with our reliability and quality, have an edge. And so we're going to be searching for assets that, again, give us a strong spread to our cost of capital. And we don't want to be speculating as we get to the beginning of the year.

But again I feel from the company's perspective that we have our balance sheet in great shape that our acquisitions and development teams are moving at full speed, and we're really excited to see how this year comes forward, and particularly as we focus all of our energy on 2027 in an opportunity to continue to deliver the growth that we're bringing forward.

Seth Bergey^ And then maybe just a follow-up. I know one of your strategic objectives is to continue to grow same-store NOI growth. With the confirmation of the new GSA administrator, have you had any conversations around -- I think some of their stated objectives are around just increasing government efficiency with owning versus leasing.

Have you had any conversations about the way they think about leases in terms of changing kind of any of the lease structures that would make it potentially more attractive relative to kind of the state and local agency kind of partnerships that you're looking at as you think about acquisitions?

Darrell Crate^ Yes. I think that's an insightful observation. Again the new administrator just joined. We did get an opportunity to spend a little time with him. And I believe that the government, as they look forward, thinks about efficiency and also understanding the cost in the capital markets and understanding public-private partnership. So I'm excited to see how that evolves as we move through this year and next.

Operator^ (Operator Instructions) Our next question is from Michael Lewis of Truist Securities.

Michael Lewis^ My first question is about the Virginia acquisition, right? So obviously a high cap rate. I saw there's at least one lease expiration in 2027, I don't know if maybe that increased the risk profile. Could you talk about the expiration schedule a little bit, kind of a little bit more about the assets?

Allison Marino^ Sure. So the Commonwealth of Virginia is the largest tenant across two different buildings. Combined, it's over 50% of the asset in total, and those have an expiration of 2034 and 2036. So those are very long dated in terms of the overall asset profile. The 2027 expiration that you see is just like 2,000 feet. So it is very immaterial. It's on there for our disclosure purposes, but we're not worried about that at all.

Michael Lewis^ Okay. Got you. And then you talked a lot about the leasing successes you've had, at the end of 3Q, '25, the portfolio was 97% leased. I was wondering if that's still the case? And should we expect that, that will still be the case at the end of '26 or do you have any known move-outs or move-ins?

Allison Marino^ I would say we're consistent with what we've always shared which we expect mid -- like mid-90s occupancy rates. That's our goal. In terms of the 2027 expirations, particularly, they have just kicked off procurement. As you can imagine, they start about 18 to 24 months in advance, but those are progressing nicely and we have no concerns.

Michael Lewis^ Okay. And then just lastly for me, this is more of a big picture maybe for Darrell. You mentioned about putting DOGE in the rearview mirror. Now I think we can talk about the budgets and the funding. So I'll blame copilot or Google. I just like quickly through a bunch of your tenants to look for funding changes, right? So the VA is your largest tenant. It's obviously going to have a big increase which is great.

As I went through more, right, the FBI, $1 billion cut, the VA $200 million cut, ICE we can put aside, maybe talk about separately, the FDA, a small cut, the IRS $1 billion, the EPA, $4 billion, the forest service $2 billion, Department of Agriculture, $6 billion, right? So maybe it's not DOGE or maybe it's a remnant from DOGE, but some of these surprised me and it sounded like a lot of cuts across agencies.

I just wondered if there was a bigger picture thing to talk about here with what's going on. I know you're shifting your tenant profile a little bit to where the opportunities are. But anything to say about the budget and what -- maybe what the government's priorities are?

Darrell Crate^ I think it's a really great question. And I'd sort of echo back to some of our comments when DOGE began which is the more efficient government is, the more government from top to bottom sees that real estate ownership is a public-private partnership. And that absolutely favors us. I wasn't trying to gloss anything in the prior quarters. I mean DOGE is a tailwind for the company in the medium to long term.

In the short term, we've had these headline risks. What's DOGE going to mean or government shutdown, are you going to get your rent? These are headlines, but the durability, quality of our portfolio and underwriting to mission-critical assets is an enduring strategy.

And each of those cuts that I think that you see are where there is waste and in some cases, fraud. And I -- when we look at the priorities around real estate, what we're supporting is mission-critical work. The government in every building that we've been visiting for the last bunch of months is seeing employees return to work. They are -- there is attrition. They're letting folks leave.

They're finding and using technology to create greater efficiency. And you see every agency that we're close with looking around and again not cutting mission, but very focused on delivering mission more efficiently for the American people. They want to cut the deficit. And believe me, there's plenty of fat in government for them to find. And I think they're doing a pretty darn good job at moving that forward.

So for us, it's an exciting time. And with each of our agencies, they look at our buildings, how they're maintained and how they support the mission, and we have incredibly happy tenants on the ground and they, of course, share that with Washington. I think also with the size of our balance sheet relative to some of the mom-and-pop owners of these buildings, we're able to act with clarity and confidence fight obsolescence. And if the government continues to want to build partnerships and create efficiency, we're incredibly well positioned to do exactly that.

So that's really the backdrop for the observation.

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

Darrell Crate^ Great. Well thanks everyone, for joining the Easterly Government Properties call here for the fourth quarter. We're very excited about 2026. We appreciate your confidence, your trust, focusing on the company. And we're very excited for the developments in the quarters to come.

Operator^ This concludes today's conference call. Thank you for participating.

You may now disconnect.