Easterly Government Properties (Q3 2026 Earnings)

October 26, 2026

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; Executive Vice President, Chief Financial Officer

Participants:

- John Kim; BMO Capital Markets; Analyst
- Alex Murphy; Truist Securities; Analyst
- Seth Bergey; Citi; Analyst

PRESENTATION

Operator^ Greetings. Welcome to the Easterly Government Properties third quarter 2026 earnings conference call. At this time, all participants are on listen only mode. After the speaker's presentation, there will be a question and answer session between the company's research analysts and Easterly's management team. To ask a question during the session, analysts will need to press star one one on their telephone. They will then hear an automated message advising their hand is raised. 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 its expectations, as reflected in any forward-looking statements, are reasonable, it can give no assurance that these expectations will be attained or achieved. Furthermore, actual results may differ materially from those described in the forward-looking statements and will be affected by a variety of risks and factors that are beyond the company's control, including, without limitation, those contained in the company's most recent Form 10-K filed with the SEC and in 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^ Thanks, Cole. Good morning, everyone. This quarter, we delivered year-over-year core FFO per share growth of 2.6%, in line with our 2%-3% stated long-term growth target. We continue to execute our strategy by growing earnings steadily, allocating capital thoughtfully, and improving the quality of our portfolio over time. We have been operating in a dynamic geopolitical and interest rate environment for several quarters now. Throughout that period, the durability of our portfolio and the consistency of our cash flows have continued to demonstrate the resilience of our business model and position us to perform well relative to the broader REIT market. Easterly remains focused on delivering consistent annual growth in core FFO per share. In 2026, we're on track to exceed our long-term 2%-3% growth objective with the midpoint of guidance implying approximately 4% growth.

As we look ahead to 2027, we remain committed to generating sustainable earnings growth while continuing to de-lever the balance sheet, a combination we believe will drive long-term shareholder value. You may have noticed that we've refreshed our brand and introduced a new logo. Over the past several years, Easterly has expanded its capabilities, broadened its investment opportunities, and strengthened its platform. Today, we're a diversified owner, developer, and operator of mission-critical properties serving federal, state, and local government, as well as the government-adjacent tenants. Our new identity reflects the company we have become and the opportunities we see ahead. Turning to the quarter, our portfolio continues to perform well, ending the period 98% leased with a weighted average lease term of 9.2 years. These metrics underscore the durability of our portfolio and the essential mission supported across our buildings.

Our asset management team did an excellent job closing out our 2026 lease rollovers with the renewal of USCIS Lincoln. With our 2026 renewals behind us, the team has already turned its attention to our 2027 expirations and is actively engaged in those discussions. That includes continuing to reduce the share of our portfolio with soft term, and Allison will update you on that in a moment. In addition, we're able to extend the lease at our FAA Chicago facility for an additional nine months, including six months of firm term. As we've discussed previously, the government occasionally requires additional time to transition out of a facility, and this extension is expected to provide incremental earnings in both 2026 and 2027. We still expect the tenant to vacate the property, and the asset remains under contract for sale upon move-out.

Lastly, our acquisitions team remains active as we evaluate opportunities across our approximately $1.5 billion pipeline. With the recent sharp move in the 10-year Treasury, we are recalibrating our cost of capital, and we remain disciplined and selective, focused on opportunities where we can create value and generate attractive risk-adjusted returns for shareholders. I want to take a moment and thank Mike Ibe, Chris Wang, and the entire acquisitions team for continuing to keep that pipeline actionable. As we see our cost of capital improve over time, that work positions us to meaningfully accelerate our growth. On the joint venture front, we continue to talk with partners. We believe we have a definable edge in this government real estate space. As one of the largest landlords in the sector, we bring many benefits as a partner to those looking for this kind of exposure.

I'll leave it to Allison to discuss our 2026 and 2027 guidance, but we're pleased with this year's performance to date and the momentum we've built across the business. As we look ahead to 2027, we're focused on continuing to execute against our strategy and delivering growth within our long-term target ranges. While the geopolitical and macroeconomic backdrop remains uncertain, we believe the durability of our portfolio and the mission-critical nature of our assets we own position us well to navigate a wide range of operating environments. I also want to thank Allison, who's been working with our team and the rating agencies to socialize our differentiating credit profile. That work matters as we pursue our investment-grade goal. We want to thank our team for the great execution so far this year.

We would also like to thank our tenants and our shareholders as we partner with them to hit our goals for 2026 and 2027 as well. Now with that, I'll turn the call over to Allison.

Allison Marino^ Thanks, Darrell, and good morning, everyone. I'm pleased to begin with reporting the financial results for the third quarter of 2026. The underlying growth of the business continues to come through clearly in the numbers. Total revenue for the quarter was $93.6 million, up from $86.2 million in the third quarter of 2025. That's an increase of 8.7% year-over-year, and it was driven by several factors: the acquisitions and development we've completed over the last 12 months, lease renewals, and TI and BSAC income coming online. EBITDA grew alongside revenue, coming in at $59 million for the quarter versus $54.2 million in the third quarter of 2025, approximately 8.9% growth. Importantly, that growth continues to reach the bottom line on a per share basis. For the quarter, net income was $0.12 per share on a fully diluted basis.

FFO per share was $0.79, up from $0.74 in the prior year, and that is approximately 6.8% year-over-year growth. FFO exceeds core FFO this quarter because of the downward adjustment to our credit loss allowance from the Bedford loan repayment, and core FFO per share as well came in at $0.78, up from $0.76 in the prior year. That is approximately 2.6% growth year-over-year. Finally, cash available for distribution for the quarter was approximately $32.8 million. As Darrell noted, our asset management team did an excellent job closing out our 2026 lease rollovers with the renewal of USCIS Lincoln, a 15-year lease with 10 years of firm term.

On soft term, we've continued to reduce the percentage of our portfolio with early termination rights, which stood at 2.3% of ALI at quarter end, down from 5.2% of ALI at year end 2024. Turning to development, we are pleased to announce that all significant construction activities were completed at our FDLE laboratory facility in Fort Myers, Florida this month. Having broken ground on the project in August of 2025, we're extremely proud of the execution by both our internal team and development partners in delivering the facility in 15 months. Looking ahead, our development pipeline continues to progress as expected. Construction of the U.S. courthouse in Flagstaff, Arizona remains on track for completion in the first quarter of 2027. While our U.S. courthouse project in Medford, Oregon is now expected to be completed during the first half of 2028.

The timing reflects the government's design process with various agencies, which is taking a bit longer than planned. On leverage, as of quarter end, our net debt to annualized quarterly EBITDA stood at 7.1x. This metric improved from 2nd quarter and reflects our continued progress towards our target cash leverage range. We believe this progress positions the company well as we look forward to 2027 and our goal of achieving an additional investment-grade credit rating. We are growing FFO per share and delevering at the same time. That is a hard combination to deliver and I am proud of what our team has accomplished so far. Turning to guidance, we are raising the low end of our 2026 core FFO per share guidance. Our new range is $3.08- $3.13 per share, compared with $3.07 and $3.13 previously.

The increase is primarily driven by the execution of a nine-month lease extension at FAA Chicago, which includes six months of firm term and provides additional earnings contribution in both 2026 and 2027. This benefit is partially offset by the early repayment in September of our $35.6 million Bedford construction loan ahead of its August 2027 maturity date. That loan contributed approximately $0.02 per share to our 2027 expectations, and we used the proceeds from the repayment to reduce outstanding borrowings on our revolving credit facility. For 2027, we are introducing initial full year core FFO per share guidance of $3.09- $3.17 per share. At the midpoint, that implies roughly 1% growth over our 2026 midpoint, and the high end implies roughly 2%, the low end of our long-term target.

Two headwinds that are incorporated into our 2027 outlook, the FAA Chicago move-out and the refinancing related pressure, largely driven by the maturity of our Loma Linda loan. Our guidance assumes that FAA Chicago remains occupied through the current firm term, which extends through April 20, 2027. At the midpoint, our guidance contemplates between $25 million and $50 million of gross development related investment during the year. In addition, our guidance assumes approximately $50 million of fully owned acquisitions during 2027. As the year progresses, we would imagine there to be additional upside from acquisitions, and we will continue to pursue opportunities where we can deploy capital creatively while maintaining our disciplined underwriting standards. Through consistent execution over the course of the year, we believe we can build on this guidance.

We remain focused on executing against our long-term growth strategy, achieving our targeted leverage levels, maintaining strong tenant relationships, and allocating capital in a disciplined manner. Continued execution in these areas supports the resilience of our cash flows and enhances our ability to create long-term value for shareholders. 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 Shanna.

QUESTIONS AND ANSWERS

Operator^ Thank you. As a reminder to analysts, to ask a question, you will need to press star one one on your telephone. Please stand by while we compile the Q&A roster.

Our first question comes from John Kim of BMO Capital Markets. Please proceed with your question.

John Kim^ Thank you. I just wanted to follow up on guidance for next year. I know you walked through some of the headwinds, which include the Bedford loan repayments, the Loma Linda refinancing, and FAA Chicago move-out. But on the first couple of items, the loan repayment, how quickly do you think you can reinvest some of those proceeds back into mezz? I think before you talked about having a pretty steady mezz program. On the Loma Linda loan maturity, how do you plan to refinance that debt?

Allison Marino^ Sure. Maybe we'll start with Loma Linda, because that's, I think, a very simple answer. At this moment, we intend, should we be successful in the investment grade ratings process, to use an investment grade inaugural issuance to address that maturity. If not, we will put it on the revolver and term it out using 4(a)(2) money like we have in the past. Our primary goal, as we've shared most recently, is investment grade.

Darrell Crate^ Our guidance is to put it on the revolver today.

Allison Marino^ Correct.

Darrell Crate^ To the degree to which we get an investment grade rating and we are able to do those issuances, that would be worth some earnings accretion. That is our goal. That is not in our guidance.

Allison Marino^ For Bedford, I think we continue to see opportunity within the mezz financing space. As we have shared before, the VA outpatient clinic pipeline that is coming off the conveyor belt from the Veterans Administration is quite large at this time. We are seeing opportunities across the country for projects like that, where we can continue to deploy mezzanine capital.

John Kim^ I was wondering also if you could discuss your expectations for renewal leasing spreads. I think last call you mentioned mid to high teens net effective rental growth, and I wanted to see if that is what you believe you can accomplish.

Allison Marino^ Yeah, I think that is still and continues to be our expectation with respect to upcoming 2027 and 2028 renewals. I think we're pushing for as much firm term as we can get. 10-15 tends to be about what a renewal is achievable under these days. But that's higher than it was two years ago, so we're feeling very good there. And then mid to high teens, to your point, net effective rent spread. Typically, which significantly outpaces market from peers. We are only at $35 of TI capital deployed across renewals on average.

John Kim^ It was breaking up a little bit, but did you mention the 2026 USCIS Lincoln renewal as well?

Allison Marino^ We will share the class of renewals for 2026 as a group in the year-end earnings call as we historically have. But that is 10 years of firm term, 15 years total.

John Kim^ Okay, great. Thank you.

Operator^ Thank you. Our next question comes from Alex Murphy with Truist Securities. Please proceed with your question.

Alex Murphy^ What are the terms of the new interest rate swaps you entered into last week?

Allison Marino^ Hi, Alex. Yes. So we placed four. They are at 4.2 on a SOFR base, and they are intended to get us through most of next year.

Alex Murphy^ Great. Thank you.

Operator^ Thank you. As a reminder, to ask a question at this time, please press star one one on your touchtone telephone. Our next question comes from the line of Seth Bergey with Citi. Please proceed with your question.

Seth Bergey^ Hi, good morning. Thanks for taking my question. I just wanted to follow up on, you mentioned in the opening comments the uncertain macro environment and interest rates, and I wondered if that is changing the way conversations are evolving around future capital deployment, just in terms of is it unlocking more opportunities for you? Just any comments you can add there would be helpful.

Darrell Crate^ Yeah, I'll say a couple things and maybe Allison will add on. One, broadly, what you're seeing in real estate and among sellers is there's been this imagination that the Treasuries are going to go back to 2%-3%. We've seen a lot of people hold on, wait for that to happen. Over the last quarter, and particularly last two, you're beginning to see folks come to some sensibility that we might be in a 4%-5% 10-year Treasury environment for a while. Accordingly, people do have maturities that are coming up. It encourages them to also just reassess their price expectations. We are very hopeful that we will be able to find transactions that would be more accretive, and hopefully, as we get rewarded on cost of capital, that can just lead to accelerated growth.

We're very mindful of cash, we're very mindful of accretion in transaction. Stepping back, if you look at the company and you think about, Allison and I have been in these roles for just about three years. In 2023, in that third quarter, we had cash available for distribution. It was just under $24 million, I think $23.9 million. We had a payout ratio of 117%, principally driven by a set of dispositions that had taken hold. As you look at 2024, 2025, 2026, we've been steadily growing that cash available for distribution. Today, as Allison mentioned, that's at $32.8 million, with a payout ratio that's below 70%, I think right around 67%. So almost half of the payout ratio that we were at before. We've grown that cash available for distribution from this portfolio by 37% over those three years.

That's what we're looking at. That only happens if you are investing accretively, managing the portfolio for cash return, which is what we're up to. As we move into this environment, I don't think anybody would say it's been easy for these last three years. We've had DOGE, we've had headlines sort of come the wrong way. We've had interest rate uncertainty. Then you've got just global uncertainty and times of uncertainty. We functioned in a time that I think has been very accretive for shareholders, focusing on cash, being able to maintain the weighted average maturity of leases, keep our liabilities in a nice place, get these lease renewals in a more organized and partnerly way. We've been closer with the GSA, helping them achieve many of their objectives.

I think you put that constellation of things together, then it's like I gave a shout-out to our acquisitions team, and we've had a pipeline of about $1.5 billion. Obviously, it's a great question, but during this time, that $1.5 billion has remained pretty steady, but I would say it's probably churned 30%, 35%, as you've seen new folks bubble up as their sellers' expectations get more in line with what's good for our shareholders, and other opportunities that have presented themselves. They remain very poised. What we've been doing for these last three years is very focused on gaining the trust of our investors, laying out this long-term objective with a growth rate that we've been achieving, exceeding, that would, if we continue, would compare very favorably to the office group.

Accordingly, if we do gain that trust and gain better cost of capital, we actually have an actionable pipeline where we could materially grow and get that flywheel going, as folks say in the industry. I would take your question and say this sort of uncertainty, the volatility, it pushes people for action, and I think we're very well-positioned and have demonstrated that during challenging periods, we can be in a place that really adds value to the company. Thanks for listening to all of that.

Seth Bergey^ Thanks. Maybe just a follow-up. I know that FAA Chicago was anticipated to kind of move out at the end of this year. They've obviously signed kind of the extension into April of next year. Is there kind of a possibility that they extend further beyond that, or is that kind of the end of when they move out?

Darrell Crate^ Well, there's always a possibility. I think we have been imagining that they're going to leave for the last two years, so to rule it out would be impossible. Our guidance only includes them staying through their firm term. Just as we think about positioning earnings growth and how we are keeping investor expectations in mind, we're not going to have any expectation that they are there beyond April.

Seth Bergey^ Maybe just a quick one. Are kind of the terms of the extension the same economics of what's in place, just given the short-term nature of it?

Allison Marino^ Yep, that's correct. It will just pull the current terms.

Seth Bergey^ Great. Thank you.

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^ I would like to thank everybody for joining our third quarter conference call. We are really excited to just continue to execute our strategy, and we look forward to our next conference call, where we will be announcing our full year results and the progress that we continue to make to achieve growth in 2027.

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