Easterly Government Properties
Third Quarter 2015 Earnings Conference Call
November 5, 2015

Operator:

Greetings and welcome to the Easterly Government Properties Third Quarter Earnings Conference Call. At this time all participants are in a listen-only mode. A question-and-answer session will follow the formal presentation. If anyone should require Operator assistance on the conference please press star, zero on your telephone keypad. As a reminder this conference is being recorded.

I would now like to turn the conference over to your host, Ms. Alison Bernard, Executive Vice President and CFO. Thank you. You may begin.

Alison M. Bernard:

Before the call begins, please note the use of forward-looking statements by the Company on this conference call. Statements made on this call may include statements which are not historical fact and are considered forward-looking. The Company intends these forward-looking statements to be covered by the Safe Harbor provisions for the forward-looking statements contained in the Private Securities Litigation Act Reform of 1995 and is making this statement for the purposes of complying with those Safe Harbor provisions.

Although the Company believes that its plans, intentions, expectations, strategies and prospects as reflected in or suggested by those forward-looking statements are reasonable, it can give no insurance that these plans, intentions, expectations or strategies 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 item 1A risk factors of its Annual Report on Form 10-K for the year-ended December 31st, 2014, and its other SEC filings. The Company assumes no obligations to update publicly any forward-looking statements whether as a result of new information, future events or otherwise.

Additionally on this conference call, the Company may refer to certain non-GAAP financial measures such as funds from operations and cash available for distribution. You can find a tabular reconciliation of these non-GAAP financial measures to the most currently comparable 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, Chairman of Easterly Government Property.

Darrell W. Crate:

Thanks Ali. Good morning everyone. Welcome and thank you for joining us for the third quarter conference call. Today I'm joined by Bill Trimble our CEO, Meghan Baivier, our COO and Alison Bernard our CFO.

It was a strong quarter for Easterly. We continue to execute on our strategy, which is to own an outstanding portfolio of mission-critical buildings, leased to the United States government, one of the strongest credits globally. We add to that a proven acquisition strategy, which should contribute material earnings growth to an already strong recurring cash flow base.

Our internal management team has meaningful expertise in originating, underwriting and servicing these assets. We believe our balance sheet supports our earnings growth strategy with low leverage and limited exposure to interest rate fluctuations with our assets and liabilities generally matched in terms of duration. We are focused on containing costs with our general administrative expenses well-positioned to grow more slowly than our NOI after financing costs. Lastly, our incentive structures are designed to meaningfully align us with shareholders with modest cash compensation and emphasis on longer-term incentives for shareholder appreciation.

For those of you who are new to the story, I'd like to briefly review our Company and Bill will then provide more color regarding our current business activities and Ali will follow with financial highlights for the quarter.

DEA is the only internally managed public REIT that focuses on the United States government leased real estate. As of September 30, 2015 we owned 32 properties comprising 2.3 million square feet of commercial real estate and 96% of our lease revenue is backed by the full faith and credit of the United States government, one of the strongest credits you can find. We've worked to be partners with the government and we believe this strategy enables us to find ways to facilitate the government's efficient delivery of its varied missions while also enhancing returns for our investors.

We are very proud of our team at Easterly. Since our IPO the team has been able to add four mission critical assets to the portfolio. We are on track to meet the upper-end of the range of our annual acquisition target of $125 million in 2015, and we continue to execute upon our goal of delivering strong earnings growth year-over-year.

Now I will turn the call over to Bill to provide more color on the developments within Easterly that drive shareholder return.

William C. Trimble:

Thanks Darrell and good morning. I would like to take a few minutes to speak about our pipeline. We are gratified with the four acquisitions we've made this year and are eager to enhance our portfolio with future acquisitions. We've been hard at work sourcing acquisitions through our deep relationships with owners and developers throughout the country. As Darrell mentioned, we are the only public REIT that solely focuses on this certain type of federally leased asset. As mentioned on the second quarter's call we are actively tracking over 700 new properties, and as previously indicated, we continue to believe we will be able to purchase between $75 million and $125 million of buildings per year that meet the investment criteria. Since our IPO, we completed over $80 million of acquisitions and remain on track to be at the upper end of our target acquisition range for 2015.

Now turning to our development component of the business, we have an in house development team that remains active in sourcing development opportunities as they become available. The efforts of our development team are also helpful to our acquisition efforts as the deep relationships these individuals have with other owners have enabled us to enhance our pipeline. Additionally, I'm happy to report that the government is in a number of discussions with us about upgrades at our existing facilities. These upgrades provide additional return opportunities for our shareholders, enhance the building's functionality while further increasing the likelihood that the underlying agency will renew upon lease termination. It is a value creating system for both the government and our shareholders.

Let me give you more details related to the acquisition activity in the third quarter and to date in the fourth quarter. We completed the third quarter with the closing of the 52,881 square foot Immigration and Customs Enforcement or ICE building in the Otay Mesa community of San Diego. The ICE Otay property is adjacent to the Easterly owned DEA Otay building and less than one half mile from the Otay Mesa land port of entry, the busiest truck crossing on the California Mexico border. Strategically located, the ICE Otay property is occupied by tenant agencies, which serve a critical role in enhancing national security and combating terrorism.

More recently we announced the acquisition of a 42,400 foot DEA regional laboratory in Pleasanton California in the Bay Area. The DEA Pleasanton Western regional laboratory is the newest lab in DEA's portfolio and provides scientific and forensic support to DEA divisions in the Northwestern United States. The property was built in 2015 and is leased to the GSA for a 20 year term. As you know, one of our most important underwriting criteria is the mission-critical nature of the tenant agency. Both ICE and the DEA reside among the most important and enduring missions of the United States federal government. Both of our new buildings are consistent with the high quality additions that we anticipate adding to our portfolio in coming quarters. Easterly targets a specific set of buildings that have important attributes, including Class A construction, scale, each are over 40,000 square feet, and an age that is less than 20 years old and built to suit features that make it extremely difficult for the government to leave upon lease expiration. All of these properties are 100% leased to the United States federal government and historically have renewed on average from 93% to 95% of the time. Our team spends their time getting that number to as close to 100% as possible.

Our dedicated Asset Management Team supported by our in-depth Government Relations Team is determined to provide our current and future tenants with exceptional service. Our tenants' missions are critical and we strive to a valued partner to the United States government.

I will now turn it over to Ali for a discussion of the quarterly results and earnings guidance.

Alison Bernard:

Thank you, Bill. Today I will touch upon our current portfolio, discuss our third quarter results as well as 2015 and 2016 guidance, and provide an update on our balance sheet. Additional details regarding our third quarter results can be found in the Company's third quarter earnings release and supplemental information package.

As Darrell mentioned, with the addition of our ICE Otay property in San Diego, California, as of September 30th we own 32 properties comprising over 2.3 million square feet of commercial real estate. The weighted average lease term for the portfolio is 7.3 years and our portfolio occupancy remains at 100%. In addition, 96% of our lease revenue is backed by the full faith and credit of the United States government.

For the third quarter, FFO per share on a fully diluted basis was $0.26. FFO as adjusted per share on a fully diluted basis was $0.25, and our cash available for distribution was $0.22 per share on a fully diluted basis. GAAP measures and reconciliations to GAAP measures were provided in our supplemental information package.

We would like to reiterate our FFO guidance of $1.01 to $1.05 per fully diluted share for the pro forma 12 months ending December 31, 2015 and $0.89 to $0.93 per fully diluted share for the period February 11, 2015 to December 31, 2015. This guidance does not contemplate dispositions, future acquisitions or additional capital markets activity, but does reflect the impact of completed acquisition as of September 30, 2015.

For the 12 months ending December 31, 2016, the Company is introducing FFO guidance of $1.14 to $1.18 per share on a fully diluted basis. This guidance assumes acquisitions of $40 million through the remainder of 2015 and $75 million, the low end of our target range, spread equally across the year in 2016. This guidance does not contemplate disposition or additional capital markets activities.

Let me walk you through this guidance in more detail. As of today, on a run rate basis, given acquisitions were completed throughout the year, current run rate FFO equates to a midpoint of $1.08. We would expect the impact from $40 million of additional acquisitions in the fourth quarter of 2015 to add an additional $0.04 to the midpoint of our range and bring our run rate FFO to $1.12. From there we would expect the impact from $75 million of acquisitions spread equally across the year in 2016 to add $0.08 to the midpoint of our range and bring run rate FFO to $1.20 in 2016. Given our expectations for the acquisition in 2016 to occur evenly throughout the year, the midpoint of our 2016 guidance range for FFO per share on a fully diluted basis is $1.16.

Now turning to the balance sheet, at quarter we had $50 million outstanding on our revolving line of credit and total debt of $118 million. Availability on our line of credit stood at $350 million. In terms of leverage, net debt to annualized quarterly EBITDA was a low 2.5 times and net debt to total enterprise value was 15.2%.

Finally, as previously announced this week, our Board of Directors declared a dividend related to our third quarter of operations of $0.22 per share. Reflecting a $0.01 or 5% increase over the previous quarter's dividend. This dividend will be paid on December 3rd to Shareholders of record on November 17th.

I'll now turn the call back to operator for questions.