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# Easterly Government Properties

## Third Quarter 2021 Earnings Conference Call

## November 2, 2021

## CORPORATE PARTICIPANTS

**Lindsay Winterhalter,** *Vice President, Investor Relations*

**Darrell Crate,** *Chairman*

**William Trimble,** *President, Chief Executive Officer, Director*

**Meghan Baivier,** *Executive Vice President, Chief Financial Officer and Chief Operating officer*

## CONFERENCE CALL PARTICIPANTS

**Emmanuel Korchman,** *Citi*

**Michael Carroll,** *RBC Capital Markets*

**John Kim,** *BMO Capital Markets*

**Merrill Ross,** *Compass Point*

## PRESENTATION

**Operator**

Greetings. Welcome to the Easterly Government Properties Third Quarter 2021 Earnings Conference Call.

Please note that this conference is being recorded.

I will now turn the conference over to your host, Lindsay Winterhalter, Vice President of Investor Relations. Please go ahead.

**Lindsay Winterhalter**

Good morning.

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 facts and are considered forward-looking. The Company intends these forward-looking statements to be covered by the Safe Harbor provisions for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995, and is making this statement for the purpose 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 assurance 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 31, 2020, filed with the SEC on February 24, 2021, and in its other SEC filings, including its Form 10-Q, which we expect will be filed later today, and risks and uncertainties related to the adverse impact of COVID-19 on the U.S. regional and global economies, and the potential adverse impact on the financial condition and results of operations of the Company. The Company assumes no obligation 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, funds from operations as adjusted, 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, Chairman of Easterly Government Properties.

**Darrell Crate**

Thank you, Lindsay.

Good morning, everyone, and thank you for joining us for this third quarter conference call. Today, in addition to Lindsay, I'm also joined by Bill Trimble, the Company's CEO, and Meghan Baivier, the Company's CFO and COO.

I could not be more pleased with our business progress during the third quarter. We were able to develop all stages of the acquisition pipeline, including identification, negotiation of terms, diligence, and closing. With this morning's announcement, we have exceeded our goal of $300 million in acquisitions for 2021, and as you saw in the release, we increased our guidance for acquisitions to $350 million. This is our second increase to this metric during 2021, and all told, this represents a 75% increase on our original acquisition volume target from one year ago. In addition, we are very well positioned to achieve our acquisition target range of $200 million to $300 million for 2022.

In addition, we materially improved our competitive position and expanded our executable, addressable market, or bull's-eye, over the medium term with the announcement of the portfolio purchase side-by-side with an outstanding joint venture partner.

As you may recall, years ago there was a sizeable building we were bidding on that was squarely within our bullseye, and while we were highly competitive as a bidder, we lost the auction. Why? We were not able to match the price, given the cost of our capital, and our speed to close, given our scale relative to our competitor's. Unequivocally, the building we lost is one that we should have owned. We also realized that there was a universe of several billion dollars worth of buildings that could trade over the next 15 years where we could find ourselves at a similar disadvantage. It was clear to us that we needed to solve this issue.

We began an effort to find a set of investors who would see value in the enduring nature of our leases, as they are backed by the full facing credit of the United States Government, have a life with several renewals that can reach or exceed 50 years, on sites that will generally see economic development over the coming decades, the ultimate in sleep-well-at-night real estate, or as Bill says, real estate without the drama.

We spoke with both domestic and global insurance companies, pension funds and sovereign wealth funds. What we learned is that the audience that most values our assets are folks who are also responsible for purchasing U.S. Treasury securities, and they see their real estate holdings as part of an expansive global investment effort. While we join our public company shareholders on these calls quarter after quarter and discuss the significant 500-plus basis point premium we offer relative to treasuries, we came to realize that the public REIT investor's first instinct is not to approach the valuation of our assets with this risk premium in mind.

The result of our conversation was to narrow our interactions to several large global organizations that invested with a broader scope of risk and asset types. Ultimately, we found a partner with whom we believe we can creatively and decisively work to harvest the most value and own those sizeable assets in the United States leased market while simultaneously serving the needs of our public REIT investors. This enabled us to deliver the portfolio transaction that we announced two weeks ago, which is an accretive transaction as measured by both FFO and CAD, for are our shareholders while being competitive in the marketplace for the highest-quality assets.

It's important to note that the universe of global investors see value in these assets at a sub-5% cap rate. While the purchase of this VA portfolio is an attractive addition to our existing assets as measured by duration, quality, scale and diversification, it more importantly illustrates the model by which we can transact within our total addressable market and positions us at a competitive advantage for the largest pristine assets in our target universe. I compliment the whole Organization and our Board for their efforts over the last couple years as we work to solve this challenge, and I'm very excited about the expanded capabilities that this new relationship brings to our enterprise.

With that, I'll turn the call over to Bill to further describe the activities of the quarter.

**William Trimble**

Thanks, Darrell, and good morning. Thank you for joining us for our third quarter earnings call.

It gives me great pleasure to discuss the specifics of the Company's most recent acquisition activities. It has been a very productive three months since our last time together.

Starting with our activities during the quarter, the acquisitions team continued to add mission critical bull's-eye properties with the third quarter acquisition of an approximately 61,000 square foot Class A facility located in Cleveland, Ohio, that is leased to several key agencies within the U.S. Government. This security level three facility was substantially renovated in 2016 and again in 2021 for the Department of Homeland Security and largely fulfills important missions such as investigating criminal organizations and terrorist networks. A portion of the property also serves as Cleveland's National Weather Service forecast office.

The U.S. Government has invested significant tenant improvements in this building, whose specialized features include a secured entry and parking, a sally port, a back-up generator, and an uninterrupted power supply battery system, which all support the weighted average potential lease term through June of 2034. Subsequent to quarter end, Easterly through its JV entered into an agreement to acquire a brand-new state-of-the-art 1.2 million square foot portfolio leased entirely to the Department of Veterans Affairs. With two of the 10 assets already acquired, this portfolio is a perfect fit for Easterly and clearly differentiates us and any of our competitors who may seek to build a portfolio in this niche market of VA-leased assets. Through this acquisition, the Company is materially reducing the average age of the portfolio while simultaneously extending its weighted average remaining lease term, and with 100% of the portfolio's annualized lease income backed by the full faith and credit of the U.S. Government, Easterly can deliver cash flow growth to shareholders through a strategic joint venture partnership with one of the world's leading investors.

If we assume September 30 profile metrics and a scenario where all 10 buildings were acquired and operating on the earlier of its actual lease commencement date, or October 1, 2021, Easterly's weighted average age would drop 13%, from 13.8 years to 12 years. Its weighted average remaining lease term would grow nearly 16%, from 8.9 years to 10.3 years, and the size of the portfolio would grow by 16%, from 7.5 million square feet to 8.7 million square feet. To improve all of these metrics through a single portfolio transaction is very exciting for us at Easterly, and we expect it is for both our debt and equity partners as well.

Also in the third quarter, we honed our discipline of owning government leased assets through the strategic disposition of a non-core asset, a privately leased warehouse located in Midland, Georgia. While a quality asset, owning a leased facility that lacks the credit worthiness of the United States Government is, by definition, a disposition candidate for Easterly. We have long communicated this asset as a potential source of funds for future acquisitions, and with the rolling closings of the remaining eight properties in the VA portfolio between now and 2023, Easterly is able to put that capital to work while simultaneously strengthening the lease profile of the Company's portfolio.

Subsequent to quarter end and in addition to the two VA outpatient facilities acquired by the JV, Easterly acquired a nearly 500,000 square foot facility primarily leased to the United States Citizenship and Immigration Services, or USCIS, located in the metropolitan region of Kansas City, Missouri. With the majority of the building leased to USCIS through 2024, the total weighted average lease expiration date for the facility is February 2036. Should all in-place tenant renewals options be exercised, the weighted average lease expiration date for the facility could be as late as January of 2045. Notably, this property serves as USCIS' national benefits center, or NBC, which supports the processing of applications from every U.S. state and territory for the different immigration benefits, including the authorization for employment, travel abroad, permanent residency, and naturalization. The NBC's primary function is to prepare the case files for eventual adjudication for more than 85 field offices nationwide.

Finally, just this morning, the Company announced our latest acquisition, which is not part of the 10 property VA portfolio. Yesterday, Easterly acquired an 80,000 square foot VA outpatient clinic located in the Midwest region of the United States. VA Midwest is a build-to-suit outpatient clinic that was recently completed in 2021. The state-of-the-art two Green Globe certified facility is leased to the VA for an initial, non-cancellable lease term of 20 years that does not expire until May of 2041. The outpatient clinic provides a wide range of medical and ancillary services, including but not limited to primary care, mental health, audiology, optometry, dermatology, radiology, and prosthetics.

To summarize, year-to-date Easterly has acquired either directly or through the JV 10 properties for a total pro rata contractual purchase price of approximately $321.3 million, exceeding its increased $300 million acquisition buying target for the year. Pro forma for these acquisitions, Easterly owns directly or through the JV 87 properties totaling 8.3 million square feet.

As you recall, given the pace of our acquisitions and our clarity of pipeline, we increased our 2021 FFO guidance per share on a fully diluted basis in conjunction with increasing our acquisition volume target by 50% for the year, from $200 million to $300 million. We also spent time on the last call letting you know the team was looking for large opportunities, and we felt confident in our ability to meet or possibly significantly exceed this increased $300 million in acquisition volume. Since the time of our last call, Easterly has either directly or through our pro rata share of the JV more than doubled our acquisition volume for the year and identified a robust pipeline of actionable opportunities that will carry us into 2023.

While the acquisitions team has created certainty of pipeline for the next couple of years, we are by no means slowing our pace. The team continues to work hard to identify future single and portfolio opportunities that will deliver growth to our shareholders.

Turning to development, we are pleased to report that the government has reached a determination on its new program requirements for the future FDA Atlanta laboratory development project. The GSA and the FDA had spent the past several months working together to ensure maximum benefit from this facility, and we are pleased to once again actively engage with the government and proceed with the redesign process. Given the non-speculative nature of our development projects, the design process is heavily dependent on the government, as they customize their specific requirements. After the government determines its functional needs, we work collaboratively in the design, and the government then relies on us to construct the build-out. During build-out, given our expertise in this specialized field, we have the ability to accelerate the construction timeline, as was demonstrated in the case of FDA Lenexa.

Turning to leasing updates, our asset management team continues to secure meaningful renewals that lengthen the duration of cash flows. In the third quarter, we renewed the lease at DEA Vista for a 15-year term that retroactively applies to November of 2020 and does not expire until November of 2035. We also renewed several key leases at various GSA Buffalo assets, including the approximately 50,000 square foot IRS lease for 10 years and the approximately 111,000 square foot VA lease for 15 years. These renewals combined with the other assets year-to-date translate into eight successful re-leasing exercises totaling over 530,000 square feet, or 7% of annualized leased income, for a weighted average lease term of 16.1 years in 2021.

In closing, we at Easterly have been busy since the time of our last call. We have meaningfully and accretively scaled the Company's portfolio through the acquisition of bull's-eye assets. We have chartered a course for the highest acquisition volume year on record as a public company. We have formed a new joint venture with an experienced global partner, and we have even further refined our investment discipline of owning assets primarily backed by the full faith and credit of the U.S. Government.

With that, I thank you for your time this morning. I will turn the call over to Meghan to discuss the quarterly financial results and capital markets executions.

**Meghan Baivier**

Thank you, Bill. Good morning, everyone. It gives me great pleasure to post another strong quarter and issue earnings guidance for 2022, demonstrative of our ability to deliver consistent growth to shareholders.

Turning to our quarterly results for the third quarter, net income per share on a fully diluted basis was $0.09, FFO per share on a fully diluted basis was $0.33, FFO as adjusted per share on a fully diluted basis was $0.31, and our cash available for distribution was $26.1 million.

As of September 30, we owned 83 operating properties comprising approximately 7.5 million square feet of commercial real estate, with one additional development project in design totaling approximately 162,000 square feet. The weighted average age of our portfolio was 13.8 years, and the weighted average remaining lease term was 8.9 years, well matched, I'd like to point out, to the weighted average debt maturity of nearly seven years. As Bill pointed out, these metrics are expected to continue improving through the acquisition of the 10-property VA portfolio announced subsequent to quarter end. These metrics are core to our strategy, as reflected through the acquisition of young buildings and renewals of existing assets for long lease durations. These actions have also demonstrated the Company's ability to continue to generate cash flow with strong visibility for years to come.

Turning to the balance sheet, at quarter end the Company had total indebtedness of approximately $1 billion with ample capacity on our line of credit for future acquisitions and development-related expenses. As of September 30, Easterly's net debt to total enterprise value was 33.2%, and its adjusted net debt to annualized quarterly pro forma EBITDA ratio was a low 6.1 times.

During the third quarter, Easterly had a number of notable capital markets events. First, the Company upsized its existing senior unsecured credit facility. The amended and restated credit facility consists of a $450 million revolver and a $200 million term loan facility, up to $50 million of which will be available on a delayed draw basis for up to 364 days post closing. The revolver includes an accordion feature that allows the Company to request additional lender commitments of up to $250 million for a total amended credit facility capacity of up to $900 million. The revolver will initially mature four years from the closing date in July 2025 with the option to extend the maturity to July 2026. The term loan will mature five years from the closing date in July 2026. The term loan is repayable without penalty for the entire term of the loan.

Borrowings under the revolver will bear interest at a rate of LIBOR plus a spread of 120 to 180 basis points, and the term loan will bear interest at a rate of LIBOR plus a spread of 120 to 170 basis points, depending on the Company's leverage ratio. Given the Company's current leverage ratio, the initial spread to LIBOR is set at 125 BPs for the revolver and 120 basis points for the term loan.

Of note, the amended credit facility also features a sustainability linked pricing component whereby the pricing can improve by one basis point if Easterly meets certain sustainability performance targets as determined by an independent third-party evaluation. Coupled with our hiring of a director of sustainability, a new role within our Organization, it is our expectation that Easterly earns this discounted spread and meaningfully demonstrates our commitment to environmental sustainability and strong corporate citizenship.

The second notable event for the quarter ended September 30 was an underwritten public offering of 6.3 million shares of the Company's common stock, sold on a forward basis. This strategic offering executed at a net price to the Company of $21.64 per share has provided Easterly with funding needed to continue pursuing its acquisition pipeline at levels that are accretive to shareholders.

In the third quarter of 2021, the Company issued approximately 2.1 million shares of its common stock through the Company's ATM program at a net weighted average price of $23.65 per share, raising net proceeds to the Company of approximately $50 million. All shares were from forward sales transactions entered into in prior quarters.

Today the Company has approximately 8.2 million shares which are subject to unsettled forward sales transactions. Assuming these shares are physically settled in full at a weighted average initial forward sales price of $21.71 per share, the Company expects to receive net proceeds of approximately $178 million. With these unsettled forward sales, Easterly is very well poised to continue funding our acquisition and development pipeline just in time at a highly attractive cost of capital.

Subsequent to quarter end, Easterly issued the previously announced $250 million principal amount of fixed rate senior unsecured notes. The notes were issued and sold in two tranches: Series A senior notes in the amount of $50 million with a seven-year maturity, and Series B notes in the upsized amount of $200 million with a nine-year maturity. Together, the weighted average maturity of these notes is 8.6 years and the weighted average interest rate is 2.84%. Raising long term unsecured debt at such an attractive weighted average rate in maturity is an extremely powerful tool in generating value for shareholders.

Finally, in connection with the VA portfolio announced subsequent to quarter end, Easterly has entered into a joint venture with a leading global investor which serves as the investment vehicle for this brand-new anticipated 1.2 million square foot portfolio. Easterly's JV partner will retain a 47% stake and Easterly will retain a 53% stake in the JV. Easterly will also receive asset management fees from the JV partner and will be responsible for the day-to-day management of the properties. This relationship with our new JV partner we believe demonstrates a global interest in the strength and stability of the U.S. Government cash flows that underpin Easterly's credit quality. We are excited by the partnership and look forward to a strong mutually beneficial relationship for many years to come.

Turning to re-leasing, as Bill previously mentioned, we continue to make progress in working through our pipeline of upcoming lease expirations. With the successful execution at DEA Vista and two of the more sizeable leases within various GSA (audio interference), we now have approximately 243,000 square feet and five leases up for renewal through the end of 2021. With a large percentage of the renewal work now behind us, we continue to make meaningful progress with the GSA and are in active discussions regarding all properties at this time.

We continue to feel good about the long-term mission and tenancy of these upcoming expirations and will keep you apprised of future renewals in the coming quarters.

Turning to our earnings guidance, as you recall, during the quarter ended June 30, the Company increased its guidance for 2021 FFO per share on a fully diluted basis to a range of $1.30 to $1.32. Reflected in part of our increased actionable acquisition pipeline, the mid-point of this guidance was predicated upon completing an enhanced $350 million in acquisitions, an increase from our previously stated $300 million in acquisitions and up to $25 million in growth development-related investment in 2021.

Today, the Company is maintaining this increased guidance, and added to mid-point, Easterly remains on track to continue our record of steady FFO growth year-over-year. At the mid-point of our 2021 guidance, we are expected to achieve a 3.8% CAGR in FFO per share over the last three years. When coupled with our recently increased dividend of $0.265 per share, which generates a run rate dividend yield of 5% based on our quarter end stock price, we are proud to be in a position to continue to deliver attractive total returns to our shareholders.

The Company is also issuing 2022 FFO per share on a fully diluted basis guidance in a range of $1.34 to $1.36. This guidance is predicated upon completing $200 million to $300 million in acquisitions, including acquisition through the JV at the Company's pro rata share of the contractual purchase price and up to $25 million in growth development-related investment in 2022. Easterly remains on track to deliver its steady FFO growth per share year-over-year. It is our goal to remain dependable and provide a constant source of growth for our shareholders.

To echo Bill and Darrell's sentiments, we are excited by the events that have transpired since our last earnings call. We have raised equity at attractive levels to match our forecasted record-breaking acquisition volume. We have fortified the balance sheet, with debt issued at attractive rates with long dated maturities. We have formed a lasting relationship with a preferred global investor in the Company's first ever joint venture, and we've charted a course for future growth through the introduction of our 2022 earnings guidance.

With that, we thank you for your commitment to our investment thesis and appreciate your partnership.

I will now turn the call back to Maria.

**Operator**

Our first question comes from Emmanuel Korchman with Citi. Please proceed with your question.

**Emmanuel Korchman**

Hi, good morning, everyone.

Just thinking about the acquisition guidance for 2022, could you quantify how much of that is contractual or at least planned under the JV, versus new targeted acquisitions outside of what we already know about?

**Meghan Baivier**

Sure, so obviously as we continue to work on closing the VA portfolio, we are basing that guidance assuming $50 million of pro rata acquisition volume falls into next year.

**Emmanuel Korchman**

So $50 million of the $200 million to $300 million is JV, and then $250 million is fresh acquisitions at the 300?

**Meghan Baivier**

Yes.

**Emmanuel Korchman**

So when does the rest of the JV close, because I was under the impression you haven't closed that much, and there was only one deal that was slated for 2023, so what am I missing in terms of volumes?

**Meghan Baivier**

I think the messaging, important messaging, is that our target is $250 million without that joint venture, and as we know, that joint venture was done at levels that are accretive to FFO; but whether they fall at the tail end of this year, or they slide into next year, the messaging is really about deals in addition to that, as those will be the primary drivers of FFO growth. Remember, the VA portfolio is accretive to FFO but really a driver of CAD.

**Emmanuel Korchman**

Then, Bill, in your quoted statement in the press release, you talked about a large identified pipeline. If we were to categorize that into single asset deals versus portfolios, are there more portfolios you're looking at more versus in the past, or is the mix the same? Just give us some more flavor on that identified pipeline.

**William Trimble**

Yes, I'd say, Manny, that as we mentioned in previous calls, we are looking at some really interesting portfolios out there, but the timing is never certain. But I think that, as always, it's the ones and twos, the bull's-eye properties that we're looking at that gave us the confidence to issue that strong guidance for next year's pipeline. I think that portfolios would probably be on top of that, if that worked out.

**Emmanuel Korchman**

Great, thanks very much.

**Operator**

Our next question is from Michael Carroll with RBC Capital Markets. Please proceed with your question.

**Michael Carroll**

Yes, I just want to go back to Manny's question real quick. How much of the joint venture do you still have to close? Is it roughly just over $300 million of your share that still needs to be closed within that portfolio?

**Meghan Baivier**

That's correct, Mike.

**Michael Carroll**

And can you help us understand when will that close? It sounds like a majority of it is going to close in 2022.

**Meghan Baivier**

Yes, so what we've said is we expect all but the final on a total purchase price, right, of $100 million to fall by the end of the second quarter next year. I think we don't encourage you to get caught up as these are development properties and the perfect timing of when they will close. The point is whether they are able to close in the end of this year or at the beginning of next year is that we're going to do a target of $250 million in addition to that.

**Michael Carroll**

In addition to the JV closing?

**Meghan Baivier**

Correct.

**Michael Carroll**

Okay, great.

**Meghan Baivier**

Yes, $50 million is the underlying assumption there.

**William Trimble**

Yes, I think we can't say it enough that our steady business—I mean, we've got a business that's delivering a dividend yield of 5%. As Meghan said, we're growing between 3% and 4% a year in FFO, as we've demonstrated over the last three years. Our steady state, turn-the-crank business is $200 million to $300 million of acquisitions a year. It's our belief that the full faith and credit cash flows of the government growing at a steady pace is a very attractive investment proposition, and these portfolios and these one-off value creating activities, which I think can be many over this next decade, are really in excess of sort of that base core business.

I think it's so important to realize that the joint venture partner enabled us to go out and buy these portfolios in a way that it is marginally accretive to FFO, it's very attractive to CAD, and what's most important is that we're owning these very large most pristine assets in the U.S. Government-leased market, and as we continue to dominate and continue to build our competitive advantage relative to others in that space, this enables us to do just that, and I can't say enough that global investors who are across a broad set of assets see these assets as a sub-5 cap, which is in stark contrast to the overall cap rate that our enterprise is granted in the public markets today.

**Michael Carroll**

Then how do you plan on growing the joint venture down the road? I'm assuming that there's other portfolios that you would want to do in the JV. Should we assume that a larger—

**William Trimble**

Billions. Billions of dollars.

**Michael Carroll**

So should we assume that larger portfolio deals could be put in the joint venture and then these one-off smaller transactions will be completed on balance sheet?

**William Trimble**

Well, no, it's not really that simple. There are these large portfolios where we will go to this joint venture partner and we'll use the joint venture appropriately. It's early days. We think they're fantastic, I think they're very astute real estate investors, and I think we have a clear understanding of their objectives and what we can deliver. Again, our steady state business is going to be delivering that $200 million to $300 million of acquisitions a year, having that FFO growth that is dividend yield 5% with 3% to 4% growth on top of it, and then as these very large deals come forward, we couldn't be more excited to have our joint venture partner work with us to craft a transaction that helps us meet public REIT shareholder demands for return on capital while also allowing us to grow our dividend.

**Michael Carroll**

Okay, and then can you talk a little bit about your asset sales? I know you had one small one completed, I guess post quarter end. I mean, is there a plan to sell the other privately leased properties, and are you marketing those for sale, or is this one that was just complete was just kind of an opportunistic-type transaction that someone came out to you and said they wanted to buy it?

**William Trimble**

Yes, great question. I think we've said probably since we met you first when we went public that these non-government core assets were always available for sale. In this case, it was just a good time to transact that sale, and we did, and the answer is absolutely those other properties would be viewed as a source of funds for new opportunities going forward, and we're always looking. You know, if we can execute it at an accretive value for our shareholders, we'll do it. The other properties are terrific—property, basically, and would be for sale at any moment if we saw the right pricing on it.

**Michael Carroll**

Okay, and then there's one small asset that's in there, so I don't want to put too much stress on it because it's super small, but it looks like the lease expires within the next six months. What's the plan with that specific asset, like we are sharing hope?

**Meghan Baivier**

Yes, I mean, Mike, you're asking about a gnat of a lease, but that lease could certainly not get renewed, but it's de minimis, not even worth our time on an earnings call. But, yes, it's a small private sector lease in our Charleston asset.

**Michael Carroll**

Okay, great. Thank you.

**Operator**

Our next question is from John Kim with BMO Capital Markets. Please proceed with your question.

**John Kim**

Thank you. Bill, in your prepared remarks, you talked about a number of renewals that you've done on the leasing side. Were those all '21, or were some of those '22 expirations? Then can you talk about what the leasing spread was on those renewals?

**William Trimble**

Thank you and good morning. I'll hand that over to Meghan. She's got it right in front of her.

**Meghan Baivier**

Yes, sure. Obviously the IRS lease and the VA lease in Buffalo were renewed in the quarter, as well as DEA Vista. DEA Vista had been in what we call holdover, and then the other two, one was in 2021 and the other one as well in 2021, so just those three leases.

John, as we said, we've always got renewals that are impacting different years. Some have tenant improvements that we have insight into, some are developing our insights, so we're going to continue to talk about renewals annually, as we started last year, and look forward to doing that on our next quarter call.

**John Kim**

What was the leasing spread?

**Meghan Baivier**

Yes, John, we talk about leasing spreads within the portfolio on an annual basis, so we're going to continue that track record as we come out next quarter.

**John Kim**

Okay, so just at the end of the year, you're just going to renew what happened during the year?

**Meghan Baivier**

Exactly.

**John Kim**

I know you don't report same-store NOI, but looking at operating expenses this quarter, it was up 6% sequentially, which was higher than the revenue growth. Is that a good run rate going forward on expenses, and can you just comment on the inflationary impact on some of those items?

**Meghan Baivier**

Yes, I encourage everyone to remember that we have a tenant reimbursement line item in our revenue that relates to the projects that we will perform for the GSA during the term of a lease. There is an equal offsetting amount in our property operating expenses, as we obviously finance the project and then the government reimburses us, so when you're thinking about operating expenses to truly operate the property, you need to peel out that tenant reimbursement amount from Opex, and so if you were to do that, John, I think you would see very consistent NOI margins year-to-date, year-over-year.

Look, CPI is obviously we're aware of. We have the benefit of our Opex (inaudible) in our leases, which will also grow with CPI. It's nearing 5% to 6% this year, and so we feel well insulated.

**John Kim**

There's typically a lag between reimbursements and the Opex?

**Meghan Baivier**

No, it's an annual true-up.

**John Kim**

Okay, and just a final question from me, what are you expecting as far as cap rates for 2022? I think part of it is the mix of what you do JV versus on balance sheet, but generally are you expecting cap rates to continue to trend down?

**William Trimble**

Yes, I think it's sort of a tale of two cities, which when we're looking at our $250 million outside of the JV, I think we'll be consistent with what we've seen this year, and we've seen lots of opportunities ranging anywhere from sort of a 5% to 6%, up to north of a 6% cap, so that market continues to be robust and I think we'll do a great job mining those opportunities.

Yes, they've come in a little bit this year, but I think also at the same time, if you look at what we've purchased this year, for the most part they've been very long-term leases with bull's-eye sorts of properties, pointing to that National Weather Service headquarters that we purchased earlier this year.

But there's also another set of buildings, and Darrell talked about this, that are in the pristine 15, 20 year, brand-new sorts of facilities, and those properties are trading at a 5.25%, 5.40%, and in some cases lower, and now we have the opportunity to go ahead and enhance our portfolio with those acquisitions.

So think of, sort of as I mentioned, the tale of two cities: one barely accretive but doing wonders for our CAD, doing wonders for our metrics and wonders for our overall enterprise value, and the other one the real driver of growth and FFO.

**John Kim**

Appreciate the color, thank you.

**Operator**

Our next question is with Manny Korchman with Citi. Please proceed with your question.

**Emmanuel Korchman**

Hi, I'm going to come back to acquisitions, because I know I'm not the only one confused by this. You have $300 million left to close with the JV assets, your guidance this year includes another, call it, $25 million to $30 million of acquisitions to close, your guidance next year includes $50 million to close. When in our model should we include the $200 million to $225 million piece on the JV to close? Is that early '23, because it might close by the end of '22 and you're being conservative, or am I just completely missing something here?

**Meghan Baivier**

Yes, you're not missing something other than the real takeaway, which is we're obviously trying to guide to an appropriate level next year so people can think about, to Bill's last point, where real FFO drivers will go versus the assets like we're doing in the joint venture. There's a base assumption that $50 million of pro rata purchase price is in that amount. If that's the case, obviously the remainder would be in this year. Whether it falls into this year or sneaks into next year and would warrant some different total acquisition volume next year is something that we're going to continue to telegraph to you all as we do close these development properties. Timing is never perfect, but I think you've got what you need from an earnings perspective to model out next year. Whether something's in December or January, we'll let you know when we know.

**Darrell Crate**

Maybe just to say it again, which is these assets are going to close, but from an earnings driving perspective, the accretion of the assets is what's consistent with our guidance. As these development projects, we're uncertain what will be done this year or next year 2023, it has a marginal effect on FFO; however, there will be a CAD effect, and I think that will be the news that we get as these things do close.

I hope that's helpful.

**Emmanuel Korchman**

It is, Darrell, thank you. Then in terms of the management fee, is that contractual to this set of assets, or to the JV itself? If you were to do another deal with this same partner, would that be at the same fee, or would that be renegotiated based on what you're buying and structure, etc.?

**Darrell Crate**

I'd say the intent is we did this deal and all parties are happy, so I think it's a blueprint for where we go in the future.

**Emmanuel Korchman**

Great, thanks all.

**William Trimble**

Thanks.

**Operator**

Our next question is from Merrill Ross with Compass Point. Please proceed with your question.

**Merrill Ross**

Hi, good morning.

A question on the Kansas City property, Summit Tech Center (phon). From the records in the GSA leases, it seems that the government lease is about 67%, or two-thirds of that property.

**William Trimble**

Yes, that's correct.

**Merrill Ross**

I'd be interested in what the shadow rating is on the remaining tenants, if any. And what are the characteristics of those private leases? Do they piggyback on the GSA lease, essentially? I assume they're companies that have some synergies with the (multiple speakers).

**William Trimble**

Thank you, good morning, Merrill, thanks for asking.

Those are mostly local hospitals, healthcare organizations. They are not necessarily piggybacking with the GSA, but I think they're wonderful tenants, and the expiry is way on down the line, so I think the overall building is absolutely terrific. Obviously an amazing mission for the Federal Government portion, and we're very pleased with the private tenants in the building, and one of the great things is you get bumps with private tenants, so we're excited about that. It's a rare thing for us.

**Merrill Ross**

Right, exactly. Thank you.

**William Trimble**

Thank you.

**Operator**

Our next question is with Michael Carroll from RBC Capital Markets. Please proceed with your question.

**Michael Carroll**

Yes, thanks. I guess, Darrell, you were talking about the JV transaction is going to be more accretive to CAD than it is to FFO. I guess, first, did I hear that correctly, and why is that? Doe the gap rent—does that come in later than the cash rents, or how should we think about that?

**Meghan Baivier**

No, that's all about young assets with de minimis Capex requirements, maintenance Capex requirements, so while you can experience less accretion on the FFO line item, its CAD yield is accretive to our overall average CAD yield.

**Michael Carroll**

Okay, so it's more related to the Capex side of things than related to anything else?

**Meghan Baivier**

Yes.

**Michael Carroll**

Okay, thanks.

**Darrell Crate**

Thanks.

**Operator**

It appears that there are no further questions. I would like to now turn the call back over to Darrell Crate for closing remarks.

**Darrell Crate**

Great. Thank you, everyone, for joining the Easterly Government Properties Third Quarter 2021 Conference Call. We appreciate your time, and we'll continue to work hard to deliver strong risk-adjusted returns for our shareholders in the years to come. Thanks so much.

**Operator**

This concludes today's conference, and you may disconnect your lines at this time. Thank you for your participation.