



Easterly Government Properties, Inc.
Fourth Quarter Earnings Conference Call
March 2, 2016

C O R P O R A T E P A R T I C I P A N T S

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

Darrell W. Crate, *Chairman of the Board of Directors*

William C. Trimble, *Chief Executive Officer, President and Director*

C O N F E R E N C E C A L L P A R T I C I P A N T S

Emmanuel Korchman, *Citigroup*

Michael Carroll, *RBC Capital Markets*

Bill Crow, *Raymond James Financial, Inc.*

P R E S E N T A T I O N

Operator:

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

It is now my pleasure to introduce your host, Ms. Meghan Baivier, Executive Vice President and COO. Thank you, Ms. Baivier. You may begin.

Meghan Baivier:

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 Act Reform 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, 2015, to be filed with the SEC on or about March 2, 2016, 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 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 W. Crate:

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

I could not be more pleased with the competitive position as we end our first year as a public company. Our portfolio is young, generally a generation younger than other REITs. Our leases are backed by the full faith in credit of the US government and provide a foundation for strong recurring cash flow. Our acquisition strategy is executing above the expectations that we set during the IPO. The quality of the additions is outstanding and contributed materially to our earnings growth this year. As you know, our goal is to build a portfolio and a platform that can deliver earnings growth that matches the Russell 2000 with far less risk and volatility.

As we turn to the quarter, we're pleased with the quality and magnitude of our acquisitions. Our Team is strong and we have the resources to execute. Our internal Management Team has meaningful expertise in originating, underwriting and servicing our target 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're focused on containing costs with our general and administrative expenses and they are 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 emphasis on longer-term incentive compensation tied, in large part, to our performance and 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 Meghan will follow with financial highlights for the quarter.

DEA is the only internally managed public REIT that focuses on United States government leased real estate. As of December 31, we owned 36 properties, comprising 2.6 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 work 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're very proud of our Team at Easterly. To date, since our IPO, the Team has been able to add eight mission-critical assets to the portfolio. Again, we look forward to delivering between \$75 million and \$125 million in acquisitions in 2016, and are already well on our way following our first acquisition of the year,

which Bill will describe with more detail in a moment. We continue to execute upon our goal of delivering strong earnings growth year-over-year.

Now, I'll 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 2015 and our first months of 2016.

We are very pleased with the four mission-critical buildings we purchased during the fourth quarter. These acquisitions, coupled with our three acquisitions earlier in the year, totaled over \$170 million in activity since going public in February of 2015. Combined with our recently announced acquisition in the first quarter of 2016, we have added over 610,000 square feet and further diversified our portfolio to 37 properties, all while maintaining our strict underwriting criteria. We exceeded our acquisition goals for 2015, and continue to mine our deep pipeline of opportunities. 2016 is off to a very strong start, with the purchase of the 71,000 square foot Albuquerque Immigration and Customs Enforcement facility. The quality of our purchases to date, with an emphasis on newer single-tenant, mission-critical facilities, has differentiated us within the US government lease sector. We continue to see most of our opportunities mature 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. We continue to track around \$700 million in opportunities, and, as previously indicated, we believe that we will be able to acquire between \$75 million and \$125 million of buildings in 2016 that meet our disciplined investment criteria.

Now, turning to the development component of our business, Easterly's in-house Development Team has deep experience, having developed over 1.1 million square feet in the US government sector. They remain 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 continues to be in a number of discussions with us about upgrades to 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 step back for a moment. At IPO, we had 29 buildings in our portfolio and 2 million square feet, and we anticipated doing \$75 million to \$125 million of acquisitions per year. Since that time, we have added eight buildings and \$13.5 million of run rate cash NOI, while maintaining our focus on properties consistent with our disciplined approach. Our Team continues to work tirelessly to execute on potential acquisition opportunities in our target assets and markets.

Let me give you more details related to the acquisition activity in the fourth quarter and to date in the first quarter of 2016.

We completed the fourth quarter with the closing of the 96,600 square foot FBI Richmond field office, one of 56 field offices nationally, and, from a hierarchy of mission perspective, a bull's-eye for target assets for our portfolio. This field office oversees the FBI's mission for the entire state of Virginia. The facility was built in 2001 and has five years remaining on an initial 20-year lease. The FBI's mission continues to

grow, as the Bureau must contend with threats to America, including terrorism and cyber attacks, while still investigating federal crimes of all types.

Prior to the FBI Richmond, we announced the acquisition of the 49,700 square foot DEA regional laboratory in Dallas, Texas. Co-located with our Dallas DEA field office and the FBI's Dallas field office, in a three-building secure federal compound, the DEA Dallas lab provides scientific and forensic support to DEA divisions in the south-central United States. The property was built in 2001 and has leased the GSA through 2021.

In the fourth quarter we also announced the purchase of USCIS Lincoln, the US Citizenship and Immigration Services Center in Lincoln, Nebraska. It is one of four national service centers and it processes naturalization and other citizenship and residency-related petitions in 20 states. The property is 137,600 square feet, was built in 2005, and is in its initial 15-year lease term.

Our first purchase of the fourth quarter was the DEA Pleasanton, California lab in the Bay Area. This state-of-the-art, brand-new 42,500 square foot facility has 20 years to run on its first lease term ending in 2035. It shares the same critical mission as our Dallas, Texas, and Vista, California, DEA laboratories.

Our first acquisition of 2016, as mentioned earlier, is the 71,000 square foot Immigration and Customs Enforcement building in Albuquerque, New Mexico. Built in 2011, this new facility is leased through 2027, and is a co-location site for both of ICE's functional components, Homeland Security Investigations and Enforcement and Removal Operations. This lead silver building was specifically designed and located to fulfill its important enduring mission in the American Southwest.

As you know, one of our most important underwriting criteria is the mission-critical nature of the tenant agency. FBI, DEA, ICE and USCIS are among the most important and enduring missions of the United States federal government. All 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 of over 40,000 square feet, and 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 in our portfolio 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 specialized Government Relations Team, is determined to provide our current and future tenants with exceptional service. Our tenants' missions are critical and we strive to be a valued partner to the United States government.

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

Meghan Baivier:

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

As Darrell mentioned, with the addition of four properties in the fourth quarter, as of December 31, we owned 36 properties, comprising over 2.6 million square feet of commercial real estate. The weighted average lease term for the portfolio is seven 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 fourth quarter, FFO per share on a fully diluted basis was \$0.26, FFO as adjusted per share on a fully diluted basis was \$0.27, and our cash available for distribution was \$0.22 per share on a fully diluted basis. GAAP measures and reconciliations to GAAP measures have been provided in our supplemental information package.

For the 12 months ending December 31, 2016, the Company is raising its guidance for FFO per share on a fully diluted basis to \$1.19 to \$1.23 per share. This represents an increase of 4.3% at the midpoint of the ranges from our previously announced 2016 guidance. This guidance assumes acquisitions of \$75 million in 2016, including the recently announced ICE Albuquerque acquisition, spread evenly throughout the year. This guidance does not contemplate dispositions or additional capital market activities.

Let me walk you through this guidance in more detail.

As of December 31, 2015, given acquisitions that were completed throughout 2015, run rate FFO on a fully diluted basis was approximately \$1.17 per share. This is \$0.09 per share or approximately 8% higher than our run rate of \$1.08 as of the last time we were all on the phone. This increase to \$1.17 already includes approximately \$9 million of cash general and administrative expenses for the year. This amount provides the resources to build the scaffolding which we believe will support robust growth for the company in 2016. A portion of this increase is compensation for our Team.

As Darrell mentioned, our compensation philosophy is aligned with Shareholders. A portion of this G&A increase is an incentive bonus pool that rewards the Team based on Easterly meeting or exceeding our communicated growth targets. As you know, a disproportionate amount of Management's total compensation is incentive-based. To be clear, if we do not meet our growth targets, our cash G&A expense will be lower.

So, as I said, the run rate FFO for the business at year-end is approximately \$1.17 per share. We would expect the impact from \$75 million of additional acquisitions, spread equally across the year in 2016, to add \$0.08 per share to our run rate FFO on a fully diluted basis and bring run rate FFO to \$1.25 by the end of 2016. Given our expectations for the acquisitions 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 \$1.21.

Now, turning to the balance sheet, at quarter end, we had \$154 million outstanding on our revolving line of credit and total debt of \$238 million. Availability in our line of credit stood at \$246 million. In terms of leverage, net debt to total enterprise value was 25.2%.

Finally, as previously announced this week, our Board of Directors declared a dividend related to our fourth quarter of operations of \$0.22 per share. This dividend will be paid on March 25th to Shareholders of record on March 10th.

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

Operator:

Thank you. We will now be conducting a question-and-answer session. If you'd like to ask a question, please press star, one on your telephone keypad. A confirmation tone will indicate your line is in the question queue. You may press star, two if you'd like to remove your question from the queue. For participants using speaker equipment, it may be necessary to pick up your handset before pressing the star keys. One moment, please, while we poll for questions.

Our first question comes from the line of Manny Korchman with Citigroup. Please proceed with your question.

Emmanuel Korchman:

Good morning, everyone.

Darrell W. Crate:

Good morning, Manny.

Emmanuel Korchman:

Meghan, I think you said in your guidance that your acquisitions are still spaced evenly through the year. Do you mean the remaining acquisitions, or how do we think about the acquisition that closed in February as part of that guidance?

Meghan Baivier:

Yes, you can assume that to complete the \$75 million, we think about the remaining of that as equally spread throughout the remainder of the year.

Emmanuel Korchman:

So, how much of the \$75 million was the acquisition that's already completed?

Meghan Baivier:

That acquisition was approximately \$34 million.

Emmanuel Korchman:

Okay. Then, if we think about your development platform and pipeline, what would be the difference in yield between where you're acquiring—it looks like the \$171 million was done at roughly a 7.9% cap rate—and where you'd be able to develop. So, if you were developing, would that be 100 basis points better yield, or 200s, or how do we frame that?

William C. Trimble:

Manny, good morning, it's Bill. First of all, thank you for the 7.9%, but I'm afraid we're at a 6.9%, would be closer to probably the numbers that we're acquiring these buildings. Secondly, from the development standpoint, as you know, sort of overall we have seen some opportunities since we last spoke. I think one of the measures of a good Management Team is the deals that you don't do as opposed to maybe the deals that you do do. We are actively pursuing some things right now and we look forward to, hopefully, being able to announce things in future calls.

From a standpoint of what we see on the outside, yes, obviously we would like to see a nice healthy margin for the extra risk we take in development. I think we indicated in our Road Show that we'd be looking at something north of 7.5 to 7.75. I would say that the one difference between what we do and a lot of other developers is what we're doing is not speculative. We sign a lease with the federal government; they will occupy the property when it is complete. So, I think that would give you a flavor of about where we'd come in.

Emmanuel Korchman:

Great. Thanks, guys.

Operator:

Our next question comes from the line of Michael Carroll with RBC Capital Markets. Please proceed with your question.

Michael Carroll:

Thanks. Can you guys give us some color on the valuation metrics for some of the deals you've completed to date? I'm kind of looking at a price per square foot number. Is there a wide difference between the laboratory asset from the traditional office building, and is there much difference between the office properties that you have been acquiring?

William C. Trimble:

Good morning, Michael. I think the first thing, absolutely, there's a huge disparity between an office property and laboratories. You know, a laboratory is one of the most mission-critical facilities in the United States government portfolio, or any portfolio, and they're going to be widely more expensive per square foot than a plain office building, and then the FBI sort of facilities are going to fall between the two. So, it's sort of hard to come up with an average per square foot that would be meaningful.

Michael Carroll:

Okay. Then the price per square foot, the traditional office buildings, is there difference between a DEA office building versus the FBI office building? Are there any special features that one would need that the other one wouldn't?

William C. Trimble:

Yes, there are different security features depending on the particular agency, the building and its hierarchy of mission within that particular agency. I think that it will be rent-based depending on what features are necessary. For instance, the FBI requires anti-collapsible walls, ballistic glass, separate HVAC systems that detect pathogens. The DEA would have other requirements, some that I can discuss and some that I can't. So, there are different levels of security.

Michael Carroll:

Okay. Then, can you give us some color on the discussions you're having right now with the GSA regarding future build-to-suit deals? Are you close to completing any of those?

William C. Trimble:

I'd love to, but we really can't, but just know that when we do pursue a build-to-suit deal, we're going to use the same diligence that we do to be in a specific area of mission-critical buildings, over 40,000 square feet that are Class A, lead to a single-tenant agency, and are extremely important to the mission of the United States government, and so the deals that we did not do, you can assume did not fall into that category, and so we will look forward to announcing something when it occurs.

Michael Carroll:

Then, can you kind of give us some idea—I guess, before you kind of highlighted that maybe \$45 million or \$30 million of development starts between these build-to-suit projects. Is that a long-term run rate

figure that you might fall short of in the near term or is that still, like, kind of a good goal that we should think about?

William C. Trimble:

I think it's going to be difficult to pigeonhole that. Obviously, we were very pleased with now over \$200 million worth of the acquisitions in just—I think it's 54 weeks of being public. From a development standpoint, it is going to be lumpy. I will tell you the federal government, in some cases, is a perfidious mistress and it's difficult to pigeonhole exactly when something is going to happen, but we will be looking for those opportunities as they occur.

Michael Carroll:

Okay. Then, could you talk a little bit on how you plan on funding your recent investment activity? I know in your guidance you're saying \$75 million of acquisitions. Is that all going to be funded in the credit facility; and if that's what you're assuming in guidance, would you actually be comfortable doing that?

Meghan Baivier:

Yes. So, Mike, we've set our guidance at \$75 million of acquisitions this year and we're comfortable with our ability to fund that growth with the current capital structure.

Michael Carroll:

So, by just using your credit facility?

Meghan Baivier:

Yes, correct.

Michael Carroll:

Okay, great. Thank you.

Operator:

Once again, if you would like to ask a question, please press star, one on your telephone keypad. A confirmation tone will indicate your line is in the question queue.

Our next question comes from the line of Bill Crowe with Raymond James. Please proceed with your question.

Bill Crow:

Hey, good morning, folks, nice first year. Two questions. The first one is really a follow-up to the last one, which is how do you view dry powder? I understand you can get through the next year or so if you only do \$75 million, but how much do you think you have before you have to return to the markets?

Darrell W. Crate:

This is Darrell. You know, I would say that we have a couple hundred million dollars of dry powder when we look at our capital stack. We've been in conversations with the rating agencies and with external capital providers, particularly long-term debt providers. They, maybe even more so than equity providers,

understand the value of our full faith in credit cash flows. So, we feel like there's a very deep market and lots of tension among potential providers of debt capital. So, we think we can finance attractively over the long-term.

Obviously, our expectations are set at \$75 million. We can do those on our line. We can probably do another \$100 million on our line and really not worry about assets and liabilities being out of whack. But, I would say to the degree to which we're going to exceed those expectations, as we did last year, we'll always be mindful of matching the capital stack to the portfolio, and I think what's very important for Investors to understand at the highest level is that we're not going to do a dilutive financing deal ever. So, the degree to which we are exceeding and need to be a greater consumer of capital, we are going to have capital to match it that will have different durations.

But, again, just to be entirely clear, you're not going to hear us get on a phone call and say that we are changing our capital stack or we feel uncomfortable with our capital formation exercise to the detriment of earnings expectations.

Bill Crow:

Yes, I appreciate that. The second question also is capital markets related. Could you just give us a couple-of-minute tutorial on the expiration of the lockup and what that—just some of the dynamics that you're facing and how you might be dealing with that?

Darrell W. Crate:

Sure. There are—and maybe just to step back for a second, because we have a large attendance on the call today and a bunch of folks who I don't think had been following the story in the past. We started as a private equity business, building this portfolio, and we raised dollars with institutional limited partners, that was raising money for a duration of eight to 10 years, and during that time we were to build a portfolio and that portfolio had a set of target rates that were consistent with private equity rates. What we realized is that the pipeline that we were building was much stronger and robust than the amount of dollars that can be raised in a private equity environment, and that's what led us to the discussion with our limited partners to go public in February. By going public, again, we as you saw, we meaningfully de-levered the portfolio and we continued to harvest the acquisition pipeline that was built.

So, that's all a preamble to—you know, in May, we will be delivering these 7 million shares to these institutional partners. They are folks who have a horizon that—we are two years into our deal with them. Their original horizon was eight to 10 years. We've had very strong feedback from them that they like what we're doing, and while some folks have only had the opportunity to get to know us over the last nine to 12 months, we've been executing for these folks for years. They've seen what we do and they've seen how we set expectations, they've seen how we deliver, and I would say that they express significant confidence in Management, the strategy, the thesis, and understanding that we adhere to our discipline.

So, I think it's a good-news event for Shareholders, in that there will be more flow, there is opportunity to buy larger positions, and I think that this is the next chapter in our history, and it's coincident with us having enterprise values that should exceed \$1 billion.

Bill Crow:

Great, thank you. That's it for me.

Darrell W. Crate:

Thanks.

Operator:

Our next question comes from the line of Emmanuel Korchman with Citigroup. Please proceed with your question.

Emmanuel Korchman:

Hey, just turning back to debt for a second, it looks like you now have a secured loan on DEA Pleasanton. Is that a result of just the transaction, there was debt in place that you assumed, or is there a reason that you put secured debt on that facility?

Meghan Baivier:

Yes, Manny, that debt is a result of the structure of the transaction.

Emmanuel Korchman:

That's it for me. Thanks.

Operator:

There are no further questions at this time. I would like to turn the floor back over to Bill Trimble for closing comments.

William C. Trimble:

I want to thank everybody on the call, especially our Shareholders, and we look forward to speaking with you in a few months. Thanks for your time.

Operator:

This concludes today's teleconference. You may disconnect your lines at this time and thank you for your participation.