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+++ presentation

Operator^ Welcome to the Easterly Government Properties first-quarter 2024 earnings conference call. (Operator Instructions)

Please be advised today's conference is being recorded. I would now like to hand the conference over to your speaker today, Lindsay Winterhalter, Head of Investor Relations. Please go ahead.

Lindsay Winterhalter^ 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 reflected in any forward-looking statements are reasonable, it can give no assurance that these expectations will be attained or achieved.

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

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

I'd now like to turn the conference call over to Darrell Crate, CEO of Easterly Government Properties.

Darrell Crate^ Thanks, Lindsay, and thank you to everyone for joining us. We are pleased with our progress this quarter as we work through opportunities. I'll keep it brief so we can get to Q&A. But I've got three important messages I'd like you all to take away from this call.

First, we believe there's a path towards material earnings growth for shareholders and we're on it. Meghan and Allison will talk to you about the numerous drivers shortly.

Second, we know the payout ratio of our dividend is high, but we also believe there is a growth path we can pursue that helps materially close that gap. We are also actively reassessing and managing our expenses. Further, we currently sit with just under $3 billion in rent coming from the US government with the leases that we own today. And if that portfolio were to renew up 10% for 10 years, which are modest assumptions, we'd be collecting nearly $6 billion while facing credit rent from the US government. We believe (technical difficulty) many dollars as we can to our shareholders and given the credit worthiness and duration of the cash flows backing our dividends, we remain very comfortable with the periods of higher payout ratio.

Third, we occupy a unique place in the broader real estate industry, owning and designing essential infrastructure for the US government's mission critical agencies. For example, our DEA drug labs enable homeland security to trace and stop some lower cartel activities amid an ongoing increase in drug trafficking crimes. In 2022, fentanyl was responsible for 200 deaths every single day and over a 0.25 million of Americans have died from fentanyl overdose since 2018. Let that sink in for a minute.

Our facilities bolster the special agents actively combating those figures. We're not in office REIT and this year we're going to continue ensuring that the market understands the breadth of what Easterly offers. This may be boring, but these are the stats that I know you're going to ask.

We beat the Street and reported $0.29 in core FFO per share. And we sit comfortably at the midpoint of our target leverage of 6.5 to 7.5 times. We continue to acquire and develop new facilities in our portfolio. These facilities are not offices for transient commercial use. By focusing on properties leased to government agencies (technical difficulty) we've maintained the stability of our cash flows at favorable renewal spreads and seeing a robust pipeline of growth opportunities.

Earlier this month, we announced the acquisition of an Immigration and Customs Enforcement Information Technology facility near Dallas, Texas, which enables ICE's Office of Human Capital to modernize its IT systems and bolster its technological capabilities. The rationale behind this deal is clear. The facility is 95% leased as a 16.2 year weighted average initial lease term for all three tenancies and maintains an additional 6,154 square feet available for future leasing as a value-add opportunity.

All three factors enhance our cash flows, maintain significant occupancy upside, and strengthen our definable edge as specialists in mission critical real estate. This acquisition is in line with the existing properties in our portfolio, such as Federal Emergency Management Agency as Tracy, California, warehouse. FEMA, Tracy, is one of eight distribution centers within the United States for emergency response preparedness. Amid the ongoing threat of wildfire and other natural disasters in California, the property helps provide on the ground support and crucial supplies capable of mobilizing between 3 to 4 million meals and liters of water that is stored at the facility within 30 minutes.

Our Drug Enforcement Administration laboratory in Pleasanton, California, serves a similar mission-critical purpose, providing scientific and forensic support to the DEA special agents and other law enforcement personnel who prevent the distribution of deadly drugs like fentanyl into our society, and we store over 35,000 pieces of illegal and oftentimes deadly evidence in that facility each year.

Meanwhile, the DEA's approved funding increased to over 6% between 2022 and 2023, and its total headcount rose over 4% during the same period to combat the increased manufacture and distribution of controlled substances. As the government strengthens its agencies maintaining the safety of our country, we continue to fortify their abilities through mission-critical real estate.

These purpose-built facilities serve as Easterly's definable edge in commercial real estate and continue to be the bedrock of the shareholder value, which we deliver. We will continue to pursue accretive deals and we have no plans to sell buildings in the near future as we work to continue to expand the portfolio with high creditworthy state and local government agencies and US government adjacent partners.

Frankly, we believe Easterly is well positioned to continue to provide value to our stockholders by developing and buying more great mission-critical buildings, continuing our strong partnership with the government, and protecting our balance sheet. We are in constant dialogue with the Board and in forward planning mode. In addition to delivering external growth, we are laser focused on cutting operating costs this year, both of which we believe will aid in our ability to meet or exceed our 2% to 3% core FFO growth trajectory.

We're excited to continue delivering shareholder value and enhancing our portfolio with a foundation of cash flows backed by the full faith and credit of the US government. The future remains bright for Easterly in 2024.

And now I'll turn the call over to Meghan Baivier, the company's President and COO.

Meghan Baivier^ Thanks, Darrell, and good morning. We started off our 2024 by establishing a clearly defined goals for the company, and we are on pace to deliver. We believe our government-backed cash flows have been undervalued in the public markets these past few years, and we attribute that to our recent periods of low growth. 2024 is the start of that change.

We have launched our growth trajectory with the acquisition of ICE Dallas, delivering strong predictable cash flows and run rate accretion to our shareholders. We see a pipeline of opportunities that we believe will further our ability to meet our stated goals of delivering 2% to 3% core FFO growth year over year for years to come. For example, we are pursuing a unique opportunity to serve as lenders and buyers of mission-critical assets that we believe will further change the growth trajectory of this organization. We look forward to keeping you apprised as this develops.

In the meantime, we secured a brand-new built-to-suit federal courthouse development project in Flagstaff, Arizona, for an inaugural 20-year lease term. This important courthouse is expected to house the nation's first-ever Native American female federal judge and is expected to be the company's first-ever LEED Silver, net-zero development project.

Our in-place portfolio continues to perform as we achieve renewals with meaningful spreads. We renewed DEA Albany for another 17 years, marking the third renewal of this asset, while owned by Easterly. You are probably sick of hearing me say it, but once again, this highlights just how far from the office sector we are.

As Darrell mentioned, the importance of the work being performed in our buildings cannot be replicated at home and such a dynamic is apparent in our ongoing renewal discussions. Allison will go into greater detail, but we believe we are in a period where the duration and credit worthiness of our cash flows, the importance of our real estate, and our defined edge in serving mission-critical assets will accrue to our benefit and separate us from our peers.

As we have seen notable names take down their earnings guidance, our being in hold should stand apart from the crowd. We are excited about the opportunities for growth at Easterly. We see the growth trajectory filling in with new projects that further our mission of serving the government while also delivering attractive returns for shareholders.

With that, I will turn the call to Allison.

Allison Marino^ Thank you, Meghan. Good morning, everyone. I'm pleased to report the financial results for the first quarter.

Both on a fully diluted basis, net income per share was $0.05 and core FFO per share grew to $0.29. Our cash available for distribution was $25.9 million.

Interest rates have certainly been a headwind for the broader real estate market, Easterly included. We seek to minimize interest expense at a time of high underlying rates, be that with a focus toward strategic treasury management or more recently, our ESG goals.

We achieved a reduction in the margin spreads under the company's amended senior unsecured credit facility as a result of hitting a predetermined sustainability metric. Easterly also continues to sit comfortably at the midpoint of our target leverage range of 6.5 to 7.5 times and maintained ample capacity on our revolver while limiting floating rate debt exposure.

As Darrell mentioned -- Meghan mentioned, external growth through mission-critical real estate is our primary focus, and we see a market of opportunities ahead. Our ability to manage our upcoming debt maturities, plan for capital needs, and access debt and equity markets is integral to harvesting this growth.

At Easterly, we pride ourselves on a portfolio of purpose-built buildings, and we manage that portfolio with a purpose-built team. Our organization is committed to finding operational efficiencies throughout the portfolio, managing expense creep and re-leasing at positive spreads.

Everyone at the company contributes to furthering the mission of driving value for shareholders. Today, we are maintaining our full-year core FFO per share guidance for 2024 in a range of $1.14 to $1.16, all on a fully diluted basis. This guidance assumes the closing of VA Jacksonville through the joint venture at its pro rata acquisition price of $40.9 million later this year and that we will have $100 million to $110 million of gross development-related investment during 2024.

At its midpoint, this sets a path for Easterly to deliver strong core FFO per share earnings growth to shareholders this year. We believe this represents a market-leading risk-adjusted return and charts a course for delivering long-standing growth opportunities for our investors.

With that, we thank you for your time this morning and appreciate your partnership. I will now turn the call back to Shannon.

+++ q-and-a

Operator^ (Operator Instructions) John Kim, BMO Capital Markets.

John Kim^ Thank you. In your press release you talked about earnings growth of 2% to 3%. I think that's a little bit lower than what you were targeting back in January. So I was wondering if there was anything that's a headwind to earnings in the near term, whether that's asset sales or no move outs that you have? Or is it simply just the spread investing has become more difficult?

Darrell Crate^ Yeah. No, thanks. Thanks for the question. Really appreciate it.

At our Analyst Day, one of the things I shared is that we're on a path to grow 4% for the company, which -- that's what we're working to pursue every day. I think it became clear in our discussions after Analyst Day that given the environment that we were in, the idea of going out with 4% sounded like we were going to be yelling into the wind, especially as office guidance was continuing to decline. So we modified the expectations to 2% to 3%, which seems like a very reasonable step. And given the things that we're working on, we're going to hit those targets and we may very well exceed them. And we're working every day to make that happen.

So our view on the business today is the same as it was at the beginning of the year. We are going to cut costs to make our numbers. We are going to -- we've got terrific pipeline that continues to build, and we're developing properties into the eighth with fantastic facilities that I think will be (technical difficulty) the government for many decades. So as that all comes together, we're very excited for the next couple of quarters but to be able to lay that out, which is also why we have some exuberance and optimism also about our dividend.

John Kim^ Just following up on that, Darrell, I mean, the interest rate environment has changed since January. I'm wondering if that played into your outlook at all as well as then recent reports, I think it was won by the [PBRB] earlier, I guess, those last months on federal agencies only using 12% of the headquarter space. Is that leading to any pressure to reduce costs among government agencies? I was just wondering what's in --

Darrell Crate^ Obviously, again, not specifically in our medium-term outlook. You're absolutely right. (technical difficulty) yield curve goes up a little bit. The model that we're creating and we're so excited. We look at a five-year model all the time and it gets super annoying for that yield curve to go up. And it just means we have to work harder or cut costs to make it because we're laying out a path for shareholders.

That said, none of it changes the way we work. We are just going to have to dig a little deeper and make it happen. And that is -- that's all within our control. There's nothing that seems beyond reach.

And to the point about a space utilization, I -- we are not seeing that as a dynamic in our buildings and what we're going to do and what Lindsay was referring to and my -- even though I said I'd be brief, I did go on to a dialogue about fentanyl. We're going to start -- on our website, instead of putting pretty buildings pictures on the outside, we're going to start showing folks what's on the inside. And what you see there, there's -- you will get an immediate sense that there's no need to reduce the floor plan from everything from [CBP], folks know there's a problem on the border and nobody knows it more than the border patrol people.

When you look at the DEA, their budget is growing as a Sinalos cartel is getting stronger. And we are just out in California with some people who are intensely focused on making sure the American population stays safer. We've got fentanyl coming from China. That is a serious problem. And people in our buildings are working on exactly that.

We're talking about facility projects about moving walls, doing different things that again facilitate mission, make sure they have the meeting rooms they need, make sure they have the secured facilities they need, make sure that they have what they can because they come together in these offices to plan and then move on their mission and making sure that they can do that in a well-maintained building that has what they need in order to make that happen is what we do every day. And that's how we've built a -- we're a good partner with the government. And that's how we believe we've created a definable edge in what we do.

John Kim^ Appreciate the color. Thanks.

Darrell Crate^ Yeah, thank you, really appreciate it. And look, the more on this call, we can get any of this skepticism or what's in the news, it's super helpful to us because we just -- feels like we play whack-a-mole. The Department of Education is shrinking, so people think the FBI is shrinking. And I mean, our investor calls and investor meetings, it's chronically the question with regard to work from home, governments shrinking, and then what's happening in your buildings.

And I so wish we had a competitor -- direct competitor so that we could show the good work we're doing because I mean, I've been out touring, aggressively touring buildings. And we hear again and again, and believe me, the government, it's not like the IRS sends you a nice letter every year, says, thanks for filing your taxes on time. We really appreciate it. But I would say we are getting compliments from the government and they are not quick complementors about what we're doing and how we're focused on facilitating mission because we watch what they're doing in the facilities and we make suggestions around how we can modify this facility.

One -- our job one is to fight obsolescence, but we do that by deeply understanding their mission and giving them every opportunity to say, hey, we'll move this wall. We'll do this. We'll do that. And would that help you? And the reality is it does and sometimes it doesn't cost very much money at all. And the government will pay for it. And so when we are able to create the actual plan, and say, hey, send this back to headquarters and here's your rationale, those projects can move forward.

And so again, that's how we're helping as a partner and the more we can have investors and folks who own our portfolio, understand what we do each and every day that's very different than anybody else out there. I think that folks will be proud of what they own and what we're building.

John Kim^ I didn't expect --

Operator^ Michael Griffin, Citi.

Michael Griffin^ Great, thanks. I just wanted to go back to the full-year guidance for a second and maybe run through some additional puts and takes. So as I see it, you know, $0.29 in the quarter, a slight beat. Maybe you get some accretion from the ICE deal. How should we think about the cadence of earnings throughout the year? And then also if you could provide some more color on that ICE deal in terms of overall valuation per square foot and anything on the cap rate would be helpful.

Allison Marino^ Okay. I can start with what our guidance entails and what it comprises of. So our guidance reflects $0.02 to $0.03 on same-store improvement and growth in margins of 2% to 3%, $0.02 to $0.03 of G&A savings. And that is offset by $0.03 to $0.04 of the interest rate headwinds from the 2023 swap for a price. And then Meghan will touch a little bit on Dallas.

Meghan Baivier^ Yeah. So Dallas was a little under $26 million, granted it's about -- it's [mid]rate cap at that size and that level of cap rate we're expecting through run rate accretion of about [1/3 of $0.01]. And so it is absolutely a piece of our ability to continue to build on our initial guidance and continue, as Darrell said, right to grow from that 2% to 3% to the higher end of that range or above that range.

It's a building block in NASH. And as we continue through the year, with strong performance in the portfolio, continuing to meet or beat that expectation that Allison laid out of the same-store NOI as we look at cost structure. It's also a place where we could see some upside.

Michael Griffin^ Great. That's helpful. And Meghan, maybe sticking with you, obviously, external growth is going to be a big part of the story in order to drive earnings going forward. What would you say your weighted average cost of capital is today and what's the minimum spread you'd need to justify investing in a property? And is it correct to think about DEA as a spread investor today?

Meghan Baivier^ Yeah, so Griff, we look at our cost of capital today, given understanding of where we can finance in multiple avenues of the debt markets, it being in the mid-sevens. And of course, we are looking to be a spread investor to that level and so acquiring assets in the high-sevens to mid-eights is very much what we're looking to do and ICE Dallas is an example of that.

Michael Griffin^ And in terms of maybe debt and equity kind of differential there, is it fair to say when you're financing a deal, it's half debt, half equity? Or maybe greater to the equity side as opposed to the debt?

Meghan Baivier^ Yeah. So turning your rating and looking at debt-equity mixes, EBITDA multiples, yeah, you're in that sort of 50% give or take range as we think about weighted average cost of capital.

Operator^ Peter Abramowitz, Jefferies.

Peter Abramowitz^ Thanks. Yes, just to dig a little bit more into some of the comments on guidance there, that was helpful. But just trying to square that with some of your comment about revisiting your expense structure, just wondering if you provide some brackets around expense reduction, the impact that has to earnings, whether it's kind of an absolute dollar number or from a margin perspective, what you're sort of targeting?

Darrell Crate^ Yeah. No, it's a great question. We're a couple of months into really just assessing the workflow of all our systems and processes because what we do is a little bit different than other REITs. So we are trying to again -- we spend a lot of time talking about the relationship between value and excellence, and we want to be an outstanding partner to the government. But we also want to make sure that we are executing on that in a way that has the least burden cost structure possible.

And I think we'll see some cost savings in 2025 and beyond. So we don't have a target for what that's going to be, but we're going to find an efficiency point in everything we do from property management to how we're financing our buildings to how we structure our leases and how we focus on renewals. And that combination, we will find something under each of the rocks that we pick up.

And it's a great opportunity with interest rates moving for us to just reassess everything that we do because we've had some very nice growth for the -- there's almost 10 years since we've been public. We continue to grow every bit of our infrastructure in a way that we obtained some advantages of scale. But I think there's more to find. And so we're going to be pursuing that exercise while we're also -- I don't mean to make it sound easy. We are going to find high-quality buildings that match what works in our portfolio that are in the high-sevens, mid-eight. If we had a cost of capital that was 60 basis points lower, I think it's not unreasonable to say we'd be doing $1 billion plus of acquisitions because we're seeing sellers -- balance sheet pressures and refinancing, you're starting to see buildings come available.

There's one building that, gosh, we loved and was probably a -- the seller would not have taken anything less than 5.5% cap at one point, which is why it was a building that wasn't for us. But we put an offer in that was 150 basis points higher than that. And there's still a conversation to be had. And this is -- we're seeing the market move in this direction and it's our acquisitions team's job to find couple of hundred million of buildings that are in that criteria that meet all the criteria of being a spread buyer and for us to use our advantage and our relationships with the agencies and on the ground in order to get our buildings built and move forward.

I mean, I'll give you one example. And I think the ICE Dallas is buried in there, which is, we do have the 6,000 square feet of extra space. Then we call it value add and we skimmed through it in the script. But we do a good job at our buildings. And because of that, if there are areas to expand or there's a way to -- agencies today are doing more intra-agency task force work than I have ever seen before. So the idea of creating a special facility that's a joint facility or a joint activity space is a terrific opportunity.

Our FDA lab in Atlanta, some of you have come to see it, but I mean, it is an amazing facility. It has plenty of extra room in it. And I think it will be the premier FDA lab in the United States. And with that, there's a significant opportunity to make that a center of excellence within FDA. And none of that's in our underwriting today.

So I don't mean to make the growth path sound easy, but I think between the cost structures that we're talking about and finding via the acquisitions that are accretive on a spread basis, it will get us into a place where we're delivering some very nice growth.

Peter Abramowitz^ Thanks. That's helpful. And then just to touch on -- I think you have three expirations remaining to address this year in the portfolio. So Allison laid out, I think, some parameters around what you're expecting from NOI growth for the full year. I'm just curious if you could touch on potentially the rent roll up or roll down there? And how you budgeted that into your guidance? And what sort of for the rent assumptions you're assuming to get to your midpoint?

Meghan Baivier^ Yeah. So Peter, we obviously were successful at renewing the Albany in the quarter, and we'll speak again about the portfolio at the end of the year. But if I dial back to our expectations that we stated on the fourth-quarter call around 32 leases that we had renewed regardless of whether or not the TI had been completed, the expected the 18% spread and duration of 17.2 years, right, Albany tucked in nicely with no material change to that expectation.

And then as we look to the rest of 2024, we were very optimistic about the process ongoing at FBI Omaha. We do expect the FBI lease within Portland to be extend into a renewal option and the rest really drops off to sort of immaterial levels of leases. But broadly speaking, we remain optimistic about the renewal success within our portfolio and sustained occupancy levels.

Operator^ Aditi Balachandran, RBC.

Aditi Balachandran^ Hi, good morning. Congrats on Flagstaff development announcement. Just wondering if we get a little more information about that, if you could provide? So I guess, expected yield, the budget, when you expect to break ground, things like that?

Meghan Baivier^ Sure. So the new award that we work -- we won is a court federal just to put up in Flagstaff, Arizona. This is going to be an estimated project cost just touching $35 million, and as we said, we're developing into the into the eighths there. It will -- it's in design today. It will get underway as we get into before -- late third or early fourth quarter of this year.

Operator^ Harvey Poppel, Poptech LP.

Harvey Poppel^ Yes, thank you. You haven't talked much about the initiative -- new initiative you previewed maybe six, nine months ago about going into the state property market. Do you have anything to report on that?

Darrell Crate^ Yeah, I'd say the quick headlines are we continue to be exploring plenty of opportunities. We've got a robust pipeline. We did buy our one building in Anaheim, California, that is basically adjudicates workers' compensation claims. And it's in a terrific place. I mean, look at what is going to be developed in that area by the time the lease terminates. We're very excited about it.

We continue to work across states, and again, every week are going through a whole series of opportunities. And I think that will be a real contributor to our earnings certainly in 2025. Maybe we'll see a little bit of some accretive deals in '24, that will be happening probably later. So that won't probably affect this year's guidance, but it's a really significant total addressable market, and we should be able to find some terrific long-term opportunities in this space.

Likewise, just to take the opportunity, we've also talked about government adjacencies. This is a place particularly where we have an opportunity to develop buildings for very high credit corporates that are building buildings today because we're onshoring, so new activities in the United States. And in doing so, we're building buildings that are just the buildings that we have for many of our US government agencies. And it's far easier for folks who have a government contract and may not have worked with government for a significant period of time to come to somebody like us and understand that the building, that facility that will be built will be one that will enable them to meet their obligations under their government contract in a way that is uninhibited.

Harvey Poppel^ One would think that there's got to be pockets in some of the states of small-property owners, whether they structured is reach or other, that might be acquirable in certain stage. Have you seen any opportunities to just acquire a business that might hold several properties in the States?

Darrell Crate^ Well, I think, yeah. So we'd call those in portfolios and we certainly see plenty of portfolios. Because in the federal space for the last decade, we've been working with folks who have material portfolios. We have tracked each one of them. We understand which buildings we be most excited about and we work and cultivate relationships with those folks that sometimes are fruitful in six to nine months and sometimes it's three, four, five years.

So you're onto something which is we're getting to know the folks who develop those buildings or have created a portfolio, learning about the dynamics, and really spending a lot of time going to school on how they get there, what happened, how that work, and so that we can find the right match for us.

We don't want to be hasty moving to this space. But we know that it's a strong opportunity, not only because we can find very high-quality buildings that satisfy the State's mission but these leases also have escalators.

So my friend, Allison here will not get such a hard time for same-store sales. As we start looking to 2026, '27, '28, we can -- it would be really nice for us to start the year, knowing that we're growing over 1% -- somewhere in the range of 1% to 2%. When we turn the lights on and one of the challenges that we found is that when we exercised a lot of discipline, it was the right thing to do. When the market changed abruptly, we found ourselves in a place where we weren't growing and the equity markets don't like that.

And so we sort of called it early, I think probably three or four months, we stopped buying before other office REITs which we get punched with. We're talking about it. And I think you're finding us today maybe being a harbinger of good news for some of those folks because we are sorting through lots of opportunities. If we're picky about it, we can find things that are accretive and that's our job.

And as we look forward to the end of the year or beginning of year, I think we're going to be at a healthy space to announce acquisitions as part of our guidance again and doing all of those things. So we are meeting with lots of folks who own portfolios. If you know of any, send them our way. And we're executing on each of these three lanes of opportunity. And I very much hope in the next 36 months, almost a third of the company is comprised both of adjacent properties, 15% adjacent properties, 15% state and local.

Operator^ [Travis Terrapin, Seeking Alpha].

Travis Terrapin^ Yes, good morning. I know you guys have talked about the dividend a little bit, but my question was -- I know the payout ratio is kind of high right now. Did you guys have a target range that you would target in and a timeframe for that?

Darrell Crate^ Yeah. No, great question. Because we obviously look at the dividend each and every day, Travis, and we look out and clearly getting our dividend rate below that 100% payout ratio, which is always our goal and even a little bit lower is where we want to get to. Maybe just to be very clear about it, we are not interested in cutting our dividend because even though that may create some other pennies of growth in the future, the plans that we have more than offset it, and we're on a path to, in the next 24, 36 months, to be in a place where we're recovering our dividend. I hope it's sooner than that.

And we've had periods like this where we've had a high payout ratio relative to what the strategy is delivering. But we believe, given the stability of our cash flows, delivering that consistent dividend is something we're capable of doing. So as we look out the next two to three years, we should get that solved hopefully sooner and getting a payout ratio below 100%. Certainly, it's the goal.

Travis Terrapin^ Okay. Thank you. And my next question is, since you talked about in the next 24 to 36 months with the payout ratio below 100%, I know you guys have talked about buybacks before. Is that something else you're looking at once you get the payout ratio solved and stop making accretive acquisitions or things like that?

Darrell Crate^ Yeah, I think that's right. I mean we really do try to take a corporate finance perspective to what we're doing and given where the stock price is relative to our opportunities, we see some real opportunity. We imagine that that's going to takes a little time for that to get recognized by investors. But if it isn't, we should be certainly in a mode of generating some capital, even some longer-term capital that could buy back stocks at attractive prices.

Operator^ Michael Lewis, Truist Securities. .

Michael Lewis^ Yes, thank you. You mentioned the 18% rent spreads. You talked a lot about the importance of the work that's happening in your buildings and the way the government's complementing you on that and you just mentioned escalators in the leases. What's the portfolio occupancy and the same-store NOI and the specific rent spreads. And I think as you talk about some of the organic growth potential, I think reporting that now might be helpful to help us track where you are and how you're doing on that goals -- on those goals.

Meghan Baivier^ Hey, Mike. The points taken from a same store's perspective and I think as we continue to hold our goals around -- through cost realignment, that's a nice opportunity. I think we've, historically, given the structure of our leases, right, we've always talked about how the arc of time same-store NOI growth sitting in that sort of 50 to 100 basis point range. But if that had the potential to step out of that range, I think the communication to the market of how that is driving outcomes is something we can give --or shine further light on.

Darrell Crate^ Yeah. I mean, maybe stepping back, Michael, gives us just a little perspective on it, which is I think we're not comfortable nailing down a number right now because it might be some false precision. I think for folks who may not be as familiar with the story, our leases are flat until they renew. And we, I think, have done a reasonably good job of staggering out the maturities of leases.

So if you were to draw a line through the company for five years, six years, seven years, as we look forward, I think we can feel good about same-store NOI. That would be a couple of points. But -- and it should match inflation. That's how it should work.

The problem is there can be specific circumstances where one building renews at a terrific experience. We sometimes have 30%, 40% ups and sometimes we end up -- we are staying flat. And when those happen, it creates this kind of volatility in same-store growth. And so as we looked at that at the end of last year and said, this is something that's hard for us to explain to the market and the market is kind of you're as good as your last renewal. It only makes sense for us to get some leases into the portfolio that do have some escalators in it so that -- maybe it's disappointing to say we were going to same store NOI growth of 0.5% to 1% or it's going to be 2% to 3%, but it's always going to be positive.

And we're in a place where I think that's something we believe equity markets are going to better understand. Some of as I shared on our Analyst Day is when we began the private equity business back in 2010, the overall concept was we were going to get a premium in the market for the high credit rating we have and that proved to be almost true. But we've never been able to take on the leverage that even the rating agencies think we could take on, given the stability of our cash flows. Because Green Street and others, and we look like an extreme outlier on the leverage front.

So we're in this place where we have leverage that's in the band of REIT, but we're delivering a much higher stability in credit worthy cash flow. So that's why moving to a place where that cash flow begins to look more like and REIT and we're doing what we have a competitive advantage in, which is being a great partner to government and making governments facilities that enhance mission. And if we can find that [spiel] on the Venn diagram and the third leg of that being that it's accretive, we think we're -- it's a reason for getting up every morning. So I know it's a lot, but that says we (multiple speakers) same-store sales. That's where we want to go.

Michael Lewis^ No, that's good. You talked a lot about fighting this perception battle and whether it's trailing four quarters or trailing eight quarters even, something that kind of show proof of concept, I think, would be helpful at this point. And so that if I asked about the same store NOI, I understand with flat leases and they only mark on expiration and all of that.

Darrell Crate^ Yes. Totally agree, and I think we're working very hard too. Again, we will -- we are going to illustrate a proof of concept here. We're linking together a bunch of quarters, and we also know that if we can show some more growth and I think that by expanding our total addressable market, that becomes much easier in an accretive way. And we'll still be the best credit tenancy of any REIT out there, but we'll be able to have a cash flow profile that is better understood by folks who are looking at the sector broadly and maybe don't take the time to see our buildings or spend time with us because it's not lost on us that our market cap relative to the whole market cap of all REITs is super tiny. And given that's the case, we're not the first folks people look to. That we just need to be looking a little bit more like the crowd, continue to not lose what differentiates us. And I think those take -- high-integrity action, it's all based on substance to bring that forward, but make sure we're not getting the form wrong. So that when people look at us and see us, it's easy to understand the story of what we're bringing forward.

But in addition, the numbers don't require a lot of explaining relative to other opportunities that folks have to invest in the real estate sector.

Michael Lewis^ So post one internal growth question, I have one extra growth question. It relates to the -- you've already been asked about your cost of capital. The cost of equity specifically, right, so you just feel that a question about potential buybacks. I think you said earlier you'll probably do deals roughly 50% equity and 50% debt. You've been able to use the forwards that you entered into a while back.

Can you execute your plan? Right now, the stock's trading below $11.50 a share. Can you execute your plan and make accretive acquisitions if your stock price is stuck here and the 10-year is [4.75]?

Darrell Crate^ Yeah, the answer is yes. It's obviously harder. And that's why developing in the eights. And we mean in the eights, not like 8.01. Is very good for us and very accretive at these levels. Sad part is takes 24 months to build a building. So we feel very good about that medium-term view. You look at something like ICE Dallas, that's accretive. And we'll find other similar opportunities like that. And I'm very hopeful that as those get executed, my friend, Allison here will take guidance up a little bit, and we'll be on that path.

And to your point, we'll be showing proof of concept, which is hopefully, we have a conference call we're saying well in November, we changed our TAM. Here's the research we did. This is what we've delivered. And now here's what we're looking to 2025. And I think that's when we're going to start being able to show our results and we don't want to just spurt it all out, you know, right now.

So if we had a $13 stock price, this would be a no-brainer, and I mean, which is the marginal amount relative to where we are. But that kind of motion, one of the things we basically have to make the case to folks is that we deserve having a $13 or $14 stock price. And with that, we'll show you the kinds of buildings that we can buy and we can show you how we're going to grow.

And we're fundamentally building the foundation for that story right now. And that's what we're executing on every day, and it's frustrating that the world doesn't move faster, but it is -- all we can do is try to be transparent, have people follow along, and at some point, we think we're going to be rewarded for what we're building and doing.

Michael Lewis^ Is it fair to say you would issue equity at $11.30, if you match it up with an acquisition with an 8.5%?

Darrell Crate^ Yeah, if it's accretive, sure. I mean, when I talk about stock buybacks, it's like if we deliver all this growth out there and we find ourselves in a place where the stock is still, what is it, $11.48, then we got to just look at the world and say what's going on here. Because I know the quality of what we're bringing forward and the IRRs that we have and compare it to everything else that's out there, it's pretty -- we feel we can make a case, that is, that it's very compelling. And so -- but we're always interested in points of view around it.

And all we can do is try to be incredibly transparent about what we're executing on. And we are putting quarter to quarter together. We're very pleased with what we're doing. We don't want to sound overenthusiastic, which is why we talk about 2% to 3% instead of a path of 4% as we've shared with folks. But we're in a transition period. We see great opportunity. We have a definable edge. We can buy very special real estate, and we think we can create a cash flow profile that should be materially valued.

Michael Lewis^ I was not thinking about buybacks, but maybe someday in the future we could talk about that.

Darrell Crate^ There you go. I appreciate. Yeah, no, look, I appreciate the conversation. I think these transcripts are really a terrific opportunity for folks to get to know us who don't have time to get on the conference call because we are a smaller cap REIT and maybe they'll pick up the paper here in six months and read this transcript and learn a little bit about what we've been doing and working very hard to achieve. And we wouldn't do it,if we didn't think we could do it well.

Michael Lewis^ Thank you very much. Appreciate it.

Darrell Crate^ Yeah, thank you. Thanks for paying attention and following the company.

Operator^ Bill Crow, Raymond James.

Bill Crow^ Good morning. Just a couple of clarifications. The 7% cost of capital, is that based on today's incremental cost of debt and today's stock price? It just feels like that number is too low. But just wanted to get clarification.

Meghan Baivier^ Yeah, Bill, good morning. My comment was cultured to mid-7% and low-7% and yes, that is the perspective on where we can issue, again, looking at multiple opportunities in the debt market from secured to the unsecured rate multiple tenors, continuing to work to match our assets and our liabilities, but also yes, and equity price in and around, right, $12 today.

Bill Crow^ Okay. So Darrell, the asset you referenced that you were -- that they wanted a 5.5% cap rate, now you're 150 basis points wider than national talking. That's still that within the range of spread at investing, right. (multiple speakers) right?

Darrell Crate^ Yeah, you know, but I mean, hey, they made it more than halfway, Bill. And it's a pretty snazzy building. So if you can give us a little stock price and they can get a little softer, we're going to have a really a nine-figure (multiple speakers) that you're going to love.

Bill Crow^ Snazzy building is great, but if you don't have rollover and you're only getting a 0.5% a year on rollover, it doesn't really buy anything, right? It doesn't create value.

Darrell Crate^ That's right.

Bill Crow^ (multiple speakers) 18% average roll doesn't cover inflation, when you look at it per year and that's kind of a sticking point here.

Darrell Crate^ Yeah. Look, one thing is that yes, I'm with you. Even, I see eye to eye on the math and the numbers. And no doubt, it's also why. Again, changing our TAM so that we can have some profile that makes the cash flow a little bit better because the reality is the inflation that we've had in the last couple of years will be recognized in our cash flow six, seven, eight, nine years from now, which is just too long and it's beyond the horizon of anybody on this call.

But the reality is that our buildings are more valuable today because of that than they were a year or two ago. We just don't have the cash flow to prove it yet. And that's why we need some things with escalators in it and some of the projects that we're working on to develop can be in the eights. And I see ways that we can, again, path to growing 4% is what we're striving to do. We're talking about 2% to 3% regularly, and we're going to get there. And that's we can -- any suggestions you have on showing people, how we can get to, again, like a $13, $14 stock price, and doing a good job. That will -- that starts a whole different magnitude of growth for us that you'd see at acquisition that are far, far, far higher than we've ever achieved in our history.

Bill Crow^ I understand that. Appreciate. Two real quick ones. Dallas acquisition, where in Dallas is that?

Darrell Crate^ Close to the airport.

Bill Crow^ The zip code.

Unidentified Company Representative^ I don't have that front of me.

Darrell Crate^ We'll send it to you, Bill. And if you want to go visit, we've got a bunch of facilities in Dallas. And we'd be really happy to have a business tour.

Bill Crow^ (inaudible) Finally for me, the two non-government tenants that are in that building, what sort of businesses -- how many of those tenants exist within the portfolio?

Meghan Baivier^ I mean, the vast majority of our tenancy obviously is still governmental.

Darrell Crate^ Four or five tenants that are private. It's very few. All nice people.

Meghan Baivier^ In the building, 35% is to the two private tenants. And those are at least through early and late '30, 2032.

Bill Crow^ Early '32. Perfect. Thank you all very much. Appreciate it.

Darrell Crate^ Thank you, Bill. Really appreciate the effort and appreciate the direct questions because it's the -- I think it's the only way it kind of shows the scaffolding of what we're trying to build. So really appreciate it. It's helpful to have these conversations for investors.

Bill Crow^ Thank you.

Operator^ (Operator Instructions) Merrill Ross, Compass Point Research & Trading.

Merrill Ross^ Hi. I'm wondering how the desire to cover the dividend might be prioritizing your acquisition versus development pipeline, which might be to the detriment of long-term value creation. So you see what I'm saying you're acquiring buildings that have been higher CapEx budget because they're older, right? They're not the newbuilds that you would build. It has implications for the total return and value creation, and longer than 24 months out. So how is the Board looking at the acquisition pipeline and steering you towards covering the dividend?

Darrell Crate^ Yeah, now it's a really, really good question. And it's exactly the conversation that we had at this Board meeting. And it's a conversation we're having nonstop here because by deciding to pay a dividend that's above the payout ratio, you do find yourself in taking on a little bit more leverage, although tiny that can probably take a penny or so of recurring growth away from the future.

That said, I think we don't -- we do see the dividend issue as a short-term issue, the degree to which we didn't think, believe it's a short-term issue in the context of our business. We would reassess it. But as we look at the opportunity to -- our development pipeline is very strong. We even -- where the stock price is today, that leads to some very accretive acquisitions.

And we believe that sustaining the dividend for this today that the short term benefit of sustaining the dividend just for consistency is a marginal detractor from future earnings. But given the opportunities in front of us, we think goes well out way. So we are feeling optimistic about being in growth mode, not only from new state local buildings with escalators to working closely with some government-adjacent partners that can be substantial to the additional development that we're doing.

We are very bullish on government real estate as we're going forward as compared to if you look, you know, 18, 20 months ago, we were in a time where I think it was like batten down the hatches, real estate is uncertain, interest rates were ratcheting up and that was a time of -- you got to circle the wagons and you see every -- not just us, but every real estate business fund was in flux. We find ourselves again, feeling very optimistic about where we're going, what we're pursuing. We're finding opportunity, and that makes us again feel okay -- feel that the dividend is a short-term problem.

If we didn't have that kind of optimism for where the business is going and what our definable edge in the government space can create, we wouldn't be so close with our dividend. We do need to get our dividend in line with our cash flow and one of their friends at the Fed don't take the yield curve up another couple of hundred basis points. We feel like things are very in reach for that to be -- we're on a very good path.

But you're exactly right. And I think the buildings we're buying also, I just wanted to make it (inaudible) we're very cognizant of what the CapEx burden is when we do the analysis and I know we've had some conversations with you just about portfolio segmentation and the CapEx that's required and what's required by the government. That's all in our underwriting as we think about saying something is accretive or not accretive, when we announce it.

Merrill Ross^ Yeah, I think that some guidance regarding the contractual CapEx might help clarify the Board's tolerance to overpay the dividend, just because then we would know more about why they're making that decision.

Darrell Crate^ Yeah. That makes sense to me.

Merrill Ross^ Yeah, it's just a matter of --

Darrell Crate^ Yeah, and at the end of the day, we are, I mean, just being very direct. I mean, we think about CAD just as much as we think about FFO accretion when we're looking at deals and there are some deals that are strong in FFO, but have some capital requirements upon acquisition for us to get to a place where over the life of the lease, we're operating the building in a way that is -- if that optimizes the return that we can achieve. And for some of those buildings, it just means we've got to find a bigger pipeline, we've got to find buildings that don't have that problem today.

And that's why when I say if we can get our stock price to $13, $14, there's plenty of opportunities ahead where recovering, there we're either eliminating because of CAD or eliminating because of some challenge that is brought on by lower stock prices of REIT is harder. It's just harder. And so it's our job to make the case that we can grow in a way where we deserve a stock price that's there. And when enough investors believe that's true, we'll put ourselves in a position where we can deliver even more growth. And that's about getting the REIT machine started again and everyone's facing it. It's not peculiar to us. All we can do is talk about what we are doing each and every day to try and to make that happen.

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

Darrell Crate^ Well, great. Thank you, everyone, for joining the Easterly Government Properties' first-quarter 2024 conference call. We look forward to sharing meaningful updates in the coming quarters as we continue to focus on our growth trajectory and set a course to deliver premium risk-adjusted returns for our shareholders. Again, thanks for joining today, and we again -- stay tuned.

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