

REFINITIV STREETEVENTS

EDITED TRANSCRIPT

Q4 2023 Easterly Government Properties Inc Earnings Call

EVENT DATE/TIME: FEBRUARY 27, 2024 / 4:00PM GMT

CORPORATE PARTICIPANTS

Lindsay Winterhalter *Easterly Government Properties, Inc. - SVP, IR & Operations*
Darrell Crate *Easterly Government Properties, Inc. - CEO & Director*
Meghan Baivier *Easterly Government Properties, Inc. - President & COO*
Allison Marino *Easterly Government Properties, Inc. - EVP, CFO, & Chief Accounting Officer*

CONFERENCE CALL PARTICIPANTS

Michael Griffin *Citigroup Inc. - Analyst*
John Kim *BMO Capital Markets Corp. - Analyst*
Michael Carroll *RBC Capital Markets, LLC - Analyst*
Michael Lewis *Truist Securities, Inc. - Analyst*
Bill Crow *Raymond James & Associates, Inc. - Analyst*

PRESENTATION

Operator

Greetings. Welcome to the Easterly Government Properties' fourth quarter 2023 earnings conference call. (Operator Instructions) Please be advised that 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 *Easterly Government Properties, Inc. - SVP, IR & Operations*

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, they 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 would now like to turn the conference call over to Darrell Crate, CEO of Easterly Government Properties.

Darrell Crate *Easterly Government Properties, Inc. - CEO & Director*

Good morning, everyone, and thank you for joining us for the fourth quarter conference call. Today in addition to Lindsay, I'm also joined by Meghan Baivier, the company's President and COO, and Allison Marino, the company's CFO and CAO. We're pleased with the earnings results for 2023, and we look forward to continuing to deliver predictable earnings to our shareholders, supported by our foundation of leases backed by the full faith and credit of the United States government.

As you saw in our guidance, we are executing on a path for strong core FFO growth in 2024. Allison will speak to that in more detail. Needless to say, we're excited to share our outlook with you. For over a decade, we have been honing a definable edge in the mission critical facilities that serve our government. Our goal is to use that edge to provide our shareholders with a stable, predictable cash flow stream.

By specializing in these mission critical properties, Easterly can play an important role in supporting essential functions for the United States government and its adjacent partners. While office REITs contend with remote work threatening their occupancy outlook and portfolio growth, Easterly's facilities remain critical to the safety and security of our government agency partners.

Accordingly, this provides that stability we seek for our investors. While we are discussing predictability, let me address our dividend. We fully acknowledge our higher than average payout ratio, and we are confident in our ability to maintain and grow our dividends. Our disciplined approach to prudently managing our balance sheet, our unique long-term visibility of cash flows, and the credit worthiness of our US government tenancies continue to serve as sources of stability and growth.

The CapEx in our buildings is predictable and the demands for capital expenditures by our tenants are not excessive. Our view is to return as much cash flow to investors as is reasonable as a strong steward of their capital. The leases we have to date provide \$2.9 billion of rental income backed by the full faith and credit of the US government.

With only one renewal of all of our assets to only a 10-year term at a 10% spread, these aggregate cash flows will be just under \$6 billion in rent. And as Meghan will share when she discusses our renewals to date, you will see those assumptions are quite modest. Given the strength of this cash flow, we are confident in our ability to provide healthy dividends to our investors for the years to come.

What also sets us apart from typical office rates is our commitment to customization. Our buildings are equipped and fortified with infrastructure and security protocols to ensure uninterrupted operations for key government agencies, such as the Drug Enforcement Administration and the Federal Bureau of Investigation.

To reiterate, these assets have one important trait in common, they all help fulfill important government missions that cannot be accomplished from home. For example, Drug Enforcement agents require secure, leads to analyze and store confiscated contraband. FBI agents must investigate crimes in person and at facilities designated for their use. Our facilities continue to support the work that ensures the safety of the country. And as a result, 97% of our properties remain leased.

It's clear to us that as we explore how to best collaborate with other state and local agencies, we find additional facilities with similar longevity, with the added benefit of lease escalations. We see potential to grow our holdings of government and government adjacent assets with lease escalations to approximately 15% of our portfolio.

We can further apply our definable edge in development of properties for both government tenants and government-adjacent tenants that have similar facility needs to our most tenant improvement intensive buildings. We are keenly aware of investors seeking the opportune moment as assets and liabilities reprice.

With accelerated interest rates and liquidity drying up in the bank market, this development segment is taking the lead on repricing. Our pipeline of opportunities lies ahead where we believe we can engage in these products accretively at our current cost of capital.

All of this leads to our commitment to grow Easterly core FFO on a trajectory of more than 2% for this foreseeable future. We believe we are positioned to deliver a consistently growing core FFO cash flow stream, which in turn would allow us to increase our dividend and continue to deliver strong results for our shareholders.

This is an exciting time for Easterly. We're seeing a pipeline of mission critical opportunities in 2024 and beyond, while also building a portfolio with a foundation of cash flows backed by the full faith and credit of the US government. Thanks for your time this morning. And I'll now turn the call over to Meghan to discuss opportunities for growth in 2024 and beyond.

Meghan Baivier *Easterly Government Properties, Inc. - President & COO*

Thanks, Darrell, and good morning. Thank you for joining us for our fourth quarter earnings call. 2023 was a productive year for Easterly. The deal market returned and we were able to transact on several accretive acquisitions during the second half of the year.

In total, Easterly acquired either directly or through the joint venture four properties leased to tenants that include the United States judiciary, the Department of Veterans Affairs, the Department of Homeland Security, and the state of California for an aggregate pro rata contractual purchase price of approximately \$80.4 million.

Easterly now owns directly or through the JV 90 properties totaling 8.8 million leased square feet. Our portfolio remains young with a

FEBRUARY 27, 2024 / 4:00PM GMT, Q4 2023 Easterly Government Properties Inc Earnings Call

weighted average age of 14.6 years, and our duration of cash flows remains enduring with a weighted average remaining lease term of 10.5 years.

As mentioned on prior calls, we have always viewed Easterly as the mechanism to access high credit quality cash flows through the lens of real estate income derived from one of the world's most stable economic entities, the United States government.

The most recent example of that is found in today's development landscape. Here we are observing a stark contrast between the limitations faced by private developers and their resources available through a public REIT balance sheet.

Private developers constrained by financial considerations are encountering challenges and accessing the substantial capital required for ambitious building projects. The complexities of securing financing, coupled with market uncertainties appear to be impeding private developers' ability to embark on large scale projects.

In contrast, Easterly's fortified balance sheet and enduring financing partner relationships emerge as a potential reservoir of capital. Easterly possesses the tools and capacity to leverage various debt in equity markets and tap into diverse revenue streams to finance projects.

With that background, we are currently pursuing an attractive set of opportunities with private developers to serve as a partner and help finance and subsequently own a pipeline of mission critical assets primarily leased to the US government.

Turning to the company's wholly-owned development activity, our FDA - Atlanta project continues to progress nicely with an estimated 150 workers on-site daily. We expect that the project will cost approximately \$229 million and deliver in the fourth quarter of 2025. Approximately \$150 million of the total costs will be tenant improvements reimbursed by the federal government via lump sum payments.

We anticipate receiving an approximately \$25 million of reimbursement payment in the third quarter of '24 and the remaining \$125 million upon completion and acceptance of the space by the government. We look forward to providing you with meaningful updates in the coming quarters as we make progress on this 162,000 square foot state-of-the-art laboratory, 100% pre-leased to the United States government for a non-cancelable term of 20 years. With such a substantial TI investment in this project, we anticipate this facility will serve the needs of the government for an excess of 50 years.

Turning to cash flow predictability. During the fourth quarter, Easterly renewed GSA - Clarksburg, a 70,000 square foot facility for a new 15-year term that commenced in January 2024. For the entirety of 2023, we renewed 100% of our expiring leases for a combined 4.4% of annualized lease income at year end, all for a weighted average term of 16.4 years. These results serve as a stark contrast to our office REIT brethren.

Further, as is customary on our fourth quarter earnings call, we'd like to discuss our re-leasing successes as of year-end. Due to the unique nature of our leases, final renewal rents cannot be ascertained until the exact amount of TI dollars required by the government at renewal is known and the TI work is complete. As such, there can be a lag in providing re-leasing data relative to the point at which we have signed a renewal lease.

As of December 31, 2023, we have renewed 32 leases since IPO. Of that 32, 18 are renewals for which TI work, if any, has been completed and accepted by the government. The other 14 are renewals with pending TI projects. This combined 2.18 million square feet across 32 renewals include PTO - Arlington, IRS - Fresno, and various smaller leases in Buffalo.

When we exclude these assets, the average rent spread achieved on the remaining renewals is anticipated to be 18%, including an estimated \$40 per square foot of TI utilized by the government. The weighted average total renewal term for these leases was 17.2 years.

In closing, we believe the essential nature of our assets, observed building utilization trends, and the demonstrated strength of our renewals speak volumes for the necessity of our portfolio and the dependability of our underlying cash flow.

We are seeing prospects for attractive growth and we believe Easterly is well-positioned to transact and pursue unique opportunities to enhance the enterprise. With a solid NOI supporting our platform, we hope our listeners today appreciate the unique nature of our business. With that, I thank you for your time this morning, and I will turn the call over to Allison to discuss the quarterly and year-end financial results.

Allison Marino *Easterly Government Properties, Inc. - EVP, CFO, & Chief Accounting Officer*

Thank you, Meghan. Good morning, everyone. It is my pleasure to be joining you this morning and report the company's strong quarterly and year-end consensus meeting results. Given the predictability of cash flows and the certainty of our leading role in this market, we believe Easterly is poised for growth in 2024.

I'm pleased to report that at year-end, Easterly's portfolio performed solidly. We have leveraged at the midpoint of our target range, less than \$80 million drawn on our revolver and only 6% floating rate debt exposure.

For the fourth quarter, all in a fully diluted basis, net income per share was \$0.04 and core FFO per share was \$0.28. Our cash available for distribution was \$21.9 million. For the full year, net income per share was \$0.20. Core FFO per share met consensus at \$1.14 and cash available for distribution was \$94.8 million.

With an eye to the balance sheet, it is important for us to staggered debt maturities and manage our interest rate risk. We've thoughtfully managed our assets and liabilities, ensuring that we are well-positioned to address 2024 maturities and capitalize on emerging opportunities.

As you can see from our fourth quarter and full-year results, our balance sheet reflects stability and strategic foresight. The strength of the company's cash flows are backed by the full faith and credit of the United States government. This allows us to achieve a better cost of capital through a lower cost of debt.

While we can be quickly lumped in with our office peers and broader sector weakness, the superior credit of our US government tenants and forecastability of our cash flows separates Easterly from other office REITs. Our commitment to financial prudence is reflected in our recent announcement of our inaugural investment grade BBB credit rating from KBRA. We've finalized the rating in the fall of 2022 and have maintained it since that time. We believe this will serve us well as our capital needs expand.

While growth is at the heart of our strategy, we view the momentum behind that growth as a key differentiator for Easterly. There is power in our working capital management, which is reflected in achieving ongoing property, operating expense savings, managing G&A creep, and re-leasing at positive spreads.

We have taken a disciplined approach to operational efficiencies and tenant engagement. With this backdrop, our focus remains on growing the portfolio at opportune moments, particularly when compared to private developers and other real estate owners, the advantages of being a public company are central to our growth strategy. As Meghan shared earlier, we have access to a diverse pool of debt and equity sources, which allows us to acquire accretively and maintain a cost of capital advantage even when others may be faced with constraints.

Turning to 2024, we are introducing our full year core FFO per share guidance on a fully diluted basis in a range of \$1.14 to \$1.16. This guidance assumes the closing of the VA - Jacksonville through the joint venture at a pro rata acquisition price of \$40.9 million and that we will have \$100 million to \$110 million of gross development-related investment during 2024.

At its midpoint, this sets the path for Easterly to deliver strong core FFO per share earnings growth to shareholders in 2024. We believe this represents a market leading risk-adjusted return and charts the course for delivering long-standing growth opportunities for our shareholders. With that, we thank you for your time this morning and appreciate your partnership. I will now turn the call over to Shannon for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Michael Griffin, Citi.

Michael Griffin *Citigroup Inc. - Analyst*

Great. Thanks. Darrell, you said you remain committed to the dividend, at least in the near and medium term. But if I look at, I guess expectations for '24 and then '25 -- the '24 and then prior consensus on '25, it seems like the dividend is not near that coverage level, I guess is that a function of executing on external growth to grow earnings? You talked about the 2% kind of expectation for the near term as it is a throttling down CapEx, just how do we get comfortable around a more normalized payout ratio going forward?

Darrell Crate *Easterly Government Properties, Inc. - CEO & Director*

Good. No, a great question. I think as we -- one of the things I was trying to emphasize in my prepared remarks is the predictability of our cash flow well with a very, very horizon far in the future, and so as we look forward, we see with our existing portfolio, we can, of course, grow into our dividend as we have lease renewals. But you're exactly right. We can trim a little CapEx to manage CAD, and we're also working hard on avoiding the G&A creep and continue to cut expenses in order to make that.

So -- and as I said, we're looking at and as we discussed on our Analyst Day, we're seeing some real opportunities in the development market and individual assets in the wholly-owned asset area where we can buy some things accretively. So, we feel very good about our earnings this year.

And then if you continue to take the trajectory that we are giving -- we're guiding to and push it out, sort of a one or two more years, I think you'll see that we are in a nice place with our dividend. And we feel it's in our business, given the predictability and the stability of the cash flows and the long enduring nature of our lease obligations. They're getting as much cash to shareholders is the right way to continue to deliver return for folks who invest in DEA.

Michael Griffin *Citigroup Inc. - Analyst*

Great. That's helpful. And then maybe turning to guidance. I noticed you hadn't incorporated expected acquisitions into the full-year guide you had historically done, I think, in '22 and '21, maybe not so last year, but you've talked about this pipeline that you're seeing. Can you maybe quantify how many acquisitions you're looking to do this year? I imagine that would help move the needle on earnings and maybe where you're seeing cap rates or return hurdles on those acquisition targets?

Meghan Baivier *Easterly Government Properties, Inc. - President & COO*

Yeah, hey good morning Griff. So we're prudently not including it in our guidance, just for everybody to be able to understand the growth potential embedded in the assets we own going into the year. We will close on our remaining VA in the joint venture. And what I would say looking at the acquisition market today is that there is robust levels of potential deal flow in the market. And we are engaged with numerous sellers, both on the -- or put in particular, on the wholly-owned acquisitions side of the house in addition to the developers who are facing needs, that would be more longer term over the next couple of years.

So we see value in that market, kind of in the mid-7% type cap rate range, which is a level that we look to be able to transact that accretively and continue to contribute to the growth for shareholders. But I think going into this year as that market continues to build, then I would say over the course of the spring and summer, we're really excited about the ability to add that onto what is already a platform of growth.

Darrell Crate *Easterly Government Properties, Inc. - CEO & Director*

And I'd like to just say it again because I think it's such an important point. Our guidance this year does not include us having to buy anything and the market that we're seeing to provide a little bit more color it is the bid-ask spread on cap rates is wide, but there's opportunities to pick off building. The timing of that is uncertain. But as Meghan said we're transacting at accretive levels in those mid-7%s. And we will look forward to increasing our guidance as we find those opportunities.

FEBRUARY 27, 2024 / 4:00PM GMT, Q4 2023 Easterly Government Properties Inc Earnings Call

But just given where the market is, given the positioning, and given that we want our investors to just understand the track that we're on, we're being conservative in how we are bringing things forward and only talking about guidance, about things that we feel are certain and don't require things outside of the four walls of this office in order to make those -- meet that guidance or reality.

Michael Griffin *Citigroup Inc. - Analyst*

Great. That's it for me. Thanks for the time.

Operator

John Kim, BMO Capital Markets.

John Kim *BMO Capital Markets Corp. - Analyst*

Thank you. I just wanted to clarify on your guidance of \$100 million to \$110 million of development-related investments, that's the financing that you're providing to private developers. And I'm wondering what the yield you're expecting on it.

Allison Marino *Easterly Government Properties, Inc. - EVP, CFO, & Chief Accounting Officer*

Hi, John, it's Allison. So for that guidance, that is purely FDA - Atlanta, which is our previously announced development, and we're targeting our yields in the mid-7% on that as we discussed last quarter.

John Kim *BMO Capital Markets Corp. - Analyst*

Okay. So, the development financing is not in your guidance?

Allison Marino *Easterly Government Properties, Inc. - EVP, CFO, & Chief Accounting Officer*

Correct.

Meghan Baivier *Easterly Government Properties, Inc. - President & COO*

No, the opportunity set for these sort of private developers looking for capital that would also, to Darrell's prior point, be additive, as we look to engage with those folks.

John Kim *BMO Capital Markets Corp. - Analyst*

And just to clarify, I think Darrell mentioned that the financing you're providing is our projects you plan to own once they're complete.

Meghan Baivier *Easterly Government Properties, Inc. - President & COO*

You broke up a little bit, but yes, we would. These are assets that we would be looking to own at completion as well.

John Kim *BMO Capital Markets Corp. - Analyst*

Okay. What leverage level can you get to maintain your investment grade rating from KBRA?

Meghan Baivier *Easterly Government Properties, Inc. - President & COO*

Yeah, they're very comfortable with our 6.5 times to 7.5 times range. Not that we'd be looking to do this, we think opportunistically, we could certainly set at the higher end of that if not a little bit in excess, but that's a range that they're abundantly comfortable with.

Darrell Crate *Easterly Government Properties, Inc. - CEO & Director*

Again, that excess leverage would come from developing these buildings and would again be repaid with lump sums or long-term leases.

John Kim *BMO Capital Markets Corp. - Analyst*

Right. Okay. My final question is just a follow-up on Michael's on the dividend. Your payout ratio on CAD was 118% last year. If you assume growth of 4% per annum that'll take about five years to cover it. I'm assuming some of these development loans that you provide are probably not going to be on a cash basis as far as the yield. Why not address the dividend now as you're going through more of a growth strategy rather than a stability and high yields-focused strategy that you've had previously?

Meghan Baivier *Easterly Government Properties, Inc. - President & COO*

Yeah. I mean, John, we're really taking a long view on this. And we have the fortunate ability to do so, given the types and the nature of assets that we have in our portfolio. So as Darrell said earlier, we're really going to look at all the levers we have with regard to our same store portfolio to manage the payout levels. But we're not looking just one, two quarters ahead. We're really looking one, two years ahead and the opportunity that we see in front of us is one that we think we can bridge into nicely.

John Kim *BMO Capital Markets Corp. - Analyst*

Okay. I mean, I would argue a payout ratio above 100%. It shouldn't persist for more than a couple years, but we can talk about it offline. Thank you.

Operator

Michael Carroll, RBC.

Michael Carroll *RBC Capital Markets, LLC - Analyst*

Yeah, thanks. Meghan, I know you touched on this in your prepared remarks, but how many leases are you currently on waiting on the TI build out before those rent escalators can be realized? I mean, should we see, I mean, is it a meaningful amount where there are some more embedded organic growth that's not realized in your fourth quarter numbers now, but it will be realized once those TI projects are complete in the new renaissance?

Meghan Baivier *Easterly Government Properties, Inc. - President & COO*

Yeah. Mike, from a single tenant perspective, it's 11, then you've got a couple other of our smaller assets -- smaller leases in Buffalo. So it's 14 total leases for over 1 million square feet that are still going through the TI build out process.

Michael Carroll *RBC Capital Markets, LLC - Analyst*

How much, I guess, rent or incremental rent does that represent that could flow in through numbers?

Meghan Baivier *Easterly Government Properties, Inc. - President & COO*

We can isolate that for you, Mike. But we don't know just yet where those full all in rents are going to land. So we've held back on that. But that subset really is the subset of assets that we're looking for increases north of 25% on. So it's a considerable tailwind with regard to the growth we're talking about over the next one to two years.

Michael Carroll *RBC Capital Markets, LLC - Analyst*

Okay. And then is that going to come online in '24 and '25? So it's a two year type time frame before that stuff gets realized?

Meghan Baivier *Easterly Government Properties, Inc. - President & COO*

Yeah. So the vast majority of that, we expect to come on over the course of 2024, primarily in the back half of 2024. A bit of it could be expected, 20% or so to flow over into 2025.

Michael Carroll *RBC Capital Markets, LLC - Analyst*

Okay. And then on the investment side, I mean, how do you plan on funding, I guess, new deals? I mean, before you can pursue some of those transactions that you highlighted, does DEA need to raise equity to fund that? Is that what we should be expecting, so how aggressive you get really depends on where your cost of capital trends?

Allison Marino *Easterly Government Properties, Inc. - EVP, CFO, & Chief Accounting Officer*

Yeah. So, we look to each deal with a mix of debt and equity tailored to that deal. But generally, we look to acquire 75 bps wide of our cost of capital considering both debt and equity sources.

Meghan Baivier *Easterly Government Properties, Inc. - President & COO*

And yeah, Mike, with our forward equity position today, yes, we look at deals relative to as Allison said, so the marginal cost of capital for the company and relative to that deal. But incremental external growth will require additional new capital.

Michael Carroll RBC Capital Markets, LLC - Analyst

Okay. And are you comfortable with your current leverage metrics right now? I mean, would you want to trend lower from that 7, 7-plus type range to a more midpoint of your longer term target?

Meghan Baivier Easterly Government Properties, Inc. - President & COO

So we're sitting right at 7 times from an adjusted net leverage perspective, and so that's a very -- obviously very comfortable place for us.

Michael Carroll RBC Capital Markets, LLC - Analyst

Okay, great. Thank you.

Operator

Michael Griffin, Citi.

Michael Griffin Citigroup Inc. - Analyst

Thanks for giving the follow-up. Just a quick question on the guidance. Curious if there is any capitalized interest embedded in the 2024 guide?

Meghan Baivier Easterly Government Properties, Inc. - President & COO

So as we continue to build out FDA - Atlanta, yes, incremental borrowings would draw interest that we would be able to capitalize, so no change in that expectation. Obviously, all developments are treated that way.

Michael Griffin Citigroup Inc. - Analyst

Great. Thanks.

Operator

Michael Lewis, Truist Securities.

Michael Lewis Truist Securities, Inc. - Analyst

Thanks. I'm sorry if I missed this. I got on a little late. You did a few shares in the forward offering. I just wanted to ask about the pricing, right? The pricing on the shares was below consensus NAV by material amount. And I know this is a dangerous question, but how do you think about a price that you wouldn't issue below or how do you think about protecting the equity value?

Meghan Baivier Easterly Government Properties, Inc. - President & COO

Yeah, it's a balance obviously, Mike. I think we're seeing opportunities, where equity in that low \$13 range makes a ton of sense. And those are certainly assets that are going to come wide to that type of implied cap rate weighted average cost of capital. And so to the extent we see those opportunities and they are maybe opportunistic, we will look to bring them in consistent with our portfolio and help resume that growth path that we're looking to get back on.

Michael Lewis Truist Securities, Inc. - Analyst

Okay. And then, I guess this is a follow-up to a follow-up. Just on the dividend, you talked about the predictability of cash flows in relation to the dividend policy. But obviously, when you set that dividend you didn't predict obviously that you'd be material below your cash flow. You raised the dividend in 3Q '21. You haven't covered it since 3Q '22.

I get -- the company is built for the stability and I know the dividend is a big piece of that. But I guess this goes back to the other questions people ask. I get to answer this. It sounds like you're willing to fund this for a material amount of time. Just confirming, I guess.

Darrell Crate Easterly Government Properties, Inc. - CEO & Director

I mean the answer to that is yes. I mean, it's not a -- we don't look at it as a material amount in the context of some of the opportunities that we're seeing. And we're aware, not blind to the issue or the dollars. But as we look out again with \$6 billion of government money that's going to -- as we release that, it feels like it there's no uncertainty in the future.

I think sometimes we debate maybe we should give guidance for the next five years, just to put it out there. And as we look at these development opportunities and some of what we see in the pipeline, we feel very good that we're going to get to a place that covers the dividend and also continues to grow it.

Michael Lewis *Truist Securities, Inc. - Analyst*

Yeah, really appreciate it. Thank you.

Darrell Crate *Easterly Government Properties, Inc. - CEO & Director*

Yeah, thank you. And we really appreciate the question too. I mean, because it is something we are different than office and it is that predictability and stability. And we're not just saying it, I mean, in that -- if you look at the term of the leases and real dollars that are coming in, our business operates over years not quarters. And we think the dividend is an important part of the story and I don't think we're being dogged about it. I just think in the context of the business, the profile, and the cash flows that we have over these coming years, we feel very comfortable where the dividend is.

Operator

Bill Crow, Raymond James.

Bill Crow *Raymond James & Associates, Inc. - Analyst*

Hey, good morning. Darrell, given the question line, not only this quarter, but the past quarters, are you increasingly feeling like a little bit of a round peg in a square hole from the REIT perspective? Is it the right strategy for this company to keep that REIT wrapper?

Darrell Crate *Easterly Government Properties, Inc. - CEO & Director*

What was the last word you said Bill, I am sorry?

Bill Crow *Raymond James & Associates, Inc. - Analyst*

Yeah, I am just wondering about the longer term whether that REIT structure is the right place for Easterly?

Darrell Crate *Easterly Government Properties, Inc. - CEO & Director*

No, I think it's a very good question. But it's -- I think that again having the profile of the cash flows that we have, we've always expected there to be a little bit more appreciation because we are the most secure set of cash flows of any of the REITs that are out there.

And only but for maybe 10 days during COVID did we see the real premium of that certainty and stability. I think there are things that we can do on our cost of debt. I mean, you see when we sit with the debt providers and we talk about our business, we're strongly encouraged to put more leverage on the company or understand that that's a capability.

And we do have strength in that full faith and credit backing of some of our rent profiles So, I think we can be clever on that front in finding some solutions where we can be very competitive relative to other REITs on our cost of debt.

I think that we also, as you know, putting 15% of our portfolio into state and local and government adjacent, we think it's smart because we can find buildings with similar close credit rating, very high credit rating, and with escalations. And we do think if we're adding another 80 basis points to 100 basis points in our core FFO that gets our cash flow profile more in line with the expectations of REITs broadly.

I think it's sometimes our point of view, I would go out on a limb and say, I think if we ask our analysts to pick the stock that they want to hold for 20 years. I think lots of folks might pick us. But I think if you're picking a stock for a quarter or for two quarters, we're rarely going to be that darling. And so, we're mindful of the capital that we're receiving, we're mindful of what's going on in the REIT space.

We do think modifying the cash flow stream in the core FFO. So, it rhymes a little bit more with REITs and REIT expectations. It is

FEBRUARY 27, 2024 / 4:00PM GMT, Q4 2023 Easterly Government Properties Inc Earnings Call

certainly a strategic goal for the company. And if we can solve a little bit of the debt riddle, which I think we're well-underway in doing, we can get to a place where we're delivering some really great risk adjusted returns for investors. And I look at the stock with a 9% dividend and I just think it's a lot of value. And I've shown that with buying my own shares and I'll continue to do that too.

Bill Crow *Raymond James & Associates, Inc. - Analyst*

Yeah, very good. Appreciate the answer. Thank you.

Operator

Thank you. I would now like to turn the conference back to Darrell Crate, CEO of Easterly Government Properties for closing remarks.

Darrell Crate *Easterly Government Properties, Inc. - CEO & Director*

Great. Thank you everyone for joining the Easterly Government Properties' fourth quarter 2023 conference call. I'd like to thank our investors and stakeholders for their continued support and trust in our company. We value your confidence and we're committed to delivering sustained long-term success for you.

Operator

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

DISCLAIMER

Refinitiv reserves the right to make changes to documents, content, or other information on this web site without obligation to notify any person of such changes.

In the conference calls upon which Event Briefs are based, companies may make projections or other forward-looking statements regarding a variety of items. Such forward-looking statements are based upon current expectations and involve risks and uncertainties. Actual results may differ materially from those stated in any forward-looking statement based on a number of important factors and risks, which are more specifically identified in the companies' most recent SEC filings. Although the companies may indicate and believe that the assumptions underlying the forward-looking statements are reasonable, any of the assumptions could prove inaccurate or incorrect and, therefore, there can be no assurance that the results contemplated in the forward-looking statements will be realized.

THE INFORMATION CONTAINED IN EVENT BRIEFS REFLECTS REFINITIV'S SUBJECTIVE CONDENSED PARAPHRASE OF THE APPLICABLE COMPANY'S CONFERENCE CALL AND THERE MAY BE MATERIAL ERRORS, OMISSIONS, OR INACCURACIES IN THE REPORTING OF THE SUBSTANCE OF THE CONFERENCE CALLS. IN NO WAY DOES REFINITIV OR THE APPLICABLE COMPANY ASSUME ANY RESPONSIBILITY FOR ANY INVESTMENT OR OTHER DECISIONS MADE BASED UPON THE INFORMATION PROVIDED ON THIS WEB SITE OR IN ANY EVENT BRIEF. USERS ARE ADVISED TO REVIEW THE APPLICABLE COMPANY'S CONFERENCE CALL ITSELF AND THE APPLICABLE COMPANY'S SEC FILINGS BEFORE MAKING ANY INVESTMENT OR OTHER DECISIONS.

©2024 Refinitiv. All Rights Reserved.