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Easterly Government Properties, Inc.
Form 10-K
February 28, 2019

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the Fiscal Year Ended: December 31, 2018

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF
1934
OR

For the transition period from To

Commission File Number: 001-36834

EASTERLY GOVERNMENT PROPERTIES, INC.

(Exact name of registrant as specified in its charter)

Maryland	47-2047728
(State or other jurisdiction of	(IRS Employer
incorporation or organization)	Identification No.)

2101 L Street NW, Suite 650

Washington, D.C.	20037
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: (202) 595-9500

Securities registered pursuant to section 12(b) of the Act:

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Title of each class	Name of each exchange on which registered
Common Stock, \$0.01 par value per share	New York Stock Exchange

Securities registered pursuant to section 12(g) of the Act:

Title of each class

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. YES NO

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. YES NO

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YES NO

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (Section 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). YES NO

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (Section 229.405 of this chapter) is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, accelerated filer, a non-accelerated filer, a smaller reporting company or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large Accelerated Filer	Accelerated Filer
Non-Accelerated Filer	Smaller Reporting Company
Emerging growth company	

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). YES NO

As of February 20, 2019, there were 60,903,247 of the registrant's shares of common stock outstanding.

As of June 30, 2018, the aggregate market value of the shares of common stock held by non-affiliates of the registrant was approximately \$1,186 million based on the closing sale price of \$19.76 as reported on the New York Stock

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Exchange on June 29, 2018. For this computation, the registrant has excluded the market value of all shares of common stock reported as beneficially owned by executive officers and directors of the registrant; such exclusion shall not be deemed to constitute an admission that any such person is an affiliate of the registrant.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Proxy Statement for the Annual Stockholders' Meeting to be filed within 120 days after the end of the registrant's fiscal year are incorporated by reference in Part III of this Annual Report on Form 10-K

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PART I

Forward Looking Statements

This Annual Report on Form 10-K contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, Section 27A of the Securities Act of 1933, as amended (the “Securities Act”) and Section 21E of the Securities Exchange Act of 1934, as amended (the “Exchange Act”). We caution investors that forward-looking statements are based on management’s beliefs and on assumptions made by, and information currently available to, management. When used, the words “anticipate”, “believe”, “estimate”, “expect”, “intend”, “may”, “might”, “plan”, “project”, “result”, “should”, “will”, and similar expressions which do not relate solely to historical matters are intended to identify forward-looking statements. These statements are subject to risks, uncertainties, and assumptions and are not guarantees of future performance, which may be affected by known and unknown risks, trends, uncertainties, and factors that are beyond our control. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those anticipated, estimated, or projected. We expressly disclaim any responsibility to update our forward-looking statements, whether as a result of new information, future events, or otherwise. Accordingly, investors should use caution in relying on forward-looking statements, which are based on results and trends at the time they are made, to anticipate future results or trends.

Some of the risks and uncertainties that may cause our actual results, performance, or achievements to differ materially from those expressed or implied by forward-looking statements include, among others, the following:

- risks associated with our dependence on the U.S. Government and its agencies for substantially all of our revenues, including credit risk and risk that the U.S. Government reduces its spending on real estate or that it changes its preference away from leased properties;
- risks associated with ownership and development of real estate;
- the risk of decreased rental rates or increased vacancy rates;
- loss of key personnel;
- general volatility of the capital and credit markets and the market price of our common stock;
- the risk we may lose one or more major tenants;
- difficulties in completing and successfully integrating acquisitions;
- failure of acquisitions or development projects to occur at anticipated levels or yield anticipated results;
- risks associated with actual or threatened terrorist attacks;
- intense competition in the real estate market that may limit our ability to attract or retain tenants or re-lease space;
- insufficient amounts of insurance or exposure to events that are either uninsured or underinsured;
- uncertainties and risks related to adverse weather conditions, natural disasters and climate change;
- exposure to liability relating to environmental and health and safety matters;
- limited ability to dispose of assets because of the relative illiquidity of real estate investments and the nature of our assets;
- exposure to litigation or other claims;
- risks associated with breaches of our data security;
 - risks associated with our indebtedness, including failure to refinance current or future indebtedness on favorable terms, or at all, failure to meet the restrictive covenants and requirements in our existing and new debt agreements, fluctuations in interest rates and increased costs to refinance or issue new debt;
- risks associated with derivatives or hedging activity; and
- risks associated with mortgage debt or unsecured financing or the unavailability thereof, which could make it difficult to finance or refinance properties and could subject us to foreclosure.

While forward-looking statements reflect our good faith beliefs, they are not guarantees of future performance. For further information on these and other factors that could affect us and the statements contained herein, you should refer to the section below entitled “Item 1A. Risk Factors.”

Item 1. Business

General

References to “Easterly,” “we,” “our,” “us” and “our company” refer to Easterly Government Properties, Inc., a Maryland corporation, together with our consolidated subsidiaries including Easterly Government Properties LP, a Delaware limited partnership, which we refer to herein as our operating partnership.

We are an internally managed real estate investment trust, or REIT, focused primarily on the acquisition, development and management of Class A commercial properties that are leased to U.S. Government agencies that serve essential functions. We generate substantially all of our revenue by leasing our properties to such agencies either directly or through the U.S. General Services Administration, which we refer to herein as the GSA. Our objective is to generate attractive risk-adjusted returns for our stockholders over the long term through dividends and capital appreciation.

As of December 31, 2018, we wholly owned 62 operating properties in the United States that are 100% leased, including 60 operating properties that are leased primarily to U.S. Government tenant agencies and two operating properties that are entirely leased to private tenants, encompassing approximately 5.3 million square feet in the aggregate. In addition, we wholly owned two properties under development that we expect will encompass approximately 0.1 million square feet upon completion. We focus on acquiring, developing and managing U.S. Government-leased properties that are essential to supporting the mission of the tenant agency and strive to be a partner of choice for the U.S. Government, working with the tenant agency to meet its needs and objectives.

Our operating partnership holds substantially all of our assets and conducts substantially all of our business. We are the sole general partner of and own approximately 87.2% of the aggregate operating partnership units in our operating partnership. We believe that we have operated and have been organized in conformity with the requirements for qualification and taxation as a REIT for U.S. federal income tax purposes commencing with our taxable year ended December 31, 2015.

Our Competitive Strengths

We believe that we distinguish ourselves from other owners and operators of office and other commercial properties, including properties leased to the U.S. Government, through the following competitive strengths:

High Quality Portfolio Leased to Mission-Critical U.S. Government Agencies. We focus primarily on the acquisition, development and management of Class A commercial properties that are leased to U.S. Government agencies that serve mission-critical functions and are of high importance within the hierarchy of these agencies. These properties generally meet our investment criteria, which target major federal buildings of Class A construction that are less than 20 years old, are at least 85% leased to a single U.S. Government agency, are in excess of 40,000 rentable square feet with expansion potential, are in strategic locations to facilitate the tenant agency’s mission, include build-to-suit features and are focused on environmental sustainability. As of December 31, 2018, the weighted average age of our operating properties was approximately 12.5 years based on the date the property was built or renovated-to-suit, where applicable, and the weighted average remaining lease term was approximately 7.6 years.

U.S. Government Tenant Base with Strong History of Renewal. Our leases with U.S. Government agencies are backed by the full faith and credit of the U.S. Government. For the GSA leases, rents are paid from the Federal Buildings Fund and are not subject to direct federal appropriations. All of our leases with other federal agencies were executed under delegation from GSA, and therefore the Federal Buildings Fund stands behind these leases as a guarantor, even though the rent is paid from appropriated funds by the agencies who executed the lease contracts. Furthermore, the U.S. Government has never experienced a financial default to date. In addition to stable rent payments, our U.S. Government leases typically have initial total terms of ten to 20 years with renewal leases having

terms of five to 15 years. U.S. Government leases governing properties similar to the properties that we target have historically had high renewal rates, which limit operational risk. We believe that the strong credit quality of our U.S. Government tenant base, our long-term leases, the likelihood of lease renewal and the high tenant recovery rate for our property-related operating expenses contribute to the stability of our operating cash flows and expected distributions.

Experienced and Aligned Management Team. Our senior management team has a proven track record of sourcing, acquiring, developing and managing properties leased to U.S. Government agencies. Collectively, our senior management team has been responsible for the acquisition of an aggregate of approximately 4.5 million square feet of U.S. Government-leased properties and the development of approximately 1.3 million aggregate square feet of such properties. We believe that our management expertise provides us with a significant advantage over our competitors when pursuing acquisition opportunities and engaging U.S. Government agencies in property development opportunities and provides us with superior property management and tenant service capabilities.

• **Access to Acquisition Opportunities with an Active Pipeline.** Our senior management team has an extensive network of longstanding relationships with owners, specialized developers, leasing brokers, lenders and other participants in the U.S. Government-leased property market. Our team seeks to leverage these relationships to access a wide variety of sourcing opportunities, frequently resulting in the acquisition of properties that were not broadly marketed. In addition, we maintain a proprietary database that tracks approximately 8,100 leases totaling approximately 188 million rentable square feet and includes substantially every major U.S. Government-leased property that meets our investment criteria as well as information about the ownership of such properties. We believe that our longstanding industry relationships, coupled with our proprietary database, improve our ability to source and execute attractive acquisition opportunities. Further, these factors enable us to effectively initiate transactions with property owners who may not currently be seeking to sell their property, which we believe gives us a competitive advantage over others bidding in broadly marketed transactions.

• **Extensive Development Experience with U.S. Government-Leased Properties.** Our senior management team has developed projects comprising approximately 4.4 million square feet, including 38 build-to-suit projects for the U.S. Government as well as other corporate tenants. In the aggregate, our senior management team has developed 21 projects for the GSA and U.S. Government agencies. Development of government projects, particularly build-to-suit projects, requires expertise in GSA and other U.S. Government requirements and the needs of tenant agencies. Since 1994, members of our senior management team have developed an average of approximately 51,905 square feet per year of U.S. Government-leased build-to-suit properties. We believe that our thorough understanding of the U.S. Government's procurement processes and standards, our longstanding relationships with the GSA and other agencies of the U.S. Government, and our differentiated capabilities enables us to continue to compete effectively for U.S. Government development opportunities.

• **Value-Enhancing Asset Management.** Our management team focuses on the efficient management of our properties and on improvements to our properties that enhance their value for a tenant agency and improve the likelihood of lease renewal. We work in close partnership with the U.S. Government tenant agencies to manage the construction of specialized, agency-specific design enhancements. These highly tailored build-outs substantially increase the likelihood of the tenant agency's renewal and also typically generate a construction management fee paid by the tenant agency to us in the amount of approximately 14% of the actual cost of construction. We also seek to reduce operating costs at all of our properties, often by implementing environmentally-driven energy efficiency programs that help the U.S. Government achieve its conservation and efficiency goals. Our asset management team also conducts frequent audits of each of our properties in concert with the U.S. Government tenant agency to keep each facility in optimal condition, allow the tenant agency to better perform its stated mission and help to position us as a partner of choice for the U.S. Government and its tenant agencies.

• **Growth-Oriented Capital Structure.** Our capital structure provides us with the resources, financial flexibility and the capacity to support the future growth of our business. Since our initial public offering, we have raised capital through three public offerings of our common stock and through sales of common stock under our at-the-market equity offering program, which we refer to as our ATM program. As of December 31, 2018, we had sold \$67.7 million of our common stock under our ATM program, leaving us with the capacity to issue up to \$32.3 million of additional shares. As of December 31, 2018, we had total indebtedness of approximately \$770.9 million, including borrowings of approximately \$134.8 million outstanding under our \$450 million senior unsecured revolving credit facility, which we refer to as our revolving credit facility, for a net debt to total enterprise value of 41.1%. None of our outstanding indebtedness is scheduled to mature until 2022.

Business & Growth Strategies

Our objective is to generate attractive risk-adjusted returns for our stockholders over the long term through dividends and capital appreciation. We pursue the following strategies to achieve these goals:

• **Pursue attractive acquisition opportunities.** We seek to pursue strategic and disciplined acquisitions of properties that we believe are essential to the mission of select U.S. Government agencies and that, in many cases, contain agency-specific design enhancements that allow each tenant agency to better satisfy its mission. We target for

acquisition primarily major federal buildings of Class A construction that are less than 20 years old, are at least 85% leased to a single U.S. Government agency, are in excess of 40,000 rentable square feet with expansion potential, are in strategic locations to facilitate the tenant agency's mission, include build-to-suit features and are focused on environmental sustainability.

• **Develop Build-to-Suit U.S. Government Properties.** We target attractive opportunities to develop build-to-suit properties for use by certain U.S. Government agencies. As U.S. Government agencies expand, they often require additional space tailored specifically to their needs, which may not be available in the agency's target market and therefore require new construction. The U.S. Government typically solicits proposals from private companies to develop and lease such properties to the agency, rather than developing and owning the property itself. We expect to bid for those property

development opportunities published by the GSA or the relevant U.S. Government agency that suit our investment criteria.

Renew Existing Leases at Positive Spreads. We seek to renew leases at our U.S. Government-leased properties at positive spreads upon expiration. Upon lease renewal, U.S. Government rental rates are typically reset based on a number of factors, including inflation, the replacement cost of the building at the time of renewal and enhancements to the property since the date of the prior lease. During the term of a U.S. Government lease, we work in close partnership with the tenant agency to implement improvements at our properties to enhance the U.S. Government tenant agency's ability to perform its stated mission, thereby increasing the importance of the building to the tenant agency and the probability of an increase in rent upon lease renewal.

Reduce Property-Level Operating Expenses. We manage our properties with a focus on increasing our income by continuing to reduce property-level operating costs and identifying cost efficiencies so as to eliminate any excess spending and streamline our operating costs. When we acquire a property, we review all property-level operating expenditures to determine whether and how the property can be managed more efficiently.

Employees

As of December 31, 2018 we had 32 employees. None of our employees are represented by a collective bargaining agreement. We believe that our relationship with our employees is good.

Significant Tenants

Substantially all of our current rents come from U.S. Government tenant agencies. As of December 31, 2018, our U.S. Government tenant agencies accounted for 98.8% of our annualized lease income. For further information on the composition of our tenant base, see "Item 2. Properties."

Insurance

We carry comprehensive general liability coverage on all of our properties, with limits of liability customary within the industry to insure against liability claims and related defense costs. Similarly, we are insured against the risk of direct physical damage in amounts necessary to reimburse us on a replacement-cost basis for costs incurred to repair or rebuild each property, including loss of rental income during the reconstruction period. The majority of our property policies include coverage for the perils of flood and earthquake shock with limits and deductibles customary in the industry and specific to the property. We also generally obtain title insurance policies when acquiring new properties, which insure fee title to our real properties. We currently have coverage for losses incurred in connection with both domestic and foreign terrorist-related activities. While we do carry commercial general liability insurance, property insurance and terrorism insurance with respect to our properties, these policies include limits and terms we consider commercially reasonable. There are certain losses that are not insured, in full or in part, because they are either uninsurable or the cost of insurance makes it, in our belief, economically impractical to maintain such coverage. Should an uninsured loss arise against us, we would be required to use our own funds to resolve the issue, including litigation costs. We believe the policy specifications and insured limits are adequate given the relative risk of loss, the cost of the coverage and industry practice and, in the opinion of our management, the properties in our portfolio are adequately insured.

Competition

We compete with numerous developers, real estate companies and other owners of commercial properties for acquisitions and pursuing buyers for dispositions. We expect that other real estate investors, including insurance companies, private equity funds, sovereign wealth funds, pension funds, other REITs and other well-capitalized investors will compete with us to acquire existing properties and to develop new properties. In addition, U.S. Government tenants are viewed as desirable tenants by other landlords because of their strong credit profile, and

properties leased to U.S. Government tenant agencies often attract many potential buyers. This competition could increase prices for properties of the type we may pursue and adversely affect our profitability and impede our growth. In addition, substantially all of our properties face competition for tenants. Some competing properties may be newer, better located or more attractive to tenants. Competing properties may have lower rates of occupancy than our properties, which may result in competing owners offering available space at lower rents than we offer at our properties. This competition may affect our ability to attract and retain tenants, may reduce the rents we are able to charge and could have a material adverse effect on our business, financial condition and results of operations.

Regulation

Environmental and Related Matters

Under various federal, state or local laws, ordinances and regulations, as a current or former owner or operator of real property, we may be liable for costs and damages resulting from the presence or release of hazardous substances, waste, or petroleum products at, on, in, under or from such property, including costs for investigation or remediation, natural resource damages, or third-party liability for personal injury or property damage. These laws often impose liability without regard to whether the owner or operator knew of, or was responsible for, the presence or release of such materials, and the liability may be joint and several. Some of our properties may be impacted by contamination arising from current or prior uses of the property or adjacent properties for commercial, industrial or other purposes. Such contamination may arise from spills of petroleum or hazardous substances or releases from tanks used to store such materials. We also may be liable for the costs of remediating contamination at off-site disposal or treatment facilities when we arrange for disposal or treatment of hazardous substances at such facilities, without regard to whether we comply with environmental laws in doing so. The presence of contamination or the failure to remediate contamination on our properties may adversely affect our ability to attract or retain tenants and our ability to develop or sell or borrow against those properties.

In addition, our properties are subject to various federal, state and local environmental and health and safety laws and regulations. Noncompliance with these environmental and health and safety laws and regulations could subject us or our tenants to liability. These liabilities could affect a tenant's ability to make rental payments to us. Moreover, changes in laws could increase the potential costs of compliance with such laws and regulations or increase liability for noncompliance. This may result in significant unanticipated expenditures or may otherwise materially and adversely affect our operations, or those of our tenants, which could in turn have a material adverse effect on us. We sometimes require our private tenants to comply with environmental and health and safety laws and regulations and to indemnify us for any related liabilities in our leases with them. But in the event of the bankruptcy or inability of any of our tenants to satisfy such obligations, we may be required to satisfy such obligations. We are not presently aware of any instances of material noncompliance with environmental or health and safety laws or regulations at our properties, and we believe that we and/or our tenants have all material permits and approvals necessary under current laws and regulations to operate our properties.

With respect to properties we develop or may in the future develop, we may be subject to various local, state and federal statutes, ordinances, rules and regulations concerning zoning, building design, construction and similar matters, including local regulations that impose restrictive zoning requirements. In addition, we will be subject to registration and filing requirements in connection with these developments in certain states and localities in which we operate even if all necessary U.S. Government approvals have been obtained. We may also be subject to periodic delays or may be precluded entirely from developing properties due to building moratoriums that could be implemented in the future in certain states in which we intend to operate.

Americans with Disabilities Act

Our properties must comply with Title III of the Americans with Disabilities Act of 1990, or ADA, to the extent that such properties are "public accommodations" as defined by the ADA. The ADA may require removal of structural barriers to access by persons with disabilities in certain public areas of our properties where such removal is readily achievable. We believe the existing properties are in substantial compliance with the ADA and that we will not be required to make substantial capital expenditures to address the requirements of the ADA. However, noncompliance with the ADA could result in imposition of fines or an award of damages to private litigants. The obligation to make readily achievable accommodations is an ongoing one, and we will continue to assess our properties and to make alterations as appropriate in this respect.

Corporate Responsibility

We are committed to sustainability and continually seek to improve our environmental and social responsibility initiatives, efforts, programs and policies. We have an in-house team that meets regularly to identify, initiate and monitor sustainable practices in all aspects of our business for the benefit of our tenants, shareholders, employees and the community at large. The U.S. Government serves as the natural partner for our environmentally-friendly endeavors. Under the Energy Policy Act of 2005, the U.S. Government maintains “green lease” policies that include the “Promotion of Energy Efficiency and Use of Renewable Energy” as one of the factors it considers when leasing property. The U.S. Government’s “green lease” initiative permits U.S. Government tenants to require LEED-CI certification in selecting new premises or renewing leases at existing premises. There are currently 15 properties in our portfolio that have achieved a total of 16 LEED certifications.

We are also committed to volunteerism, philanthropy and striving to make a positive impact on the communities in which we conduct business, which we believe mutually benefits our tenants, investors, employees and the communities in which we operate. We endeavor to attract and retain the best employees by providing them with the resources and opportunities to succeed. We have a commitment to diversity in all of its forms and strive to promote and maintain a work environment where all employees are treated

with dignity and respect, offered opportunities for professional development and valued for their unique contributions to the Company's success.

REIT Qualification

We believe that we have operated and have been organized in conformity with the requirements for qualification and taxation as a REIT for U.S. federal income tax purposes commencing with our taxable year ended December 31, 2015. So long as we qualify as a REIT, we generally will not be subject to U.S. federal income tax on net taxable income that we distribute annually to our stockholders. In order to qualify as a REIT for U.S. federal income tax purposes, we must continually satisfy tests concerning, among other things, the real estate qualification of sources of our income, the composition and values of our assets, the amounts we distribute to our stockholders and the diversity of ownership of our stock. In order to comply with REIT requirements, we may need to forego otherwise attractive opportunities and limit our expansion opportunities and the manner in which we conduct our operations. See "Item 1A. Risk Factors."

Supplemental U.S. Federal Income Tax Considerations

The following discussion supplements and updates the disclosures under "Certain United States Federal Income Tax Considerations" in the prospectus dated March 16, 2018 contained in our Registration Statement on Form S-3 filed with the SEC on March 16, 2018. This summary is for general information purposes only and is not tax advice. This discussion does not address all aspects of taxation that may be relevant to particular holders of our securities in light of their personal investment or tax circumstances.

Consolidated Appropriations Act

The Consolidated Appropriations Act ("CAA") was signed into law on March 23, 2018. The CAA amended various provisions of the Code and implicates certain tax-related disclosures contained in the prospectus. As a result, the discussion under "Certain United States Federal Income Tax Considerations—Taxation of Stockholders and Potential Tax Consequences of Their Investment in Shares of Common Stock or Preferred Stock—Taxation of Non-U.S. Stockholders" in the second and third full paragraphs on page 47 of the prospectus are replaced with the following paragraphs:

For periods on or after December 18, 2015, to the extent our stock is held directly (or indirectly through one or more partnerships) by a "qualified shareholder," it will not be treated as a USRPI. Further, to the extent such treatment applies, any distribution to such shareholder will not be treated as gain recognized from the sale or exchange of a USRPI. For these purposes, a qualified shareholder is generally a non-U.S. stockholder that (i)(A) is eligible for treaty benefits under an income tax treaty with the United States that includes an exchange of information program, and the principal class of interests of which is listed and regularly traded on one or more stock exchanges as defined by the treaty, or (B) is a foreign limited partnership organized in a jurisdiction with an exchange of information agreement with the United States and that has a class of regularly traded limited partnership units (having a value greater than 50% of the value of all partnership units) on the New York Stock Exchange or Nasdaq, (ii) is a "qualified collective investment vehicle" (within the meaning of Section 897(k)(3)(B) of the Code) and (iii) maintains records of persons holding 5% or more of the class of interests described in clauses (i)(A) or (i)(B) above. However, in the case of a qualified shareholder having one or more "applicable investors," the exception described in the first sentence of this paragraph will not apply to the applicable percentage of the qualified shareholder's stock (with "applicable percentage" generally meaning the percentage of the value of the interests in the qualified shareholder held by applicable investors after applying certain constructive ownership rules). The applicable percentage of the amount realized by a qualified shareholder on the disposition of our stock or with respect to a distribution from us attributable to gain from the sale or exchange of a USRPI will be treated as amounts realized from the disposition of USRPIs. Such treatment shall also apply to applicable investors in respect of distributions treated as a sale or exchange of stock with respect to a qualified shareholder. For these purposes, an "applicable investor" is a person who generally holds an interest in the

qualified shareholder and holds more than 10% of our stock applying certain constructive ownership rules.

For periods on or after December 18, 2015, for FIRPTA purposes neither a “qualified foreign pension fund” nor any entity all of the interests of which are held by a qualified foreign pension fund is treated as a non-U.S. stockholder. A “qualified foreign pension fund” is an organization or arrangement (i) created or organized in a foreign country, (ii) established by a foreign country (or one or more political subdivisions thereof) or one or more employers to provide retirement or pension benefits to current or former employees (including self-employed individuals) or their designees as a result of, or in consideration for, services rendered, (iii) which does not have a single participant or beneficiary that has a right to more than 5% of its assets or income, (iv) which is subject to government regulation and with respect to which annual information about its beneficiaries is provided, or is otherwise available, to relevant local tax authorities and (v) with respect to which, under its local laws, (A) contributions that would otherwise be subject to tax are deductible or excluded from its gross income or taxed at a reduced rate, or (B) taxation of its investment income is deferred, or such income is excluded from its gross income or taxed at a reduced rate.

Recent FATCA Regulations

On December 18, 2018, the Internal Revenue Service promulgated proposed regulations under Sections 1471-1474 of the Code (commonly referred to as FATCA), which proposed regulations eliminate FATCA withholding on gross proceeds and thus implicate certain tax-related disclosures contained in the prospectus. As a result, the fourth sentence of the discussion under “Certain United States Federal Income Tax Considerations—Taxation of Stockholders and Potential Tax Consequences of Their Investment in Shares of Common Stock or Preferred Stock—Taxation of Non-U.S. Stockholders—FATCA Withholding on Certain Foreign Accounts and Entities” on page 48 of the prospectus is replaced with the following:

While withholding under FATCA would have applied after December 31, 2018 to the gross proceeds from a disposition of property that can produce U.S. source interest or dividends, recently proposed Treasury Regulations eliminate FATCA withholding on payments of gross proceeds entirely. Taxpayers generally may rely on these proposed Treasury Regulations until final Treasury Regulations are issued. Withholding under FATCA currently applies with respect to other withholding payments (e.g., U.S. source interest and dividends).

Corporate Headquarters

Our principal executive offices are located at 2101 L Street NW, Suite 650 Washington, DC 20037, and our telephone number is 202-595-9500.

Available Information

Our website address is www.easterlyreit.com. Information on our website is not incorporated by reference herein and is not a part of this Annual Report on Form 10-K. We make available free of charge on our website or provide a link on our website to our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q and Current Reports on Form 8-K, including exhibits and any amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act, as soon as reasonably practicable after those reports are electronically filed with, or furnished to, the SEC. We also make available through our website other reports filed with or furnished to the SEC under the Exchange Act, including our proxy statements and reports filed by officers and directors under Section 16(a) of the Exchange Act. To access these filings, go to the “Investor Relations” portion of our “Financial Information” page on our website, and then click on “SEC Filings.” In addition, these reports and the other documents we file with the SEC are available at a website maintained by the SEC at <http://www.sec.gov>.

Item 1A. Risk Factors

The following risk factors and other information included in this Annual Report on Form 10-K should be carefully considered. The risks and uncertainties described below are not the only ones that we may face. Additional risks and uncertainties not presently known to us or that we may currently deem immaterial also may impair our business operations. If any of the following risks occur, our business, financial condition, operating results and cash flows could be affected adversely.

Risks Related to Real Estate

We depend on the U.S. Government and its agencies for substantially all of our revenues and any failure by the U.S. Government and its agencies to perform their obligations under their leases or renew their leases upon expiration could have a material adverse effect on our business, financial condition and results of operations.

Substantially all of our current rents come from U.S. Government tenant agencies. As of December 31, 2018, our U.S. Government tenant agencies accounted for 98.8% of our annualized lease income. We expect that leases to agencies of the U.S. Government will continue to be the primary source of our revenues for the foreseeable future. Due to such concentration, any failure by the U.S. Government to perform its obligations under its leases or a failure to renew its leases upon expiration, could cause interruptions in the receipt of lease revenue or result in vacancies, or both, which would reduce our revenue until the affected properties are leased, and could decrease the ultimate value of the affected property upon sale and have a material adverse effect on our business, financial condition and results of operations.

Some of our leases with U.S. Government tenant agencies permit the tenant agency to vacate the property and discontinue paying rent prior to their lease expiration date.

Some of our leases are currently in the soft-term period of the lease and tenants under such leases have the right to vacate their space during a specified period before the stated terms of their leases expire. As of December 31, 2018, tenants occupying approximately 6.0% of our rentable square feet and contributing approximately 4.4% of our annualized lease income currently have exercisable rights to terminate their leases before the stated soft term of their lease expires. For fiscal policy reasons, security concerns

or other reasons, some or all of our U.S. Government tenant agencies under leases within the soft-term period may decide to exercise their termination rights before the stated term of their lease expires. Such events, if they were to occur and we were not able to lease the vacant space to another tenant in a timely manner or at all, could have a material adverse effect on our business, financial condition and results of operations.

We may be unable to renew leases or lease vacating space on favorable terms or at all as leases expire, which could adversely affect our business, financial condition and results of operations.

As of December 31, 2018, leases representing approximately 33.3% of our total annualized lease income and approximately 36.9% of the square footage of the properties in our portfolio will expire by the end of 2021. We may be unable to renew such expiring leases or our properties may not be released at net effective rental rates equal to or above the current average net effective rental rates.

In addition, when we renew leases or lease to new tenants, especially U.S. Government tenant agencies, we may spend substantial amounts for leasing commissions, tenant fit-outs or other tenant inducements. As part of our strategy, we may design build-to-suit property improvements designed to enhance the agency's mission-critical capabilities. Because these properties have been designed or physically modified to meet the needs of a particular tenant agency, if the current lease is terminated or not renewed, we may be required to renovate the property at substantial costs, decrease the rent we intend to charge or provide other concessions in order to lease the property to another tenant, which could adversely affect our business, financial condition and results of operations.

We are exposed to risks associated with property development and redevelopment, including new developments for anticipated tenant agencies and build-to-suit renovations for existing tenant agencies.

As of December 31, 2018, we have two properties under development. We intend to continue to engage in development and redevelopment activities with respect to our properties, including build-to-suit renovations for existing U.S. Government tenant agencies and new developments for anticipated tenant agencies and will be subject to certain risks, which could adversely affect us, including our financial condition and results of operations. These risks include:

- the availability and pricing of financing on favorable terms or at all;
- development costs may be higher than anticipated;
- cost overruns and untimely completion of construction (including risks beyond our control, such as weather or labor conditions, or material shortages);
- the potential that we may expend funds on and devote management time to projects that we do not complete; and
- the inability to complete construction and leasing of a property on schedule, resulting in increased debt service expense and development and renovation costs.

These risks could result in substantial unanticipated delays or expenses and could prevent the initiation or the completion of development and renovation activities, any of which could have a material adverse effect on our business, financial condition and results of operations.

We depend on the members of our senior management team and the loss of any of their services, or an inability to attract and retain highly qualified personnel, could have a material adverse effect on our business, financial condition and results of operations.

Our senior management team is comprised of six individuals with experience in identifying, acquiring, developing, financing and managing U.S. Government-leased assets and has developed long-term relationships across the commercial real estate industry, including at all levels of the GSA and at numerous government agencies. Each of these individuals brings specialized knowledge and skills in the U.S. Government-leased property sector. The loss of

services of one or more of these members of our senior management team, or our inability to attract and retain highly qualified personnel, could have a material adverse effect on our business, financial condition and results of operations and weaken our relationships with lenders, business partners, industry participants, the GSA and U.S. Government agencies.

Unfavorable market and economic conditions in the United States and globally could adversely affect occupancy levels, rental rates, rent collections, operating expenses and the overall market value of our assets and have a material adverse effect on our business, financial condition and results of operations.

Unfavorable market conditions in the geographic markets in which we operate and unfavorable economic conditions in the United States and globally may significantly affect our occupancy levels, rental rates, rent collections, operating expenses, the market

value of our assets and our ability to strategically acquire, dispose of, recapitalize or refinance our properties on economically favorable terms or at all. Our ability to lease our properties at favorable rates may be adversely affected by increases in supply of office space and is dependent upon overall economic conditions, which are adversely affected by, among other things, job losses and unemployment levels, recession, stock market volatility and uncertainty about the future. Some of our major expenses, including mortgage payments and real estate taxes, generally do not decline when related rents decline. Any declines in our occupancy levels, rental revenues or the values of our buildings would cause us to have less cash available to pay our indebtedness, fund necessary capital expenditures and make distributions to our stockholders, which could negatively affect our financial condition and the market value of our common stock. Our business may be affected by the volatility and illiquidity in the financial and credit markets, a general global economic recession and other market or economic challenges experienced by the real estate industry or the U.S. economy as a whole.

Our business may also be adversely affected by local economic conditions in the areas in which we operate. Factors that may affect our occupancy levels, our rental revenues, our net operating income, our Funds From Operations or the value of our properties include the following, among others:

- downturns in global, national, regional and local economic conditions;
- possible reduction of the U.S. Government workforce; and
- economic conditions that could cause an increase in our operating expenses, such as increases in property taxes (particularly as a result of increased local, state and national government budget deficits and debt and potentially reduced federal aid to state and local governments), utilities, insurance, compensation of on-site associates and routine maintenance.

Our properties are leased to a limited number of U.S. Government tenant agencies, and a change to any of these agencies' missions could have a material adverse effect on our business, financial condition and results of operations.

As of December 31, 2018, three of our U.S. Government tenant agencies, the VA, FBI, and DEA, accounted for an aggregate of approximately 40.9% of our total rentable square feet and an aggregate of approximately 46.8% of our total annualized lease income. Each U.S. Government agency has its own customs, procedures, culture, needs and mission, which translate into different requirements for its leased space, and we work with the tenant agency to design and construct specialized, agency-specific enhancements. In addition, under the terms of our GSA leases, the GSA generally has the right to designate another U.S. Government agency to occupy all or a portion of the leased property. A change in the structure, mission, or leasing requirements of any one of our U.S. Government tenant agencies, a significant reduction in the agency's workforce, a relocation of personnel resources, other internal reorganization or a change in the tenant agency occupying the leased space, could affect our lease renewal opportunities and have a material adverse effect on our business, financial condition and results of operations.

We currently have a concentration of properties located in California and are exposed to changes in market conditions and natural disasters in this state.

Seventeen of our 62 operating properties are located in California, accounting for approximately 23.9% of our total rentable square feet and approximately 30.1% of our total annualized lease income as of December 31, 2018. We also own one property under development that is also located in California. As a result of this concentration, a material portion of our portfolio may be exposed to the effects of economic and real estate conditions in California markets, such as the supply of competing properties, general levels of employment and economic activity. In addition, historically, California has been vulnerable to natural disasters and we are therefore susceptible to the risks of natural disasters, such as earthquakes, wildfires, floods and mudslides. To the extent that weak economic or real estate conditions or natural disasters affect California, our business, financial condition and results of operations could be negatively impacted.

We are subject to risks from natural disasters and climate change.

Natural disasters and severe weather such as earthquakes, tornadoes, hurricanes or floods may result in significant damage to our properties. The extent of our casualty losses and loss in operating income in connection with such events is a function of the severity of the event and the total amount of exposure in the affected area. When we have geographic concentration of exposures, a single catastrophe, such as an earthquake affecting our properties in California, or destructive weather event, such as a tornado affecting our properties in Nebraska, may have a significant negative effect on our business, financial condition and results of operations. As a result, our operating and financial results may vary significantly from one period to the next. Our financial results may be adversely affected by our exposure to losses arising from natural disasters or severe weather. We also are exposed to risks associated with inclement winter weather, particularly on the Atlantic coast, a region in which some of our properties are located, including increased need for maintenance and repair of our buildings.

As a result of climate change, we may also experience extreme weather and changes in precipitation and temperature, all of which may result in physical damage or decreased demand and increase the cost of insurance for our properties located in the areas affected by these conditions. Should the impact of climate change be material in nature, our financial condition or results of operations would be adversely affected. In addition, changes in federal and state legislation and regulation on climate change could result in increased capital expenditures to improve the energy efficiency of our existing properties in order to comply with such regulations.

A U.S. Government tenant agency could institute condemnation proceedings against us and seek to take our property, or a leasehold interest therein, through its power of eminent domain.

A U.S. Government tenant agency could institute condemnation proceedings against us and seek to take our property, or a leasehold interest therein, through its power of eminent domain. The procedures for settling a dispute with a U.S. Government tenant or seeking to evict a U.S. Government tenant in default may be costly, time consuming and may divert the attention of management from the operations of our business as the process requires first appealing to a U.S. Government assigned contracting officer or through the Civilian Board of Contract Appeals and ultimately before the U.S. Court of Federal Claims. Furthermore, we may not be able to successfully appeal a condemnation proceeding brought by a U.S. Government tenant agency which could have a material adverse effect on our business, financial condition and results of operations.

The impact of prolonged government shutdowns and budgetary reductions or impasses could have a material adverse effect on our business, financial condition and results of operations.

Substantially all of our revenue is dependent on the receipt of rent payments from the GSA and U.S. Government tenant agencies. While rents under our leases with the GSA are paid for from the Federal Buildings Fund, which is not subject to direct Federal appropriations, and our leases with other federal agencies have been executed under delegation from the GSA and are therefore guaranteed by the Federal Buildings Fund, a prolonged government shutdown or federal budget impasse could result in delays in our receipt of rental payments. In addition, the impact of a prolonged government shutdown on federal personnel resources could hinder our ability to renew expiring leases, initiate or complete tenant agency build-out and construction projects and otherwise interfere with our ongoing partnership with the U.S. Government, any of which could have a material adverse effect on our business, financial condition and results of operations.

An increase in the amount of U.S. Government-owned real estate may adversely affect us.

If there is a large increase in the amount of U.S. Government-owned real estate, certain U.S. Government tenant agencies may relocate from our properties to U.S. Government-owned real estate at the expiration of their respective leases. Similarly, it may become more difficult for us to renew our leases with U.S. Government tenant agencies when they expire or to locate additional properties that are leased to U.S. Government tenant agencies in order to grow our business. Therefore, an increase in the amount of U.S. Government-owned real estate could have a material adverse effect on our business, financial condition and results of operations.

We may be required to make significant capital expenditures to improve our properties in order to retain and attract tenants, including U.S. Government tenant agencies.

Under our leases, including our leases with U.S. Government tenant agencies, we retain certain obligations with respect to the property, including, among other things, the responsibility for maintenance and repair of the property, the provision of adequate parking, maintenance of common areas, responsibility for capital improvements such as roof replacement and major structural improvements and compliance with other affirmative covenants in the lease. The expenditure of any sums in connection therewith will reduce the cash available for distribution and may require us to

fund deficits resulting from operating a property. No assurance can be given that we will have funds available to make such repairs or improvements. If we were to fail to meet these obligations, then the applicable tenant could abate rent or terminate the applicable lease, which may result in a loss of capital invested and reduce our anticipated profits which, in turn, have a material adverse effect on our business, financial condition and results of operations.

Capital and credit market conditions may adversely affect our access to various sources of capital or financing or the cost of capital, which could impact our business activities, dividends, earnings and common stock price, among other things.

In periods when the capital and credit markets experience significant volatility, the amounts, sources and cost of capital available to us may be adversely affected. We primarily use external financing to fund acquisition, development and renovation activities. As of December 31, 2018, we had total indebtedness of approximately \$770.9 million including approximately \$134.8 million outstanding under our \$450.0 million revolving credit facility, \$150.0 million outstanding under our \$150.0 million senior unsecured term loan facility, which we refer to as our 2018 term loan facility, \$100.0 million outstanding under our \$100.0 million senior unsecured term loan facility, which we refer to as our 2016 term loan facility, and \$175.0 million of outstanding fixed rate, senior unsecured notes, which we refer to as our senior unsecured notes. As of December 31, 2018, we had approximately \$315.2

million of available borrowing capacity under our revolving credit facility. If sufficient sources of external financing are not available to us on cost effective terms, we could be forced to limit our acquisition, development and renovation activities or take other actions to fund our business activities and repayment of debt, such as selling assets, reducing our cash dividend or paying out a smaller percentage of our taxable income (subject to the annual distribution requirements applicable to REITs under the Internal Revenue Code of 1986, as amended, or the Code). To the extent that we are able or choose to access capital at a higher cost than we have experienced in recent years, as reflected in higher interest rates for debt financing or a lower stock price for equity financing, our earnings per share and cash flow could be adversely affected. In addition, the price of common stock may fluctuate significantly or decline in a high interest rate or volatile economic environment. If economic conditions deteriorate, the ability of lenders to fulfill their obligations under working capital or other credit facilities that we may have in the future may be adversely impacted.

We may be unable to identify and successfully complete acquisitions and, even if acquisitions are identified and completed, completed acquisitions may not achieve the intended benefits or may disrupt our plans and operations.

We may be unable to acquire additional properties and grow our business and any acquisitions we make may prove unsuccessful. Our ability to identify and acquire properties on favorable terms and successfully operate or renovate them may be exposed to significant risks. Agreements for the acquisition of properties are subject to customary conditions to closing, including completion of due diligence investigations and other conditions that are not within our control that may not be satisfied. In this event, we may be unable to complete an acquisition after incurring certain acquisition-related costs. In addition, if mortgage debt is unavailable at reasonable rates, we may be unable to finance the acquisition on favorable terms in the time period we desire, or at all. We may spend more than budgeted to make necessary improvements or renovations to acquired properties and may not be able to obtain adequate insurance coverage for new properties. Further, acquired properties may be located in markets where we may face risks associated with a lack of market knowledge or understanding of the local economy, lack of business relationships in the area and unfamiliarity with local governmental and permitting procedures. There can be no assurance that we will be able to successfully integrate acquired properties with our business or otherwise realize the expected benefits of these acquisitions. In addition, the integration of acquisitions into our existing portfolio may require significant time and focus from our management team and may divert attention from the day-to-day operations of our business, which could delay the achievement of our strategic objectives. Any delay or failure on our part to identify, negotiate, finance and consummate such acquisitions in a timely manner and on favorable terms, or operate acquired properties to meet our financial expectations, could impede our growth and have an adverse effect on us, including our financial condition, results of operations, cash flow and the market value of our securities.

Certain of our properties are leased to private tenants and we may be unable to collect balances due from private tenants that file for bankruptcy protection.

If a private tenant or lease guarantor files for bankruptcy, we will become a creditor of such entity, but may not be able to collect all pre-bankruptcy amounts owed by that party. In addition, a tenant that files for bankruptcy protection may terminate its lease with us under federal law, in which event we would have a general unsecured claim against such tenant that would likely be worth less than the full amount owed to us for the remainder of the lease term, which could adversely affect our business, financial condition and results of operations.

Because our principal tenants are agencies of the U.S. Government, our properties have a higher risk of terrorist attack than similar properties leased to non-governmental tenants.

Terrorist attacks may materially adversely affect our operations, as well as directly or indirectly damage our assets, both physically and financially. Because our principal tenants are, and are expected to continue to be, agencies of the U.S. Government, our properties are presumed to have a higher risk of terrorist attack than similar properties that are

leased to non-governmental tenants. Further, some of our properties may be considered “high profile” targets because of the particular U.S. Government tenant (e.g., the DEA and FBI). Terrorist attacks, to the extent that these properties are not fully insured, could have a material adverse effect on our business, financial condition and results of operations.

Competition could limit our ability to acquire attractive investment opportunities and to attract and retain tenants.

We compete with numerous developers, real estate companies and other owners of commercial properties for acquisitions and in pursuing buyers for dispositions. We expect that other real estate investors, including insurance companies, private equity funds, sovereign wealth funds, pension funds, other REITs and other well-capitalized investors will compete with us to acquire existing properties and to develop new properties. Because of their strong credit profile, U.S. Government tenants are viewed as desirable tenants by other landlords and properties leased to U.S. Government tenant agencies often attract many potential buyers. This competition could increase prices for properties of the type we may pursue and adversely affect our profitability and impede our growth. In addition, substantially all of our properties face competition for tenants. Some competing properties may be newer, better located or more attractive to tenants. Competing properties may have lower rates of occupancy than our properties, which may result

in competing owners offering available space at lower rents than we offer at our properties. This competition may affect our ability to attract and retain tenants, may reduce the rents we are able to charge and could have a material adverse effect on our business, financial condition and results of operations.

We may be subject to increased costs of insurance and limitations on coverage, particularly regarding acts of terrorism.

We maintain comprehensive insurance coverage for general liability, property and other risks on all of our properties, including coverage for acts of terrorism. Future changes in the insurance industry's risk assessment approach and pricing structure may increase the cost of insuring our properties and decrease the scope of insurance coverage, either of which could adversely affect our financial position and operating results. Most of our loan agreements contain customary covenants requiring us to maintain insurance. We may not be able to obtain an appropriate amount of coverage at reasonable costs, or at all, in the future. In addition, if lenders insist on greater insurance coverage than we are able to obtain, it could adversely affect our ability to finance or refinance our properties and execute our growth strategies, which, in turn, could have a material adverse effect on our business, financial condition and results of operations.

We may become subject to liability relating to environmental and health and safety matters, which could have a material adverse effect on our business, financial condition and results of operations.

Under various federal, state or local laws, ordinances and regulations, as a current or former owner or operator of real property, we may be liable for costs and damages resulting from the presence or release of hazardous substances, waste or petroleum products at, on, in, under or from such property, including costs for investigation or remediation, natural resource damages or third-party liability for personal injury or property damage. These laws often impose liability without regard to whether the owner or operator knew of, or was responsible for, the presence or release of such materials, and the liability may be joint and several. Some of our properties may be impacted by contamination arising from current uses of the property or from adjacent properties used for commercial, industrial or other purposes. Such contamination may arise from spills of petroleum or hazardous substances or releases from tanks used to store such materials. We also may be liable for the costs of remediating contamination at off-site disposal or treatment facilities when we arrange for disposal or treatment of hazardous substances at such facilities, without regard to whether we comply with environmental laws in doing so. The presence of contamination or the failure to remediate contamination on our properties may adversely affect our ability to attract or retain tenants and our ability to develop or sell or borrow against those properties. In addition to potential liability for cleanup costs, private plaintiffs may bring claims for personal injury, property damage or for similar reasons. Environmental laws also may create liens on contaminated sites in favor of the U.S. Government for damages and costs it incurs to address such contamination. Moreover, if contamination is discovered on our properties, environmental laws may impose restrictions on the manner in which that property may be used or how businesses may be operated on that property.

Some of our properties are, and may be adjacent to or near other properties, used for industrial or commercial purposes. These properties may have contained or currently contain underground storage tanks used to store petroleum products or other hazardous or toxic substances. Releases from these properties could impact our properties.

In addition, our properties are subject to various federal, state and local environmental and health and safety laws and regulations. Noncompliance with these environmental and health and safety laws and regulations could subject us or our tenants to liability. These liabilities could affect a commercial tenant's ability to make rental payments to us. Moreover, changes in laws could increase the potential costs of compliance with such laws and regulations or increase liability for noncompliance. This may result in significant unanticipated expenditures or may otherwise adversely affect our operations, or those of our tenants, which could in turn have an adverse effect on us. As the owner or

operator of real property, we may also incur liability based on various building conditions.

In addition, our properties may contain or develop harmful mold or suffer from other indoor air quality issues. Indoor air quality issues also can stem from inadequate ventilation, chemical contamination from indoor or outdoor sources and other biological contaminants such as pollen, viruses and bacteria. Indoor exposure to airborne toxins or irritants can be alleged to cause a variety of adverse health effects and symptoms, including allergic or other reactions. As a result, the presence of significant mold or other airborne contaminants at any of our properties could require us to undertake a costly remediation program to contain or remove the mold or other airborne contaminants or to increase ventilation. In addition, the presence of significant mold or other airborne contaminants could expose us to liability from our tenants or others if property damage or personal injury occurs.

The costs or liabilities incurred as a result of environmental issues may affect our ability to make distributions to our stockholders and could have a material adverse effect on our business, financial condition and results of operations.

Our development activities may be subject to risks relating to various local, state and federal statutes, ordinances, rules and regulations concerning zoning, building design, construction and similar matters, including local regulations that impose restrictive zoning requirements.

Our development activities may be subject to risks relating to various local, state and federal statutes, ordinances, rules and regulations concerning zoning, building design, construction and similar matters, including local regulations that impose restrictive zoning requirements. In addition, we will be subject to registration and filing requirements in connection with these developments in certain states and localities in which we operate even if all necessary U.S. Government approvals have been obtained. We may also be subject to periodic delays or may be precluded entirely from developing properties due to building moratoriums that could be implemented in the future in certain states in which we intend to operate. These risks could result in substantial unanticipated delays or expenses and, under certain circumstances, could prevent completion of development activities once undertaken.

Real estate investments are relatively illiquid and may limit our flexibility.

Equity real estate investments are relatively illiquid, which may tend to limit our ability to react promptly to changes in economic or other market conditions. Our ability to dispose of assets in the future will depend on prevailing economic and market conditions. Our inability to sell our properties on favorable terms or at all could have an adverse effect on our sources of working capital and our ability to satisfy our debt obligations. In addition, real estate can at times be difficult to sell quickly at prices we find acceptable. The Code also imposes restrictions on REITs, which are not applicable to other types of real estate companies, with respect to the disposition of properties. These potential difficulties in selling real estate in our markets may limit our ability to change or reduce the properties in our portfolio promptly in response to changes in economic or other conditions.

Our properties may be subject to impairment charges.

On a quarterly basis, we assess whether there are any indicators that the value of our properties may be impaired. A property's value is considered to be impaired only if the estimated aggregate future cash flows (undiscounted and without interest charges) to be generated by the property are less than the carrying value of the property. In our estimate of cash flows, we consider factors such as expected future operating income, trends and prospects, the effects of demand, competition and other factors. If we are evaluating the potential sale of an asset or development alternatives, the undiscounted future cash flows analysis considers the most likely course of action at the balance sheet date based on current plans, intended holding periods and available market information. We are required to make subjective assessments as to whether there are impairments in the value of our properties. These assessments may be influenced by factors beyond our control, such as early vacating by a tenant or damage to properties due to earthquakes, tornadoes, hurricanes and other natural disasters, fire, civil unrest, terrorist acts or acts of war. These assessments may have a direct impact on our earnings because recording an impairment charge results in an immediate negative adjustment to earnings. There can be no assurance that we will not take impairment charges in the future related to the impairment of our properties. Any such impairment could have a material adverse effect on our business, financial condition and results of operations in the period in which the charge is taken.

We may from time to time be subject to litigation, which could have a material adverse effect on our business, financial condition and results of operations.

We may be a party to various claims and routine litigation arising in the ordinary course of business. Some of these claims or others to which we may be subject from time to time may result in defense costs, settlements, fines or judgments against us, some of which are not, or cannot be, covered by insurance. Payment of any such costs, settlements, fines or judgments that are not insured could have an adverse impact on our financial position and results of operations. In addition, certain litigation or the resolution of certain litigation may affect the availability or cost of

some of our insurance coverage, which could adversely impact our results of operations and cash flow, expose us to increased risks that would be uninsured, or adversely impact our ability to attract officers and directors.

We may be subject to unknown or contingent liabilities related to properties or businesses that we have acquired or may acquire in the future for which we may have limited recourse against the sellers.

Assets and entities that we have acquired or may acquire in the future may be subject to unknown or contingent liabilities for which we may have limited recourse against the sellers. Unknown or contingent liabilities might include liabilities for clean-up or remediation of environmental conditions, claims of customers, vendors or other persons dealing with the acquired entities, tax liabilities and other liabilities whether incurred in the ordinary course of business or otherwise. In the future we may enter into transactions with limited representations and warranties or with representations and warranties that do not survive the closing of the transactions, in which event we would have no or limited recourse against the sellers of such properties. While we usually require the sellers to indemnify us with respect to breaches of representations and warranties that survive, such indemnification is often limited and subject to various materiality thresholds, a significant deductible or an aggregate cap on losses. As a result, there is no guarantee

that we will recover any amounts with respect to losses due to breaches by the sellers of their representations and warranties. In addition, the total amount of costs and expenses that we may incur with respect to liabilities associated with acquired properties and entities may exceed our expectations, which may adversely affect our business, financial condition and results of operations. Finally, indemnification agreements between us and the sellers typically provide that the sellers will retain certain specified liabilities relating to the assets and entities acquired by us.

One property is encumbered by a right of first refusal with respect to a sale of the property, which could materially and adversely affect the timing and terms of any sale of the property.

A right of first refusal encumbers our DEA—Dallas property until the earlier of January 7, 2025, or the date on which two bona fide third-party sales have occurred for which the right of first refusal has not been exercised. As a result of this right of first refusal, we may be delayed in our attempt to sell this property if and when any such disposition is necessary or desirable.

We rely on information technology in our operations, and any material failure, inadequacy, interruption or security failure of that technology could harm our business.

We rely on information technology networks and systems, including the Internet, to process, transmit and store electronic information and to manage or support a variety of our business processes, including financial transactions and maintenance of records, which may include confidential information of tenants and lease data. We rely on commercially available systems, software, tools and monitoring to provide security for processing, transmitting and storing confidential tenant information, such as individually identifiable information relating to financial accounts. Although we have taken steps to protect the security of the data maintained in our information systems, it is possible that our security measures will not be able to prevent the systems' improper functioning, or the improper disclosure of personally identifiable information such as in the event of cyber attacks. Security breaches, including physical or electronic break-ins, computer viruses, attacks by hackers and similar breaches, can create system disruptions, shutdowns or unauthorized disclosure of confidential information. Any failure to maintain proper function, security and availability of our information systems could interrupt our operations, damage our reputation, subject us to liability claims or regulatory penalties and could materially and adversely affect us.

We may need to borrow funds or dispose of assets to meet our distribution requirements.

We may need to borrow funds or dispose of assets to meet our distribution requirements. In order for us to continue to qualify as a REIT, we are required to make annual distributions generally equal to at least 90% of our taxable income, computed without regard to the dividends paid deduction and excluding net capital gain. In addition, as a REIT, we will be subject to U.S. federal income tax to the extent that we distribute less than 100% of our taxable income (including capital gains) and will be subject to a 4% nondeductible excise tax on the amount by which our distributions in any calendar year are less than a minimum amount specified by the Code. Under some circumstances, we may be required to pay distributions in excess of cash available for distribution in order to meet these distribution requirements or to avoid or minimize the imposition of tax, and we may need to borrow funds or dispose of assets to make such distributions, which could have a material adverse effect on our financial condition, results of operations, cash flow and trading price of our common stock.

Our subsidiaries may be prohibited from making distributions and other payments to us.

All of our properties are owned, and all of our operations are conducted, by our operating partnership and our other subsidiaries. As a result, we depend on distributions and other payments from our operating partnership and our other subsidiaries in order to satisfy our financial obligations and make payments to our investors. The ability of our subsidiaries to make such distributions and other payments depends on their earnings and cash flow and may be

subject to statutory or contractual limitations. As an equity investor in our subsidiaries, our right to receive assets upon their liquidation or reorganization will be effectively subordinated to the claims of their creditors. To the extent that we are recognized as a creditor of such subsidiaries, our claims may still be subordinate to any security interest in or other lien on their assets and to any of such subsidiaries' debt or other obligations that are senior to our claims.

Our existing tax protection agreements, and any similar agreements that we enter into in the future, could limit our flexibility with respect to selling or otherwise disposing of properties contributed to our operating partnership.

In connection with certain contributions of properties to our operating partnership, we and our operating partnership have entered into tax protection agreements with the contributor of such properties that generally provide that if we dispose of any interest in the contributed properties in a taxable transaction within a certain time period, subject to certain exceptions, we may be required to indemnify the contributor for their tax liabilities attributable to the built-in gain that existed with respect to such property interests, and certain tax liabilities incurred as a result of such tax protection payments. Therefore, although it may be in our stockholders' best

interests that we sell a contributed property, it may be economically prohibitive for us to do so because of these obligations. In the future, we and our operating partnership may enter into additional tax protection agreements which could further limit our flexibility to sell or otherwise dispose of our properties.

Risks Related to Our Organization and Structure

The ability of stockholders to control our policies and effect a change of control of our company is limited by certain provisions of our charter and bylaws and by Maryland law.

There are provisions in our charter and bylaws that may discourage a third party from making a proposal to acquire us, even if some of our stockholders might consider the proposal to be in their best interests. These provisions include the following:

Our charter authorizes our board of directors to amend our charter to increase or decrease the aggregate number of authorized shares of stock, to authorize us to issue additional shares of our common stock or preferred stock and to classify or reclassify unissued shares of our common stock or preferred stock and thereafter to authorize us to issue such classified or reclassified shares of stock. We believe these charter provisions will provide us with increased flexibility in structuring possible future financings and acquisitions and in meeting other needs that might arise. The additional classes or series, as well as the additional authorized shares of our common stock, will be available for issuance without further action by our stockholders, unless such action is required by applicable law or the rules of any stock exchange or automated quotation system on which our securities may be listed or traded. Although our board of directors does not currently intend to do so, it could authorize us to issue a class or series of stock that could, depending upon the terms of the particular class or series, delay, defer or prevent a transaction or a change of control of our company that might involve a premium price for holders of our common stock or that our common stockholders otherwise believe to be in their best interests.

In connection with our initial public offering in February 2015, we engaged in certain formation transactions, which we refer to as the formation transactions, pursuant to which our operating partnership acquired 15 properties, among others, previously owned by Easterly Partners, LLC and its consolidated subsidiaries, which we refer to, collectively, as the Easterly Funds. In order to qualify as a REIT, not more than 50% in value of our outstanding stock may be owned, directly or indirectly, by or for five or fewer individuals (as defined in the Code to include certain entities such as private foundations) at any time during the last half of any taxable year (beginning with our second taxable year as a REIT). In addition, if the owners of 50% or more of certain entities included in the Easterly Funds that are intended to qualify for taxation as REITs, each of which we refer to as an Easterly Fund REIT were to own 50% or more in value of our capital stock, we would be treated as a successor to the Easterly Fund REIT, and our ability to elect REIT status for a certain period would depend on that Easterly Fund REIT's qualification as a REIT. In order to help us qualify as a REIT and not be treated as a successor to an Easterly Fund REIT, our charter generally prohibits (A) any person or entity from actually or being deemed to own by virtue of the applicable constructive ownership provisions of the Code, (i) more than 7.1% (in value or in number of shares, whichever is more restrictive) of the issued and outstanding shares of any class or series of our stock or (ii) more than 7.1% in value of the aggregate of the outstanding shares of all classes and series of our stock (the "ownership limits") and (B) the owners of 50% or more of an Easterly Fund REIT from owning 50% or more of us, applying certain attribution of ownership rules. These ownership restrictions may prevent or delay a change in control and, as a result, could adversely affect our stockholders' ability to realize a premium for their shares of our common stock. In connection with the formation transactions and the concurrent private placement, our board of directors has granted waivers from the ownership limit contained in our charter to Michael P. Ibe, Easterly Fund I and Easterly Fund II to own up to approximately 21%, 22% and 28%, respectively, of our outstanding common stock in the aggregate. Easterly Fund I and Easterly Fund II have since been liquidated and their waivers are no longer in effect.

In addition, certain provisions of the Maryland General Corporation Law, or MGCL, may have the effect of inhibiting a third party from making a proposal to acquire us or of impeding a change of control under circumstances that otherwise could provide the holders of shares of our common stock with the opportunity to realize a premium over the then-prevailing market price of such shares, including the Maryland business combination and control share provisions.

As permitted by the MGCL, our board of directors has adopted a resolution exempting any business combinations between us and any other person or entity from the business combination provisions of the MGCL. Our bylaws provide that this resolution or any other resolution of our board of directors exempting any business combination from the business combination provisions of the MGCL may only be revoked, altered or amended, and our board of directors may only adopt any resolution inconsistent with any such resolution (including an amendment to that bylaw provision), which we refer to as an-opt in to the business combination provisions, with the affirmative vote of a majority of the votes cast on the matter by holders of outstanding shares of our common stock. In addition, as permitted by the MGCL, our bylaws contain a provision exempting from the control share acquisition provisions of the MGCL any and all acquisitions by any person of shares of our stock. This bylaw provision may be amended, which we refer to as an opt-in to the control share acquisition provisions, only with the affirmative vote of a majority of the votes cast on such an amendment by holders of outstanding shares of our common stock.

Subtitle 8 of Title 3 of the MGCL permits a board of directors, without stockholder approval and regardless of what is currently provided in our charter or bylaws, to implement certain takeover defenses, including adopting a classified board or increasing the vote required to remove a director. We have elected in our charter to be subject to the provision of Subtitle 8 that provides that vacancies on our board of directors may be filled only by the remaining directors. We have not elected to be subject to any of the other provisions of Subtitle 8, including the provisions that would permit us to classify our board of directors or increase the vote required to remove a director without stockholder approval. Moreover, our charter provides that, without the affirmative vote of a majority of the votes cast on the matter by our stockholders entitled to vote generally in the election of directors, we may not elect to be subject to any of these additional provisions of Subtitle 8.

Such takeover defenses may have the effect of inhibiting a third party from making an acquisition proposal for us or of delaying, deferring or preventing a change in control of us under the circumstances that otherwise could provide our common stockholders with the opportunity to realize a premium over the then current market price. In addition, the provisions of our charter on the removal of directors and the advance notice provisions of our bylaws, among others, could delay, defer or prevent a transaction or a change of control of our company that might involve a premium price for holders of our common stock or otherwise be in their best interest. Each item discussed above may delay, deter or prevent a change in control of our company, even if a proposed transaction is at a premium over the then-current market price for our common stock. Further, these provisions may apply in instances where some stockholders consider a transaction beneficial to them. As a result, our stock price may be negatively affected by these provisions.

Certain provisions in the partnership agreement of our operating partnership may delay or prevent acquisitions of us.

Provisions in the partnership agreement of our operating partnership may delay, or make more difficult, acquisitions of us or changes of our control. These provisions could discourage third parties from making proposals involving an acquisition of us or change of our control, although some holders of common stock might consider such proposals, if made, desirable. These provisions include

- redemption rights for holders of common units;
- a requirement that we may not be removed as the general partner of our operating partnership without our consent;
- transfer restrictions on common units; and
- our ability, as general partner, in some cases, to amend the partnership agreement and to cause the operating partnership to issue units with terms that could delay, defer or prevent a merger or other change of control of us or our operating partnership without the consent of the limited partners.

We may decide to change our investment strategy without stockholder approval and acquire and develop properties outside of our target market, which could have a material adverse effect on our business, financial condition and results of operations.

We may decide to change our investment strategy without stockholder approval and seek to acquire and develop properties that are not leased to U.S. Government tenant agencies. Any change to our investment strategy, including the making of investments outside our target market, could have a material adverse effect on our business, financial condition and results of operations.

Our board of directors may change our policies without stockholder approval.

Our policies, including any policies with respect to investments, leverage, financing, growth, debt and capitalization, are determined by our board of directors or those committees or officers to whom our board of directors may delegate such authority. Our board of directors also establishes the amount of any dividends or other distributions that we may

pay to our stockholders. Our board of directors or the committees or officers to which such decisions are delegated have the ability to amend or revise these and our other policies at any time without stockholder vote. Accordingly, our stockholders are not entitled to approve changes in our policies.

Our rights and the rights of our stockholders to take action against our directors and officers are limited, which could limit your recourse in the event of actions that you do not believe are in your best interests.

Maryland law provides that a director has no liability in that capacity if he or she satisfies his or her duties to us and our stockholders. Our charter limits the liability of our directors and officers to us and our stockholders for money damages, except for liability resulting from:

- actual receipt of an improper benefit or profit in money, property or services; or
- a final judgment based upon a finding of active and deliberate dishonesty by the director or officer that was material to the cause of action adjudicated.

In addition, our charter authorizes us to obligate us, and our bylaws require us, to indemnify our directors for actions taken by them in those capacities to the maximum extent permitted by Maryland law. Our charter and bylaws also authorize us to indemnify our officers for actions taken by them in those capacities to the maximum extent permitted by Maryland law and indemnification agreements that we have entered into with our executive officers require us to indemnify such officers for actions taken by them in those capacities to the maximum extent permitted by Maryland law. As a result, we and our stockholders may have more limited rights against our directors and officers than might otherwise exist. Accordingly, in the event that actions taken in good faith by any of our directors or officers impede the performance of our company, your ability to recover damages from such director or officer will be limited with respect to directors and may be limited with respect to officers. In addition, we will be obligated to advance the defense costs incurred by our directors and our executive officers pursuant to indemnification agreements, and may, in the discretion of our board of directors, advance the defense costs incurred by our officers, our employees and other agents, in connection with legal proceedings.

Conflicts of interest may exist or could arise in the future between the interests of our stockholders and the interests of holders of common units, which may impede business decisions that could benefit our stockholders.

Conflicts of interest may exist or could arise in the future as a result of the relationships between us and our affiliates, on the one hand, and our operating partnership or any of its partners, on the other. Our directors and officers have duties to our company under Maryland law in connection with their management of our company. At the same time, we have duties and obligations to our operating partnership and its limited partners under Delaware law as modified by the partnership agreement of our operating partnership in connection with the management of our operating partnership as the sole general partner. The limited partners of our operating partnership expressly acknowledge that the general partner of our operating partnership acts for the benefit of our operating partnership, the limited partners and our stockholders collectively. When deciding whether to cause our operating partnership to take or decline to take any actions, the general partner will be under no obligation to give priority to the separate interests of (i) the limited partners of our operating partnership (including the tax interests of our limited partners, except as provided in a separate written agreement) or (ii) our stockholders. Nevertheless, the duties and obligations of the general partner of our operating partnership may come into conflict with the duties of our directors and officers to our company and our stockholders.

Michael P. Ibe, a Director and our Executive Vice President—Development and Acquisitions owns a significant beneficial interest in our company on a fully diluted basis and has the ability to exercise influence on our company.

As of December 31, 2018, Michael P. Ibe, a Director and our Executive Vice President—Development and Acquisitions, owned approximately 8.7% of our outstanding common stock on a fully diluted basis. Consequently, Mr. Ibe may be able to exert influence over the outcome of matters submitted for stockholder action, including approval of significant corporate transactions, including business combinations, consolidations and mergers. As a result, Mr. Ibe could exercise his influence in a manner that conflicts with the interests of other stockholders.

If there are deficiencies in our disclosure controls and procedures or internal control over financial reporting, we may not be able to accurately present our financial statements, which could materially and adversely affect us, including our business, reputation, results of operations, financial condition or liquidity.

The design and effectiveness of our disclosure controls and procedures and internal controls over financial reporting may not prevent all errors, misstatements or misrepresentations. While management will continue to review the effectiveness of our disclosure controls and procedures and internal controls over financial reporting, there can be no guarantee that our internal controls over financial reporting will be effective in accomplishing all control objectives all of the time. Furthermore, as we grow our business, our internal controls will become more complex, and we may require significantly more resources to ensure our internal controls remain effective. Deficiencies, including any

material weakness, in our internal controls over financial reporting which may occur in the future could result in misstatements of our results of operations that could require a restatement, failing to meet our public company reporting obligations and causing investors to lose confidence in our reported financial information. These events could materially and adversely affect us, including our business, reputation, results of operations, financial condition or liquidity.

We do not own the Easterly name, but have entered into a license agreement with Easterly Capital, LLC, or Easterly Capital, consenting to our use of the Easterly logo and name. Use of the name by other parties or the termination of our license agreement may have a material adverse effect on our business, financial condition and results of operations.

We have entered into a license agreement with Easterly Capital, pursuant to which it granted us a perpetual, royalty-free license to use the Easterly logo and the Easterly name and variations thereof, which license is exclusive to business activities involving properties to be leased to or developed for governmental entities, including properties leased to the GSA. We have a right to use this logo and name for so long as we are not in breach of the terms of the license agreement. Easterly Capital retains the right to continue using the Easterly name. We will be unable to preclude Easterly Capital from licensing or transferring the ownership of the Easterly

name to third parties, except in the limited circumstance where our license is exclusive. Consequently, we will be unable to prevent any damage to goodwill that may occur as a result of the activities of Easterly Capital or others. Furthermore, in the event the license agreement is terminated, we will be required to change our name and cease using the Easterly name. Any of these events could disrupt our recognition in the market place, damage any goodwill we may have generated and have a material adverse effect on our business, financial condition and results of operations.

Risks Related to Our Indebtedness and Financing

We have a substantial amount of indebtedness that may limit our financial and operating activities and may adversely affect our ability to incur additional debt to fund future needs.

As of December 31, 2018, we had total indebtedness of approximately \$770.9 million including approximately \$134.8 million outstanding under our revolving credit facility, \$250.0 million outstanding in the aggregate under our 2018 term loan facility and our 2016 term loan facility, and \$175.0 million of senior unsecured notes. As of December 31, 2018, we had approximately \$315.2 million of available borrowing capacity under our revolving credit facility. Payments of principal and interest on borrowings may leave us with insufficient cash resources to operate our properties, fully implement our capital expenditure, acquisition and redevelopment activities, or meet the REIT distribution requirements imposed by the Code. Our level of debt and the limitations imposed on us by our debt agreements could have significant adverse consequences, including the following:

- require us to dedicate a substantial portion of cash flow from operations to the payment of principal, and interest on, indebtedness, thereby reducing the funds available for other purposes;
- make it more difficult for us to borrow additional funds as needed or on favorable terms, which could, among other things, adversely affect our ability to meet operational needs;
- force us to dispose of one or more of our properties, possibly on unfavorable terms (including the possible application of the 100% tax on income from “prohibited transactions”), or in violation of certain covenants to which we may be subject;
- subject us to increased sensitivity to interest rate increases;
- make us more vulnerable to economic downturns, adverse industry conditions or catastrophic external events;
- limit our ability to withstand competitive pressures;
- limit our ability to refinance our indebtedness at maturity or the refinancing terms may be less favorable than the terms of our original indebtedness;
- reduce our flexibility in planning for or responding to changing business, industry and economic conditions; or
- place us at a competitive disadvantage to competitors that have relatively less debt than we have.

If any one of these events were to occur, our financial condition, results of operations, cash flow and trading price of our common stock could be adversely affected. Furthermore, foreclosures could create taxable income without accompanying cash proceeds, which could hinder our ability to meet the REIT distribution requirements imposed by the Code.

We may be unable to refinance current or future indebtedness on favorable terms, if at all.

We may be unable to refinance existing debt on terms as favorable as the terms of existing indebtedness, or at all, including as a result of increases in interest rates or a decline in the value of our portfolio or portions thereof. If principal payments due at maturity cannot be refinanced, extended or paid with proceeds from other capital transactions, such as new equity capital, our operating cash flow will not be sufficient in all years to repay all maturing debt. As a result, certain of our other debt may cross default, we may be forced to postpone capital expenditures necessary for the maintenance of our properties, we may have to dispose of one or more properties on terms that would otherwise be unacceptable to us or we may be forced to allow the mortgage holder to foreclose on a property. We also may be forced to limit distributions and may be unable to meet the REIT distribution requirements

imposed by the Code. Foreclosure on mortgaged properties or an inability to refinance existing indebtedness would likely have a negative impact on our financial condition and results of operations and could adversely affect our ability to make distributions to our stockholders.

We may not have sufficient cash flow to meet the required payments of principal and interest on our debt or to pay distributions on our shares at expected levels.

In the future, our cash flow could be insufficient to meet required payments of principal and interest or to pay distributions on our shares at expected levels. In this regard, we note that in order for us to continue to qualify as a REIT, we are required to make annual distributions generally equal to at least 90% of our taxable income, computed without regard to the dividends paid deduction

and excluding net capital gain. In addition, as a REIT, we will be subject to U.S. federal income tax to the extent that we distribute less than 100% of our taxable income (including capital gains) and will be subject to a 4% nondeductible excise tax on the amount by which our distributions in any calendar year are less than a minimum amount specified by the Code. These requirements and considerations may limit the amount of our cash flow available to meet required principal and interest payments. If we are unable to make required payments on indebtedness that is secured by a mortgage on our property, the asset may be transferred to the lender with a resulting loss of income and value to us, including adverse tax consequences related to such a transfer.

Certain of our debt agreements include restrictive covenants, requirements to maintain financial ratios and default provisions, which could limit our flexibility, our ability to make distributions and require us to repay the indebtedness prior to its maturity.

Certain mortgages on our properties contain customary negative covenants that, among other things, limit our ability, without the prior consent of the lender, to further mortgage the property and to reduce or change insurance coverage. As of December 31, 2018, we had \$209.6 million of combined U.S. property mortgages and other secured debt. Additionally, our debt agreements contain customary covenants that, among other things, restrict our ability to incur additional indebtedness and, in certain instances, restrict our ability to engage in material asset sales, mergers, consolidations and acquisitions, and restrict our ability to make capital expenditures. These debt agreements, in some cases, also subject us to guarantor and liquidity covenants and our senior unsecured revolving credit facility, our senior unsecured term loan facility and our senior unsecured notes, and other future debt may, require us to maintain various financial ratios. Some of our debt agreements contain certain cash flow sweep requirements and mandatory escrows, and our property mortgages generally require certain mandatory prepayments upon disposition of underlying collateral. Early repayment of certain mortgages may be subject to prepayment penalties.

Variable rate debt is subject to interest rate risk that could increase our interest expense, increase the cost to refinance and increase the cost of issuing new debt.

As of December 31, 2018, we had \$150.5 million of outstanding consolidated debt subject to instruments, which bear interest at variable rates, and we expect that we may also borrow additional money at variable interest rates in the future. Unless we have made arrangements that hedge against the risk of rising interest rates, increases in interest rates would increase our interest expense under these instruments, increase the cost of refinancing these instruments or issuing new debt, and adversely affect cash flow and our ability to service our indebtedness and make distributions to our stockholders, which could adversely affect the market price of our common stock.

Hedging activity may expose us to risks, including the risks that a counterparty will not perform and that the hedge will not yield the economic benefits we anticipate, which could adversely affect us.

As of December 31, 2018, we have six forward-starting interest rate swaps in place with an aggregate notional value of \$250.0 million to mitigate our exposure to fluctuations in short term interest rates and fix the interest rate on our senior unsecured term loan facility. We may continue, in a manner consistent with our qualification as a REIT, to seek to manage our exposure to interest rate volatility by using interest rate hedging arrangements. Such hedging arrangements involve risks, such as the risk that counterparties may fail to honor their obligations under these arrangements, and that these arrangements may not be effective in reducing our exposure to interest rate changes. Moreover, there can be no assurance that our hedging arrangements will qualify for hedge accounting or that our hedging activities will have the desired beneficial impact on our results of operations. Should we desire to terminate a hedging agreement, there could be significant costs and cash requirements involved to fulfill our obligation under the hedging agreement. Failure to hedge effectively against interest rate changes may adversely affect our results of operations.

When a hedging agreement is required under the terms of a mortgage loan, it is often a condition that the hedge counterparty maintain a specified credit rating. With the current volatility in the financial markets, there is an increased risk that hedge counterparties could have their credit rating downgraded to a level that would not be acceptable under the loan provisions. If we were unable to renegotiate the credit rating condition with the lender or find an alternative counterparty with acceptable credit rating, we could be in default under the loan and the lender could seize that property through foreclosure, which could adversely affect us.

Complying with REIT requirements may limit our ability to hedge effectively and may cause us to incur tax liabilities.

The REIT provisions of the Code limit our ability to hedge our liabilities. Generally, income from a hedging transaction we enter into (i) to manage the risk of interest rate changes with respect to borrowings incurred or to be incurred to acquire or carry real estate assets, (ii) to manage the risk of currency fluctuations with respect to any item of income or gain (or any property that generates such income or gain) that constitutes “qualifying income” for purposes of the 75% or 95% gross income tests applicable to REITs or (iii) for taxable years beginning on or after December 31, 2015, that hedges against transactions described in clauses (i) and (ii) and is entered into in connection with the extinguishment of debt or sale of property that are being hedged against by the transactions described in clauses (i) and (ii) and does not constitute “gross income” for purposes of the 75% or 95% gross income tests, provided

that we comply with certain identification requirements pursuant to the applicable sections of the Code and Treasury Regulations. To the extent that we enter into other types of hedging transactions, the income from those transactions is likely to be treated as non-qualifying income for purposes of both gross income tests. As a result of these rules, we may need to limit our use of otherwise advantageous hedging techniques or implement those hedges through a “Taxable REIT Subsidiary,” or TRS. The use of a TRS could increase the cost of our hedging activities (because our TRS would be subject to tax on income or gain resulting from hedges entered into by it) or expose us to greater risks than we would otherwise want to bear. In addition, net losses in any of our TRSs will generally not provide any tax benefit except for being carried forward for use against future taxable income in the TRSs.

Mortgage debt obligations expose us to the possibility of foreclosure, which could result in the loss of our investment in a property or group of properties subject to mortgage debt.

Incurring mortgage and other secured debt obligations increases our risk of property losses because defaults on indebtedness secured by properties may result in foreclosure actions initiated by lenders and ultimately our loss of the property securing any loans for which we are in default. Any foreclosure on a mortgaged property or group of properties could adversely affect the overall value of our portfolio of properties. For tax purposes, a foreclosure of any of our properties that is subject to a nonrecourse mortgage loan would be treated as a sale of the property for a purchase price equal to the outstanding balance of the debt secured by the mortgage. If the outstanding balance of the debt secured by the mortgage exceeds our tax basis in the property, we would recognize taxable income on foreclosure, but would not receive any cash proceeds, which could hinder our ability to meet the distribution requirements applicable to REITs under the Code.

High mortgage rates or unavailability of mortgage debt may make it difficult for us to finance or refinance properties, which could reduce the number of properties we can acquire, our net income and the amount of cash distributions we can make.

If mortgage debt is unavailable at reasonable rates, we may not be able to finance the purchase of properties. If we place mortgage debt on properties, we may be unable to refinance the properties when the loans become due, or to refinance on favorable terms. If interest rates are higher when we refinance our properties, our income could be reduced. If any of these events occur, our cash flow could be reduced. This, in turn, could reduce cash available for distribution to our stockholders and may hinder our ability to raise more capital by issuing more stock or by borrowing more money. In addition, payments of principal and interest made to service our debts may leave us with insufficient cash to make distributions necessary to meet the distribution requirements imposed on REITs under the Code.

Risks Related to Our Common Stock

The market price and trading volume of our common stock may be volatile.

The trading price of our common stock may be volatile. In addition, the trading volume in our common stock may fluctuate and cause significant price variations to occur.

Some of the factors that could negatively affect our share price or result in fluctuations in the price or trading volume of our common stock include:

- actual or anticipated variations in our quarterly operating results or dividends;
- changes in guidance related to financial performance;
- publication of research reports about us or the real estate industry;
- increases in market interest rates that lead purchasers of our shares to demand a higher yield;
- changes in market valuations of similar companies;

- adverse market reaction to any additional debt we incur in the future;
- additions or departures of key management personnel;
- actions by institutional stockholders;
- speculation in the press or investment community;
- the realization of any of the other risk factors presented in this report;
- the extent of investor interest in our securities;

the general reputation of REITs and the attractiveness of our equity securities in comparison to other equity securities, including securities issued by other real estate-based companies;
our underlying asset value;
investor confidence in the stock and bond markets, generally;
changes in tax laws;
future equity issuances;
failure to meet guidance related to financial performance;
failure to meet and maintain REIT qualifications; and
general market and economic conditions.

In the past, securities class-action litigation has often been instituted against companies following periods of volatility in the price of their common stock. This type of litigation could result in substantial costs and divert our management's attention and resources, which could have an adverse effect on our financial condition, results of operations, cash flow and trading price of our common stock.

The form, timing or amount of dividend distributions in future periods may vary and be impacted by economic and other considerations.

The form, timing or amount of dividend distributions will be declared at the discretion of our board of directors and will depend on actual cash from operations, our financial condition, capital requirements, the annual distribution requirements applicable to REITs under the Code and other factors as our board of directors may consider relevant.

The number of shares available for future sale could adversely affect the market price of our common stock.

We cannot predict whether future issuances of shares of our common stock or the availability of shares for resale in the open market will decrease the market price per share of our common stock. Sales of a substantial number of shares of our common stock in the public market, the issuance of substantial additional shares or the perception that such sales or issuances might occur could materially adversely affect the market price of the shares of our common stock. Some of the potential share issuances that may adversely affect the market price of the shares of our common stock could include: the exchange of our common units in our operating partnership for our common stock, the granting, exercise or vesting of any options, restricted stock or restricted stock units or long-term incentive units in our operating partnership, or LTIP units, granted or that may be granted to certain directors, executive officers and other employees under our 2015 equity incentive plan, and other issuances of our common stock or our operating partnership's securities exchangeable for or convertible into our common stock. Under a registration statement we have filed with the SEC, we may also offer, from time to time, equity securities (including common or preferred stock) on an as-needed basis and subject to our ability to affect offerings on satisfactory terms based on prevailing conditions. No prediction can be made about the effect that future sales of our common stock will have on the market price of our shares of common stock. In addition, future sales by us of our common stock may be dilutive to existing stockholders.

Risks Related to Our Status as a REIT

Failure to qualify or to maintain our qualification as a REIT would have significant adverse consequences to the value of our common stock.

We believe that we have operated and have been organized in conformity with the requirements for qualification and taxation as a REIT for U.S. federal income tax purposes commencing with our taxable year ended December 31, 2015. The Code generally requires that a REIT distribute at least 90% of its taxable income (without regard to the dividends paid deduction and excluding net capital gains) to stockholders annually, and a REIT must pay income tax at regular corporate rates to the extent that it distributes less than 100% of its taxable income (including capital gains) in a given year. In addition, a REIT is required to pay a 4% nondeductible excise tax on the amount, if any, by which the

distributions it makes in a calendar year are less than the sum of 85% of its ordinary income, 95% of its capital gain net income and 100% of its undistributed income from prior years. To avoid entity-level U.S. federal income and excise taxes, we anticipate distributing at least 100% of our taxable income.

As noted above, we believe that we have been and will continue to be owned and organized, and have operated and will operate, in a manner that allows us to qualify as a REIT commencing with our taxable year ended December 31, 2015. However, we cannot assure you that we have been and will continue to be owned and organized and have operated and will operate as such. Qualification

as a REIT involves the application of highly technical and complex provisions of the Code as to which there may only be limited judicial and administrative interpretations and involves the determination of facts and circumstances not entirely within our control. We have not requested and do not intend to request a ruling from the IRS that we qualify as a REIT. The complexity of these provisions and of the applicable Treasury Regulations is greater in the case of a REIT that, like us, holds its assets through one or more partnerships. Moreover, in order to qualify as a REIT, we must meet, on an ongoing basis, various tests regarding the nature and diversification of our assets and our income, the ownership of our outstanding stock, the absence of inherited retained earnings from non-REIT periods and the amount of our distributions. Our ability to satisfy the asset tests imposed on REITs depends upon our analysis of the characterization and fair market values of our assets, some of which are not susceptible to a precise determination, and for which we will not obtain independent appraisals. Our compliance with the REIT gross income and quarterly asset requirements also depends upon our ability to manage successfully the composition of our gross income and assets on an ongoing basis. Future legislation, new regulations, administrative interpretations or court decisions may significantly change the tax laws or the application of the tax laws with respect to qualification as a REIT for U.S. federal income tax purposes or the U.S. federal income tax consequences of such qualification. Accordingly, it is possible that we may not meet the requirements for qualification as a REIT.

If, with respect to any taxable year, we fail to maintain our qualification as a REIT, we would not be allowed to deduct distributions to stockholders in computing our taxable income. If we were not entitled to relief under the relevant statutory provisions, we would also be disqualified from treatment as a REIT for the four subsequent taxable years. If we fail to qualify as a REIT, we would be subject to entity-level income tax, including any applicable alternative minimum tax (which, for corporations, was repealed for tax years beginning after December 31, 2017 under the Tax Cuts and Jobs Act (“TCJA”)), on our taxable income at regular corporate tax rates. As a result, the amount available for distribution to holders of our common stock would be reduced for the year or years involved, and we would no longer be required to make distributions. In addition, our failure to qualify as a REIT could impair our ability to expand our business and raise capital, and adversely affect the value of our common stock.

We may owe certain taxes notwithstanding our qualification as a REIT.

Even if we qualify as a REIT, we will be subject to certain U.S. federal, state and local taxes on our income and property, on taxable income that we do not distribute to our stockholders, on net income from certain “prohibited transactions,” and on income from certain activities conducted as a result of foreclosure. We may, in certain circumstances, be required to pay an excise or penalty tax (which could be significant in amount) in order to utilize one or more relief provisions under the Code to maintain our qualification as a REIT. In addition, we may provide services that are not customarily provided by a landlord, hold properties for sale and engage in other activities (such as a management business) through TRSs and the income of those subsidiaries will be subject to U.S. federal income tax at regular corporate rates. Furthermore, to the extent that we conduct operations outside of the United States, our operations would subject us to applicable foreign taxes, regardless of our status as a REIT for U.S. tax purposes.

If our operating partnership is treated as a corporation for U.S. federal income tax purposes, we will cease to qualify as a REIT.

We believe our operating partnership qualifies and will continue to qualify as a partnership for U.S. federal income tax purposes. Assuming that it qualifies as a partnership for U.S. federal income tax purposes, our operating partnership generally will not be subject to U.S. federal income tax on its income. Instead, its partners, including us, generally are required to pay tax on their respective allocable share of our operating partnership’s income. No assurance can be provided, however, that the IRS will not challenge our operating partnership’s status as a partnership for U.S. federal income tax purposes, or that a court would not sustain such a challenge. If the IRS were successful in treating our operating partnership as a corporation for U.S. federal income tax purposes, we would fail to meet the gross income tests and certain of the asset tests applicable to REITs and, therefore, cease to qualify as a REIT, and our

operating partnership would become subject to U.S. federal, state and local income tax. The payment by our operating partnership of income tax would reduce significantly the amount of cash available to our partnership to satisfy obligations to make principal and interest payments on its debt and to make distribution to its partners, including us.

Our REIT status may depend on the REIT status of an Easterly Fund REIT.

If the owners of 50% or more of any Easterly Fund REIT were to acquire 50% or more of our stock, we could be deemed a “successor” to such Easterly Fund REIT for purposes of the REIT rules. Successor treatment would mean that our election to be taxed as a REIT could be terminated if it were determined that the applicable Easterly Fund REIT had failed to qualify as a REIT for a prior period. We do not intend to issue stock to former stockholders of an Easterly Fund REIT if we believe it could cause us to be treated as its successor. Our charter contains ownership restrictions that will prevent any overlapping ownership that would cause us to be a successor of an Easterly Fund REIT, and we intend to enforce such provisions.

Dividends payable by REITs generally do not qualify for reduced tax rates.

The maximum U.S. federal income tax rate for certain qualified dividends payable to U.S. stockholders that are individuals, trusts and estates generally is currently 20%. Dividends payable by REITs, however, are generally not eligible for the reduced rates and therefore are taxable as ordinary income when paid to such stockholders. However, the TCJA provides a deduction of up to 20% of a non-corporate taxpayer's ordinary REIT dividends with such deduction scheduled to expire for taxable years beginning after December 31, 2025. The more favorable rates applicable to regular corporate dividends could cause investors who are individuals, trusts and estates or are otherwise sensitive to these lower rates to perceive investments in REITs to be relatively less attractive than investments in the stock of non-REIT corporations that pay dividends, which could adversely affect the value of the shares of REITs, including our common stock.

A portion of our distributions may be treated as a return of capital for U.S. federal income tax purposes, which could reduce the basis of a stockholder's investment in shares of our common stock and may trigger taxable gain.

A portion of our distributions may be treated as a return of capital for U.S. federal income tax purposes. As a general matter, a portion of our distributions will be treated as a return of capital for U.S. federal income tax purposes if the aggregate amount of our distributions for a year exceeds our current and accumulated earnings and profits for that year. To the extent that a distribution is treated as a return of capital for U.S. federal income tax purposes, it will reduce a holder's adjusted tax basis in the holder's shares, and to the extent that it exceeds the holder's adjusted tax basis will be treated as gain resulting from a sale or exchange of such shares.

Complying with the REIT requirements may cause us to forego otherwise attractive opportunities or liquidate certain of our investments.

To qualify as a REIT for U.S. federal income tax purposes, we must continually satisfy tests concerning, among other things, the sources of our income, the nature and diversification of our assets, the amounts we distribute to our stockholders and the ownership of our stock. We may be required to make distributions to our stockholders at disadvantageous times or when we do not have funds readily available for distribution. Thus, compliance with the REIT requirements may, for instance, hinder our ability to make certain otherwise attractive investments or undertake other activities that might otherwise be beneficial to us and our stockholders, or may require us to borrow or liquidate investments in unfavorable market conditions and, therefore, may hinder our investment performance. As a REIT, at the end of each calendar quarter, at least 75% of the value of our assets must consist of cash, cash items, U.S. Government securities, debt instruments issued by a publicly traded REIT and qualified "real estate assets." The REIT asset tests further require that with respect to our assets that are not qualifying assets for purposes of this 75% assets test and that are not securities issued by a TRS, we generally cannot hold at the close of any calendar quarter (i) securities representing more than 10% of the outstanding voting securities of any one issuer or more than 10% of the total value of the outstanding securities of any one issuer or (ii) securities of any one issuer that represent more than 5% of the value of our total assets. In addition, securities (other than qualified real estate assets) issued by our TRSs cannot represent more than 25% (for taxable years beginning before January 1, 2018) or 20% (for taxable years beginning on or after January 1, 2018) of the value of our total assets can be represented by securities of one or more TRS. Further, even though for taxable years beginning after December 31, 2015, debt instruments issued by a publicly traded REIT that are not secured by a mortgage on real property are qualifying assets for purposes of the 75% asset test, no more than 25% of the value of our total assets can be represented by such unsecured debt instruments. After meeting these asset test requirements at the close of a calendar quarter, if we fail to comply with these requirements at the end of any subsequent calendar quarter, we must correct the failure within 30 days after the end of the calendar quarter or qualify for certain statutory relief provisions to avoid losing our REIT qualification. As a result, we may be required to liquidate from our portfolio or forego otherwise attractive investments. These actions could have the effect of reducing our income and amounts available for distribution to our stockholders.

We may be subject to a 100% penalty tax on any prohibited transactions that we enter into, or may be required to forego certain otherwise beneficial opportunities in order to avoid the penalty tax on prohibited transactions.

If we are found to have held, acquired or developed property primarily for sale to customers in the ordinary course of business, we may be subject to a 100% “prohibited transactions” tax under U.S. federal tax laws on the gain from disposition of the property unless the disposition qualifies for one or more safe harbor exceptions for properties that have been held by us for at least two years and satisfy certain additional requirements (or the disposition is made through a TRS and, therefore, is subject to corporate U.S. federal income tax). Under existing law, whether property is held primarily for sale to customers in the ordinary course of a trade or business is a question of fact that depends on all the facts and circumstances. We intend to hold, and, to the extent within our control, to have any joint venture to which our operating partnership is a partner hold, properties for investment with a view to long-term appreciation, to engage in the business of acquiring, owning, operating and developing the properties, and to make sales of our properties and other properties acquired subsequent to the date hereof as are consistent with our investment objectives. Based upon our investment objectives, we believe that overall, our properties should not be considered property held primarily for sale to customers in the ordinary course of business. However, it may not always be practical for us to comply with one of the safe harbors, and, therefore,

we may be subject to the 100% penalty tax on the gain from dispositions of property if we otherwise are deemed to have held the property primarily for sale to customers in the ordinary course of business. The potential application of the prohibited transactions tax could cause us to forego potential dispositions of other property or to forego other opportunities that might otherwise be attractive to us, or to hold investments or undertake such dispositions or other opportunities through a TRS, which would generally result in corporate income taxes being incurred.

REIT distribution requirements could adversely affect our liquidity and adversely affect our ability to execute our business plan.

In order to maintain our qualification as a REIT and to meet the REIT distribution requirements, we may need to modify our business plans. Our cash flow from operations may be insufficient to fund required distributions, for example, as a result of differences in timing between our cash flow, the receipt of income for GAAP purposes and the recognition of income for U.S. federal income tax purposes, the effect of non-deductible capital expenditures, the effect of limitations on interest and net operating loss deductibility, the creation of reserves, payment of required debt service or amortization payments, or the need to make additional investments in qualifying real estate assets. The insufficiency of our cash flow to cover our distribution requirements could require us to (i) sell assets in adverse market conditions, (ii) borrow on unfavorable terms, (iii) distribute amounts that would otherwise be invested in future acquisitions or capital expenditures or used for the repayment of debt, (iv) pay dividends in the form of “taxable stock dividends” or (v) use cash reserves, in order to comply with the REIT distribution requirements. As a result, compliance with the REIT distribution requirements could adversely affect the market value of our common stock. The inability of our cash flow to cover our distribution requirements could have an adverse impact on our ability to raise short and long-term debt or sell equity securities. In addition, if we are compelled to liquidate our assets to repay obligations to our lenders or make distributions to our stockholders, we may be subject to a 100% tax on any resultant gain if we sell assets that are treated as property held primarily for sale to customers in the ordinary course of business.

The ability of our board of directors to revoke our REIT qualification without stockholder approval may cause adverse consequences to our stockholders.

Our charter provides that our board of directors may revoke or otherwise terminate our REIT election, without the approval of our stockholders, if it determines that it is no longer in our best interest to continue to qualify as a REIT. If we cease to be a REIT, we will not be allowed a deduction for dividends paid to stockholders in computing our taxable income and will be subject to U.S. federal income tax at regular corporate rates, as well as state and local taxes, which may have adverse consequences on our total return to our stockholders.

Our ability to provide certain services to our tenants may be limited by the REIT rules, or may have to be provided through a TRS.

As a REIT, we generally cannot provide services to our tenants other than those that are customarily provided by landlords, nor can we derive income from a third party that provides such services. If we forego providing such services to our tenants, we may be at disadvantage to competitors who are not subject to the same restrictions. However, we can provide such non-customary services to tenants or share in the revenue from such services if we do so through a TRS, though income earned through the TRS will be subject to corporate income taxes.

We earn fees from certain tenant improvement services and other non-customary services provided to our tenants. Gross income from such tenant improvement services generally may only constitute qualifying income for purposes of the 75% and 95% gross income tests to the extent that it is attributable to services provided to our tenants in connection with the entering into or renewal or extension of a lease. In addition, tenant improvement services provided to our tenants other than in such circumstances might constitute non-customary services. As a result, to the

extent that we provide tenant improvement services to tenants other than in connection with the entering into or renewal or extension of a lease, or provide other non-customary services, we provide such services through a TRS, which is subject to full corporate tax with respect to such income.

Although our use of TRSs may partially mitigate the impact of meeting certain requirements necessary to maintain our qualification as a REIT, there are limits on our ability to own and engage in transactions with TRSs, and a failure to comply with the limits would jeopardize our REIT qualification and may result in the application of a 100% excise tax.

A REIT may own up to 100% of the stock of one or more TRSs. A TRS may hold assets and earn income that would not be qualifying assets or income if held or earned directly by a REIT. Both the subsidiary and the REIT must jointly elect to treat the subsidiary as a TRS. A corporation of which a TRS directly or indirectly owns more than 35% of the voting power or value of the stock will automatically be treated as a TRS. Overall, no more than 25% (for taxable years beginning before January 1, 2018) or 20% (for taxable years beginning on or after January 1, 2018) of the value of a REIT's assets may consist of securities of one or more TRSs. In addition, rules limit the deductibility of interest paid or accrued by a TRS to its parent REIT to assure that the TRS is subject

to an appropriate level of corporate taxation. Rules also impose a 100% excise tax on certain transactions between a TRS and its parent REIT that are treated as not being conducted on an arm's-length basis. We have jointly elected with one subsidiary for such subsidiary to be treated as a TRS for U.S. federal income tax purposes. This subsidiary and any other TRSs that we form will pay U.S. federal, state and local income tax on their taxable income, and their after-tax net income will be available for distribution to us but is not required to be distributed to us. Although we will monitor the aggregate value of the securities of such TRSs and intend to conduct our affairs (and believe we have conducted our affairs) so that such securities will represent (or have represented) less than 25% (for taxable years beginning before January 1, 2018) or 20% (for taxable years beginning on or after January 1, 2018) of the value of our total assets, there can be no assurance that we will be able to comply with the TRS limitation in all market conditions.

We may face risks in connection with Section 1031 exchanges.

If a transaction intended to qualify as a tax-deferred Section 1031 exchange is later determined to be taxable, we may face adverse consequences, and if the laws applicable to such transactions are amended or repealed, we may not be able to dispose of properties on a tax-deferred basis. Under the TCJA, Section 1031 exchanges now only apply to real property and do not apply to any related personal property transferred with the real property. As a result, any appreciated personal property that is transferred in connection with a Section 1031 exchange of real property will be recognized, and such gain is generally treated as non-qualifying income for the 95% and 75% gross income tests. Any such non-qualifying income could have an adverse effect on our REIT status.

The partnership audit rules may alter who bears the liability in the event any subsidiary partnership (such as our operating partnership) is audited and an adjustment is assessed.

In the case of an audit of a partnership for a taxable year beginning after December 31, 2017, the partnership itself may be liable for a hypothetical increase in partner-level taxes (including interest and penalties) resulting from an adjustment of partnership tax items on audit, regardless of changes in the composition of the partners (or their relative ownership) between the year under audit and the year of the adjustment. Thus, for example, an audit assessment attributable to former partners of the operating partnership could be shifted to the partners in the year of the adjustment. The partnership audit rules also include an elective alternative method under which the additional taxes resulting from the adjustment are assessed from the affected partners (often referred to as a "push-out election"), subject to a higher rate of interest than otherwise would apply. The rules provide that when a push-out election causes a partner that is itself a partnership to be assessed with its share of such additional taxes from the adjustment, such partnership may cause such additional taxes to be pushed out to its own partners. In addition, applicable Treasury Regulations provide that when a push-out election affects a partner that is a REIT, such REIT may be able to use deficiency dividend procedures with respect to adjustments resulting from such election. Many questions remain as to how the partnership audit rules will apply, and it is not clear at this time what effect these rules will have on us. However, it is possible that a partnership in which we directly or indirectly invest may be subject to U.S. federal income tax, interest, and penalties in the event of a U.S. federal income tax audit as a result of these rules, and as a result could increase the U.S. federal income tax, interest, and/or penalties otherwise borne by us as a direct or indirect partner in any such partnership.

Possible legislative, regulatory or other actions could adversely affect our stockholders and us.

The rules dealing with U.S. federal, state and local income taxation are constantly under review by persons involved in the legislative process and by the IRS and the U.S. Treasury Department. Changes to tax laws (which changes may have retroactive application) could adversely affect our stockholders or us. In recent years, many such changes have been made and changes are likely to continue to occur in the future. We cannot predict whether, when, in what form, or with what effective dates, tax laws, regulations and rulings may be enacted, promulgated or decided, which could result in an increase in our, or our stockholders', tax liability or require changes in the manner in which we operate in

order to minimize increases in our tax liability. A shortfall in tax revenues for states and municipalities in which we operate may lead to an increase in the frequency and size of such changes. If such changes occur, we may be required to pay additional taxes on our assets or income or be subject to additional restrictions. These increased tax costs could, among other things, adversely affect our financial condition, the results of operations and the amount of cash available for the payment of dividends.

Stockholders are urged to consult with their own tax advisors with respect to the impact that the TCJA may have on their investment and the status of legislative, regulatory or administrative developments and proposals and their potential effect on their investment in our shares.

The TCJA was signed into law on December 22, 2017. The TCJA makes major changes to the Code, including a number of provisions of the Code that affect the taxation of REITs and their stockholders. Among the changes made by the TCJA are permanently reducing the generally applicable corporate tax rate, generally reducing the tax rate applicable to individuals and other non-corporate taxpayers for tax years beginning after December 31, 2017 and before January 1, 2026, eliminating or modifying certain previously allowed deductions (including substantially limiting interest deductibility and, for individuals, the deduction for

non-business state and local taxes), and, for taxable years beginning after December 31, 2017 and before January 1, 2026, providing for preferential rates of taxation through a deduction of up to 20% (subject to certain limitations) on most ordinary REIT dividends and certain trade or business income of non-corporate taxpayers. The TCJA also imposes new limitations on the deduction of net operating losses, which may result in us having to make additional taxable distributions to our stockholders in order to comply with REIT distribution requirements or avoid taxes on retained income and gains. The effect of the significant changes made by the TCJA is highly uncertain, and administrative guidance will be required in order to fully evaluate the effect of many provisions. The effect of any technical corrections with respect to the TCJA could have an adverse effect on us or our stockholders. Investors should consult their tax advisors regarding the implications of the TCJA on their investment in us.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

As of December 31, 2018, we wholly owned 62 operating properties, including 60 operating properties with approximately 5.1 million rentable square feet that are leased primarily to U.S. Government tenants and two operating properties with approximately 0.2 million rentable square feet that are entirely leased to private tenants. In addition, we wholly owned two properties under development that we expect to encompass approximately 0.1 million square feet upon completion. As of December 31, 2018, our operating properties were 100% leased with a weighted average annualized lease income per leased square foot of \$34.03 and a weighted average age of approximately 12.5 years based on the date the property was built or renovated-to-suit, where applicable. We calculate annualized lease income as annualized contractual base rent for the last month in a specified period, plus the annualized straight line rent adjustments for the last month in such period and the annualized net expense reimbursements earned by us for the last month in such period.

Information about our operating properties as of December 31, 2018 is set forth in the table below:

Property Name	Location	Property Type ⁽¹⁾	Expiration Year ⁽²⁾	Rentable Square Feet	Annualized Lease Income	Annualized		
						Percentage of Total Annualized Lease Income	Lease Income per	Leased Square Foot
U.S. Government Leased								
VA - Loma Linda	Loma Linda, CA	OC	2036	327,614	\$16,111,542	9.0	%	\$ 49.18
Various GSA - Buffalo ⁽³⁾	Buffalo, NY	O	2019 - 2025 ⁽⁴⁾	267,766	8,337,971	4.6	%	31.14
FBI - Salt Lake	Salt Lake City, UT	O	2032	169,542	6,826,753	3.8	%	40.27
IRS - Fresno	Fresno, CA	O	2033	180,481	6,584,862	3.7	%	36.49
PTO - Arlington	Arlington, VA	O	2035	190,546	6,581,621	3.7	%	34.54
Various GSA - Chicago ⁽⁵⁾	Des Plaines, IL	O	2020 / 2022 ⁽⁶⁾	232,759	6,415,833	3.6	%	28.62
VA - San Jose	San Jose, CA	OC	2038	90,085	5,791,008	3.2	%	64.28
FBI - San Antonio	San Antonio, TX	O	2021	148,584	5,159,464	2.9	%	34.72
FEMA - Tracy	Tracy, CA	W	2038	210,373	4,639,964	2.6	%	22.06
FBI - Omaha	Omaha, NE	O	2024	112,196	4,493,821	2.5	%	40.05
TREAS - Parkersburg	Parkersburg, WV	O	2021	182,500	4,421,565	2.5	%	24.23
EPA - Kansas City	Kansas City, KS	L	2023	71,979	4,203,862	2.4	%	58.40
VA - South Bend	Mishakawa, IN	OC	2032	86,363	3,985,310	2.2	%	46.15
ICE - Charleston ⁽⁷⁾	North Charleston, SC	O	2021 / 2027	86,733	3,795,904	2.1	%	43.77
DOT - Lakewood	Lakewood, CO	O	2024	122,225	3,490,218	2.0	%	28.56
FBI - Pittsburgh	Pittsburgh, PA	O	2027	100,054	3,386,694	1.9	%	33.85
USCIS - Lincoln	Lincoln, NE	O	2020	137,671	3,369,293	1.9	%	24.47

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JUD - El Centro ⁽⁹⁾	El Centro, CA	C/O	2019	46,813	3,117,769	1.7	%	66.60
FBI - Birmingham	Birmingham, AL	O	2020	96,278	3,089,244	1.7	%	32.09
OSHA - Sandy	Sandy, UT	L	2024 ⁽¹⁰⁾	75,000	2,982,868	1.7	%	39.77
USFS II - Albuquerque	Albuquerque, NM	O	2026 ⁽¹¹⁾	98,720	2,939,052	1.6	%	29.77
USFS I - Albuquerque	Albuquerque, NM	O	2021 ⁽¹¹⁾	92,455	2,810,603	1.6	%	30.40
DEA - Vista	Vista, CA	L	2020	54,119	2,798,970	1.6	%	51.72
DEA - Pleasanton	Pleasanton, CA	L	2035	42,480	2,785,682	1.6	%	65.58
ICE - Albuquerque	Albuquerque, NM	O	2027	71,100	2,749,463	1.5	%	38.67
FBI - Richmond	Richmond, VA	O	2021	96,607	2,740,032	1.5	%	28.36
JUD - Del Rio ⁽⁹⁾	Del Rio, TX	C/O	2024	89,880	2,682,606	1.5	%	29.85
DEA - Dallas Lab	Dallas, TX	L	2021	49,723	2,424,579	1.4	%	48.76
TREAS - Birmingham	Birmingham, AL	O	2029	83,676	2,364,288	1.3	%	28.26
SSA - Charleston	Charleston, WV	O	2019 ⁽¹²⁾	110,000	2,302,315	1.3	%	20.93
DEA - Upper Marlboro	Upper Marlboro, MD	L	2022	50,978	2,286,843	1.3	%	44.86
FBI - Little Rock	Little Rock, AR	O	2021	101,977	2,226,422	1.2	%	21.83
MEPCOM - Jacksonville	Jacksonville, FL	O	2025	30,000	2,189,792	1.2	%	72.99
CBP - Savannah	Savannah, GA	L	2033	35,000	2,137,168	1.2	%	61.06
FBI - Albany	Albany, NY	O	2019	98,184	2,101,795	1.2	%	21.41
DEA - Santa Ana	Santa Ana, CA	O	2024	39,905	2,090,935	1.2	%	52.40
CBP - Chula Vista	Chula Vista, CA	O	2028	59,322	2,086,349	1.2	%	35.17
DOE - Lakewood	Lakewood, CO	O	2029	115,650	2,064,224	1.2	%	17.85
JUD - Charleston ⁽⁹⁾	Charleston, SC	C/O	2019 ⁽¹³⁾	50,888	1,810,980	1.0	%	35.59
NPS - Omaha	Omaha, NE	O	2024	62,772	1,763,027	1.0	%	28.09
ICE - Otay	San Diego, CA	O	2022 / 2026 ⁽¹⁴⁾	52,881	1,746,592	1.0	%	35.32
VA - Golden	Golden, CO	O/W	2026	56,753	1,731,738	1.0	%	30.51
DEA - Dallas	Dallas, TX	O	2021	71,827	1,693,601	0.9	%	23.58
CBP - Sunburst	Sunburst, MT	O	2028	33,000	1,597,097	0.9	%	48.40
USCG - Martinsburg	Martinsburg, WV	O	2027	59,547	1,590,325	0.9	%	26.71
DEA - Otay ⁽¹⁵⁾	San Diego, CA	O	2019	32,560	1,575,869	0.9	%	48.40

								Annualized	
								Lease	
								Percentage	
								of Total	
								Income	
								per	
								Leased	
								Square	
Property Name	Location	Type ⁽¹⁾	Year ⁽²⁾	Feet	Income	Income	Foot		
U.S. Government Leased (Cont.)									
JUD - Aberdeen ⁽⁹⁾	Aberdeen, MS	C/O	2025	46,979	1,476,514	0.8	%	31.43	
DEA - Birmingham ⁽¹⁶⁾	Birmingham, AL	O	2020	35,616	1,460,619	0.8	%	41.01	
DEA - North Highlands	Sacramento, CA	O	2033	37,975	1,435,217	0.8	%	37.79	
GSA - Clarksburg ⁽¹⁷⁾	Clarksburg, WV	O	2024 ⁽¹¹⁾	63,750	1,383,543	0.8	%	21.70	
DEA - Albany	Albany, NY	O	2025	31,976	1,349,054	0.8	%	42.19	
DEA - Riverside	Riverside, CA	O	2032	34,354	1,232,941	0.7	%	35.89	
SSA - Dallas	Dallas, TX	O	2020	27,200	1,073,215	0.6	%	39.46	
ICE - Pittsburgh ⁽¹⁸⁾	Pittsburgh, PA	O	2022 / ⁽¹⁹⁾ 2023	33,425	790,210	0.4	%	31.30	
VA - Baton Rouge	Baton Rouge, LA	OC	2019 ⁽¹¹⁾	30,000	772,128	0.4	%	25.74	
JUD - South Bend ⁽⁹⁾	South Bend, IN	C/O	2027	30,119	766,706	0.4	%	25.46	
DEA - San Diego	San Diego, CA	W	2032	16,100	557,113	0.3	%	34.60	
SSA - Mission Viejo	Mission Viejo, CA	O	2020	11,590	532,074	0.3	%	45.91	
DEA - Bakersfield	Bakersfield, CA	O	2021	9,800	355,728	0.2	%	36.30	
SSA - San Diego	San Diego, CA	O	2032	10,856	334,810	0.2	%	33.28	
Subtotal				5,095,306	\$ 177,595,785	99.4	%	\$ 35.00	
Privately Leased									
5998 Osceola Court -									
United Technologies	Midland, GA	W/M	2023 ⁽²⁰⁾	105,641	545,602	0.3	%	5.16	
501 East Hunter Street -									
Lummus Corporation	Lubbock, TX	W/D	2028 ⁽¹⁰⁾	70,078	521,592	0.3	%	7.44	
Subtotal				175,719	\$ 1,067,194	0.6	%	\$ 6.07	
Total / Weighted									
Average				5,271,025	\$ 178,662,979	100.0	%	\$ 34.03	

(1) OC=Outpatient Clinic; O=Office; C=Courthouse; L=Laboratory; W=Warehouse; D=Distribution; M=Manufacturing.

(2) The year of lease expiration does not include renewal options. All leases with renewal options are noted in the following footnotes to this table.

(3) Private tenants occupy 15,374 rentable square feet.

(4) 93,130 rentable square feet leased to the VA will expire on January 13, 2021, 61,334 rentable square feet leased to the IRS will expire on December 12, 2020, 36,640 rentable square feet leased to the National Labor Relations Board (NLRB) will expire on September 19, 2025, 32,000 rentable square feet leased to the Small Business Administration (SBA) will expire on December 14, 2021 and 44,662 rentable square feet leased to various other

tenants and will expire between 2019-2023.

- (5) Private tenants occupy 2,987 rentable square feet.
- (6) 209,970 rentable square feet leased to the Federal Aviation Administration (FAA) will expire on October 20, 2020 and 14,223 rentable square feet leased to various other tenants will expire between 2020-2022.
- (7) We Are Sharing Hope SC (formerly known as LifePoint, Inc.) occupies 21,609 rentable square feet.
- (8) 21,609 rentable square feet leased to We Are Sharing Hope SC will expire on September 30, 2021, and 54,872 rentable square feet leased to ICE, 9,198 rentable square feet leased to DEA, and 1,054 rentable square feet leased to U.S. Marshals Service will expire on January 31, 2027.
- (9) The Administrative Office of the U.S. Courts (AOC) is part of the Judiciary of the U.S. Government (JUD) and as such these properties have been renamed for purposes of our property naming conventions. Additionally, a portion of this property is occupied by the U.S. Marshals Service to provide security and otherwise support the mission of the JUD. Because of the interrelated nature of the U.S. Marshals Service and the JUD, we have not separately addressed occupancy by the U.S. Marshals Service.
- (10) Lease contains two five-year renewal options.
- (11) Lease contains one five-year renewal option.
- (12) Lease contains two five-year renewal options or one ten-year renewal option.
- (13) Lease contains two ten-year renewal options.
- (14) 40,485 rentable square feet leased to ICE will expire on November 27, 2022, 7,434 rentable square feet leased to the DOT will expire on June 4, 2022 and 1,538 rentable square feet leased to the USDA will expire on January 1, 2026.
- (15) ICE occupies 5,813 rentable square feet.
- (16) The ATF occupies 8,680 rentable square feet.
- (17) SSA occupies 42,017 rentable square feet and the remaining 21,733 rentable square feet are leased to various other government tenants.
- (18) A private tenant occupies 3,854 rentable square feet.
- (19) 21,391 rentable square feet leased to ICE will expire on February 28, 2022 and contains one three-year renewal option. 3,854 rentable square feet leased to a private tenant will expire June 3, 2023.
- (20) Lease contains three five-year renewal options.

Our assets are located throughout the United States. The following chart sets forth the geographic diversification of our operating properties, by market, based on the GSA's definition of regions, as of December 31, 2018:

Location State	Market	Number of Properties	Number of Leases	Rentable Square Feet	Percentage of Total Rentable Square Feet			Lease Income	Annualized of Total Annualized Lease Income	
					Percentage of Total Rentable Square Feet	Percentage of Total Rentable Square Feet	Percentage of Total Rentable Square Feet		Annualized of Total Annualized Lease Income	Annualized of Total Annualized Lease Income
California	Pacific Rim	17	19	1,257,308	23.9 %	100 %	100 %	\$53,777,425	30.1 %	30.1 %
Texas	Greater Southwest	6	6	457,292	8.7 %	100 %	100 %	13,555,057	7.6 %	7.6 %
New York	Northeast	3	10	397,926	7.5 %	100 %	100 %	11,788,820	6.6 %	6.6 %
Utah	Rocky Mountain	2	2	244,542	4.6 %	100 %	100 %	9,809,621	5.5 %	5.5 %
West Virginia	Mid-Atlantic	4	4	415,797	7.9 %	100 %	100 %	9,697,748	5.4 %	5.4 %
Nebraska	The Heartland	3	3	312,639	5.9 %	100 %	100 %	9,626,141	5.4 %	5.4 %
Virginia	National Capital	2	2	287,153	5.4 %	100 %	100 %	9,321,653	5.2 %	5.2 %
New Mexico	Greater Southwest	3	3	262,275	5.0 %	100 %	100 %	8,499,118	4.8 %	4.8 %
Colorado	Rocky Mountain	3	3	294,628	5.6 %	100 %	100 %	7,286,180	4.1 %	4.1 %
Alabama	Southeast Sunbelt	3	3	215,570	4.1 %	100 %	100 %	6,914,151	3.9 %	3.9 %
Illinois	Great Lakes	1	5	232,759	4.4 %	100 %	100 %	6,415,833	3.6 %	3.6 %
South Carolina	Southeast Sunbelt	2	3	137,621	2.6 %	100 %	100 %	5,606,884	3.1 %	3.1 %
Indiana	Great Lakes	2	2	116,482	2.2 %	100 %	100 %	4,752,016	2.7 %	2.7 %
Kansas	The Heartland	1	1	71,979	1.4 %	100 %	100 %	4,203,862	2.4 %	2.4 %
Pennsylvania	Mid-Atlantic	2	3	133,479	2.5 %	100 %	100 %	4,176,904	2.3 %	2.3 %
Georgia	Southeast Sunbelt	2	2	140,641	2.7 %	100 %	100 %	2,682,770	1.5 %	1.5 %
Maryland	Mid-Atlantic	1	1	50,978	1.0 %	200 %	200 %	2,286,843	1.3 %	1.3 %
Arkansas	Greater Southwest	1	1	101,977	1.9 %	100 %	100 %	2,226,422	1.2 %	1.2 %
Florida	Southeast Sunbelt	1	1	30,000	0.6 %	100 %	100 %	2,189,792	1.2 %	1.2 %
Montana	Rocky Mountain	1	1	33,000	0.6 %	100 %	100 %	1,597,097	0.9 %	0.9 %
Mississippi	Southeast Sunbelt	1	1	46,979	0.9 %	100 %	100 %	1,476,514	0.8 %	0.8 %
Louisiana	Greater Southwest	1	1	30,000	0.6 %	100 %	100 %	772,128	0.4 %	0.4 %
Total / Weighted Average Market		62	77	5,271,025	100.0 %	100 %	100 %	\$178,662,979	100.0 %	100.0 %
Pacific Rim		17	19	1,257,308	23.9 %	100 %	100 %	\$53,777,425	30.1 %	30.1 %
Greater Southwest ⁽¹⁾		11	11	851,544	16.2 %	100 %	100 %	25,052,725	14.0 %	14.0 %
Southeast Sunbelt ⁽¹⁾		9	10	570,811	10.8 %	100 %	100 %	18,870,111	10.6 %	10.6 %
Rocky Mountain		6	6	572,170	10.9 %	100 %	100 %	18,692,898	10.5 %	10.5 %
Mid-Atlantic		7	8	600,254	11.4 %	100 %	100 %	16,161,495	9.0 %	9.0 %
The Heartland		4	4	384,618	7.3 %	100 %	100 %	13,830,003	7.7 %	7.7 %
Northeast & Caribbean		3	10	397,926	7.5 %	100 %	100 %	11,788,820	6.6 %	6.6 %
Great Lakes		3	7	349,241	6.6 %	100 %	100 %	11,167,849	6.3 %	6.3 %
National Capital		2	2	287,153	5.4 %	100 %	100 %	9,321,653	5.2 %	5.2 %

Total / Weighted							
Average	62	77	5,271,025	100.0 %	100 %	\$178,662,979	100.0 %
(1) Two properties entirely leased to private tenants are located in the Southeast Sunbelt and Greater Southwest regions.							
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Our portfolio of operating properties has a stable tenant base that is diversified among U.S. Government agencies. Our U.S. Government tenant agencies include a number of the U.S. Government's largest and most essential agencies, such as the VA, FBI, DEA, and the JUD. Our largest private tenants are United Technologies, We Are Sharing Hope SC and Lummus Corporation. As of December 31, 2018 our operating properties were 100% occupied by 38 tenants. The following table provides information about the tenants that occupied our properties as of December 31, 2018:

	Weighted		Percentage		Percentage		
	Average		Percentage		of Total		
	Remaining Leased		of Leased	Annualized	Annualized		
	Lease	Square	Square	Lease	Lease		
Tenant ⁽¹⁾	Term ⁽²⁾	Feet	Feet	Income	Income		
U.S. Government							
Department of Veteran Affairs (“VA”)	13.3	695,998	13.4	%	\$31,688,702	17.7	%
Federal Bureau of Investigation (“FBI”)	5.3	926,535	17.7	%	30,091,792	16.8	%
Drug Enforcement Administration (“DEA”)	6.1	507,621	9.8	%	21,942,481	12.3	%
The Judiciary of the U.S. Government (“JUD”)	4.1	264,679	5.0	%	9,854,575	5.5	%
Internal Revenue Service (“IRS”)	11.6	241,815	4.6	%	8,569,438	4.8	%
Immigration and Customs Enforcement (“ICE”)	6.4	193,661	3.7	%	7,902,507	4.4	%
Bureau of the Fiscal Service (“BFS”)	5.0	266,176	5.1	%	6,785,853	3.8	%
Patent and Trademark Office (“PTO”)	16.0	190,546	3.6	%	6,581,621	3.7	%
Federal Aviation Administration (“FAA”)	1.8	209,970	4.0	%	6,034,088	3.4	%
Customs and Border Protection (“CBP”)	10.9	127,322	2.4	%	5,820,614	3.3	%
U.S. Forest Service (“USFS”)	5.0	191,175	3.6	%	5,749,655	3.2	%
Social Security Administration (“SSA”)	2.6	200,866	3.8	%	5,154,297	2.9	%
Federal Emergency Management Agency (“FEMA”)	19.8	210,373	4.0	%	4,639,964	2.6	%
Environmental Protection Agency (“EPA”)	4.2	71,979	1.4	%	4,203,862	2.4	%
Department of Transportation (“DOT”)	5.3	129,659	2.5	%	3,737,685	2.1	%
U.S. Citizenship and Immigration Services (“USCIS”)	1.7	137,671	2.6	%	3,369,293	1.9	%
Occupational Safety and Health Administration (“OSHA”)	5.1	75,000	1.4	%	2,982,868	1.7	%
Military Entrance Processing Command (“MEPCOM”)	6.7	30,000	0.6	%	2,189,792	1.2	%
Department of Energy (“DOE”)	10.9	115,650	2.2	%	2,064,224	1.2	%
National Park Service (“NPS”)	5.5	62,772	1.2	%	1,763,027	1.0	%
U.S. Coast Guard (“USCG”)	9.0	59,547	1.1	%	1,590,325	0.9	%
Small Business Administration (“SBA”)	3.3	37,253	0.7	%	1,143,245	0.6	%
National Labor Relations Board (“NLRB”)	6.7	36,640	0.7	%	1,076,327	0.6	%
General Services Administration - Other	4.9	17,235	0.3	%	557,247	0.3	%
U.S. Department of Agriculture (“USDA”)	2.4	12,774	0.2	%	390,254	0.2	%
Bureau of Alcohol, Tobacco, Firearms and Explosives (“ATF”)	2.0	8,680	0.2	%	355,968	0.2	%
U.S. Attorney Office (“USAO”)	5.1	6,408	0.1	%	139,061	0.1	%

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U.S. Marshals Service (“USMS”)	8.1	1,054	0.0	%	47,350	0.0	%
Department of Labor (“DOL”)	5.1	1,004	0.0	%	21,786	0.0	%
U.S. Probation Office (“USPO”)	5.1	452	0.0	%	9,816	0.0	%
Subtotal	7.7	5,030,515	95.9	%	\$ 176,457,717	98.8	%
Private Tenants							
We Are Sharing Hope SC	2.8	21,609	0.4	%	614,331	0.3	%
United Technologies (Pratt & Whitney)	5.0	105,641	2.0	%	545,602	0.3	%
Other Private Tenants	3.0	22,215	0.4	%	523,737	0.3	%
Lummus Corporation	9.6	70,078	1.3	%	521,592	0.3	%
Subtotal	6.0	219,543	4.1	%	\$ 2,205,262	1.2	%
Total / Weighted Average	7.6	5,250,058	100.0	%	\$ 178,662,979	100.0	%

(1) If a property is leased to multiple tenants the weighted average remaining lease term, leased square feet, annualized lease income and percentage of total annualized lease income have been allocated to the respective tenant agency.

(2) Weighted based on leased square feet.

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Certain of our leases are currently in the “soft-term” period of the lease, meaning that the U.S. Government tenant agency has the right to terminate the lease prior to its stated lease end date. We believe that, from the U.S. Government’s perspective, leases with such provisions are helpful for budgetary purposes. While some of our leases are contractually subject to early termination, we do not believe that our tenant agencies are likely to terminate these leases early given the build-to-suit features at the properties subject to the leases, the average age of these properties based on the date the property was built or renovated-to-suit, where applicable (approximately 15.7 years), the mission-critical focus of the properties subject to the leases and the current level of operations at such properties. The following table sets forth a schedule of lease expirations for leases in place as of December 31, 2018.

Year of Lease Expiration (1)	Number of Square		Percentage of		Percentage		Annualized Lease	
	Leases	Footage	Portfolio Square	Annualized	of Total		Income per	
					Lease Income	Annualized		
								Lease Income
Expiring	Expiring	Footage Expiring	Expiring	Expiring	Foot Expiring			
2019	7	380,498	7.2	%	\$ 11,970,144	6.7	%	\$ 31.46
2020	12	647,266	12.3	%	20,744,621	11.6	%	32.05
2021	12	914,486	17.4	%	26,847,227	15.0	%	29.36
2022	5	122,123	2.3	%	4,693,835	2.6	%	38.44
2023	4	198,709	3.8	%	5,390,356	3.0	%	27.13
2024	7	565,728	10.8	%	18,887,018	10.6	%	33.39
2025	4	145,595	2.8	%	6,091,687	3.4	%	41.84
2026	3	157,011	3.0	%	4,725,789	2.6	%	30.10
2027	5	325,944	6.2	%	11,674,761	6.5	%	35.82
2028	3	162,400	3.1	%	4,205,038	2.4	%	25.89
Thereafter	15	1,630,298	31.1	%	63,432,503	35.6	%	38.91
Total / Weighted								
Average	77	5,250,058	100.0	%	\$ 178,662,979	100.0	%	\$ 34.03

(1) The year of lease expirations is pursuant to current contract terms. Some tenants have the right to vacate their space during a specified period, or “soft term,” before the stated terms of their leases expire. As of December 31, 2018, eight leases occupying approximately 6.0% of our rentable square feet and contributing approximately 4.4% of our annualized lease income have exercisable rights to terminate their leases before the stated term of their lease expires.

Information about our development properties as of December 31, 2018 is set forth in the table below:

					Estimated Rentable
			Property	Lease	Square
Property Name	Location	Tenant	Type ⁽¹⁾	Term	Feet
FDA - Alameda	Alameda, CA	Food and Drug Administration	L	20-year	69,624
FDA - Lenexa	Lenexa, KS	Food and Drug Administration	L	20-year ⁽²⁾	59,690
Total					129,314

(1)L=Laboratory.

(2) The 20-year lease term includes a firm term of 15 years and a soft term of 5 years.

Item 3. Legal Proceedings

We are not currently involved in any material litigation nor, to our knowledge, is any material litigation threatened against us.

Item 4. Mine Safety Disclosure

Not applicable.

PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Shares of our common stock are traded on the New York Stock Exchange under the symbol "DEA". We had 20 stockholders of record of our common stock as of February 20, 2019. Certain shares are held in "street" name and accordingly, the number of beneficial owners of such shares is not known or included in the foregoing number.

Distribution Policy

In order to maintain our qualification as a REIT under the Internal Revenue Code, we must distribute at least 90% of our taxable income to stockholders. We intend to pay regular quarterly distributions to holders of common stock in a manner to satisfy this requirement. Any distributions we make will be at the discretion of our board of directors and will be dependent upon a number of factors, including prohibitions or restrictions under financing agreements or applicable law and other factors described herein. We anticipate distributing all of our taxable income. See Item 1A, "Risk Factors," and Item 7, "Management's Discussion and Analysis of Financial Conditions and Results of Operations," of this Annual Report on Form 10-K, for information regarding the sources of funds used for distributions and for a discussion of factors, if any, which may adversely affect our ability to make distributions to our stockholders.

Performance Graph

The following performance chart compares the cumulative total stockholder return of our common stock with the cumulative total return of the Russell 2000 Index and the cumulative total return of the FTSE NAREIT Equity REITs Index. The FTSE NAREIT Equity REITs Index represents performance of all publicly-traded US Equity REITs not designated as Timber REITs or Infrastructure REITs. The chart covers the period from February 6, 2015 through December 31, 2018 and assumes that \$100 was invested in our common stock and in each index on February 6, 2015 and that all dividends were reinvested. The information in this paragraph and the following performance chart are deemed to be furnished, not filed.

Recent Sales of Unregistered Securities

None.

Recent Purchases of Equity Securities

None.

Item 6. Selected Financial Data

The financial information analyzed below summarizes the results of operations for Easterly for the years ended December 31, 2018, 2017 and 2016 and the combined results of operations for both Easterly (for the period subsequent to our initial public offering of February 11, 2015 through December 31, 2015) and our predecessor (as defined below) (for the period January 1, 2015 through February 10, 2015) and the results of operations for our predecessor for the year ended December 31, 2014.

In connection with our initial public offering, we engaged in certain formation transactions, or the formation transactions, pursuant to which our operating partnership acquired (i) 15 properties previously owned by the Easterly Funds (as defined below), (ii) 14 properties previously owned by Western Devcon, Inc., a private real estate company, and a series of related entities beneficially owned by Michael P. Ibe, which we refer to collectively as Western Devcon and (iii) all of the ownership interests in the management entities (as defined below).

Our predecessor means Easterly Partners, LLC and its consolidated subsidiaries prior to our initial public offering and the formation transactions, including (i) all entities or interests in U.S. Government Properties Income and Growth Fund L.P., U.S. Government Properties Income and Growth Fund REIT, Inc. and the related feeder and subsidiary entities, which we refer to, collectively, as Easterly Fund I, (ii) all entities or interests in U.S. Government Properties Income and Growth Fund II, LP, USGP II REIT LP, USGP II (Parallel) Fund, LP and their related feeders and subsidiary entities, which we refer to, collectively, as Easterly Fund II and, together with Easterly Fund I, we refer to as the Easterly Funds and (iii) the entities that managed the Easterly Funds, which we refer to as the management entities.

Prior to our initial public offering on February 11, 2015, the Easterly Funds, as controlled by our predecessor, qualified as investment companies pursuant to ASC 946 Financial Services – Investment Companies and, as a result, our predecessor's consolidated financial statements accounted for the Easterly Funds using investment company accounting based on fair value. Subsequent to our initial public offering, as the properties contributed to us from the Easterly Funds are no longer held by funds that qualify for investment company accounting, we made a shift, in accordance with GAAP to account for the properties contributed by the Easterly Funds and Western Devcon using historical cost accounting instead of investment company accounting, resulting in a significant change in the presentation of our consolidated financial statements following the formation transactions. The contribution of the investments of the Easterly Funds controlled by our predecessor to our operating partnership pursuant to the formation transactions is accounted for as transactions among entities under common control.

The contribution of the Western Devcon properties in the formation transactions has been accounted for as a business combination using the acquisition method of accounting and recognized at the estimated fair value of acquired assets and assumed liabilities on the date of such contribution.

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Since the information presented below is only a summary, the following should be reviewed in conjunction with the information contained in “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” the consolidated financial statements and related notes thereto.

(Amounts in thousands)	For the years ended December 31,				
	2018	2017	2016	2015	2014
Revenues					
Rental income	\$142,381	\$116,002	\$93,364	\$64,942	\$—
Tenant reimbursements	16,978	13,929	10,647	6,233	—
Other income	1,232	742	607	203	—
Income from real estate investments	—	—	—	—	6,324
Total revenues	160,591	130,673	104,618	71,378	6,324
Expenses					
Property operating	30,912	24,907	21,078	13,340	—
Real estate taxes	17,311	13,730	9,896	6,983	—
Depreciation and amortization	66,403	54,873	45,883	32,887	—
Acquisition costs	1,579	1,493	1,798	2,887	—
Formation expenses	—	—	—	1,666	—
Corporate general and administrative	14,824	12,900	12,289	8,817	9,117
Fund general and administrative	—	—	—	75	819
Total expenses	131,029	107,903	90,944	66,655	9,936
Other (expenses) / income					
Interest expense	(22,903)	(17,071)	(8,177)	(4,972)	—
Loss on the sale of operating property	—	(310)	—	—	—
Net realized gain on investments	—	—	—	—	40
Net unrealized gain (loss) on investments	—	—	—	(5,122)	71,357
Net income (loss)	\$6,659	\$5,389	\$5,497	\$(5,371)	\$67,785

(Amounts in thousands, except per share amounts)	For the years ended December 31,				
	2018	2017	2016	2015	2014
Real estate investments, at fair value	\$—	\$—	\$—	\$—	\$267,683
Real estate properties, net	\$1,626,617	\$1,230,162	\$901,422	\$772,174	\$—
Total assets	\$1,861,550	\$1,425,338	\$1,046,897	\$912,721	\$300,505
Debt obligations	\$766,355	\$575,894	\$292,973	\$238,202	\$—
Dividends declared per share	\$1.04	\$1.00	\$0.92	\$0.54	\$—
Total equity	\$1,025,253	\$791,089	\$698,300	\$620,568	\$297,184

Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations

You should read the following discussion of our results of operations and financial condition in conjunction with the audited consolidated financial statements and related notes thereto as of December 31, 2018 and 2017 and for the years ended December 31, 2018, 2017 and 2016 and the sections entitled “Risk Factors,” “Forward Looking Statements,” “Business,” and “Properties” contained elsewhere in this Annual Report on Form 10-K. This discussion contains forward-looking statements that involve risks and uncertainties. The forward-looking statements are not historical facts, but rather are based on current expectations, estimates, assumptions and projections about our industry, business and future financial results. Our actual results could differ materially from the results contemplated by these forward-looking statements due to a number of factors, including those discussed in the sections of this Annual Report on Form 10-K entitled “Risk Factors” and “Forward Looking Statements.”

Our Company

References to “Easterly,” “we,” “our,” “us” and “our company” refer to Easterly Government Properties, Inc., a Maryland corporation, together with our consolidated subsidiaries including Easterly Government Properties LP, a Delaware limited partnership, which we refer to herein as our operating partnership.

We are an internally managed real estate investment trust, or REIT, focused primarily on the acquisition, development and management of Class A commercial properties that are leased to U.S. Government agencies that serve essential functions. We generate substantially all of our revenue by leasing our properties to such agencies either directly or through the U.S. General Services

Administration, or GSA. Our objective is to generate attractive risk-adjusted returns for our stockholders over the long term through dividends and capital appreciation.

As of December 31, 2018, we wholly owned 62 operating properties in the United States that are 100% leased, including 60 operating properties that are leased primarily to U.S. Government tenant agencies and two operating properties that are entirely leased to private tenants, encompassing approximately 5.3 million square feet in the aggregate. In addition, we wholly owned two properties under development that we expect to encompass approximately 0.1 million square feet upon completion. We focus on acquiring, developing and managing U.S. Government-leased properties that are essential to supporting the mission of the tenant agency and strive to be a partner of choice for the U.S. Government, working with the tenant agency to meet their needs and objectives.

Our operating partnership holds substantially all of our assets and conducts substantially all of our business. We own approximately 87.2% of the aggregate operating partnership units in our operating partnership. We believe that we have operated and have been organized in conformity with the requirements for qualification and taxation as a REIT for U.S. federal income tax purposes commencing with our taxable year ended December 31, 2015.

Financial information analyzed below reflects the audited financial statements as of December 31, 2018, included in the F pages of this Annual Report on Form 10-K.

Results of Operations

Comparison of Results of Operations for the Years Ended December 31, 2018 and December 31, 2017

The financial information presented below summarizes the results of operations of the Company for the years ended December 31, 2018 and 2017.

(Amounts in thousands)	For the years ended December 31,		
	2018	2017	Change
Revenues			
Rental income	\$ 142,381	\$ 116,002	\$ 26,379
Tenant reimbursements	16,978	13,929	3,049
Other income	1,232	742	490
Total revenues	160,591	130,673	29,918
Expenses			
Property operating	30,912	24,907	6,005
Real estate taxes	17,311	13,730	3,581
Depreciation and amortization	66,403	54,873	11,530
Acquisition costs	1,579	1,493	86
Corporate general and administrative	14,824	12,900	1,924
Total expenses	131,029	107,903	23,126
Other expenses			
Interest expense	(22,903)	(17,071)	(5,832)
Loss on the sale of operating property	—	(310)	310
Net income	\$ 6,659	\$ 5,389	\$ 1,270

Revenues

Total revenue consists primarily of rental income from our properties, tenant reimbursements for real estate taxes, projects and certain other expenses, and project management income.

Total revenue increased \$29.9 million to \$160.6 million for the year ended December 31, 2018 compared to \$130.7 million for the year ended December 31, 2017. The increase was primarily attributable to an additional \$28.6 million of revenue from the fifteen operating properties acquired and one development property placed in service since December 31, 2017 as well as a full period of operations from the four operating properties acquired during the year ended December 31, 2017 offset by one property disposed of during the year ended December 31, 2017, and a \$1.4 million increase in tenant project reimbursements and the associated project management income.

Expenses

Total expenses increased by \$23.1 million to \$131.0 million for the year ended December 31, 2018 compared to \$107.9 million for the year ended December 31, 2017. The increase is primarily attributable to a \$21.9 million increase in property operating expenses, real estate taxes, and depreciation and amortization associated with the acquisition of fifteen operating properties and one development property placed in service since December 31, 2017 and a full period of operations from the four operating properties acquired during the year ended December 31, 2017, offset by one property disposed of during the year ended December 31, 2017 and a \$1.4 million increase in tenant project reimbursements offset by a \$2.7 million decrease in depreciation related to the timing of intangible asset amortization. Additionally, corporate and general administrative costs increased by \$1.9 million primarily due to an increase in employee costs.

Interest Expense

Interest expense increased \$5.8 million to \$22.9 million for the year ended December 31, 2018 compared to \$17.1 million for the year ended December 31, 2017. This increase is primarily due to \$7.8 million associated with interest on the senior unsecured notes and a mortgage loan secured by VA - Loma Linda, both of which were entered into during the year ended December 31, 2017, and interest on our 2016 term loan facility and on our 2018 term loan facility, which were amended and entered into, respectively, during the year ended December 31, 2018. This increase was partially offset by a \$2.0 million decrease in interest due to an increase in capitalized interest associated with properties under development and a decrease in interest on our revolving credit facility due to the decrease in the weighted average borrowings from \$137.3 million during the year ended December 31, 2017 to \$74.4 million for the year ended December 31, 2018.

Comparison of Results of Operations for the Years Ended December 31, 2017 and December 31, 2016

The financial information presented below summarizes the results of operations of the Company for the years ended December 31, 2017 and 2016.

(Amounts in thousands)	For the years ended December 31,		
	2017	2016	Change
Revenues			
Rental income	\$ 116,002	\$93,364	\$22,638
Tenant reimbursements	13,929	10,647	3,282
Other income	742	607	135
Total revenues	130,673	104,618	26,055
Expenses			
Property operating	24,907	21,078	3,829
Real estate taxes	13,730	9,896	3,834
Depreciation and amortization	54,873	45,883	8,990
Acquisition costs	1,493	1,798	(305)
Corporate general and administrative	12,900	12,289	611
Total expenses	107,903	90,944	16,959
Other expenses			
Interest expense	(17,071)	(8,177)	(8,894)
Loss on the sale of operating property	(310)	—	(310)

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Net income	\$5,389	\$5,497	\$(108)
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Revenues

Total revenue consists primarily of rental income from our properties, tenant reimbursements for real estate taxes, projects and certain other expenses, and project management income.

Total revenue increased \$26.1 million to \$130.7 million for the year ended December 31, 2017 compared to \$104.6 million for the year ended December 31, 2016. The increase was primarily attributable to an additional \$24.2 million of revenue from the four operating properties acquired since December 31, 2016 as well as a full period of operations from the seven operating properties acquired during the year ended December 31, 2016, a \$1.6 million increase in rental income and other tenant reimbursements from properties owned in both periods, and a \$0.2 million increase in tenant project reimbursements and the associated project management income.

Expenses

Total expenses increased by \$17.0 million to \$107.9 million for the year ended December 31, 2017 compared to \$90.9 million for the year ended December 31, 2016.

\$16.7 million of the increase is attributable to our property operating expenses, real estate taxes, and depreciation and amortization from the acquisition of four operating properties since December 31, 2016 as well as a full period of operations from the seven operating properties acquired during the year ended December 31, 2016, a \$1.2 million increase in operating expenses, real estate taxes and depreciation from additional capital expenditures associated with properties owned in both periods, and a \$0.2 million increase related to expenses associated with projects fully reimbursed by the tenant partially offset by a \$1.5 million decrease in depreciation related to the timing of intangible asset amortization.

Additionally, corporate general and administrative costs increased by \$0.6 million primarily due to an increase in employee costs. Acquisition costs decreased by \$0.3 million year over year due to \$0.6 million of costs capitalized associated with probable and completed operating property acquisitions during the year ended December 31, 2017 upon the adoption of ASU 2017-01 as of January 1, 2017, offset by a \$0.3 million increase in acquisition costs attributable to an increase in internal employee costs associated with probable and completed operating property acquisitions.

Interest Expense

Interest expense increased \$8.9 million to \$17.1 million for the year ended December 31, 2017 compared to \$8.2 million for the year ended December 31, 2016. This increase is primarily due to increases of \$4.4 million associated with the issuance of the senior unsecured notes, \$2.6 million attributable to our 2016 term loan facility and interest rate swap, and \$2.5 million associated with the mortgage loan secured by VA-Loma Linda offset by a decrease of \$0.6 million attributable to interest on our senior unsecured credit facility. The \$0.6 million decrease in interest on our revolving credit facility was primarily attributable to an increase in interest capitalized to properties under development of \$0.4 million and a decrease in weighted average borrowings under our senior unsecured revolving credit facility from \$196.5 million to \$137.3 million year over year offset by an increase in the weighted average interest rate of 2.41% for the year ended December 31, 2017 compared to 1.89% for the year ended December 31, 2016.

Loss on the sale of operating property

On December 28, 2017, the Company sold 2650 SW 145th Avenue - Parbel of Florida to a third party. Net proceeds from the sale of operating property were approximately \$10.5 million and the Company recognized a loss on the sale of operating property of approximately \$0.3 million, mainly attributable to transaction costs, for the year ended December 31, 2017. This disposition was accounted for under the full accrual method.

Liquidity and Capital Resources

We anticipate that our cash flows from the sources listed below will provide adequate capital for the next 12 months for all anticipated uses, including all scheduled principal and interest payments on our outstanding indebtedness, current and anticipated tenant improvements, stockholder distributions to maintain our qualification as a REIT and other capital obligations associated with conducting our business. At December 31, 2018, we had approximately \$6.9 million available in cash and cash equivalents and there was \$315.2 million available under our revolving credit facility.

Our primary expected sources of capital are as follows:

- cash and cash equivalents;
- operating cash flow;
- available borrowings under our revolving credit facility;
- issuance of long-term debt;
- issuance of equity, including under our ATM program (as described below); and
- asset sales.

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Our short-term liquidity requirements consist primarily of funds to pay for the following:

- development and redevelopment activities, including major redevelopment, renovation or expansion programs at individual properties;
- property acquisitions under contract;
- tenant improvements allowances and leasing costs;
- recurring maintenance and capital expenditures;
- debt repayment requirements;
- corporate and administrative costs;
- interest payments on our outstanding indebtedness;
- interest swap payments; and
- distribution payments.

Our long-term liquidity needs, in addition to recurring short-term liquidity needs as discussed above, consist primarily of funds necessary to pay for acquisitions, non-recurring capital expenditures, and scheduled debt maturities.

Although we may be able to anticipate and plan for certain of our liquidity needs, unexpected increases in uses of cash that are beyond our control and which affect our financial condition and results of operations may arise, or our sources of liquidity may be fewer than, and the funds available from such sources may be less than, anticipated or required. As of the date of this filing, there were no known commitments or events that would have a material impact on our liquidity.

Equity

Shelf Registration Statement on Form S-3

On March 16, 2018, we filed an automatic universal shelf registration statement on Form S-3 with the Securities and Exchange Commission, or SEC, which was deemed automatically effective and which provides for the registration of unspecified amounts of securities. However, there can be no assurance that we will be able to complete any such offerings of securities in the future.

Underwritten Public Offering of Common Stock

On June 21, 2018, we completed an underwritten public offering of an aggregate of 20,700,000 shares of our common stock, consisting of (i) 13,700,000 shares sold by us to the underwriters (including 2,700,000 shares pursuant to the underwriters' exercise of their option to purchase additional shares) and (ii) 7,000,000 shares offered and sold on a forward basis in connection with forward sales agreements entered into with certain financial institutions, acting as forward purchasers. We received approximately \$252.9 million in net proceeds from the sale of shares offered by us in the offering, after deducting underwriting discounts and commissions and our offering expenses. Subject to our right to elect cash or net share settlement, we expect to physically settle the forward sales agreements no later than June 21, 2019. Assuming the forward sales agreements are physically settled in full utilizing an initial forward sale price of \$18.48 per share adjusted for a floating interest rate factor equal to the federal funds rate less a spread and subject to a decrease related to expected dividends on shares of our common stock during the applicable term of the forward sales agreement, we expect to receive an additional \$126.1 million of net proceeds, after deducting underwriting discounts, commissions and estimated offering expenses. As of December 31, 2018, the forward sale price was \$18.04 per share.

ATM Program

On March 3, 2017, we entered into equity distribution agreements with each of Citigroup Global Markets Inc., BTIG, LLC, Jefferies LLC, Raymond James & Associates, Inc., RBC Capital Markets, LLC and SunTrust Robinson Humphrey, Inc., whom we refer to collectively as, the managers, pursuant to which we may issue and sell the shares of our common stock having an aggregate offering price of up to \$100.0 million from time to time through the managers, acting as sales agents and/or principals, which we refer to as our ATM program. The sales of shares of our common stock, under the equity distribution agreements may be made in negotiated transactions or transactions that are deemed to be “at the market” offerings as defined in Rule 415 under the Securities Act. The following table sets forth certain information with respect to the ATM program as of December 31, 2018 (dollars in thousands):

For the Three Months Ended:	Number of Shares Sold	Net Proceeds
March 31, 2018	671,666	\$13,531,864
June 30, 2018	1,010,371	20,207,590
September 30, 2018	—	—
December 31, 2018	—	—
	1,682,037	\$33,739,454

We have used the proceeds from such sales for general corporate purposes. As of December 31, 2018, we had approximately \$32.3 million of gross sales of our common stock available under our ATM program.

Contribution of Property for Common Units

On November 9, 2018, the Company acquired TREAS - Birmingham for which it paid 271,918 common units. The issuance of the common units was effected in reliance upon an exemption from registration provided by Section 4(a)(2) under the Securities Act of 1933, as amended.

Debt

Amended and Restated Credit Facility

On June 18, 2018, we amended and restated our \$400.0 million senior unsecured credit facility, which we refer to as our senior unsecured credit facility. Our amended senior unsecured credit facility increased the total borrowing capacity of our existing senior unsecured credit facility by \$200.0 million for a total credit facility size of \$600.0 million, consisting of two components: (i) the \$450.0 million revolving credit facility, and (ii) the \$150.0 million 2018 term loan facility, which we refer to as the 2018 term loan facility. The revolving credit facility also includes an accordion feature that will provide us with additional capacity, subject to the satisfaction of customary terms and conditions, of up to \$250.0 million.

Our operating partnership is the borrower, and we and certain of our subsidiaries that directly own certain of our properties are guarantors under our amended senior unsecured credit facility. The revolving credit facility matures in four years and the 2018 term loan facility matures in five years. In addition, the revolving credit facility has two six-month as-of-right extension options subject to certain conditions and the payment of an extension fee.

Our amended senior unsecured credit facility bears interest, at our option, either at:

- a Eurodollar rate equal to periodic fix rate equal to LIBOR plus, a margin ranging from 1.25% to 1.80% for advances under the revolving credit facility and a margin ranging from 1.20% to 1.75% for advances under the 2018 term loan facility; or
- a fluctuating rate equal to the sum of (a) the highest of (x) Citibank, N.A.'s base rate, (y) the federal funds effective rate plus 0.5% and the (z) the one-month Eurodollar rate plus 1.00% (b) a margin ranging from 0.25% to 0.80% for advances under the revolving credit facility and a margin ranging from 0.20% to 0.75% for advances under the 2018 term loan facility, in each case with a margin based on our leverage ratio.

The 2018 term loan facility is prepayable without penalty for the entire term of the loan.

Amendments to Term Loan Facility

On June 18, 2018, we entered into a second amendment to the 2016 term loan facility. The second amendment amends certain covenants and other provisions in the 2016 term loan facility to conform to changes made to such covenants and other provisions in our amended senior unsecured credit facility.

On October 3, 2018, we entered into a third letter amendment to the 2016 term loan facility. The third letter amendment reduces the interest rate margin applicable to borrowings under the 2016 term loan facility and extends the maturity date by six months to March 29, 2024.

Indebtedness Outstanding

The following table sets forth certain information with respect to the indebtedness outstanding as of December 31, 2018 (dollars in thousands):

Loan	Principal Outstanding December 31, 2018	Interest Rate ⁽¹⁾	Current Maturity
Revolving credit facility:			
Revolving credit facility ⁽²⁾	\$ 134,750	L + 125bps	June 2022 ⁽³⁾
Total revolving credit facility	134,750		
Term loan facilities:			
2016 term loan facility	100,000	2.62% ⁽⁴⁾	March 2024
2018 term loan facility	150,000	3.91% ⁽⁵⁾	June 2023
Total term loan facilities	250,000		
Less: Total unamortized deferred financing fees	(1,762)		
Total term loan facilities, net	248,238		
Notes payable:			
Senior unsecured notes payable, series A	95,000	4.05%	May 2027
Senior unsecured notes payable, series B	50,000	4.15%	May 2029
Senior unsecured notes payable, series C	30,000	4.30%	May 2032
Total notes payable	175,000		
Less: Total unamortized deferred financing fees	(1,222)		
Total notes payable, net	173,778		
Mortgage notes payable:			
CBP - Savannah	13,495	3.40% ⁽⁶⁾	July 2033
ICE - Charleston	18,637	4.21% ⁽⁶⁾	January 2027
MEPCOM - Jacksonville	9,891	4.41% ⁽⁶⁾	October 2025
USFS II - Albuquerque	16,581	4.46% ⁽⁶⁾	July 2026
DEA - Pleasanton	15,700	L + 150bps ⁽⁶⁾	October 2023
VA - Loma Linda	127,500	3.59% ⁽⁶⁾	July 2027

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VA - Golden	9,341	5.00% (6)	April 2024
Total mortgage notes payable	211,145		
Less: Total unamortized deferred financing fees	(1,834)		
Less: Total unamortized premium/discount	278		
Total mortgage notes payable, net	209,589		
Total debt	\$ 766,355		

- (1) Current interest rates as of December 31, 2018. At December 31, 2018 the one-month LIBOR (“L”) was 2.50%. The current interest rate is not adjusted to include the amortization of deferred financing fees or debt issuance costs incurred in obtaining debt or any unamortized fair market value premiums. The spread over the applicable rate for each of our revolving credit facility, our 2018 term loan facility and our 2016 term loan facility is based on the Company’s consolidated leverage ratio, as defined in the respective loan agreements.
- (2) Available capacity of \$315.2 million at December 31, 2018, with an accordion feature that provides additional capacity of up to \$250.0 million.
- (3) Our revolving credit facility has two six-month as-of-right extension options subject to certain conditions and the payment of an extension fee.
- (4) Entered into two interest rate swaps with an effective date of March 29, 2017 with an aggregate notional value of \$100.0 million to effectively fix the interest rate at 2.62% annually, based on the Company’s consolidated leverage ratio, as defined in the 2016 term loan facility agreement.

- (5) Entered into four interest rate swaps with an effective date of December 13, 2018 with an aggregate notional value of \$150.0 million to effectively fix the interest rate at 3.91% annually, based on the Company's consolidated leverage ratio, as defined in the 2018 term loan facility.
- (6) Effective interest rates are as follows: CBP - Savannah 4.12%, ICE - Charleston 3.93%, MEPCOM - Jacksonville 3.89%, USFS II - Albuquerque 3.92%, DEA - Pleasanton 1.8%, VA - Loma Linda 3.78%, VA - Golden 5.03%. Our revolving credit facility, term loan facilities, unsecured notes, and mortgage notes payable are subject to ongoing compliance with a number of financial and other covenants. As of December 31, 2018, we were in compliance with the applicable financial covenants.

The chart below details our debt capital structure as of December 31, 2018 (dollars in thousands):

Debt Capital Structure	December 31, 2018
Total principal outstanding	\$ 770,895
Weighted average maturity	6.7 years
Weighted average interest rate	3.7 %
% Variable debt	19.5 %
% Fixed debt	80.5 %
% Secured debt	27.4 %

Contractual Obligations

The following table summarizes our contractual obligations as of December 31, 2018 (amounts in thousands):

	Payments due by period						
	Total	2019	2020	2021	2022	2023	Thereafter
Mortgage principal and interest	\$269,525	\$11,288	\$11,331	\$11,831	\$12,690	\$28,341	\$194,044
Revolving credit facility							
principal and interest	154,597	5,725	5,725	5,725	137,422	—	—
Term loan facilities							
principal and interest	290,095	8,515	8,515	8,515	8,515	155,391	100,644
Senior unsecured notes payable							
principal and interest	246,191	7,213	7,213	7,213	7,213	7,213	210,126
Development property obligations ⁽¹⁾	38,059	35,938	2,121	—	—	—	—
Corporate office lease	1,392	479	496	352	65	—	—
Total	\$999,859	\$69,158	\$35,401	\$33,636	\$165,905	\$190,945	\$504,814

- (1) Due to the long-term nature of certain construction and development contracts included in this line, the amounts reported in the table represent our estimate of the timing for the related obligations being paid.

Dividend Policy

In order to qualify as a REIT, we are required to distribute to our stockholders, on an annual basis, at least 90% of our REIT taxable income, determined without regard to the deduction for dividends paid and excluding net capital gains. We anticipate distributing all of our taxable income. We expect to make quarterly distributions to our stockholders in a manner intended to satisfy this requirement. Prior to making any distributions for U.S. federal tax purposes or otherwise, we must first satisfy our operating and debt service obligations. It is possible that it would be necessary to

utilize cash reserves, liquidate assets at unfavorable prices or incur additional indebtedness in order to make required distributions. It is also possible that the board of directors could decide to make required distributions in part by using shares of our common stock.

A summary of dividends declared by the board of directors per share of common stock and per common unit of our operating partnership at the date of record is as follows:

Quarter	Declaration Date	Record Date	Pay Date	Dividend
Q1 2018	May 3, 2018	June 11, 2018	June 28, 2018	0.26
Q2 2018	August 1, 2018	September 13, 2018	September 27, 2018	0.26
Q3 2018	October 29, 2018	December 13, 2018	December 27, 2018	0.26
Q4 2018	February 21, 2019	March 14, 2019	March 28, 2019	0.26

The Company uses long-term investment partnership units in our operating partnership, or, LTIP Units, as a form of performance-based award for annual long-term incentive equity compensation. LTIP Units are convertible into common units upon the satisfaction of certain conditions. Prior to the end of the performance period as set forth in the applicable LTIP unit award, holders of LTIP units are entitled to receive dividends per LTIP unit equal to 10% of the dividend paid per common unit of our operating partnership. After the end of the performance period, the number of LTIP units, both vested and unvested, that LTIP award recipients have earned, if any, are entitled to receive dividends in an amount per LTIP unit equal to dividends, both regular and special, payable per common unit of our operating partnership.

Cash Flow

Comparison of Cash Flow for the Years Ended December 31, 2018 and December 31, 2017

The following table sets forth a summary of cash flows for our company for the years ended December 31, 2018 and 2017:

	For the years ended December 31,		
	2018	2017	Change
(Amounts in thousands)			
Net cash (used in) provided by:			
Operating activities	\$62,782	\$49,231	\$13,551
Investing activities	(466,743)	(395,874)	(70,869)
Financing activities	398,865	356,353	42,512

Operating Activities

The company generated \$62.8 million and \$49.2 million of cash from operating activities during the years ended December 31, 2018 and 2017, respectively. Net cash provided by operating activities for the year ended December 31, 2018 includes \$62.9 million in net cash from rental activities net of expenses offset by \$0.1 million related to the change in rents receivable, accounts receivable, prepaid and other assets, and accounts payable and accrued liabilities. Net cash provided by operating activities for the year ended December 31, 2017 includes \$53.2 million in net cash from rental activities net of expenses offset by \$4.0 million related to the change in rents receivable, accounts receivable, prepaid and other assets, and accounts payable and accrued liabilities.

Investing Activities

The company used \$466.7 million and \$395.9 million in cash for investing activities during the years ended December 31, 2018 and 2017, respectively. Net cash used in investing activities for the year ended December 31, 2018 primarily includes \$402.6 million in real estate acquisitions related to the net asset purchase of fifteen operating properties, \$58.5 million in additions to development properties and \$5.7 million in additions to operating properties. Net cash used in investing activities for the year ended December 31, 2017 primarily includes \$404.0 million in real estate acquisitions related to the purchase of four operating properties and two properties in development and \$3.9 million in additions to operating properties partially offset by \$10.5 million in proceeds from the sale of one operating property.

Financing Activities

The company generated \$398.9 million and \$356.4 million in cash from financing activities during the years ended December 31, 2018 and 2017, respectively. Net cash provided by financing activities for the year ended December 31, 2018 includes \$297.8 million in gross proceeds from issuance of shares of our common stock, \$35.0 million in net draws under our revolving credit facility, and \$150.0 million in draws under our 2018 term loan facility, offset by

\$66.0 million in dividends, \$11.3 million in payment of deferred offering costs, \$3.5 million in payment of deferred financing costs and \$3.2 million in mortgage debt repayment. Net cash provided by financing activities for the year ended December 31, 2017 includes \$100.0 million in draws under our 2016 term loan facility, \$175.0 million in proceeds from the issuance of senior unsecured notes, \$127.5 million in mortgage notes, \$126.3 million in gross proceeds from issuance of shares of our common stock, offset by \$112.4 million in net pay downs under our senior unsecured revolving credit facility, \$49.2 million in dividends, \$3.4 million in payment of deferred financing costs, \$4.5 million in payment of deferred offering costs and \$3.0 million in mortgage debt repayment.

Comparison of Cash Flow for the Years Ended December 31, 2017 and December 31, 2016

The following table sets forth a summary of cash flows for our company for the years ended December 31, 2017 and 2016:

	For the years ended December 31,		
	2017	2016	Change
(Amounts in thousands)			
Net cash (used in) provided by:			
Operating activities	\$49,231	\$47,377	\$1,854
Investing activities	(395,874)	(170,281)	(225,593)
Financing activities	356,353	119,483	236,870

Operating Activities

The company generated \$49.2 million and \$47.4 million of cash from operating activities during the years ended December 31, 2017 and 2016, respectively. Net cash provided by operating activities for the year ended December 31, 2017 includes \$53.2 million in net cash from rental activities net of expenses offset by \$4.0 million related to the change in rents receivable, accounts receivable, prepaid and other assets, and accounts payable and accrued liabilities. Net cash provided from operating activities for the year ended December 31, 2016 includes \$47.7 million in net cash from rental activities net of expenses offset by \$0.3 million related to the change in rents receivable, accounts receivable, prepaid and other assets, and accounts payable and accrued liabilities.

Investing Activities

The company used \$395.9 million and \$170.3 million in cash for investing activities during the years ended December 31, 2017 and 2016, respectively. Net cash used in investing activities for the year ended December 31, 2017 primarily includes \$404.0 million in real estate acquisitions related to the purchase of four operating properties and two properties placed in development and \$3.9 million in additions to operating properties partially offset by \$10.5 million in proceeds from the sale of one operating property. Net cash used for investing activities for the year ended December 31, 2016 primarily includes \$166.6 million in real estate acquisitions related to the purchase of seven operating properties and one property placed in development.

Financing Activities

The company generated \$356.4 million and \$119.5 million in cash from financing activities during the years ended December 31, 2017 and 2016, respectively. Net cash provided by financing activities for the year ended December 31, 2017 includes \$100.0 million in draws under our senior unsecured term loan facility, \$175.0 million in proceeds from the issuance of senior unsecured notes, \$127.5 million in mortgage notes, \$126.3 million in gross proceeds from issuance of shares of common stock, offset by \$112.4 million in net pay downs under our senior unsecured credit facility, \$49.2 million in dividends, \$3.4 million in payment of deferred financing costs, \$4.5 million in payment of deferred offering costs and \$3.0 million in mortgage debt repayment. Net cash provided by financing activities for the year ended December 31, 2016 includes \$110.0 million in proceeds from the issuance of shares of our common stock and \$57.8 million in net draw downs on our senior unsecured credit facility offset by \$40.3 million in dividends and distributions paid, \$4.2 million in offering costs, \$2.9 million in mortgage debt repayment and \$0.9 million in additional deferred financing costs associated with our senior unsecured term loan facility.

Non-GAAP Financial Measures

We use and present Funds From Operations, or FFO, and FFO, as Adjusted as supplemental measures of our performance. The summary below describes our use of FFO and FFO, as Adjusted, provides information regarding why we believe these measures are meaningful supplemental measures of our performance and reconciles these measures from net income (loss), presented in accordance with GAAP.

Funds From Operations and Funds From Operations, as Adjusted

FFO, is a supplemental measure of our performance. We present FFO calculated in accordance with the current National Association of Real Estate Investment Trusts, or NAREIT, definition. In addition, we present FFO, as Adjusted for certain other adjustments that we believe enhance the comparability of our FFO across periods and to the FFO reported by other publicly traded REITs. FFO is a supplemental performance measure that is commonly used in the real estate industry to assist investors and analysts in comparing results of REITs.

FFO is defined by NAREIT as net income (loss), calculated in accordance with GAAP, excluding gains or losses from sales of property and impairment losses on depreciable real estate, plus real estate depreciation and amortization, and after adjustments for

unconsolidated partnerships and joint ventures. We present FFO because we consider it an important supplemental measure of our operating performance, and we believe it is frequently used by securities analysts, investors and other interested parties in the evaluation of REITs, many of which present FFO when reporting results.

We adjust FFO to present FFO, as Adjusted as an alternative measure of our operating performance, which, when applicable, excludes the impact of acquisition costs, straight-line rent, above-/below-market leases, non-cash interest expense and non-cash compensation. By excluding income and expense items such as straight-line rent, above-/below-market leases, non-cash interest expense, non-cash compensation and other non-cash items from FFO, as Adjusted, we believe we provide useful information as these items have no cash impact. In addition, by excluding acquisition related costs we believe FFO, as Adjusted provides useful information that is comparable across periods and more accurately reflects the operating performance of our properties.

FFO and FFO, as Adjusted are presented as supplemental financial measures and do not fully represent our operating performance. Other REITs may use different methodologies for calculating FFO and FFO, as Adjusted or use other definitions of FFO and FFO, as Adjusted and, accordingly, our presentation of these measures may not be comparable to other REITs. Neither FFO nor FFO, as Adjusted is intended to be a measure of cash flow or liquidity. Please refer to our financial statements, prepared in accordance with GAAP, for purposes of evaluating our financial condition, results of operations and cash flows.

The following table sets forth a reconciliation of our net income to FFO and FFO, as Adjusted for the years ended December 31, 2018, 2017, and 2016 (in thousands):

	For the years ended December 31,		
	2018	2017	2016
Net income	\$6,659	\$5,389	\$5,497
Depreciation and amortization	66,403	54,873	45,883
Loss on the sale of operating property	—	310	—
Funds from Operations	73,062	60,572	51,380
Adjustments to FFO:			
Acquisition costs	1,579	1,493	1,798
Straight-line rent and other non-cash adjustments	(5,640)	(2,778)	(108)
Above-/below-market leases	(8,593)	(8,517)	(7,153)
Non-cash interest expense	1,197	1,096	814
Non-cash compensation	3,039	2,963	2,905
Funds from Operations, as Adjusted	\$64,644	\$54,829	\$49,636

Factors That May Influence Future Results of Operations

Revenue

Our revenues primarily arise from the rental of space to tenants in our properties and tenant reimbursements, which include reimbursement for operating expenses, which are determined by the base year operating expenses and are subject to reimbursement in subsequent years based on changes in the Consumer Price Index for Urban Wage Earners and Clerical Workers, or urban CPI. Tenant reimbursements also include amounts due from tenants for real estate taxes, projects and other reimbursements. Real estate taxes over the base year are reimbursed by the tenant.

Substantially all of our rental income comes from U.S. Government tenants. We expect that leases to agencies of the U.S. Government will continue to be our primary source of revenues for the foreseeable future. Due to such concentration, adverse events or conditions that affect the U.S. Government could have a more negative effect on our financial condition and operations than if our tenant base was more diverse. However, positive or negative changes in conditions in local markets, such as changes in economic or other conditions, employment rates, local tax and budget conditions, recession, competition for real property investments in these markets, uncertainty about the future and other factors are significantly less likely to impact our overall performance.

Operating Expenses

Our operating expenses generally consist of repairs and maintenance, utilities, roads and grounds, property management fees, insurance, cleaning and other operating expenses. Factors that may impact our ability to control these operating expenses include increases in insurance premiums, increases in third party management expenses, increases in repair and maintenance costs and expenses related to inclement weather. Additionally, the cost of compliance with zoning and building codes as well as local, state and federal tax laws may impact our expenses. As a public company our annual general and administrative expenses are meaningfully

higher due to legal, insurance, accounting, audit and other expenses related to corporate governance, SEC reporting, other compliance matters and the costs of operating as a public company. Increases in costs from any of the foregoing factors may adversely affect our future results and cash flows. Circumstances such as declines in market rental rates or increased competition may cause revenues to decrease, although the expenses of owning and operating a property will not necessarily decline. For certain of our properties, expenses may vary with occupancy, while costs arising from our property investments, interest expense and general maintenance will not be materially reduced even if a property is not fully occupied. As a result, our future cash flow and results of operations may be adversely affected and losses could be incurred if revenues decrease in the future.

Cost of Funds and Interest Rates

We expect future changes in interest rates will impact our overall performance. We manage and may continue to manage our market risk on variable rate debt by entering into interest rate swap agreements or similar instruments, subject to maintaining our qualification as a REIT for U.S. federal income tax purposes. Although we may seek to cost-effectively manage our exposure to future rate increases through such means, a portion of our overall debt may at various times float at then current rates.

Development Activities

As of December 31, 2018, we had two properties under development. We intend to continue to engage in development and redevelopment activities with respect to our properties, including build-to-suit new developments and redevelopments for existing U.S. Government tenant agencies. These development activities may include some risks such as:

- the availability and timely receipt of zoning and other regulatory approvals;
- development costs exceeding expectations;
- cost overruns and untimely completion of construction (including risks beyond our control, such as weather or labor conditions, or material shortages);
- the inability to complete construction and leasing of a property on schedule, resulting in increased debt service expense and development and redevelopment costs; and
- the availability and pricing of financing on favorable terms or at all.

Off-Balance Sheet Arrangements

We had no material off-balance sheet arrangements as of December 31, 2018.

Inflation

Substantially all of our leases provide for operating expense escalations. We believe inflationary increases in expenses may be at least partially offset by the contractual expense escalations described above. We do not believe inflation has had a material impact on our historical financial position or results of operations.

Critical Accounting Policies of the Company

The preparation of financial statements in conformity with GAAP requires management to use judgment in the application of accounting policies, including making estimates and assumptions. If our judgment or interpretation of the facts and circumstances relating to various transactions had been different, or different assumptions were made, it is possible that different accounting policies would have been applied, resulting in different financial results or a different presentation of our financial statements. Below is a discussion of the accounting policies that we consider critical to an understanding of our financial condition and operating results that may require complex or significant

judgment in their application or require estimates about matters which are inherently uncertain. A discussion of our significant accounting policies, including further discussion of the accounting policies described below, can be found in Note 2, "Significant Accounting Policies," of our consolidated financial statements.

Real Estate Properties

Real estate properties comprise all tangible assets we hold for rent or development. Real property is recognized at cost less accumulated depreciation. Acquisition costs related to business combinations, including third party transaction and direct internal costs are expensed as incurred. Third party costs related to asset acquisitions are capitalized. Development, re-development and certain costs directly related to the improvement of real properties are capitalized. Maintenance and repair expenses are charged to expense as incurred.

When we acquire properties, we allocate the purchase price to numerous tangible and intangible components. Our process for determining the allocation to these components requires many estimates and assumptions, including the following: (1) determination of market rental, discount and capitalization rates; (2) estimation of leasing and tenant improvement costs associated with the remaining term of acquired leases; (3) assumptions used in determining the in-place lease and if-vacant value including the rental rates, period of time that it would take to lease vacant space and estimated tenant improvement and leasing costs; (4) renewal probabilities; and (5) allocation of the if-vacant value between land and building. A change in any of the above key assumptions can materially change not only the presentation of acquired properties in our consolidated financial statements but also our reported results of operations. The allocation to different components affects the following:

- the amount of the purchase price allocated among different categories of assets and liabilities on our consolidated balance sheets; and the amount of costs assigned to individual properties in multiple property acquisitions;
 - where the amortization of the components appear over time in our consolidated statements of operations. Allocations to above- and below-market leases are amortized into rental revenue, whereas allocations to most of the other tangible and intangible assets are amortized into depreciation and amortization expense. As a REIT, this is important to us since much of the investment community evaluates our operating performance using non-GAAP measures such as Funds From Operations, the computation of which includes rental revenue but does not include depreciation and amortization expense; and
 - the timing over which the items are recognized as revenue or expense in our consolidated statements of operations. For example, for allocations to the as-if vacant value, the land portion is not depreciated and the building portion is depreciated over a longer period of time than the other components (generally 40 years). Allocations to above- and below-market leases and in-place lease value are amortized over significantly shorter timeframes, and if individual tenants' leases are terminated early, any unamortized amounts remaining associated with those tenants are written off upon termination. These differences in timing can materially affect our reported results of operations.
- Tenant improvements are capitalized in real property when we own the improvement. When we are required to provide improvements under the terms of a lease, we need to determine whether the improvements constitute landlord assets or tenant assets. If the improvements are considered landlord assets, we capitalize the cost of the improvements and recognize depreciation expense associated with such improvements over the shorter of the useful life of the assets or the term of the lease and recognize any payments from the tenant as rental revenue over the term of the lease. If the improvements are considered tenant assets, we defer the cost of improvements funded by us as a lease incentive asset and amortize it as a reduction of rental revenue over the term of the lease. Our determination of whether improvements are landlord assets or tenant assets also may affect when we commence revenue recognition in connection with a lease. In determining whether improvements constitute landlord or tenant assets, we consider numerous factors that may require subjective or complex judgments, including: whether the improvements are unique to the tenant or reusable by other tenants; whether the tenant is permitted to alter or remove the improvements without our consent or without compensating us for any lost fair value; whether the ownership of the improvements remains with us or remains with the tenant at the end of the lease term; and whether the economic substance of the lease terms is properly reflected.

We capitalize pre-development costs incurred in pursuit of new development opportunities for which we currently believe future development is probable. Additionally, we capitalize interest expense, real estate taxes and direct and indirect project costs (including related compensation and other indirect costs) associated with properties, or portions thereof, undergoing construction, development and redevelopment activities. In capitalizing interest expense, if there is a specific borrowing for the property undergoing construction, development and redevelopment activities, we apply the interest rate of that borrowing to the average accumulated expenditures that do not exceed such borrowing; for the portion of expenditures exceeding any such specific borrowing, we apply our weighted average interest rate on other borrowings to the expenditures. We continue to capitalize costs while construction, development or redevelopment activities are underway until the building is substantially complete and ready for its intended use.

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Depreciation of an asset begins when it is available for use and is calculated using the straight-line method over the estimated useful lives. Each period, depreciation is charged to expense and credited to the related accumulated depreciation account. A used asset acquired is depreciated over its estimated remaining useful life, not to exceed the life of a new asset. Range of useful lives for depreciable assets are as follows:

Category	Term
Buildings	40 years
Building improvements	5 - 40 years
Tenant improvements	Shorter of remaining life of the lease or useful life
Furniture and equipment	3 - 7 years

We regularly evaluate whether events or changes in circumstances have occurred that could indicate an impairment in the value of long lived assets. If there is an indication that the carrying value of an asset is not recoverable, we estimate the projected undiscounted cash flows to determine if an impairment loss should be recognized. We determine the amount of any impairment loss by comparing the historical carrying value to estimated fair value. We estimate fair value through an evaluation of recent financial performance and projected discounted cash flows using standard industry valuation techniques. In addition to consideration of impairment upon the events or changes in circumstances described above, we regularly evaluate the remaining lives of our long lived assets. If we change our estimate of the remaining lives, we allocate the carrying value of the affected assets over their revised remaining lives.

Revenue Recognition

Rental income includes base rents paid by each tenant in accordance with its lease agreement conditions. We recognize rental income on a straight-line basis over the lease term of the respective leases. For acquisitions of existing buildings, we recognize rental income from leases already in place coincident with the date of property closing. Lease incentives are recorded as a deferred asset and amortized as a reduction of revenue on a straight-line basis over the respective lease term. Above- and below-market leases are amortized into rental income over the terms of the respective leases.

Tenant reimbursement income (scheduled rent increases based on increases in real estate taxes, operating expenses and utility usage, projects and other reimbursements) and parking garage income is recognized by us in the consolidated statements of operations once services are rendered, fees are determinable and collectability is assured. We recognize revenue from tenant construction projects using the percentage of completion method when the revenue and costs for such projects can be estimated with reasonable accuracy; when these criteria do not apply to a project, we recognize revenue from that project using the completed contract method. Under the percentage of completion method, we recognize a percentage of the total estimated revenue on a project based on the cost of services provided on the project as of a point in time relative to the total estimated costs on the project. Fully reimbursed income was included within "Tenant reimbursements" and associated expenses were included in "Property operating" expenses. Income on these projects was included in "Other income".

On January 1, 2018, the Company adopted ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606) using the modified retrospective method and applied it to all contracts that were not completed as of January 1, 2018. The new guidance requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers and replaced the existing revenue recognition guidance.

The adoption of Topic 606 did not have an impact on the Company's historical financial statements as the revenue that falls under the scope of this guidance is primarily limited to tenant construction projects and the associated management fee, the recognition of which did not change from how the Company has historically accounted for these projects upon adoption of the new guidance. Tenant construction project reimbursements consist primarily of subcontracted costs that are reimbursed to the Company by the tenant.

Historically, the Company has accounted for tenant construction project reimbursement arrangements using the percentage of completion method and will continue to recognize revenue from tenant construction projects using the percentage of completion method when the revenue and costs for such projects can be estimated with reasonable accuracy; when these criteria do not apply to a project, the Company recognizes revenue from that project using the completed contract method. Under the percentage of completion method, the Company recognizes a percentage of the total revenue on a project based on the cost of services provided on the project as of a point in time relative to the total costs on the project.

Recent Accounting Pronouncements

For a discussion concerning new accounting pronouncements that may have an effect on our Consolidated Financial Statements (See Note 2 to the Consolidated Financial Statements).

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

Market risk is the risk of loss from adverse changes in market prices and interest rates. Our future earnings, cash flows and fair values relevant to financial instruments are dependent upon prevailing market interest rates. Our primary market risk results from our indebtedness, which bears interest at both fixed and variable rates. We manage and may continue to manage our market risk on variable rate debt by entering into swap arrangements to, in effect, fix the rate on all or a portion of the debt for varying periods up to maturity. This in turn, reduces the risks of variability of cash flows created by variable rate debt and mitigates the risk of increases in interest rates. Our objective when undertaking such arrangements will be to reduce our floating rate exposure and we do not intend to enter into hedging arrangements for speculative purposes.

As of December 31, 2018, \$620.4 million, or 80.5% of our debt, excluding unamortized premiums and discounts, had fixed interest rates and \$150.5 million, or 19.5% had variable interest rates. If market rates of interest on our variable rate debt fluctuate by 25 basis points, interest expense would increase or decrease, depending on rate movement, future earnings and cash flows, by \$0.4 million annually.

Item 8. Financial Statements and Supplementary Data

This item is included in a separate section at the end of this report beginning on page F-1.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

Item 9A. Controls

Evaluation of Disclosure Controls and Procedures

Our management carried out an evaluation required by the Exchange Act, under the supervision and with the participation of our principal executive officer and principal financial officer, of the effectiveness of the design and operation of our disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) of the Exchange Act, as of December 31, 2018. Based on this evaluation our principal executive officer and principal financial officer concluded that, as of December 31, 2018, our disclosure controls and procedures were effective to provide reasonable assurance that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and to provide reasonable assurance that such information is accumulated and communicated to our management, including our principal executive officer and principal financial officer, as appropriate, to allow timely decisions regarding required disclosures.

Management's Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) of the Exchange Act). Our management has assessed the effectiveness of our internal control over financial reporting at December 31, 2018. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") in Internal Control – Integrated Framework (2013 Framework). Based on our assessment management concluded that, as of December 31, 2018, our internal control over financial reporting is effective based on those criteria.

The effectiveness of our internal control over financial reporting as of December 31, 2018 has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report, which appears on page F-2 of this Annual Report on Form 10 K.

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting during the quarter ended December 31, 2018 that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Item 9B. Other Information

None.

PART III

Item 10. Directors, Executive Officers and Corporate Governance.

The information required by Item 10 will be set forth in our Definitive Proxy Statement for our 2018 Annual Meeting of Stockholders, which we anticipate will be filed no later than 120 days after the end of our fiscal year ended December 31, 2018, to be filed pursuant to Regulation 14A under the Securities and Exchange Act of 1934, as amended, or our Proxy Statement, and is incorporated herein by reference.

Item 11. Executive Compensation.

The information required by Item 11 will be set forth in our Proxy Statement and is incorporated herein by reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The following table summarizes certain information about our equity compensation plans as of December 31, 2018.

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted-average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in the first column of this table) (c)	
Equity compensation plans approved by stockholders ⁽¹⁾⁽²⁾	2,426,059	\$	—	2,765,865
Equity compensation plans not approved by stockholders	—		—	—
Total	2,426,059	\$	—	2,765,865

(1) The amount in column (a) includes 2,426,059 LTIP units issued under our 2015 equity incentive plan that, upon the satisfaction of certain conditions, are convertible into common units, which may then be redeemed for cash, or, at our option, an equal number of shares of common stock, subject to certain restrictions. There is no exercise

price associated with LTIP units.

(2) The amount in column (c) excludes the number of LTIP units referenced in column (a) and 82,035 shares of restricted common stock issued under our 2015 equity incentive plan.

Additional information concerning security ownership of certain beneficial owners and management required by Item 12 will be set forth in our Proxy Statement and is incorporated herein by reference.

Item 13. Certain Relationships and Related Transactions, and Director Independence

The information required by Item 13 will be set forth in our Proxy Statement and is incorporated herein by reference.

Item 14. Principal Accounting Fees and Services.

The information required by Item 14 will be set forth in our Proxy Statement and is incorporated herein by reference.

PART IV

Item 15. Exhibits and Financial Statement Schedules

1. Financial Statements

The financial statements listed in the accompanying index to financial statements beginning on page F-1 are filed as a part of this report.

2. Financial Statement Schedule

The financial statement schedule listed in the accompanying index to financial statements beginning on page S-1 are filed as a part of this report.

All other schedules for which provision is made in Regulation S-X are either not required to be included herein under the related instructions or are inapplicable or the related information is included in the footnotes to the applicable financial statement and, therefore, have been omitted.

3. Exhibits

The following documents are filed as exhibits to this report:

Exhibit	Exhibit Description
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- | | |
|------|---|
| 3.1 | <u>Amended and Restated Articles of Amendment and Restatement of Easterly Government Properties, Inc. (previously filed as Exhibit 3.1 to Amendment No. 2 to the Company's Registration Statement on Form S-11 on January 30, 2015 and incorporated herein by reference)</u> |
| 3.2 | <u>Amended and Restated Bylaws of Easterly Government Properties, Inc. (previously filed as Exhibit 3.2 to Amendment No. 2 to the Company's Registration Statement on Form S-11 on January 30, 2015 and incorporated herein by reference)</u> |
| 3.3 | <u>First Amendment to Amended and Restated Bylaws of Easterly Government Properties, Inc. (previously filed as Exhibit 3.1 to the Company's Current Report on Form 8-K on February 27, 2019 and incorporated herein by reference)</u> |
| 4.1 | <u>Specimen Certificate of Common Stock of Easterly Government Properties, Inc. (previously filed as Exhibit 4.1 to Amendment No. 2 to the Company's Registration Statement on Form S-11 on January 30, 2015 and incorporated herein by reference)</u> |
| 10.1 | <u>Amended and Restated Limited Partnership Agreement of Easterly Government Properties LP (previously filed as Exhibit 10.2 to the Company's Current Report on Form 8-K on February 11, 2015 and incorporated herein by reference)</u> |
| 10.2 | <u>First Amendment to the Amended and Restated Agreement of Limited Partnership of Easterly Government Properties LP, dated May 6, 2015 (previously filed as Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q on August 6, 2015 and incorporated herein by reference)</u> |
| 10.3 | <u>Second Amendment to the Amended and Restated Agreement of Limited Partnership of Easterly Government Properties LP, dated February 26, 2016 (previously filed as Exhibit 10.3 to the Company's Annual Report on Form 10-K on March 2, 2016 and incorporated herein by reference)</u> |

- 10.4† 2015 Equity Incentive Plan (previously filed as Exhibit 10.3 to the Company's Annual Report on Form 10-K on March 30, 2015 and incorporated herein by reference)
- 10.5† Employment Agreement by and among Easterly Government Properties Services LLC, Easterly Government Properties, Inc., Easterly Government Properties LP and William C. Trimble, III, dated January 30, 2015 (previously filed as Exhibit 10.10 to Amendment No. 2 to the Company's Registration Statement on Form S-11 on January 30, 2015 and incorporated herein by reference)
- 10.6† Employment Agreement, by and among Easterly Government Properties Services LLC, Easterly Government Properties LP, Easterly Government Properties, Inc., and Meghan G. Baivier, dated May 12, 2015 (previously filed as Exhibit 10.1 to the Company's Current Report on Form 8-K on May 13, 2015 and incorporated herein by reference)
- 10.7† Form of Indemnification Agreement between Easterly Government Properties, Inc. and each of its Directors and Executive Officers (previously filed as Exhibit 10.4 to Amendment No. 2 to the Company's Registration Statement on Form S-11 on January 30, 2015 and incorporated herein by reference)

Exhibit Exhibit Description

- | | |
|-------|---|
| 10.8 | <u>Registration Rights Agreement among Easterly Government Properties, Inc. and the persons named therein, dated January 26, 2015 (previously filed as Exhibit 10.2 to Amendment No. 2 to the Company's Registration Statement on Form S-11 on January 30, 2015 and incorporated herein by reference)</u> |
| 10.9 | <u>Form of Tax Protection Agreement by and among Easterly Government Properties, Inc., Easterly Government Properties LP and Michael P. Ibe (previously filed as Exhibit 10.9 to Amendment No. 2 to the Company's Registration Statement on Form S-11 on January 30, 2015 and incorporated herein by reference)</u> |
| 10.10 | <u>Tax Protection Agreement among Easterly Government Properties LP, West Pleasanton Lab, LLC and Michael P. Ibe, dated October 21, 2015 (previously filed as Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q on November 5, 2015 and incorporated herein by reference)</u> |

- 10.11 License Agreement between Easterly Government Properties, Inc. and Easterly Capital, LLC, dated January 26, 2015 (previously filed as Exhibit 10.11 to Amendment No. 3 to the Company's Registration Statement on Form S-11 on February 4, 2015 and incorporated herein by reference)
- 10.12 Amended and Restated Credit Agreement among Easterly Government Properties LP, as Borrower, Easterly Government Properties, Inc., as Parent Guarantor, and certain subsidiaries of Easterly Government Properties, Inc. from time to time party thereto, as Guarantors, the initial lenders and the initial issuing banks named therein, Citibank, N.A., as administrative agent, PNC Bank, National Association and Wells Fargo Bank, N.A., as Co-Syndication agents, BMO Harris Bank, N.A., Raymond James Bank, N.A., Royal Bank of Canada and SunTrust Bank as Co-Documentation agents, and Citibank, N.A., PNC Capital Markets LLC and Wells Fargo Securities, LLC, as Joint Lead Arrangers and Joint Book Running Managers and the other financial institutions party thereto (previously filed as Exhibit 10.1 to the Company's Current

Report on Form 8-K on
June 21, 2018 and
incorporated herein by
reference)

- 10.13 Term Loan Agreement,
among Easterly
Government Properties
LP, as Borrower,
Easterly Government
Properties, Inc., as Parent
Guarantor, and certain
subsidiaries of Easterly
Government Properties,
Inc. from time to time
party thereto, as
Guarantors, PNC Bank,
National Association, as
Administrative Agent,
U.S. Bank National
Association and
SunTrust Bank, as
Syndication Agents, and
PNC Capital Markets
LLC, U.S. Bank National
Association and
SunTrust Robinson
Humphrey, Inc., as Joint
Lead Arrangers and Joint
Bookrunners and the
Initial Lenders named
therein, dated September
29, 2016 (previously
filed as Exhibit 10.1 to
the Company's Current
Report on Form 8-K on
October 5, 2016 and
incorporated herein by
reference)
- 10.14 Second Amendment to
Term Loan Agreement
by and among the
Company, the Operating
Partnership, the
Guarantors named
therein, PNC Bank,
National Association, as
Administrative Agent
and U.S. Bank National
Association and

SunTrust Bank, as Lenders, dated as of June 18, 2018 (previously filed as Exhibit 10.2 to the Company's Current Report on Form 8-K on June 21, 2018 and incorporated herein by reference)

10.15 Third Letter Amendment to Term Loan Agreement, dated as of October 3, 2018, by and among Easterly Government Properties, Inc., as Parent Guarantor, Easterly Government Properties LP, as Borrower, the Subsidiary Guarantors named therein, PNC Bank, National Association, as Administrative Agent and U.S. Bank National Association and SunTrust Bank, as Lenders (previously filed as Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q on November 5, 2018 and incorporated herein by reference)

10.16 Purchase and Sale Agreement and Escrow Instructions, dated June 15, 2018, by and among Easterly Government Properties LP and the Sellers identified therein (previously filed as Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q on August 7, 2018 and incorporated herein by reference)

10.17*

First Amendment to
Purchase and Sale
Agreement and Escrow
Instructions, dated
December 14, 2018, by
and among Easterly
Government Properties
LP and the Sellers
identified therein

- 21.1* List of Subsidiaries of
the Registrant
- 23.1* Consent of
PricewaterhouseCoopers
LLP
- 31.1* Certification of Chief
Executive Officer
Required by Rule
13a-14(a) of the
Securities Exchange Act
of 1934, as amended
- 31.2* Certification of Chief
Financial Officer
Required by Rule
13a-14(a) of the
Securities Exchange Act
of 1934, as amended
- 32.1** Certification of Chief
Executive Officer and
Chief Financial Officer
Required by Rule
13a-14(b) of the
Securities Exchange Act
of 1934, as amended

Exhibit	Exhibit Description
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101*	The following materials from Easterly Government Properties, Inc.'s Annual Report on Form 10-K for the year ended December 31, 2017 formatted in XBRL (eXtensible Business Reporting Language): (i) the Consolidated Balance Sheets, (ii) the Consolidated Statements of Operations, (iii) the Consolidated Statements of Equity, (iv) the Consolidated Statements of Cash Flows and (v) the related notes to these consolidated financial statements
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Exhibit is a management contract or compensatory plan or arrangement.

* Filed herewith

**Furnished herewith

Item 16. Form 10-K Summary

Not applicable.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Washington, District of Columbia, on February 28, 2019.

EASTERLY GOVERNMENT PROPERTIES,
INC.

By: /s/ William C. Trimble, III
Name: William C. Trimble, III
Title: Chief Executive Officer and President

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature	Title	Date
/s/ William C. Trimble, III William C. Trimble, III	Chief Executive Officer, President and Director (Principal Executive Officer)	February 28, 2019
/s/ Meghan G. Baivier Meghan G. Baivier	Executive Vice President, Chief Financial Officer and Chief Operating Officer (Principal Financial Officer)	February 28, 2019
/s/ Alison M. Bernard Alison M. Bernard	Executive Vice President, Chief Accounting Officer (Principal Accounting Officer)	February 28, 2019
/s/ Darrell W. Crate Darrell W. Crate	Chairman of the Board of Directors	February 28, 2019
/s/ Michael P. Ibe Michael P. Ibe	Director, Vice Chairman of the Board of Directors and Executive Vice President—Development and Acquisitions	February 28, 2019
/s/ William H. Binnie	Director	February 28, 2019

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William H. Binnie

/s/ Cynthia A. Fisher	Director	February 28, 2019
Cynthia A. Fisher		

/s/ Emil W. Henry, Jr.	Director	February 28, 2019
Emil W. Henry, Jr.		

/s/ James E. Mead	Director	February 28, 2019
James E. Mead		

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Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders of Easterly Government Properties, Inc.

Opinions on the Financial Statements and Internal Control over Financial Reporting

We have audited the accompanying consolidated balance sheets of Easterly Government Properties, Inc. and its subsidiaries (the “Company”) as of December 31, 2018 and 2017, and the related consolidated statements of operations, comprehensive income (loss), stockholders’ equity and cash flows for each of the three years in the period ended December 31, 2018, including the related notes and financial statement schedule listed in the accompanying index (collectively referred to as the “consolidated financial statements”). We also have audited the Company's internal control over financial reporting as of December 31, 2018, based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2018 and 2017, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2018 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2018, based on criteria established in Internal Control - Integrated Framework (2013) issued by the COSO.

Basis for Opinions

The Company's management is responsible for these consolidated financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in Management's Report on Internal Control over Financial Reporting appearing under Item 9A. Our responsibility is to express opinions on the Company’s consolidated financial statements and on the Company's internal control over financial reporting based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud, and whether effective internal control over financial reporting was maintained in all material respects.

Our audits of the consolidated financial statements included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

Definition and Limitations of Internal Control over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

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Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/PricewaterhouseCoopers LLP

Boston, Massachusetts

February 28, 2019

We have served as the Company's or its predecessor's auditor since 2014.

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Easterly Government Properties, Inc.

Consolidated Balance Sheets

(Amounts in thousands, except share amounts)

	December 31, 2018	December 31, 2017
Assets		
Real estate properties, net	\$ 1,626,617	\$ 1,230,162
Cash and cash equivalents	6,854	12,682
Restricted cash	4,251	3,519
Deposits on acquisitions	7,070	750
Rents receivable	21,140	12,751
Accounts receivable	11,690	9,347
Deferred financing, net	2,459	945
Intangible assets, net	165,668	143,063
Interest rate swaps	4,563	4,031
Prepaid expenses and other assets	11,238	8,088
Total assets	\$ 1,861,550	\$ 1,425,338
Liabilities		
Revolving credit facility	134,750	99,750
Term loan facilities, net	248,238	99,202
Notes payable, net	173,778	173,692
Mortgage notes payable, net	209,589	203,250
Intangible liabilities, net	30,835	38,569
Interest rate swaps	1,797	—
Accounts payable and accrued liabilities	37,310	19,786
Total liabilities	836,297	634,249
Commitments and contingencies (Note 11)		
Equity		
Common stock, par value \$0.01, 200,000,000 shares authorized,		
60,849,206 and 44,787,040 shares issued and outstanding at December 31, 2018 and		
December 31, 2017, respectively	608	448
Additional paid-in capital	1,017,415	740,546
Retained earnings	12,831	7,127
Cumulative dividends	(139,103)	(83,718)
Accumulated other comprehensive income	2,412	3,403
Total stockholders' equity	894,163	667,806
Non-controlling interest in Operating Partnership	131,090	123,283
Total equity	1,025,253	791,089
Total liabilities and equity	\$ 1,861,550	\$ 1,425,338

The accompanying notes are an integral part of these consolidated financial statements.

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Easterly Government Properties, Inc.

Consolidated Statements of Operations

(Amounts in thousands, except share and per share amounts)

	For the years ended December 31,		
	2018	2017	2016
Revenues			
Rental income	\$ 142,381	\$ 116,002	\$ 93,364
Tenant reimbursements	16,978	13,929	10,647
Other income	1,232	742	607
Total revenues	160,591	130,673	104,618
Expenses			
Property operating	30,912	24,907	21,078
Real estate taxes	17,311	13,730	9,896
Depreciation and amortization	66,403	54,873	45,883
Acquisition costs	1,579	1,493	1,798
Corporate general and administrative	14,824	12,900	12,289
Total expenses	131,029	107,903	90,944
Other expenses			
Interest expense, net	(22,903)	(17,071)	(8,177)
Loss on the sale of operating property	—	(310)	—
Net income	6,659	5,389	5,497
Non-controlling interest in Operating Partnership	(955)	(941)	(1,534)
Net income available to Easterly Government Properties, Inc.	\$ 5,704	\$ 4,448	\$ 3,963
Net income available to Easterly Government Properties, Inc.			
per share:			
Basic	\$ 0.09	\$ 0.11	\$ 0.13
Diluted	\$ 0.08	\$ 0.10	\$ 0.12
Weighted- average common shares outstanding			
Basic	53,511,137	39,607,740	30,645,279
Diluted	54,931,380	41,563,540	32,372,538
Dividends declared per common share	\$ 1.04	\$ 1.00	\$ 0.92

The accompanying notes are an integral part of these consolidated financial statements.

Easterly Government Properties, Inc.

Consolidated Statements of Comprehensive Income (Loss)

(Amounts in thousands)

	For the years ended December 31,		
	2018	2017	2016
Net income	\$6,659	\$5,389	\$5,497
Other comprehensive income (loss):			
Unrealized gain (loss) on interest rate swaps, net	(1,265)	246	3,785
Other comprehensive income (loss):	(1,265)	246	3,785
Comprehensive income	5,394	5,635	9,282
Non-controlling interest in Operating Partnership	(955)	(941)	(1,534)
Other comprehensive (income) loss attributable to non-controlling interest	274	119	(747)
Comprehensive income attributable to Easterly Government Properties, Inc.	\$4,713	\$4,813	\$7,001

The accompanying notes are an integral part of these consolidated financial statements.

Easterly Government Properties, Inc.

Consolidated Statements of Stockholders' Equity

(Amounts in thousands, except share amounts)

		Common		Non-		controlling		Interest in		Member Non-		Total	
		Stock	Additional	Retained		Accumulated		in		Capital		Total	
	Shares	Par	Paid-in	Earnings	Cumulative	Other	Comprehensive	Operating	Partnership	Deficit	Interest	Equity	
		Value	Capital	(Deficit)	Dividends	Income							
Balance at December 31, 2015	24,168,379	241	391,767	(1,284)	(13,051)	—		242,895	—	—	—	620,568	
Stock based compensation		—	296	—	—	—		2,609	—	—	—	2,905	
Grant of unvested restricted stock	16,128	—	—	—	—	—		—	—	—	—	-	
Dividends and distributions paid		—	—	—	(29,743)	—		(10,551)	—	—	—	(40,294)	
Redemption of common units to common stock	6,471,258	66	99,766	—	—	—		(99,832)	—	—	—	-	
Issuance of common stock, net	6,219,045	62	105,777	—	—	—		—	—	—	—	105,839	
Unrealized gain on interest rate swaps		—	—	—	—	3,038		747	—	—	—	3,785	
Net income		—	—	3,963	—	—		1,534	—	—	—	5,497	
Allocation of NCI in		—	(442)	—	—	—		442	—	—	—	-	

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Operating Partnership										
Balance at December 31, 2016	36,874,810	369	597,164	2,679	(42,794)	3,038	137,844	—	—	698,300
Stock based compensation		—	322	—	—	—	2,641	—	—	2,963
Grant of unvested restricted										
stock	17,912	—	—	—	—	—	—	—	—	—
Dividends and distributions										
paid		—	—	—	(40,924)	—	(8,256)	—	—	(49,180)
Redemption of common units										
to common stock	1,379,804	14	20,658	—	—	—	(20,672)	—	—	—
Contribution of Property for										
common units		—	—	—	—	—	11,531	—	—	11,531
Issuance of common stock, net	6,514,514	65	121,775	—	—	—	—	—	—	121,840
Unrealized gain on interest										
rate swaps		—	—	—	—	365	(119)	—	—	246
Net income		—		4,448	—	—	941	—	—	5,389
Allocation of NCI in										
Operating Partnership		—	627	—	—	—	(627)	—	—	—
Balance at December 31, 2017	44,787,040	448	740,546	7,127	(83,718)	3,403	123,283	—	—	791,089
Stock based compensation		—	406	—	—	—	2,633	—	—	3,039
Grant of unvested restricted										
stock	21,328	—	—	—	—	—	—	—	—	—
Dividends and distributions		—	—	—	(55,385)	—	(10,571)	—	—	(65,956)

paid										
Redemption of common units										
to common stock	658,801	7	10,300	—	—	—	(10,307)	—	—	—
Contribution of Property for										
common units	—	—	—	—	—	—	5,184	—	—	5,184
Issuance of common stock, net	15,382,037	153	286,350	—	—	—	—	—	—	286,503
Unrealized loss on interest										
rate swaps		—	—	—	—	(991)	(274)	—	—	(1,265)
Net income		—		5,704	—	—	955	—	—	6,659
Allocation of NCI in										
Operating Partnership		—	(20,187)	—	—	—	20,187	—	—	—
Balance at December 31, 2018	60,849,206	608	1,017,415	12,831	(139,103)	2,412	131,090	—	—	1,025,253

The accompanying notes are an integral part of these consolidated financial statements.

Easterly Government Properties, Inc.

Consolidated Statements of Cash Flows

(Amounts in thousands)

	For the years ended December 31,		
	2018	2017	2016
Cash flows from operating activities			
Net income	\$6,659	\$5,389	\$5,497
Adjustments to reconcile net income to net cash provided by			
operating activities			
Depreciation and amortization	66,403	54,873	45,883
Straight line rent	(5,637)	(2,782)	(108)
Amortization of above- / below-market leases	(8,593)	(8,517)	(7,153)
Amortization of unearned revenue	(194)	(106)	(105)
Amortization of loan premium / discount	(82)	(85)	(85)
Amortization of deferred financing costs	1,279	1,181	899
Loss on the sale of operating property	—	310	—
Non-cash compensation	3,039	2,963	2,905
Net change in:			
Rents receivable	(2,729)	(1,428)	(1,902)
Accounts receivable	(2,343)	(3,524)	(2,903)
Prepaid expenses and other assets	(2,948)	(1,592)	87
Accounts payable and accrued liabilities	7,928	2,549	4,362
Net cash provided by operating activities	62,782	49,231	47,377
Cash flows from investing activities			
Real estate acquisitions and deposits	(402,569)	(392,588)	(168,719)
Additions to operating properties	(5,691)	(3,948)	(1,298)
Additions to development properties	(58,483)	(9,877)	(264)
Proceeds from sale of operating property, net	—	10,539	—
Net cash (used in) investing activities	(466,743)	(395,874)	(170,281)
Cash flows from financing activities			
Payment of deferred financing costs	(3,474)	(3,440)	(955)
Issuance of common shares	297,805	126,331	110,032
Credit facility draws	163,000	161,000	87,250
Credit facility repayments	(128,000)	(273,417)	(29,500)
Term loan draws	150,000	100,000	—
Issuance of notes payable	—	175,000	—
Borrowings on mortgage notes payable	—	127,500	—
Repayments of mortgage notes payable	(3,189)	(2,977)	(2,857)
Dividends and distributions paid	(65,956)	(49,180)	(40,294)
Payment of offering costs	(11,321)	(4,464)	(4,193)
Net cash provided by financing activities	398,865	356,353	119,483
Net increase (decrease) in Cash and cash equivalents and Restricted cash	(5,096)	9,710	(3,421)
Cash and cash equivalents and Restricted cash, beginning of year	16,201	6,491	9,912

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Cash and cash equivalents and Restricted cash, end of year	\$ 11,105	\$ 16,201	\$ 6,491
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The accompanying notes are an integral part of these consolidated financial statements.

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Easterly Government Properties, Inc.

Consolidated Statements of Cash Flows

(Amounts in thousands)

Supplemental disclosure of cash flow information is as follows:

	For the years ended December 31,		
	2018	2017	2016
Cash paid for interest, net of capitalized interest	\$21,289	\$15,165	\$7,438
Capitalized interest	\$1,702	\$442	\$—
Non-cash investing and financing activities:			
Additions to operating properties	\$460	\$265	\$16
Additions to development properties	11,469	3,293	3
Deferred asset acquisition	10	—	—
Deferred offering accrued, not paid	—	27	—
Offering costs, accrued not paid	8	—	—
Unrealized gain (loss) on interest rate swaps, net	(1,265)	246	3,785
Debt assumed on acquisition of operating property	9,414	—	—
Properties acquired for common units	5,184	11,531	—
Exchange of Common Units for Shares of Common Stock			
Non-controlling interest in Operating Partnership	\$(10,307)	\$(20,672)	\$(99,832)
Common Stock	7	14	66
Additional paid-in capital	10,300	20,658	99,766
Total	\$—	\$—	\$—

The accompanying notes are an integral part of these consolidated financial statements.

Easterly Government Properties, Inc.

Notes to the Consolidated Financial Statements

1. Organization and Basis of Presentation

Easterly Government Properties, Inc. (the “Company”) is a Maryland corporation that has elected to be taxed as a real estate investment trust (a “REIT”) under the Internal Revenue Code, as amended (the “Code”) commencing with its taxable year ended December 31, 2015. The operations of the Company are carried on primarily through Easterly Government Properties, LP (the “Operating Partnership”) and the wholly owned subsidiaries of the Operating Partnership. As used herein, the “Company,” “we,” “us,” or “our” refer to Easterly Government Properties, Inc. and its consolidated subsidiaries and partnerships, including the Operating Partnership, except where context otherwise requires.

We are an internally managed REIT, focused primarily on the acquisition, development, and management of Class A commercial properties that are leased to U.S. Government agencies that serve essential functions. We generate substantially all of our revenue by leasing our properties to such agencies either directly or through the U.S. General Services Administration (“GSA”). Our objective is to generate attractive risk-adjusted returns for our stockholders over the long term through dividends and capital appreciation.

As of December 31, 2018, we wholly owned 62 operating properties in the United States, including 60 operating properties that were leased primarily to U.S. Government tenant agencies and two operating properties that were entirely leased to private tenants, encompassing approximately 5.3 million square feet (square feet unaudited herein and throughout the Notes) in the aggregate. In addition, we wholly owned two properties under development that we expect will encompass approximately 0.1 million square feet upon completion. We focus on acquiring, developing, and managing U.S. Government-leased properties that are essential to supporting the mission of the tenant agency and strive to be a partner of choice for the U.S. Government, working closely with the tenant agency to meet its needs and objectives.

The Operating Partnership holds substantially all of our assets and conducts substantially all our business. The Company is the sole general partner of the Operating Partnership. The Company owned 87.2% of the aggregate limited partnership interests in the Operating Partnership (“common units”) at December 31, 2018. We believe that we have operated and have been organized in conformity with the requirements for qualification and taxation as a REIT for U.S. federal income tax purposes commencing with our taxable year ended December 31, 2015.

Principles of Consolidation

The accompanying consolidated financial statements are presented on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (“GAAP”) and include the accounts of the Company, including Easterly Government Properties TRS, LLC and Easterly Government Services, LLC, the Operating Partnership and its other subsidiaries. All significant intercompany balances and transactions have been eliminated in consolidation.

2. Summary of Significant Accounting Policies

The preparation of the consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the balance sheet and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Real Estate Properties

Real estate properties comprise all tangible assets we hold for rent or development. Real property is recognized at cost less accumulated depreciation. Acquisition costs related to business combinations, including third party transaction and direct internal costs are expensed as incurred. Third party costs related to asset acquisitions are capitalized. Development, re-development and certain costs directly related to the improvement of real properties are capitalized. Maintenance and repair expenses are charged to expense as incurred.

When we acquire properties, we allocate the purchase price to numerous tangible and intangible components. Our process for determining the allocation to these components requires many estimates and assumptions, including the following: (1) determination of market rental, discount and capitalization rates; (2) estimation of leasing and tenant improvement costs associated with the remaining term of acquired leases; (3) assumptions used in determining the in-place lease and if-vacant value including the rental rates, period of time that it would take to lease vacant space and estimated tenant improvement and leasing costs; (4) renewal probabilities; and (5) allocation of the if-vacant value between land and building. A change in any of the above key assumptions can

materially change not only the presentation of acquired properties in our consolidated financial statements but also our reported results of operations. The allocation to different components affects the following:

- the amount of the purchase price allocated among different categories of assets and liabilities on our consolidated balance sheets; and the amount of costs assigned to individual properties in multiple property acquisitions;
- where the amortization of the components appear over time in our consolidated statements of operations. Allocations to above- and below-market leases are amortized into rental revenue, whereas allocations to most of the other tangible and intangible assets are amortized into depreciation and amortization expense. As a REIT, this is important to us since much of the investment community evaluates our operating performance using non-GAAP measures such as Funds From Operations, the computation of which includes rental revenue but does not include depreciation and amortization expense; and
- the timing over which the items are recognized as revenue or expense in our consolidated statements of operations. For example, for allocations to the as-if vacant value, the land portion is not depreciated and the building portion is depreciated over a longer period of time than the other components (generally 40 years). Allocations to above- and below-market leases and in-place lease value are amortized over significantly shorter timeframes, and if individual tenants' leases are terminated early, any unamortized amounts remaining associated with those tenants are written off upon termination. These differences in timing can materially affect our reported results of operations.

Tenant improvements are capitalized in real property when we own the improvement. When we are required to provide improvements under the terms of a lease, we need to determine whether the improvements constitute landlord assets or tenant assets. If the improvements are considered landlord assets, we capitalize the cost of the improvements and recognize depreciation expense associated with such improvements over the shorter of the useful life of the assets or the term of the lease and recognize any payments from the tenant as rental revenue over the term of the lease. If the improvements are considered tenant assets, we defer the cost of improvements funded by us as a lease incentive asset and amortize it as a reduction of rental revenue over the term of the lease. Our determination of whether improvements are landlord assets or tenant assets also may affect when we commence revenue recognition in connection with a lease. In determining whether improvements constitute landlord or tenant assets, we consider numerous factors that may require subjective or complex judgments, including: whether the improvements are unique to the tenant or reusable by other tenants; whether the tenant is permitted to alter or remove the improvements without our consent or without compensating us for any lost fair value; whether the ownership of the improvements remains with us or remains with the tenant at the end of the lease term; and whether the economic substance of the lease terms is properly reflected.

We capitalize pre-development costs incurred in pursuit of new development opportunities for which we currently believe future development is probable. Additionally, we capitalize interest expense, real estate taxes and direct and indirect project costs (including related compensation and other indirect costs) associated with properties, or portions thereof, undergoing construction, development and redevelopment activities. In capitalizing interest expense, if there is a specific borrowing for the property undergoing construction, development and redevelopment activities, we apply the interest rate of that borrowing to the average accumulated expenditures that do not exceed such borrowing; for the portion of expenditures exceeding any such specific borrowing, we apply our weighted average interest rate on other borrowings to the expenditures. We continue to capitalize costs while construction, development or redevelopment activities are underway until the building is substantially complete and ready for its intended use.

Depreciation of an asset begins when it is available for use and is calculated using the straight-line method over the estimated useful lives. Each period, depreciation is charged to expense and credited to the related accumulated depreciation account. A used asset acquired is depreciated over its estimated remaining useful life, not to exceed the life of a new asset. Range of useful lives for depreciable assets are as follows:

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Category	Term
Buildings	40 years
Building improvements	5 - 40 years
Tenant improvements	Shorter of remaining life of the lease or useful life
Furniture and equipment	3 - 7 years

We regularly evaluate whether events or changes in circumstances have occurred that could indicate an impairment in the value of long lived assets. If there is an indication that the carrying value of an asset is not recoverable, we estimate the projected undiscounted cash flows to determine if an impairment loss should be recognized. We determine the amount of any impairment loss by comparing the historical carrying value to estimated fair value. We estimate fair value through an evaluation of recent financial performance and projected discounted cash flows using standard industry valuation techniques. In addition to consideration of impairment upon the events or changes in circumstances described above, we regularly evaluate the remaining lives of our long lived

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assets. If we change our estimate of the remaining lives, we allocate the carrying value of the affected assets over their revised remaining lives.

Cash and Cash Equivalents

Cash and cash equivalents on the accompanying Consolidated Balance Sheets include all cash and liquid investments that mature three months or less from when they are purchased. Cash equivalents are reported at cost, which approximates fair value. We maintain our cash in bank accounts in amounts that may exceed federally insured limits at times. We have not experienced any losses in these accounts and believe that we are not exposed to significant credit risk because our accounts are deposited with major financial institutions.

Restricted Cash

Restricted cash on the accompanying Consolidated Balance Sheets consists of amounts escrowed for future real estate taxes, insurance, capital expenditures and debt service, as required by certain of our mortgage debt agreements.

Rent Receivable and Accounts Receivable

Rent receivable and Accounts receivable on the accompanying Consolidated Balance Sheets includes accrued rental income and other tenant accounts receivable, respectively. The Company accrues rental and other tenant income earned, but not yet receivable, in accordance with GAAP.

Deferred Costs

Deferred financing fees and debt issuance costs include costs incurred in obtaining debt that are capitalized and are presented as a direct deduction from the carrying amount of the associated debt liability that is not a line-of-credit arrangement on the accompanying Consolidated Balance Sheets. Deferred financing fees and debt issuance costs related to line-of-credit arrangements are presented as an asset in prepaid expenses and other assets on the accompanying Consolidated Balance Sheets. The deferred financing fees and debt issuance costs are amortized through interest expense over the life of the respective loans on a basis which approximates the effective interest method. Any unamortized amounts upon early repayment of debt are written off in the period of repayment as a loss on extinguishment of debt. Fully amortized deferred financing fees and debt issuance costs are removed from the books upon maturity of the underlying debt.

Deferred offering costs include certain legal, accounting and other third party fees that are directly associated with in-process equity financings until such financings are consummated. After consummation of the equity financing, these costs are recorded as a reduction to capital. Should the equity financing no longer be considered probable of being consummated, the deferred offering costs would be expensed immediately as a charge to corporate general and administrative expenses in the accompanying Consolidated Statement of Operations.

Deferred leasing commissions include commissions, compensation costs of leasing personnel, and other direct and incremental costs incurred to obtain new tenant leases as well as to renew existing tenant leases, and are presented in prepaid expenses and other assets on the accompanying Consolidated Balance Sheets. Leasing commissions are capitalized and amortized over the terms of the related leases upon lease commencement using the straight-line method. If a lease terminates prior to the expiration of its initial term, any unamortized costs related to the lease are accelerated into amortization expense. Changes in leasing commissions are presented in the cash flows from operating activities section of the accompanying Consolidated Statements of Cash Flows.

Interest Rate Swaps

The Company's primary objective in using interest rate derivatives is to add stability to interest expense and to manage exposure to interest rate movements. To accomplish this objective, we primarily use interest rate swaps as part of our interest rate risk management strategy. Interest rate swaps designated as cash flow hedges involve the receipt of variable- rate amounts from a counterparty in exchange for our making fixed- rate payments over the life of the agreements without exchange of the underlying notional amount. Derivatives are used to hedge the cash flows associated with interest rates on existing debt as well as future debt. We recognize derivatives as assets or liabilities on the balance sheet at fair value. We defer the effective portion of changes in fair value of the designated cash flow hedges to accumulated other comprehensive income ("AOCI") or loss ("AOCL") and reclassify such deferrals to interest expense as interest expense is recognized on the hedged forecasted transitions. We recognize the ineffective portion of the change in fair value of interest rate derivatives directly in interest expense. When an interest rate swap designated as a cash flow hedge no longer qualifies for hedge accounting, we recognize changes in fair value of the hedge previously deferred to AOCI or AOCL, along with any changes in fair value occurring thereafter, through earnings. We do not use interest rate derivatives

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for trading or speculative purposes. We manage counterparty risk by only entering into contracts with major financial institutions based upon their credit ratings and other risk factors.

We use standard market conventions and techniques such as discounted cash flow analysis, option pricing models, replacement cost and termination cost in computing the fair value of derivatives at each balance sheet date. The Company made an accounting policy election to measure the credit risk of its derivative financial instruments that are subject to master netting agreements on a gross basis by counterparty portfolio.

Please refer to Note 5 for more information pertaining to interest rate derivatives.

Non-Controlling Interests

Non-controlling interests relate to the common units of the Operating Partnership not owned by the Company. Unitholders receive a distribution per unit equivalent to the dividend per share of the Company's common stock. Pursuant to the consolidation accounting standard with respect to the accounting and reporting for non-controlling interest changes and changes in ownership interest of a subsidiary, changes in parent's ownership interest when the parent retains controlling interest in the subsidiary should be accounted for as equity transactions. The carrying amount of the non-controlling interest shall be adjusted to reflect the change in its ownership interest in the subsidiary, with the offset to equity attributable to the Company.

Revenue Recognition

Rental income includes base rents paid by each tenant in accordance with its lease agreement conditions. We recognize rental income on a straight-line basis over the lease term of the respective leases. For acquisitions of existing buildings, we recognize rental income from leases already in place coincident with the date of property closing. Lease incentives are recorded as a deferred asset and amortized as a reduction of revenue on a straight-line basis over the respective lease term. Above- and below-market leases are amortized into rental income over the terms of the respective leases.

Tenant reimbursement income (scheduled rent increases based on increases in real estate taxes, operating expenses and utility usage, projects and other reimbursements) and parking garage income is recognized by us in the consolidated statements of operations once services are rendered, fees are determinable and collectability is assured. We recognize revenue from tenant construction projects using the percentage of completion method when the revenue and costs for such projects can be estimated with reasonable accuracy; when these criteria do not apply to a project, we recognize revenue from that project using the completed contract method. Under the percentage of completion method, we recognize a percentage of the total estimated revenue on a project based on the cost of services provided on the project as of a point in time relative to the total estimated costs on the project. Fully reimbursed income was included within "Tenant reimbursements" and associated expenses were included in "Property operating" expenses. Income on these projects was included in "Other income."

On January 1, 2018, the Company adopted ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606) using the modified retrospective method and applied it to all contracts that were not completed as of January 1, 2018. The new guidance requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers and replaced the existing revenue recognition guidance.

The adoption of Topic 606 did not have an impact on the Company's historical financial statements as the revenue that falls under the scope of this guidance is primarily limited to tenant construction projects and the associated management fee, the recognition of which did not change from how the Company has historically accounted for these projects upon adoption of the new guidance. Tenant construction project reimbursements consist primarily of

subcontracted costs that are reimbursed to the Company by the tenant.

Historically, the Company has accounted for tenant construction project reimbursement arrangements using the percentage of completion method and will continue to recognize revenue from tenant construction projects using the percentage of completion method when the revenue and costs for such projects can be estimated with reasonable accuracy; when these criteria do not apply to a project, the Company recognizes revenue from that project using the completed contract method. Under the percentage of completion method, the Company recognizes a percentage of the total revenue on a project based on the cost of services provided on the project as of a point in time relative to the total costs on the project.

Income Taxes

We believe that we have operated and have been organized in conformity with the requirements for qualification and taxation as a REIT for U.S. federal income tax purposes commencing with our taxable year ended December 31, 2015. So long as we qualify as a

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REIT, we generally will not be subject to U.S. federal income tax on our net income that we distribute to our stockholders. To maintain our qualification as a REIT, we are required under the Code to distribute at least 90% of our REIT taxable income (without regard to the deduction for dividends paid and excluding net capital gains) to our stockholders and meet certain other requirements. If we fail to qualify as a REIT in any taxable year, we will be subject to U.S. federal income tax on our taxable income at regular corporate rates. Even if we qualify as a REIT, we will be subject to certain U.S. federal, state and local taxes on our income and property, and on taxable income that we do not distribute to our stockholders. In addition, we may provide services that are not customarily provided by a landlord, hold properties for sale and engage in other activities (such as a management business) through Taxable REIT Subsidiaries (“TRSs”) and the income of those subsidiaries will be subject to U.S. federal income tax at regular corporate rates. For the years ended December 31, 2018, 2017 and 2016, we did not incur any material tax liability associated with any of the above.

We do not anticipate any potential expense related to uncertain tax positions as we closely monitor our REIT compliance, do not have any prohibited transactions related to property sales, and neither the states in which we operate nor our foreign investors subject us to withholding tax requirements.

The following table reconciles GAAP net income to taxable income (amounts in thousands):

	For the years ended December 31,		
	2018	2017	2016
Net income (loss)	\$6,659	\$5,389	\$5,497
Book depreciation and amortization	66,260	54,782	45,797
Above/Below market lease amortization	(8,593)	(8,517)	(7,153)
Straight-line rent and other non-cash adjustments	(5,619)	(2,776)	(108)
Book/Tax differences on unearned rent	301	16	(37)
Book/Tax differences on stock based compensation	3,039	2,663	2,780
Book/Tax differences on development profit on lump sum payments	3,413	—	—
Book/Tax differences on post IPO property acquisition costs	—	—	620
Book/Tax differences on fee waiver income from seller	1,400	—	—
Other book/tax differences, net	749	383	901
Tax depreciation	(34,612)	(25,552)	(20,622)
Loss attributable to non-controlling interest	(6,021)	(5,180)	(8,474)
Taxable income subject to distribution requirements	\$26,976	(1)\$21,208	(2)\$19,201 (3)

(1) The Company’s distributions are characterized as 45.83% ordinary taxable dividend and 54.17% return of capital.

(2) The Company’s distributions are characterized as 47.24% ordinary taxable dividend and 52.76% return of capital.

(3) The Company’s distributions are characterized as 59.32% ordinary taxable dividend and 40.68% return of capital.

Stock Based Compensation

The Company grants equity-based compensation awards to its officers, employees and non-employee directors in the form of restricted shares of common stock and long-term incentive plan units in the Operating Partnership (“LTIP units”). See Note 7 (Equity) for further discussion of restricted shares of common stock and LTIP units. The restricted shares of common stock and LTIP units issued to officers, employees, and non-employee directors vest over a period of time as determined by our board of directors at the date of grant. The Company recognizes compensation expense for non-vested restricted shares of common stock and LTIP units granted to officers, employees and non-employee directors on a straight-line basis over the requisite service and/or performance period based upon the fair market value of the shares on the date of grant, as adjusted for forfeitures.

Earnings Per Share of Common Stock Amount

Basic earnings per share is calculated by dividing net income available to Easterly Government Properties, Inc. by the weighted-average number of shares of common stock outstanding during the period, excluding the weighted average number of unvested restricted shares. Diluted earnings per share is calculated by dividing net income by the weighted-average number of shares of common stock outstanding during the period plus other potentially dilutive securities such as unvested restricted shares, LTIP units, and shares issuable under forward sales agreements. Unvested restricted shares and LTIP units are considered participating securities which require the use of the two-class method for the computation of basic and diluted earnings per share.

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Segments

The Company manages its operations as a single segment for the purposes of assessing performance and making operating decisions. All revenue has been generated and all tangible assets are held in the United States.

Recently Adopted Accounting Pronouncements

On January 1, 2018, the Company adopted ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606). Please refer to the revenue recognition accounting policy for more information pertaining to our adoption of this guidance.

On January 1, 2018, the Company adopted ASU No. 2016-15, Statement of Cash Flows (Topic 230), which provides classification guidance for certain cash receipts and cash payments including payment of debt extinguishment costs, settlement of zero-coupon debt instruments, insurance claim payments and distributions from equity method investees. The Company adopted this ASU using the retrospective method and the implementation of this update did not have a material impact on our consolidated financial statements.

On January 1, 2018, the Company adopted and retrospectively applied ASU No. 2016-18, Statement of Cash Flows (Topic 230), which requires that the statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. The Company now reconciles both cash and cash equivalents and restricted cash in the accompanying Statements of Cash Flows for all periods, whereas under the prior guidance the Company explained the changes during the period for cash and cash equivalents only. For the year ended December 31, 2017, the effect of the change in accounting principle was a decrease in cash used in investing activities of approximately \$1.9 million on the accompanying Consolidated Statements of Cash Flows. For the year ended December 31, 2016, the effect of the change in accounting principle was an increase in cash used in investing activities of approximately \$0.1 million on the accompanying Consolidated Statements of Cash Flows.

On January 1, 2018, the Company adopted ASU No. 2017-05, Other Income-Gains and Losses from the Derecognition of Nonfinancial Assets (Subtopic 610-20): Clarifying the Scope of Asset Derecognition Guidance and Accounting for Partial Sales of Nonfinancial Assets. This ASU clarifies the scope and accounting of a financial asset that meets the definition of an “in-substance nonfinancial asset” and defines the term “in-substance nonfinancial asset.” This ASU also adds guidance for partial sales of nonfinancial assets. The Company adopted this ASU using the modified retrospective method and the implementation of this update did not have a material impact on our consolidated financial statements.

On January 1, 2018, the Company adopted ASU 2017-09, Stock Compensation (Topic 718): Scope of Modification Accounting, which provides updated guidance about which changes to the terms or conditions of a share-based payment award would require an entity to apply modification accounting under the topic. The Company adopted this ASU using the prospective method to an award modified on or after the adoption date, however, the implementation of this update did not have a material impact on our consolidated financial statements.

Recent Accounting Pronouncements Not Yet Adopted

In February 2016, the Financial Accounting Standards Board (the “FASB”) issued ASU No. 2016-02, Leases, which sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract (i.e., lessees and lessors). The new standard requires lessees to apply a dual approach, classifying leases as either finance or operating leases based on the principle of whether or not the lease is effectively a financed purchase of the leased asset by the lessee. This classification will determine whether the lease expense is recognized based on

an effective interest method or on a straight-line basis over the term of the lease. A lessee is also required to record a right-of-use asset and a lease liability for all leases with a term of greater than 12 months regardless of their classification. Leases with a term of 12 months or less will be accounted for in the same manner as operating leases today. As of December 31, 2018, the Company had a sublease for office space in Washington, DC expiring in June 2021 and a lease for office space in San Diego, CA expiring in April 2022.

The new standard requires lessors to account for leases using an approach that is substantially equivalent to existing guidance for sales-type leases, direct financing leases and operating leases. In connection with the new revenue guidance, the new revenue standard will apply to other components of revenue deemed to be non-lease components, such as reimbursement for certain expenses which are based off of usage. Under the new guidance, we will continue to recognize the lease components of lease revenue on a straight-line basis over our respective lease terms as we do under prior guidance. However, we would recognize these non-lease components under the new revenue guidance as the related services are delivered. As a result, while the total revenue recognized over time would not differ under the new guidance, the recognition pattern is different. This does not result in a difference from how the Company has historically recognized revenue for these lease and non-lease components.

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Additionally, ASU 2016-02 will require that lessees and lessors capitalize, as initial direct costs, only those costs that are incurred due to the execution of a lease. Under ASU 2016-02, allocated payroll costs and other costs that are incurred regardless of whether the lease is obtained will no longer be capitalized as initial direct costs and instead will be expensed as incurred.

The Company has elected to apply the package of practical expedients not to reassess all of its leases that had commenced as of January 1, 2019 (including those for which the entity is a lessee or a lessor). Application of the guidance will result in recording a right-of-use asset and lease liability of \$1.3 million for the Company's two office leases for which it is the lessee and lease expense will be recognized on a straight-line basis. In addition, the Company will expense certain initial direct costs associated with lease renewals that have not yet commenced, however the amount will not be material to the financial statements.

In July 2018, the FASB issued ASU 2018-11, Targeted Improvements to Topic 842 Leases. The improvements in ASU 2018-11 provide for (a) an optional new transition method for adoption that results in initial recognition of a cumulative effect adjustment to retained earnings in the year of adoption and (b) a practical expedient for lessors, under certain circumstances, to combine the lease and non-lease components of revenues for presentation purposes. The Company may apply the practical expedient to combine certain lease and non-lease components, however this would not result in a material difference from how the Company has historically recognized revenue for these leases and non-lease components.

In July 2018, the FASB issued ASU 2018-10, Codification Improvements to Topic 842, Leases, which clarifies, corrects, or consolidates authoritative guidance issued in ASU 2016-02 and is effective upon adoption of ASU 2016-02.

In December 2018, the FASB issued ASU 2018-20, Leases (Topic 842): Narrow-Scope Improvements for Lessors, which requires lessors to exclude from variable payments, and therefore revenue, all lessor costs explicitly required to be paid by lessees directly to third parties. ASU 2018-20 also requires lessors to account for costs excluded from the consideration of a contract that are explicitly paid by the lessor and reimbursed by the lessee as variable payments. This will not result in a material impact to the historical financial statements. ASU No. 2016-02 is effective for reporting periods beginning January 1, 2019, with modified retrospective application for each reporting period presented at the time of adoption or utilizing the optional transition method under ASU 2018-11. Early adoption is also permitted for this guidance. The Company will adopt ASU 2016-02 using the modified retrospective approach that results in initial recognition of a cumulative effect adjustment to retained earnings in the year of adoption in accordance with ASU 2018-11.

The Company is continuing to evaluate the disclosure requirements in Topic 842, Leases, and has not determined the impact on the footnote disclosures to its consolidated financial statements.

In August 2017, the FASB issued ASU 2017-12, Derivatives and Hedging: Targeted Improvements to Accounting for Hedging Activities. The purpose of this updated guidance is to better align a company's financial reporting for hedging activities with the economic objectives of those activities. The transition guidance provides companies with the option of either adopting the new standard early using a modified retrospective transition method in any interim period after issuance of the update, or alternatively adopting the new standard for fiscal years beginning after December 15, 2018. This adoption method may require the Company to recognize the cumulative effect of initially applying the ASU as an adjustment to accumulated other comprehensive income with a corresponding adjustment to the opening balance of retained earnings as of the beginning of the fiscal year that an entity adopts the update. While the Company continues to assess all potential impacts of the standard, we do not expect the adoption of this guidance to have a material impact on our consolidated financial statements.

3. Real Estate and Intangibles

Acquisitions

During the year ended December 31, 2018, we acquired fifteen operating properties in asset acquisitions, consisting of VA – Golden, VA – San Jose, the First Closing Properties (as defined below), the Second Closing Properties (as defined below), DEA – Upper Marlboro and TREAS – Birmingham for an aggregate purchase price of \$412.0 million. During the year ended December 31, 2017, we acquired four operating properties in asset acquisitions, consisting of OSHA – Sandy, VA – Loma Linda, FBI – Salt Lake, and VA – South Bend for an aggregate purchase price of \$385.3 million, of which VA – Loma Linda comprised \$212.6 million.

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We allocated the purchase prices of these acquisitions based on the estimated fair values of the acquired assets and assumed liabilities as follows (amounts in thousands):

	December 31, 2018	December 31, 2017
Real estate		
Land	\$ 27,406	\$ 20,839
Building	324,081	319,698
Acquired tenant improvements	9,861	7,690
Total real estate	361,348	348,227
Intangible assets		
In-place leases	45,702	30,458
Acquired leasing commissions	5,342	12,992
Above-market leases	1,438	—
Total intangible assets	52,482	43,450
Intangible liabilities		
Below-market leases	(1,837)	(6,357)
Total intangible liabilities	(1,837)	(6,357)
Prepaid expenses and other assets		
Contingent consideration	43	—
Purchase price	412,036	385,320
Less: Mortgage note assumed	(9,414)	—
Net assets acquired	402,622	385,320

The intangible assets and liabilities of the acquired operating properties have an aggregate weighted average amortization period of 6.25 years and 15.58 years as of December 31, 2018 and 2017, respectively.

During the year ended December 31, 2018, we included \$13.6 million of revenues and \$0.6 million of net income in our consolidated statement of operations related to the operating properties acquired. Additionally, we incurred \$1.6 million of acquisition-related costs including \$1.1 million of internal costs associated with the property acquisitions.

During the year ended December 31, 2017, we included \$14.5 million of revenues and \$3.2 million of net income in our consolidated statement of operations related to the operating properties acquired. Additionally, we incurred \$1.5 million of acquisition-related costs including \$1.4 million of internal costs associated with the property acquisitions.

On June 15, 2018, we entered into a purchase and sale agreement to acquire a 1,479,762-square foot portfolio of 14 properties (the “Portfolio Properties”) for an aggregate purchase price of approximately \$430.0 million. On September 13, 2018, we closed on the acquisition of eight of the Portfolio Properties (the “First Closing”). The eight properties acquired in the First Closing, consisting of an aggregate of 1,024,036 square feet, include the following (listed by primary tenant agency, if applicable, and location): Various GSA – Buffalo, NY, Various GSA – Chicago, IL, TREAS – Parkersburg, WV, SSA – Charleston, WV, FBI – Pittsburgh, PA, GSA – Clarksburg, WV, ICE – Pittsburgh, PA and SSA – Dallas, TX (collectively, the “First Closing Properties”).

On October 16, 2018, we completed the acquisition of three of the 14 Portfolio Properties (the “Second Closing”). The three properties acquired in the Second Closing consist of an aggregate of 90,688 square feet and include the following (listed by primary tenant agency and location): JUD – Charleston, SC, VA – Baton Rouge, LA and DEA – Bakersfield, CA (collectively, the “Second Closing Properties”). As a result of the First Closing and the Second Closing, as of December 31, 2018, we had completed the acquisition of 11 of the 14 Portfolio Properties. See Note 14

(Subsequent Events) for information regarding the closing of the three remaining Portfolio Properties.

Dispositions

On December 28, 2017, the Company sold 2650 SW 145th Avenue – Parbel of Florida to a third party. Net proceeds from the sale of operating property were \$10.5 million and the Company recognized a loss on the sale of operating property of \$0.3 million, mainly attributable to transaction costs, for the year ended December 31, 2017. This disposition was accounted for under the full accrual method.

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Development Placed in Service

On October 1, 2018, the FEMA – Tracy development project was substantially completed and a 20-year non-cancelable lease commenced with the GSA for the beneficial use of the Federal Emergency Management Agency (“FEMA”).

Consolidated Real Estate and Intangibles

In addition to the operating property acquisitions, we acquired two properties for development, FDA – Lenexa and FEMA – Tracy, during the year ended December 31, 2017.

Real estate and intangibles on our consolidated balance sheets consisted of the following (amounts in thousands):

	December 31, 2018	December 31, 2017
Real estate properties, net		
Land	\$ 161,569	\$ 134,163
Building	1,458,981	1,099,140
Acquired tenant improvements	57,364	47,503
Construction in progress	54,532	17,746
Accumulated depreciation	(105,829)	(68,390)
Total Real estate properties, net	\$ 1,626,617	\$ 1,230,162
Intangible assets, net		
In-place leases	\$ 205,821	\$ 160,119
Acquired leasing commissions	43,806	38,464
Above market leases	10,893	9,455
Accumulated amortization	(94,852)	(64,975)
Total Intangible assets, net	\$ 165,668	\$ 143,063
Intangible liabilities, net		
Below market leases	\$ (64,693)	\$ (62,856)
Accumulated amortization	33,858	24,287
Total Intangible liabilities, net	\$ (30,835)	\$ (38,569)

The projected amortization of total intangible assets and intangible liabilities as of December 31, 2018 are as follows (amounts in thousands):

	Total
Intangible assets	
2019	\$36,135
2020	28,869
2021	16,916
2022	12,822
2023	11,896
Thereafter	59,030
	\$165,668
Intangible liabilities	
2019	\$(7,383)

2020	(6,554)
2021	(4,590)
2022	(2,982)
2023	(2,890)
Thereafter	(6,436)
	\$(30,835)

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The following table summarizes the scheduled amortization of the Company's acquired above- and below-market lease intangibles for each of the five succeeding years as of December 31, 2018 (amounts in thousands):

	Acquired Above-Market Lease Intangibles	Acquired Below-Market Lease Intangibles
2019	\$ 1,373	\$ (7,383)
2020	1,108	(6,554)
2021	711	(4,590)
2022	624	(2,982)
2023	608	(2,890)

Above-market lease amortization reduces Rental income on our Consolidated Statements of Operations and below-market lease amortization increases Rental income on our Consolidated Statements of Operations.

4. Debt

The following table sets forth a summary of the Company's outstanding indebtedness as of December 31, 2018 and December 31, 2017 (dollars in thousands):

Loan	Principal Outstanding December 31, 2018	Principal Outstanding December 31, 2017	Interest Rate ⁽¹⁾	Current Maturity
Revolving credit facility:				
Revolving credit facility ⁽²⁾	\$ 134,750	\$ 99,750	L + 125bps	June 2022 ⁽³⁾
Total revolving credit facility	134,750	99,750		
Term loan facilities:				
2016 term loan facility	100,000	100,000	2.62% ⁽⁴⁾	March 2024
2018 term loan facility	150,000	—	3.91% ⁽⁵⁾	June 2023
Total term loan facilities	250,000	100,000		
Less: Total unamortized deferred financing fees	(1,762)	(798)		
Total term loan facilities, net	248,238	99,202		
Notes payable:				
Senior unsecured notes payable, series A	95,000	95,000	4.05%	May 2027
Senior unsecured notes payable, series B	50,000	50,000	4.15%	May 2029
Senior unsecured notes payable, series C	30,000	30,000	4.30%	May 2032
Total notes payable	175,000	175,000		
Less: Total unamortized deferred financing fees	(1,222)	(1,308)		
Total notes payable, net	173,778	173,692		

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Mortgage notes payable:

CBP – Savannah	13,495	14,212	3.40% (6)	July 2033
ICE – Charleston	18,637	19,804	4.21% (6)	January 2027
MEPCOM – Jacksonville	9,891	10,796	4.41% (6)	October 2025
USFS II – Albuquerque	16,581	16,893	4.46% (6)	July 2026
DEA – Pleasanton	15,700	15,700	L + 150bps (6)	October 2023
VA – Loma Linda	127,500	127,500	3.59% (6)	July 2027
VA – Golden	9,341	—	5.00% (6)	April 2024
Total mortgage notes payable	211,145	204,905		
Less: Total unamortized deferred financing fees	(1,834)	(2,031)		
Less: Total unamortized premium/discount	278	376		
Total mortgage notes payable, net	209,589	203,250		
Total debt	\$766,355	\$ 575,894		

(1) Current interest rates as of December 31, 2018. At December 31, 2018 and 2017, the one-month LIBOR (“L”) was 2.50% and 1.56%, respectively. The current interest rate is not adjusted to include the amortization of deferred financing fees or debt

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issuance costs incurred in obtaining debt or any unamortized fair market value premiums. The spread over the applicable rate for each of our revolving credit facility, our 2018 term loan facility and our 2016 term loan facility is based on the Company's consolidated leverage ratio, as defined in the respective loan agreements.

- (2) Available capacity of \$315.2 million and \$300.2 million at December 31, 2018 and 2017, respectively, with an accordion feature that provides additional capacity of up to \$250.0 million.
 - (3) Our revolving credit facility has two six-month as-of-right extension options subject to certain conditions and the payment of an extension fee.
 - (4) Entered into two interest rate swaps with an effective date of March 29, 2017 with an aggregate notional value of \$100.0 million to effectively fix the interest rate at 2.62% annually, based on the Company's consolidated leverage ratio, as defined in the 2016 term loan facility agreement.
 - (5) Entered into four interest rate swaps with an effective date of December 13, 2018 with an aggregate notional value of \$150.0 million to effectively fix the interest rate at 3.91% annually, based on the Company's consolidated leverage ratio, as defined in the 2018 term loan facility agreement.
 - (6) Effective interest rates are as follows: CBP – Savannah 4.12%, ICE – Charleston 3.93%, MEPCOM – Jacksonville 3.89%, USFS II – Albuquerque 3.92%, DEA – Pleasanton 1.8%, VA – Loma Linda 3.78%, VA – Golden 5.03%.
- 2018 Activity

On June 18, 2018, we entered into an amended and restated senior unsecured credit facility (our "amended senior unsecured credit facility"). Our amended senior unsecured credit facility increased the total borrowing capacity of our existing senior unsecured credit facility by \$200.0 million for a total credit facility size of \$600.0 million, consisting of two components: (i) a \$450.0 million senior unsecured revolving credit facility (the "revolving credit facility"), and (ii) a \$150.0 million senior unsecured term loan facility (the "2018 term loan facility"). The revolving credit facility also includes an accordion feature that will provide us with additional capacity, subject to the satisfaction of customary terms and conditions, of up to \$250.0 million.

The Operating Partnership is the borrower, and we and certain of our subsidiaries that directly own certain of our properties are guarantors under our amended senior unsecured credit facility. The revolving credit facility matures in four years and the 2018 term loan facility matures in five years. In addition, the revolving credit facility has two six-month as-of-right extension options subject to certain conditions and the payment of an extension fee.

Our amended senior unsecured credit facility bears interest, at our option, either at:

- a Eurodollar rate equal to a periodic fixed rate equal to LIBOR plus, a margin ranging from 1.25% to 1.80% for advances under the revolving credit facility and a margin ranging from 1.20% to 1.75% for advances under the 2018 term loan facility; or

- a fluctuating rate equal to the sum of (a) the highest of (x) Citibank, N.A.'s base rate, (y) the federal funds effective rate plus 0.50% and (z) the one-month Eurodollar rate plus 1.00% plus (b) a margin ranging from 0.25% to 0.80% for advances under the revolving credit facility and a margin ranging from 0.20% to 0.75% for advances under the 2018 term loan facility, in each case with a margin based on our leverage ratio.

The 2018 term loan facility had a 364-day delayed draw period and is prepayable without penalty for the entire term of the loan. On September 10, 2018, we fully drew \$150.0 million on our 2018 term loan facility.

On June 18, 2018, we entered into a second amendment to our existing \$100.0 million senior unsecured term loan facility (the “2016 term loan facility”). The second amendment amends certain covenants and other provisions in the 2016 term loan facility to conform to changes made to such covenants and other provisions in our amended senior unsecured credit facility.

On October 3, 2018, we entered into a third letter amendment (the “Third Amendment”) to the 2016 term loan facility. The Third Amendment reduced the interest rate margin applicable to borrowings under the 2016 term loan facility and extended the maturity date by six months to March 29, 2024.

2017 Activity

On March 20, 2017 we fully drew \$100.0 million on our senior unsecured term loan facility which we entered into on September 29, 2016.

On May 25, 2017, the Operating Partnership issued \$175 million of fixed rate, senior unsecured notes (the “Notes”) in a private placement pursuant to a purchase agreement among the Operating Partnership, the Company and the purchasers of the Notes (the

“Purchase Agreement”). The Notes are unconditionally guaranteed by the Company and various subsidiaries of the Operating Partnership (the “Subsidiary Guarantors”).

Subject to the terms of the Purchase Agreement and the Notes, upon certain events of default, including, but not limited to, (i) a default in the payment of any principal, “make-whole” amount or interest under the Notes, and (ii) a default in the payment of certain other indebtedness of the Operating Partnership or of the Company or of the Subsidiary Guarantors, the principal and accrued and unpaid interest and the make-whole amount on the outstanding Notes will become due and payable at the option of the holders. The Purchase Agreement and the Notes also contain various covenants, including, among others, financial covenants with respect to debt service coverage, consolidated net worth, fixed charges and consolidated leverage and covenants relating to liens. If the Operating Partnership or the Company breaches any of these covenants, the principal and accrued and unpaid interest and the make-whole amount on the outstanding Notes will become due and payable at the option of the holders.

The Operating Partnership may prepay at any time all, or from time to time any part of, the Notes, in the amount not less than 5% of the aggregate principal amount of the Notes then outstanding at (i) 100% of the principal amount so prepaid, together with accrued interest, and (ii) a make-whole amount that is calculated by discounting the value of the remaining scheduled interest payments that would otherwise be payable through the scheduled maturity date of the applicable Notes on the principal amount being prepaid. The Operating Partnership has the right to make tender offers and is required to make other prepayment offers under the terms set forth in the Purchase Agreement.

On June 28, 2017, the Company, through a wholly-owned subsidiary of the Operating Partnership, entered into a \$127.5 million mortgage loan secured by VA – Loma Linda.

Financial Covenant Considerations

The Company was in compliance with all financial and other covenants as of December 31, 2018 related to its revolving credit facility, 2016 term loan facility, 2018 term loan facility, notes payable and mortgage notes payable.

Fair Value of Debt

As of December 31, 2018 and 2017, the carrying value of our revolving credit facility approximated fair value. In determining the fair value we considered the short term maturity, variable interest rate and credit spreads. We deem the fair value of our senior unsecured revolving credit facility as a Level 3 measurement.

As of December 31, 2018 and 2017, the carrying value of our 2016 term loan facility approximated fair value. In determining the fair value we considered the variable interest rate and credit spreads. We deem the fair value of our 2016 term loan facility as a Level 3 measurement.

As of December 31, 2018, the carrying value of our 2018 term loan facility approximated fair value. In determining the fair value we considered the variable interest rate and credit spreads. We deem the fair value of our 2018 term loan facility as a Level 3 measurement.

As of December 31, 2018 and 2017, the fair value of our notes payable was determined by discounting future contractual principal and interest payments using prevailing market rates. We deem the fair value measurement of our notes payable instruments as a Level 3 measurement. At December 31, 2018 and 2017, the fair value of our notes payable was \$172.0 million and \$177.5 million, respectively.

As of December 31, 2018 and 2017, the fair value of our mortgage debt was determined by discounting future contractual principal and interest payments using prevailing market rates. We deem the fair value measurement of our

mortgage debt instruments as a Level 3 measurement. At December 31, 2018 and 2017, the fair value of our mortgage debt was \$206.8 million and \$203.1 million, respectively.

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Aggregate Debt Maturities

The Company's aggregate debt maturities based on outstanding principal as of December 31, 2018 are as follows (dollars in thousands):

	Total
2019	\$3,391
2020	3,564
2021	4,233
2022	140,047
2023	171,285
Thereafter	448,375
	770,895
Unamortized premium/discount & deferred financing	(4,540)
	\$766,355

5. Derivatives and Hedging Activities

The following table sets forth the key terms and fair values of our interest rate swap derivatives, each of which was designated as a cash flow hedge (dollars in thousands):

Notional Amount	Fixed Rate	Floating Rate Index	Effective Date	Expiration Date	Fair Value at December 31,	
					2018	2017
\$100,000	1.41 %	One-Month LIBOR	March 29, 2017	September 29, 2023	\$4,563	\$4,031
150,000	2.71 %	One-Month LIBOR	December 13, 2018	June 19, 2023	(1,797)	—

The table below sets forth the fair value of our interest rate derivatives as well as their classification on our consolidated balance sheets (dollars in thousands):

Balance Sheet Line Item	Fair Value at December 31,	
	2018	2017
Interest rate swaps-Asset	\$4,563	\$4,031
Interest rate swaps-Liability	(1,797)	—

Cash Flow Hedges of Interest Rate Risk

The effective portion of changes in the fair value of derivatives designated and qualified as cash flow hedges is recorded in accumulated other comprehensive income and will be reclassified to interest expense in the period that the hedged forecasted transactions affect earnings on the Company's variable rate debt. The ineffective portion of the change in fair value of the derivatives is recognized directly in earnings into interest expense. For the year ended December 31, 2018 and 2017, the Company did not record any hedge ineffectiveness related to the hedged derivatives.

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Amounts reported in accumulated other comprehensive income (loss) related to derivatives designated as qualifying cash flow hedges will be reclassified to interest expense as interest payments are made on the Company's variable rate debt. The Company estimates that \$0.9 million will be reclassified from accumulated other comprehensive income as a decrease to interest expense over the next 12 months.

The table below presents the effects of our interest rate derivatives on our consolidated statements of operations and comprehensive income (dollars in thousands):

	For the years ended December 31,		
	2018	2017	2016
Unrealized gain (loss) recognized in AOCI	\$(713)	\$63	\$3,785
Gain (loss) reclassified from AOCI into interest expense	552	(183)	—

Credit-risk-related Contingent Features

The Company has agreements with each of its derivative counterparties that contain a provision where the Company could be declared in default on its derivative obligations if repayment of the underlying indebtedness is accelerated by the lender due to the

Company's default on the indebtedness. As of December 31, 2018, the net fair value of derivatives in a liability position related to these agreements was \$1.2 million. As of December 31, 2018, the Company had not breached the provisions of these agreements and has not posted any collateral related to these agreements.

6. Fair Value Measurements

Accounting standards define fair value as the exit price, or the amount that would be received upon sale of an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The standards also establish a hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. Observable inputs are inputs market participants would use in valuing the asset or liability developed based on market data obtained from sources independent of us. Unobservable inputs are inputs that reflect our assumptions about the factors market participants would use in valuing the asset or liability developed based upon the best information available in the circumstances. The hierarchy of these inputs is broken down into three levels: Level 1, defined as observable inputs such as quoted prices in active markets; Level 2, defined as inputs other than quoted prices in active markets that are either directly or indirectly observable; and Level 3, defined as unobservable inputs in which little or no market data exists, therefore requiring an entity to develop its own assumptions. Categorization within the valuation hierarchy is based upon the lowest level of input that is most significant to the fair value measurement.

Recurring fair value measurements

The fair values of our interest rate swaps are determined using widely accepted valuation techniques, including discounted cash flow analysis on the expected cash flows of each derivative. This analysis reflects the contractual terms of the derivatives, including the period to maturity, and uses observable market-based inputs, including interest rate curves and implied volatilities in such interest rates. While the Company determined that the majority of the inputs used to value its derivatives fall within Level 2 of the fair value hierarchy, the credit valuation adjustments associated with its derivatives utilize Level 3 inputs, such as estimates of current credit spreads to evaluate the likelihood of default by the Company and its counterparties. The Company has determined that the significance of the impact of the credit valuation adjustments made to its derivative contracts, which determination was based on the fair value of each individual contract, was not significant to the overall valuation. As a result, all of the Company's derivatives held as of December 31, 2018 and 2017 were classified as Level 2 of the fair value hierarchy.

The carrying values of cash and cash equivalents, restricted cash, accounts receivable, other assets and accounts payable and accrued expenses are reasonable estimates of fair values because of the short maturities of these instruments. For our disclosure of debt fair values in Note 4, we estimated the fair value of our 2016 and 2018 term loan facility based on the variable interest rate and credit spreads (categorized within Level 3 of the fair value hierarchy) and estimated the fair value of our other debt based on the discounted estimated future cash payments to be made on such debt (categorized within Level 3 of the fair value hierarchy); the discount rates used approximate current market rates for loans, or groups of loans, with similar maturities and credit quality, and the estimated future payments included scheduled principal and interest payments. Fair value estimates are made as of a specific point in time, are subjective in nature and involve uncertainties and matters of significant judgment. Settlement at such fair value amounts may not be possible and may not be a prudent management decision.

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The table below presents the Company's assets and liabilities measured at fair value on a recurring basis as of December 31, 2018 and 2017, aggregated by the level in the fair value hierarchy within which those measurements fall (amounts in thousands).

Balance Sheet Line Item	As of December 31, 2018		
	Level	Level	Level
	1	2	3
Interest rate swaps - Asset	\$—	\$4,563	\$ —
Interest rate swaps - Liability	\$—	\$(1,797)	\$ —

Balance Sheet Line Item	As of December 31, 2017		
	Level	Level	Level
	1	2	3
Interest rate swaps - Asset	\$—	\$4,031	\$ —

7. Equity

2015 Equity Incentive Plan

Our board of directors adopted, and our sole stockholder approved, our 2015 Equity Incentive Plan, as amended (the "2015 Equity Incentive Plan") under which we may grant cash and equity incentive awards to our executive officers, non-employee directors

and eligible employees in order to attract, motivate and retain the talent for which we compete. The 2015 Equity Incentive Plan is administered by the compensation committee of our board of directors and permits us to make grants of options, stock appreciation rights, restricted stock units, restricted stock, dividend equivalent rights, cash-based awards, performance-based awards and other equity-based awards, including LTIP units, or any combination of the foregoing.

Grant awards of restricted stock, restricted stock units, performance shares or cash-based awards under the 2015 Equity Incentive Plan are intended to qualify as “performance based compensation” under Section 162(m) of the Code. Those awards would only vest or become payable upon the attainment of performance goals that are established by our compensation committee and related to established performance criteria. From and after the time that we become subject to Section 162(m) of the Code, the maximum award that is intended to qualify as “performance-based compensation” under Section 162(m) of the Code that may be made to any one employee during any one calendar year period is 2,273,959 shares of our common stock with respect to stock-based award and \$5.0 million with respect to a cash based award.

The shares issued under the 2015 Equity Incentive Plan are authorized but unissued shares or shares that we reacquire. The shares of our common stock underlying any awards that are forfeited, cancelled, held back upon exercise or settlement of an award to satisfy the exercise price or tax withholding, reacquired by us prior to vesting, satisfied without any issuance of stock, expire or are otherwise terminated (other than by exercise) under the 2015 Equity Incentive Plan are added back to the shares available for issuance under the 2015 Equity Incentive Plan. At the Company’s 2017 annual meeting of stockholders held on May 9, 2017, the Company’s stockholders approved an amendment to the 2015 Equity Incentive Plan to increase the aggregate number of shares authorized for issuance under the 2015 Equity Incentive Plan by 3,000,000 shares to 5,273,959 shares of our common stock.

In connection with the Company’s 2017 annual meeting of stockholders, we issued an aggregate of 15,220 shares of restricted common stock to our non-employee directors, which will vest upon the earlier of the anniversary of the date of grant or the Company’s 2018 annual meeting of stockholders.

The Company granted 40,000 LTIP units on February 26, 2016 to members of management as long-term incentive compensation under the 2015 Equity Incentive Plan, as amended (the “2015 Equity Incentive Plan”) subject to the Company achieving certain absolute and relative total shareholder returns through the performance period, which ended on December 31, 2017. Based on the Company’s absolute and relative total shareholder return performance through the end of the performance period, the compensation committee of the Company’s board of directors determined that an aggregate of 2,079,297 LTIP units were earned. Under the terms of the awards, earned awards vested 50% on February 15, 2018 and 50% on February 6, 2019, subject to the grantee’s continued employment.

On January 4, 2018, the Company granted an aggregate of 173,381 performance-based LTIP units to members of management under the 2015 Equity Incentive Plan, subject to the Company achieving certain absolute and relative total shareholder returns through the performance period. The awards consist of three separate tranches of 32,448 LTIP units, 55,463 LTIP units and 85,470 LTIP units with performance periods ending on December 31, 2018, December 31, 2019 and December 31, 2020, respectively. The performance criteria for each tranche is based 75% on the Company’s absolute total shareholder return performance and 25% on the Company’s relative total shareholder return performance during the relevant performance period, with 50% of the LTIP Units vesting when earned following the end of the applicable performance period and 50% of the earned award subject to an additional one year of vesting.

On April 3, 2018, the Company issued an aggregate of 2,236 shares of restricted common stock to certain employees pursuant to our 2015 Equity Incentive Plan. The restricted common stock grants will vest upon the second anniversary of the grant date so long as the grantee remains an employee of the Company on such date.

In connection with our 2018 annual meeting of stockholders, we issued an aggregate of 19,092 shares of restricted common stock to our non-employee directors pursuant to our 2015 Equity Incentive Plan. The restricted common stock grants will vest upon the earlier of the anniversary of the date of the grant or the next annual stockholder meeting.

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A summary of our non-vested common share awards at December 31, 2018, 2017 and 2016 is as follows:

	Restricted Shares	Restricted Shares Weighted average grant date fair value	LTIP Units	LTIP Units Weighted average grant date fair value
Outstanding, December 31, 2015	26,667	\$ 15	891,000	\$ 8.67
Vested	(26,667)	\$ 15.00	—	\$ —
Granted	16,128	18.60	40,000	14.15
Forfeited	—	—	(5,000)	8.67
Outstanding, December 31, 2016	16,128	\$ 18.60	926,000	\$ 8.91
Vested	(16,128)	\$ 18.60	—	\$ —
Granted	17,912	19.72	—	—
Forfeited	—	—	—	—
Outstanding, December 31, 2017	17,912	\$ 19.72	926,000	\$ 8.91
Vested	(15,220)	\$ 19.71	(463,000)	\$ 8.91
Granted	21,328	20.87	173,381	18.31
Forfeited	—	—	—	—
Outstanding, December 31, 2018	24,020	\$ 20.74	636,381	\$ 11.47

We recognized \$3.0 million, \$3.0 million and \$2.9 million in compensation expense, related to the restricted common stock and the LTIP unit awards, for the years ended December 31, 2018, 2017 and 2016, respectively. As of December 31, 2018 unrecognized compensation expense for both awards was \$2.1 million, which will be amortized over the vesting period.

We valued our non-vested restricted share awards at the grant date fair value, which was the market price of our common stock as of the applicable grant date.

For the LTIP unit awards granted, we used a Monte Carlo Simulation (risk-neutral approach) to determine the number of shares that may be issued pursuant to the award.

For LTIP units granted in 2016 we utilized a risk-free rate of 0.7%, derived from the Treasury note yield as of the grant date. Since the Company has a limited amount of operating history, the expected volatility assumption of 20.0% was derived from the observed historical volatility of the common stock prices of a select group of peer companies within the REIT industry. Based on the selected dividend yields of guideline companies and expected dividend levels, we utilized an expected dividend yield of 5.5%.

For LTIP units granted in 2018 we utilized a risk-free rate of 2.1%, derived from the Treasury note yield as of the grant date. Since the Company has a limited amount of operating history, the expected volatility assumption of 16.0% was derived from the observed historical volatility of the common stock prices of a select group of peer companies within the REIT industry and the observed implied volatility on the Company's stock options. Based on the selected dividend yields of guideline companies and expected dividend levels, we utilized an expected dividend yield of 5.0%.

No additional shares of common stock or options were issued under the 2015 Equity Incentive Plan as of December 31, 2018.

Underwritten Public Offering of Common Stock

On June 7, 2016, we completed an underwritten public offering of an aggregate of 6,219,045 shares of common stock, consisting of 4,719,045 shares sold by us to the underwriters and 1,500,000 shares offered on a forward basis in connection with certain forward sales agreements. The gross proceeds from the offering of 4,719,045 shares sold by us to the underwriters was \$84.9 million before deducting underwriting discounts, commissions and estimated offering expenses. On November 29, 2016, the Company physically settled the forward sales agreements by issuing an aggregate of 1,500,000 shares of common stock in exchange for approximately \$25.1 million. The Company accounted for the forward share agreements as equity.

On March 27, 2017, we completed an underwritten public offering of an aggregate of 4,945,000 shares of common stock, including 645,000 shares sold pursuant the underwriters' exercise in full of their option to purchase additional shares. The shares were offered on a forward basis in connection with certain forward sales agreements entered into with certain financial institutions, acting as forward purchasers. Pursuant to the forward sales agreements, the forward purchasers borrowed and the forward sellers, acting as agents for the forward purchasers, sold an aggregate of 4,945,000 shares in the public offering. On September 11, 2017, the Company

physically settled the forward sales agreements by issuing an aggregate of 4,945,000 shares of common stock in exchange for approximately \$92.7 million. The Company accounted for the forward share agreements as equity.

On June 21, 2018, we completed an underwritten public offering of an aggregate of 20,700,000 shares of our common stock, consisting of (i) 13,700,000 shares sold by us to the underwriters (including 2,700,000 shares pursuant to the underwriters' exercise of their option to purchase additional shares) and (ii) 7,000,000 shares offered and sold on a forward basis in connection with forward sales agreements entered into with certain financial institutions, acting as forward purchasers. We received approximately \$252.9 million in net proceeds from the sale of shares offered by us in the offering, after deducting underwriting discounts and commissions and our offering expenses. Subject to the Company's right to elect cash or net share settlement, we expect to physically settle the forward sales agreements no later than June 21, 2019. Assuming the forward sales agreements are physically settled in full utilizing an initial forward sale price of \$18.48 per share adjusted for a floating interest rate factor equal to the federal funds rate less a spread and subject to a decrease related to expected dividends on shares of our common stock during the applicable term of the forward sales agreement, we expect to receive an additional \$126.1 million of net proceeds, after deducting underwriting discounts, commissions and estimated offering expenses. As of December 31, 2018, the forward sale price was \$18.04 per share.

Redemption of Common Units to Common Stock

In connection with the liquidation of the Easterly Funds, an aggregate of 6,471,258 shares of common stock were issued between May 11, 2016 and December 31, 2016 upon the redemption of an aggregate of 6,471,258 common units in accordance with the terms of the partnership agreement of the Operating Partnership. During the year ended December 31, 2017, we issued 1,379,804 shares of our common stock upon the redemption of 1,379,804 common units in accordance with the terms of the partnership agreement of the Operating Partnership. During the year ended December 31, 2018, we issued 658,801 shares of our common stock upon the redemption of 658,801 common units in accordance with the terms of the partnership agreement of the Operating Partnership.

Dividends and Distributions Paid

A summary of dividends declared by the board of directors per share of common stock and per common unit of our operating partnership at the date of record is as follows:

Quarter	Declaration Date	Record Date	Pay Date	Dividend
Q1 2016	May 4, 2016	June 8, 2016	June 23, 2016	0.23
Q2 2016	August 3, 2016	August 26, 2016	September 13, 2016	0.23
Q3 2016	November 3, 2016	December 7, 2016	December 22, 2016	0.24
Q4 2016	February 23, 2017	March 7, 2017	March 22, 2017	0.24
Q1 2017	May 3, 2017	June 14, 2017	June 29, 2017	0.25
Q2 2017	August 2, 2017	September 13, 2017	September 28, 2017	0.25
Q3 2017	November 2, 2017	December 6, 2017	December 21, 2017	0.26
Q4 2017	February 21, 2018	March 13, 2018	March 28, 2018	0.26
Q1 2018	May 3, 2018	June 11, 2018	June 28, 2018	0.26
Q2 2018	August 1, 2018	September 13, 2018	September 27, 2018	0.26
Q3 2018	October 29, 2018	December 13, 2018	December 27, 2018	0.26
Q4 2018	February 21, 2019	March 14, 2019	March 28, 2019	0.26

Prior to the end of the performance period as set forth in the applicable LTIP unit award, holders of LTIP units are entitled to receive dividends per LTIP unit equal to 10% of the dividend paid per common unit of our operating partnership. After the end of the performance period, the number of LTIP units, both vested and unvested, that LTIP award recipients have earned, if any, are entitled to receive dividends in an amount per LTIP unit equal to dividends,

both regular and special, payable per common unit of our operating partnership.

ATM Program

On March 3, 2017, we entered into separate equity distribution agreements with each of Citigroup Global Markets Inc., BTIG, LLC, Jefferies LLC, Raymond James & Associates, Inc., RBC Capital Markets, LLC and SunTrust Robinson Humphrey, Inc. (collectively, the “managers”), pursuant to which we may issue and sell the shares of our common stock having an aggregate offering price of up to \$100.0 million from time to time through the managers, acting as sales agents and/or principals (the “ATM Program”). The sales of shares of our common stock under the equity distribution agreements may be made in negotiated transactions or transactions that are deemed to be “at the market” offerings as defined in Rule 415 under the Securities Act.

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The following table sets forth certain information with respect to the ATM program as of December 31, 2018:

For the Three Months Ended:	Number of Shares Sold	Net Proceeds
March 31, 2018	671,666	\$13,531,864
June 30, 2018	1,010,371	20,207,590
September 30, 2018	—	—
December 31, 2018	—	—
	1,682,037	\$33,739,454

We have used the proceeds from such sales for general corporate purposes. As of December 31, 2018, we had approximately \$32.3 million of gross sales of our common stock available under our ATM program.

Contribution of Property for Common Units

On October 4, 2017, the Company acquired FEMA – Tracy for which it paid as partial consideration 575,707 common units. The issuance of the common units was effected in reliance upon an exemption from registration provided by Section 4(a)(2) under the Securities Act of 1933, as amended.

On November 9, 2018, the Company acquired TREAS – Birmingham for which it paid 271,918 common units. The issuance of the common units was effected in reliance upon an exemption from registration provided by Section 4(a)(2) under the Securities Act of 1933, as amended.

8. Earnings Per Share

Basic earnings or loss per share of common stock (“EPS”) is calculated by dividing net income or loss attributable to common stockholders by the weighted average shares of common stock outstanding for the periods presented. Diluted EPS is computed after adjusting the basic EPS computation for the effect of dilutive common equivalent shares outstanding during the periods presented. Unvested restricted shares and LTIP units are considered participating securities which require the use of the two-class method for the computation of basic and diluted earnings per share. The following table sets forth the computation of the Company’s basic and diluted earnings per share of common stock for the years ended December 31, 2018, 2017 and 2016 (amounts in thousands, except per share amounts):

	For the years ended December 31,		
	2018	2017	2016
Numerator			
Net income (loss)	\$6,659	\$5,389	\$5,497
Less: Non-controlling interest in Operating Partnership	(955)	(941)	(1,534)
Net income (loss) available to Easterly Government Properties, Inc.	5,704	4,448	3,963

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Less: Dividends on participating securities	(1,123)	(110)	(102)
Net income (loss) available to common stockholders	\$4,581	\$4,338	\$3,861
Denominator for basic EPS	53,511,137	39,607,740	30,645,279
Dilutive effect of share-based compensation awards	9,510	11,384	13,691
Dilutive effect of LTIP units ⁽¹⁾	1,135,544	1,944,416	1,713,568
Dilutive effect of shares issuable under forward			
sales agreements	275,189	—	—
Denominator for diluted EPS	54,931,380	41,563,540	32,372,538
Basic EPS	\$0.09	\$0.11	\$0.13
Diluted EPS	\$0.08	\$0.10	\$0.12

(1) During the year ended December 31, 2018, there were approximately 173,381 unvested performance-based LTIP units that were not included in the computation of diluted earnings per share because to do so would have been antidilutive for the period.

9. Operating Leases

Our rental properties are subject to generally non-cancelable operating leases generating future minimum contractual rent payments due from tenants. As of December 31, 2018, future non-cancelable minimum contractual rent payments on our operating properties are as follows (dollars in thousands):

	Payments due by period						
	Total	2019	2020	2021	2022	2023	Thereafter
Operating Leases							
Minimum lease payments	\$1,251,546	151,152	139,315	116,827	99,822	92,392	652,038

The Company's consolidated operating properties were 100% occupied by 38 tenants at December 31, 2018 and 100% occupied by 23 tenants at December 31, 2017.

For the year ended December 31, 2018 we recognized \$128.0 million in rental income attributable to base rent, \$8.6 million in rental income attributable to the amortization of our above- and below-market leases, \$0.2 million in rental income attributable to the amortization of unearned revenue and a straight-line adjustment of \$5.6 million.

For the year ended December 31, 2017 we recognized \$103.8 million in rental income attributable to base rent, \$8.5 million in rental income attributable to the amortization of our above- and below-market leases, \$0.1 million in rental income attributable to the amortization of unearned revenue and a straight-line adjustment of \$2.8 million.

For the year ended December 31, 2016 we recognized \$85.8 million in rental income attributable to base rent, \$7.2 million in rental income attributable to the amortization of our above- and below-market leases and a straight-line adjustment, \$0.1 million in rental income attributable to the amortization of unearned revenue and a straight-line adjustment of \$0.3 million.

Information about our leases for development properties as of December 31, 2018 is set forth in the table below:

						Estimated Rentable
			Property	Lease		Square
Property Name	Location	Tenant	Type ⁽¹⁾	Term	Feet	
FDA - Alameda	Alameda, CA	Food and Drug Administration	L	20-year	69,624	
FDA - Lenexa	Lenexa, KS	Food and Drug Administration	L	20-year ⁽²⁾	59,690	
Total						129,314

(1) L=Laboratory

(2) The 20-year lease term includes a firm term of 15 years and a soft term of 5 years.

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10. Revenue

The table below sets forth revenue from tenant construction projects disaggregated by tenant agency for the year ended December 31, 2018 (in thousands).

Tenant	For the year ended December 31, 2018
Department of Veteran Affairs ("VA")	\$ 2,896
Federal Bureau of Investigation ("FBI")	1,317
U.S. Forest Service ("USFS")	577
Drug Enforcement Administration ("DEA")	375
The Judiciary of the U.S. Government ("JUD")	201
National Park Service ("NPS")	40
U.S. Citizenship and Immigration Services ("USCIS")	39
Social Security Administration ("SSA")	31
National Labor Relations Board ("NLRB")	18
Immigration and Customs Enforcement ("ICE")	9
U.S. Coast Guard ("USCG")	6
Environmental Protection Agency ("EPA")	4
Department of Transportation ("DOT")	1
Internal Revenue Service ("IRS")	1
	\$ 5,515

The balance in Accounts receivable related to tenant construction projects was \$2.4 million as of December 31, 2018. There were no contract assets or liabilities as of December 31, 2018.

The duration of the majority of tenant construction project reimbursement arrangements are less than a year and payment is typically due once a project is complete and work has been accepted by the tenant. There were no projects ongoing as of December 31, 2018 with a duration of greater than one year.

During the twelve months ended December 31, 2018, the Company also recognized \$0.2 million in parking garage income generated from the operations of a parking garage situated on the Various GSA – Buffalo property acquired in third quarter of 2018. The monthly and transient daily parking revenue falls within the scope of ASC 606 and is accounted for at the point in time when control of the goods or services transfers to the customer and the Company's performance obligation is satisfied, consistent with the Company's previous accounting. As of December 31, 2018, there was less than \$0.1 million in Accounts receivable attributable to parking garage income.

11. Commitments and Contingencies

a) Operating Leases

In October of 2015 we entered into a sublease agreement for 5,682 square feet of office space in Washington, D.C. with a commencement date of March 2016 and expiration date of June 2021.

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We also lease 5,752 square feet of office space in San Diego, CA under an operating lease that commenced February 2015 and expires in April 2022.

Rent expense incurred under the terms of the corporate office leases, was \$0.5 million, \$0.4 million and \$0.2 million for the years ended December 31, 2018, 2017 and 2016, respectively. Future minimum rental payments under the Company's corporate office leases as of December 31, 2018 are summarized as follows (amounts in thousands):

	Payments due by period						
	Total	2019	2020	2021	2022	2023	Thereafter
Corporate office leases							
Minimum lease payments	\$1,392	479	496	352	65	—	—

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b) Environmental

As an owner of real estate, the Company is subject to various environmental laws of federal, state, and local governments. The Company's compliance with existing laws has not had a material adverse effect on its financial condition and results of operations, and the Company does not believe it will have a material adverse effect in the future. However, the Company cannot predict the impact of unforeseen environmental contingencies or new or changed laws or regulations on its current properties or on properties that the Company may acquire.

c) Tax Protection Agreements

Concurrent with the completion of our initial public offering and the related formation transactions, the Company also entered into a tax protection agreement with Michael P. Ibe, a director and our Vice Chairman and Executive Vice President — Development and Acquisitions, under which we agreed to indemnify Mr. Ibe for any taxes incurred as a result of a taxable sale of the properties contributed by certain entities beneficially owned by Mr. Ibe in the formation transactions for a period of eight years after the closing of the initial public offering and the formation transactions. The Company also agreed in the tax protection agreement with Mr. Ibe to use the “traditional method” of making allocations under Section 704(c) of the Code for the eight-year period.

On October 21, 2015, the Company entered into a second tax protection agreement with Mr. Ibe, under which the Company agreed to indemnify Mr. Ibe for any taxes incurred as a result of a taxable sale of the DEA – Pleasanton property for a period of eight years after the closing of the acquisition and to offer Mr. Ibe and certain affiliates of Mr. Ibe the opportunity to guarantee, in the aggregate, up to approximately \$15.7 million of indebtedness of the Operating Partnership for two years following the contribution of the DEA – Pleasanton property and up to approximately \$7.2 million of indebtedness thereafter until the eighth anniversary of the closing of the acquisition, subject to certain conditions. The Company also agreed in the tax protection agreement with Mr. Ibe to use the “traditional method” of making allocations under Section 704(c) of the Code for the eight-year period.

In connection with our acquisition of a property in 2017, we entered into a tax protection agreement, under which we agreed to indemnify the contributor for any taxes incurred as a result of a taxable sale of such property for a period of two years. The Company also agreed in the tax protection agreement with the contributor to use the “traditional method” of making allocations under Section 704(c) of the Code for the two-year period.

In connection with our acquisition of a property in 2018, we entered into a tax protection agreement, under which we agreed to indemnify the contributor for any taxes incurred as a result of a taxable sale of such property for a period of four years. The Company also agreed in the tax protection agreement with the contributor to use the “traditional method” of making allocations under Section 704(c) of the Code for the four-year period.

d) Letters of Credit

As of December 31, 2018 and 2017, the Company had \$0.1 million and \$0.1 million of standby letters of credit, respectively. There were no draws against these letters of credit during the years ended December 31, 2018 or 2017.

12. Concentrations Risk

Concentrations of credit risk arise for the Company when multiple tenants of the Company are engaged in similar business activities, are located in the same geographic region or have similar economic features that impact in a similar manner their ability to meet contractual obligations, including those to the Company. The Company regularly monitors its tenant base to assess potential concentrations of credit risk.

As stated in Note 1 above, the Company leases commercial space to the U.S. Government through the GSA or other federal agencies or nongovernmental tenants. At December 31, 2018, the GSA and other federal agency accounted for approximately 98.8% of rental income and non-governmental tenants accounted for the remaining approximately 1.2%. At December 31, 2017, the GSA and other federal agency accounted for approximately 98.7% of rental income and non-governmental tenants accounted for the remaining approximately 1.3%.

At December 31, 2018, seventeen of our 62 operating properties were located in California, accounting for approximately 23.9% of our total rentable square feet and approximately 30.1% of our total annualized lease income. At December 31, 2017, fourteen of our 46 operating properties were located in California, accounting for approximately 25.8% of our total rentable square feet and approximately 33.3% of our total annualized lease income. To the extent that weak economic or real estate conditions or natural disasters affect California, our business, financial condition and results of operations could be negatively impacted.

13. Related Party

For the years ended December 31, 2018, 2017 and 2016 we were responsible for reimbursing certain entities controlled by our Chairman \$0.1 million, \$0.1 million and \$0.1 million, respectively, for a portion of rent and office expense at their Beverly, MA office and for the services of certain employees. Additionally, during the years ended December 31, 2018, 2017 and 2016, certain entities controlled by our Vice Chairman were responsible for reimbursing us \$0.1 million, \$0.1 million and \$0.2 million, respectively, for certain costs that we paid on their behalf.

14. Subsequent Events

For its consolidated financial statements as of December 31, 2018, the Company evaluated subsequent events and noted the following significant events.

On January 31, 2019, we completed the acquisition of the three remaining Portfolio Properties (the “Final Closing”). The three Portfolio Properties acquired in the Final Closing consist of an aggregate of 355,426 square feet and include the following (listed by primary tenant agency, if applicable, and location): DEA – Sterling, VA, FDA – College Park, MD and Various GSA – Portland, OR. As a result of the First Closing, the Second Closing and the Final Closing, we have completed the acquisition of Portfolio Properties.

The Company granted an aggregate of 143,538 performance-based LTIP units to members of management pursuant to the 2015 Equity Incentive Plan, subject to the Company achieving certain absolute and relative total shareholder returns through the performance period. The awards consist of two separate tranches of 45,238 LTIP units and 98,300 LTIP units with performance periods ending on December 31, 2020 and December 31, 2021, respectively. 50% of the LTIP Units vest when earned following the end of the applicable performance period and 50% of the earned award is subject to an additional one year of vesting.

The Company granted an aggregate of 54,041 shares of restricted common stock to members of management pursuant to the 2015 Equity Incentive Plan, of which an aggregate of 17,645 shares will vest on January 18, 2021 and an aggregate of 36,396 shares will vest on January 18, 2022.

15. Selected Quarterly Financial Data (unaudited)

The following is a summary of our unaudited quarterly results of operations for 2018 (amounts in thousands, except per share amounts):

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Total revenues	\$35,974	\$36,972	\$39,437	\$48,208
Net income available to Easterly Government Properties, Inc.	1,519	1,440	2,155	\$590

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Net income available to Easterly Government Properties, Inc. per share (basic)	\$0.03	\$0.02	\$0.03	\$0.01
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Net income available to Easterly Government Properties, Inc. per share (diluted)	\$0.03	\$0.02	\$0.03	\$0.01
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The following is a summary of our unaudited quarterly results of operations for 2017 (amounts in thousands, except per share amounts):

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Total revenues	\$29,887	\$30,603	\$33,858	\$36,325
Net income available to Easterly Government Properties, Inc.	1,237	982	942	1,287
Net income available to Easterly Government Properties, Inc. per share (basic)	\$0.03	\$0.03	\$0.02	\$0.03
Net income available to Easterly Government Properties, Inc. per share (diluted)	\$0.03	\$0.02	\$0.02	\$0.03

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Easterly Government Properties, Inc.

Schedule III - Real Estate and Accumulated Depreciation

December 31, 2018

(Amounts in thousands)

Location	Type ⁽¹⁾	Encumbrance ⁽²⁾	Initial Cost to	Cost amount carried at Close							
			Company	Costs					Accumulated Depreciation ⁽⁴⁾	Original Construction Date(s) (Unaudited)	Date Acquired
			Land ⁽²⁾	Buildings and Improvements	Capitalized Subsequent to Acquisition		Buildings and Improvements	Total ⁽³⁾			
Aberdeen, MS	C/O	\$—	\$1,147	\$14,044	\$94	\$1,147	\$14,138	\$15,285	\$1,303	2005	6/17/2015
Albany, NY	O	—	1,801	11,544	218	1,801	11,762	13,563	1,137	2004	2/11/2015
Albany, NY	O	—	1,412	17,128	459	1,412	17,587	18,999	937	1998	11/22/2016
Albuquerque, NM	O	17,047	2,345	28,611	114	2,345	28,725	31,070	3,845	2011	2/11/2015
Albuquerque, NM	O	—	2,905	23,804	464	2,905	24,268	27,173	2,843	2006	2/11/2015
Albuquerque, NM	O	—	3,062	28,201	74	3,062	28,275	31,337	2,578	2011	2/17/2016
Arlington, VA	O	—	14,350	44,442	154	14,350	44,596	58,946	7,223	2009	2/11/2015
Bakersfield, CA	O	—	438	2,253	—	438	2,253	2,691	14	2000	10/16/2018
Baton Rouge, LA	OC	—	344	5,241	—	344	5,241	5,585	27	2004	10/16/2018
Birmingham, AL	O	—	408	10,853	67	408	10,920	11,328	845	2005	7/1/2016
Birmingham, AL	O	—	755	22,537	165	755	22,702	23,457	1,611	2005	7/1/2016
Birmingham, AL	O	—	1,410	17,276	—	1,410	17,276	18,686	82	2014	11/9/2018
Buffalo, NY	O	—	246	80,913	10	246	80,923	81,169	1,129	2004	9/13/2018
Charleston, SC	C/O	—	1,325	21,189	—	1,325	21,189	22,514	110	1999	10/16/2018
Charleston, WV	O	—	551	13,732	—	551	13,732	14,283	160	1959 / 2000	9/13/2018
Chula Vista, CA	O	—	6,332	7,471	362	6,332	7,833	14,165	805	1998	2/11/2015
Clarksburg, WV	O	—	108	13,421	31	108	13,452	13,560	101	1999	9/13/2018
Dallas, TX	O	—	1,005	14,546	169	1,005	14,715	15,720	1,857	2001	2/11/2015
Dallas, TX	L	—	2,753	23,848	146	2,753	23,994	26,747	1,851	2001	12/1/2015

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Dallas, TX	O	—	740	8,191	6	740	8,197	8,937	77	2005	9/13/2018
Del Rio, TX	C/O	—	210	30,676	771	210	31,447	31,657	3,536	1992 / 2004	2/11/2015
Des Plaines, IL	O	—	1,742	9,325	92	1,742	9,417	11,159	103	1971 / 1999	9/13/2018
El Centro, CA	C/O	—	1,084	20,765	501	1,084	21,266	22,350	2,533	2004	2/11/2015
Fresno, CA	O	—	1,499	68,309	262	1,499	68,571	70,070	7,578	2003	2/11/2015
Golden, CO	O/W	9,327	4,080	8,933	20	4,080	8,953	13,033	204	1996 / 2011	5/24/2018
Jacksonville, FL	O	10,078	2,532	16,621	14	2,532	16,635	19,167	2,205	2010	2/11/2015
Kansas City, KS	L	—	828	33,035	448	828	33,483	34,311	2,247	2003	7/1/2016
Lakewood, CO	O	—	1,521	32,865	169	1,521	33,034	34,555	4,058	2004	2/11/2015
Lakewood, CO	O	—	1,377	18,204	714	1,377	18,918	20,295	1,771	1999	4/1/2015
Lincoln, NE	O	—	2,310	26,328	867	2,310	27,195	29,505	2,943	2005	11/12/2015
Little Rock, AR	O	—	2,278	19,318	266	2,278	19,584	21,862	2,374	2001	2/11/2015
Loma Linda, CA	OC	125,743	12,476	177,357	28	12,476	177,385	189,861	7,022	2016	6/1/2017
Lubbock, TX	W/D	—	541	972	—	541	972	1,513	129	2013	2/11/2015
Martinsburg, WV	O	—	1,700	13,294	76	1,700	13,370	15,070	1,538	2007	2/11/2015
Midland, GA	W/M	—	1,715	1,650	—	1,715	1,650	3,365	252	2014	2/11/2015
Mission Viejo, CA	O	—	1,454	1,690	255	1,454	1,945	3,399	300	2005	2/11/2015

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Easterly Government Properties, Inc.

Schedule III - Real Estate and Accumulated Depreciation

December 31, 2018

(Amounts in thousands)

Location	Type ⁽¹⁾	Initial Cost to Company		Costs					Cost amount carried at Close of Period		
		Encumbrances	Land	Buildings and Improvements	Capitalized Subsequent to Acquisition	Land	Buildings and Improvements	Total ⁽³⁾	Accumulated Depreciation ⁽⁴⁾	Original Construction Date(s) (Unaudited)	Date
tion n leston,	O	18,906	963	34,987	383	963	35,370	36,333	3,824	1994 / 2012	2/11/2012
ha, NE	O	—	4,635	41,319	818	4,635	42,137	46,772	5,440	2009	2/11/2012
ha, NE	O	—	1,517	14,156	159	1,517	14,315	15,832	1,166	2004	5/19/2012
ersburg, O	O	—	365	52,200	1	365	52,201	52,566	494	2004 / 2006	9/13/2012
burgh, O	O	—	384	24,877	113	384	24,990	25,374	189	2001	9/13/2012
burgh, O	O	—	200	5,339	26	200	5,365	5,565	45	2004	9/13/2012
anton, L	L	15,622	5,765	20,859	19	5,765	20,878	26,643	1,670	2015	10/21/2012
mond, O	O	—	3,041	23,931	128	3,041	24,059	27,100	2,315	2001	12/7/2012
rside, O	O	—	1,983	6,755	58	1,983	6,813	8,796	949	1997	2/11/2012
amento, O	O	—	1,434	9,369	40	1,434	9,409	10,843	1,191	2002	2/11/2012
Lake UT	O	—	2,049	79,955	185	2,049	80,140	82,189	2,876	2012	9/28/2012
io,	O	—	3,745	49,153	580	3,745	49,733	53,478	5,911	2007	2/11/2012
Diego, O	O	—	1,389	7,358	26	1,389	7,384	8,773	941	1997	2/11/2012
Diego, O	O	—	773	2,481	15	773	2,496	3,269	267	2003	2/11/2012
Diego, W	W	—	3,060	510	904	3,060	1,414	4,474	142	1999	2/11/2012
Diego, O	O	—	2,252	12,280	302	2,252	12,582	14,834	1,294	2001	9/11/2012
	OC	—	10,419	52,750	—	10,419	52,750	63,169	623	2018	7/11/2012

ose,											
y, UT	L	—	2,361	31,574	70	2,361	31,644	34,005	1,727	2003	2/3/20
a Ana,	O	—	6,413	8,635	94	6,413	8,729	15,142	1,104	2004	2/11/2
nnah,	L	12,866	3,220	10,687	103	3,220	10,790	14,010	1,191	2013	2/11/2
n Bend,	C/O	—	514	6,590	131	514	6,721	7,235	370	1996 / 2011	12/23/
n Bend,	OC	—	3,954	38,503	—	3,954	38,503	42,457	1,083	2017	11/16/
urst,	O	—	2,192	9,423	354	2,192	9,777	11,969	1,075	2008	2/11/2
y, CA	W	—	2,678	548	29,324	2,678	29,872	32,550	183	2018	10/4/2
er	L	—	5,054	18,301	2	5,054	18,303	23,357	59	2002	11/15/
boro,											
, CA	L	—	3,998	24,053	314	3,998	24,367	28,365	2,372	2002	2/11/2
ous	Various	—	6,427	7,762	46,770	6,427	54,532	60,959	—	N/A	Various
			\$209,589	\$161,569	\$1,482,942	\$87,935	\$161,569	\$1,570,877	\$1,732,446	\$105,829	

(1) OC=Outpatient Clinic; O=Office; C=Courthouse; L=Laboratory; W=Warehouse; D=Distribution; M=Manufacturing.

(2) Includes the unamortized balance of the fair value adjustments.

(3) Excludes value of real estate intangibles.

(4) Depreciation of real estate property is computed on a straight-line basis over the estimated useful lives of the assets. The estimated lives of our assets range from 5 to 40 years or to the term of the underlying lease.

The aggregate cost and accumulated depreciation for tax purposes was approximately \$1,727.3 million and \$174.7 million, respectively.

Easterly Government Properties, Inc.

Schedule III - Real Estate and Accumulated Depreciation

December 31, 2018

(Amounts in thousands)

Analysis of the carrying amount of real estate properties and accumulated depreciation:

	Real Estate Properties	Accumulated Depreciation
Balance at December 31, 2015	788,597	16,590
Additions	152,631	23,572
Balance at December 31, 2016	941,228	40,162
Additions	368,918	29,001
Dispositions	(11,594)	(773)
Balance at December 31, 2017	1,298,552	68,390
Additions	433,894	37,439
Balance at December 31, 2018	1,732,446	105,829

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