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Easterly Government Properties, Inc.
Form 10-K
March 02, 2017

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, 2016

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, New York Stock Exchange
\$0.01 par value per
share

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 and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted 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 and post 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, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large Accelerated Filer

Accelerated Filer

Non-Accelerated Filer (Do not check if smaller reporting company) Smaller Reporting Company

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 27, 2017, there were 36,874,810 of the registrant's shares of common stock outstanding.

As of June 30, 2016, the aggregate market value of the shares of common stock held by non-affiliates of the registrant was approximately \$645.3 million based on the closing sale price of \$19.73 as reported on the New York Stock Exchange on June 30, 2016. For this computation, the registrant has excluded the market value of all shares of

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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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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;
- 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;
- 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.”

PART I

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 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, 2016, we wholly owned 43 operating properties in the United States, including 40 operating properties that are leased primarily to U.S. Government tenant agencies and three operating properties that are entirely leased to private tenants, encompassing approximately 3.1 million square feet in the aggregate. In addition, we wholly owned one property under development encompassing approximately 0.1 million square feet. We focus on acquiring, developing and managing GSA-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 GSA to meet the needs and objectives of the tenant agency.

We were incorporated in Maryland as a corporation on October 9, 2014 and did not have any meaningful operations until the completion of the formation transactions and our initial public offering on February 11, 2015. 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). After our initial public offering, we acquired seven additional operating properties in 2015 as well as seven operating properties and one property under development in 2016.

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.

Our operating partnership holds substantially all of our assets and conducts substantially all of our business. We own approximately 80.3% 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.

Since our initial public offering and the formation transactions occurred on February 11, 2015, the results of operations and financial condition for the entities acquired by us in connection with our initial public offering and the formation transactions are not included in certain historical financial statements. More specifically, our results of operations and financial condition for the year ended December 31, 2014 reflect the results of operations and financial condition for our predecessor. Our results of operations for the year ended December 31, 2015 reflect the results of operation and financial condition for our predecessor together with the entities we acquired at and after the time of our initial public offering. The results of operations for each of these acquisitions are included in our consolidated statements of operations only from the date of acquisition.

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 are the only internally managed public REIT that focuses primarily on the acquisition, development and management of Class A commercial properties

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that are leased to U.S. Government agencies, primarily through the GSA. We wholly own 43 high quality operating properties in the United States that are currently 100% leased, including 40 operating properties leased primarily to U.S. Government tenant agencies. As of December 31, 2016, the weighted average age of our operating properties was approximately 12.7 years, and the weighted average remaining lease term was approximately 5.9 years. A majority of our operating properties 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.

U.S. Government Tenant Base with Strong History of Renewal. Our GSA leases are backed by the full faith and credit of the U.S. Government, are paid for through the Federal Buildings Fund and are not subject to direct federal appropriations. Furthermore, the GSA has never experienced a financial default. In addition to stable rent payments, our GSA leases typically have initial total terms of ten to 20 years with renewal leases having terms of five to ten years. GSA 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, primarily through the GSA. Our multidisciplinary team possesses complementary skills and experience that we expect will drive our business and growth strategies and includes the co-founders of our predecessor and the founder and president of a company specializing in the development of build-to-suit properties for the GSA. Collectively, our senior management team has been responsible for the acquisition of an aggregate of approximately 2.5 million square feet of GSA-leased properties and the development of approximately 1.1 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 the GSA in property development opportunities and by providing 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 GSA-leased property market. Our team has been able 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 8,200 leases totaling approximately 190 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 4.2 million square feet, including 37 build-to-suit projects for the GSA as well as other corporate and government tenants. In the aggregate, our senior management team has developed 20 projects for the GSA. Development of government projects, particularly build-to-suit projects, requires expertise in GSA requirements and the needs of tenant agencies. Since 1994, members of our senior management team have developed an average of approximately 47,000 square feet per year of GSA-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 GSA and 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 15% of the actual cost of construction. We also seek to reduce operating costs at all of our properties, often by implementing 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 GSA and the tenant agency so as to keep each facility in optimal condition, allowing the tenant agency to better perform its stated mission and helping to position us as a GSA partner of choice.

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Growth-Oriented Capital Structure. As of December 31, 2016, we had approximately \$80.8 million of mortgage indebtedness and \$212.2 million outstanding under our senior unsecured revolving credit facility for a net debt to total enterprise value of 23.8%. None of our outstanding indebtedness is scheduled to mature until 2019.

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 plan to engage in 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 expect to 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 intend to pursue 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 GSA 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 that suit our investment criteria.

Renew Existing Leases at Positive Spreads. We intend to renew leases at our GSA-leased properties at positive spreads upon expiration. Upon lease renewal, GSA 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 GSA lease, we work in close partnership with the GSA 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 intend to manage our properties to increase our income by continuing to reduce property-level operating costs. We manage our properties in a cost efficient manner 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, 2016 we had 27 employees. None of our employees are represented by a collective bargaining agreement. We believe that our relationship with our employees is good.

Financial Information about Industry Segments

Our principal business is the ownership and operation of Class A commercial properties that are leased to U.S. Government agencies. We do not distinguish or group our operations on a geographical basis when measuring performance. Accordingly, we believe we have a single reportable segment for disclosure purposes in accordance with GAAP.

Significant Tenants

Substantially all of our current rents come from U.S. Government tenant agencies, including rents paid through the GSA. As of December 31, 2016, our U.S. Government tenant agencies accounted for 96.8% 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 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. While certain properties contain or contained uses that could have or have impacted our properties, we are not aware of any liabilities related to environmental contamination that we believe will have a material adverse effect on our operations.

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.

In recent years, in reaction to the Energy Policy Act of 2005, the U.S. Government has instituted “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. Obtaining such certification may be costly and time consuming. There are currently 13 properties in our portfolio that have achieved a total of 14 LEED certifications. For more information, see “Item 1A. Risk Factors.”

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.

Emerging Growth Company Status

We are an “emerging growth company,” as defined in the Jumpstart Our Business Startups Act of 2012, or the JOBS Act, and we are eligible to take advantage of certain exemptions from various reporting requirements that are applicable to other public companies that are not “emerging growth companies,” including not being required to comply with the auditor attestation requirements of Section 404 of the Sarbanes-Oxley Act, reduced disclosure obligations regarding executive compensation in our periodic reports and proxy statements and exemptions from the requirements of holding a nonbinding advisory vote on executive compensation and stockholder approval of any golden parachute payments not previously approved. We take advantage of certain of these exemptions, including the exemption from the auditor attestation requirements of Section 404 of the Sarbanes-Oxley Act and the requirements of holding a nonbinding advisory vote on executive compensation and stockholder approval of any golden parachute payments not previously approved.

In addition, the JOBS Act also provides that an “emerging growth company” can take advantage of the extended transition period provided in the Securities Act for complying with new or revised accounting standards. In other words, an emerging growth company can delay the adoption of certain accounting standards until those standards would otherwise apply to private companies. However, we have chosen to “opt out” of this extended transition period, and, as a result, we will comply with new or revised accounting standards on the relevant dates on which adoption of such standards is required for all public companies that are not emerging growth companies. Our decision to opt out of the extended transition period for complying with new or revised accounting standards is irrevocable.

We will remain an “emerging growth company” until the earliest to occur of the last day of the fiscal year during which our total annual revenue equals or exceeds \$1 billion (subject to adjustment for inflation); the last day of the fiscal year following the fifth anniversary of our initial public offering; the date on which we have, during the previous three-year period, issued more than \$1 billion in non-convertible debt or the date on which we are deemed to be a “large accelerated filer” under the Exchange Act.

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.”

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.” You may also read and copy any document we file at the SEC’s Public Reference Room located at 100 F Street, N.E., Washington, DC 20549. Call the SEC at 1-800-SEC-0330 for further information on the public reference room. 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, including rents paid through the GSA. As of December 31, 2016, our U.S. Government tenant agencies accounted for 96.8% 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, 2016, tenants occupying approximately 18.9% of our rentable square feet and contributing approximately 19.2% of our annualized lease income currently have exercisable rights to terminate their leases before the stated soft term of their lease expires. In 2017 early termination rights become exercisable by other tenants who currently occupy an additional approximately 3.8% of our rentable square feet and contribute an additional approximately 3.0% of our total annualized lease income. 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, 2016, leases representing approximately 25.8% of our total annualized lease income and approximately 23.4% of the square footage of the properties in our portfolio will expire by the end of 2019. 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, 2016, we have one property 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 GSA-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 to make distributions to our stockholders, which could negatively affect our financial condition and the market value of our securities. 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, 2016, three of our U.S. Government tenant agencies, the DEA, FBI and AOC, accounted for an aggregate of approximately 42.1% of our total rentable square feet and an aggregate of approximately 45.4% 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. The recent change in the Administration of the U.S. Federal Government may also add uncertainty to future plans for the structure, mission and leasing requirements of each of our U.S. Government tenant agencies. A change in the mission of any one of these 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.

Thirteen of our 43 operating properties are located in California, accounting for approximately 20.0% of our total rentable square feet and approximately 26.8% of our total annualized lease income as of December 31, 2016. 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 more severely than other areas of the country, 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 a decrease in demand 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 GSA-assigned 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.

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 as a consequence of Congress enacting legislation such as the American Recovery and Reinvestment Act of 2009, which included several billion dollars for construction, repair and alteration of U.S. Government-owned buildings, 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 may abate rent or terminate the applicable lease, which may result in a loss of capital invested in, and anticipated profits and, 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. As of December 31, 2016, we had approximately \$293.0 million of indebtedness outstanding, including amounts outstanding under our senior unsecured revolving credit facility, and approximately \$187.8 million of available borrowing capacity under our senior unsecured revolving credit facility. In addition, on September 29, 2016, we entered into a \$100.0 million unsecured term loan agreement, which we refer to as our senior unsecured term loan facility, which includes a 180-day draw period. As of December 31, 2016, we had not drawn any funds under our senior unsecured term loan 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, we may fail to successfully operate acquired properties.

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. We may also be unable to integrate new acquisitions into our existing operations quickly and efficiently, and as a result, our results of operations and financial condition could be adversely affected. 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 uninsured or underinsured, 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 acquisition 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.

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, including as part of the formation transactions, for which we may have limited recourse against the sellers.

Assets and entities that we have acquired or may acquire in the future, including as part of the formation transactions, 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.

As part of the formation transactions, we (through contributions to our operating partnership) acquired the properties and assets from the Easterly Funds and certain other assets from Western Devcon, subject to existing liabilities, some of which may be unknown. The indemnification periods for bringing claims against breaches of the representations, warranties and covenants made by each of the Easterly Funds and Western Devcon to us regarding the entities and assets that we acquired has expired. To the extent any liabilities, including tax liabilities are identified in the future, we will likely have no recourse for such liabilities since the indemnification period has expired. Any unknown or unquantifiable liabilities that we have assumed in connection with the formation transactions for which we have no or limited recourse could adversely affect 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.

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.

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 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.

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.

In addition, Easterly Government Properties, Inc. may not transfer any of its interest in our operating partnership, withdraw as general partner of our operating partnership or consummate a fundamental transaction, including mergers, consolidations and sales of all or substantially all of its assets, subject to certain limited exceptions, without partnership approval, as such term is defined in the partnership agreement of our operating partnership. Partnership approval is obtained when the sum of (a) the number of common units issued in the formation transactions and consenting to the transaction that are held by Western Devcon, the Easterly Funds and Easterly Capital plus (b) the product of (x) the number of common units held by Easterly Government Properties, Inc. and its subsidiaries multiplied by (y) the percentage of the votes that were cast in favor of the transaction by the holders of shares of our common stock, exceeds 50% of the aggregate number of common units issued in the formation transactions and common units held by Easterly Government Properties, Inc. and its subsidiaries outstanding at such time. This right to vote by certain holders of common units on a transfer or assignment of Easterly Government Properties, Inc.'s interest in our operating partnership, withdrawal as general partner of our operating partnership and consummation of a fundamental transaction will permanently terminate at such time as we own more than 85% of the aggregate of (a) the outstanding common units held by us and (b) the common units issued in the formation transactions that are held by Western Devcon, the Easterly Funds and Easterly Capital, their respective affiliates and direct or indirect investors.

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, 2016 Michael P. Ibe, a Director and our Executive Vice President—Development and Acquisitions, owned approximately 12.6% 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 be unable 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 Sarbanes-Oxley Act requires, among other things, that we assess the effectiveness of our internal control over financial reporting annually and the effectiveness of our disclosure controls and procedures quarterly. In particular, Section 404 of the Sarbanes-Oxley Act, or Section 404, requires us to perform system and process evaluation and testing of our internal control over financial reporting to allow management to report on the effectiveness of our internal control over financial reporting. As an emerging growth company, we are availing ourselves of the exemption from the requirement that our independent registered public accounting firm attest to the effectiveness of our internal control over financial reporting under Section 404. However, we may no longer avail ourselves of this exemption when we cease to be an emerging growth company. When our independent registered public accounting firm is required to undertake an assessment of our internal control over financial reporting, the cost of our compliance with

Section 404 will correspondingly increase. Our compliance with applicable provisions of Section 404 will require that we incur substantial accounting expense and expend significant management time on compliance-related issues as we implement additional corporate governance practices and comply with reporting requirements. Moreover, if we are not able to comply with the requirements of Section 404 applicable to us in a timely manner, or if we or our independent registered public accounting firm identifies deficiencies in our internal control over financial reporting that are deemed to be material weaknesses, the market price of our stock could decline and we could be subject to sanctions or investigations by the SEC or other regulatory authorities, which would require additional financial and management resources.

Furthermore, investor perceptions of our company may suffer if deficiencies are found, and this could cause a decline in the market price of our stock. Irrespective of compliance with Section 404, any failure of our internal control over financial reporting could have a material adverse effect on our stated operating results and harm our reputation. If we are unable to implement these requirements effectively or efficiently, it could harm our operations, financial reporting, or financial results and could result in an adverse opinion on our internal controls from our independent registered public accounting firm.

After we are no longer an emerging growth company, or sooner if we choose not to take advantage of certain exemptions set forth in the JOBS Act, we expect to incur significant expenses and devote substantial management effort toward ensuring compliance with the auditor attestation requirements of Section 404 of the Sarbanes-Oxley Act. In that regard, we may need to hire additional accounting and financial staff with appropriate public company experience and technical accounting knowledge.

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 perpetual license agreement with Easterly Capital, pursuant to which it grants 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, 2016, we had approximately \$293.0 million of indebtedness outstanding, including amounts outstanding under our \$400.0 million senior unsecured revolving credit facility. In addition, on September 29, 2016, we entered into a \$100.0 million unsecured term loan agreement, which we refer to as our senior unsecured term loan facility, which includes a 180-day draw period. As of December 31, 2016, we had not drawn any funds under our senior unsecured term loan 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, 2016, we had \$80.8 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 and our senior unsecured term loan facility 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, 2016, we had \$227.9 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.

On October 27, 2016, we entered into two forward-starting interest rate swaps with an aggregate notional value of \$100.0 million to effectively fix the interest rate on future draw downs under 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;

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- 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.

We are an "emerging growth company," and we cannot be certain if the reduced reporting requirements applicable to emerging growth companies will make our common stock less attractive to investors.

We are an "emerging growth company" as defined in the JOBS Act. We will remain an "emerging growth company" until the earliest to occur of (i) the last day of the fiscal year during which our total annual revenue equals or exceeds \$1 billion (subject to adjustment for inflation), (ii) the last day of the fiscal year following the fifth anniversary of our initial public offering, (iii) the date on which we have, during the previous three-year period, issued more than \$1 billion in non-convertible debt or (iv) the date on which we are deemed to be a "large accelerated filer" under the Exchange Act. We are eligible to take advantage of exemptions from various reporting requirements that are applicable to other public companies that are not emerging growth companies, including, but not limited to, reduced disclosure obligations regarding executive compensation in our periodic reports and proxy statements and exemptions from the requirements of holding a nonbinding advisory vote on executive compensation and stockholder approval of any golden parachute payments not previously approved. Investors may find our common stock less attractive because we rely on certain of these exemptions and benefits under the JOBS Act. If some investors find our common stock less attractive as a result, there may be a less active trading market for our common stock and the market price of our common stock may be more volatile and decline significantly.

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, up to \$500.0 million of 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, including any applicable alternative minimum 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, 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 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 may be subject to a current 39.6% maximum U.S. federal income tax rate on ordinary income when paid to such stockholders. 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 and qualified "real estate assets." The remainder of our investments in securities (other than cash, cash

items, U.S. Government securities, securities issued by a TRS and qualified real estate assets) generally cannot include 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. In addition, in general, no more than 5% of the value of our total assets (other than cash, cash items, U.S. Government securities, securities issued by a TRS and qualified real estate assets) can consist of the securities of any one issuer, and 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 our total assets can be represented by securities of one or more TRSs. 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 real estate assets, no more than 25% of the value of our total assets can be represented by such assets. After meeting these 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 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 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 of a lease. In addition, 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 of a lease, 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 so that such securities will represent 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.

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.

In addition, according to publicly released statements, a top legislative priority of the Trump administration and the current Congress may be significant reform of the Code, including significant changes to taxation of business entities and the deductibility of interest expense. There is a substantial lack of clarity around the likelihood, timing and details of any such tax reform and the impact of any potential tax reform on our business and on the price of our common stock.

Stockholders are urged to consult with their own tax advisors with respect to the impact that new legislation 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.

Item 1B. Unresolved Staff Comments

None.

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Item 2. Properties

We wholly own 43 operating properties, including 40 operating properties with approximately 2.8 million rentable square feet that are leased primarily to U.S. Government tenants and three operating properties with approximately 0.3 million rentable square feet that are entirely leased to private tenants. In addition, we wholly own one property under development encompassing approximately 0.1 million square feet. As of December 31, 2016, our operating properties were 100% leased with a weighted average annualized lease income per leased square foot of \$32.77 and a weighted average age of approximately 12.7 years. 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 expense reimbursements earned by us for the last month in such period.

Information about our operating properties as of December 31, 2016 is set forth in the table below:

| Property Name | Location | Property Type | Tenant Lease Expiration Year ⁽¹⁾ | Rentable Square Feet | Annualized Lease Income | Annualized | |
|---------------------------------|----------------------|-------------------|---|----------------------|-------------------------|---|-----------------------|
| | | | | | | Percentage of Total Annualized Lease Income | Lease per Square Foot |
| U.S. Government Leased | | | | | | | |
| IRS - Fresno | Fresno, CA | Office | 2018 | 180,481 | \$7,423,317 | 7.3 % | \$ 41.13 |
| PTO - Arlington | Arlington, VA | Office | 2019 / 2020 | 189,871 | 6,475,092 | 6.4 % | 34.10 |
| FBI - San Antonio | San Antonio, TX | Office | 2021 | 148,584 | 5,037,840 | 5.0 % | 33.91 |
| FBI - Omaha | Omaha, NE | Office | 2024 | 112,196 | 4,437,208 | 4.4 % | 39.55 |
| EPA - Kansas City | Kansas City, KS | Laboratory | 2023 | 71,979 | 3,840,990 | 3.8 % | 53.36 |
| ICE - Charleston ⁽³⁾ | North Charleston, SC | Office | 2019 / 2027 | 86,733 | 3,665,239 | 3.6 % | 42.26 |
| DOT - Lakewood | Lakewood, CO | Office | 2024 | 122,225 | 3,484,027 | 3.4 % | 28.51 |
| USCIS - Lincoln | Lincoln, NE | Office | 2020 | 137,671 | 3,239,685 | 3.2 % | 23.53 |
| AOC - El Centro ⁽⁵⁾ | El Centro, CA | Courthouse/Office | 2019 | 46,813 | 3,041,909 | 3.0 % | 64.98 |
| FBI - Birmingham | Birmingham, AL | Office | 2020 | 96,278 | 3,011,442 | 3.0 % | 31.28 |

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| | | | | | | | | |
|---------------------------------|-------------------|-------------------|---------------------|---------|-----------|-----|---|-------|
| USFS II - Albuquerque | Albuquerque, NM | Office | 2026 ⁽⁶⁾ | 98,720 | 2,795,973 | 2.8 | % | 28.32 |
| ICE - Albuquerque | Albuquerque, NM | Office | 2027 | 71,100 | 2,785,048 | 2.8 | % | 39.17 |
| DEA - Vista | Vista, CA | Laboratory | 2020 | 54,119 | 2,761,077 | 2.7 | % | 51.02 |
| DEA - Pleasanton | Pleasanton, CA | Laboratory | 2035 | 42,480 | 2,724,927 | 2.7 | % | 64.15 |
| FBI - Richmond | Richmond, VA | Office | 2021 | 96,607 | 2,708,241 | 2.7 | % | 28.03 |
| USFS I - Albuquerque | Albuquerque, NM | Office | 2021 ⁽⁶⁾ | 92,455 | 2,679,124 | 2.6 | % | 28.98 |
| AOC - Del Rio ⁽⁵⁾ | Del Rio, TX | Courthouse/Office | 2024 | 89,880 | 2,641,487 | 2.6 | % | 29.39 |
| DEA - Dallas Lab | Dallas, TX | Laboratory | 2021 | 49,723 | 2,389,596 | 2.4 | % | 48.06 |
| FBI - Little Rock | Little Rock, AR | Office | 2021 | 101,977 | 2,165,885 | 2.1 | % | 21.24 |
| MEPCOM - Jacksonville | Jacksonville, FL | Office | 2025 | 30,000 | 2,147,770 | 2.1 | % | 71.59 |
| CBP - Savannah | Savannah, GA | Laboratory | 2033 | 35,000 | 2,109,321 | 2.1 | % | 60.27 |
| FBI - Albany | Albany, NY | Office | 2018 | 98,184 | 2,106,096 | 2.1 | % | 21.45 |
| DOE - Lakewood | Lakewood, CO | Office | 2029 | 115,650 | 2,061,963 | 2.0 | % | 17.83 |
| DEA - Santa Ana | Santa Ana, CA | Office | 2024 | 39,905 | 2,061,285 | 2.0 | % | 51.65 |
| DEA - Dallas | Dallas, TX | Office | 2021 | 71,827 | 1,776,863 | 1.8 | % | 24.74 |
| ICE - Otay | San Diego, CA | Office | 2017 - 2026 | 52,881 | 1,758,383 | 1.7 | % | 35.55 |
| NPS - Omaha | Omaha, NE | Office | 2024 | 62,772 | 1,743,570 | 1.7 | % | 27.78 |
| DEA - North Highlands | Sacramento, CA | Office | 2017 | 37,975 | 1,705,966 | 1.7 | % | 44.92 |
| CBP - Chula Vista | Chula Vista, CA | Office | 2018 | 59,397 | 1,694,104 | 1.7 | % | 28.52 |
| CBP - Sunburst | Sunburst, MT | Office | 2028 | 33,000 | 1,588,434 | 1.6 | % | 48.13 |
| USCG - Martinsburg | Martinsburg, WV | Office | 2027 | 59,547 | 1,567,125 | 1.6 | % | 26.32 |
| AOC - Aberdeen ⁽⁵⁾ | Aberdeen, MS | Courthouse/Office | 2025 | 46,979 | 1,459,286 | 1.4 | % | 31.06 |
| DEA - Birmingham ⁽⁸⁾ | Birmingham, AL | Office | 2020 | 35,616 | 1,388,573 | 1.4 | % | 38.99 |
| DEA - Albany | Albany, NY | Office | 2025 | 31,976 | 1,333,746 | 1.3 | % | 41.71 |
| DEA - Otay ⁽⁹⁾ | San Diego, CA | Office | 2017 | 32,560 | 1,293,326 | 1.3 | % | 39.72 |
| DEA - Riverside | Riverside, CA | Office | 2017 | 34,354 | 1,290,888 | 1.3 | % | 37.58 |
| AOC - South Bend ⁽⁵⁾ | South Bend, IN | Courthouse/Office | 2027 | 30,119 | 811,756 | 0.8 | % | 26.95 |
| SSA - Mission Viejo | Mission Viejo, CA | Office | 2020 | 11,590 | 534,808 | 0.5 | % | 46.14 |

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| | | | | | | | | | |
|------------------------|---------------|-------------------------|------|------|-----------|--------------|------|---|----------|
| SSA - San Diego | San Diego, CA | Office | 2017 | | 11,743 | 414,169 | 0.4 | % | 35.27 |
| DEA - San Diego | San Diego, CA | Warehouse | 2017 | | 16,100 | 404,096 | 0.4 | % | 25.10 |
| Subtotal | | | | | 2,837,067 | \$98,559,635 | 97.4 | % | \$ 34.78 |
| Privately Leased | | | | | | | | | |
| 2650 SW 145th Avenue - | | | | | | | | | |
| Parbel of Florida | | | | | | | | | |
| 5998 Osceola Court - | Miramar, FL | Warehouse/Distribution | 2022 | (10) | 81,721 | 1,671,336 | 1.6 | % | 20.45 |
| United Technologies | | | | | | | | | |
| 26 | Midland, GA | Warehouse/Manufacturing | 2023 | (10) | 105,641 | 540,191 | 0.5 | % | 5.11 |

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| Property Name | Location | Property Type | Tenant Lease Expiration Year ⁽¹⁾ | Lease Rentable Square Feet | Annualized Lease Income | Percentage of Total Annualized Lease Income | Annualized Lease Income per Square Foot |
|---|-------------|------------------------|---|----------------------------|-------------------------|---|---|
| 501 East Hunter Street - Lummus Corporation | Lubbock, TX | Warehouse/Distribution | 2028 ⁽¹⁾ | 70,078 | \$522,637 | 0.5 % | 7.46 |
| Subtotal | | | | 257,440 | \$2,734,164 | 2.6 % | \$10.62 |
| Total / Weighted Average | | | | 3,094,507 | \$101,293,799 | 100.0 % | \$32.77 |

- (1) The year of lease expiration does not include renewal options. All leases with renewal options are noted in the following footnotes to this table.
- (2) 168,468 rentable square feet leased to the PTO will expire on March 31, 2019, and 21,403 rentable square feet leased to the PTO will expire on January 7, 2020.
- (3) This property is only partially leased to the U.S. Government. LifePoint, Inc. occupies 21,609 rentable square feet.
- (4) 21,609 rentable square feet leased to LifePoint, Inc. will expire on September 30, 2019, and 65,124 rentable square feet leased to ICE will expire on January 31, 2027.
- (5) A portion of this property is occupied by the U.S. Marshals Service to provide security and otherwise support the mission of the Administrative Office of the Courts. Because of the interrelated nature of the U.S. Marshals Service and the Administrative Office of the Courts, we have not separately addressed occupancy by the U.S. Marshals Service.
- (6) Lease contains one five-year renewal option.
- (7) 12,644 rentable square feet leased to ICE will expire on May 11, 2017, 11,555 rentable square feet leased to ICE will expire on August 18, 2021, 16,286 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 Department of Agriculture (DOA) will expire on January 1, 2026.
- (8) The Bureau of Alcohol, Tobacco, Firearms and Explosives (ATF) occupies 8,680 rentable square feet.
- (9) ICE occupies 5,813 rentable square feet.
- (10) Lease contains three five-year renewal options.
- (11) Lease contains two 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, 2016:

| Location | Market | Number of Properties | Number of Leases | Rentable Square Feet | Percentage of Total Rentable Square Feet | Annualized Lease Income | Percentage of Total Annualized Lease Income |
|----------|--------|----------------------|------------------|----------------------|--|-------------------------|---|
|----------|--------|----------------------|------------------|----------------------|--|-------------------------|---|

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| | | | | | Income | | | Annualized | |
|----------------------------------|-------------------|----|----|-----------|---------|-------|---------------|--------------|--|
| | | | | | | | | Lease Income | |
| State | | | | | | | | | |
| California | Pacific Rim | 13 | 17 | 620,398 | 20.0 % | 99 % | \$27,108,255 | 26.8 % | |
| Texas | Greater Southwest | 5 | 5 | 430,092 | 13.9 % | 100 % | 12,368,423 | 12.2 % | |
| Nebraska | The Heartland | 3 | 3 | 312,639 | 10.1 % | 100 % | 9,420,463 | 9.3 % | |
| Virginia | National Capital | 2 | 3 | 286,478 | 9.3 % | 100 % | 9,183,333 | 9.1 % | |
| New Mexico | Greater Southwest | 3 | 3 | 262,275 | 8.5 % | 100 % | 8,260,145 | 8.2 % | |
| Colorado | Rocky Mountain | 2 | 2 | 237,875 | 7.7 % | 100 % | 5,545,990 | 5.5 % | |
| Alabama | Southeast Sunbelt | 2 | 2 | 131,894 | 4.3 % | 100 % | 4,400,015 | 4.3 % | |
| Kansas | The Heartland | 1 | 1 | 71,979 | 2.3 % | 100 % | 3,840,990 | 3.8 % | |
| Florida | Southeast Sunbelt | 2 | 2 | 111,721 | 3.6 % | 100 % | 3,819,106 | 3.8 % | |
| South Carolina | Southeast Sunbelt | 1 | 2 | 86,733 | 2.8 % | 100 % | 3,665,239 | 3.6 % | |
| New York | Northeast | 2 | 2 | 130,160 | 4.2 % | 100 % | 3,439,842 | 3.4 % | |
| Georgia | Southeast Sunbelt | 2 | 2 | 140,641 | 4.5 % | 100 % | 2,649,512 | 2.6 % | |
| Arkansas | Greater Southwest | 1 | 1 | 101,977 | 3.3 % | 100 % | 2,165,885 | 2.1 % | |
| Montana | Rocky Mountain | 1 | 1 | 33,000 | 1.1 % | 100 % | 1,588,434 | 1.6 % | |
| West Virginia | Mid-Atlantic | 1 | 1 | 59,547 | 1.9 % | 100 % | 1,567,125 | 1.5 % | |
| Mississippi | Southeast Sunbelt | 1 | 1 | 46,979 | 1.5 % | 100 % | 1,459,286 | 1.4 % | |
| Indiana | Great Lakes | 1 | 1 | 30,119 | 1.0 % | 100 % | 811,756 | 0.8 % | |
| Total / Weighted | | | | | | | | | |
| Average | | 43 | 49 | 3,094,507 | 100.0 % | 100 % | \$101,293,799 | 100.0 % | |
| Market | | | | | | | | | |
| Pacific Rim | | 13 | 17 | 620,398 | 20.0 % | 99 % | \$27,108,255 | 26.8 % | |
| Greater Southwest ⁽¹⁾ | | 9 | 9 | 794,344 | 25.7 % | 100 % | 22,794,453 | 22.5 % | |
| Southeast Sunbelt ⁽¹⁾ | | 8 | 9 | 517,968 | 16.7 % | 100 % | 15,993,158 | 15.8 % | |
| The Heartland | | 4 | 4 | 384,618 | 12.4 % | 100 % | 13,261,453 | 13.1 % | |
| National Capital | | 2 | 3 | 286,478 | 9.3 % | 100 % | 9,183,333 | 9.1 % | |
| Rocky Mountain | | 3 | 3 | 270,875 | 8.8 % | 100 % | 7,134,424 | 7.0 % | |
| Northeast | | 2 | 2 | 130,160 | 4.2 % | 100 % | 3,439,842 | 3.4 % | |
| Mid-Atlantic | | 1 | 1 | 59,547 | 1.9 % | 100 % | 1,567,125 | 1.5 % | |
| Great Lakes | | 1 | 1 | 30,119 | 1.0 % | 100 % | 811,756 | 0.8 % | |
| Total / Weighted | | | | | | | | | |
| Average | | 43 | 49 | 3,094,507 | 100.0 % | 100 % | \$101,293,799 | 100.0 % | |

(1) Three properties entirely leased to private tenants are located in the Southeast Sunbelt (two properties) 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 DEA, FBI and CBP. Our private tenants are Parbel of Florida, a subsidiary of L’Oreal SA, United Technologies, LifePoint, Inc. and Lummus Corporation. As of December 31, 2016, our operating properties were 100% occupied by 22 tenants. The following table provides information about the tenants that occupied our properties as of December 31, 2016:

| Tenant | Number of Properties | Number of Leases | Weighted Average | | Percentage of Leased Square Feet | | Percentage of Total Annualized Lease Income | | |
|---|----------------------|------------------|-------------------------------------|--------------------|----------------------------------|-------------------------|---|------|---|
| | | | Remaining Lease Term ⁽¹⁾ | Leased Square Feet | Leased Square Feet | Annualized Lease Income | Annualized Lease Income | | |
| U.S Government | | | | | | | | | |
| Federal Bureau of Investigation (“FBI”) | 6 | 6 | 4.4 | 653,826 | 21.2 | % | \$19,466,712 | 19.2 | % |
| Drug Enforcement Administration ⁽²⁾ ⁽⁴⁾ (“DEA”) | 11 | 11 | 5.2 | 432,142 | 14.0 | % | 18,561,033 | 18.3 | % |
| Administrative Office of the U.S. Courts (“AOC”) | 4 | 4 | 6.9 | 213,791 | 6.9 | % | 7,954,438 | 7.9 | % |
| Immigration and Customs Enforcement ⁽²⁾⁽³⁾ (“ICE”) | 3 | 5 | 8.4 | 182,522 | 5.9 | % | 7,640,870 | 7.5 | % |
| Internal Revenue Service (“IRS”) | 1 | 1 | 1.9 | 180,481 | 5.8 | % | 7,423,317 | 7.3 | % |
| Patent and Trademark Office (“PTO”) | 1 | 2 | 2.3 | 189,871 | 6.1 | % | 6,475,092 | 6.4 | % |
| U.S. Forest Service (“USFS”) | 2 | 2 | 7.1 | 191,175 | 6.2 | % | 5,475,097 | 5.4 | % |
| Customs and Border Protection (“CBP”) | 3 | 3 | 8.2 | 127,397 | 4.1 | % | 5,391,859 | 5.3 | % |
| Environmental Protection Agency (“EPA”) | 1 | 1 | 6.2 | 71,979 | 2.3 | % | 3,840,990 | 3.8 | % |
| Department of Transportation ⁽³⁾ (“DOT”) | 1 | 2 | 7.3 | 129,659 | 4.2 | % | 3,699,249 | 3.7 | % |
| U.S. Citizenship and Immigration Services (“USCIS”) | 1 | 1 | 3.7 | 137,671 | 4.5 | % | 3,239,685 | 3.2 | % |
| Military Entrance Processing Command (“MEPCOM”) | 1 | 1 | 8.7 | 30,000 | 1.0 | % | 2,147,770 | 2.1 | % |
| Department of Energy (“DOE”) | 1 | 1 | 12.9 | 115,650 | 3.7 | % | 2,061,963 | 2.0 | % |
| National Park Service (“NPS”) | 1 | 1 | 7.5 | 62,772 | 2.0 | % | 1,743,570 | 1.7 | % |
| U.S. Coast Guard (“USCG”) | 1 | 1 | 11.0 | 59,547 | 1.9 | % | 1,567,125 | 1.6 | % |
| Social Security Administration (“SSA”) | 2 | 2 | 2.4 | 23,333 | 0.8 | % | 948,977 | 1.0 | % |
| Bureau of Alcohol, Tobacco, Firearms and Explosives (“ATF”) | 0 | 0 | 4.0 | 8,680 | 0.3 | % | 338,410 | 0.3 | % |

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| | | | | | | | | | |
|--|----|----|------|-----------|-------|---|---------------|-------|---|
| U.S. Department of Agriculture ⁽³⁾ (“USDA”) | 0 | 1 | 9.0 | 1,538 | 0.1 | % | 55,366 | 0.1 | % |
| Subtotal | 40 | 45 | 5.8 | 2,812,034 | 91.0 | % | \$98,031,523 | 96.8 | % |
| Private Tenants | | | | | | | | | |
| Parbel of Florida | 1 | 1 | 5.9 | 81,721 | 2.6 | % | \$1,671,336 | 1.7 | % |
| United Technologies (Pratt & Whitney) | 1 | 1 | 7.0 | 105,641 | 3.4 | % | 540,191 | 0.5 | % |
| LifePoint, Inc. | 0 | 1 | 2.7 | 21,609 | 0.7 | % | 528,112 | 0.5 | % |
| Lummus Corporation | 1 | 1 | 11.6 | 70,078 | 2.3 | % | 522,637 | 0.5 | % |
| Subtotal | 3 | 4 | 7.5 | 279,049 | 9.0 | % | \$3,262,276 | 3.2 | % |
| Total / Weighted Average | 43 | 49 | 5.9 | 3,091,083 | 100.0 | % | \$101,293,799 | 100.0 | % |

(1) Weighted based on leased square feet.

(2) The DEA-Otay property is primarily occupied by the DEA. However, ICE occupies approximately 17.9% of the total leased square footage of the property. The weighted average remaining lease term, leased square feet, annualized lease income and percentage of total annualized lease income have been adjusted accordingly.

(3) The ICE-Otay property is primarily occupied by the ICE. However, the DOT and the USDA occupy approximately 15.0% and 3.1% of the total leased square footage of the property, respectively. The weighted average remaining lease term, leased square feet, annualized lease income and percentage of total annualized lease income have been adjusted accordingly.

(4) The DEA-Birmingham property is primarily occupied by the DEA. However, the ATF occupies approximately 24.4% of the total leased square footage of the property. The weighted average remaining lease term, leased square feet, annualized lease income and percentage of total annualized lease income have been adjusted accordingly.

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 GSA’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 (approximately 14.2 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, 2016.

| Year of Lease Expiration (1) | Number of Square | | Percentage of | | Percentage | | Annualized Lease Income per Leased Square |
|---------------------------------|------------------|-----------|------------------|------------------|--|--|---|
| | Leases | Footage | Portfolio Square | Footage Expiring | Annualized Lease Income Expiring | Annualized Lease Income Expiring | |
| 2017 | 6 | 145,376 | 4.7 | % | \$5,591,572 | 5.5 | % 38.46 |
| 2018 | 3 | 338,062 | 11.0 | % | 11,223,517 | 11.1 | % 33.20 |
| 2019 | 3 | 236,890 | 7.7 | % | 9,283,186 | 9.2 | % 39.19 |
| 2020 | 7 | 356,677 | 11.5 | % | 11,697,512 | 11.5 | % 32.80 |
| 2021 | 7 | 572,728 | 18.5 | % | 17,139,322 | 16.9 | % 29.93 |
| 2022 | 3 | 105,441 | 3.4 | % | 2,509,453 | 2.5 | % 23.80 |
| 2023 | 2 | 177,620 | 5.7 | % | 4,381,181 | 4.3 | % 24.67 |
| 2024 | 5 | 426,978 | 13.8 | % | 14,367,577 | 14.2 | % 33.65 |
| 2025 | 3 | 108,955 | 3.5 | % | 4,940,802 | 4.9 | % 45.35 |
| 2026 | 2 | 100,258 | 3.2 | % | 2,851,339 | 2.8 | % 28.44 |
| Thereafter | 8 | 522,098 | 17.0 | % | 17,308,338 | 17.1 | % 33.15 |
| Total / Weighted Average | 49 | 3,091,083 | 100.0 | % | \$101,293,799 | 100.0 | % \$ 32.77 |

(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, 2016, ten tenants occupying approximately 18.9% of our rentable square feet and contributing approximately 19.2% of our annualized lease income have exercisable rights to terminate their leases before the stated term of their lease expires. In 2017, early termination rights become exercisable by other tenants who currently occupy an additional approximately 3.8% of our rentable square feet and contribute an additional 3.0% of our annualized lease income. In addition, we own one property located in Alameda, California, which is currently under development to become a 65,810 square foot Food and Drug Administration (FDA) laboratory. The FDA - Alameda laboratory will be leased to the GSA for a 20-year term, beginning upon completion of development of the property.

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 began trading on the NYSE under the symbol "DEA" on February 6, 2015. Prior to that time there was no public market for our common stock. The following table sets forth, for the indicated period, the high and low sales prices for our common stock, as reported on the NYSE:

| | High | Low |
|--|----------|----------|
| First Quarter 2015 (February 6, 2015 through March 31, 2015) | \$ 16.86 | \$ 15.18 |
| Second Quarter 2015 | 16.59 | 15.25 |
| Third Quarter 2015 | 16.40 | 15.25 |
| Fourth Quarter 2015 | 18.82 | 15.71 |
| First Quarter 2016 | 19.07 | 16.41 |
| Second Quarter 2016 | 19.97 | 17.58 |
| Third Quarter 2016 | 20.82 | 18.80 |
| Fourth Quarter 2016 | 20.54 | 17.94 |

We had 19 stockholders of record of our common stock as of February 27, 2017. 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.

The following table sets forth, for the indicated period, quarterly dividends that have been declared by our board of directors on our common stock:

| | Dividend Per Share | Date Paid |
|-----------------------------|--------------------------|--------------------|
| For the Three Months Ended: | | |
| March 31, 2015 | \$ 0.11 | (1) June 3, 2015 |
| June 30, 2015 | 0.21 | September 3, 2015 |
| September 30, 2015 | 0.22 | December 3, 2015 |
| December 31, 2015 | 0.22 | March 25, 2016 |
| March 31, 2016 | 0.23 | June 23, 2016 |
| June 30, 2016 | 0.23 | September 13, 2016 |

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| | | |
|--------------------|------|-------------------|
| September 30, 2016 | 0.24 | December 22, 2016 |
| December 31, 2016 | 0.24 | March 22, 2017 |

(1) Quarterly cash dividend of \$0.11 per share of common stock reflects 49 days period in the quarter ended March 31, 2015 during which we were a public company.

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, 2016 and assumed 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.

Equity Compensation Plan Information

The following table summarizes certain information about our equity compensation plans as of December 31, 2016.

| Plan Category | Weighted-average under equity | | Number of securities to outstanding (excluding securities to be issued upon exercise options, warrants and rights | Number of securities remaining available for future issuance (excluding securities reflected in the first column of this table) |
|--|-------------------------------|--|---|---|
| | warrants and rights (a) | exercise price of compensation plans (b) | | |
| Equity compensation plans approved by stockholders ⁽¹⁾⁽²⁾ | 1,852,000 | \$ | — | 379,164 |
| Equity compensation plans not approved by stockholders | — | | — | — |
| Total | 1,852,000 | \$ | — | 379,164 |

(1) The amount in column (a) includes 1,852,000 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 42,795 shares of restricted common stock issued under our 2015 equity incentive plan.

Recent Purchases of Equity Securities

None.

Item 6. Selected Financial Data

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.

The financial information analyzed below summarizes the combined results of operations for both Easterly (for the period subsequent to the initial public offering of February 11, 2015 through December 31, 2015 and for the year ended December 31, 2016) and our predecessor for the years ended December 31, 2015, 2014, 2013 and 2012.

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, | | | | |
|---|----------------------------------|----------|----------|----------|----------|
| | 2016 | 2015 | 2014 | 2013 | 2012 |
| Revenues | | | | | |
| Rental income | \$93,364 | \$64,942 | \$— | \$— | \$— |
| Tenant reimbursements | 10,647 | 6,233 | — | — | — |
| Other income | 607 | 203 | — | — | 202 |
| Income from real estate investments | — | — | 6,324 | 4,006 | 1,785 |
| Total revenues | 104,618 | 71,378 | 6,324 | 4,006 | 1,987 |
| Operating Expenses | | | | | |
| Property operating | 21,078 | 13,340 | — | — | — |
| Real estate taxes | 9,896 | 6,983 | — | — | — |
| Depreciation and amortization | 46,643 | 33,561 | — | — | — |
| Acquisition costs | 1,798 | 2,887 | — | — | — |
| Formation expenses | — | 1,666 | — | — | — |
| Corporate general and administrative | 12,289 | 8,817 | 9,117 | 4,281 | 2,663 |
| Fund general and administrative | — | 75 | 819 | 1,299 | 518 |
| Total expenses | 91,704 | 67,329 | 9,936 | 5,580 | 3,181 |
| Operating income (loss) | 12,914 | 4,049 | (3,612) | (1,574) | (1,194) |
| Other (expenses) / income | | | | | |
| Interest expense | (8,177) | (4,972) | — | — | — |
| Net realized gain (loss) on investments | — | — | 40 | — | — |
| Net unrealized gain (loss) on investments | — | (5,122) | 71,357 | 27,641 | 10,841 |

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| | | | | | |
|-------------------|---------|------------|----------|----------|---------|
| Net income (loss) | \$4,737 | \$(6,045) | \$67,785 | \$26,067 | \$9,647 |
|-------------------|---------|------------|----------|----------|---------|

| | For the years ended December 31, | | | | |
|--|----------------------------------|-----------|-----------|-----------|-----------|
| | 2016 | 2015 | 2014 | 2013 | 2012 |
| Real estate investments, at fair value | \$— | \$— | \$267,683 | \$173,099 | \$102,753 |
| Real estate properties, net | \$901,066 | \$772,007 | \$— | \$— | \$— |
| Debt obligations | \$292,973 | \$238,202 | \$— | \$— | \$— |
| Dividends declared per share | \$0.92 | \$0.54 | \$— | \$— | \$— |
| Total equity | \$696,866 | \$619,894 | \$297,184 | \$176,684 | \$103,428 |

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, 2016 and 2015 and for the years ended December 31, 2016, 2015 and 2014 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 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, 2016, we wholly owned 43 operating properties in the United States, including 40 operating properties that are leased primarily to U.S. Government tenant agencies and three operating properties that are entirely leased to private tenants, encompassing approximately 3.1 million square feet in the aggregate. In addition, we wholly owned one property under development encompassing approximately 0.1 million square feet. We focus on acquiring, developing and managing GSA-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 GSA to meet the needs and objectives of the tenant agency.

We were incorporated in Maryland as a corporation on October 9, 2014 and did not have any meaningful operations until the completion of the formation transactions and our initial public offering on February 11, 2015. 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). After our initial public offering, we acquired seven additional operating properties in 2015, as well as seven operating properties and one property under development in 2016.

Our predecessor means Easterly Partners, LLC and its consolidated subsidiaries prior to the 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.

Our operating partnership holds substantially all of our assets and conducts substantially all of our business. We own approximately 80.3% of the aggregate operating partnership units in our operating partnership. We believe that we have operated and have been originated 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.

Since our initial public offering and the formation transactions occurred on February 11, 2015, the results of operations and financial condition for the entities acquired by us in connection with our initial public offering and the formation transactions are not included in certain historical financial statements. More specifically, our results of operations and financial condition for the year ended December 31, 2014 reflect the results of operations and financial condition for our predecessor. Our results of operations for the year ended December 31, 2015 reflect the results of operation and financial condition for our predecessor together with the entities we acquired at and after the time of our initial public offering. The results of operations for each of these acquisitions are included in our consolidated statements of operations only from the date of acquisition.

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Financial information analyzed below reflects the audited financial statements as of December 31, 2016, included in the F pages of this Annual Report on Form 10-K.

Results of Operations

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.

Comparison of Results of Operations for the Years Ended December 31, 2016 and December 31, 2015

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

| (Amounts in thousands) | For the years ended | | |
|--------------------------------------|----------------------|---------------|---------------|
| | December 31, 2016 | 2015 | Change |
| Revenues | | | |
| Rental income | \$93,364 | \$64,942 | \$28,422 |
| Tenant reimbursements | 10,647 | 6,233 | 4,414 |
| Other income | 607 | 203 | 404 |
| Total revenues | 104,618 | 71,378 | 33,240 |
| Operating Expenses | | | |
| Property operating | 21,078 | 13,340 | 7,738 |
| Real estate taxes | 9,896 | 6,983 | 2,913 |
| Depreciation and amortization | 46,643 | 33,561 | 13,082 |
| Acquisition costs | 1,798 | 2,887 | (1,089) |
| Formation expenses | — | 1,666 | (1,666) |
| Corporate general and administrative | 12,289 | 8,817 | 3,472 |
| Fund general and administrative | — | 75 | (75) |
| Total expenses | 91,704 | 67,329 | 24,375 |
| Operating income | 12,914 | 4,049 | 8,865 |
| Other expenses | | | |
| Interest expense | (8,177) | (4,972) | (3,205) |
| Net unrealized loss on investments | — | (5,122) | 5,122 |

| | | | |
|-------------------|---------|------------|----------|
| Net income (loss) | \$4,737 | \$(6,045) | \$10,782 |
|-------------------|---------|------------|----------|

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 \$33.2 million to \$104.6 million for the year ended December 31, 2016 compared to \$71.4 million for the year ended December 31, 2015. The increase was primarily attributable to the additional revenue from seven operating properties acquired since December 31, 2015.

Operating Expenses

Total expenses increased by \$24.4 million to \$91.7 million for the twelve months ended December 31, 2016 compared to \$67.3 million for the year ended December 31, 2015. \$23.7 million of the increase is attributable to our property operating expenses, real estate taxes, and depreciation and amortization from the acquisition of seven operating properties since December 31, 2015. Corporate general and administrative costs increased by \$3.5 million primarily due to an increase in employee costs and non-cash charges for long term incentive plan units in our operating partnership, or “LTIP units”, that were not granted until May 2015 and February 2016. This was offset by a \$2.8 million decrease in acquisition and offering costs primarily related to the formation transactions. Additionally, fund general and administrative expenses decreased \$0.1 million as we succeeded to the operations of our predecessor upon completion of our initial public offering.

Interest Expense

Interest expense represents the interest incurred on mortgage debt encumbered on our properties and on our senior unsecured revolving credit facility. As of December 31, 2016, we had not drawn any funds under our senior unsecured term loan facility.

Interest expense increased \$3.2 million to \$8.2 million for year ended December 31, 2016 compared to \$5.0 million for the year ended December 31, 2015. This is primarily due to an increase in our senior unsecured revolving credit facility balance from \$154.4 million at December 31, 2015 to \$212.2 million at December 31, 2016. Additionally, weighted average interest rates on our senior unsecured revolving credit facility increased from 1.62%, for the year ended December 31, 2015 to 1.89%, for the year ended December 31, 2016.

Net unrealized gain on investments

The unrealized gain or loss on investments represents the change in fair value of our predecessor’s real estate investments. Prior to our initial public offering our predecessor had recognized a net unrealized loss of \$5.1 million.

Following our initial public offering, we did not have unrealized gains as the accounting for the property owning subsidiaries contributed by the Easterly Funds to us in connection with the formation transactions have changed from investment company accounting to historical cost accounting.

Comparison of Results of Operations for the Years Ended December 31, 2015 and December 31, 2014

The financial information analyzed below summarizes 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 for the years ended December 31, 2015 and 2014.

| (Amounts in thousands) | For the years ended | | |
|---|----------------------|-----------------|-------------------|
| | December 31, 2015 | 2014 | Change |
| Revenues | | | |
| Rental income | \$64,942 | \$— | \$64,942 |
| Tenant reimbursements | 6,233 | — | 6,233 |
| Other income | 203 | — | 203 |
| Income from real estate investments | — | 6,324 | (6,324) |
| Total revenues | 71,378 | 6,324 | 65,054 |
| Operating Expenses | | | |
| Property operating | 13,340 | — | 13,340 |
| Real estate taxes | 6,983 | — | 6,983 |
| Depreciation and amortization | 33,561 | — | 33,561 |
| Acquisition costs | 2,887 | — | 2,887 |
| Formation expenses | 1,666 | — | 1,666 |
| Corporate general and administrative | 8,817 | 9,117 | (300) |
| Fund general and administrative | 75 | 819 | (744) |
| Total expenses | 67,329 | 9,936 | 57,393 |
| Operating income (loss) | 4,049 | (3,612) | 7,661 |
| Other (expenses) / income | | | |
| Interest expense | (4,972) | — | (4,972) |
| Net realized gain on investments | — | 40 | (40) |
| Net unrealized gain (loss) on investments | (5,122) | 71,357 | (76,479) |
| Net income (loss) | \$(6,045) | \$67,785 | \$(73,830) |

Revenues

Our rental income, tenant reimbursements, and other income for the year ended December 31, 2015 represents income from the 29 properties contributed to us by the Easterly Funds and Western Devcon on February 11, 2015, the two properties acquired in the second quarter of 2015, the one property acquired in the third quarter of 2015 and the four properties acquired in the fourth quarter of 2015. These properties were 100% leased as of December 31, 2015. We earned \$59.9 million in rental income attributable to base rent and recorded a \$0.2 million straight-line adjustment for the year ended December 31, 2015. We also recognized \$4.9 million of amortization associated with our above- and below-market leases within rental income for the year ended December 31, 2015. Many of our tenants are also responsible for a portion of our operating expenses and real estate taxes. This is billed in accordance with each tenant's lease. We recognized \$6.2 million in tenant reimbursements for the year ended December 31, 2015.

Income from real estate investments for the year ended December 31, 2014 is attributable to distributions from real estate entities that are recorded as dividend income to the extent distributed from estimated taxable earnings and profits of the underlying investment vehicle and as a return of capital to the extent not in excess of estimated taxable earnings and profits.

Operating Expenses

Similar to rental income, our property operating expenses, real estate taxes, and depreciation and amortization recognized for the year ended December 31, 2015, represents expenses incurred from the operations of the properties contributed to us in connection with the formation transactions, the two properties acquired in the second quarter of 2015, the one property acquired in the third quarter of 2015 and the four properties acquired in the fourth quarter of 2015.

The company incurred \$2.9 million in acquisition costs during the year ended December 31, 2015 associated with the properties contributed by Western Devcon in exchange for common units on February 11, 2015 and our acquisition activity. The company incurred \$1.7 million in formation costs, such as, organizational, legal, and other administrative costs, during the year ended December 31, 2015, associated with our initial public offering and the contribution of the properties from the Easterly Funds.

Corporate general and administrative costs decreased \$0.3 million during the year ended December 31, 2015 compared to year ended December 31, 2014, due to transaction costs in connection with our initial public offering incurred during the third and fourth quarter of 2014, offset by an increase in compensation expense during the year ended December 31, 2015 as a result of an increase in the number of employees and non-cash charges for restricted stock and LTIP units.

Fund general and administrative expenses decreased \$0.7 million during the year ended December 31, 2015 compared to the year ended December 31, 2014 as the company succeeded to the operations of the predecessor upon completion of our initial public offering.

Interest Expense

Interest expense for the year ended December 31, 2015 represents the interest incurred on mortgage debt encumbered on five of our properties and on our senior unsecured revolving credit facility. For the year ended December 31, 2015, we recorded \$5.0 million in interest expense related to our mortgage debt and our senior unsecured revolving credit facility. The weighted average interest rate of the mortgage debt and our senior unsecured revolving credit facility was 4.01% and 1.62%, respectively, for year ended December 31, 2015. In accordance with GAAP, we also recorded amortization of deferred financing fees associated with our senior unsecured revolving credit facility and mortgage debt encumbered on one of our properties of \$0.8 million to interest expense for the year ended December 31, 2015.

Our predecessor accounted for property level debt through the fair value of their net equity interest in their real estate investments, and as such, mortgage debt was not recognized on our predecessor's Consolidated Statements of Assets, Liabilities and Capital.

Net unrealized gain on investments

The unrealized gain or loss on investments represents the change in fair value of our predecessor's real estate investments. During the year ended December 31, 2015 and prior to our initial public offering, our predecessor had recognized a net unrealized loss of \$5.1 million attributable to an increase in the debt valuation to approximate the actual costs to pay-off debt using the proceeds received from our initial public offering and a portion of borrowings under our senior unsecured revolving credit facility.

Our predecessor recognized a \$71.4 million unrealized gain on investment for the year ended December 31, 2014 that was attributable in part to \$8.0 million of appreciation related to the acquisition of two new investments during the year, FBI—Little Rock and PTO—Arlington, \$4.3 million of reduction in principal balance for the non-recourse debt underlying the properties owned by our predecessor and a \$6.9 million reduction in the cost basis of the assets. Distributions in excess of tax basis earnings and profits are considered a return of capital and reduce the cost basis of the investment. The majority of the remaining change is attributable to changes in net operating income of the properties as well as changes in market conditions including a decrease in residual capitalization rates and discount rates, which had a positive effect on the fair value of the properties owned by our predecessor for the year ended December 31, 2014.

Following our initial public offering, we have not had unrealized gains as the accounting for the properties contributed by the Easterly Funds from the property owning subsidiaries to us in connection with the formation transactions have changed from investment company accounting to historical cost accounting.

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, 2016, we had approximately \$4.8 million available in cash and cash equivalents and there was \$187.8 million available under our senior unsecured revolving credit facility and \$100.0 million available for draw down under our senior unsecured term loan facility.

Our primary expected sources of capital are as follows:

- cash and cash equivalents;
- operating cash flow;
- available borrowings under our senior unsecured revolving credit facility and our senior unsecured term loan facility;

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- secured loans collateralized by individual properties;
- issuance of long-term debt;
 - issuance of equity; and
- asset sales.

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;
- tenant improvements allowances and leasing costs;
- recurring maintenance and capital expenditures;
- debt repayment requirements;
- corporate and administrative costs;
- 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.

Universal Shelf

On March 9, 2016, we filed a universal shelf registration statement on Form S-3 with the Securities and Exchange Commission, or SEC, which was declared effective on May 3, 2016, registering the sale of up to \$500.0 million of equity securities. However, there can be no assurance that we will be able to complete any future offerings of such securities.

Offering of Common Stock

On June 7, 2016, we completed an underwritten public offering under the shelf registration statement 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 agreement by issuing an aggregate of 1,500,000 shares of common stock in exchange for approximately \$25.1 million.

Senior Unsecured Revolving Credit Facility

Upon the completion of our initial public offering on February 11, 2015 we entered into a \$400.0 million senior unsecured revolving credit facility with Citigroup Capital Markets Inc., Raymond James Bank, N.A. and Royal Bank of Canada, as joint lead arrangers and joint book running managers and Raymond James Bank, N.A. and Royal Bank of Canada, as co-syndication agents. This credit facility has an accordion feature that provides us with additional capacity, subject to the satisfaction of customary terms and conditions, of up to \$250.0 million, for a total facility size of not more than \$650.0 million. We intend to use our senior unsecured revolving credit facility to repay indebtedness, fund acquisitions, development and redevelopment opportunities, capital expenditures and the costs of securing new

and renewal leases and provide working capital.

Our operating partnership is the borrower under our senior unsecured revolving credit facility and we and certain of our subsidiaries that directly own certain of our properties are guarantors under the credit facility. Our senior unsecured revolving credit facility will terminate in approximately two years. In addition, there will be two as-of-right extension options for our senior unsecured revolving credit facility and each extension option will allow us to extend our senior unsecured revolving credit facility for an additional six months, in each case subject to certain conditions and the payment of an extension fee.

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

• 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 LIBOR rate plus 1.00% plus (b) a margin ranging from 0.4% to 0.9%, or

• a Eurodollar rate equal to a periodic fixed rate equal to LIBOR plus, a margin ranging from 1.4% to 1.9%, in each case with a margin based on our leverage ratio.

Our senior unsecured revolving credit facility also contains certain customary financial covenants, as follows: (i) the maximum ratio of consolidated total indebtedness to total asset value (each as defined in the agreement) may not exceed 60.0% on any date, provided that the maximum ratio may be increased to 65.0% for the two consecutive quarters following the date on which a material acquisition (as defined in the agreement) occurs, (ii) the maximum ratio of consolidated secured indebtedness (as defined in the agreement) to total asset value may not exceed 40.0% on any date, (iii) the maximum ratio of consolidated secured recourse indebtedness (as defined in the agreement) to total asset value may not exceed 15% on any date, (iv) the minimum consolidated tangible net worth (as defined in the agreement) may not, on any date, be less than the sum of an amount equal to 75.0% of our consolidated tangible net worth as of the closing date of the facility plus an amount equal to 75.0% of the aggregate net cash proceeds received by us from any offering of our capital stock after the closing date of the facility, (v) the minimum ratio of adjusted consolidated EBITDA to consolidated fixed charges (each as defined in the agreement) may not be less than 1.50 to 1.00 on any date, (vi) the maximum ratio of consolidated unsecured indebtedness to unencumbered asset value (each as defined in the agreement) may not exceed 60% as of any date and (vii) the minimum ratio of adjusted consolidated net operating income from unencumbered assets (as defined in the agreement) to interest payable on unsecured debt (as determined in accordance with the agreement) shall not be less than 1.75 to 1.00 on any date. Additionally, under our senior unsecured revolving credit facility, our distributions may not exceed the greater of (i) 95.0% of our FFO or (ii) the amount required for us to maintain our status as a REIT and avoid the payment of federal or state income or excise tax.

Our senior unsecured revolving credit facility also includes customary limits on the percentage of our total asset value that may be invested in unimproved land, unconsolidated joint ventures, redevelopment and development assets (as defined in the agreement), loans, advances or extensions of credit and investments in mixed used assets and require that we obtain consent for mergers in which the company is not the surviving entity. These financial and restrictive covenants may limit the investments we may make and our ability to make distributions. As of December 31, 2016, we were in compliance with all financial and restrictive covenants under our senior unsecured revolving credit facility.

As of December 31, 2016, the interest rate payable on borrowings under our senior unsecured revolving credit facility was 2.15% and the weighted average annual interest rate for borrowings under our senior unsecured revolving credit facility was 1.89% for the year ended December 31, 2016. As of December 31, 2016, we had \$212.2 million outstanding and \$187.8 million available under our senior unsecured revolving credit facility.

Senior Unsecured Term Loan Facility

On September 29, 2016, we entered into a \$100.0 million senior unsecured term loan facility with PNC Bank, National Association, as administrative agent, U.S. Bank National Association and SunTrust Bank, as syndication agents, PNC Capital Markets LLC, U.S. Bank National Association and SunTrust Robinson Humphrey, Inc., as joint lead arrangers and joint bookrunners. We intend to use the proceeds under our senior unsecured term loan facility to repay borrowings outstanding under our senior unsecured revolving credit facility and for general corporate purposes.

Our operating partnership is the borrower under our senior unsecured term loan facility and we and certain of our subsidiaries that directly own certain of our properties are guarantors under the term loan facility. The senior unsecured term loan facility matures on September 29, 2023, has a 180-day delayed draw period, and is prepayable without penalty beginning in October 2018.

Borrowings under our senior unsecured term loan facility will bear interest at floating rates equal to, at our option, either (1) a fluctuating rate equal to the sum of (a) the highest of (x) PNC Bank, National Association's base rate, (y) the federal funds open rate plus 0.50% and (z) the daily Eurodollar rate plus 1.00% plus (b) a margin ranging from 0.7% to 1.35%, or (2) a Eurodollar rate equal to a periodic fixed rate equal to LIBOR plus, a margin ranging from 1.7% to 2.35%, in each case with a margin based on our leverage ratio. Based on our current leverage ratio, borrowings under our senior unsecured term loan facility will have an initial interest rate of LIBOR plus 170 basis points. We may prepay our senior unsecured term loan facility in whole or in part, subject to (i) customary costs, if any, of breaking LIBOR and, (ii) payment of a prepayment penalty equal to 2.0% of the principal balance being repaid during the first 12 months of our senior unsecured term loan facility and 1.0% of the principal balance being repaid during the following 12 months.

On October 27, 2016, we entered into two forward-starting interest rate swaps with an aggregate notional value of \$100.0 million to effectively fix the interest rate on future draw downs under our senior unsecured term loan facility. The forward swaps have an effective date of March 29, 2017 and extend until the maturity of the term loan on September 29, 2023. The forward swaps will effectively fix the interest rate under our senior unsecured term loan facility at 3.12% annually based on the company's current leverage ratio.

Our senior unsecured term loan facility also contains certain customary covenants, including but not limited to financial covenants that require us to maintain maximum ratios of consolidated total indebtedness, consolidated secured indebtedness and consolidated secured recourse indebtedness to total asset value, minimum consolidated tangible net worth and a minimum consolidated fixed charge ratio. As of December 31, 2016, we were in compliance with all financial and restrictive covenants under our senior unsecured term loan facility.

As of the date of this Annual Report on form 10-K we have not drawn funds under our senior unsecured term loan facility.

Mortgage Debt

The table below presents our mortgage debt obligation at December 31, 2016 (dollars in thousands):

| Property | Fixed/Floating Rate | Contractual | Effective | Maturity Date | Principal Balance |
|-----------------------|---------------------|----------------|---------------|---------------|-------------------|
| | | Interest Rate | Interest Rate | | |
| CBP - Savannah | Fixed | 3.40% | 4.12% | July 2033 | \$ 14,907 |
| ICE - Charleston | Fixed | 4.21% | 3.93% | January 2027 | 20,921 |
| MEPCOM - Jacksonville | Fixed | 4.41% | 3.89% | October 2025 | 11,661 |
| USFS II - Albuquerque | Fixed | 4.46% | 3.92% | July 2026 | 17,191 |
| DEA - Pleasanton | Floating | LIBOR + 150bps | 1.80% | October 2023 | 15,700 |
| Total | | | | | \$ 80,380 |

Contractual Obligations

The following table summarizes our contractual obligations as of December 31, 2016 (amounts in thousands):

| | Payments due by period | | | | | | |
|---|------------------------|-----------|-----------|------------|----------|----------|------------|
| | Total | 2017 | 2018 | 2019 | 2020 | 2021 | Thereafter |
| Mortgage principal and interest | \$ 102,038 | \$ 5,904 | \$ 5,904 | \$ 5,904 | \$ 5,934 | \$ 6,446 | \$ 71,946 |
| Senior unsecured revolving credit facility principal and interest | 222,680 | 4,975 | 4,975 | 212,730 | — | — | — |
| Corporate office lease | 1,371 | 319 | 286 | 298 | 309 | 159 | — |
| Total | \$ 326,089 | \$ 11,198 | \$ 11,165 | \$ 218,932 | \$ 6,243 | \$ 6,605 | \$ 71,946 |

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.

On May 4, 2016, the board of directors declared a dividend for the first quarter of 2016 in the amount of \$0.23 per share of common stock and per common unit outstanding to stockholders and common unit holders of record as of the close of business on June 8, 2016. Our board of directors also declared a dividend for the first quarter of 2016 for LTIP unit in an amount equal to 10% of the dividend paid per common unit. Such dividends were paid on June 23, 2016.

On August 3, 2016, the board of directors declared a dividend for the second quarter of 2016 in the amount of \$0.23 per share of common stock and per common unit outstanding to stockholders and common unit holders of record as of the close of business on August 26, 2016. Our board of directors also declared a dividend for the second quarter of 2016 for each LTIP unit in an amount equal to 10% of the dividend paid per common unit. Such dividends were paid on September 13, 2016.

On November 3, 2016, our board of directors declared a dividend for the third quarter of 2016 in the amount of \$0.24 per share of common stock and per common unit outstanding to stockholders and common unit holders of record as of the close of business on December 7, 2016. Our board of directors also declared a dividend for the third quarter of 2016 for each LTIP unit in an amount equal to 10% of the dividend paid per common unit. Such dividends were paid on December 22, 2016.

On February 23, 2017, our board of directors declared a dividend for the fourth quarter of 2016 in the amount of \$0.24 per share of common stock and per common unit outstanding to stockholders and common unit holders of record as of the close of business on March 7, 2017. Our board of directors also declared a dividend for the fourth quarter of 2016 for each LTIP unit in an amount equal to 10% of the dividend paid per common unit. Such dividends are to be paid on March 22, 2017.

Cash Flow

As noted above, following the completion of our initial public offering, our predecessor no longer uses investment company accounting to account for the assets contributed from the private real estate funds that our predecessor controlled. Instead, we now account for these assets using historical cost accounting. Moving from investment company accounting to historical cost accounting has resulted in a significant change in the classification of our cash flows. We indirectly own all of the assets of the Easterly Funds acquired in the formation transactions and we account for these assets using historical cost accounting. The classification of our cash flows following the formation transactions differs significantly from, and is not comparable with, the historical classification of our predecessor's cash flows. For example, the purchase and sale of investments by the Easterly Funds historically was treated as an operating activity per investment company accounting and such purchases and sales were shown net of any related mortgage debt entered into upon acquisition or repaid upon sale. In addition, the net income for our predecessor historically reflected significant unrealized gains or losses relating to properties owned by these funds. Any unrealized gains or losses are reversed to arrive at net cash flow provided by or used in operating activities. Gains or losses arising from sales of properties owned by us directly or through our consolidated subsidiaries are only recognized by us when realized. Once historical cost accounting is applied, the acquisition of investments and the proceeds of sales are reflected in net cash provided by investing activities.

Comparison of Cash Flow for the Years Ended December 31, 2016 and December 31, 2015

The following table sets forth a summary of cash flows for our company for the years ended December 31, 2016 and 2015:

| | For the years ended | | |
|---------------------------------|---------------------|-----------|----------|
| | December 31, | | Change |
| | 2016 | 2015 | |
| (Amounts in thousands) | | | |
| Net cash (used in) provided by: | | | |
| Operating activities | \$47,377 | \$29,950 | \$17,427 |
| Investing activities | (170,191) | (164,552) | (5,639) |
| Financing activities | 119,483 | 111,341 | 8,142 |

Operating Activities

The company generated \$47.4 million and \$30.0 million of cash from operating activities during the year ended December 31, 2016 and 2015, respectively. Net cash provided by 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.

Net cash from operating activities for the year ended December 31, 2015 includes \$29.9 million in rental activities net of expenses and \$0.1 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 \$170.2 million and \$164.6 million in cash for investing activities during the year ended December 31, 2016 and 2015, respectively. Net cash used in 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. Net cash used for investing activities for the year ended December 31, 2015 includes \$170.2 million related to the purchase of seven new properties purchased subsequent to our initial public offering offset by \$6.2 million in cash assumed in formation.

Financing Activities

The company generated \$119.5 million and \$111.3 million in cash from financing activities during the year ended December 31, 2016 and 2015, respectively. 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. Net cash provided by financing activities for the year ended December 31, 2015 includes \$193.5 million net proceeds from our initial public offering, \$75.6 million of contributions related to the private placement that occurred simultaneously with our initial public offering, and \$154.4 million in credit facility draws offset by \$293.4 million in debt repayment as part of the formation transaction, \$5.4 million in distributions, \$3.5 million in deferred financing costs paid, \$21.5 million in dividends and \$2.0 million of offering costs. Additionally, we entered into \$15.7 million of mortgage debt upon the acquisition of DEA-Pleasanton in the fourth quarter of 2015.

Comparison of Cash Flow for the Years Ended December 31, 2015 and December 31, 2014

The following table sets forth a summary of cash flows for our predecessor for the years ended December 31, 2015 and 2014:

| | For the years ended December 31, | | |
|---------------------------------|----------------------------------|------------|-----------|
| | 2015 | 2014 | Change |
| (Amounts in thousands) | | | |
| Net cash (used in) provided by: | | | |
| Operating activities | \$29,950 | \$(22,396) | \$52,346 |
| Investing activities | (164,552) | — | (164,552) |
| Financing activities | 111,341 | 50,470 | 60,871 |

Operating Activities

Cash provided by operating activities was \$30.0 million for the year ended December 31, 2015 compared to the \$22.4 million of cash used for operating activities during the year ended December 31, 2014. Net cash provided by operating activities for the year ended December 31, 2015 included a \$29.9 million increase in net cash from rental activities net of expenses and \$0.1 million related to the change in rents receivable, accounts receivable, prepaid and other assets, and accounts payable and accrued liabilities. Net cash used for operating activities for the year ended December 31, 2014 included \$30.3 million for net real estate fund investments due to the purchase of two new investments, PTO — Arlington and FBI — Little Rock, \$0.5 million for investments in existing assets, offset by \$7.6 million in distributions from investments. As noted above, activities such as these engaged in directly or through our consolidated subsidiaries are reflected as investing activities following the formation transactions.

Investing Activities

The company used \$164.6 million of cash for investing activities during the year ended December 31, 2015. No cash was attributed to investing activities during the year ended December 31, 2014. Net cash used for investing activities for the year ended December 31, 2015 included \$170.2 million related to the purchase of seven new properties purchased subsequent to our initial public offering offset by \$6.2 million in cash assumed in formation.

Financing Activities

The company generated \$111.3 million in cash provided by financing activities during the year ended December 31, 2015 and \$50.5 million during the year ended December 31, 2014. Net cash provided by financing activities for the year ended December 31, 2015 includes \$193.5 million net proceeds from our initial public offering, \$75.6 million of contributions related to the private placement that occurred simultaneously with our initial public offering, and \$154.4 million in credit facility draws offset by \$293.4 million in debt repayment as part of the formation transaction, \$5.4

million in distributions, \$3.5 million in deferred financing costs paid, \$21.5 million in dividends and \$2.0 million of offering costs. Additionally, we entered into \$15.7 million of mortgage debt upon the acquisition of DEA-Pleasanton in the fourth quarter of 2015. Net cash provided by financing activities for the year ended December 31, 2014 includes \$65.2 million of contributions from investors in the Easterly Funds, offset by \$14.6 million of distributions to investors in the Easterly Funds.

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 and non-cash compensation 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 year ended December 31, 2016 (in thousands):

| | For the year ended December 31, 2016 |
|------------------------------------|---|
| Net Income | \$ 4,737 |
| Depreciation and amortization | 46,643 |
| Funds From Operations | 51,380 |
| Adjustments to FFO: | |
| Acquisition costs | 1,798 |
| Straight-line rent | (108) |
| Above-/below-market leases | (7,153) |
| Non-cash interest expense | 814 |
| Non-cash compensation | 2,905 |
| Funds from Operations, as Adjusted | \$ 49,636 |

Factors That May Influence Future Results of Operations

Formation Transactions

While the Easterly Funds, which were controlled by our predecessor, qualify for investment company accounting, following our initial public offering, we have used historical cost accounting instead of investment company accounting to account for the properties owned by the Easterly Funds. Moving from investment company accounting to historical cost accounting resulted in a significant change in the presentation of our consolidated financial statements following the formation transactions. Therefore our financial condition and results of operations after our initial public offering differ significantly from, and are not be comparable with, the historical financial position and results of operations of our predecessor.

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, including rents paid through the GSA. 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

In 2016, we acquired a property in Alameda, California, which is currently 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, 2016.

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 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:

| 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) is recognized by us in the consolidated statements of operations when earned and when their amounts can be reasonably estimated. For the year ended December 31, 2016, we incurred \$3.8 million in expenses associated with projects and other services that were fully reimbursed by our tenants and \$0.5 million in associated income. For year ended December 31, 2015, we incurred \$1.2 million in expenses associated with projects and other services that were fully reimbursed by our tenants and \$0.2 million in associated income. For both the year ended December 31, 2016 and December 31, 2015, 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” for both the year ended December 31, 2016 and December 31, 2015.

Emerging Growth Company Status

The JOBS Act, permits an “emerging growth company” such as us to take advantage of an extended transition period to comply with new or revised accounting standards applicable to public companies until those standards would otherwise apply to private companies. However, we are choosing to “opt out” of such extended transition period, and as a result, we will comply with new or revised accounting standards on relevant dates on which adoption of such standards is required for companies that are not emerging growth companies. Section 107 of the JOBS Act provides that our decision to opt out of the extended transition period for complying with new or revised accounting standards is irrevocable.

Recent Accounting Pronouncements Not Yet Adopted

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers, which 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 will replace most existing revenue recognition guidance when it becomes effective. In July 2015, the FASB deferred by one year the mandatory effective date of ASU 2014-09 from January 1, 2017 to January 1, 2018. Early adoption is permitted, but not prior to the

original effective date of January 1, 2017. ASU 2014-09 permits the use of either the retrospective or cumulative effect transition method. The company is in the process of evaluating the impact of this new guidance.

In February 2016, 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, 2016, the company had a sublease for office space in Washington D.C. expiring in June 2021 and a sublease for office space in San Diego, CA expiring in April 2017. The remaining contractual payments under the company's lease and sublease for office space aggregate \$1.4 million. 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 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. ASU No. 2016-02 is effective for reporting periods beginning after December 15, 2018, with early adoption permitted. The standard permits the use of either the retrospective or modified retrospective transition method. The company is in the process of evaluating this new guidance.

In January 2017, the FASB issued ASU 2017-01, Business Combinations (Topic 805), which clarifies the framework for determining whether an integrated set of assets and activities meets the definition of a business. The revised framework establishes a screen for determining whether an integrated set of assets and activities is a business and narrows the definition of a business, which is expected to result in fewer transactions being accounted for as business combinations. Acquisitions of integrated sets of assets and activities that do not meet the definition of a business are accounted for as asset acquisitions. This update is effective for fiscal years, and for interim periods within those fiscal years, beginning after December 15, 2017, with early adoption permitted for transactions that have not been reported in previously issued (or available to be issued) financial statements and shall be applied on a prospective basis. The company currently expenses transaction costs associated with business combinations. Upon adoption of ASU 2017-01 the company believes most of our future acquisitions of operating properties will qualify as asset acquisitions and most future transaction costs associated with these acquisitions will be capitalized.

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, 2016, \$64.7 million, or 22.1% of our debt, excluding unamortized premiums and discounts, had fixed interest rates and \$227.9 million, or 77.9% 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 \$0.6 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.

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Item 9A. Controls

Evaluation of Disclosure Controls and Procedures

Our management carried out an evaluation required by the 1934 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 Rule 13a-15(e) of the 1934 Act, as of December 31, 2016. Based on this evaluation our principal executive officer and principal financial officer concluded that, as of December 31, 2016, 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 1934 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 Rule 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, 2016. 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 we have concluded that, as of December 31, 2016, our internal control over financial reporting is effective based on those criteria.

This Annual Report on Form 10-K does not include an attestation report of the company's independent registered public accounting firm because we are an "emerging growth company" as defined in the JOBS Act and are therefore not currently required to comply with the auditor attestation requirements related to internal controls over financial reporting pursuant to Section 404 of the Sarbanes-Oxley Act.

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting during the year ended December 31, 2016 that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Limitations on Controls

Our disclosure controls and procedures and internal control over financial reporting are designed to provide reasonable assurance of achieving their objectives as specified above. Management does not expect, however, that our disclosure controls and procedures or our internal controls over financial reporting will prevent or detect all errors and fraud. Any control system, no matter how well designed and operated, is based on certain assumptions and can provide only reasonable, not absolute, assurance that its objectives will be met. Further, no evaluation of controls can provide absolute assurance that misstatements due to error or fraud will not occur or that all control issues and instances of fraud, if any, within the company have been detected.

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 2017 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, 2016, 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 information 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 Schedules

The financial statements schedules 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 exhibits required to be filed by Item 601 of Regulation S-K are listed in the Exhibit Index on pages 53 and 54 of this report, which is incorporated by reference herein.

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 New York, State of New York, on March 2, 2017.

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) | March 2, 2017 |
| /s/ Meghan G. Baivier Meghan G. Baivier | Executive Vice President, Chief Financial Officer and Chief Operating Officer (Principal Financial Officer) | March 2, 2017 |
| /s/ Alison M. Bernard Alison M. Bernard | Executive Vice President, Chief Accounting Officer (Principal Accounting Officer) | March 2, 2017 |
| /s/ Darrell W. Crate Darrell W. Crate | Chairman of the Board of Directors | March 2, 2017 |
| /s/ Michael P. Ibe Michael P. Ibe | Director, Vice Chairman of the Board of Directors and Executive Vice President—Development and Acquisitions | March 2, 2017 |
| /s/ William H. Binnie | Director | March 2, 2017 |

EXHIBIT INDEX

Exhibit Exhibit Description

- 3.1 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)
- 3.2 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)
- 4.1 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)
- 10.1 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)
- 10.2 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)
- 10.3 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)
- 10.4 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)
- 10.5† 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)
- 10.6† 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)
- 10.7 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)
- 10.8† 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)

- 10.9 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)
- 10.10 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, Raymond James Bank, N.A. and Royal Bank of Canada, as Co-Syndication Agents, and Citigroup Global Markets Inc., Raymond James Bank, N.A. and RBC Capital Markets, as Joint Lead Arrangers and Joint Book Running Manager, dated February 11, 2015 (previously filed as Exhibit 10.1 to the Company's Current Report on Form 8-K on February 11, 2015 and incorporated herein by reference)

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Exhibit Exhibit Description

- 10.11 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).
- 10.12† Director Nomination Agreement by and between Easterly Government Properties, Inc. and Michael P. Ibe, dated January 26, 2015 (previously filed as Exhibit 10.15 to Amendment No. 2 to the Company's Registration Statement on Form S-11 on January 30, 2015 and incorporated herein by reference)
- 10.13† 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)
- 10.14 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)
- 10.15 Registration Rights Agreement among Easterly Government Properties, Inc. and the persons named therein, dated October 21, 2015 (previously filed as Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q on November 5, 2015 and incorporated herein by reference)
- 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
- 101* The following materials from Easterly Government Properties, Inc.'s Annual Report on Form 10-K for the year ended December 31, 2016 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

† Exhibit is a management contract or compensatory plan or arrangement.

* Filed herewith

**Furnished herewith

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| <u>Consolidated Statements of Operations for the years ended December 31, 2016, 2015 and 2014</u> | F-4 |
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Report of Independent Registered Public Accounting Firm

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

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of operations, of stockholders' equity and of cash flows listed in the index appearing under Item 15(1) present fairly, in all material respects, the financial position of Easterly Government Properties, Inc. as of December 31, 2016 and 2015 and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2016 in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedule listed in the index appearing under Item 15(2) presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. These financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and financial statement schedule based on our audits. We conducted our audits of these financial statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

/s/ PricewaterhouseCoopers LLP

Boston, Massachusetts

March 2, 2017

Easterly Government Properties, Inc.

Consolidated Balance Sheets

(Amounts in thousands, except share amounts)

| | December 31, 2016 | December 31, 2015 |
|---|----------------------|----------------------|
| Assets | | |
| Real estate properties, net | \$ 901,066 | \$ 772,007 |
| Cash and cash equivalents | 4,845 | 8,176 |
| Restricted cash | 1,646 | 1,736 |
| Deposits on acquisitions | 1,750 | — |
| Rents receivable | 8,544 | 6,347 |
| Accounts receivable | 5,823 | 2,920 |
| Deferred financing, net | 2,787 | 2,767 |
| Intangible assets, net | 113,795 | 116,585 |
| Interest rate swaps | 3,785 | — |
| Prepaid expenses and other assets | 1,422 | 1,509 |
| Total assets | \$ 1,045,463 | \$ 912,047 |
| Liabilities | | |
| Revolving credit facility | 212,167 | 154,417 |
| Mortgage notes payable, net | 80,806 | 83,785 |
| Intangible liabilities, net | 41,840 | 44,605 |
| Accounts payable and accrued liabilities | 13,784 | 9,346 |
| Total liabilities | 348,597 | 292,153 |
| Commitments and contingencies (Note 10) | | |
| Equity | | |
| Common stock, par value \$0.01, 200,000,000 shares authorized, 36,874,810 and 24,168,379 shares issued and outstanding at December 31, 2016 and December 31, 2015, respectively | 369 | 241 |
| Additional paid-in capital | 596,971 | 391,767 |
| Retained earnings (deficit) | 1,721 | (1,694) |
| Cumulative dividends | (42,794) | (13,051) |
| Accumulated other comprehensive income | 3,038 | — |
| Total stockholders' equity | 559,305 | 377,263 |
| Non-controlling interest in Operating Partnership | 137,561 | 242,631 |
| Total equity | 696,866 | 619,894 |
| Total liabilities and equity | \$ 1,045,463 | \$ 912,047 |

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

Easterly Government Properties, Inc.

Consolidated Statements of Operations

(Amounts in thousands, except per share amounts)

| | For the years ended December 31, | | |
|--|----------------------------------|-------------------|-----------------|
| | 2016 | 2015 | 2014 |
| Revenues | | | |
| Rental income | \$93,364 | \$64,942 | \$— |
| Tenant reimbursements | 10,647 | 6,233 | — |
| Other income | 607 | 203 | — |
| Income from real estate investments | — | — | 6,324 |
| Total revenues | 104,618 | 71,378 | 6,324 |
| Operating expenses | | | |
| Property operating | 21,078 | 13,340 | — |
| Real estate taxes | 9,896 | 6,983 | — |
| Depreciation and amortization | 46,643 | 33,561 | — |
| Acquisition costs | 1,798 | 2,887 | — |
| Formation expenses | — | 1,666 | — |
| Corporate general and administrative | 12,289 | 8,817 | 9,117 |
| Fund general and administrative | — | 75 | 819 |
| Total expenses | 91,704 | 67,329 | 9,936 |
| Operating income | 12,914 | 4,049 | (3,612) |
| Other (expenses) / income | | | |
| Interest expense, net | (8,177) | (4,972) | — |
| Net realized gain on investments | — | — | 40 |
| Net unrealized gain (loss) on investments | — | (5,122) | 71,357 |
| Net income (loss) | 4,737 | (6,045) | 67,785 |
| Non-controlling interest in predecessor | — | — | (65,389) |
| Non-controlling interest in Operating Partnership | (1,322) | 4,351 | — |
| Net income (loss) available to Easterly Government Properties, Inc. | \$3,415 | \$(1,694) | \$2,396 |
| Net income (loss) available to Easterly Government Properties, Inc. | | | |
| per share: | | | |
| Basic | \$0.11 | \$(0.08) | — |
| Diluted | \$0.10 | \$(0.08) | — |
| Weighted- average common shares outstanding | | | |
| Basic | 30,645,279 | 21,430,016 | — |
| Diluted | 32,372,538 | 21,430,016 | — |

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, except share amounts)

| | For the years ended | | |
|--|---------------------|-----------|----------|
| | December 31, | | |
| | 2016 | 2015 | 2014 |
| Net income (loss) | \$4,737 | \$(6,045) | \$67,785 |
| Other comprehensive income: | | | |
| Unrealized gain on interest rate swaps | 3,785 | — | — |
| Other comprehensive income | 3,785 | — | — |
| Comprehensive income (loss) | 8,522 | (6,045) | 67,785 |
| Non-controlling interest in predecessor | — | — | (65,389) |
| Non-controlling interest in Operating Partnership | (1,322) | 4,351 | — |
| Other comprehensive income attributable to non-controlling interest | (747) | — | — |
| Comprehensive income (loss) attributable to Easterly Government Properties, Inc. | \$6,453 | \$(1,694) | \$2,396 |

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 | | | |
|--|-----------|-----------------------|----------------------------------|-----------------------------------|-------------------------|---|--|----------------------------------|----------------------------------|-----------------|
| | Shares | Stock Par Value | Additional Paid-in Capital | Retained Earnings (Deficit) | Cumulative Dividends | Accumulated Other Comprehensive Income | Interest in Operating Partnership | Member Capital / (Deficit) | Non- controlling Interests | Total Equity |
| Balance at, December 31, 2013 | | — | — | — | — | — | — | (1,844) | 178,528 | 176,684 |
| Contributions from | | | | | | | | | | |
| members/partners | | — | — | — | — | — | — | 105 | 65,142 | 65,247 |
| Distributions to members/ partners | | — | — | — | — | — | — | (28) | (14,607) | (14,635) |
| Dividend on preferred stock | | — | — | — | — | — | — | — | (31) | (31) |
| Members' capital | | — | — | — | — | — | — | 2,133 | — | 2,133 |
| Carried interest | | — | — | — | — | — | — | 10,574 | (10,574) | — |
| Purchase of common stock | 1,000 | — | 1 | — | — | — | — | — | — | 1 |
| Net increase in capital resulting from operations | | — | — | — | — | — | — | 2,396 | 65,389 | 67,785 |
| Balance at December 31, 2014 | 1,000 | — | 1 | — | — | — | — | 13,336 | 283,847 | 297,184 |
| Distributions | | — | — | — | — | — | — | (9) | (5,432) | (5,441) |
| Exchange of members' | 3,308,000 | 33 | 67,312 | — | — | — | 194,530 | (12,738) | (249,137) | — |

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| | | | | | | | | | | |
|---|------------|-----|---------|---------|----------|---|-----------|--------|-----------|-----------|
| capital and non-controlling interests for OP units and shares | | | | | | | | | | |
| Public Offering | 13,800,000 | 138 | 191,445 | — | — | — | — | — | — | 191,583 |
| Proceeds of private placement | 7,033,712 | 70 | 105,435 | — | — | — | — | (589) | (29,278) | 75,638 |
| Contribution of Western Devcon Properties for OP units | | | | | | | 86,597 | — | — | 86,597 |
| Stock based compensation | | | 292 | — | — | — | 1,575 | — | — | 1,867 |
| Grant of unvested restricted stock | 26,667 | — | — | — | — | — | — | — | — | — |
| Buyback of common stock and retirement | (1,000) | — | (1) | — | — | — | — | — | — | (1) |
| Dividends and distributions paid | | | | | (13,051) | | (8,437) | | | (21,488) |
| Net loss | | | | (1,694) | — | — | (4,351) | — | — | (6,045) |
| Allocation of NCI in Operating Partnership | | | 27,283 | — | — | — | (27,283) | — | — | — |
| Balance at December 31, 2015 | 24,168,379 | 241 | 391,767 | (1,694) | (13,051) | — | 242,631 | — | — | 619,894 |
| Stock based compensation | | | 296 | — | — | — | 2,609 | — | — | 2,905 |
| Grant of unvested restricted stock | 16,128 | — | — | — | — | — | — | — | — | - |
| Dividends and distributions | | | | | (29,743) | — | (10,551) | — | — | (40,294) |

| | | | | | | | | | | |
|------------------------------|------------|-----|---------|-------|----------|-------|-----------|---|---|---------|
| paid | | | | | | | | | | |
| Redemption of common units | | | | | | | | | | |
| to common stock | 6,471,258 | 66 | 99,766 | — | — | — | (99,832) | — | — | - |
| Issuance of common shares | 6,219,045 | 62 | 105,777 | — | — | — | — | — | — | 105,839 |
| Unrealized gain on interest | | | | | | | | | | |
| rate swaps | | — | — | — | — | 3,038 | 747 | — | — | 3,785 |
| Net income | | — | — | 3,415 | — | — | 1,322 | — | — | 4,737 |
| Allocation of NCI in | | | | | | | | | | |
| Operating Partnership | | — | (635) | — | — | — | 635 | — | — | - |
| Balance at December 31, 2016 | 36,874,810 | 369 | 596,971 | 1,721 | (42,794) | 3,038 | 137,561 | — | — | 696,866 |

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, | | |
|--|----------------------------------|-----------|----------|
| | 2016 | 2015 | 2014 |
| Cash flows from operating activities | | | |
| Net income (loss) | \$4,737 | \$(6,045) | \$67,785 |
| Adjustments to reconcile net income (loss) to net cash provided by (used in) | | | |
| operating activities | | | |
| Depreciation and amortization | 46,643 | 33,561 | — |
| Straight line rent | (108) | (220) | — |
| Amortization of above- / below-market leases | (7,153) | (4,866) | — |
| Amortization of unearned revenue | (105) | — | — |
| Amortization of loan premium / discount | (85) | (81) | — |
| Amortization of deferred financing costs | 899 | 756 | — |
| Purchase of investments | — | — | (30,316) |
| Deposits for potential new investments | — | — | 668 |
| Contributions to investments | — | (257) | (508) |
| Distributions from investments | — | — | 7,637 |
| Net realized gain on investments | — | — | (40) |
| Net unrealized (gain) loss on investments | — | 5,122 | (71,357) |
| Non-cash compensation | 2,905 | 1,867 | 1,768 |
| Net change in: | | | |
| Rents receivable | (1,902) | (4,868) | — |
| Accounts receivable | (2,903) | (331) | — |
| Prepaid expenses and other assets | 87 | (779) | 630 |
| Accounts payable and accrued liabilities | 4,362 | 6,091 | 1,337 |
| Net cash provided by (used in) operating activities | 47,377 | 29,950 | (22,396) |
| Cash flows from investing activities | | | |
| Real estate acquisitions and deposits | (168,719) | (170,188) | — |
| Cash assumed in formation | — | 6,187 | — |
| Additions to operating properties | (1,298) | (453) | — |
| Additions to development properties | (264) | — | — |
| Restricted cash | 90 | (98) | — |
| Net cash (used in) investing activities | (170,191) | (164,552) | — |
| Cash flows from financing activities | | | |
| Payment of deferred financing costs | (955) | (3,523) | (24) |
| Issuance of common shares | 110,032 | 193,545 | 1 |
| Repurchase of initial shares | — | (1) | — |
| Proceeds from private placement | — | 75,638 | — |
| Credit facility draws | 87,250 | 184,917 | — |
| Credit facility repayments | (29,500) | (30,500) | — |
| Borrowings on mortgage payable | — | 15,700 | — |

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| | | | |
|--|-----------|-----------|----------|
| Repayments of mortgage payable | (2,857) | (2,163) | — |
| Debt payoff | — | (293,381) | — |
| Dividends and distributions paid | (40,294) | (21,488) | — |
| Contributions | — | — | 65,247 |
| Distributions | — | (5,441) | (14,301) |
| Payment of offering costs | (4,193) | (1,962) | (453) |
| Net cash provided by financing activities | 119,483 | 111,341 | 50,470 |
| Net increase (decrease) in cash and cash equivalents | (3,331) | (23,261) | 28,074 |
| Cash and cash equivalents, beginning of year | 8,176 | 31,437 | 3,363 |
| Cash and cash equivalents, end of year | \$4,845 | \$8,176 | \$31,437 |

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 (amounts in thousands):

| | For the years ended | | |
|---|---------------------|---------|------|
| | December 31, | | |
| | 2016 | 2015 | 2014 |
| Cash paid for interest | \$7,508 | \$4,051 | \$— |
| Supplemental disclosure of non - cash information | | | |
| Additions to operating properties | \$16 | \$26 | \$— |
| Additions to development properties | 3 | — | — |
| Deferred offering accrued, not paid | — | — | 676 |
| Financing costs accrued, not paid | — | — | 90 |
| Unrealized gain on interest rate swaps | 3,785 | — | — |
| Easterly properties, debt and net assets contributed for shares and | | | |
| common units | — | 260,687 | — |
| Western Devcon properties and debt contributed for common units | — | 86,597 | — |
| Exchange of Common Units for Shares of Common Stock | | | |
| Non-controlling interest in Operating Partnership | \$(99,832) | \$— | \$— |
| Common Stock | 66 | — | — |
| Additional paid-in capital | 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. (which may be referred to in these financial statements as the “Company,” “we,” “us,” or “our”) is a Maryland corporation that has elected to be taxed as a real estate investment trust (a “REIT”) under the Internal Revenue Code (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.

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 through the U.S. General Services Administration (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, 2016, we wholly owned 43 operating properties in the United States, including 40 operating properties that were leased primarily to U.S. Government tenant agencies and three operating properties that were entirely leased to private tenants, encompassing approximately 3.1 million square feet in the aggregate. In addition, we wholly owned one property under development encompassing approximately 0.1 million square feet. We focus on acquiring, developing, and managing GSA-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 GSA to meet the needs and objectives of the tenant agency.

We were incorporated in Maryland as a corporation on October 9, 2014 and did not have any meaningful operations until the completion of the formation transactions and our initial public offering on February 11, 2015 (the “IPO”).

On February 11, 2015, we completed an initial public offering of 13.8 million shares of our common stock at a price to the public of \$15.00 per share, including 1.8 million shares sold in connection with the full exercise of the option to purchase additional shares granted to the underwriters, resulting in gross proceeds of \$207.0 million. The aggregate net proceeds to the Company after deducting underwriting discounts and commissions and offering expenses payable by the Company, was approximately \$191.6 million. The Company contributed the net proceeds from the IPO to the Operating Partnership in exchange for common units representing limited partnership interests in the Operating Partnership (“common units”).

In connection with the IPO, we engaged in certain formation transactions (the “formation transactions”) pursuant to which the Operating Partnership acquired (i) 15 properties previously owned by the Easterly Funds (as defined below) in exchange for 3,308,000 shares of common stock and 8,635,714 common units (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 (collectively, “Western Devcon”), in exchange for 5,759,819 common units and (iii) all of the ownership interests in the management entities (as defined below) in exchange for 1,135,406 common units.

Concurrent with the IPO, the Company sold an aggregate of 7,033,712 shares of its common stock to the Easterly Funds in a private placement at a price per share of \$15.00 without payment of any underwriting fees, discounts or commissions.

Our Operating Partnership used the net proceeds received from the offering, private placement and a portion of the borrowings under the senior unsecured revolving credit facility to repay approximately \$293.4 million in outstanding indebtedness including applicable repayment costs, defeasance costs, settlement of interest rate swap liabilities and other costs and fees associated with such repayments.

Our predecessor (the “Predecessor”) means Easterly Partners, LLC and its consolidated subsidiaries prior to the IPO and 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 (collectively, “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 (collectively, “Easterly Fund II” and, together with Easterly Fund I, the “Easterly Funds”) and (iii) the entities that managed the Easterly Funds, (the “management entities”). After our initial public offering, we acquired seven additional operating properties in 2015 as well as seven operating properties and one development property in 2016.

All of the Company’s assets and its operations are primarily conducted through the Operating Partnership. The Company is the sole general partner of the Operating Partnership. The Company owned 80.3% of the Operating Partnership’s common units at

December 31, 2016. 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, and the Operating Partnership. All significant intercompany balances and transactions have been eliminated in consolidation.

Upon completion of the IPO and the related formation transactions, the Company succeeded to the operations of the Predecessor. Prior to the IPO, the Predecessor was under the control of Darrell W. Crate, the Chairman of our board of directors.

These financial statements reflect the consolidated equity ownership structure of the Company as if the IPO and the formation transactions related to the Easterly Funds and management entities had been completed as of January 1, 2014. The formation transactions related to the Easterly Funds and the management entities were accounted for at carryover basis due to the existence of common control.

Prior to the IPO, the Easterly Funds, as controlled by the Predecessor, qualified as investment companies pursuant to ASC 946 Financial Services – Investment Companies and, as a result, the Predecessor’s consolidated financial statements accounted for the Easterly Funds using specialized investment company accounting based on fair value. Subsequent to the IPO, 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 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 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.

Due to the timing of the IPO and the formation transactions, the Company’s results of operations for the year ended December 31, 2014 reflects the financial condition and results of operations of the Predecessor. The Company’s financial condition as of December 31, 2015 and results of operations for the year ended December 31, 2015 reflect the financial condition and results of operations of the Predecessor combined with the Company for the period prior to February 11, 2015, and the Company’s consolidated results for the period from February 11, 2015 through December 31, 2015.

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.

In light of the significant differences that exist between our basis of accounting subsequent to the IPO (historical cost accounting) and the pre-IPO basis of accounting (investment company accounting), we present the significant accounting policies for both periods below.

a) Significant Accounting Policies for the Company post-IPO

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 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 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 consists of amounts escrowed for future real estate taxes, insurance, capital expenditures and debt service, as required by certain of our mortgage debt agreements.

Deferred Financing Costs

Deferred financing fees include issuance costs related to borrowings and we amortize those costs over the terms of the related indebtedness. Any unamortized amounts upon early repayment of mortgage notes payable are written off in the period in which repayment occurs. Fully amortized deferred financing fees are removed from the books upon maturity or repayment of the underlying debt. As of December 31, 2016, we recognized \$1.0 million in deferred financing costs associated with entering into our senior unsecured term loan facility (as defined below). As of December 31, 2015, we recognized \$3.4 million in deferred financing costs associated with entering into a \$400.0 million senior unsecured revolving credit facility (as defined below) upon completion of the IPO and \$0.1 million in deferred financing costs associated with entering into a \$15.7 million mortgage loan upon acquisition of DEA - Pleasanton. Additionally, for the year ended December 31, 2016 and 2015 we recognized \$0.9 million and \$0.8 million in accumulated amortization of these deferred financing costs, respectively.

Interest Rate Swaps

The Company's primary objective in using interest rate derivatives are 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 qualified 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 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 net 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. Common units are owned by the limited partners who contributed properties and other assets to the Operating Partnership in exchange for common units. The Company contributed the net proceeds from the IPO to the Operating Partnership in exchange for common units. Fifteen months after the IPO, limited partners of the Operating Partnership, other than the Company, had the right to require the Operating Partnership to redeem part or all of their common units for cash, based upon the value of an equivalent number of shares of the Company's common stock at the time of the election to redeem, or, at the Company's election, shares of the Company's common stock on a one-for-one basis. Unitholders receive a distribution per unit equivalent to the dividend per share of the Company's

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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) is recognized by us in the consolidated statements of operations when earned and when their amounts can be reasonably estimated. For the year ended December 31, 2016, we incurred \$3.8 million in expenses associated with projects and other services that were fully reimbursed by our tenants and \$0.5 million in associated income. For the year ended December 31, 2015, we incurred \$1.2 million in expenses associated with projects and other services that were fully reimbursed by our tenants and \$0.2 million in associated income. For both the year ended December 31, 2016 and December 31, 2015, 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" for both the year ended December 31, 2016 and December 31, 2015.

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 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, 2016 and 2015, 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:

| | For the years ended December 31, | |
|---|-------------------------------------|------------------|
| | 2016 | 2015 |
| Net income (loss) | \$4,737 | \$(6,045) |
| Book depreciation and amortization | 46,557 | 33,483 |
| Above/Below market lease amortization | (7,153) | (4,866) |
| Book/Tax differences on offering and acquisition costs at IPO | — | 2,928 |
| Book/Tax differences on unearned rent | (37) | 2,138 |
| Book/Tax differences on stock based compensation | 2,780 | 1,867 |
| Book/Tax differences on post IPO property acquisition costs | 620 | 856 |
| Other book/tax differences, net | 793 | (434) |
| Tax depreciation | (20,622) | (16,451) |
| Loss attributable to non-controlling interest | (8,474) | (7,956) |
| Loss attributable to predecessor | — | 5,581 |
| Taxable income subject to distribution requirements | \$19,201 | (1) \$11,101 (2) |

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

(2) The Company's distributions are characterized as 85.06% ordinary taxable dividend and 14.94% return of capital.

Stock Based Compensation

Prior to the completion of the IPO, our board of directors adopted, and our sole stockholder approved, our 2015 Equity Incentive Plan, under which we may grant future cash and equity incentive awards to our executive officers, non-employee directors and eligible employees. See Note 7 (Equity) for further information. The shares 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 shares 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.

Our board of directors approved the issuance of 891,000 long-term incentive plan units in the Operating Partnership ("LTIP units") on May 6, 2015 and 40,000 LTIP units on February 26, 2016 to members of management under a long-term incentive plan. Earned awards (if any) will vest 50% on February 15, 2018 and 50% on February 6, 2019, subject to our achieving certain absolute and relative total shareholder returns and management's continued employment. Vesting will be accelerated in the event of a change in control, termination of employment by us without cause, or termination of employment by the award recipient for good reason, death, disability or retirement. If there is a change of control prior to February 15, 2018, earned awards will be calculated based on total shareholder return performance up to the date of the change of control. The LTIP unit awards (i) are subject to forfeiture to the extent awards are not earned and (ii) prior to the performance measurement date are only entitled to one-tenth (10%) of the regular quarterly distributions payable on common units. We measure the LTIP unit awards at the fair value on date of grant. The Company recognizes compensation expense for non-vested units granted to members of our management team, by tranche, on a straight-line basis over the requisite service and/or performance period based upon the fair market value of the units 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 stock grants or shares that would be issued in the event that common units of the Operating Partnership are redeemed for shares of common stock of the Company. 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.

Deferred Offering Costs

The Company capitalizes certain legal, accounting and other third party fees that are directly associated with in-process equity financings as other assets 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

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offering costs would be expensed immediately as a charge to corporate general and administrative expenses in the accompanying combined statement of operations.

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 in the United States and all tangible assets are held in the United States.

Recently Adopted Accounting Pronouncements

During 2016, the Company adopted accounting guidance under ASC Topic 810, "Consolidation," modifying the analysis it must perform to determine whether it should consolidate certain types of legal entities. The guidance does not amend the existing disclosure requirements for variable interest entities ("VIEs") or voting interest model entities. The guidance, however, modified the requirements to qualify under the voting interest model. Under the revised guidance, the Operating Partnership will be a variable interest entity of the Company. As the Operating Partnership is already consolidated in the financial statements of the Company, the identification of this entity as a variable interest entity has no impact on the consolidated financial statements of the Company. There were no other legal entities qualifying under the scope of the revised guidance that were consolidated as a result of the adoption. In addition, there were no other voting interest entities under prior existing guidance determined to be variable interest entities under the revised guidance.

During 2016, the Company adopted and retrospectively applied ASU 2015-03, "Simplifying the Presentation of Debt Issuance Costs." As a result all debt issuance costs paid to third parties, other than the lender, incurred to issue mortgage debt are presented on the balance sheet as a direct deduction from the carrying value. Debt issuance costs related to our senior unsecured revolving credit facility will continue to be presented as an asset on the balance sheet. Debt issuance costs related to our senior unsecured term loan facility (as defined below) will be presented as an asset on the balance sheet until a draw is made, at which time the debt issuance costs will be a direct deduction from the carrying value.

During 2016, the Company adopted ASU 2015 – 16, Simplifying the Accounting for Measurement Period Adjustments (Topic 805), which addresses provisional amounts for items in a business combination for which the accounting is incomplete by the end of the reporting period. The implementation of this update did not have an impact in our consolidated financial statements.

During 2016, the Company adopted ASU 2014-15, Presentation of Financial Statements – Going Concern (Subtopic 205-40): Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern, which requires management to evaluate whether there are conditions or events that raise substantial doubt about the entity's ability to continue as a going concern, and to provide certain disclosures when it is probable that the entity will be unable to meet its obligations as they become due within one year after the date that the financial statements are issued. The implementation of this update did not have an impact in our consolidated financial statements.

Recent Accounting Pronouncements Not Yet Adopted

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers, which 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 will replace most existing revenue recognition guidance when it becomes effective. In July 2015, the FASB deferred by one year the mandatory effective date of ASU 2014-09 from January 1, 2017 to January 1, 2018. Early adoption is permitted, but not prior to the original effective date of January 1, 2017. ASU 2014-09 permits the

use of either the retrospective or cumulative effect transition method. The Company is in the process of evaluating the impact of this new guidance.

In February 2016, 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, 2016, the Company had a sublease for office space in Washington D.C. expiring in June 2021 and a sublease for office space in San Diego, CA expiring in April 2017. The remaining contractual payments under the Company's lease and sublease for office space aggregate \$1.4 million. 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 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. ASU No. 2016-02 is effective for reporting periods beginning after December 15, 2018, with early adoption permitted. The standard permits the use of either the retrospective or modified retrospective transition method. The Company is in the process of evaluating this new guidance.

In March 2016, the FASB issued ASU No. 2016-09, Compensation – Stock Compensation, which identifies areas for simplification involving several aspects of accounting for share-based payment transactions. The new guidance allows for entities to make an entity-wide accounting policy election to either estimate the number of awards that are expected to vest or account for forfeitures when they occur. In addition, the guidance allows employers to withhold shares to satisfy minimum statutory tax withholding requirements up to the employees' maximum individual tax rate without causing the award to be classified as a liability. The guidance also stipulates that cash paid by an employer to a taxing authority when directly withholding shares for tax-withholding purposes should be classified as a financing activity on the statement of cash flows. ASU No. 2016-09 is effective for reporting periods beginning after December 15, 2016. The implementation of this update will not have a material impact in our consolidated financial statements.

In August 2016, the FASB issued 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 standard is effective on January 1, 2018, with early adoption permitted. The Company is in the process of evaluating the impact of this new guidance.

In November 2016, the FASB issued 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. Therefore, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The standard is effective on January 1, 2018, with early adoption permitted. The Company is in the process of evaluating the impact of this new guidance.

In January 2017, the FASB issued ASU 2017-01, Business Combinations (Topic 805), which clarifies the framework for determining whether an integrated set of assets and activities meets the definition of a business. The revised framework establishes a screen for determining whether an integrated set of assets and activities is a business and narrows the definition of a business, which is expected to result in fewer transactions being accounted for as business combinations. Acquisitions of integrated sets of assets and activities that do not meet the definition of a business are accounted for as asset acquisitions. This update is effective for fiscal years, and for interim periods within those fiscal years, beginning after December 15, 2017, with early adoption permitted for transactions that have not been reported in previously issued (or available to be issued) financial statements and shall be applied on a prospective basis. The Company currently expenses transaction costs associated with business combinations. Upon adoption of ASU 2017-01 the Company believes most of our future acquisitions of operating properties will qualify as asset acquisitions and most future transaction costs associated with these acquisitions will be capitalized.

b) Significant Accounting Policies of the Company pre-IPO

Real Estate Investments

Real estate investments represent investments in real estate entities that own real estate assets and are stated at the fair value of the net equity interest in the real estate investments as discussed below. Subsequent changes in fair value are recorded as unrealized gains or losses. Upon the disposition of a real estate investment, realized gains and losses are

determined by deducting the proceeds received by the Predecessor from the basis of the real estate investment; any previously unrealized gains and losses are reversed.

Distributions from real estate entities are recorded as dividend income when received to the extent distributed from the estimated taxable earnings and profits of the underlying investment vehicle and as a return of capital to the extent not in excess of that amount.

Under investment company accounting, the statements of operations reflect the change in fair value of the real estate investments of the Easterly Funds, prior to the IPO, whether realized or unrealized.

Fair Value of Investments

The fair value of the real estate investments is determined using a fair value hierarchy. The fair value hierarchy is based on the observability of inputs used to measure fair value and requires additional disclosure regarding the fair value measurements. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between

marketplace participants at the measurement date (exit price). The fair value of an asset or a liability disregards transaction costs and assumes the asset or liability's highest and best use. As the investments are in entities that invest in real estate, the estimated values are based on the underlying assets, liabilities, and cash flows of the related properties. The three levels of the fair value hierarchy are described below:

Level 1 Valuation is based upon quoted prices for identical assets or liabilities in an active market.

Level 2 Valuation is based upon observable inputs:

- a) Quoted prices for similar assets or liabilities in active markets,
- b) Quoted prices for identical or similar assets or liabilities in not active markets, or
- c) Model-based valuation techniques for which all significant assumptions are observable in the market.

Level 3 Valuation is based upon prices or valuation techniques that require assumptions not observable in the market which are significant to the overall fair value measurement. These unobservable inputs reflect the Predecessor's own estimates about the assumptions that market participants would use in pricing the asset or liability (including assumptions about risk). Valuation techniques include the use of discounted cash flow models, and similar techniques.

Non-Controlling Interest

The Company addresses the accounting and reporting standards for ownership interests in subsidiaries held by parties other than the parent, the amount of consolidated capital resulting from operations attributable to the parent and to the non-controlling interest, the changes in a parent's ownership interest, and the valuation of retained non-controlling equity investments when a subsidiary is deconsolidated in accordance with ASC 810 "Consolidation".

Prior to the IPO, all of the partners invested in the Easterly Funds represented a non-controlling interest. In addition, prior to the IPO, a third-party member had invested in Federal Properties, GP, LLC, an entity included within the Predecessor, which also represented a non-controlling interest.

3. Real Estate and Intangibles

Formation transactions

The contribution of the investments of the Easterly Funds to the Operating Partnership pursuant to the formation transactions is accounted for as transactions among entities under common control. As a result, the fair value of the real estate investments at the time of the formation transactions was deemed the initial cost. Such fair value was allocated to the underlying real estate properties, related intangible assets and liabilities and mortgage debt ascribed to the properties. Refer to Note 6 (Fair Value Measurements) for additional discussion on fair value. Prior to the IPO on February 11, 2015, the Easterly Funds qualified as investment companies pursuant to ASC 946 Financial Services –

Investment Companies and, as a result, the Predecessor's consolidated financial statements accounted for the Easterly Funds using investment company accounting based on fair value. Subsequent to the IPO, 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 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.

As part of the formation transactions, Western Devcon, a private real estate company and a series of related entities beneficially owned by Michael P. Ibe, entered into a contribution agreement with us and the Operating Partnership pursuant to which it contributed its 100% equity interest in each of 14 properties to the Operating Partnership upon completion of the IPO. In exchange for its contribution, Western Devcon received 5,759,819 common units in the Operating Partnership valued at the time of the IPO at \$86.4 million. This contribution has been accounted for as a business combination using purchase accounting. The total estimated purchase price, equal to the aggregate value of the Operating Partnership's common units plus the estimated fair value of debt assumed, was allocated to the net tangible assets and intangible assets based on their estimated fair values as of the completion of the acquisition of the Western Devcon properties.

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As part of the formation transactions, we acquired the following properties, as set forth in the table below:

| Property | Location | Property Type | Rentable Square Feet |
|---|----------------------|-------------------------|----------------------|
| Easterly Portfolio | | | |
| IRS - Fresno | Fresno, CA | Office | 180,481 |
| PTO- Arlington | Arlington, VA | Office | 189,871 |
| FBI - San Antonio | San Antonio, TX | Office | 148,584 |
| FBI - Omaha | Omaha, NE | Office | 112,196 |
| ICE - Charleston | North Charleston, SC | Office | 86,733 |
| DOT - Lakewood | Lakewood, CO | Office | 122,225 |
| USFS II - Albuquerque | Albuquerque, NM | Office | 98,720 |
| USFS I - Albuquerque | Albuquerque, NM | Office | 92,455 |
| AOC - Del Rio | Del Rio, TX | Courthouse/Office | 89,880 |
| DEA - Dallas | Dallas, TX | Office | 71,827 |
| DEA - Albany | Albany, NY | Office | 31,976 |
| FBI - Little Rock | Little Rock, AR | Office | 101,977 |
| CBP - Sunburst | Sunburst, MT | Office | 33,000 |
| USCG - Martinsburg | Martinsburg, WV | Office | 59,547 |
| MEPCOM - Jacksonville | Jacksonville, FL | Office | 30,000 |
| | | Total | 1,449,472 |
| Western Devcon | | | |
| CBP - Savannah | Savannah, GA | Laboratory | 35,000 |
| AOC - El Centro | El Centro, CA | Courthouse/Office | 46,813 |
| DEA - Vista | Vista, CA | Laboratory | 54,119 |
| DEA - Santa Ana | Santa Ana, CA | Office | 39,905 |
| CBP - Chula Vista | Chula Vista, CA | Office | 59,397 |
| DEA - North Highlands | Sacramento, CA | Office | 37,975 |
| DEA - Otay | San Diego, CA | Office | 32,560 |
| DEA - Riverside | Riverside, CA | Office | 34,354 |
| SSA - Mission Viejo | Mission Viejo, CA | Office | 11,590 |
| SSA - San Diego | San Diego, CA | Office | 11,743 |
| DEA - San Diego | San Diego, CA | Warehouse | 16,100 |
| 2650 SW 145th Avenue - Parbel of Florida | Miramar, FL | Warehouse/Distribution | 81,721 |
| 5998 Osceola Court - United Technologies | Midland, GA | Warehouse/Manufacturing | 105,641 |
| 501 East Hunter Street - Lummus Corporation | Lubbock, TX | Warehouse/Distribution | 70,078 |
| | | Total | 636,996 |

The fair values of the assets acquired and liabilities assumed upon completion of the formation transactions are as follows (dollars in thousands):

| | Easterly Portfolio | Western Devcon, Inc. | Total |
|---|--------------------|----------------------|-----------|
| Real estate | | | |
| Land | \$ 43,681 | \$ 35,573 | \$79,254 |
| Building | 411,472 | 107,424 | 518,896 |
| Acquired tenant improvements | 27,441 | 4,388 | 31,829 |
| Total real estate | 482,594 | 147,385 | 629,979 |
| Intangible assets | | | |
| In-place leases | 61,218 | 21,308 | 82,526 |
| Acquired leasing commissions | 11,257 | 4,350 | 15,607 |
| Above-market leases | 2,644 | 7,763 | 10,407 |
| Total intangible assets | 75,119 | 33,421 | 108,540 |
| Intangible liabilities | | | |
| Below-market leases | (34,383) | (2,322) | (36,705) |
| Total intangible liabilities | (34,383) | (2,322) | (36,705) |
| Debt assumed/ repaid in formation transaction | (271,622) | (92,087) | (363,709) |
| Net current assets transferred | 8,979 | — | 8,979 |
| Net assets acquired | \$ 260,687 | \$ 86,397 | \$347,084 |

Post Formation Acquisition Activities

During the year ended December 31, 2016, we acquired seven operating properties, ICE – Albuquerque, NPS – Omaha, DEA – Birmingham, FBI – Birmingham, EPA – Kansas City, FBI – Albany and AOC – South Bend for an aggregate purchase price of \$156.9 million. For the period from February 11, 2015 to December 31, 2015, we acquired seven operating properties, DOE – Lakewood, AOC – Aberdeen, ICE – Otoy, DEA – Pleasanton, USCIS – Lincoln, DEA – Dallas Lab and FBI – Richmond for an aggregate purchase price of \$170.9 million. We allocated the purchase prices of these acquisitions based on the estimated fair values of the acquired assets and assumed liabilities as follows (dollars in thousands):

| | December 31, 2016 | December 31, 2015 |
|-------------------------------|----------------------|----------------------|
| Real estate | | |
| Land | \$ 8,496 | \$ 18,645 |
| Building | 127,430 | 136,456 |
| Acquired tenant improvements | 5,070 | 3,037 |
| Total real estate | 140,996 | 158,138 |
| Intangible assets | | |
| In-place leases | 18,742 | 21,393 |
| Acquired leasing commissions | 2,949 | 4,628 |
| Above-market leases | — | 224 |
| Total intangible assets | 21,691 | 26,245 |
| Intangible liabilities | | |

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| | | |
|-----------------------------------|------------|------------|
| Below-market leases | (5,798) | (13,995) |
| Total intangible liabilities | (5,798) | (13,995) |
| Prepaid expenses and other assets | | |
| Contingent consideration | — | 518 |
| Purchase price | \$ 156,889 | \$ 170,906 |

On October 21, 2015, the Company acquired a 42,480 square foot Drug Enforcement Administration regional laboratory in Pleasanton, CA that was built in 2015 and is leased to the GSA for a 20-year term. The property was acquired from an entity indirectly owned by Michael P. Ibe, a director and the Company's Executive Vice President—Development and Acquisitions.

The intangible assets and liabilities of the acquired operating properties have an aggregate weighted average amortization period of 5.47 years and 7.34 years as of December 31, 2016 and 2015, respectively.

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During the year ended December 31, 2016, we included \$8.3 million of revenues and \$2.5 million of net income in our consolidated statement of operations related to the operating properties acquired and incurred \$1.8 million of acquisition-related costs including \$1.1 million of internal costs associated with the property acquisitions.

For the period of February 11, 2015 to December 31, 2015, we included \$71.4 million of revenues and \$15.3 million of net income in our consolidated statement of operations related to the properties contributed or acquired. During year ended December 31, 2015, we incurred \$2.9 million of acquisition-related costs associated with the contribution of Western Devcon assets and the acquisition of DOE – Lakewood, AOC – Aberdeen, ICE – Otay, DEA – Pleasanton, USCIS – Lincoln, DEA – Dallas Lab and FBI – Richmond and \$1.7 million in formation expenses, which include costs associated with the contribution of the investments of the Easterly Funds.

Pro Forma Financial Information

The unaudited pro forma financial information set forth below presents results for the year ended December 31, 2016 and 2015 as if the formation transactions and the acquisitions of DOE – Lakewood, AOC – Aberdeen, ICE – Otay, DEA – Pleasanton, USCIS – Lincoln, DEA – Dallas Lab and FBI – Richmond had occurred on January 1, 2014 and the ICE – Albuquerque, NPS – Omaha, DEA – Birmingham, FBI – Birmingham, EPA – Kansas City, FBI – Albany and AOC – South Bend acquisitions had occurred on January 1, 2015. The pro forma information is not necessarily indicative of the results that actually would have occurred nor does it intend to indicate future operating results (dollars in thousands):

| | For the years ended December 31, | |
|----------------------------------|-------------------------------------|------------|
| Proforma (unaudited) | 2016 | 2015 |
| Total rental revenue | \$ 113,388 | \$ 110,262 |
| Net income (loss) ⁽¹⁾ | 7,078 | 6,751 |

(1) The net income for the year ended December 31, 2016 excludes \$1.8 million of property acquisition costs. Additionally, the net income for the year ended December 31, 2015 was adjusted to include these acquisition costs and exclude the \$4.6 million of property acquisition and formation costs incurred during the year ended December 31, 2015.

Consolidated Real Estate and Intangibles

In addition to the above operating property acquisitions, we acquired one property under development, FDA – Alameda, in an asset acquisition during the year ended December 31, 2016.

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

| | December 31, 2016 | December 31, 2015 |
|------------------------------|----------------------|----------------------|
| Real estate properties, net | | |
| Land | \$ 112,162 | \$ 97,899 |
| Building | 784,511 | 655,832 |
| Acquired tenant improvements | 39,936 | 34,866 |
| Construction in progress | 4,619 | — |

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| | | |
|-----------------------------------|--------------|--------------|
| Accumulated amortization | (40,162) | (16,590) |
| Total Real estate properties, net | \$ 901,066 | \$ 772,007 |
| Intangible assets, net | | |
| In-place leases | \$ 122,661 | \$ 103,919 |
| Acquired leasing commissions | 23,184 | 20,235 |
| Above market leases | 10,631 | 10,631 |
| Accumulated amortization | (42,681) | (18,200) |
| Total Intangible assets, net | \$ 113,795 | \$ 116,585 |
| Intangible liabilities, net | | |
| Below market leases | \$ (56,498) | \$ (50,700) |
| Accumulated amortization | 14,658 | 6,095 |
| Total Intangible liabilities, net | \$ (41,840) | \$ (44,605) |

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The net projected amortization of total intangible assets and intangible liabilities as of December 31, 2016 are as follows (dollars in thousands):

| | Total |
|-------------------------------|-------------|
| Intangible assets | |
| 2017 | 25,956 |
| 2018 | 22,072 |
| 2019 | 16,067 |
| 2020 | 13,080 |
| 2021 | 8,921 |
| Thereafter | 27,699 |
| | \$113,795 |
| Intangible liabilities | |
| 2017 | (9,569) |
| 2018 | (8,936) |
| 2019 | (6,422) |
| 2020 | (5,736) |
| 2021 | (3,895) |
| Thereafter | (7,282) |
| | \$(41,840) |

4. Debt

Our borrowings consisted of the following (dollars in thousands):

| | December 31, 2016 | December 31, 2015 |
|--|----------------------|----------------------|
| Senior unsecured revolving credit facility | \$ 212,167 | \$ 154,417 |
| Mortgage debt | 80,806 | 83,785 |
| Total | \$ 292,973 | \$ 238,202 |

a. Senior Unsecured Revolving Credit Facility

Upon the completion of the IPO on February 11, 2015 we entered into a \$400.0 million senior unsecured revolving credit facility with Citigroup Capital Markets Inc., Raymond James Bank, N.A. and Royal Bank of Canada, as joint lead arrangers and joint book running managers and Raymond James Bank, N.A. and Royal Bank of Canada, as co-syndication agents. This credit facility has an accordion feature that provides us with additional capacity, subject to the satisfaction of customary terms and conditions, of up to \$250.0 million, for a total facility size of not more than \$650.0 million. We intend to use the senior unsecured revolving credit facility to repay indebtedness, fund acquisitions, development and redevelopment opportunities, capital expenditures and the costs of securing new and renewal leases and provide working capital.

The Operating Partnership is the borrower under the senior unsecured revolving credit facility and we and certain of our subsidiaries that directly own certain of our properties are guarantors under the credit facility. The senior unsecured revolving credit facility will terminate in approximately three years. In addition, there will be two as-of-right extension options for the senior unsecured revolving credit facility and each extension option will allow us to extend the senior unsecured revolving credit facility for an additional six months, in each case subject to certain conditions and the payment of an extension fee.

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

- 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 LIBOR rate plus 1.00% plus (b) a margin ranging from 0.4% to 0.9%, or
- a Eurodollar rate equal to a periodic fixed rate equal to LIBOR plus, a margin ranging from 1.4% to 1.9%, in each case with a margin based on our leverage ratio.

Our senior unsecured revolving credit facility also contains certain customary financial covenants, as follows: (i) the maximum ratio of consolidated total indebtedness to total asset value (each as defined in the agreement) may not exceed 60.0% on any date, provided that the maximum ratio may be increased to 65.0% for the two consecutive quarters following the date on which a material

acquisition (as defined in the agreement) occurs, (ii) the maximum ratio of consolidated secured indebtedness (as defined in the agreement) to total asset value may not exceed 40.0% on any date, (iii) the maximum ratio of consolidated secured recourse indebtedness (as defined in the agreement) to total asset value may not exceed 15% on any date, (iv) the minimum consolidated tangible net worth (as defined in the agreement) may not, on any date, be less than the sum of an amount equal to 75.0% of our consolidated tangible net worth as of the closing date of the facility plus an amount equal to 75.0% of the aggregate net cash proceeds received by us from any offering of our capital stock after the closing date of the facility, (v) the minimum ratio of adjusted consolidated EBITDA to consolidated fixed charges (each as defined in the agreement) may not be less than 1.50 to 1.00 on any date, (vi) the maximum ratio of consolidated unsecured indebtedness to unencumbered asset value (each as defined in the agreement) may not exceed 60% as of any date and (vii) the minimum ratio of adjusted consolidated net operating income from unencumbered assets (as defined in the agreement) to interest payable on unsecured debt (as determined in accordance with the agreement) shall not be less than 1.75 to 1.00 on any date. Additionally, under the revolving credit facility, our distributions may not exceed the greater of (i) 95.0% of our FFO or (ii) the amount required for us to maintain our status as a REIT and avoid the payment of federal or state income or excise tax.

Our senior unsecured revolving credit facility also includes customary limits on the percentage of our total asset value that may be invested in unimproved land, unconsolidated joint ventures, redevelopment and development assets (as defined in the agreement), loans, advances or extensions of credit and investments in mixed used assets and require that we obtain consent for mergers in which the company is not the surviving entity. These financial and restrictive covenants may limit the investments we may make and our ability to make distributions. As of December 31, 2016, we were in compliance with all financial and restrictive covenants under our senior unsecured revolving credit facility.

As of December 31, 2016, the weighted average interest rate payable on borrowings under our revolving credit facility was 2.15% and the weighted average annual interest rate for borrowings under our revolving credit facility was 1.89% for the year ended December 31, 2016. As of December 31, 2016, we had \$212.2 million outstanding and \$187.8 million available under our revolving credit facility. As of December 31, 2016 the fair value of our revolving credit facility approximated carrying value.

As of December 31, 2015, the weighted average interest rate payable on borrowings under our revolving credit facility was 1.75% and the weighted average annual interest rate for borrowings under our revolving credit facility was 1.62% for the year ended December 31, 2015. As of December 31, 2015, we had \$154.4 million outstanding and \$245.6 million available under our revolving credit facility. As of December 31, 2015 the fair value of our revolving credit facility approximated carrying value.

b. Letters of Credit

As of December 31, 2016 and 2015, the Company had \$0.1 million and \$0.2 million of standby letters of credit, respectively. There were no draws against these letters of credit during the year ended December 31, 2016 or 2015.

c. Senior Unsecured Term Loan Facility

On September 29, 2016, we entered into a \$100.0 million senior unsecured term loan facility (our “senior unsecured term loan facility”) with PNC Bank, National Association, as administrative agent, U.S. Bank National Association and SunTrust Bank, as syndication agents, PNC Capital Markets LLC, U.S. Bank National Association and SunTrust Robinson Humphrey, Inc., as joint lead arrangers and joint bookrunners.

The Operating Partnership is the borrower under our senior unsecured term loan facility and we and certain of our subsidiaries that directly own certain of our properties are guarantors under the term loan facility. The senior unsecured term loan facility matures on September 29, 2023, has a 180-day delayed draw period, and is prepayable

without penalty beginning in October 2018.

Borrowings under our senior unsecured term loan facility will bear interest at floating rates equal to, at our option, either (1) a fluctuating rate equal to the sum of (a) the highest of (x) PNC Bank, National Association's base rate, (y) the federal funds open rate plus 0.50% and (z) the daily Eurodollar rate plus 1.00% plus (b) a margin ranging from 0.7% to 1.35%, or (2) a Eurodollar rate equal to a periodic fixed rate equal to LIBOR plus, a margin ranging from 1.7% to 2.35%, in each case with a margin based on our leverage ratio. Based on our current leverage ratio, borrowings under our senior unsecured term loan facility will have an initial interest rate of LIBOR plus 170 basis points. We may prepay our senior unsecured term loan facility in whole or in part, subject to (i) customary costs, if any, of breaking LIBOR and, (ii) payment of a prepayment penalty equal to 2.0% of the principal balance being repaid during the first 12 months of our senior unsecured term loan facility and 1.0% of the principal balance being repaid during the following 12 months.

On October 27, 2016, we entered into two forward-starting interest rate swaps with an aggregate notional value of \$100.0 million to effectively fix the interest rate on future draw downs under our senior unsecured term loan facility. The forward swaps have

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an effective date of March 29, 2017 and extend until the maturity of the term loan on September 29, 2023. The forward swaps will effectively fix the interest rate under our senior unsecured term loan facility at 3.12% annually based on the company's current leverage ratio.

Our senior unsecured term loan facility also contains certain customary covenants, including but not limited to financial covenants that require us to maintain maximum ratios of consolidated total indebtedness, consolidated secured indebtedness and consolidated secured recourse indebtedness to total asset value, minimum consolidated tangible net worth and a minimum consolidated fixed charge ratio.

As of December 31, 2016 we have not drawn funds under our senior unsecured term loan facility.

d. Mortgage Notes Payable, Net

As part of the formation transaction, we completed the repayment or defeasance of, and full satisfaction with respect to, \$293.4 million of secured nonrecourse mortgage loans.

The fair value of mortgage debt assumed at IPO was determined at the date of the formation transactions by discounting future contractual principal and interest payments using prevailing market rates at the date of the IPO. Subsequent to IPO we entered into debt associated with the acquisition of DEA – Pleasanton at fair value.

The fair value of mortgage debt was determined by discounting future contractual principal and interest payments using prevailing market rates. We deem the fair value measurement of our debt instruments as a Level 3 measurement. At December 31, 2016 and 2015 the fair value of our mortgage debt was \$79.4 million and \$82.7 million, respectively.

The table below provides a summary of our mortgage debt at December 31, 2016 (dollars in thousands):

| Property | Fixed/Floating | Contractual | | Maturity Date | Effective | | Carrying Value |
|-----------------------|----------------|----------------|---------------|---------------|-------------------|---------------------------|-----------------|
| | | Interest Rate | Interest Rate | | Principal Balance | Deferred Premium/Discount | |
| CBP - Savannah | Fixed | 3.40% | 4.12% | July 2033 | 14,907 | \$ (776) | \$ - |
| ICE - Charleston | Fixed | 4.21% | 3.93% | January 2027 | 20,921 | 357 | - |
| MEPCOM - Jacksonville | Fixed | 4.41% | 3.89% | October 2025 | 11,661 | 275 | - |
| USFS II - Albuquerque | Fixed | 4.46% | 3.92% | July 2026 | 17,191 | 605 | - |
| DEA - Pleasanton | Floating | LIBOR + 150bps | 1.80% | October 2023 | 15,700 | - | (35) |
| Total | | | | | \$80,380 | \$ 461 | \$ (35) |

The table below provides a summary of our mortgage debt at December 31, 2015 (dollars in thousands):

| Property | Fixed/Floating | Contractual | | Maturity Date | Effective | | Carrying Value |
|----------|----------------|---------------|---------------|---------------|-------------------|------------------|----------------|
| | | Interest Rate | Interest Rate | | Principal Balance | Premium/Discount | |

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| | | | | | | | |
|-----------------------|----------|----------------|-------|--------------|----------|-----------|-----------|
| CBP - Savannah | Fixed | 3.40% | 4.12% | July 2033 | 15,580 | \$ (853) | \$ 14,727 |
| ICE - Charleston | Fixed | 4.21% | 3.93% | January 2027 | 21,993 | 403 | 22,396 |
| MEPCOM - Jacksonville | Fixed | 4.41% | 3.89% | October 2025 | 12,489 | 323 | 12,812 |
| USFS II - Albuquerque | Fixed | 4.46% | 3.92% | July 2026 | 17,477 | 673 | 18,150 |
| DEA - Pleasanton | Floating | LIBOR + 150bps | 8.80% | October 2023 | 15,700 | - | 15,700 |
| Total | | | | | \$83,239 | \$ 546 | \$83,785 |

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e. Aggregate Debt Maturities

The Company's aggregate debt maturities based on outstanding principal as of December 31, 2016 are as follows (dollars in thousands):

| | Total |
|---|-----------|
| 2017 | \$2,977 |
| 2018 | 3,100 |
| 2019 | 215,396 |
| 2020 | 3,395 |
| 2021 | 4,054 |
| Thereafter | 63,625 |
| | 292,547 |
| Unamortized premium/discount & deferred financing | 426 |
| | \$292,973 |

5. Derivatives and Hedging Activities

As of December 31, 2016, the Company had two outstanding forward-starting interest rate swaps with an aggregate notional value of \$100.0 million that were designated as cash flow hedges. The forward swaps have an effective date of March 29, 2017 and extend until the maturity of the term loan on September 29, 2023. The forward swaps will effectively fix the interest rate under our senior unsecured term loan facility at 3.12% annually based on the company's current leverage ratio and receive a variable interest rate of one-month LIBOR.

As of December 31, 2016 our forward swaps were classified as an asset on our consolidated balance sheet at \$3.8 million. Additionally, for the year ended December 31, 2016 the amount of unrealized gain recognized in accumulated other comprehensive income on interest rate swaps was \$3.8 million.

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, 2016, the Company did not have any derivatives in a net liability position.

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 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, 2016 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 unsecured senior revolving credit facility based on quoted market interest rates (categorized within Level 2 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 judgement. Settlement at such fair value amounts may not be possible and may not be prudent management decision.

The table below presents the Company's assets and liabilities measured at fair value on a recurring basis as of December 31, 2016, aggregated by the level in the fair value hierarchy within which those measurements fall.

| Balance Sheet Line Item | As of December 31, 2016 | | |
|-----------------------------|----------------------------|---------|-----|
| | Level | | |
| | 1 | 2 | 3 |
| Interest rate swaps - Asset | \$— | \$3,785 | \$— |

Nonrecurring fair value measurements

All of the Predecessor's investments are in Limited Partnership, "LP," or Limited Liability Company, "LLC," interests for which there is no ready market. The Predecessor estimates the value of its investments using Level 3 inputs based upon factors such as operating performance, financial condition, economic and market events. The Predecessor uses a discounted cash flow valuation technique to estimate the fair value of each of the investments, which is updated at each reporting date by personnel responsible for the management of each investment and reviewed by senior management at each reporting period. The discounted cash flow technique requires the Predecessor to estimate cash flows for each investment over the holding period, and is based on the Predecessor's view of the foreseeable future. Cash flows are derived from property rental revenue (base rents plus reimbursements) less operating expenses, real estate taxes and capital and other costs, plus projected sales proceeds in the year of exit if applicable. Property rental revenue is based on leases currently in place and management's estimates for future leasing activity, which are based on current market rents for similar space. Similarly, estimated real estate taxes and operating expenses are based on amounts incurred in the current period plus a projected growth factor for future periods. Anticipated sales proceeds at the end of an investment's expected holding period are determined based on the net cash flow of the investment in the year of exit, divided by a terminal capitalization rate, less estimated selling costs.

The Predecessor has determined that the unit of account being valued is the net investment in the underlying real estate LLC or LP interests. Therefore, the Predecessor has estimated the value of its investments considering whether a market participant would ascribe any value to the debt of the investment. Specific factors that may be considered include whether the market participant could assume the debt, the interest rate and the remaining term.

Due to the significant judgment involved in valuing each investment, in the absence of a ready market, the estimated value of the Predecessor's investments as presented in the accompanying financial statements may differ from the value that would have been used had a ready market existed, and any differences may be material.

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The following table includes a roll-forward of the amounts of investments classified within Level 3 for the year ended December 31, 2015. The classification of an investment within Level 3 is based upon the significance of the unobservable inputs to the overall fair value measurement.

| | |
|--|-----------|
| Balance at December 31, 2014 | \$267,683 |
| Contributions to investments | 257 |
| Net change in unrealized (depreciation) appreciation | (5,122) |
| Sale of investments to the Operating Partnership | (262,818) |
| Balance at December 31, 2015 | \$- |

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7. Equity

On October 16, 2014, the Company issued 1,000 shares to its sole stockholder, Darrell Crate, for \$1,000, which we repurchased upon the IPO.

On February 11, 2015, we completed an initial public offering of 13.8 million shares of our common stock at a price to the public of \$15.00 per share, including 1.8 million shares sold in connection with the full exercise of the option to purchase additional shares granted to the underwriters, resulting in gross proceeds of \$207.0 million. In connection with the IPO, we engaged in a series of formation transactions by which we acquired 15 properties previously owned by the Easterly Funds and the ownership interests in the management entities in exchange for 9,771,120 common units and 3,308,000 shares of common stock. Additionally, in connection with the IPO, Western Devcon contributed its interest in 14 properties to the Operating Partnership in an exchange for 5,759,819 common units. On October 21, 2015, Western Devcon contributed its interest in an additional property, DEA – Pleasanton, to the Operating Partnership in exchange for 12,500 common units.

Concurrent with the IPO, the Company sold an aggregate of 7,033,712 shares of its common stock to the Easterly Funds in a private placement at a price per share of \$15.00 without payment of any underwriting fees, discounts or commissions.

Prior to the completion of the IPO, our board of directors adopted, and our sole stockholder approved, our 2015 Equity Incentive Plan, under which we may grant future 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 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.

On February 10, 2015, we filed with the SEC a registration statement on Form S-8 covering the shares of our common stock issuable under the 2015 Equity Incentive Plan. The 2015 Equity Incentive Plan is administered by the compensation committee of our board of directors. The 2015 Equity Incentive Plan permits the granting of both options to purchase shares of our common stock intended to qualify as incentive stock options under Section 422 of the Code and options that do not so qualify. The option exercise price of each option will be determined by our compensation committee but may not be less than 100% of the fair market value of our common stock on the date of grant. The term of each option will be fixed by our compensation committee and may not exceed ten years from the grant date. Our compensation committee may also grant awards of restricted stock, restricted stock units, performance shares or cash-based awards under the 2015 Equity Incentive Plan that 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.

We have reserved 2,273,959 shares of our common stock for issuance of awards under the 2015 Equity Incentive Plan, including shares of restricted common stock issued to our non-employee directors, which will vest upon the anniversary of the date of grant or the next annual stockholder meeting, as applicable.

Our board of directors approved the issuance of 891,000 LTIP Units on May 6, 2015 and 40,000 LTIP units on February 26, 2016 to members of management under a long-term incentive plan. Earned awards (if any) will vest 50% on February 15, 2018 and 50% on February 6, 2019, subject to the Company achieving certain absolute and relative total shareholder returns and management's continued employment. Vesting will be accelerated in the event of a change in control, termination of employment by the Company without cause, or termination of employment by the award recipient for good reason, death, disability or retirement. If there is a change of control prior to February 15, 2018, earned awards will be calculated based on total shareholder return performance up to the date of the change of control. The LTIP unit awards (i) are subject to forfeiture to the extent awards are not earned and (ii) prior to the performance measurement date are only entitled to one-tenth (10%) of the regular quarterly distributions payable on common units. The Company measures the LTIP Unit awards at the fair value on date of grant.

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A summary of our non-vested common share awards at December 31, 2016 and 2015 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, 2014 | — | \$ — | — | \$ — |
| Vested | — | — | — | — |
| Granted | 26,667 | 15.00 | 891,000 | 8.67 |
| Forfeited | — | — | — | — |
| Outstanding, December 31, 2015 | 26,667 | \$ 15.00 | 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 |

We recognized \$2.9 million and \$1.9 million in compensation expense, related to the restricted common stock and the LTIP Unit awards, for the year ended December 31, 2016 and 2015, respectively. As of December 31, 2016 unrecognized compensation expense for both awards was \$4.2 million, which will be amortized over the vesting period.

We valued our non-vested restricted share award at the grant date fair value, which was the market price of our common shares.

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 2015 we utilized a risk-free rate of 0.9%, 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 18.3% 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%.

No additional shares of common stock or options were issued under the 2015 Equity Incentive Plan as of December 31, 2016.

On October 21, 2015, the Company also entered into a registration rights agreement pursuant to which Mr. Ibe will have the right to cause the Company to register with the SEC the resale or primary issuance of the shares of common stock that Mr. Ibe or his affiliates may receive in exchange for the common units received in the DEA – Pleasanton acquisition and facilitate the offering and sale of such shares.

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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's 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.

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.

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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 (1) |
|---------|-------------------|-------------------|--------------------|-----------------|
| Q1 2015 | May 6, 2015 | May 18, 2015 | June 3, 2015 | \$ 0.11 |
| Q2 2015 | August 4, 2015 | August 18, 2015 | September 3, 2015 | 0.21 |
| Q3 2015 | November 3, 2015 | November 17, 2015 | December 3, 2015 | 0.22 |
| Q4 2015 | February 26, 2016 | March 10, 2016 | March 25, 2016 | 0.22 |
| 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 |

(1) Our board of directors also declared a dividend for each LTIP unit in an amount equal to 10% of the dividend paid per common unit of our operating partnership.

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, 2016 and 2015 (amounts in thousands, except per share amounts):

| | For the years ended December 31, | |
|---|-------------------------------------|------------|
| | 2016 | 2015 |
| Numerator | | |
| Net income (loss) | \$4,737 | \$(6,045) |
| Less: Non-controlling interest in Operating Partnership | (1,322) | 4,351 |
| Net income (loss) available to Easterly Government Properties, Inc. | 3,415 | (1,694) |
| Less: Dividends on participating securities | (102) | (63) |
| Net income (loss) available to common stockholders | \$3,313 | \$(1,757) |
| Denominator for basic EPS | 30,645,279 | 21,430,016 |
| Dilutive effect of share-based compensation awards | 13,691 | — |
| Dilutive effect of LTIP units | 1,713,568 | — |
| Denominator for basic and diluted EPS | 32,372,538 | 21,430,016 |
| Basic EPS | \$0.11 | \$(0.08) |
| Diluted EPS | \$0.10 | \$(0.08) |

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, 2016, future non-cancelable minimum contractual rent payments are as follows (dollars in thousands):

| | Payments due by period | | | | | | Thereafter |
|-------------------------|------------------------|--------|--------|--------|--------|--------|------------|
| | Total | 2017 | 2018 | 2019 | 2020 | 2021 | |
| Operating Leases | | | | | | | |
| Minimum lease payments | \$475,020 | 74,467 | 71,727 | 64,877 | 57,199 | 46,680 | 160,070 |

The Company's consolidated properties were 100% occupied by 22 tenants at December 31, 2016 and 100% occupied by 19 tenants at December 31, 2015.

On June 18, 2016, the Company was awarded a lease for a 65,810 square foot Food and Drug Administration (FDA) laboratory in Alameda, CA. The FDA - Alameda laboratory will be leased to the General Services Administration (GSA) for a 20-year term, beginning upon completion of development of the property.

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, \$0.1 million in rental income attributable to the amortization of unearned revenue and a straight-line adjustment of \$0.3 million.

For the year ended December 31, 2015 we recognized \$59.9 million in rental income attributable to base rent, \$4.9 million in rental income attributable to the amortization of our above- and below-market leases and a straight-line adjustment of \$0.2 million.

10. 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.

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 2017.

Rent expense incurred under the terms of the corporate office leases, was \$0.2 million, \$0.4 million and \$0.3 million for the years ended December 31, 2016, 2015 and 2014, respectively. Future minimum rental payments under the Company's corporate office leases as of December 31, 2016 are summarized as follows (amounts in thousands):

| | Payments due by period | | | | | | Thereafter |
|-------------------------|------------------------|------|------|------|------|------|------------|
| | Total | 2017 | 2018 | 2019 | 2020 | 2021 | |
| Corporate office leases | | | | | | | |
| Minimum lease payments | \$1,371 | 319 | 286 | 298 | 309 | 159 | – |

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 the IPO, the Company also entered into a tax protection agreement with Michael P. Ibe, a director and our 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 Western Devcon in the

formation transactions for a period of eight years after the closing of the IPO 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.

11. 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.

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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, 2016, the GSA and other federal agency accounted for approximately 96.8% of rental income and non-governmental tenants accounted for the remaining approximately 3.2%. At December 31, 2015, the GSA and other federal agency accounted for approximately 96.2% of rental income and non-governmental tenants accounted for the remaining approximately 3.8%.

At December 31, 2016, thirteen of our 43 operating properties were located in California, accounting for approximately 20.0% of our total rentable square feet and approximately 26.8% of our total annualized lease income. At December 31, 2015, thirteen of our 36 operating properties were located in California, accounting for approximately 23.6% of our total rentable square feet and approximately 31.8% of our total annualized lease income. To the extent that weak economic or real estate conditions or natural disasters affect California more severely than other areas of the country, our business, financial condition and results of operations could be negatively impacted.

12. Related Party

For the years ended December 31, 2016 and 2015 we were responsible for reimbursing Easterly Capital \$0.1 million and \$0.3 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, 2016 and 2015, Western Devcon was responsible for reimbursing us \$0.2 and \$0.3 million, respectively, for certain costs that we paid on their behalf.

13. Subsequent Events

For its consolidated financial statements as of December 31, 2016, the Company evaluated subsequent events and noted the following significant events:

On February 3, 2017, the Company acquired a 75,000 square foot laboratory located in Sandy, Utah. The building was constructed in 2003 and is 100% leased to the GSA and occupied by the Occupational Safety and Health Administration (OSHA) under a 20 year lease. The lease includes two five-year renewal options with fixed rental increases that, if exercised, would carry the lease term to 2034.

14. Selected Quarterly Financial Data (unaudited)

The following is a summary of our unaudited quarterly results of operations for 2016 (amounts in thousands):

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| | First Quarter | Second Quarter | Third Quarter | Fourth Quarter |
|--|------------------|-------------------|------------------|-------------------|
| Total revenues | \$23,971 | \$24,921 | \$26,975 | \$28,751 |
| Net income (loss) available to Easterly Government Properties, Inc. | 675 | 699 | 895 | 1,146 |
| Net income (loss) available to Easterly Government Properties, Inc. per share (basic and diluted) | \$0.03 | \$0.02 | \$0.02 | \$0.03 |

The following is a summary of our unaudited quarterly results of operations for 2015 (amounts in thousands):

| | First Quarter | Second Quarter | Third Quarter | Fourth Quarter |
|--|------------------|-------------------|------------------|-------------------|
| Total revenues | \$10,091 | \$19,256 | \$19,857 | \$22,174 |
| Net income (loss) available to Easterly Government Properties, Inc. | (2,885) | 588 | 498 | 105 |
| Net income (loss) available to Easterly Government Properties, Inc. per share (basic and diluted) | \$(0.22) | \$0.02 | \$0.02 | \$— |

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Easterly Government Properties, Inc.

Schedule III - Real Estate and Accumulated Depreciation

December 31, 2016

(Amounts in thousands)

| Location | Type ⁽¹⁾ | Encumbrances ⁽²⁾ | Initial Cost to Company | | Costs | | | Cost amount carried at Close of Period | | Accumulated Depreciation ⁽⁴⁾ | Original Construction Date ⁽⁵⁾ | Date Acquired |
|------------------|---------------------|-----------------------------|-------------------------|----------------------------|-------------|----------------------------|----------------------|--|-------|---|---|---------------|
| | | | Land | Buildings and Improvements | Acquisition | Buildings and Improvements | Total ⁽³⁾ | | | | | |
| Aberdeen, MS | C/O | \$— | \$1,147 | \$14,044 | \$56 | \$1,147 | \$14,100 | \$15,247 | \$559 | 2005 | 6/17/2015 | |
| Albany, NY | O | — | 1,801 | 11,544 | 17 | 1,801 | 11,561 | 13,362 | 545 | 2004 | 2/11/2015 | |
| Albany, NY | O | — | 1,412 | 17,128 | — | 1,412 | 17,128 | 18,540 | 47 | 1998 | 11/22/2016 | |
| Albuquerque, NM | O | 17,796 | 2,345 | 28,611 | — | 2,345 | 28,611 | 30,956 | 1,863 | 2011 | 2/11/2015 | |
| Albuquerque, NM | O | — | 2,905 | 23,804 | 67 | 2,905 | 23,871 | 26,776 | 1,340 | 2006 | 2/11/2015 | |
| Albuquerque, NM | O | — | 3,062 | 28,201 | — | 3,062 | 28,201 | 31,263 | 781 | 2011 | 2/17/2016 | |
| Arlington, VA | O | — | 14,350 | 44,442 | 77 | 14,350 | 44,519 | 58,869 | 3,490 | 2009 | 2/11/2015 | |
| Birmingham, AL | O | — | 408 | 10,853 | — | 408 | 10,853 | 11,261 | 169 | 2005 | 7/1/2016 | |
| Birmingham, AL | O | — | 755 | 22,537 | — | 755 | 22,537 | 23,292 | 321 | 2005 | 7/1/2016 | |
| Chula Vista, CA | O | — | 6,332 | 7,471 | 43 | 6,332 | 7,514 | 13,846 | 354 | 1998 | 2/11/2015 | |
| Dallas, TX | O | — | 1,005 | 14,546 | 26 | 1,005 | 14,572 | 15,577 | 892 | 2001 | 2/11/2015 | |
| Dallas, TX | L | — | 2,753 | 23,848 | 19 | 2,753 | 23,867 | 26,620 | 647 | 2001 | 12/1/2015 | |
| Del Rio, TX | C/O | — | 210 | 30,676 | 142 | 210 | 30,818 | 31,028 | 1,683 | 1992 / 2004 | 2/11/2015 | |
| El Centro, CA | C/O | — | 1,084 | 20,765 | 29 | 1,084 | 20,794 | 21,878 | 1,211 | 2004 | 2/11/2015 | |
| Fresno, CA | O | — | 1,499 | 68,309 | 66 | 1,499 | 68,375 | 69,874 | 3,679 | 2003 | 2/11/2015 | |
| Jacksonville, FL | O | 11,936 | 2,532 | 16,621 | 6 | 2,532 | 16,627 | 19,159 | 1,070 | 2010 | 2/11/2015 | |
| Kansas City, KS | L | — | 828 | 33,035 | — | 828 | 33,035 | 33,863 | 446 | 2003 | 7/1/2016 | |
| Lakewood, CO | O | — | 1,521 | 32,865 | 51 | 1,521 | 32,916 | 34,437 | 1,955 | 2004 | 2/11/2015 | |
| | O | — | 1,377 | 18,204 | 36 | 1,377 | 18,240 | 19,617 | 799 | 1999 | 4/1/2015 | |

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| | | | | | | | | | | | | |
|----------------------------|-----|--------|-------|--------|-----|-------|--------|--------|-------|-------------|--|------------|
| Lakewood, CO | | | | | | | | | | | | |
| Lincoln, NE | O | — | 2,310 | 26,328 | 95 | 2,310 | 26,423 | 28,733 | 1,044 | 2005 | | 11/12/2015 |
| Little Rock, AR | O | — | 2,278 | 19,318 | 51 | 2,278 | 19,369 | 21,647 | 1,133 | 2001 | | 2/11/2015 |
| Lubbock, TX | W/D | — | 541 | 972 | — | 541 | 972 | 1,513 | 63 | 2013 | | 2/11/2015 |
| Martinsburg, WV | O | — | 1,700 | 13,294 | 48 | 1,700 | 13,342 | 15,042 | 840 | 2007 | | 2/11/2015 |
| Midland, GA | W/M | — | 1,715 | 1,650 | — | 1,715 | 1,650 | 3,365 | 122 | 2014 | | 2/11/2015 |
| Miramar, FL | W/D | — | 2,177 | 9,417 | — | 2,177 | 9,417 | 11,594 | 521 | 2007 | | 2/11/2015 |
| Mission Viejo, CA | O | — | 1,454 | 1,690 | 51 | 1,454 | 1,741 | 3,195 | 195 | 2005 | | 2/11/2015 |
| North Charleston, SC | O | 21,278 | 963 | 34,987 | 322 | 963 | 35,309 | 36,272 | 1,838 | 1994 / 2012 | | 2/11/2015 |
| Omaha, NE | O | — | 4,635 | 41,319 | 172 | 4,635 | 41,491 | 46,126 | 2,598 | 2009 | | 2/11/2015 |
| Omaha, NE | O | — | 1,517 | 14,156 | — | 1,517 | 14,156 | 15,673 | 273 | 2004 | | 5/19/2016 |
| Pleasanton, CA | L | 15,665 | 5,765 | 20,859 | — | 5,765 | 20,859 | 26,624 | 624 | 2015 | | 10/21/2015 |
| Richmond, VA | O | — | 3,041 | 23,931 | 47 | 3,041 | 23,978 | 27,019 | 797 | 2001 | | 12/7/2015 |
| Riverside, CA | O | — | 1,983 | 6,755 | 33 | 1,983 | 6,788 | 8,771 | 555 | 1997 | | 2/11/2015 |

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| Location | Type ⁽¹⁾ | Initial Cost to Company | | Cost amount carried at Close of Period | | | | | | | Date Acquired |
|-----------------|---------------------|-------------------------|---------------------|--|---------------------------------------|-----------|----------------------------|----------------------|--------------------------|-------------------------------|---------------|
| | | Encumbrance | Land ⁽²⁾ | Costs | | | Buildings and Improvements | Total ⁽³⁾ | Accumulated Depreciation | Original Construction Date(s) | |
| | | | | Buildings and Improvements | Capitalized Subsequent to Acquisition | Land | | | | | |
| Sacramento, CA | O | — | 1,434 | 9,369 | 27 | 1,434 | 9,396 | 10,830 | 627 | 2002 | 2/11/2015 |
| San Antonio, TX | O | — | 3,745 | 49,153 | 130 | 3,745 | 49,283 | 53,028 | 2,842 | 2007 | 2/11/2015 |
| San Diego, CA | O | — | 1,389 | 7,358 | 21 | 1,389 | 7,379 | 8,768 | 537 | 1997 | 2/11/2015 |
| San Diego, CA | O | — | 773 | 2,481 | — | 773 | 2,481 | 3,254 | 144 | 2003 | 2/11/2015 |
| San Diego, CA | W | — | 3,060 | 510 | — | 3,060 | 510 | 3,570 | 80 | 1999 | 2/11/2015 |
| San Diego, CA | O | — | 2,252 | 12,280 | 5 | 2,252 | 12,285 | 14,537 | 528 | 2001 | 9/11/2015 |
| Santa Ana, CA | O | — | 6,413 | 8,635 | 12 | 6,413 | 8,647 | 15,060 | 724 | 2004 | 2/11/2015 |
| Savannah, GA | L | 14,131 | 3,220 | 10,687 | 26 | 3,220 | 10,713 | 13,933 | 574 | 2013 | 2/11/2015 |
| South Bend, IN | C/O | — | 514 | 6,590 | — | 514 | 6,590 | 7,104 | 4 | 1996 / 2011 | 12/23/2016 |
| Sunburst, MT | O | — | 2,192 | 9,423 | 41 | 2,192 | 9,464 | 11,656 | 513 | 2008 | 2/11/2015 |
| Vista, CA | L | — | 3,998 | 24,053 | 51 | 3,998 | 24,104 | 28,102 | 1,135 | 2002 | 2/11/2015 |
| Various | Various | — | 5,767 | 4,313 | 267 | 5,767 | 4,580 | 10,347 | — | N/A | Various |
| | | \$80,806 | \$112,162 | \$827,032 | \$2,034 | \$112,162 | \$829,066 | \$941,228 | \$40,162 | | |

(1) 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. Aggregate cost for federal income tax purposes is approximately \$795,324.

(4) Depreciation of rental 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.

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

| | |
|------------|--------------|
| Real | |
| Estate | Accumulated |
| Properties | Depreciation |

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| | | |
|------------------------------|---------|--------|
| Balance at December 31, 2014 | — | — |
| Additions | 788,597 | 16,590 |
| Balance at December 31, 2015 | 788,597 | 16,590 |
| Additions | 152,631 | 23,572 |
| Balance at December 31, 2016 | 941,228 | 40,162 |

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