



GLADSTONE COMMERCIAL

*Supplemental Financial & Operating Information
for the Quarter Ended December 31, 2019*



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Corporate overview



Part of a two office building portfolio located in an Orlando, Florida submarket

Corporate Headquarters

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Investor Relations

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About Gladstone Commercial

Gladstone Commercial (Nasdaq: GOOD) is an established real estate investment trust (REIT) that invests in single tenant and anchored multi-tenant net leased assets. As of December 31, 2019, we owned approximately 14.2 million square feet of primarily office and industrial real estate nationwide. We partner with a variety of tenants—from middle market private businesses to investment grade rated companies. We acquire properties through third party purchases, sale leaseback transactions, and by partnering with developers in build-to-suit transactions.

As of December 31, 2019, total assets were approximately \$1,039.5 million, representing investments in 118 properties. Our properties are leased to 103 tenants who represent 19 diversified industries across 28 states.

At December 31, 2019, our leases had an average remaining term of 7.3 years. In addition, approximately 63% of our tenants have an investment grade or investment grade equivalent credit rating.

Portfolio and financial overview






Portfolio data¹

Total assets (\$mm)	\$ 1,039.5
Properties	118
Tenants	103
Industries	19
States	28
Average remaining lease term (years)	7.3
Occupancy	97.0%
Square footage owned (mm)	14.2

Capitalization (\$mm)¹

Equity market capitalization ²	\$ 727
Preferred equity	157
Total debt	627
Total capitalization	\$ 1,511
Less: Cash and cash equivalents	(7)
Total enterprise value	\$ 1,504
Net total debt / enterprise value	41.2%
Net total debt + preferred / enterprise value	51.7%
Net total debt / gross assets	46.1%

Top 5 tenants¹

	% of rent	% of SF
	4%	2%
	3%	1%
	3%	7%
	3%	1%
	3%	1%
Top 5 Tenants total	16%	12%
Top 5 Tenants average remaining lease term		5.2 years
Portfolio average remaining lease term		7.3 years

Corporate liquidity (\$mm)¹

Cash and Cash Equivalents	\$ 6.8
Availability Under Revolving Credit Facility ³	20.5
Total	\$ 27.3

¹ As of 12/31/2019.

² Based on closing common stock price per share on December 31, 2019 of \$21.86. Includes OP units and senior common shares convertible into shares of common stock.

³ As of February 12, 2020, approximately \$34.6 million is available under the Company's revolving credit facility.

Q4 2019 highlights (unaudited)

FFO¹, FFO as adjusted for comparability², and Core FFO³:

Generated FFO, FFO as adjusted for comparability, and core FFO of \$10.1 million, \$12.7 million and \$13.2 million, or \$0.30, \$0.39 and \$0.40 per diluted share, respectively.

Acquisition Activity:

Purchased a 231,509 square foot property in Indianapolis, Indiana for \$8.2 million with a 13.5 year remaining lease term. Purchased a 241,000 square foot property in Jackson, Tennessee for \$9.1 million with a 9.7 year remaining lease term. Purchased a 117,000 square foot property in Carrollton, Georgia for \$8.1 million with a 12.0 year remaining lease term. Purchased a 509,211 square foot, six property portfolio for \$37.6 million with a remaining lease term of 10.0 years at each property.

Dividends:

Paid monthly common stock dividends totaling \$0.375 per common share, or an annualized \$1.50 per common share, as well as continued payments of monthly Series D preferred dividends and prorated Series A, Series B, and Series E preferred dividends based upon applicable redemption/issuance dates.

Equity Issuances:

Issued common equity for net proceeds of \$24.0 million through our ATM program. Issued 2,760,000 shares of newly designated 6.625% Series E Preferred Stock, raising net proceeds of \$66.6 million.

Equity Redemptions:

Redeemed all 7.75% Series A and 7.50% Series B Preferred Stock for a total redemption payment of \$56.9 million.

Debt Activity:

Issued a \$4.8 million mortgage note collateralized by our Jackson, Tennessee property acquired during December 2019 with a seven year remaining term and a 3.97% fixed rate. Issued a \$4.2 million mortgage note collateralized by our Carrollton, Georgia property acquired during December 2019 with a seven year remaining term and a 3.97% fixed rate. Issued a \$19.5 million mortgage note collateralized by our six property portfolio acquired during December 2019 with an eight year remaining term and a 3.75% fixed rate.

Select Expenditure Activity:

Paid \$1.6 million related to capital expenditures and \$0.3 million related to leasing commissions.

¹ FFO is calculated as net income (computed in accordance with GAAP), excluding gains or losses from sales of property and impairment losses on property, plus depreciation and amortization of real estate assets, which we believe to be consistent with the NAREIT definition. FFO does not represent cash flows from operating activities in accordance with GAAP. FFO should not be considered an alternative to net income as an indication of our performance or to cash flows from operations as a measure of liquidity or ability to make distributions.

² FFO as adjusted for comparability is FFO adjusted for certain items that are not indicative of the results provided by the Company's operating portfolio and affect the comparability of the Company's period-over-period performance. These items include the adjustment for non-recurring expense adjustments related to the write off of offering costs pertaining to redeemed securities.

³Core FFO is FFO adjusted for gains from early extinguishment of debt and any other non-routine revenue or expense adjustments.



Financial Overview



Condensed consolidated statements of operations

(\$ in thousands, except per share amounts)

	For the three months ended (unaudited)			For the twelve months ended	
	12/31/2019	9/30/2019	12/31/2018	12/31/2019	12/31/2018
Operating revenues					
Lease revenue	\$ 29,386	\$ 28,667	\$ 27,261	\$ 114,387	\$ 106,798
Total operating revenues	\$ 29,386	\$ 28,667	\$ 27,261	\$ 114,387	\$ 106,798
Operating expenses					
Depreciation and amortization	\$ 13,428	\$ 12,979	\$ 12,454	\$ 52,039	\$ 47,620
Property operating expenses	3,262	3,202	3,212	12,592	11,458
Base management fee	1,322	1,292	1,257	5,174	5,054
Incentive fee	968	965	828	3,688	3,042
Administration fee	469	411	418	1,690	1,605
General and administrative	1,200	596	602	3,235	2,358
Impairment charge	1,813	—	—	1,813	—
Total operating expenses	\$ 22,462	\$ 19,445	\$ 18,771	\$ 80,231	\$ 71,137
Other (expense) income					
Interest expense	\$ (6,873)	\$ (7,170)	\$ (6,897)	\$ (28,279)	\$ (26,172)
Gain on sale of real estate	—	—	919	2,952	2,763
Other income	421	139	5	712	72
Total other expense, net	\$ (6,452)	\$ (7,031)	\$ (5,973)	\$ (24,615)	\$ (23,337)
Net income	\$ 472	\$ 2,191	\$ 2,517	\$ 9,541	\$ 12,324
Net income attributable to non-controlling interests	100	16	(4)	87	(4)
Net income attributable to the company	\$ 572	\$ 2,207	\$ 2,513	\$ 9,628	\$ 12,320
Distributions attributable to Series A, B, D, and E preferred stock	(2,986)	(2,612)	(2,613)	(10,822)	(10,416)
Series A and B preferred stock offering costs write off	(2,674)	—	—	(2,674)	—
Distributions attributable to senior common stock	(217)	(226)	(231)	(892)	(931)
Net (loss) income (attributable) available to common stockholders	\$ (5,305)	\$ (631)	\$ (331)	\$ (4,760)	\$ 973
Weighted average common shares outstanding and Non-controlling OP Units					
Basic and diluted	32,332,114	31,775,739	29,611,130	31,396,826	28,804,167

Funds from Operations (FFO)

(\$ in thousands, except per share amounts)

	For the three months ended (unaudited)			For the twelve months ended	
	12/31/2019	9/30/2019	12/31/2018	12/31/2019	12/31/2018
Net income	\$ 472	\$ 2,191	\$ 2,517	\$ 9,541	\$ 12,324
Less: Distributions attributable to preferred and senior common stock	(5,877)	(2,838)	(2,844)	(14,388)	(11,347)
Net (loss) income (attributable) available to common stockholders and Non-controlling OP Unitholders	\$ (5,405)	\$ (647)	\$ (327)	\$ (4,847)	\$ 977
Adjustments:					
Add: Real estate depreciation and amortization	\$ 13,428	\$ 12,979	\$ 12,454	\$ 52,039	\$ 47,620
Add: Impairment charge	1,813	—	—	1,813	—
Less: Gain on sale of real estate, net	—	—	(919)	(2,952)	(2,763)
FFO available to common stockholders and Non-controlling OP Unitholders - basic	\$ 9,836	\$ 12,332	\$ 11,208	\$ 46,053	\$ 45,834
Add: Convertible senior common distributions	217	226	231	892	931
FFO available to common stockholders and Non-controlling OP Unitholders - diluted	\$ 10,053	\$ 12,558	\$ 11,439	\$ 46,945	\$ 46,765
Add: Series A and B preferred stock offering costs write off	2,674	—	—	2,674	—
FFO available to common stockholders and Non-controlling OP Unitholders - diluted, as adjusted for comparability	\$ 12,727	\$ 12,558	\$ 11,439	\$ 49,619	\$ 46,765
FFO available to common stockholders and Non-controlling OP Unitholders - basic	\$ 9,836	\$ 12,332	\$ 11,208	\$ 46,053	\$ 45,834
Add: Acquisition related expenses	204	(6)	69	326	174
Add: Write off of deferred financing fees	—	61	—	344	6
Add: Write off shelf registration statement costs and prepaid ATM costs	82	—	—	100	—
Add: Asset retirement obligation expense	42	32	31	137	121
Add: Bad debt write off	152	—	—	152	—
Add: Write off prepaid offering costs	2,674	—	—	2,674	—
Less: Write off of debt discount	—	—	—	—	(49)
Core FFO available to common stockholders and Non-controlling OP Unitholders - basic	\$ 12,990	\$ 12,419	\$ 11,308	\$ 49,786	\$ 46,086
Add: Convertible senior common distributions	217	226	231	892	931
Core FFO available to common stockholders and Non-controlling OP Unitholders - diluted	\$ 13,207	\$ 12,645	\$ 11,539	\$ 50,678	\$ 47,017
Weighted average common shares outstanding and Non-controlling OP Units - basic	32,332,144	31,775,739	29,611,130	31,396,826	28,804,167
Weighted average common shares outstanding and Non-controlling OP Units - diluted	33,006,755	32,485,645	30,355,466	32,071,437	29,528,503
FFO per weighted average share of common stock and Non-controlling OP Unit - basic	\$ 0.30	\$ 0.39	\$ 0.38	\$ 1.47	\$ 1.59
FFO per weighted average share of common stock and Non-controlling OP Unit - diluted	\$ 0.30	\$ 0.39	\$ 0.38	\$ 1.46	\$ 1.58
FFO per weighted average share of common stock and Non-controlling OP Unit - diluted, as adjusted for comparability	\$ 0.39	\$ 0.39	\$ 0.38	\$ 1.55	\$ 1.58
Core FFO per weighted average share of common stock and Non-controlling OP Unit - basic	\$ 0.40	\$ 0.39	\$ 0.38	\$ 1.59	\$ 1.60
Core FFO per weighted average share of common stock and Non-controlling OP Unit - diluted	\$ 0.40	\$ 0.39	\$ 0.38	\$ 1.58	\$ 1.59
Distributions declared per share of common stock and Non-controlling OP Unit	\$ 0.375	\$ 0.375	\$ 0.375	\$ 1.500	\$ 1.500

Consolidated balance sheets

(\$ in thousands)

ASSETS

Real estate, at cost
Less: accumulated depreciation
Total real estate, net
Lease intangibles, net
Real estate and related assets held for sale, net
Cash and cash equivalents
Restricted cash
Funds held in escrow
Right-of-use assets from operating leases
Deferred rent receivable, net
Other assets

TOTAL ASSETS

LIABILITIES AND STOCKHOLDERS' EQUITY

LIABILITIES

Mortgage notes payable, net
Borrowings under revolver and term loan, net
Deferred rent liability, asset retirement obligation and other liabilities, net

TOTAL LIABILITIES

MEZZANINE EQUITY

Series D and E redeemable preferred stock, net

TOTAL MEZZANINE EQUITY

STOCKHOLDERS' EQUITY

Series A and B redeemable preferred stock
Senior common stock
Common stock
Additional paid in capital
Accumulated other comprehensive income
Distributions in excess of accumulated earnings

TOTAL STOCKHOLDERS' EQUITY

OP Units held by Non-controlling OP Unitholders

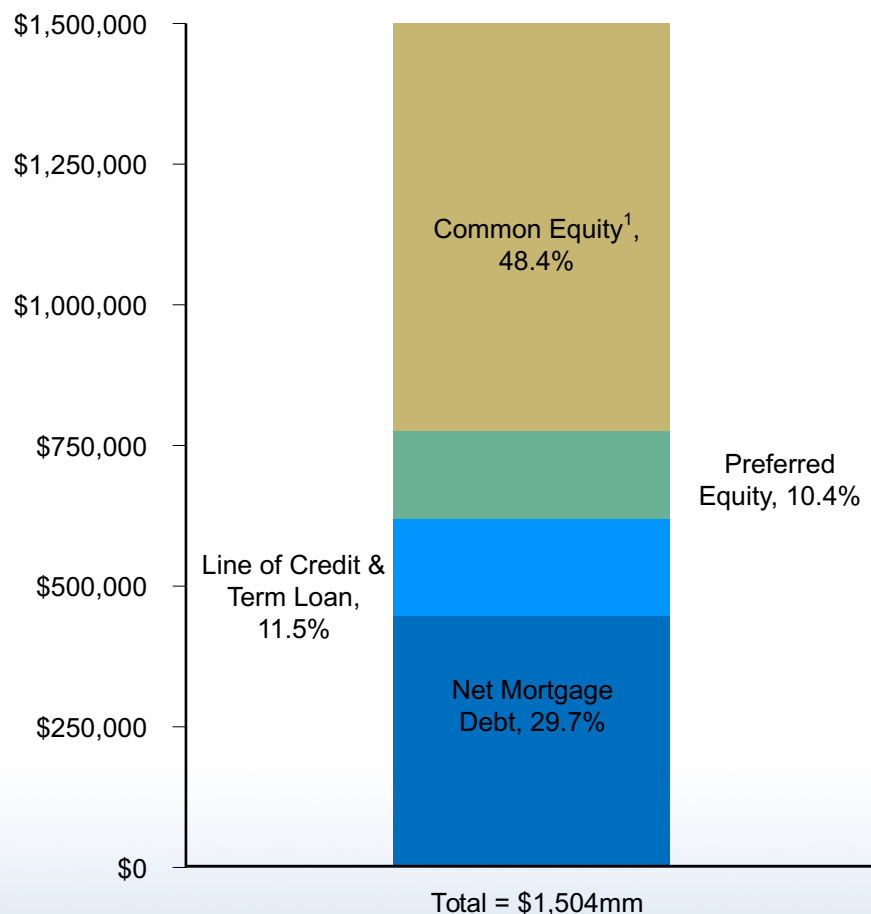
TOTAL EQUITY

TOTAL LIABILITIES, MEZZANINE EQUITY AND EQUITY

	12/31/2019	12/31/2018
\$	1,056,978	\$ 946,649
	207,523	178,257
	849,455	768,392
	115,465	111,448
	3,990	4,151
	6,849	6,591
	4,639	2,491
	7,226	6,010
	5,794	—
	37,177	34,771
	8,913	4,921
\$	1,039,508	\$ 938,775
\$	453,739	\$ 441,346
	172,855	124,713
	49,724	32,699
\$	676,318	\$ 598,758
\$	152,153	\$ 85,598
\$	152,153	\$ 85,598
\$	—	\$ 2
	1	1
	32	29
	571,205	559,977
	(2,126)	(148)
	(360,978)	(310,117)
\$	208,134	\$ 249,744
	2,903	4,675
\$	211,037	\$ 254,419
\$	1,039,508	\$ 938,775

Capital structure

Current capital structure as of 12/31/2019 (\$000)

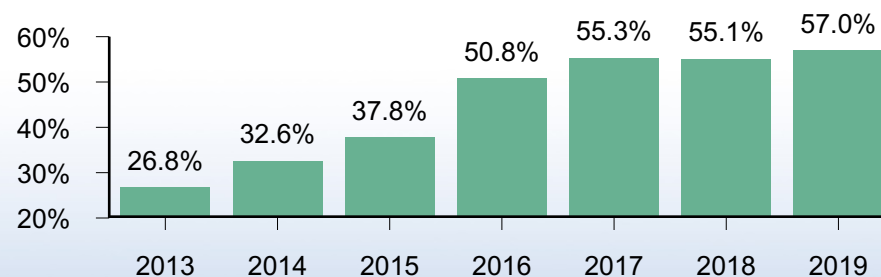


Capital Structure Details

(Dollars in \$000s, except stock price)

	Wtd. Average Rate	12/31/2019
Mortgage Notes Payable, Net	4.49%	\$ 453,739
Less: Cash & Cash Equivalents		(6,849)
Net Mortgage Debt		\$ 446,890
Line of Credit	L+1.65%	\$ 51,579
Term Note	L+1.60%	121,276
Line of Credit and Term Loan		\$ 172,855
Total Debt, Net		\$ 619,745
Series D - Preferred	7.000%	87,739
Series E - Preferred	6.625%	69,000
Total Preferred Equity		\$ 156,739
Diluted Common Shares Outstanding		33,268,262
Stock Price		\$ 21.86
Implied Common Equity¹ Market Capitalization		\$ 727,244
Enterprise Value		\$ 1,503,728

Institutional Stock Ownership ²

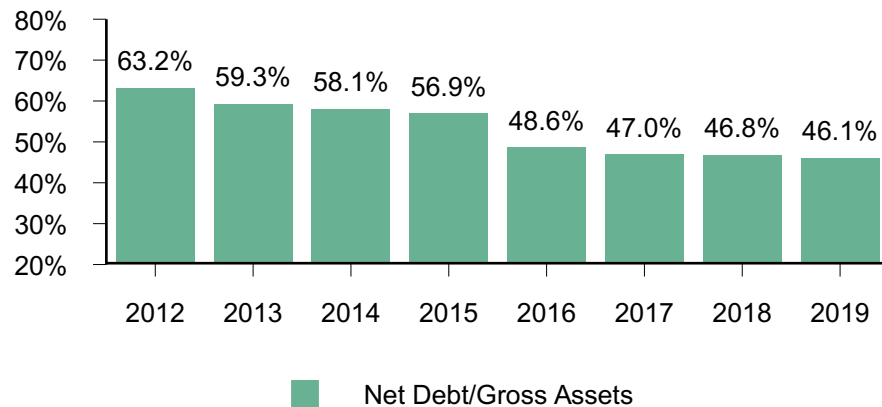


¹ Common Equity is based on the closing common stock price per share as of December 31, 2019 of \$21.86 and includes effect of OP units and convertible senior common stock.

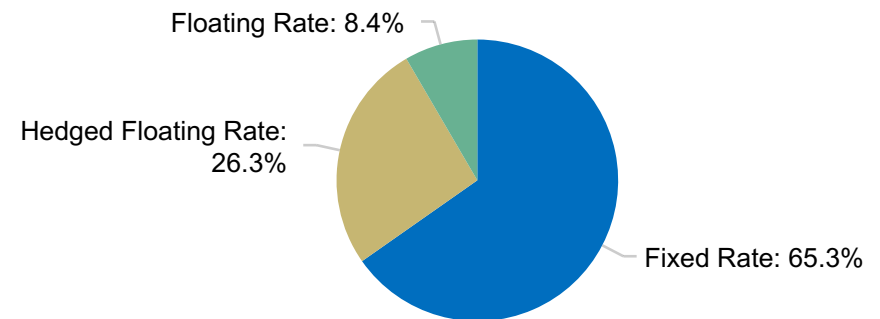
² Source: Nasdaq Online.

Liquidity and debt overview

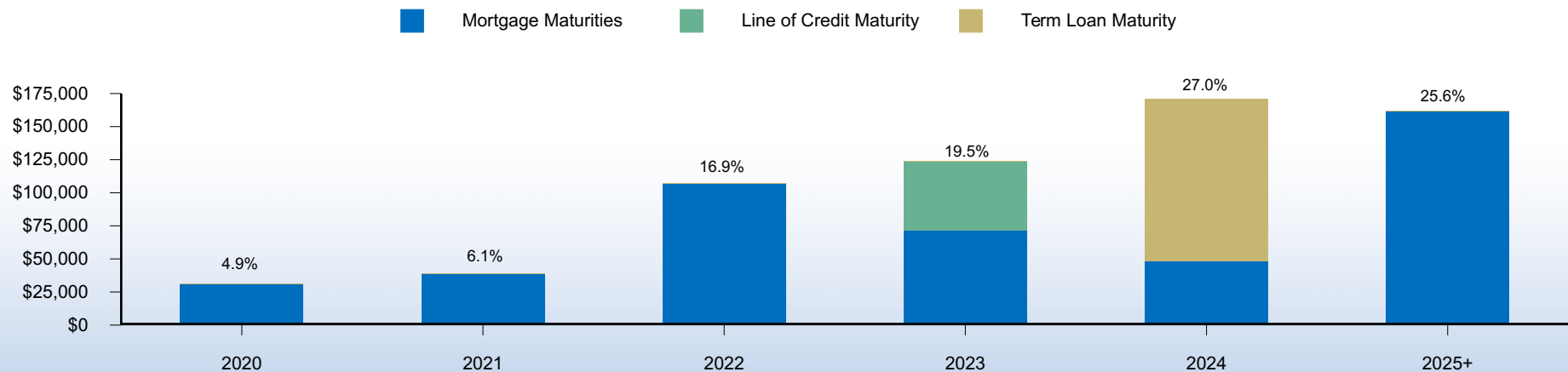
Reducing Leverage¹



Fixed vs. Floating Debt¹



Debt maturity schedule¹ (\$'000)



¹ As of 12/31/2019.

Debt summary

Principal Maturity Date	Weighted Average Interest Rate as of 12/31/2019	(\$ in thousands)	
		Principal Balance Outstanding as of 12/31/2019	
2020	3.96%	19,516	
2021	4.90%	27,491	
2022	4.80%	104,809	
2023	4.61%	68,114	
2024	4.04%	44,334	
2025	4.03%	33,597	
2026	4.42%	50,063	
2027	4.36%	86,859	
2028	5.32%	4,634	
2029	4.75%	11,845	
2037	4.63%	6,660	
Contractual Mortgage Notes Payable:		4.49%	\$ 457,922
Premiums (Discounts), net:			(239)
Total Mortgage Notes Payable:			\$ 457,683
Variable-Rate Line of Credit:			
2023	LIBOR +1.65%		\$ 52,400
Variable-Rate Term Loan Facility:			
2024	LIBOR +1.60%		\$ 122,300
Total Mortgage Notes Payable and Line of Credit		4.18%	\$ 632,383

Select corporate covenants

Description	(\$ in thousands)	
	Threshold	December 31, 2019
Consolidated Tangible Net Worth	> \$494,750	\$677,427
Leverage Ratio	< 60%	49%
Debt Yield Ratio	> 11%	14%
Fixed Charge Coverage Ratio	> 1.45	1.76
Maximum Dividend Payout (FFO based)	< 98%	95%
Secured Indebtedness	< 45%	35%

Note: Covenants calculated as defined by our Credit Facility, as administered by KeyBank.



Portfolio Overview



Portfolio overview

Geographic diversity

- 118 properties across the U.S. located in 28 states
- Focus on secondary growth markets with higher yields



Tenant and property diversity

- Diverse base of 19 different industries and primarily office and industrial property types
- Focus on mid-size tenants occupying properties ranging from 30-150K SF (office) and 75-500K SF (industrial)



High occupancy

- Occupancy has never fallen below 96%
- Current occupancy 97.0%
- 7.4% of projected rents expiring through the end of 2020
- Of 100+ assets with nearly \$1 billion invested since inception, only one tenant default



Periodic capital recycling

- Sell non-core assets
- Exited 12 single property non-core markets since mid-2016
- Re-deploy proceeds in growth markets



Note: As of 12/31/2019

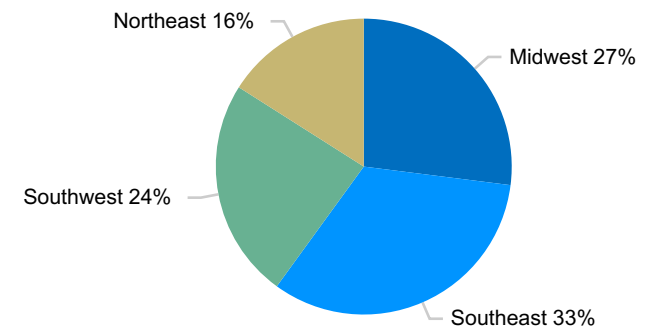
Diversified portfolio

118 properties spread across 28 states

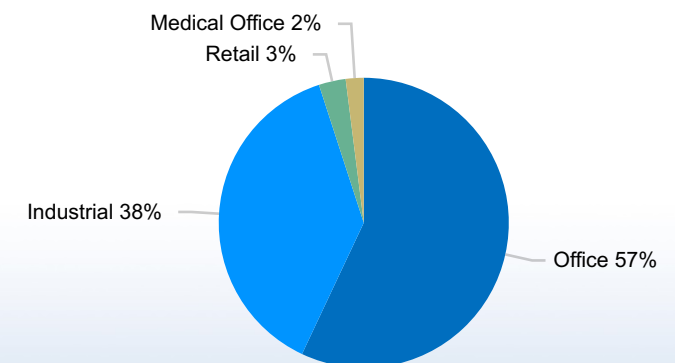


Note: As of 12/31/2019





Geographic diversification
(by annualized lease revenue)



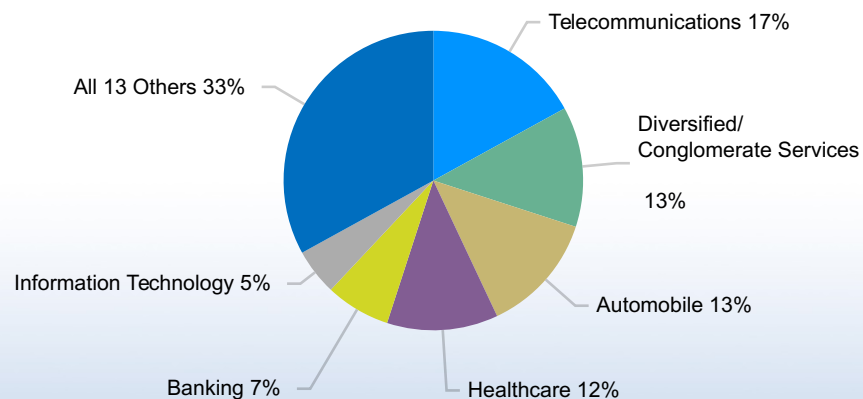
Property type diversification
(by annualized lease revenue)



High quality, diversified portfolio

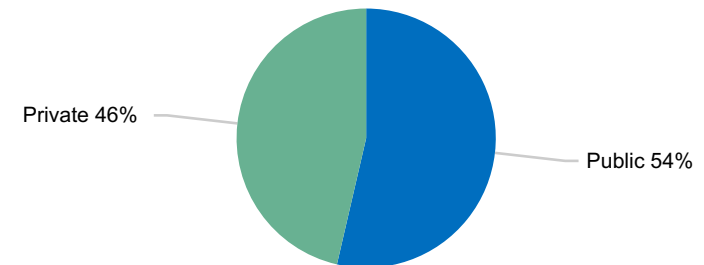
Top 5 tenants	% of lease revenue	% of SF
	4%	2%
	3%	1%
	3%	7%
Morgan Stanley	3%	1%
TOWERS WATSON 	3%	1%
All other tenants	84%	88%

Industry diversification (based on annualized lease revenue)

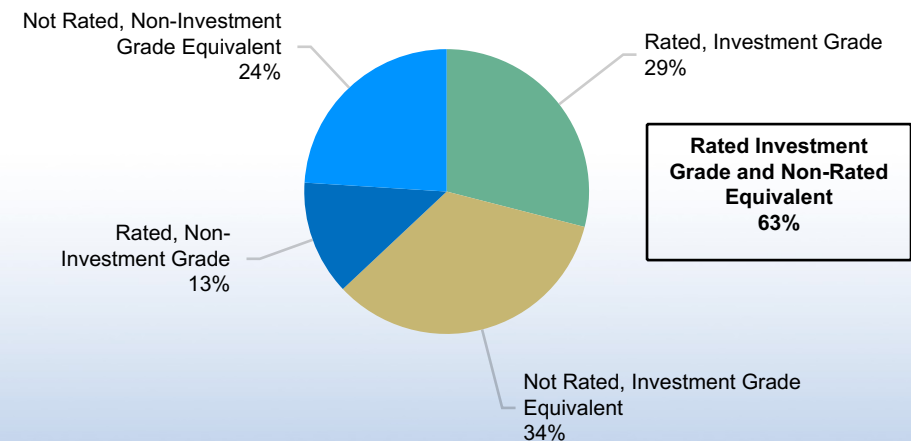


Note: As of 12/31/2019

Publicly-traded vs. privately-held tenants (as % of annualized total lease revenue)



Tenant credit ratings (as % of annualized total lease revenue)

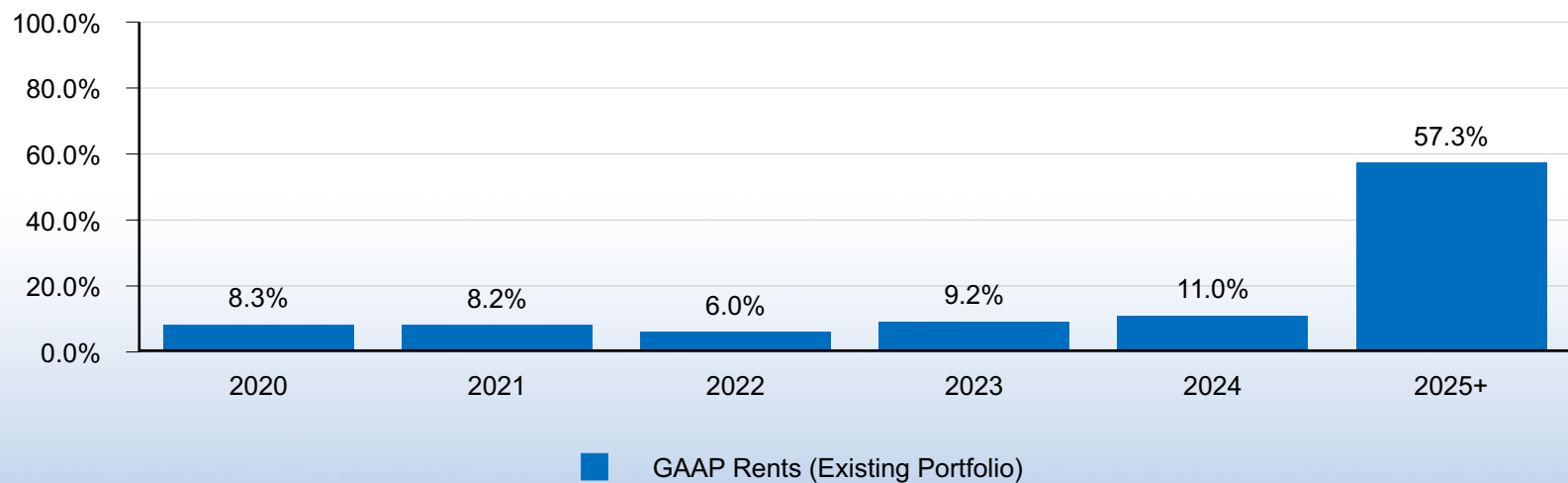


Smooth lease rollover

Existing portfolio - contractual expirations

Year of Lease Expiration	SF of Leases Expiring	Number of Expiring Leases	Lease Revenue (in thousands)	% of Lease Revenue
2020	806,866	8	\$ 9,163	8.3%
2021	560,223	12	9,053	8.2%
2022	446,457	8	6,646	6.0%
2023	1,460,802	14	10,187	9.2%
2024	1,740,195	11	12,137	11.0%
2025+	8,793,608	69	63,544	57.3%
Total	13,808,151	122	\$ 110,730	100.0%

Rent expiring



Note: As of 12/31/2019



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