



GLADSTONE COMMERCIAL

Investor Presentation February 2020



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Gladstone Commercial Corporation



Company Overview

- Gladstone Commercial Corporation (“Gladstone” or the “Company”) is a publicly owned Real Estate Investment Trust (“REIT”) that completed its IPO in 2003 and is listed on Nasdaq (Ticker: GOOD)
- The Company invests in single tenant and anchored multi-tenant net leased assets
- The Company owns approximately 14.2 million square feet of predominantly office and industrial real estate nationwide
- Diversified portfolio of 118 properties in 28 states leased to 103 different tenants in 19 industries
- The Company is led by a highly-experienced leadership team with over 150 years of combined experience
- Through its credit-focused investment process and growth market emphasis, the Company seeks to invest in mission critical facilities occupied by middle market to investment grade businesses located in growing markets

Note: As of 12/31/2019

Overview

Gladstone
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strategy

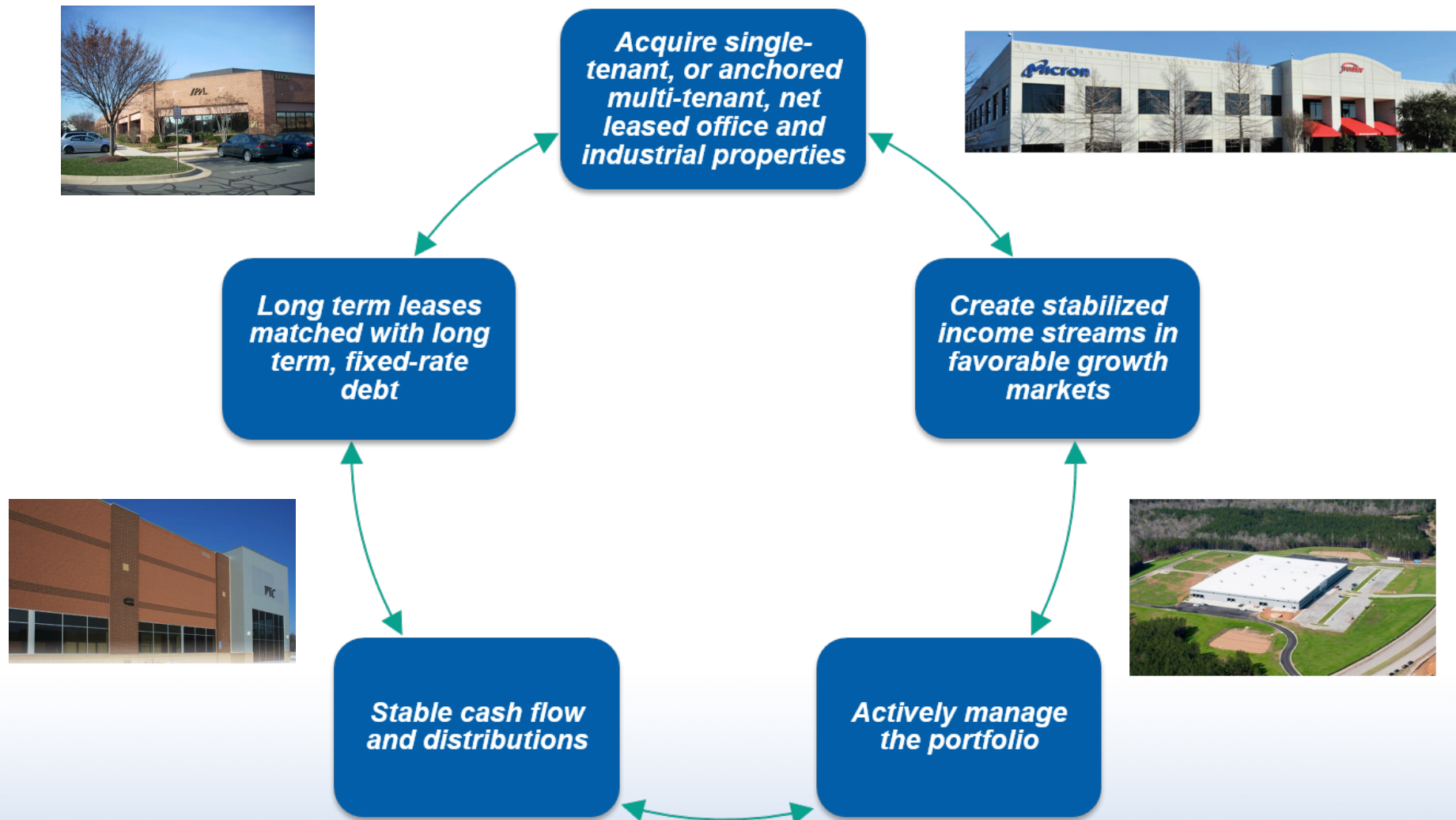
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Gladstone Commercial's Investment Philosophy



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Gladstone Commercial Overview

- IPO in 2003 (Nasdaq: GOOD)
- Market Capitalization: **\$727mm**⁽¹⁾
- Enterprise Value: **\$1,504mm**⁽¹⁾
- Common stock annual distribution per share: **\$1.50**
 - Monthly distributions
 - No missed or reduced cash distributions since inception

Portfolio summary (12/31/2019)

# of Properties	118
Square feet (mm)	14.2
Occupancy	97.0%
States	28
Tenants	103
Industries	19
Annual lease revenue (LTM) (\$mm)	\$114.4
Diluted FFO per Common Share (LTM) (\$)	\$1.47
Diluted FFO per Common Share, as adjusted for comparability (LTM) (\$)	\$1.55
Diluted Core FFO per Common Share (LTM) (\$)	\$1.58
Average Remaining Lease Term	7.3 years



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

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Significant Growth & Diversification Since 2010

GOOD Portfolio

		12/31/10	12/31/2019	Variance
Grew a diverse portfolio	Total assets (\$mm)	\$ 410.6	\$ 1,039.5	\$ 628.9
	Properties	65	118	53
	Tenants	52	103	51
	Square feet (mm)	6.8	14.2	7.4
	Occupancy (%)	97.2%	97.0%	(0.2)%
	Lease Revenue From Top 5 tenants (\$mm)	\$ 10.0	\$ 18.4	\$ 8.4
	% of Total Lease Revenue	24.2%	16.0%	(8.2)%
Revenue and cash flow growth	Revenues (LTM) (\$mm)	\$ 41.9	\$ 114.4	\$ 72.5
	Diluted FFO (LTM) (\$mm)	\$ 14.1	\$ 46.9	\$ 32.8
	Diluted FFO, as adjusted for comparability (LTM) (\$mm)	\$ 14.1	\$ 49.6	\$ 35.5
	Diluted Core FFO (LTM) (\$mm)	\$ 14.5	\$ 50.7	\$ 36.2
Improved capital structure	Net Total Debt / Enterprise Value	58.9%	41.2%	(17.7)%
	Net Total Debt + Preferred / Enterprise Value	70.0%	51.7%	(18.3)%
	Net Total Debt / Gross Assets ⁽¹⁾	62.7%	46.1%	(16.6)%

⁽¹⁾Gross Assets equal total assets before depreciation

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Investment strategy

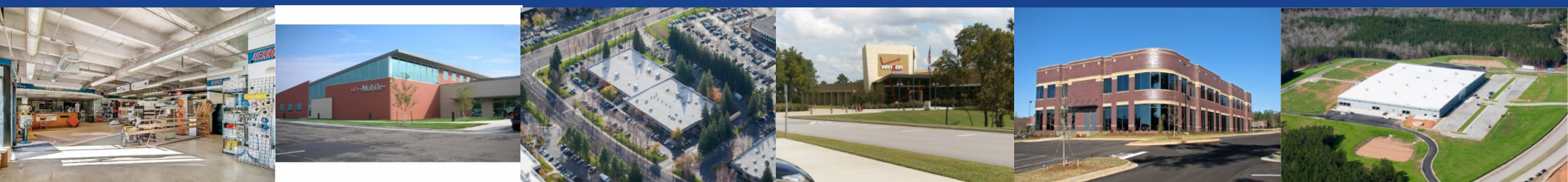
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Investment Strategy



Proven Strategy of Underwriting Real Estate and Tenant Strength

Tenant strength

- Tenants operate in a diverse array of industries
- Each tenant's credit underwritten to Gladstone standards, developed over decades of middle market corporate lending, investing and buyouts through affiliated funds
- Emphasis on tenant's ability to weather economic downturns

Real estate markets positioned for growth

- Target growth markets across the U.S.
- Accumulate assets in specific markets to create valuable portfolios
- Target submarket emphasis in the "path of growth"

Real estate asset quality

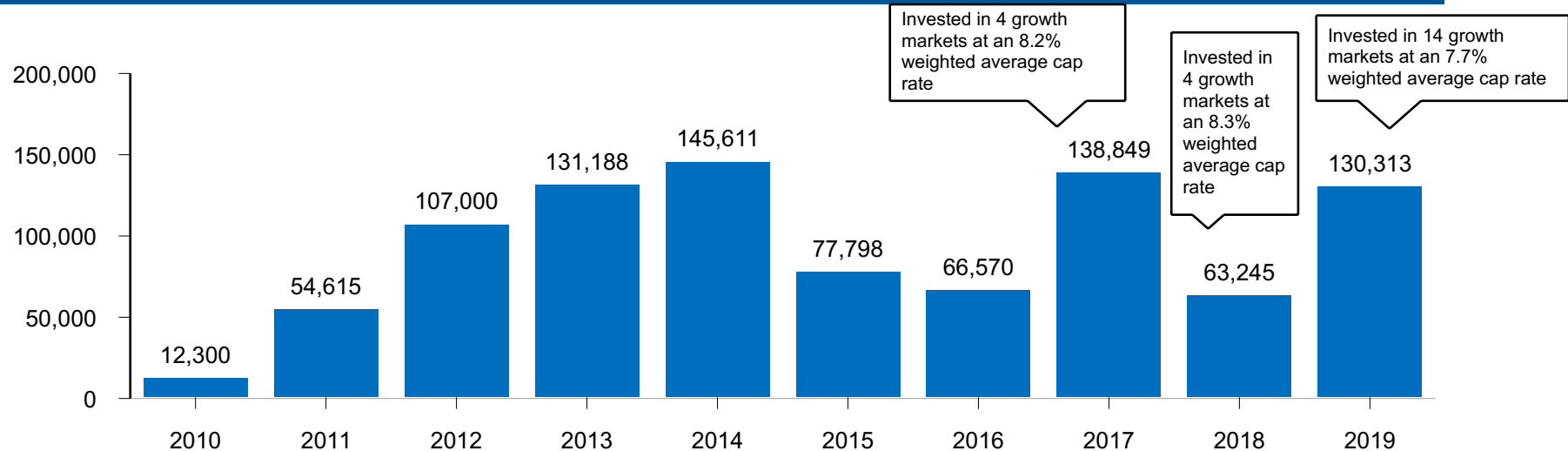
- Superior quality assets with flexible configurations
- Properties that are critical to tenant's business
- Single tenant and anchored multi-tenant industrial and office locations
- Target net leases with **7+** years remaining at acquisition

Transaction focus

- Target transactions of **\$3mm – \$50mm**
- Type: 3rd party acquisition, sale-leaseback, build-to-suit JV and build-to-suit forward purchase

Gladstone Has Achieved Consistent and Disciplined Growth

Historical Investment Volume (\$000)



Donaldson - Industrial



- 219K SF
- Detroit, MI
- Acquired 10/18
- GAAP cap rate: 8.0%

Orgill - Industrial Distribution



- 676K SF
- Tifton, GA
- Acquired 6/19
- GAAP cap rate: 8.8%

Morgan Stanley - Office



- 102K SF
- Salt Lake City, UT
- Acquired 12/17
- GAAP cap rate: 9.3%

Signature Brands - Industrial Portfolio



- 383K SF
- Ocala, FL
- Acquired 4/19
- GAAP cap rate: 7.7%

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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

- Current occupancy 97.0%; Since IPO in 2003, never below 96%
- 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 – **an average annual default rate of 0.02%**.
 - For comparison, the one-year B+ global corporate default rate has averaged 2.4% from 1981-2012 (Source: Wharton)



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

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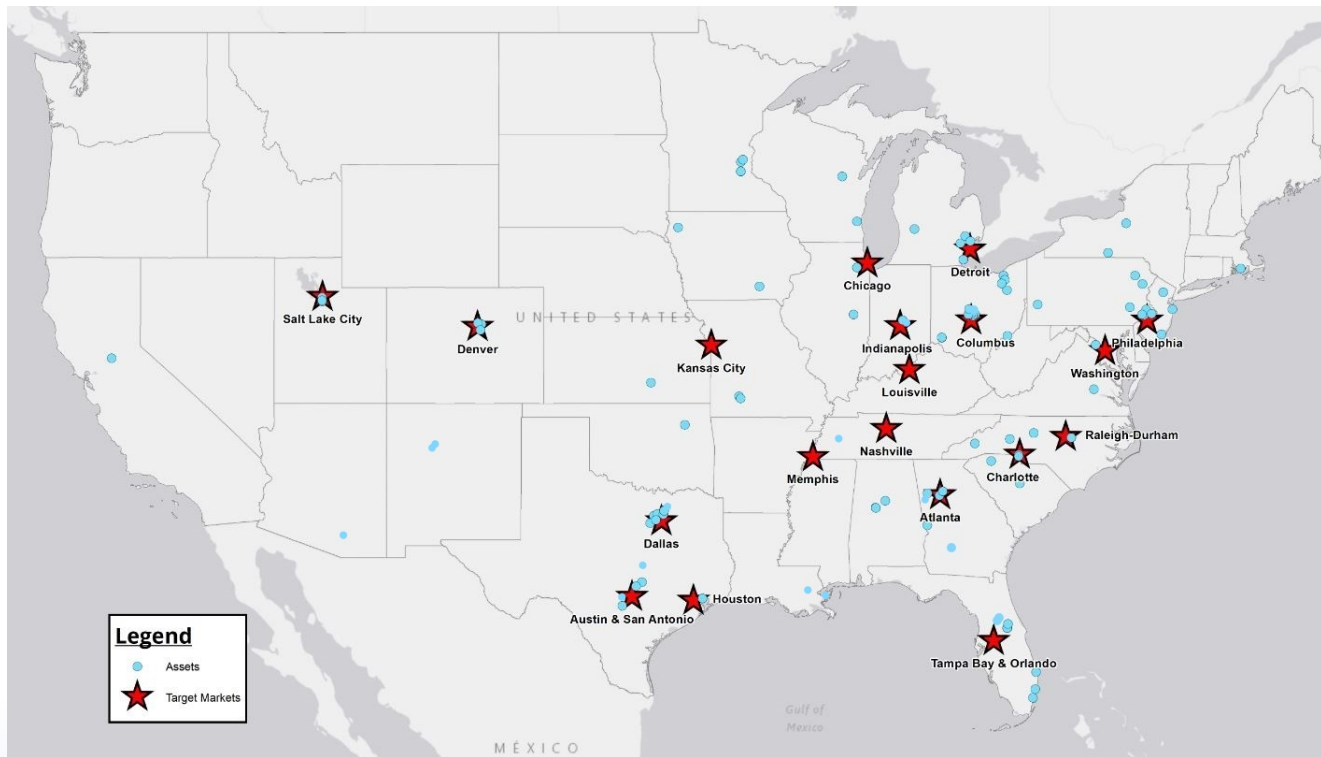
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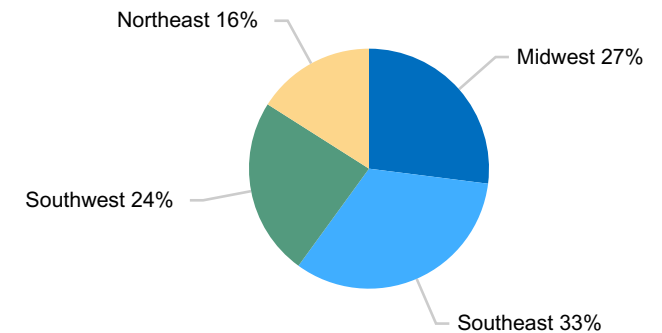


Diversified Portfolio

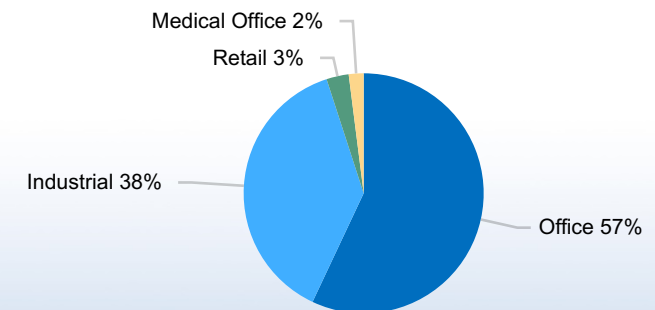
118 properties spread across 28 states



**Geographic diversification
(by annualized lease revenue)**



**Property type diversification
(by annualized lease revenue)**



Note: As of 12/31/2019

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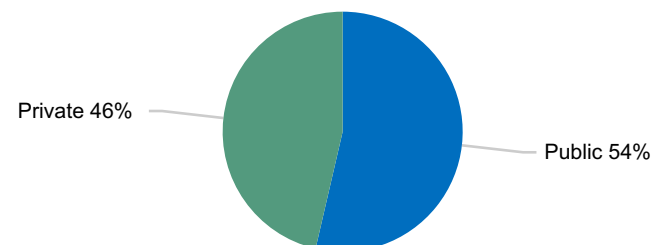
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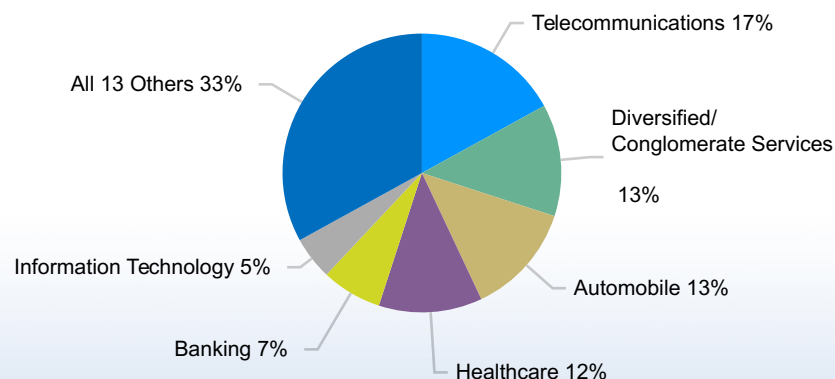
High Quality, Diversified Portfolio

Top 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%

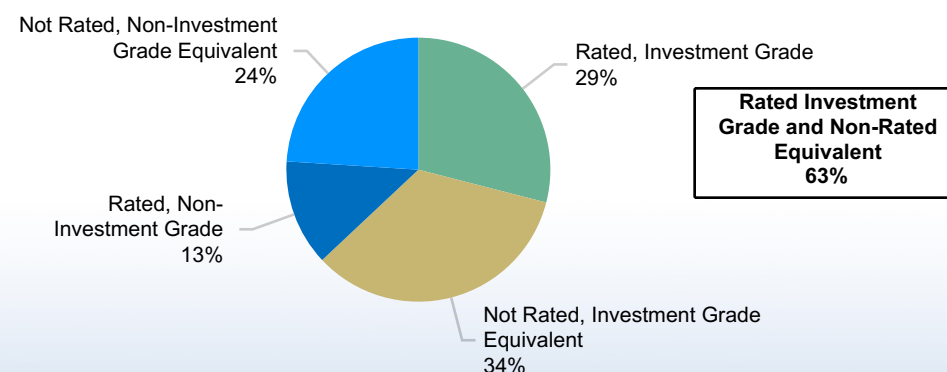
Publicly-traded vs. privately-held tenants (as % of annualized total lease revenue)



Industry diversification (based on annualized lease revenue)



Tenant credit ratings (as % annualized total lease revenue)



Note: As of 12/31/2019

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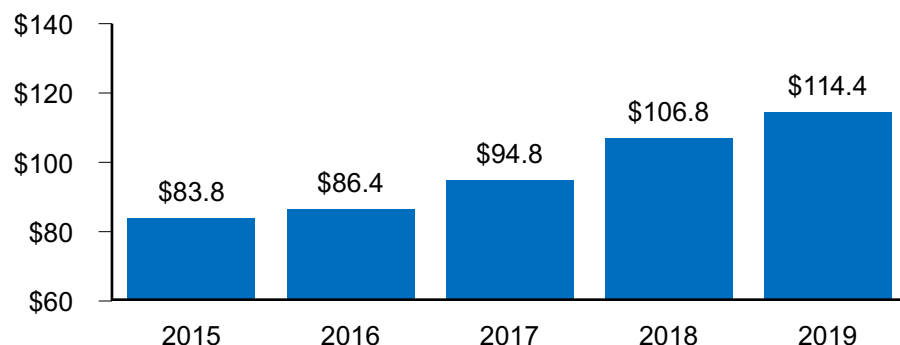


Financial Performance

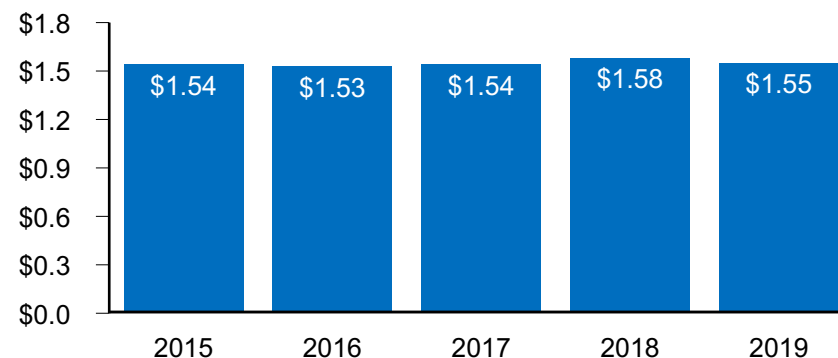


Summary Historical Performance

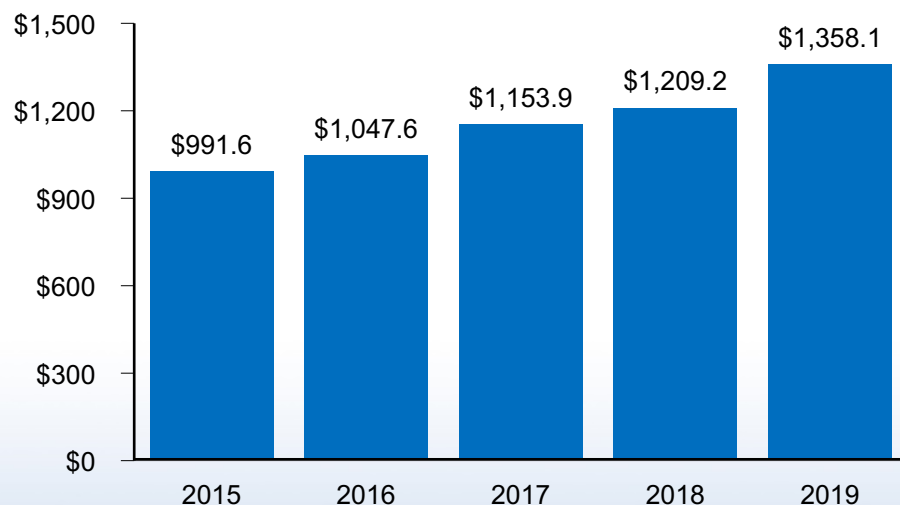
Total Revenue (\$ in millions)



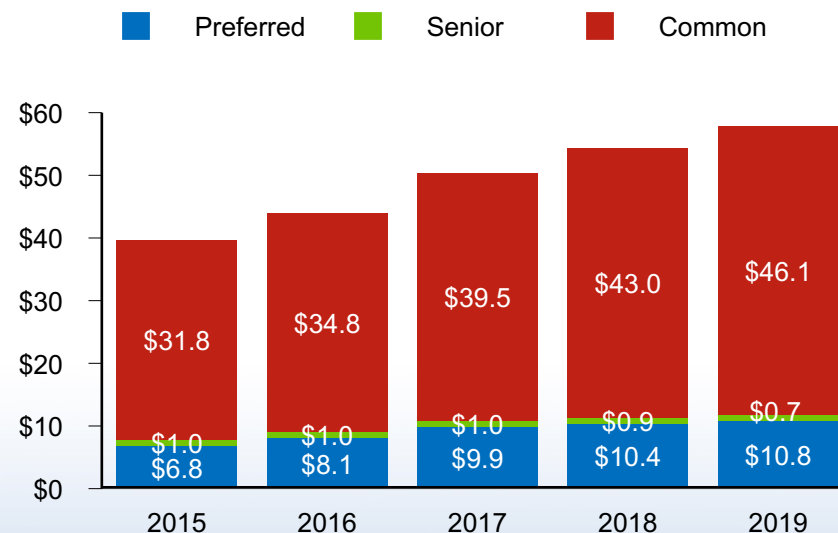
Funds from Operations, as adjusted for comparability (Per Share)⁽¹⁾



Total Gross Assets (\$ in millions)



Total Distributions (\$ in millions)



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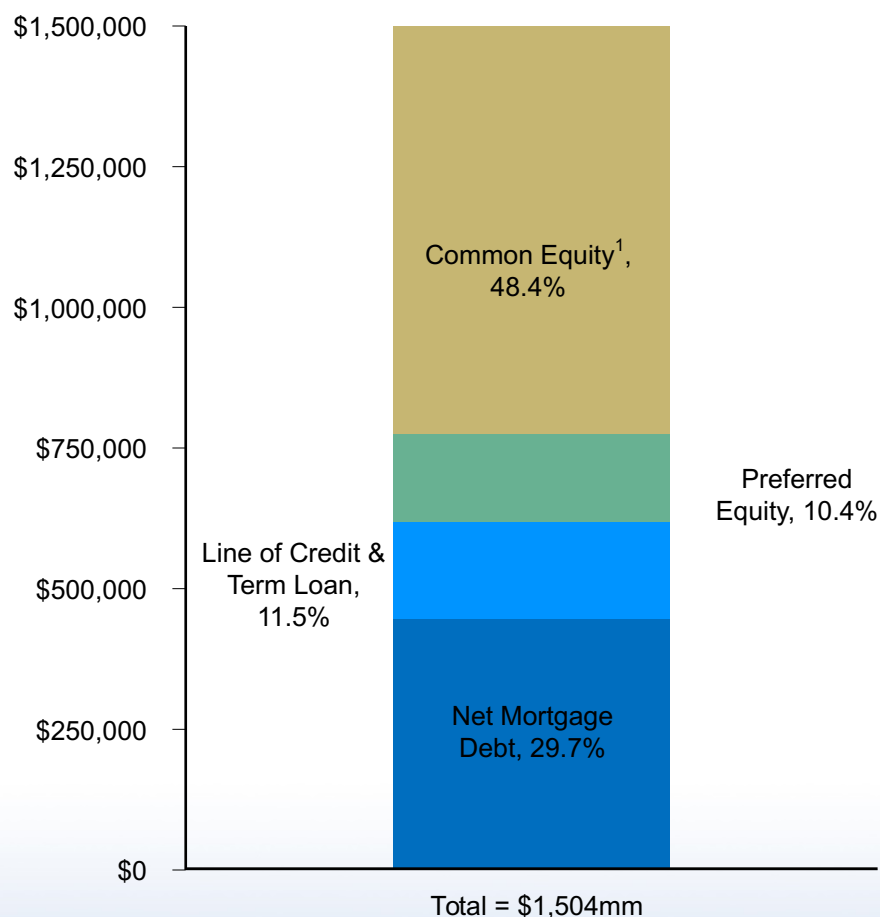
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Capital Structure Overview

Current Capital Structure as of 12/31/2019 (\$000s)

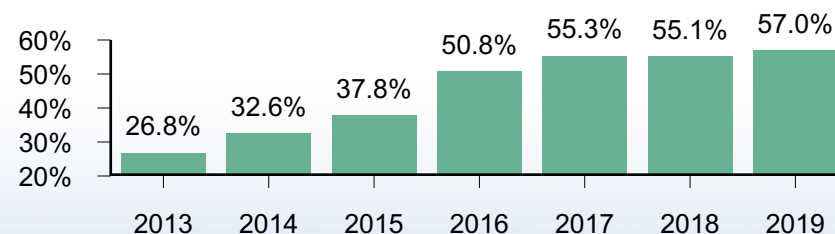


Capital Structure Details

(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

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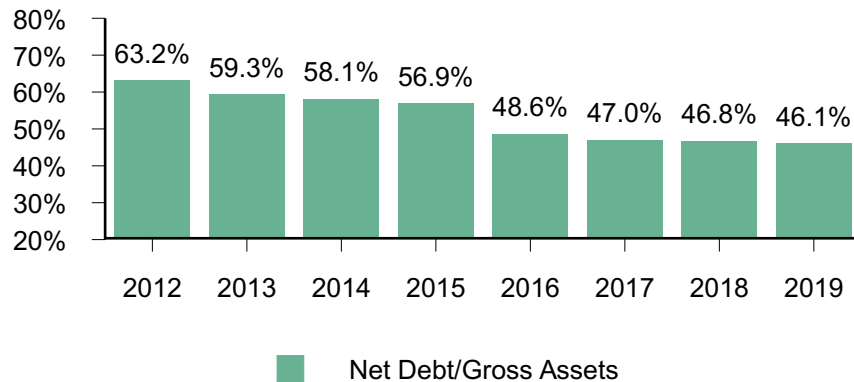
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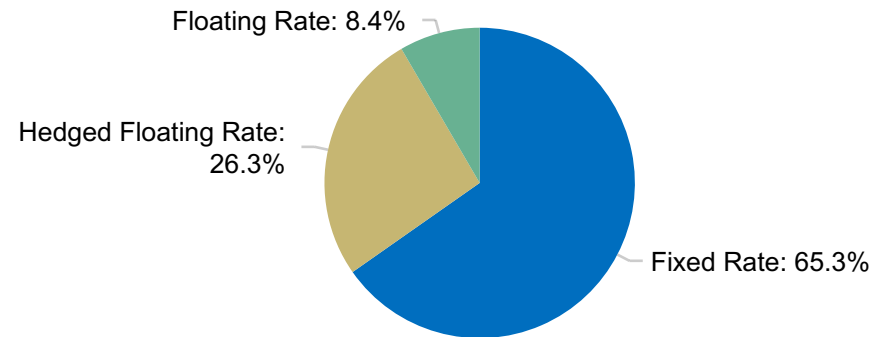
GLADSTONE

Liquidity and Debt Overview

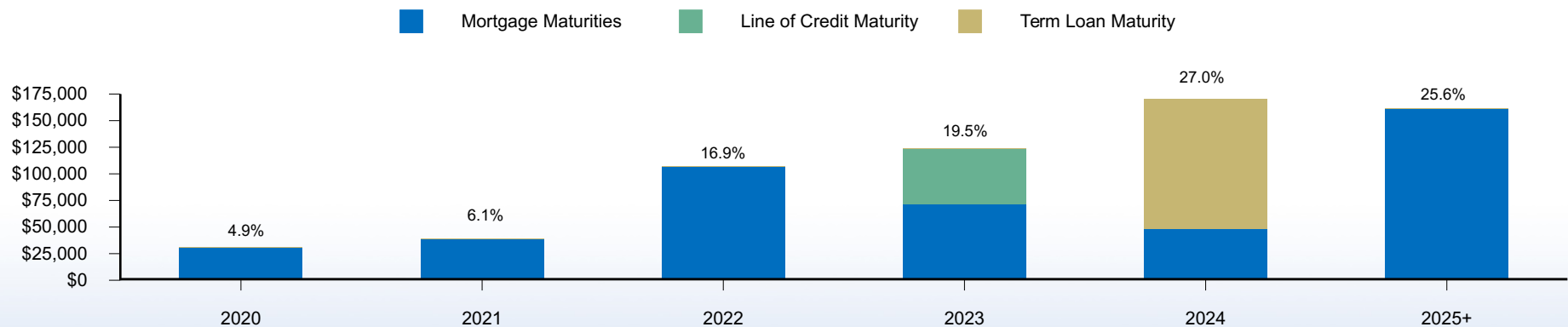
Reducing Leverage⁽¹⁾



Fixed vs. Floating Debt⁽¹⁾



Debt maturity schedule⁽¹⁾ (\$000s)



⁽¹⁾As of 12/31/2019

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Management



Experienced Leadership Team



**David Gladstone,
Chairman and CEO**

25+ years of experience

- Current Chairman and CEO of all four Gladstone funds, public companies #7, #8, #9 and #10 in his career
- Former Chairman of Allied Capital Commercial (REIT), Allied Capital and American Capital
- Former board member of Capital Automotive REIT
- MBA from Harvard Business School, MA from American University, BA from University of Virginia



**Bob Cutlip,
President**

25+ years of experience

- Current President of the Company
- Former EVP of First Industrial Realty Trust where he directed the acquisition and development business activities in 26 markets in North America
- Former Regional EVP of Duke-Weeks Realty, responsible for operations of the Mid-Atlantic region
- Former Senior Vice President of Highwoods Properties, responsible the Mid-Atlantic markets
- Former National Chairman of National Association of Industrial and Office Properties
- MBA from University of Southern California, MS from Vanderbilt University, BSCE from U.S.A.F. Academy



**Mike Sodo,
Chief Financial Officer**

20 years of experience

- Current CFO of the Company
- Former EVP, CFO and Treasurer of VEREIT
- Former SVP, Treasurer and Director of Financial Reporting for Capital Automotive REIT
- CPA in the Commonwealth of Virginia
- BBA from the College of William & Mary



**Jay Beckhorn,
Treasurer**

25+ years of experience

- Current Treasurer of the Company and Gladstone Land, Assistant Treasurer of Gladstone Capital and Gladstone Investment
- Former Regional Managing Director of Heavenrich & Co.
- Former Senior Vice President of Sunrise Senior Living
- Former Managing Director of Riggs Bank
- MBA from Duke University, BA from Colgate University

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Experienced Leadership Team (cont'd)



Buzz Cooper, Senior Managing Director, South and Southwest Regions

25+ years of experience

- Manages regional acquisition and asset management activities; over 14 years with Gladstone
- Former Principal of Allied Commercial Corporation REIT, where his responsibilities ranged from buying loans from RTC and banks to making real estate backed loans
- BA from Washington and Lee University



Matt Tucker, Senior Managing Director, Northeast and Midwest Regions

20 years of experience

- Manages regional acquisition and asset management activities; over 10 years with Gladstone
- Formerly held investment and advisory positions with Liquid Realty Partners, SG Capital Partners and Chase Securities Inc.
- MBA from University of Michigan Business School, AB from Princeton University



Brandon Flickinger, Managing Director, Southeast and Mountain West Regions

15 years of experience

- Manages regional acquisition and asset management activities and internal operations of the firm
- Former Vice President in Jones Lange LaSalle's Real Estate Investment Banking Group
- MBA from Fordham University, BBA from James Madison University

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Summary Highlights

- ***Diversified asset base with a 15% annual compound growth rate since 2012***
- ***Proven credit and real estate investment strategy has maintained high occupancy (>96%) since 2003***
- ***Focused on growth with improved capital structure, manageable loan maturities, and increased emphasis on expanding industrial allocation***
- ***Strengthened credit profile with enterprise leverage down to 41.2%***
- ***Substantially improved capital structure including cost of capital, maturity, and liquidity benefits of 2019 Credit Facility and Series E perpetual preferred executions***

Note: As of 12/31/2019



Appendix

- 1. Condensed Consolidated Statements of Operations**
- 2. Funds From Operations (FFO)**
- 3. Condensed Balance Sheets**
- 4. Debt Summary**
- 5. External Management Structure Qualities**

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



Condensed Balance Sheets

(\$ in thousands)

ASSETS

	12/31/2019	12/31/2018
Real estate, at cost	\$ 1,056,978	\$ 946,649
Less: accumulated depreciation	<u>207,523</u>	<u>178,257</u>
Total real estate, net	849,455	768,392
Lease intangibles, net	115,465	111,448
Real estate and related assets held for sale, net	3,990	4,151
Cash and cash equivalents	6,849	6,591
Restricted cash	4,639	2,491
Funds held in escrow	7,226	6,010
Right-of-use assets from operating leases	5,794	—
Deferred rent receivable, net	37,177	34,771
Other assets	<u>8,913</u>	<u>4,921</u>
TOTAL ASSETS	<u>\$ 1,039,508</u>	<u>\$ 938,775</u>

LIABILITIES AND STOCKHOLDERS' EQUITY

LIABILITIES

Mortgage notes payable, net	\$ 453,739	\$ 441,346
Borrowings under revolver and term loan, net	172,855	124,713
Deferred rent liability, asset retirement obligation and other liabilities, net	<u>49,724</u>	<u>32,699</u>
TOTAL LIABILITIES	<u>\$ 676,318</u>	<u>\$ 598,758</u>

MEZZANINE EQUITY

Series D and E redeemable preferred stock, net	\$ 152,153	\$ 85,598
TOTAL MEZZANINE EQUITY	<u>\$ 152,153</u>	<u>\$ 85,598</u>

STOCKHOLDERS' EQUITY

Series A and B redeemable preferred stock	\$ —	\$ 2
Senior common stock	1	1
Common stock	32	29
Additional paid in capital	571,205	559,977
Accumulated other comprehensive income	(2,126)	(148)
Distributions in excess of accumulated earnings	<u>(360,978)</u>	<u>(310,117)</u>
TOTAL STOCKHOLDERS' EQUITY	<u>\$ 208,134</u>	<u>\$ 249,744</u>
OP Units held by Non-controlling OP Unitholders	<u>2,903</u>	<u>4,675</u>
TOTAL EQUITY	<u>\$ 211,037</u>	<u>\$ 254,419</u>

TOTAL LIABILITIES, MEZZANINE EQUITY AND EQUITY

	<u>\$ 1,039,508</u>	<u>\$ 938,775</u>
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Debt Summary

Principal Maturity Date	Weighted Average Interest Rate as of	(\$ in thousands)	
		Principal Balance Outstanding as of	
	12/31/2019	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

External Management Structure Qualities

- **President, CFO, Acquisitions, Asset Management and Accounting staff exclusively dedicated to Gladstone Commercial**
 - **Benefit: Aligned with shareholder interests**
- **The 2015 revision to the fee structure places overhead costs at the 60th percentile of self-managed REITs**
 - **Benefit: G&A costs comparable with the public REIT industry**
- **The external structure provides access to internal credit underwriters across numerous industries**
 - **Benefit: Can quickly assess tenant's creditworthiness and ability to weather economic downturns**
- **Legal, Compliance, Human Resources, and IT shared among four funds**
 - **Benefit: Reduced costs to shareholders**

The results of organizational structure benefits:

- **Occupancy never below 96% since IPO in 2003**
- **Distributions never lowered nor missed since 2003**
- **Cost structure aligned with self-managed REITs with the added benefit of access to proven credit underwriting capability and evidenced by consistent high occupancy**



GLADSTONE