



# **GLADSTONE COMMERCIAL**

*Supplemental Financial & Operating Information  
for the Quarter Ended March 31, 2020*



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## Portfolio Overview

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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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McLean, VA 22102  
703-287-5800  
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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 March 31, 2020, we owned approximately 15.1 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 March 31, 2020, total assets were approximately \$1,098.8 million, representing investments in 122 properties. Our properties are leased to 106 tenants who represent 19 diversified industries across 28 states.

At March 31, 2020, our leases had an average remaining term of 7.5 years. In addition, approximately 57% of our tenants have an investment grade or investment grade equivalent credit rating.





# Portfolio and financial overview

## Portfolio data<sup>1</sup>

|                                      |            |
|--------------------------------------|------------|
| Total assets (\$mm)                  | \$ 1,098.8 |
| Properties                           | 122        |
| Tenants                              | 106        |
| Industries                           | 19         |
| States                               | 28         |
| Average remaining lease term (years) | 7.5        |
| Occupancy                            | 96.6%      |
| Square footage owned (mm)            | 15.1       |

## Capitalization (\$mm)<sup>1</sup>

|  |                 |
|--|-----------------|
| Common equity market capitalization <sup>2</sup> | \$ 497          |
| Preferred equity                                 | 157             |
| Net total debt                                   | 666             |
| <b>Total capitalization</b>                      | <b>\$ 1,320</b> |
| Less: Cash and cash equivalents                  | (10)            |
| <b>Total enterprise value</b>                    | <b>\$ 1,310</b> |
| Net total debt / enterprise value                | 50.1%           |
| Net total debt + preferred / enterprise value    | 62.1%           |
| Net total debt / gross assets                    | 46.5%           |

| Top 5 tenants <sup>1</sup>  | % of annualized straight line rent | % of SF          |
|---|------------------------------------|------------------|
|                | 4%                                 | 2%               |
|                | 3%                                 | 6%               |
|                | 3%                                 | 1%               |
| Morgan Stanley  | 3%                                 | 1%               |
| TOWERS WATSON  | 2%                                 | 1%               |
| <b>Top 5 Tenants total</b>  | <b>15%</b>                         | <b>11%</b>       |
| <b>Top 5 Tenants average remaining lease term</b>   |                                    | <b>5 years</b>   |
| <b>Portfolio average remaining lease term</b>   |                                    | <b>7.5 years</b> |

## Corporate liquidity (\$mm)<sup>1</sup>

|   |                |
|---|----------------|
| Cash and Cash Equivalents                                 | \$ 9.9         |
| Availability Under Revolving Credit Facility <sup>3</sup> | 17.2           |
| <b>Total</b>  | <b>\$ 27.1</b> |

<sup>1</sup> As of 3/31/2020.

<sup>2</sup> Based on closing common stock price per share on March 31, 2020 of \$14.36. Includes OP units and senior common shares convertible into shares of common stock.

<sup>3</sup> As of April 28, 2020, approximately \$29.5 million is available under the Company's revolving credit facility.

# Q1 2020 highlights (unaudited)

## **FFO<sup>1</sup> and Core FFO<sup>2</sup>:**

Generated FFO and core FFO of \$13.7 million and \$13.8 million, respectively, or \$0.39 and \$0.40 per diluted share, respectively.

## **Acquisition Activity<sup>3</sup>:**

Purchased a 64,800 square foot property in Indianapolis, Indiana for \$5.2 million with a 7.2 year remaining lease term. Purchased a 320,838 square foot, three property portfolio in Houston, Texas; Charlotte, North Carolina; and St. Charles, Missouri for \$34.6 million, all with a 20.0 year remaining lease term. Purchased a 504,400 square foot property in Chatsworth, Georgia for \$31.9 million with a 10.5 year remaining lease term.

## **Dividends:**

Paid monthly common stock dividends totaling \$0.37545 per common share, or an annualized \$1.5018 per common share, as well as continued payments of monthly senior common dividends, Series D preferred dividends and Series E preferred dividends.

## **Equity Issuances:**

Issued common equity for net proceeds of \$27.9 million through our ATM program.

## **Debt Activity:**

Issued three mortgage notes totaling \$18.3 million collateralized by our three property acquisition during January 2020 with a ten year remaining term and a 3.63% fixed rate. Issued a \$17.5 million mortgage note collateralized by our Chatsworth, Georgia property acquired during March 2020 with a ten year remaining term, swapped to a 2.8% fixed rate.

## **Select Expenditure Activity:**

Paid \$1.7 million related to capital expenditures and \$0.7 million related to leasing commissions.

<sup>1</sup> 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.

<sup>2</sup>Core FFO is FFO adjusted for gains from early extinguishment of debt and any other non-routine revenue or expense adjustments.

<sup>3</sup>Purchase prices do not include acquisition costs capitalized for GAAP purposes under ASU 2017-01, "Clarifying the Definition of a Business".



# *Financial Overview*



# Condensed consolidated statements of operations

(\$ in thousands, except per share amounts)

|   | For the three months ended (unaudited) |            |            |
|---|--|------------|------------|
|   | 3/31/2020                              | 12/31/2019 | 3/31/2019  |
| Operating revenues  |  |            |            |
| Lease revenue   | \$ 33,619                              | \$ 29,386  | \$ 28,137  |
| Total operating revenues  | \$ 33,619                              | \$ 29,386  | \$ 28,137  |
| Operating expenses  |  |            |            |
| Depreciation and amortization   | \$ 14,096                              | \$ 13,428  | \$ 13,010  |
| Property operating expenses   | 6,213                                  | 3,262      | 3,068      |
| Base management fee   | 1,412                                  | 1,322      | 1,267      |
| Incentive fee   | 1,055                                  | 968        | 851        |
| Administration fee  | 438                                    | 469        | 413        |
| General and administrative  | 878                                    | 1,200      | 657        |
| Impairment charge   | —                                      | 1,813      | —          |
| Total operating expenses  | \$ 24,092                              | \$ 22,462  | \$ 19,266  |
| Other (expense) income  |  |            |            |
| Interest expense  | \$ (7,252)                             | \$ (6,873) | \$ (7,231) |
| (Loss) gain on sale of real estate                                      | (12)                                   | —          | 2,952      |
| Other (loss) income   | (5)                                    | 421        | 81         |
| Total other expense, net  | \$ (7,269)                             | \$ (6,452) | \$ (4,198) |
| Net income  | \$ 2,258                               | \$ 472     | \$ 4,673   |
| Net loss (income) attributable (available) to non-controlling interests | 9                                      | 100        | (45)       |
| Net income attributable to the company                                  | \$ 2,267                               | \$ 572     | \$ 4,628   |
| Distributions attributable to Series A, B, D, and E preferred stock     | (2,678)                                | (2,986)    | (2,612)    |
| Series A and B preferred stock offering costs write off                 | —                                      | (2,674)    | —          |
| Distributions attributable to senior common stock                       | (208)                                  | (217)      | (224)      |
| Net (loss) income (attributable) available to common stockholders       | \$ (619)                               | \$ (5,305) | \$ 1,792   |
| Weighted average common shares outstanding and Non-controlling OP Units |  |            |            |
| Basic and diluted   | 34,136,179                             | 32,332,144 | 30,259,807 |

# Funds from Operations (FFO)

(\$ in thousands, except per share amounts)

|  | For the three months ended (unaudited) |            |            |
|--|--|------------|------------|
|  | 3/31/2020                              | 12/31/2019 | 3/31/2019  |
| Net income   | \$ 2,258                               | \$ 472     | \$ 4,673   |
| Less: Distributions attributable to preferred and senior common stock  | (2,886)                                | (5,877)    | (2,836)    |
| Net (loss) income (attributable) available to common stockholders and Non-controlling OP Unitholders                             | \$ (628)                               | \$ (5,405) | \$ 1,837   |
| Adjustments:   |  |            |            |
| Add: Real estate depreciation and amortization   | \$ 14,096                              | \$ 13,428  | \$ 13,010  |
| Add: Impairment charge   | —                                      | 1,813      | —          |
| Add: Loss on sale of real estate, net  | 12                                     | —          | —          |
| Less: Gain on sale of real estate, net   | —                                      | —          | (2,952)    |
| FFO available to common stockholders and Non-controlling OP Unitholders - basic  | \$ 13,480                              | \$ 9,836   | \$ 11,895  |
| Add: Convertible senior common distributions   | 208                                    | 217        | 224        |
| FFO available to common stockholders and Non-controlling OP Unitholders - diluted  | \$ 13,688                              | \$ 10,053  | \$ 12,119  |
| Add: Series A and B preferred stock offering costs write off   | —                                      | 2,674      | —          |
| FFO available to common stockholders and Non-controlling OP Unitholders - diluted, as adjusted for comparability <sup>1</sup>    | \$ 13,688                              | \$ 12,727  | \$ 12,119  |
| FFO available to common stockholders and Non-controlling OP Unitholders - basic  | \$ 13,480                              | \$ 9,836   | \$ 11,895  |
| Add: Acquisition related expenses  | 7                                      | 204        | 63         |
| Add: Write off of deferred financing fees  | —                                      | —          | 283        |
| Add: PACE financing amortization, net  | 31                                     | —          | —          |
| Add: Write off shelf registration statement costs  | —                                      | 82         | 18         |
| Add: Asset retirement obligation expense   | 41                                     | 42         | 31         |
| Add: Bad debt write off  | —                                      | 152        | —          |
| Add: Write off prepaid offering costs  | —                                      | 2,674      | —          |
| Core FFO available to common stockholders and Non-controlling OP Unitholders - basic   | \$ 13,559                              | \$ 12,990  | \$ 12,290  |
| Add: Convertible senior common distributions   | 208                                    | 217        | 224        |
| Core FFO available to common stockholders and Non-controlling OP Unitholders - diluted   | \$ 13,767                              | \$ 13,207  | \$ 12,514  |
| Weighted average common shares outstanding and Non-controlling OP Units - basic  | 34,136,179                             | 32,332,144 | 30,259,807 |
| Weighted average common shares outstanding and Non-controlling OP Units - diluted  | 34,791,121                             | 33,006,755 | 30,981,679 |
| FFO per weighted average share of common stock and Non-controlling OP Unit - basic   | \$ 0.39                                | \$ 0.30    | \$ 0.39    |
| FFO per weighted average share of common stock and Non-controlling OP Unit - diluted   | \$ 0.39                                | \$ 0.30    | \$ 0.39    |
| FFO per weighted average share of common stock and Non-controlling OP Unit - diluted, as adjusted for comparability <sup>1</sup> | \$ 0.39                                | \$ 0.39    | \$ 0.39    |
| Core FFO per weighted average share of common stock and Non-controlling OP Unit - basic  | \$ 0.40                                | \$ 0.40    | \$ 0.41    |
| Core FFO per weighted average share of common stock and Non-controlling OP Unit - diluted  | \$ 0.40                                | \$ 0.40    | \$ 0.40    |
| Distributions declared per share of common stock and Non-controlling OP Unit   | \$ 0.37545                             | \$ 0.375   | \$ 0.375   |

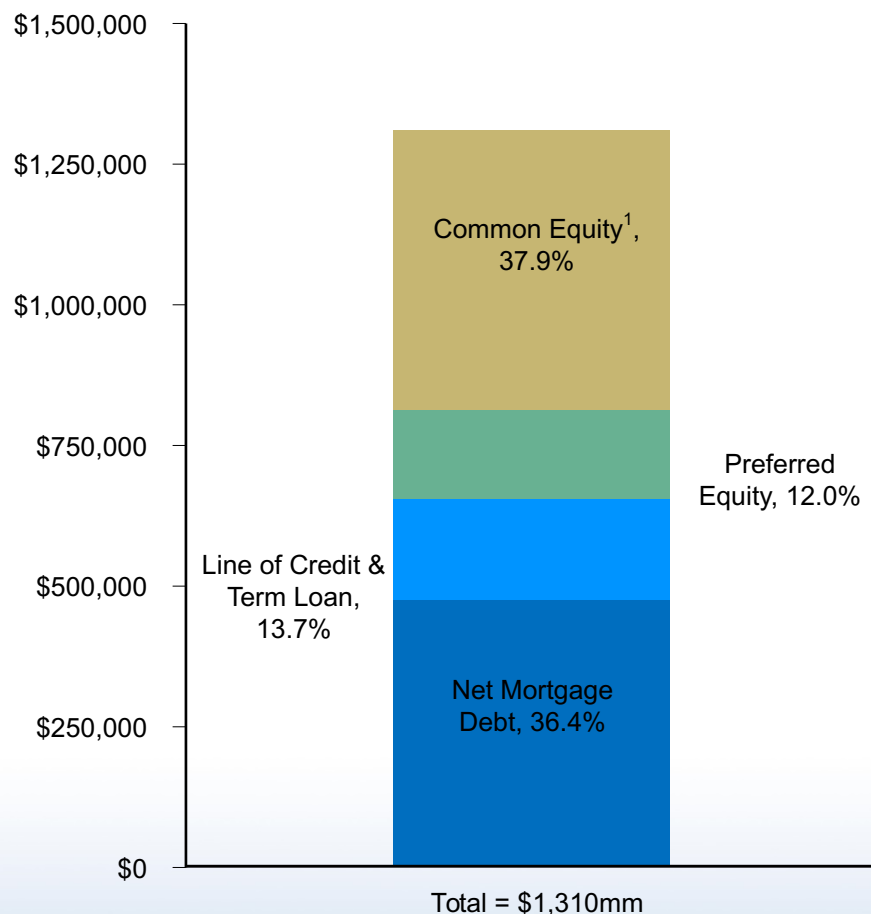
<sup>1</sup> FFO as adjusted for comparability is FFO adjusted for certain items that are not indicative of the results provided by the Company's operating portfolio and affect the comparability of the Company's period-over-period performance. These items include the adjustment for non-recurring expense adjustments related to the write off of offering costs pertaining to redeemed securities.

# Condensed consolidated balance sheets

| (\$ in thousands)   | (unaudited)<br>3/31/2020 | 12/31/2019          |
|---|--------------------------|---------------------|
| <b>ASSETS</b>   |                          |                     |
| Real estate, at cost  | \$ 1,123,644             | \$ 1,056,978        |
| Less: accumulated depreciation  | 216,547                  | 207,523             |
| Total real estate, net  | 907,097                  | 849,455             |
| Lease intangibles, net  | 122,036                  | 115,465             |
| Real estate and related assets held for sale, net                               | —                        | 3,990               |
| Cash and cash equivalents   | 9,853                    | 6,849               |
| Restricted cash   | 4,678                    | 4,639               |
| Funds held in escrow  | 7,971                    | 7,226               |
| Right-of-use assets from operating leases                                       | 5,742                    | 5,794               |
| Deferred rent receivable, net   | 35,599                   | 37,177              |
| Other assets  | 5,849                    | 8,913               |
| <b>TOTAL ASSETS</b>   | <b>\$ 1,098,825</b>      | <b>\$ 1,039,508</b> |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>                                     |                          |                     |
| <b>LIABILITIES</b>  |                          |                     |
| Mortgage notes payable, net   | \$ 486,315               | \$ 453,739          |
| Borrowings under revolver and term loan, net                                    | 179,879                  | 172,855             |
| Deferred rent liability, asset retirement obligation and other liabilities, net | 56,974                   | 49,724              |
| <b>TOTAL LIABILITIES</b>  | <b>\$ 723,168</b>        | <b>\$ 676,318</b>   |
| <b>MEZZANINE EQUITY</b>   |                          |                     |
| Series D and E redeemable preferred stock, net                                  | \$ 152,193               | \$ 152,153          |
| <b>TOTAL MEZZANINE EQUITY</b>   | <b>\$ 152,193</b>        | <b>\$ 152,153</b>   |
| <b>STOCKHOLDERS' EQUITY</b>   |                          |                     |
| Senior common stock   | 1                        | 1                   |
| Common stock  | 34                       | 32                  |
| Additional paid in capital  | 599,232                  | 571,205             |
| Accumulated other comprehensive income  | (4,654)                  | (2,126)             |
| Distributions in excess of accumulated earnings                                 | (374,259)                | (360,978)           |
| <b>TOTAL STOCKHOLDERS' EQUITY</b>   | <b>\$ 220,354</b>        | <b>\$ 208,134</b>   |
| OP Units held by Non-controlling OP Unitholders                                 | 3,110                    | 2,903               |
| <b>TOTAL EQUITY</b>   | <b>\$ 223,464</b>        | <b>\$ 211,037</b>   |
| <b>TOTAL LIABILITIES, MEZZANINE EQUITY AND EQUITY</b>                           | <b>\$ 1,098,825</b>      | <b>\$ 1,039,508</b> |

# Capital structure

## Current capital structure as of 3/31/2020 (\$000)

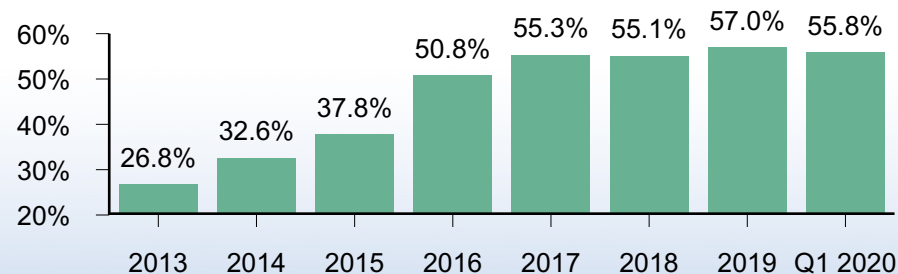


## Capital Structure Details

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

|  | Wtd. Average Rate | 3/31/2020           |
|--|-------------------|---------------------|
| Mortgage Notes Payable, Net                                    | 4.32%             | \$ 486,315          |
| Less: Cash & Cash Equivalents                                  |                   | (9,853)             |
| <b>Net Mortgage Debt</b>                                       |                   | <b>\$ 476,462</b>   |
| Line of Credit   | L+1.65%           | \$ 20,846           |
| Term Note  | L+1.60%           | 159,033             |
| <b>Line of Credit and Term Loan</b>                            |                   | <b>\$ 179,879</b>   |
| <b>Total Debt, Net</b>   |                   | <b>\$ 656,341</b>   |
| Series D - Preferred   | 7.000%            | 87,739              |
| Series E - Preferred   | 6.625%            | 69,000              |
| <b>Total Preferred Equity</b>                                  |                   | <b>\$ 156,739</b>   |
| Diluted Common Shares Outstanding                              |                   | 34,584,962          |
| Stock Price  |                   | \$ 14.36            |
| <b>Implied Common Equity<sup>1</sup> Market Capitalization</b> |                   | <b>\$ 496,640</b>   |
| <b>Enterprise Value</b>  |                   | <b>\$ 1,309,720</b> |

## Institutional Stock Ownership <sup>2</sup>

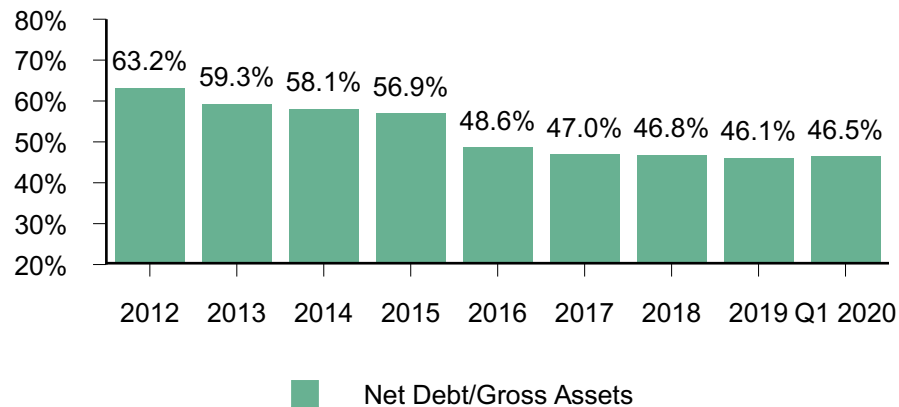


<sup>1</sup> Common Equity is based on the closing common stock price per share as of March 31, 2020 of \$14.36 and includes effect of OP units and convertible senior common stock.

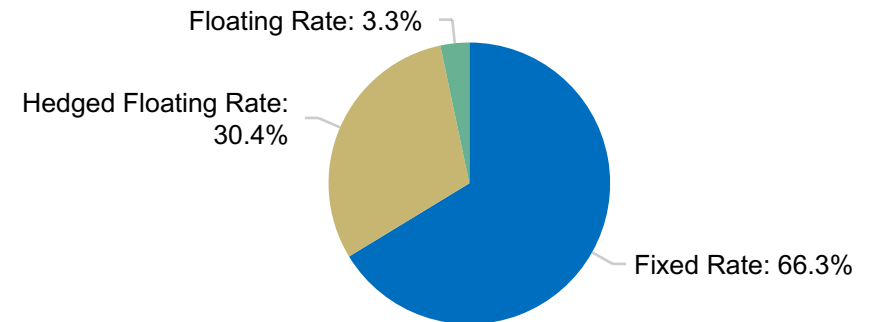
<sup>2</sup> Source: Nasdaq Online.

# Liquidity and debt overview

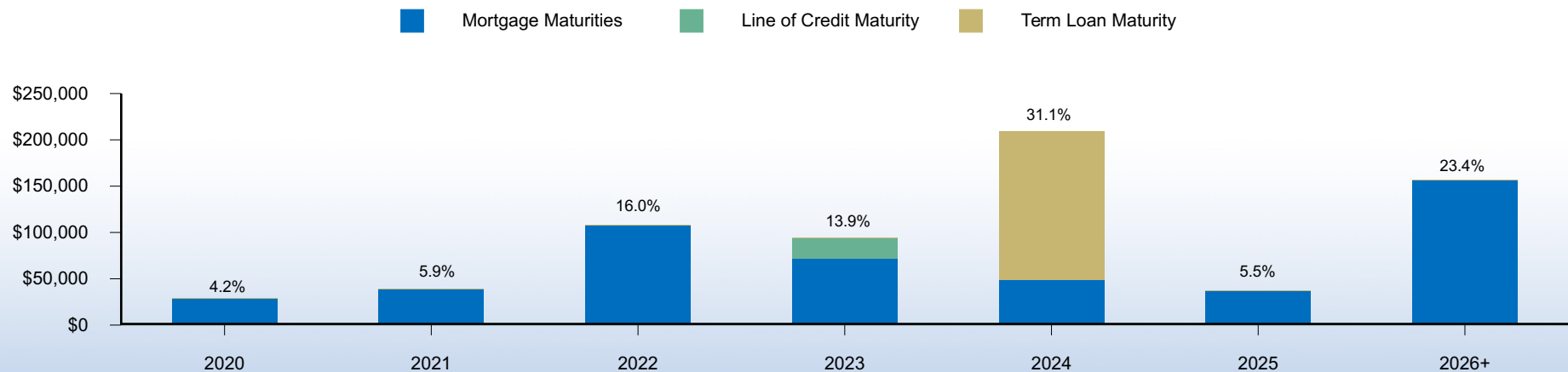
## Reducing Leverage<sup>1</sup>



## Fixed vs. Floating Debt<sup>1</sup>



## Debt maturity schedule<sup>1</sup> (\$'000)



<sup>1</sup> As of 3/31/2020.

# Debt summary

| Principal Maturity Date                         | Weighted Average<br>Interest Rate as of | (\$ in thousands)                      |
|---|---|--|
|   |   | Principal Balance<br>Outstanding as of |
|   | 3/31/2020                               | 3/31/2020                              |
| 2020  | 3.19%                                   | 19,381                                 |
| 2021  | 4.67%                                   | 27,263                                 |
| 2022  | 4.74%                                   | 103,963                                |
| 2023  | 4.50%                                   | 67,718                                 |
| 2024  | 4.04%                                   | 44,180                                 |
| 2025  | 4.03%                                   | 33,409                                 |
| 2026  | 4.42%                                   | 49,580                                 |
| 2027  | 4.36%                                   | 86,314                                 |
| 2028  | 5.32%                                   | 4,609                                  |
| 2029  | 4.74%                                   | 11,776                                 |
| 2030  | 3.22%                                   | 35,824                                 |
| 2037  | 4.63%                                   | 6,599                                  |
| Contractual Mortgage Notes Payable:             | 4.32%                                   | \$ 490,616                             |
| Premiums (Discounts), net:                      |   | (224)                                  |
| Total Mortgage Notes Payable:                   |   | \$ 490,392                             |
| Variable-Rate Line of Credit:                   |   |  |
| 2023  | LIBOR +1.65%                            | \$ 21,600                              |
| Variable-Rate Term Loan Facility:               |   |  |
| 2024  | LIBOR +1.60%                            | \$ 160,000                             |
| Total Mortgage Notes Payable and Line of Credit | 3.86%                                   | \$ 671,992                             |

# Select corporate covenants

| Description                         | (\$ in thousands) |                |
|-------------------------------------|-------------------|----------------|
|                                     | Threshold         | March 31, 2020 |
| Consolidated Tangible Net Worth     | > \$549,586       | \$709,258      |
| Leverage Ratio                      | < 60%             | 49%            |
| Debt Yield Ratio                    | > 11%             | 14%            |
| Fixed Charge Coverage Ratio         | > 1.45            | 1.78           |
| 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

- 122 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 96.6%
- 3.6% 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 3/31/2020

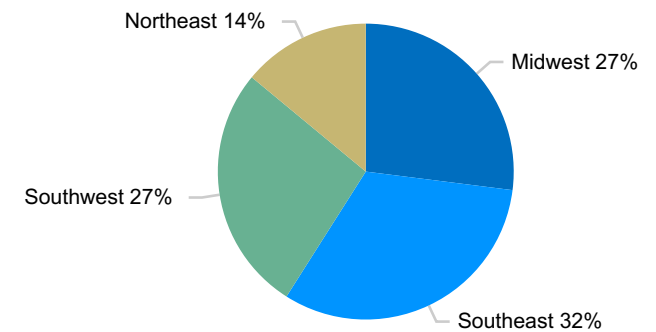
# Diversified portfolio

*122 properties spread across 28 states*

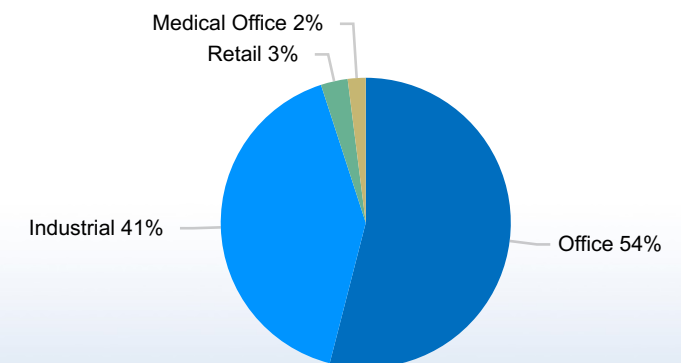


Note: As of 3/31/2020





Geographic diversification  
(by annualized straight line rent)



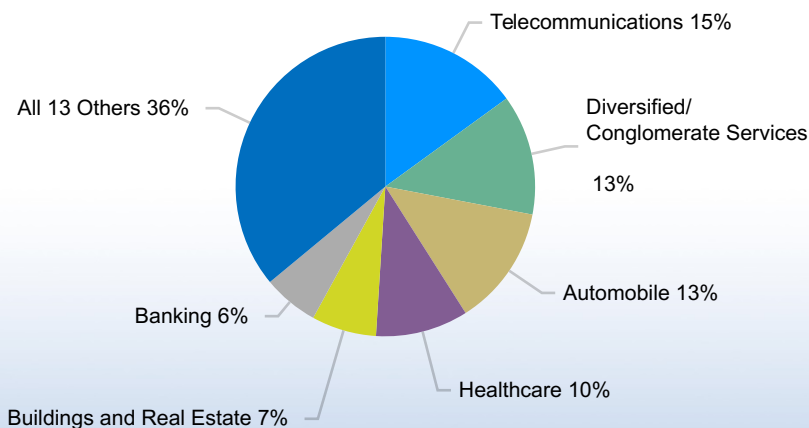
Property type diversification  
(by annualized straight line rent)



# High quality, diversified portfolio

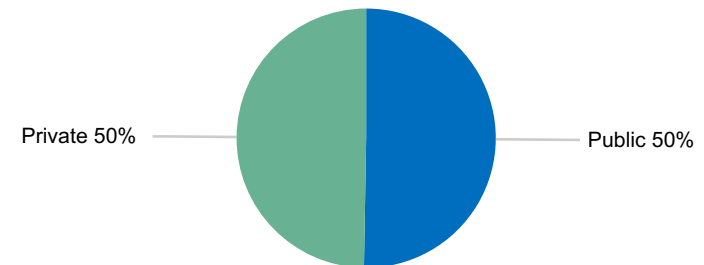
| Top 5 tenants   | % of annualized straight line rent | % of SF |
|---|------------------------------------|---------|
|                | 4%                                 | 2%      |
|                | 3%                                 | 6%      |
|                | 3%                                 | 1%      |
| Morgan Stanley  | 3%                                 | 1%      |
| TOWERS WATSON  | 2%                                 | 1%      |
| All other tenants   | 85%                                | 89%     |

## Industry diversification (based on annualized straight line rent)

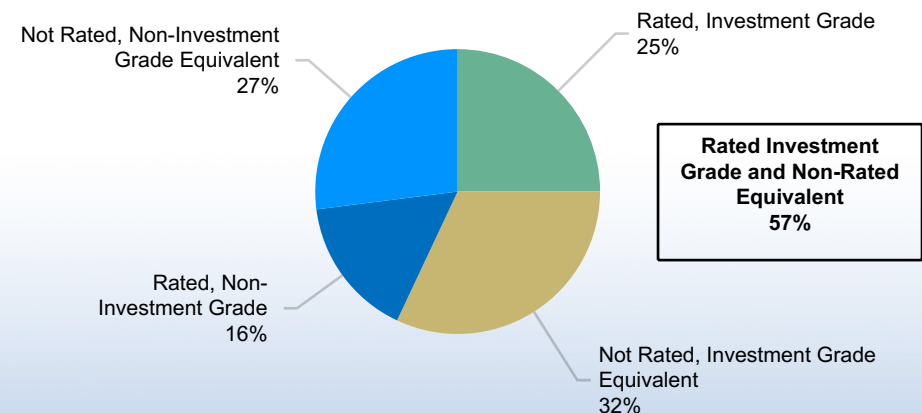


Note: As of 3/31/2020

## Publicly-traded vs. privately-held tenants (as % of annualized straight line rent)



## Tenant credit ratings (as % of annualized straight line rent)

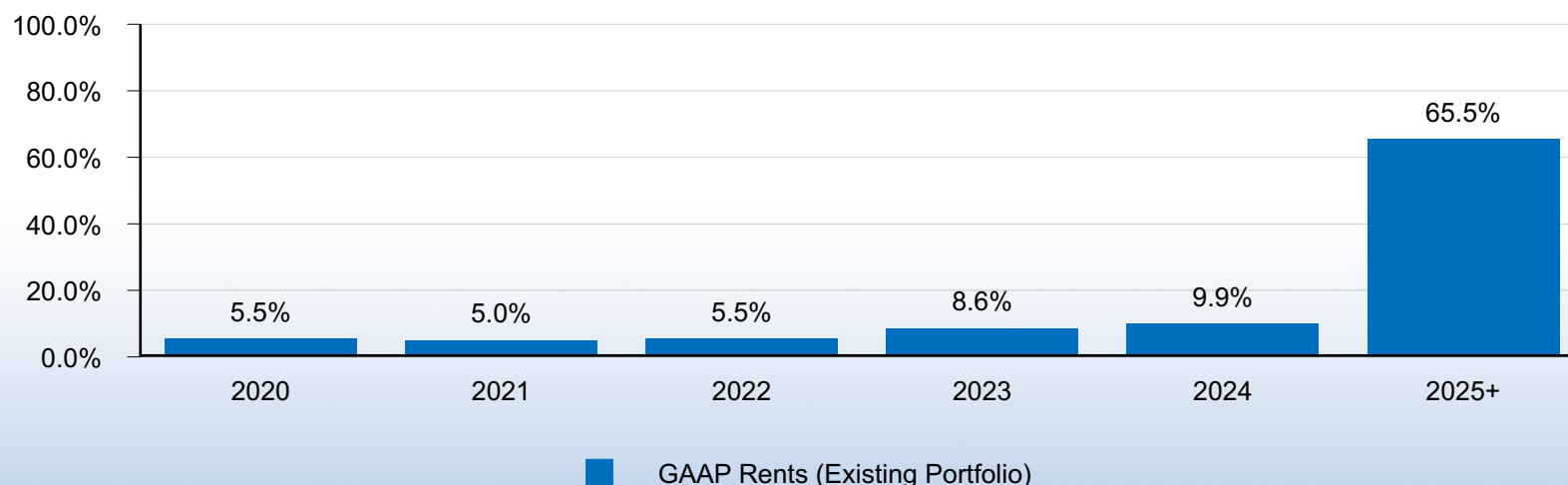


# Smooth lease rollover

## Existing portfolio - contractual expirations

| Year of Lease Expiration | SF of Leases Expiring | Number of Expiring Leases | Annualized Straight Line Rent (in thousands) | % of Annualized Straight Line Rent |
|--------------------------|-----------------------|---------------------------|--|------------------------------------|
| 2020                     | 622,999               | 5                         | \$ 6,367                                     | 5.5%                               |
| 2021                     | 390,685               | 11                        | 5,788  | 5.0%                               |
| 2022                     | 446,457               | 8                         | 6,288  | 5.5%                               |
| 2023                     | 1,460,802             | 14                        | 9,894  | 8.6%                               |
| 2024                     | 1,740,195             | 11                        | 11,404                                       | 9.9%                               |
| 2025+                    | 9,889,381             | 79                        | 75,500                                       | 65.5%                              |
| <b>Total</b>             | <b>14,550,519</b>     | <b>128</b>                | <b>\$ 115,241</b>                            | <b>100.0%</b>                      |

## Rent expiring



Note: As of 3/31/2020



**GLADSTONE**