



GLADSTONE COMMERCIAL

REITWeek 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 15.1 million square feet of predominantly office and industrial real estate nationwide
- Diversified portfolio of 122 properties in 28 states leased to 106 different tenants in 19 industries
- The Company is led by a highly-experienced leadership team with over 150 years of combined experience
- Investment activities are credit-focused with a growth market emphasis, seeking mission critical facilities of middle market and investment grade companies

Note: As of 3/31/2020

Overview

Gladstone
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Investment
strategy

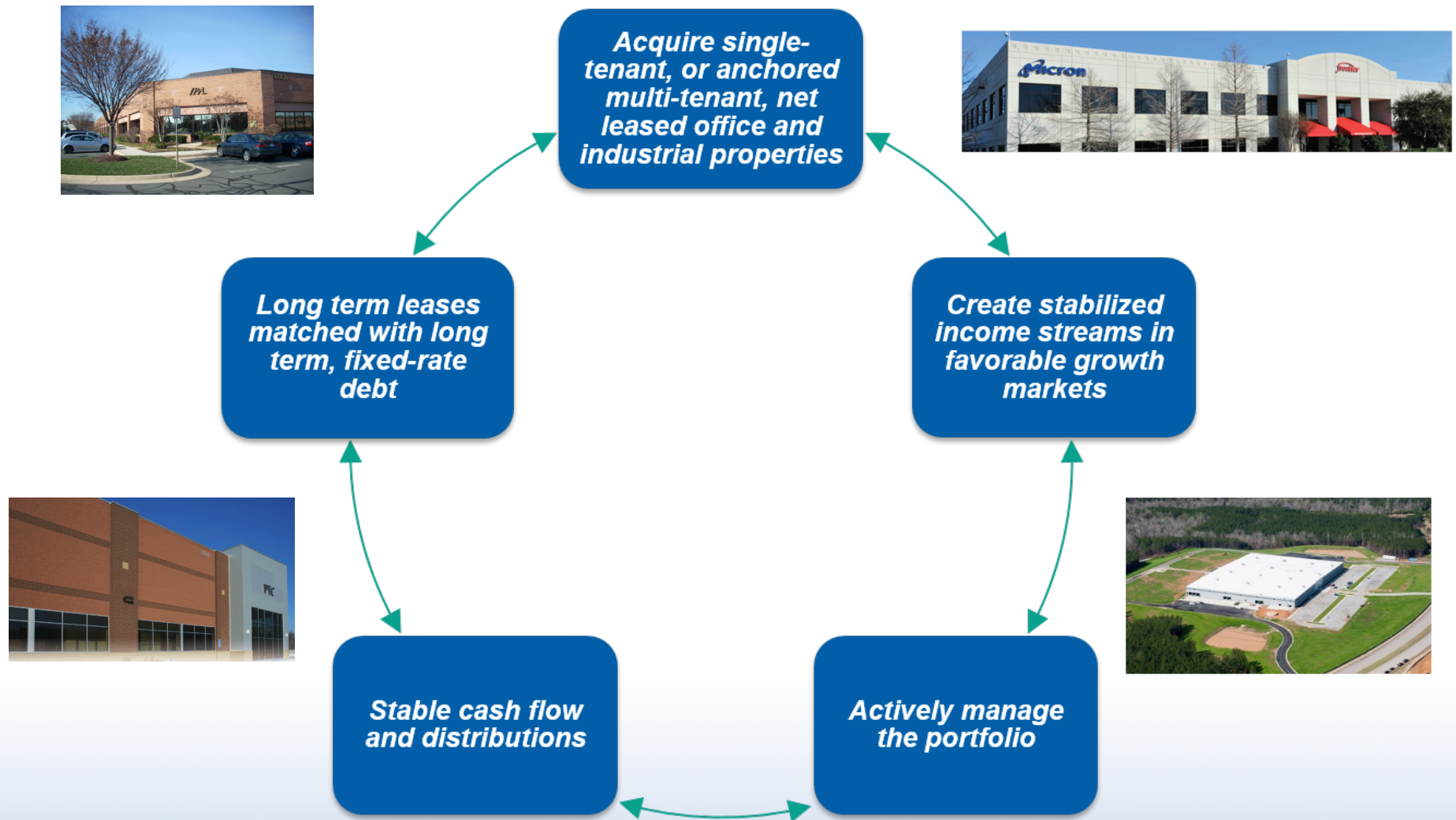
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Gladstone Commercial's Investment Philosophy



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Gladstone Commercial Overview

- IPO in 2003 (Nasdaq: GOOD)
- Market Capitalization: **\$497mm**⁽¹⁾
- Enterprise Value: **\$1,310mm**⁽¹⁾
- Common stock annual distribution per share: **\$1.5018**
 - Monthly distributions
 - No missed or reduced cash distributions since inception

Portfolio summary (3/31/2020)

| | |
|---|-----------|
| # of Properties | 122 |
| Square feet (mm) | 15.1 |
| Occupancy | 96.6% |
| States | 28 |
| Tenants | 106 |
| Industries | 19 |
| Annual lease revenue (LTM) (\$mm) | \$119.9 |
| 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 | 7.5 years |

⁽¹⁾ Common Equity is based on the closing common stock price per share as of March 31, 2020 of \$14.36 per share and includes effect of convertible securities.



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Significant Growth & Diversification Since 2010

GOOD Portfolio

*Grew a
diverse
portfolio*

| | 12/31/10 | 3/31/2020 | Variance |
|--|----------|------------|----------|
| Total assets (\$mm) | \$ 410.6 | \$ 1,098.8 | \$ 688.2 |
| Properties | 65 | 122 | 57 |
| Tenants | 52 | 106 | 54 |
| Square feet (mm) | 6.8 | 15.1 | 8.3 |
| Occupancy (%) | 97.2% | 96.6% | (0.6)% |
| Lease Revenue From Top 5 tenants (\$mm) ⁽¹⁾ | \$ 10.0 | \$ 19.0 | \$ 9.0 |
| % of Total Lease Revenue | 24.2% | 15.9% | (8.3)% |

*Revenue
and cash
flow growth*

| | | | |
|---|---------|----------|---------|
| Revenues (LTM) (\$mm) | \$ 41.9 | \$ 119.9 | \$ 78.0 |
| Diluted FFO (LTM) (\$mm) | \$ 14.1 | \$ 48.5 | \$ 34.4 |
| Diluted FFO, as adjusted for comparability (LTM) (\$mm) | \$ 14.1 | \$ 51.2 | \$ 37.1 |
| Diluted Core FFO (LTM) (\$mm) | \$ 14.5 | \$ 51.9 | \$ 37.4 |

*Improved
capital
structure*

| | | | |
|---|-------|-------|---------|
| Net Total Debt / Enterprise Value | 58.9% | 50.1% | (8.8)% |
| Net Total Debt + Preferred / Enterprise Value | 70.0% | 62.1% | (7.9)% |
| Net Total Debt / Gross Assets ⁽²⁾ | 62.7% | 46.5% | (16.2)% |

⁽¹⁾Annualized

⁽²⁾Gross Assets equal total assets before depreciation

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**Gladstone
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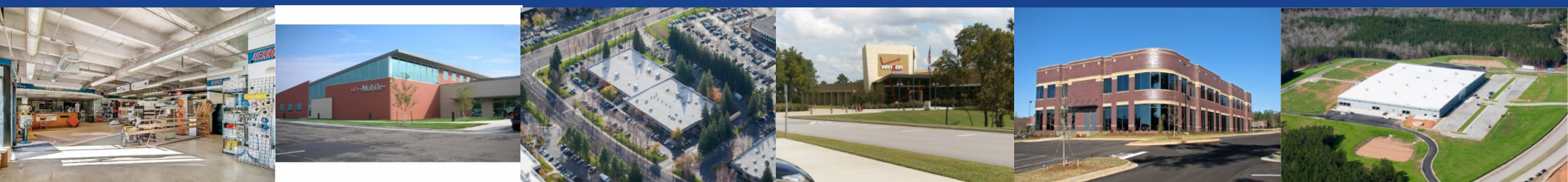
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Investment Strategy



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 facilities
- 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

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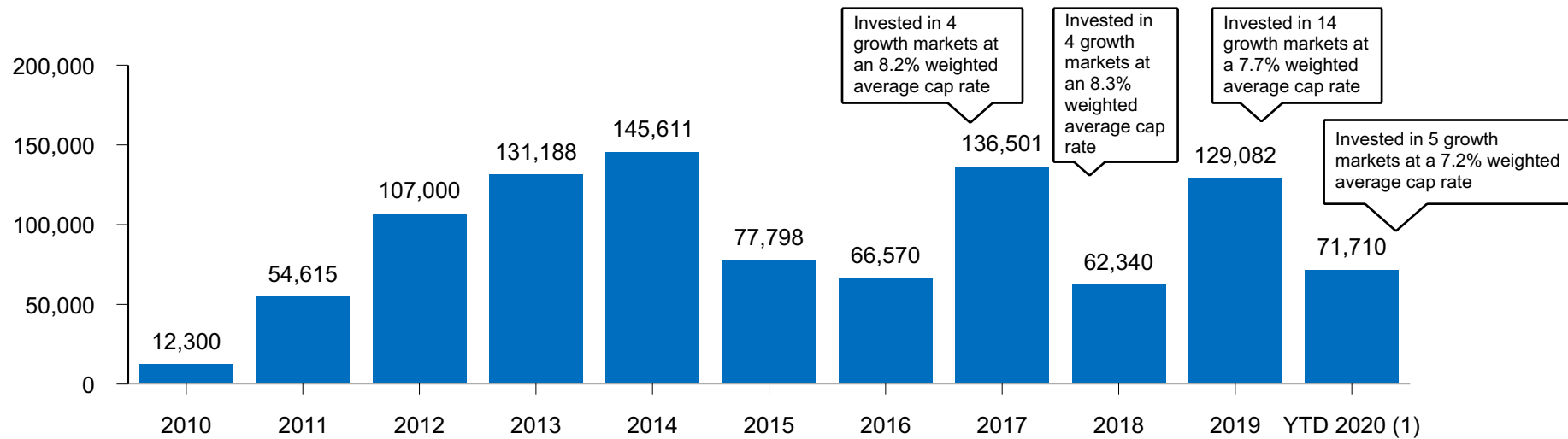
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Gladstone Has Achieved Consistent and Disciplined Growth

Historical Investment Volume (\$000)



(1) As of April 28, 2020

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%

Iron Mountain - Industrial Portfolio



- 509K SF
- TX, LA, AZ, NM
- Acquired 12/19
- GAAP cap rate: 7.2%

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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

- Current occupancy 96.6%; Since IPO in 2003, never below 96%
- 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 – **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 3/31/2020

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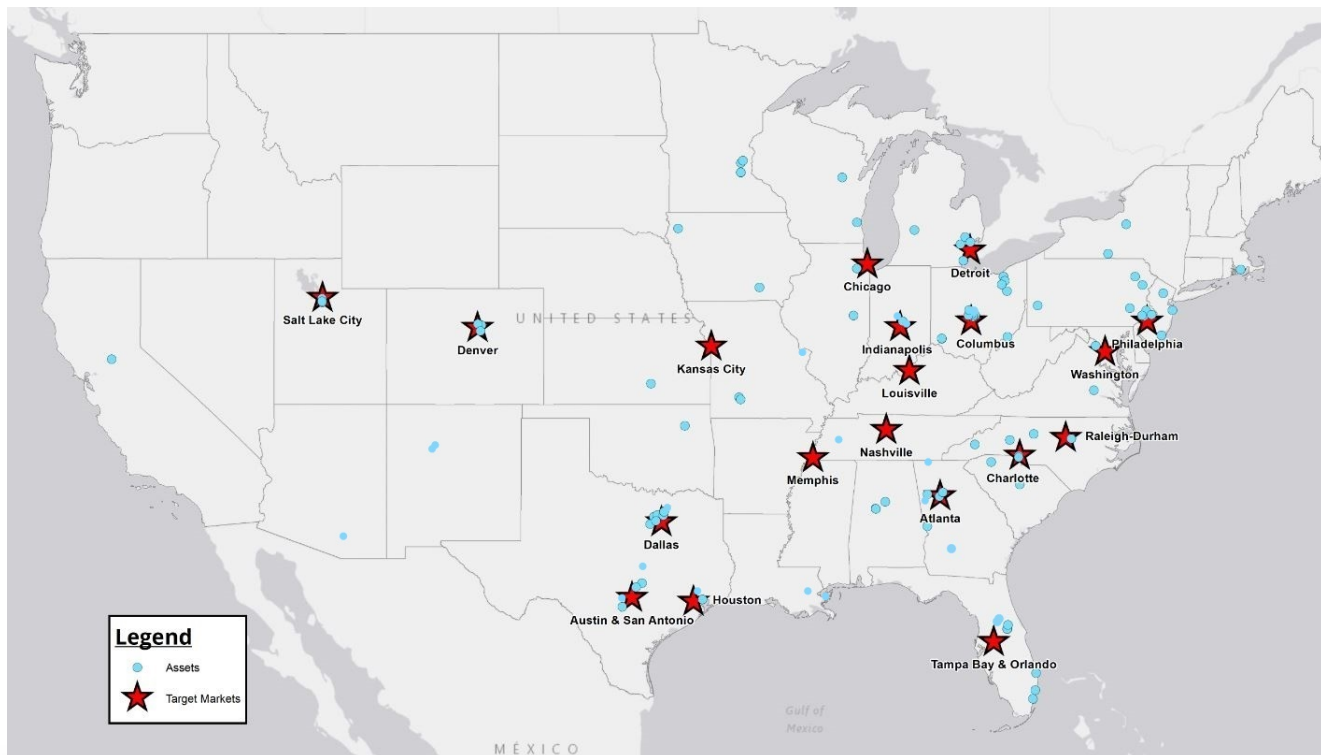
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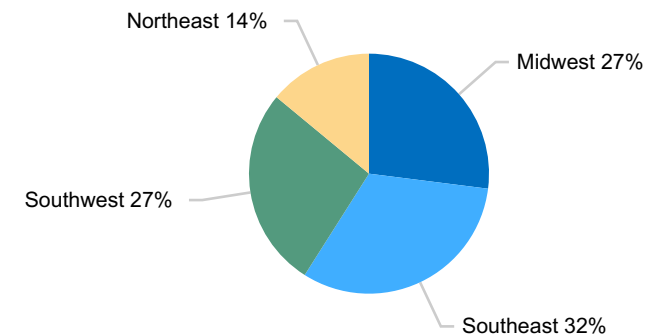


Diversified Portfolio

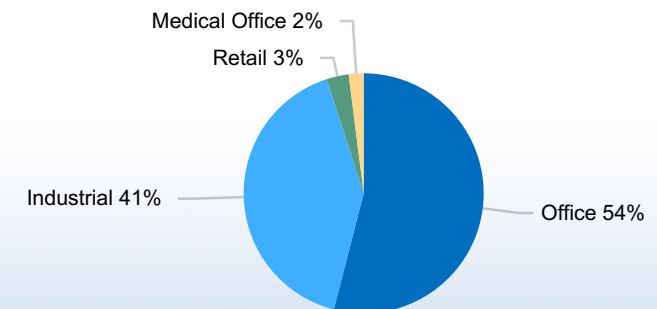
122 properties spread across 28 states



Geographic diversification
(by annualized straight line rent)



Property type diversification
(by annualized straight line rent)



Note: As of 3/31/2020

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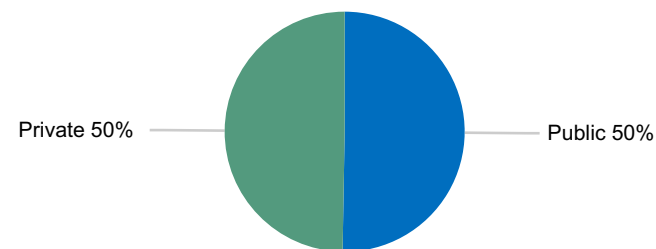
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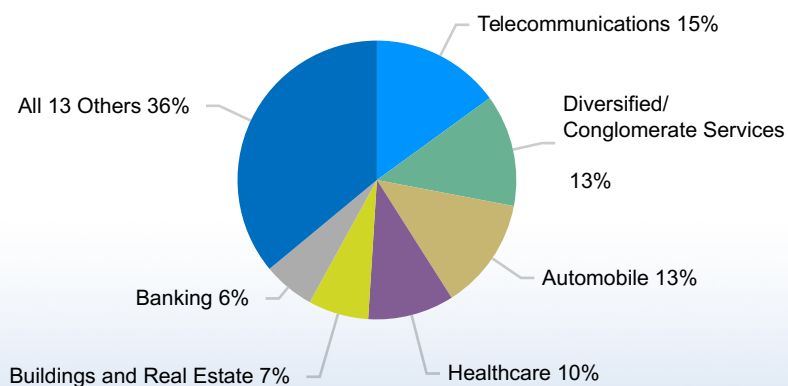
High Quality, Diversified Portfolio

| Top 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% |

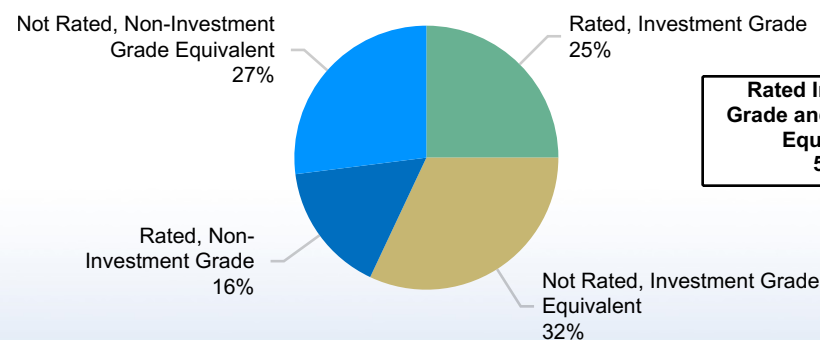
Publicly-traded vs. privately-held tenants (as % of annualized straight line rent)



Industry diversification (based on annualized straight line rent)



Tenant credit ratings (as % annualized straight line rent)



**Rated Investment
Grade and Non-Rated
Equivalent
57%**

Note: As of 3/31/2020

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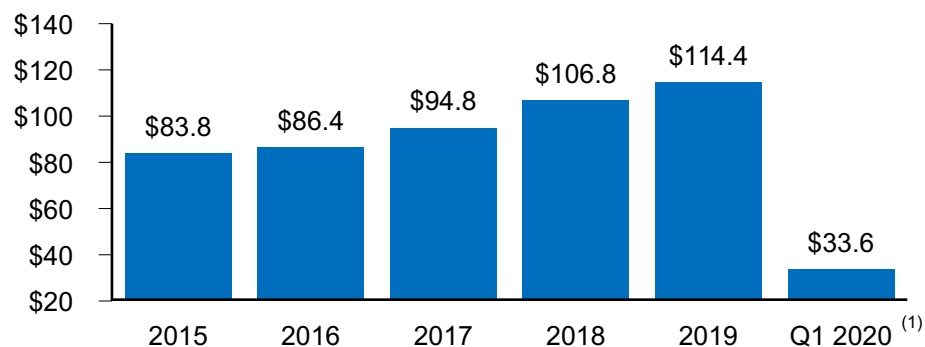


Financial Performance

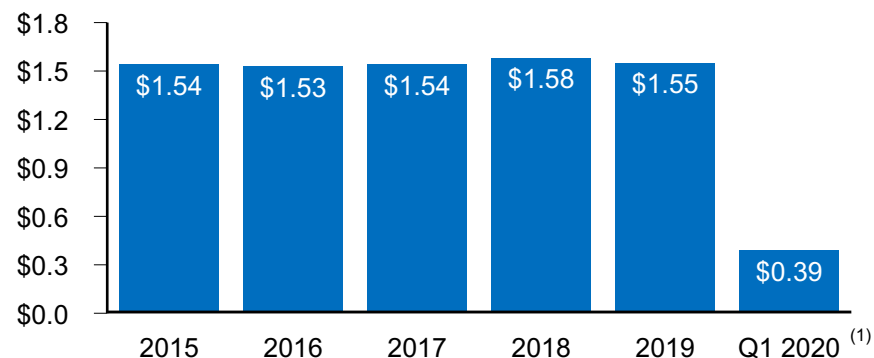


Summary Historical Performance

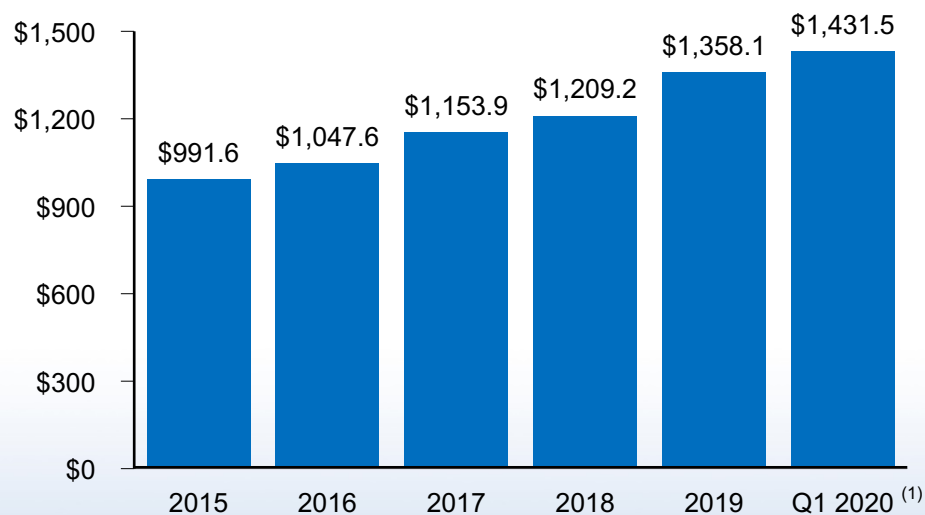
Total Revenue (\$ in millions)



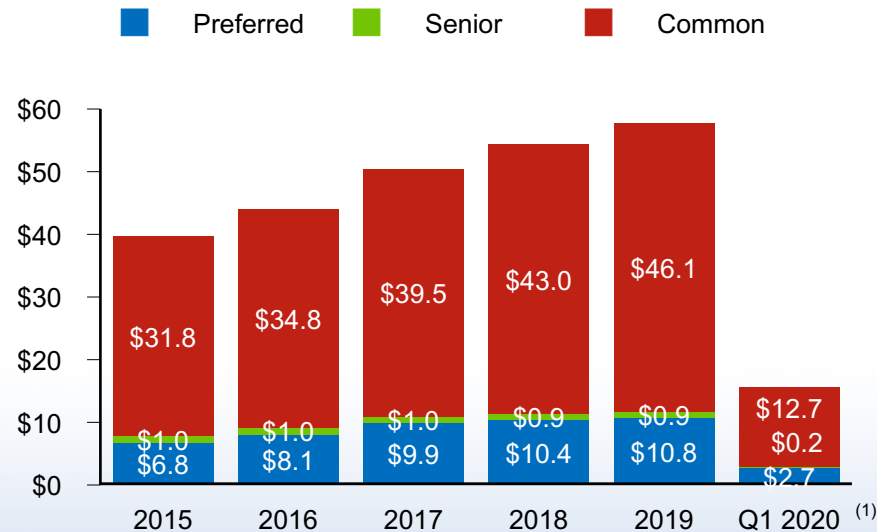
Funds from Operations, as adjusted for comparability (Per Share)



Total Gross Assets (\$ in millions)



Total Distributions (\$ in millions)



(1) January 1, 2020 - March 31, 2020

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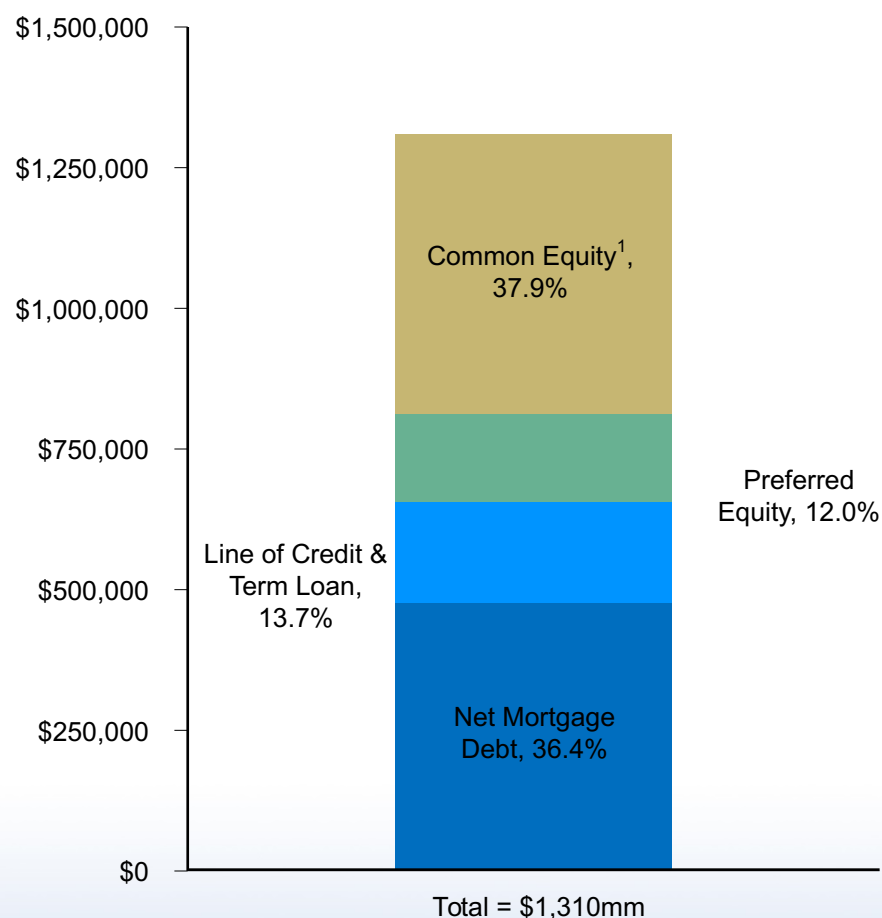
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Capital Structure Overview

Current Capital Structure as of 3/31/2020 (\$000s)

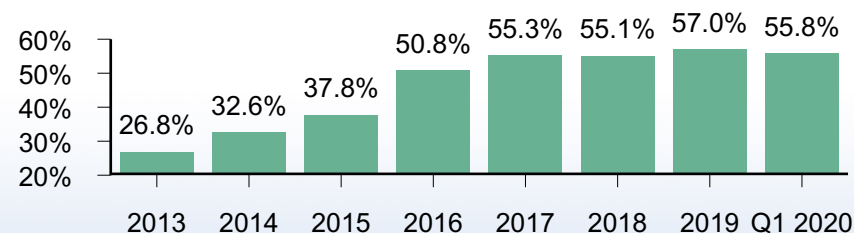


Capital Structure Details

(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) |
| Net Mortgage Debt | | \$ 476,462 |
| Line of Credit | L+1.65% | \$ 20,846 |
| Term Note | L+1.60% | 159,033 |
| Line of Credit and Term Loan | | \$ 179,879 |
| Total Debt, Net | | \$ 656,341 |
| Series D - Preferred | 7.000% | 87,739 |
| Series E - Preferred | 6.625% | 69,000 |
| Total Preferred Equity | | \$ 156,739 |
| Diluted Common Shares Outstanding | | 34,584,962 |
| Stock Price | | \$ 14.36 |
| Implied Common Equity¹ Market Capitalization | | \$ 496,640 |
| Enterprise Value | | \$ 1,309,720 |

Institutional Stock Ownership ²



¹ 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.

² Source: Nasdaq Online

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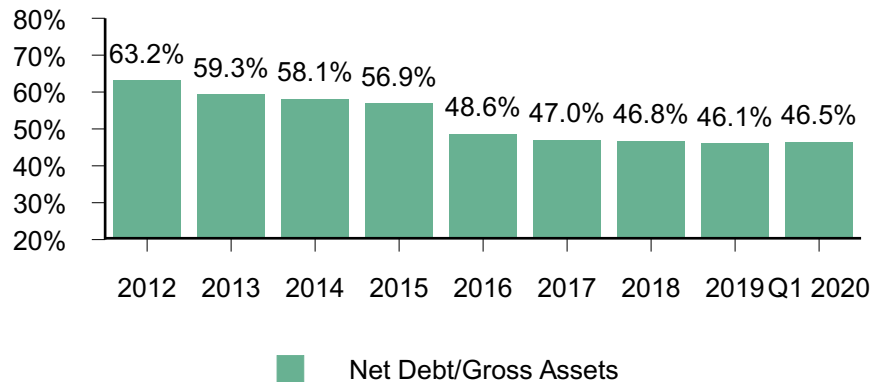
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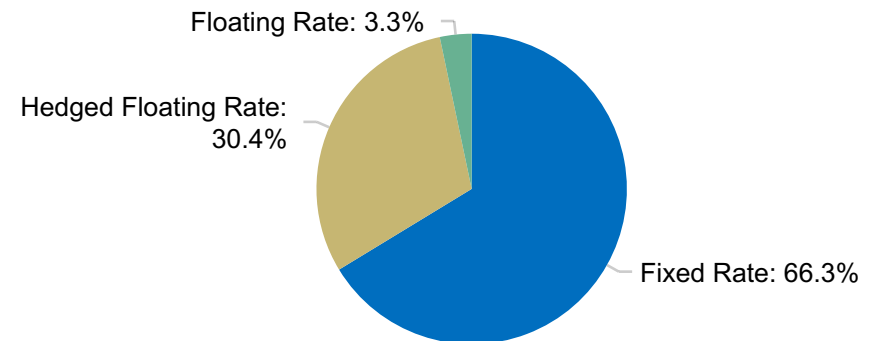


Liquidity and Debt Overview

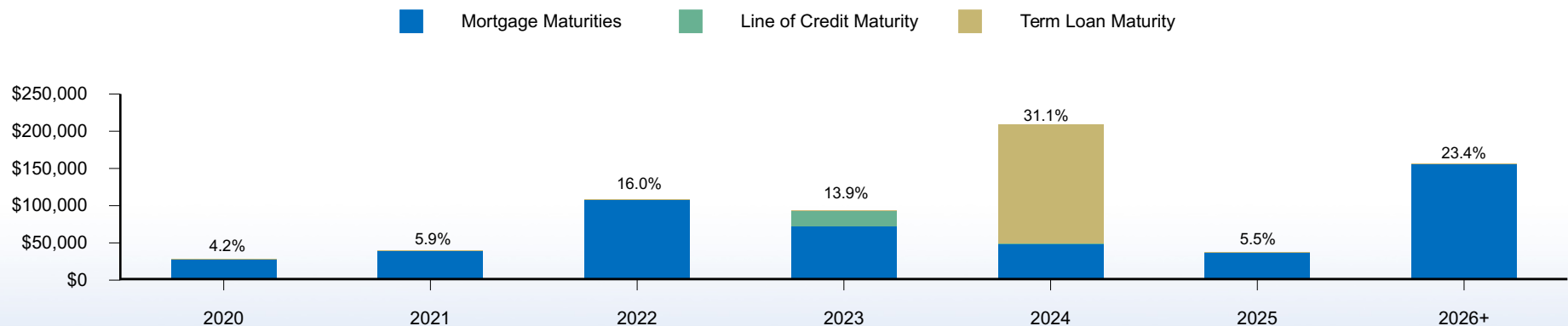
Reducing Leverage⁽¹⁾



Fixed vs. Floating Debt⁽¹⁾



Debt maturity schedule⁽¹⁾ (\$000s)



⁽¹⁾As of 3/31/2020

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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

Conclusion

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***
- ***Strengthened credit profile with net total debt to gross assets down to 46.5%***
- ***Focused on growth with limited lease expirations through 2022, and with an emphasis on increasing the industrial allocation***

Note: As of 3/31/2020

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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) | | |
|---|--|------------|------------|
| | 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 ¹ | \$ 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 ¹ | \$ 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 |

¹ 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 Balance Sheets

| (\$ in thousands) | (unaudited) 3/31/2020 | 12/31/2019 |
|---|----------------------------|----------------------------|
| ASSETS | | |
| Real estate, at cost | \$ 1,123,644 | \$ 1,056,978 |
| Less: accumulated depreciation | <u>216,547</u> | <u>207,523</u> |
| 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 | <u>5,849</u> | <u>8,913</u> |
| TOTAL ASSETS | <u><u>\$ 1,098,825</u></u> | <u><u>\$ 1,039,508</u></u> |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| LIABILITIES | | |
| 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 | <u>56,974</u> | <u>49,724</u> |
| TOTAL LIABILITIES | <u><u>\$ 723,168</u></u> | <u><u>\$ 676,318</u></u> |
| MEZZANINE EQUITY | | |
| Series D and E redeemable preferred stock, net | \$ 152,193 | \$ 152,153 |
| TOTAL MEZZANINE EQUITY | <u><u>\$ 152,193</u></u> | <u><u>\$ 152,153</u></u> |
| STOCKHOLDERS' EQUITY | | |
| 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 | <u>(374,259)</u> | <u>(360,978)</u> |
| TOTAL STOCKHOLDERS' EQUITY | <u><u>\$ 220,354</u></u> | <u><u>\$ 208,134</u></u> |
| OP Units held by Non-controlling OP Unitholders | 3,110 | 2,903 |
| TOTAL EQUITY | <u><u>\$ 223,464</u></u> | <u><u>\$ 211,037</u></u> |
| TOTAL LIABILITIES, MEZZANINE EQUITY AND EQUITY | <u><u>\$ 1,098,825</u></u> | <u><u>\$ 1,039,508</u></u> |

Debt Summary

| Principal Maturity Date | Weighted Average Interest Rate as of | (\$ in thousands) |
|---|---|--|
| | | Principal Balance 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 |

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 generally in line with the overall average for internally managed REITs of this size**
 - **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