



GLADSTONE COMMERCIAL

*Supplemental Financial & Operating Information
for the Quarter Ended June 30, 2020*



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Table of contents

About Gladstone Commercial

Corporate overview	4
Portfolio and financial overview	5
Q2 2020 highlights (unaudited)	6

Financial overview

Condensed consolidated statements of operations	8
Funds from Operations (FFO)	9
Condensed consolidated balance sheets	10
Capital structure	11
Liquidity and debt overview	12
Debt summary	13
Select corporate covenants	14

Portfolio Overview

Portfolio overview	16-19
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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

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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 June 30, 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 June 30, 2020, total assets were approximately \$1.1 billion, representing investments in 122 properties. Our properties are leased to 105 tenants who represent 19 diversified industries across 28 states.

At June 30, 2020, our leases had an average remaining term of 7.3 years. In addition, approximately 57% of our tenants have an investment grade or investment grade equivalent credit rating.






Portfolio and financial overview

Portfolio data¹

Total assets (\$mm)	\$	1,086
Properties		122
Tenants		105
Industries		19
States		28
Average remaining lease term (years)		7.3
Occupancy		95.5%
Square footage owned (mm)		15.1

Capitalization (\$mm)¹

Common equity market capitalization ²	\$	649
Preferred equity		159
Net total debt		667
Total capitalization	\$	1,475
Less: Cash and cash equivalents		(10)
Total enterprise value	\$	1,465
Net total debt / enterprise value		44.8%
Net total debt + preferred / enterprise value		55.7%
Net total debt / gross assets		46.5%

Top 5 tenants ¹	% of annualized straight line rent	% of SF
	4%	2%
	3%	6%
	3%	1%
	3%	1%
	2%	1%
Top 5 Tenants total	15%	11%
Top 5 Tenants average remaining lease term		4.7 years
Portfolio average remaining lease term		7.3 years

Corporate liquidity (\$mm)¹

Cash and Cash Equivalents	\$	9.6
Availability Under Revolving Credit Facility ³		19.5
Total	\$	29.1

¹ As of 6/30/2020.

² Based on closing common stock price per share on June 30, 2020 of \$18.75. Includes OP units and senior common shares convertible into shares of common stock.

³ As of July 27, 2020, approximately \$36.0 million is available under the Company's revolving credit facility.

Q2 2020 highlights (unaudited)

FFO¹ and Core FFO²:

Generated FFO \$14.2 million, or \$0.40 per diluted share, and core FFO of \$14.2 million, or \$0.41 per diluted share.

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 \$0.5 million through our ATM program and issued Series E preferred equity for net proceeds of \$1.9 million through our ATM program.

Debt Activity:

Repaid \$5.9 million in fixed rate mortgage debt with an interest rate of 6.00% collateralized by our Parsippany, New Jersey property and repaid \$12.1 million of variable rate mortgage debt with an interest rate of LIBOR plus 2.25% collateralized by our Duncan, South Carolina and Canton, Ohio properties.

Select Expenditure Activity:

Paid \$1.1 million related to capital expenditures and \$0.4 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.

²Core 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 six months ended (unaudited)	
	6/30/2020	3/31/2020	6/30/2019	6/30/2020	6/30/2019
Operating revenues					
Lease revenue	\$ 33,525	\$ 33,619	\$ 28,197	\$ 67,145	\$ 56,334
Total operating revenues	\$ 33,525	\$ 33,619	\$ 28,197	\$ 67,145	\$ 56,334
Operating expenses					
Depreciation and amortization	\$ 14,182	\$ 14,096	\$ 12,622	\$ 28,278	\$ 25,632
Property operating expenses	6,295	6,213	3,060	12,508	6,128
Base management fee	1,389	1,412	1,293	2,801	2,560
Incentive fee	1,119	1,055	904	2,173	1,755
Administration fee	395	438	397	833	810
General and administrative	752	878	782	1,630	1,439
Impairment charge	1,721	—	—	1,721	—
Total operating expenses	\$ 25,853	\$ 24,092	\$ 19,058	\$ 49,944	\$ 38,324
Other (expense) income					
Interest expense	\$ (6,716)	\$ (7,252)	\$ (7,005)	\$ (13,968)	\$ (14,236)
(Loss) gain on sale of real estate	—	(12)	—	(12)	2,952
Other (loss) income	9	(5)	71	4	152
Total other expense, net	\$ (6,707)	\$ (7,269)	\$ (6,934)	\$ (13,976)	\$ (11,132)
Net income	\$ 965	\$ 2,258	\$ 2,205	\$ 3,225	\$ 6,878
Net loss (income) attributable (available) to non-controlling interests	28	9	16	37	(29)
Net income attributable to the company	\$ 993	\$ 2,267	\$ 2,221	\$ 3,262	\$ 6,849
Distributions attributable to Series A, B, D, and E preferred stock	(2,688)	(2,678)	(2,612)	(5,366)	(5,225)
Distributions attributable to senior common stock	(204)	(208)	(225)	(411)	(449)
Net (loss) income (attributable) available to common stockholders	\$ (1,899)	\$ (619)	\$ (616)	\$ (2,515)	\$ 1,175
Weighted average common shares outstanding and Non-controlling OP Units					
Basic and diluted	34,442,859	34,136,179	31,192,676	34,289,519	30,728,818

Funds from Operations (FFO)

(\$ in thousands, except per share amounts)

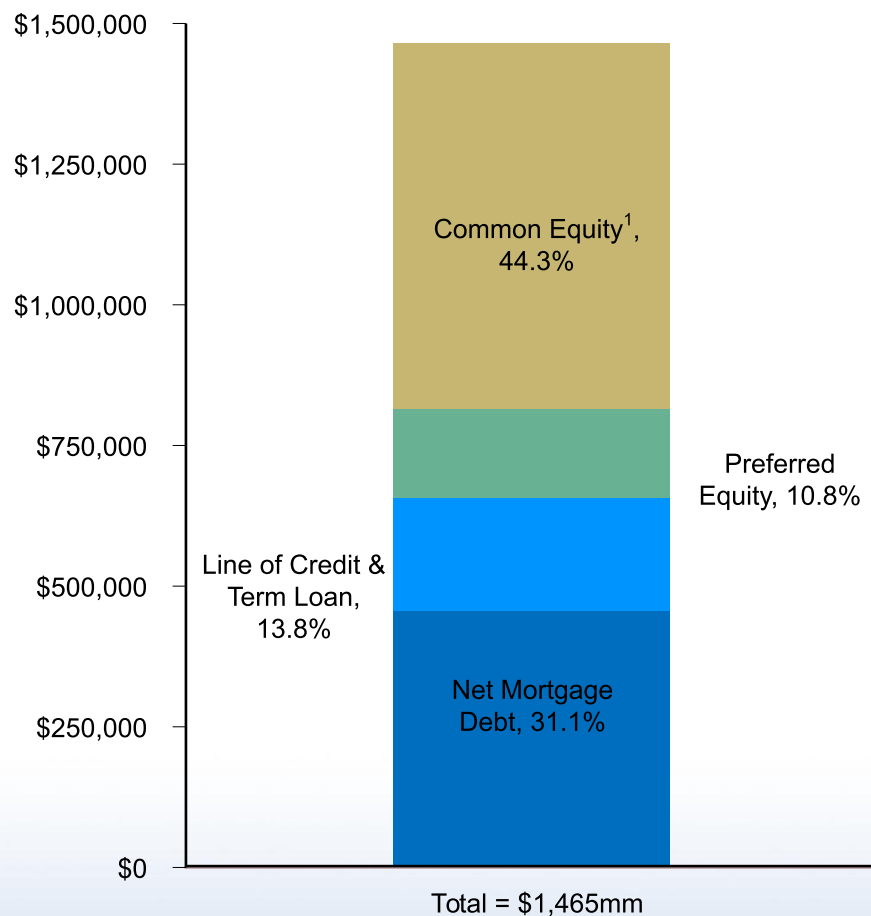
	For the three months ended (unaudited)			For the six months ended (unaudited)	
	6/30/2020	3/31/2020	6/30/2019	6/30/2020	6/30/2019
Net income	\$ 965	\$ 2,258	\$ 2,205	\$ 3,225	\$ 6,878
Less: Distributions attributable to preferred and senior common stock	(2,892)	(2,886)	(2,837)	(5,777)	(5,674)
Net (loss) income (attributable) available to common stockholders and Non-controlling OP Unitholders	\$ (1,927)	\$ (628)	\$ (632)	\$ (2,552)	\$ 1,204
Adjustments:					
Add: Real estate depreciation and amortization	\$ 14,182	\$ 14,096	\$ 12,622	\$ 28,278	\$ 25,632
Add: Impairment charge	1,721	—	—	1,721	—
Add: Loss on sale of real estate, net	—	12	—	12	—
Less: Gain on sale of real estate, net	—	—	—	—	(2,952)
FFO available to common stockholders and Non-controlling OP Unitholders - basic	\$ 13,976	\$ 13,480	\$ 11,990	\$ 27,459	\$ 23,884
Add: Convertible senior common distributions	204	208	225	411	449
FFO available to common stockholders and Non-controlling OP Unitholders - diluted	\$ 14,180	\$ 13,688	\$ 12,215	\$ 27,870	\$ 24,333
FFO available to common stockholders and Non-controlling OP Unitholders - basic	\$ 13,976	\$ 13,480	\$ 11,990	\$ 27,459	\$ 23,884
Add: Acquisition related expenses	8	7	65	14	128
Add: Write off of deferred financing fees	—	—	—	—	283
Add: PACE financing amortization, net	—	31	—	31	—
Add: Write off shelf registration statement costs	—	—	—	—	18
Add: Asset retirement obligation expense	31	41	32	72	63
Core FFO available to common stockholders and Non-controlling OP Unitholders - basic	\$ 14,015	\$ 13,559	\$ 12,087	\$ 27,576	\$ 24,376
Add: Convertible senior common distributions	204	208	225	411	449
Core FFO available to common stockholders and Non-controlling OP Unitholders - diluted	\$ 14,219	\$ 13,767	\$ 12,312	\$ 27,987	\$ 24,825
Weighted average common shares outstanding and Non-controlling OP Units - basic	34,442,859	34,136,179	31,192,676	34,289,519	30,728,818
Weighted average common shares outstanding and Non-controlling OP Units - diluted	35,092,914	34,791,121	31,911,446	34,939,574	31,447,588
FFO per weighted average share of common stock and Non-controlling OP Unit - basic	\$ 0.41	\$ 0.39	\$ 0.38	\$ 0.80	\$ 0.78
FFO per weighted average share of common stock and Non-controlling OP Unit - diluted	\$ 0.40	\$ 0.39	\$ 0.38	\$ 0.80	\$ 0.77
Core FFO per weighted average share of common stock and Non-controlling OP Unit - basic	\$ 0.41	\$ 0.40	\$ 0.39	\$ 0.80	\$ 0.79
Core FFO per weighted average share of common stock and Non-controlling OP Unit - diluted	\$ 0.41	\$ 0.40	\$ 0.39	\$ 0.80	\$ 0.79
Distributions declared per share of common stock and Non-controlling OP Unit	\$ 0.37545	\$ 0.37545	\$ 0.37500	\$ 0.75090	\$ 0.75000

Condensed consolidated balance sheets

(\$ in thousands)	(unaudited) 6/30/2020	12/31/2019
ASSETS		
Real estate, at cost	\$ 1,106,274	\$ 1,056,978
Less: accumulated depreciation	219,175	207,523
Total real estate, net	887,099	849,455
Lease intangibles, net	117,106	115,465
Real estate and related assets held for sale, net	11,839	3,990
Cash and cash equivalents	9,563	6,849
Restricted cash	4,988	4,639
Funds held in escrow	8,405	7,226
Right-of-use assets from operating leases	5,689	5,794
Deferred rent receivable, net	35,850	37,177
Other assets	5,512	8,913
TOTAL ASSETS	\$ 1,086,051	\$ 1,039,508
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES		
Mortgage notes payable, net	\$ 465,383	\$ 453,739
Borrowings under revolver and term loan, net	201,500	172,855
Deferred rent liability, asset retirement obligation and other liabilities, net	56,395	49,724
TOTAL LIABILITIES	\$ 723,278	\$ 676,318
MEZZANINE EQUITY		
Series D and E redeemable preferred stock, net	\$ 154,140	\$ 152,153
TOTAL MEZZANINE EQUITY	\$ 154,140	\$ 152,153
STOCKHOLDERS' EQUITY		
Senior common stock	1	1
Common stock	34	32
Additional paid in capital	599,741	571,205
Accumulated other comprehensive income	(5,135)	(2,126)
Distributions in excess of accumulated earnings	(388,900)	(360,978)
TOTAL STOCKHOLDERS' EQUITY	\$ 205,741	\$ 208,134
OP Units held by Non-controlling OP Unitholders	2,892	2,903
TOTAL EQUITY	\$ 208,633	\$ 211,037
TOTAL LIABILITIES, MEZZANINE EQUITY AND EQUITY	\$ 1,086,051	\$ 1,039,508

Capital structure

Current capital structure as of 6/30/2020 (\$000)

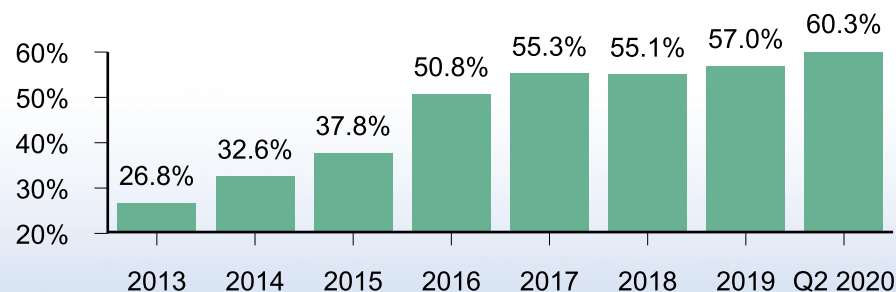


Capital Structure Details

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

	Wtd. Average Rate	6/30/2020
Mortgage Notes Payable, Net	4.27%	\$ 465,383
Less: Cash & Cash Equivalents		(9,563)
Net Mortgage Debt		\$ 455,820
Line of Credit	L+1.65%	\$ 42,410
Term Note	L+1.60%	159,090
Line of Credit and Term Loan		\$ 201,500
Total Debt, Net		\$ 657,320
Series D - Preferred	7.000%	87,739
Series E - Preferred	6.625%	71,164
Total Preferred Equity		\$ 158,903
Diluted Common Shares Outstanding		34,610,762
Stock Price		\$ 18.75
Implied Common Equity¹ Market Capitalization		\$ 648,952
Enterprise Value		\$ 1,465,175

Institutional Stock Ownership ²

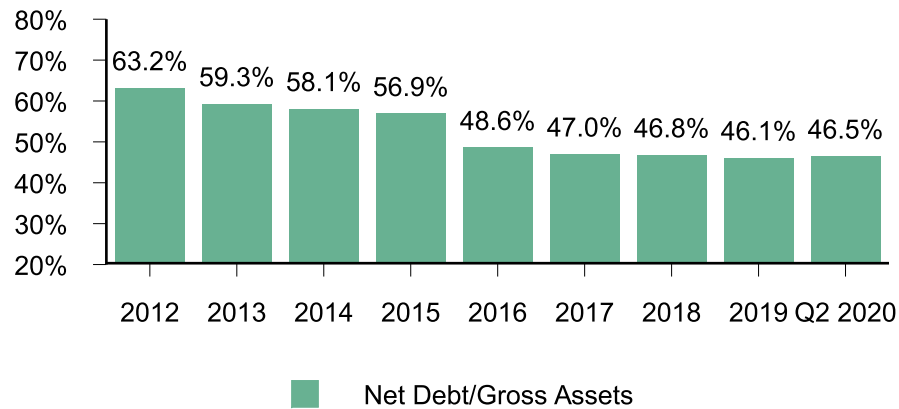


¹ Common Equity is based on the closing common stock price per share as of June 30, 2020 of \$18.75 and includes effect of OP units and convertible senior common stock.

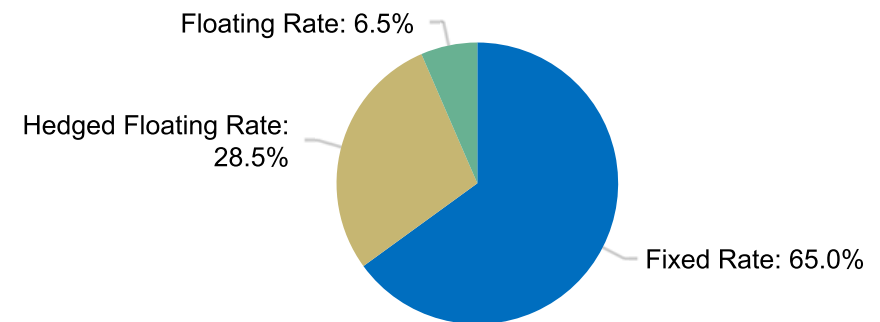
² Source: Nasdaq Online.

Liquidity and debt overview

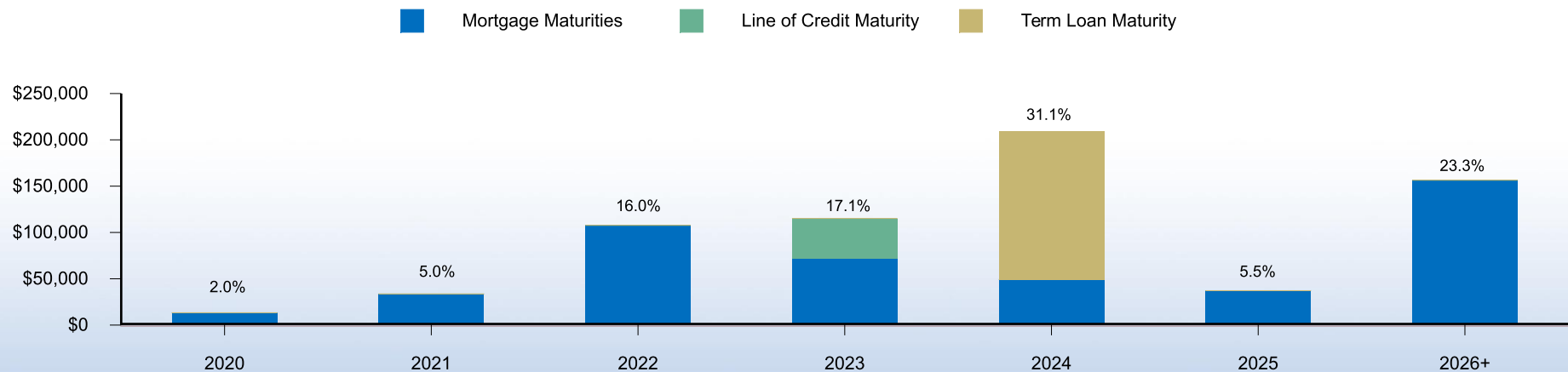
Reducing Leverage¹



Fixed vs. Floating Debt¹



Debt maturity schedule¹ (\$'000)



¹ As of 6/30/2020.

Debt summary

Principal Maturity Date	Weighted Average Interest Rate as of	(\$ in thousands)
		Principal Balance Outstanding as of
	6/30/2020	6/30/2020
2020	2.27%	7,211
2021	3.99%	21,166
2022	4.67%	103,155
2023	4.39%	67,317
2024	4.04%	44,026
2025	4.03%	33,222
2026	4.41%	49,099
2027	4.35%	85,727
2028	5.32%	4,584
2029	4.74%	11,705
2030	3.22%	35,637
2037	4.63%	6,537
Contractual Mortgage Notes Payable:	4.27%	\$ 469,386
Premiums (Discounts), net:		(210)
Total Mortgage Notes Payable:		<u>\$ 469,176</u>
Variable-Rate Line of Credit:		
2023	LIBOR +1.65%	<u>\$ 43,100</u>
Variable-Rate Term Loan Facility:		
2024	LIBOR +1.60%	<u>\$ 160,000</u>
Total Mortgage Notes Payable and Line of Credit	3.52%	<u>\$ 672,276</u>

Select corporate covenants

Description	(\$ in thousands)	
	Threshold	June 30, 2020
Consolidated Tangible Net Worth	> \$551,433	\$702,325
Leverage Ratio	< 60%	49%
Debt Yield Ratio	> 11%	14%
Fixed Charge Coverage Ratio	> 1.45	1.81
Maximum Dividend Payout (FFO based)	< 98%	94%
Secured Indebtedness	< 45%	34%

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 95%
- Current occupancy 95.5%
- 2.8% of projected rents expiring through the end of 2020
- Of 100+ assets with over \$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 6/30/2020

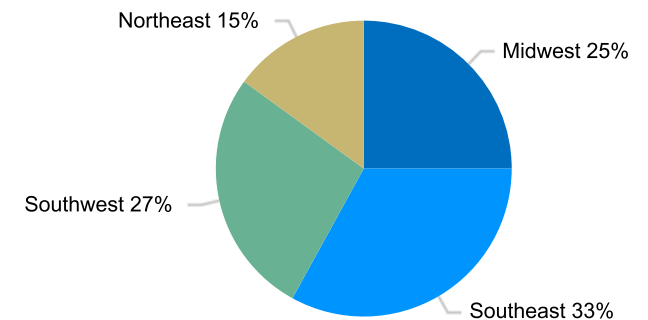
Diversified portfolio

122 properties spread across 28 states

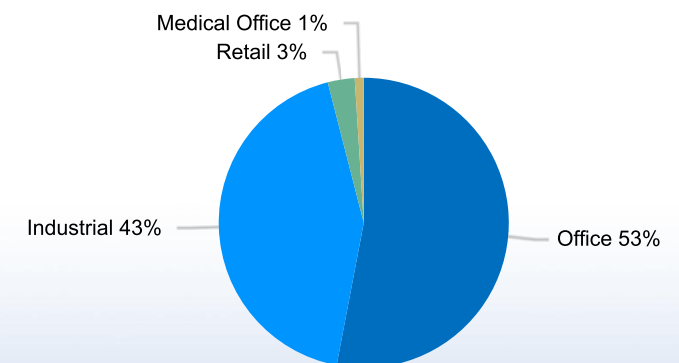


Note: As of 6/30/2020





**Geographic diversification
(by annualized straight line rent)**



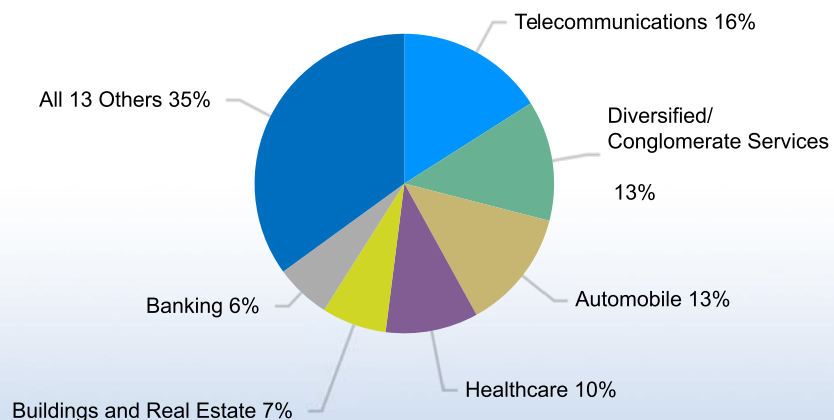
**Property type diversification
(by annualized straight line rent)**



High quality, diversified portfolio

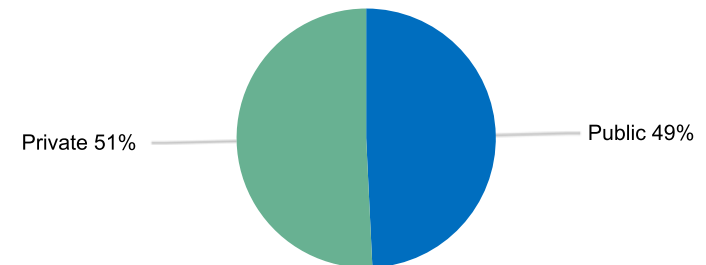
Top 5 tenants	% of annualized straight line rent	% of SF
	4%	2%
	3%	6%
	3%	1%
Morgan Stanley	3%	1%
	2%	1%
All other tenants	85%	89%

Industry diversification (based on annualized straight line rent)

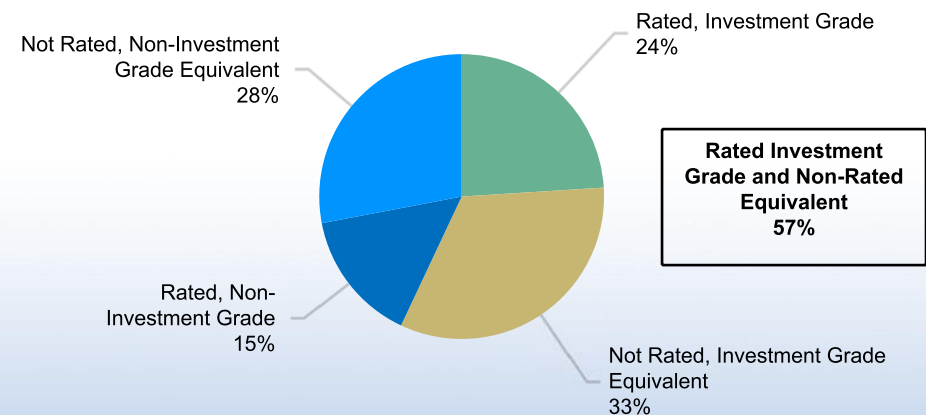


Note: As of 6/30/2020

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



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

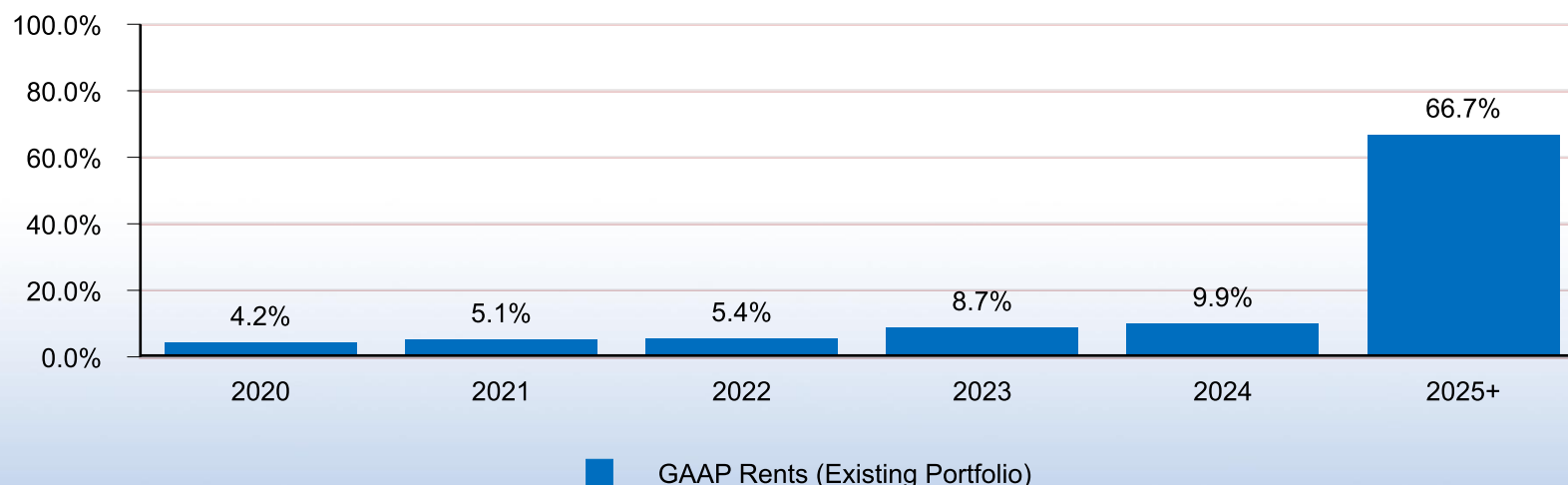


Smooth lease rollover

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	362,213	2	\$ 4,869	4.2%
2021	407,253	11	5,945	5.1%
2022	446,457	8	6,288	5.4%
2023	1,466,432	15	10,055	8.7%
2024	1,740,195	11	11,404	9.9%
2025+	9,964,996	81	77,105	66.7%
Total	14,387,546	128	\$ 115,666	100.0%

Rent expiring



Note: As of 6/30/2020



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