



 **GLADSTONE COMMERCIAL**

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



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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 September 30, 2020, we owned approximately 14.9 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 September 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 September 30, 2020, our leases had an average remaining term of 7.4 years. In addition, approximately 55% of our tenants have an investment grade or investment grade equivalent credit rating.

Portfolio and financial overview

Portfolio data¹

Total assets (\$mm)	\$	1,076
Properties		122
Tenants		105
Industries		19
States		28
Average remaining lease term (years)		7.4
Occupancy		95.0 %
Square footage owned (mm)		14.9

Capitalization (\$mm)¹

Common equity market capitalization ²	\$	587
Preferred equity		164
Net total debt		661
Total capitalization	\$	1,412
Less: Cash and cash equivalents		(10)
Total enterprise value	\$	1,402
Net total debt / enterprise value		46.4%
Net total debt + preferred / enterprise value		58.1%
Net total debt / gross assets		46.2%

Top 5 tenants ¹	% of annualized straight line rent	% of SF
	3%	6%
	3%	1%
Morgan Stanley	3%	1%
TOWERS WATSON 	2%	1%
	2%	1%
Top 5 Tenants total	13%	10%
Top 5 Tenants average remaining lease term		4.9 years
Portfolio average remaining lease term		7.4 years

Corporate liquidity (\$mm)¹

Cash and Cash Equivalents	\$	10.4
Availability Under Revolving Credit Facility ³		27.8
Total	\$	38.2

¹ As of 9/30/2020.

² Based on closing common stock price per share on September 30, 2020 of \$16.85. Includes OP units and senior common shares convertible into shares of common stock.

³ As of November 5, 2020, approximately \$30.0 million is available under the Company's revolving credit facility.

Q3 2020 highlights (unaudited)

FFO¹ and Core FFO²:	Generated FFO \$13.9 million, or \$0.39 per diluted share, and core FFO of \$14.0 million, or \$0.40 per diluted share.
Acquisitions⁽³⁾:	Purchased a 153,600 square foot property in Indianapolis, Indiana for \$10.6 million, with a 9.7 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, Series E preferred dividends, and Series F preferred dividends.
Equity Issuances:	Issued common equity for net proceeds of \$4.0 million through our ATM program, issued Series E preferred equity for net proceeds of \$3.6 million through our ATM program, and issued Series F preferred equity for net proceeds of \$1.0 million.
Debt Activity:	Repaid \$4.0 million of variable rate mortgage debt with an interest rate of LIBOR plus 2.00% collateralized by our Maple Heights, Ohio property.
Select Expenditure Activity:	Paid \$0.9 million related to capital expenditures and \$0.2 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.

³Purchase price 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)			For the nine months ended (unaudited)	
	9/30/2020	6/30/2020	9/30/2019	9/30/2020	9/30/2019
Operating revenues					
Lease revenue	\$ 33,142	\$ 33,525	\$ 28,667	\$ 100,287	\$ 85,001
Total operating revenues	\$ 33,142	\$ 33,525	\$ 28,667	\$ 100,287	\$ 85,001
Operating expenses					
Depreciation and amortization	\$ 13,798	\$ 14,182	\$ 12,979	\$ 42,076	\$ 38,611
Property operating expenses	6,590	6,295	3,202	19,098	9,330
Base management fee	1,418	1,389	1,292	4,219	3,852
Incentive fee	1,128	1,119	965	3,301	2,720
Administration fee	361	395	411	1,194	1,222
General and administrative	775	752	596	2,406	2,035
Impairment charge	1,184	1,721	—	2,905	—
Total operating expenses	\$ 25,254	\$ 25,853	\$ 19,445	\$ 75,199	\$ 57,770
Other (expense) income					
Interest expense	\$ (6,444)	\$ (6,716)	\$ (7,170)	\$ (20,411)	\$ (21,406)
Gain on sale of real estate	1,196	—	—	1,184	2,952
Other income	204	9	139	209	291
Total other expense, net	\$ (5,044)	\$ (6,707)	\$ (7,031)	\$ (19,018)	\$ (18,163)
Net income	\$ 2,844	\$ 965	\$ 2,191	\$ 6,070	\$ 9,068
Net loss (income) attributable (available) to non-controlling interests	2	28	16	39	(13)
Net income attributable to the company	\$ 2,846	\$ 993	\$ 2,207	\$ 6,109	\$ 9,055
Distributions attributable to Series A, B, D, E, and F preferred stock	(2,771)	(2,688)	(2,612)	(8,137)	(7,837)
Distributions attributable to senior common stock	(203)	(204)	(226)	(615)	(675)
Net (loss) income (attributable) available to common stockholders	\$ (128)	\$ (1,899)	\$ (631)	\$ (2,643)	\$ 543
Weighted average common shares outstanding and Non-controlling OP Units					
Basic and diluted	34,578,180	34,442,859	31,775,739	34,386,442	31,081,627

Funds from Operations (FFO)

(\$ in thousands, except per share amounts)

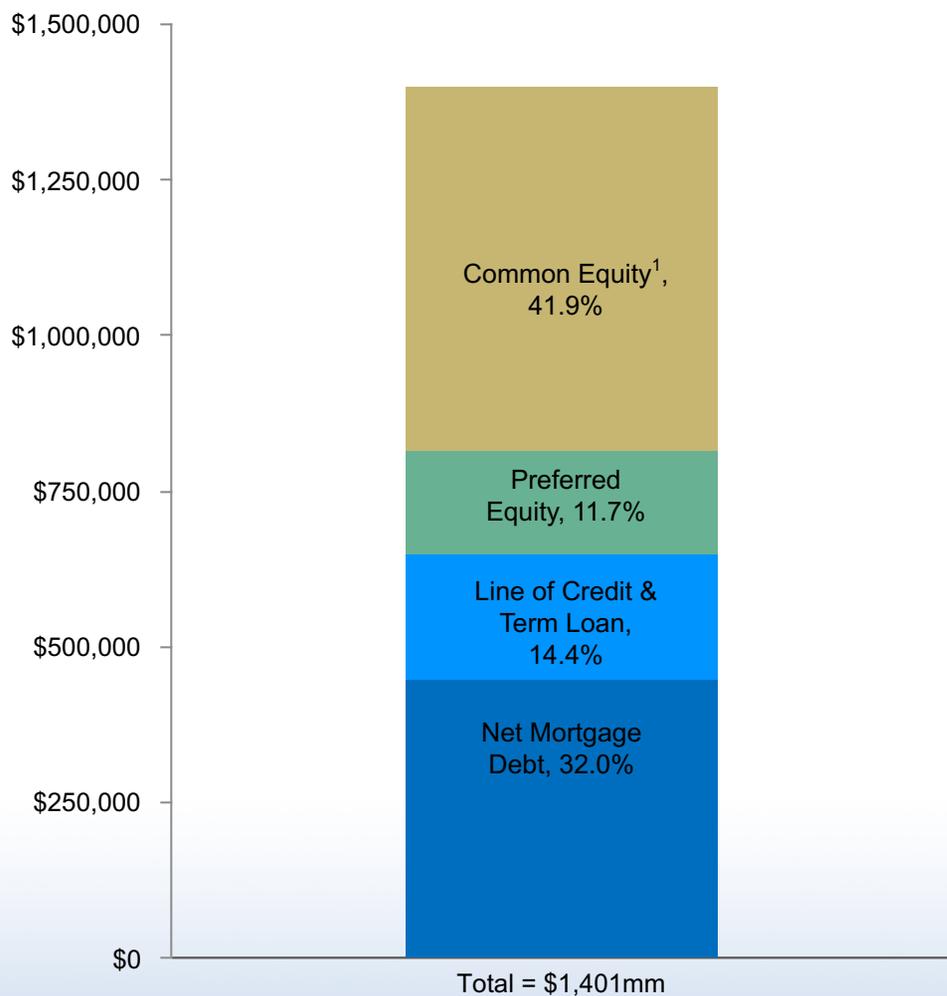
	For the three months ended (unaudited)			For the nine months ended (unaudited)	
	9/30/2020	6/30/2020	9/30/2019	9/30/2020	9/30/2019
Net income	\$ 2,844	\$ 965	\$ 2,191	\$ 6,070	\$ 9,068
Less: Distributions attributable to preferred and senior common stock	(2,974)	(2,892)	(2,838)	(8,752)	(8,512)
Net (loss) income (attributable) available to common stockholders and Non-controlling OP Unitholders	\$ (130)	\$ (1,927)	\$ (647)	\$ (2,682)	\$ 556
Adjustments:					
Add: Real estate depreciation and amortization	\$ 13,798	\$ 14,182	\$ 12,979	\$ 42,076	\$ 38,611
Add: Impairment charge	1,184	1,721	—	2,905	—
Less: Gain on sale of real estate, net	(1,196)	—	—	(1,184)	(2,952)
FFO available to common stockholders and Non-controlling OP Unitholders - basic	\$ 13,656	\$ 13,976	\$ 12,332	\$ 41,115	\$ 36,215
Add: Convertible senior common distributions	203	204	226	615	675
FFO available to common stockholders and Non-controlling OP Unitholders - diluted	\$ 13,859	\$ 14,180	\$ 12,558	\$ 41,730	\$ 36,890
FFO available to common stockholders and Non-controlling OP Unitholders - basic	\$ 13,656	\$ 13,976	\$ 12,332	\$ 41,115	\$ 36,215
Add: Acquisition related expenses	74	8	(6)	88	122
Add: Write off of deferred financing fees	—	—	61	—	344
Add: Write off shelf registration statement costs	—	—	—	—	18
Add: Asset retirement obligation expense	32	31	32	104	95
Add: Bad debt write off	56	—	—	56	—
Less: PACE financing amortization, net	(35)	—	—	(4)	—
Core FFO available to common stockholders and Non-controlling OP Unitholders - basic	\$ 13,783	\$ 14,015	\$ 12,419	\$ 41,359	\$ 36,794
Add: Convertible senior common distributions	203	204	226	615	675
Core FFO available to common stockholders and Non-controlling OP Unitholders - diluted	\$ 13,986	\$ 14,219	\$ 12,645	\$ 41,974	\$ 37,469
Weighted average common shares outstanding and Non-controlling OP Units - basic	34,578,180	34,442,859	31,775,739	34,386,442	31,081,627
Weighted average common shares outstanding and Non-controlling OP Units - diluted	35,219,610	35,092,914	32,485,645	35,027,872	31,791,533
FFO per weighted average share of common stock and Non-controlling OP Unit - basic	\$ 0.39	\$ 0.41	\$ 0.39	\$ 1.20	\$ 1.17
FFO per weighted average share of common stock and Non-controlling OP Unit - diluted	\$ 0.39	\$ 0.40	\$ 0.39	\$ 1.19	\$ 1.16
Core FFO per weighted average share of common stock and Non-controlling OP Unit - basic	\$ 0.40	\$ 0.41	\$ 0.39	\$ 1.20	\$ 1.18
Core FFO per weighted average share of common stock and Non-controlling OP Unit - diluted	\$ 0.40	\$ 0.41	\$ 0.39	\$ 1.20	\$ 1.18
Distributions declared per share of common stock and Non-controlling OP Unit	\$ 0.37545	\$ 0.37545	\$ 0.37500	\$ 1.12635	\$ 1.12500

Condensed consolidated balance sheets

(\$ in thousands)	(unaudited) 9/30/2020	12/31/2019
ASSETS		
Real estate, at cost	\$ 1,094,854	\$ 1,056,978
Less: accumulated depreciation	221,849	207,523
Total real estate, net	873,005	849,455
Lease intangibles, net	114,242	115,465
Real estate and related assets held for sale, net	18,173	3,990
Cash and cash equivalents	10,370	6,849
Restricted cash	4,892	4,639
Funds held in escrow	8,936	7,226
Right-of-use assets from operating leases	5,636	5,794
Deferred rent receivable, net	35,661	37,177
Other assets	4,921	8,913
TOTAL ASSETS	\$ 1,075,836	\$ 1,039,508
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES		
Mortgage notes payable, net	\$ 458,364	\$ 453,739
Borrowings under revolver and term loan, net	202,295	172,855
Deferred rent liability, asset retirement obligation and other liabilities, net	56,615	49,724
TOTAL LIABILITIES	\$ 717,274	\$ 676,318
MEZZANINE EQUITY		
Series D and E redeemable preferred stock, net	\$ 157,751	\$ 152,153
TOTAL MEZZANINE EQUITY	\$ 157,751	\$ 152,153
STOCKHOLDERS' EQUITY		
Senior common stock	1	1
Common stock	34	32
Series F redeemable preferred stock	—	—
Additional paid in capital	604,707	571,205
Accumulated other comprehensive income	(4,859)	(2,126)
Distributions in excess of accumulated earnings	(401,834)	(360,978)
TOTAL STOCKHOLDERS' EQUITY	\$ 198,049	\$ 208,134
OP Units held by Non-controlling OP Unitholders	2,762	2,903
TOTAL EQUITY	\$ 200,811	\$ 211,037
TOTAL LIABILITIES, MEZZANINE EQUITY AND EQUITY	\$ 1,075,836	\$ 1,039,508

Capital structure

Current capital structure as of 9/30/2020 (\$000)

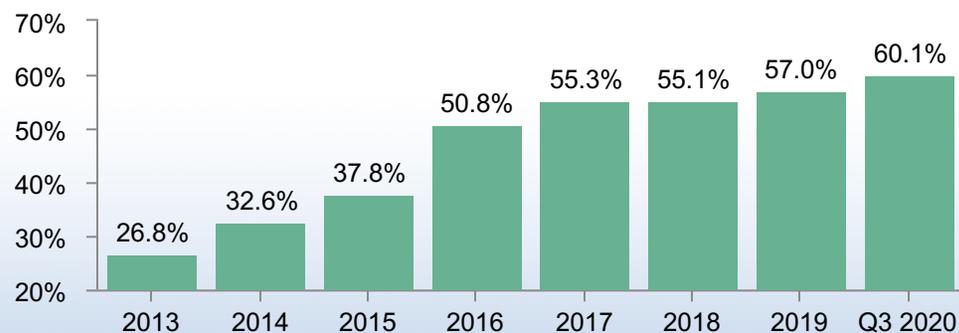


Capital Structure Details

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

	Wtd. Average Rate	9/30/2020
Mortgage Notes Payable, Net	4.28%	\$ 458,364
Less: Cash & Cash Equivalents		(10,370)
Net Mortgage Debt		\$ 447,994
Line of Credit	L+1.65%	\$ 43,149
Term Note	L+1.60%	159,146
Line of Credit and Term Loan		\$ 202,295
Total Debt, Net		\$ 650,289
Series D - Preferred	7.000%	87,739
Series E - Preferred	6.625%	74,985
Series F - Preferred	6.000%	1,128
Total Preferred Equity		\$ 163,852
Diluted Common Shares Outstanding		34,825,299
Stock Price		\$ 16.85
Implied Common Equity¹ Market Capitalization		\$ 586,806
Enterprise Value		\$ 1,400,947

Institutional Stock Ownership ²

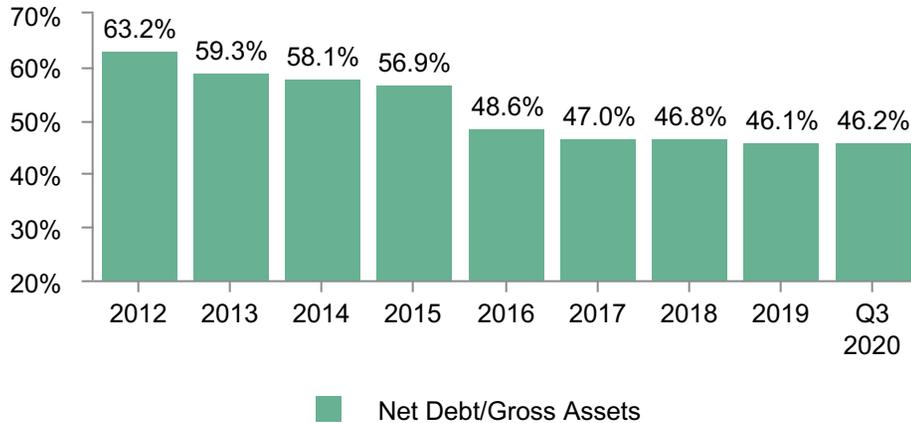


¹ Common Equity is based on the closing common stock price per share as of September 30, 2020 of \$16.85 and includes effect of OP units and convertible senior common stock.

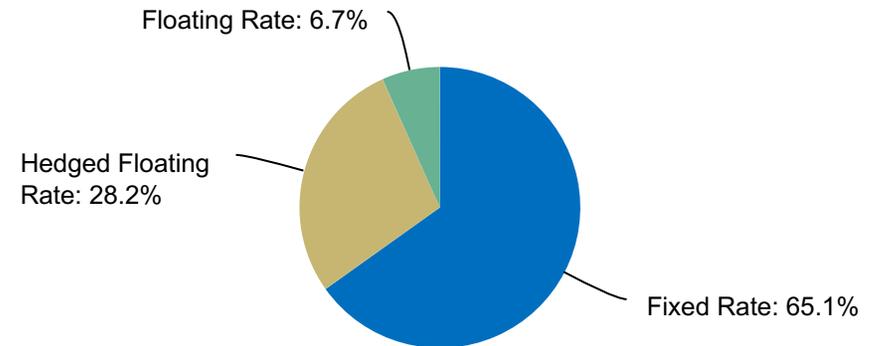
² Source: Nasdaq Online.

Liquidity and debt overview

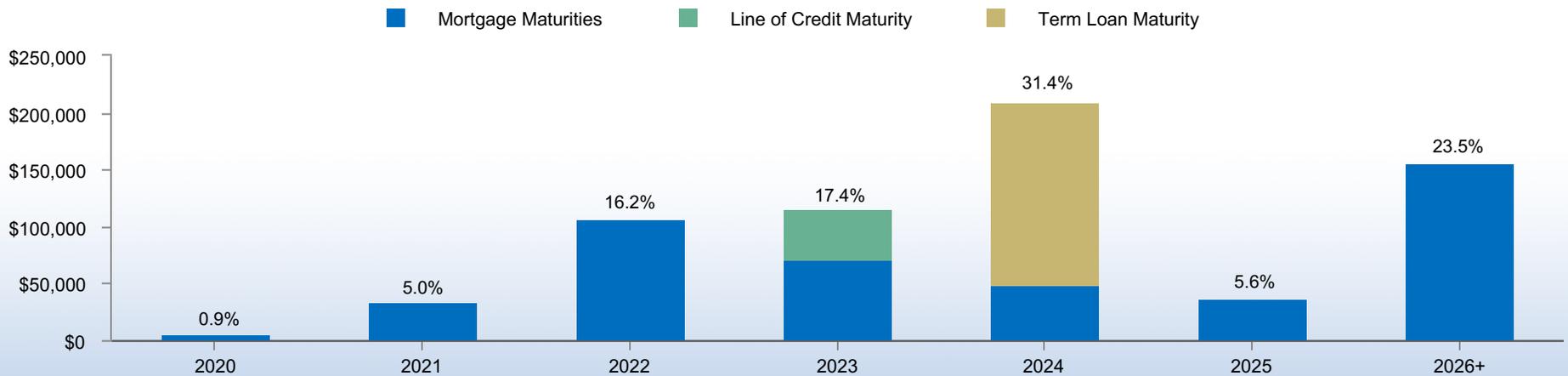
Reducing Leverage¹



Fixed vs. Floating Debt¹



Debt maturity schedule¹ (\$'000)



¹ As of 9/30/2020.

Debt summary

Principal Maturity Date	Weighted Average Interest Rate as of 9/30/2020	(\$ in thousands)	
		Principal Balance Outstanding as of 9/30/2020	
2020	2.40%		3,186
2021	3.99%		20,986
2022	4.67%		102,261
2023	4.39%		66,912
2024	4.03%		43,870
2025	4.03%		33,033
2026	4.40%		48,611
2027	4.35%		85,134
2028	5.32%		4,559
2029	4.74%		11,634
2030	3.22%		35,450
2037	4.63%		6,474
Contractual Mortgage Notes Payable:	4.28%	\$	<u>462,110</u>
Premiums (Discounts), net:			<u>(196)</u>
Total Mortgage Notes Payable:		\$	<u><u>461,914</u></u>
Variable-Rate Line of Credit:			
2023	LIBOR +1.65%	\$	<u><u>43,800</u></u>
Variable-Rate Term Loan Facility:			
2024	LIBOR +1.60%	\$	<u><u>160,000</u></u>
Total Mortgage Notes Payable and Line of Credit	3.51%	\$	<u><u>665,714</u></u>

Select corporate covenants

Description	(\$ in thousands)	
	Threshold	September 30, 2020
Consolidated Tangible Net Worth	> \$557,866	\$718,149
Leverage Ratio	< 60%	49%
Fixed Charge Coverage Ratio	> 1.50	1.85
Maximum Dividend Payout (FFO based)	< 98%	94%
Secured Indebtedness	< 45%	33%

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 **95.0%**
- No 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 9/30/2020

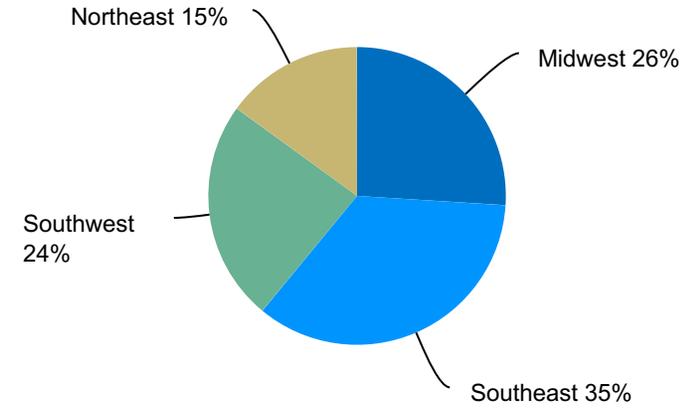
Diversified portfolio

122 properties spread across 28 states

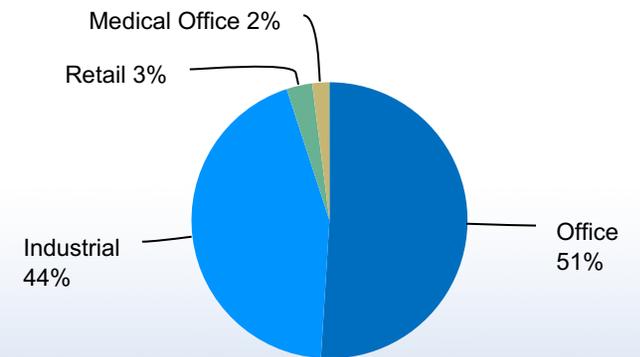


Note: As of 9/30/2020

Geographic diversification
(by annualized straight line rent)



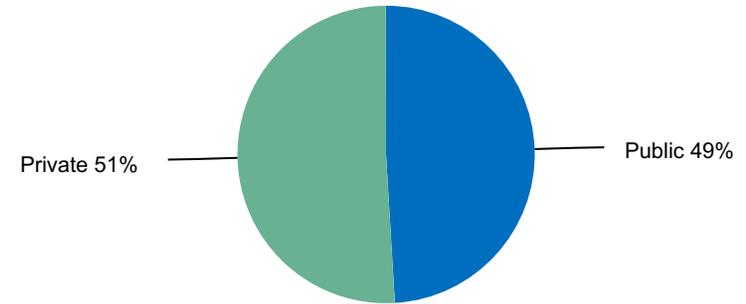
Property type diversification
(by annualized straight line rent)



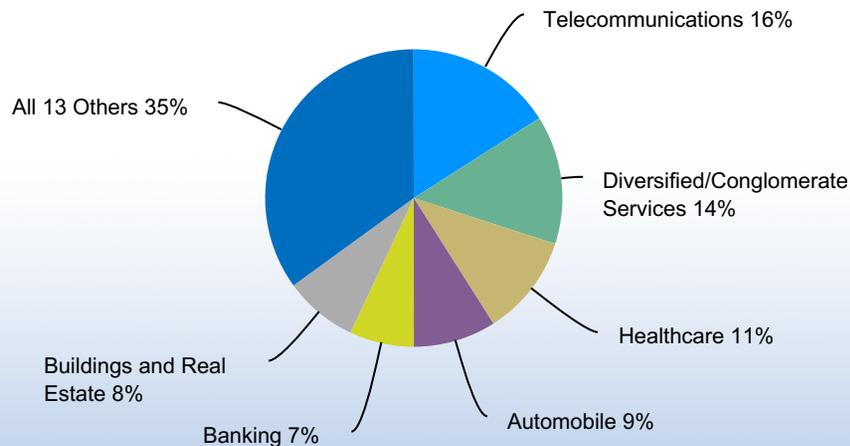
High quality, diversified portfolio

Top 5 tenants	% of annualized straight line rent	% of SF
 Kane is able, Inc.	3 %	6 %
 ADP	3 %	1 %
Morgan Stanley	3 %	1 %
TOWERS WATSON 	2 %	1 %
 Verizon Wireless	2 %	1 %
All other tenants	87 %	90 %

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

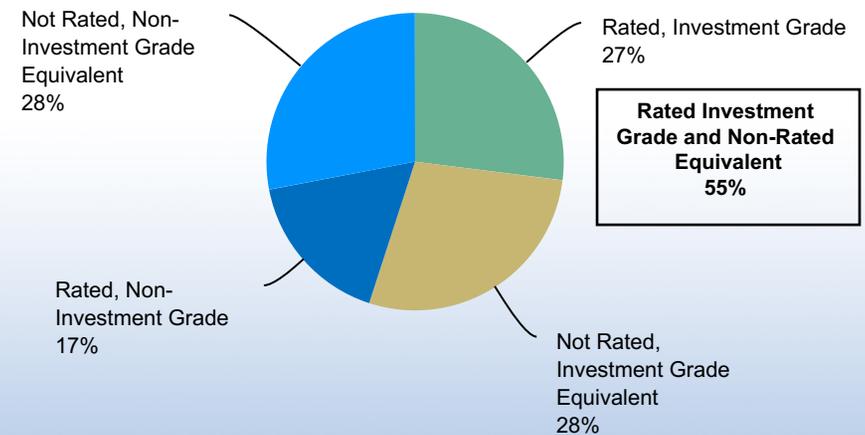


Industry diversification (based on annualized straight line rent)



Note: As of 9/30/2020

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

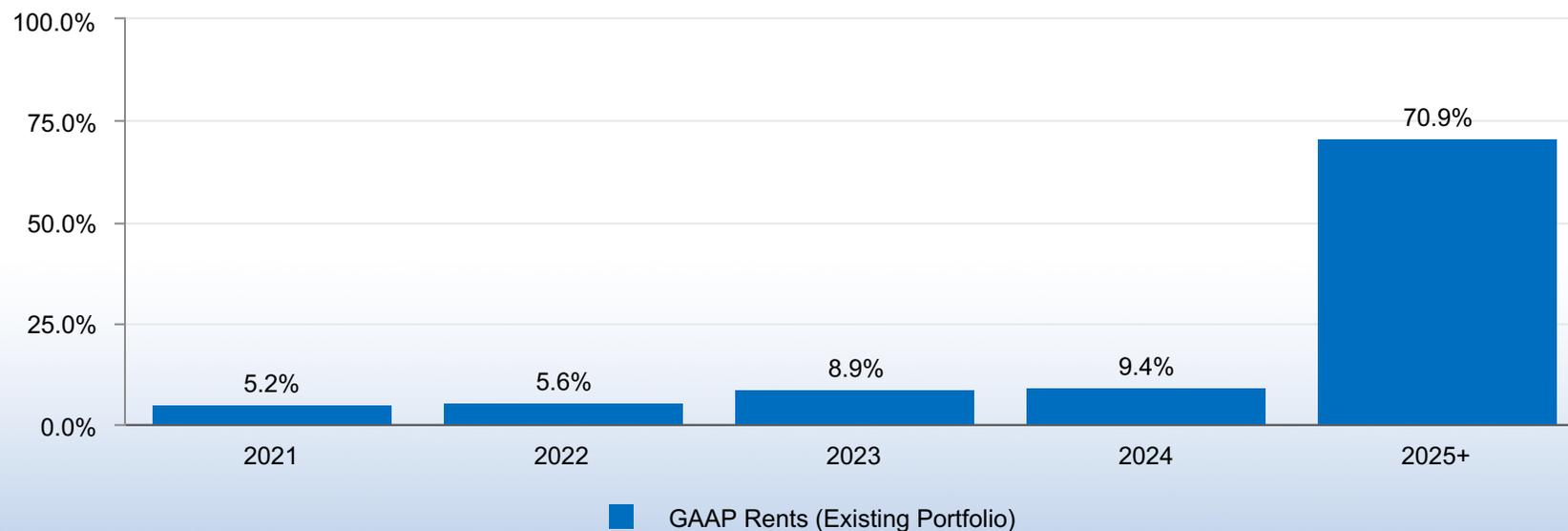


Smooth lease rollover

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
2021	326,364	10	5,857	5.2 %
2022	446,457	8	6,288	5.6 %
2023	1,466,432	15	9,979	8.9 %
2024	1,678,837	10	10,500	9.4 %
2025+	10,215,458	85	78,965	70.9 %
Total	14,133,548	128	\$ 111,589	100.0 %

Rent expiring



Note: As of 9/30/2020



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