



GLADSTONE COMMERCIAL

2020 REITWorld Presentation



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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, with an industrial product emphasis
- The Company owns approximately 14.9 million square feet of predominantly office and industrial real estate nationwide
- Diversified portfolio of 122 properties in 28 states leased to 105 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 9/30/2020

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Gladstone
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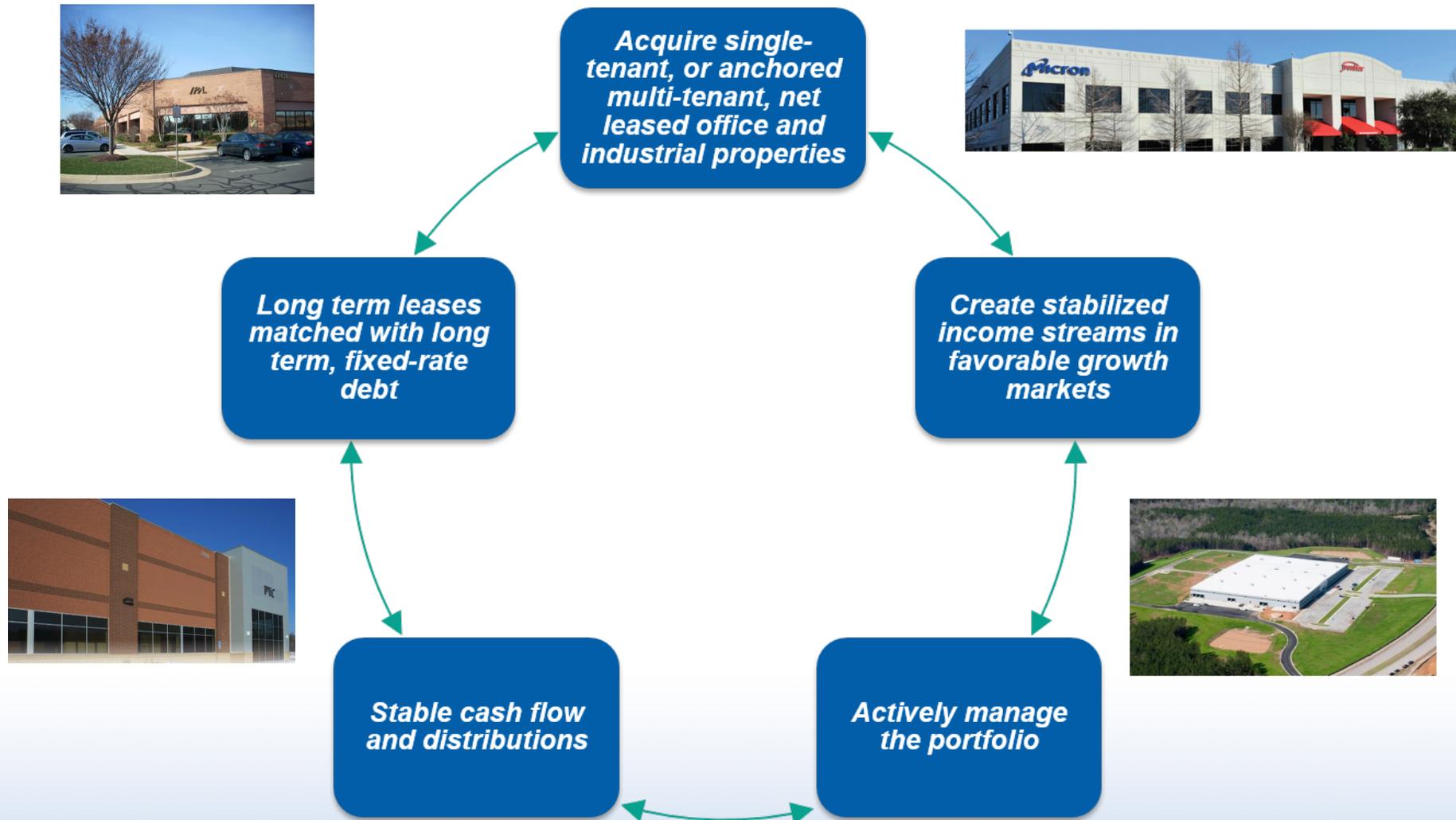
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Gladstone Commercial's Investment Philosophy



Gladstone Commercial Overview

- IPO in 2003 (Nasdaq: GOOD)
- Market Capitalization: **\$587mm**⁽¹⁾
- Enterprise Value: **\$1,402mm**⁽¹⁾
- Common stock annual distribution per share: **\$1.5018**
 - Monthly distributions
 - No missed or reduced cash distributions since inception

Portfolio summary (9/30/2020)

# of Properties	122
Square feet (mm)	14.9
Occupancy	95.0%
States	28
Tenants	105
Industries	19
Annual lease revenue (LTM) (\$mm)	\$129.7
Diluted FFO per Common Share, as adjusted for comparability (LTM)	\$1.57
Diluted Core FFO per Common Share (LTM)	\$1.61
Average Remaining Lease Term	7.4 years



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

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Significant Growth & Diversification Since 2010

GOOD Portfolio

	12/31/10	9/30/2020	Variance	
Grew a diverse portfolio	Total assets (\$mm)	\$ 410.6	\$ 1,075.8	\$ 665.2
	Properties	65	122	57
	Tenants	52	105	53
	Square feet (mm)	6.8	14.9	8.1
	Occupancy (%)	97.2 %	95.0 %	(2.2)%
	Lease Revenue From Top 5 tenants (\$mm) ⁽¹⁾	\$ 10.0	\$ 15.0	\$ 5.0
	% of Total Lease Revenue	24.2 %	13.4 %	(10.8)%
Revenue and cash flow growth	Revenues (LTM) (\$mm)	\$ 41.9	\$ 129.7	\$ 87.8
	Diluted FFO (LTM) (\$mm)	\$ 14.1	\$ 51.8	\$ 37.7
	Diluted FFO, as adjusted for comparability (LTM) (\$mm)	\$ 14.1	\$ 54.5	\$ 40.4
	Diluted Core FFO (LTM) (\$mm)	\$ 14.5	\$ 55.2	\$ 40.7
Improved capital structure	Net Total Debt / Enterprise Value	58.9 %	46.4 %	(12.5)%
	Net Total Debt + Preferred / Enterprise Value	70.0 %	58.1 %	(11.9)%
	Net Total Debt / Gross Assets ⁽²⁾	62.7 %	46.2 %	(16.5)%

⁽¹⁾ Annualized

⁽²⁾ Gross Assets equal total assets before depreciation

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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, and an industrial emphasis
- 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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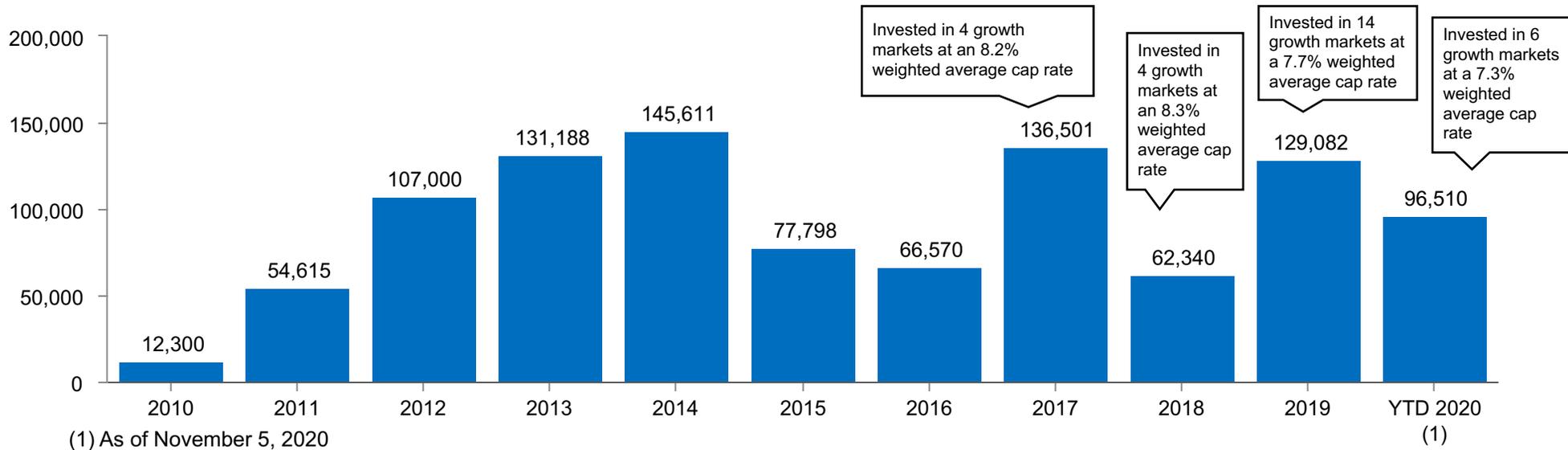
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Gladstone Has Achieved Consistent and Disciplined Growth

Historical Investment Volume (\$000)



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%



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 **95.0%**; Since IPO in 2003, never below 95%
- No projected rents expiring through the end of 2020
- Of 100+ assets with over \$1 billion invested since inception, only two tenant defaults – **an average annual default rate of 0.2%**.
 - For comparison, the one-year B+ global corporate default rate has averaged 2.3% from 2003-2019 (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 9/30/2020

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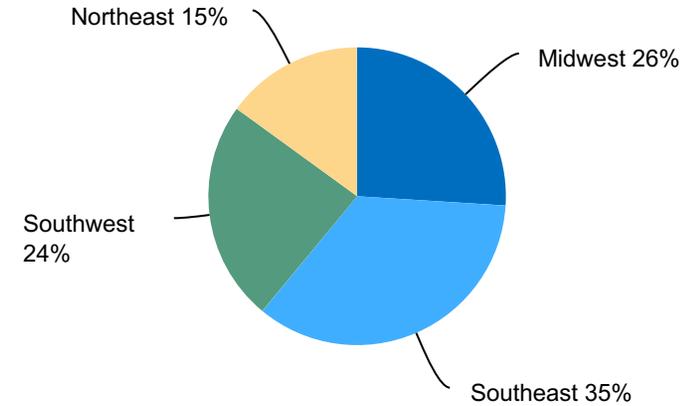
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Diversified Portfolio

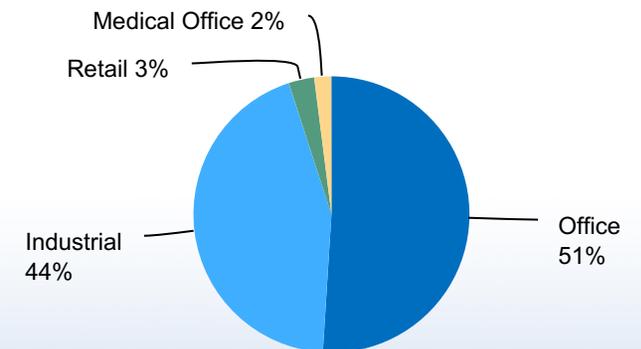
122 properties spread across 28 states



Geographic diversification
(by annualized straight line rent)



Property type diversification
(by annualized straight line rent) ⁽¹⁾



Note: As of 9/30/2020

⁽¹⁾ As of November 2020, industrial asset concentration comprises 45% of the total portfolio.

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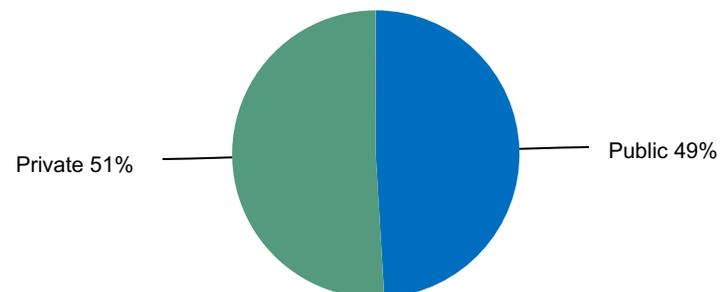
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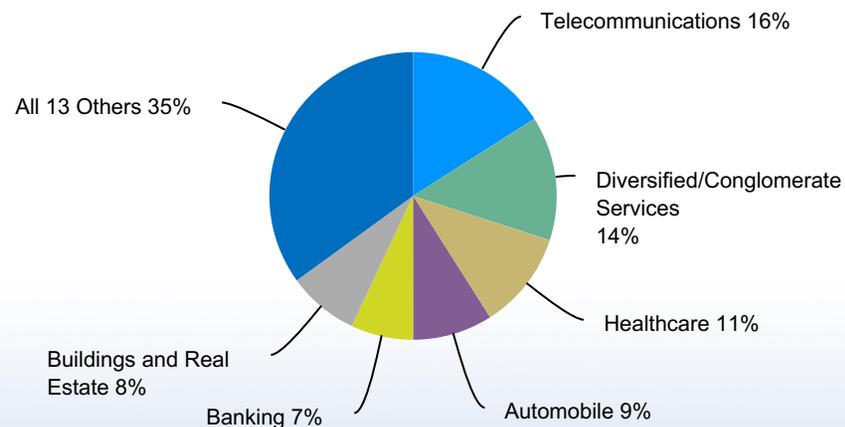
High Quality, Diversified Portfolio

Top tenants	% of annualized straight line rent	% of SF
 Kane	3 %	6 %
 ADP	3 %	1 %
Morgan Stanley	3 %	1 %
 TOWERS WATSON	2 %	1 %
 Verizon	2 %	1 %
All other tenants	87 %	90 %

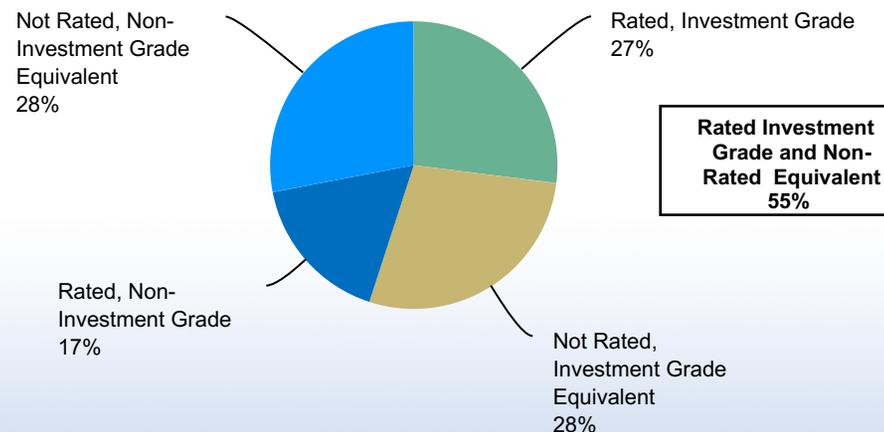
Publicly-traded vs. privately-held tenants (as % of annualized straight line rent)



Industry diversification (based on annualized straight line rent)



Tenant credit ratings (as % annualized straight line rent)



Note: As of 9/30/2020

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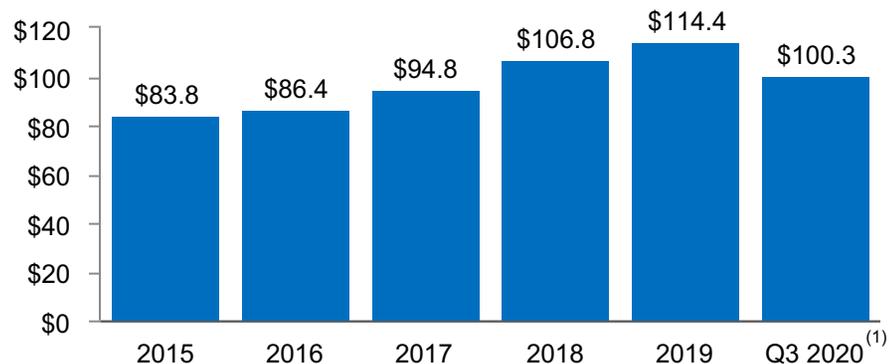


Financial Performance

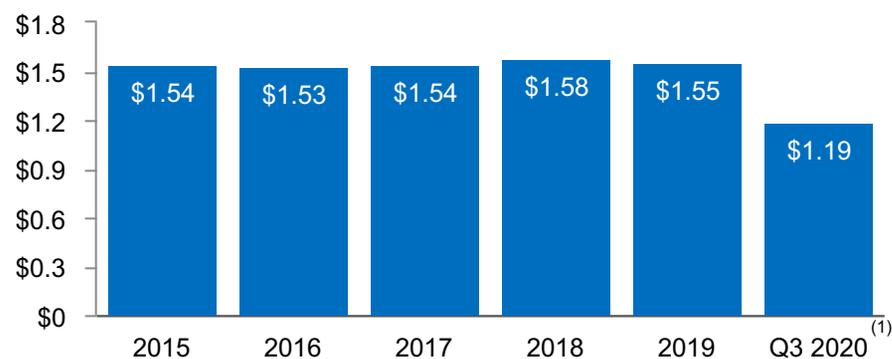


Summary Historical Performance

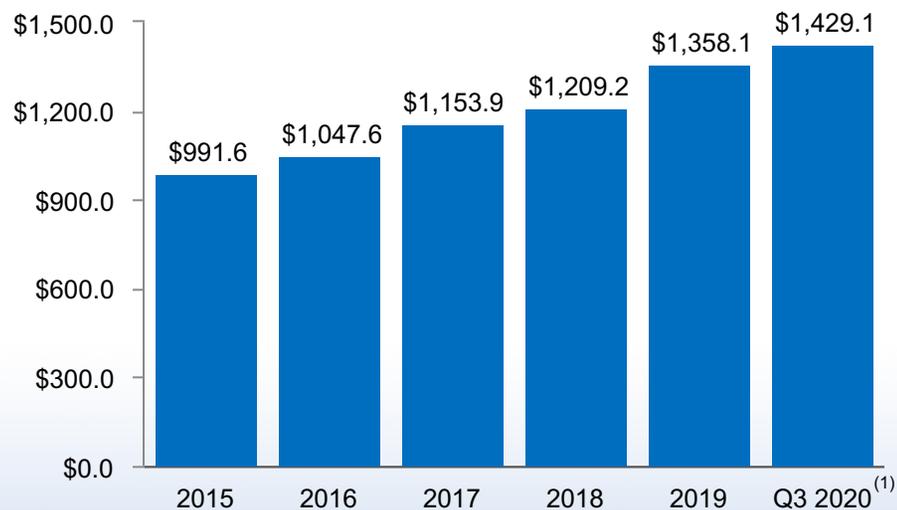
Total Revenue (\$ in millions)



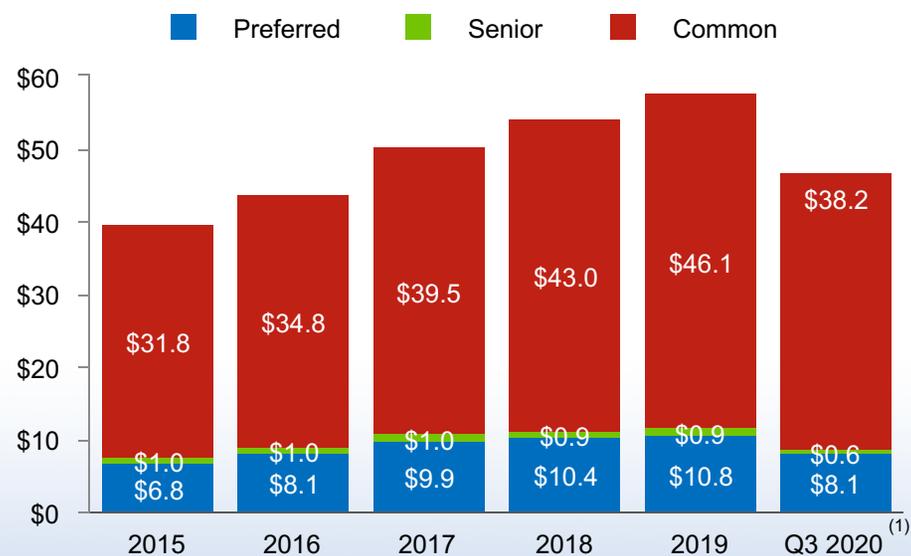
Funds from Operations, as adjusted for comparability (Per Share)



Total Gross Assets (\$ in millions)



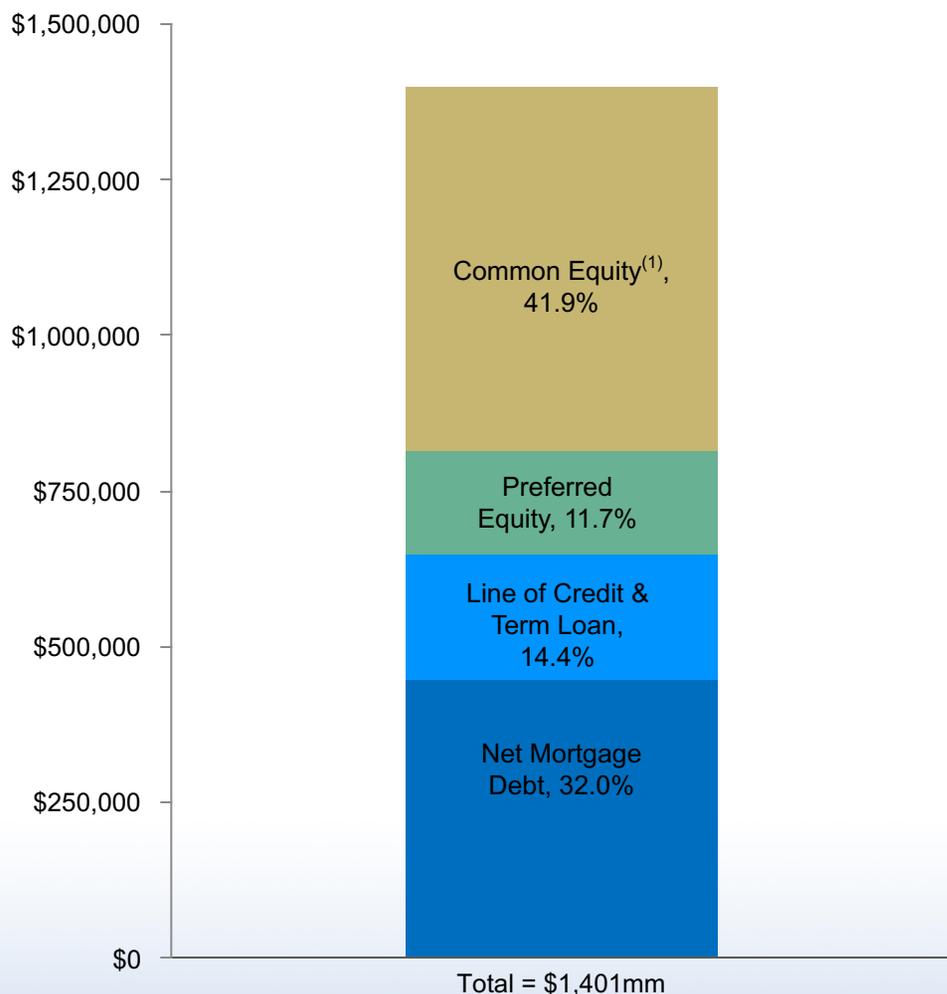
Total Distributions (\$ in millions)



⁽¹⁾ January 1, 2020 - September 30, 2020

Capital Structure Overview

Current Capital Structure as of 9/30/2020 (\$000s)



⁽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.

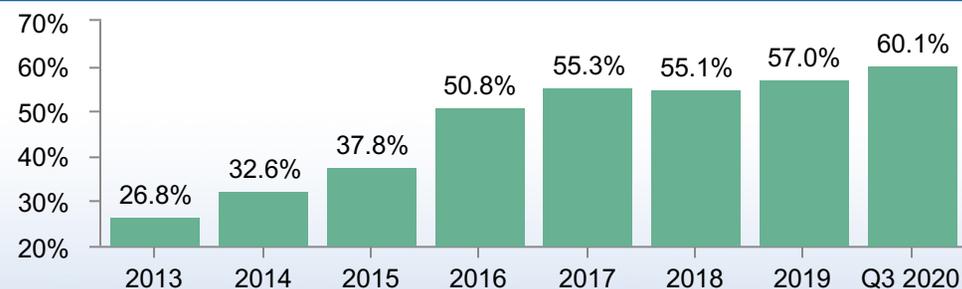
⁽²⁾ Source: Nasdaq Online

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 Equity⁽¹⁾ Market Capitalization		\$ 586,806
Enterprise Value		\$ 1,400,947

Institutional Stock Ownership ⁽²⁾



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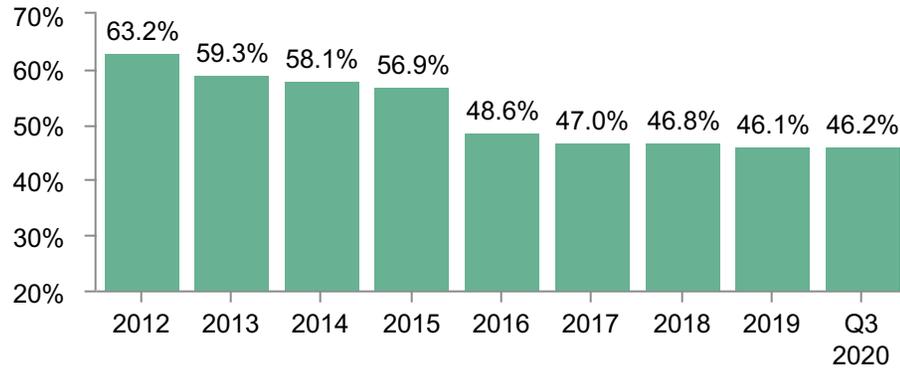
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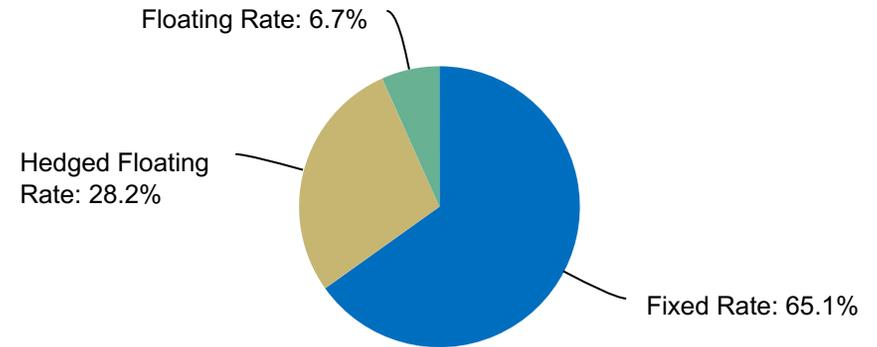
Liquidity and Debt Overview

Reducing Leverage

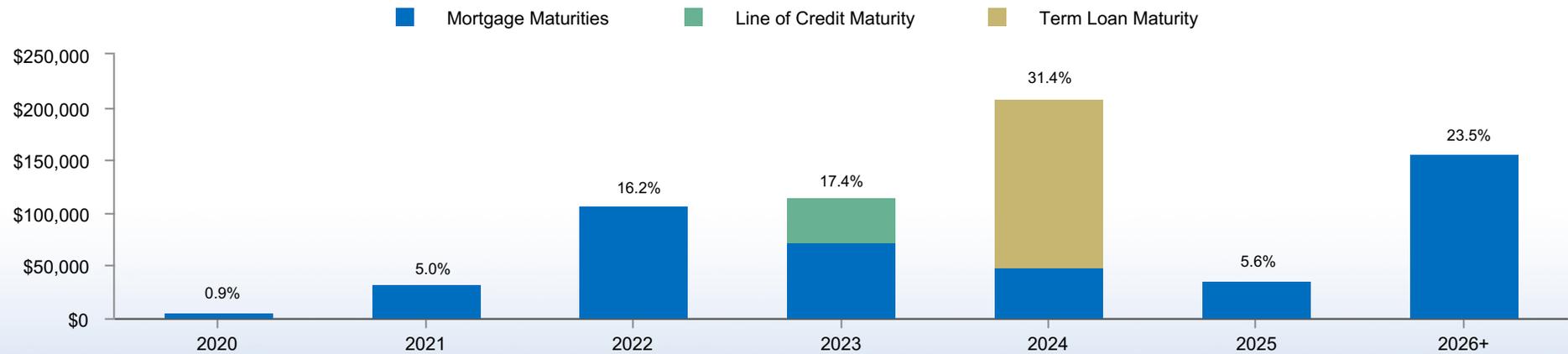


Net Debt/Gross Assets

Fixed vs. Floating Debt



Debt maturity schedule (\$000s)



Note: As of 9/30/2020



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, Executive Vice President, South Central Region

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, Executive Vice President, Midwest and Northeast 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, Executive Vice President, 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 (>95%) since 2003***
- ***Strengthened credit profile with net total debt to gross assets down to 46.2%***
- ***Focused on growth with limited lease expirations through 2022, and with an emphasis on increasing the industrial allocation***

Note: As of 9/30/2020



Appendix

- 1. Condensed Consolidated Statements of Operations**
- 2. Funds From Operations (FFO)**
- 3. Condensed Consolidated 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 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

Debt Summary

(\$ in thousands)		
Principal Maturity Date	Weighted Average Interest Rate as of 9/30/2020	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:		\$ 462,110
Premiums (Discounts), net:		(196)
Total Mortgage Notes Payable:		\$ 461,914
Variable-Rate Line of Credit:		
2023	LIBOR +1.65%	\$ 43,800
Variable-Rate Term Loan Facility:		
2024	LIBOR +1.60%	\$ 160,000
Total Mortgage Notes Payable and Line of Credit		\$ 665,714

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 95% 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**



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