



GLADSTONE COMMERCIAL

*Supplemental Financial & Operating Information
for the Quarter Ended September 30, 2022*

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Corporate overview



Industrial building located in Huntsville, Alabama

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, 2022, we owned approximately 17.2 million square feet of primarily industrial and office 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, 2022, total assets were approximately \$1.2 billion, representing investments in 137 properties. Our properties are leased to 112 tenants who represent 19 diversified industries across 27 states.

At September 30, 2022, our leases had an average remaining term of 7.1 years. In addition, approximately 54% of our tenants have an investment grade or investment grade equivalent credit rating.

Portfolio and financial overview






Portfolio data¹

Total assets (\$mm)	\$ 1,210
Properties	137
Tenants	112
Industries	19
States	27
Average remaining lease term (years)	7.1
Occupancy	96.9 %
Square footage owned (mm)	17.2

Capitalization (\$mm)¹

Common equity market capitalization ²	\$ 620
Preferred equity	191
Net total debt	742
Total capitalization	\$ 1,553
Less: Cash and cash equivalents	(14)
Total enterprise value	\$ 1,539
Net total debt / enterprise value	47.3%
Net total debt + preferred / enterprise value	59.8%
Net total debt / gross assets	44.8%

Top 5 tenants¹

	% of annualized straight line rent	% of SF
TOWERS WATSON 	4%	1%
	3%	1%
	3%	1%
	3%	6%
	3%	1%
Top 5 Tenants total	16%	10%
Top 5 Tenants average remaining lease term		2.3 years
Portfolio average remaining lease term		7.1 years

Corporate liquidity (\$mm)¹

Cash and Cash Equivalents	\$ 13.5
Availability Under Revolving Credit Facility ³	56.0
Total	\$ 69.5

¹ As of 9/30/2022.

² Based on the closing common stock price per share on September 30, 2022 of \$15.50. Includes OP units and senior common shares convertible into shares of common stock.

³ As of November 7, 2022, approximately \$35.5 million is available under the Company's revolving credit facility.

Q3 2022 highlights (unaudited)

FFO¹ and Core FFO²:

Generated FFO and core FFO of \$17.1 million and \$17.5 million or \$0.43 and \$0.44 per diluted share, respectively.

Acquisitions³:

Purchased a 246,000 square foot, two-property portfolio in Bridgeton, New Jersey and Vineland, New Jersey for \$32.5 million, with a 15.1 year remaining lease term at both properties. Purchased a 67,328 square foot property in Jacksonville, Florida for \$8.0 million, with a 20.0 year remaining lease term. Purchased a 49,375 square foot property in Fort Payne, Alabama for \$5.6 million, with a 14.8 year remaining lease term.

Dividends:

Paid monthly common stock dividends totaling \$0.3762 per common share, or an annualized \$1.5048 per common share, as well as continued payments of monthly senior common dividends, Series E preferred dividends, Series F preferred dividends, and Series G preferred dividends.

Equity Issuances:

Issued common equity for net proceeds of \$8.9 million through our ATM program and issued Series F preferred equity for net proceeds of \$0.9 million.

Debt Activity:

Amended our existing Credit Facility to add a new \$150.0 million Term Loan C commitment, increase the Revolver commitment from \$100.0 million to \$125.0 million, and reduce the Term Loan B commitment from \$65.0 million to \$60.0 million. The maturity date of Term Loan A was extended to August 2027, and the Revolver to August 2026. The new Term Loan C maturity date is February 18, 2028 and a SOFR spread ranging from 125 to 195 basis points. Entered into multiple interest rate swap agreements on Term Loan C, which swap the interest rate to fixed rates from 3.15% to 3.75%. Repaid \$83.0 million in fixed rate mortgage debt with a weighted average interest rate of 4.51% collateralized by 15 properties. Repaid \$30.3 million in variable rate mortgage debt with a weighted average interest rate of LIBOR/SOFR + 2.50% collateralized by eight properties. Issued \$21.3 million of fixed rate or swapped to fixed rate mortgage debt with a weighted average interest rate of 5.04%.

Select Expenditure Activity:

Paid \$0.6 million related to capital expenditures and \$0.6 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 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)			For the nine months ended (unaudited)	
	9/30/2022	6/30/2022	9/30/2021	9/30/2022	9/30/2021
Operating revenues					
Lease revenue	\$ 39,834	\$ 36,399	\$ 34,334	\$ 111,764	\$ 102,381
Total operating revenues	\$ 39,834	\$ 36,399	\$ 34,334	\$ 111,764	\$ 102,381
Operating expenses					
Depreciation and amortization	\$ 15,764	\$ 15,219	\$ 14,760	\$ 45,672	\$ 45,661
Property operating expenses	6,536	6,959	6,807	20,118	20,278
Base management fee	1,603	1,577	1,472	4,727	4,369
Incentive fee	1,513	1,339	1,266	4,193	3,540
Administration fee	481	399	382	1,342	1,016
General and administrative	833	958	811	2,788	2,540
Impairment charge	10,718	1,374	—	12,092	—
Total operating expense before incentive fee waiver	\$ 37,448	\$ 27,825	\$ 25,498	\$ 90,932	\$ 77,404
Incentive fee waiver	—	—	—	—	(16)
Total operating expenses	\$ 37,448	\$ 27,825	\$ 25,498	\$ 90,932	\$ 77,388
Other (expense) income					
Interest expense	\$ (9,107)	\$ (7,121)	\$ (6,688)	\$ (22,813)	\$ (20,338)
Gain (loss) on sale of real estate, net	8,902	—	—	8,902	(882)
Other income	316	119	2,350	538	2,884
Total other expense, net	\$ 111	\$ (7,002)	\$ (4,338)	\$ (13,373)	\$ (18,336)
Net income	\$ 2,497	\$ 1,572	\$ 4,498	\$ 7,459	\$ 6,657
Net loss (income) attributable (available) to non-controlling interests	4	10	(21)	12	42
Net income attributable to the company	\$ 2,501	\$ 1,582	\$ 4,477	\$ 7,471	\$ 6,699
Distributions attributable to Series D, E, F, and G preferred stock	(2,987)	(2,967)	(2,868)	(8,900)	(8,571)
Series D preferred stock offering costs write off	—	—	—	—	(2,141)
Distributions attributable to senior common stock	(114)	(114)	(170)	(344)	(534)
Loss on extinguishment of Series F preferred stock	—	—	—	(5)	—
Net (loss) income (attributable) available to common stockholders	\$ (600)	\$ (1,499)	\$ 1,439	\$ (1,778)	\$ (4,547)

Note: We redeemed all outstanding shares of our Series D Preferred Stock on June 30, 2021.

Funds from Operations (FFO) and core FFO

(\$ in thousands, except per share amounts)

	For the three months ended (unaudited)			For the nine months ended (unaudited)		
	9/30/2022	6/30/2022	9/30/2021	9/30/2022	9/30/2021	
Net income	\$ 2,497	\$ 1,572	\$ 4,498	\$ 7,459	\$ 6,657	
Less: Distributions attributable to preferred and senior common stock	(3,101)	(3,081)	(3,038)	(9,244)	(9,105)	
Less: Series D preferred stock offering costs write off ¹	—	—	—	—	(2,141)	
Less: Loss on extinguishment of Series F preferred stock	—	—	—	(5)	—	
Net (loss) income (attributable) available to common stockholders and Non-controlling OP Unitholders	\$ (604)	\$ (1,509)	\$ 1,460	\$ (1,790)	\$ (4,589)	
Adjustments:						
Add: Real estate depreciation and amortization	\$ 15,764	\$ 15,219	\$ 14,760	\$ 45,672	\$ 45,661	
Add: Impairment charge	10,718	1,374	—	12,092	—	
Add: Loss on sale of real estate, net	—	—	—	—	882	
Less: Gain on sale of real estate, net	(8,902)	—	—	(8,902)	—	
FFO available to common stockholders and Non-controlling OP Unitholders - basic	\$ 16,976	\$ 15,084	\$ 16,220	\$ 47,072	\$ 41,954	
Add: Convertible senior common distributions	114	114	170	344	534	
FFO available to common stockholders and Non-controlling OP Unitholders - diluted	\$ 17,090	\$ 15,198	\$ 16,390	\$ 47,416	\$ 42,488	
Add: Series D preferred stock offering costs write off	—	—	—	—	2,141	
FFO available to common stockholders and Non-controlling OP Unitholders - diluted, as adjusted for comparability	\$ 17,090	\$ 15,198	\$ 16,390	\$ 47,416	\$ 44,629	
FFO available to common stockholders and Non-controlling OP Unitholders - basic	\$ 16,976	\$ 15,084	\$ 16,220	\$ 47,072	\$ 41,954	
Add: Write off of deferred financing fees	434	—	—	434	—	
Add: PACE financing amortization, net	—	—	—	—	33	
Add: Write off shelf registration statement costs and prepaid ATM costs	—	46	—	177	—	
Add: Asset retirement obligation expense	25	23	22	70	81	
Add: Loan defeasance costs	—	—	—	—	669	
Add: Write off prepaid offering costs	—	—	—	—	2,141	
Add: Realized loss on interest rate hedging instruments	—	—	145	—	145	
Less: Acquisition related expenses	—	—	(46)	—	(106)	
Less: Bad debt write off	—	—	(56)	—	(56)	
Less: Tenant legal settlement, net	—	—	(1,773)	—	(1,773)	
Core FFO available to common stockholders and Non-controlling OP Unitholders - basic	\$ 17,435	\$ 15,153	\$ 14,512	\$ 47,753	\$ 43,088	
Add: Convertible senior common distributions	114	114	170	344	534	
Core FFO available to common stockholders and Non-controlling OP Unitholders - diluted	\$ 17,549	\$ 15,267	\$ 14,682	\$ 48,097	\$ 43,622	
Weighted average common shares outstanding and Non-controlling OP Units - basic	39,777,806	39,002,745	37,025,773	38,985,993	36,633,619	
Weighted average common shares outstanding and Non-controlling OP Units - diluted	40,141,052	39,365,991	37,558,558	39,349,239	37,166,404	
FFO per weighted average share of common stock and Non-controlling OP Unit - basic	\$ 0.43	\$ 0.39	\$ 0.44	\$ 1.21	\$ 1.15	
FFO per weighted average share of common stock and Non-controlling OP Unit - diluted	\$ 0.43	\$ 0.39	\$ 0.44	\$ 1.21	\$ 1.14	
FFO per weighted average share of common stock and Non-controlling OP Unit - diluted, as adjusted for comparability	\$ 0.43	\$ 0.39	\$ 0.44	\$ 1.21	\$ 1.20	
Core FFO per weighted average share of common stock and Non-controlling OP Unit - basic	\$ 0.44	\$ 0.39	\$ 0.39	\$ 1.22	\$ 1.18	
Core FFO per weighted average share of common stock and Non-controlling OP Unit - diluted	\$ 0.44	\$ 0.39	\$ 0.39	\$ 1.22	\$ 1.17	
Distributions declared per share of common stock and Non-controlling OP Unit	\$ 0.376200	\$ 0.376200	\$ 0.375450	\$ 1.128600	\$ 1.126350	

¹We redeemed all outstanding shares of our Series D Preferred Stock on June 30, 2021.

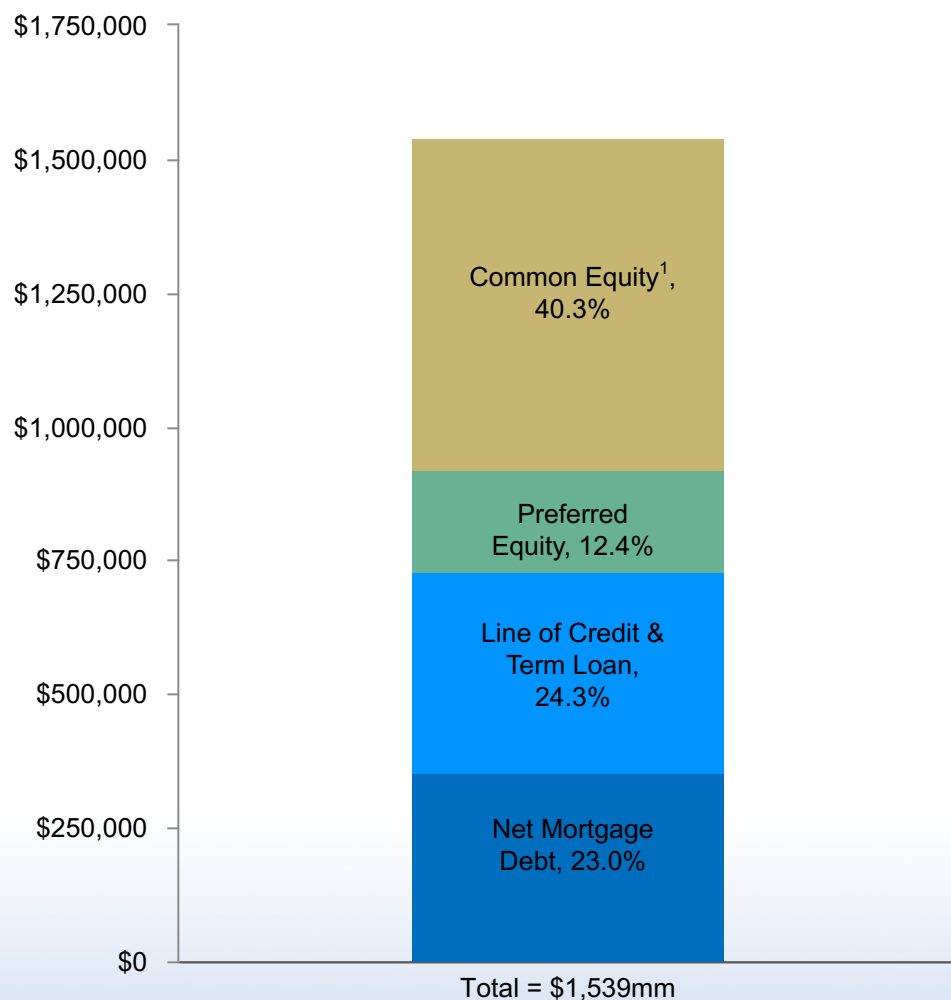


Condensed consolidated balance sheets

(\$ in thousands)	9/30/2022 (unaudited)	12/31/2021
ASSETS		
Real estate, at cost	\$ 1,279,455	\$ 1,225,258
Less: accumulated depreciation	284,802	266,672
Total real estate, net	994,653	958,586
Lease intangibles, net	112,993	114,494
Real estate and related assets held for sale, net	11,434	—
Cash and cash equivalents	13,540	7,956
Restricted cash	4,146	5,222
Funds held in escrow	9,464	7,304
Right-of-use assets from operating leases	5,189	5,361
Deferred rent receivable, net	38,935	39,066
Other assets	19,314	5,363
TOTAL ASSETS	\$ 1,209,668	\$ 1,143,352
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES		
Mortgage notes payable, net	\$ 367,618	\$ 449,944
Borrowings under revolver and term loan, net	374,145	257,582
Deferred rent liability, asset retirement obligation and other liabilities, net	80,258	63,003
TOTAL LIABILITIES	\$ 822,021	\$ 770,529
MEZZANINE EQUITY		
Series E and G redeemable preferred stock, net	\$ 170,261	\$ 170,261
TOTAL MEZZANINE EQUITY	\$ 170,261	\$ 170,261
STOCKHOLDERS' EQUITY		
Senior common stock	\$ 1	\$ 1
Common stock	39	37
Series F redeemable preferred stock	1	—
Additional paid in capital	717,098	671,134
Accumulated other comprehensive income	12,366	(1,346)
Distributions in excess of accumulated earnings	(514,057)	(468,523)
TOTAL STOCKHOLDERS' EQUITY	\$ 215,448	\$ 201,303
OP Units held by Non-controlling OP Unitholders	1,938	1,259
TOTAL EQUITY	\$ 217,386	\$ 202,562
TOTAL LIABILITIES, MEZZANINE EQUITY AND EQUITY	\$ 1,209,668	\$ 1,143,352

Capital structure

Current capital structure as of 9/30/2022 (\$000)

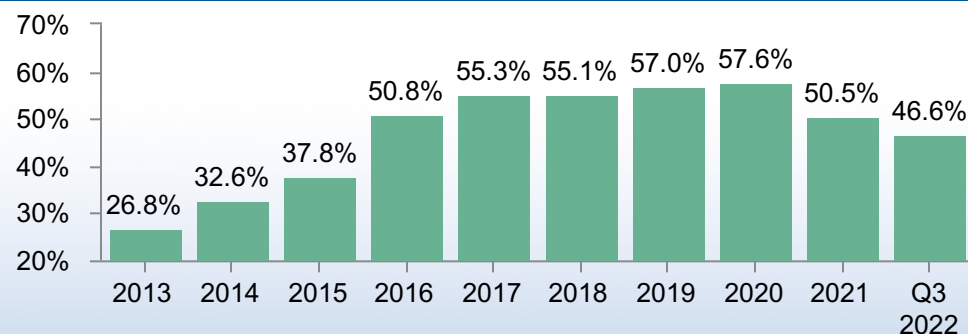


Capital Structure Details

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

	Wtd. Average Rate	9/30/2022
Mortgage Notes Payable, Net	4.19%	\$ 367,618
Less: Cash & Cash Equivalents		(13,540)
Net Mortgage Debt		\$ 354,078
Line of Credit	SOFR+1.50%	\$ 7,750
Term Note	SOFR+1.45%	366,395
Line of Credit and Term Loan		\$ 374,145
Total Debt, Net		\$ 728,223
Series E - Preferred	6.625%	\$ 76,536
Series F - Preferred	6.00%	14,940
Series G - Preferred	6.00%	100,000
Total Preferred Equity		\$ 191,476
Diluted Common Shares Outstanding		39,970,255
Stock Price		\$ 15.50
Implied Common Equity¹ Market Capitalization		\$ 619,539
Enterprise Value		\$ 1,539,238

Institutional Stock Ownership²

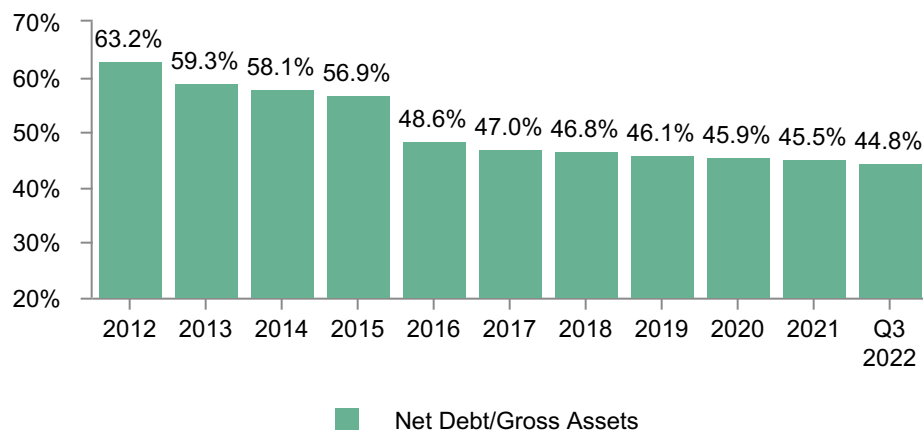


¹ Common Equity is based on the closing common stock price per share as of September 30, 2022 of \$15.50 and includes effect of OP units and convertible senior common stock.

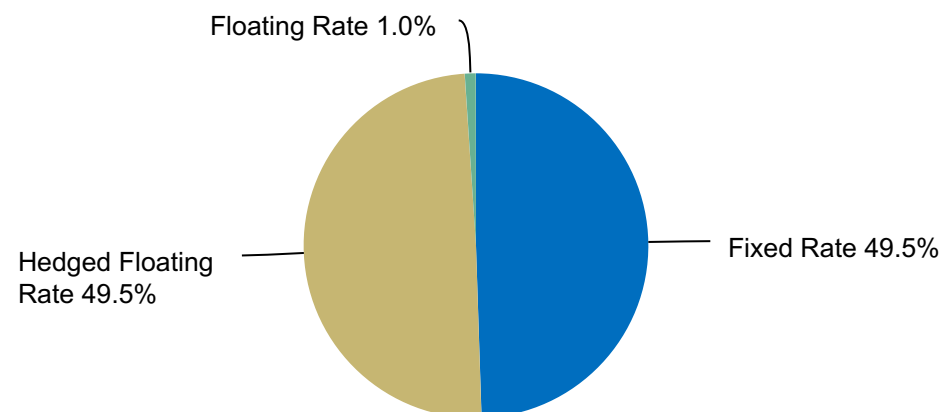
² Source: Nasdaq Online.

Liquidity and debt overview

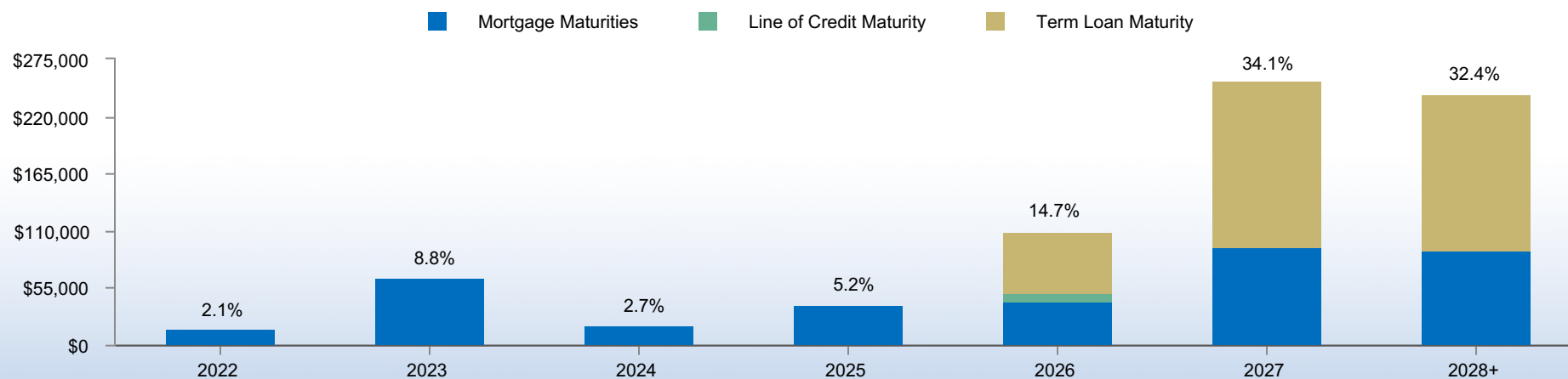
Reducing Leverage¹



Fixed vs. Floating Debt¹



Scheduled debt maturity¹ (\$'000)



¹ As of 9/30/2022.

Debt summary

(\$ in thousands)		
Principal Maturity Date	Weighted Average Interest Rate as of 9/30/2022	Principal Balance Outstanding as of 9/30/2022
2022	4.04%	\$ 13,805
2023	4.72%	57,264
2024	4.63%	11,411
2025	4.03%	31,437
2026	4.35%	42,307
2027	4.39%	107,005
2028	3.55%	30,217
2029	4.92%	15,431
2030	3.23%	40,249
2031	3.24%	5,256
2032	3.40%	9,964
2037	4.63%	5,945
<hr/>		
Contractual Mortgage Notes Payable:	4.19%	\$ 370,291
Premiums (Discounts), net:		(94)
Total Mortgage Notes Payable:		<u>\$ 370,197</u>
<hr/>		
Variable-Rate Line of Credit:		
2026	SOFR +1.50%	<u>\$ 7,750</u>
<hr/>		
Variable-Rate Term Loan Facility:		
2027	SOFR +1.45%	\$ 160,000
2026	SOFR +1.45%	60,000
2028	SOFR +1.45%	<u>150,000</u>
<hr/>		
Total Mortgage Notes Payable and Line of Credit	4.31%	<u>\$ 747,947</u>

Select corporate covenants

Description	(\$ in thousands)	
	Threshold	September 30, 2022
Consolidated Tangible Net Worth	> \$649,234	\$865,107
Leverage Ratio	< 60%	47%
Fixed Charge Coverage Ratio	> 1.50	1.92
Maximum Dividend Payout (FFO based)	< 96%	92.9%
Secured Indebtedness	< 40%	23%

Note: Covenants calculated as defined by our Credit Facility, as administered by KeyBank.



Portfolio Overview



Portfolio overview

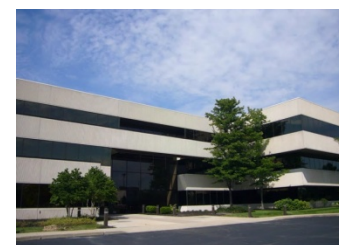
Geographic diversity

- 137 properties across the U.S., located in 27 states
- Focus on secondary growth markets with higher yields



Tenant and property diversity

- Diverse base of 19 different industries
- Primarily industrial and office property types
- Focus on mid-size tenants occupying properties ranging from 30-150K SF (office) and 75-500K SF (industrial)



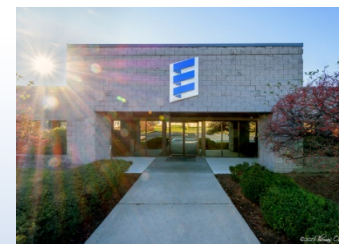
High occupancy

- Occupancy has never fallen below 95%
- Current occupancy 96.9%
- 2.7% of annualized straight line rents expiring through the end of 2022
- Of 100+ assets with over \$1 billion invested since inception, only two tenant defaults



Periodic capital recycling

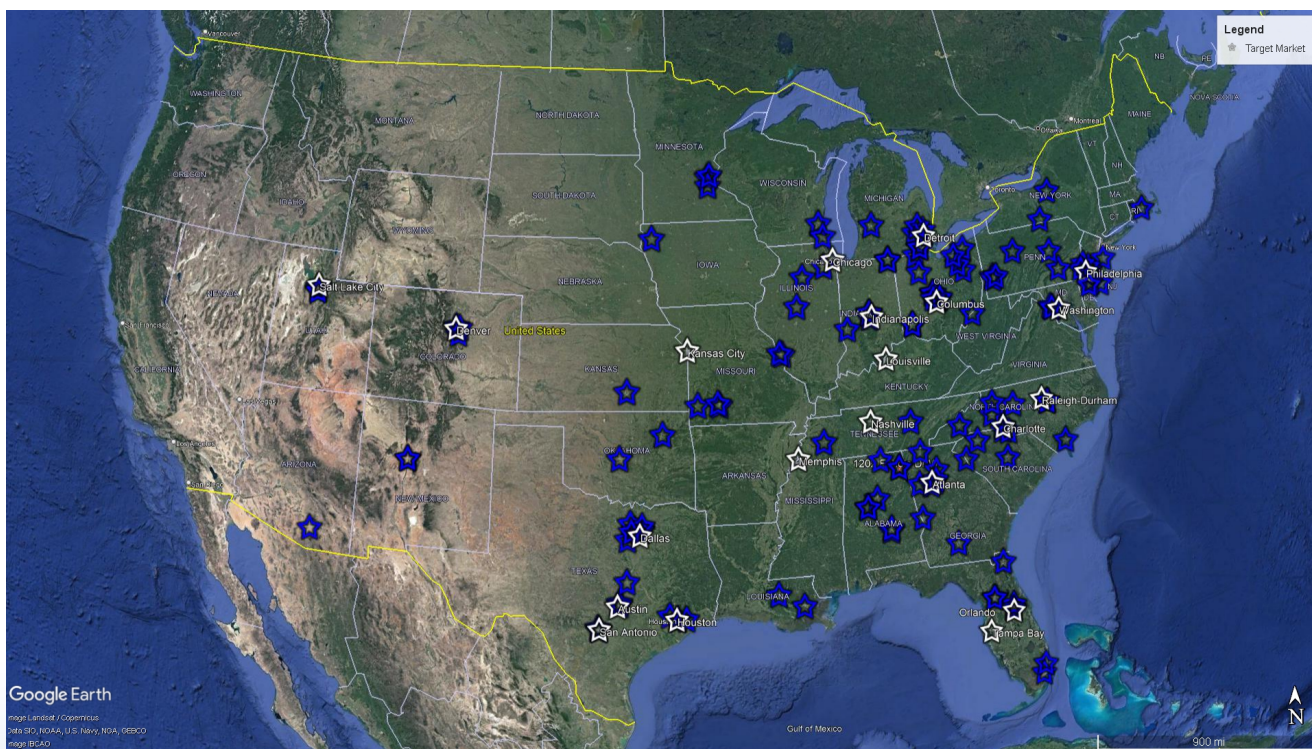
- Sell non-core assets
- Sold 26 properties in non-core markets since mid-2016
- Re-deploy proceeds in growth markets



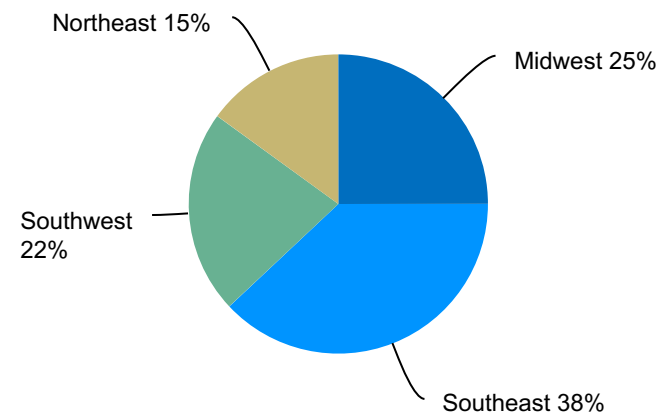
Note: As of 9/30/2022.

Diversified portfolio

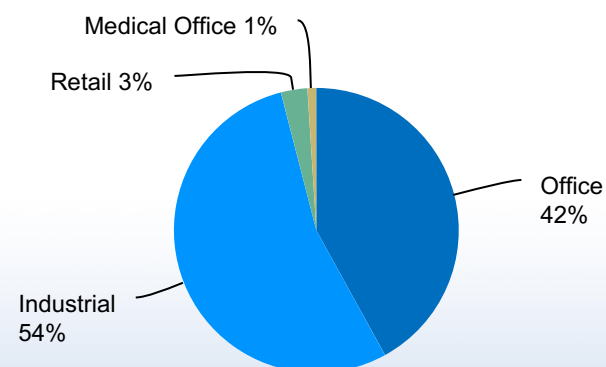
137 properties spread across 27 states



Geographic diversification
(by annualized straight line rent)








Property type diversification
(by annualized straight line rent)

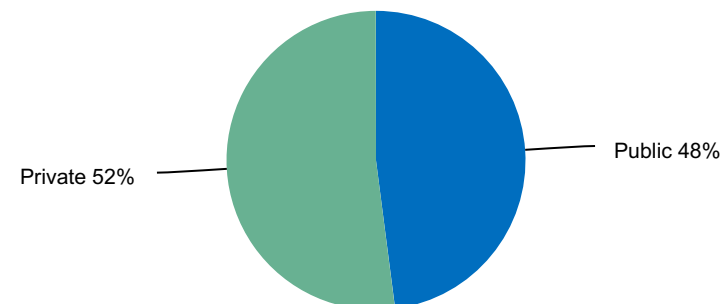


Note: As of 9/30/2022.

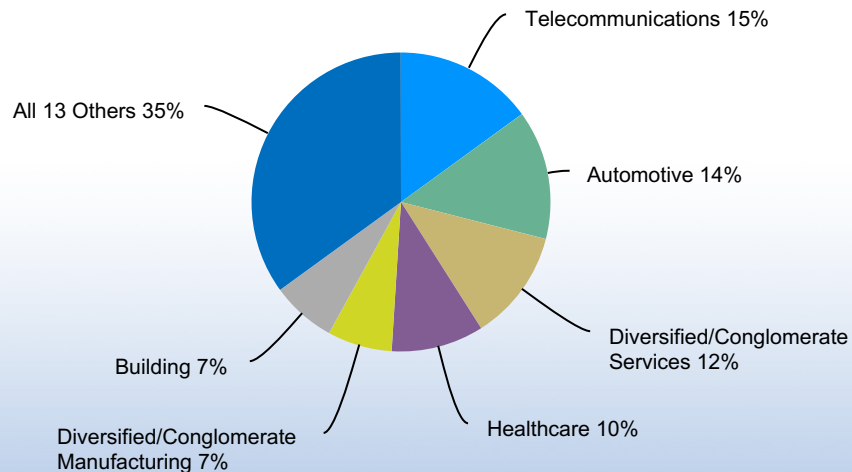
High quality, diversified portfolio

Top 5 tenants	% of annualized straight line rent	% of SF
TOWERS WATSON 	4 %	1 %
	3 %	1 %
	3 %	1 %
	3 %	6 %
	3 %	1 %
All other tenants	84 %	90 %

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

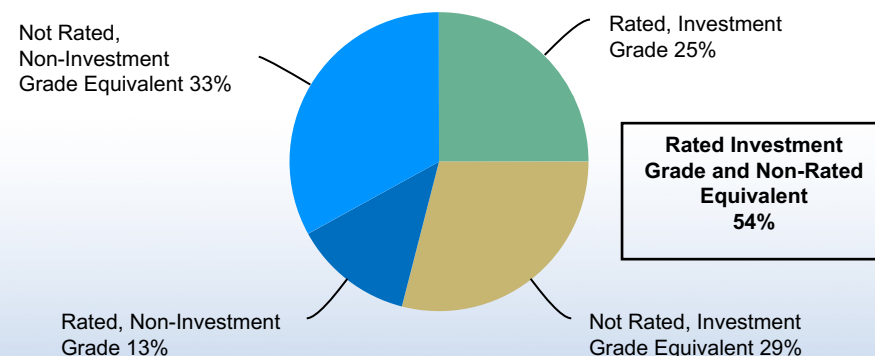


Industry diversification (based on annualized straight line rent)



Note: As of 9/30/2022.

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

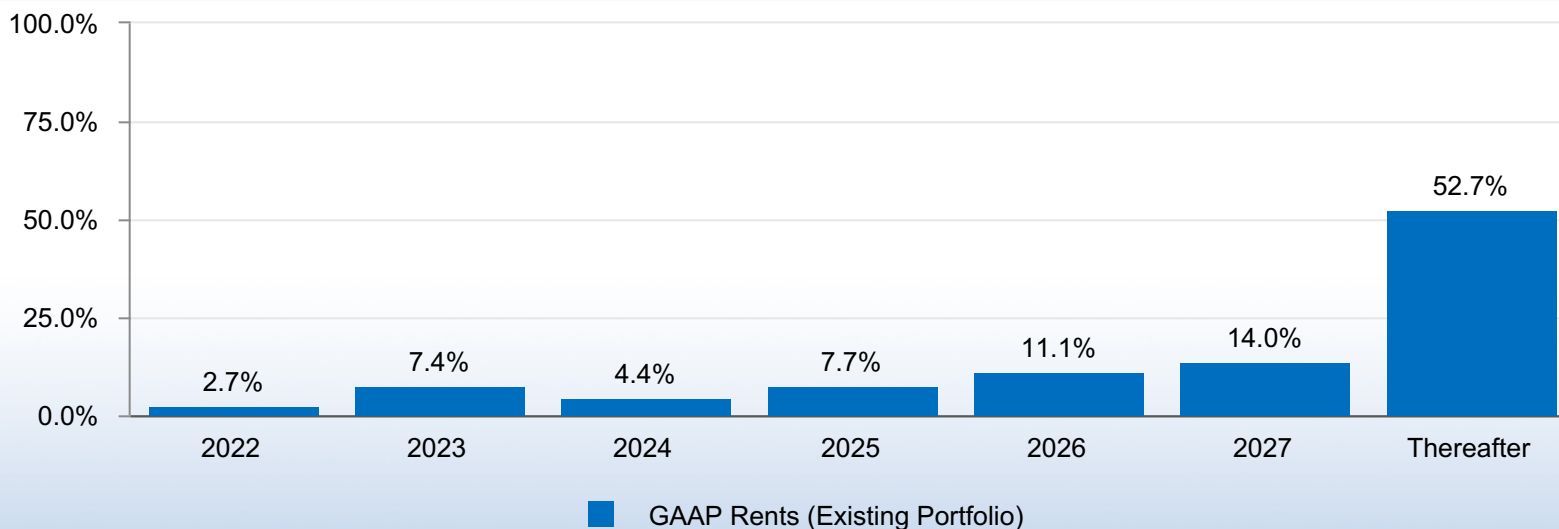


Smooth lease rollover

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
2022	146,483	1	\$ 3,434	2.7 %
2023	953,599	9	9,330	7.4 %
2024	1,251,411	8	5,486	4.4 %
2025	582,016	9	9,676	7.7 %
2026	1,795,019	13	13,929	11.1 %
2027	1,833,683	13	17,587	14.0 %
Thereafter	10,093,061	83	66,475	52.7 %
Total	16,655,272	136	\$ 125,917	100.0 %

Rent expiring



Note: As of 9/30/2022.



GLADSTONE