





Corporate PROFILE

Gladstone Commercial Corporation is a real estate investment trust traded on the NASDAQ Stock Market® under the symbol: GOOD. Our capital resources exceed \$100 million. We have a two-fold business strategy. First is to purchase industrial and commercial property and enter into triple net leases with well managed small and medium sized companies. Second, we provide long term mortgage loans to businesses of the same caliber. Our company is dedicated to providing our shareholders with quarterly dividends and distributions that are derived from rental income and the mortgage interest on our loans. We seek to increase the amount of the dividends and distributions we pay to shareholders each year. Please visit our website for more information about us: www.GladstoneCommercial.com. Our headquarters are in McLean, VA, a suburb of Washington, D.C. and we have offices in Morristown, NJ, New York, NY, and Pittsburgh, PA.

To Our Shareholders:

Gladstone Commercial went public in August of 2003 as a real estate investment trust. While our company is newly formed, the management team is well seasoned in real estate as well as making investments in and lending to small and medium-sized businesses. As 2004 begins our first full year in operation, we look forward to a long and profitable future.

Our strategy consists of owning industrial and commercial real estate and, at the same time enter in to triple net leases over a 10 to 20 year period with business tenants. We also offer attractive industrial and commercial mortgage loans. Our tenants are usually well capitalized and well managed small and medium-sized businesses. We expect many of our tenants to be family owned businesses that have built significant equity by paying down their mortgage loan or through the appreciation on the value of their real estate. We believe that there are many businesses in the United States that fit this criterion. By selling their real estate to us and simultaneously leasing the real estate from us, they can free up all the cash equity in their real estate. This will allow them to repay debt, strengthen their balance sheet or expand their business with the found equity in their real estate.

Our primary investment goal is to provide our shareholders with quarterly cash dividends that grow over time and increase the value of our common stock. We intend to qualify as a real estate investment trust and to do so 90% or more of our taxable income must be distributed to our stockholders. Once we are fully invested, we will seek to borrow from banks and will use that borrowed money to make more investments in real estate or mortgages. We believe this will maximize the returns to shareholders.

We feel more comfortable with the economy today than in the past three years and see a tremendous marketplace for the financing we provide. As the economy began to grow at the end of 2003 we purchased our first property in North Carolina. Please see the description on page 4 to better understand the type of investments we like. As this letter goes to press we have closed two additional investments and have others in our plans. The number of real estate opportunities looks good but there is no guarantee that the economy will not turn down. For now the future looks very positive. Our team is focused on finding new opportunities. We are determined to do a good job for our shareholders.

We welcome all of you to come visit our website at: www.GladstoneCommercial.com and while there, sign up for email notices of our progress.

Thank you all for your support,

David Gladstone, Terry Brubaker and Chip Stelljes



PICTURED FROM
LEFT TO RIGHT:
Terry Brubaker,
President
David Gladstone,
Chairman
Chip Stelljes,
Executive Vice President

Strategy:

Our principal investment objectives are to generate income for our shareholders in the form of quarterly cash distributions that grow over time and to increase the value of our common stock. Our primary strategy to achieve our investment objectives is to utilize the substantial knowledge and experience of our adviser's professionals in financing small and medium-sized businesses so that we own a diversified portfolio of leased commercial and industrial real estate and to occasionally make industrial and commercial mortgage loans that we believe will generate stable cash flow and increase in value.

To achieve our investment objectives, we intend to:

- acquire properties at favorable prices;
- lease industrial and commercial properties or selectively extend mortgage loans to creditworthy businesses;
- use borrowing to maximize the return to our shareholders while limiting our loss exposure on any property to the amount of equity invested in the property;
- increase the equity value in our real estate through regular mortgage principal payments;
- obtain equity interests in certain tenants or borrowers;
- participate in joint ventures that will permit us to own interests in large properties without restricting the diversity of our portfolio; and
- sell real estate assets from time to time at favorable prices.



Business Opportunities PARTNERSHIPS

One of the ways we continue to grow as a Company is by building long-term business relationships with others in the business real estate area. Our management team has a well established marketing partnership with many lenders and owners in the industry. We have the knowledge and skill to make good investments that benefit our partners and our shareholders.



Creating Opportunities **CREATING VALUE**

Gladstone Commercial Corporation has purchased a 58,926 sq. ft., one story office building located in Raleigh, North Carolina. The current tenant, Elster Electricity, LLC operates out of this location. Elster Electricity, LLC is a provider of advanced electricity metering products, communication solutions and metering automation systems. This location was the first of several properties we have purchased to add in our portfolio.

Our Portfolio Companies:

We intend that substantially all of our investments will be income-producing real property or mortgage loans. At this time, we are unable to estimate how much of our portfolio will be invested in real property and how much will be invested in mortgage loans. We expect that the majority of our investments will be real estate we own and the income will come from net leases, but if a net lease would have an adverse impact on a potential tenant, or would otherwise be inappropriate for us, we may structure our investment as a mortgage loan. We anticipate that acquired property will be either improved or, if under development, near completion. Investments will not be restricted as to geographical areas, but we expect that almost all of our investments in real estate will be made within the United States.

We anticipate that we will make substantially all of our investments through our Operating Partnership. Our Operating Partnership may acquire interests in real property or mortgage loans in exchange for the issuance of limited partnership units, for cash or through a combination of both. Units issued by our Operating Partnership will be redeemable for cash or, at our election, shares of our common stock on a one-for-one basis at any time after the first anniversary of the completion of this offering. However, we may in the future also conduct some of our business and hold some of our interests in real properties or mortgage loans through one or more wholly owned subsidiaries, each classified as a “qualified REIT subsidiary.”

Selection of Opportunities:

Businesses that are owned by buyout funds and many family-owned businesses often have substantial amounts of equity in their real estate. A primary reason for this is that real estate lenders have been making real estate loans at relatively low amounts when compared to the value of the real estate securing the loans. Since banks are only lending a low percentage of the value of the property, this means the owner of the real estate has a substantial amount of equity in the real estate. One method for these businesses to free up the equity in their real estate is by selling their real estate to us and simultaneously leasing it back from us under a long-term, triple net lease. Sellers in these “sale-leaseback” transactions can then use the freed up cash to repay existing indebtedness or for growth capital, thus strengthening their balance sheets and permitting them to lower their overall costs of capital for growth and expansion.

We believe that there are many businesses in the United States that have a substantial amount of equity tied up in their real estate. Because of the experience of our officers and professionals investing in real estate-related assets and managing funds that lend to similar businesses, we believe our management team is uniquely positioned to identify and evaluate these sale-leaseback opportunities and to negotiate attractive investments. We also believe there are a substantial number of businesses that would not be interested in a sale-leaseback transaction, but would benefit from refinancing their current real estate mortgage loans. To address this need, we also selectively offer long-term mortgage loans on competitive terms and conditions.

We anticipate that a number of our potential tenants and borrowers will have significant buyout fund ownership. Buyout funds are privately held investment funds that typically acquire, along with existing management, controlling equity interests in operating businesses for the purpose of operating such companies with the intention of generating significant cash flow to cover indebtedness and providing returns to investors when the company is either sold or taken public. We believe that companies with significant buyout fund ownership are likely to be good candidates for net lease transactions that we intend to offer because:

- we typically would expect them to be well capitalized, with equity constituting between 20% and 40% of their permanent capital, and therefore more likely to have a strong credit profile than companies without a significant equity investor;
- our officers and the officers of our adviser have significant experience in making loans to portfolio companies of buyout funds and therefore understand the dynamics associated with these companies; and
- buyout funds typically own investments in a number of companies and our officers have numerous relationships within the buyout fund industry.



Integrity and Honor AMERICAN ETHICS

The business world has been blemished by a few firms that lack integrity and the honor we should live by. Our team is determined to insure that shareholders, suppliers, employees and customers believe in our Company. Ethics are not rules or regulations but a conviction of the heart. We are guided by a conviction that doing the right thing is paramount.

Corporate Information

Directors, Officers and Team Members

David Gladstone

Chief Executive Officer and Chairman of the Board

Terry Brubaker

Chief Operating Officer, President and Director

George Stelljes, III

Chief Investment Officer, Executive Vice President and Director

Harry Brill

Chief Financial Officer

Paul Adelgren

*Director and Pastor of
Missionary Church*

Maurice Coulon

*Director and Private
Real Estate Investor*

David A.R. Dullum

*Director and Partner of
New England Partners*

Michela English

*Director and President of
Discovery Consumer Products*

Anthony W. Parker

*Director and Chairman of
Medical Funding Corp.*

John Outland

*Director and Managing Director of
1789 Capital Advisors*

Joseph Bute, Principal, Pennsylvania

Buzz Cooper, Principal, Virginia

Robert Corry, Principal, New Jersey

John Freal, Principal, Virginia

Laura Gladstone, Principal, New York

Virginia Rollins, Principal, Virginia

Skye Breeden, Director of Shareholder Relations

Jonathan Chou, Associate

Pamela Keene, Director of Corporate Records

Donya Kolcio, Controller

Brian McCahill, Associate

Andrew Ross, Associate

Stock Exchange Listing

The common stock of the company trades on the NASDAQ Stock Market under the symbol: GOOD.

Transfer Agent

The Bank of New York
Shareholder Relations Department
P.O. Box 11258
Church Street Station
New York, NY 10286, USA
Email: shareowners@bankofny.com
Website: www.stockbny.com
Outside the US: 1-610-382-7833
Investor Relations Toll Free: 1-800-524-4458

Dividend Reinvestment Plan

The company offers a dividend reinvestment plan to its shareholders. Shareholders whose shares are held in their names should contact the transfer agent to enroll. Shareholders whose shares are held by a brokerage firm should contact their broker to enroll.

Financial Information

Shareholders may receive a copy of SEC Forms 10-K and 10-Q by contacting the company or going to the SEC website at www.SEC.gov or by visiting the SEC at 450 5th Street, N.W. Washington, DC 20549

Auditors and Tax Consultants

PricewaterhouseCoopers, LLP

Legal Counsel

Cooley Godward, LLP

Winston & Strawn, LLP

Company Website

www.GladstoneCommercial.com

