



Gladstone Commercial Corporation (GOOD)

Updated February 23rd, 2025, by Josh Arnold

Key Metrics

Current Price:	\$15.72	5 Year CAGR Estimate:	6.6%	Market Cap:	\$695 M
Fair Value Price:	\$14.20	5 Year Growth Estimate:	2.0%	Ex-Dividend Date:	03/19/25
% Fair Value:	111%	5 Year Valuation Multiple Estimate:	-2.0%	Dividend Payment Date:	03/31/25
Dividend Yield:	7.6%	5 Year Price Target	\$16	Years Of Dividend Growth:	0
Dividend Risk Score:	F	Retirement Suitability Score:	C	Rating:	Hold

Overview & Current Events

Gladstone Commercial Corporation is a real estate investment trust, or REIT, that specializes in single-tenant and anchored multi-tenant net leased industrial and office properties across the U.S. The trust targets primary and secondary markets that possess favorable economic growth trends, growing populations, strong employment, and robust growth trends. The trust's stated goal is to pay shareholders monthly distributions, which it had done for more than 17 consecutive years. Gladstone owns over 100 properties in 24 states that are leased to about 100 unique tenants and has a market capitalization of \$695 million.

Gladstone posted fourth quarter and full-year earnings on February 18th, 2025, and results were somewhat weak. Funds-from-operations per share came to 35 cents, which met expectations. Revenue was \$37.4 million, which missed estimates by \$0.66 million. The slight move up in revenue was driven by higher straight-line rents.

Same-store rents were up 5% year-over-year, which was supported by increased straight-line rent rates and recovery revenue. Operating expenses were down to \$25 million from \$28.1 million a year ago, partially due to reduced impairment charges.

Secured net mortgage debt was \$259 million, down from \$284 million a year ago, and there remained about \$90 million available on its line of credit.

Acquired campus properties were about \$29 million for the year, and plans to deploy about \$98 million for 2025.

Occupancy ended the year at a very strong 98.7%.

The trust's continued focus on boosting its industrial concentration, which rose from 62% to 63% in Q4, is supportive of the company's reduction in leverage. The long-term goal is 70% industrial concentration in terms of annualized straight-line rent, and the management team aims to continue to reduce leverage this year.

We start the year at \$1.42 in adjusted FFO-per-share, noting this would be a flat performance if achieved.

Growth on a Per-Share Basis

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030
FFO	\$1.54	\$1.53	\$1.54	\$1.58	\$1.58	\$1.57	\$1.54	\$1.56	\$1.47	\$1.42	\$1.42	\$1.57
DPS	\$1.50	\$1.50	\$1.50	\$1.50	\$1.50	\$1.50	\$1.50	\$1.50	\$1.20	\$1.20	\$1.20	\$1.20
Shares¹	21.2	23.2	26.4	28.8	33.0	35.3	37.8	40.0	40.0	44.2	45	50

Gladstone reports funds-from-operations, or FFO, per share rather than earnings-per-share. This is consistent with other REITs, and we'll use FFO as the preferred proxy for underlying earnings power.

Gladstone's FFO-per-share had been between \$1.50 and \$1.60 for most of the past decade as the trust continues to issue new shares and debt to fund acquisitions, but those acquisitions fail to provide an economic gain. In other words, while the trust's new properties provide growth on a dollar basis, when the cost of those acquisitions is factored in, it is essentially no gain on a per-share basis. We don't have any reason to believe this will change moving forward as Gladstone's common shares are quite expensive to issue, yielding 7% to 9% at most times, and its preferred stock and

¹ Share count in millions

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debt are not significantly cheaper. This means that Gladstone will struggle to produce economic gains with its capital issuances given that the yields on its properties are also in the high single digits. As a result, our long-term growth estimate for Gladstone is 2%. We don't see any cause for pessimism as earnings impairment isn't likely. However, investors should note that any sort of meaningful growth is going to be difficult to generate.

The distribution had been flat at \$1.50 for the past decade as the trust has struggled to grow FFO-per-share and thus, has been unable to boost the distribution. For the start of 2023, Gladstone cut its distribution by 20% to a new level of \$1.20 per year, where it remains today.

Valuation Analysis

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	Now	2030
Avg. P/E	10.7	11.1	13.8	11.9	13.7	11.4	13.9	11.9	9.0	11.4	11.1	10.0
Avg. Yld.	9.1%	8.8%	7.1%	8.0%	7.0%	8.4%	7.0%	8.1%	9.1%	7.4%	7.6%	7.7%

Today the trust trades for 11.1 times this year's FFO-per-share estimate, which is near its historical norms. The long-term average valuation for Gladstone is just over 11 times FFO-per-share, and we've moved our fair value estimate to 10 times earnings. This implies a small negative impact from the valuation in the coming years.

The current 7.6% yield is in line with historical yields. We see the yield remaining about where it is today based upon current assumptions.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030
Payout	97%	98%	97%	95%	95%	96%	97%	96%	82%	85%	85%	77%

Gladstone doesn't necessarily have a competitive advantage given that it operates in much the same way as any other commercial REIT. However, Gladstone's selection of properties has been outstanding over time as its occupancy has remained high through a variety of economic conditions.

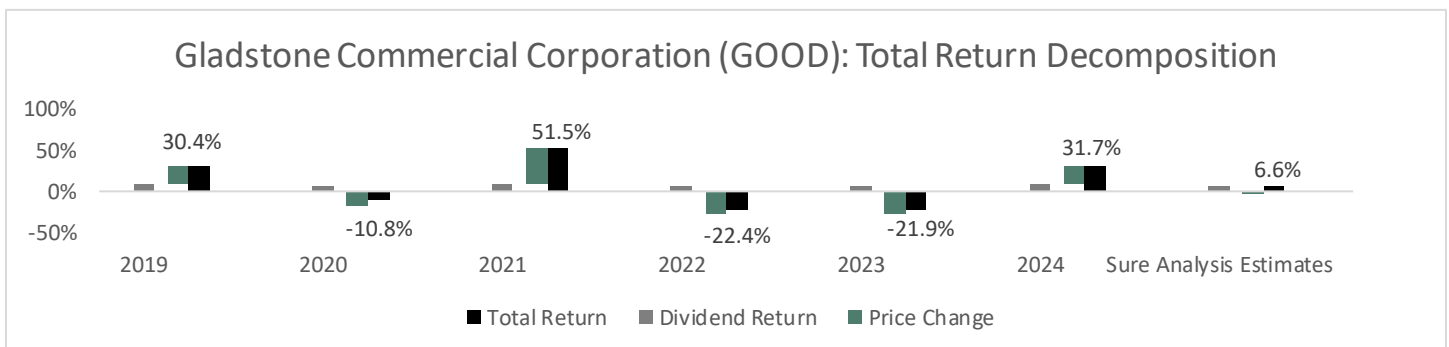
In the case of recession, Gladstone should fare quite well as it has long lease terms, so the impact on the trust's earnings should be minimal, which is consistent with how Gladstone performed during the Great Recession. Last year's challenges have shown that Gladstone can weather a tough environment.

The payout ratio is very high, but we see the trust's FFO-per-share of about \$1.40+ annually as enough to maintain the lowered dividend. Investors should not expect a meaningful raise anytime soon due to the factors discussed above.

Final Thoughts & Recommendation

We forecast 6.6% total annual returns for Gladstone Commercial moving forward. We see the yield as attractive at 7.6%, and the stock is just above fair value, with a resulting 2% headwind. We like Gladstone's recession performance and its steady FFO-per-share, and have a hold rating on the shares today, noting it's overvalued by most measures.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Revenue	84	86	95	107	114	133	138	149	148	149
Gross Profit	78	80	87	95	102	107	111	122	122	118
Gross Margin	93.7%	93.2%	91.9%	89.3%	89.0%	80.5%	80.3%	81.9%	82.4%	78.9%
SG&A Exp.	10	10	11	12	14	15	15	12	13	6
D&A Exp.	35	38	43	48	52	55	60	60	58	56
Operating Profit	33	33	33	36	36	37	35	45	51	51
Operating Margin	39.9%	38.0%	35.1%	33.4%	31.4%	27.7%	25.3%	28.9%	34.5%	34.2%
Net Profit	4	4	6	12	10	15	10	11	5	24
Net Margin	4.3%	4.6%	6.3%	11.5%	8.4%	11.2%	7.1%	6.0%	3.4%	16.1%
Free Cash Flow	31	41	47	56	60	65	70	69	60	57

Balance Sheet Metrics

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Total Assets	827	852	928	939	1,040	1,098	1,143	1,202	1,133	1,094
Cash & Equivalents	5	5	7	7	7	11	8	12	12	11
Goodwill & Int. Ass.	105	106	119	111	115	117	114	112	101	95
Total Liabilities	593	612	662	684	828	882	941	997	979	923
Accounts Payable	6	6	7	3	6	4	7	10	14	13
Long-Term Debt	525	509	543	566	627	669	708	749	739	693
Shareholder's Equity	234	240	267	250	208	213	201	203	153	171
LTD/E Ratio	2.25	2.12	2.03	2.27	3.01	3.14	3.51	3.69	4.82	4.05

Profitability & Per Share Metrics

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Return on Assets	0.4%	0.5%	0.7%	1.3%	1.0%	1.4%	0.9%	0.8%	0.4%	2.2%
Return on Equity	1.6%	1.7%	2.3%	4.8%	4.2%	7.1%	4.7%	4.6%	2.8%	14.7%
ROIC	0.5%	0.5%	0.8%	1.5%	1.2%	1.7%	1.1%	1.0%	0.5%	2.7%
Shares Out.	21.2	23.2	26.4	28.8	33.0	35.3	37.8	39.0	39.9	41.8
Revenue/Share	3.79	3.58	3.60	3.72	3.73	3.91	3.77	3.82	3.69	3.58
FCF/Share	1.42	1.70	1.78	1.94	1.96	1.92	1.92	1.78	1.51	1.36

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.

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