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GOOD - Q4 2019 Gladstone Commercial Corp Earnings Call

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PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by, and welcome to the Gladstone Commercial Corporation Fourth Quarter and Year Ended December 31, 2019, Earnings Conference Call and Webcast. (Operator Instructions) Please be advised that today's conference is being recorded. (Operator Instructions)

I would now like to hand the conference to your speaker today, David Gladstone. Please go ahead, sir.

David John Gladstone - *Gladstone Commercial Corporation - Founder, Chairman & CEO*

All right. Thank you, Joelle, for that nice introduction, and thanks all of you calling in this morning. We enjoy the time we have with you on these phone calls. I wish we did it more times every year, but it's once a quarter.

Now we'll hear from Michael LiCalsi, our General Counsel and Secretary, to give you the legal and regulatory matters concerning this call. Michael, go ahead.

Michael B. LiCalsi - *Gladstone Commercial Corporation - General Counsel & Secretary*

Thanks, David. Good morning, everyone.

Today's report may include forward-looking statements under the Securities Act of 1933 and Securities Exchange Act of 1934, including those regarding our future performance. These forward-looking statements involve certain risks and uncertainties that are based on our current plans, which we believe to be reasonable. And many factors may cause our actual results to be materially different from any future results expressed or implied by these forward-looking statements, including all the risk factors in our Forms 10-Q, 10-K and other documents that we file with the SEC. You can find them on our website, www.gladstonecommercial.com, specifically the Investor Relations page, or on the SEC's website, which is www.sec.gov. And we undertake no obligation to publicly update or revise any of these forward-looking statements whether as a result of new information, future events or otherwise except as required by law.

And today, we will discuss FFO, which is funds from operations. The FFO is a non-GAAP accounting term defined as net income excluding the gains or losses from the sale of real estate and any impairment losses on property plus depreciation and amortization of real estate assets. We'll also discuss FFO as adjusted for comparability and core FFO, which are generally FFO adjusted for certain other nonrecurring revenues and expenses. And we believe these metrics are a better indication of our operating results and allow better comparability of our period-over-period performance.

We ask that you visit our website, once again, gladstonecommercial.com, sign up for our e-mail notification service. You can also find us on Facebook. Keyword there is The Gladstone Companies. And we even have our own Twitter handle, and that's @GladstoneComps.

But today's call is an overview of our results, so we ask that you review our press release and the Form 10-K that we issued yesterday for more detailed information. Again, you can find them on the Investor Relations page of our website.

With that, I'll pass the presentation over to Gladstone Commercial's President, Bob Cutlip. Bob?

Robert G. Cutlip - *Gladstone Commercial Corporation - President*

Thanks, Mike. Good morning, everyone.

During the fourth quarter, we acquired a 212,000 square foot industrial property in Indianapolis; a 241,000 square foot industrial property in Jackson, Tennessee; a 117,000 square foot industrial property in Carrollton, Georgia; a 6-building, 509,000 square foot industrial portfolio in 5 separate markets; extended the lease for our 40,000 square foot tenant in Mason, Ohio through 2030; executed a 36,000 square foot 10-year lease in Fridley, Minnesota office property; and completed a public offering of 6 5/8% Series E perpetual preferred stock.

Subsequent to the end of the quarter, we acquired a 65,000 square foot industrial property in Indianapolis; acquired a 327,000 square foot 3-building industrial portfolio in Houston, St. Louis and Charlotte; entered due diligence to acquire a 504,000 square foot industrial property in Chatsworth, Georgia; executed a lease amendment to extend a 100,000 square foot tenant in Denver, Colorado through 2026; and extended the lease for a 78,000 square foot office tenant in Springfield, Missouri also through 2026.

As we noted on our third quarter call, our investment strategy is emphasizing an increase in our portfolio's industrial allocation, which we believe will improve our property operating efficiencies, reduce capital expenditure levels and potentially result in improved valuation over time. To that end, our industrial allocation was 33% on January 1, 2019, and has increased to 38% by year-end.

From April 2019 through January 2020, our investment volume was approximately $160 million, all of which were industrial properties, providing further evidence of that commitment to increase the industrial allocation. And our intent is to continue to overweight industrial acquisitions, market conditions permitting, of course, in the developed submarkets of our targeted locations. Our primary focus has been and will be acquisition candidates ranging in size from 50,000 to 300,000 square feet.

During the quarter, our investment in asset management activities continued to generate positive momentum for our operations. We acquired 9 properties, all industrial, equating to $62.4 million in investment volume. The transactions included a 212,000 square foot property in Indianapolis for $8.2 million with a lease expiration date of April 2033 and a GAAP cap rate of 7.8%; a 241,000 square foot property in Jackson, Tennessee for $9 million with a lease expiration date of August 2029 and a GAAP cap rate of 7.4%; a 117,000 square foot property in Atlanta submarket for $8 million with a lease expiration date of December 2031 and a GAAP cap rate of 7.4%; and a 6-building 509,000 square foot portfolio in 5 markets throughout the south and southwest for $37.2 million with a lease expiration date of December 2029 and a GAAP cap rate of 7.2%.

Subsequent to quarter end, we acquired a 65,000 square foot industrial property in Indianapolis. The acquisition price was $5.3 million, and the GAAP cap rate is 7.2%. This acquisition was also a partial UPREIT transaction for us. We also executed a 20-year sale-leaseback transaction with a tenant occupying 3 industrial buildings in Houston, St. Louis and Charlotte. The acquisition price was $34.6 million, and the GAAP cap rate is 7.6%.

And we are currently in due diligence to acquire a 504,000 square foot cross-dock facility for $30.3 million. The property is located at Northwest Georgia inland port served by a Class 1 railroad. This distribution center ships raw materials to 3 manufacturing facilities operated by the tenant. We expect this property to close in early to mid-March pending successful completion of due diligence.

Our asset management team continued to deliver on improving our same-store operations. From a lease renewal standpoint, our Midwest team executed a 40,000 square foot lease amendment for our office tenant in Mason, Ohio, which will extend the lease on 2/3 of the space through June of 2030. Our South Central team extended the lease for our 78,000 square foot Springfield, Missouri office tenant through 2026. And our Mountain West team extended the lease for our 100,000 square foot Denver office tenant through September of 2026. These combined efforts serve to increase the weighted average lease term on our entire portfolio.

And from an operations standpoint, our asset management team is implementing energy savings improvements at 3 office locations in Ohio and Indiana. These programs require no capital expenditures by Gladstone, lower energy consumption in the states, upgrade building equipment and lower going-forward operating costs for our tenants. We plan to implement these energy savings projects at other locations as appropriate.

Anticipating that many on the call are interested in lease expirations through 2020, I wanted to summarize the team's thoughts and our current activities. During 2020, we have 8 leases expiring, representing $8.8 million of annual straight-line rent. $5.8 million of this total expires during the second half of the year. Three tenants have formally notified us that they are vacating their premises at the end of March and the end of June, respectively, and we are actively marketing those spaces now. We have leased 50% of one of the buildings for a 10-year lease term with occupancy commencing upon the existing lease expiration date, and we have active prospects for the other spaces as well. We have leased 50% -- I have already referenced the 40,000 square foot lease extension of our Mason, Ohio tenant earlier and will not expand upon that at this time.

In addition, we have lease amendments out for signature with our Raleigh, North Carolina tenant who occupies 2 adjacent properties, 100% of a 58,000 square foot office building and 20% of a 115,000 square foot industrial building. The amendments will extend the office lease for 5 years and the industrial lease for 1 year.

GM will not renew their lease at our Austin, Texas property at the end of August. We have begun actively marketing the building and have prospects ranging from 1/3 to as much as the entire 320,000 square foot space. We have a website for the property, marketing materials for prospects and floor plans illustrated on architectural boards set up in the lobby to assist us as we conduct property tours. I think it's interesting to note that our GAAP rent at the property of $14.50 per square foot compares favorably in the submarket with current space offerings in the low to mid-$20 per square foot on a triple-net basis. And for the balance of the expiring tenants, we are in active conversations with them and are hopeful of positive outcomes either relating to new leases or renewals.

Market conditions are worthy of some comment. National research firms have noted that investment sales volume was down for the third quarter versus the prior year's volume and are estimating a similar result for the fourth quarter. Completing the 11th year of this cycle, the researchers estimate that both pricing and investment sales volume may be peaking possibly with the exception of industrial. In addition, we have noticed there is an apparent buyer-seller disconnect in the office sector, as evidenced by several notable properties returning to market after being under contract.

Now with that information in mind, significant capital is still available on the sidelines with considerable interest in U.S. real estate. Our team will continue to monitor market conditions and actively investigate accretive opportunities that promote our measured growth strategy. And as it relates to growth opportunities, investment sales listings have moderated but continue to be strong.

Our current pipeline of acquisition candidates is approximately $260 million in volume, representing 17 properties, 15 of which are industrial. Of this total, approximately $50 million is either in the letter of intent or due diligence stage, and the balance is under initial review.

So in summary, our fourth quarter activities continued our acquisition and leasing success, refinanced maturing mortgages, issued equity through our preferred Series E issuance as well as common equity issuance through our ATM program and collectively positions us well to pursue growth opportunities.

Now let's turn it over to Mike for a report on the financial results.

Michael J. Sodo - *Gladstone Commercial Corporation - CFO*

Good morning. I'll start by reviewing our operating results for the fourth quarter of 2019. All per share numbers I reference are based on fully diluted weighted average common shares.

FFO adjusted for comparability and core FFO available to common stockholders were $0.39 and $0.40 per share, respectively, for the fourth quarter and $1.55 and $1.58 per share, respectively, for the year. This performance demonstrates the accretive yet prudent growth that the company has completed in recent years as well as the performance of the in-place portfolio. In addition to these accretive deals, our same-store cash rent continues to grow at 2% on annualized basis.

With a number of years of improving the balance sheet behind us, including deleveraging the portfolio and with substantial acquisitions both at the end of 2019 and early part of 2020, we're excited about the prospects to grow profitability for our shareholders as well as increasing the industrial allocation of the portfolio. These new investments will provide significant contribution to the company's performance and aspirations for core FFO growth in 2020 and beyond. Our fourth quarter results reflect an increase in total operating revenues to $29.4 million, including $60,000 in lease termination and contraction revenue as compared to total operating expenses of $22.5 million for the period.

We continue to enhance our strong balance sheet as we grow our assets and focus on decreasing our leverage. We've reduced our debt to gross assets by nearly 15% to 46% over the past 5 years through refinancing maturing debt and financing new acquisitions at lower leverage levels. We believe that we are 1% to 2% away from our target leverage level, which means that nearly all raised equity will go toward accretive acquisitions. We continue to primarily use long-term mortgage debt to make acquisitions. As we grow through disciplined investments, we'll also look to expand our unsecured property pool with additional high-quality assets. Over time, we expect this will increase our financing alternatives.

As we continue to manage our balance sheet, we've repaid $61 million of debt over the past 24 months, often with new long-term variable-rate mortgages at interest rates equal to the 1-month LIBOR plus a spread ranging from 2.5% to 2.75%. We have placed interest rate caps on all new variable-rate loans. We also added some of these properties to our unencumbered pool under our line of credit, whether an advance or permanent debt placement, disposition or in an effort to provide more flexibility in the future by increasing the size of our total unencumbered assets.

As Bob mentioned and was discussed last call, during the fourth quarter, we did successfully issue our new Series E 6 5/8% perpetual preferred on October 4, totaling $69 million outstanding. With significant institutional and retail support, this execution allowed us to redeem our previously existing Series A and Series B preferred stock, which on a weighted basis were nearly 100 basis points above the new Series E from a coupon perspective. We expect that this will further contribute to profitability in 2020 and beyond.

We've also been extremely active in issuing our common stock using our ATM program. It's of note that we changed ATM sales agents in December with Goldman Sachs, Stifel and Baird now leading this program. During the fourth quarter in net of issuance costs, we opportunistically raised $24 million through common stock sales. In addition, we've also raised an incremental $28 million already in 2020. This meaningful and extremely cost-efficient means of raising capital demonstrates both the performance of our new sales agents as well as increased investor demand for our stock. We believe these capital markets transactions continue to speak for the growth of the company and balance sheet enhancements that have been achieved as well as the long-term prospects for further prosperity with incremental bank backing going forward and access to more efficient capital.

Looking at our debt profile. 2020 and '21 loan maturities are very manageable with only $20 million and $27 million coming due, respectively. A number of these loans have extension options. We've continued to proactively manage and improve our liquidity and maturity profile over time. Depending on several factors, including the tenant's credit, property type, location, terms of the lease, leverage and the amount in terms of the loan, we're generally seeing all-in rates on new debt ranging from the mid- to high 3% range. We continue to minimize our exposure to rising interest rates with over 90% of our existing debt being fixed rate or hedged to fixed through interest rate swaps and caps. As of today, we have $4 million in cash and $35 million of availability under our line of credit. With our current availability and access to our ATM programs, we believe that we have significant incremental flexibility to fund our current operations, properties we're underwriting and any known upcoming improvements at our properties.

We encourage you to also review our quarterly financial supplement posted on our website, which provides more detailed financial and portfolio information for the quarter. We feel good about continuing to execute our business plan through 2020 and beyond as we continue to increase our high-quality asset base and continue to improve our metrics. We're focused on maintaining our high occupancy with strong credit and real estate.

Institutional ownership of our stock increased by 17% since the beginning of 2016 to 57% as of December 31. Bob and I continue to be very active in meeting with current and potential investors, portfolio managers, coverage analysts, investment banks and the like. We look forward to establishing new relationships as the company moves forward to its next chapter.

Regarding our common stock dividend. In January, the Board voted to increase the monthly distribution to $0.12515 per share for January, February and March. While this is a modest increase, it's noteworthy as this is the first dividend increase that we've had in over 10 years. We believe that this is an attractive yield for a well-managed REIT like ours and continues to provide excellent investment opportunity for those pursuing stable monthly income. We've now paid 180 consecutive common stock dividends. And we went through the Great Recession without reducing or suspending these payments.

And now I'll turn the program back to David.

David John Gladstone - *Gladstone Commercial Corporation - Founder, Chairman & CEO*

Okay. That was a good report, Mike, and also a good one from Bob and Michael LiCalsi. It's a very, very nice quarter. Heard a lot today and the numbers of the transaction. We acquired the industrial properties with credit tenants and issued a Series E preferred stock in October. It's just been a bang-up quarter, one of the best that we've had since starting the company.

The team is growing this portfolio at a good pace, doing a great job managing the balance sheet. We continue to believe we have a promising list of potential quality properties that we can acquire. The pipeline looks good. Middle market of the business, like many of our tenants, is doing fine today. And our tenants are paying their rents. The economy is excellent today, the best I've seen in my entire career. And of course, the teams making acquisitions for this company, they're just first-class purchasers. And we're financing these long-term leases with long-term mortgages. We like to match the book, as they say. This should help us weather any kind of downturn that's coming close. And I don't think there's anything in sight right now.

Our stock closed Wednesday at $21.94. The distribution yield is about 6.8%. Many of the REITs that are out there trading, there's about 190 of them trade at a much lower yield. So it makes room for us to -- for the price of the stock to go up. And of course, the yield hopefully will stay the same as we continue to grow the business. We started to increase the dividends just to keep up with inflation. And while the increase for the quarter was small, it's a beginning of our goal of keeping up with inflation and buying -- keeping your buying power the same or stronger.

Okay. Let me stop here, and Joelle, if you'll come on, we'll get some questions from all the people that are listening in.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from Gaurav Mehta with National Securities.

Gaurav Mehta - *National Securities Corporation, Research Division - MD & Equity Research Analyst*

First question that I have is on acquisitions. So if I look at your 4Q run rate, you guys acquired $62 million of assets. 1Q is around like $65 million, including the assets under due diligence that you mentioned. I mean as we think about 2020, is that $60 million, $65 million, is that like the right run rate to look at or you think that the volume will slow down later in the year?

Robert G. Cutlip - *Gladstone Commercial Corporation - President*

I think it will slow down, Gaurav. I believe -- we think that -- and Mike and I have discussed with the acquisition team and market conditions. And we should be able to achieve north of $150 million. That's kind of our goal. But no, I don't see a run rate of $65 million a quarter. I -- we went into a very, very good, let's say, window of opportunity with these assets. And so when you look at having $260 million in our pipeline, that's a little bit lower than it has been in the past. So coming out of the chute with $40 million in the first month and having -- where we are there, I feel very good about achieving our goal of $150 million. And it could be north of that, but we're not going to be on a run rate of $60 million to $70 million a quarter. No.

Gaurav Mehta - *National Securities Corporation, Research Division - MD & Equity Research Analyst*

Okay. And I think, Bob, in your prepared remarks, you talked about buyer-seller disconnect on the office sector side. Maybe you can provide some color on what's driving that.

Robert G. Cutlip - *Gladstone Commercial Corporation - President*

It's interesting, we're at the point in the cycle where, in my opinion, the smart sellers are recognizing that if their properties are long in the tooth or they need capital expenditures, why not sell it instead of putting more capital in the building and just take their proceeds and reinvest. And so a number of the properties we have looked at have had significant CapEx requirements, deferred maintenance. And we're not in the business of doing that.

Our goal and our objective and really our strategy for our teams is, in the first 3 years of operation, we don't want to put any capital in the building. Doesn't make sense. So that's where we're seeing some disconnect. We had a property come back to us, which we ultimately elected not to pursue. We were not the preferred buyer, but it came back. And that was one of the issues. So we're just very vigilant about it. Capital expenditures for offices, office properties, as you know, are extremely high vis-à-vis industrial. And so that's why our emphasis has shifted a bit to the industrial side. We still are looking for office, but we just think it's a bit more difficult right now.

Gaurav Mehta - *National Securities Corporation, Research Division - MD & Equity Research Analyst*

Okay. And then lastly, on the occupancy side, you dipped to 97% in 4Q. And as you think about your lease expirations in 2020, I mean how should we think about year-to-year occupancy expectations going forward?

Robert G. Cutlip - *Gladstone Commercial Corporation - President*

Well, we've always prided ourselves in staying above 96% occupied. I think we will be able to maintain that. Of course, the white elephant in the room and being transparent is our tenant there in Austin, GM. Fortunately, as I indicated, we're seeing very, very strong prospects with rental rates much higher than what GM is paying us right now. So I feel very, very encouraged that we're going to stay in that high 90% occupancy.

Operator

Our next question comes from Barry Oxford with D.A. Davidson.

Barry Paul Oxford - *D.A. Davidson & Co., Research Division - Senior VP & Senior Research Analyst*

Great. Bob, along the same lines, when you were talking about buildings with low CapEx and stuff, when you have a tenant vacate, do you look at the possibility of selling that asset?

Robert G. Cutlip - *Gladstone Commercial Corporation - President*

That is correct. We will do that. And particularly, if it's -- if it happens to be in what I would consider to be a noncore location or the configuration is such that we would have to expend more dollars than we think is appropriate -- and in the past, we have done that. As I think we've reported, we've exited a lot of single tenant, let's say -- single-property noncore buildings over the last 3 to 4 years. And we'll continue to do that. But yes, we look very much at the configuration, we look at the location, and we look at the redeployment into our, let's say, target markets.

Barry Paul Oxford - *D.A. Davidson & Co., Research Division - Senior VP & Senior Research Analyst*

Okay. Great. Switching gears just a little bit. When you're using the UPREIT structure, you have an ATM in place. How do you see using the UPREIT kind of the ATM in 2020?

Michael J. Sodo - *Gladstone Commercial Corporation - CFO*

I'll field that one, Barry. With respect to the ATM, as we've messaged fairly consistently, our sweet spot of deals that are generally south of $30 million, we intend on utilizing our ATM and -- almost solely on the common side, that's what we've done over the last 18 months, to source the equity requisite to that. And that's with us underwriting deals, call it, in the 50% to 52% leverage level. I think it's worthy of note, the ATM activity we had in the 3 months -- the prior 3 months, in a 12-week period, we issued north of $52 million of equity via ATM, which is by far the most we've ever been able to do in that short a span. So it gives me confidence that I can raise the capital for those traditional acquisitions.

I caveat that with if we contemplate larger individual assets or portfolios that tip above $30 million, we may need to contemplate going to the overnight markets. We may need to also contemplate going to the overnight markets if individual deals that, on their own, are smaller but they all stack up on the calendar in the same way. So it'll likely be a blend, but a majority of equity will be raised via ATM and then possibly an overnight at some point subject to deal flow.

With respect to the UPREIT format and structure and offer, we love that. Obviously, having the UPREIT be live, it is the most efficient way for us to issue capital. I will say since we started issuing OP Units some time ago, it is a dialogue we have with all prospective sellers, and we will continue to contemplate that. But to be fair to it, the vast majority of our proceeds have not been an OP structure, but I would theorize that there will be a couple more deals during this year that they take some or all OP Units.

Barry Paul Oxford - *D.A. Davidson & Co., Research Division - Senior VP & Senior Research Analyst*

Great. And Mike, and then on the debt side, as we move forward into 2020, how are you thinking about unsecured debt?

Michael J. Sodo - *Gladstone Commercial Corporation - CFO*

Long-term aspirations, but we're in a place where we are taking -- looking at things with a conservative lens today, Barry. As David mentioned, we want to match the book. We know -- if you had a crystal ball and told us what was going to happen from a macroeconomic perspective, I would love to see it. But with us being where we are in the cycle, we are being very conservative. Over time, we do continue to have aspirations to get to those unsecured pockets of debt capital being private placement, corporate unsecured, et cetera. But we will be prudent in the way we walk in that direction.

Operator

Our next question comes from Rob Stevenson with Janney.

Robert Chapman Stevenson - *Janney Montgomery Scott LLC, Research Division - MD, Head of Real Estate Research & Senior Research Analyst*

So David, you won't have to hear me ask when the Board is going to increase the dividend this quarter, but one question on the dividend, though. Coverage is obviously much better than it's been in the past. How are you guys thinking about office dispositions as you triangulate earnings growth, the dividend and the need for equity to fund acquisitions? I mean at this point, are dispositions of office assets more or less likely going forward?

Robert G. Cutlip - *Gladstone Commercial Corporation - President*

I'll address that initially. David may want to add to it. But I think when we look at dispositions, it's not so much whether it's office or industrial. Yes, we want to increase our industrial allocation. It's whether or not this property is in one of our target markets and whether or not the configuration is such that it would be difficult to re-lease the property. And so office is probably a higher probability because as everybody knows, if the tenant moves out, your tenant improvement costs, your CapEx because of equipment replacement, et cetera, et cetera, is much higher.

So I would say that if I had to handicap it, I would say probably 2/3 office, 1/3 industrial. We have a property in Syracuse, New York right now that we have re-leased. It's an industrial property, has a very excellent tenant in it. But we're not going to be in Syracuse from a portfolio standpoint. So as an opportunity presents itself and we can redeploy that industrial -- those industrial proceeds, we will do so.

David John Gladstone - *Gladstone Commercial Corporation - Founder, Chairman & CEO*

It's always a fine line that we walk through, Rob, in terms of trying to determine which assets to keep and which to let go. Bob and his team have identified 20 markets that they like. They want to stay in those 20 markets. They've got good coverage there and have got good knowledge of what the market's like. And so the old way of doing business here was, if it looked like it was a great tenant, and it was in a -- could be in Timbuktu and we'd still take the deal, we've gone away from that. We're much more identifying markets and making sure that we can find tenants for anything that comes up.

So right now, I'd say there's no push to sell off any of the buildings right now. And -- but time -- you never know, somebody comes along and likes that one. We get calls from brokers all the time saying, would you sell us a so-and-so building? And in some of those instances, the answer is yes. But no defined push to push all of the rental properties out of the door to somebody else.

Robert Chapman Stevenson - *Janney Montgomery Scott LLC, Research Division - MD, Head of Real Estate Research & Senior Research Analyst*

Okay. And then, Bob, appreciate the color on the various leases that are expiring and the renewal status. What are we talking about in terms of the annual revenue from the known move outs? I mean GM alone is 4% of your revenue. How much is the rest combined on a rough basis? Just trying to get a feel for how much revenue is at risk if the -- all of these vacated and you had some extended period of downtime in terms of the overall financial impact.

Robert G. Cutlip - *Gladstone Commercial Corporation - President*

Well, let's -- let me -- we indicated that we had like about $8.8 million expiring this year. Right now, inclusive of the leases out for signature, we've taken care of about $1.4 million of that already. And so I'm looking at, probably exclusive of GM, another $2.7 million that we've got to take care of this year. And with that in mind, I feel very good with the exception of one property in Minneapolis, which is a single-story property. It's about $1.4 million in straight-line rent. It's a good property, but there's no transaction velocity there.

So if I had to handicap it, exclusive of GM, I would say that my risk is somewhere between $1.4 million and $1.8 million. But that can change because as you know, market conditions can vary. I'm cautiously optimistic about GM, but it's like anything else. Right now, the Austin market is on fire and a lot of companies are wanting to relocate there. And we have -- we just received our most recent market update on that property. And we have 4 new prospects that are in excess of 100,000 square feet in the market right now. So we have a total of approximately 6 that have -- are kind of what I would call kicking the tires. But as you know and I know, market conditions could go flat quickly. So the sense of urgency is there with the team. I think we have a great marketing team there. Our leadership, Buzz and EJ and Perry Finney are doing a great job in aggressively doing that. But bottom line, that's what I believe is our really biggest exposure, GM plus that maybe $1.4 million to $1.6 million.

Robert Chapman Stevenson - *Janney Montgomery Scott LLC, Research Division - MD, Head of Real Estate Research & Senior Research Analyst*

Where -- what submarket is the GM asset in? And how much CapEx do you think you would need to re-tenant that?

Robert G. Cutlip - *Gladstone Commercial Corporation - President*

It's in the Parmer Corridor, which is a very, very strong corridor where Oracle, PayPal, all of them are there. Across the street from us is an excellent mixed-use development actually that was -- is being developed and has been developed by the company who sold the property to us. I think it varies depending upon -- the tenant improvements and the costs are going to vary.

In Austin today, being brutally honest, their rents -- the rents are in the -- as I indicated, in the low to mid-20s cash basis going in versus where we are at that point. But the tenant improvements, depending upon the length of the term, vary anywhere from $30 to as high as $80 a square foot that have been done. And that's significant. I don't believe we will be going that high with our property. And the reason being is I've walked it a number of times. It's excellent creative office. If it turns out to be a single tenant, I think we will be at the low to mid-range of that. If it does go to multi-tenant, then we'll be to the mid- to the higher range. There's no doubt about it.

Robert Chapman Stevenson - *Janney Montgomery Scott LLC, Research Division - MD, Head of Real Estate Research & Senior Research Analyst*

Okay. And then you cut out when you were talking about the acquisition for the Georgia inland port property. How -- what is the dollar value there and sort of cap rate? And you said -- I think I heard mid-March close?

Robert G. Cutlip - *Gladstone Commercial Corporation - President*

Yes, it's a mid-March close. It's a little over $30 million of acquisition price, over 500,000 square feet, as I can recall. And the cap rate is just south of 7%.

Robert Chapman Stevenson - *Janney Montgomery Scott LLC, Research Division - MD, Head of Real Estate Research & Senior Research Analyst*

Okay. And then, Mike, could you talk about the $1.8 million impairment charge during the quarter. Is that just one asset? And where was that?

Michael J. Sodo - *Gladstone Commercial Corporation - CFO*

Sure, Rob. Yes, that's a legacy asset, office asset that is in the suburbs of Charlotte, North Carolina. It is an asset that Gladstone Commercial bought in 2004. It's something that has been vacant -- went vacant in 2019, and we have been contemplating either re-lease scenarios or sales scenarios. In short, we were approached by the identified prospective buyer subject to culmination of due diligence. Late 2019, they've offered us a price that we like. Like Bob mentioned, office buildings, from a re-lease perspective, tend to have significant TI or CapEx requirements. We have no appetite for that with this asset. So nothing is guaranteed, but we look forward to selling the asset and redeploying the capital.

Robert Chapman Stevenson - *Janney Montgomery Scott LLC, Research Division - MD, Head of Real Estate Research & Senior Research Analyst*

Okay. And then last one for me. I know it's been talked about on prior calls, but any new or incremental thoughts by management or the Board these days on the likelihood and/or timing of internalization?

Robert G. Cutlip - *Gladstone Commercial Corporation - President*

No. We right now feel very good about our cost structure. At our size right now, having us be externally advised makes all the sense in the world because of the shared costs that we have. I'm sure it will always come up by the Board and by David over the next probably 2 to 3 years. But right now, we feel very good about our current structure and our cost relating thereto because I think we're really aligned with the shareholders the way our cost structure is set up right now.

Operator

Our next question comes from Henry Coffey with Wedbush Securities.

Henry Joseph Coffey - *Wedbush Securities Inc., Research Division - MD of Equities Research*

I know you don't like to give guidance, and Barry's questions and your answers were very helpful around this subject. But is there a lot of earnings sensitivity here, in your view, of a couple of pennies? It just doesn't seem like a big number, and I'm also looking at the fact that your sort of 2-year lease renewal was 13%, 14% last year. Now it's 15%, 16%. So it's not a big challenge. And I don't know if you can put some numbers to it or maybe you're not comfortable going there.

Michael J. Sodo - *Gladstone Commercial Corporation - CFO*

Yes. Henry, I'll field this. And we're not comfortable putting out formal numbers. Generically, I'll speak to kind of performance of '19 and our aspirations for '20 and beyond. As everyone on this call knows, core FFO was relatively flat in 2019 after a breakout year in 2018. A number of things play into that. I'd say big-picture takeaways are that we continued our deleveraging efforts, deleveraging the portfolio by 1 point. So we continue to issue equity and underwriting newer deals at lower leverage levels as well as closing half of the entire 2019 activity in November and December. And specifically, of that, call it, north of $60 million we closed during that time period, approximately 90% of that closed on the back half of December. So there was effectively no participation in 2019 earnings. We wake up on January 1 having those assets now in our portfolio, fully contributing to FFO as well as core FFO.

Our aspirations here -- as we have leverage almost in the right place with 1 to 2 points over time to be done, our aspirations are to maintain occupancy, continue to grow by north of $150 million a year and manage the debt stack efficiently as well as tapping the equity capital markets. Our hope is here, we can get to a point in time where on an annualized basis, we can demonstrate 1.5% to 3% growth in core FFO on an annualized basis. And again, that's all caveated based upon what happens with the macro economy as well as our performance. But that is our goal.

Henry Joseph Coffey - *Wedbush Securities Inc., Research Division - MD of Equities Research*

The Missouri index is lower than it's been since Reagan's day. So I think it's difficult to think of a negative outcome on the economy though it's always out there. But it looks like you're in pretty good shape. It's just a question of how much growth do we get in the second half of 2019?

David John Gladstone - *Gladstone Commercial Corporation - Founder, Chairman & CEO*

Well, it's that and as well as what's the terms and conditions in which these guys are competing. As you know, we're not into big transactions. We're dealing mostly with middle market-sized tenants, and there's lots of those. You have to -- like potato chips, you got to eat a lot of them to make it work. But these guys are good at putting together deals and closing and diligence and all of that.

So I think we're going to be strong throughout this year. And again, it's all dependent on something bad happening like the coronavirus speeding up in the United States and people becoming very conservative in their business outlook. So right now, we're riding the waves, and it's great to move along at this pace. But you tell us which way the economy is going, and we'll tell you what we're going to do.

Operator

(Operator Instructions) Our next question comes from John Massocca with Ladenburg.

John James Massocca - *Ladenburg Thalmann & Co. Inc., Research Division - Associate*

So just kind of touching on acquisitions again, I mean, and given what's kind of very tangibly in the pipeline, I mean you talked about Carrollton and then what you've already closed year-to-date. I'm just wondering why the $150 million is kind of the number out there and maybe why it seems like if that is the number, then there's almost like kind of a bit of a slowdown you're expecting kind of midpoint of the year. Is it something -- is it just the lumpiness of the business? Or is there some bigger macro dynamic that's driving kind of a significant amount of deal flow here from the end of last year to kind of the beginning of this year and then maybe a more conservative outlook going forward?

Robert G. Cutlip - *Gladstone Commercial Corporation - President*

I think if I take a look at our size as well, John, from 2012 to 2018, we averaged about $105 million as we were growing to get to $1 billion in assets. In a prior life, once we got to that point and we had more float, we had more institutional coverage, we had actually just a lot more shares and more demand for the stock, we were able to jump it to $150 million to $175 million. And I think that's kind of what we're looking at here. We may have a blowout year where we do over $200 million.

But by the same token, our whole approach to the business is a measured growth strategy, and we've got to make sure that we achieve -- and Mike keeps us on the straight and narrow that we're getting 125 to 150 basis points over our cost of capital, which you know varies during the year. And so for us to say, we can do $150 million to $175 million, I really like that number, which really means we're growing at double -- continuing to grow at double digits. Once we get to $2 billion to $2.5 billion, that number will probably jump up well above $200 million.

John James Massocca - *Ladenburg Thalmann & Co. Inc., Research Division - Associate*

Okay. But if we do stay in that number, then it should be kind of a front-end loaded year just given both Georgia and what you already closed.

Robert G. Cutlip - *Gladstone Commercial Corporation - President*

Yes, it could be. But I will tell you, our acquisitions team is not stopping. I mean it's -- if we identify and we've been fortunate in the pricing from about $5 million to $25 million to $30 million, that we can be very, very competitive on the industrial side. As I indicated earlier in my comments, it's been very difficult for us to find office properties that make sense right now.

Michael J. Sodo - *Gladstone Commercial Corporation - CFO*

But the math is right, John. I mean to the extent we close the acquisition in March, we will have done north of $70 million likely before March 15. So clearly, that implies, based upon a target of $150 million to $175 million, that it will be front-end loaded.

Robert G. Cutlip - *Gladstone Commercial Corporation - President*

And I like that because it puts some wind at our back going through the year from an FFO per share standpoint.

John James Massocca - *Ladenburg Thalmann & Co. Inc., Research Division - Associate*

Okay. And then switching to kind of the in-place portfolio, leasing commissions jumped a little bit in 4Q if my math is right -- I'm sorry, tenant improvements. How do you kind of expect tenant improvements and leasing commissions to trend? Really at the beginning of this year, you announced a lot of kind of re-leasing activity. Obviously, GM is going to be its own thing, and we've talked a lot about that. But maybe outside of that, how should we expect kind of leasing commissions and TIs to trend this year?

Robert G. Cutlip - *Gladstone Commercial Corporation - President*

Well, let me -- for the deals that we have done, let me go through and tell you what we are spending. The Mason, Ohio property, no TIs, but they can spend money, but it is amortized over the term of the lease. So that's a positive. If we look at our Indianapolis property where our existing tenant extended their lease through 2031 and then took another 9,000 square feet, that TI, which they're going to be spending this year, is about $6 a square foot on the 76,000 square feet. The Salt Lake City property where we did about -- we did a 6,600 square foot new deal, that's $9 per square foot.

Then I'm going to tell you because we are always transparent, the deal that we did in Minneapolis to replace the tenant who is moving out at the end of March, that lease was for 35,000 square feet, and the tenant improvements is $40. But then ViaSat, which -- excuse me, the tenant out in Denver, that we just extended their lease through 2026, the tenant improvements there is $15. And then the 78,000 square foot renewal that we just did in Springfield, Missouri was $5.

So with the exception of that one tenant in Minneapolis, which is a very difficult market, and a lot of this includes some CapEx to demise it into a multi-tenant building, I feel that our numbers are fairly decent particularly when I look at the Denver property and I look at the Springfield, Missouri property, both of which are office properties as is the property in Mason, Ohio.

So that's kind of actuals. Mike, you might want to add?

Michael J. Sodo - *Gladstone Commercial Corporation - CFO*

Sure, yes. And John, you're right. CapEx and TI during the fourth quarter was $1.6 million. For the entire year, it was only $2.3 million. From a leasing commissions perspective, it was $300,000, but that was pretty much run rate with $1.2 million for 2019. Bob has given you the specifics on a property-by-property basis and explicitly talked about GM. I would say, from a big-picture perspective and putting GM aside, our all-in CapEx, TI, leasing commission expectations for 2020 are in the, call it, $5 million to $7 million range.

Operator

Our next question comes from Craig Kucera with B. Riley FBR.

Craig Gerald Kucera - *B. Riley FBR, Inc., Research Division - Analyst*

I had to hop off and jumped back on, so I apologize if you covered this. But I do want to circle back to GM. I think in the past, you thought that if they didn't renew, the worst case would be that it might take about 6 months to re-lease the asset and then you would get a higher rent. Is that still your thought process here?

Robert G. Cutlip - *Gladstone Commercial Corporation - President*

I'm not going to make a commitment on -- if I said that in the past, that is an error, and I'll be openly honest about it. I mean in this market, you never know. We are hopeful that we will have some leasing in that property before the end of the year. What's encouraging, Craig, is that there's a number of prospects from 100,000 to over 300,000 square feet in the market, and there are only 2 existing properties that have that much square footage available unless you want to build a new facility, which is going to take 2 to 2.5 years.

So with the number of prospects that are out there, I am cautiously optimistic that we're going to have some prospects. We did send a proposal out to one tenant for the entire building. Whether or not that is going to come to fruition, I have no idea. I mean it's not a challenging market because there's a lot of activity in Austin, but I would be extremely happy if we did it in 6 months. I do believe with the activity we're going to have, we're going to have success before the end of the year.

Craig Gerald Kucera - *B. Riley FBR, Inc., Research Division - Analyst*

Okay. Great. And one more for me. Did you cover which asset you're looking to sell this quarter?

Michael J. Sodo - *Gladstone Commercial Corporation - CFO*

We did but very briefly, Craig. It's a vacant office asset in the suburbs of Charlotte, North Carolina. We've owned the asset since 2004. We expect that to close in the first quarter. We'll be redeploying those dollars into pending acquisitions.

Craig Gerald Kucera - *B. Riley FBR, Inc., Research Division - Analyst*

Got it. And then just one more for me. A question about Eastern Metal Supply. It looks like they have a number of other locations. Are they potentially a future source of additional acquisitions? Or do you think you're probably full with that tenant as you stand today?

Robert G. Cutlip - *Gladstone Commercial Corporation - President*

I think we're full with them from the standpoint -- we -- it's an excellent 3-building complex in markets that we want to expand into. And fortunately, our leader on the acquisition side, Buzz Cooper, this is his second acquisition with the seller of the property. So it could be that we may not be with Eastern Metal Supply, but we could have an opportunity with one of their other companies that they want to do a sale/leaseback on.

Operator

I'm not showing any further questions at this time. I would now like to turn the call back over to David Gladstone for any further remarks.

David John Gladstone - *Gladstone Commercial Corporation - Founder, Chairman & CEO*

All right. Thank you very much, Joelle. That was a good meeting for us, and we thank you all for calling. And we'll see you next quarter since the end of this call.

Operator

Ladies and gentlemen, this concludes today's conference call. Thank you for participating. You may now disconnect.