FORTRESS REIT LIMITED
(Incorporated in the Republic of South Africa)
(Registration number 2009/016487/06)
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LEI: 378900FE98E30F24D975
(Approved as a REIT by the JSE)
("**Fortress**" or "**the Company**")

TRADING AND PRE-CLOSE OPERATIONAL UPDATE

Shareholders are referred to the final results announcement for the year ended 30 June 2020, released on SENS on 3 September 2020 and the integrated report published on 26 October 2020. We hereby provide an update on Fortress' operations.

Direct property portfolio

Logistics and logistics developments

Since our last operational update we have made pleasing progress in letting the developments we have completed or commenced. At 30 June 2020 we had let 38 857m^2 of the 172 201m^2 gross lettable area ("**GLA**") of new developments and as at 2 December 2020, the let space has increased by 61 899m^2 to 100 756m^2 of the 172 201m^2 of new logistics facilities completed or commenced. In addition, we have pre-let 56 792m^2 of yard area to be developed into a container terminal for an operator at Clairwood Logistics Park for a period of 10 years at an estimated total cost of R178 million. Discussions are ongoing with several large users for our various new logistics facilities.

A summary of the progress in letting the new developments is presented below:

Development	**Pro rata share (%)**	**Total GLA of development (m^2)**	**GLA of let portion (m^2)**	**Lease term (years)**	**Estimated yield for let portion (%)**	**Estimated completion date (actual if completed)**
Louwlardia Logistics Park – Building 4	100	14 310	14 310	10	7,6	Oct 2020
Longlake Logistics Park – Extension 4 (Zest Weg)	100	24 458	24 458	10	8,5	Dec 2020
Longlake Logistics Park – Extension 4 (Spec)	100	12 458	-	-	-	Jan 2021
Clairwood Logistics Park – Pocket 4A	100	25 124	25 124	5	7,8	Jun 2021
Clairwood Logistics Park – Pocket 4B	100	24 094	8 463	5	7,8	Aug 2021
Cornubia Ridge Logistics Park – Building 2	50,1	23 727	14 002	5	7,6	Oct 2020
Eastport Logistics Park – Building 4 (Clippa)	65	14 399	14 399	10	9,4	Jan 2021
Eastport Logistics Park – Building 3	65	13 756	-	-	-	Mar 2021
Eastport Logistics Park – Building 5	65	19 875	-	-	-	May 2021
Sub-total per June 2020 results presentation		**172 201**	**100 756**			
Clairwood Logistics Park – container terminal yard	100	56 792	56 792	10	9,2	Sep 2021
Clairwood Logistics Park – Pocket 7	100	13 283	-	-	-	Aug 2021
Total		**242 276**	**157 548**			

The pipeline of development opportunities continues to attract interest and negotiations with several large users on a pre-let basis are ongoing. The standing logistics portfolio continues to perform well relative to our other portfolios with a low vacancy of 3,6%. However, rental growth remains muted and negative reversions on expiry of leases are expected to continue.

Retail

Over the past 12 months, tenant turnover figures ("**turnovers**") in our retail portfolio have declined by 3,9% when compared to the same period in 2019. This reduction is primarily due to the COVID-19-related lockdown.

However, turnovers have recovered gradually since the over 50% decline experienced during April 2020 compared to April 2019. Turnovers for October 2020 increased by 5,1% compared to October 2019. October 2020 was the first month since the level 5 lockdown that turnovers surpassed the comparable monthly levels of 2019.

The rural, township and suburban centres continue to show their resilience in these tough trading conditions, supported by social grants and their convenience offering. Turnovers at the CBD centres have improved markedly from their lows during the level 5 lockdown. As businesses are starting to return to work, turnovers at the CBD centres is starting to increase, recording growth of 6,3% in October 2020 when compared to October 2019.

The best performing tenant categories have been grocers, pharmacies, hardware stores, cosmetics and beauty and menswear. The tenants that have been negatively impacted are unisex wear, fast food, liquor stores, restaurants and bars.

Industrial

This non-core portfolio has been negatively impacted by financial strain in the tenant base. The letting performance, leading to a reduction in vacancies from 17,6% at 30 June 2020 to current vacancies of 8,8%, has been a notable achievement, albeit on short-term leases. The performance of a number of re-purposed industrial properties is proving positive, while the appetite from the investor market to purchase smaller industrial properties and parks is growing.

Office

The vacancy rate continued to increase from 23,6% at 30 June 2020 to 26,6% currently and this trend is likely to continue. Rentals remain depressed due to increased competition from other landlords. An emerging positive development from this portfolio is the possibility of converting certain appropriately located properties to residential use, given that the residential market has seen a marked increase in demand due to the record low interest rates.

Direct property disposals

The following properties have transferred since 30 June 2020:

Property name	**Sector**	**Net proceeds R'000**	**Book value Jun 2020 R'000**	**Transfer date**
Louwlardia Logistics Park – Building 1 (WAG) (50% undivided share) ^	Logistics	154 500	154 500	Aug 2020*
Protea Centre ^	Retail	83 000	83 000	Sep 2020
Eastport Logistics Park (65% interest) – land portion only	Logistics land	71 175	58 693	Nov 2020**
Shoprite Port Shepstone	Retail	67 320	68 000	Oct 2020
Elliot Avenue Epping	Industrial	45 000	45 000	Nov 2020
204 Rivonia Road Morningside (Block C and E) ^	Office	30 830	30 830	Aug and Sep 2020**
189 Monte Carlo Crescent Kyalami ^	Office	26 235	26 235	Sep 2020
Louis Trichardt Street Nelspruit ^	Industrial	22 500	22 500	Sep 2020
8 and 16 Harry Street	Industrial	22 000	23 740	Nov 2020
Brunton Circle Founders View South	Logistics	18 000	19 680	Dec 2020
Broad and Simmonds Streets ^	Industrial	14 550	14 550	Jul 2020
Groblersdal Centre ^	Retail	7 500	7 500	Nov 2020
Bart Street Wilbart	Industrial	5 940	5 940	Nov 2020
		568 550	**560 168**	

^ *Held for sale at 30 June 2020.*
* *Effective date of sale transaction. Proceeds and transfer expected in January 2021.*
** *Effective date of sale transaction. Proceeds have been received.*

The following properties are currently classified as held for sale:

Property name	Sector	Net proceeds R'000	Book value Jun 2020 R'000
Cornubia Ridge Logistics Park – Makro (49.9% interest)$	Logistics	469 060	466 710$
30 Bell Street Hennopspark	Industrial	52 000	52 000
2 Drakensberg Drive Longmeadow	Logistics	39 500	41 210
Modderfontein Road Longmeadow	Other – Motor dealerships	32 500	31 400
122 Koornhof Road Meadowdale	Industrial	24 000	23 197
		617 060	**614 517**

$ Fortress has an effective 50,1% interest in Cornubia Ridge Logistics Park through a subsidiary and only the effective interest is shown for management account purposes. However, for group purposes, the interest is consolidated and reflects 100% for purposes of International Financial Reporting Standards. Fortress is disposing of 49,9% of the property via the restructuring of the existing development and funding arrangement, with the result that funding provided by Fortress for the development of the property will be repaid. Fortress will hold its 50,1% interest in undivided shares post the closing of the transaction. The book value shown is the current carrying cost of the pro-rata share of the asset, post 30 June 2020.

Vacancies

Below we present a summary of the vacancy per sector as at 30 June 2020 and the current vacancy profile:

Sector	30 June 2020 vacancy by GLA (%)	Current vacancy by GLA (%)
Retail	6,0	4,9
Logistics	3,0	3,6
Industrial	17,6	8,8
Office	23,6	26,6
Other	2,3	1,7
Total portfolio	**8,9**	**6,8**

The overall vacancy reduction is primarily the result of letting and sales in the industrial portfolio. The retail portfolio vacancy has decreased due to lettings at Fourways Value Mart, Monument Centre, Pineslopes Shopping Centre, Jeffreys Bay Centre and 409 West Street.

The logistics portfolio vacancy remains low compared to historic levels.

Billings and collections

The table below reflects collections as a percentage of billings per month by sector. Over the five-month period to 30 November 2020, tenant arrears have reduced by approximately 27% from 30 June 2020.

	Jul 2020	Aug 2020	Sep 2020	Oct 2020	Nov 2020	Total
Retail	100,0%	100,0%	100,0%	99,9%	100,0%	**100,0%**
Logistics	100,0%	100,0%	98,4%	99,1%	100,0%	**99,5%**
Industrial	94,0%	95,2%	100,0%	100,0%	100,0%	**97,8%**
Office	100,0%	98,4%	97,7%	98,7%	100,0%	**98,9%**
Total	**99,0%**	**99,0%**	**98,7%**	**99,5%**	**100,0%**	

Deferrals of rental granted during the lockdown of R35,6 million have been included in billings in the table above and collected.

NEPI Rockcastle plc ("NEPI Rockcastle")

Shareholders are referred to the latest available operational and business updates provided by NEPI Rockcastle which are available on their website at https://nepirockcastle.com/news/

Funding, liquidity and treasury

As at Friday, 27 November 2020 Fortress had a total of R2,7 billion available in cash and undrawn secured banking facilities. The current facility expiry profile is as follows:

Facility expiry	**Amount R'million**
Jun 2021	910
Jun 2022	4 856
Jun 2023	5 274
Jun 2024	4 034
Jun 2025	4 395
Jun 2026	250
Jun 2027	206
	19 925

The only note repayable under our domestic medium-term note ("**DMTN**") programme in the next 12 months is a note of R300 million maturing in February 2021.

Fortress' loan-to-value ratio has increased to a current level of approximately 39,7% from 38,5% at 30 June 2020 primarily as a result of a decrease in the traded price of NEPI Rockcastle.

Outlook and trading update

Forecasting in the current market conditions remains challenging due to the uncertainty over lockdown restrictions and changing financial positions of tenants both in South Africa and in Central and Eastern Europe. While the collections against billings are pleasing, like-for-like net operating income remains under pressure due to higher administered costs and persistently negative reversions on lease renewals.

Maintaining a strong balance sheet, retaining REIT status and ensuring sufficient available liquidity need to be balanced against the payment of dividends.

Our distributable income and hence our dividends for the interim six-month period from 1 July 2020 to 31 December 2020 ("**H1 2021**" or "**the first income period**") are materially dependent on the final dividend declared by NEPI Rockcastle for its year ending 31 December 2020. Should NEPI Rockcastle pay a dividend per share (on a like-for-like basis with a consistent methodology to prior periods and in line with recent distributable earnings guidance provided), we currently forecast that our total distributable earnings will be lower than the Fortress A share minimum entitlement for H1 2021, being the first income period.

The result of the total distributable earnings being below the Fortress A share minimum dividend entitlement is that the Fortress A share H1 2021 distribution per share will be NIL and concomitantly the Fortress B share interim H1 2021 distribution per share will also be NIL. This is a 100% reduction in distribution per share for both Fortress A shares and Fortress B shares from the prior comparable period (being the six-month period from 1 July 2019 to 31 December 2019).

For the following six-month period from 1 January 2021 to 30 June 2021 ("**H2 2021**" or "**the second income period**") we forecast that the Fortress A share minimum dividend entitlement will be met and utilising an estimated Consumer Price Index inflation rate of 3,5% for the H2 2021, we expect the distribution per Fortress A share to be 78,79 cents per share. Further to this, we expect the distribution per Fortress B share for H2 2021 to be between 10,0 cents and 15,0 cents per share for the second income period. This is an increase of between 10,0 cents and 15,0 cents per share compared to the NIL cents per share for the comparable six-month period ended 30 June 2020.

This forecast is based on the following assumptions:

Fortress-specific assumptions

- NEPI Rockcastle pays a dividend per share for the six months ending 30 June 2021 that is similar to the distributable earnings per share for the six-month period ended 30 June 2020, adjusted for the capitalisation issue. Note that this assumption has not been supplied nor discussed with NEPI Rockcastle and remains an assumption by Fortress utilising historic figures;
- No material sales nor acquisitions occur which necessitate a revision to this forecast;
- There is no unforeseen failure of material tenants in our portfolio;
- Contractual escalations and market-related renewals will be achieved with no major change in vacancy rates; and
- Tenants will be able to absorb the recovery of rising utility costs and municipal rates.

Macro-economic and regulatory assumptions

- There is no change in the existing lockdown restrictions placed on any of our tenants in our direct portfolio;
- There is no unforeseen material macroeconomic deterioration in the markets in which Fortress has exposure; and
- The South African Reserve Bank maintains the repurchase rate at 3,5%.

This forecast has not been audited, reviewed or reported on by Fortress' auditor.

2 December 2020

Lead sponsor

JAVA CAPITAL

Joint sponsor

NEDBANK CIB