FORTRESS REIT LIMITED
(Incorporated in the Republic of South Africa)
(Registration number 2009/016487/06)
JSE share codes: FFA ISIN: ZAE000248498
FFB ISIN: ZAE000248506
Bond company code: FORI
LEI: 378900FE98E30F24D975
(Approved as a REIT by the JSE)
("**Fortress**")

TRADING AND PRE-CLOSE OPERATIONAL UPDATE

Shareholders and noteholders are referred to the final results announcement for the year ended 30 June 2021, released on SENS on 2 September 2021. We hereby provide an update on Fortress' operations.

Logistics and logistics developments

There continues to be strong demand from prospective tenants for our logistics parks with a number of enquiries being received from large users. The drivers of this demand continue to be tenants' consolidation of existing space, supply-chain efficiencies and e-commerce. We continue to see demand for our newly-developed logistics facilities and have recently commenced with additional developments at Longlake Logistics Park, Clairwood Logistics Park and Stargard Logistics Park in Poland. The table below presents an update on our current development projects post our most recent 30 June 2021 reporting period:

Property name	% owned	GLA m² (100%)	Let GLA	Lease term (years)	Estimated yield	Completion date	*Note*
Completed post 30 June 2021							
Clairwood Logistics Park - Pocket 7	100%	13 283	13 283	#	7,2%	Sep 2021	*1*
Clairwood Logistics Park - Pocket 4C	100%	8 907	8 907	5	7,2%	Nov 2021	*2*
Clairwood Logistics Park - Pocket 4B	100%	14 257	14 257	5	7,1%	Nov 2021	*3*
Clairwood Logistics Park - Pocket 2B	100%	56 792	56 792	10	9,2%	Sep 2021	*4*
		93 239	**93 239**				
Currently under construction							
Eastport Logistics Park - Building 7 (Pick n Pay)	40%	164 470	164 470	>12	7,0%	May 2023	
Eastport Logistics Park - Building 8	65%	18 573	-	-	*	Sep 2022	
Longlake Logistics Park - Ext 2 (Spec 1)	100%	19 232	-	-	*	Aug 2022	
Clairwood Logistics Park - Pocket 3A	100%	19 064	-	-	*	Sep 2022	
Clairwood Logistics Park - Pocket 3B	100%	10 018	-	-	*	Sep 2022	
Clairwood Logistics Park - Pocket 5A	100%	15 664	15 664	15	7,3%	Apr 2023	*5*
Stargard Logistics Park (Poland) - Hall D	100%	15 581	9 080	5	7,5%	Feb 2022	*6*
		262 602	**189 214**				
Total - 100% of development		**355 841**	**282 453**				

1 - # 6 341m² is let to Bordic on a five-year triple net lease. 6 942 m² is let to Goldfields on a six-month triple net lease.
2 - 8 907m² is let to African Sugar Logistics.
3 - 14 257m² is let to Super Group.
4 - 56 792m² is let to Kings Rest Container Park.
5 - 15 664m² is pre-let to ZacPak.
6 - 9 080m² is pre-let to EcoReady Bath. The yield shown is in Euro.
** Estimated net initial yields on unlet development are forecast at between 7% and 8%*

The estimated yields shown in the table above is the forecast net operating income, assuming unlet portions of developments are let at market related rentals and adjusted for any rent-free periods, divided by the total cost, which includes land, all pro-rata development costs as well as capitalised interest.

Retail

On a like-for-like basis for the 12-month period ended 31 October 2021, as compared to the corresponding 12-month period ended 31 October 2020, tenant turnover figures in our retail portfolio have increased by 7,6% and by 3,7% if compared to the same period ended 31 October 2019 (a pre-COVID-19 period). These figures include the loss of turnover from the civil unrest in July 2021 as well as reduced turnover due to COVID-19 restrictions and have only been adjusted for disposals and major extensions.

Six shopping centres were affected by the civil unrest in Gauteng and KwaZulu-Natal during July 2021. Four of these centres are operating and trade is steadily recovering. The remaining two smaller retail assets, being West Street Durban and Biyela Shopping Centre, suffered fire damage and will be operational by mid-2022.

Our retail portfolio continues to show its defensiveness in this challenging trading environment with collections not materially different from amounts being billed to tenants and operations reflecting a more normalised environment.

Vacancies

We present a summary of the vacancy per sector at 31 October 2021:

	Based on GLA Jun 2021*	**Based on GLA Oct 2021**
Total - including CEE	7,4%	6,6%
Logistics - SA	3,8%	2,8%
Retail	3,7%	3,4%
Industrial	13,0%	9,4%
Office	28,1%	36,5%
Other^	2,7%	3,1%
Logistics - CEE	1,5%	0,2%

* *Vacancy statistics at 30 June 2021 exclude Oak Avenue Highveld, an office building of 11 700m^2, which was shown as held for sale at that date. This transaction has subsequently become less than probable to conclude and the asset is now classified as investment property and the GLA included in the office vacancy shown above.*

^ *Includes a hotel, residential units, a motor dealership and serviced apartment properties.*

Overall vacancies have reduced from 7,4% at 30 June 2021 to 6,6% at 31 October 2021, with vacancies remaining low in our core logistics and retail portfolios. The Central and Eastern Europe ("**CEE**") logistics portfolio is fully let since November 2021, with strong demand evident from a range of tenants. The industrial portfolio vacancy has decreased as a result of shorter-term leases being concluded, with demand evident for smaller units in the industrial parks.

The office portfolio represents approximately 4% of our total assets and the bulk of the vacancy is concentrated in two assets, one of which is under a due diligence for a residential conversion and the other of which is subject to a lease negotiation. If these are concluded the vacancy will reduce to 24,2% for this portfolio.

Direct property disposals

We continue to sell our non-core properties and during the financial year to date the following transfers have occurred.

Property name	Sector	Net proceeds (R'000)	Book value June 2021 (R'000)	Transfer date
3 and 6 Cedarfield Close Springfield Park^	Logistics	108 000	108 000	Sep 2021
286 Sixteenth Road^	Logistics	21 500	21 500	Aug 2021
56 Kelly Road Jet Park	Industrial	19 600	16 500	Nov 2021
Lakeview Business Park (No 15)	Industrial	13 200	10 850	Nov 2021
19 Spartan Road	Industrial	13 000	12 980	Nov 2021
64 Kelly Road Jet Park	Industrial	9 800	9 090	Nov 2021
Bevan Road Roodekop (vacant land only)^	Land	8 070	8 100	Sep 2021
City Deep Production Park	Industrial	5 000	5 000	Oct 2021
London Lane (Erf 129 Park Central only)	Industrial	3 230	2 958	Nov 2021
		201 400	**194 978**	

^ *Held for sale at 30 June 2021*

The following properties are classified as held for sale:

Property name	Sector	Net proceeds (R'000)	Book value June 2021 (R'000)
Midrand Protea Hotel	Other – Hotel	117 500	120 000
47 Jeffels Road Prospecton	Logistics	54 400	55 000
Eastport Logistics Park – Clippa*	Logistics	54 438	57 525
Cambridge Motor Paulshof	Other - Motor dealership	48 000	44 000
James Crescent Midrand	Industrial	37 450	37 330
Cambridge Manor Paulshof^	Offices	28 750	28 750
4 6th St Wynberg	Industrial	27 600	27 230
12 Stockwell Road Pinetown	Logistics	23 877	20 400
Latei Street Isando	Industrial	15 600	14 250
		407 615	**404 485**

* *Clippa exercised its option to purchase a 50% undivided share in this property, in which Fortress group owns a 65% undivided share.*

^ *Held for sale at 30 June 2021.*

Oak Avenue has been re-classified from held-for-sale to investment property given it is no longer highly probable that the sale of this property will be concluded within the next 12 months.

Midrand Protea Hotel is subject to an instalment sale agreement and to date R19 million has been paid by the purchaser with transfer expected in September 2022.

South African Special Risks Insurance Association ("SASRIA")

Sasria has acknowledged and accepted liability in respect of Fortress' claim for material damage and loss of rentals as a result of the civil unrest and looting that occurred in July 2021. Two interim payments have been received against the estimated quantum of R502 million claimed under our policy which includes a claim for 100% of the damage to the Cornubia Ridge Logistics Park development of which Fortress owns 50.1%.

NEPI Rockcastle

NEPI Rockcastle recently released a comprehensive trading update which can be found on its website (www.nepirockcastle.com).

Funding, liquidity and treasury

At 3 December 2021, Fortress had a total of R2,5 billion cash and available facilities and remains comfortably within all debt covenants.

Our loan-to-value ("**LTV**") ratio at 3 December 2021 was approximately 39.1%. When adjusted for the covenant free debt raised on the NEPI Rockcastle collar, as well as the sale of the 60% share in the Pick n Pay distribution centre to the tenant, the LTV reduces to approximately 37.2%.

Distribution methodology change

For purposes of determining distributable earnings, we will no longer include the NEPI Rockcastle dividend on an accrual basis for a coterminous distribution period, but rather the actual dividend amount received in the period which will be the dividend in relation to a prior reporting period for NEPI Rockcastle. This will align this element of the distribution methodology with the accounting principles of International Financial Reporting Standards ("**IFRS**"), taxation and therefore the JSE Listings Requirements.

Given the withdrawal of guidance by NEPI Rockcastle, this change enables a clearer forecast of distributable earnings for reporting periods. We will continue to publish Funds From Operations as defined by the SA REIT Best Practice Recommendations ("**SA REIT BPR**") as a comparable figure, which will include the NEPI Rockcastle dividend on an accrual basis for a coterminous period. Appropriate adjustments will be made for purchases or disposals of NEPI Rockcastle shares effected during a period.

Outlook

We remain optimistic about the future of our core portfolio in the medium- to long-term and continue to see recovery in many of the markets, sectors and countries to which we have economic exposure. However, given the withdrawal of guidance by NEPI Rockcastle, the evident fourth wave of the COVID-19 pandemic, with the resultant possibility of further restrictions being imposed, and our dual capital structure of FFA and FFB shares, we are unable to accurately forecast distributable earnings on a per share basis for each class.

Based on the assumptions below and on the amended distribution methodology as described above (which is now aligned with IFRS and tax in relation to the NEPI Rockcastle dividends), we revise our estimate of total distributable earnings for the financial year ending 30 June 2022 to R1,78 billion, from R1,79 billion as previously disclosed in our results announcement for the year ended 30 June 2021. In line with our previously published expectation, the full year forecast distributable earnings of R1,78 billion, when split between the two income periods for the2022 financial year, will be below the FFA dividend benchmark for the six-month period ending 31 December 2022, but are still expected to be above the FFA dividend benchmark for the six-month period ending 30 June 2022.

This forecast is based on the following assumptions:

Fortress-specific assumptions

- In light of the withdrawal of guidance by NEPI Rockcastle, we assumed in our forecast above that NEPI Rockcastle's distributable earnings for the six-month periods ending 31 December 2021 will be the same as for the comparable period ended 31 December 2020, and that NEPI Rockcastle will pay 100% of distributable earnings as a dividend;
- No material sales or acquisitions occur which will 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 rising utility costs and municipal rates.

Macroeconomic 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;
- The South African Reserve Bank maintains the repurchase rate at 3,75%; and
- There is no resurgence in civil unrest in South Africa, and timely payments of insurance claims related to previous civil unrest are made.

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

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6 December 2021

Lead sponsor	Joint sponsor	Debt Sponsor
JAVA CAPITAL	CIB	RMB