

## 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" or "the Company")



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## TRADING AND PRE-CLOSE OPERATIONAL UPDATE

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Shareholders and noteholders are referred to the interim results announcement for the six months ended 31 December 2021, released on SENS on 10 March 2022. We hereby provide an update on Fortress' operations for the period post 31 December 2021.

### *Logistics and logistics developments*

Vacancies in our logistics portfolio have reduced to 1,8% at 31 May 2022 from 2,6% at 31 December 2021 given continued demand from tenants for well-located, prime logistics warehouses. Our logistics developments under construction have remained unchanged since previously reported and we have agreed terms with two new tenants. RB Logistics will occupy 10 018m<sup>2</sup> (Pocket 3B) at Clairwood Logistics Park for five years from completion of the development and Farutex will occupy 2 160m<sup>2</sup> in Hall E in Bydgoszcz, Poland, also for a five-year term from completion. Construction of the 164 470m<sup>2</sup> Pick n Pay distribution facility at Eastport Logistics Park is progressing well and is on schedule for completion in the fourth quarter of our 2023 financial year. Tenant interest in our current pipeline remains robust and we are optimistic regarding letting current speculative developments prior to completion.

There has been notable construction cost inflation over the past six months, which may lead to lower than previously anticipated net initial yields on new developments where increased costs cannot be recovered in the form of higher rentals. However, the cost of our recently completed developments is now materially below replacement cost at current market prices for similar buildings. Our largest development, Pick n Pay at Eastport Logistics Park, is less exposed to higher costs due to pre-agreed pricing on all material contracts and the rental based on an agreed yield on total cost.

### *Retail*

For the 12-month period ended 30 April 2022, compared to the corresponding prior period, tenant turnover figures in our retail portfolio have increased by 8,4% on a like-for-like basis. These figures exclude the buildings which suffered fire damage during the July 2021 civil unrest.

We believe that our portfolio of retail assets which is focussed on essential goods and services in convenient locations and commuter nodes is well placed in the current macroeconomic environment. There is strong tenant demand for additional space in well performing centres and our vacancies have remained at 3,7%.

### *Vacancies*

Total vacancies, measured as a percentage of gross lettable area ("GLA"), decreased from 6,5% at 31 December 2021 to 5,5% at 31 May 2022.

	Based on GLA	
	Dec 2021	May 2022
	%	%
Logistics – SA	2,6	1,8
Retail	3,7	3,7
Industrial	10,7	6,9
Office	29,1	29,4
Other^	3,5	4,3
Logistics – CEE*	0,2	8,4
<b>Total portfolio vacancy</b>	<b>6,5</b>	<b>5,5</b>

Information based on management accounts.

<sup>^</sup> Includes a hotel, residential units and serviced apartment properties.

\* Central and Eastern Europe (“CEE”) logistics vacancies increased due to the completion of a new building at Stargard, Poland. The building was 60% pre-let and was recently completed.

The industrial portfolio vacancy has decreased as a result of shorter-term leases being concluded, with demand evident for smaller units in our industrial parks and successful disposals, as detailed in the section on direct property disposals. In collaboration with Inospace, we have transferred 12 properties from Fortress and 10 from Inospace, with a combined value of R1,2 billion, into a new entity and look forward to a successful and innovative partnership.

The office portfolio remains part of the non-core, direct property portfolio and represents only c. 4,5% of our total assets by value. Approximately 8 000m<sup>2</sup> of the 29,4% vacancy relates to a property that is under due diligence and rezoning for a potential residential conversion by the prospective purchaser.

### Direct property disposals

We continue to successfully dispose of non-core properties. Total disposals to date for the financial year ending 30 June 2022 (“FY2022”) are R531 million in net proceeds at a combined profit to book value of R25,8 million. The following properties have transferred since 30 June 2021:

<b>Property name</b>	<b>Sector</b>	<b>Net proceeds (R'000)</b>	<b>Book value June 2021 (R'000)</b>	<b>Transfer date</b>
3 & 6 Cedarfield Close Springfield Park	Logistics	108 000	108 000	Sep 2021
Harries Street Germiston	Industrial	64 000	51 340	Apr 2022
47 Jeffels Road Prospecton <sup>^</sup>	Logistics	54 400	55 000	Jan 2022
Cambridge Motor Paulshof	Other - Motor dealership	47 900	44 000	Dec 2021
James Crescent Midrand	Industrial	37 450	37 330	Dec 2021
4 6th St Wynberg <sup>^</sup>	Industrial	27 600	27 230	Feb 2022
12 Stockwell Road Pinetown <sup>^</sup>	Logistics	23 877	20 400	Jan 2022
286 Sixteenth Road	Logistics	21 500	21 500	Aug 2021
56 Kelly Road Jet Park	Industrial	19 600	16 500	Nov 2021
Latei Street Isando <sup>^</sup>	Industrial	15 600	14 250	Jan 2022
Rudo Nel Jet Park (Erf 84 Hughes Ext 10 only)	Industrial	14 000	13 000	May 2022
Lakeview Business Park (no 15)	Industrial	13 200	10 850	Nov 2021
Highveld Technopark	Office	13 100	14 500	May 2022
19 Spartan Road	Industrial	13 000	12 980	Nov 2021
Unit 5 Northlands Décor Park	Industrial	13 000	12 710	May 2022
Selby Mini Units <sup>^</sup>	Industrial	10 525	12 200	May 2022
64 Kelly Road Jet Park	Industrial	9 800	9 090	Nov 2021
Director Road Spartan <sup>^</sup>	Industrial	8 150	8 230	Mar 2022
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
		<b>531 002</b>	<b>505 168</b>	

<sup>^</sup> Held for sale at 31 December 2021.

The following properties are classified as held for sale at 31 May 2022:

<b>Property name</b>	<b>Sector</b>	<b>Net proceeds (R'000)</b>	<b>Book value June 2021 (R'000)</b>	<b>Transfer date</b>
Midrand Protea Hotel ^	Other - Hotel	117 500	120 000	*
Philippi Shopping Centre	Retail	91 080	90 000	*
Eastport Logistics Park - Clippa # ^	Logistics	55 038	57 525	*
Cambridge Manor Paulshof ^	Offices	28 750	28 750	*
Chelsea Office Park Rivonia ^	Offices	17 890	15 400	*
488 Sixteenth Road	Logistics	16 400	14 620	*
Le Roux Avenue Midrand ^	Industrial	7 970	6 810	*
		<b>334 628</b>	<b>333 105</b>	

^ *Held for sale at 31 December 2021.*

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

\* *Not yet transferred.*

### **NEPI Rockcastle**

On 18 May 2022 NEPI Rockcastle S.A. (“NEPI Rockcastle”) released a comprehensive business update for the three months to 31 March 2022, in which it reaffirms the guidance released in February 2022, that distributable earnings per share for the year ending 31 December 2022 will be at least 24% higher than distributable earnings per share for the year ended 31 December 2021. ([www.nepirockcastle.com](http://www.nepirockcastle.com)).

### **Funding, liquidity and treasury**

At 31 May 2022, Fortress had a total of R3,0 billion in cash and available facilities and remains comfortably within all debt covenants.

Our loan-to-value (“LTV”) ratio at 31 May 2022 was approximately 39,8%.

### **Consideration of share merger**

Shareholders and noteholders are referred to the SENS announcement released by Fortress on 23 May 2022, wherein shareholders were advised that the board of directors of Fortress (the “Board”) had commenced a process with regard to a potential collapse of Fortress’s dual share structure into a single class of ordinary shares.

The Board anticipates that this process may result in a proposal to Fortress shareholders in the short term. Shareholders will be updated in due course.

### **Outlook**

As communicated previously, we now include the NEPI Rockcastle distributions in our distributable earnings in the period in which they are received, which better enables us to provide a forecast for distributable earnings for the financial year ending 30 June 2023 (“FY2023”).

Based on the assumptions below and on the distribution methodology outlined above, which is aligned with IFRS and tax in relation to the NEPI Rockcastle dividends, we estimate our total distributable earnings for FY2023 to be approximately R1,91 billion, an increase of 12,4% over the R1,7 billion forecast for FY2022.

This forecast is based on the following assumptions:

### **Fortress-specific assumptions**

- NEPI Rockcastle’s distributable earnings per share will increase by 24% for the year ending 31 December 2022, in line with the guidance provided to the market and on the basis that NEPI Rockcastle will pay 100% of distributable earnings as a dividend;
- In accordance with Fortress’ existing distribution policy, we have assumed that 100% of Fortress’ distributable

- earnings for FY2022 and FY2023 will be paid as dividends;
- Fortress maintains its status as a REIT for FY2022 and FY2023;
- 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 are no COVID-19 related lockdowns or similar restrictions placed on our tenants or those of our associates' tenants;
- There is no unforeseen material macroeconomic deterioration in the markets in which Fortress has exposure, being South Africa and CEE;
- The South African Reserve Bank increases the repurchase rate by 50 basis points to 5,25% during FY2023; and
- There is no resurgence in civil unrest in South Africa.

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

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6 June 2022

Lead sponsor

JAVACAPITAL

Joint sponsor



Debt Sponsor

