FORTRESS REIT LIMITED
(Incorporated in the Republic of South Africa)
(Registration number 2009/016487/06)

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	FFB	ISIN: ZAE000248506
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LEI: 378900FE98E30F24D975
(Approved as a REIT by the JSE)
("**Fortress**" or "**the Company**")

TRADING AND PRE-CLOSE OPERATIONAL UPDATE

Shareholders and noteholders are referred to the final results announcement for the year ended 30 June 2022 ("FY2022"), released on SENS on 1 September 2022. We hereby provide an update on Fortress' operations for the period post 30 June 2022 ("post-FY2022").

"The post-FY2022 period has been characterised by continued strong operational performance in our direct portfolio, as well as a better-than-expected performance by our associate NEPI Rockcastle. We are pleased to see a normalisation in the markets in which we operate with no material ongoing impact resulting from COVID-19. The performance is testament to our simpler and more focussed strategy, which involves continual recycling of capital out of the non-core assets and into high-quality assets which will provide a stronger platform from which to grow earnings in the future.

The SA direct logistics portfolio vacancy of only 0,1% is a significant achievement by our dedicated asset management team. The development pipeline roll-out has continued with success and our ability to add value by developing logistics assets in-house further enhances our offering to tenants. Work-in-progress totalling 393 230m² of gross lettable area ("GLA") of logistics projects is underway on our sites with an anticipated total cost on completion of approximately R5,3 billion, which includes 100% of the cost of co-owned projects. In addition, we have seen another strong performance from our well-positioned retail portfolio, evidenced by the 7,5% like-for-like tenant turnover growth over the comparable prior year period and a 14% improvement compared to 2019." Steven Brown, Chief Executive Officer.

Logistics and logistics developments

Tenant demand for secure, well-located, prime logistics space remains robust as evidenced by the continued, positive interest in our current development pipeline and an all-time low vacancy in our standing logistics portfolio. Vacancies in our South African ("SA") logistics portfolio decreased to 0,1% at 31 October 2022 from 1,2% at 30 June 2022, measured by GLA.

Post-FY2022, we commenced construction of a new 37 965m² warehouse at Clairwood Logistics Park ("Clairwood") for Sammar Logistics on a 15-year lease, underpinned by Sasol South Africa. In addition, we approved and commenced the construction of a new speculative warehouse of 20 514m² at Clairwood.

We are in negotiations with various tenants to lease the warehouse at Longlake Logistics Park ("Longlake") - phase 2, of 19 232m² and a 18 573m² facility at Eastport Logistics Park ("Eastport"), both of which are nearing completion. Construction has commenced on the new Retailability warehouse of 13 400m² at Cornubia Ridge Logistics Park ("Cornubia") with an expected completion date in July 2023. Further to this development at Cornubia, we have concluded an offer to develop a 24 537 m² facility on the lower platform for a tenant on a 10-year lease. Completion of this facility is expected around December 2023.

Construction of the 164 470m² state-of-the-art Pick n Pay super distribution facility at Eastport Logistics Park ("Eastport") is on track for completion in 2023 with lease commencement planned for 1 June 2023.

Vacancies in our Central and Eastern Europe ("CEE") logistics portfolio decreased to 5,5% of GLA at 31 October 2022 from 8,3% at 30 June 2022. Our logistics developments are progressing as planned, with 7 560m² in the first phase of Hall E in Bydgoszcz nearing completion and a second phase of 10 500m² currently under construction, due to strong demand at the park. Phase 1 of Hall E is fully let and part of the phase 2 development is pre-leased to retail provider Stokrotka for 6 480m² and 1 620m² to MEGIMA, both for a term of five years. Leasing activities in Bydgoszcz are progressing well and we expect Hall E, which will be 17 820m² in total over the two phases, to be fully let prior to opening in June 2023.

In Stargard, TR-AK Logistics has signed a five-year lease for 3 240m² in Hall D. Stargard has seen an increase in enquiries due, in part, to the new c. 87 000 m² distribution centre for German retailer TEDi becoming operational on the adjacent site.

Below is a summary of our current development pipeline:

Logistics park	Detail	% owned	GLA m² (100%)	Let GLA	Lease term (years)	Estimated yield	Completion date
Developments expected to be completed by 31 December 2022							
Eastport	Building 8	65%	18 573	-	-	*	Nov 2022
Longlake	Extension 2 – Spec 1	100%	19 232	-	-	*	Nov 2022
Clairwood	Pocket 3A – Imperial Logistics	100%	17 905	17 905	5	7,0%	Nov 2022
Clairwood	Pocket 3B – RB Logistics	100%	11 178	11 178	5	7,0%	Nov 2022
Total			**66 888**	**29 083**			
Currently under construction							
Eastport	Building 7 – Pick n Pay	40%	164 470	164 470	>12	7,0%	May 2023
Eastport	Crusader Logistics	65%	19 787	19 787	5	8,3%	Jul 2023
Clairwood	Pocket 5A – ZacPak	100%	15 664	15 664	15	7,3%	May 2023
Clairwood	Pocket 2A – Sammar Logistics	100%	37 965	37 965	15	7,0%	Nov 2023
Clairwood	Pocket 3C	100%	20 514	-	-	*	Feb 2024
Montague Business Park	Block D	25%	12 319	12 319	5	*	Dec 2022
Cornubia	Retailability redevelopment	50,1%	13 026	13 026	10	7,0%	Nov 2023
Cornubia	Dromex	50,1%	24 537	24 537	10	8,0%	Jul 2023
Bydgoszcz Poland $	Hall E – phase I	100%	18 060	12 426	5	7,0%	Jun 2023
Total			**326 342**	**300 194**			
Total: 100% of development			**393 230**	**329 277**			

$ Yield shown in Euro.
** Estimated net initial yields on unlet developments are forecast at between 7% and 8%.*

Retail

Retail vacancies remained static at 3,6% at 31 October 2022 compared to 30 June 2022. Turnover figures, for the 12-month period ended 30 September 2022, have increased by 7,5% compared to the corresponding period in the previous year. Tenant turnover has increased by 14% compared to the same period in 2019. Township centres, followed by suburban and CBD centres, showed the highest growth during this period, albeit off a low base due to the comparable figures containing the July 2021 riots period. The portfolio collection rate for this period was 99%.

The renovations and introduction of Pick n Pay at Palm Springs Shopping Centre are complete. The new Pick n Pay store is trading in line with expectations and acts as an additional anchor for the enlarged centre. The expansion of Food Lover's Market at Weskus Mall is nearing completion, with expected commencement of trading before 30 November 2022. The new McDonalds drive-through outlet at the mall opened mid-November 2022.

The Mahikeng Station Boulevard Centre redevelopment is progressing well and new tenants, including Clicks, Cosmetic Connection, Daniel J and The FIX will open at the end of November 2022. Shoprite will commence trading early in the 2023 calendar year.

The Vryheid Plaza extension has commenced and the project is well supported from a leasing perspective, with new tenants including Shoprite, Clicks, Jet, Woolworths Edit, Totalsports, Sportscene and Markham.

Our portfolio of retail assets, which is focused on essential goods and services in convenient locations and commuter nodes, is well placed in the current macroeconomic environment.

Vacancies

Total vacancies, measured as a percentage of GLA, decreased from 5,4% at 30 June 2022 to 3,9% at 31 October 2022.

	Based on GLA	
	Oct 2022	**Jun 2022**
	%	**%**
Logistics – SA#	0,1	1,2
Retail	3,6	3,6
Industrial	5,6	8,2
Office	24,6	28,6
Other^	4,4	4,1
Logistics – CEE*	5,5	8,3
Total portfolio vacancy	**3,9**	**5,4**

Information based on management accounts.

\# *Logistics – SA vacancy excludes the Longlake (19 232m²) and Eastport (18 573m²) warehouses nearing completion. The Logistics – SA vacancy would be 2,6% if these were included as vacant in the portfolio.*

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

* *Logistics – CEE vacancies relate to the completion of a new building at Stargard. The building was 60% pre-let and was recently completed. GLA of 3 279m² was let to TR-AK Logistics, further reducing Logistics - CEE vacancies to 5,5%.*

The decrease in industrial vacancies primarily resulted from lettings at Otto Volek Road Pinetown, where we secured a new tenant for 3 878m² and a lease renewal with an existing tenant for 9 916m² at Isando Business Park. We are seeing strong demand for units of all sizes in our industrial portfolio.

Our partners, Inospace, have completed the first phase of the optimisation of the new Inofort joint venture portfolio and letting of the new space is progressing well. We have been particularly successful at Island Works in Paarden Island, with a 5 000m² vacant pocket, sub-divided into smaller units, now fully let with a significant increase in rentals achieved.

The office portfolio comprises less than 4% of our total assets by value, and remains part of the non-core, direct property portfolio. There are several refurbishment initiatives under way to enhance the portfolio's attractiveness to prospective tenants. These include improved security, as well as back-up electricity and water. The decrease in office vacancies is primarily due to the exclusion of 8 000m² at Monyetla Office Park, which has been sold to a residential conversion specialiston an initial leasehold basis, pending sub-division from the remainder of the park and payment of the final purchase price. GLA of 8 014m² or 4,7% of the 24,6% vacancy relates to a portion of Oxford Manor that is currently under due diligence and rezoning for a potential residential conversion by the purchaser.

Direct property disposals

Our success with the disposal of non-core properties has continued. Total disposals post-FY2022 amount to R435 million in net proceeds at a combined profit to book value of R7 million. The following properties have transferred since 30 June 2022:

Property name	**Sector**	**Net proceeds (R'000)**	**Book value Jun 2022 (R'000)**	**Transfer date**
Market Square Grahamstown ^	Retail	117 700	117 700	Sep 2022
Philippi Shopping Centre ^	Retail	91 071	91 080	Aug 2022
2 Joyner Road Prospecton ^	Industrial	79 000	79 000	Sep 2022
Eastport Logistics Park – Building 4 (Clippa) # ^	Logistics	55 644	55 380	Aug 2022
Rigger Road Spartan	Industrial	41 213	34 590	Sep 2022
Chelsea Office Park Rivonia ^	Office	17 890	17 890	Jul 2022
Megawatt Road Spartan ^	Logistics	15 050	15 050	Jul 2022
Derrick Coetzee Road Jet Park	Industrial	6 000	5 900	Oct 2022
6 Ivanseth Road ^	Industrial	4 000	4 000	Aug 2022
39 Loper Street Spartan ^	Industrial	3 900	3 900	Aug 2022
13 Wessels Road Rivonia ^@	Office	3 500	3 500	Oct 2022
		434 968	**427 990**	

^ *Held for sale at 30 June 2022. Book value was the expected sale proceeds as at 30 June2022.*

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

@ *50% undivided share.*

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

Property name	Sector	Net proceeds (R'000)	Book value October 2022 (R'000)	Transfer date
Eastport Logistics Park - Pick n Pay [&^]	Logistics	1 093 369	1 049 234	*
Midrand Protea Hotel [^%]	Other - hotel	117 500	117 500	*
Sandton Land - Rivonia Road	Land	86 460	99 944	$
49 Galaxy Avenue Linbro Park	Logistics	44 000	42 130	*
38 Milkyway Avenue Linbro Park [^]	Industrial	33 500	33 500	$
Leslie Office Park	Office	28 000	28 000	*
15 Progress Road New Germany [@]	Industrial	11 400	10 815	*
Le Roux Avenue Midrand [^]	Industrial	7 970	7 970	*
7 and 9 Watkins Street Denver	Industrial	6 600	6 520	$
		1 428 799	**1 395 613**	

& *Construction of the new Pick n Pay super distribution centre is well under way. On completion of the development, Pick n Pay will purchase a 60% undivided share in the property. The estimated transfer date is June 2023. Net proceeds and book value represent the selling price and cost respectively, less costs to complete. For Eastport Logistics Park – Pick n Pay, the net proceeds was R860,2 million and book value was R816,1 million at 30 June 2022.*

^ *Held for sale at 30 June 2022.*

* *Not yet transferred.*

% *Final payment of the purchase price is expected by 30 November 2022.*

$ *Lodged in the relevant deeds office.*

@ *50% undivided share.*

NEPI Rockcastle

NEPI Rockcastle N.V. ("NEPI Rockcastle") released its interim results to 30 June 2022 and a subsequent comprehensive trading update, including revised increased distribution guidance, on 23 August 2022 and 17 November 2022 respectively, which announcements are available on its website at www.nepirockcastle.com.

Funding, liquidity and treasury

We currently have a total of R2,7 billion in cash and available facilities and remain comfortably within all debt covenants. All facilities set to mature before 31 December 2022 have been refinanced for periods of four and five years.

A number of additional secured facilities are available to the group at attractive pricing, showing strong appetite from a number of local banking institutions on the back of our robust balance sheet, quality assets and continued strong operational performance.

The collar over a portion of our NEPI Rockcastle shares, previously entered into to enhance liquidity, has been terminated and the facility has been repaid.

Our loan-to-value ("LTV") ratio is approximately 38,8% at the date of this announcement.

Demand to call general meetings of shareholders

Shareholders are referred to the announcement published on 2 November 2022 relating to the demand to call general meetings of shareholders in terms of section 61(3) of the Companies Act, No. 71 of 2008 ("Companies Act") (the "Demand") in order for Fortress' Memorandum of Incorporation ("MOI") to be amended to allow for the declaration of distributions on a split basis of 80:20 (FFA shares: FFB shares) for FY2022, as well as for the financial years ending 30 June 2023 ("FY2023") and 30 June 2024 (the "Proposal"), and update with regard to the Company's REIT status.

As communicated in the announcement, Fortress still intends to meet its obligations in terms of the Companies Act and convene the general meetings in order for Fortress shareholders to vote on the Proposal, which general meetings are expected to be held on or about 12 January 2023.

Outlook

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

Based on the assumptions below and consistent with the distribution methodology previously communicated, and applied in FY2022, which is aligned with IFRS and tax in relation to the NEPI Rockcastle dividends, we confirm our distributable earnings guidance as published on 1 September 2022 of R1,60 billion. A key assumption in the FY2023 forecast is the loss of REIT status which would require income tax to be paid for FY2023.

Whilst the distributable earnings guidance remains unchanged, the largest positive earnings contributor to the forecast is the upward revision of the NEPI Rockcastle distributable earnings, which is countered by the higher than previously forecast South African interest rates. The previous forecast published on 1 September 2022, assumed a total of 75 basis points increase in rates for the remainder of FY2023, which assumption has now been updated to allow for a total of 150 basis points increase in interest rates, which includes the increase of 75 basis points effective 22 September 2022.

This forecast is based on the following assumptions:

Fortress-specific assumptions

- NEPI Rockcastle's distributable earnings per share will increase by 38% for the year ending 31 December 2022, in line with the guidance provided to the market on 17 November 2022 and on the basis that NEPI Rockcastle will pay 100% of distributable earnings. The current NEPI Rockcastle distribution payout policy is at least 90% of distributable earnings;
- No material sales, nor acquisitions, outside of our planned pipeline, 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;
- Tenants will be able to absorb the recovery of rising utility costs and municipal rates;
- Fortress ceases to be REIT on or about 30 November 2022; and
- The estimated tax payable, should Fortress cease to be a REIT, is R330 million for FY2023.

Macroeconomic and regulatory assumptions

- There is no unforeseen material macroeconomic deterioration in the markets in which Fortress has exposure; and
- The South African Reserve Bank increases the repurchase rate by a further 75 basis points during the remainder of FY2023.

In the event that the requisite shareholder approvals for the Proposal are received and REIT status is maintained, our FY2023 distributable earnings would be approximately R1,85 billion. The key adjustments assumed to the aforementioned FY2023 forecast are the saving in the tax charge of approximately R330 million and increased funding costs as a result of the payment of 100% of the FY2022 distributable earnings and the FY2023 interim distributable earnings. All other assumptions remain unchanged.

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

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21 November 2022

Lead sponsor

Joint sponsor

Debt Sponsor