

## FORTRESS REAL ESTATE INVESTMENTS LIMITED

(Formerly Fortress REIT Limited)

(Incorporated in the Republic of South Africa)

(Registration number 2009/016487/06)

JSE share codes: FFA ISIN: ZAE000248498

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("Fortress" or "the Company")



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## PRE-CLOSE OPERATIONAL UPDATE

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Shareholders and noteholders are referred to the results announcement for the interim period ended 31 December 2022 ("1H2023"), released on SENS on 8 March 2023 and a voluntary update released on 5 June 2023. We hereby provide an update on Fortress' operations for the period subsequent to 31 December 2022.

*"Global and local trends continue to support our strategy of recycling capital out of our non-core investment properties and into high-quality logistics assets, providing a stronger platform from which to grow earnings in the future. During the current financial year ending 30 June 2023 ("FY2023"), we have disposed of non-core properties for proceeds of R1,21 billion and recycled this capital into best-in-class logistics developments. Strong demand for secure, high-quality logistics space, both local and offshore, coupled with higher borrowing costs and construction cost inflation, have translated into higher asking rentals for our speculative developments and better rentals for our standing portfolio of prime logistics assets.*

*While the logistics property sub-sector is not immune to the macroeconomic challenges the country faces, it remains well-positioned to weather the storm, given that fundamentals are robust relative to other real estate sub-sectors. The strong demand for quality, well-located and secure logistics facilities is evidenced by our performance over the past two years, in which time we have successfully developed and let approximately 350 000m<sup>2</sup> of state-of-the-art logistics space across our various logistics parks in South Africa. The South African ("SA") direct logistics portfolio continues to perform well, with the low vacancy of 1,2% being testament to the efforts of our in-house development and asset management teams. The Central and Eastern European ("CEE") logistics strategy remains on track, with 18 060m<sup>2</sup> of developments completed during FY2023 and a further 73 150m<sup>2</sup> currently under construction.*

*Our SA retail portfolio continues to perform well, despite a tough operating environment and deteriorating consumer dynamics, achieving 7,0% like-for-like tenant turnover growth and recording a low vacancy of 2,0%. The strategic focus on extending and refurbishing our existing retail centres is proving fruitful and we plan to continue to dispose of underperforming assets and use this capital to enhance our portfolio of conveniently located and commuter-focused shopping centres".* Steven Brown, CEO.

### **SA logistics and logistics developments**

Vacancies, based on rental, in our SA logistics portfolio reduced from 3,3% at 31 December 2022 to 1,2% at 31 May 2023. The low vacancy underscores the healthy tenant demand for our logistics developments and space in our existing portfolio and the improved quality of the overall portfolio through effective asset recycling. We have finalised lease terms with an existing tenant in our portfolio for the newly constructed warehouse at Longlake Logistics Park ("**Longlake**"), comprising 19 099m<sup>2</sup> of GLA. Moreover, we have finalised a 10-year triple net lease, with Seabourne Logistics for a 18 573m<sup>2</sup> facility at Eastport Logistics Park ("Eastport"), with beneficial occupation planned for October 2023.

Construction of a new 15 664m<sup>2</sup> warehouse at Clairwood Logistics Park ("**Clairwood**") for ZacPak was completed in May 2023. The 15-year lease commences on 1 July 2023. Construction of a new 37 965m<sup>2</sup> warehouse at Clairwood for Sammar Logistics is progressing well. The 15-year lease, underpinned by Sasol South Africa, is expected to commence in November 2023. Furthermore, we commenced with construction of a new 20 514m<sup>2</sup> speculative warehouse at Clairwood which is expected to be completed by February 2024.

Construction of the new Retailability warehouse of 13 026m<sup>2</sup> at Cornubia Ridge Logistics Park (“**Cornubia**”) is on track, with expected completion in August 2023. We secured a 10-year lease with Dromex for a 24 537m<sup>2</sup> facility at Cornubia, with completion expected during December 2023.

We completed the 12 319m<sup>2</sup> speculative development at Montague Business Park in December 2022. The property has been let to Media24/On the Dot, commencing on 1 May 2023 on a five-year triple net lease, translating to a yield of 8,9% on cost.

### ***Pick n Pay super distribution centre at Eastport***

As announced on SENS on 5 June 2023, the 164 470m<sup>2</sup> state-of-the-art Pick n Pay super distribution facility at Eastport has been completed, with the lease commencing on 1 June 2023. Fortress and Pick n Pay have agreed to amend the initial transaction, such that Fortress will retain 100% of the distribution centre and Pick n Pay will pay rental based on an initial yield of 8,5% on total development cost. The initial term of the lease will remain at 15 years with a 6% per annum escalation. Fortress has already funded 100% of the development and there will be no incremental capital requirements to finance the amended transaction terms.

### ***Longmeadow distribution centre, previously occupied by Pick n Pay (“Inland 1”)***

Fortress has agreed to acquire 100% of the warehouse previously occupied and owned by Pick n Pay (“**Inland 1**”), consisting of two large warehouses, for R500 million as part of the abovementioned transaction. Inland 1 is situated in Longmeadow in Gauteng, an established warehousing and industrial area with a number of high-profile tenants in the immediate vicinity. The property has exceptional highway frontage and is approximately 20 kilometres from OR Tambo International Airport, with easy access to the N3 highway. Warehouse 1 consists of 62 303m<sup>2</sup> of GLA with a clear eaves height of 11,5 metres and Warehouse 2, a cold storage facility, consists of 44 746m<sup>2</sup> of GLA with a clear eaves height of 9,5 metres. We estimate a required spend of approximately R65 million to repair the yard and other parts of Inland 1, which repairs have commenced and are expected to be completed within the next two months.

We have entered into a sale agreement with the Dis-Chem group for the purchase of Warehouse 1. Proceeds from the sale to the Dis-Chem group, net of fees and commissions, are R492 million and a binding sale agreement has been entered into.

These transactions, being the purchase of Inland 1 from Pick n Pay and the sale of Warehouse 1 (being a portion of Inland 1) to the Dis-Chem group, are subject to certain conditions precedent including Competition Commission approvals for each transaction.

Indicative rentals for Warehouse 2 (44 746m<sup>2</sup> of GLA) are between R60/m<sup>2</sup> and R65/m<sup>2</sup>.

### ***CEE logistics and logistics developments***

The CEE portfolio was fully let at 31 May 2023. We completed phase 1 (7 560m<sup>2</sup>) of Hall E in Bydgoszcz during the period and phase 2 (10 500m<sup>2</sup>) is expected to be completed during June 2023. Phase 1 of Hall E is fully let, and part of phase 2 is pre-let to retail provider Stokrotka and MEGIMA for 6 480m<sup>2</sup> and 1 620m<sup>2</sup> respectively, both for a term of five years. In Stargard, TR-AK Logistics initially signed a five-year lease for 3 240m<sup>2</sup> in Hall D, but has subsequently requested the remaining 3 240m<sup>2</sup> in Hall D, as well as 3 600m<sup>2</sup> in Hall A. Consequently, all 27 207m<sup>2</sup> of Stargard Logistics Park is fully let.

Construction of a 50 200m<sup>2</sup> warehouse at our site in Łódź (Poland) will commence in July 2023, of which 29 000m<sup>2</sup> has been pre-let to Notino on a 10-year lease, with occupation scheduled during the third quarter of 2023. Discussions are ongoing with interested tenants for the remainder of the space. The project provides further development potential of approximately 30 000m<sup>2</sup> of GLA in the second building, which is to be developed after the first building is fully let.

Furthermore, we will start construction of phase 1, a 22 950m<sup>2</sup> warehouse at our site in Zabrze (Poland) in July 2023. Approximately 50% of phase 1 has been pre-let to Lit Logistyka Polska on a five-year lease. This development is expected to be completed during the second quarter of 2024.

Present market conditions allow these new developments to provide yields on cost in the range of 6,8% to 7,4% once completed and fully let.

The table below provides a summary of our logistics park developments in SA and CEE:

| Logistics park                              | Detail                           | % owned | GLA m <sup>2</sup> (100%) | Let GLA        | Lease term (years) | Estimated yield (%) | Completion date |
|---|----------------------------------|---------|---------------------------|----------------|--------------------|---------------------|-----------------|
| <b>Developments completed during FY2023</b> |                                  |         |                           |                |                    |                     |                 |
| Eastport                                    | Building 7 – Pick n Pay          | 100     | 164 470                   | 164 470        | 15                 | 8,5                 | May 2023        |
| Eastport                                    | Building 8 – Seabourne Logistics | 65      | 18 573                    | 18 573         | 10                 | 8,0                 | Oct 2022        |
| Longlake                                    | Extension 2 – Liquor Runners*    | 100     | 19 099                    | 19 099         | 1<                 | 6,3                 | Oct 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        |
| Clairwood                                   | Pocket 5A – ZacPak               | 100     | 15 664                    | 15 664         | 15                 | 7,3                 | May 2023        |
| Montague Business Park                      | Block D                          | 25      | 12 319                    | 12 319         | 5                  | 8,9                 | Dec 2022        |
| Bydgoszcz Poland <sup>§</sup>               | Hall E – phase 1                 | 100     | 7 560                     | 7 560          | 5                  | 7,0                 | Jul 2022        |
| Bydgoszcz Poland <sup>§</sup>               | Hall E – phase 2                 | 100     | 10 500                    | 5 100          | 5                  | 7,0                 | Jun 2023        |
| <b>Total</b>                                |                                  |         | <b>277 268</b>            | <b>271 868</b> |                    |                     |                 |
| <b>Currently under development</b>          |                                  |         |                           |                |                    |                     |                 |
| Eastport                                    | Crusader Logistics <sup>^</sup>  | 65      | 19 787                    | 19 787         | 10                 | 8,3                 | Jul 2023        |
| Clairwood                                   | Pocket 2A – Sammar Logistics     | 100     | 37 965                    | 37 965         | 15                 | 7,0                 | Nov 2023        |
| Clairwood                                   | Pocket 3C                        | 100     | 20 514                    | -              | -                  | **                  | Feb 2024        |
| Cornubia                                    | Retailability redevelopment      | 50,1    | 13 026                    | 13 026         | 10                 | 7,0                 | Aug 2023        |
| Cornubia                                    | Dromex                           | 50,1    | 24 537                    | 24 537         | 10                 | 8,0                 | Dec 2023        |
| Łódź Poland <sup>§</sup>                    | Hall A – Notino                  | 100     | 29 000                    | 29 000         | 10                 | 7,4                 | Jun 2024        |
| Łódź Poland <sup>§</sup>                    | Hall A                           | 100     | 21 200                    | -              | -                  | **                  | Jun 2024        |
| Zabrze Poland <sup>§</sup>                  | Phase 1 – Lit Logistyka          | 100     | 22 950                    | 11 610         | 5                  | 6,8                 | Jun 2024        |
| <b>Total</b>                                |                                  |         | <b>188 979</b>            | <b>135 925</b> |                    |                     |                 |
| <b>Total: 100% of developments</b>          |                                  |         | <b>466 247</b>            | <b>407 793</b> |                    |                     |                 |

<sup>§</sup> Yield shown in Euro.

<sup>\*</sup> Temporary lease until we secure a longer-term tenant. Let to an existing tenant for the warehouse portion only.

<sup>\*\*</sup> Estimated net initial yields on unlet developments are forecast at approximately 7%.

Initial lease period is five years with option in favour of landlord to extend for five years, which we intend to exercise.

## Retail

Our portfolio of retail properties, which is focused on essential goods and services in convenient locations and commuter nodes, is well-positioned given current macroeconomic conditions and a tough consumer environment. Turnover for the 12 months ended 31 May 2023 increased by 7,0% compared to the corresponding period of the previous year. The portfolio collection rate for this period was 97%. Retail vacancies, based on rental, decreased from 2,8% at 31 December 2022 to 2,0% at 31 May 2023. We expect retail vacancies to decrease further due to ongoing negotiations with various new tenants for vacant space at Thrupps Illovo Centre, Central Park Bloemfontein and Kimberley Junction.

During March 2023, the redevelopment of Morone Shopping Centre commenced, which includes the construction of a new 2 500m<sup>2</sup> Shoprite store and façade upgrades. This redevelopment is expected to be completed by September 2023. The redevelopment at Thrupps Illovo Centre is underway and will include façade upgrades and a parking reconfiguration to improve traffic flow.

The Vryheid Plaza extension is progressing well and is expected to be completed in the last quarter of 2023. The project is well-supported from a leasing perspective. New tenants to the centre include Shoprite, Clicks, Jet, Woolworths Edit, Totalsports, Sportscene and Markham.

## Renewable energy

We remain committed to establishing a significant solar photovoltaic (“**solar PV**”) footprint across our property portfolio. We now have 26 operational plants totalling 10.153 MWac, compared to 23 plants totalling 8.988 MWac at 31 December 2022. We are on site with a further seven plants totalling 3.16 MWac and have approved a next phase of four plants totalling 1.64 MWac. A further 14 plants are in various stages of planning and procurement, totalling an estimated 5.3 MWac. We have also completed our first solar PV installation of 150 KWac at Bydgoszcz in Poland.

Backup generators are currently being installed at five retail centres, with expected completion in June 2023. The generators will be integrated with the solar PV to minimise diesel usage, where practical and feasible. Site surveys are underway for the remaining retail centres, with completion expected by December 2023.

## Vacancies

Total vacancies, based on rental, decreased from 4,8% at 31 December 2022 to 3,6% at 31 May 2023.

| Sectoral vacancy | Based on rental |               | Based on GLA  |               |
|------------------|-----------------|---------------|---------------|---------------|
|                  | May 2023<br>%   | Dec 2022<br>% | May 2023<br>% | Dec 2022<br>% |
| <b>Total</b>     | <b>3,6</b>      | <b>4,8</b>    | <b>4,1</b>    | <b>4,9</b>    |
| Logistics – SA*  | 1,2             | 3,3           | 1,2           | 2,9           |
| Retail           | 2,0             | 2,8           | 3,1           | 3,6           |
| Industrial       | 7,2             | 4,5           | 7,7           | 5,9           |
| Office           | 20,7            | 26,3          | 23,6          | 25,7          |
| Other^           | 1,1             | 6,2           | 1,3           | 5,2           |
| Logistics – CEE  | 0,0             | 0,0           | 0,0           | 0,0           |

Information based on Fortress' economic interest in wholly-owned and co-owned properties.

\* Eastport building 8 was let to Seabourne Logistics during June 2023. As a result, the SA logistics vacancy has reduced to 0,3% subsequent to 31 May 2023.

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

Vacancies in the industrial portfolio increased from 4,5% at 31 December 2022 to 7,2% at 31 May 2023, attributable mainly to two new vacancies, being Torre City Deep (15 444m<sup>2</sup>) and 368 Sifon Street Robertville (4 550m<sup>2</sup>).

The office portfolio comprises less than 4% of our total assets by value and remains part of the non-core direct property portfolio. This portfolio has recorded a decrease in vacancies to 20,7% from 26,3% at 31 December 2022. We have noted a gradual return to offices in our portfolio, partly due to the prevalence of load shedding. The asset management initiatives which are underway to refurbish four of the buildings with the highest vacancies are focusing on improved security, back-up electricity and water, and high-speed connectivity. Energy efficiency is also a major area of focus, including LED lighting and, where feasible, solar installations and battery storage. These initiatives have proven successful, with half of the vacant space at Parc Nicol being let and an offer to purchase being received for the entire Fourways Office Park.

## Direct property disposals

We continue to dispose of non-core properties. Total disposals during FY2023 amount to R1,21 billion in net proceeds against a combined book value of R1,23 billion. The following properties have transferred since 30 June 2022:

| Property name                                   | Sector        | Net proceeds<br>(R'000) | Book value<br>Jun 2022<br>(R'000) | Transfer date |
|---|---------------|-------------------------|-----------------------------------|---------------|
| Tillbury Business Park Midrand                  | Industrial    | 171 000                 | 163 160                           | May 2023      |
| Bellstar Bellville (leasehold) *                | Retail        | 123 000                 | 140 000                           | Apr 2023      |
| Market Square Grahamstown ^                     | Retail        | 117 700                 | 117 700                           | Sep 2022      |
| Midrand Protea Hotel ^                          | Other - hotel | 117 500                 | 117 500                           | Jan 2023      |
| Philippi Shopping Centre ^                      | Retail        | 91 071                  | 91 080                            | Aug 2022      |
| Sandton Land - Rivonia Road &                   | Land - office | 86 460                  | 99 944                            | Nov 2022      |
| 2 Joyner Road Prospecton ^                      | Industrial    | 79 000                  | 79 000                            | Sep 2022      |
| Secunda Central                                 | Retail        | 61 000                  | 66 000                            | May 2023      |
| Eastport Logistics Park - Building 4 (Clippa)^# | Logistics     | 55 644                  | 55 380                            | Aug 2022      |
| Cunningham Street Uitenhage                     | Logistics     | 45 000                  | 40 400                            | May 2023      |
| Rigger Road Spartan                             | Industrial    | 41 213                  | 34 590                            | Sep 2022      |
| 38 Milkyway Avenue Linbro Park ^                | Industrial    | 33 500                  | 33 500                            | Nov 2022      |
| Secunda Square                                  | Retail        | 32 500                  | 35 500                            | May 2023      |
| Leslie Office Park                              | Office        | 28 000                  | 28 000                            | Dec 2022      |
| Secunda Town Centre                             | Retail        | 24 000                  | 26 500                            | May 2023      |

|                                |                     |                  |                  |          |
|--------------------------------|---------------------|------------------|------------------|----------|
| Chelsea Office Park Rivonia ^  | Office              | 17 890           | 17 890           | Jul 2022 |
| Megawatt Road Spartan ^        | Logistics           | 15 050           | 15 050           | Jul 2022 |
| 2 and 4 Spanner Road           | Industrial          | 14 300           | 14 720           | Jan 2023 |
| Secunda Residential            | Other - residential | 11 500           | 12 500           | May 2023 |
| 15 Progress Road New Germany @ | Industrial          | 11 400           | 10 815           | Jan 2023 |
| Le Roux Avenue Midrand ^       | Industrial          | 7 970            | 7 970            | Apr 2023 |
| 7 and 9 Watkins Street Denver  | Industrial          | 6 600            | 6 520            | Nov 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 |
|                                |                     | <b>1 208 698</b> | <b>1 231 019</b> |          |

\* Effective date 1 April 2023.

^ Held for sale at 30 June 2022.

@ 50% undivided share.

& 80% undivided share.

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

The following properties are classified as held for sale at 31 May 2023:

| <b>Property name</b>       | <b>Sector</b> | <b>Net proceeds<br/>(R'000)</b> | <b>Book value<br/>Jun 2022<br/>(R'000)</b> |
|----------------------------|---------------|---------------------------------|--|
| Middelburg Plaza           | Retail        | 103 000                         | 92 000                                     |
| Lakeview Business Park 14  | Industrial    | 12 550                          | 10 890                                     |
| Lakeview Business Park 6   | Industrial    | 4 850                           | 3 960                                      |
| 15 Wessels Road Rivonia @  | Office        | 4 635                           | 5 000                                      |
| 15 Kouga Street Stikland @ | Industrial    | 3 800                           | 2 723                                      |
|                            |               | <b>128 835</b>                  | <b>114 573</b>                             |

@ 50% undivided share

### **NEPI Rockcastle**

By electing the scrip dividend option in March 2023, we increased our shareholding in NEPI Rockcastle N.V. (“NEPI Rockcastle”) to 23,9% from 23,7% at 31 December 2022. NEPI Rockcastle released its final results for the year ended 31 December 2022 on 21 February 2023 and subsequently released a comprehensive trading update on 17 May 2023. These results and announcements are available on its website at [www.nepirockcastle.com](http://www.nepirockcastle.com).

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

During June 2023, we completed the refinancing of the Nedbank facilities totalling R4,4 billion, as noted in the 1H2023 interim results announcement.. The facility is split into four equal tranches of R1,1 billion each with expiries in May of 2026, 2027, 2028 and 2029. Furthermore, we issued two new notes, totalling R800 million, under our domestic medium term note programme during June 2023, being a three-year note for R380 million and a five-year note for R420 million.

We currently have a total of R2,9 billion in cash and available facilities and remain comfortably within all debt covenants.

Our loan-to-value (“LTV”) ratio is approximately 37,3% at the date of this announcement.

### **Outlook**

Consistent with our distribution methodology, as previously communicated, we update our previous distributable earnings guidance as published on 8 March 2023, from R1,66 billion to at least R1,74 billion for the year ending 30 June 2023.

This forecast is based on the following assumptions:

### **Fortress-specific assumptions**

- 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; and
- Tenants will be able to absorb the recovery of rising utility costs and municipal rates.

### **Macroeconomic and regulatory assumptions**

- There is no unforeseen material macroeconomic deterioration in the markets in which Fortress has exposure.

The information in this announcement has not been audited, reviewed or reported on by Fortress' auditor.

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26 June 2023

Lead sponsor

JAVACAPITAL

Joint sponsor



Debt Sponsor

