

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

FFB ISIN: ZAE000248506

Bond company code: FORI

LEI: 378900FE98E30F24D975

(“Fortress” or “the Company”)



TRADING AND PRE-CLOSE OPERATIONAL UPDATE

Shareholders and noteholders are referred to the final results announcement for year ended 30 June 2023 (“**FY2023**”), released on SENS on 31 August 2023. We hereby provide an update on Fortress’ operations for the period subsequent to 30 June 2023.

We continue to experience strong demand for well-located, high-quality logistics space and this has translated into a sustained record low logistics vacancy of 0,5% by rental. We currently have 173 610m² of logistics space under development. The success of our strategy to dispose of non-core assets and recycle this capital into high-quality logistics developments and relevant retail redevelopments is evident in our low vacancy rates and positive rental growth in tough operating environments. Post FY2023, we have disposed of non-core properties for proceeds of R883 million and recycled this capital into new logistics developments and strategic retail redevelopments and extensions. Given the prevailing challenges in the real estate market globally, resulting from the higher interest rate environment, we view the disposals since 30 June 2023 as a strong result.

The continued investment into our retail portfolio, to keep it relevant to our tenants, is evidenced in our low vacancies across our portfolio. We recently completed a refurbishment and extension of our mall in Vryheid, AbaQulusi Plaza, and have plans to uplift and extend other strategic retail assets. Our SA retail portfolio has performed well, despite a deteriorating consumer environment, achieving 7,2% like-for-like tenant turnover growth and an improved vacancy, by rental, of 1,3%. We will continue to focus on our performing assets with potential and dispose of assets in deteriorating markets or that are not dominant in their respective catchment areas. Steven Brown, CEO.

SA logistics and logistics developments

Vacancies, based on rental, in our SA logistics portfolio remained flat at 0,5% at 31 October 2023. These low vacancies are a result of effective asset recycling, well-executed management initiatives in our standing portfolio and healthy demand for well-located, high-quality logistics developments.

Eastport continues to experience high demand and Teraco intends to expand the large data centre developed within Eastport. As such, we have entered into a conditional agreement with Teraco for the sale of 108 000m² of land adjacent to their current site. This additional land will be sub divided but will remain within the boundary of our Eastport Logistics Park. The subdivision process is expected to take at least 12 months. The expected sales price is approximately R1 890/m².

Construction of the new Retailability warehouse of 13 026m² at Cornubia Ridge Logistics Park was completed on schedule in July 2023. We secured a 10-year lease with Dromex for a 24 590m² facility at Cornubia, with completion expected during December 2023.

Construction of a new 38 169m² warehouse at Clairwood for Sammar Logistics is progressing well. The 15-year lease, underpinned by Sasol South Africa, is on track to be completed during December 2023. We have commenced bulk earthworks on Clairwood Pocket 5B and have signed a 15-year lease with CHC Supply Chain Management for a 14 071m² warehouse. In addition, we expect construction of the warehouse on Pocket 3C, totalling 20 514m², to be completed in April 2024, with strong interest from prospective tenants. Given the proximity to the port, access to the M4 highway, security at the park and the high-quality offering, Clairwood Logistics Park remains the preferred location for prospective tenants.

Central and Eastern European (“CEE”) logistics and logistics developments

CEE logistics vacancies, by rental, increased from 3,9% at 30 June 2023 to 6,4% at 31 October 2023. This vacancy represents two buildings, being 3 849m² in Hall A at Stargard (Poland) and 5 450m² in Hall E at Bydgoszcz (Poland).

Construction of a 50 200m² warehouse building at our site in Łódź (Poland) commenced in July 2023, of which 28 509m² has been pre-let to Notino on a 10-year lease. Occupation is scheduled for the third quarter of 2024. The balance of the space being constructed has been offered to various potential tenants and we expect part of this space to be leased prior to construction completion. The project provides further development potential of approximately 30 000m² of GLA in the second building, which is to be developed, based on adequate pre-lease commitments, once the available space in the first building has been fully let.

We have commenced construction of phase 1, a 22 950m² warehouse at our site in Zabrze (Poland). Half of phase 1 has been pre-let to Lit Logistyka Polska (11 675m²) on a five-year lease. This development is expected to be completed during the second quarter of 2024. Discussions with interested tenants for the balance of phase 1 are ongoing and progressing well. Given the advance nature of many of these discussions, we are confident to conclude further leases in respect of this project in 1Q2024.

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

Logistics park	Detail	% owned	GLA m ² (100%)	Let GLA	Lease term (years)	Estimated yield (%)	Completion date
Developments completed post 30 June 2023							
Cornubia Ridge Logistics Park	Retailability re-build	50,1	13 026	13 026	10	7,0	Jul 2023
Eastport Logistics Park	Crusader Logistics [^]	65	19 787	19 787	10	8,3	Oct 2023
Total			32 813	32 813			
Developments currently under development							
Clairwood Logistics Park	Pocket 2A - Sammar Logistics	65	38 169	38 169	15	8,0	Dec 2023
Clairwood Logistics Park	Pocket 3C	100	20 514	-	-	*	Apr 2024
Clairwood Logistics Park	Pocket 5B – CHC	100	14 071	14 071	10	8,3	Aug 2024
Cornubia Ridge Logistics Park	Lower platform – Dromex	50,1	24 590	24 590	10	8,0	Dec 2023
Łódź (Poland)	Hall A – Notino ^{\$}	50,1	28 509	28 509	10	7,4	Jun 2024
Łódź (Poland)	Hall A ^{\$}	100	24 742	-	-	*	Jun 2024
Zabrze (Poland)	Phase 1 – Lit Logistyka ^{\$}	100	23 015	11 675	10	6,8	Jun 2024
Total			173 610	117 014			
Total: 100% of developments			206 423	149 827			

^{\$} Yield shown in Euro

* Estimated net initial yields on unlet developments are forecast at approximately 7%

[^] Initial lease period is 5 years, with an option in favour of the Landlord to extend for 5 years, which we intend to exercise

Retail

Our retail portfolio, which is commuter-centric and focussed on convenience retail nodes, is well-positioned given current macroeconomic conditions and a tough consumer environment. Turnover for the 12 months ended 31 October 2023 increased by 7,2% compared to the corresponding period of the previous year. The retail portfolio collection rate for the period 30 June 2023 to 31 October 2023 was 99,5%. Retail vacancies, by rental, decreased from 1,5% at 30 June 2023 to 1,3% at 31 October 2023.

In line with our strategy of selling non-core assets, during the period we sold and transferred Game Paarl at a price of R29,3 million, in line with book value.

The recent introduction of Capitec and Clicks at Park Central, as well as the new First National Bank and Fashion Fusion stores at Central Park Bloemfontein, will reinforce the tenant mixes and dominance of these CBD centres. Sterkspruit Plaza is fully let and continues to show consistent strong performance. We are at advanced planning and leasing stages for an extension of this centre by approximately 5 000m².

Weskus Mall continues to achieve improved foot traffic and trading, and is anticipated to benefit from the recent opening of Volpes, Uniq, Lovisa and KFC.

The AbaQulusi Plaza (previously Vryheid Plaza) extension of 8 370m² was completed during November 2023 and officially opened on 22 November 2023. New tenants to the centre include Shoprite, Clicks, Jet, Woolworths Edit, Totalsports, Sportscene and Markham.

During October 2023, the new 2 500m² Shoprite store at Morone Shopping Centre opened. Trading is in line with expectations and the centre now benefits from a strong anchor.

The redevelopment at 204 Oxford (previously Thrupps Shopping Centre) is progressing well. The parking reconfiguration project has been completed and the remaining construction will be finalised by 30 June 2024.

Renewable energy

We remain committed to establishing a significant solar photovoltaic (“solar PV”) footprint across our property portfolio. We now have 33 operational plants totalling 11.8 MWac, compared to 25 plants totalling 9.633 MWac at 30 June 2023. We are on site with a further 15 plants totalling 5.7 MWac and have approved a further three plants totalling 1.5 MWac to commence early next year. Furthermore, we have completed our first solar installation of 150 KWac at Bydgoszcz in Poland. We have also purchased the existing solar PV installation at Longmeadow Inland 1 which has an installed capacity of 1 700KWac. Backup generators have been installed at six retail centres and the remaining sites have been targeted for completion by June 2024 as part of the Fortress energy security strategy.

Office and Industrial

Vacancies, by rental, in the industrial portfolio increased slightly from 6,8% at 30 June 2023 to 7,8% at 31 October 2023. Of the 43 837m² of Industrial vacancy, more than 23 850m² comprises offices, with the bulk of this in Spartan and Isando. There is still strong demand for well-located smaller industrial units from tenants and also interest from potential purchasers for the multi-user industrial parks. The joint portfolio co-owned with and managed by Inospace continues to attract tenants resulting in good net operating income growth from this portfolio.

The office portfolio comprises less than 4% of our total assets by value and remains part of the non-core, direct property portfolio. Vacancies, by rental, in the office portfolio increased marginally from 22,3% at 30 June 2022 to 23,1% at 31 October 2023. We continue to observe a 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, focused on improved security, backup electricity and water and high-speed internet 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. The sale of Oxford Manor is progressing well, with an expected transfer date of February 2024.

Vacancies

Total vacancies, based on rental, remained flat at 3,3% from 30 June 2023 to 31 October 2023.

Sectoral vacancy	Based on rental		Based on GLA	
	Oct 2023 %	Jun 2023 %	Oct 2023 %	Jun 2023 %
Total	3,3	3,3	3,7	3,7
Logistics – SA	0,5	0,5	0,5	0,5
Logistics – CEE	6,4	3,9	6,5	3,8
Retail	1,3	1,5	1,8	2,3
Industrial	7,8	6,8	7,8	7,4
Office	23,1	22,3	23,8	22,9
Other ^	0,0	0,7	0,0	0,8

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

^ Includes residential units, and serviced apartment properties

Direct property disposals

We continue to dispose of non-core properties, with total disposals post FY2023 amounting to R883 million in net proceeds with a combined book value of R665 million.

The following properties have transferred since 30 June 2023:

Property name		Sector	Net proceeds (R'000)	Book value Jun 2023 (R'000)	Transfer date
Longmeadow Inland 1	~ ^	Logistics	493 290	284 103	Nov 2023
Louwlandia Logistics Park – Building 2 (WAG)	@	Logistics	207 697	201 000	Nov 2023
22 On Sloane		Office	50 000	50 000	Sep 2023
10 Covora Road		Industrial	37 700	37 700	Aug 2023
Director and Megawatt Roads		Industrial	36 300	36 300	Aug 2023
Game Paarl		Retail	29 000	29 000	Nov 2023
78 Loper Avenue Airport		Logistics	12 500	12 500	Aug 2023
Greenbushes	^	Land	5 698	3 689	Aug 2023
Lakeview Business Park 6		Industrial	4 850	4 850	Aug 2023
15 Kouga Street Stikland	@	Industrial	3 800	3 800	Jul 2023
3 Watkins Street		Industrial	2 300	2 301	Sep 2023
			883 135	665 243	

~ Erf 137 Longmeadow was acquired in August 2023 for R500 million and this portion was sold in November 2023 to Dis-Chem. The figure in the book value column represents the apportioned cost. The remainder of the site, held by us, has been formally valued at R382 million. Repair costs incurred on the entire site is estimated at R65 million.

^ Portion of the property

@ 50% undivided share

The following properties are currently held for sale:

Property name		Sector	Net proceeds (R'000)	Book value Jun 2023 (R'000)	Expected transfer date
Eastport Logistics Park	^ #	Land	133 250	110 103	4Q2024
Oxford Manor Illovo		Office	110 674	105 000	1Q2024
Fourways Office Park		Office	103 700	105 000	1Q2024
Monyetla Office Park	^	Office	41 932	41 932	1Q2024
50 Tsessebe Crescent		Logistics	13 900	11 996	1Q2024
			403 456	374 031	

^ Portion of the property

Conditional sale agreement with Teraco for the sale of 108 000m² of land adjacent to their current site.

NEPI Rockcastle

By electing the scrip dividend option in September 2023, we increased our shareholding in NEPI Rockcastle N.V. (“NEPI Rockcastle”) to 24,2% from 23,9% at 30 June 2023. NEPI Rockcastle released its interim results for the six months to 30 June 2023 on 22 August 2023 and subsequently released a comprehensive business update on 16 November 2023. The value of our investment in NEPI Rockcastle is currently approximately R18,6 billion. These results and announcements are available on its website at www.nepirockcastle.com.

Funding, liquidity and treasury

Subsequent to the results announcement dated 31 August 2023, we repaid an expiring three-year bond of R560 million in October 2023. A new three-year bond, expiring in November 2026, of R250 million was issued to ABSA at three-month JIBAR plus 148 basis points.

A new €50 million four-year facility with Standard Bank Isle of Man has been finalised for our CEE portfolio. The facility comprises a €40 million term loan and a €10 million revolving credit facility, with an interest rate of six-month Euribor plus 2,25%. At the date of this announcement, €15,3 million has been drawn against this facility.

Our hedge profile comprises 63% of caps and 37% swaps. The higher proportion of caps will benefit our funding costs if interest rates decline from their current relatively high levels, while still providing protection if rates increase.

Consistent with all prior reporting periods where sustainability-linked notes were in issue, we remain compliant with the set KPI's and are on track to achieve the targets for June 2024.

We currently have a total of R3,6 billion in cash and available facilities at group level and remain comfortably within all debt covenants. Our unencumbered asset ratio is 38% and our loan-to-value ratio is approximately 35,5% at the date of this announcement.

The information contained in this trading and pre-close operational update has not been reviewed or reported on by the Company's auditors.

Scheme of arrangement

Shareholders are referred to the firm intention announcement published on SENS on 5 October 2023, and subsequent scheme circular published on 30 November 2023, detailing the terms of the proposed scheme of arrangement between Fortress and Fortress B shareholders and the proposed conversion of the Fortress A shares in issue to Fortress B shares.

The shareholder meetings convened in respect of the scheme and the conversion will take place on 19 January 2024 and will commence at 10:00am at Fortress' offices.

For additional information, salient dates and times, please refer to the published scheme circular at: https://assets.ctfassets.net/7unabnt9bnbr/1I2rqZPD7UkKMcsVyuNjQn/8144e35ba56690c6f767eaf7c98fa6db/Circular_to_Fortress_shareholders_relating_to_scheme_of_arrangement_and_FFA_conversion_30.11.2023_.pdf

1 December 2023

Lead sponsor



Joint sponsor



Debt Sponsor

