FORT CAPITAL

2021 ANNUAL LETTER

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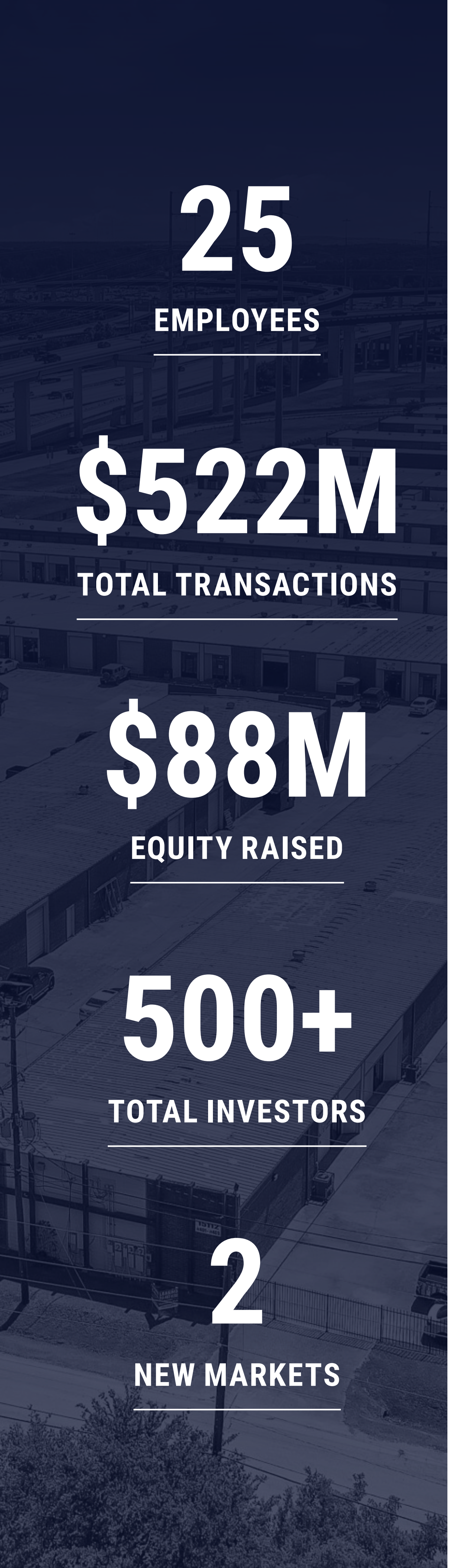
A RECORD-BREAKING YEAR

Seventeen years ago, the seeds that would eventually become Fort Capital were planted. In 2005, I bought a 3-bed/2-bath student rental property near Texas Christian University in Fort Worth, TX for $103,000. Fast forward 16 years, Fort Capital has now crossed the $1 billion mark in total transactions.

What is most impressive to me is not the number, but the team behind the number. Creating something great requires a dedicated and passionate team, and Fort Capital is made up of 25 team members who show up every day for something larger than themselves. We've set a lofty mission "to be the best real estate operator in the world." Our business is simple: acquire real estate, operate it with excellence, and provide exceptional returns to our investors and stakeholders. By focusing on these core things, the results take care of themselves.

This past year was undoubtedly our best year ever in sourcing new investment opportunities—not by a little, but by 435% over our prior best performing year. Many folks in our industry do things the same way, but we have focused on paving our own path. By restructuring our Deal Team in 2021, we were able to drastically increase the amount of deals we vetted. Out of the 254 deals we looked at purchasing, we underwrote 125 of those, and ultimately closed 12 industrial and office deals across the state of Texas for a total value of $286M. We also sold a total of $238M in assets, which included two industrial portfolios.

Learn more about partnering with us.



2021 HIGHLIGHTS

I'd like to share some of our other big highlights from this past year, which I'm especially proud of...

We expanded our presence in two new markets—Houston and San Antonio. We also established a Houston-based team to manage our growing number of assets in these markets.

We launched our in-house developed, proprietary operating system called "F.O.S." (Fort Operating System), which has ensured the flow of data and communication amongst our team is as accurate and efficient as possible—and we're continuously improving it.

We leaned into our Deal Incentive Program, and our pipeline has never been fuller. Almost every single deal we did this year was "off-market", which we believe leads to better entry prices.

We leveraged our Technology Team to develop a strategy for identifying potential deals by sourcing, aggregating, and analyzing data on a mass scale and then using algorithms and geographic mapping to identify the most attractive leads within our investment criteria.

Every deal we put under PSA, we closed on—with no re-trades. We want to build a reputation that when you deal with Fort Capital, what you see is what you get.

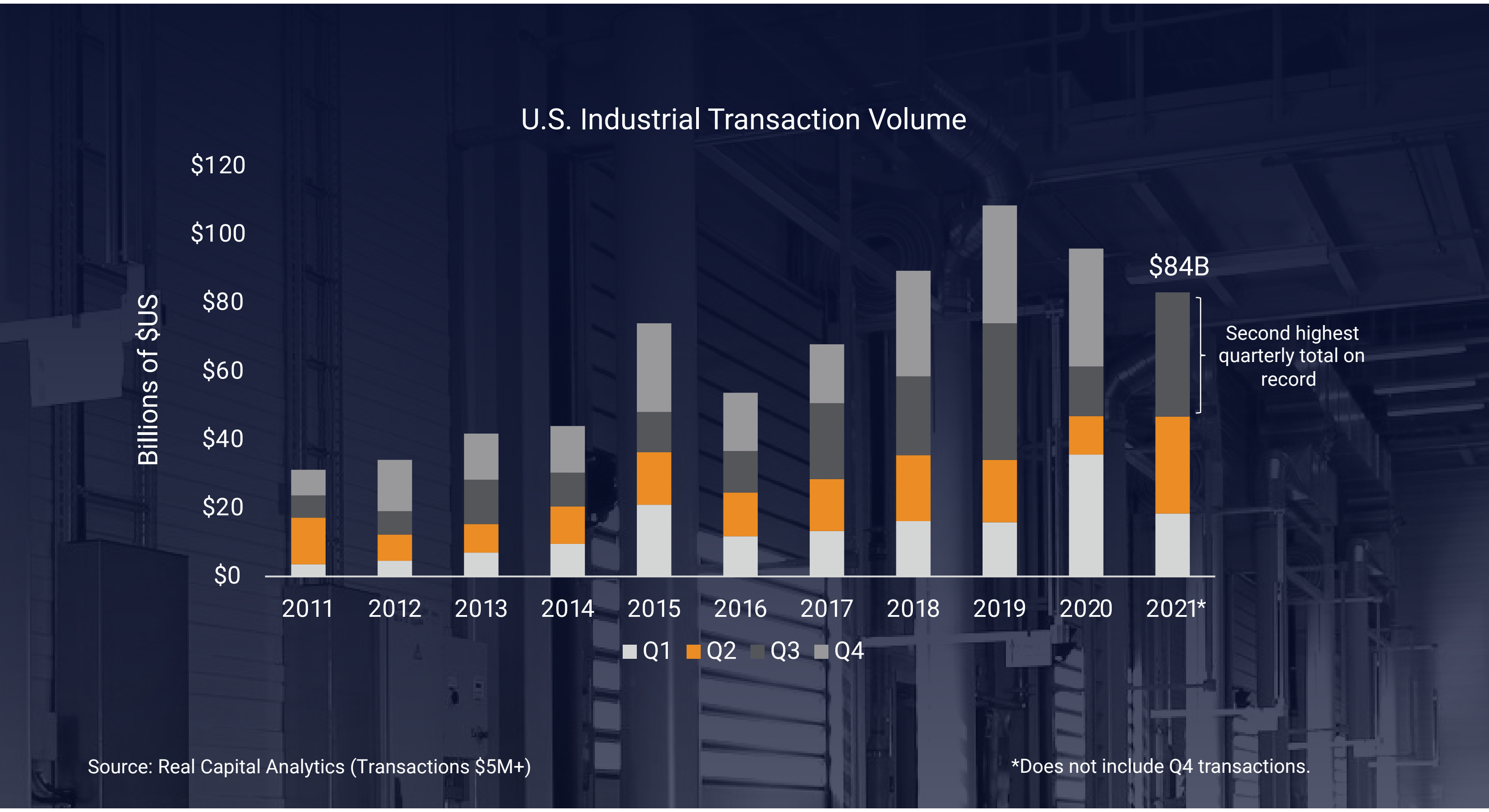
You may remember from last year's letter that we launched our own Property Management business, FCP Management. This will go down as one of the best decisions we've ever made—this business is flourishing and generated more than $1.3M in revenue in 2021. We are understanding our tenant needs in real time and making decisions that make their lives and our lives better. We are also able to take this data, both quantitative and qualitative, and make better investment decisions on the new deals we underwrite.

THE STATE OF THE MARKET

It's no secret that industrial is hot, especially in Texas. This presents an abundance of opportunity while also creating added challenges as more buyers enter the market. This will continue to drive pricing not only on sale cost, but also lease rates (new buyers need to move rents to achieve outcomes).

There is also more capital chasing Class B industrial—both equity and debt. More available capital drives down the cost of capital, which brings in new entrants and pushes pricing upwards. JLL estimates that there is $236B in dry powder right now held by closed-end funds. This doesn't account for groups like ours where we're raising the capital (not pre-committed).

To be clear, not all of this is dedicated to industrial. However, the transaction velocity for industrial is showing no signs of slowing down. JLL projects demand for an additional 1+ billion SF of industrial real estate by 2025, and CBRE Research projects that industrial real estate investment volume in 2022 will increase 10-15% over 2021 levels, while office volumes will rise 5-10%.



One thing I love about Fort Capital is that we march to the beat of our own drum and focus on what we can control—which is not the competition. We focus on making our team and processes better each day, and the results will stand for themselves.

Here are some of the other overarching industrial market trends we're seeing as we head into 2022:

- New supply of Class B industrial remains relatively untouched. In fact, it's still depleting in the markets we operate. JLL did a recent study that said that of the 3B SF developed in industrial since 2007, less than 3% of that was multi-tenant infill. This is because of the same fundamentals we've talked about for years now—lack of land, high cost to construct, hard to scale in any one market, etc. And most of the 3% that was built was non-infill.
- We've seen land prices for Class A industrial in the Dallas/Fort Worth market go from $6 per SF to as high as $22 per SF in less than three years. While we aren't actively investing in Class A products, it does tell us that the need to be close to the customer is more sensitive than the rental rate being paid.
- Tenant preferences in Class B multi-tenant industrial remain unchanged by way of tenant improvements (TI) and capital expenditures. Tenants still want the same predictable "paint and carpet". Even better, tenants are often signing leases with little to no TI. Our properties perform better when we can save on this capital expenditure.
- E-commerce is growing. Even more relevant to our current situation, traditional Class B tenants are growing. After all, a lot of them are the businesses building our cities. So as cities grow due to population growth, so does our tenant base. Population growth in Texas is growing at a record rate, as well as across several other Sun Belt states that we'll be paying specific attention to this year.

- Class B tenants are staying put. As their businesses flourish, they tend to grow within the asset class, rather than upgrading to Class A industrial. Think about housing here… if you live in a Class B apartment and do better financially, you might move to a Class A apartment or buy a home—in either case, you're leaving the asset class altogether. This doesn't happen with Class B industrial tenants.

KNOWING WHAT TO BUY

Some thoughts on buying in this market… I was talking to a good friend in the industry a few weeks back and he said something I'll never forget:

> **"IF YOU'RE GOING TO DO WELL IN REAL ESTATE OR INVESTMENTS, YOU NEED TO LEARN TO BUY AT THE NEW PRICE."**

This isn't suggesting that overpaying is the right strategy, instead it's suggesting that when markets and fundamentals change, so do prices. The best investors can decipher, quickly, when pricing is justified by fundamentals and vice versa (when pricing is no longer backed up by the fundamentals).

In reference to changing markets, the value you associate with any one fundamental can differ. Changing fundamentals creates a change in the value proposition, which directly impacts what something is worth.

Learning to buy at the new price prohibits the natural human instinct of "anchor bias" where we make decisions solely based on things that happened in the past. I.e., We paid $XX per SF for an asset in a specific submarket in 2018; making any decision in 2022 based on what we paid back then is foolish. I'm not saying it's not good to know where pricing has gone, but our odds of buying anything in that submarket again at that price is slim to none. This is where "learning to buy at the new price" matters.

I don't know what tomorrow brings any more than anyone else in the world (if I did, I'd be doing something different). At each price during a cycle, our decisions are backed up with current fundamentals. We can't control the market, but we can control how we interpret data and ultimately understand each market where we invest.

All this to be said, prices rising aren't a bad thing if fundamentals back it up. Even if you had bought Amazon stock at IPO, you'd be up 2,000x. All the while, media and critics have called for it being "overpriced". Hindsight is 20/20, but the truth is fundamentals remained intact despite what critics had to say. Of course, it's always nice to pay a lower price, but not at the sake of doing nothing in a market where fundamentals are saying buy, even at a higher price.

Also, it's helpful to remember that not every deal is "sold" on the same metrics. There are a variety of plays (e.g., yield plays, basis plays, value-add plays, etc.), and it's our job to understand the "play" and work towards that exit or refinance goal. If a going-in yield is 3%, but we can buy something at $50 per SF with an under-market, long-term lease in a submarket with $100 per SF comps, the story we tell investors is different than a value-add story where we're buying at $80 per SF but have room to create immediate value. Be sure to know your "play"—every deal is different.

In a market like this, **DON'T PLAY GAMES**. If we meet the seller or offer our top dollar, we should have no hard feelings about losing a deal. "Responding to the seller too quickly" is often a mind game we play with ourselves. Again, by knowing what you're willing to pay and getting to that conversation quickly, the odds are increased of getting a deal done. It's human nature to "find a way," but finding a way by overpaying is a recipe for failure. Bottom line, get convicted on your pricing and let that be your guiding light.

In a world starved of yield, we continue to find it. Our underwriting focuses most heavily on assets we believe can generate above-average yield. We believe value and appreciation will take care of itself. Part of generating above-average yield comes from excellence in operating. Hypothetically, we believe that if an identical asset was sold to two different buyers, the outcomes in the future would be highly based on the operations of each buyer. As you think about where to invest your dollars, I encourage you to find out more about the operations behind each GP—that is what will ultimately make the difference.

1 LEARN TO BUY AT THE NEW PRICE

2 KNOW YOUR "PLAY" FOR EACH DEAL

3 DON'T PLAY GAMES WHEN NEGOTIATING

4 KNOW YOUR TOP DOLLAR & DON'T OVERPAY

If you're interested in learning more about how we operate, we'd love to hear from you.

KNOWING HOW TO BUY

Knowing how to buy entails a lot more than price paid. Knowing how to buy means:

- Identifying the assets you'd like to own and creating focus around those assets.
- Creating a consistent funnel of deal flow and an ability to get to a "quick no".
- Underwriting efficiently and making decisions with all the right people in the room.
- Processing deals and creating organization so the top priorities are always the top priorities.
- Being responsive.
- Executing due diligence in a timely fashion and communicating results across the team.
- Raising capital efficiently and working closely with lenders, so that you're almost always ready to close early and at favorable terms.
- Working with legal, title, etc. efficiently.
- Making things as easy on the seller as possible.

This all creates less friction for those we work with and in turn makes us a trusted partner.

If there is one thing we've learned time and time again, the results you get are a byproduct of the processes you put in place. If we continue to focus on the process, the results will follow. It's easy to say, "we want to buy 3M SF this year", but the real question is "how?". We've found our "how", now the goal is to stay consistent and improve as we go.

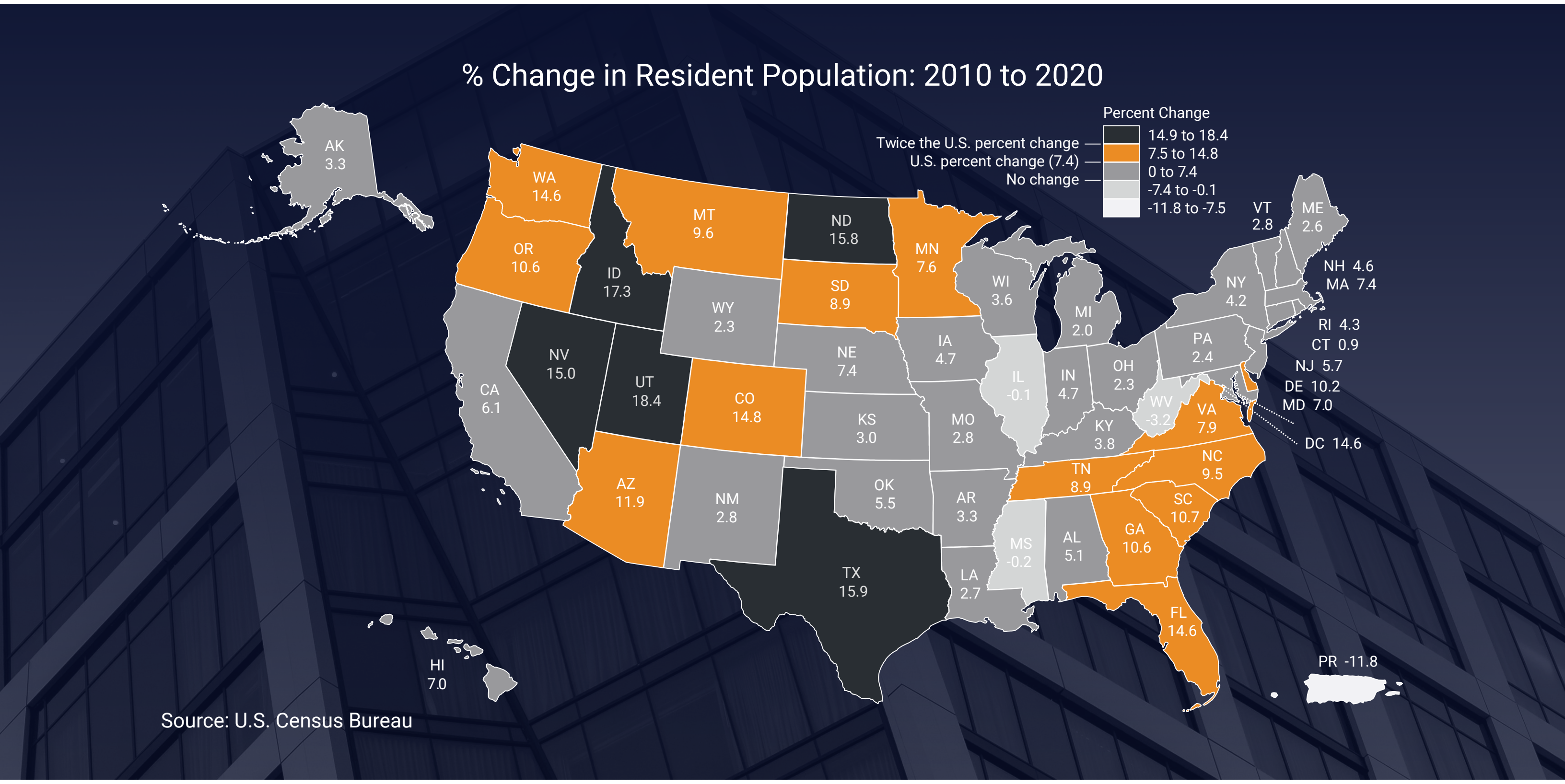
Real estate is expensive and requires GPs to raise a lot of capital. At Fort Capital, we have been fortunate to partner with amazing people over the last 17 years. Currently, we have a pool of 500+ active investors eager to invest in upcoming deals. In 2021, we raised $88M in capital, and we are tracking to raise $100M+ in 2022.

At Fort Capital, we are obsessive over the experience we provide our investors. While providing exceptional returns is our ultimate goal, the on-going experience our investors get is a close second. Would you like to learn more about what it's like to invest with us? Fill out the 'I want to invest with Fort' survey, and we'll be in touch.

2022 OUTLOOK

In 2022, we plan to do more of the same. What we are doing is working—and working well:

- We will continue to become more entrenched in the major Texas markets. What you will likely see is our business start to expand throughout the Sun Belt. Markets in Florida, Arizona, Georgia, Tennessee, and the Carolinas look very attractive, and we're in the early stages of forming meaningful relationships in strategic markets we've identified. All of these markets are attractive because they represent population growth and a pro-business climate like that of Texas.



- I would expect us to do 14-16 deals this year within our investment criteria.
- I expect oil prices will go north of $100 per barrel in 2022, which overall is good for the Texas economy and our investments.
- I think we'll start seeing rate hikes as soon as Q2. While we might not like them, we can handle them.
- The office will come roaring back. A lot of the data we are taking in from brokers tells a story of office leasing activity being back above pre-pandemic levels throughout most of the Sun Belt. Although we are fully committed to finding great industrial investments, we will be watching the Office/Flex markets closely for investment opportunities.
- We will continue to see a huge push for domestic onshoring in 2022.
- Record amounts of venture capital investments will continue to flow into "prop tech," which creates software that helps manage the built world. (It's still early…) We'll also start seeing real use cases for Web3/Crypto in real estate. I am spending a lot of my time thinking about this. The light bulbs are starting to go off as to how large of an impact these will have on the way we live—good news, a lot of it is positive.

GET IN TOUCH

If you know anyone that might have an industrial or office property to sell, we'd love to meet them. Our criteria is as follows:

DEAL SIZE
$10M - $75M+

STRATEGIES
Core Plus and Value-Add

TYPE
Light Industrial & Flex

USE
Warehouse, Distribution, Light Manufacturing, & Cold Storage

LOCATIONS
Dallas/Fort Worth, Houston, Austin, San Antonio, El Paso, & Strategic Markets Outside TX

If you know of someone who is interested in our process for investing in industrial real estate across Texas and beyond, we'd love to connect with them. Please have them reach out to us using the 'I want to invest with Fort' interest form.

To learn more about our team, check out our portfolio, and read more about how we think, visit our website.

And lastly, be sure to connect with us on Social Media to stay in the loop on what we're up to:

- Follow me on Twitter (@FortWorthChris)
- Follow Fort Capital on LinkedIn
- Subscribe to The FORT Podcast

As we enter 2022, our team has never been more rock solid than it is now. I'm excited to announce that in 2022, we'll be spending more time training our people on leadership/management and recruiting skills in an effort to retain and hire the best talent that fits our unique culture. If you're interested in working with us, please check out our available positions. If you don't see something that fits your criteria, we'd still love to hear from you. We love hiring people with whom we've built a previous relationship.

Cheers to a new year!

Chris Powers
Founder & Executive Chairman, Fort Capital