FORT CAPITAL

2022 ANNUAL REPORT

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FOCUSED ON OUR MISSION

Despite the turbulence in the market last year, Fort Capital prospered by remaining focused on our mission to become the best real estate operator in the world. We have found the more we stay focused and promote a culture of operational excellence, the better we get. As our operations improve, so does everything in our business—our team, our relationships with investors, banks, tenants, our ability to underwrite, our ability to control and reduce costs, and more. Becoming the best will take a while, but that's okay because we are focused on the long game.

We have built a business that will only get better if we continue to think long-term. We have built a solid foundation that has been delicately crafted over the past seven years. As we surpass $1 billion in assets under management and have a lifetime total transaction volume over $2 billion with a team of nearly 50 people, staying focused on being the best operator, despite what's going on outside of our walls, will continue to lead us to success.

As for our investment strategy, we remain strongly convicted in Class B industrial. Within this asset class, there is no new supply. In fact, we estimate that in Texas it's depleting due to properties being redeveloped for higher and better-use projects (i.e., most urban revitalizations are taking place in old industrial parks). In addition to no new supply, we continue to see tenant demand grow. The tenants that occupy our buildings often serve a market that is within one to five miles of our buildings. When we underwrite the competition, we can get very specific as to where tenant options truly are—in a market with vacancy headed to zero, it further limits movability. Supply is low, demand is growing, and options are limited.

Our incredible team of accountable, resilient, driven, and agile leaders have worked together to compile this summary of our year. Reflecting on all that our team achieved in 2022, I'm even more excited about what we will accomplish in 2023. We have built an extraordinary group at Fort Capital who continue to drive forward our company at the highest level.

Cheers to 2023!

Chris Powers
Founder & Executive Chairman

2022 HIGHLIGHTS

In 2022, Fort Capital remained focused on our mission to be the best real estate operator in the world by propelling our Flywheel forward. The Flywheel is at the center of all decision-making at Fort Capital and keeps our team hyper-focused on the most impactful work. We encourage our team to consistently ask: is this making our Flywheel spin faster or not? (If not, we move on.) Since our goal setting aligns with these spokes, we will highlight some of our major achievements within each category over the past year.

BE THE BEST REAL ESTATE OPERATOR IN THE WORLD

ACQUISITIONS
BUY MORE REAL ESTATE

Since 2015, we have been hyper-focused on one thing: buying Class B industrial properties. At the beginning of 2022, we set a goal to acquire $250 million in Class B industrial assets. By the end of January, we had revised that goal to $300 million, and by the end of Q1, we had once again increased our goal to $400 million. We closed the year having acquired 16 assets totaling 4,105,579 square feet for a total investment price of $501,106,602. We were able to close these deals because of our strong relationships with brokers, proprietary deal sourcing tool, and growing Deal Incentive Program.

We currently own and operate 6,133,655 square feet and third-party manage an additional 1,479,341 square feet bringing our total square footage under management to 7,612,996 square feet. We saw most of our growth this year across Texas, specifically in Houston and San Antonio.

Houston has now become our largest market with over 3 million square feet owned. We entered the Houston market in 2020 when we identified that although it is the largest market in Texas, it was growing at a slightly lower rate than the other big cities in Texas which created an opportunity. This market has continually driven above-average returns and isn't showing any signs of slowing down.

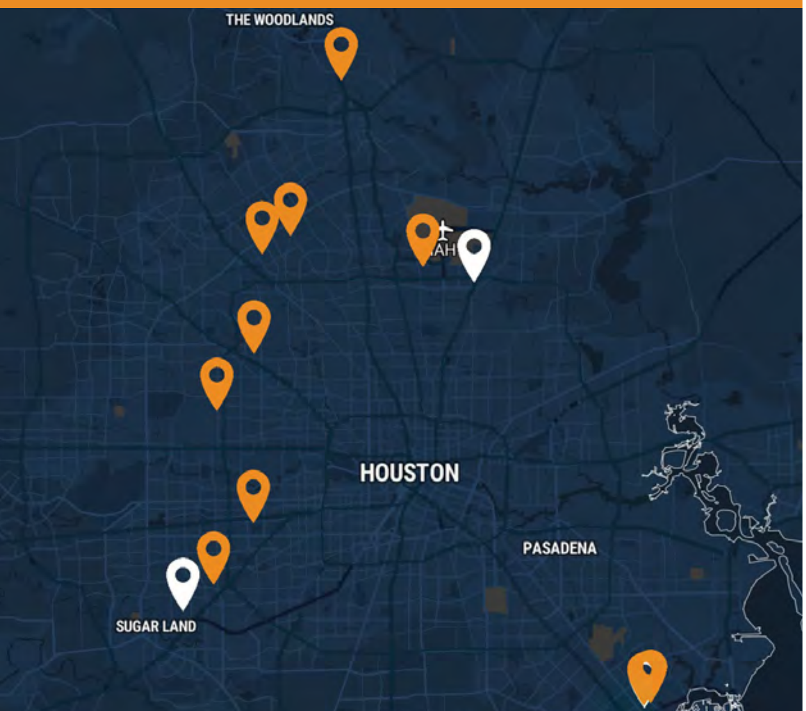
HOUSTON, TEXAS

Sources: World Population Review, Port Houston, Houston.org (Tech Employment), Houston.org (Health Care)

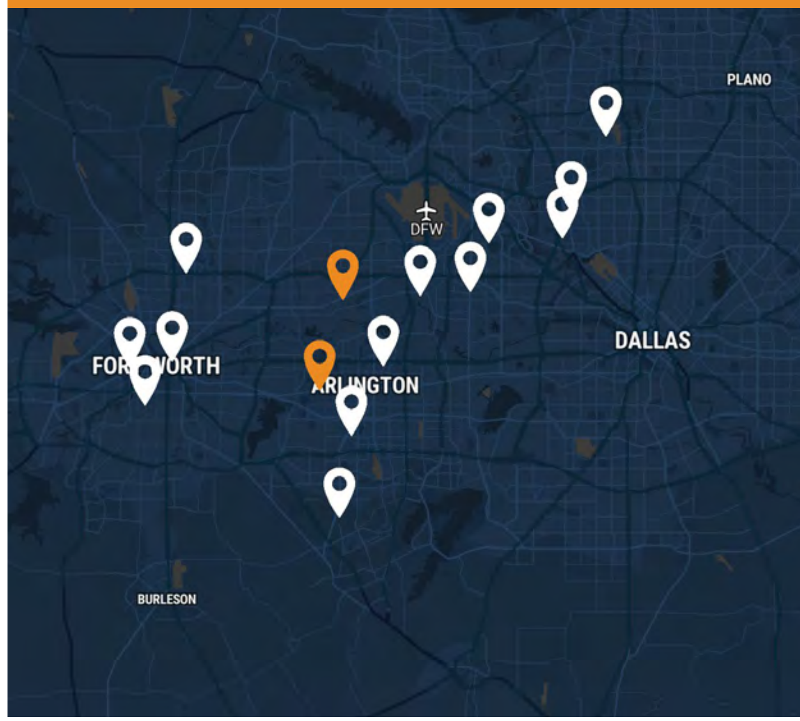
We also made meaningful strides in expanding our San Antonio portfolio this year. We acquired 545,166 square feet in 2022 across two separate transactions, bringing our total to 594,608 square feet.

Have a deal in these cities? We'd love to talk.

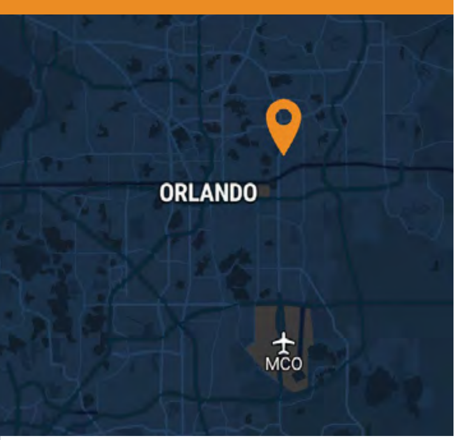
HOUSTON, TX | 3.2M SF



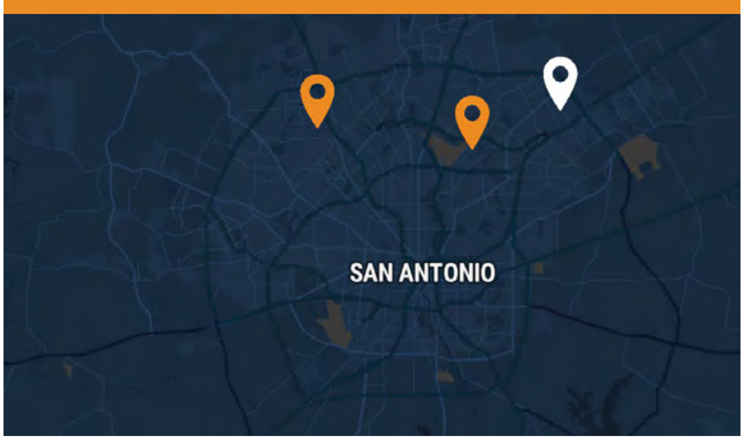
DALLAS / FORT WORTH, TX | 1.9M SF



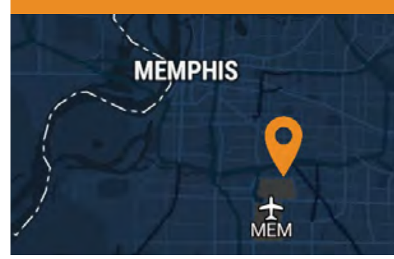
ORLANDO, FL | 174K SF



SAN ANTONIO, TX | 595K SF



MEMPHIS, TN | 130K SF



2022 ACQUISITIONS
EXISTING PORTFOLIO

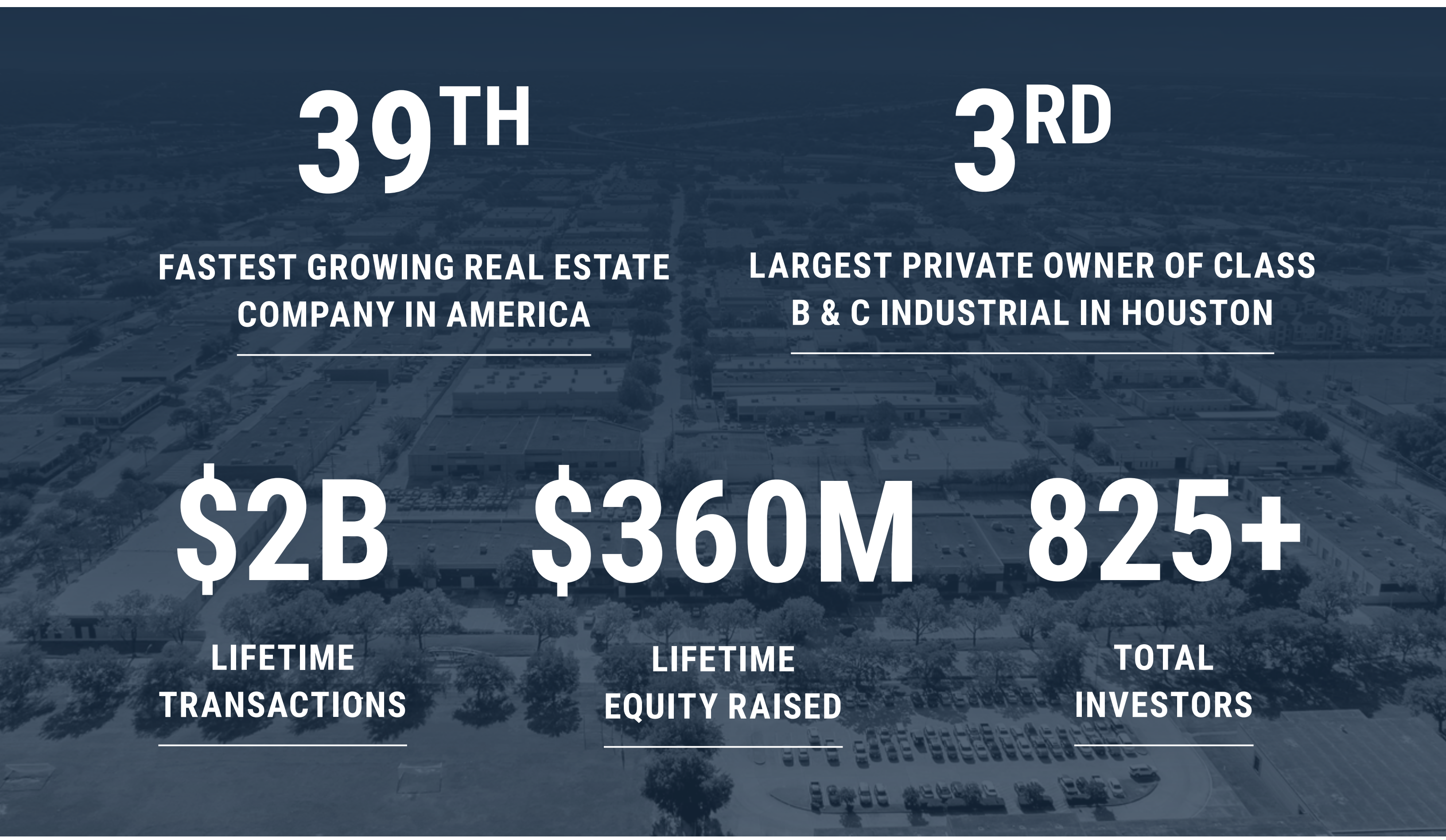
CREDIBILITY

PROMOTE A STRONGER TRACK RECORD

Fort Capital has built a reputation for being a company that partners can count on to execute and close. We do what we say we are going to do with integrity throughout the entire process. This commitment has helped our company to grow at such a fast rate.

In 2022, Fort Capital was named the 39th fastest-growing real estate company in America by Inc. 5000 with revenue growth of 649% over the last three years. We expanded to Houston in March of 2020 and are now ranked the 3rd largest private owner of Class B & C industrial in the market*.

Our team has developed such strong, trusting relationships with our partners that we are now the first operator they call, without hesitation. This leads to more off-market acquisition opportunities that are purchased well below market value and deliver higher returns to our stakeholders.



39TH

FASTEST GROWING REAL ESTATE COMPANY IN AMERICA

3RD

LARGEST PRIVATE OWNER OF CLASS B & C INDUSTRIAL IN HOUSTON

$2B

LIFETIME TRANSACTIONS

$360M

LIFETIME EQUITY RAISED

825+

TOTAL INVESTORS

**According to CoStar true ownership records as of December 2022.*

TALENT
ATTRACT AND HIRE TOP-TIER CANDIDATES

We ended the year with 46 team members, up from 29 at the beginning of 2022. Fort Worth continues to be our headquarters, but we also expanded our teams in Dallas and Houston, as well as adding our first team member in San Antonio to better support our growing portfolio. We are also proud to employ six team members located in India. They have been fully integrated into our team and support us in delivering high-quality work around the clock. (This group primarily supports our Accounting team.)

In 2022, Fort Capital focused efforts on further improving our Weekly Executive meeting, which is made up of key individuals in leadership positions across the company. The goal of this meeting is to gather all critical players in a room to oversee short-term, tactical decision-making and implementation. Each week, we follow the same meeting format to ensure efficiency, which leads us to making strong team-based decisions that can be implemented fast. The alignment and shared consciousness generated within this meeting has eliminated significant amounts of entropy once found across the company.

As we lean in to 2023, our focus will be on rolling out a world-class Leadership Training program for our team members in management roles.

Interested in joining the Fort Capital team? View our open positions here.

EFFICIENCY

OPERATE ASSETS AT THE HIGHEST LEVEL

The entire team at Fort Capital is dedicated to operating our assets in the most efficient way and at the highest level. Last year, we set a goal to have each of our assets performing at rates higher than we had underwritten. Here are just a few examples of ways we elevated our operations in 2022 to achieve this goal:

AUTOMATED DATA COLLECTION FROM UNDERWRITING MODELS

Our Technology team developed the capability for us to push data from our underwriting models directly to our operating system (Fort Operating System). Not only does this save a significant amount of time by removing the need for manual data entry, but it is also allowing us to aggregate data across all deals we underwrite (not just deals we buy). Compiling data to be able to analyze trends across all deals we have looked at, in comparison to our portfolio, allows us to establish our own basis for how to further improve the performance of our assets.

IN-DEPTH ASSET PERFORMANCE REVIEWS

We continued to meet monthly to conduct in-depth reviews of the performance of each of our assets. As a team, we evaluate if there are any areas needing particular focus and how we can more quickly return money to our investors. The leaders from our Property Management, Leasing, Finance, Accounting, Investor Relations, and Marketing teams all provide critical input. Areas for improvement can easily be identified with a plan of action, if needed, to boost performance.

STANDARDIZING PROCESSES FOR PROPERTY MANAGERS

Last year, we focused on building out detailed processes and best practices for how we expect our properties to be operated and managed. These processes were incorporated into our Fort Operating System (F.O.S.) to ensure accountability and accuracy. As we continue to grow our property management division, FCP Management, this comprehensive training program will prepare new Property Managers to provide the superior level of service and operations that our tenants expect.

TRANSITION TO ONLINE RENT PAYMENTS

FCP Management also set an ambitious goal for every tenant to pay their rent online by the end of the year. By no longer accepting checks, we have reduced the number of man-hours spent collecting paper checks from tenants on-site and via mail. “Operation Paperless” has delivered several benefits. Most importantly, rent payments are getting to us much faster and are no longer delayed by the postal service. This time savings has allowed our Property Managers to focus on completing value-add projects and improving our recurring processes. This update also significantly reduced the amount of time our Accounting team spent processing checks each month.

ENHANCED QUARTERLY INVESTOR REPORTING

We leveraged our Marketing and Technology teams to elevate the presentation of our Quarterly Investor Reporting. Our updated reporting centralizes asset performance information to ensure we are working with consistent data to make informed decisions at the asset level. Our custom report generator combines information from a variety of data sources and presents it in a thoughtful design to be served to our investors.

COST REDUCTION, OVERHEAD MANAGEMENT, AND REVENUE GENERATION

The acronym C.O.R is at the forefront of every decision we make at Fort Capital. The acronym stands for Cost Reduction, Overhead Management, and Revenue Generation. While C.O.R. was not a new initiative to Fort Capital in 2022, it did have a tremendous positive impact on our profitability for the year—at both a company and asset level. It helps our employees get into an 'owner's mindset' where they are consistently looking to add value to our business. In 2022 alone, we identified ways to save more than $1.5 million, and since launching the initiative in 2019, we have saved $3.6 million total.

C

COST REDUCTION

Can we eliminate any unnecessary expenses?

O

OVERHEAD MANAGEMENT

Can we reduce ongoing business expenses?

R

REVENUE GENERATION

Can we monetize current business activities?

PROFITABILITY

DELIVER HIGHER RETURNS

In 2022, we remained diligent in monitoring the market and proactively adjusting where needed to ensure our deals were delivering the highest returns possible. In the context of industrial, we have experienced rising interest rates having more of an impact on sellers rather than buyers (i.e., the sellers are having to take a lesser sales price based on going-in cap rate numbers). The reduced exit prices are a function of cap rates and the yield on cost relative to interest rates. Being in the value-add industrial space helps to mitigate rising interest rates as the properties and portfolios we are targeting offer immediate and significant upside through backfilling vacancies, increasing rental rates to market, and converting gross leases to triple net (NNN). While rising interest rates have certainly put pressure on available cashflow, the fundamentals for value-add industrial remain true, and we are confident in this trend continuing for the foreseeable future.

WHILE RISING INTEREST RATES HAVE CERTAINLY PUT PRESSURE ON AVAILABLE CASHFLOW, THE FUNDAMENTALS FOR VALUE-ADD INDUSTRIAL REMAIN TRUE, AND WE ARE CONFIDENT IN THIS TREND CONTINUING FOR THE FORESEEABLE FUTURE.

However, we are updating our underwriting standards to acclimate to the rising interest rates. Similar to lenders tightening underwriting standards, Fort Capital has as well. The big metric we are watching is the going-in cap rate versus the interest rate at closing. The extremely low going-in cap rates of early 2022 do not work (or are very tough) when the interest rate at closing is 7.25% (or more) especially when the weighted average lease term is greater than one year. The property has to offer immediate and significant upside to close a deal with the aforementioned metrics. We are also being more conservative with underwritten interest rates. When making an offer on a property, we are offering based on where we think rates will be at the time of closing versus where rates are at the time of making the offer. This helps to mitigate future rate increases and ensures the deal will still work 90+ days from making the offer.

In the past year, we were also able to drive higher returns from our leasing efforts based on the quality of management and space we provide to our tenants. On average, we are achieving a rent increase of $0.50 per square foot, which on average equals a 6%-10% annual increase (the standard market annual escalation is 3%-4%). We rarely have to pay a tenant broker, therefore lowering our transaction cost. Our rate of renewal is also extremely high (~85%) across our portfolio, and we only occasionally provide an improvement allowance on renewals which equates to ~$3 per square foot in savings. In summary, we are outperforming our projections and outpacing the market by a wide margin on starting rate, escalations, and lower transaction costs.

We launched our property management division in 2020 when we identified an opportunity to bring our expertise as owners to the management side. At the end of 2022, FCP Management was successfully managing 1,400+ tenants, 7.6 million square feet, and over 270 buildings. We never could have anticipated the positive impact this division has had on our investors, tenants, team, and Fort Capital as a whole. Not only does it create a steady revenue stream, but there have also been several other benefits—we have an insider perspective on comps in the area, each of our departments has a holistic view of a property's performance, inter-company communication creates a stronger sense of accountability, and direct tenant communication has led to operational efficiencies.

If you are interested in hiring FCP Management for your property management needs, contact propertymanagement@fort-companies.com.

REPUTATION
STRENGTHEN OUR PARTNERSHIPS

We have been overly obsessed with how we treat our investors for years, and we continue to focus on how we can get better.

2022 INVESTOR HIGHLIGHTS

$166M
EQUITY **RAISED**

$19M
DISTRIBUTED TO INVESTORS

GREW **INVESTOR BASE** TO
825+
INDIVIDUALS / GROUPS

21.99%
AVERAGE PROJECTED **INVESTOR-LEVEL IRR** ACROSS INDUSTRIAL PORTFOLIO

COMPARED TO
17.99%
ORIGINAL PROJECTION

Thank you to each of our investors for your continued support and confidence in Fort Capital. We have enjoyed developing relationships with you built on mutual trust and respect. We also realize your capital is hard-earned and precious, so it's an honor for our team to go to work every day to steward and grow your wealth.

Are you an accredited investor looking to connect? Click here.

Our obsession to deliver the best possible experience to investors also requires us to treat our tenants better than any real estate owner in the industry. FCP Management conducts proactive and comprehensive property inspections. These weekly inspections with comprehensive checklists ensure that our properties are maintained to the highest standard, running at peak potential, and issues are identified before they become problems.

Additionally, we provide a personalized tenant experience to all 1,400+ of our tenants by leveraging our technology systems. These systems allow us to move faster and make smarter decisions while also improving our efficiency by communicating with many tenants at once. Our Property Managers are held to the highest standard of communication and customer service. We hold them accountable, and keep an open line of communication with tenants, by deploying a satisfaction survey every six months asking for feedback and ways we can improve.

GROWTH
GAIN ECONOMIES OF SCALE

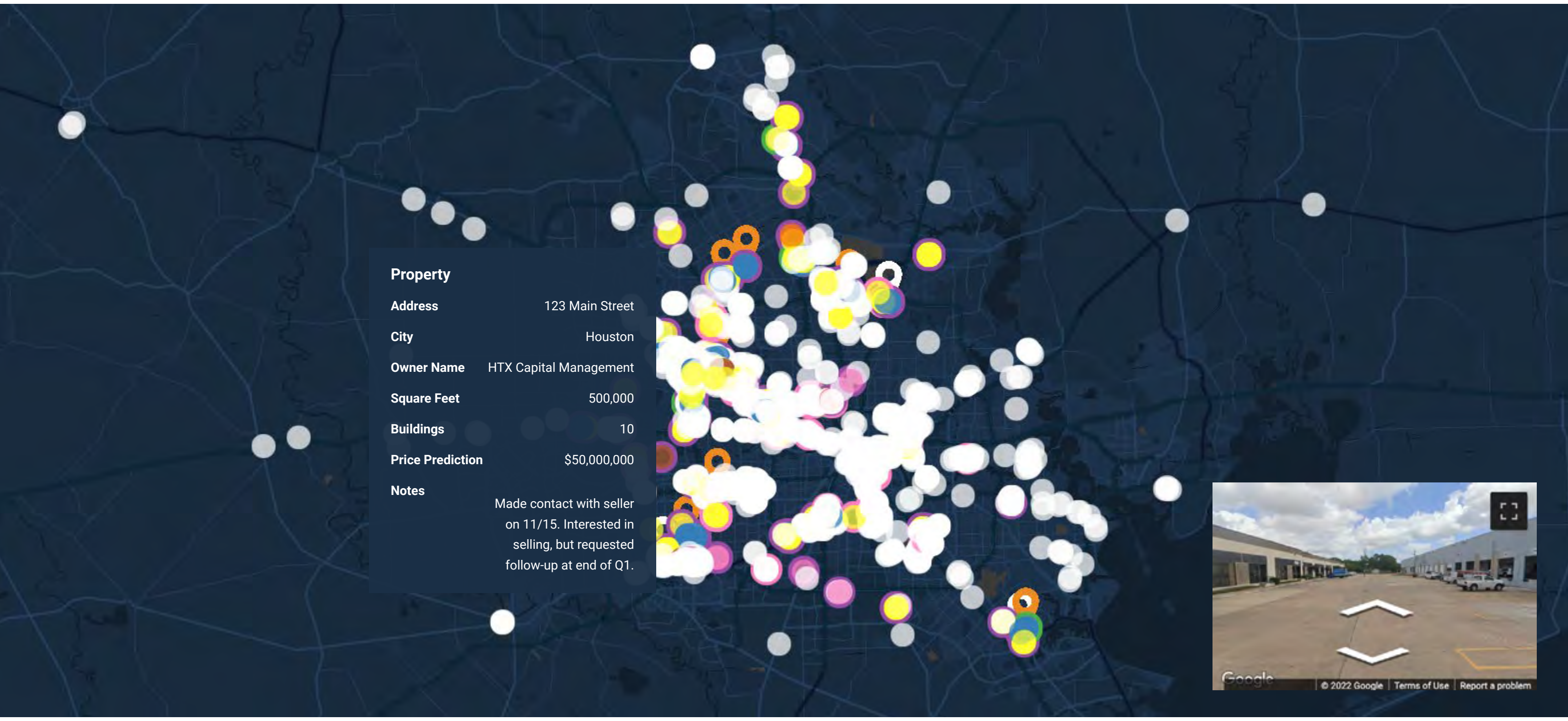
In the past year, our Technology team dedicated a significant amount of time to further enhancing the tool we use to aid in identifying and evaluating potential investment opportunities. We have built a complex series of data pipelines that aggregate external and internal data sources into a single platform. This allows our team to view our data in a more visual and actionable way. Within our deal sourcing tool, we can view a variety of deal information including:

- All deals in our current Deal Pipeline (color coded by deals we're Tracking, Awaiting Materials on, Underwriting, Submitting Offers on, Under Contract on, etc.).
- All deals in our current Portfolio.
- All deals that match our current Investment Criteria.
- All deals that we've previously looked at or underwritten.

We can hover over each deal and see key information such as owner information, predicted price, notes, and more. As we continue to underwrite and evaluate deals, this intel is also integrated into the system allowing us to develop our own trends and averages in different submarkets.

In 2022, we also expanded outside of Texas into two new markets—Orlando, Florida and Memphis, Tennessee. The decision to invest beyond the state of Texas and into these markets was the result of many months of preparation. Fort Capital is constantly monitoring industrial activity and key market data points in not only the markets we are currently invested, but also across many more cities with future expansion potential.

When initially evaluating a market, Fort Capital conducts extensive market research via third-party resources. If the initial data and trends indicate a market may be an attractive location for investment, Fort Capital then kicks off an internal process to conduct due diligence on the market. We incorporate target submarkets from our proprietary research into our deal sourcing tool to begin identifying potential investment opportunities. By the time we begin reviewing deals in a new market, our team is well-equipped to underwrite and evaluate them with market-specific nuances.



2023 OUTLOOK

As we head into 2023, we will continue to remain focused on our Flywheel and identifying efficiencies that improve what is already working so well. Our team will also continue to remain diligent about monitoring the current—and very volatile—macroeconomic and geopolitical climate. A few things we plan to keep our eyes on heading into the new year:

RISING INTEREST RATES

While rising interest rates had been an expectation for several months prior to the initial hike, how long the trend would last was always unclear. Regardless of financial pain, policymakers were steadfast in the upward adjustments. As month-over-month inflation stagnated and the economy appeared to be signaling pain, there was skepticism on if they would continue the aggressive stance. This was a premonition, and at the time this letter was published, the upward pace has slowed. Hikes are expected throughout 2023, however, growing pessimism about the economy paints a picture of an end game that is still unclear.

Regardless of what appears to be a slowing in the upward pace, our attention has shifted to the potential ramifications if a complete stagnation or reversal fails to materialize. The first, more direct, and obvious symptom of increasing debt service is diminishing bottom-line income. Valuations that have held somewhat steady will increasingly become unsustainable. After interactions with large-scale lenders, it appears debt providers have been lenient to date, securing debt at preferred debt service metrics by decreasing their spread on SOFR or increasing the length of amortization tables. This has been paired with decreased LTV/LTC options. If the upward trajectory in rates were to continue, flexible debt terms will no longer be capable of smoothing the disparity.

So, the question is, how does this affect us? Rising rates are always uncomfortable, but nuances must first be considered before deriving a negative conclusion. As for our current portfolio, the trend's impact is trivial. Simply put, our thesis has never relied solely upon price appreciation. Even so, the returns generated during the upswing over the past several years have placed us in a uniquely attractive position.

As for future investments, prior to the initial ascent of rates, we recognized what was to come and adjusted accordingly. Our underwriting has shifted to a more conservative approach to provide us ample protection as we venture into the changing climate. Make no mistake, this is an invaluable opportunity to acquire at an attractive basis if valuations suffer, and we plan to take full advantage.

INDUSTRIAL MARKET

Regarding what we anticipate happening in the industrial market this coming year:

Within the industrial asset class, we anticipate shallow bay, low WALT assets will remain the most sought after due to their ability to mark to market rents quicker. These will also be easier to capitalize on. Vacancy will continue to remain low. New Class A development will stall until price recovery occurs. Land prices, cost of capital, and high construction costs will create high barriers to entry in current markets.

Supply chain mobility and energy costs will be major factors in pushing geographical preference to locational supremacy–a long-standing focal point of ours. Assets with superior access to high-value transport corridors and high population bases will hold increasing value. Inner-market distribution assets will continue with the traction that they have garnered for "last-mile" delivery, boosted by the negative supply growth that persists in these areas.

Market activity will normalize. The past several quarters have been progressively quieter as investors adjust to the rapidly changing market conditions. As the adjustment phase passes, we expect to see activity adjust accordingly–barring any broad-scale market shocks. While volume will remain below the anomalistic levels seen in recent years, achieving activity within healthy bounds is expected. We do not foresee lesser activity as an issue, but rather, a benefit. We've been structured to thrive in this type of environment, providing us the opportunity to capture our targeted investments with a more limited competition pool.

Rent growth will slow. While this may not be a certainty, it is the most sensible prediction given the rapid rent growth that has taken place over the previous two years. A consolidation period following the upswing is beneficial to the future stability of long-term levels. While this could be painful for recent investments that based return metrics on the extrapolation of this trend, it has no bearing on our strategy. Our focus is value-add, and if anything, the previous years' growth has provided more than enough opportunity to locate those assets that have not taken advantage of marking to market rental rates, whether it be from a managerial shortfall or the inability due to in-place leases.

In 2023, at the highest level, you can expect us to continue to identify those operational efficiencies that get us closer to our goal of being the best operator in the world. Our world-class team will continue to remain focused on our Flywheel, Class B industrial, and the factors that we can control.

For more on our outlook, listen to our 2022 year-end podcast with Chris Powers and Jason Baxter.

For real time updates throughout 2023, be sure to connect with us on LinkedIn.

For more information on our investment strategy and ways to connect, visit our website.

Thank you for reading and thank you to our team for their help in compiling this letter. We look forward to a prosperous year in 2023.

Jason Baxter
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