



FORT CAPITAL

2023 ANNUAL REPORT

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STABILITY & GROWTH IN CHANGING TIMES

As we begin a new year, we're taking a moment to reflect on 2023, which was greatly influenced by shifting market dynamics. The Class B industrial sector faced the same challenges as the broader real estate market, including rising interest rates and macro-economic shifts. Despite these hurdles, our team, and assets, showed remarkable resilience.

With 'agility' ingrained in our Core Values, we adapted our strategies to ensure the strength of our acquisitions and existing portfolio. We firmly believe in our investment thesis and are confident that the Sun Belt region, with its growing population, robust infrastructure, and strategic location, continues to offer significant potential for Class B industrial investments. Our target markets within this region remain attractive hubs for both businesses and investors alike due to their diversity.

Throughout the past year and as we move into 2024, we remain committed to leveraging our market insights, technological advancements, and operational expertise to seize emerging opportunities. Our primary focus remains on operating our assets at the highest level, while also being prepared for new investment opportunities as markets normalize.

As we reflect on 2023, we take great pride in how we proactively navigated the market, while focusing on turning challenges into opportunities for growth. One of the key drivers behind our success has been the strong operational foundation we've established. At Fort, we view our company through the lens of our flywheel. As we achieve objectives and improve on a daily basis, we push this flywheel forward at a faster and more effortless pace. By focusing our team's efforts on the initiatives that generate the most momentum for our flywheel, we have built a team focused on propelling our company forward.

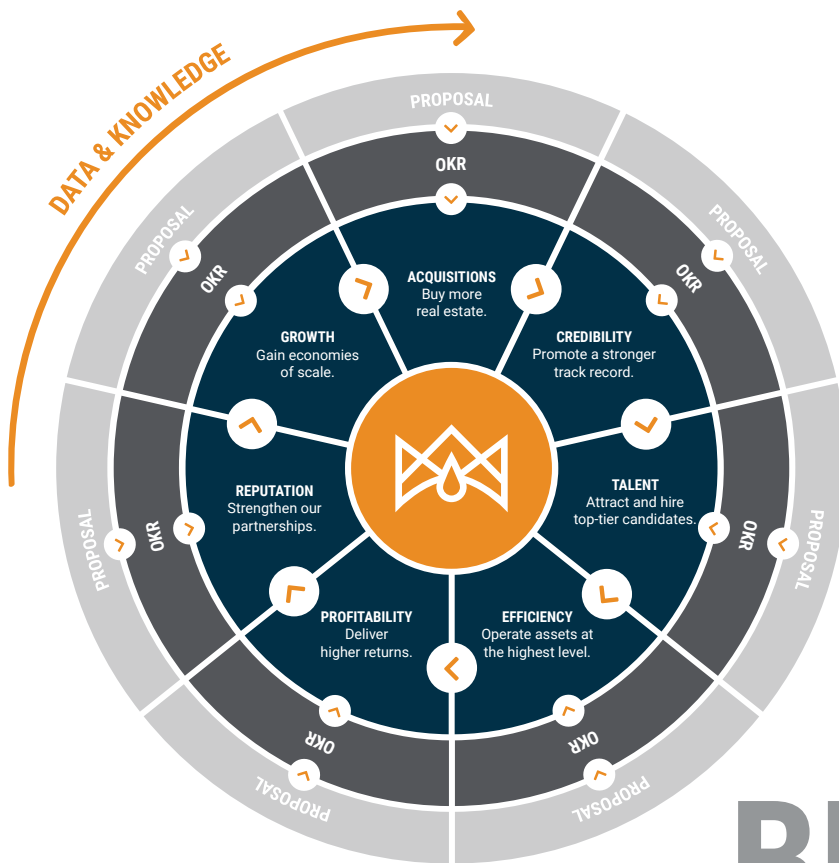
To ensure full transparency regarding *which* initiatives will drive the most momentum, we use Objectives & Key Results (OKRs) to set goals at a company, department, and individual level. The OKR methodology requires us to set specific, quantifiable goals (Objectives) coupled with the steps to achieve them (Key Results). This alignment ensures our efforts are consistent and synergistic, enhancing our collective impact.

When faced with a problem or challenge, our team turns those opportunities into "proposals". Developing a proposal requires our team to examine the problem or opportunity, identify the ideal outcome and how success will be measured, think through any obstacles to achieving, and propose



a solution for improving or addressing the problem. Each proposal must be tied to a spoke of our flywheel, and many times, these proposals influence the Company OKRs that we set. This organized process for collecting ideas assists us in prioritizing company improvements and ultimately helps us smooth out the road ahead.

When combined together, the flywheel keeps our team focused on achieving our mission to be the best real estate operator in the world. Our OKRs keep us focused on what we can do (outside of our day-to-day roles) that will improve our ability to push the flywheel forward. When we do hit a bump in the road, our proposal process ensures that we have a clear path for any team member to present an idea or opportunity, which highlights our commitment to continuous improvement. It's this collaborative and focused effort that keeps us moving forward, not just as a company, but as a team dedicated to excellence. The combination of these tools is what has allowed us to remain laser focused and constantly improving, despite what may be going on in the market.



BE THE BEST REAL ESTATE OPERATOR IN THE WORLD



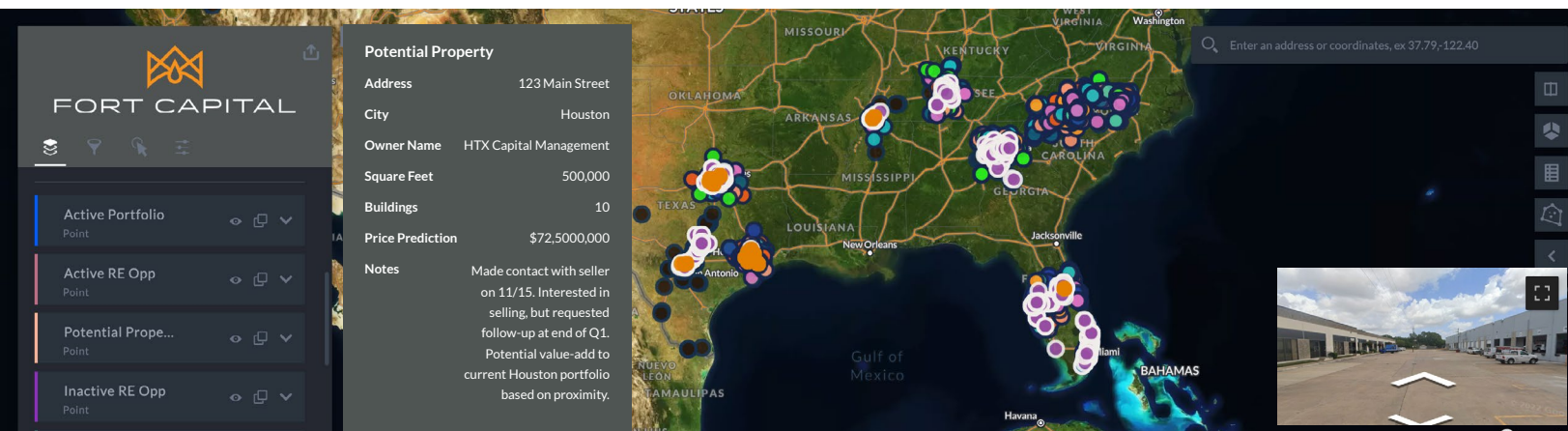
ACQUISITIONS BUY MORE REAL ESTATE

In the changing landscape of 2023, we balanced proactive engagement with patience. We acquired 680,484 square feet of Class B industrial assets for a total investment of \$97,560,000, demonstrating our commitment to prioritizing long-term stakeholder value over transaction volume. We focused on identifying and securing only the investments that met our high standards while taking into account the possibility of prolonged periods with higher interest rates. Despite the market’s fluctuations, our pipeline remains strong, with more than \$27.8 billion in investments currently identified across our target markets. This is a testament to our readiness to move when market conditions become more favorable.

We also continued to leverage our technology-driven methods for sourcing deals. Through our Deal Pipeline meetings, supported by insights from our proprietary deal sourcing tool and the expertise of third-party partners, we made significant progress in identifying prime investment opportunities. In 2023, we diligently reviewed 2,396 portfolios encompassing over 14,100 properties, leading to the identification of over 520 deals that we are actively pursuing and tracking for potential acquisition.

We also made several key enhancements to our proprietary deal sourcing tool, FOS (Fort Operating System) Maps, which significantly improved our deal evaluation process:

- **Transit Connectivity Data:** First, we integrated transit connectivity data into our deal analysis. By using a specialized algorithm to prioritize properties based on their ease of access, we have been able to focus our time on reviewing the most strategically located properties with the highest potential value.
- **Collective Efficiency Model:** We also infused a collective efficiency model into FOS Maps using our proprietary similarity matrix. This model groups properties together by comparing specific features, enabling us to target larger and more cohesive investment opportunities. This advancement strengthens our ability to identify and pursue the most attractive deals.



Looking ahead, we are approaching this year with a sense of patience, optimism, and a firm belief in our ability to capitalize on the right opportunities at the right time. Our team's ability to adapt to market dynamics, combined with our deal evaluation tools and strategic foresight, has positioned us for continued success as the market normalizes. We remain dedicated to finding and capitalizing on only the best investment opportunities, upholding our commitment to delivering sustained growth and profitability to our stakeholders.

If you have an opportunity that aligns with our investment criteria, please reach out to our Deal Team at deals@fort-companies.com.



CREDIBILITY **PROMOTE A STRONGER TRACK RECORD**

In the fast-paced and competitive world of industrial real estate, credibility isn't just important; it's absolutely crucial. It's the foundation of trust, partnerships, and ultimately success. In 2023, Fort proudly earned a series of accolades that reinforce our leadership in the industry from notable institutions such as Inc. 5000 and Fortune.

IN TEXAS

Inc. 5000 #1

**FASTEST-GROWING PRIVATE
REAL ESTATE COMPANY**

FORTUNE #36

**BEST WORKPLACE –
ALL INDUSTRIES & SIZES**

IN THE U.S.

FORTUNE #10

**BEST WORKPLACE
IN REAL ESTATE**

FORTUNE #36

**BEST SMALL WORKPLACE –
ALL INDUSTRIES**



Our Fortune rankings included *#10 Best Workplace in Real Estate (U.S.)*, *#36 Best Small Workplace – All Industries (U.S.)*, and *#36 Best Workplace – All Industries and Business Sizes (TX)*. These awards serve as a testament to our purpose—to create a place that attracts the most talented individuals and provide an environment that inspires them to be their absolute best. We’ve cultivated an exceptional culture by offering comprehensive health benefits, financial security plans including life coverage and 401K matching, generous paid time off, performance bonuses, investment opportunities, and work-life balance initiatives, such as half-day Fridays and monthly team lunches.

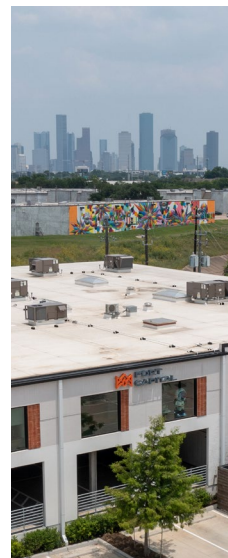
Additionally, we were recognized by Inc. 5000 as the *#1 Fastest-Growing Private Real Estate Company in Texas*, showcasing an impressive 814% growth over three years. This accolade not only represents our numerical growth, but more importantly our adaptability, innovation, and leadership in a continually evolving industry.



TALENT **ATTRACT AND HIRE TOP-TIER CANDIDATES**

At Fort, our most valuable asset is our people. Last year, we experienced significant growth, both in numbers and expertise. We’re excited to share some of these key milestones that highlight our commitment to nurturing top-tier talent:

- We were proudly recognized as a Great Place to Work®, with an impressive 100% of our employees endorsing the positive work environment we’ve built—far surpassing the 57% U.S. average.
- Our team expanded by 11 new members bringing our total to 54 dedicated professionals. We also opened new offices in Houston and San Antonio.



- Education and professional development remained at the core of our talent philosophy. The numerous awards and certifications earned by our team, including accolades such as ‘Certified Property Manager’ and BOMI’s ‘Property Management Financial Proficiency’ certification, illustrate their unwavering commitment. Notably, one employee achieved a Master’s degree in Data Science, which highlights the diverse expertise of our team. Additionally, various conferences such as Google Next and Yardi’s YASC were attended that broadened our team’s knowledge.
- A significant highlight of 2023 was the creation and implementation of a multi-day Leadership Training program, designed to equip our executives and managers with advanced management skills. To date, we’ve had 17 employees graduate from the program, which covers topics such as strategic leadership, communication strategies, conflict resolution, motivation techniques, and more.
- Our intern program also saw strong interest with 10 interns joining various departments. The fact that several interns extended their tenure with us showcases our commitment to nurturing future talent in an engaging learning environment.

Moving forward, we remain dedicated to attracting, developing, and retaining the industry’s brightest minds. [Interested in joining our team? View our open positions here.](#)



EFFICIENCY

OPERATE ASSETS AT THE HIGHEST LEVEL

Last year, a big priority was improving the way we operate across all departments. Our goal, to become the best real estate operator in the world, is rooted in a commitment to operational excellence, technology-driven efficiency, and continuous improvement. This approach has proven successful in helping us navigate changes in interest rates while minimizing the impact on each of our assets, largely driven by maximizing revenue and controlling costs. Some of our most impactful operational innovations from 2023 are highlighted below.

We significantly improved our Property Improvement / Work Order process, which is managed through FOS. After we buy an asset, a series of automated workflows are triggered based on our initial underwriting and business plan. This enables us to stay closely aligned to our original financial projections in order to meet or exceed underwritten distributions. It also ensures that every maintenance and improvement initiative aligns with the property’s plan for budget and timing and enables us to maintain control of costs at all times.

In order to operate assets at the highest level, managing the impact of interest rate fluctuations has

been crucial. Through data collection driven by artificial intelligence (AI) and integration into FOS, our Loan & Lender Data Collection process has established a more accurate and accessible view of our financial commitments using automated reporting. This approach has allowed us to proactively manage our covenant compliance and debt-related impacts to the future performance of our assets.

We also improved a critical aspect of cash management through our Invoice process by incorporating AI capabilities fueled by FOS. Through AI document parsing, FOS parses data out of PDF or handwritten invoices and pre-populates data fields to reduce the amount of manual data entry. By streamlining how we process invoices, we have been able to strategically optimize the flow of cash at the asset-level and the company as a whole. This successful implementation of document parsing sets the foundation for its integration across all areas of operation.



PROFITABILITY **DELIVER HIGHER RETURNS**

2023 was a testament to our commitment to operational excellence and implementing innovative financial management strategies. With our mission hinging on maximizing the profitability of our investments, we introduced several advanced forecasting strategies:

- **Dynamic Stress Testing:** We proactively conduct stress tests on our investments to prepare for potential impacts using real-time forward yield curve and SOFR pricing data (interest rate caps). Equipped with current market data and up-to-date unit-level leasing assumptions, this approach ensures that we stay ahead of market trends, mitigate risks, and safeguard our investments through sufficient cash reserves.
- **Sophisticated Cash Reserve Management:** Through monthly analyses of our cash reserves, we gain a strong understanding of our financial position while accounting for future capital requirements. This forward-looking approach enables us to maintain liquidity for property improvements and investor distributions, while maximizing the value of our assets and ensuring stability.
- **In-House Leasing Integration:** By synergizing the efforts of our in-house Leasing and Property Management teams, we have expedited decision-making, improved tenant relations, and directly impacted asset profitability. This internal collaboration has proven to be a significant driver behind asset performance.

These strategic measures have ensured our investments are poised for growth even in challenging financial conditions. Our disciplined investment management approach aims to optimize profitability, demonstrating our commitment to delivering superior returns to our investors.



REPUTATION STRENGTHEN OUR PARTNERSHIPS

The growth and quality of our investor base is tangible evidence of our flywheel in action. Our impressive track record, the expertise of our team in underwriting, transacting, and managing assets, and our growing reputation in new target markets have been instrumental in expanding our investor base to over 1,000 individuals.

To ensure a superior investor experience, we have refined our onboarding process for Limited Partners (LPs) and also revamped our quarterly reporting format to make it more transparent. Our data-driven deal sourcing has been pivotal in leading us to strategic acquisitions, ensuring we protect and grow our investors' assets even amidst challenging market conditions. Regular updates on these acquisitions and routine quarterly communications have been key in keeping our investors engaged and informed. It's worth noting that a significant portion of our new 2023 investors were referrals from our existing network, which is a testament to the investor relationships we've built thus far.

2023 INVESTOR HIGHLIGHTS



In addition to prioritizing our investors, we took great pride in engaging with the community. Our partnership with Jewel Charity, a non-profit dedicated to providing essential health care for children at Cook Children's, extends beyond financial support. Our team actively participated in initiatives such as assembling hygiene kits for local clinics. Moving forward, we are committed to making a substantial and meaningful impact in our community alongside Jewel Charity.





GROWTH GAIN ECONOMIES OF SCALE

In the past three years, we've strategically and purposefully grown with a focus on strengthening our internal capabilities. Our expansion into the Houston and San Antonio markets in 2021 laid a solid foundation for our recent achievements. In 2023, we reached a milestone by becoming the *#1 Private Owner of Class B & C industrial in Houston* according to CoStar true ownership records as of January 4, 2024. Our team now consists of nine skilled Property Managers and two Leasing Managers across these markets further showcasing our dedication to regional growth.

Bringing property management in-house has equipped us with unparalleled insight to our assets, ensuring consistency with our high standards and generating substantial cost efficiencies. The use of FOS has been pivotal by streamlining operations and providing data analytics to enhance the tenant experience and overall asset performance. Looking ahead, we're excited to continue our growth and deepen our engagement with tenants.

We've also taken on third-party property management clients, which has led to a portfolio of two million square feet across 75 buildings. This expansion has allowed us to bring our high standards and expertise to assets owned by others in the industrial sector and create potential future opportunities for Fort and its investors. This venture into third-party management offers additional benefits:

- **Enhanced Market Insights:** By managing third-party assets, we gain insights into the investment strategies and operational tactics used by other owners. This broader perspective enriches our understanding of market trends and helps us to further refine our own operational strategies.
- **Strategic Acquisition Opportunities:** Our goal in third-party management aligns with our investment philosophy. By managing assets that meet our investment criteria and that we would potentially want to own, we gain intimate knowledge of their operations and potential. This puts us in an advantageous position if they become available for purchase.

For more information on our third-party property management services, contact us at propertymanagement@fort-companies.com.

In 2023, we also embarked on a company-wide initiative to integrate AI into various aspects of our business. Our goal was to discover and implement innovative, AI-driven solutions to enhance our operations and the services we provide to our partners. The outcome was a series of AI enhancements now implemented across various processes and departments, marking a significant step towards our goal of operational excellence.

Our most significant achievement was the development of a proprietary large language model named



Foster, which marks a new era of system intelligence for Fort. It is capable of not only processing, but understanding data and converting it into actionable insights and recommendations for more informed decision-making. Foster is fully integrated with our suite of tools within FOS, including FOS Maps, FOS Dashboards, and FOS Reports. This allows our team to be able to tap into all database knowledge through an internal digital assistant.

FORT OPERATING SYSTEM

The screenshot shows a dashboard with a search bar at the top. Below it, there are several key metrics: 'Open Benefits Enrollment' with a progress bar, 'Jobs' (16), and 'Individual OKRs' (8). A 'CULTURE CHAMPION' section features a profile for Hannah Davidson. A 'Quick Links' section contains icons for various tools like Wix and Zoom. At the bottom, there's a 'RESILIENT' banner.

FOSTER

• Hello Hannah! How can I assist you today?

I'm not sure yet, tell me what you can do!

• As your AI assistant, I can help you with Fort Capital-related queries, provide general information, and engage in conversations. If you need assistance with a specific task or topic, let me know, and I'll do my best to help.

Great. Tell me about Fort Capital's flywheel.

• The flywheel concept at Fort Capital represents a continuous process of data collection, synthesis, and decision-making that propels the business forward. It integrates with the people-centric approach by emphasizing relationships with tenants and businesses, ensuring that human insights are at the core of the company's strategic decisions.

FOS MAPS

The screenshot shows a map of the Gulf of Mexico region with various property markers. A data panel on the left provides details for a 'Potential Property' at 123 Main Street, Houston, TX. The panel includes information on owner name (HTX Capital Management), square feet (500,000), buildings (50), and price prediction (\$72,500,000). A note mentions that the property is mostly contact with seller on 12/22, interested in selling, but requested follow-up at end of Q1. Potential interest added by current Houston portfolio based on proximity.

FOS DASHBOARDS

90.49% LEASING MANAGER 1

90.77% LEASING MANAGER 2

90.52% THIRD PARTY

90.59% CURRENT OCCUPANCY

576,675 CURRENT VACANT SF

6,128,324 CURRENT LEASED SF

The dashboard displays several key metrics and charts. It includes a table for 'PROSPECT SHOWINGS LAST 4 WEEKS' and 'FUTURE LEASE EXPIRATIONS NEXT 18 MONTHS'. A table at the bottom lists various properties with columns for Campus Name, V/L, LEASING MANAGER, Current Tenant, Lease Start, Lease End, Lease Type, Lease Rate, and Lease Status.

Very cool. What are the spokes of the flywheel?

• The spokes of Fort Capital's flywheel consist of the following goals: Data and Knowledge, Acquisitions, Credibility, Talent, Efficiency, Profitability, Reputation, and Growth. These goals all flow into one another, ultimately leading to the end objective of becoming the best real estate operator in the world.

How can I contribute to the momentum of the flywheel?

• To contribute to the momentum of the flywheel, focus on delivering exceptional experiences to tenants and businesses, fostering strong relationships, and continuously improving processes and operations. This will help drive the flywheel's momentum and support Fort Capital's overall growth and success.

Context Web Search Wolfram

Ask anything

FOS REPORTS

INVESTMENT UPDATES

- 1 The asset continues to show strong leasing momentum with achieved rates to date higher than original underwriting.
- 2 Once the renewal for Suite 100 is completed, we will begin to explore refinancing options.
- 3 All year one projects have been completed on time and under budget.

DISTRIBUTION SUMMARY

\$11,000,000 PROJECTED TOTAL PROFIT (LOSS)

Total Equity Investment (\$10,000,000)
Total Distributions To Date \$1,000,000
Projected Future Distributions \$20,000,000

25.00% PROJECTED EQUITY IRR
Original - 20.00%

2.50x PROJECTED EQUITY MULTIPLE
Original - 2.00x

The data presented contains placeholder information used for security and confidentiality purposes to protect our investments.

2024 OUTLOOK

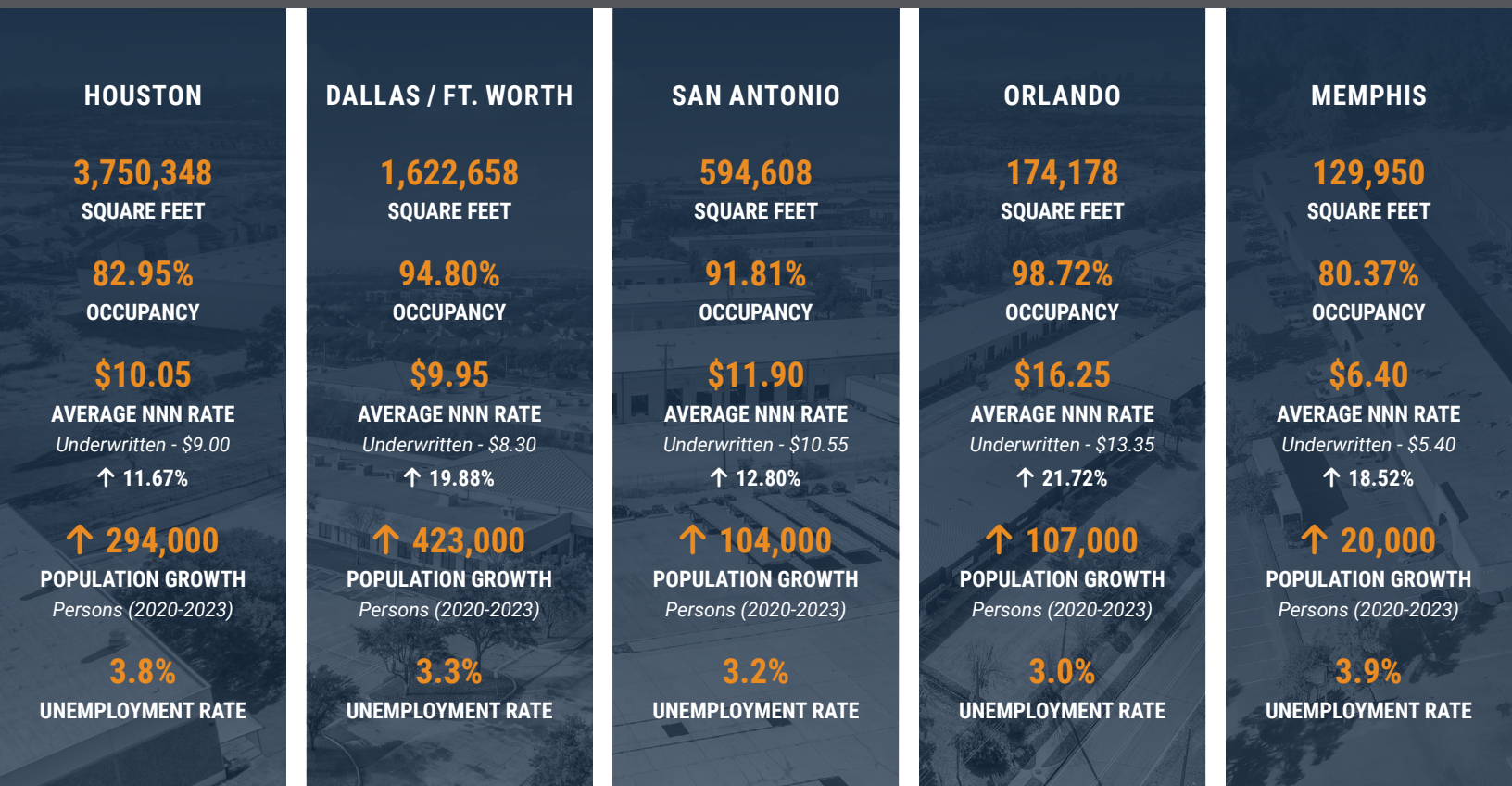
The upcoming year is expected to be a time of recalibration for the market as it adapts to an evolving financial landscape characterized by higher debt costs. Although we are accounting for increased rates relative to the historic lows in prior years, we anticipate a stabilization in rate hikes and potentially even a slight retracement, allowing the market to recover accordingly.

Transaction activity is projected to normalize with potential for an increase in deal volume during the second half of the year. Although it is unlikely that transaction volumes will reach previous highs, they are expected to maintain healthy levels within markets experiencing significant population growth. This normalization of the market gives us an advantage by enabling us to focus on selected investments in a less competitive environment.

Despite the turbulence in 2023, our industrial portfolio yielded a strong performance overall with average NNN rental rates outperforming underwritten rates across each of our current markets. In 2024, we anticipate a stabilization with potential for rent growth in the second half of the year. Factors such as increased land prices, capital costs, and construction expenses are expected to limit new development, thereby reinforcing the value of existing assets. Assets with shallow bay configurations and shorter lease terms, which can adapt more easily to fluctuations in market rents, are likely to remain in high demand. All of these support the potential for promising performance within the Class B industrial class.

Each of our markets also experienced positive population growth in 2023, as well as maintaining low unemployment rates—both strong indicators of more growth and demand to come. These market dynamics create an environment conducive to strategic growth and stabilization, aligning with our long-term investment strategies and market positioning. This presents promising opportunities for acquisitions this year as well. We will continue to focus on pursuing attractive deals in these markets and throughout additional markets within the Sun Belt that exhibit similar traits.

2023 INDUSTRIAL PORTFOLIO PERFORMANCE BY MARKET



Source: Texas Demographic Center (2020-2023 Numerical Change in Population), Macrotrends (2020-2023 Numerical Change in Population), U.S. Bureau of Labor Statistics (November 2023 Unemployment Rate)



As we move into 2024, Fort remains committed to growth both for our assets and equity relationships. By continuing to focus on our operational strengths and leveraging our innovative technological approaches, we are well-positioned to capitalize on opportunities as they present themselves.

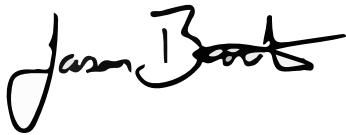
For more on our outlook, listen to our [2023 year-end podcast](#).

For real-time updates, be sure to connect with us on [LinkedIn](#).

For more information on our investment strategy and ways to connect, visit [our website](#).

To keep up with Fort's latest insights and updates, [subscribe](#) to our quarterly and annual reports.

Here's to a promising 2024—a year we foresee as filled with growth, innovation, and success in the realm of real estate.



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