Office Market Outlook

Prepared for Alony Hetz Properties & Investments Ltd

2024 Capital Markets Annual Meeting

March 2024

JLL SEE A BRIGHTER WAY

Macroeconomic Outlook for 2024

Uncertainty remains, but momentum should build as the year progresses

Growth

Growth to be slower, but still mostly positive in 2024—with momentum building in H2

Inflation/Prices

Inflation is falling, but prices remain elevated, and risks remain

Interest rates

Policy rates have peaked, but central banks may hold higher for longer than markets expect

Risks & uncertainty

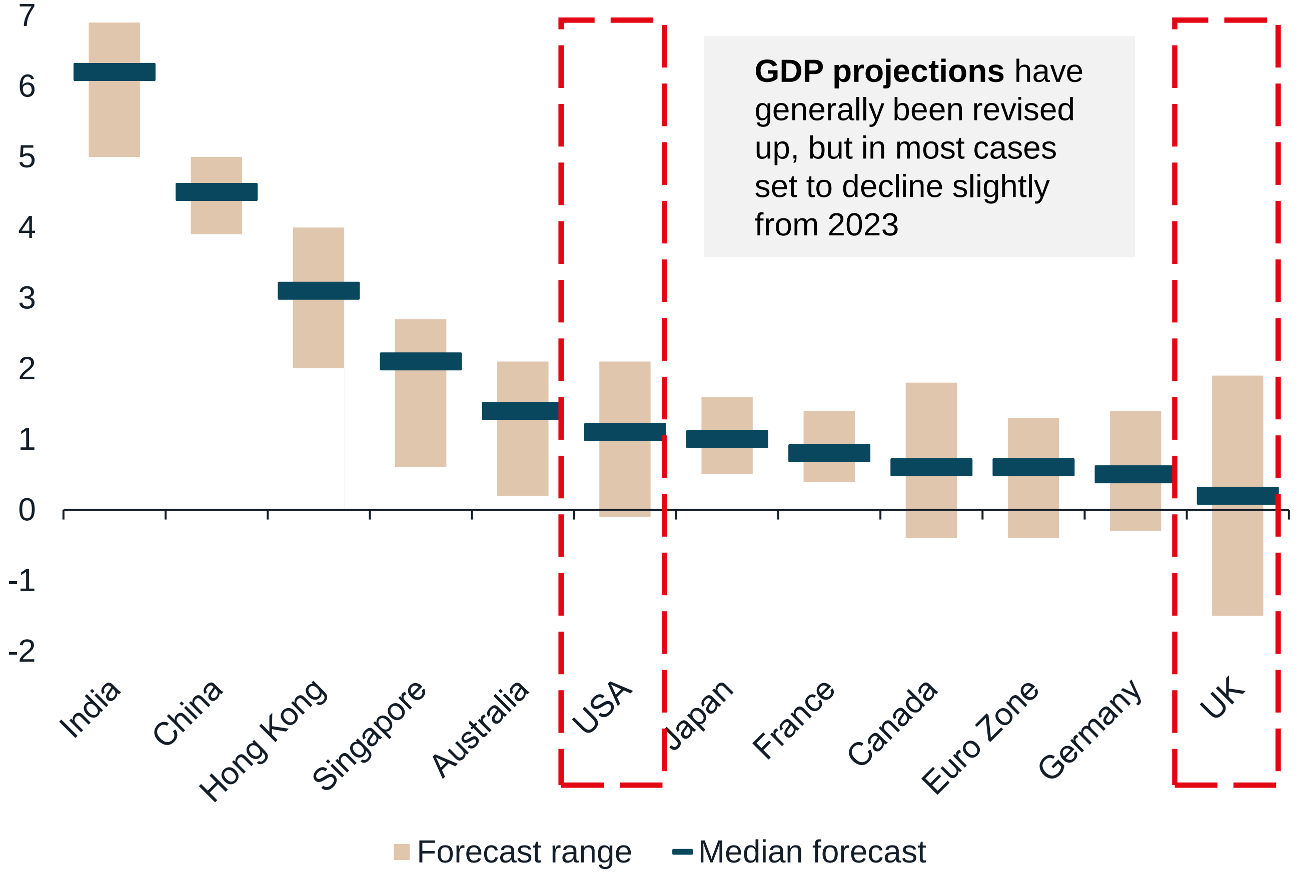
Another year of elevated geopolitical tensions, policy risks, and election uncertainty

Source: JLL Research

Uncertainty around the growth outlook is wide – many forecasts incorporate positive and negative views

U.S. 10 Year Treasury Yield (%)

2024 GDP growth forecast (% YoY)



Source: JLL Research

Future office demand considerations: Balancing cyclical and long-term factors

Cyclical Factors

Economic growth
Growth outlook is expected to be weak, but mostly positive, for major economies in 2024, with momentum expected to build in the latter half of the year

Job growth
Firms continue to recruit more than they are laying off, leaving job vacancy rates elevated compared to historic norms

Rising cost
Inflation is falling, but price levels are expected to remain elevated

Return-to-work metrics
Office re-entry rates have improved and reached a post-pandemic high in 2023, surpassing and plateauing around 50% overall

Long Term Factors

Hybrid-working
Employers are finalizing hybrid work policies, with a wave of major employers recently reversing remote-first work

Sustainable buildings
Sustainable buildings are likely to drive greater interest from occupiers on account of the reduced operating and energy costs

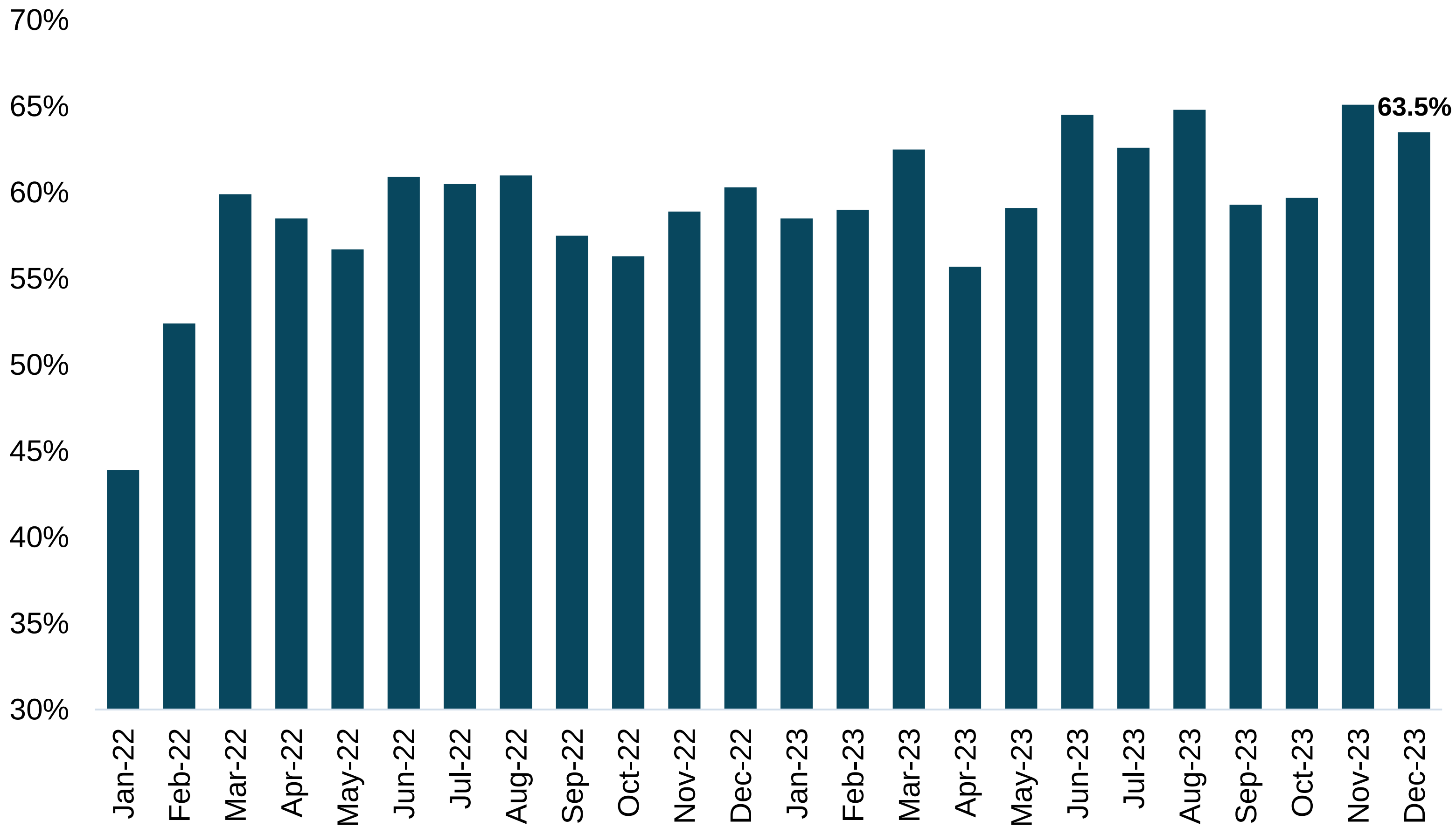
Office utilization
Ratio of unassigned seating to dedicated desks is increasing as some employees trade assigned spaces for locational flexibility

Flight-to-quality
Tenants are upgrading their offices with premium amenities and hospitality services to help lure remote workers back to the office

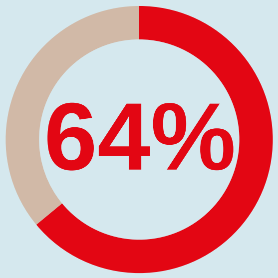
Source: JLL Research

U.S. re-entry rates reflect growing dominance of three-day workweek; further gains in office attendance will likely be incremental

Placer.AI weekly average attendance rate



KPMG 2023 CEO Outlook



of CEOs believe hybrid schedules will transition back to pre-pandemic attendance frequency by 2026

Company	Initial Policy	Current/Announced Policy
Fidelity Investments	1/4 weeks	2/4 weeks
Deutsche Bank	3 days/week	4 days/week
Deere	2 days/week	4 days/week
L'Oreal	3 days/week	3 days/week + 2 Fri./month
UPS	3 days/week	5 days/week
JPMorgan	3 days/week	5 days/week
Disney	3 days/week	4 days/week
USAA	3 days/week	4 days/week
Boeing	3 days/week	4-5 days/week
Geico	2 days/week	4 days/week
BlackRock	3 days/week	4 days/week
Verizon	1 day/week	3-4 days/week
Nike	3 days/week	4 days/week
Nationwide Insurance	1 day/week	2 days/week
Daimler Trucks	2 days/week	4 days/week

Source: JLL Research,Placer.ai, KPMG

Office utilization is increasing as the ratio of unassigned seating to dedicated desks increases

1950s | 1960s

- Traditional closed office layouts comprised the dominant design, with open office plans a more niche emerging concept.
- Large private offices; not uncommon for executives to have private offices in excess of 500 s.f.
- Introduction of new technologies including copy machines and computers.
- Design trends focused on improved employee experience: air conditioning became widespread in offices in the 1950s, designs incorporated more vibrant color and patterns to create vibrant work environments.

250-350
s.f. per employee

1970s | 1980s

- Departure from traditional closed office layouts and increased adoption of open office plans featuring low or no partitions and a central working area, designed to promote collaboration.
- Introduction of first computer workstations, technology featured in offices more prominently which necessitated new infrastructure to manage cables.
- Growing focus on employee comfort: improved furniture, natural light, improved aesthetics.

225-300
s.f. per employee

1990s | 2000s

- Continued emphasis on collaboration drives increased adoption of open office plans – private offices become rarer and smaller.
- Technology becomes deeply integrated to offices – computer workstations become ubiquitous, increased infrastructure for hardware and wireless networks, first instances of remote work.
- Decreased reliance on paper begins to eliminate space dedicated to file storage.
- Design begins to focus on sustainability and wellness, introducing fitness centers, standing desks and other amenities.

175-250
s.f. per employee

2010s | 2020s

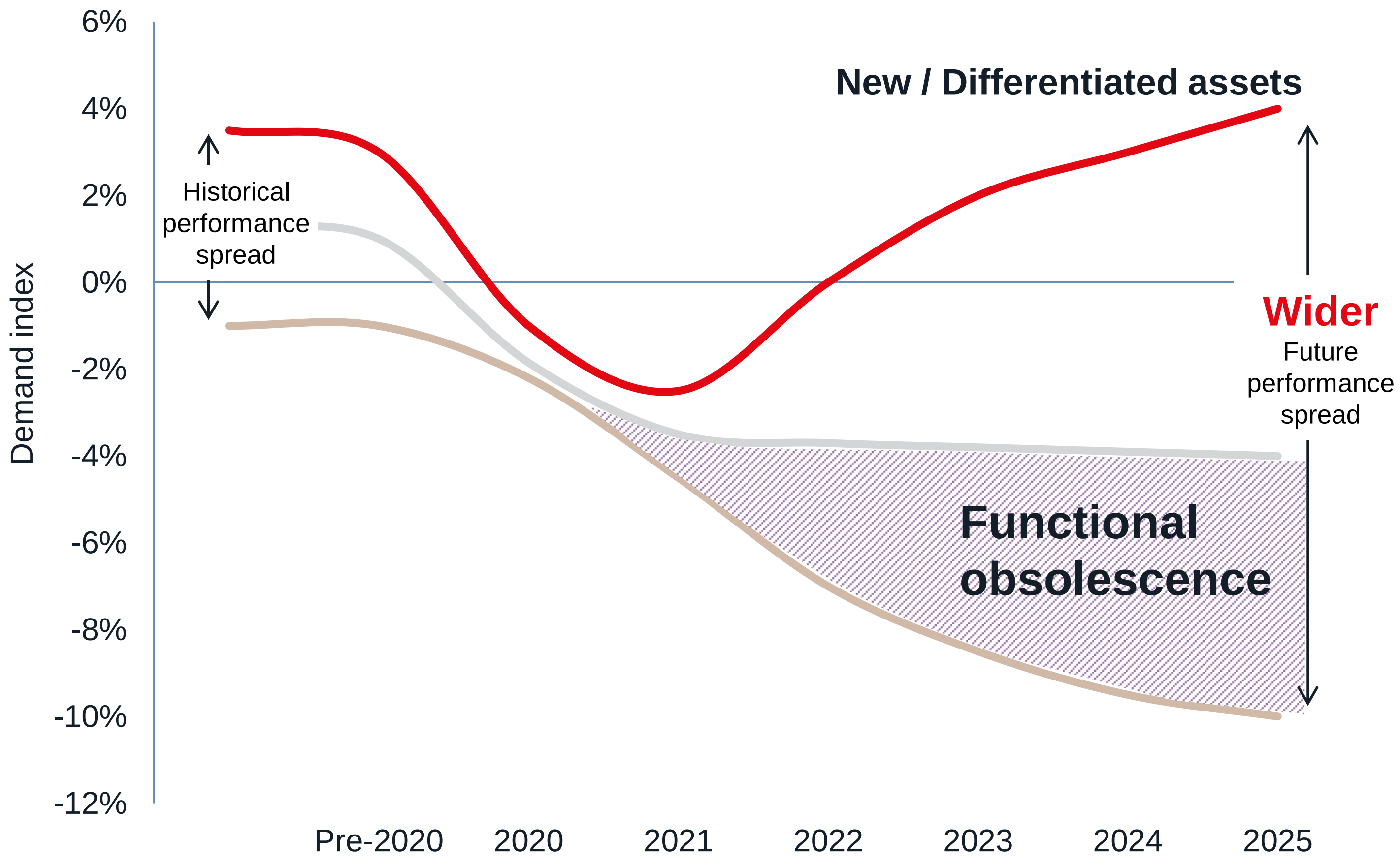
- Open offices transition to activity-based working, providing different spaces for employees to self-select based on work preferences.
- Continued gradual shift away from private offices, plateauing of downsizing of private offices.
- Continued shift towards paperless offices eliminates space needs for file storage, increased adoption of technology leads to greater space dedicated to technology infrastructure.
- Design focuses on wellness and engagement: amenitized offices with curated events and activities for social engagement.

150-175
s.f. per employee

Source: JLL Research

Office flight-to-quality trend becoming structural

Structural shift in demand for highest quality assets



- A highly **bifurcated** market
- Focus on h**igh-quality** and differentiated space
- Construction pipeline **peaking**
- Accelerating **obsolescence** in Grade B and C space

Source: JLL Research

Quality will be a major determinant of future performance

Tier 1: Lifestyle **11%** of total U.S. market by SF	2015+ vintage assets
Tier 2: Differentiated **33%** of total U.S. market by SF	2000-2014 build assets Pre-2000, substantially renovated after 2010
Tier 3: Repositionable 24% of total U.S. market by SF	1990-1999 build assets Pre-1990, renovated 1990-2009 Repositionable at right cost basis
Tier 4: Transitional / Functionally Challenged **32%** of total U.S. market by SF	Pre-1990 build, not substantially renovated since completion

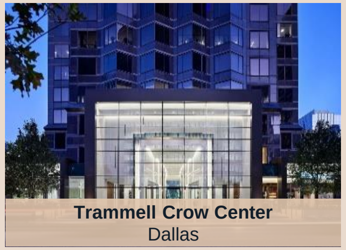

One Vanderbilt
New York City


Salesforce Tower
San Francisco


1222 Demonbreun
Nashville


One Post Office Square
Boston


Old Main Post Office
Chicago

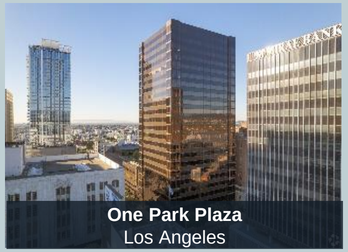

Trammell Crow Center
Dallas


Ponce Circle Tower
Miami


311 S Wacker
Chicago


Charlotte Plaza
Charlotte

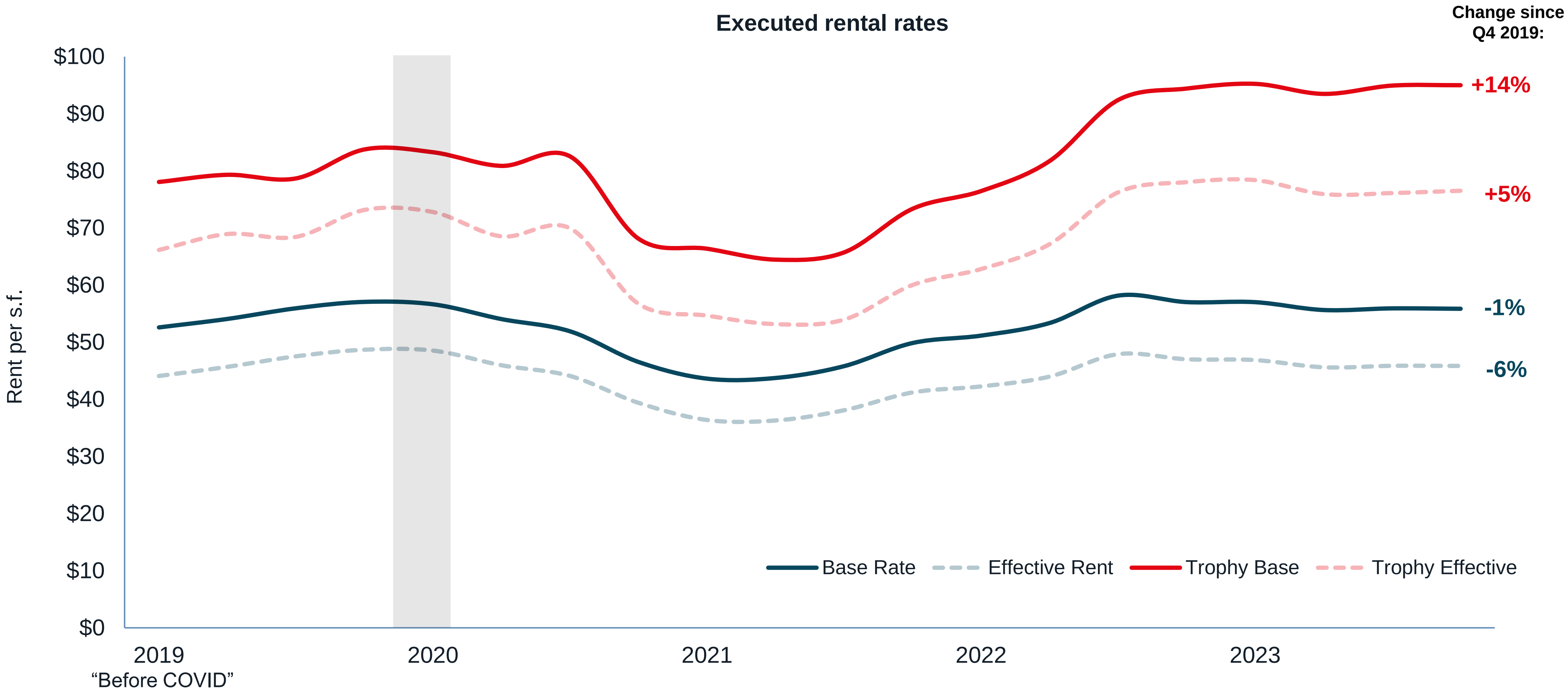

Bank of America Plaza
Dallas


One Park Plaza
Los Angeles


135 S Lasalle
Chicago

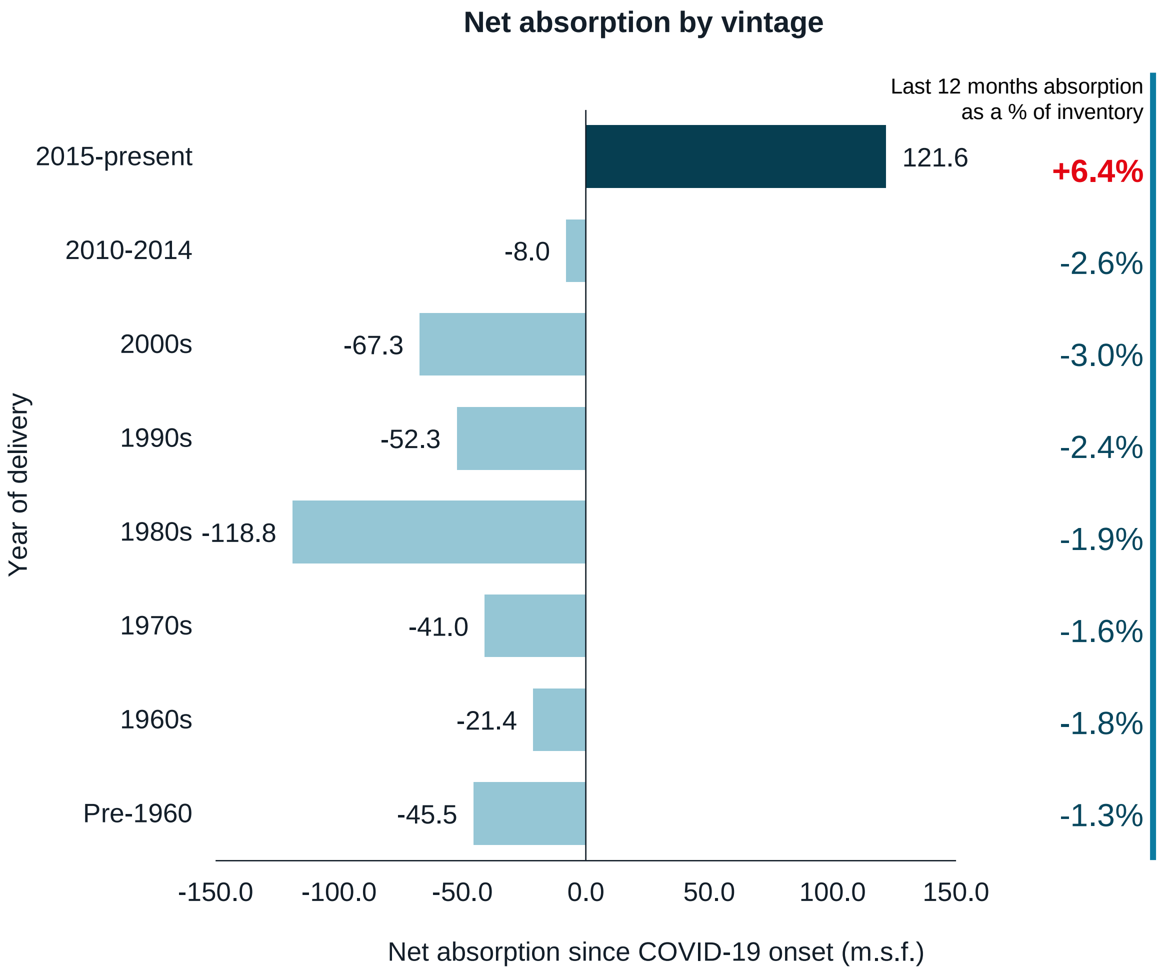
Source: JLL Research, *Sizable share of assets will be converted to alternative uses, demolished or remain functionally challenged. Analysis reflects top 20 U.S. MSAs, office assets 100k+ s.f.

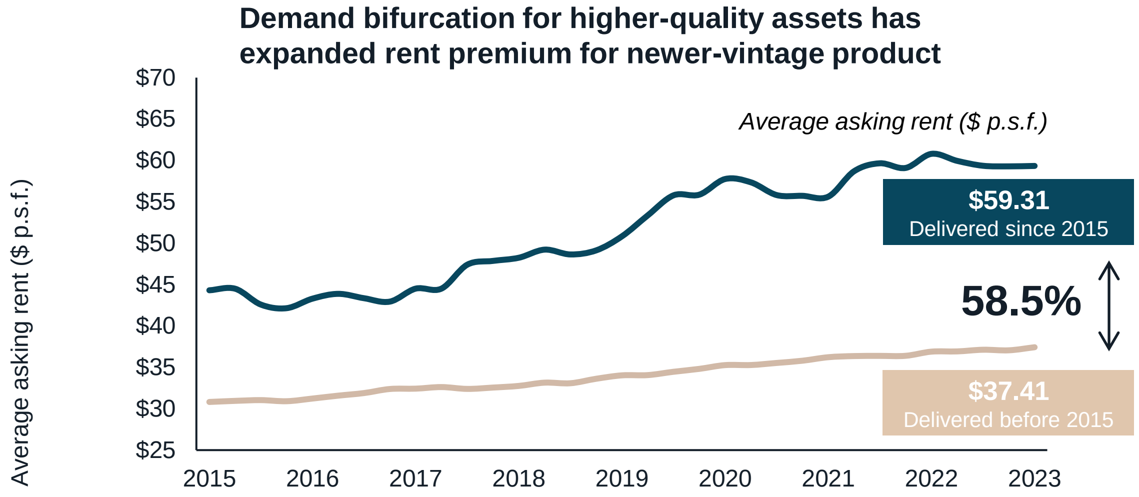
Rent growth in high-end product counterbalanced by persistent pressure from elevated concession packages and financing costs

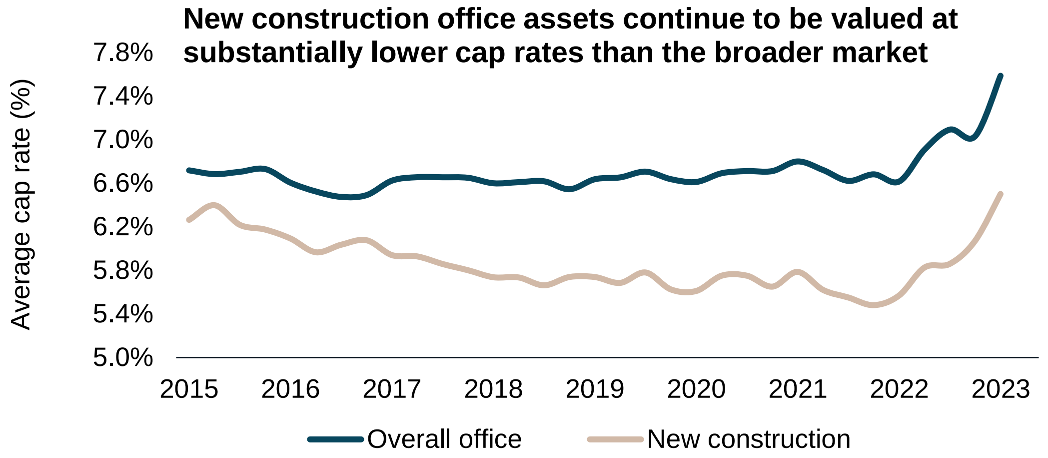


Source: JLL Research. Note: Executed rents are weighted by lease size and term

Behind the U.S. flight to quality: Positive absorption, positive rent growth, lower cap rates and greater investor conviction

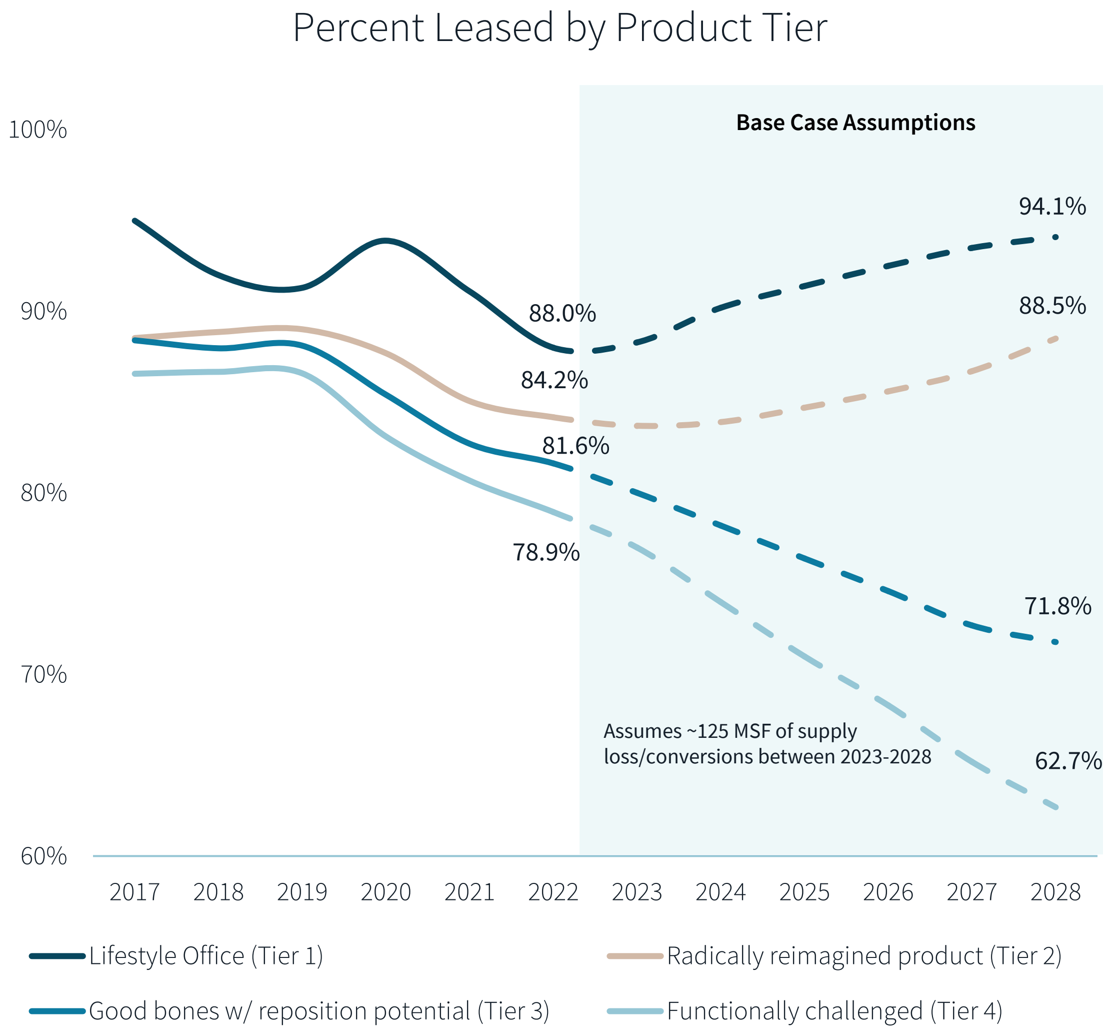


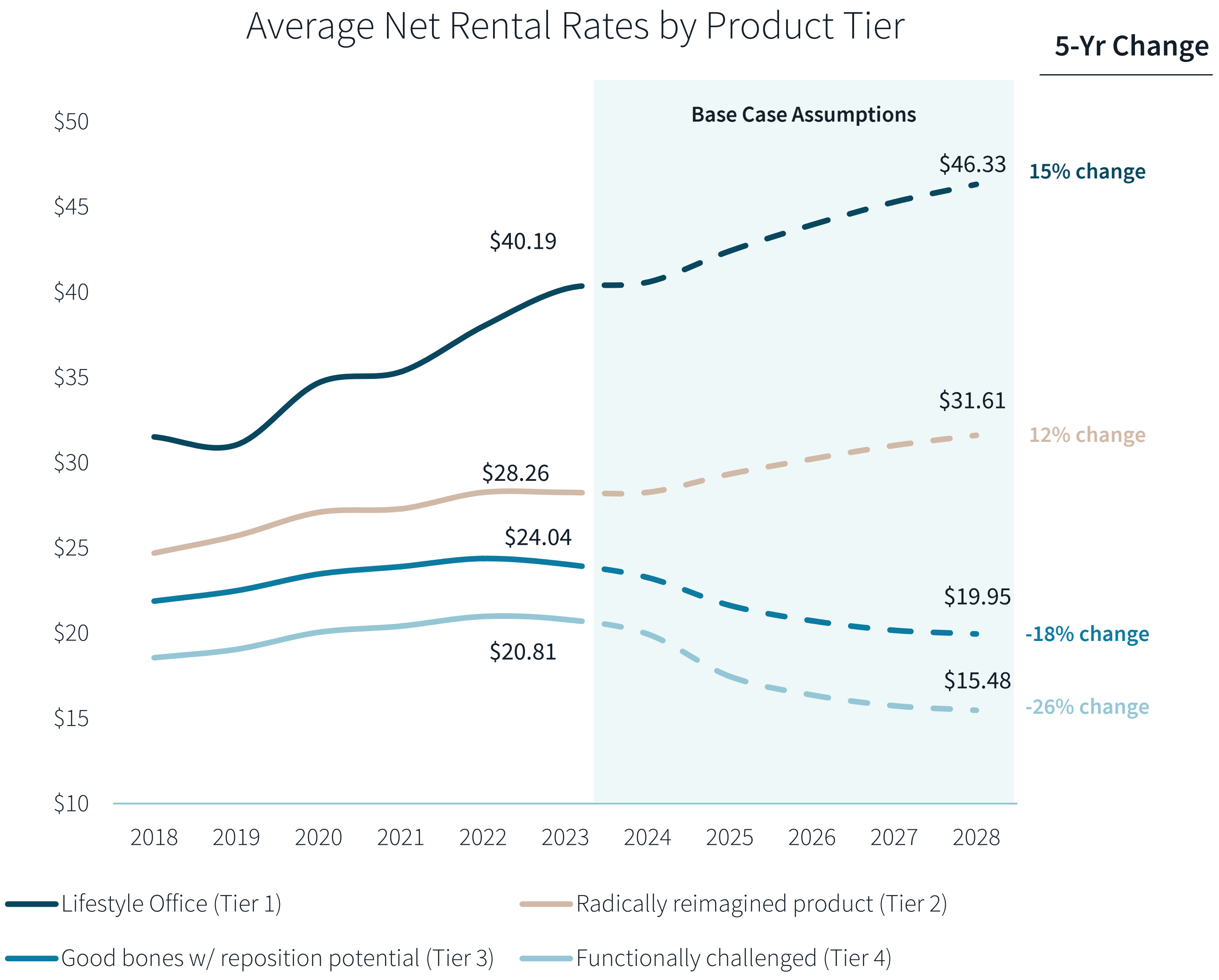




Source: JLL Research, Real Capital Analytics (Transactions larger than $5.0 million)

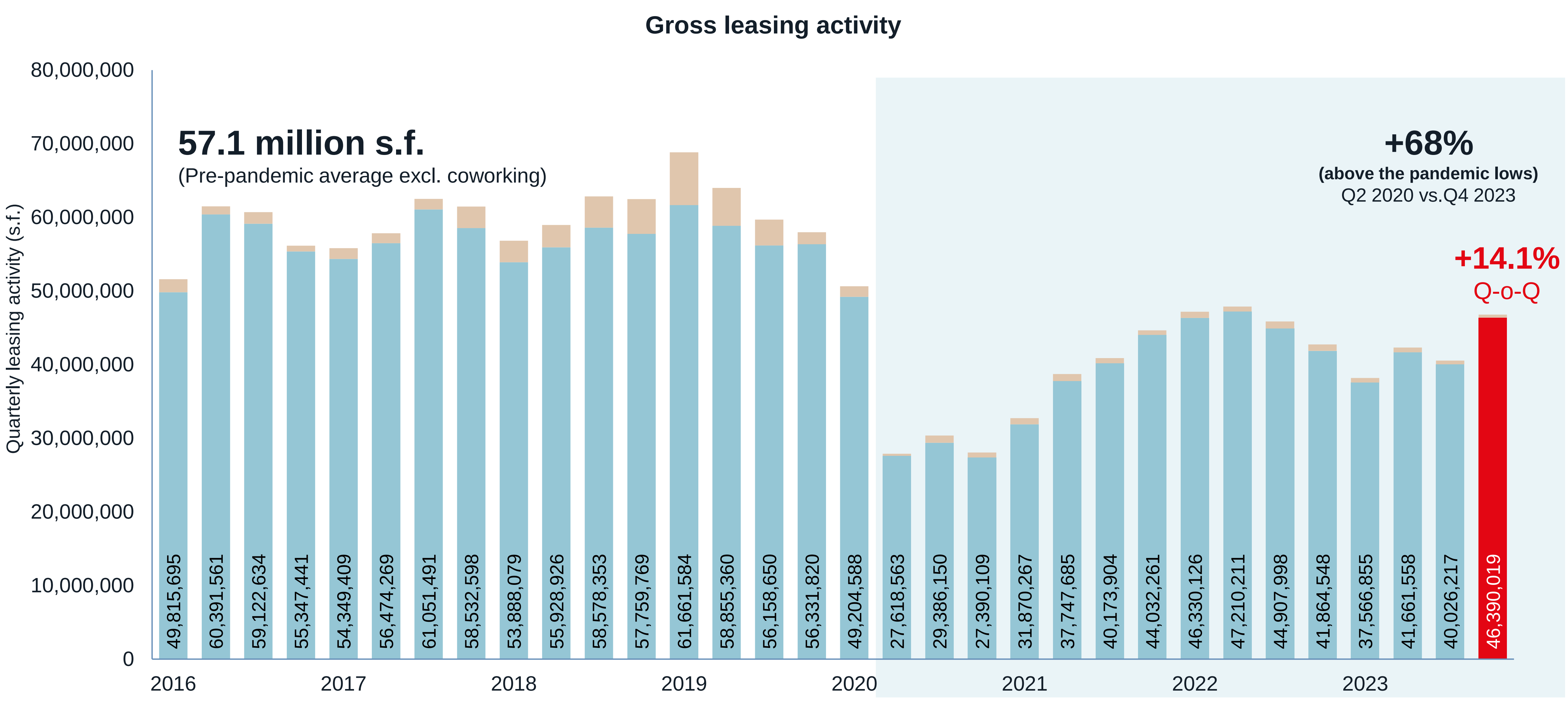
Next 5 years will expose widening divergence across product tiers





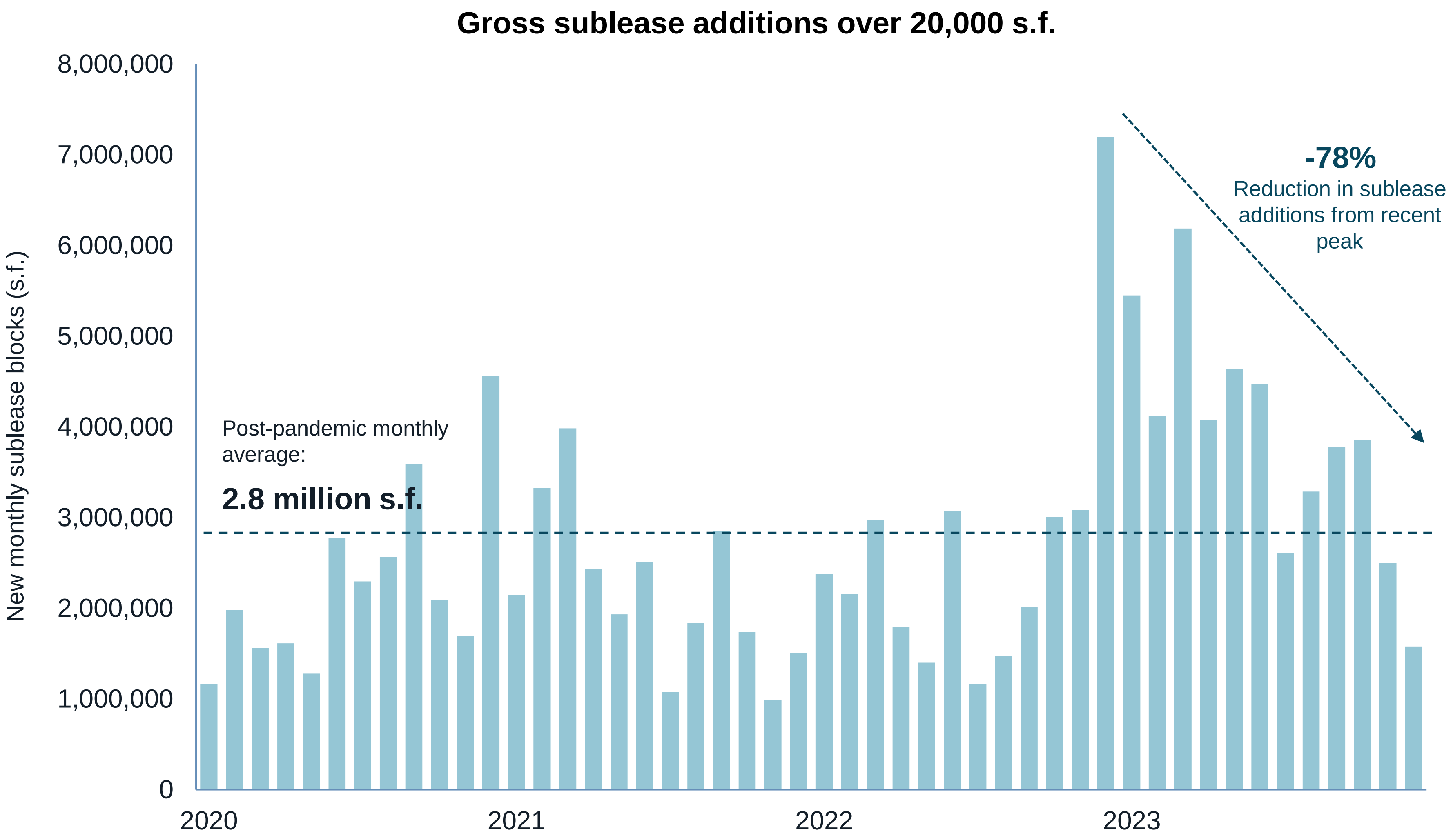
Source: JLL Research; Analysis reflects top 20 U.S. MSAs, office assets 100k+ s.f.

Leasing activity remains disrupted, but is well-above pandemic lows



Source: JLL Research, Note: Tan bars represent leasing volume by coworking providers and are excluded from pre-pandemic average

Sublease additions remained elevated but have slowed considerably from peak levels



Net quarterly change in sublease availability	
2020 Q1	-2.4 m.s.f. (-2.4%)
2020 Q2	+7.1 m.s.f. (+7.5%)
2020 Q3	+21.8 m.s.f. (+21.4%)
2020 Q4	+19.5 m.s.f. (+15.8%)
2021 Q1	+10.2 m.s.f. (+7.2%)
2021 Q2	+5.8 m.s.f. (+3.8%)
2021 Q3	-2.8 m.s.f. (-1.7%)
2021 Q4	-1.0 m.s.f. (-0.7%)
2022 Q1	+5.7 m.s.f. (+3.7%)
2022 Q2	+10.8 m.s.f. (+6.7%)
2022 Q3	+11.7 m.s.f. (+6.8%)
2022 Q4	+8.9 m.s.f. (+4.8%)
2023 Q1	+11.0 m.s.f. (+5.7%)
2023 Q2	+5.9 m.s.f. (+2.9%)
2023 Q3	+3.0 m.s.f. (+1.4%)
2023 Q4	**-4.8 m.s.f. (-2.4%)**

Source: JLL Research

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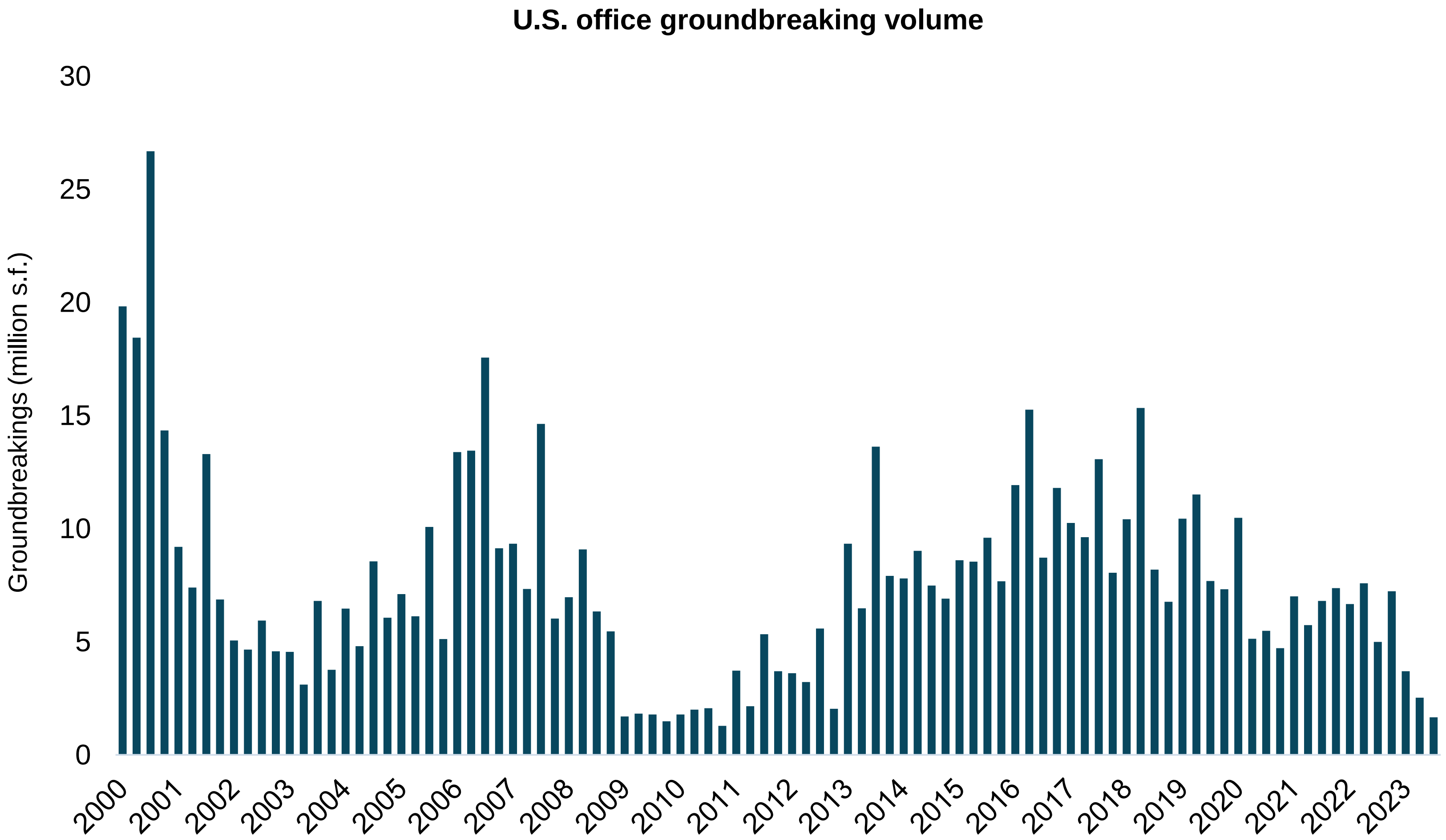
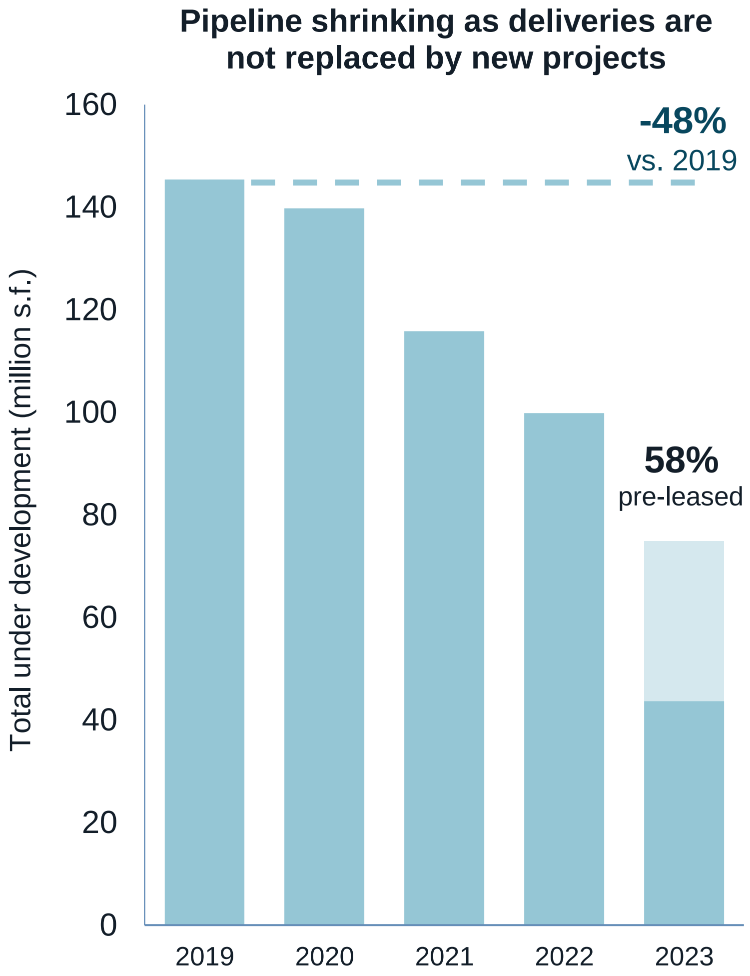
Groundbreakings have declined precipitously, potentially creating intense supply constraints in high-end product over the medium term





Source: JLL Research

Higher interest rate environment challenging buy/sell decisions; offices spreads projected to stabilize around +200 bps

	Index			+	Spreads		=	Borrowing rates	
	Term SOFR (1M)	5-Year treasury	10-Year treasury		A / BBB corp average	CMBS (10-Year)*		10-Year	
Current	5.32%	4.19%	4.20%		114 bps	150-200 bps		5.70%-6.20%	← Elevated
March 2023	4.88%	3.53%	3.45%		145 bps	150-200 bps		4.95%-5.45%	← Steady state?
Nov 2021	0.04%	1.14%	1.53%		94 bps	100-140 bps		2.53%-2.93%	← Anomaly
2019 average	2.14% *(30D LIBOR)*	1.95%	2.14%		123 bps	135-165 bps		3.49-3.79%	← Before COVID

*Assumes core/core plus assets with low to moderate leverage. CMBS spreads provided by JLL debt advisory business.

Source: JLL Research, Bloomberg Finance L.P. (Current is as of February 16, 2024)

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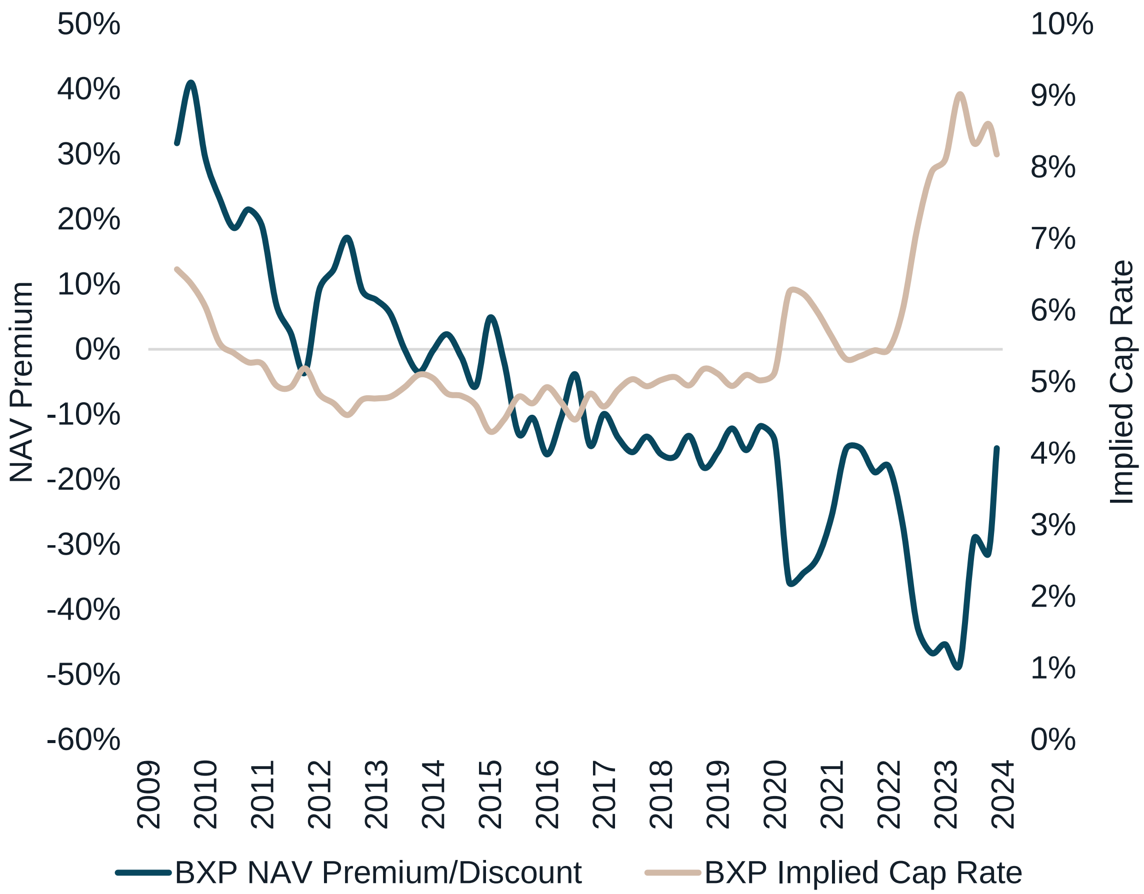
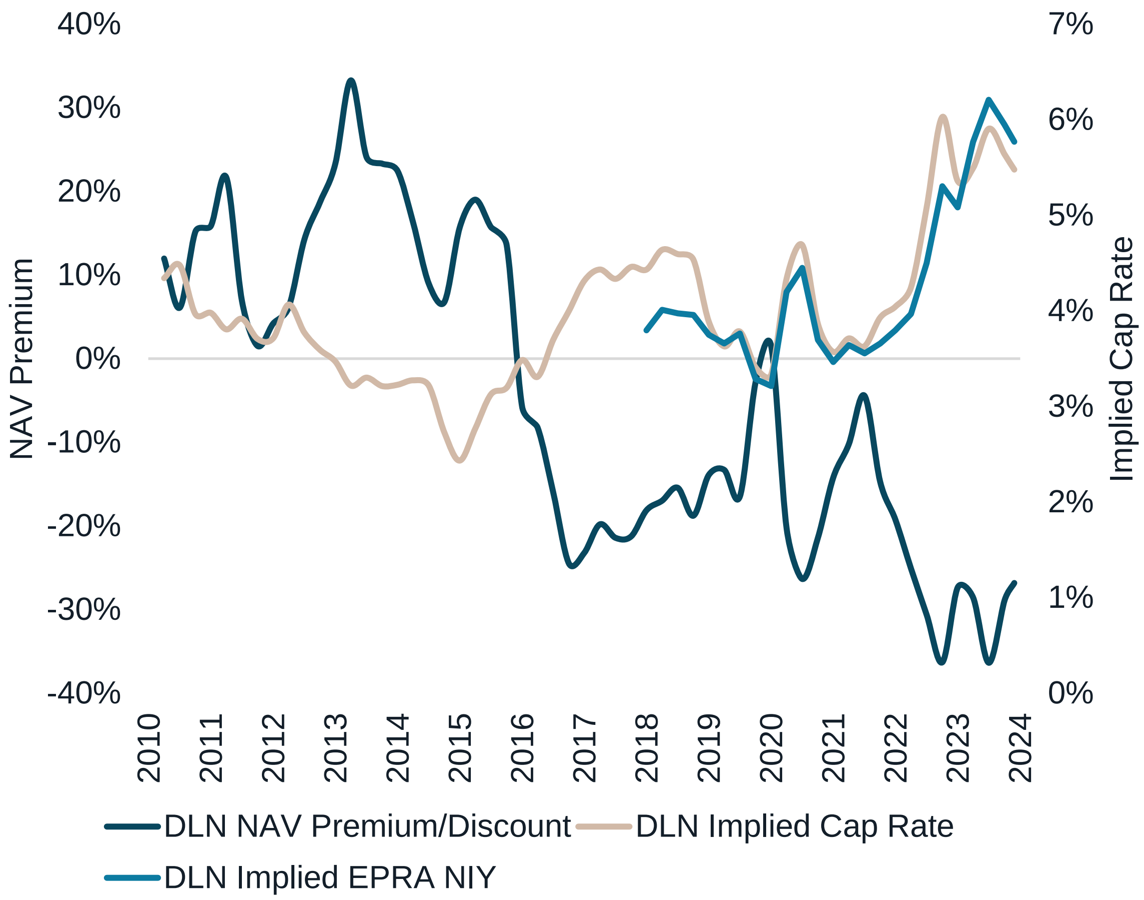
Office sector currently trading at a steep discount compared to the prior decade

Boston Properties (BXP) Implied cap rate vs. NAV premium



Derwent (DLN) Implied cap rate vs. NAV premium



Source: JLL Research; Green Street, data as of 2/26/2024

What is needed for a meaningful capital markets recovery to set in?

Fed has to start taking interest rate down

Loan spreads have to stabilize

Investors’ risk premium around recession risk must not worsen

Large money center banks have to return to the market

More clarity has to emerge around hybrid work’s impact on office demand

ODCE (“Open end diversified core equity”) funds marks need to reflect reality

Source: JLL Research

Office capital markets themes for 2024

	Market Conditions Today
Rate sentiment has improved since the summer	• Sentiment on rates has improved markedly since the summer • Consensus is that there will be rate cuts by H2 2024, which would have a positive impact on cost of capital and therefore residual cap rates

Debt market conditions remain challenging; Seller financing is still a potent tool to transact	• Debt liquidity today varies substantially by both deal size and quality / profile of the underlying asset:
	    • <$75M loan sizes are generally gaining greater lender traction
	    • Larger loans rely almost exclusively on CMBS / SASB (Single Asset Single Borrower) market, though exceptions have been made for high-performing assets
	    • For Tier 3 / 4 assets, the only options are from debt funds or existing sellers / lenders (who are offering future funding to fund leasing costs & TIs)
	• Money center banks, regional banks, life insurance companies are largely risk-off
	• CMBS / SASB market is starting to improve for other property types, indicating it could be possible for high-quality office assets in 2024
	• Many institutional investors are beginning to raise debt funds to fill gap in A note space
	• Liquidity from CMBS, debt funds, insurance companies will payoff bank loans allowing banks to re-enter the market in 2025

Supply dynamics continue to look favorable for Tier 1 and well-located Tier 2 assets	• Net U.S. office supply loss is expected as soon as this year (2024) and we do not expect a meaningful pick-up in spec construction activity before 2030 • We are headed toward a “Great Basis Reset’, particularly for Tier 3 & 4 assets during 2024 • Capital intensity (including Tis, free rent periods) remains high for offices and is acting as a drag on net effective rents, particularly for lower quality assets

Liquidity for office is expected to improve in 2024	• Private capital made up 76% of 2023 office investment activity
	• Institutional investors starting to believe the “right” office will provide alpha
	• Expectations are that there will be greater capital markets activity in 2024:
	    • At the top end of the market (Tier 1 / 2), driven by opportunistic capital (HNW (High Net Worth) / Private / International / Private Equity)
	    • At the lower end (Tier 3 / 4), driven by lender capitulation (short sales / loan sales / distressed processes)

Core cap rates have widened further with shifts in lending market	• Office asset values remain down 20-50+% depending on asset quality and location, with Tier 1 assets holding value better • Cap rates for core, new construction assets with WALT ranges from 6.5%-7.5% today • When the 10-year dipped below 4%, we began to see residual cap rate compression on underwriting • K-shape recovery for office assets leading to distressed sellers of commodity office
Specialist office operators will be more critical to future performance	• New standards for quality, amenitization, service and ESG will require a deeper level of operational expertise • Differentiated development, design and building operations and management will mitigate risks and unlock opportunities

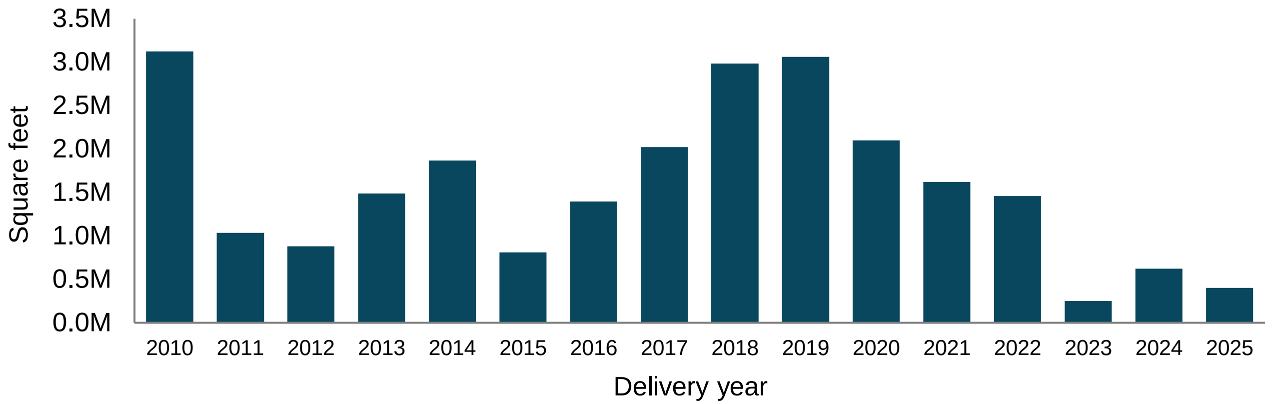
Source: JLL Research

Washington, DC – Market Highlights

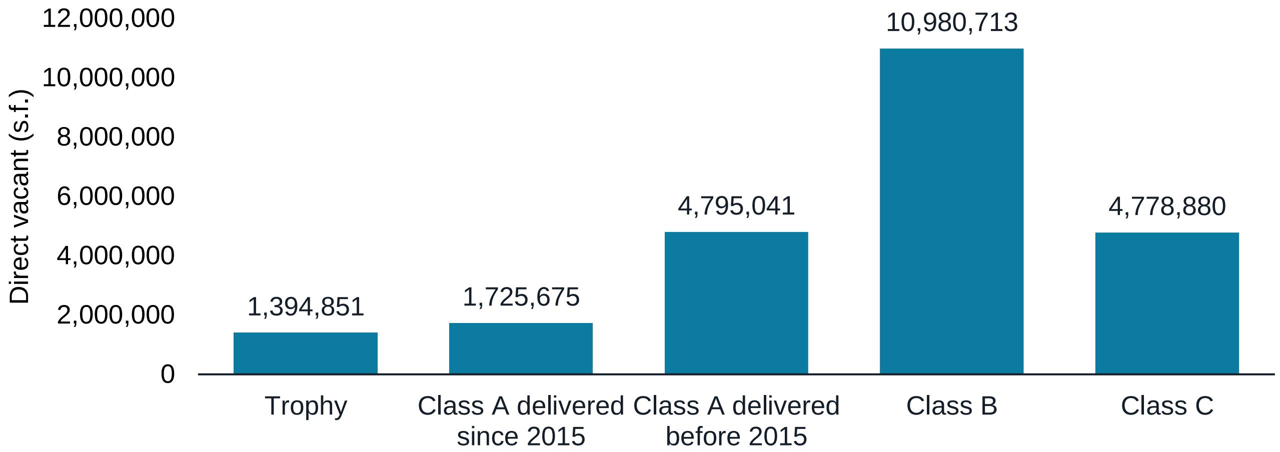
Key Market Themes

- Direct vacancy rates for trophy asset classes in the CBD are substantially lower compared to Class A and Class B/C office buildings
- Over the past 5 years, **96% of positive absorption occurred in Tier 1 assets,** and we expect this to continue to be the case in the next 5 years, particularly as **new deliveries fall below 500k SF by 2025**
- **Spillover demand** from a tighter Tier 1 market will occur in well-located Tier 2 assets, though this is not expected for a few years
- Tenants looking for Tier 1 spaces have started their searches earlier to secure the spaces they want
- **Just three new buildings (1.0m s.f. total) are currently under construction**, with 65% of the space pre-leased
- Metro ridership has been steadily increasing end ended 2023 at 60% of 2019 levels
- Sublease availability dipped in Q4 2023 to 3.3 m s.f.

New office construction by delivery year, 2010-2025



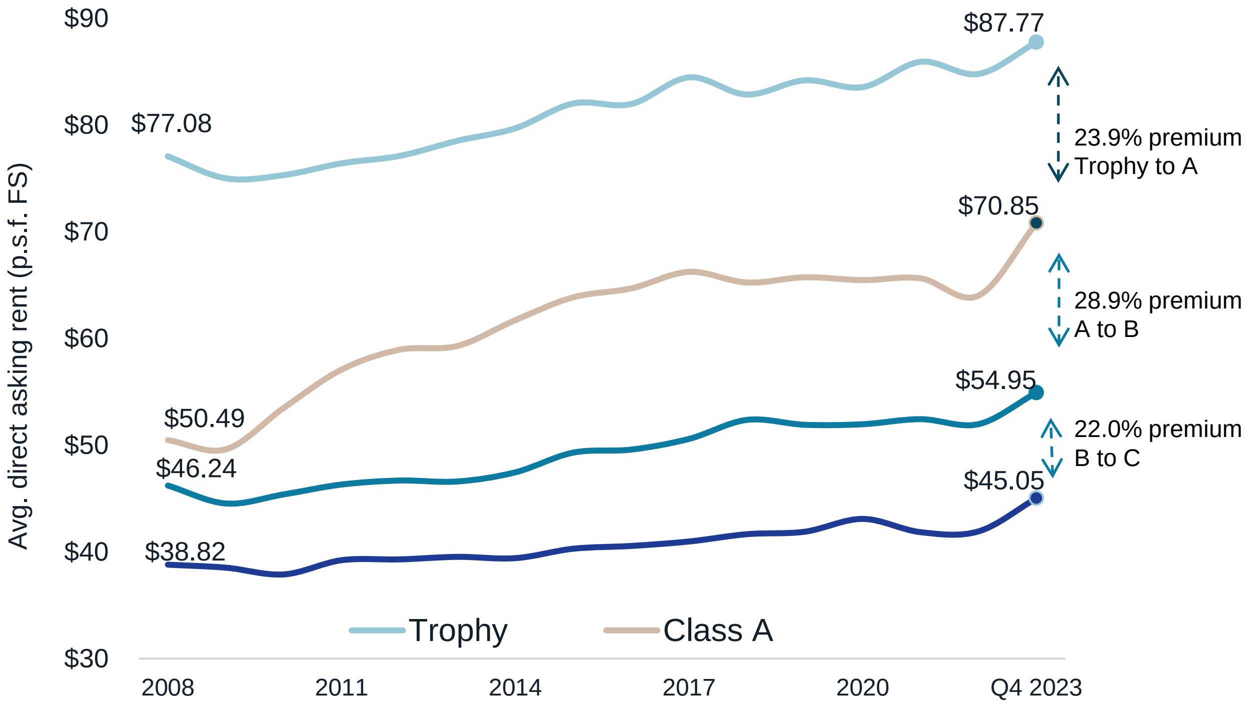
Direct vacant space (s.f.) by building class, Q4 2023



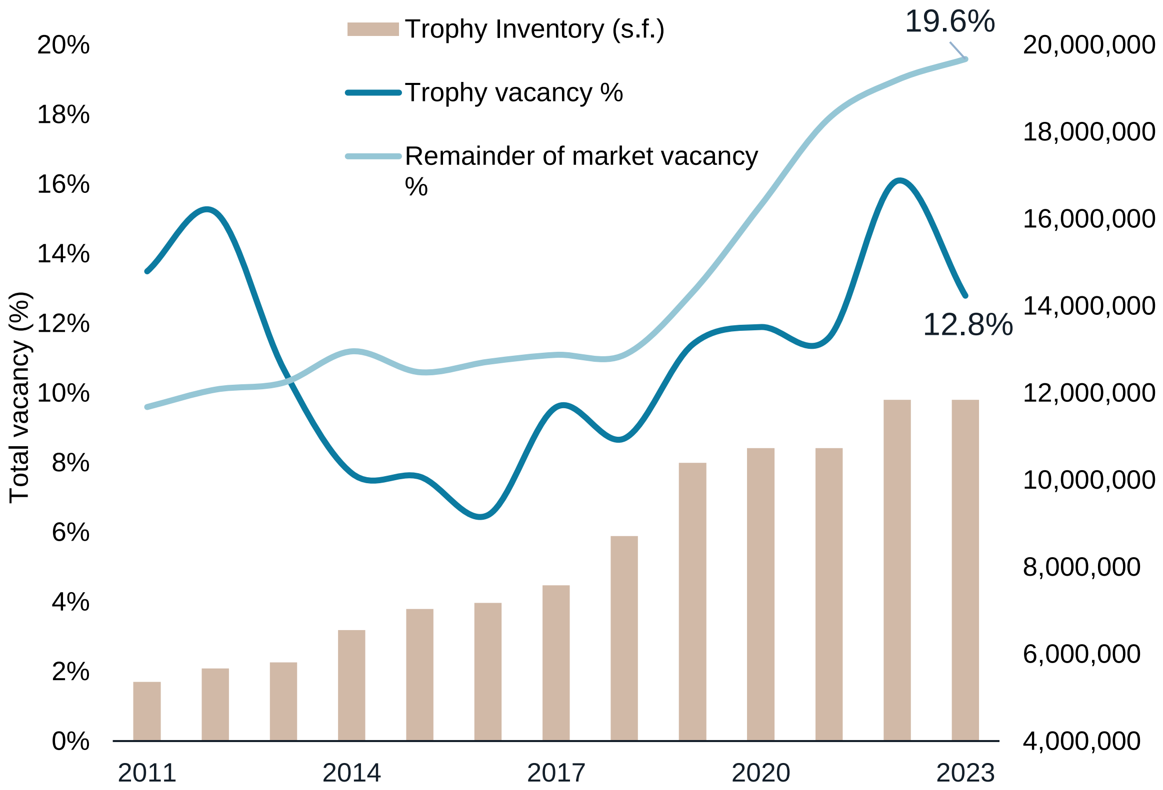
Source: JLL Research

Trophy assets in DC are seeing lower total vacancies and higher rent premiums than the rest of the market

Average direct asking rents by building class, Washington, DC 2008- Q4 2023



Washington, DC total vacancy – Trophy vs remainder of market, 2010 - 2023



*As part of a continuous process of data quality improvement, JLL Research re-evaluated market performance of all DC office buildings against their assigned building class. We reclassified buildings as needed to ensure consistency in class designation. Q4 2023 market statistics reflect the reclassified building set.

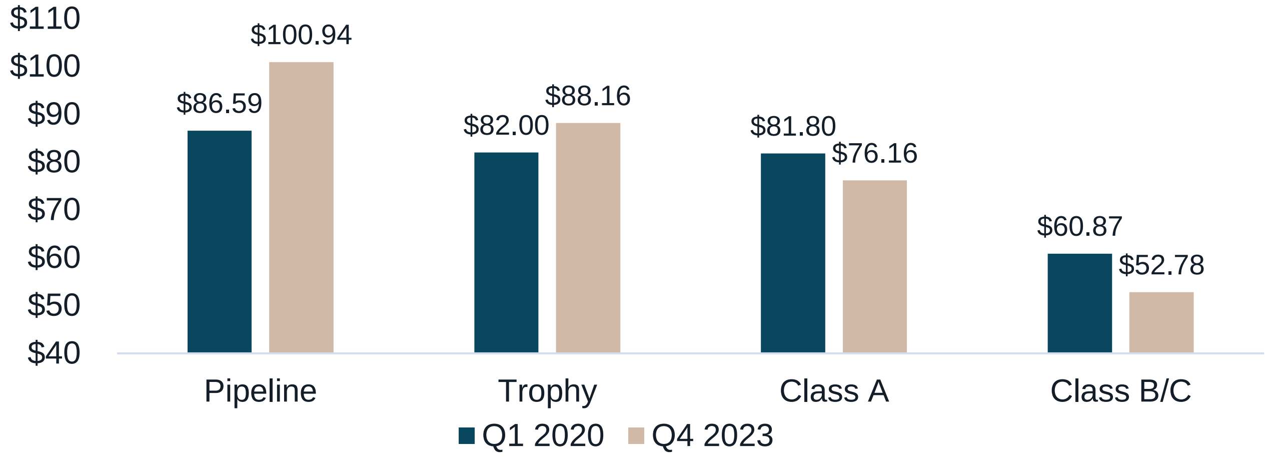
Source: JLL Research

Boston – Market Highlights

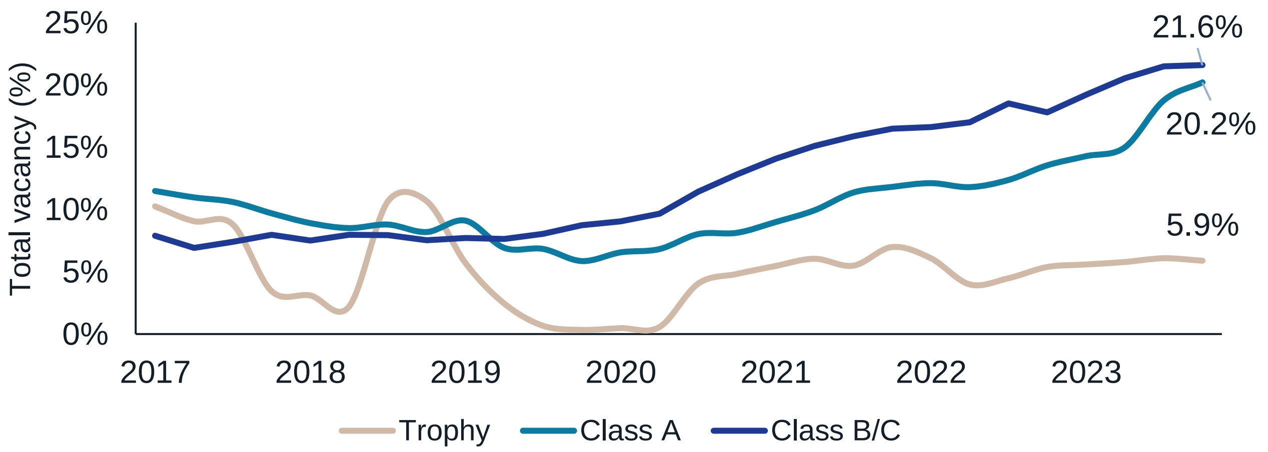
Key Market Themes

- Demand has increased across the city, but the **continued "right sizing" of tenants will impact overall leasing velocity through 2024**; similarly, it will take time for the market to process the more than 4MSF in sublease space
- Active tenant requirement in the city increased for the second straight quarter, setting up for an uptick in transaction activity in 2024 after subdued end of 2023
- Total level of the sublet space is decreasing, with the lowest total recorded since April of 2023
- Long-term tailwinds for the Boston market remain unchanged; **the market remains one of the top clusters of talent and innovation** and leasing activity is expected to pick up momentum in 2025 onward
- Between 2020-2022 there was nearly 4 MSF of positive net absorption in Tier 1 product; this **flight to quality will continue going forward**
- **Deliveries will slow substantially through 2025** (with only four buildings slated to deliver across both years) and will be slow to resume, resulting in tighter occupancy and fundamentals for Tier 1 and 2 product

Average asking rents, Q1 2020 to Q4 2023



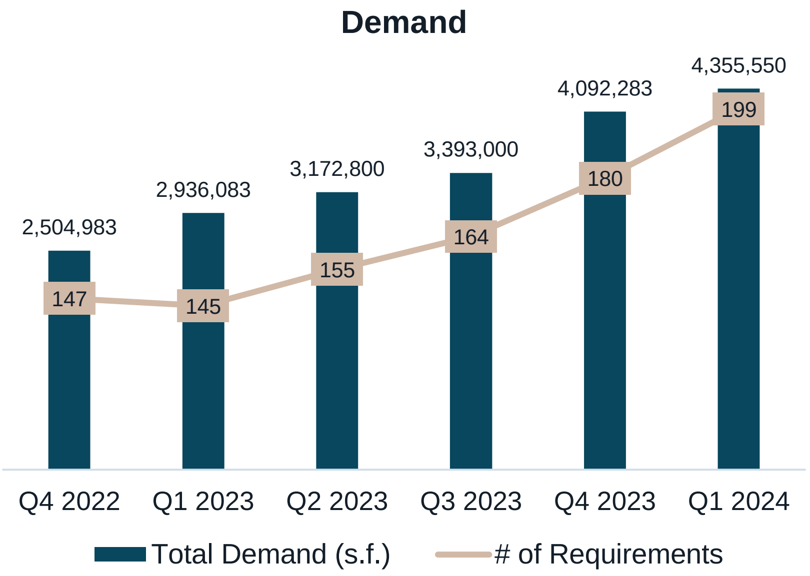
Total vacancy by asset class

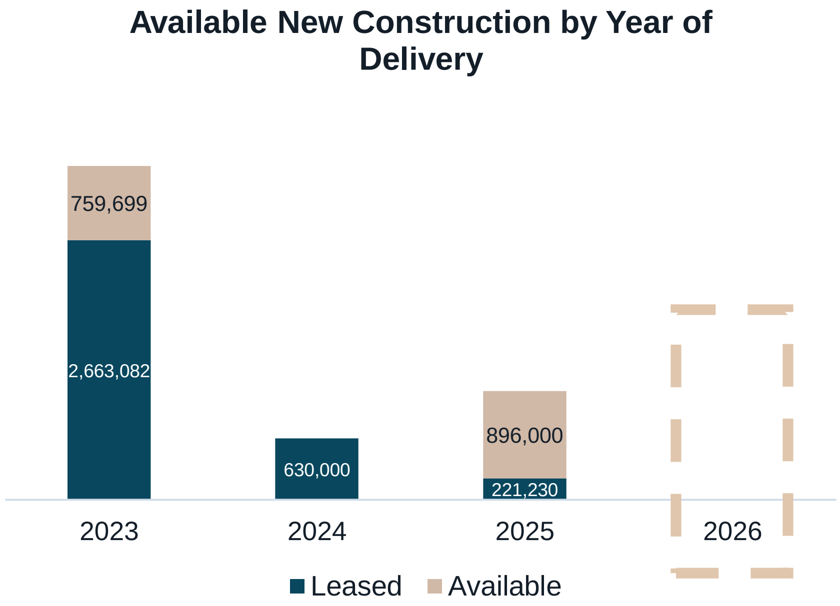


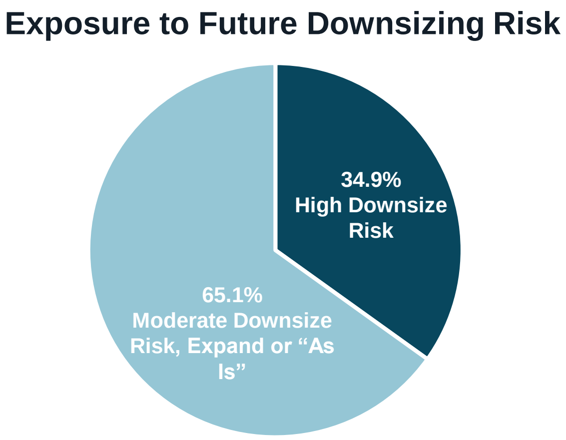
Source: JLL Research

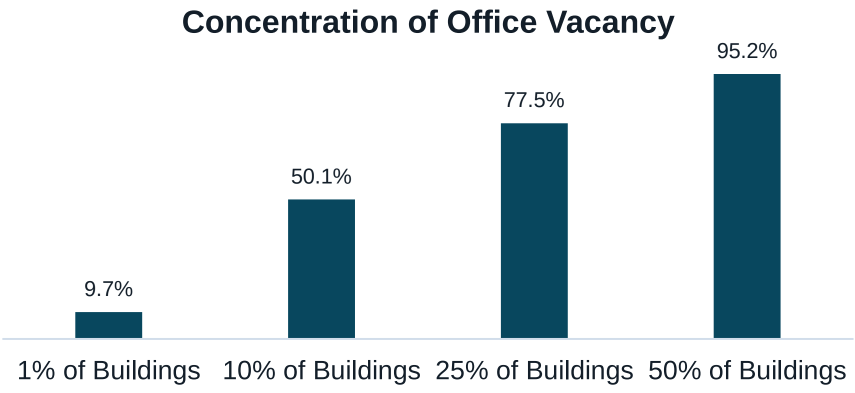
Several key indicators fuel optimism in the Boston office market

- Demand has increased for five consecutive quarters in Boston, with the average total demand increasing 73.9% and total number of requirements increasing 35.4% over that period.
- This wave of demand has a limited supply of available new construction to transact in, which should have a positive trickle-down effect across the second-generation Class A market.
- Analysis of upcoming lease expirations show that only ~35% of future tenants in the market are a high risk to meaningfully downsize from their current footprint across the city.
- While vacancy has risen to new highs, it is heavily concentrated within a small subset of underperforming assets, with only 10% of buildings in the city being responsible for more than 50% of the total vacancy.









Source: JLL Research

London – Market Highlights

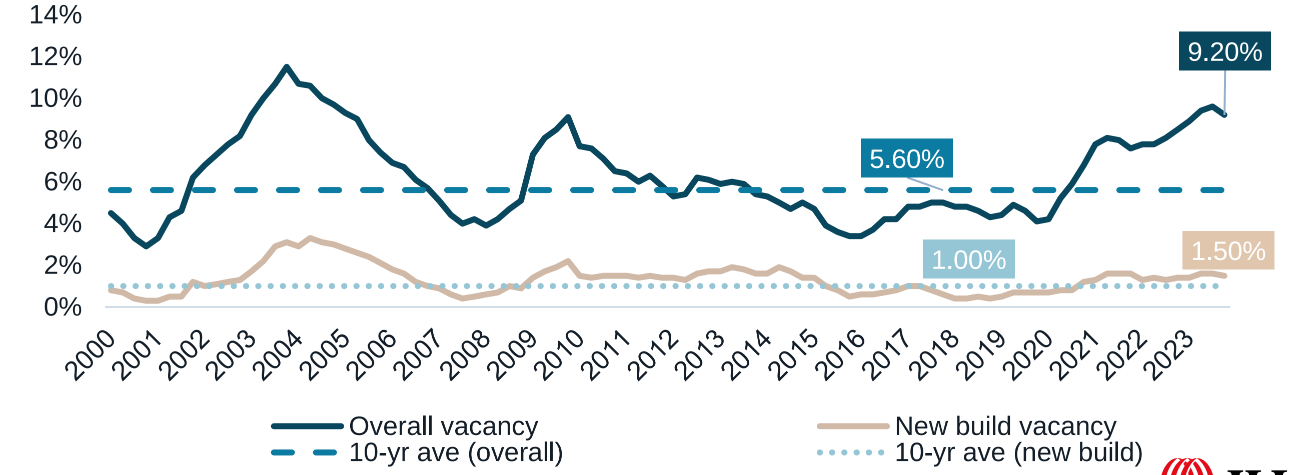
Key Market Themes

- **The market is expected to become more divided**, with heightened activity centered around prime space, while lower-quality stock may face challenges in attracting tenants. Flight to quality remains evident with 58% of under offer for pre-let, newly built or refurbished stock
- **Annual leasing volumes are anticipated to pick up in 2024** and should trend towards the long run average, but election timing may see some pause in activity. Uplift in preletting is anticipated as proportion of overall activity- focus on core locations
- **Office deliveries are expected to slowdown** from 2026 as costs and constrained financing options further limit high-quality space options. Vacancy is expected decline across all markets- City will see strongest contraction in supply

Central London take-up by quarter

Central London	Q4 2023	10-year quarterly average	Year-on-year change
Quarterly take-up (sq ft)	3.4 million	2.6 million	↑
YTD take-up (sq ft)	9.7 million	10.2 million	↓
Under offer (sq ft)	2.3 million	2.7 million	↓
Active demand (sq ft)	12.2 million	9.2 million	↑
Overall vacancy rate (%)	9.2%	5.7%	↑
New build vacancy rate (%)	1.5%	1.0%	↑
Speculative under construction (sq ft)	10.3 million	8.2 million	↓
Quarterly investment volumes (£bn)	£1.6 billion	£3.4 billion	↑
YTD investment volumes (£bn)	£6.6 billion	£13.7 billion	↓

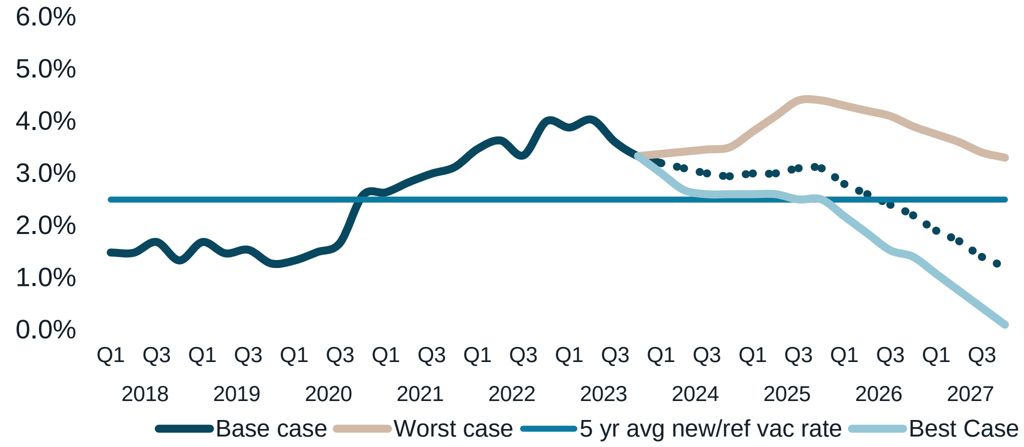
Central London vacancy rate, 2000- 2023 Q4



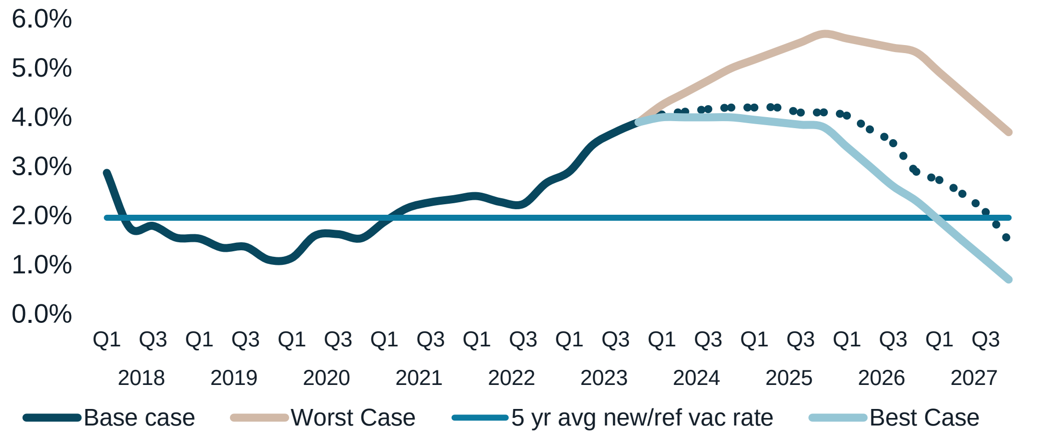
Source: JLL Research

New and refurbished space expected to see stronger growth with decrease in vacancy

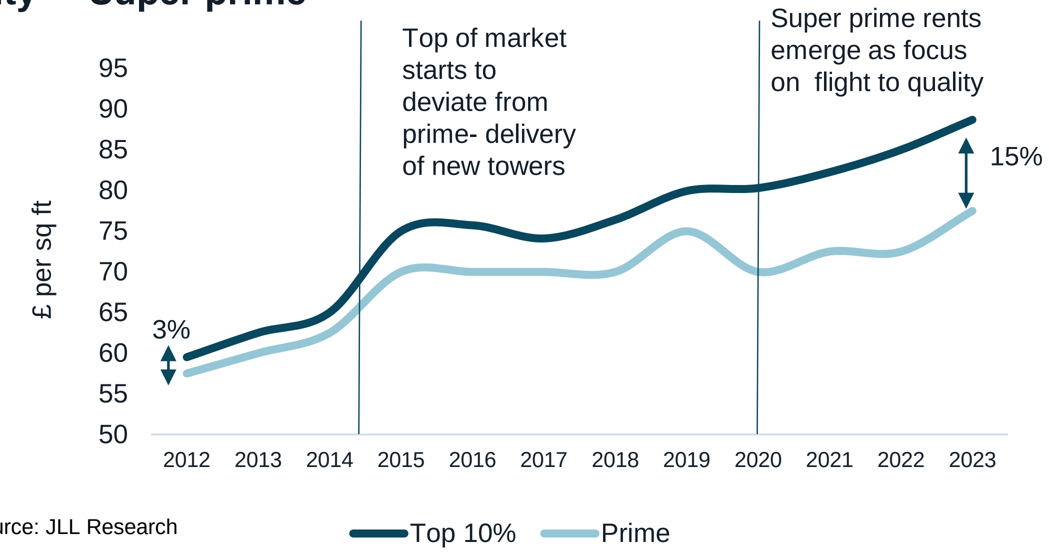
City new/refurbished vacancy rate



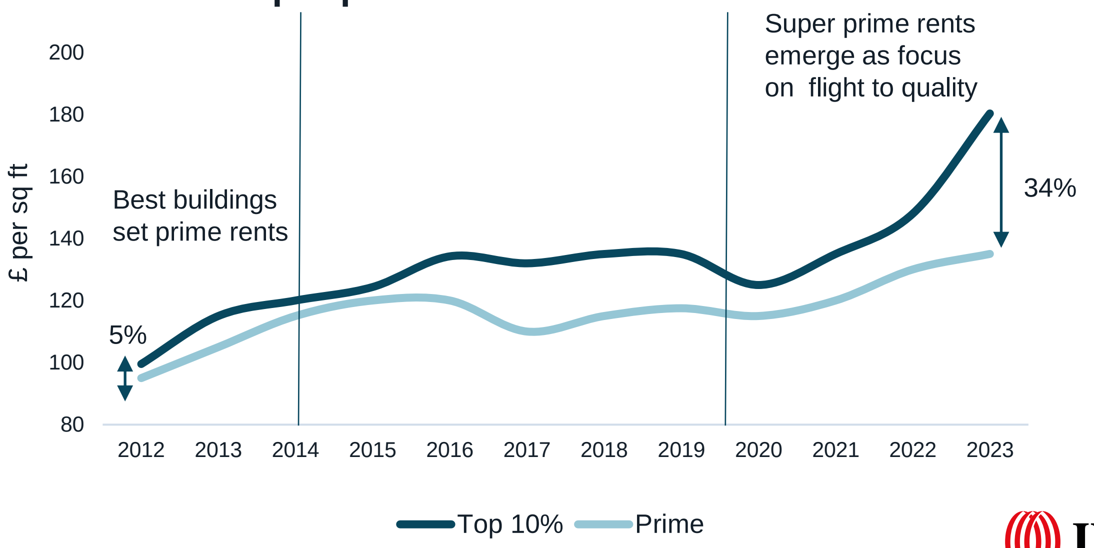
West End new/refurbished vacancy



City - "Super prime"



West End - "Super prime"



Source: JLL Research

What are the big themes shaping our outlook to 2030?

Geopolitics

- Military conflicts
- Defense and security
- Deglobalization
- Supply chain diversification

Future of Work

- Workplace experience
- New work models
- Talent landscape
- Location strategies and future of cities

Technology

- The AI era
- Automation & robotics
- Quantum computing
- Digital and "smart" everything

Sustainability

- Climate risk
- Energy transition, renewables, clean tech
- Net zero carbon
- Policy and regulation

Capital

- Inflation & interest rates
- Debt super-cycle and financing gap
- Real estate allocations / models

Source: JLL Research

Thank you!

Disclaimer: This report has been prepared solely for information purposes and does not necessarily purport to be a complete analysis of the topics discussed, which are inherently unpredictable. It has been based on sources we believe to be reliable, but we have not independently verified those sources and we do not guarantee that the information in the report is accurate or complete. Any views expressed in the report reflect our judgment at this date and are subject to change without notice. Statements that are forward-looking involve known and unknown risks and uncertainties that may cause future realities to be materially different from those implied by such forward-looking statements. Advice we give to clients in particular situations may differ from the views expressed in this report. No investment or other business decisions should be made based solely on the views expressed in this report.

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