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REIT 1 LTD 1

July 30, 2025

Rating Update

Rating Outlook Updated to Stable from Negative Following Continued Strengthening of Business Profile and Expected Improvement in Financial Ratios; Affirmation of '+ilAA/ilA-1' Rating

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Summary of the Rating Action

- Since the last report, REIT 1 LTD ("REIT 1" or "the Company") has continued to demonstrate strong operational performance in its asset portfolio, as reflected in continued growth in NOI, growth in same-property NOI, improvement in the retail and parking sectors compared to 2023 (which was negatively affected by the outbreak of the 'Iron Swords' war), and income from assets whose construction was completed.
- At the same time, the value of the company's asset portfolio increased to about NIS 9 billion as of March 31, 2025 (including investments accounted for using the equity method), up from about NIS 8 billion at the end of 2023 and about NIS 6 billion at the end of 2021, while maintaining a high and stable occupancy rate of about 96%.
- On the financial side, we estimate that in the next two years, the company's leverage will decrease and the EBITDA to financing expenses coverage ratio will increase, as a result of NOI growth, maintaining above-average profitability, and a moderation in the inflation environment according to S&P's assumptions.
- Accordingly, on July 29, 2025, we affirmed the issuer rating and the bond ratings of REIT 1 LTD, 'ilAA', and updated the rating outlook to stable from negative. We also affirmed the company's short-term rating, '+ilA-1'.
- The stable rating outlook reflects our assessment that REIT 1 will continue to demonstrate strong operational performance in its asset portfolio over the next 24 months, and will maintain over time an EBITDA to financing expenses coverage ratio of about 2x and a debt to debt and equity ratio of about 50%, while maintaining above-average profitability and 'adequate' liquidity.

Key Considerations for the Rating Action

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We assess that the company's business profile has improved in recent years. The company consistently demonstrates improvement in its business, as reflected in significant NOI growth resulting from same-property NOI growth and contributions from acquired assets and additional space in assets whose construction was completed. For example, in 2024, the company showed about 17% growth in NOI, to about NIS 417 million from about NIS 357 million in 2023. The company also maintains a high and stable occupancy rate of about 96% over time (about 98% excluding the Infinity complex in Ra'anana), and demonstrates, in our view, above-average profitability, reflected in an adjusted EBITDA margin of about 88% over time. The company's growth continued in the first quarter of 2025, with NOI increasing by about 18% to about NIS 112 million from about NIS 94 million in the same quarter last year. We expect NOI growth to continue in the next two years and also lead to continued growth in the EBITDA base, among other things due to the logistics asset in Beit Shemesh, which began generating income in the second quarter of 2025 and is expected to contribute about NIS 20 million to NOI this year and about NIS 26 million at full operation in 2026. In addition, improvement is expected in the performance of the Ra'anana asset as grace periods end, and we estimate that dividends received from companies accounted for using the equity method will increase starting in—

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2025, after the loans in the 'Machatzit HaYovel' company (50% holding) were repaid at the beginning of 2025, and the company is expected to receive its share of the free cash flow from the held company.

The significant expansion of the income-producing asset portfolio in recent years supports the business profile.

The company's strategy to increase its asset portfolio has led to the portfolio's value reaching about NIS 9 billion as of March 31, 2025 (including investments accounted for using the equity method), compared to about NIS 6 billion in 2021. The portfolio growth was supported by acquisitions such as Gedera, part of the Doctors' House in Ramat HaHayal, three floors in the Yovel Tower, and increased holding in Sarona Gardens, as well as the completion of assets such as the Infinity Tower in Ra'anana and the logistics asset in Beit Shemesh, which was completed this year and is pre-leased at 100% occupancy for 10 years. Thus, in our assessment, the company's development risk has decreased, which was already low due to regulatory restrictions on REITs' development activities.

The business profile is limited due to exposure to a significant asset, the Infinity Business Park in Ra'anana, which accounted for about 17% of the asset portfolio value as of December 31, 2024, and contributed about 9% to NOI that year (excluding income-producing assets in companies accounted for using the equity method). As of March 2025, the Infinity Tower is leased at about 70% occupancy, and renovations in the other buildings in the complex – Infinity Plaza and Infinity Campus – were recently completed. The business park is centrally located near major transportation arteries, which may reduce occupancy risk in the long term. In addition, the completion of the Infinity Ra'anana complex will improve the company's tenant diversification, but even today the company has about 965 tenants, and unlike in the past, it is not exposed to dependence on a single tenant, which supports our assessment of the improvement in the company's business profile.

We estimate that the company's financial ratios will improve in the next two years, due to expected growth in the EBITDA base and S&P's assumptions for a moderating inflation environment, considering management policy.

The company's leverage rose slightly above 50% in recent years, mainly due to asset acquisitions, investment in the construction of the Infinity Tower and renovation of the Infinity Park in Ra'anana, and the construction of the Beit Shemesh asset, as well as a high inflation environment (most of the debt is CPI-linked). In addition, the pace of value increase was moderate and the company did not issue equity to balance leverage since 2022. As of December 31, 2024, the leverage ratio was about 53%. However, we estimate that in the next two years, the company's leverage will decrease based, among other things, on growth in annual operating cash flow, proceeds from asset sales (the second part of the proceeds from the sale of an asset in Lod and the remaining proceeds from the sale of floors in the 'Yovel Tower' asset to the state after it exercised its option), value increases compared to recent years, and relatively limited investment needs. In our base case, we estimate that the leverage ratio will be in the range of 51%-53% in 2025 and 50%-52% in 2026. The management policy presented to us, to maintain leverage of about 50% over time, supports the financial profile, the rating, and the rating outlook.

In recent years, the company's EBITDA to financing expenses coverage ratio has eroded, due to increased debt and the impact of the inflation environment on financing expenses (most of the company's debt is CPI-linked), but in the last two years it—

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has slightly improved to 1.9x-1.8x. Looking ahead, we estimate that the significant growth in the adjusted EBITDA base, particularly due to contributions from assets whose construction was recently completed and increased dividends from companies accounted for using the equity method, along with S&P's assumptions for moderating inflation, will lead to an improvement in the coverage ratio, to a range of 2.0x-1.8x in 2025 and 2.2x-2.0x in 2026.

There are several company characteristics that support the rating compared to the peer group, including its subjection to REIT regulation, which in our view provides stability and transparency to the business and financial model, as the leverage and development restrictions support maintaining financial ratios appropriate for the rating. In addition, the current ownership structure, which is also derived from regulatory requirements, includes the holding of the company's shares by leading financial institutions in Israel, with no controlling shareholder, which gives the company very high access to debt and equity issuances in the capital market. The company also demonstrates above-average profitability over time and, according to management policy, maintains a significant amount of unencumbered assets, totaling over NIS 8 billion as of March 31, 2025.

Rating Outlook

The stable rating outlook reflects our assessment that REIT 1 will continue to demonstrate strong operational performance in its asset portfolio over the next 24 months, and will maintain over time an EBITDA to financing expenses coverage ratio of about 2x and a debt to debt and equity ratio of about 50%, while maintaining above-average profitability and 'adequate' liquidity.

Negative Scenario

We may lower the rating if there is a deterioration in the company's business profile, for example due to a significant decline in operational performance such as a material and prolonged drop in occupancy rate, a sharp decline in rental prices, or a significant increase in financing costs. We would also consider a negative rating action if the company shows a debt to debt and equity ratio above 55% and an EBITDA to financing expenses coverage ratio below 1.8x, on average over time, or if our assessment of the company's liquidity deteriorates.

Positive Scenario

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We may take a positive rating action if the company significantly expands its income-producing asset portfolio, while maintaining adequate operational performance and in a way that increases asset and tenant diversification and reduces exposure to a significant asset. We would also consider a positive rating action if the debt to debt and equity ratio falls to about 35% as part of a financial policy and the EBITDA to financing expenses coverage ratio reaches about 4x.

Company Description

REIT 1 LTD was founded in 2006 and focuses on the ownership and management of income-producing real estate assets in Israel. The scope of development activity and leverage level are limited according to REIT regulation and company policy, and at least 75% of the fund's assets must be in Israel. Most of the company's assets are located in high-demand areas, mainly in central Israel, and are used

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mostly for offices and retail. The company has 58 assets leased to about 965 tenants, covering about 687,000 square meters and with wide geographic distribution in Israel, and is also active in the industrial and logistics segments, parking lots, and more. The main stakeholders in the company are institutional financial entities, and according to REIT regulation, it is subject to minimum diversification rules among the public investors and has no controlling shareholder.

Base Case Scenario

Our base case scenario is based on the following key assumptions:

- GDP growth of about 3.3% in Israel in 2025, inflation rate of about 2.8%, and unemployment rate of about 3%.
- In 2026, economic improvement reflected in GDP growth of about 3.9%, inflation rate of about 2.1%, and unemployment rate of about 3%.
- Expected double-digit NOI growth in 2025 and single-digit growth in 2026.
- Stability in NOI margin and above-average profitability.
- Investments totaling about NIS 900 million over the next two years.
- Receipt of the second part of the proceeds from the sale of the asset in Lod, totaling about NIS 100 million (received in May 2025), and receipt of the remaining proceeds totaling about NIS 145 million from the sale of floors in the Yovel Tower to the State of Israel.
- Increase in the value of the company's asset portfolio due to CPI linkage of the portfolio's cash flow, as well as the first-time consolidation of the logistics asset in Beit Shemesh in the first quarter of 2025.
- Maintaining leverage of about 50% according to company policy.
- Dividend distribution according to company policy.

Under our base case scenario, the expected financial ratios are as follows:

- EBITDA to financing expenses coverage ratio of 2.0x-1.8x in 2025 and 2.2x-2.0x in 2026.
- Debt to EBITDA ratio of 12x-10x in 2025 and 2026.
- Debt to debt and equity ratio of 51%-53% in 2025 and 50%-52% in 2026.

Liquidity

We assess REIT 1's liquidity level as adequate, as the ratio between the company's certain sources and its uses is expected to exceed 1.2x in the 12 months starting April 1, 2025. The company's liquidity is supported, in our view, by prudent risk management policy, reflected in a high amount (over NIS 1 billion) of available and committed credit lines for more than one year, and a large amount of unencumbered assets (over NIS 8 billion). The company also has, in our view, high access to the capital market, and since the last report has raised about NIS 675 million in several bond issuances, extending the average debt duration to over four years.

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Below are the company's main sources and uses in the 12 months starting April 1, 2025:

Main Sources	Main Uses
<ul style="list-style-type: none">Cash and cash equivalents of about NIS 175 million.Committed available credit lines for more than 12 months totaling about NIS 1.1 billion.Operating cash flow of about NIS 300 million (our estimate).Proceeds from asset sales totaling about NIS 150 million.Issuance of a new bond series, Series 8, totaling about NIS 150 million (completed).	<ul style="list-style-type: none">Current maturities including commercial papers, and short-term debt in subsidiaries consolidated for the first time in Q1 2025, totaling about NIS 1.3 billion.Capital expenditures (capex) and other investments totaling about NIS 130 million.Dividend distribution according to taxable income.

Covenants Analysis

REIT 1 has several financial covenants towards bondholders. To our understanding, as of March 31, 2025, the company has an adequate cushion relative to its financial covenants and we expect it to maintain an adequate cushion in the near term.

Rating Adjustments

- Business diversification: Neutral (no impact)
- Capital structure: Neutral (no impact)
- Liquidity: Adequate (no impact)
- Financial policy: Neutral (no impact)
- Management, strategy, and corporate governance: Neutral (no impact)
- Peer group comparison: Positive impact

Environmental, Social, and Governance Factors

ESG factors do not have a material impact on the credit rating analysis of REIT 1 LTD.

Issuance Ratings - Subordination Risk Analysis

Capital Structure

Below is the capital structure of REIT 1 LTD as of March 31, 2025:

- Bank debt and debt to other lenders totaling about NIS 1.2 billion
- Three series of rated unsecured bonds, Series E, F, and G, totaling about NIS 3.6 billion. After the balance sheet date, the company issued a new series of unsecured bonds, Series 8 (rated), totaling about NIS 150 million.

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- The vast majority of the company's assets are unencumbered.

Analytical Conclusions

- According to our methodology, for real estate companies rated 'ilAA' and above, we usually align the senior unsecured debt rating with the issuer rating, unless the proportion of secured debt exceeds 40% of the total market value of the assets, in which case we may lower the unsecured debt rating by one notch relative to the issuer rating.
- As of March 31, 2025, the ratio of REIT 1's secured debt to its total assets was negligible and below the 40% threshold for a notch downgrade in issuance ratings. Therefore, we align the unsecured bond debt rating (Series E, F, G, and H) with the issuer rating, 'ilAA', as we assess that subordination risk is not significant in the current capital structure, which does not include secured debt.

Methodology and Related Articles

•	Methodology - General: S&P Rating Principles, February 16, 2011
•	Methodology - General: Industry Risk, November 19, 2013
•	Methodology: Country Risk Assessment Methodology, November 19, 2013
•	Methodology: Corporate Liquidity Profile Assessment Methodology, December 16, 2014
•	Methodology - General: Methodology for Linking Long-Term and Short-Term Ratings, April 7, 2017
•	Methodology: Key Factors for Rating Real Estate Companies, February 26, 2018
•	Methodology: Methodology for Assessing Structural Subordination Risk of Non-Financial Corporate Debt, March 28, 2018
•	Methodology: Methodology for Calculating Financial Ratios and Adjustments, April 1, 2019
•	Methodology - General: Group Rating, July 1, 2019
•	Methodology - General: Credit Risks from Environmental, Social, and Governance Factors, October 10, 2021
•	Methodology - General: Local Scale Credit Ratings, June 8, 2023
•	Methodology: General Corporate Rating Methodology, January 7, 2024
•	Methodology: Methodology for Assessing Management and Corporate Governance of Non-Financial Companies, January 7, 2024
•	Rating Scales and Definitions: S&P Global Ratings Scale Definitions, December 2, 2024
•	Rating Scales and Definitions: The Link Between the Global and Local Rating Scales, March 27, 2025

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List of Ratings

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REIT 1 LTD	Rating	Date First Published Rating Initially Published		Last Date Rating Last Updated
Issuer Rating(s)				
Long Term	iIAA\Stable	14/05/2007	31/07/2024	
Short Term	iIA-1+	06/01/2019	31/07/2024	
Issuance Rating(s)				
Commercial Papers				
Commercial Papers (Series 5)	iIA-1+	06/01/2019	31/07/2024	
Senior Unsecured Debt				
Series 5	iIAA	18/10/2015	31/07/2024	
Series 6	iIAA	25/05/2016	31/07/2024	
Series 7	iIAA	08/12/2020	31/07/2024	
Series 8	iIAA	10/06/2025	10/06/2025	

Issuer Rating History

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Long Term	
July 30, 2025	ilAA\Stable
July 27, 2023	ilAA\Negative
July 31, 2017	ilAA\Stable
July 10, 2014	ilAA-\Stable
June 24, 2010	ilA+\Stable
January 14, 2010	ilA\Positive
January 29, 2009	ilA\Stable
July 20, 2008	ilA\Positive
May 14, 2007	ilA\Stable
Short Term	
January 06, 2019	ilA-1+

Additional Details

Additional Details	Data
Event Occurrence Time	30/07/2025 09:07
Time First Known About Event	30/07/2025 09:07
Rating Initiator	The rated company

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