Sela Capital Real Estate Ltd.

June 11, 2026

Rating Affirmation

Affirmation of the issuer rating, 'ilAA-', the outlook is stable; Affirmation of BONDS ratings, 'ilAA'

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Summary

Key Strengths	Key Risks

• Income-producing property portfolio exceeding NIS 6 billion, with sector diversification and adequate asset dispersion. • Consistent growth in volumes of activity, with continuous growth in NOI (net operating income). • Good access to the capital market and financial flexibility due to a large volume of unencumbered income-producing assets. • Subject to REIT regulation, which in our estimation provides high stability and transparency for the business model and financial policy.	• High geographic concentration, as all activity is performed in Israel, although the company's assets are spread across the country. • Exposure of most debt to changes in the Consumer Price Index (CPI), although the linkage of lease agreements to the index moderates the risk.

Sela Capital Real Estate Ltd. ("Sela Capital" or "the Company") continues to present growth in NOI and in the value of the income-producing property portfolio, but vacant spaces in Beit Mani and Moshe Aviv Tower are expected to continue to put pressure on occupancy rates. In 2025, Sela Capital presented growth of approximately 6.6% in NOI, which totaled approximately NIS 356 million, and in the first quarter of 2026 there was an additional growth of approximately 2.3% compared to the same quarter last year. The growth reflects mainly same-property NOI growth, due to a real increase in rents and due to inflation (lease agreements are indexed). The average occupancy rate stood at approximately 91% in 2025, similar to 2024. In April 2026, the lease agreement of Mizrahi-Tefahot Bank, which occupied about half of the space in Moshe Aviv Tower, ended, which is expected to put pressure on average occupancy rates in the first half of 2026. However, an increase in the occupancy rate in Beit Mani, which currently stands at about 50%, is expected to support an average occupancy rate of about 90% according to the company's reports. We estimate that the company's asset dispersion will support its ability to maintain fairly stable operating performance on average over time.

In April 2026, Sela Capital completed the acquisition of full rights in Kfar Saba Hayeruka Mall for NIS 580 million (before VAT and purchase tax). This mall, which includes a commercial center, offices, and storage and parking spaces, is leased at approximately 93% occupancy to about one hundred tenants, for lease periods of between three and seven years. Annual rents at full occupancy are expected to stand at approximately NIS 40 million according to company reports. The transaction was financed through the issuance of BONDS completed by the company in April and March 2026 and through the use of the cash balance in the treasury. We estimate that the transaction will support continued growth in the company's scale of activity, which is consistent with its growth strategy.

Sela Capital's financial ratios are appropriate for the rating. In 2025, Sela Capital presented an EBITDA interest coverage ratio of approximately 2.2x and a balance sheet leverage ratio of approximately 53.2%, ratios that are appropriate for the rating. We estimate that Sela Capital will continue to present appropriate financial ratios, and that acquisitions in material volumes will be carried out alongside balancing equity actions, while maintaining leverage in accordance with the company's financial policy. For example, in recent weeks

warrants for conversion in a volume of approximately NIS 148 million were exercised, which are expected to contribute to the growth in equity and to the maintenance of appropriate balance sheet leverage even after the acquisition of the mall in Kfar Saba.

Rating Outlook

The stable rating outlook reflects our assessment that the operating performance of Sela Capital's asset portfolio in the next 12 months will be stable and in accordance with our base case scenario, and that its investment activity will be carried out gradually and in accordance with the business strategy and financial policy. The adjusted ratios we see as appropriate for the rating are a debt-to-debt-plus-equity ratio of approximately 55% and an EBITDA interest coverage ratio of approximately 2.0x over time.

We note that due to security uncertainty in the Middle East, security and geopolitical risks may intensify and there may be an impact on macroeconomic indicators in Israel, and volatility in the capital market may increase. At this stage, there is uncertainty regarding the scope of the war, its duration, and its consequences. As the situation evolves, we will update our assumptions and assessments accordingly.

Downside Scenario

We will consider a negative rating action if a deterioration occurs in the company's operating performance that leads to a prolonged deviation from the financial ratios appropriate for the rating. A negative rating action is also possible if we assess that the company will not be able to maintain adequate liquidity.

Upside Scenario

We will consider a positive rating action if the company significantly increases its income-producing property portfolio while maintaining stable operating performance, alongside maintaining over time a debt-to-debt-plus-equity ratio of approximately 50% and an EBITDA interest coverage ratio higher than 3.0x, as part of its financial policy.

Company Description

Sela Capital Real Estate Ltd. was incorporated in Israel in June 2007 as a private company, and in March 2008 became a public company whose shares are traded on the Tel Aviv Stock Exchange. The company is engaged in the acquisition, management, and leasing of income-producing real estate assets in Israel, mainly office buildings, industry, logistics, and commerce.

The company is a Real Estate Investment Trust ("REIT"), and under the law it is entitled to specific tax benefits, including exemption from corporate tax. In addition, as part of its incorporation as a REIT, the company committed not to invest more than 20% of its capital in development, to maintain an LTV (loan to value) ratio of up to 60%, to distribute dividends at a rate of at least 90% of taxable income, and to maintain at least 75% of its activity in Israel. According to REIT regulation, the company's five largest shareholders cannot together hold more than 50% of its shares.

Base Scenario

Main Assumptions

- GDP growth in Israel of about 3.1% in 2026, an inflation rate of about 2.2% and an unemployment rate of about 3.3%. In 2027, GDP growth of about 5.9% is expected, an inflation rate of about 2% and an unemployment rate of about 3.1%.
- Maintenance of average occupancy rates of about 90% and above on average over time and a fairly stable NOI rate from revenues.
- Annual growth in NOI at a single-digit rate in 2026-2027, reflecting a major contribution from the mall in Kfar Saba and a gradual increase in occupancy rates at Beit Mani, which will be moderated by a decrease in rent at the Moshe Aviv Tower in 2026 due to the departure of Mizrahi-Tefahot Bank which occupied about half of the spaces in the tower. An expected increase in rent in existing properties following the linkage of most lease agreements to the index is also expected to contribute to growth in NOI.
- A low single-digit negative valuation in 2026 based on valuations actually recognized. In 2027, positive valuations at a single-digit rate are expected, mainly due to an increase in rent in existing properties due to index linkage.
- Investments totaling approximately NIS 600-650 million in 2026, mainly due to the acquisition of the mall in Kfar Saba. From 2027 onwards, it is expected that acquisitions in material volumes will be carried out alongside balancing capital actions, while maintaining leverage in accordance with the financial policy.
- Exercise of the company's warrants for conversion totaling approximately NIS 150 million in 2026.
- Dividend distribution of at least 90% of taxable income.

Key Ratios

Financial Ratio	2025A	2026E	2027E
EBITDA/Interest expenses	2.2x	2.2x-1.9x	2.4x-2.0x
Debt/Debt and Equity	53.2%	56%-53%	57%-52%
Debt/EBITDA	9.7x	12x-9x	12x-8x

A-Actual. E-Expected.

Business Profile

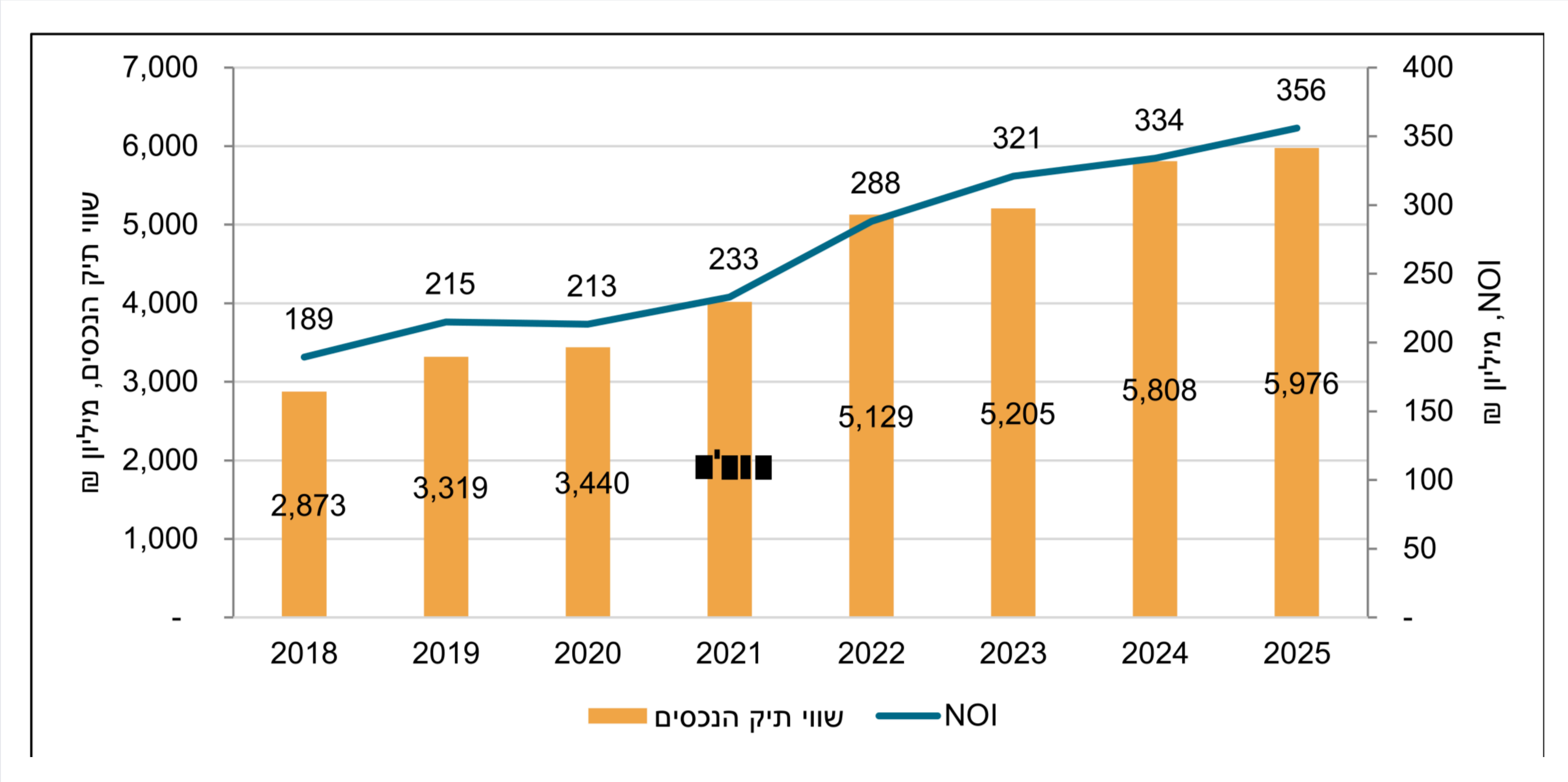
The assessment of Sella Capital's business profile is supported by consistent growth in the income-generating property portfolio and stable operational performance over time, as well as adequate segmental diversification and broad tenant dispersion. In 2025, the value of the company's income-generating property portfolio grew to approximately NIS 6 billion, from approximately NIS 5.8 billion at the end of 2024, mainly due to the increase in the value of investment real estate as a result of inflation (lease agreements are index-linked). The acquisition of the mall in Kfar Saba in the second quarter of 2026 for more than half a billion NIS is expected to support a further increase in the company's income-generating property portfolio to more than NIS 6.5 billion. This acquisition supports continued growth in the income-generating property portfolio and in NOI, and is consistent with the company's business strategy.

At the end of 2025, the average occupancy rate in Sella Capital's asset portfolio stood at approximately 91%, similar to the previous year, and the portfolio was characterized by segmental diversification including properties in the fields of offices, commerce, industry and logistics, parking lots and more. On the other hand, occupancy rates at Beit Mani remained low, approximately 22% at the end of 2025. Additionally, in April 2026, the lease agreement for Mizrahi-Tefahot Bank, which occupied about half of the space in the Moshe Aviv Tower, expired, and the bank left the property. According to information provided by the company, about half of the spaces in Beit Mani have been leased and are expected to be gradually occupied in the coming weeks. Consequently, the average occupancy rate is expected to stand at about 90% according to the company's assessment, also taking into account the vacated spaces in the Moshe Aviv Tower, which are currently undergoing initial renovation and negotiations are underway for their leasing.

About 53% of the total NOI generated by the company in 2025 came from the office sector, which faces challenges such as a tendency to shorten lease periods compared to the past and lengthening negotiations with tenants, especially in less central areas. The accelerated momentum of artificial intelligence and its implications for employment in the high-tech sector also exert negative pressure on the sector. These challenges are reflected, in our estimation, in the pace of occupancy of vacated spaces in the company's office properties, such as Beit Mani and the Moshe Aviv Tower. However, the dispersion of the company's assets, including the fact that no single asset constitutes more than 10% of the total value of its asset portfolio, supports, in our estimation, its ability to present adequate operational performance on average over time.

In 2025, Sella Capital presented growth of approximately 6.6% in NOI, which totaled approximately NIS 356 million compared to approximately NIS 334 million in 2024. This growth mainly reflects a growth of approximately 6.4% in NOI from same-property assets, due to a real increase in rent and because of the inflation environment (lease agreements are linked). In the first quarter of 2026, there was a further growth of approximately 2.3% in total NOI compared to the same quarter last year, mainly due to growth in same-property assets thanks to a real increase in rent and due to the effect of the index.

Chart 1: Development of Asset Portfolio and NOI



The company's activity is characterized by geographical concentration, as it all takes place in Israel; however, the company's assets are scattered throughout the country with a high presence in demand areas and without exposure to a material property. Furthermore, to our understanding, the company has an adequate number of tenants, about 550 at the end of 2025, without exposure to a material tenant.

Financial Profile

Our assessment of Sella Capital's financial profile is supported by its financial policy, which focuses on maintaining a leverage ratio of about 55% over time. In 2025, there was a decrease in leverage to about 53.2% from about 57.7% at the end of 2024. This was mainly thanks to an equity issuance of about NIS 160 million and the accumulation of current profits, net of dividend distribution, which contributed to the growth in equity, alongside a current cash flow of about NIS 168 million which contributed to a moderate decrease in total adjusted debt. We expect that the company will maintain a fairly stable balance sheet leverage ratio of about 55% in 2026-2027, assuming the exercise of the warrants for conversion held by the company and taking into account the completion of the acquisition of the mall in Kfar Saba. Maintaining adequate leverage gives the company flexibility in implementing its investment strategy and continued high accessibility to the capital market.

The adjusted coverage ratio EBITDA to interest expenses improved to about 2.2x in 2025 from about 1.7x in 2024, due to growth of about 7% in the EBITDA base, mainly thanks to growth in NOI from existing assets, and due to a decrease in interest expenses considering the slowdown in inflation since most of the company's financial debt is linked to the Consumer Price Index. We expect that single-digit growth in EBITDA in 2026-2027, among other things thanks to the contribution of the Kfar Saba mall and a gradual increase in occupancy rates at Beit Mani, which will be moderated by the evacuation of spaces in the Moshe Aviv Tower in 2026, will support the maintenance of a coverage ratio of about 1.9x-2.4x in the next two years, a level appropriate for the rating.

Sella Capital Real Estate Ltd.

Table 1.

Sella Capital Real Estate Ltd. -- Financial Summary (Mil. NIS)

Industry Sector: Real Estate Investment Trust or Company

	2025	2024	2023	2022	2021
Revenue	397.0	371.0	353.6	315.3	260.6
EBITDA	323.2	301.2	293.3	269.5	213.1

	2025	2024	2023	2022	2021
Funds from operations (FFO)	245.4	237.2	233.3	226.1	171.5
Interest expense	146.4	174.7	143.3	159.3	78.0
Cash flow from operations	167.8	185.5	183.9	227.0	179.8
Capital expenditure	0.3	0.3	0.0	208.9	0.0
Free operating cash flow (FOCF)	167.5	185.2	183.9	18.1	179.8
Discretionary cash flow (DCF)	36.5	61.4	183.9	18.1	179.8
Cash and short-term investments	205.9	59.7	153.2	25.3	408.6
Debt	3,148.6	3,311.5	2,834.6	2,844.8	1,914.4
Equity	2,767.4	2,424.5	2,309.3	2,230.1	2,064.7
Adjusted ratios					
EBITDA margin (%)	81.4	81.2	82.9	85.5	81.8
EBITDA interest coverage (x)	2.2	1.7	2.0	1.7	2.7
Debt/EBITDA (x)	9.7	11.0	9.7	10.6	9.0
FFO/debt (%)	7.8	7.2	8.2	7.9	9.0
FOCF/debt (%)	5.3	5.6	6.5	0.6	9.4
DCF/debt (%)	1.2	1.9	6.5	0.6	9.4
Debt/debt and equity (%)	53.2	57.7	55.1	56.1	48.1

Liquidity

Sella Capital's liquidity level is "Adequate", as we estimate that the ratio between sources with a high level of certainty and the company's uses will be about 1.2x in the 12 months starting April 1, 2026. Our evaluation is supported mainly by stable cash flows from the income-generating property portfolio, by the company's credit facilities and by the proceeds of the BONDS issued by the company, compared to the volume of debt maturities. We estimate that the company will maintain a surplus of sources over uses even in a scenario of a 10% decrease in EBITDA, as a result of good access to banks and the capital market and due to its risk management policy. Our assessment of the company's liquidity level is also supported by the fact that most of the company's real estate assets are unencumbered, which gives it financial flexibility if necessary.

The following are the main sources and uses of the company in the 12 months starting April 1, 2026:

Main Sources	Main Uses
• Cash and cash equivalents of approximately NIS 347 million. • Committed credit facilities of approximately NIS 300 million. • Cash FFO (funds from operations) of approximately NIS 250-280 million. • Proceeds from the issuance of BONDS and exercise of warrants for conversion in a total amount of approximately NIS 428 million (completed).	• Current maturities of BONDS, long-term loans, and commercial papers totaling approximately NIS 627 million. • Current investments in assets (capex) of approximately NIS 10-30 million. • Payment of the remaining consideration for the acquisition of Kfar Saba Mall in the amount of approximately NIS 350 million (completed). • Dividend distribution totaling NIS 36.5 million.

Covenant Analysis

As of March 31, 2026, the company has an adequate margin on its financial covenants, and we estimate that it will maintain an adequate margin on all its financial covenants in the near term.

Rating Adjustments

Business distribution: Neutral (no effect)

Capital structure: Neutral (no effect)

Liquidity: Adequate (no effect)

Financial policy: Neutral (no effect)

Management and Corporate Governance: Neutral (no effect)

Peer group comparison: Neutral (no effect)

Environmental, Social, and Corporate Governance Factors

ESG factors have no material impact on the credit rating analysis of Sella Capital Real Estate Ltd.

Recovery Analysis

Main Considerations

- We affirm the 'ilAA' rating, one rating level (notch) above the issuer rating, for Sella Capital's BONDS series (Series C, D, and E). The recovery rating for these series is '2', reflecting our assessment that given a hypothetical default scenario, the recovery rate will be 70%-90%.
- Our assessment of the recovery rate reflects the current leverage level and the lack of material senior secured bank debt.

Main guidelines for a hypothetical default scenario

- Hypothetical default event year: 2031
- A deep recession in the Israeli economy and a significant increase in the unemployment rate will lead to a crisis in the real estate sector and a significant decrease in the demand for rental spaces. As a result, there will be a decrease in occupancy rates, rental fees, asset values, and the company's cash flows to a level below the needs of principal and interest service.
- The company will continue to operate as a going concern, an assessment supported by the locations of the projects and assets it owns.
- The value of income-producing real estate will decrease by 40% considering the quality and location of the assets and the need for quick liquidation.
- During the hypothetical deterioration, the company will use most of its remaining excess cash.
- The company will continue to operate as a going concern, an assessment supported by the central locations of its assets that will allow it to obtain refinancing to repay some of its liabilities.

Basic payment waterfall at time of default

- Going concern value (gross) according to asset value: approx. NIS 3.8 billion
- Administrative costs: 5%
- Available value for debt coverage: approx. NIS 3.6 billion
- Total senior bank debt: approx. NIS 267 million (including credit facility utilization)
- Available value for unsecured debt coverage: approx. NIS 3.3 billion
- Total unsecured debt: approx. NIS 3.8 billion
- Unsecured recovery assessment (Series C, D, and E): 70%-90%
- Debt data includes semi-annual accrued interest.

Impact of recovery assessment on the debt rating relative to the issuer rating			
Recovery assessment in percentages	**Description**	**Recovery assessment score**	**Series rating above/below the issuer rating**
100%	Expected full recovery	+1	+3 notches
100%-90%	Very high recovery	1	+2 notches
90%-70%	High recovery	2	+1 notch
70%-50%	Significant recovery	3	0 notches
50%-30%	Average recovery	4	0 notches
30%-10%	Modest recovery	5	-1 notch
10%-0%	Negligible recovery	6	-2 notches

Recovery ratings are limited in certain countries to account for reduced recovery prospects in those countries. Recovery ratings for unsecured debt issuances are also generally limited (for more information see step 6, paragraphs 90-98 of the Corporate Methodology: Recovery Ratings for Non-Financial Corporates, December 7, 2016).

Financial Reporting Adjustments

In order to bring the financial data to a common basis compared to other rated companies, we make adjustments to the data reported in the financial reports, which are used by us in calculating the financial ratios. Below are the main adjustments to the consolidated data of Sella Capital Real Estate Ltd. for 2025:

- Offsetting available cash and cash equivalents, as defined by us, from the reported financial debt.
- Increasing EBITDA by reducing share-based compensation costs from cost of sales.
- Using cash interest for FFO calculation purposes.

Table 2.
Sella Capital Real Estate Ltd.--Reconciliation Of Reported Amounts With S&P Global Ratings-Adjusted Amounts (Mil. NIS) for the Fiscal Year Ended Dec 31, 2025

	Debt	EBITDA	Interest expense	S&P Global Ratings-adjusted EBITDA	Cash flow from operations
Reported Amounts	**3,354.5**	**314.1**	**142.0**	**323.2**	**241**
S&P Global Ratings adjustments					
Cash interest paid	--	--	--	(77.8)	--
Accessible cash and liquid investments	(205.9)	--	--	--	--
Reclassification of interest and dividend cash flows	--	--	--	--	-73
EBITDA: Share-based compensation expense	--	9.2	--	--	--
Depreciation and amortization: Asset valuation gains/losses	--	--	--	--	--
Interest expense: Other (situational)	--	--	4.4	--	--
Total adjustments	**(205.9)**	**9.2**	**4.4**	**(77.8)**	**(73.4)**
S&P Global Ratings adjusted amounts					
	Debt	**EBITDA**	**Interest expense**	**Funds from operations**	**Cash flow from operations**
Adjusted	**3,149**	**323**	**146**	**245**	**168**

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: Methodology For Assessing Corporate Liquidity Profile, December 16, 2014
- Methodology: Key Rating Factors For Real Estate Companies, February 26, 2018
- Methodology: Methodology for Calculation of Financial Ratios and Adjustments, April 1, 2019
- Methodology - General: Group Rating Methodology:, July 1, 2019

- Methodology - General: Credit risks originating from Environmental, Social, and Governance Factors, October 10, 2021
- Methodology - General: Credit ratings on local scales, June 8, 2023
- Methodology: General methodology for corporate ratings, January 7, 2024
- Methodology: Methodology for assessing management and corporate governance of non-financial companies, January 7, 2024
- Methodology: Methodology for evaluating debt recovery of non-financial corporations, March 31, 2026
- Rating scales and definitions: The relationship between the global rating scale and the local rating scale, March 27, 2025
- Rating scales and definitions: S&P Global Ratings scale definitions, December 16, 2025

Rating List

Sella Capital Real Estate Ltd.	Rating	Date of first publication	Date of last update
Issuer Rating(s)			
Short term	ilA-1+	10/05/2022	29/05/2025
Long term	ilAA-\Stable	10/05/2022	29/05/2025
Issuance Rating(s)			
commercial papers			
Series 1	ilA-1+	10/05/2022	29/05/2025
Senior unsecured debt			
Series E	ilAA	11/03/2024	29/05/2025
Series C	ilAA	10/05/2022	29/05/2025
Series D	ilAA	10/05/2022	29/05/2025
Issuer Rating History			
Long term May 10, 2022	ilAA-\Stable		
Short term May 10, 2022	ilA-1+		

Additional Details	
Time when event occurred	11/06/2026 11:11
Time when event first became known	11/06/2026 11:11
Rating initiator	The rated company

Sela Capital Real Estate Ltd.

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