

• MARKET SUMMARY

The real estate activity in Israel continues to be vigorous, as in the previous quarter, in the fields of both residential and income producing property. The market has shown steady price increases over the last couple of years. These increases are the result of several financial circumstances that characterize the market today.

• Construction starts

A reduction in the number of building construction starts in recent years, together with expansion and growth in economic activity in all sectors naturally resulted in excess demand vis-à-vis the existing supply. An increase in the price of raw materials and construction inputs such as iron, cement, fuel, and others, as well as the credit crunch following the sub-prime crisis are further contributing to these price increases.

• US dollar vs. the New Israeli Shekel (NIS)

The significant weakening of the US dollar vs. the NIS causes more and more entrepreneurs to disengage entirely from the exchange rate and to set rental prices in NIS. The price is generally calculated based on an exchange rate of NIS 4.1 = 1USD. The high rates of rental increase costs were spotted especially in Gush Dan.

• Rental fees increase

In the second quarter the positive trend continued, with a tendency for a 7% to 12% increase in prices across the country, in all sectors. The increase reflects not only the reduction in supply but also the increase in the prices of input materials. It is our estimation that these increases will continue in the course of the next quarter.

Fit-up charges have also gone up for the same reason. In the past these costs were calculated on the basis of \$300/sq m. Today, at a fix exchange rate of NIS 4.1 = 1USD, these costs amounts to NIS 1,200/Sq m.

In Tel-Aviv, recent rental deals were priced at NIS 90-120/sq m/month. In the satellite cities ('Great T.A.'), such as Herzliya and Petakh-Tikva, rental fees are at NIS 65-80/sq m/month. In Airport City, rentals range around NIS 80/sq m/month. At the exchange rate of around NIS 3.4/\$, this price equals \$23/sq m/month.

Nevertheless, we do not foresee that the continuing increases in prices will result in companies leaving office buildings across the country because existing lease agreements are generally long term. There is no doubt however that in the course of the following two years space-intensive companies will consider moving their activities to the periphery to reduce their rental costs significantly. This situation is not new. The Migdal Insurance company decided at the end of the 90s to move its core activities to Petakh-Tikva to reduce rental costs and municipal taxes. Migdal was not the only insurance company to do so. The Direct Insurance Financial Investments ('d-ifi') group also moved in recent years to Petakh-Tikva, the Mizrahi Bank moved to Ramat Gan, and the Discount Bank considered at some point to move to an office tower in Ramat Gan.

It is reasonable to assume that this trend will continue as current leases expire. Companies will have to cope with the high rental costs requested by landlords and with the significant increase in their expenses, which will seriously affect their profits.

• Note: Great Tel Aviv Area (also known as 'Gush Dan') includes: Tel Aviv, Herzliya, Petakh-Tikva, Ra'anana, Ramat-Gan and other cities.

2nd Quarter at a Glance

Take-up



Availability



Rental fees



Construction-starts



Fit out charges



Asia House Building,
sold for \$61M.

OFFICE MARKET

Rental fees

The growing excess demand in the office market in Tel-Aviv continues to cause sharp increases in the area, from average \$21/Sq m/month in the previous quarter to nearly \$23/Sq m/month in the current one. This represents an increase of 10%, as opposed to 7-10% in other cities such as Petakh-Tikva, Netanya, and Herzliya Pituah.

These significant increases have already become a norm in the real estate market.

Comparison of rental fees for Q1 2007, \$18.3/Sq m/month, to Q1 2008, shows an increase of ~25%. Note that the decrease of the \$/NIS rate has caused additional increase of ~15% to the rental fees. Thus, if we consider the fix rate of NIS4/\$1 the real fees are reflected as \$27/SqM/month.

An example of the sharp increase of prices in Tel-Aviv is the lease agreement between Azorim and Polar, in which Azorim leased some offices for \$43/sq m/month, nearly double the average price. We believe this yet to be the record.

Rental fees in Prime offices locations can go as high as \$30-35/Sq m/month (~25% more). For example, space in Discount Tower was leased for \$33/Sq m/month and in Ayalon Tower for \$34/Sq m/month. Offices in the Azrieli Towers were recently marketed at \$35/Sq m/month.

Pipeline supply

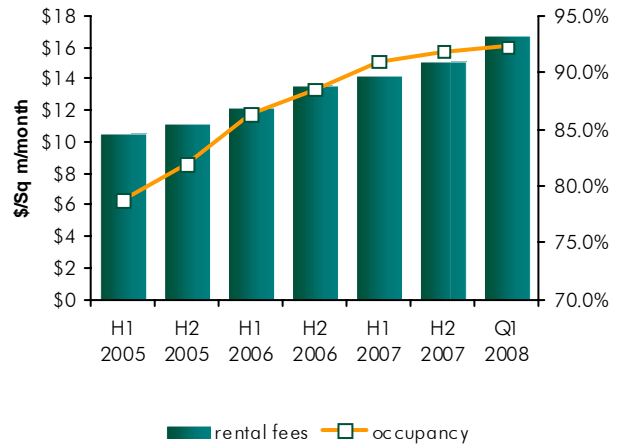
Although supply is low at present, new projects, which are now under-construction, are due to be ready at the end of 2009 and during 2010. These projects will contribute ~600-700,000 Sq m of offices, which will moderate the fees increase and will create real competition between properties.

City	Offices to be ready during 2009-2010 [SqM]
Tel Aviv	100,000
Petakh Tikva	300,000
Raa'nana	70,000
Netanya	100,000

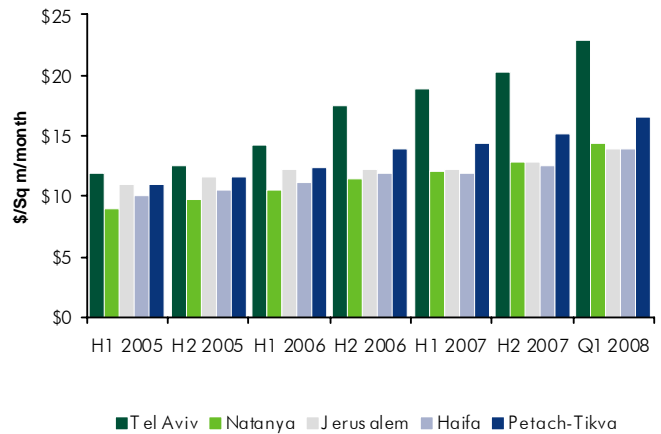
Azrieli Towers, Tel Aviv.
Office space are marketed at \$35/Sq m/month



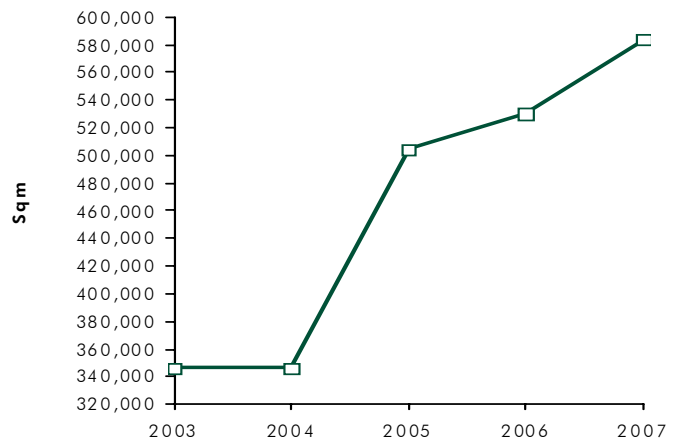
National average offices rental fees and occupancy



Offices Rental fees Trends - Tel Aviv \$ Gush Dan area



Central Tel Aviv Office Stock



Source: MAN Properties Ltd

RETAIL MARKET

In the retail market significant price increases have also reached 10%, rising from an average of \$43.75/sq m/month in the previous quarter to \$47.26/sq m/month in the current one. The increases are mainly the result of the marketing strategy of food and galanterie chains, and of large office services that are located in general in shopping centers but are now trying to penetrate the office and industrial areas to create additional meeting points with clients within their work environment.

These chains are deepening their penetration into the areas of employment by opening concept shops and boutiques in smaller spaces than the large, traditional stores. Among chains that made this move are Office Depot, Tiv Taam, Roladin and others, as well as the banks. This trend is much stronger in Herzliya Pituah, Ramat Hahayal, and the Kirya site in Tel-Aviv.

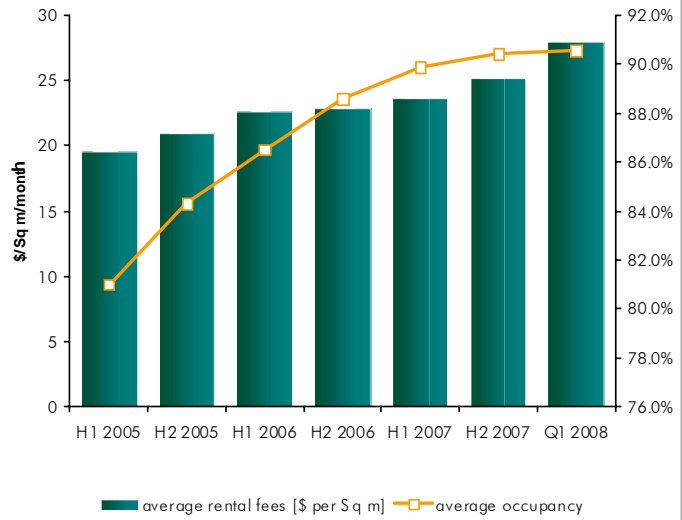
INVESTMENTS

There is a high demand for investments in the Israeli Real Estate market due to high solvency of the biggest Israeli real estate companies, such as Amot, IDB Development Corporation Ltd., Ashtrom etc. and of insurance companies, such as Migdal, Harel, Clal and more. These companies have cash flows surplus based on previous IPOs. During the last several months the buildings' supply have decreased and thus the demand has increased.

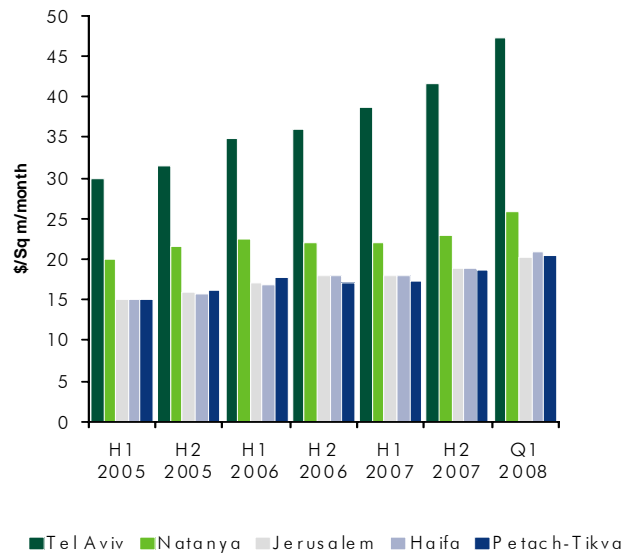
The increasing demands have caused the yields to decrease to 6.5-7%.

For example, Asia House building (see picture on page 1) was sold 2 years ago for \$30M to a foreign investor and then sold again a few weeks ago to a local company for \$61M. Another example is a local insurance company, Migdal, which sold an office building of 20,000 SqM with a yield of 6%, (\$3,500/Sq m + \$25,000/parking space).

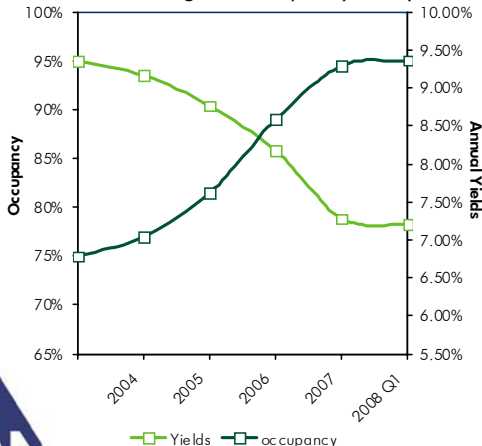
National average commercial rental fees and occupancy



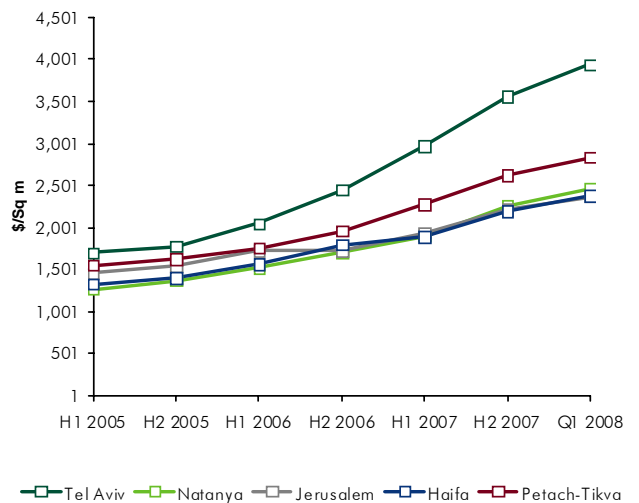
Commercial Rental fees Trends - Tel Aviv \$ Gush Dan area



National average - Occupancy and yields



Selling Prices - Tel Aviv \$ Gush Dan area



Comparison table between leasing / selling rates in Q4 2007 and Q1 2008

Category		Q4 2007			Q1 2008		
		Average occupancy rate	Average rent per month per sq m (\$)	Average selling price per sq m (\$)	Average Occupancy rate	Average rent per month per sq m (\$)	Average selling price per sq m (\$)
Tel-Aviv	Office	96%	21.26	3,645	96%	22.97	3,938
	Commercial	96%	43.75	7,501	96%	47.26	8,102
	Industry	90%	12.74	2,183	95%	13.37	2,292
	Storage & logistic	90%	12.74	2,183	95%	13.37	2,292
Ramat Gan	Office	96%	17.15	2,940	96%	18.36	3,147
	Commercial	95%	24.99	4,284	95%	26.73	4,583
	Industry	90%	11.93	2,045	93%	12.76	2,187
	Storage & logistic	90%	10.82	1,854	93%	11.57	1,984
Herzliya	Office	97%	21.27	3,647	97%	22.75	3,900
	Commercial	96%	37.16	6,370	96%	39.76	6,816
	Industry	95%	12.36	2,119	95%	13.22	2,267
	Storage & logistic	93%	12.36	2,119	93%	13.22	2,267
Ra'anana	Office	95%	14.90	2,555	95%	15.95	2,734
	Commercial	90%	23.39	4,010	90%	25.03	4,291
	Storage & logistic	90%	8.65	1,483	90%	9.26	1,587
Petach Tikva	Office	95%	15.44	2,647	95%	16.52	2,833
	Commercial	90%	19.11	3,277	90%	20.46	3,507
	Industry	90%	8.57	1,469	90%	9.17	1,572
	Storage & logistic	95%	8.57	1,469	95%	9.17	1,572
Netanya	Office	90%	13.45	2,306	90%	14.39	2,467
	Commercial	85%	24.26	4,158	85%	25.95	4,449
	Industry	90%	8.82	1,512	90%	9.44	1,618
	Storage & logistic	93%	8.82	1,512	93%	9.44	1,618
Rehovot	Office	90%	12.50	2,143	90%	13.37	2,291
	Commercial	92%	19.53	3,348	92%	20.90	3,582
	Industry	92%	19.53	3,348	92%	20.90	3,582
	logistic	86%	5.99	1,027	86%	6.40	1,098
Lod	Office	86%	11.90	2,039	86%	12.73	2,182
	Commercial	85%	18.33	3,143	85%	19.67	3,372
	Industry	85%	9.73	1,669	85%	10.41	1,785
	Storage & logistic	85%	8.65	1,483	85%	9.26	1,587
Haifa	Office	90%	12.98	2,225	90%	13.89	2,381
	Commercial	85%	19.47	3,337	85%	20.83	3,571
	Industry	85%	9.63	1,651	85%	10.30	1,766
	Storage & logistic	86%	9.20	1,577	86%	9.84	1,686
Jerusalem	Office	85%	12.92	2,215	85%	13.82	2,369
	Commercial	90%	18.90	3,240	90%	20.22	3,467
	Industry	82%	8.93	1,531	82%	9.55	1,637
	Storage & logistic	85%	8.40	1,440	85%	8.99	1,541

This survey has been carried by sampling the different business districts and according to transactions carried through the last quarter.

Note: \$/NIS rates in this table is \$1=NIS4.1

Source: MAN Properties in association with CB Richard Ellis

For additional information please contact:

Smadar Michaelov
 Head of Global Corporate Services
 smadar@man.co.il
 Tel. +972 3 5616161
 M. +972 52 4778456

Michal Ganot,
 Global Corporate Services
 michal@man.co.il
 Tel. +972 3 5616161
 M. +972 52 6408867



www.cbre.com
 www.man.co.il

EMEA Offices	
Abu Dhabi (971) 2 681 4399	Kolding CB Richard Ellis Cederholm A/S (45) 70 22 9603
Aarhus CB Richard Ellis Cederholm A/S (45) 70 22 9602	Leeds (44) 113 233 7666
Aix-en-Provence (33) 4 42 60 01 31	Lisbon (351) 21 311 4400
Amsterdam (31) 20 626 2691	Liverpool (44) 151 227 4611
Athens CB Richard Ellis- Atria (30) 210 360 3667	London (44) 20 7182 2000
Barcelona (34) 93 444 7700	Lyon (33) 4 72 83 48 48
Belfast (44) 28 9043 8555	Madrid (34) 91 598 1900
Belgrade (381) 11 222 3407	Malaga (34) 95 207 0710
Berlin (49) 30 72 61 54 0	Manchester (44) 161 455 7666
Birmingham (44) 121 609 7666	Marbella (34) 95 276 5130
Bratislava (421) 2 3255 3300	Marseille (33) 4 96 11 46 11
Bristol (44) 117 943 5757	Milan (39) 02 303 7771
Brussels (32) 2 643 3333	Moscow (7) 495 258 3990
Bucharest CB Richard Ellis Eurisko (40) 21 3131020	Munich (49) 89 2420 600
Budapest (36) 1 374 3040	Nairobi (254) 20 272 4848
Bulawayo (263) 9 630 20	Neuilly sur Seine (33) 1 46 24 53 46
Cape Town Broff Property Group (27) 21 419 7373	Oslo - CB Richard Ellis Atrium (47) 40 00 57 66
Casablanca (212) 229 532 50	Palma de Mallorca (34) 97 145 6768
Copenhagen CB Richard Ellis Cederholm A/S (45) 70 22 9601	Paris (33) 1 53 64 00 00
Dubai (971) 4 362 0818	Port Elizabeth Broff Property Group (27) 41 363 5559
Dublin (353) 1 618 5500	Porto (351) 226 167 240
Durban Broff Property Group (27) 31 277 2900	Poznan (48) 61 855 1931
Edinburgh (44) 131 469 7666	Prague (420) 224 814 060
Frankfurt (49) 69 17 00 77 0	Pretoria - Broff Property Group (27) 12 431 7180
Gaborone (267) 3188 200	Rome (39) 06 4523 8501
Geneva CB Richard Ellis PI Performance (41) 22 322 80 60	Sofia - Elta Consult AD (359) 2 987 7647
Glasgow (44) 141 204 7666	Southampton (44) 23 8033 8811
Gothenburg (46) 8 4101 8700	Stockholm (46) 8 4101 8700
Hamburg (49) 40 80 80 20 0	Saint Petersburg Maris Properties LLC (7) 812 346 5900
Harare (263) 4 707 101	Tel Aviv - M.A.N. Properties Real Estate Consultants (972) 3 561 6161
Helsinki Realia Management Oy (358) 207 80 3750	The Hague (31) 70 750 8900
Hoofddorp (31) 23 565 7700	Thessaloniki CB Richard Ellis-Atria (30) 2310 279248
Istanbul (90) 212 259 36 29	Toulouse (33) 5 62 72 44 60
Jersey (44) 1534 874141	Valencia (34) 96 316 2890
Johannesburg Broff Property Group (27) 11 441 4000	Vienna (43) 1 533 4080
Kampala (256) 41 345165	Warsaw (48) 22 544 8000
Kiev (38) 44 390 0000	Wroclaw (48) 71 719 8908
Kosice (421) 911 611745	Zagreb (385) 1 6187 336
Krakow (48) 12 626 0168	Zaragoza (34) 97 648 4635
	Zurich CB Richard Ellis PI Performance (41) 44 226 30 00

DISCLAIMER 2008 MAN Properties in association with CB Richard Ellis

Information herein has been obtained from sources believed reliable. While we do not doubt its accuracy, we have not verified it and make no guarantee, warranty or representation about it. It is your responsibility to independently confirm its accuracy and completeness. Any projections, opinions, assumptions or estimates used are for example only and do not represent the current or future performance of the market. This information is designed exclusively for use by MAN Properties and CB Richard Ellis clients, and cannot be reproduced without prior written permission of MAN Properties in association with CB Richard Ellis.

