Emerging Europe Israel
Property

Deutsche Bank

15 June 2009

Gazit Globe

Reuters: **GLOB.TA** Bloomberg: **GLOB IT** Exchange: **TLV** Ticker: **GLOB**

A winning strategy; initiate coverage with a Buy

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Focused on creating long-term value
Gazit Globe owns and operates over 600 supermarket-anchored shopping centers in North America, Europe, CEE and Israel. The company has a clear world view that places an emphasis on long-term value creation through a stringent focus on asset quality, maximizing cash flows and optimizing its deployment of capital. While the recession presents challenges, we see Gazit exploiting the downturn to enhance its property portfolio and take advantage of M&A opportunities to grow the business. Initiate with Buy.

Defensive asset class, with conservative financial management
We view Gazit as a defensive real estate company because the vast majority of its tenants provide basic necessities, with a high percentage of them investment grade. Its defensive nature can be seen from resilient occupancy rates that remain well above 90% and solid NOI growth. Gazit is conservative in both its growth and financial strategy. It maintained low leverage levels during the credit boom, has a high level of liquidity and a conservative debt repayment schedule. Its moderate development pipeline provides growth, without overextending the balance sheet.

Well-defined strategy to exploit opportunities in recession
Gazit has a well-defined strategy to benefit from the global recession. It has exploited market disruptions to repurchase debt at discounted prices as well as increase its equity stake in subsidiaries at low valuations, thereby consolidating control. In addition it has acquired minority interests in competitors, providing it with a platform to either merger or takeover operations. Operationally its main focus remains on the core: improving the tenant mix, divesting/acquiring assets to improve the portfolio, and developing new projects to increase cash flow.

Three valuation techniques point to ILS 29 target price; risks
We value Gazit at ILS 29 per share based on peer Funds from Operations (FFO) multiples, the implied cap rate, and by assessing the discount to NAV. Each valuation methodology points to a similar valuation range (see valuation section), with our target price towards the middle of the range (see pp. 3. The main risks are the company's ability to maintain occupancy levels and rental rates, to raise financing and refinance existing debt in a challenging credit environment, its exposure to economic conditions and currency fluctuation in a number of geographic regions, and the attention from management required for the recent Atrium acquisition.

Forecasts and ratios

Year End Dec 31	2007A	2008A	**2009E**	2010E	2011E
Revenue (ILSm)	3,715	4,169	**4,480**	4,689	4,908
Net Profit(ILSm)	961	-1,075	**308**	393	511
EPS (ILS)	8.08	-8.58	**2.44**	3.07	3.96
P/E (DB EPS) (x)	6.4	–	**8.9**	7.1	5.5
Yield (%)	2.1	4.1	**6.6**	7.3	8.0
P/BV (x)	0.9	0.6	**0.6**	0.6	0.5

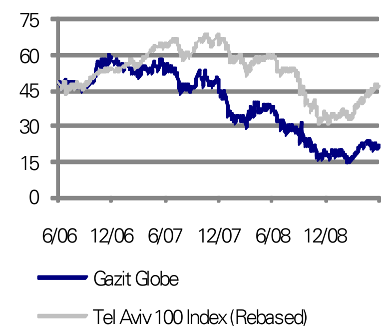
Source: Deutsche Bank estimates, company data

Coverage Change

Buy

Price at 14 Jun 2009 (ILS)	**21.80**
Price Target (ILS)	**29.00**
52-week range (ILS)	**38.50 - 15.09**

Price/price relative



Performance (%)	1m	3m	12m
Absolute	*-0.5*	*32.8*	*-43.5*
Tel Aviv 100 Index	*7.8*	*38.2*	*-20.5*

Stock data

Market Cap (ILSm)	**2,758.9**
Market Cap (US$m)	**702.5**
Free float (%)	**34**
Tel Aviv 100 Index	**811.9**

Key indicators (FY1)

ROE (%)	**7.7**
ROA (%)	**0.7**
Net debt/equity (x)	**190.5**
Book value/share (ILS)	**36.6**
Price/book (x)	**0.6**
Net interest cover (x)	**1.4**
EBIT margin (%)	**34.6**

Model updated:08 June 2009

Running the numbers

Emerging Europe

Israel

Property

Gazit Globe

Reuters: GLOB.TA Bloomberg: GLOB IT

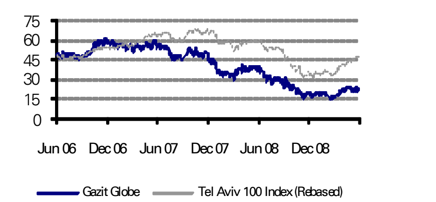
Buy

Price (14 Jun 09)	ILS 21.80
Target price	ILS 29.00
52-week Range	ILS 15.09 - 38.50
Market Cap (m)	ILSm 2,759 USDm 702

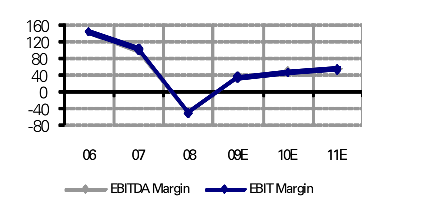
Company Profile

Gazit Globe is a multinational real estate investment company listed on the Tel Aviv Stock Exchange. The company owns, operates and develops supermarket-anchored shopping centers, a defensive asset class within the real estate sector. Its portfolio of over 600 properties with a GLA of over 6m sqm are based in the US, Canada, Europe and Israel, and held by both public and private subsidiaries.

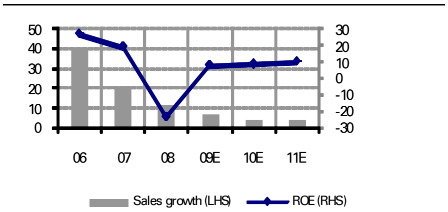
Price Performance



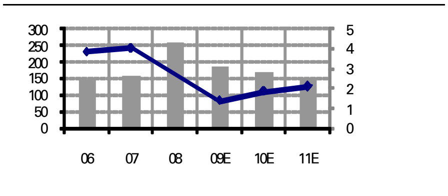
Margin Trends



Growth & Profitability



Solvency



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Fiscal year end 31-Dec	2006	2007	2008	2009E	2010E	2011E
Financial Summary						
DB EPS (ILS)	9.08	8.08	-8.58	2.44	3.07	3.96
Reported EPS (ILS)	9.08	8.08	-8.58	2.44	3.07	3.96
DPS (ILS)	1.00	1.08	1.24	1.44	1.58	1.74
BVPS (ILS)	41.2	48.3	26.6	36.6	38.8	41.7
Weighted average shares (m)	108	118	125	127	128	129
Average market cap (ILSm)	5,184	6,120	3,814	2,759	2,787	2,814
Enterprise value (ILSm)	34,023	42,656	37,122	35,129	34,897	34,911
Valuation Metrics						
P/E (DB) (x)	5.3	6.4	nm	8.9	7.1	5.5
P/E (Reported) (x)	5.3	6.4	nm	8.9	7.1	5.5
P/BV (x)	1.39	0.87	0.65	0.60	0.56	0.52
FCF Yield (%)	nm	nm	nm	nm	nm	nm
Dividend Yield (%)	2.1	2.1	4.1	6.6	7.3	8.0
EV/Sales (x)	11.1	11.5	8.9	7.8	7.4	7.1
EV/EBITDA (x)	7.8	11.3	nm	22.3	15.8	13.1
EV/EBIT (x)	7.8	11.4	nm	22.6	16.0	13.2
Income Statement (ILSm)						
Sales revenue	**3,054**	**3,715**	**4,169**	**4,480**	**4,689**	**4,908**
Gross profit	**2,035**	**2,467**	**2,429**	**2,622**	**2,753**	**2,890**
EBITDA	**4,374**	**3,776**	**-2,016**	**1,572**	**2,203**	**2,659**
Depreciation	15	24	109	20	20	20
Amortisation	0	0	0	0	0	0
EBIT	**4,359**	**3,752**	**-2,125**	**1,552**	**2,183**	**2,639**
Net interest income(expense)	-1,130	-929	-1,664	-1,125	-1,182	-1,241
Associates/affiliates	36	4	-86	-200	-50	3
Exceptionals/extraordinaries	0	0	0	0	0	0
Other pre-tax income/(expense)	59	25	619	650	165	50
Profit before tax	**3,324**	**2,852**	**-3,256**	**876**	**1,116**	**1,451**
Income tax expense	550	604	-597	175	223	290
Minorities	1,791	1,287	-1,584	393	500	650
Other post-tax income/(expense)	0	0	0	0	0	0
Net profit	**983**	**961**	**-1,075**	**308**	**393**	**511**
DB adjustments (including dilution)	0	0	0	0	0	0
DB Net profit	**983**	**961**	**-1,075**	**308**	**393**	**511**
Cash Flow (ILSm)						
Cash flow from operations	**687**	**793**	**653**	**751**	**864**	**993**
Net Capex	-2,945	-7,018	-2,552	-2,042	-2,144	-2,251
Free cash flow	**-2,258**	**-6,225**	**-1,899**	**-1,291**	**-1,280**	**-1,258**
Equity raised/(bought back)	1,465	1,362	820	820	820	820
Dividends paid	-695	-581	-573	-584	-596	-608
Net inc/(dec) in borrowings	4,395	6,360	4,676	3,591	3,724	3,852
Other investing/financing cash flows	-2,866	-534	-3,090	-2,472	-2,596	-2,725
Net cash flow	**41**	**382**	**-66**	**64**	**72**	**81**
Change in working capital	*0*	*0*	*0*	*0*	*0*	*0*
Balance Sheet (ILSm)						
Cash and other liquid assets	461	639	1,601	1,665	1,737	1,818
Tangible fixed assets	35,047	44,353	38,322	37,942	38,093	38,595
Goodwill/intangible assets	140	255	216	219	223	226
Associates/investments	1,121	1,586	3,347	3,372	3,397	3,423
Other assets	605	1,234	1,244	1,896	1,941	1,988
Total assets	**37,374**	**48,067**	**44,730**	**45,095**	**45,391**	**46,050**
Interest bearing debt	20,982	27,817	30,484	28,143	27,333	26,575
Other liabilities	2,516	3,585	3,140	3,055	3,190	3,332
Total liabilities	**23,498**	**31,402**	**33,624**	**31,198**	**30,524**	**29,907**
Shareholders' equity	4,437	5,721	3,334	4,632	4,956	5,381
Minorities	9,439	10,944	7,772	9,264	9,912	10,762
Total shareholders' equity	**13,876**	**16,665**	**11,106**	**13,897**	**14,867**	**16,143**
Net debt	*20,521*	*27,178*	*28,883*	*26,478*	*25,596*	*24,757*
Key Company Metrics						
Sales growth (%)	40.3	21.6	12.2	7.5	4.7	4.7
DB EPS growth (%)	36.7	-10.9	na	na	26.1	28.7
EBITDA Margin (%)	143.2	101.6	-48.4	35.1	47.0	54.2
EBIT Margin (%)	142.7	101.0	-51.0	34.6	46.5	53.8
Payout ratio (%)	10.9	13.3	nm	59.1	51.5	44.0
ROE (%)	26.6	18.9	-23.7	7.7	8.2	9.9
Capex/sales (%)	169.7	197.4	79.2	58.9	59.1	59.3
Capex/depreciation (x)	345.5	305.5	30.3	132.0	138.6	145.6
Net debt/equity (%)	147.9	163.1	260.1	190.5	172.2	153.4
Net interest cover (x)	3.9	4.0	nm	1.4	1.8	2.1

Source: Company data, Deutsche Bank estimates

Investment thesis

Outlook

Gazit has a well-defined strategy for both coping with and benefiting from the global recession and sharp downturn in the real estate sector. It is focusing on maximizing its cash flow through enhancing its property portfolio, repurchasing debt at discounted prices, increasing its stakes in subsidiary companies, and maintaining liquidity levels through both equity and debt offerings. In addition, Gazit is maintaining a reasonable level of leverage and deploying its capital to take advantage of opportunities offered by the recession. The company is seeking to capitalize on weakness at competitors to make acquisitions or merge operations and has already made some initial moves in that direction.

The company's long-term strategy is to become a global real estate company focused on supermarket-anchored neighborhood shopping centers. Gazit's management team has a clear world view that places an emphasis on long-term shareholder value creation and participating investors in the company's growth. We believe it is making the right moves, and see it emerging from the recession as a stronger and more diversified company.

Valuation

We value Gazit at ILS 29 per share by looking at three valuation techniques common in the real estate sector: peer Funds from Operations (FFO) multiples, the implied cap rate, and discount to NAV. All three methodologies point to a similar valuation range of ILS 27-32 per share, with our ILS 29 per share price target towards the middle of the range. We assume that the company should trade at a discount of up to 15% to subsidiary FFO multiples, at an implied cap rate in the 7.5-7.8% range and a 15-20% discount to NAV, each of which are consistent with historic trends and our view of appropriate risk premiums.

Risks

The main risks are the company's ability to maintain occupancy levels and rental rates, to raise financing and refinance existing debt in a challenging credit environment, its exposure to economic conditions and currency fluctuation in a number of geographic regions, and the management attention required for the recent Atrium acquisition.

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Valuation

Three techniques point to similar valuation range

We have looked at three valuation techniques common in the real estate sector to assess the fair value of Gazit Globe: peer FFO multiples, the implied cap rate, and discount to NAV. All three methodologies point to a similar valuation range of ILS 27-32 per share, with our ILS 29 per share price target towards the middle of the range.

Peer FFO multiples – suggest fair value of ILS 28-32 per share

We have looked at the FFO multiples of real estate trusts and companies listed in both Europe and the US, which is a reflection of Gazit's geographic spread. FFO is a measure of ongoing cash flow from operations for real estate companies that neutralizes non-recurring income and fair value changes, while adding back depreciation and other write downs.

Figure 1: Peer FFO multiples, as of 14 June 2009

	Rating	Price (local curr.)	Market Cap (US$m)	P/FFO FY 09	P/FFO FY10
Klepierre	NR	17.8	4,521	7.7	7.8
Kimco	Hold	11.35	4,272	8.3	8.9
Corio	NR	35.04	3,735	11.5	11.3
Federal Realty	Hold	55.98	3,309	15.4	14.5
Weingarten Realty	Hold	14.8	1,770	7.2	8.4
Eurocommercial	NR	22.53	1,127	12.5	12.6
Deutsche Euroshop	Buy	22.52	1,081	15.2	14.3
Developers Diversified	Hold	5.56	765	2.3	3.5
Inland	NR	7.33	616	6.5	6.9
Saul Centers	NR	30.7	549	12.1	11.9
Acadia	NR	14.17	562	13.3	14.5
Average				**10.2**	**10.4**
Gazit Globe	**Buy**	**21.8**	**717**	**6.5**	**6.0**
Gazit's traded subsidiaries					
First Capital	NR	17.8	1,460	10.7	10.6
Equity One	Hold	13.82	1,193	8.7	12.3
Citycon	NR	1.86	574	9.3	8.9
Average				**9.6**	**10.6**

Source: Deutsche Bank, Bloomberg for consensus FFO estimates

While the average peer multiple is 10.2x 2009e FFO, Gazit Globe trades on just 6.5x, a massive discount of c40% to peer multiples. Gazit's traded subsidiaries trade on an average multiple of 9.6x 2009e FFO. We view it as reasonable to expect Gazit to trade in line with its subsidiaries' multiples, or at a discount of up to 15% which would imply a fair value per share of ILS 28-32. This is the case since minority shareholders' interests are more closely aligned with controlling shareholders at the Gazit level than at the subsidiary level, however corporate level FFO is geographically diversified making it more complex to analyze than subsidiaries.

Implied cap rate – suggests fair value range of ILS 27-31 per share

The implied cap rate is an indicator of the underlying value of Gazit's properties. Third party appraisers currently use cap rates of 6.5% for Gazit's European properties, 7.5% for its North American assets, and an average of c9% for other countries. Taking into account the geographic breakdown of Gazit's operating income, we estimate a fair cap rate to be in the range of 7.5-7.8%. This implies a fair value range (based on our 2009e NOI estimate of ILS 1.4bn) of ILS 27-31 per share.

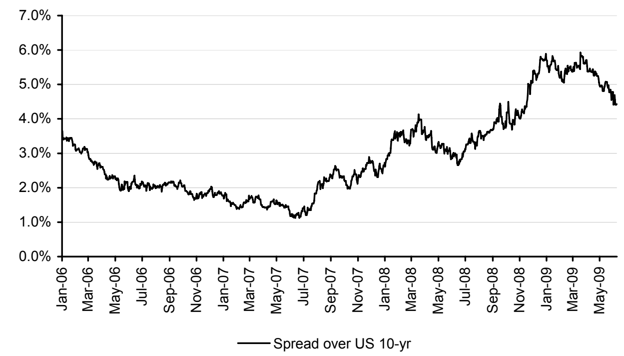
Figure 2 shows that Gazit currently trades at an implied cap rate in excess of 8%, which is the highest level since 2006. While the difference between an 8% cap rate and say a 7.5% cap rate may not sound too meaningful, it makes a huge difference (close to 50%) to fair value. Every 10bps reduction in the target cap rate adds over ILS 2 to Gazit's fair value.

Figure 2: Gazit Globe – Implied cap rate, 2006-current

Source: Deutsche Bank

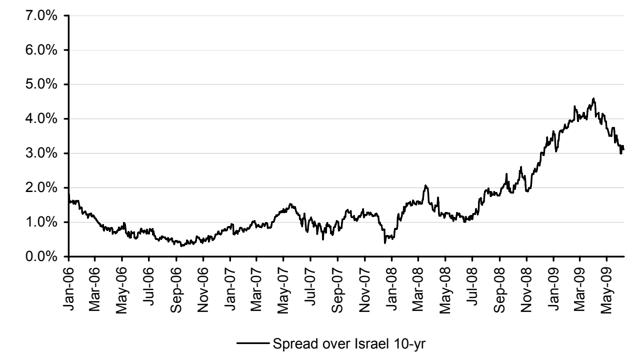
We believe that the current implied cap rate of over 8% is excessive and that it will contract over time as the economy recovers and risk aversion subsides. The average implied cap rate since 2006 is 7.1%, though this includes a period in 2007 where cap rates were well below normalized levels at the height of the credit bubble. As evidence of the level of risk that investors associate with an investment in Gazit, we can look at the spread of the company's implied cap rate over both US and Israeli 10-year treasuries.

Figure 3: Spread of Gazit's implied cap rate over US 10-year treasuries



Source: Deutsche Bank

Figure 4: Spread of Gazit's implied cap rate over Israeli 10-year treasuries



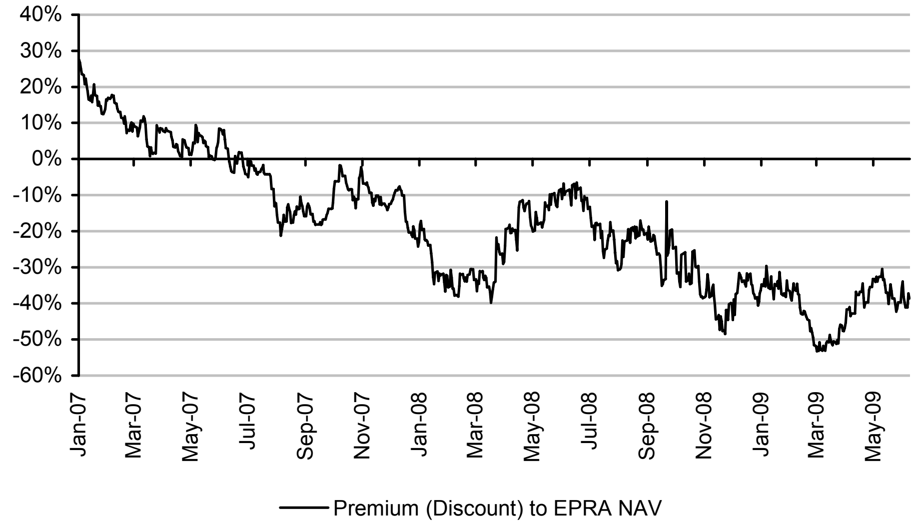
Source: Deutsche Bank

As can be seen in Figure 3 and Figure 4, current spreads are much higher than historical levels, indicating that investors associate a much higher level of risk. Given the recession this is justified to an extent, but Gazit's focus on supermarket-anchored neighborhood shopping centers makes it defensive in its asset class. This can be seen by high occupancy rates of >90% that have remained extremely resilient to the recession, relatively stable rental rates across multiple geographies, and higher NOI at Gazit in 1Q09. Our target cap rate range of 7.5-7.8% implies a spread of 245bps over the Israeli long bond yield (385bps over US 10-year treasuries) at the mid-point, well above the average historic spread of 150bps. We view this as reasonable since it provides a buffer to the ongoing trend of higher yields on government debt.

Discount to EPRA NAV – suggests fair value in ILS 28-30 per share range

Gazit publishes its NAV on a quarterly basis based on the EPRA standard (European Public Real Estate Association), which reflects the company's net asset value on an economic rather than accounting basis. As can be seen in Figure 5, the discount to NAV has varied widely from a peak premium of over 25% in January 2007, to a trough discount c50% earlier this year. We believe the premium reflected investors' expectations in 2007 that NAV would continue to increase (as cap rates were contracting), while the trough discount in 2009 reflected concerns of a potential steep decline in NAV.

Figure 5: Discount to EPRA NAV



Source: Deutsche Bank estimates

The current discount of c40% suggests investors continue to expect sharp NAV contraction. However, we do not view this as a base case scenario. NAV already contracted by 50% in 2008 to reflect the market deterioration, but has stabilized since. Indeed Q1 NAV increased 28% QoQ to ILS 35 per share, the first increase since mid-2007. Gazit's Q1 results included a moderate fair value loss of ILS 165m, which is dwarfed by the ILS 4.0bn reduction in fair value recorded in 2008. Since we expect additional negative fair value adjustments of a moderate scale in 2009, we view a discount to NAV in the 15-20% range as appropriate. This implies fair value of ILS 28-30 per share.

Risks

The main risks are:

- The company's ability to maintain occupancy levels and rental rates in the downturn, as well as the financial strength of its tenants.
- The ability of Gazit and its subsidiaries to raise financing and refinance existing debt in a challenging credit environment.
- Exposure to economic conditions and currency fluctuation in a number of geographic regions. While the company hedges its currency exposure from an economic perspective, changes in the fair value of derivatives can increase the volatility on net profitability
- The company has only recently started to operate in the CEE region and neighboring countries, through it investment in Atrium. This investment may require significant management attention diminishing focus on other areas.

Management philosophy

Clear, consistent, conservative long-term approach

Management as a differentiating factor
A discussion on management philosophy may not be the most obvious starting point to introduce a real estate company. It would be more obvious to describe its assets, geographic focus and financial leverage, but we shall do that later in this report. In the case of Gazit Globe the management philosophy is so ingrained, clear and consistent that we view it as one of the company's core strengths. It was put in place by the company's controlling shareholders Chaim Katzman and Dori Segal, who as Chairman and Executive Vice Chairman respectively, effectively run the company.

The business itself, as an operator and developer of supermarket-anchored shopping centers, is not overly complex. The main differentiator is management, the approach to risk/reward and management of the balance sheet.

Gazit's management team has a clear world view that places an emphasis on long-term shareholder value creation. The key elements we identify that sum-up their approach are:

- Focus on increasing cash flows and optimizing deployment of capital
- Discipline in making decisions, and not straying from core strategy or areas in which their competencies lie
- A conservative approach to balance sheet leverage and growth
- An uncompromising approach to quality
- Diversifying sources of income and financing to reduce risks
- Participating investors in the company's growth

To emerge as a winner from the recession
The current economic recession and financial crisis naturally present near-term challenges. However the key issues on the table for Gazit's management are how to exploit the downturn, take advantage of opportunities, and emerge as a stronger company from the recession. This is in sharp contrast to many peers in the real estate sector whose main concerns now are safeguard liquidity, raise capital, and de-leverage balance sheets at a challenging time for selling assets.

We have to admit to being extremely impressed with the strength and depth of Gazit's management, and see it as one of the strongest teams that we have come across in Israel. We advise investors with a long term investment horizon whose underlying approach is that as shareholders they are partners with management to take a close look at Gazit.

In the following section we highlight the key elements of Gazit's approach.

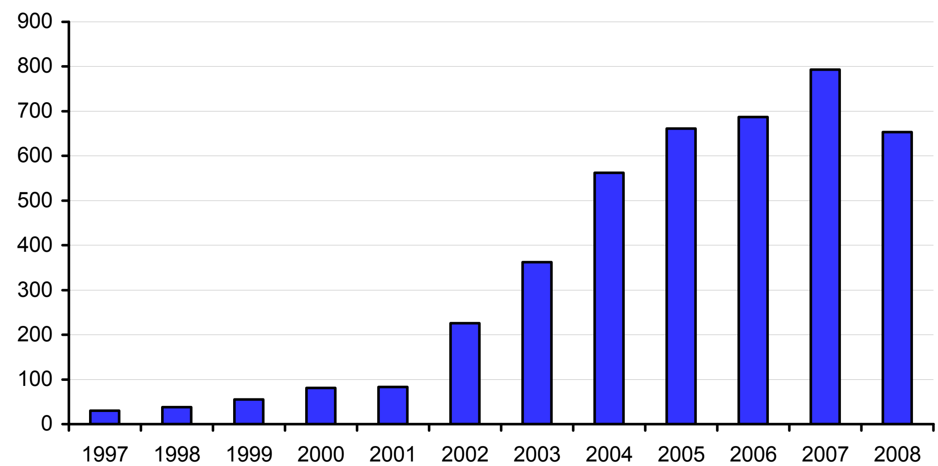
Cash flow focused

Long-term rent growth is the key to creating value
Controlling shareholders Chaim Katzman and Dori Segal have instilled a clear focus in their management team that the key to creating shareholder value is through maximization of long-term cash flows – in the case of Gazit this is achieved through rent growth, or in professional terms same property net operating income. Rent growth refers both to single properties and the overall portfolio. This principle guides their investment decisions, mergers and acquisition

policy, hedging strategy and day-to-day management of the properties themselves. On a single property basis, the rent growth principle determines issues from the exterior appearance of their properties, to decisions regarding tenant mix, and the development or redevelopment and expansion of properties. For the overall portfolio, the rent growth principle is key for determining which properties to divest and which to divest. For example, last year Gazit's US subsidiary Equity One sold 14 properties situated in small towns where it was concerned that occupancy and rents were susceptible in a slowing economy. It reinvested the proceeds in acquiring two higher quality properties in urban areas where the company already has critical mass.

The results of the cash flow focus can be seen clearly from the growth in operating cash flow over the past decade to a peak of ILS 793 m in 2007, from below ILS 100m prior to 2001. The decline in 2008 net cash from operations to ILS 653m resulted mainly from negative currency movements.

Figure 6: Net cash from operations (in ILS m)



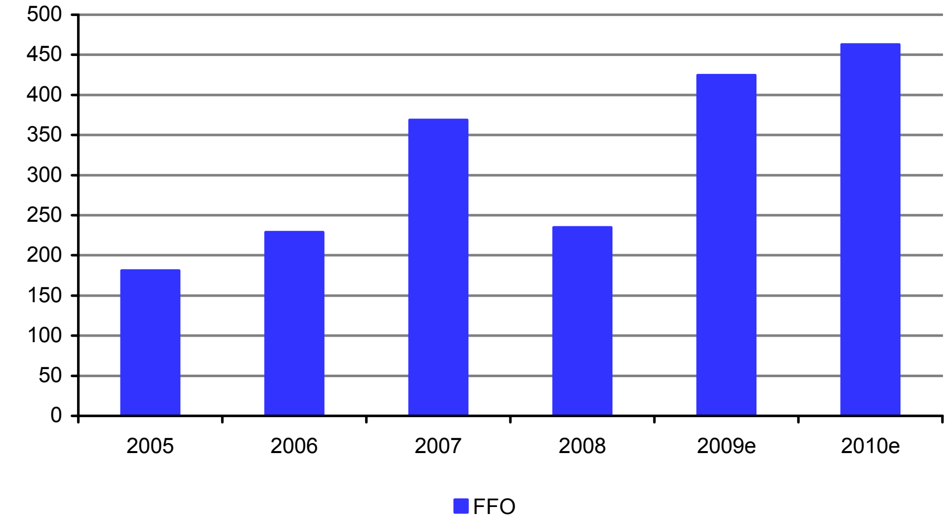
Source: Deutsche Bank, company reports

FFO as a key tool to measure performance

The approach of Gazit's management is that cap rates applied by the market are beyond its sphere of control. Thus, it has placed less attention on net income and book value since the adoption of IFRS accounting standards, as these are mark-to-market influenced. The company uses FFO as a prime tool to measure performance.

The advantage of FFO data is that it neutralizes non-recurring income (from asset sales and/or changes in stakes in subsidiaries) and fair value changes, while adding back depreciation and other write downs. It provides a measure of the funds available for reinvestment and for dividend distribution. The company generally distributes c40% of FFO as a dividend, which is a comfortably low enough number to be reassured of continued dividend growth in coming years. Gazit's FFO was ILS 235m in 2008, though included some one-off adjustments. We estimate FFO was in the ILS 380-400m range when excluding these one-offs. We expect 2009-10e FFO to revert to normalized levels of ILS 425m and ILS 463m respectively.

Figure 7: FFO in ILS m



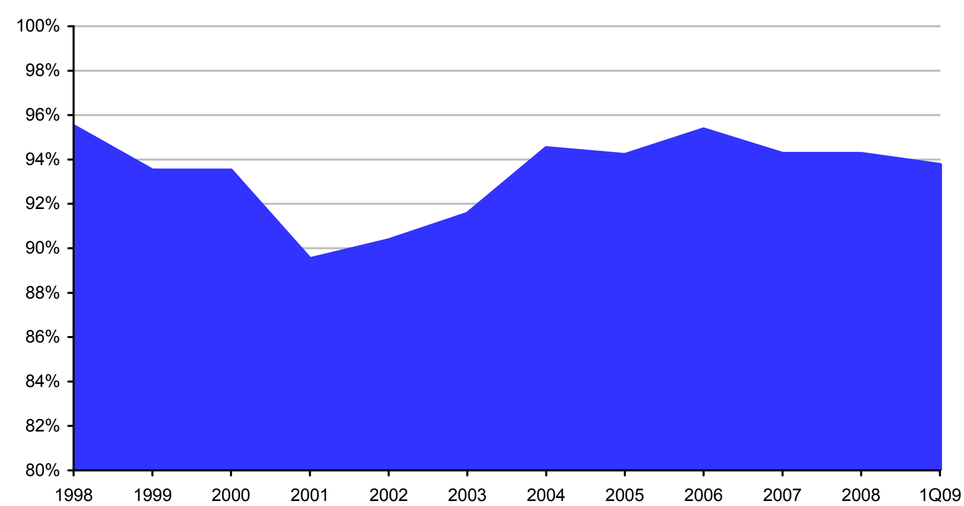
Source: Deutsche Bank, company reports

Disciplined

Strategic focus on a defensive asset class

Together with the cash flow orientation, Gazit's approach is extremely disciplined. Their core area of focus is supermarket-anchored shopping centers, which is a defensive asset class within the real estate universe. This is because the vast majority of their tenants – supermarkets, pharmacies, banks, liquor stores, medical offices – provide basic necessities that are relatively unaffected by economic cycles. This can easily be measured by occupancy rates that have shown resilience in previous and the current downturn, as can be seen in Figure 8.

Figure 8: Occupancy rate of Gazit's North American properties



Source: Deutsche Bank, company data

US subsidiary Equity One, which is located in recession-hit Florida, reported a 1Q09 occupancy rate of 91.5%, from a peak of 95% in 2006. Given that house prices and consumer spending have been in decline in Florida for over two years, the moderate decline in occupancy provides confirmation of the defensive nature of supermarket-anchored shopping centers. Occupancy rates at Canadian subsidiary First Capital are higher at 96%, and have actually increased marginally over the past year.

Steering clear of cyclical assets

Management's discipline is such that despite ample opportunity Gazit has steered clear of shopping malls (which tend to be fashion-orientated) and power centers (that are dominated by big-box stores) because it views them as too cyclical. In times of economic slowdown, shopping malls and power centers experience higher declines in both occupancy and rental rates. Gazit is active in Miami and Toronto, two cities that saw extensive residential construction and house price appreciation until two years ago. The opportunity and temptation must have been high to diversify into residential development. But Gazit's management made it clear that they saw the residential segment as high risk with unclear cash flows, and indeed were both early and vocal in identifying the existence of a residential real estate bubble. Sometimes the most important strategic decisions are what not to do.

No compromise on quality

High percentage of investment grade tenants

Management has taken a strategic decision to focus only on shopping centers that are of institutional quality. In practice this means a high percentage of investment grade tenants (c50% in total), good locations, an attractive mix of tenants and well maintained sites. While this sounds trivial, one of the implications is rejecting assets that may offer higher yields on the basis that the quality is inferior. In the neighborhood shopping sector segment, there will always be smaller stores such as restaurants, doctor's offices, real estate brokers that do not have investment ratings, so we view the 50% ratio of investment grade tenants as high. Strategic alliances with institutions such as GIC Real Estate, Citi Property Investors and CalPers are evidence that Gazit's assets are indeed of institutional quality.

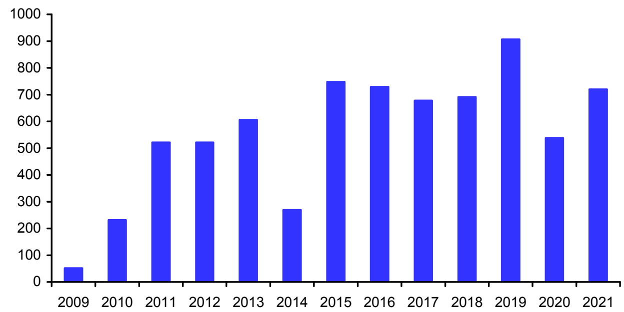
The company views proactive management of its existing portfolio and newly acquired properties as an important part of its strategy to attract and retain high quality tenants and grow rental income. Proactive management from their perspective means continued investment in properties to ensure they remain attractive to tenants and their customers over the long term. This includes issues such as high standards in access, parking, lighting and general appearance of its properties. In addition, there is a strategy of making acquisitions around existing properties for future development in order to limit potential competition in the vicinity.

Conservative growth

Leverage maintained at reasonable levels

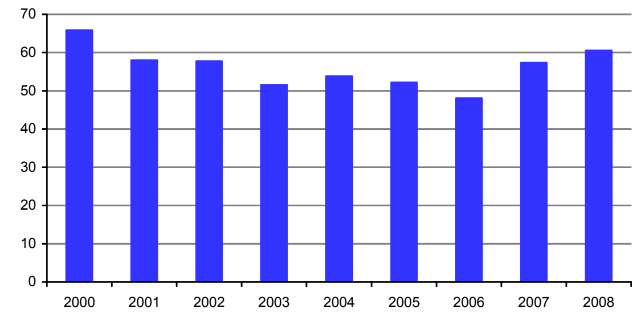
Gazit is conservative in both its growth and financial strategy. It has maintained a long-term approach of keeping leverage in the range of 50-70% of asset value. It has a conservative debt repayment schedule with less than 20% of its corporate bond debt due to repayment by the end of 2012, while it has unused lines of credit that can be used to repay this debt without the need to raise additional capital. During the first few months of 2009, Gazit has lengthened the duration of its bond debt by raising over ILS 500m in the bond market, while repurchasing short duration debt. The cost of its development pipeline (ILS 5bn) is 10% the value of existing properties such that growth in leasing area will be moderate without over-extending the balance sheet.

Figure 9: Bond repayment schedule



Source: Deutsche Bank, company data

Figure 10: Debt-to-asset value



Source: Deutsche Bank, company data

Clear investment criteria

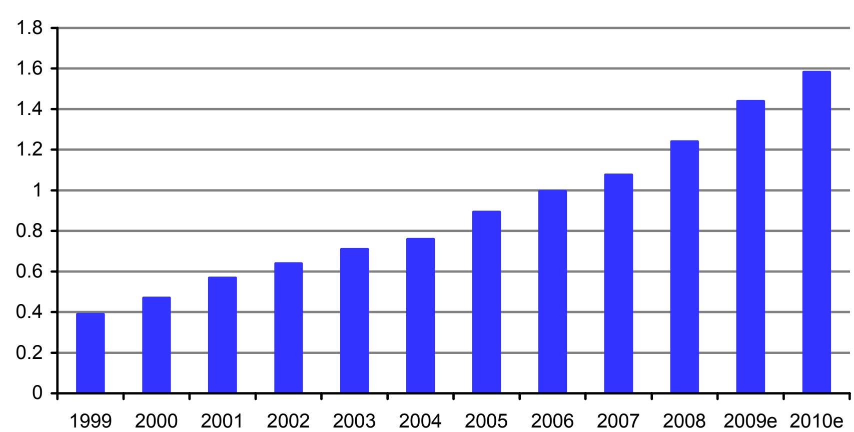
Management has a clear set of criteria to assess new investment opportunities which include: location, access, competition, local demographics and regulatory issues, as well as rental rates compared to sector norms, future cash flow growth potential, and redevelopment opportunities. Since Gazit's subsidiaries are often the largest landlord of its tenants, it can use information from its tenants regarding future expansion plans in making its own investment decisions.

Interests aligned with minority shareholders

Consistent growth in dividends

Key to the management philosophy is that cash flow growth should be accompanied by dividend growth so that shareholders participate in the growth of the company. The message the company relays to investors is that instead of owning yielding properties directly, shareholders in Gazit will receive a yield from a diversified professionally managed portfolio. The dividend is paid on a quarterly basis, with the minimum amount for the next four quarters announced in Q4 each year. This provides investors with full visibility on the annual yield and dividend growth. For 2009, Gazit has announced a 15% increase in its annual dividend to at least ILS 1.44 per share, representing a yield of 6-7%.

Figure 11: Dividend per share (in ILS)

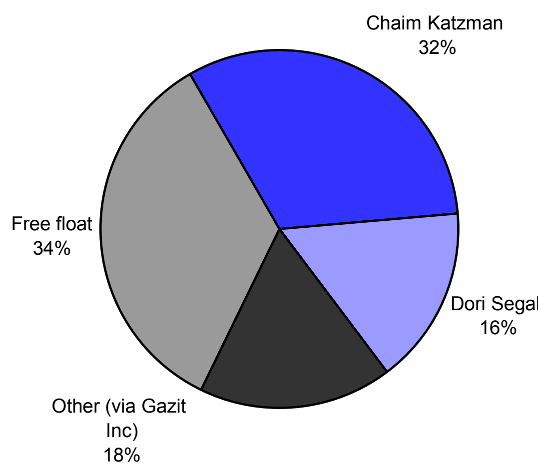


Source: Deutsche Bank, company reports

Another mechanism to align the interests of controlling and minority shareholders is the employment agreements of Mr. Katzman and Mr. Segal. They both draw modest salaries and in addition are entitled to a bonus of up to 7% of Gazit's net income (excluding revaluation gains/losses). They are allowed to waive all or part of their annual bonus and indeed both have chosen to do so within the past year. Both agreed to a 15% reduction in their base salaries in 2009. We believe that the employment agreements are designed to focus management on long-term cash flow growth and shareholder value rather than a short-term focus on the asset value of the portfolio (which in any case is largely a function of cap rates rather than just management execution).

Earlier this month Gazit's CEO Michael Bar-Haim announced that he is resigning from the post he has held since early 2008. Prior to his appointment as CEO, Mr. Segal had been the company's CEO. We do not anticipate the resignation leading to a change in Gazit's strategy or management style, since these are effectively determined by Mr. Katzman and Mr. Segal.

Figure 12: Gazit Globe shareholders (directly and indirectly via Gazit Inc)



Source: Deutsche Bank, TASE

Growth and recession strategies

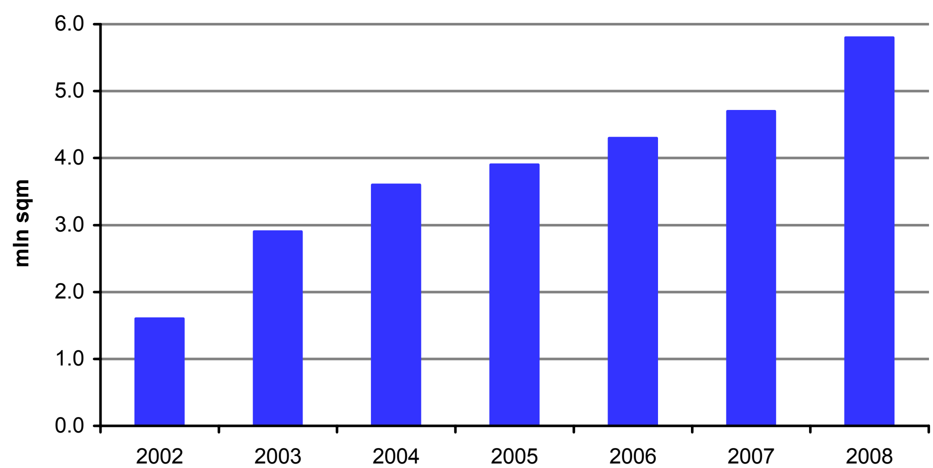
Growth strategy – global real estate asset management

Basic business overview

Gazit Globe specializes in the acquisition, development and operation of neighborhood shopping centers that are generally anchored by a supermarket. This is in order to ensure that there is a stable flow of retail customer traffic to its centers and that a high percentage of its tenants' revenues are generated from daily necessities.

Gazit and its subsidiaries operate and control 620 shopping center properties in urban areas with a total gross leasable area (GLA) of 5.8m sqm. Its largest markets are Canada, the Southeastern US, Scandinavia, CEE and Israel. The total asset value of its portfolio is USD 16bn, which generates in excess of USD 1.25bn in annual revenues. Gazit's revenues are composed of over 13,200 lease agreements with its tenants, while no single tenant accounts for over 5% of group revenues. Its largest tenants are: Sobey's, Loblaws, Publix, Shoppers Drug Mart, Metro, Supervalu, Kroger, Zellers, Canadian Tire, Kesko. Seven of these are supermarket chains, one a pharmacy chain, and two are basic home goods department stores.

Figure 13: Gross leasable area (in million sqm)



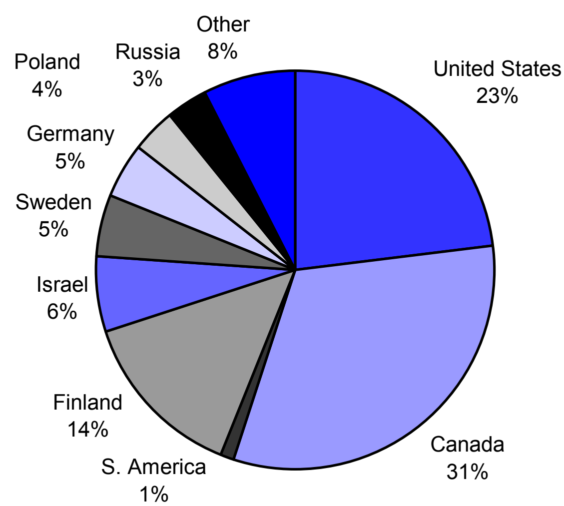
Source: Deutsche Bank, company reports

Building a global platform

The company's long-term strategy is to become a global real estate company – owning, developing and operating shopping centers in multiple countries where it sees growing metropolitan areas. In the past decade the business has expanded twenty-five fold from a modest portfolio of 26 properties with 0.2m sqm GLA in 1998 to its current scale, so we believe its global ambitions should be taken seriously.

Gazit's core focus was traditionally in Canada and the US (specifically Miami), and these two markets still account for just over half of the portfolio. But in the past few years Gazit has expanded into new markets to give it a more balanced geographic breakdown. Its second largest market is Europe, accounting for just under 40% of the portfolio. Gazit has been active in Europe since 2004 when it acquired control of the Finnish real estate company Citycon. This year, its European footprint was expanded by the acquisition of control in Atrium, a company that specializes in shopping center operation and development in Central and Eastern Europe. Despite its base in Israel, Gazit has only been active in Israel since 2005. It has since become a leader in the local shopping center segment and now the Israeli portfolio accounts for 6% of the total. The company has some nascent activity in Brazil following the acquisition of a shopping center in Sao Paolo earlier this year. In addition it has committed to invest USD 110m over a number of years in a USD 750m real estate fund in India, Hiref International, which will invest in commercial real estate in India. Gazit is one of four anchor investors in the 9-year fund granting it co-investment options in many of the projects. This is essentially a low cost, low risk means for Gazit to learn the Indian market.

Figure 14: Breakdown of properties by region



Source: Deutsche Bank, company reports

Joint venture financings as means to reach strategic objectives

Gazit has identified joint venture financing as a way to expand its operating platform globally while minimizing its equity needs and not having to increase its debt ratios. The stable income stream generated from shopping center rental tenants is attractive to institutions managing long-term funds (such as pension funds, insurance companies, sovereign wealth funds), but they do not have expertise in managing the day-to-day operations of the centers.

In the JV model, Gazit will usually take a minority stake (50%) and earn fees from operating, leasing, redeveloping and managing the property portfolio. The benefits of this model are that it provides access to an external funding source with a lower cost of capital, and enables Gazit to leverage its capital base in order to control a larger number of properties than would be possible on a go-alone basis. In many ways it is like leverage but without the debt. The management fees provide a low risk income stream, while the JV terms are usually structured to grant Gazit participation in asset value upside (a 'promote' in professional jargon) and reward long-term rent growth. JV partnerships have been formed with the following institutions in the past two years since this strategy was implemented:

- GIC Real Estate – Singapore sovereign wealth fund
- Citi Property Investors – private market real estate institutional investor
- CalPers – largest US pension fund

- DRA Advisors – real estate institutional investor
- HDFC Bank – One of India's leading banks

From a strategic perspective, Gazit prefers to have operational control over a large diverse portfolio of property assets with external financing partners, rather than 100% ownership in a smaller portfolio. The final JV partner that the company utilizes is the public that are partners in Gazit's publicly-traded subsidiaries. In the past it has raised equity capital from the public at its three largest subsidiaries as well as the corporate level. This provides Gazit with an organizational structure that looks like a holding company with a number of operational subsidiaries. However we view it as a single corporate entity with a structure that helps it reach its strategic objectives.

Seeking opportunity in a recession – operational, financial, and strategic perspectives

Recession to take its toll on financials

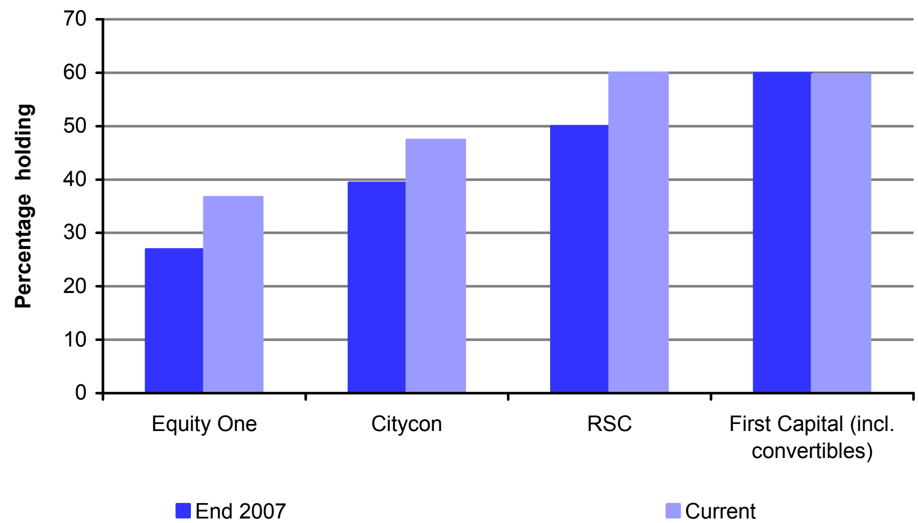
Despite the defensive nature of its business, Gazit will clearly be negatively affected by the global recession. We expect its portfolio to see a moderate decline in occupancy rates and as a result for same property net operating income to suffer. While the recession will result in downward pressure on market rental rates, there is embedded rent growth in Gazit's portfolio because a high percentage of existing tenants are at below market rates which are adjusted upwards on lease renewal. For example, in 1Q09 Equity One renewed 79 leases at an average rental rate increase of 0.3% to USD 14.89 per square foot, following on from 6-7% average rental rate increases on lease renewals during 2008. This was achieved despite the recession in Florida.

We expect Gazit's to show low profitability in 2009 due to negative adjustments to the fair value of investment properties as higher cap rates are applied. As noted above however, management's main focus is on cash flow and rent growth rather than market valuations. From an operational perspective its main focus in the recession is on core operations and redevelopment. This entails examining each property to improve the tenant mix, divesting and acquiring assets to improve the overall portfolio mix, and reassessing new developments in light of the higher cost of both debt and capital.

Increasing stakes at low valuations

Gazit has also sought to take advantage of opportunities during a period of market volatility. Management has a keen awareness of identifying undervalued assets, especially those that it controls and manages. As markets have declined, Gazit has increased stakes in its subsidiary companies in a move that increases its level of control and is accretive to both earnings and cash flow. The accretive effect is immediate because returns on the portfolio are higher than the cost of funding. The increased holding in subsidiaries is most apparent at Equity One, where Gazit's stake has increased to 37% at the end of 1Q09 from 27% at the end of 2007. During the course of 2009, Gazit has invested a total of ILS 570m in its subsidiary companies.

Figure 15: Gazit Globe has increased holdings in its subsidiaries



Source: Deutsche Bank, company filings

Seeking out M&A opportunities

Given the level of leverage in the real estate sector, a recession can create M&A opportunity for a company such as Gazit that has maintained balance sheet discipline. It is not unreasonable to anticipate a wave of distressed sellers and consolidation if refinancing remains challenging at both the single asset and company level. The company has already made the first moves in this direction through its North American subsidiaries:

- US subsidiary Equity One acquired majority control of DIM Vastgoed in 1Q09 in a stock-for-stock transaction that gave it a 75% stake. DIM has a portfolio of 21 shopping centers in the SE United States, concentrated mainly in Georgia.
- Also during Q1, Equity One acquired a 10% interest in Ramco Gershenson, a REIT with 89 properties in the SE United States and mid-Atlantic, and gained board representation. More significantly, Equity One has proposed a business combination between the two companies, though has yet to make a formal merger proposal.
- Canadian subsidiary First Capital acquired 11% of Allied Properties, with a view to engage in discussions towards a business combination. Allied has a substantial presence in downtown Toronto, where many of First Capital's retail tenants are looking to expand. First Capital would look to redevelop many of Allied's properties increase the retail portion to 50% of GLA from just 12% today.

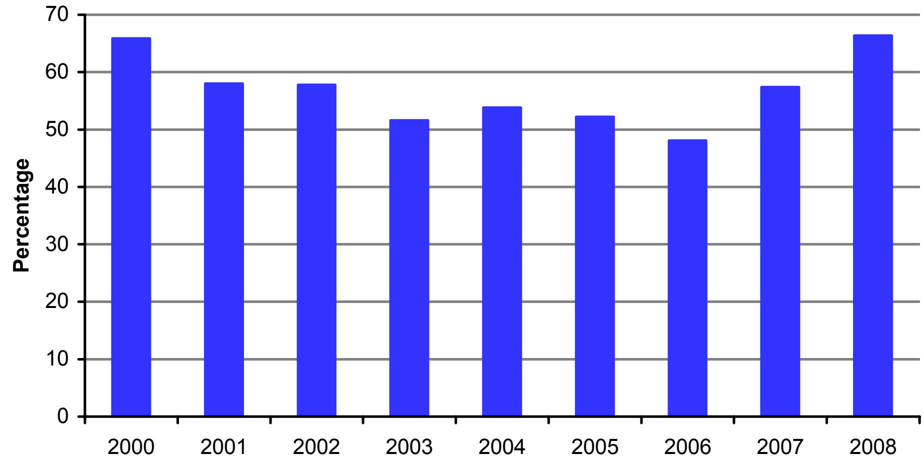
Increasing cash flow by buying back debt

While Gazit has raised ILS 500bn in the bond market YTD with long duration debt, it has also taken advantage of the dislocation in bond prices to repurchase shorter duration debt at high YTM. During Q1 2009 it repurchased ILS 169m of debt, as a result recording a capital gain of ILS 67m. Its strategy has been to repurchase relatively small amounts on an almost daily basis in order not to impact its bonds' prices, and activity that has continued in Q2.

Maintaining reasonable leverage and high liquidity

During the market turmoil caused by the financial crisis, Gazit has worked to strengthen its balance sheet and maintain reasonable leverage levels. The overall level of leverage (debt to asset value) has increased due mainly to the decline in asset values, but at 66% currently is far from overleveraged. In 2005-08, as many real estate companies increased leverage, Gazit maintained a conservative level of c55%, providing it scope to now up their leverage.

Figure 16: Leverage (debt to asset value)



Source: Deutsche Bank, company reports

As well as the company, its subsidiaries have also bought back convertible bonds and tradable debt. For example, its Finnish subsidiary Citycon repurchased EUR 33.5m face value of debt, while YTD Equity One has repurchased USD 37m of debt at 69c on the dollar.

Gazit is ensuring that it and its subsidiaries maintain a high level of liquidity. At the group level it has in excess of ILS 5bn of liquidity and undrawn credit lines, which is well in excess of its immediate cash requirements. Some of the financing activities at the subsidiary level in recent months include:

- Equity One raised USD 180m in two public offerings and a private placement. It also closed on a USD 227m unsecured revolving credit facility that does not mature until 4Q11and obtained a USD 65m non-recourse 10-year mortgage loan. Together these have provided the company with over USD 500m in liquidity that it can utilize for investment opportunities as they arise.
- First Capital closed two 3-year secured revolving credit facilities for a total of USD 525m, and also raised USD 36m through an equity issuance
- The Atrium deal (described in detail below) was designed to provide that subsidiary with sufficient liquidity to execute its development pipeline.

Overview of subsidiaries

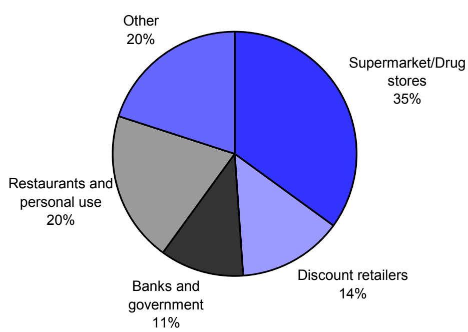
The following section provides an overview of Gazit's main subsidiaries.

Canada

First Capital (52% stake)
First Capital is Canada's leading owner, developer and operator of supermarket and drug store anchored neighborhood and community shopping centers. Gazit maintains a 52% controlling stake in First Capital, a public company listed on the Toronto Stock Exchange. The company's strategy has been to target urban markets with growing populations, locating its centers in neighborhoods with an attractive socio-demographic mix. The company controls over 170 properties mainly in the greater Toronto, Montreal, Calgary, Edmonton and Vancouver areas, which total 2m sqm GLA and generated in 2008 CAD 260m in annual NOI. The company's market share in shopping centers in the Greater Toronto area is close to 50%. Investments in development and redevelopment activities generally comprise approximately 5-8% of the company's total asset value at any given time, a relatively low figure in keeping with its conservative financial management. It currently has five properties in development as well as seven land sites for future development.

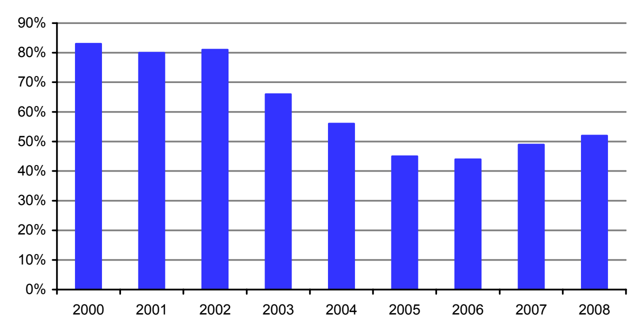
Gazit took control of First Capital in 2000 when the company had 40 properties that generated CAD 52m in NOI. The growth has been managed with a conservative approach to leverage, and indeed the debt-to-market cap ratio has fallen to c55% currently from 83% in 2000. First Capital's President and CEO is Dori Segal, while Chaim Katzman operates as Chairman of the Board, demonstrating that from an operational perspective Gazit is a single entity that exercises both control and management.

Figure 17: First Capital – Rent by type of tenant



Source: First Capital

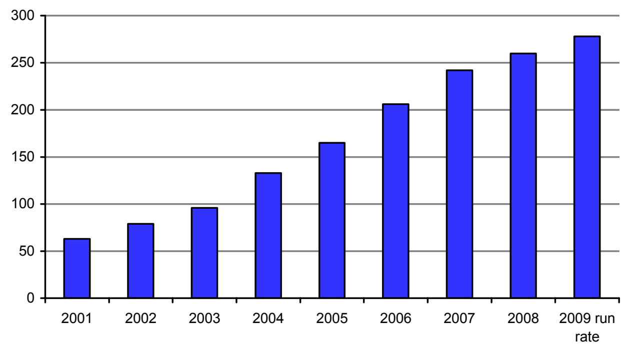
Figure 18: First Capital – Debt to market cap



Source: First Capital

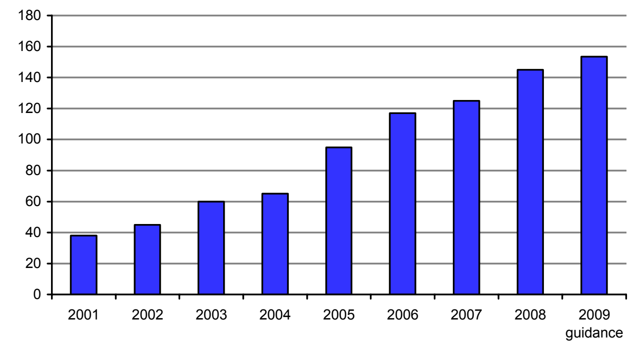
The consistent growth of First Capital can be seen from the four-fold increase in NOI to CAD 260m in 2008 from CAD 63m in 2001, and a similar increase in FFO over the same period. Similar to Gazit, First Capital has a clear policy of passing through FFO growth investors in the form of a dividend currently providing a c8% yield.

Figure 19: First Capital – NOI in CAD



Source: First Capital,

Figure 20: First Capital – FFO in CAD



Source: : First Capital,

First Capital's top 40 tenants provide 57% of rents, while close to 50% of total rent is from investment grade tenants such as Shoppers Drug Mart, Sobeys, RBC, and Loblaws. While we would have expected the global recession to have an impact on occupancy rates, the high component of consumer non-discretionary spending for tenant income makes First Capital's properties a defensive asset class. In 1Q09 occupancy rates remained very high at 96%.

In 2008, First Capital reported a 16% increase in FFO to USD 145m and 7% increase in NOI to USD 260m. Results were extremely solid across all main operating and financial parameters and exactly in line with company guidance. Occupancy rates increased to 96% from 95.3%, while rental rates increased 3.7% per square foot to USD 15.10. 2009 guidance calls for a 4-8% YoY increase in FFO, based on same property NOI growth of c2% and additional income from development and redevelopment activity.

As noted above, First Capital recently acquired 11% of Allied Properties in order to exploit the downturn and diversify the company's business. Allied is the leading owner of office properties in Canada, with large asset concentrations in the urban areas of Toronto (more than 50%), Montreal, Winnipeg and Quebec City. Allied controls 75 properties amounting to 5.6m sqm GLA, 88% of which is office and the remaining 12% retail. First Capital sees potential to increase the retail portion of Allied's portfolio by bringing in some of their key clients into Alllied's downtown Toronto street locations. Through redevelopment activity, First Capital believes it can increase the retail portion of Allied's portfolio to 50% of GLA, and in the process create operating synergies and shareholder value.

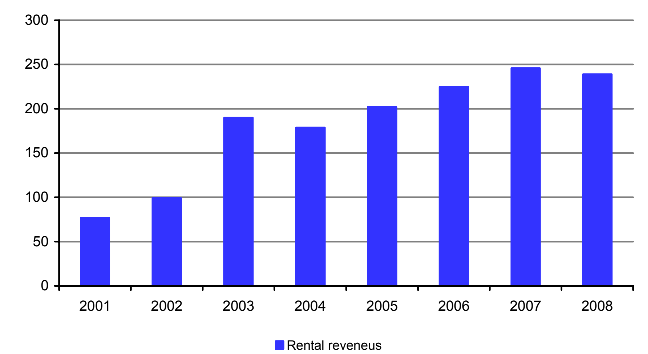
United States

Equity One (37% stake)

Gazit's main platform in the US is Equity One, a NYSE-listed real estate investment trust focused on supermarket-anchored shopping centers. Gazit has a 37% direct stake in Equity One and in addition holds 17% through First Capital. In recent months they have increased this stake through buying shares in the open market and participating in Equity One's equity offering. Chaim Katzman is Chairman of Equity One's board, while Dori Segal serves as Vice Chairman. Equity One's 181 properties are located in urban areas in the southeastern United States, mainly in Florida and Georgia, as well as some properties in the Boston metropolitan area. Equity One's portfolio totals 1.9m sqm GLA and generates over USD 170m in annual NOI.

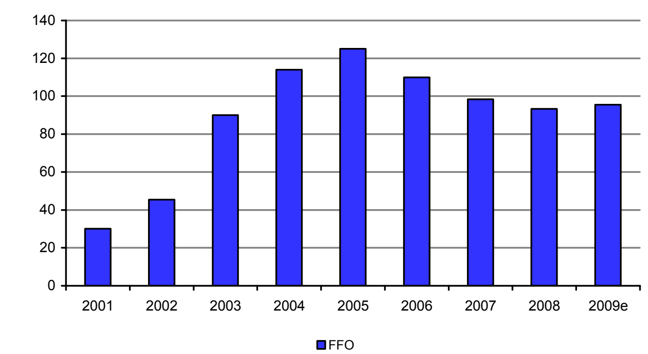
While it is focused on some of the markets most affected by the US recession, Equity One's properties have defensive characteristics. Beyond the focus on tenants with non-discretionary income streams, its portfolio has embedded rent growth because its existing anchor rents (at USD 9/psf) are c50% below market rates, while in-place shop rents (at USD 17/sqf) are c10% below market rates. What this means is that even in market rental rates decline due to the recession, we would expect relative stability Equity One's average rental rates and same-property NOI. In 2008 despite the recession their average rental rate went up by 7%.

Figure 21: Equity One – Rental revenues, USD m



Source: Deutsche Bank estimates, Equity One

Figure 22: Equity One – FFO, USD m



Source: Deutsche Bank estimates, Equity One

Its strategy to weather the challenging economic environment is to maintain a conservative balance sheet with a high level of liquidity, and borrow on an unsecured basis to maximize flexibility. Within the past year Equity One has used diverse sources of financing including institutional JV capital, USD 170m in equity offerings and closing of a USD 227m unsecured revolving credit facility together with a USD 65m non-recourse mortgage loan. Together these have provided the company with over USD 500m in liquidity that it can utilize for investment opportunities as they arise. In addition, Equity One has streamlined its portfolio, disposing of some non-core assets for a gain, spinning off other properties into a JV with institutional partner GRI, and also acquiring some properties through a joint venture with DRA Advisors.

Equity One reported a 5% decrease in 2008 FFO to USD 93m excluding a non-cash impairment charge related to fair value adjustments of an investment. 2008 same property NOI remained unchanged despite a 90bps decline in occupancy to 92.1%. This resulted from increases in rental rates for both new leases and renewals. The company expects recurring FFO to be USD 90m to USD 100m in 2009, based upon management's assumption that same property NOI growth will be -2% to -4%. During 1Q09 the decline in same property NOI was 2.7%, in the mid-range of guidance primarily due to lower occupancy, lower percentage rent and higher bad debt expense. Occupancy rates only declined slightly to 91.5% compared to 92.1% at the same period in 2008.

Equity One is trying to exploit the current downturn in order to expand its business. Earlier this year it acquired a controlling interest in DIM, a Dutch investment company that owns 21 shopping centers in the southeastern United States in a stock-for-stock transaction. Also during Q1, Equity One acquired a 10% interest in Ramco Gershenson, a REIT with 89 properties in the SE United States and mid-Atlantic, and gained board representation. More significantly Equity One has proposed a business combination between the two companies, though has yet to make a formal merger proposal.

Private US subsidiaries

Gazit also has two wholly owned subsidiaries in the US healthcare property segment, which has similar defensive characteristics to neighborhood shopping centers. While this is a departure from Gazit's core focus it is relatively small in scale and provides an income stream that is somewhat recession resistant.

- **ProMed Properties (100% stake)** - ProMed owns and operates 15 medical office and research buildings in the United States and Canada, comprising over 0.1m sqm. The properties are mostly located in proximity to hospitals and university campuses in White Plains NY, New Jersey, Philadelphia, Miami and Ontario. The portfolio has a fair value of USD 330m that is reflected in Gazit's balance sheet.
- **Royal Senior Care (60% stake)** - Royal specializes in the management and development of senior housing communities It owns and operates 14 independent and assisted living communities with nearly 1,500 units in Florida, Georgia and South Carolina. The portfolio has a fair value of USD 147m as reflected on Gazit's balance sheet. Royal Senior's operations require a different skill set to property management since it offers assisted living. We therefore view this as a non-core holding for Gazit, though during Q4 2008 it acquired an additional 10% of Royal Senior Care increasing its stake to 60%.

Scandinavia

Citycon (43.4% stake)

Citycon is the market leader in the Finnish shopping centre segment, with a strong position in Sweden and some projects in the Baltic countries. It has been listed on the stock exchange in Helsinki since 1988, while Gazit which currently owns 43.4% of the company acquired control in 2004. Citycon is a good example of a turnaround that has been implemented by instilling Gazit's management philosophy and proactive property management style.

Since Gazit acquired control of Citycon:

- GLA doubled to its current level of 0.9m sqm.
- Non-core assets were disposed of reducing the size of the portfolio to 83 properties from 148 previously. Citycon currently owns 33 shopping centers and 50 other retail properties.
- Within the same time frame, revenues have doubled to over EUR 170m, while NOI has increased at a higher rate to over EUR 120m
- Leverage has reduced and the balance sheet prepared for the current slowdown. Citycon's liquidity at the end of 2008 was over EUR 204m, consisting primarily of an undrawn credit facility of EUR 187m which altogether is enough to cover the authorized investments and scheduled debt service payments at least until the end of 2010 without the need for additional financial sources.
- Despite a challenging environment, 2008 net income (excluding fair value adjustments) increased 14% to EUR 44m due mainly to the full year effects of properties acquired in 2007, which is why they saw a 20% increase in net rental income. Not surprisingly there was a decline in fair market value of investment properties, but management focus remained on cash flow and active management of the properties. The cap rate used for fair value was 6.4% versus 5.7% a year earlier.
- Citycon implemented the corporate policy of encouraging JVs with financial institutions by entering a JV with Singapore's GIC that purchased 40% of a shopping center for EUR 132m.
- Citycon reported solid Q1 results, showing the defensive nature of its assets. Occupancy rates remained high at 95.3%, will same property NOI increased 0.9% YoY. The Q1 report included a EUR 32m charge for decline in fair value of investment properties as the applied cap rate increased to 6.5%.

Israel

Gazit Globe Israel Development (75% stake)

Gazit penetrated the Israeli market in 2005 intent on duplicating the model of acquiring and developing neighborhood shopping centers that it had implemented in North America. Gazit owns 75% of its Israeli subsidiary, with the other 25% held by its CEO Ronen Ashkenazi.

Since inception Gazit Israel has built a portfolio of nine investment properties around Israel with a total GLA of 0.1m sqm. It has a further 0.1m sqm in development in three other projects with a total cost to completion of ILS 400m. Its centers are mainly located in the central region of the country in urban areas with a high socio-economic profile. The company expects to generate ILS 180m in annual NOI on completion of projects of development.

Atrium deal

Low risk penetration into CEE markets

During 2008, Gazit penetrated the CEE shopping center market in a uniquely structured deal in which it acquired control of Atrium European Real Estate (formerly Meinl European Land) together with Citi Property Investors (CPI). Atrium is a public company listed on the Vienna stock exchange that had suffered from poor corporate governance which had severely damaged shareholder returns even prior to the global financial crisis.

On the face of it, exposure to CEE countries increases Gazit's risk profile as a company; however, the deal structure was designed to minimize risk and both generate positive cash flow on closure as well as immediate accretion to earnings. Despite the significant deterioration in the macro-economic environment of the countries in which Atrium operates since the deal was closed, we believe that the deal structure (described below) provides Gazit with a buffer for short- and medium-term market constraints. Indeed the deal provides a good example of the conservative approach of Gazit’s management and its focus on cash flow.

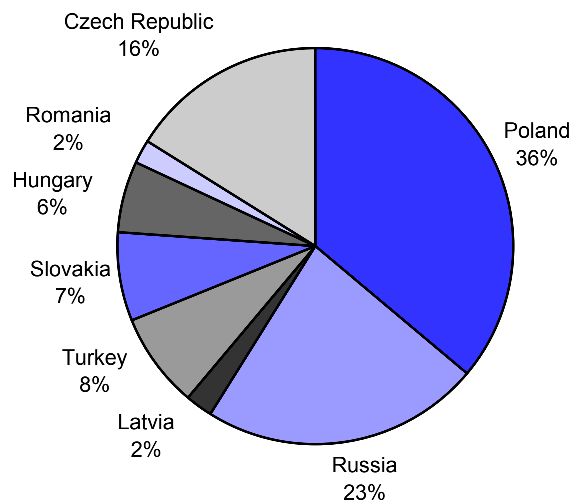
The deal terms included:

- A EUR 500m cash injection into Atrium, of which EUR 270m was from Gazit and EUR 230m from CPI. In return Atrium issued a convertible debenture that carries a 10.75% cash coupon payable quarterly, and is convertible at EUR 9 per share. The maturity of the security is seven years, though it is convertible at any time into ordinary shares, providing the company with a reasonable time frame to create shareholder value.
- At a second stage, Atrium allotted CPI and Gazit 10.3m shares in exchange for the return of EUR 39m par value of the convertible debentures, representing c4% of shares outstanding.
- Chaim Katzman was appointed chairman of the board, and a new senior management team was appointed by Gazit.
- Following completion of the deal, Atrium has over EUR 1.0bn in cash on its balance sheet.

While Gazit took effective control of Atrium through a convertible debenture, it has also taken advantage of Atrium's depressed share price by acquiring shares in the open market, and currently owns 11.5% of the company. Since Gazit took control, Atrium has a lower risk profile due to improved corporate governance, and a repurchase of over EUR 250m of its tradable debt. The company has moved quickly to realign costs, reducing headcount by 20% during 1Q09. In addition the company is reviewing its development pipeline in light of the changed market conditions.

Atrium owns 153 properties, which are primarily shopping centers in 11 CEE countries as well as Russia and Turkey with a total GLA of 1.1m sqm and a fair value of EUR 1.5bn. It also has a development pipeline of 34 properties and plots of land for future development with a book value of EUR 0.9bn. Seven of the development projects are close to completion with a total cost to completion of EUR 0.4bn, which is comfortable given that Atrium has over EUR 1.0bn in cash. We expect that many of the remaining development projects will be either postponed or cancelled given the deterioration in the macro-environment, and believe that investors would welcome such a move as it would further lower the Atrium's risk profile.

Figure 23: Atrium – Rental income by market, 1Q09



Source: Deutsche Bank, company reports

Q1 net rental income increased 13% YoY to EUR 29m, while same property NOI decreased 2% YoY due mainly to foreign currency fluctuations. The occupancy rate remained steady at 93.4%, similar to the high level of occupancy at Gazit's other European and North American properties. The only region where occupancy rates are low is in Hungary, where vacancies increased to 21% from 15% in 1Q08 – however this only accounts for 6% of Atrium's property portfolio.

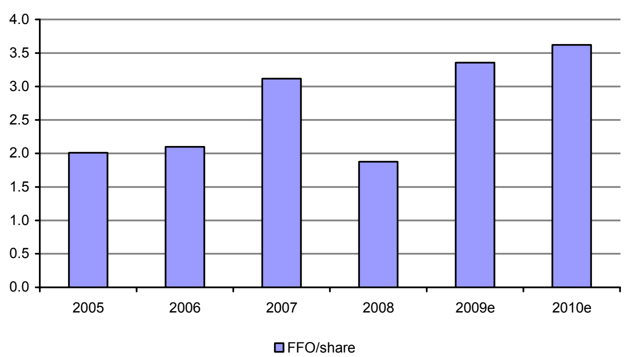
What we like about the Atrium deal is that it has given Gazit control of a large property portfolio for a relatively small outlay with clear upside participation if there is successful implementation of the business plan. Given that the convertible provides a high guaranteed return for a seven-year period, Gazit has a long time in which to create value at Atrium. This provides protection from the deterioration in the short- and medium-term outlook for CEE real estate.

Financials

Q1 review and outlook

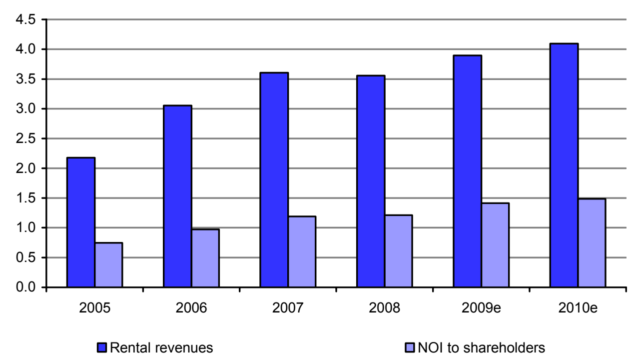
Gazit reported an 18% YoY increase in Q1 net income to ILS 267m, as both rental revenue and NOI increased 9% YoY. FFO totaled ILS 163m (ILS 1.30/share), providing us with comfort that our annual FFO forecast of ILS 425m (ILS 3.35/share) is attainable. Q1 FFO included an ILS 63m one-off gain from the early redemption of debentures and convertible debentures. Q1 rental revenues totaled ILS 1.0bn, an increase of 9% YoY resulting from the initial consolidation of DIM, development properties coming on-line, and the increase in average rent rates. NOI increased by a similar amount to ILS 662m, while NOI to shareholders (i.e. Gazit's portion of NOI) increased 20% YoY to ILS 363m as the company increased its stakes in subsidiaries. We expect 2009e rental revenues to increase 10% YoY to ILS 3.9bn, and NOI to increase 8% YoY to ILS 2.6bn. Given that Gazit has increased stakes in its subsidiaries, we expect a higher increase of 17% in NOI to shareholders to ILS 1.4bn.

Figure 24: FFO per share



Source: Deutsche Bank estimates, company data

Figure 25: Rental revenue and NOI to shareholders

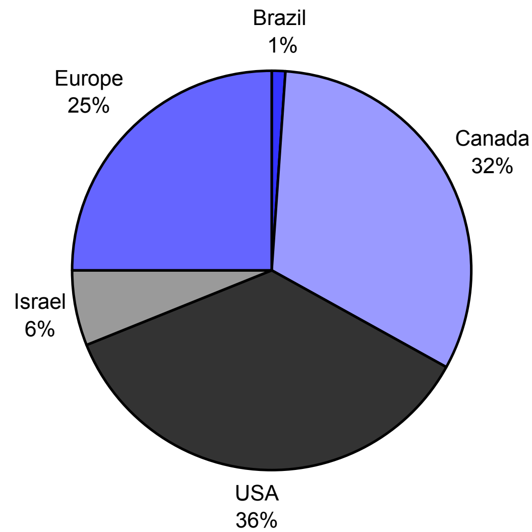


Source: Deutsche Bank estimates, company data

In Q1, cash flows from recurring operations were ILS 209m, up from ILS 144m in the corresponding period. As of Q1 Gazit had ILS 1.7bn in cash reserves and ILS 3.4bn in unutilized credit facilities, though the group had negative working capital of ILS 0.9bn. Gazit has 12 new properties under development totaling 0.1m sqm, 19 redevelopments as well as additional land reserves for future development at a book value of ILS 3.2bn. The expected additional costs to completion are estimated at ILS 1.2bn.

During the quarter the company repurchased ILS 80m of its bonds and increased its equity holdings in subsidiaries by ILS 580m. Debt to asset value was maintained flat QoQ at 66%, which is a high level of leverage historically but within the range of 50-70% that we see as long-term equilibrium. The group has ILS 23bn of unencumbered investment property should there be a need to increase leverage further, though we see it as more likely that non-core assets would be disposed to reduce overall group leverage.

Figure 26: Breakdown of NOI by region, Q1 2009



Source: company reports

Shareholders equity at the end of 1Q09 totaled ILS 4.0bn (or ILS 32/share) versus ILS 3.3bn (or ILS 27/share) at the end of 2008, while NAV per share increased 28% QoQ to ILS 34.8. The board of directors decided to pay a quarterly dividend of ILS 0.36 per share, and increased the annual dividend to ILS 1.44 per share, implying an annualized dividend yield of 6-7%.

Appendix 1

Important Disclosures

Additional information available upon request

Disclosure checklist			
Company	**Ticker**	**Recent price***	**Disclosure**
Gazit Globe	GLOB.TA	na	1,7,8

*Prices are sourced from local exchanges via Reuters, Bloomberg and other vendors. Data is sourced from Deutsche Bank and subject companies.

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Historical recommendations and target price: Gazit Globe (GLOB.TA)

(as of 6/14/2009)

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Buy: Based on a current 12- month view of total share-holder return (TSR = percentage change in share price from current price to projected target price plus pro-jected dividend yield) , we recommend that investors buy the stock.

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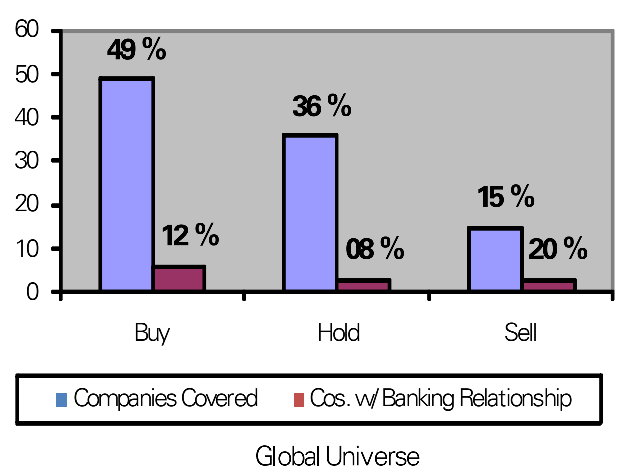

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