AZRIELI GROUP

Convenience translation from Hebrew

January 1, 2012

Press release

Re: **Agreement for the purchase of an office building in Houston, Texas, U.S.A.**

Azrieli Group Ltd. (the "**Company**") respectfully announces that on December 29, 2011, an agreement that was signed between a U.S. corporation indirectly held (100%) by the Company (the "**Buyer**")[1] and a third party (the "**Seller**") for the purchase of an office building with 100% occupancy in Houston, Texas, U.S.A. (the "**Agreement**")[2], took effect, after expiration of a thirty (30) day due diligence period afforded to the Buyer, during which the Buyer and the Seller were entitled to withdraw from the Agreement for any reason.

In the Company's estimation, the Agreement, if closed, is not expected to have a material effect on the Company.

1. The Acquired Property

- According to the Agreement, the Buyer will purchase the full rights to an office building, on a total area of approx. 31,986 sqm (344,296 sqf) (including approx. 1,500 parking spaces in a separate parking building), which is located in a central business district in the city of Houston, Texas, U.S.A., whose construction was completed in 2008 (the "**Office Building**").

- There are four (4) tenants in the property, as follows:

  - ✓ A main tenant (87%), a world-leading agrochemical company by the name of Dow Chemical Company, which is traded on NYSE, which has a long-term lease agreement expiring in May 2026, with no early termination option. The lease agreement includes an option to extend the agreement for additional terms.

  - ✓ Three tenants (13% in total) have lease agreements for periods ranging between 6-7 years, with some of the tenants having an option for early departure after approx. 5 years, and all having an option to extend the agreements for additional terms.

[1] The Buyer is a Special Purpose Entity which will engage only in the holding, management and operation of the acquired property.

[2] As of the date of the report, the Group holds three other office properties in Houston, Texas, U.S.A, one property of which includes 3 office buildings that the Company purchased in February 2011.

- The lease agreements include fixed mechanisms for rent increases throughout the terms of the agreements, such that the total annual average NOI[3] for all of the contracts throughout all of the lease periods, will be approx. U.S. $8 million, constituting a yield of approx. 7.5%[4].

2. The Consideration

For the property, the Buyer will pay a sum total of approx. U.S. $107.5 million (in addition to transaction costs which are estimated (including financing costs) at approx. U.S. $750 thousand).[5] In proximity to the date of this report, the Buyer will supplement the deposit in the sum of U.S. $3 million (the "**Deposit**")[6], with the balance being payable in accordance with the terms of the Agreement and subject to the closing of the transaction.

3. Closing Conditions

The closing of the transaction will take place by January 13, 2012, subject to the fulfillment of conditions precedent, including the veracity of the parties' representations, receipt of confirmations from all of the tenants in the property (estoppel certificates)[7], and receipt of an irrevocable undertaking of the insurer to issue a title insurance policy.

4. Financing of the Purchase

As of the date of the report, the Company has an in-principle agreement for the receipt of a loan in the sum of approx. U.S. $70 million from a U.S. financial institution, based on an application filed thereby (the "**Application**" and the "**Financing Entity**", respectively). The balance of the purchase consideration will be paid from the Buyer's internal financing, to be provided by the Company. Obtaining financing for the transaction is not a closing condition. Subject to the final approval thereof by the Financing Entity, the principles of the loan will be as follows:

- The loan will be provided for a period of approx. five years, and will bear fixed interest at the rate of approx. 3.6%.

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[3] The Buyer will step into the shoes of the Seller, who committed in the lease agreements to a free rent period for five (5) months. Assuming full rent (based on the agreements in effect) in 2012, the annual representative NOI would have been expected to be approx. U.S. $7.75 million.

[4] This information is forward-looking information as defined in the Securities Law, 5728-1968, is based on the lease agreements existing as of the date of the report, and changes may occur in reference thereto, including future changes in the lease agreements and/or the market conditions.

[5] From December 31, 2011, the Buyer is required to bear the free rent.

[6] The deposit funds (plus the interest accruing thereon) will be returned to the Buyer only if the transaction shall not have been closed as a result of non-fulfillment of the conditions precedent, breach of certain undertakings of the Seller or material damage to the property.

[7] With the Buyer's consent, the Seller is entitled to not provide such a certificate as of the closing date only in reference to one tenant, who leases 5% or less of the total leasable areas in the Office Building, and provided that the Seller produces his own certificate with respect to this tenant and the lease agreement therewith. If the Buyer does not terminate the Agreement due to non-fulfillment of the condition precedent of receipt of confirmations from all of the tenants in the property by January 6, 2012, the aforesaid shall be deemed as the Buyer's waiver of this condition precedent.

- In the first year, only interest will be paid on the loan.

- The loan principal and interest will be paid in installments according to a payment schedule to be determined in the loan agreement.

- To secure the loan, the Office Building will be pledged and any and all rights related thereto and arising therefrom, including the lease agreements in the property. No further pledges on the property will be allowed, nor the taking of further financing in respect thereof nor the transfer of any part of the ownership in the Buyer without the Financing Entity's approval (other than to corporations controlled by the Company). The Company has undertaken to the Financing Entity, jointly and severally with the Buyer, to pay the balance of the loan only in certain cases as defined in the loan agreement. They have also undertaken to indemnify the Financing Entity in connection with damage to be caused thereto, if any, due to environmental issues related to the property.

- The Buyer is entitled to prepay the loan after 24 months from the date of provision thereof, subject to a prepayment fee.

It is stated that the Company does not deem the provision of the financing as aforesaid, a material loan which amounts to a "reportable credit event", as this term is defined in Legal Position no. 104-15 of the ISA of October 30, 2011.

Shlomo Sherf, Azrieli Group's CEO: "This is an excellent business opportunity, which joins the other properties the Group has purchased in this area in the past. It should be noted that the Group's core business focuses in Israel and that we are continuing to promote extensive development activity".

Sincerely,

Azrieli Group Ltd.