

November 22, 2017

## **Azrieli Group: Q3 2017 Results - Ongoing Strength and Growth in Existing Assets, together with Investment in Attractive Development Pipeline**

**NOI totaled NIS 349 million, up 6% from the same quarter last year**

**Same property NOI from properties in Israel up 4%**

**FFO attributed to the real estate activity up 14% excluding senior housing**

### **Financial Highlights**

- **NOI increased by 6%, and totaled NIS 349 million**, compared with NIS 328 million in the same quarter last year.
- **Like-for-like Property NOI from assets in Israel grew by 4%** compared with the same quarter last year.
- **FFO attributed to the real estate activities grew by 14% excluding senior housing** and totaled NIS 246 million, compared with NIS 215 million in the same quarter last year. **FFO for the entire real estate activity grew by 3%** and totaled NIS 251 million, compared with NIS 244 million in the same quarter last year. This represents the current investment phase for our senior housing operation. FFO in the corresponding quarter included a high one-time revenue of NIS 16 million for apartments that were populated with first-time tenants in Palace Raanana.
- **During the quarter, the Group invested NIS 178 million in investment property**, in development, the construction of new properties and the betterment and improvement of existing properties. **The total investments from the beginning of the year totaled NIS 837 million.**
- **Net profit in the quarter** totaled NIS 263 million, compared with NIS 279 million in the same quarter last year. **Comprehensive income in the quarter** totaled NIS 291 million compared with NIS 292 million in the same quarter last year. The slight decline mainly derives from a first-time revaluation of the Azrieli Town land in the same quarter last year.

**Yuval Bronstein, CEO of Azrieli Group:** "I am proud to announce another impressive quarter for Azrieli Group which reveals the continued strength of its assets. There has been much recent discussion globally about the future prospects for the retail sector, but with our properties in Israel, we are continuing to experience a growing malls business. We believe that this reflects the footprint of our well located assets in the country, the quality of their management and the attractive tenant composition. Our office segment continues to experience high levels of demand. The leasing out of our new flagship project, Sarona Tower, is ahead of our original expectations – we anticipate that the positive financial impact from the development will first be materially visible toward the end of calendar 2018. Turning to our new development pipeline, we have received approval from the District Planning Committee for our plan to construct the fourth tower in the Azrieli Tel Aviv project which will result in expansion of the space from around 69 thousand sqm to around 150 thousand sqm. We have also recently purchased land for the development of a large project in Petach Tikva. Finally, I recently announced my desire to look to embark on new challenges after 11 years at the Group. I would like to thank all of the



investors for their confidence, throughout the years. I believe that my replacement, Eyal Hankin, is the right person to lead the Group to new successes over the coming years.

### **Highlights:**

- The **NOI rose by 6%** compared with the same quarter last year.
- The **Same Property NOI in Israel** recorded a **rise of 4%** as a result of a real rise in income from rent in the malls and offices segments and from continued lease-up of new projects.

The **Same Property NOI** which includes the office buildings overseas recorded a rise of 2%. Part of the rise was offset due to the strengthening of the shekel.

- The **occupancy rate** in Israel in the malls segment was 97% and in the offices segment was 99% (discounting the office space in Sarona, the 2 buildings at phase B in Azrieli Holon center and the office tower in Azrieli Rishonim center, which are at lease-up stages).
- September this year had significantly fewer trading days due to the Jewish High Holidays compared with last year in which the High Holidays were in October. The 9 month figures for our malls business were consequently below trend. However, we saw a marked rebound in October, and have no reason to believe that September was any more than a challenging comparison due to restricted trading days. In order to illustrate this further, we are additionally presenting a four-month period which is a good representation of the comparison vis-à-vis the same period last year. During the four months July-October 2017, **increases in revenues** were recorded in Azrieli's malls at a rate of 5.6% compared with the same period last year. Discounting Rishonim mall, which was opened at the end of the first quarter of this year, a rise was recorded of 1.2% in revenues compared with the same period last year. Since the beginning of the year (January-October), increases in revenues have been recorded of 5.5% in Azrieli malls, and net of the effect of Azrieli Rishonim mall, an increase in revenues of around 2.1% has been recorded.

### **Development Pipeline**

- **Azrieli Sarona** – the process of habitation of the building is moving ahead as planned. There are a few last remaining blocks of space for lease in the building, while as of the date of release of the report, 90% of the office space in the building, including options, has been leased. In addition, the Company is in the process of advanced drafts of contract with respect to areas which, if signed, will bring the total lease-up rate to 95%.
- **Azrieli Rishonim** – the Company has been gradually populating the office space since the second quarter. Thus far, 85% of the office space has been leased. **In addition, the Company is in the process of advanced drafts of contract which, if signed, will bring the lease-up rate in the office building to 90%.**
- **Petach Tikva** – the Company has engaged in an agreement for the purchase of land in Petach Tikva of an area of around 19,000 sqm for NIS 91 million. The land is situated in the eastern part of the Kiryat Aryeh Industrial Zone, near an existing office project owned by Azrieli Group. The land includes building rights for around 53,000 sqm as well as parking basements. The Company intends to build a combined office and retail project on the land, similarly to other projects that it has built.
- **The fourth tower in the Azrieli Tel Aviv project** – the Company received, after the end of the quarter, the approval of the Tel Aviv District Planning and Building Committee for the construction of the fourth tower in the Azrieli Tel Aviv project. The committee approved the Company's full plan, which includes expansion of the space from around 69 thousand sqm to around 150 thousand sqm of offices, retail, hotel space, residences and senior housing.



The Company intends to build a tower with mixed uses with retail space at its base which shall be seamlessly connected to the Azrieli mall, as well as to the light rail station.

## **Summary of the NOI and the FFO for Q3 and the first nine months of 2017:**

| NIS in Millions                                                   |                |                |               |                 |                 |               |
|-------------------------------------------------------------------|----------------|----------------|---------------|-----------------|-----------------|---------------|
|                                                                   | <b>Q3 2017</b> | <b>Q3 2016</b> | <b>Change</b> | <b>1-9/2017</b> | <b>1-9/2016</b> | <b>Change</b> |
| <b>NOI</b>                                                        | <b>349</b>     | <b>328</b>     | <b>6%</b>     | <b>1,027</b>    | <b>965</b>      | <b>6%</b>     |
| Malls and retail centers                                          | 213            | 196            | 9%            | 618             | 579             | 7%            |
| Offices                                                           | 97             | 92             | 5%            | 287             | 275             | 4%            |
| Offices in the U.S.                                               | 29             | 32             | (9%)          | 91              | 91              | -             |
| Senior housing                                                    | 10             | 8              | 25%           | 31              | 20              | 55%           |
| <b>FFO from real estate activity<sup>1</sup></b>                  | <b>251</b>     | <b>244</b>     | <b>3%</b>     | <b>762</b>      | <b>704</b>      | <b>8%</b>     |
| <b>FFO from the real estate activity excluding senior housing</b> | <b>246</b>     | <b>215</b>     | <b>14%</b>    | <b>721</b>      | <b>665</b>      | <b>8%</b>     |

<sup>1</sup> For details regarding the manner of calculation of the FFO, see Section 1.3.5 of the Board of Directors' report.

## **Balance Sheet (extended standalone) as of September 30, 2017**

- The Group has **cash, deposits and short-term investments** in the amount of NIS 1,333 million.
- **Net debt** totaled NIS 7.4 billion.
- **The value of investment property and investment property under construction** totaled NIS 24.8 billion.
- **Equity to assets ratio** is 55% and **net debt to assets ratio** is 25%.
- **Unmortgaged properties** amount to NIS 20.5 billion.
- **EPRA NAV per share** was NIS 156 per share, compared with NIS 145 per share on September 30, 2016.

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