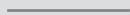


Invest in the Israel Tourism Industry



2017



The tourism industry in Israel represents a very important growth engine for the Israeli economy. Recently, the State of Israel has enjoyed a significant upsurge in tourism development, including a notable increase in tourism traffic into the country. These numbers are a direct result of the unprecedented investment that the Israeli government is now making to promote the tourism industry.

In the previous year, 2016, the Israel Ministry of Tourism was instrumental in passing a series of laws and regulations that advance the hotel industry.

This includes specifically the "Hotel Law" under which hotels will be recognized as a part of the National infrastructure and whereby, construction programs will be approved in a fast and centralized approval process through the National Infrastructure Committee. This law will greatly shorten previously long and drawn out bureaucratic procedures, and will create a special advantage to those wishing to establish a new chain of hotels in Israel. This process is in addition to unique grants and generous benefits in building rights for entrepreneurs who meet the required conditions.

In addition, the Israeli Government has taken steps to significantly decrease government regulations in the hotel industry. This move is expected to save millions of dollars a year for the investor during the building of new hotels, as well as during operational procedures for existing ones. These changes and others provide a window of unique opportunity for hotel investment. More information regarding laws and benefits in the Israel hotel industry can be found in this brochure that we have prepared especially for you. I hope you will find this information both interesting

and useful and that I will have the opportunity to meet you in Israel on your future ventures as entrepreneurs investing in the tourism industry.

Our professional staff at the Ministry of Tourism is available for any questions. Please do not hesitate to contact us.

Sincerely yours,
Yariv Levin

Minister of Tourism





What they say about Israel

ISRAEL IS A LEADING START-UP COUNTRY
THAT COMBINES A RICH ANCIENT
HISTORY WITH AN EXCELLENT TOURISM
INFRASTRUCTURE THAT
CATERS TO EVERY VACATION TASTE.

The country boasts glorious beaches, breathtaking nature reserves, state-of-the-art health spas and spectacular panoramas. Its promenades are graced by religious shrines and archeological treasures, while bustling with malls, markets, international and local cultural festivals, artists' colonies, biking paths and walking trails.

Jerusalem

Ranked among the "10 Best Cities to Visit Around the World" by TIME Magazine, Jerusalem is one of the most famous and fascinating cities in the world, where thousands of years of history seamlessly intertwine with modern day life. It is no surprise that Jerusalem is TripAdvisor CEO favorite travel destination. Jerusalem has innumerable historical sites and archeological wonders which leave a lasting impression. As Lonely Planet puts it, "if the description 'living history' truly applies anywhere in the world, it applies here".

The prestigious American magazine Travel + Leisure ranked Jerusalem as one of the 50 Best Places to Travel in 2017 writing: "Typically more of a pilgrimage site than a sybaritic city, Jerusalem has now emerged as a culinary force to rival Tel Aviv. At the sprawling Mahane Yehuda Market, food-and-drink spots have popped up in produce stalls, many of which stay open long past sunset".



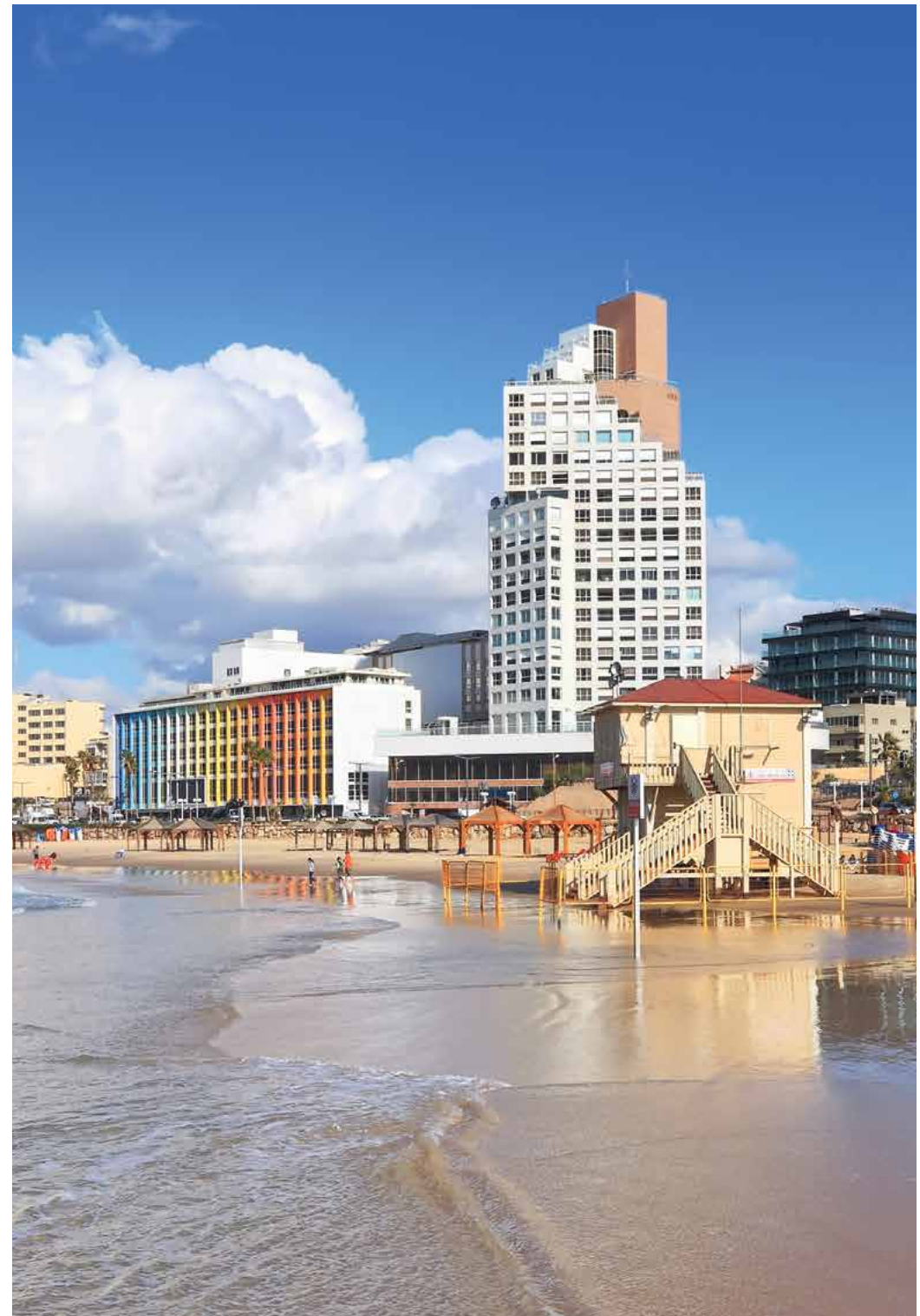
Photographer: Noam Chen

Tel Aviv-Yafo

According to National Geographic, who ranked Tel Aviv as one of the Top 10 Oceanfront Cities, “there’s plenty of room for beach bathing in this modern Israeli city on the Mediterranean. The historic port of Jaffa has found new life in recent years with a vibrant gallery, café, and restaurant scene.”

In October 2016, readers of the luxury magazine Condé Nast Traveler voted Tel Aviv number 17 among the 40 Best cities in the world as “one of the world’s most vibrant, diverse cities”.

Ranked the #1 Best Destination for Vegan Travelers by The Daily Meal, Tel Aviv is known as an international foodie destination. Saveur Magazine, a prestigious U.S. gourmet magazine, has ranked Tel Aviv-Jaffa as “Outstanding” in the category of Best Culinary Destination in the small international category (population of up to 800,000), along with such cities as Florence and Lyon.



Eilat

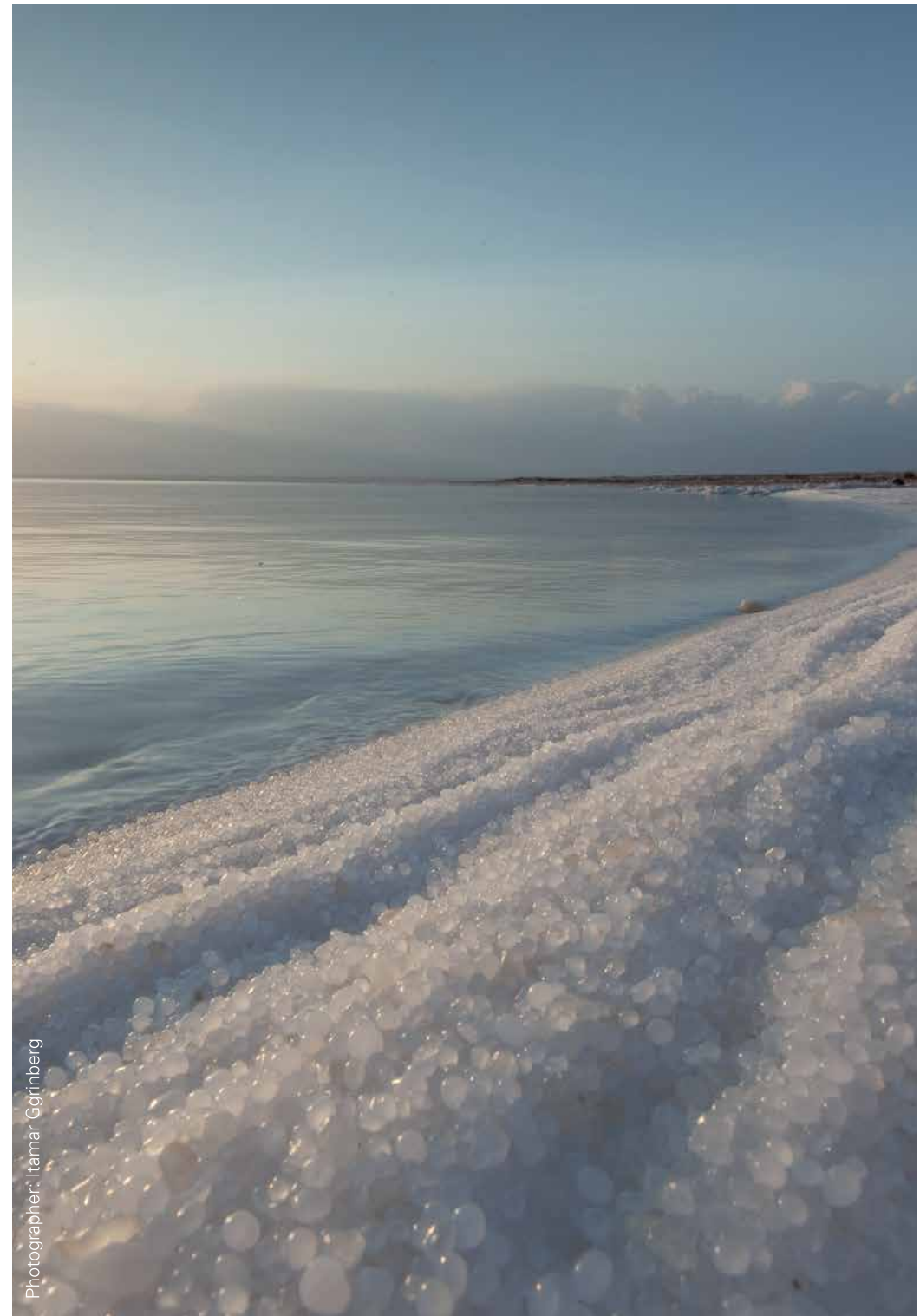
The Israeli resort city of Eilat was ranked among the 2016 TripAdvisor's Top 10 Destinations on the Rise-World, which are based on visitors' recommendations and rankings. According to TripAdvisor, "Charming Eilat is one of Israel's most popular resort cities. Nestled at the Northern tip of the Red Sea, Eilat's warm, clear waters are a huge draw for divers, while the reefs of Coral Beach Nature Reserve are perfect for snorkelers. Above sea level, the ancient copper mines of Timna National Park are begging to be explored, as are the shops, bars and restaurants of the seaside promenade."



Photographer: Itay Kadosh

The Dead Sea

According to the Lonely Planet, “the lowest place on the face of earth, the Dead Sea (428m below sea level) brings together breathtaking natural beauty, compelling ancient history and modern mineral spas that soothe and pamper every fiber of your body.” The New York Times calls Ein Gedi, a 7,000-acre nature reserve in the Judean Desert next to the Dead Sea, an “Israeli oasis as a passage to ancient times.”



Photographer: Itamar Ggrinberg

Acre (Akko)

According to the American magazine Vogue, “within the 4,500-year-old city - just more than an hour north of Tel Aviv - are fortresses that make you feel like you’re on the set of Game of Thrones, high-walled alleyways leading to ancient Turkish baths, and a colorful marketplace full of spices, fresh fish, and local crafts.”



Investments In Israel

STRONG ECONOMIC PERFORMANCE

Israel maintains a growth rate that is higher than most developed economies

2.6%	1.9%	67.6%	111.1%
Israel	OECD	Israel	OECD

This strong relative performance is supported by prudent fiscal policy resulting in a relatively low debt-to-GDP ratio

HIGH LEVEL OF HUMAN CAPITAL AND LOW UNEMPLOYMENT RATE

Israel's workforce is highly educated

47.4%
Israel
with tertiary
education

33.3%³
OECD

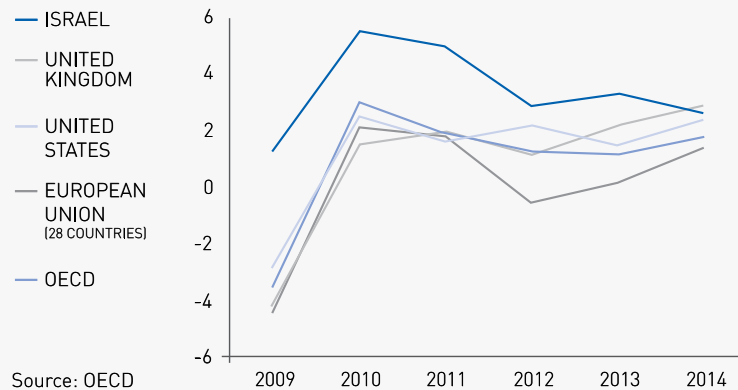
In addition, the robust economic performance manifests itself in a low unemployment rate (5.9%)⁴ as well as a high labor force participation rate

64.2%
Israel

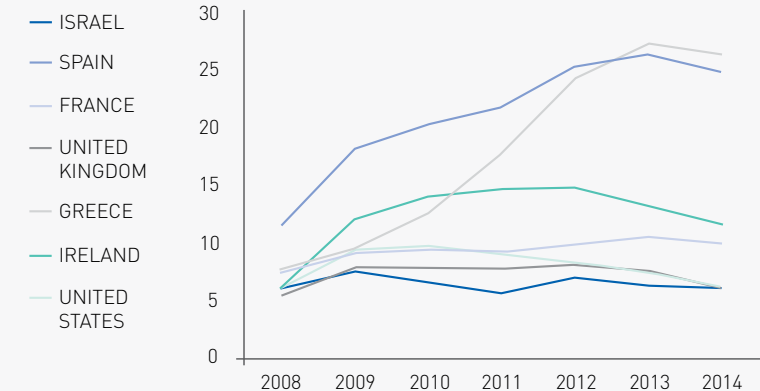
60%⁵
OECD

1. 2014 2. 2014 3. 2013 4. 2014 5. 2015

GDP GROWTH RATE (%)



UNEMPLOYMENT RATE (% OF TOTAL LABOR FORCE)



INNOVATIVE ENVIRONMENT

Israel is ranked high in recent innovation rankings (#5 in Bloomberg Innovation Index 2015).

This is supported by being a world leader in R&D rate of investment

4.2%
of GDP

2.4%⁶
OECD

which translates into the highest share of researchers per ⁷ 1,000 employed

17.4%
Israel

7.8%
OECD

VIBRANT HIGH-TECH ECOSYSTEM

Israel is home to one of the world's most vibrant high-tech ecosystems with 4.4 billion USD capital raised by Israeli high-tech companies in 2015, 9.02 billion USD worth of exits (M&A and IPO) and 89 Israeli companies listed in NASDAQ in 2015.

6. 2013 7. 2012

Background

GEOGRAPHY

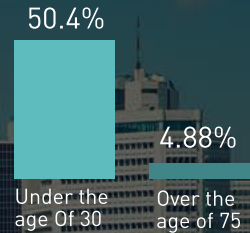


located at the junction of three continents: Europe, Asia and Africa

It covers an area of approximately
20,072
square kilometers

Bordering with Lebanon and Syria in the north, Jordan in the east and Egypt in the south west. Israel's western border lies mostly along the Mediterranean Sea coastline, with a small part of the Red Sea coastline in the south.

The population is mostly young, with 50.4% of the population under the age of 30, and only 4.88% of the population over the age of 75



age Of

5-14

Israel is also characterized by a highly educated population. In addition, Israel has a well-developed secondary and primary education, with

98%

enrolment rate among children between 5-14 years of age.

POPULATION

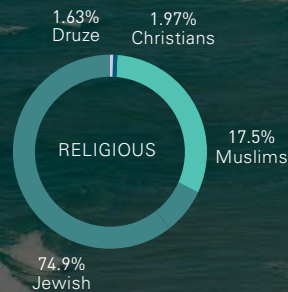
Israel has a total population of approximately

8.3

Million People

an average life expectancy of

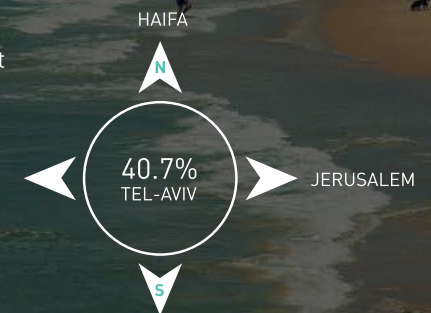
82.2 Years



POPULATION CONCENTRATIONS

Israel's largest population concentration is in the central part of the country. This central part is comprised of two districts:

the Central District and the Tel Aviv District, constituting 40.7% of Israel's total population. The rest of the population is divided between the Northern, Southern, Jerusalem and Haifa Districts.



MAJOR CITIES

Israel's major cities are Jerusalem, Tel Aviv, Haifa and Be'er Sheva. Its capital, Jerusalem, is located in the heart of Israel, and has a population of approximately 850,000 residents.

Capital
Jerusalem approximately
850,000 resident

Jerusalem is home to the major holy sites for the 3 monotheistic religions, Judaism, Christianity and Islam; such as the Wailing Wall, Al-Aqza Mosque and the Church of the Holy Sepulchre. It is also home to the official offices of the Israeli government, including the Knesset (the Israeli parliament) and the High Court of Justice.

Israel's cultural and economic hub

Tel Aviv

Tel Aviv is Israel's cultural and economic hub and is known as the country's international city. The city is located in the center of the Israeli Mediterranean Sea coastline and has a population of approximately 426,000 residents. Most of the foreign embassies and consulates are located in Tel Aviv.

Israel's major seaport city

Haifa

Haifa, located along the northern Mediterranean Sea coastline, is Israel's major seaport city and consists of a population of 277,000 residents.

southern capital of Israel

Be'er Sheva

Be'er Sheva, also known as the southern capital of Israel, is located in the Negev (Israel's major desert area), has a population of 201,000 residents and it is home to one of Israel's seven universities – Ben Gurion University of the Negev.

WEATHER AND CLIMATE

The climate in Israel is characterized by two dominant seasons: cool and rainy winters (November to May), and hot dry summers during the rest of the year.

2 dominant seasons:



winters
cool and rainy
November to May



summers
hot dry
March to December

There are some distinct differences among Israel's diverse geographical areas:

the coastline area winters are moderate and its summers are humid;

the hill regions (including Jerusalem) have dry summers and colder winters; and the Negev (situated in the south) has semi-desert conditions all year long, including relatively dry winters.

Temperatures in Israel are measured in Celsius.

OFFICIAL LANGUAGES

Official languages

שלום

Hebrew

سلام

Arabic

Israeli law defines two official languages – Hebrew and Arabic. It is important to note that English is taught in most primary and secondary education institutions and it is well spoken by the vast majority of Israel's population.

MEASUREMENT SYSTEM



Cm

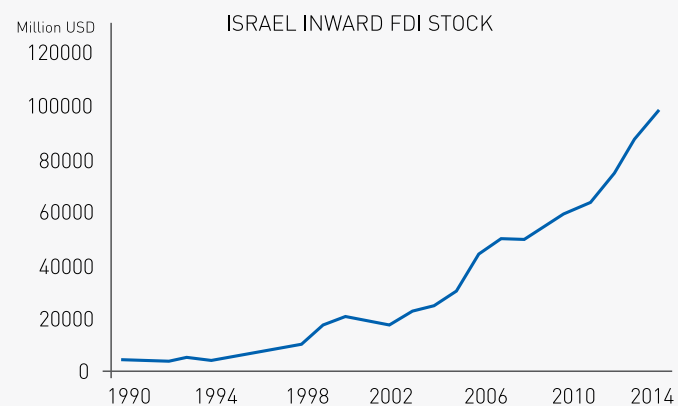
The metric system is the standard measurement system in Israel.

Macro – Economic Characteristics

	CRITERIA	AMOUNT	YEAR
CURRENCY	Monetary Unit	NIS (New Israeli Shekel), one NIS comprises 100 Agorot	
	Exchange Rates	1 USD = 3.8868 NIS	2015
		1 EUR = 4.3144 NIS	2015
GDP	GDP	299.4 billion USD	2015
	GDP Per Capita	35,549 USD	2015
	Average Annual GDP Growth Rate	3.4%	2009-2014
EMPLOYMENT	Unemployment Rate	5.9%	2014
	Average Unemployment Rate	6.4%	2008-2014

	CRITERIA	AMOUNT	YEAR
EMPLOYMENT	Labor Force Participation Rate	64.2%	2014
	Number of Employed Israelis	3,555,800	2014
	Percent of Employed Israelis Working in Positions Requiring High-Education	26.1%	2014
WAGE	Average Gross Monthly Wage for Employee	2.5K USD	2016
FOREIGN DIRECT INVESTMENTS	Foreign Direct Investments Inflows	6.738 billion USD	2014
	Foreign Direct Investments Inflows (% of GDP)	2.2%	2014

	CRITERIA	AMOUNT	YEAR
FOREIGN DIRECT INVESTMENTS	Foreign Direct Investments Inflows (% of GDP)	2.2%	2014
	Foreign Direct Investments Outflows	3.668 billion USD	2014
	Foreign Direct Investments Outflows (% of GDP)	1.2%	2014
	Inward Foreign Direct Investments Stock	98.697 billion USD	2014



	CRITERIA	AMOUNT	YEAR
INTERNATIONAL TRADE	Exports of Goods and Services (% of GDP)	32.3%	2014
	Average Exports of Goods and Service	35%	2008-2014
	Imports of Goods and Services (% of GDP)	30.6%	2014
	Average Imports of Goods and Services	33.6%	2008-2014
	Free Trade Agreements	EU, EFTA, MERCOSUR, USA, Turkey, Mexico, Canada	
GOVERNMENT DEFICIT	General Government Deficit (% of GDP)	-3.5%	2014
	Average General Government Deficit (% of GDP)	-4.1%	2014-2008



Government

SYSTEM OF GOVERNMENT

Israel is a parliamentary democracy consisting of three branches – legislative, judicial and executive. A major principle in Israel's political system is the separation of powers – in which the executive branch (the government) is subject to the confidence of the legislative branch (the Knesset – the Israeli parliament), while the independence of the judicial system is guaranteed by law.

Main Democratic Institutions

KNESSET

Israel's legislative branch, the Knesset, comprises 120 members of parliament (MKs – Members of Knesset) who are elected every 4 years, with each MK serving in the framework of a single party. The Knesset's major functions are to legislate and revise laws, review and monitor government activities and to serve as a stage for public debate.

GOVERNMENT

The Israeli government's function is to control all internal and external affairs mostly through its ministries. Each minister is usually appointed to head a certain ministry and reports directly to the Prime Minister.

JUDICIAL BRANCH

The judicial branch consists of secular and religious courts, which function as independent units within the Ministry of Justice. An important judicial establishment in Israel is the Supreme Court, which also sits as the High Court of Justice. The High Court of Justice is of extreme importance as it exercises judicial review over the other branches of the government.

PRESIDENT

The Israeli President is chosen directly by the Knesset. The candidates for presidency are nominated for their public contribution and appeal. While most of his or her duties are formal and ceremonial, the President has the responsibility of appointing the party that can establish a government following the official elections for the Knesset. In addition, the President is entrusted with pardoning prisoners and commuting sentences.

GENERAL ELECTIONS

Israeli general elections are usually held once every four years. However, elections can be held earlier in case the Knesset is dismissed, as in the case of a vote of no confidence.

Elections are general, national, direct, equal, secret and proportional, with the entire country constituting a single electoral constituency. Voters cast one ballot for a single party which they support to represent them in the Knesset, with the different parties choosing their candidates internally. The number of Knesset Members is proportional to the number of ballots a party has received, as part of the general number of ballots cast on Election Day.

Every Israeli citizen over 18 is entitled to vote, and citizens over 21 can be elected as parliament members. Voting is not compulsory in Israel despite Election Day being a national holiday (the voter turnout for the 2015 election was 67% of all eligible voters). Once official voting results are published, the President nominates the leader of a single party to establish a government (usually, but not limited to, the leader of the biggest party), within 28 days of the nomination.

120	elected every	Israeli citizen over	citizens over
Members of Knesset	4 years	18 is entitled to vote	21 can be elected as parliament members

Transportation

AIRPORTS



over
14

million international
passengers

approximately
105,000
international flights
in 2014

Israel has four official international airports (Ben Gurion, Eilat, Ovda and Haifa) that are used for transportation of cargo and passengers. Ben Gurion Airport is by far the largest and most known airport with over 14 million international passengers and approximately 105,000 international flights in 2014.

THE EILAT DEAD SEA AIRPORT

An additional international airport, the Eilat Dead Sea Airport, is now in the final phase of construction in the southern part of Israel and is designated to become the 2nd largest international airport in the country after the Ben Gurion Airport, and will replace the two existing airports in the Eilat area (Ovda and Eilat Airports).

The airport is designed to handle 2 million passengers a year upon opening, expanding to 4 million passengers a year later on.

PORTS



99%

of the country's total
imports and exports
markets

Haifa

the major one for over 50% of
all naval transportation
in 2014

Israel's main method of transportation for goods is through its naval ports, accounting for over 99% of the country's total imports and exports markets. Israel has three major naval ports – Eilat, Ashdod and Haifa, with the latter being the major one, accounting for over 50% of all naval transportation in 2014.

ROADS AND RAILWAYS



serving over
45
million passengers
in 2014

transporting over
7.5
million ton
of cargo

Israel has a well-developed road network encompassing the entire country. Israel's Ministry of Transportation has declared that between 2011 and 2016, almost 10 billion USD will be invested in improving existing road infrastructure and constructing new highways and roads throughout Israel. Another major method of transportation in Israel is its strong network of railways, operated by the Israel Railways Company ("Rakevet Israel"), serving over 45 million passengers in 2014 and transporting over 7.5 million ton of cargo.

THE TEL AVIV METROPOLITAN AREA MASS-TRANSIT SYSTEM (THE TEL AVIV LIGHT RAIL)

include
8
different lines

The Tel Aviv Metropolitan Area Mass-Transit System will include different types of rapid transit like light rail (which will run underground in some areas), bus and more. The mass-transit system will include 8 different lines and the first part of this transit system should become operational in 2021.

Tourism Figures



During 2015,

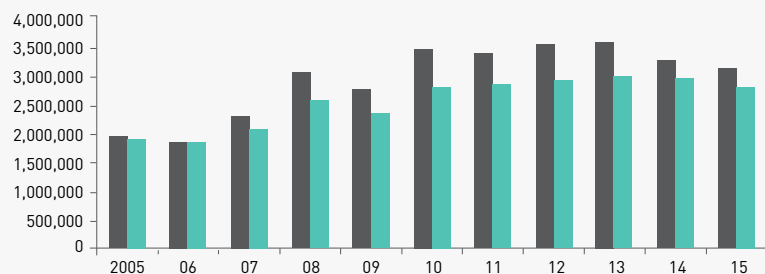
3,108,575

visitors entered Israel



2,799,398

of them were tourists (who stayed in Israel at least one night).



United States

586,000

visitors arriving

Russia

392,000

visitors arriving

France

277,000

visitors arriving

Germany

185,000

visitors arriving

United Kingdom

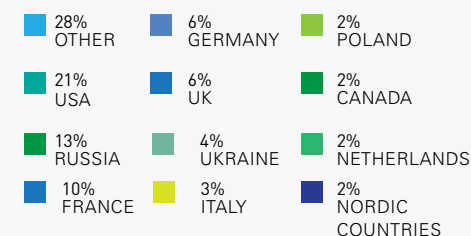
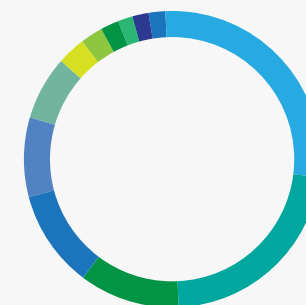
184,000

visitors arriving

During

2015

As in previous years, the United States is the largest country of origin of inbound tourists to Israel, with 586,000 visitors arriving in 2015, (representing 20% of all incoming tourism). In second place is tourism from Russia with 392,000 visitors. Tourism from France takes third place, with about 277,000 visitors, followed by Germany (185,000) and the United Kingdom with 184,000 visitors.

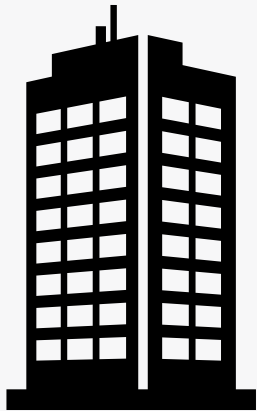


NUMBER OF CHINESE TOURISTS IN ISRAEL



47,000 Chinese tourists visited Israel in 2015, representing an increase of 43% compared to 2014 and 85% compared to 2013. For the period from January to October 2016, 61,500 tourists visited Israel from the People's Republic of China, representing an increase of 58% for the same period in 2015.

Hotels, Rooms, Bed Nights and Occupancy



374

hotels were available in 2015
in Israel (including seasonally
closed hotels)

offering
50,607
rooms

21.6

million bed nights were
recorded in 2015

8.2

million bed nights were
registered by tourists (38% of
all bed nights,)

13.4

million bed nights were
registered by Israelis.

AMONG THE 8.2 MILLION BED NIGHTS RESERVED BY TOURISTS

2.5

million bed nights (31%)
were recorded in
Jerusalem

645,000

bed nights
were registered in
Tiberias

2.2

million bed nights (27%)
were recorded in
Tel Aviv-Jaffa

408,000

bed nights
were registered in
Dead Sea area

576,000

bed nights (7%)
were registered in
Eilat

318,000

bed nights
were registered in
Netanya

645,000

bed nights
were registered in
Tiberias

430,000

bed nights
were registered in
Kibbutz's guest
houses (zimmer)

13.4 MILLION BED NIGHTS WERE RESERVED BY ISRAELIS IN 2015

Eilat was the most popular destination for Israelis

6.3

million bed nights 47% of all Israeli bed nights were recorded in

Eilat

906,000

bed nights were in Jerusalem

1.7

bed nights were recorded in

Dead Sea

hotels (13% of all Israeli bed nights)

704,000

bed nights were in Tel Aviv - Jaffa

952,000

thousand bed nights were recorded in

Tiberias

ROOM OCCUPANCY

The room occupancy rate in 2015 was

61.4%

The highest occupancy rate was recorded in the Dead Sea

70.5%

followed by Bat Yam

70.4%

a 5.5% increase compared with 2014.

Eilat

69%

the same as 2014

Haifa

59.3%

a 2% increase compared with 2014

Be'er Sheva

56%

a 6% increase compared with 2014

West Jerusalem

55.5%

a 6% decrease



Investment Incentives

THERE HAS BEEN AN INCREASE IN INCOMING TOURISM TO ISRAEL IN RECENT YEARS. BASED ON THE PROJECTIONS OF THE MINISTRY OF TOURISM, THIS TREND IS EXPECTED TO CONTINUE AND EVEN INCREASE IN COMING YEARS.

In order to resolve the expected shortage of accommodation rooms to meet the growing demand of this increase in tourism, 9,500 rooms must be added in the upcoming years.

Thus, the Ministry Of Tourism has implemented procedures that will facilitate construction of new hotels or expansion of existing ones, while giving priority to areas in high demand among tourists. This is in accordance with the encouragement of capital investments law, 5719-1959 and subject to the current priority map in the tourism industry.

Grants

According to the 2016 procedure, the Israel Ministry of Tourism provides a grant valued at 20% of the investment for:

- the construction of new hotels or expansion of existing ones (Procedure 01/2016),
- the restoration and conversion of structures for hotel use (Procedure 02/2016).

ADDITIONAL 13% GRANT:

An additional 13% grant will be given to the low-cost hotels in two stages:

- 8% in addition to the 20% grant
- 5% at the end of the calendar year, if at least 25% of the hotel revenue came from incoming tourists in a period of 18 months during the first 36 months of operation.

WHAT IS A LOW-COST HOTEL?

Low-cost hotels include:

3 ★★★
stars or less

with at least

25

rooms

backpacker
hostels with at
least

70

beds

youth hostels
with at least

125

beds

This 13% additional grant is in effect for a period of 3 years,
from July 1, 2016 to June 30, 2019.

PREREQUISITES TO APPLY FOR A GRANT:

- A valid urban construction plan designated for the purposes of establishing / expanding a hotel.
- Rights to the land (ownership or leasing agreement for a period of 20 years, or an appropriate and valid development agreement with the Israel Lands Authority).
- Proof of financial ability to pay equity of at least 30% of the total investment required for the project.

NEW PRIORITY MAP FOR THE TOURISM INDUSTRY

In order to be eligible to a grant, the project must be located within the priority map for the tourism industry. This map was expanded in 2016 and now involves most areas of the country, excluding Tel Aviv and Herzliya.

Amendment No.107 to the Planning and Building Law [5725-1965]

In addition to the existing grants, Amendment No.107 to the Planning and Building Law [5725-1965] proposed by the Tourism Minister, MK Yariv Levin, and the Ministry of Finance, was passed by the Knesset on August 1, 2016. This amendment aims to:

- Increase economic profitability for investors in the hotel industry,
- Simplify and shorten the process of hotel planning and construction in Israel.

INCREASED ECONOMIC PROFITABILITY

Please note, the existing Planning and Building Law already offers the possibility for hotel promoters to request a permit for up to an additional 40% of the authorized surface for **hotel purposes** (§62a(1a)(3) of the Planning and Building Law) when building a hotel.

This new Amendment now offers hotel promoters an opportunity to request a permit for up to an additional 20% of the authorized surface mentioned above for **residential use** when:

1. Building a new hotel
2. Converting an existing property into a hotel
3. Expanding an existing hotel: the expansion must be minimum 50 new rooms. 20% of this expanded surface can be allocated for residential use (not the whole surface of the hotel).

This section of the Amendment regarding the additional 20% for **residential use** is valid for 2 years only from the date of publication of the Amendment.

EXAMPLE

a hotel chain intends to build a new 1000m² hotel in Israel. The proprietor has the following 4 options:

- Remain with 1000m²,
- Add up to 400m² for hotel use, for a total of 1400m²,
- Add up to 200m² for residential use, for a total surface of 1200m²,
- Add up to 200m² for residential use and 200m² for hotel use, for a total surface of 1400m².

LESS BUREAUCRACY: A SHORTER AND CENTRALIZED PROCEDURE

In order to simplify and to accelerate the process of planning hotels, it is now possible to have new hotel projects classified as “national infrastructures”.

National infrastructures are defined in the Planning and Building Law as installations of public importance such as airports and roads. New tourism infrastructures are now also included in the definition of national infrastructures (§76b(1) of the law).

The following new projects may be classified as “National Infrastructures” (§1 of the Law):

- Hotel of at least 400 rooms,
- 2 hotels of at least 300 rooms overall,
- 4 hotels of at least 25 rooms in each hotel,
- A transport infrastructure with a potential to attract tourism to the region,
- A tourism attraction, with a potential to attract tourism to the region, built in the area of one of the hotel projects listed above.

THE NATIONAL INFRASTRUCTURE COMMITTEE

The National Infrastructure Committee is the Authority to approve the above-mentioned tourism infrastructure projects.

The National Infrastructure Committee is a “one stop shop” for the investor: from the day the application is filed until the building permit is granted.

EXAMPLE:

a hotel chain intends to build 3 new hotels, for a total of 350 rooms:

one in one in one in
Eilat Jerusalem Tel aviv

Instead of filing 3 separate requests with the Local Committees of each of these cities (Eilat, Jerusalem and Tel Aviv) in order to obtain 3 building permits, the hotel chain will file the 3 requests only with the National Infrastructure Committee for the 3 hotels.

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