

# Natam Report

Israeli Office and Industrial Market Survey



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No. 22 Summer 2008

Natam's research department carries out a survey of Class A office buildings in Metropolitan Tel Aviv and its periphery. This survey does not include all Class A buildings, but represents a market model for occupancy rates and rental prices.

#### Methodology:

Natam's research department includes data in the office survey according to the following criteria:

- Class A buildings with at least 10,000 sm. of rentable space and full building systems: HVAC, elevators, full management services, etc.
- Rent reported in the survey is based on the landlord asking price.
- The survey includes properties ready for immediate occupancy or ready within 6 months.
- All occupancy rates are based on landlord reporting.
- Office prices include standard interior finish of \$300 per sm.
- **Exchange Rates NIS/USD: To date, Natam Report has reported real estate prices in US Dollars. Due to the weakening of the US dollar during the past year, the Israeli real estate market has moved over to shekel based pricing. In the past, landlords stated asking prices in dollars and then converted the dollar value to shekels upon contract signing. Currently most landlords only quote prices in shekels. In order to provide a basis for comparison to the previous reporting period from Natam Report Winter 2008, we have converted the US Dollar figures into NIS, based**

**on the exchange rate used for that report of four NIS to one USD.**

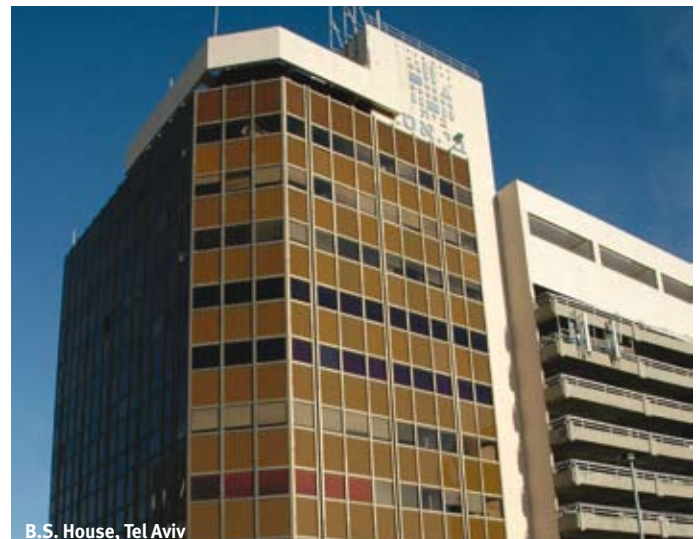
#### Trends:

- During the first quarter of 2008 the real estate market remained vibrant. The second quarter saw a slowing in demand, however rental rates were stable.
- Many lease transactions for international technology firms were canceled, or put on hold. Many of these firms have opted to reassess their real estate budgets for the coming years. In addition, many firms have reduced their head count projections.
- Construction costs have risen approximately 30% since the beginning of 2008, which has led to a rise in asking prices for built-to-suit properties.
- There are several speculative office projects under construction, however most of the larger projects are marketed "on paper", and seek a pre-lease anchor tenant for 30-50% of the project prior to initiating construction.
- Industrial and logistics properties are still enjoying high demand, especially for rental space.
- The Israeli real estate market was not directly impacted by the international real estate credit crisis as were many countries that enjoyed highly leveraged real estate transactions. The conservative lending practices in Israel since the 2001 Dotcom Crisis has remained unchanged, thus mitigating erosion of values due to foreclosures or extreme increases in financing costs.

**Available for Order: Colliers International Office Rents Map-EMEA, Industrial and Logistics Map-EMEA, Investment Survey-EMEA, Office Occupiers Survey EMEA. Also available on [www.natam.co.il](http://www.natam.co.il)**



Taya Center Raanana



B.S. House, Tel Aviv

The buildings are managed and marketed by Natam-Colliers International

Natam surveyed 7 submarkets that represent the major markets in CBD Tel Aviv and Ramat Gan. In total 763,000 sm. of class A space is represented in this report.

## Summary of Findings

Location	# of Bldgs in Survey	Total Area in Survey (sm)	Rented Area (sm)	Occupancy rate as of Winter 2008 (%)	Occupancy rate as of Summer 2008 (%)	Average asking price Winter 2008 (NIS/sm)	Average asking price Summer 2008 (NIS/sm)
Courthouse	4	68,388	65,443	94.37%	95.69%	91.12	112.11
M. Begin Rd. Corridor	11	217,800	214,031	97.77%	98.27%	87.40	117.39
Yigal Alon Rd. Corridor	5	88,815	88,652	99.68%	99.82%	61.80	70.17
Manshia	5	87,563	84,311	97.42%	96.29%	64.64	72.14
City	4	74,271	74,221	96.70%	99.93%	69.60	89.66
Central Tel Aviv	5	71,348	68,374	96.22%	95.83%	64.44	81.91
Ramat Gan – Bourse	9	154,804	150,678	98.69%	97.33%	89.16	104.16
<b>Total Average</b>	<b>43</b>	<b>762,989</b>	<b>745,710</b>	<b>97.26%</b>	<b>97.59%</b>	<b>75.45</b>	<b>92.51</b>

↑ +0.3%

↑ +22.6%

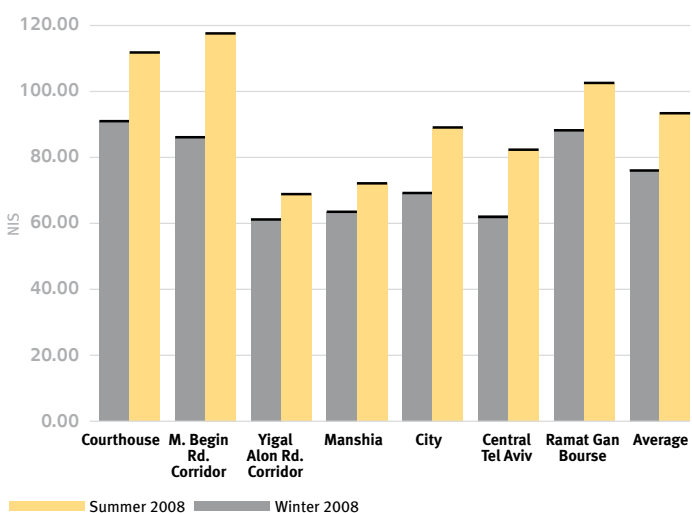
## Trends

- Asking rents have increased without significant changes in the already high occupancy rates. There is no new office product on the market for occupancy during Q2-Q3 2008. For every space available there are many takers.
- The rental rates have reached the top of the market in 2001 prior to the Dotcom Crisis, and top asking rents in Class A buildings have reached \$37 per sm. as in 2001.

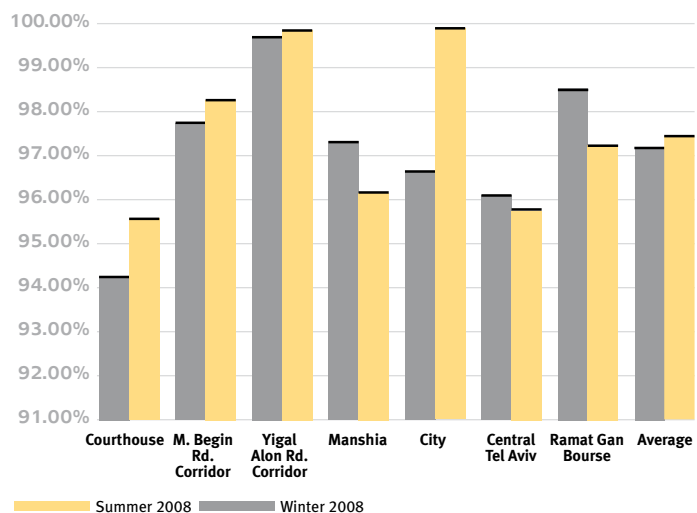
## Forecast

- During the second quarter of 2008 demand was curtailed. Several developers began speculative construction during the past year, and these projects will be ready for delivery during Q4 2008-Q4 2009.
- Asking prices are expected to further stabilize and possibly decrease during the next quarter.

Average Rental Asking Price Metropolitan Tel Aviv - Ramat Gan Winter 2008 – Summer 2008



Occupancy Rates Metropolitan Tel Aviv - Ramat Gan Winter 2008 – Summer 2008



## Periphery I

Location	# of Bldgs in Survey	Total Area in Survey (sm)	Rented Area (sm)	Occupancy rate as of Winter 2008 (%)	Occupancy rate as of Summer 2008 (%)	Average asking price Winter 2008 (NIS/sm)	Average asking price Summer 2008 (NIS/sm)
Herzliya Pituach	11	142,197	139,411	95.50%	98.04%	64.96	73.57
Or Yehuda (*)	4	31,255	27,530	94.62%	88.08%	49.68	56.57
Petach Tikva	13	169,118	150,588	97.05%	89.04%	59.04	68.21
Ramat Hahayal/Atidim	11	133,465	127,516	98.36%	95.54%	62.60	74.67
<b>Total Average</b>	<b>39</b>	<b>476,035</b>	<b>445,045</b>	<b>96.38%</b>	<b>92.68%</b>	<b>59.07</b>	<b>68.26</b>

(\*) There are not Class A office buildings in Or Yehuda, but the better ones were surveyed (Class B+)

↓ - 3.9%

↑ +15.5%

## The Greater Tel Aviv Suburban Office Market is divided into two regions:

Periphery I: Locations within a 15 km. radius from Tel Aviv

Periphery II: Locations within 15-30 km. radius from Tel Aviv.

### Trends

- In Periphery I, asking rents reached the levels of the Tel Aviv CBD in some of the submarkets, similar to the market peak of 2001.
- Occupancy rates have remained stable. Demand for new space has slowed. High-tech tenants, who populate these areas have slowed any expansion plans.
- In several cases, space for sublease is under offer, though not to the extent experienced during the Dotcom Crisis. Sublease space is not being offered at discounted rents at present.

### Forecast

- In Herzliya and Petach Tikva, a number of projects will be ready for occupancy in 2009. Some of these projects were pre-leased, however several tens of thousands of meters will enter the market supply and may drive down occupancy rates.

- During the next year, declines in asking rents and occupancy rates are anticipated, due to the extensive construction in many of these submarkets.



City Plaza Petach Tikva – office project in final construction stage, marketed by Natam-Colliers International

## Periphery II

Location	# of Bldgs in Survey	Total Area in Survey (sm)	Rented Area (sm)	Occupancy rate as of Winter 2008 (%)	Occupancy rate as of Summer 2008 (%)	Average asking price Winter 2008 (NIS/sm)	Average asking price Summer 2008 (NIS/sm)
Raanana	4	51,392	51,380	98.09%	99.98%	64.56	69.23
Netanya - Poleg	3	84,400	82,837	99.05%	98.15%	51.48	53.78
Nes Ziona / Rehovot	3	40,192	37,932	94.07%	94.38%	46.72	47.82
Kfar Saba	7	58,635	57,503	97.68%	98.07%	49.56	52.37
Rosh Haayin	10	103,930	93,152	86.33%	89.63%	43.00	43.54
<b>Total Average</b>	<b>27</b>	<b>338,549</b>	<b>322,804</b>	<b>95.04%</b>	<b>96.04%</b>	<b>51.06</b>	<b>53.35</b>

↑ +1.0%

↑ +4.5%

## Industrial Buildings – Average Prices Survey (NIS/sm)

	Central Israel	Sharon Area	Yavne / Ashdod	Ashkelon / Kiryat Gat	North of Israel
<b>Built to Suit</b>	31.50	26.25	28.00	22.75	18.40
<b>New Buildings</b>	26.25	22.75	21.90	21.00	16.60
<b>Old Buildings</b>	21.00	21.00	15.75	15.75	12.25

In this report five industrial areas were reviewed. The buildings are classified by type as follows:

**Built-to-Suit Construction:** Buildings built according to the client needs (Tailor Made). Rental rates in the table below are estimated for an 8 meter high building including electricity, sprinklers and development of the surrounding lot.

**New Buildings:** Buildings that were built in the last 10 years. High-level ground floor spaces, with access to heavy vehicles.

**Old Buildings:** Buildings more than 10 years old. Typically a lower standard of units, some of them may have asbestos roofing, no sprinklers, and accessibility limitations for heavy vehicles.

### Trends

- Demand for industrial and logistics space remains strong.
- Supply of vacant or new product is very limited in most submarkets in the center of the country, and occupancy rates are 95%.
- Most of the new construction for industry and logistics is Built-To-Suit, and asking rents by developers reflect a 10% investors yield on land construction costs.
- Land sale prices are high in relation to the density required by industrial and logistics companies-40-50% on one floor, as opposed to the building rights which allow for 120-140% on three floors.
- Construction costs have risen 30% since the beginning of the year.

### Forecast

- During the next six months, demand for logistics and industrial space is expected to remain stable.
- Despite the high demand for rental space, land prices for logistics and industrial construction are not expected to rise due to the reasons outlined above.

## Land for Industrial Uses – Price Chart (NIS/dunam)

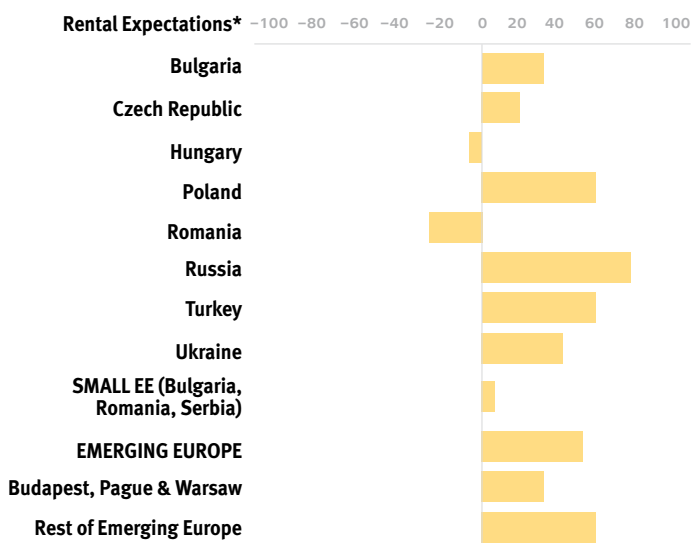
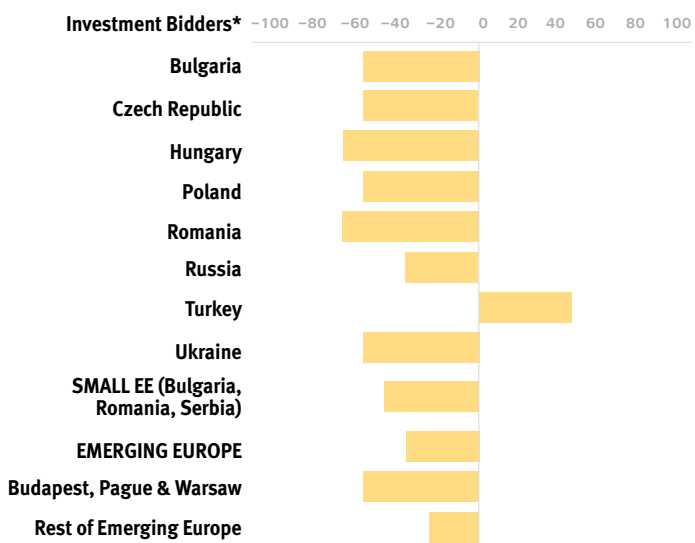
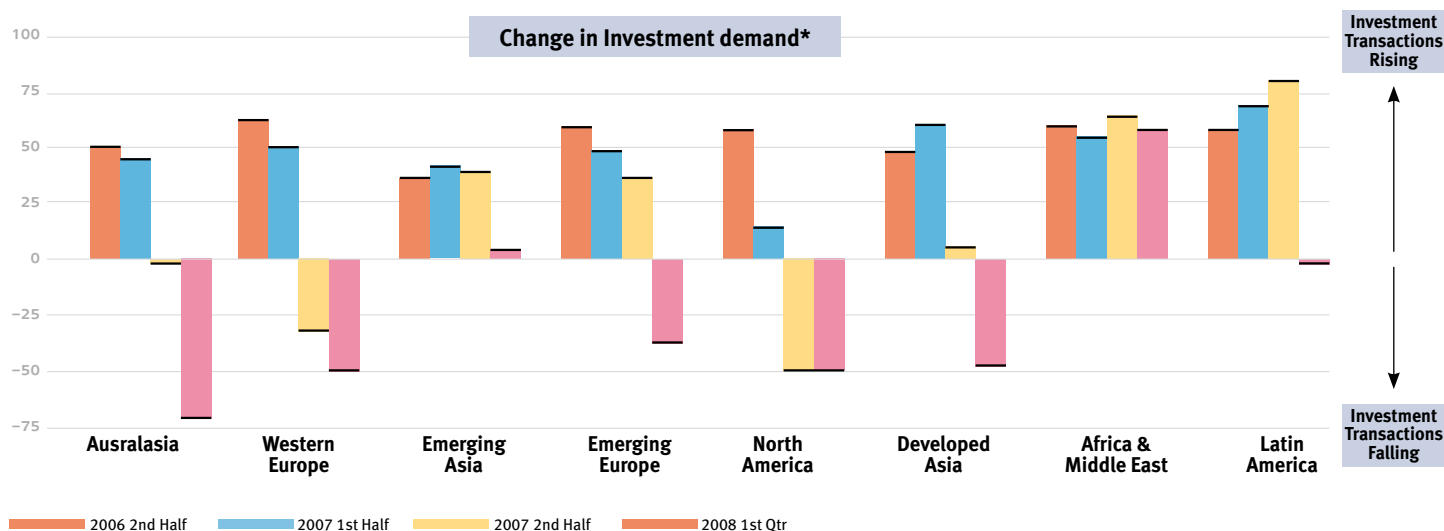
<b>Central Israel</b>	Petach Tikva	1,575,000 - 2,450,000
	Holon	1,400,000 - 1,750,000
	Rishon Lezion	1,400,000 - 1,750,000
	Lod – Ben Gurion	875,000 - 1,400,000
<b>Sharon Area</b>	Raanana	2,100,000 - 2,800,000
	Kfar Saba	1,050,000 - 1,225,000
	Kadima	630,000 - 787,500
	Netanya	1,050,000 - 1,400,000
	Emek Hefer	420,000 - 525,000
<b>Yavne / Ashdod</b>	Yavne	787,500 - 840,000
	Ashdod	525,000 - 787,500
<b>Northern Israel</b>	Haifa Bay	525,000 - 630,000
<b>Southern Israel</b>	Ashkelon, Kiryat Gat	192,500 - 350,000

# Focus on International and Israeli Real Estate in Light of the Subprime Crisis

According to research published by RICS (The Royal Institute of Chartered Surveyors) research division headed by Oliver Gilmartin, the global real estate market is not experiencing a recession across the board due to the Subprime Crisis. The market data shows

divergent trends between developed markets and real estate markets in the developing world. Developed markets such as the US, Japan, England and France are experiencing a severe downturn, whereas developing countries are still enjoying a period of growth.

## Balance of Respondents (%)



\* Source: RICS Survey. Figures do not show percentage change, only the balance between respondents reporting a rise or fall.

In addition, the RICS survey showed that despite investor confidence that rental rates will continue to rise in most of the markets, the investors are reevaluating risk, meaning that investor yields are rising in accordance with the anticipation of declining real estate values.

Based on the results of Q-1 2008, the Israeli GNP has risen 5.4% from the same period in 2007. The research department in the Bank of Israel reported in August 2008 that the anticipated economic growth for 2009 is 2-3% p.a. This data does not reflect the IMF's (International Monetary Fund) predictions for the entire Middle East for 2008-2009.

Year	Middle East	Emerging Asia	Central and East Europe	G7	World
2007	5.8	9.7	5.8	2.2	4.9
Expected 2008	6.1	8.2	4.4	1.2	3.7
Expected 2009	6.1	8.4	4.3	2.1	3.8

Source: IMF, OEF, RICS

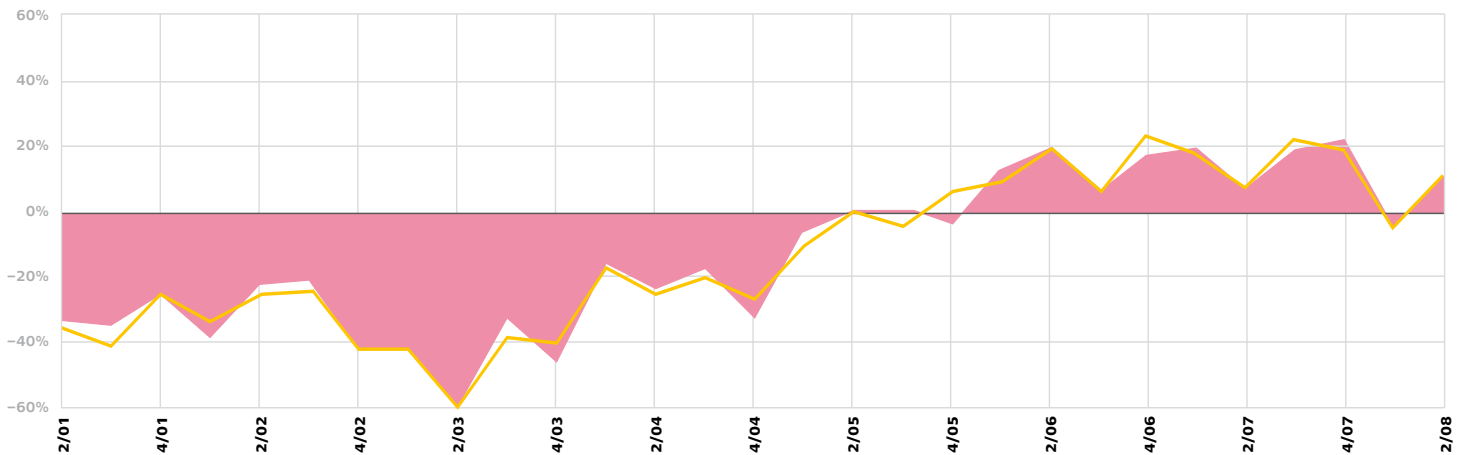
Due to the limited supply of bank finance for real estate development over many years, Israel has not been a direct victim of the Subprime Crisis. At present there is no significant policy change on the part of Israeli financial institutions regarding real estate finance. Publicly traded real estate companies have suffered heavy losses in share value, mostly due to revaluations of their foreign assets.

According to the Central Bureau of Statistics, construction starts in Israel increased during the past two years. According to Bank of

Israel in 2008 there were 1,688,000 sm. of residential construction starts as opposed to 1,810,000 sm. for the same period last year. There is also a general slowdown in construction for the business sector.

Natam's research department and the data provided by the CBS does not indicate that the construction starts will lead to a glut on the market at present.

**Construction - net balance of activity**

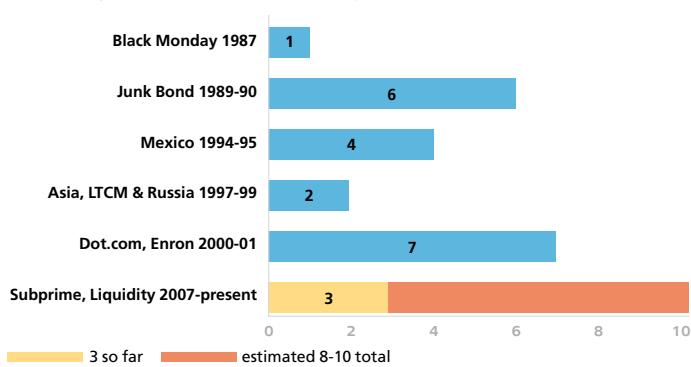


Source: Bank of Israel, Research Dept. Companies Survey Q2, 2008

**How much time is required for the recovery of the international real estate market?**

According to the RICS survey, the time it took for recovery from the following economic and consequent real estate crises, is as follows:

Time (in quarters) until returned to pre-crisis levels



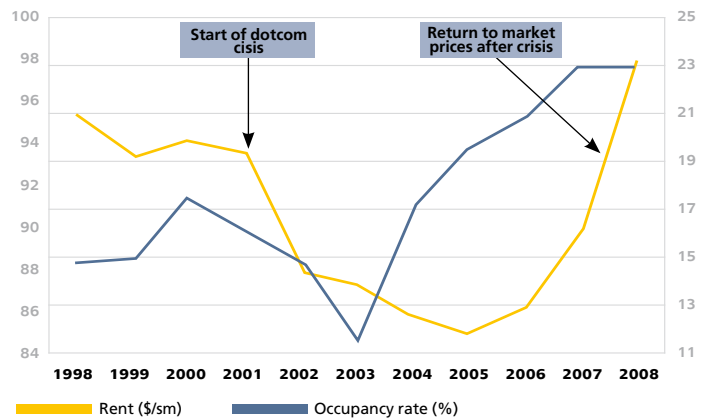
Source: SIFMA, Oliver Wyman Analysis, City AM, CBRE

The RICS survey indicates that those surveyed believe that recovery from the current crisis will take 10 quarters (up to 30 months). In Israel, rental rates and sales prices returned to pre-crisis levels from the Dotcom crisis after 6 years.

**Potential Impact of the Subprime Crisis on the Israeli Real Estate Market**

- Decline in the number of foreign purchasers for luxury residences in Israel, especially in locales that cater to foreigners such as Jerusalem and Natanya.

**Tel Aviv – Ramat Gan CBD Offices  
Occupancy Rates and Average Rental Rates, 1998-2008**



- A weakening of tenancies, especially of foreign publicly traded companies, who have suffered weakened share prices.
- A decline in demand for large office space by international companies active in Israel.
- Increase in sales of both foreign and local real estate holdings by Israeli real estate companies that are highly exposed to foreign markets.
- The commercial banks have tightened criteria for financing income producing property in Israel, and the Bank of Israel's current policy has led to slight increases in the Bank's interest rate. In August 2008, the Bank of Israel announced an interest rate rise to 4%.
- A continued rise in interest rates will lead to the inevitable rise in cap rates, and the consequent decline of real estate values.

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