



REAL ESTATE

## ***The Israel Office Market***

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**Additional Reports:**

The Herzliya Office Market

**Forthcoming Reports:**

The Tel Aviv Office Market

The Tel Aviv Retail Market

This report is based on a database compiled primarily from the public information of more than 40 real estate companies traded on the Tel Aviv Stock Exchange, and reflects the listed commercial property market in Israel.

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## Overview

The following report is a general survey of the Israeli office market, based on our unique database of commercial real estate in Israel.<sup>1</sup>

According to our data and analysis the size of the listed office market is around 2.5 million square meters in terms of GLA, and NIS 23 B (USD 6 B)<sup>2</sup> in terms of fair value as of the end of 2011. Geographically, most properties are concentrated in the Tel Aviv district<sup>3</sup>: 51% of the GLA of the listed sector, and 72% of its total fair value. Within the district, most properties are concentrated in two cities: Tel Aviv (50% of the GLA in the district, 74% of fair value) and Herzliya (32% of the GLA in the district, and 20% of fair value).

## Vacancies

We observe a steady increase in vacancies from 2009 to the end of 2011. The overall vacancy rate is lower in the properties owned by large companies<sup>4</sup>, and the decline in their occupancy rates is lower than that of the whole market. In 2011 the overall occupancy rate went below 90%.

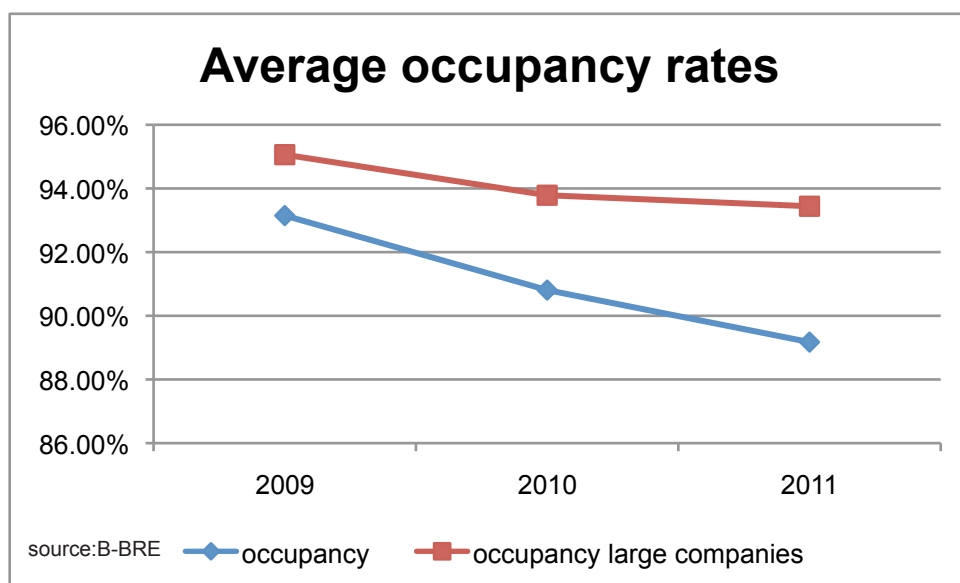
It is important to note that the occupancy rates on 31.12.2011 were overall higher than the average for the whole year (2011).

1 The main source is the financial reports of public companies.

2 Prices in USD were calculated according to an exchange rate of 1 USD = 3.80 NIS.

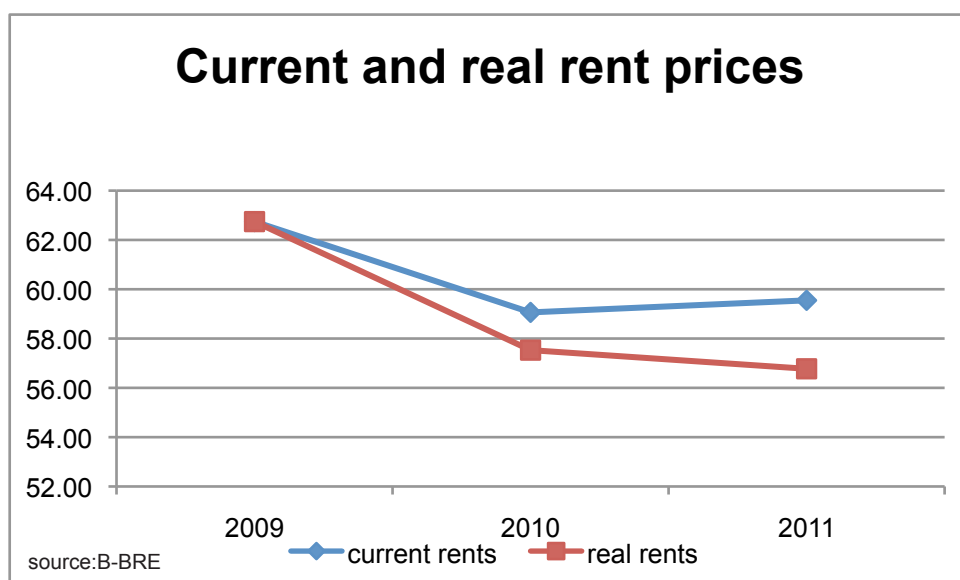
3 The Tel Aviv district, as defined by the Ministry of Interior, includes Tel Aviv, Herzliya, Givatayim, Ramat Gan, Bat Yam, Bnei Brak, Or Yehuda, Kiryat Ono, and Ramat Hasharon.

4 Large companies for the purpose of this report are companies that held more than NIS 1 B in office properties, and reported consistently for the last 3 years.



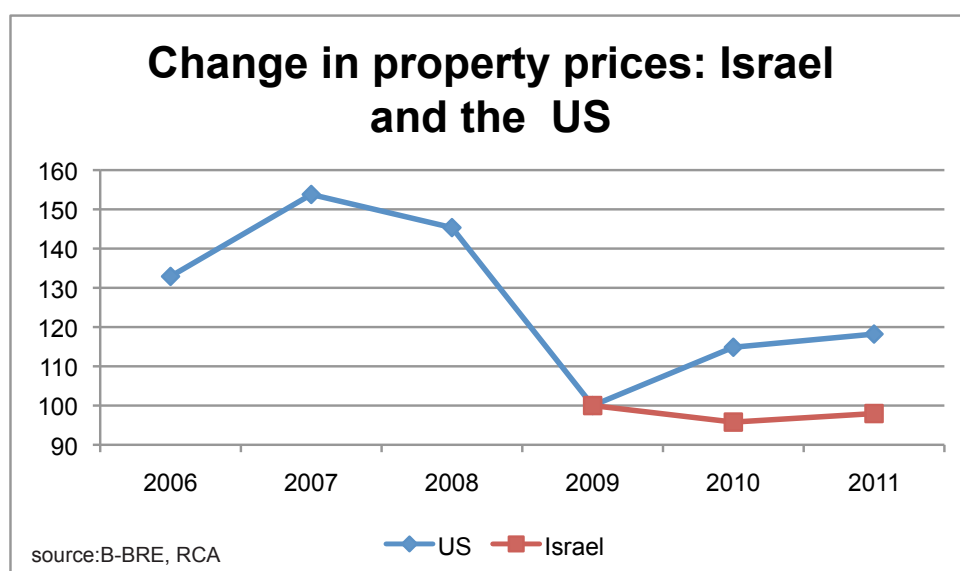
## Rents

We can see a decline in rents, when measured in real prices. The decline is less steep in 2011.



## Prices (fair value per square meter)

The chart presents the change, YoY, in the fair value per square meter (2009 = 100). Prices declined by 4% in 2010, and rose again, by 2%, in 2011. The average fair value per square meter for office properties in Israel was NIS 9,600 (USD 2,500) in 2011.



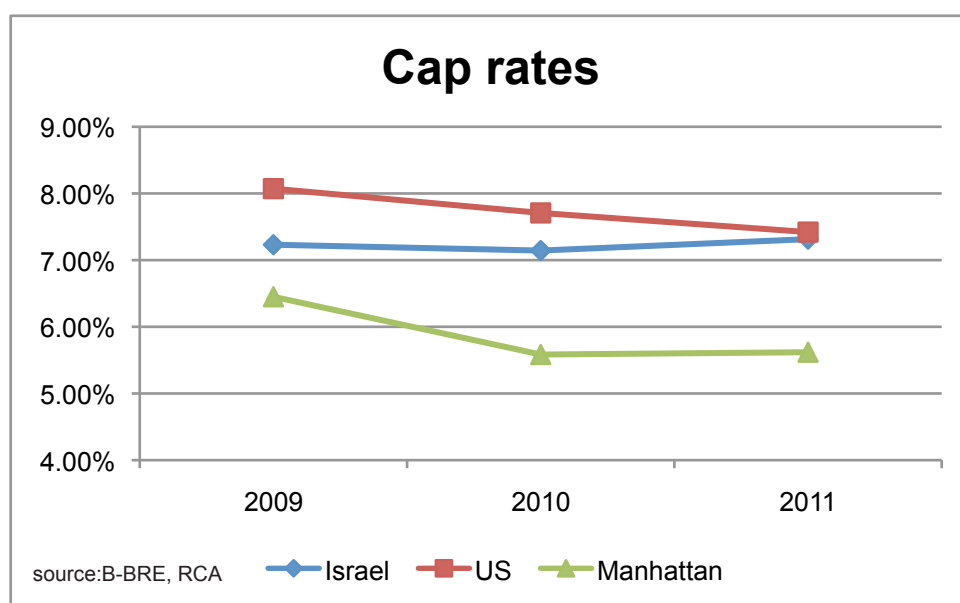
The overall decline by 2% as compared to 2009 reflects the trends we observed earlier: rise in vacancies and decline in rents.

The cumulative rise of 4% in vacancies and the 9% decline in rents could have led us to expect a sharper decline in property prices. But these numbers do not contain the whole picture: in 2010 the rents in new contracts were 1% lower than the average rents; in 2011 we see a reversal of this trend, and the rents in new contracts are 1% higher than the average rents. A similar trend can be observed in vacancies: vacancies on 31.12.2010 were higher than the average for the year, while vacancies on 31.12.2011 were lower than the average for the year. This could explain the rise in property prices in 2011 in spite of the decline in rents and rise in vacancies. The fair value for 31/12/2011 reflected expectations for higher rents and lower vacancies than the average rents recorded for the whole year.

It is interesting to compare the trends in Israel to those in the US. Prices in the US rose by 18% between 2009 and 2011. Even so, prices did not rebound to their peak of 2007. The average price per square meter in the US was USD 2,200 at the end of 2011, similar to the price in Israel. In terms of PPP, however, the price in the US is cheaper by a third than the price in Israel (USD 1,400).

## Cap Rates

Cap rates remained basically unchanged during this period (2009-2011), as reflected in the following chart:



We can see that the cap rates in the US are similar to those in Israel. If we take into consideration the difference in country risk, this could raise questions regarding the future behavior of the various market parameters in each country.

Another issue related to the comparison of cap rates in the US and Israel is the claim that yields in Israel are linked to the inflation while in the US they are nominal. However, in the US contracts have mechanisms that periodically update the prices, which are effectively tantamount to a link to the CPI. This renders investment in such properties, overall - both in Israel and in the US - a hedge against inflation.

### Future supply

The listed companies report a total of 555,000 square meters of properties under construction. This amounts to an increase of 24% over the current stock of properties owned by listed companies. Most of the additional supply is in the Tel Aviv district.

### Summary

The data points to an increase in vacancies and decline in rents. The effect of these trends on the market as a whole has not been dramatic: cap rates in 2011 have been stable, and there is a minor decline in property prices (fair value per square meter). Nevertheless, when we take into consideration the future supply, we can see clouds gathering on the horizon: A starting point of 11% vacancies and some uncertainty on the macroeconomic level renders the business environment quite challenging for the companies in the office sector.

## **B-BRE (Bregman-Baraz Real Estate)**

B-BRE was established by Nirit Bregman and Daniel Baraz as a real estate research and consulting firm, with a special focus on the Israeli market. Our flagship project is the construction of database of commercial properties in Israel, similar to such databases in other developed countries, on the basis of information provided by players in the sector (real estate companies and institutional investors). Our partner in this endeavor is the [Forum Group](#) specializing in global asset management and private equity investments. For the full range of our research products on the Israeli market and for other services, including our new [B-BRE index](#) please see <http://b-bre.com/services>

**B-BRE congratulates the companies which decided to join and support this initiative, and encourages all participants in the Israeli commercial real estate market to follow the industry practice in most developed economies and participate in the creation of this database. Such a database will increase the level of information and improve transparency for the benefit of all market participants.**

### **Contact**

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