REAL ESTATE

Sample Report
The Tel Aviv Office Market

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Overview

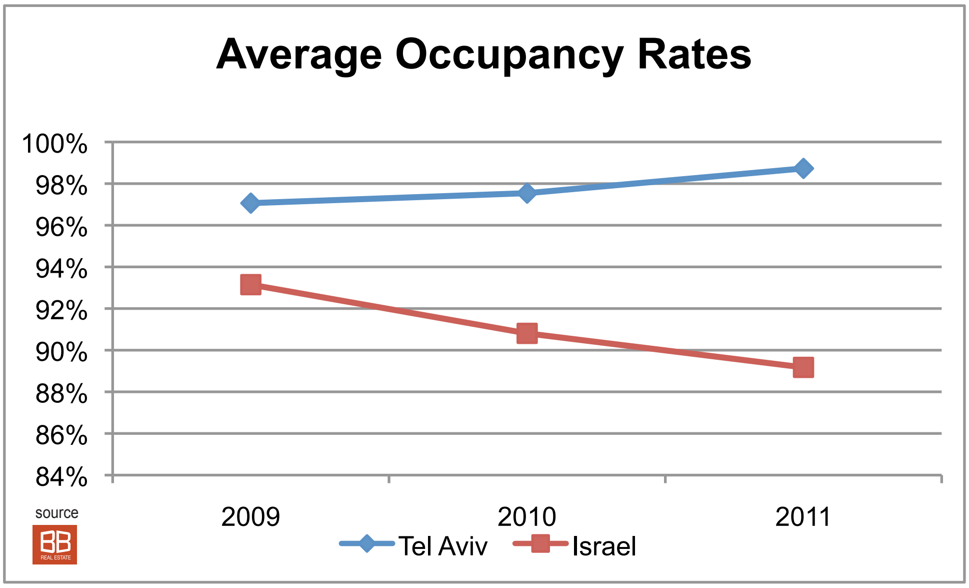
Tel Aviv is the main business center of Israel. Despite its being treated as one unit, it is divided into zones that differ from one another in the performance of their office properties. In the present report we mapped 16 **primary properties**[1] of listed companies into 5 zones: (1) the courts compound (Courts); (2) Rothschild St. zone (Rothschild); (3) the Ayalon freeway zone (Ayalon); (4) the Government compound zone (Kirya); and (5) Ramat ha-Chayal. All data in the current report is same property, i.e. we included properties for which we had data since 2009.

Overall, we can see that Tel Aviv justifies its reputation as prime location: The performance of its office properties is better than the Israeli average. Nevertheless, at least for some of the parameters we examine, it is necessary to perform a zone-level analysis, as we shall show below.

In this basic report we examine vacancies, rents, prices (as reflected in IFRS valuations), actual cap rates, and future supply.

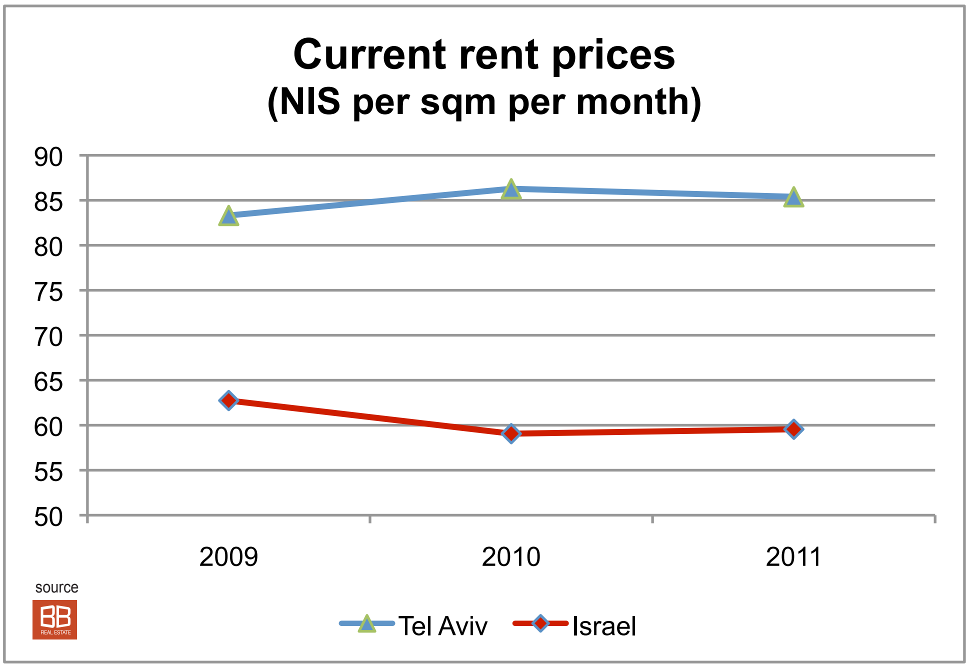
1) For a map displaying the properties, please see our 2011 report:
http://b-bre.com/sites/default/files/2011_randp_attachments/b-bre_2011_tel_aviv_office_report.pdf.

Vacancies

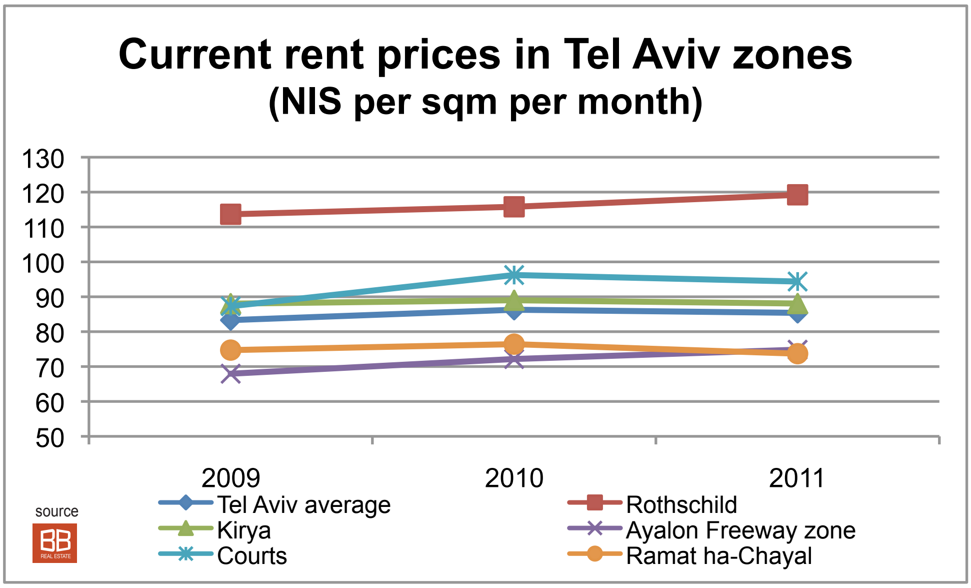


As can be seen in the chart, Tel Aviv is very close to full occupancy. Vacancies have consistently declined in the last 4 years, reaching almost zero levels currently. This is true also when we drill down into the zone level. If we look at the whole of Israel, we can see a reverse tendency of falling occupancy levels. The 99% occupancy level in Tel Aviv is 10% higher than the Israel average.

Rents

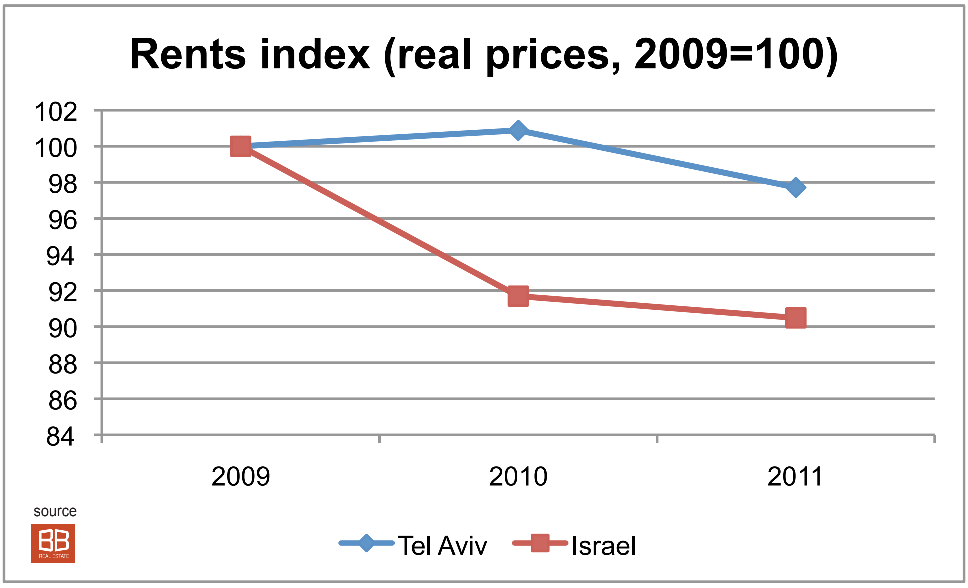


Rents have been stable over the period reviewed, both in Tel Aviv and in Israel. It is interesting, however, to get down to the zone level:

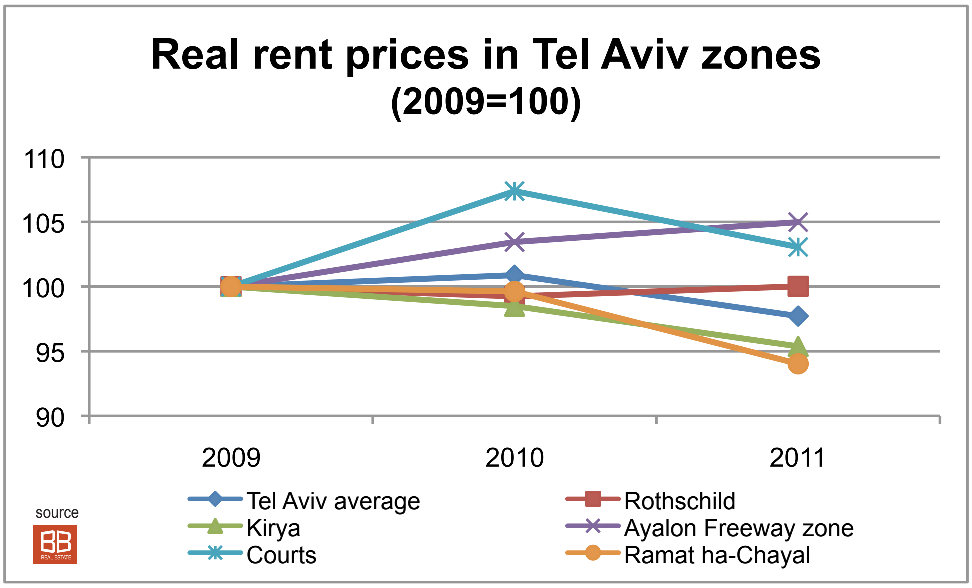


Whereas occupancy levels have been similar in all zones, rent levels show significant variation. Rents in the Rothschild St. zone, which is the most expensive, are 60% higher than those in the cheaper zones, Ramat ha-Chayal and the Ayalon freeway zone. This gap is wider than the gap between the Tel Aviv average and the Israel average, which is ca. 40%. Nevertheless even the cheaper zones in Tel Aviv are more expensive than the Israel average.

The above analysis refers to the nominal prices. When we examine real prices (adjusted for inflation) we can see a moderate decline in Tel Aviv prices, which is significantly lower than the almost 10% decline in Israel overall.

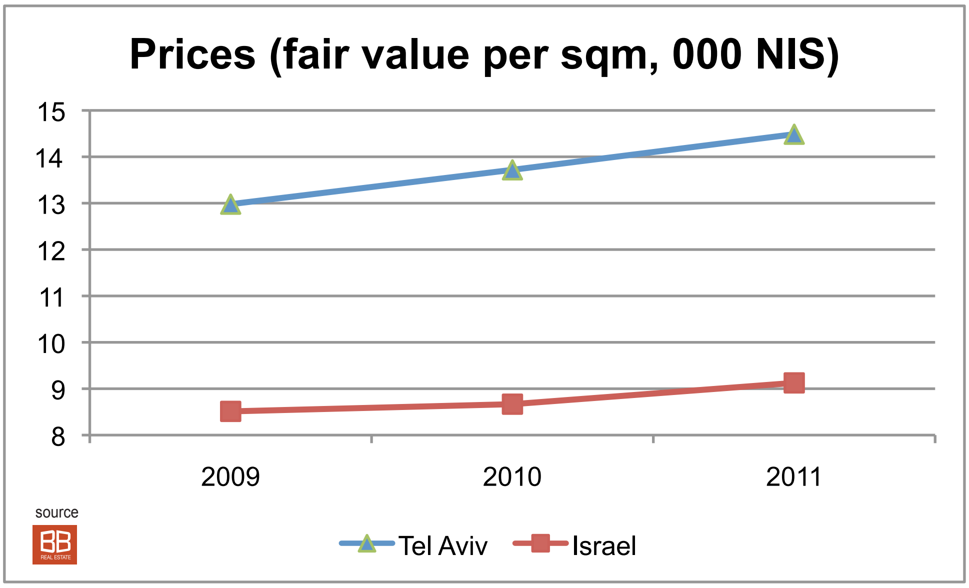


At the zone level, the picture is more complex: in most zones real rents declined by a few percent, with the exception of the Rothschild St. and the Ayalon Freeway zones.

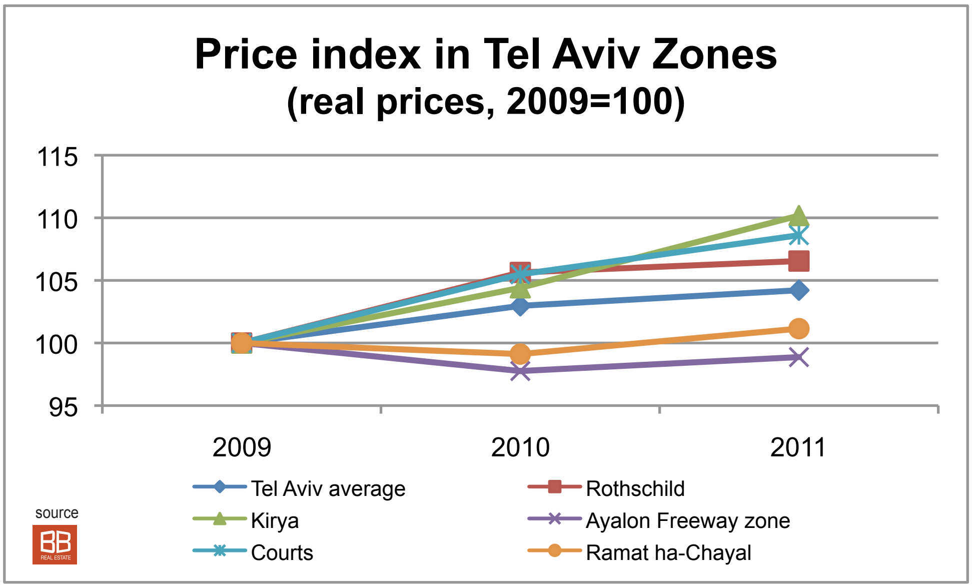


Prices

The following chart reflects the change in property prices:

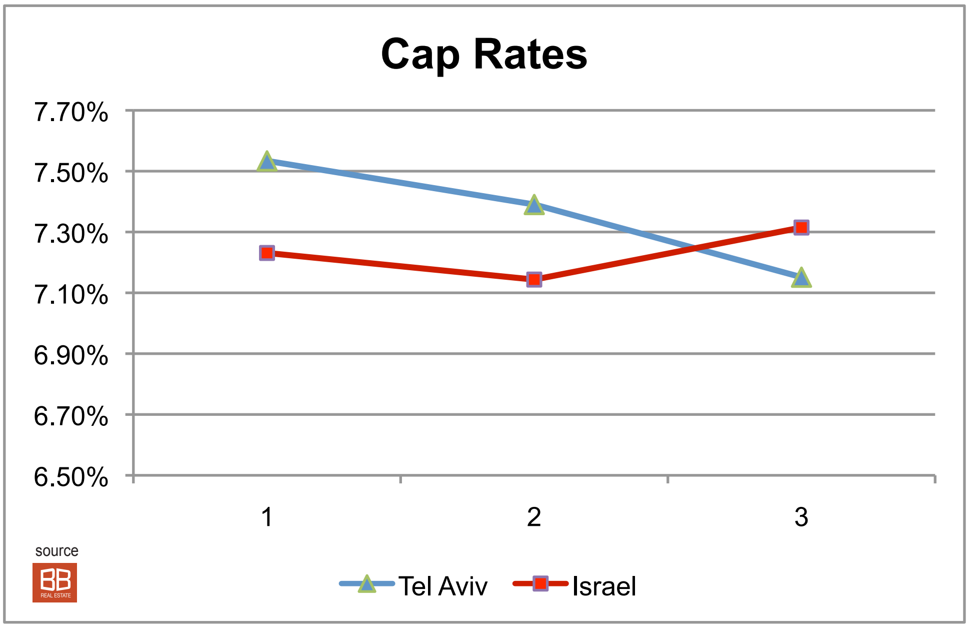


Nominal prices, as reflected in IFRS valuations, rose by 11% in Tel Aviv and by 7% in Israel between 2009-2011 (6% and 2% in real terms, respectively).

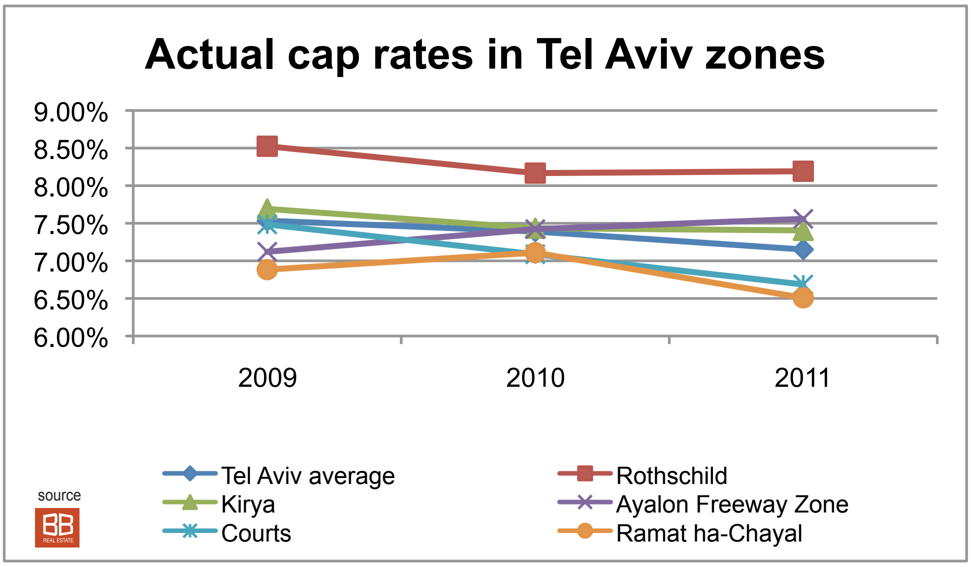


If we examine the real prices in the individual zones, we can see that the steepest rise was in the Kirya zone, where prices rose significantly every year. Real prices appreciated by 10% in this zone over the period reviewed in this report. Close to the Kirya was the Courts zone, with a 9% rise in real prices (most of it in 2010). Ramat ha-Chayal and the Ayalon Freeway zones were the only zone with a cumulative decline since 2009. In the Ayalon Freeway zone prices declined in spite of the rise in rents and vacancies as reported by the companies with properties in this zone.

Cap Rates



Cap rates in Tel Aviv declined moderately from 2009 on, in contrast to a slight rise in Israel overall. Cap rates declined in spite of the rise in vacancies and in rents, since property price appreciation was higher than the rise in NOI (6% average price appreciation vs. 1.6% NOI growth).

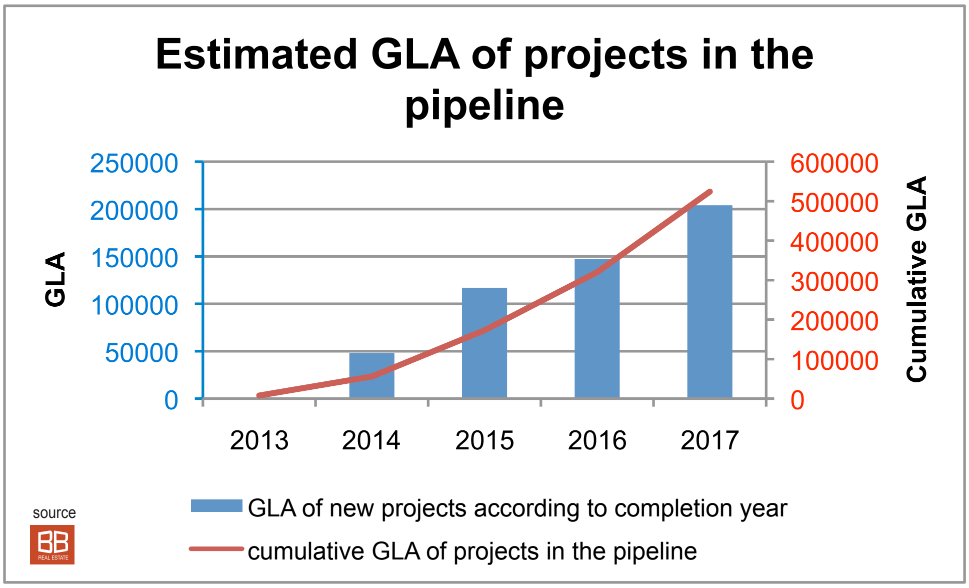


Looking at the individual zones, we can see the declining trend in all zones, with the exception of the Ayalon Freeway zone. Unlike the other zones, properties in this zone were not appreciated in the valuations even though occupancy and rents rose, and hence the rise in cap rates.

Future supply & Summary

Israel, and especially Tel Aviv, weathered the 2008-2009 well, as reflected in this report. Occupancy rates remained high throughout the period, and properties are now effectively in full occupancy.

Wondering about the future, the primary issue to consider is the future supply. According to our estimate, there are ca. 500,000 square meters in the pipeline, which according to the developers are scheduled to hit the market in the coming years.



Among the bigger projects is the Azrieli complex which is being built in the Sarona Compound; The BSR building in the Argaz Compound in the Ayalon Freeway zone; the Arbaa project constructed by the Hajjaj Group; and the complex developed jointly by Pangaea, Eurocom, and Electra in the Tnuva compound (on the Northern Business District).

This represents an addition of about 30% to the current supply of similar buildings. Their effect on the market depends on the overall macroeconomic situation in Israel when they come into the market, and on the supply in the areas around Tel Aviv.

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. B-BRE is Real Capital Analytics' local data partner, and it strives to increase the transparency of the Israeli CRE market. For additional details, please see http://b-bre.com/en.

Contact

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