

Natam

OFFICE, INDUSTRIAL AND INVESTMENT RESEARCH REPORT



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**Natam Report
No. 44**

Second Half of 2019

No. 44

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Introduction

Survey of Office Building Market

Principles of the Survey:

The **Natam** report surveys office and industrial properties in various regions in Israel and provides a representative sample for comparing rental prices and occupancy rates. In this survey we refer to 2 classes of office buildings: Class A and Class B, in light of the quality and price differences between them. All of the surveyed office space is available for occupancy within 6 months.

The buildings included in the survey meet the following criteria:

Class A:

- At least 10,000 square meters of built space above the ground floor.
- Full central air-conditioning systems and multiple elevators.
- High standard internal finishing in the public spaces.
- Maintained by a professional management company.
- Asking rental prices reflect new offices that include landlord contribution towards finishing of NIS 2,500 per gross square meter (as of the date of the survey).

Class B:

- At least 5,000 square meters of built space above ground floor.
- Good / Reasonable standard of internal finishing in the public spaces.
- Buildings of a lower standard than Class A buildings which are appropriate for tenants seeking a less expensive alternative.

General Trends

- The office arena has been characterized by significant demand, led by the high-tech sector, and consequently, the occupancy and rental prices have maintained stability throughout 2019, despite the marketing of new office buildings in a scope of hundreds of thousands of square meters.
- The significant demand for storage and logistics space during the second half of 2019 contributed to the continued trend of rising rental prices in this market.
- The second half of 2019 was characterized by continued economic growth in the market, and by significant demand for investments in income bearing real estate, particularly in the office and logistics arenas. In contrast, the supply of income bearing assets was relatively limited, contributing to the continued trend of rising asset prices.

Office Spaces Marketed and Management by Natam:



Atrium 2, Modiin
Management by Natam



K-CENTER, Rehovot
Marketed by Natam



New Town Hall, Lod
Marketed by Natam

Survey of Class A Office Buildings in Tel Aviv

The survey examined **59** Class A buildings in 7 central areas in Tel Aviv, which constitute a representative sample of all of the office areas located in this urban district. The total area of the surveyed buildings is **1,961,709 square meters**.

Summary of the Survey's Data

Location	Number of Buildings in Survey	Total Space in Survey (sm)	Occupancy rate First Half of 2019	Occupancy rate Second Half of 2019	Average Asking Price First Half of 2019 (Shekel/sm)	Average Asking Price Second Half of 2019 (Shekel/sm)	Average management fees (Shekel/sm)	Parking (Shekel/sm)
Ramat Hahayal	13	244,186	93.78%	95.92%	79.08	79.62	19.38	704
M.Begin Corridor	14	704,573	96%	98.58%	116	117.33	21.40	1,136.67
City	5	104,204	97.68%	98.65%	130.60	130.60	22.10	1,300
Central Tel Aviv	2	29,850	97.39%	100%	117.31	117.50	22	1,300
Yigal Alon Corridor	8	370,268	98.08%	98.68%	112	127.50	17.75	1,000
Courthouse	6	134,624	96.53%	95.41%	111.71	111.67	20.67	1,350
Ramat Gan-Bourse	11	374,004	94.13%	89.06%	98.24	99.77	19.50	855
Total/ Average	59	1,961,709	95.96%	96.26%	109.28	112	20.40	1,092.24
			The Change		+0.31% ↑		+2.49% ↑	

* Due to the characteristics of the area, the Bursa area was included as part of the survey of areas in Tel Aviv.

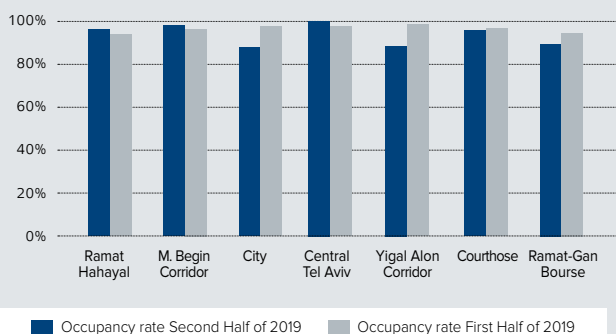
Data Analysis

- The occupancy rate in the Class A office market in Tel Aviv continues in its upwards trend and is currently 96.26%. The central Tel Aviv area is the area with the highest occupancy rate due to the occupying of the new towers that were built by large anchor companies.
- The average rental prices for offices in this market are averaging at approximately 112 NIS per square meter, with the "City" area of Tel Aviv continuing to be the most expensive area, with an average price of 130 NIS per square meter, while the average price in Ramat Hachayal is 79 NIS per square meter – the lowest in this office market.
- The prices of parking spaces remain high, due to the decline of the parking ratio in the new buildings. In most of the high demand office areas, the price is 1,300 NIS per parking space.

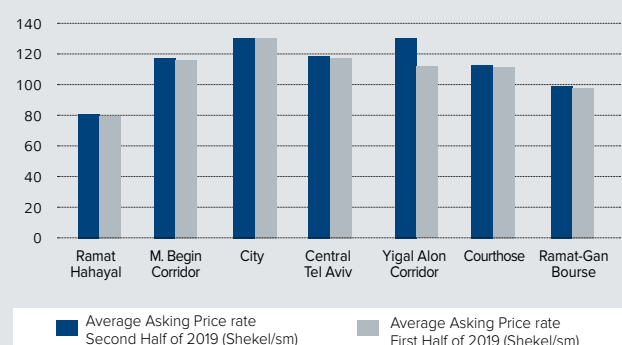
Forecast

- Both the occupancy rates in the Class A buildings in Tel Aviv and the rental prices are expected to remain high in the upcoming six-month period.
- The demand for large office spaces continues alongside a decline in demand for small spaces in the scope of 50-100 square meters, due to companies of such size moving to collaborative workspaces.
- In Ramat Hachayal the trend of high-tech and startup companies moving towards the peripheral areas and the expansion of companies from the medical field and clinics, continues.

Occupancy Rate of Class A Office Buildings Comparison with Previous Six Month Period



Rental Prices Class A Office Buildings Comparison with Previous Six Month Period



Survey of Class B Office Buildings in Tel Aviv

The survey examined **43** Class B buildings in 7 central areas in Tel Aviv, which constitute a representative sample of all of the office areas located in this urban district. The total area of the surveyed buildings is **527,943 square meters**.

Summary of the Survey's Data

Location	Number of Buildings in Survey	Total Space in Survey (sm)	Occupancy rate First Half of 2019	Occupancy rate Second Half of 2019	Average Asking Price First Half of 2019 (Shekel/sm)	Average Asking Price Second Half of 2019 (Shekel/sm)	Average management fees (Shekel/sm)	Parking (Shekel/sm)
Ramat Hahayal	8	84,700	94.26%	91.51%	68.81	67.63	19.13	593.75
M.Begin Corridor	12	129,656	93.18%	94.92%	66.45	69.32	20.33	750
City	3	53,210	95.31%	94.91%	80	81.67	22	983.33
Central Tel Aviv	3	35,836	96.58%	97.21%	86.67	86.67	22.33	950
Yigal Alon Corridor	7	100,975	94.34%	94.18%	68.67	71.17	18.75	617
Courthouse	2	25,400	96.21%	90.11%	93.33	95	20.50	1,350
Ramat Gan-Bourse	8	98,166	92.50%	93.98%	66.75	66	19.25	712.50
Total/ Average	43	527,943	94.07%	93.98%	75.81	76.78	20.33	850.88
The Change			-0.09% ↓		+1.2% ↑			

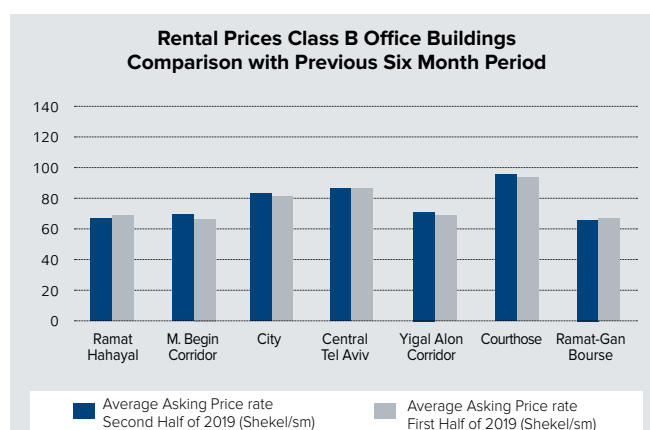
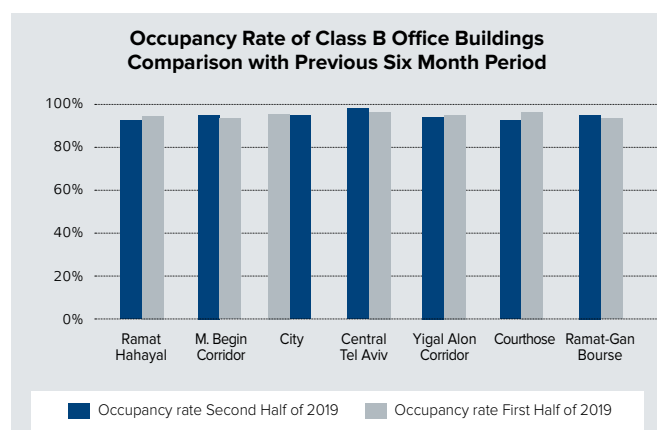
* Due to the characteristics of the area, the Bursa area was included as part of the survey of areas in Tel Aviv.

Data Analysis

- A moderate decline was observed compared to the previous six-month period in the average occupancy rate in this office market, which is currently 93.98%. The city center remains the area with the highest occupancy rate in Class B buildings in the Tel Aviv area, with an occupancy rate of 97.21%.
- The average rental prices in this office market increased by an additional approximate 1.2% in this six-month period. The Courthouse area demonstrates the highest rental prices during this six-month period as well, with an average price of 95 NIS per square meter.

Forecast

- The upward trend of asking rental prices in Class B office buildings in the Tel Aviv area is expected to continue also during the next six-month period. The high occupancy rates in the new towers, alongside the continued, demand for office space in Class B buildings, may impact rental prices in this market.



Survey of Class A Office Buildings in the Cities Around Tel Aviv

The survey examined **79** Class A buildings in 9 central areas located up to 30 kilometers from the center of Tel Aviv. The total area of the surveyed building is **1,387,895 square meters**.

Summary of the Survey's Data

Location	Number of Buildings in Survey	Total Space in Survey (sm)	Occupancy rate First Half of 2019	Occupancy rate Second Half of 2019	Average Asking Price First Half of 2019 (Shekel/sm)	Average Asking Price Second Half of 2019 (Shekel/sm)	Average management fees (Shekel/sm)	Parking (Shekel/sm)
Herzliya Pituach	16	220,767	96.46%	97.85%	94	91.56	19.69	656.25
Modi'in and Ben Gurion Airport Area	8	156,000	91.63%	94.23%	70	69.38	18.25	488.25
Petach Tikva	17	266,375	88.15%	83.06%	71.23	71.51	19.44	481.76
Raanana	8	144,597	90.77%	90.53%	75	74.71	18.50	385
Netanya - Poleg	10	120,200	95.42%	96.51%	62.50	64	13.50	371
Rehovot – Ness Ziona	7	100,500	91.04%	91.04%	70.57	70.57	14.14	432.14
Kfar Saba / Hod Hasharon	4	52,336	98%	98.38%	73.75	73.75	18	450
Rosh Haayin	4	63,840	83.70%	83.70%	45.50	45.50	14.50	350
Bnei Brak	5	263,280	97.87%	97.95%	72.80	71	17.50	650
Total/ Average	79	1,387,895	92.98%	92.62%	70.59	70.22	17.06	473.82
The Change			-0.39% ↓		-0.52% ↓			

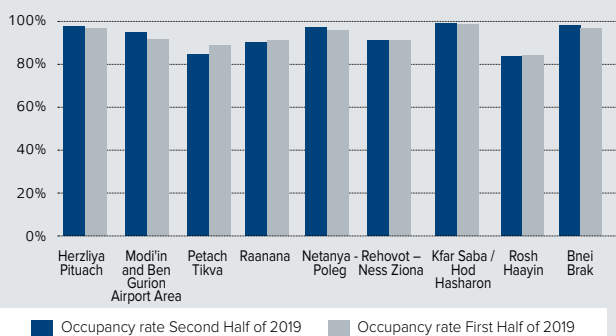
Data Analysis

- The Class A office building market in the cities around Tel Aviv is maintaining relative stability with an occupancy rate of 92.62%, a moderate decline of 0.39% compared to the previous six-month period. The rental prices are also maintaining a stable average of 70.22 NIS.
- Occupancy was taken in many office buildings in Herzliya Pituach. Additionally, the rental prices in this area are the highest in the Class A office market in the cities around Tel Aviv – 91.56 NIS per square meter, compared to Rosh Ha'ayin, where the price per square meter is the lowest in the area, averaging at 45.50 NIS per square meter.

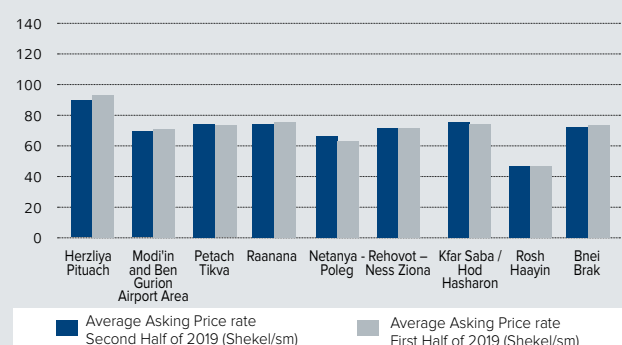
Forecast

- New office towers and buildings are being built in Netanya, particularly in the Yahalom complex, which is adjacent to the old industrial zone. This is expected to peak during the coming years and to turn Netanya into a desired area for offices and industry.
- There are currently two office towers under construction in the Ra'anana-Kfar Saba junction area, which are expected to raise the level of the average rental price in the area.

Occupancy Rate of Class A Office Buildings Comparison with Previous Six Month Period



Rental Prices Class A Office Buildings Comparison with Previous Six Month Period



Survey of Class B Office Buildings in the Cities Around Tel Aviv

The survey examined **75** Class B buildings in 9 central areas located up to 30 kilometers from the center of Tel Aviv. The total area of the surveyed building is **789,669 square meters**.

Summary of the Survey's Data

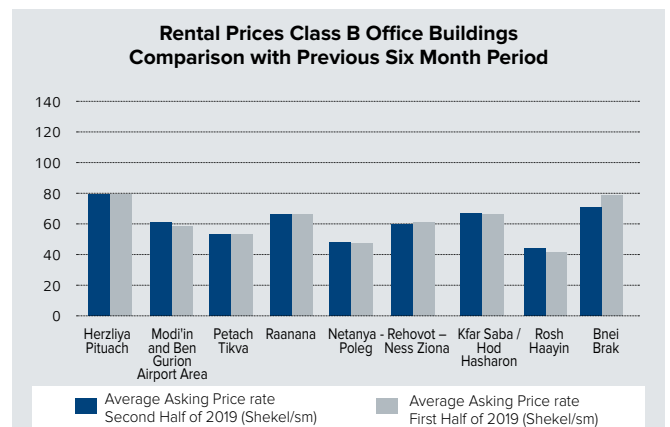
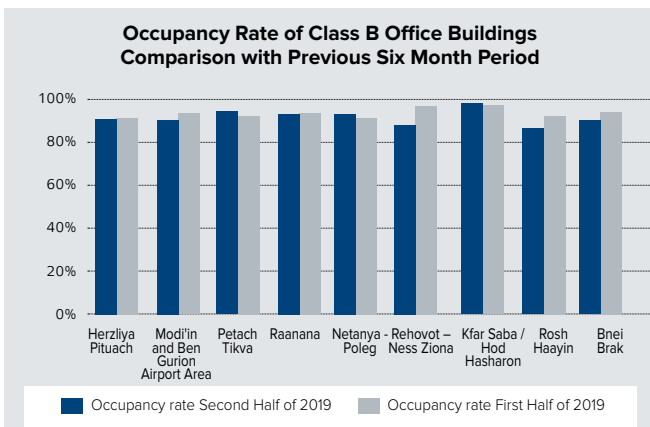
Location	Number of Buildings in Survey	Total Space in Survey (sm)	Occupancy rate First Half of 2019	Occupancy rate Second Half of 2019	Average Asking Price First Half of 2019 (Shekel/sm)	Average Asking Price Second Half of 2019 (Shekel/sm)	Average management fees (Shekel/sm)	Parking (Shekel/sm)
Herzliya Pituach	13	113,036	91.25%	94.41%	79.46	78.96	18	600
Modi'in and Ben Gurion Airport Area	9	76,295	90.48%	91.50%	60.67	60	13.94	405.56
Petach Tikva	8	106,750	94.58%	94.80%	53	61.25	14.08	481.25
Raanana	6	43,477	93%	92.46%	66.66	66.67	17.17	446.67
Netanya - Poleg	5	103,032	93.03%	96.21%	47.92	53.80	9.80	326
Rehovot – Ness Ziona	15	153,092	88.83%	88.38%	59.60	56.60	12.88	415
Kfar Saba / Hod Hasharon	9	76,564	98.32%	99.02%	66.11	66.11	17.28	416.67
Rosh Haayin	7	72,830	86.83%	86.83%	43.69	43.69	13.71	335.72
Bnei Brak	3	44,593	90.24%	90.81%	56.67	60	17.17	500
Total/ Average	75	789,669	91.52%	92.68%	59.31	60.79	14.89	436.32
The Change			+1.27% ↑		+2.46% ↑			

Data Analysis

- The average occupancy rate in the Class B office market in the cities around Tel Aviv increased by 1.27% during the current six-month period, and over the past year the occupancy rate in this office market has fluctuated but maintains relative stability.
- The average rental price per square meter in this office market demonstrated an increase of 2.46%, and currently averages at 60.79 NIS per square meter.

Forecast

- The Class B office market is expected to maintain stability during the upcoming six-month period.



Survey of Class A Office Buildings in Haifa and the Northern Region

The survey examined **12** Class A buildings located in 3 central areas in Haifa and the northern region. total area of the surveyed buildings is **187,170 square meters**.

Summary of the Survey's Data

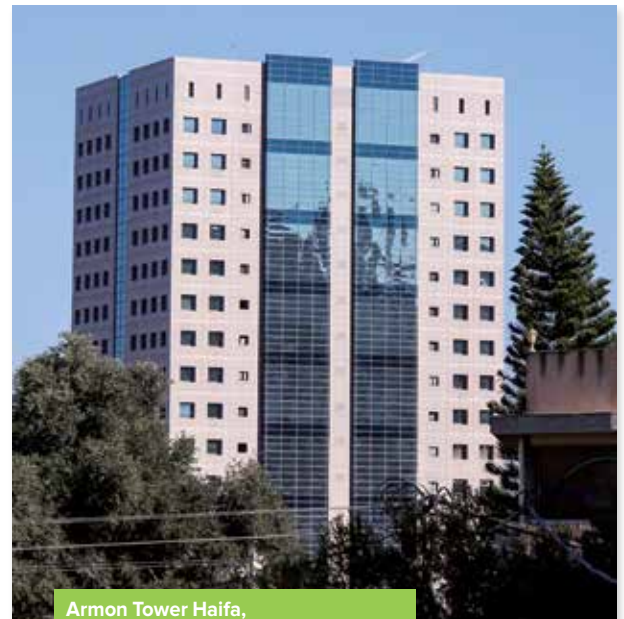
Location	Number of Buildings in Survey	Total Space in Survey (sm)	Occupancy rate First Half of 2019	Occupancy rate Second Half of 2019	Average Asking Price First Half of 2019 (Shekel/sm)	Average Asking Price Second Half of 2019 (Shekel/sm)	Average management fees (Shekel/sm)	Parking (Shekel/sm)
Haifa - City	3	38,700	93.39%	96.51%	59.11	57.41	15.47	450
Yoqneam	3	30,000	95.33%	86.67%	68.57	68.33	11.67	350
Matam Haifa	6	118,470	99.62%	99.66%	67.50	70	19.17	383.33
Total/ Average	12	187,170	97.51%	96.93%	65.06	65.25	15.44	394.44
The Change			+0.3% ↑		-0.59% ↓			

Data Analysis

- The office market in Haifa is maintaining stability, with a moderate decline of 0.59% in occupancy rates and a slight increase in the asking prices which average at 65.25 NIS.
- The Matam area continues to maintain very high occupancy rates, averaging at approximately 99%.
- The average price increased slightly and is currently 65.25 NIS. In line with strong demand, the highest price per square meter, averaging at 70 NIS, was surveyed in the Matam area.

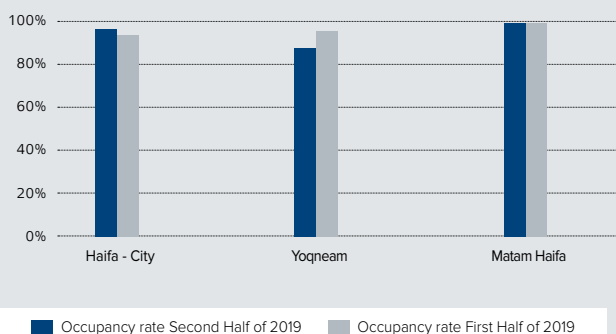
Forecast

- The construction of new projects which are meant to provide a response to demand for new and large office spaces continues. Until then, companies are expanding within the buildings themselves, to the extent possible, alongside a trickle of some of the high-tech companies to the developing downtown area.

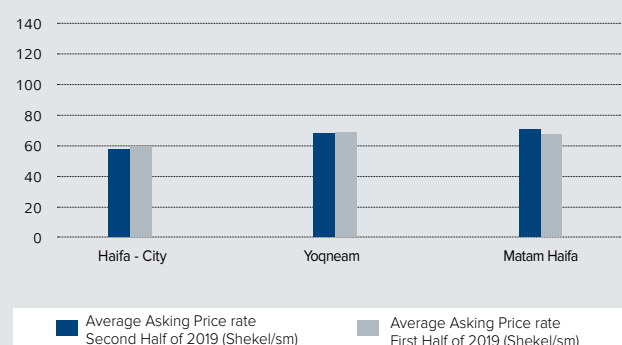


Armon Tower Haifa,
Managed and Maintained by Natam

Occupancy Rate of Class A Office Buildings
Comparison with Previous Six Month Period



Rental Prices Class A Office Buildings
Comparison with Previous Six Month Period



Survey of Class B Office Buildings in Haifa and the Northern Region

The survey examined **18** Class B buildings located in 4 central areas in Haifa and the northern region. The total area of the surveyed buildings is **207,442 square meters**.

Summary of the Survey's Data

Location	Number of Buildings in Survey	Total Space in Survey (sm)	Occupancy rate First Half of 2019	Occupancy rate Second Half of 2019	Average Asking Price First Half of 2019 (Shekel/sm)	Average Asking Price Second Half of 2019 (Shekel/sm)	Average management fees (Shekel/sm)	Parking (Shekel/sm)
Haifa - City	3	48,740	86.44%	85.43%	46.11	47.50	16	366.70
Yoqneam	4	41,500	83.61%	90.19%	58.75	57.50	13.50	271.25
Matam Haifa	4	47,352	100%	98.84%	62.50	62.50	20	387.50
Nesher / Chekpost	7	69,850	93.27%	93.63%	54.70	54.70	10.14	264.29
Total/ Average	18	207,442	91.27%	92.21%	55.52	55.55	14.91	322.43
The Change			+1.03% ↑		+0.05% ↑			

Data Analysis

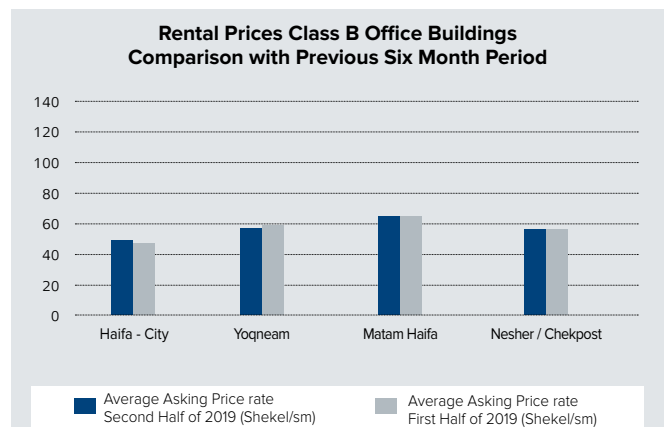
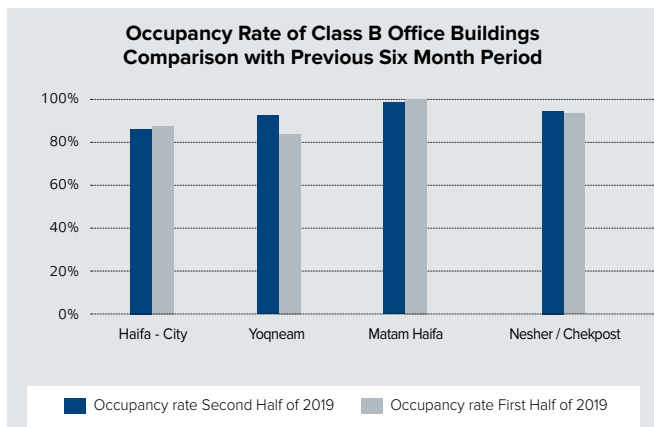
- The average occupancy rate in the Class B office building market in Haifa and the northern region increased by 1.03%, following a decline in the previous six-month period. As of the current six-month period, the occupancy rate is 92.21%.
- The average rental price per square meter during this six-month period moderately increased by 0.05% and currently averages at NIS 55.55 per square meter. Similarly to the previous six-month period, the MATAM business park area continues to lead with the highest price per square meter in the Haifa and northern region, currently averaging at NIS 62.50 per square meter.

Forecast

- This office market is expected to remain stable also during the first half of 2020, without sharp changes in the occupancy rates or the rental prices.



Nesher Erco House, Managed and Maintained by Natam



Survey of Class A Office Buildings in Jerusalem

The survey examined **18** Class A buildings located in 5 central areas in the Jerusalem region.

The total area of the surveyed building is **201,202 square meters**.

Summary of the Survey's Data

Location	Number of Buildings in Survey	Total Space in Survey (sm)	Occupancy rate First Half of 2019	Occupancy rate Second Half of 2019	Average Asking Price First Half of 2019 (Shekel/sm)	Average Asking Price Second Half of 2019 (Shekel/sm)	Average management fees (Shekel/sm)	Parking (Shekel/sm)
Givat Shaul	5	68,552	99.87%	99.71%	83	83	16.80	520
Har Hotzvim	4	66,240	97.13%	99.55%	76.25	76.25	18.25	575
Central Jerusalem	4	35,250	99.15%	98.30%	82.50	84.25	16	787.50
Malha	1	20,000	100%	99.70%	85	85	20	500
Talpiot	4	11,160	99.10%	99.10%	90	90	15.5	512.50
Total/ Average	18	201,202	98.81%	99.37%	83.35	83.70	17.31	579
The Change			+0.56% ↑		+0.42% ↑			

* The Malcha area is not characterized by construction of Class A office buildings, and therefore only one building was surveyed in this area.

Data Analysis

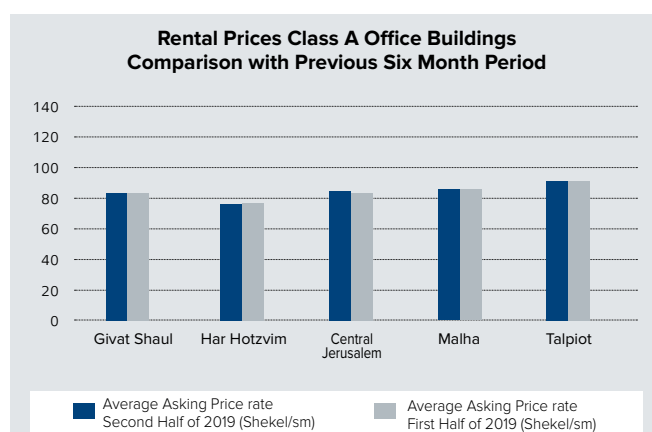
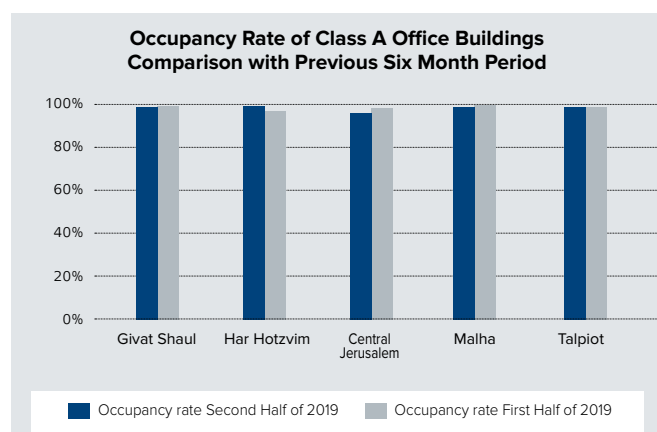
- The office market in Jerusalem remains strong. The occupancy rates are high in all the areas averaging at 99.37%, alongside rental prices of approximately 83.70 NIS per square meter.
- The office market in the Talpiot area demonstrates the highest surveyed price, averaging at 90 NIS per square meter. The market is currently fully occupied for those looking for large spaces.

Forecast

- The shortage of large office spaces with immediate availability continues, alongside the construction of new projects at the entrance of the city and in the Givat Shaul and Talpiot areas.
- The upward trend of rental prices in the office areas at the entrance of the city shall continue, inter alia, due to the new Jerusalem – Tel Aviv train line that was inaugurated, and the new Rova Haasakim (Business Quarter) Project which is scheduled to be constructed.



Hadar Nechasim House,
Managed and Maintained by Natam



Survey of Class B Office Buildings in Jerusalem

The survey examined **27** Class B buildings located in 5 central areas in the Jerusalem region. The total area of the surveyed building is **290,719 square meters**.

Summary of the Survey's Data

Location	Number of Buildings in Survey	Total Space in Survey (sm)	Occupancy rate First Half of 2019	Occupancy rate Second Half of 2019	Average Asking Price First Half of 2019 (Shekel/sm)	Average Asking Price Second Half of 2019 (Shekel/sm)	Average management fees (Shekel/sm)	Parking (Shekel/sm)
Givat Shaul	4	78,500	86.83%	96.82%	75	75	13.33	520
Har Hotzvim	6	71,486	97.17%	99.88%	67	68.33	14.20	540
Central Jerusalem	4	35,200	97.62%	98.58%	72.50	72.00	18	750
Malha	4	31,400	100%	99.70%	68.75	68.75	11.50	462.50
Talpiot	9	74,133	99.58%	98.29%	70	73.33	11.11	435
Total/ Average	27	290,719	96.53%	98.47%	70.65	72.08	13.63	541.50
The Change			+2.01% ↑		+2.02% ↑			

Data Analysis

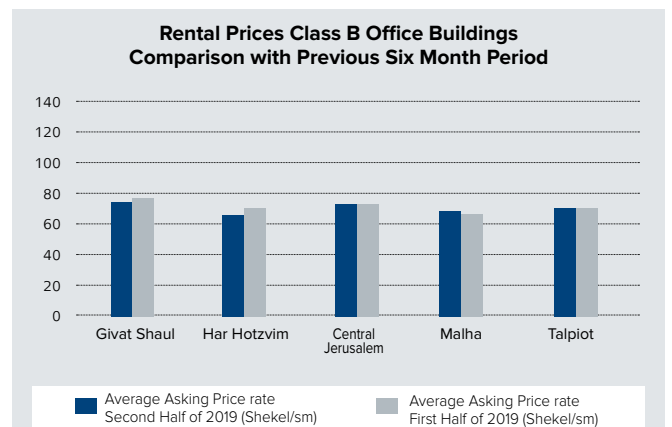
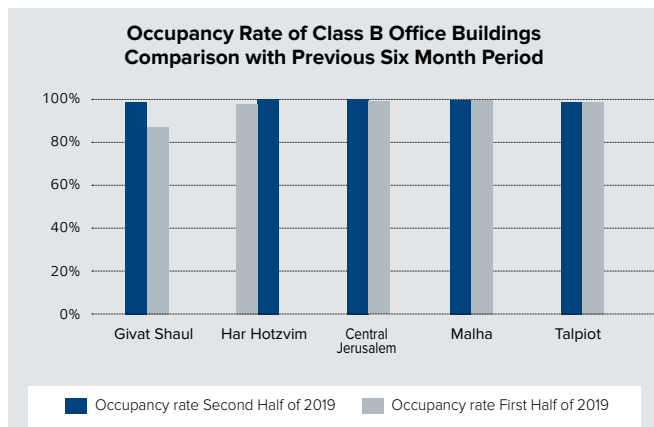
- During this six-month period 7 buildings were added to the report compared to the first six-months of 2019, and a total of 27 buildings are now being surveyed in this office market.
- The occupancy rates in the Class B office market in Jerusalem continue to rise and are currently 98.47%. The rental prices are also maintaining relative stability, with an average rental price of 72.08 NIS per square meter.

Forecast

- In light of the high occupancy rates and the shortage of large available office spaces in the Class A office market, we expect the rental prices will maintain stability and there may even be an upward trend in the asking rental prices in this office market.



Hadarim House Har Hotzvim, Managed and Maintained by Natam



Survey of Office Buildings in the Beer Sheva Area

The survey examined **13** buildings located in central areas in the Beer Sheva area. The total area of the surveyed buildings is **160,675 square meters**.

Summary of the Survey's Data

Location	Number of Buildings in Survey	Total Space in Survey (sm)	Occupancy rate First Half of 2019	Occupancy rate Second Half of 2019	Average Asking Price First Half of 2019 (Shekel/sm)	Average Asking Price Second Half of 2019 (Shekel/sm)	Average management fees (Shekel/sm)	Parking (Shekel/sm)
Gav-Yam Negev Park	3	48,000	98.75%	98.75%	65	65	20	–
The Change			No change		No change			

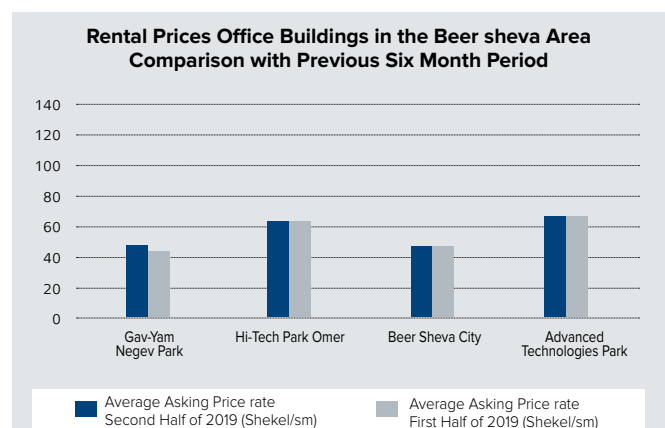
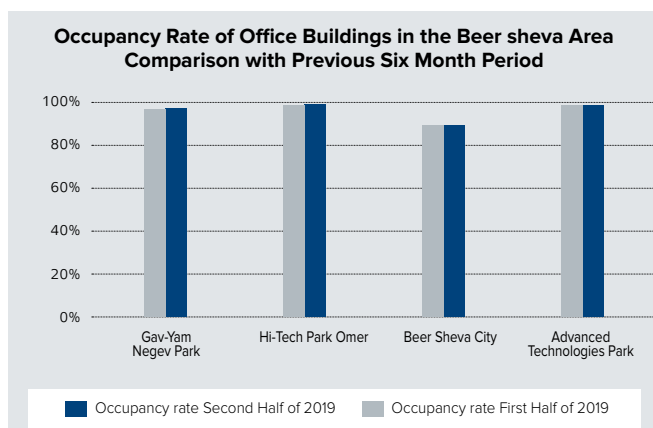
Location	Number of Buildings in Survey	Total Space in Survey (sm)	Occupancy rate First Half of 2019	Occupancy rate Second Half of 2019	Average Asking Price First Half of 2019 (Shekel/sm)	Average Asking Price Second Half of 2019 (Shekel/sm)	Average management fees (Shekel/sm)	Parking (Shekel/sm)
Hi-Tech Park Omer	4	36,200	97.43%	97.43%	45	42.50	10.25	–
Beer Sheva City	4	66,975	99.66%	99.66%	61.25	61.25	14	357.50
Advanced Technologies Park	2	9,500	88.42%	88.42%	45	45	10.75	150
Total/ Average	10	112,675	97.99%	97.99%	50.42	49.58	11.67	253.75
The Change			No change		-1.67% ↓			

Data Analysis

- The Beer Sheva area is maintaining stability in occupancy rates – at the Gav-Yam Park, the average occupancy rate is 98.75%, and in the other areas in this office market, the average is 97.99%.
- The rental prices in this office market have declined by 1.67% and in the Gav-Yam Park the rental prices have remained stable.
- The city center area maintains the highest average occupancy rate in the area – 99.66%, along with the highest average rental price – 61.25 NIS per square meter.

Forecast

- Construction and development in the Beer Sheva area continue to increase, in order to enhance the rising demand in this area in light of the relocation of IDF bases to the south, the opening of development centers of leading companies, and it becoming a developing high-tech center.
- The rising demand for office space for government offices is resulting in increased demand for space in the city center.



Survey of Industrial and Logistics Buildings Market

Principles of the Survey:

The Natam report surveys a number of industrial areas in various regions in Israel and provides a representative sample for comparing rental prices and sale prices in these regions. In this survey we refer to 2 classes of industrial buildings: Class A and Class B.

Class A Industrial Buildings:

Modern industrial buildings, minimum 12m. height, sprinklers, dock levelers, operational area and accessible for loading and unloading.

Class B Industrial Buildings:

Long standing industrial buildings, minimum 5m. height, operational area and accessible for loading and unloading.

Survey of Average Asking Rental Prices per Square Meter – Industrial/Logistics Buildings

		Class A	Class B
Central Area	Petach Tikva (Kiryat Arieh, Segula)	55 NIS per square meter	45 NIS per square meter
	Ramla	45 NIS per square meter	37 NIS per square meter
	Shoham	47 NIS per square meter	*
	Holon	50–55 NIS per square meter	45 NIS per square meter
	Rishon Lezion	50–55 NIS per square meter	45 NIS per square meter
Hasharon Area	Caesarea	42 NIS per square meter	35 NIS per square meter
	Emek Hefer	50 NIS per square meter	45 NIS per square meter
	Kfar Saba	55 NIS per square meter	45 NIS per square meter
	Kadima	50 NIS per square meter	43 NIS per square meter
	North Netanya	40 NIS per square meter	35 NIS per square meter
	South Netanya	40–45 NIS per square meter	35–40 NIS per square meter
Shfela Area	Modi'in	45 NIS per square meter	*
	Ashdod	45 NIS per square meter	35 NIS per square meter
	Kanot	42 NIS per square meter	33 NIS per square meter
	Yavne	42 NIS per square meter	35 NIS per square meter
Southern Area	Kiryat Gat	38 NIS per square meter	32 NIS per square meter
	Ashkelon	35 NIS per square meter	27 NIS per square meter
	Sderot / Netivot / Ofakim	30 NIS per square meter	20 NIS per square meter
	Beer Sheva	25 NIS per square meter	19 NIS per square meter
Jerusalem	Mishor Adumim	35 NIS per square meter	25 NIS per square meter
	Atarot	45 NIS per square meter	32 NIS per square meter
	Beit-Shemesh, Har Tov, Tzora	35 NIS per square meter	30 NIS per square meter
Northern Area	Haifa	40 NIS per square meter	35 NIS per square meter
	Karmiel, Bar Lev, Misgav, Tefen	35 NIS per square meter	25–30 NIS per square meter
	Migdal Haemek	30 NIS per square meter	25 NIS per square meter
	Akko	30 NIS per square meter	22–27 NIS per square meter
	Mevoe Carmel	34–40 NIS per square meter	*

* Those areas doesn't include Class B buildings.

Disclaimer: Data refers to average rental prices of the ground floor

Survey of Average Asking Prices per 1,000 Square Meter for Purchasing Industrial and Logistics Lots

Central Area	Petach Tikva - Segula	7,000,000 NIS	Shfela Area	Modi'in - Yishpro	4,000,000 NIS
	Petach Tikva – Kiryat Arieh	7,000,000 NIS		Modi'in – Li Gad	3,200,000 NIS
	Holon	6,500,000 – 7,000,000 NIS		Beer Tuvia	2,500,000 NIS
	Rishon Lezion	6,500,000 – 7,000,000 NIS		Yavne	3,000,000 NIS
	Lod / Remla	4,000,000 NIS		Ashdod	3,500,000 NIS
	Shoam	4,500,000 – 5,000,000 NIS		Kanot	3,000,000 NIS
Hasharon Area	Emek Hefer	3,000,000 NIS	Southern Area	Kiryat Gat	2,000,000 NIS
	Caesarea	2,500,000 NIS		Beer Sheva	1,100,000 NIS
	North Netanya	2,700,000 NIS		Ashkelon	1,500,000 – 1,800,000 NIS
	South Netanya	4,000,000 – 5,000,000 NIS	Jerusalem Area	Mishor Adumim	900,000 – 1,000,000 NIS
	Kfar Saba-Industrial Area	4,000,000 NIS		Beit Shemesh	1,800,000 – 2,000,000 NIS
	Kfar Saba 50	4,000,000 – 4,200,000 NIS			
Northern Area	Haifa Bay	2,500,000 NIS			
	Tirat Carmel	2,000,000 NIS			
	Checkpost / Neshet	2,500,000 NIS			
	Carmel	2,000,000 NIS			

Forecast

- We anticipate the rental prices in most of the areas of demand will stabilize during the next six-month period.



Hazorea 12, Beer Sheva, a NATAMINVEST project

Real Estate Purchase Transactions - A Review of the Second Half of 2019

The second half of 2019 was characterized by continued economic growth in the market, and by significant demand for investments in income bearing real estate, particularly in the fields of logistics and offices. On the other hand, the supply of income bearing assets was relatively limited, thus contributing to the continued upward trend of asset prices.

The continued increase in prices, and the corresponding decline in returns from income bearing assets, result in a decline in the financial spread for investors financing their investment through loans. Additionally, the recent increase in the risk spread on loans and debentures, which is a result of the market fluctuations, narrows the profit spread for investors in income bearing real estate. As a result of the decreased financial spread, the cash flow received from the financed asset, after repayment of the loan's principal and interest, is low and even negligible, depending on the interest and the terms of the loan. Therefore, the scope of transactions made by investors has declined compared to:

1. Transactions made by end-users, since end-users have additional considerations when purchasing assets, aside from the return on investment.
2. Transactions involving income-bearing assets with a potential for improvement, since the investor/entrepreneur sees potential compensation for the low return on investment.
3. Transactions by institutional entities that are made with equity and without financing.

Israel is significantly impacted by the global economy. The real global activity continued to grow during 2019, however, on the other hand, there were developments that lead to an increase in the risks to the global economy, including Israel's economy. The main risks stem from trends of separatism, including an escalation in the trade war between the United States and China and Britain's exit from the European Union (the "Brexit"). Additionally, the Coronavirus recently erupted in China, and the scope of its impact on reducing the global economy is yet unclear.

Additionally, it is also difficult to assess the impact of the political standstill in Israel, which, if it shall continue, may harm the business sector, and the real estate market, in particular.

Industry / Logistics

The significant demand for storage areas during the second half of 2019 contributed to the continued upwards trend of rental prices. An additional factor that contributes to the rise in rental prices and in the prices of the assets stems from the high demand for office and residential space in the center of the country, as well as the added building percentages that are being granted by the authorities in these areas. Consequently, there is a trend of factories and storage areas relocating from the center of the country to the peripheral areas, for the benefit of residential and office buildings which are taking over the factory and storage areas in the center of the country.

Having said that, a stabilization of rental prices has been evident in recent months, since the users are reaching the limit of their financial capability to cope with the climbing rental costs.

An increase in rental prices is expected to occur for storage areas which will offer higher utilization of land, such as storage at heights that exceed 14 meters, which will integrate innovative automation technologies.

During the second half of 2019 the downward trend for returns continued to levels of approximately 6.0%-6.5% in "prime" areas, and to approximately 7%-7.5% in peripheral areas, depending on the type, quality and location of the assets.

The rental prices for Class A industrial and logistics buildings increased to approximately NIS 45-55 per square meter in the central area, and to approximately NIS 35-40 per square meter in peripheral areas. The prices of logistics centers range between NIS 7,000 and NIS 8,000 per square meter on the ground floor in a new building in the center of the country and near the main north-south roads, and between NIS 3,500 to NIS 4,500 per square meter for Class B buildings in secondary locations.

Looking forward: The increase of e-commerce is expected to contribute to continued demand for logistics spaces. Additionally, we have recently seen significant growth in demand for cold and frozen storage and distribution centers throughout the country. The rental prices that are paid in this field are tens of percent higher than, and occasionally even double, the rental prices that are paid for ordinary logistics and distribution structures.

The Office Market

The office market has been characterized by significant demand, led by the high-tech sector, and consequently the occupancy and rental prices have maintained stability throughout 2019, despite the marketing of new office buildings in a scope of hundreds of thousands of square meters.

Sale prices in Tel Aviv ranged between NIS 17,000 and NIS 20,000 per square meter (shell and core level) for new offices (Class A) in prime locations. These price levels reflect a return that is lower than 6.5% compared to the rent fee payments.

Stability with a slight inclination towards increases in rental prices of Class A offices was evident in other cities in the Gush Dan region, alongside stability with an inclination towards declines in the rental prices of offices in Class B buildings. The asking prices per square meter in the cities around greater Tel Aviv (Ra'anana, Kfar Saba, Netanya, Petach Tikva, Rehovot) ranged between NIS 8,500 and NIS 10,500 per square meter, depending on the location and quality of the asset.

Despite the significant scope of construction of new office buildings in the Gush Dan region, the scope of purchase transactions of independent office buildings, as an income-bearing asset, was low. Two main factors led to this: First, the majority of the office buildings were built in the framework of purchase groups. Consequently, there is a limited number of office buildings that are owned by a single owner (or by a limited number of partners). Second, the remainder of the office buildings were built by institutional entities or publicly-traded companies which hold these buildings as long-term income-bearing assets.

Looking forward: Due to the multitude of office space that was purchased by purchase groups, an increase in the supply of small office spaces (up to approximately 300 square meters), for both sale and rent, is expected, and this is expected to lead to a decline in rental prices and in the prices of the small offices in the Gush Dan region, primarily in office buildings that are owned by a large number of investors.

Additionally, the significant increase in construction starts of offices commencing from 2017, which was on the verge of one million square meters in 2018, and a similar scope in 2019, may create excess supply commencing from 2021-2022, and consequently lead to a decline in occupancy rates and rental prices.

In the Jerusalem, Beer Sheva and the Haifa Matam Park regions, a moderate increase in the prices of offices is expected, due to a shortage of new construction. A number of office buildings that are in advanced stages of planning are expected to become available for rent only in 2-3 years.

The Beit Shemesh area may become a point of interest in the offices field due to the accelerated growth of the city's population, which is not accompanied by new construction of offices.

Commerce

In light of technological developments and changes in e-commerce habits, the assessments that there will be a decline in rental prices in commercial centers, which shall lead to a decline in the prices of the assets, have enhanced.

This trend is already evident in the past year in the form of a decline in the prices of the shares of publicly-traded companies that focus on maintenance and management of commercial centers. However, stability is expected in neighborhood commercial centers and in discount stores, which are perceived to be immune to the growing e-commerce trend. The prices of commercial assets reflect a return of approximately 6.0%-6.5% in central urban locations and in neighborhood centers, and a return of approximately 7% in secondary urban locations.

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