

# INTER news



## Office Market Survey - Q4 2012





*Dear Readers,*

Media discussion about a real estate bubble on the one hand and purchase-groups which are expected to change market yield on the other hand, requires closer examination. In this review, we decided to analyze supply and demand for office premises in several central Israeli cities, in order to conduct an in-depth estimate of trends in the forthcoming quarters. The data we collected leads to a conclusion that as seen during 2012, the 2013 Israeli office market as a whole will maintain stability, with a trend towards continued high occupancy rates.

In the short and medium term, high occupancy rates of above 95% are prevalent in the CBDs. There is a specific problem in the sub-prime CBDs (mainly buildings in the Bnei-Brak Business Center (BBC) and the Atidim Tower), in view of massive parallel construction underway in the area. This year is exceptionally challenging in view of the establishment of a new Government in Israel and its forthcoming involvement with macroeconomic challenges, which will certainly have an impact on the commercial real estate market.

The present research sums up quarterly findings in the office sphere and presents an in-depth analysis on Israel's prime and sub-prime CBD locations. The analysis encompasses more than 2 million square meters in 8 prestigious office towers in the Dan District, of which approximately 1.425 million m<sup>2</sup> are in CBDs and approximately 625,000 m<sup>2</sup> are in sub-prime CBDs. In addition, the review includes the 11 leading employment spheres in the Dan and Sharon districts. Pleasant reading,

**Yoram Blumenthal**  
Partner  
Inter Israel

**Contributors**

Rami Yolezry, Zeta-Tools - Statistics  
Yair Kahal & Avriel Ben-Dor, Yair Kahal PR Firm - Editing  
Ilan Mirovsky, Qualcomm  
Inter Israel's Clients, Brokers and Partners  
Graphic Design: Sharon Nizri



# The Center is Expanding: The Dan, Sharon and Ben-Gurion Airport CBDs are Becoming One Contiguous Area

Recent rumors regarding an inflating real estate bubble on the one hand, and purchasing groups which are expected to change office rental market on the other hand, require greater in-depth investigation. In the present review, we decided to analyze the office rental supply and demand in several central cities and neighborhoods in Israel, in order to investigate the situation on the ground, and assess trends in the forthcoming quarters and during the next year. We conducted our inspection according to rental price data, sales and occupancy rates of offices in 11 different locations in the Dan sub-market and its surroundings - from Netanya to Ness Ziona and Rehovot. In general, the data indicates that the Israeli rental real estate market is stable, with a healthy balance between supply and demand in the developed areas which were sampled. Hereunder, is an analysis of the employment areas and the research findings:

## Ramat Ha'hayal

Due to the influence of the Asuta Hospital, which moved to the area some two years ago, Ramat Ha'hayal is becoming a particularly attractive location for the medical field. In addition a communications center is also being developed in the area, which inter alia, presently includes Keshet, Reshet, Gitam, McCann Erickson, the Meimad Studios and other companies.

The Leonardo Hotel is further enhancing this business district and is itself benefitting from the many high-tech, communications and medical companies established there - another important Tel Aviv CBD.

Other developments within Ramat Ha'hayal are the growth of the financial sector in this location. Examples of this can be found in the relocation of Altschuler Shaham, Reinhold Cohn Group, Citibank and other important banking and financial entities.

In the short term, the considerable space vacancy in the nearby Atidim Tower, although off-center, certainly constitutes a change in the delicate balance between supply and demand forces. In addition, several additional projects which are currently under construction will inevitably increase the supply in the area. There is no doubt that in the long term, these projects contribute to the continued development and centralization of this area as another important Tel Aviv CBD.

## Petah Tikva

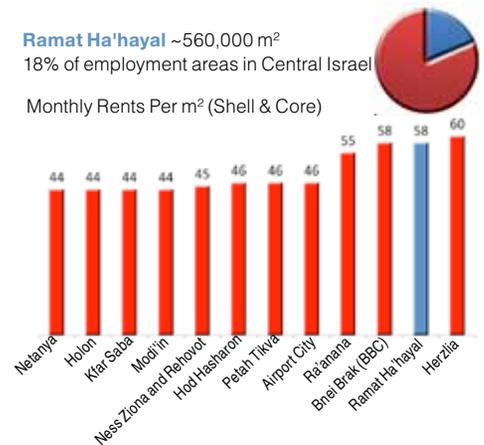
Presently includes two main projects which are under construction: Amot Platinum Tower, a prestigious office tower of approximately 20 floors, covering 26,000 m<sup>2</sup>, with initial occupancy for June 2013, and the Hammerton Building, approximately 15,000 m<sup>2</sup> (Phase II), with anticipated occupancy in mid- 2013. This situation has been adjusted to the gradual growth in the area, and accordingly, the supply is relatively stable vis-à-vis the levels of demand and occupancy in this area.

## Rosh Ha'ayin (Afek Park)

We anticipate a certain slowdown, mainly due to the fact that this area is largely occupied by service and communications suppliers, such as Partner, Barak 013 (which following the consolidation with Cellcom, transferred to Netanya), downsizing of the Better Place company headquarters etc. These entities constituted a very significant part of the total inventory of the employment areas at this location.

**Ramat Ha'hayal** ~560,000 m<sup>2</sup>  
18% of employment areas in Central Israel

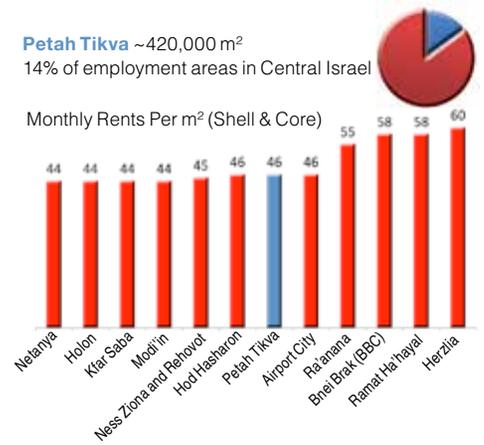
Monthly Rents Per m<sup>2</sup> (Shell & Core)



**Petah Tikva** ~420,000 m<sup>2</sup>

14% of employment areas in Central Israel

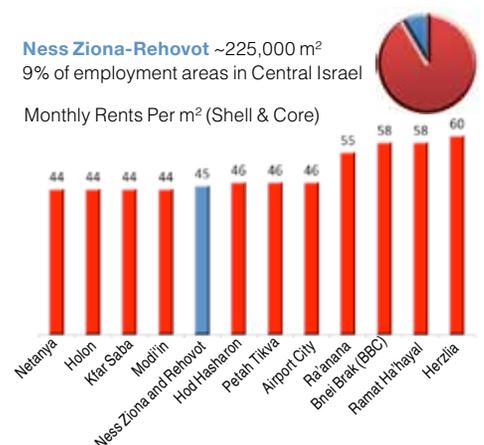
Monthly Rents Per m<sup>2</sup> (Shell & Core)



**Ness Ziona-Rehovot** ~225,000 m<sup>2</sup>

9% of employment areas in Central Israel

Monthly Rents Per m<sup>2</sup> (Shell & Core)



## Ness Ziona and Rehovot

These areas continue to enjoy stability and very high occupancy rates - this notwithstanding, a price increase in this area is not anticipated. The main explanation for this is the area's relatively southern location within the Dan sub-market. The development of the area mainly relies on known R&D anchors in the BioPharm spheres and the Weizmann Institute.

Another Leonardo Business Hotel, which recently opened in the area, will further advance interest on the part of multi-national firms.

Prominent companies occupying the area include: Sapiens (expected to transfer to the Azrieli Park in Holon at the end of the year), many bio-tech companies, Elbit, Applied Materials, Objet and HP. Prominent developers continuing to develop the area: Gav Yam (extension of the existing Park), Ogen and Africa Israel.

## Ben Gurion Airport Sub Market: Airport City

The area continues to enjoy extremely high occupancy rates and is in a unique state of 100% occupancy.

Accordingly another building - the Jordan Building, is being planned and will add additional space of 17,500 m<sup>2</sup>. Construction of this building is expected to be concluded in approximately 18 months and in view of the increasing demand within the area, a supply problem is expected to continue in the medium term (two years).

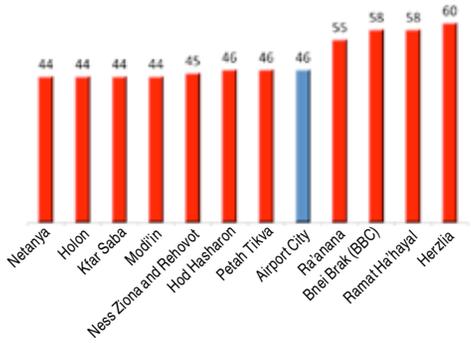
We estimate that the nearby employment areas of Or Yehuda will benefit from this situation - cp. the success of the Terminal Park Project (Phase A of the project, approximately 25,000 m<sup>2</sup>, has been fully marketed) as well as Yehud which is proceeding towards the submission of a new Town Building Plan.

In light of the success of the project in Or Yehuda,

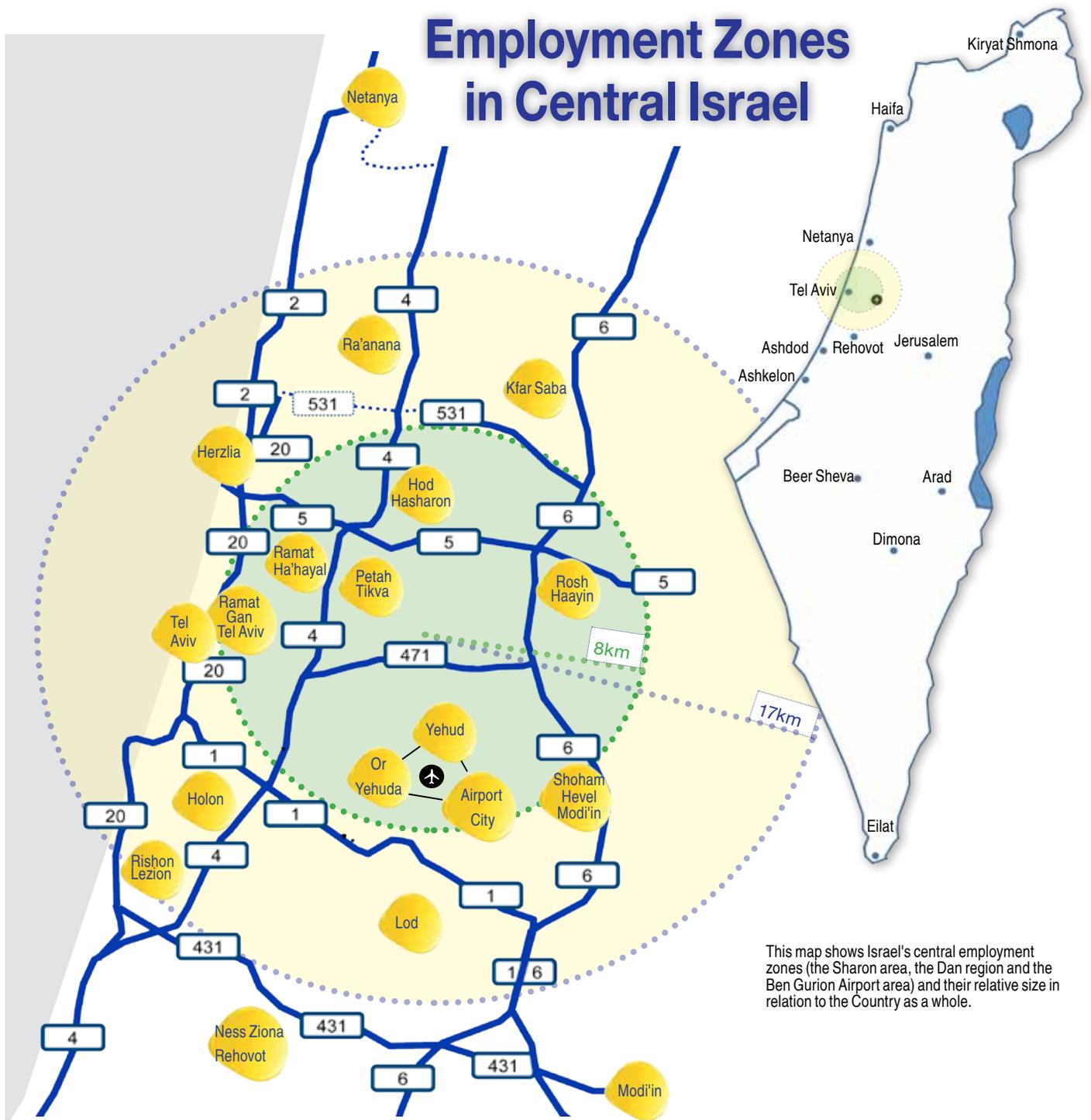
the developers have decided to continue with construction of Phase B without prior lettings. The 2nd phase of the project constitutes a further ~20,000 m<sup>2</sup> and is expected to be ready for occupancy in early 2014.

**Ben Gurion Airport Vicinity** ~225,000 m<sup>2</sup>  
8% of employment areas in Central Israel

Monthly Rents Per m<sup>2</sup> (Shell & Core)



# Employment Zones in Central Israel



This map shows Israel's central employment zones (the Sharon area, the Dan region and the Ben Gurion Airport area) and their relative size in relation to the Country as a whole.

## Yehud

As part of the Ben Gurion Airport area, Yehud will enjoy the high branding attributed to the three employment areas within this locality (Airport City, Or Yehuda and Yehud). In addition, the Yehud Municipality is developing a new town building plan, intended to encourage developers to develop the employment area by means of increased building rights.

The new town building plan envisages an impressive promenade which should further a high-tech image. Undoubtedly, the Airport City market and considerable infrastructures emanating from the development of Ben Gurion Airport constituted the most significant catalyst in this process.

## Or Yehuda

As aforementioned, Or Yehuda has also developed considerably as a result of the progress in infrastructure along the Ben Gurion Airport axis – this includes access to roads 461 and 412 and in the future by means of the future Messubim Interchange, which will even further improve access from the west (Route No. 4). As aforementioned, Terminal Business Park, being developed by the Vitania Company, will include two buildings totaling approximately 45,000 m<sup>2</sup>.

The first phase has been occupied by major companies such as: Voltech, Maatz (Israeli National Roads Company), the Leumit Health Fund, My Heritage, Keidnet and others. It is anticipated that the second phase will be completed during 2014.

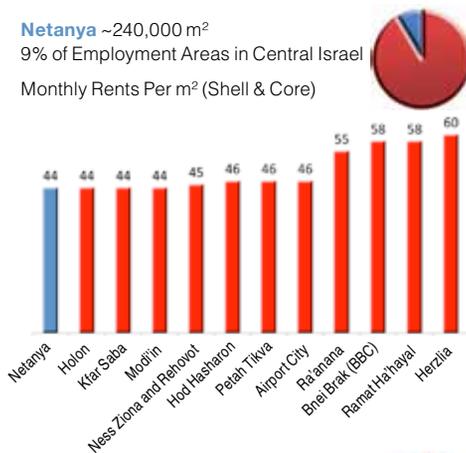
## Lod

As opposed to most of its neighbors in the vicinity of Ben Gurion Airport, it is anticipated that Lod will experience a continued decline in demand for quality commercial real estate; this notwithstanding the positive turn which occurred in the area during the late '90s. Undoubtedly the

**Netanya** ~240,000 m<sup>2</sup>

9% of Employment Areas in Central Israel

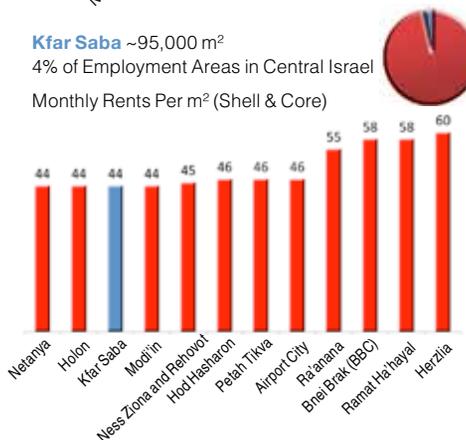
Monthly Rents Per m<sup>2</sup> (Shell & Core)



**Kfar Saba** ~95,000 m<sup>2</sup>

4% of Employment Areas in Central Israel

Monthly Rents Per m<sup>2</sup> (Shell & Core)



negative image of the City does not add points when companies consider where to go.

## Sharon Sub-Market:

### Herzliya

Restaurants, health clubs, lifestyle stores and leisure areas produce considerable value for leading international tenants and add continued stability. We estimate that the Herzliya Pituach employment zone will continue to maintain its high status (after Tel Aviv) on the demand map.

Herzliya is located on the northern entrance to the metropolis, and the limited supply in the short and medium ranges – which are close to exhausting the limits of the Town Building Plan – will reinforce this aspect even further. Presently, there are four significant projects under construction in the area.

### Netanya

The northern employment zone in the Poleg area: here too, the main office and employment area is located outside the City's residential core, with the main development occurring near the new stadium, Inter alia, the transfer of eBay offices which has extended its operations and intends occupying the areas which were previously leased by Kika. Companies in the medical field such as Medici and Teva, as well as IKEA and other commercial anchors – high-tech and communications companies, such as Cellcom, Elbit, Cisco, HP, etc. – ensure the stability of the area on the demand map.

To a certain degree, Netanya continues to be a cheaper substitute for high-tech companies vis-à-vis Ra'anana and Herzliya, and this has been the case over the last decade.

### Kfar Saba

In the coming year we expect a leap in Kfar Saba's position on the rental map of demand: significant companies such as Alcatel-Lucent, ELBE and Advise, have moved into the area. In addition, the occupation of the new Teva R&D center has been completed and SanDisk continues developing within the neighborhood.

### Ra'anana

It is anticipated that this western neighbor of Kfar Saba will experience a supply shortage, which could cause an increase in rental and sales prices and may close the gaps between Ra'anana and nearby Herzliya, its neighbor to the west.

The proximity to the coastal road brought many companies to Ra'anana before discovering Kfar Saba. This trend is moving east, with a certain preference for Kfar Saba in view of its ideal connection to Highway 6 (trans-Israel highway).

### Hod Hasharon

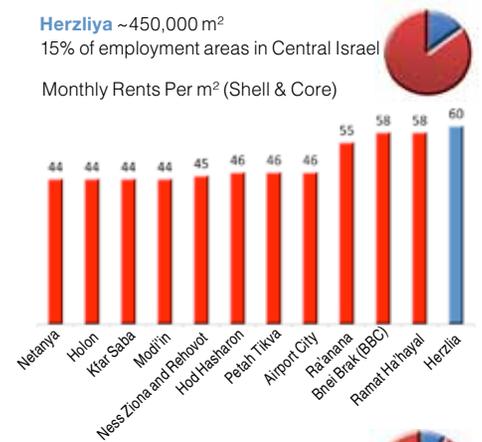
Although unlike Kfar Saba, Hod Hasharon does not contain many commercial projects, there is a positive movement of companies to this locale. Little construction activity together with significant infrastructure development work has produced high occupancy rates during the last six months. This is especially obvious in the Ashrom Business Park – which notwithstanding the anticipated departure of Amdocs, has succeeded well.

We anticipate continued stability in prices and reinforcement of the status of Hod Hasharon on the general demand map in central Israel. An obvious feature is the number of pharmaceutical companies which populate the Hod Hasharon employment district, such as MSD, Merck, Bayer HealthCare, Abbott, and others.

**Herzliya** ~450,000 m<sup>2</sup>

15% of employment areas in Central Israel

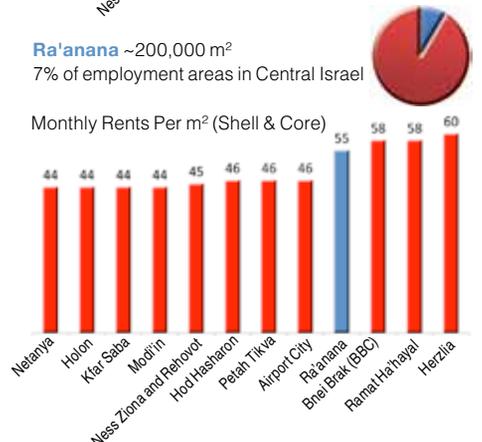
Monthly Rents Per m<sup>2</sup> (Shell & Core)



**Ra'anana** ~200,000 m<sup>2</sup>

7% of employment areas in Central Israel

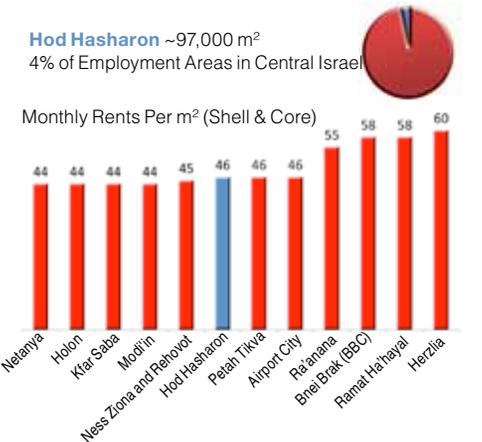
Monthly Rents Per m<sup>2</sup> (Shell & Core)



**Hod Hasharon** ~97,000 m<sup>2</sup>

4% of Employment Areas in Central Israel

Monthly Rents Per m<sup>2</sup> (Shell & Core)



## Conclusions

Contrary to recent publications and assuming that the State of Israel does not suffer an economic crisis, we are of the opinion that 2013, at least, will be a year of stability.

We believe that the trend of high occupancies seen in 2012 will continue in 2013, with comparatively few projects coming on to the market during the year.

The exception will be the Bnei-Brak Business Center and to a certain extent, Ramat Ha'Hayal, containing a cluster of new office towers (especially in Bnei-Brak) which may cause a local occupancy issue and a medium range supply surplus, in view of simultaneous extensive supply.

In the long run, we expect Bnei-Brak's growth to be positive and are convinced that it will constitute an integral part of the quality CBD continuation of Tel Aviv and the Ramat Gan Diamond Exchange area, providing a suitable and developed business environment with new and modern construction.

In the short term, we do expect a stiff competition between the various projects in the complex known as the BBC (Bnei-Brak Business Center) and the owners of properties in projects having many owners (purchasing groups).

# Interview



**Ilan Mirovsky, Executive Administration Manager**

Qualcomm Israel is a development branch of the Qualcomm Organization, an American company employing approximately 30,000 people worldwide. The Company is one of the most important and influential players in the global mobile scene.

The Company's technology may presently be found in virtually all smartphones. The company has also entered the tablet and smart TV sphere with considerable success. Qualcomm is one of NASDAQ's largest companies and recently crossed the \$100 billion mark.

Qualcomm Israel currently employs approximately 300 employees and is located in two buildings: the Omega Building, near the MATAM Park in South Haifa, where it leases approximately 6,000 m<sup>2</sup> of office space and in Beit Yitzhak, where the Company rents approximately 1,500 m<sup>2</sup>.

Qualcomm Israel has accrued considerable knowledge in the development of complex communication systems, which combine hardware and software, analog and digital design, complex circuit design, real time programming, networks, RF, and physical-layer systems engineering. The development center in Israel is part of the QMC section – Qualcomm's largest business division. This division develops and manufactures chips for mobile phones, tablets, smart TVs, and more.

In the course of 2010, Qualcomm acquired the Israeli company, iSkoot. Immediately upon acquisition, the company prepared to move to its ~1,000 m<sup>2</sup> offices and is now located in the "BIG" Complex in Beit Shemesh.

2013 marks Qualcomm's acquisition of the DesignArt Networks company of Ra'anana. This purchase reinforces Qualcomm's status in fourth generation cellular communications and marks its entry into the central area. At this time, we are in the process of examining new office space for the new Company in the Sharon area.

In addition, the EPOS company of Hod Hasharon was also acquired this year. This company deals in ultrasound technology for mobile devices.

**What were the principle considerations behind establishing the Qualcomm development center, specifically in the South of Haifa and not in the center of Israel?**

The main motivation was the existence of quality professional manpower in the Haifa area, the majority of whom are outstanding graduates of the Technion – Israel Institute of Technology. As a result of Qualcomm's location at the southern entrance to Haifa, the Company is assured convenient access from Tel Aviv and locations north of Tel Aviv.

Incidentally, there is a strong connection between the Technion and the Company. Qualcomm contributes to the electricity and computer science faculties every year and participates in financing laboratory maintenance, conducts lectures and cooperates in various other fields.

The new branch which is to be built in the Sharon area and whose location results from recent acquisitions, will utilize the relevant manpower in the center of Israel.

**Within the framework of your position you are responsible for crystalizing and implementing Qualcomm's real estate policy in Israel. Could you tell us a little about the issues which you handle, the degree of involvement and considerations of the parent company in the process and how this rests with the needs in Israel?**

In principle, the parent company's guidelines are: to rent rather than purchase space in a quality location within the selected area; to maintain high standards in all spheres (design, quality, safety, etc.); to maintain the Company's international standards in respect of computerization, security etc.; to combine a degree of involvement in cooperation with professional international firms (e.g. Cushman & Wakefield). Naturally, everything is performed in full cooperation with the local office, which provides fitting responses to local problems and cultural differences.

**Finally, we would like to hear your opinion as to how you view the commercial real estate sphere for the forthcoming year and what locations will prove attractive in terms of price and quality.**

In recent years, the southern entrance to Haifa has undergone considerable change. From a transportation point of view the southern entrance to Haifa has been upgraded considerably, the impressive project of the Carmel Tunnel project has been concluded, connecting the entire area to the north, together with the nearby train station, thus providing excellent accessibility to this location. The entire area is very well maintained by the Municipality and the prestigious stadium under construction (the largest and most outstanding in Israel) will complete the development of the entire area.

The MATAM Park area is distributed between several large developers: the first being the Gav Yam company - the owner of MATAM Park; the British Company owner of large commercial spaces located to the south and Electra Real Estate owner of the nearby Omega Building. The Biotechnological Park – jointly owned by the Haifa Municipality and the Industrial Buildings Corporation – is currently being constructed across the road.

When reviewing the MATAM Park area, I recently recognized a revival of the entire area. There are rumors of at least three additional large American companies in the process of locating to the area. I think after quite a long freeze, the time has come for real estate companies to begin speculative construction, in order to be able to provide a commercial response to this high quality area. After all, it was not by chance that Qualcomm, Google, Intel, Yahoo!, Elbit, Microsoft, Philips, CSR, and now also Apple, maintain R&D branches in this area.

# Central Business Districts in Greater Tel Aviv

The report summarizes the findings of the market survey which was conducted by Inter Israel's research department. The document presents the findings of the quarterly review of the fourth quarter and an in-depth analysis of the office market during 2012 in the prime and sub-prime business districts of greater Tel Aviv.

The market survey was performed in regard to office space extending over more than 2 million m<sup>2</sup> in 78 prestigious towers in the Dan sub-market of which 1.425 million m<sup>2</sup> is in the Prime CBD, incorporating six major CBD axis in Tel Aviv and another prime municipal center - the Ramat Gan Diamond Exchange. In addition, 625,000 m<sup>2</sup> were reviewed in the sub-prime CBDs, which include Bnei-Brak (under construction) and Ramat Ha'hayal.

For the purpose of the survey, we divided the market into two: prime CBDs and sub-prime CBDs.

The review included 78 prestigious office towers, of which 27 are owned by a single entity (and therefore relevant for companies requiring large areas). Other towers are owned by multiple landlords.

## Principal Conclusions

There is a shortage of office space in the prime CBDs whereas in sub-prime CBDs there is a certain surplus.

The average monthly leasing rates in CBDs during the last quarter increased by more than 3%, from an average ILS 93 to ILS 96 per square meter per month. The locations with the highest occupancy rates, 99%, are Menachem Begin Road (rental costs being ILS 95.5 per square meter per month) and Yigal Alon Street (rental costs being ILS 98.5 per square meter per month). We were surprised by the fact that the price along Yigal Alon Street is in excess of the price along Menachem Begin Road - especially in view of the major presence of the Electra Tower.

The Menachem Begin CBD includes 20 office buildings covering 405,000 m<sup>2</sup> whereas Yigal Alon Street includes seven office buildings covering approximately 180,000 m<sup>2</sup>.

The Rothschild CBD continues to command the highest rental costs - ILS 112.8 per square meter per month on average rents, followed by the Shaul Ha'melech CBD with ILS 106.3 per square meter per month. The coastline commands the lowest rental costs amongst the CBDs and, on average, stands at ILS 78.1 per square meter per month.

## The 90% Bracket

Rentals are not so much influenced by demand, but rather by volatility when 10% vacancy kicks in. Thus, for instance, we see a correlation between the degree of take-up along the coast

and its relatively low price, and identify the same correlation in the sub-prime market. When occupancy rates fall below 90%, a price drop ensues.

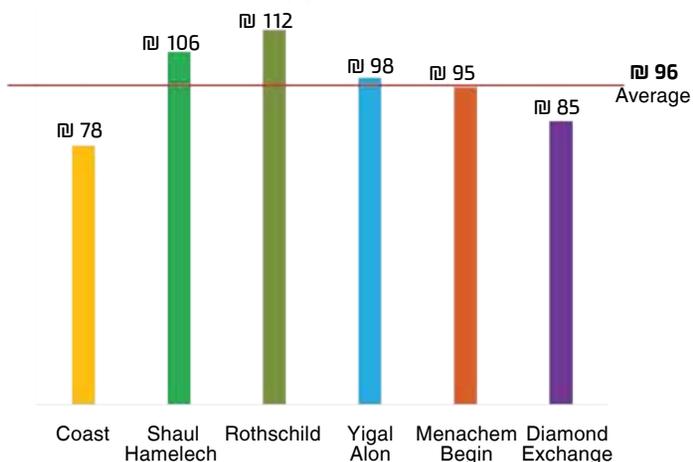
One should note that the shortage of space in the prime CBDs will cause migration to the sub-prime locations, bringing about a balance between the prime and sub-prime CBDs. We saw this happen in the '90s, when the Ramat Gan Diamond Exchange area was considered a sub-prime CBD - whereas it is currently regarded as one of the prime CBDs, constituting the largest of the 6 CBD locations (32% of its area - 450,000 m<sup>2</sup> in 22 office towers).

## Occupancy Rate

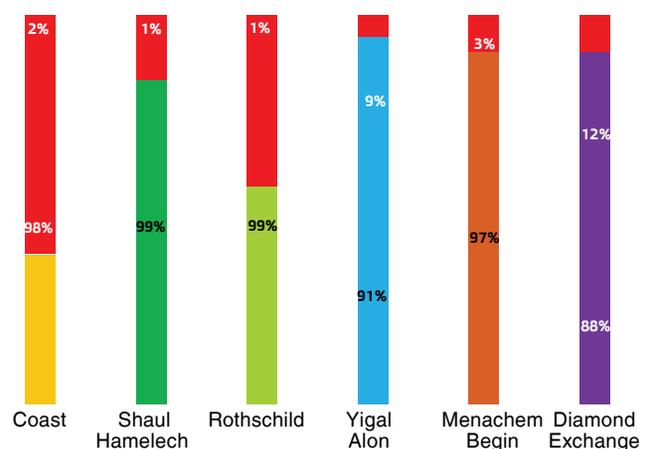
During the fourth quarter of 2012, the take-up pace dropped by 17,500 m<sup>2</sup>. During the third quarter the take-up pace dropped by 13,500 m<sup>2</sup>. Peak occupancy was in the first quarter of 2011 with 66,000 m<sup>2</sup> of occupancy. These data relate to all the prime CBD locations, jointly. These numbers do not necessarily indicate a slowdown, but rather a shortage of space i.e. a continuously lower supply.

The quarterly market survey was carried out with the professional assistance, supervision of data collection and quality control of Mr. Rami Yulzari of the Zeta Tool Company.

### Monthly Rents Per m<sup>2</sup> in CBDs



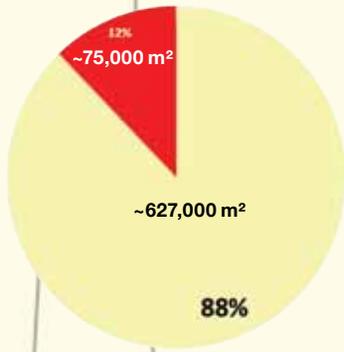
### % of Vacant Space in CBDs



It should be noted that none of the data appearing in this report is binding and same should not be used as the basis for a feasibility study or any other business decision without first receiving further detailed, professional accompaniment and assistance.

In addition, it should further be noted that most of the data in this report was obtained from third parties and Inter Israel shall in no case bear any liability in regard to direct or indirect, consequential or ancillary damage, including - however not limited to - loss of clients and/or loss of profits arising from data in this survey.

**% of Vacant Space in Sub-Prime CBDs**

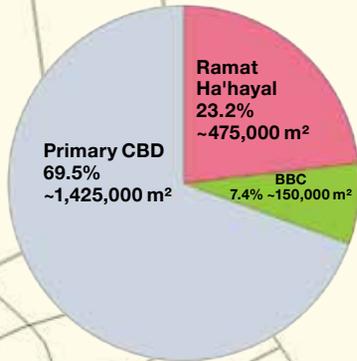


**Sub-Prime CBDs  
Ramot Ha'hayal & Bnei-Brak Business Center (BBC)**

Ramat Ha'hayal

Bnei-Brak

**Total Stock ~625,000 m²**



**Central Business Districts**

Ramat Gan  
Diamond  
Exchange  
District

Shaul Hamelech

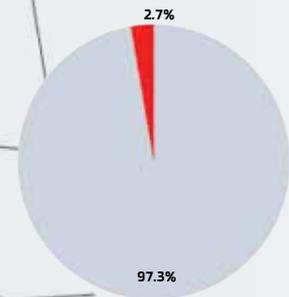
Yigal  
Alon

Menachem  
Begin

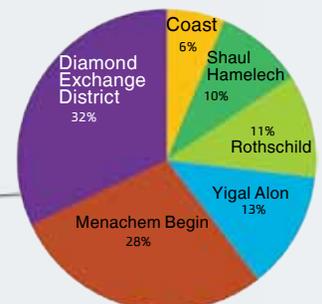
Rothschild

Coast

**% of Vacant Spaces in CBDs**



**Total Stock ~1,425,000 m²**



# INTER news



**Inter Israel Real Estate Consultants**  
Research Department  
15 Abba Hillel Street, Ramat Gan  
+972-3-7516060  
research@inter-israel.co.il  
www.inter-israel.co.il

