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INTER NEWS

Office Market Survey for H1 2015

Large Companies
are Building Offices
Instead of Renting
or Buying

Income-Yielding
Properties Continue to
Be Attractive Due to the
Negligible Interest Rate

Some Decline in Rental
Prices, Mainly in Areas
Impacted by Construction
Work on the Light Rail



Dear Readers,

Our lead article discusses what helps make a technology park in Israel successful. Our survey shows that most technology parks are located in large cities: Haifa, Tel Aviv, Jerusalem and most recently in Beersheba and near Universities and Research Centers. Apparently, this combination can be a critical element for success - providing park occupants both with easy access by highway and railway and healthy research collaboration with adjacent universities.

Our research department has continued to check on the attractiveness of income-yielding property investments when considering the extended period during which Israel's interest rate has sunk to a negligible level, similar to the rest of the world. We expect the opportunities from income yielding real estate investments to continue to rise, though at a more moderate pace, given that the interest rate will remain negligible throughout 2015.

As always, we review H1 2015 activity in the business districts in the Country's center, including peaking prices and occupancy rates in Herzlia in contrast to slight drops in the neighboring cities of Ra'anana and Kfar Saba. In our review of Tel Aviv's central business districts, we reveal a huge jump in the Take-Up Rate, though rental prices have begun to fall. All this and more in the current issue of InterNews.

Have an enjoyable read!

Yoram Blumenthal
Partner, Inter Israel

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Publisher: Inter Israel Real Estate Consultants
Senior Editor: Avriël Ben-Dor
Researcher: Tal Levin, Inter Israel
Production: Naama Ochanun
Language Editor: Danny Geva
Graphic Designer: Studio Orna Cohen
Statistical Oversight: Rami Yulazri
Production Editor: Yair Kachel PR Ltd.
Translator: Ari Itzkowitz, Lion H.I. Consulting Ltd.

Inter Israel Real Estate Consultants

15 Abba Hillel Silver
Ramat Gan
research@inter-israel.co.il
www.inter-israel.co.il

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DIY Office Towers

Herzlia inks deals as office rental prices peak ● Kfar Saba and Ra'anana continue to fall ● Newly trending: Large companies are building their own projects instead of leasing or buying. An overview of business district rental prices and occupancy rates over the past half year and the factors responsible

In this report, we present the supply and demand for office space for the first half of 2015. We have collected data on leasing and occupancy rates among offices in 9 separate areas, from Netanya in the North-Central Coastal Region to Nes Tziona and Rehovot in the South-Central Coastal Region. Our data indicates stability in average office rental prices at NIS 49.0/sq.m.

Our research points to a new trend: Large companies are purchasing land and developing their own projects, i.e. dabbling in real estate development, rather than renting space and investing their equity in their core business. These companies include: Teva, establishing global HQ in Ra'anana, SAP, building local HQ in Ra'anana, Amdocs, considering purchasing land for a new global HQ, as well as other internationals with a local presence. If it was once typical of institutions to only purchase real estate when requiring a high level of proprietary design (e.g. logistic, research or medical centers), today, institutions are also contemplating purchases for more standard office buildings.

Areas with prominent rental price changes include a 4% decline in Kfar Saba and an 8% decline in Ra'anana. Prices remain stable for the Ben Gurion Airport Area as well as Rosh HaAyin. Prices rose by 2% in Petah Tiqva, 4% in Rehovot, 3% each for Herzlia and Netanya and 2% for Hod Hasharon.

Occupancy Analysis by Area

Petah Tiqva

A 2% rise: From NIS 48/sq.m. to NIS 49/sq.m. For the past year and a half there has been absent any starts of new business complexes or large office buildings. This can be problematic in a market ruled by the motto "if you will it, it will come", meaning that when large quality complexes are under construction, such as Park Azorim, interest in the local market rises and attracts large anchor companies. With the lack

of any significant development in the past two years, interest has shifted to other areas such as Ra'anana and Kfar Saba. This is reflected in Teva's intention to establish its new headquarters in Ra'anana, relocating from its current extensive premises in Petah Tiqva.

Rosh HaAyin

Unchanged at NIS 37/sq.m.

Continuing to tread water, prices remain static in Rosh HaAyin while occupancy rates have risen slightly. Despite its proximity to Kfar Saba, Hod Hasharon and Yehud, prices in Rosh HaAyin remain a significant 32% lower than neighboring cities.

We continue to believe in the long term potential of this area due to the nearness of the Kesem Interchange and the new Nitzba 'Lev Ha'aretz' project. Completion of the 531, which will drive development of the Sharon, may continue to somewhat impact Rosh HaAyin's future development.

Nes Tziona - Rehovot

A 4% rise, from NIS 47/sq.m. to NIS 49/sq.m.

Rental prices have risen by 4% this half due to an awakening of the market, following a 2% drop in the previous half. Activity is up with the marketing of a number of high profile projects including Africa Israel's "Site 11", Gav Yam and others. The dwindling availability of land is reducing the negotiating strength of developers.

The area will continue to be dependably popular due to its academic nature and also its concept of being a unified park with all the services centrally organized (a joint venture of Gav Yam, Africa Israel and the Isras Group). This is one of Israel's largest business parks, encompassing the Science Park in Rehovot and the Tamar Park in Nes Tziona.

The Ben-Gurion Airport Area

Or Yehuda, Yehud, Bet Dagan and Airport City

Unchanged at NIS 48/sq.m.

Prices have stabilized following rises in 2014. We expect prices to continue to be stable and even decline during 2015 as new projects are completed and enter the market.

The Sharon Region:

Herzlia

Rising from NIS 69/sq.m. to NIS 71/sq.m.

Herzlia continues to climb to record heights, with a limited availability of office space, despite the expected final occupancy permit of 52,000 sq.m. office space in the next quarter, representing 9% of the area's premium office space.

Herzlia's increasing strength is in contrast to the general situation in the Sharon region, where prices have remained stable or are in decline. Most of the office space that will shortly become available for occupancy has already been snapped up early at the development stage by large hi-tech international companies.

Some projects in Herzlia are leasing at NIS 80/sq.m., similar to that of exclusive towers in Tel Aviv.

A number of deals have closed during the first half of 2015, proving the continued attractiveness of Herzlia Pituah and its competition with Tel Aviv. For example, Apple has exercised an option to lease 4,000 sq.m. of office space (in addition to the 20,000 already under lease), SolarEdge to lease 5,000 sq.m. from Gav Yam, the Mitrelli Group will lease 7,000 sq.m. in the Vitania-FEDCO House and an additional hi-tech company that will be leasing 11,000 sq.m.

Netanya

Unchanged at NIS 37/38/sq.m.

Prices have finally leveled off after seriously eroding during 2014. Current prices are only marginally attractive for developers.

Kfar Saba

A 4% decline from NIS 51/sq.m. to NIS 49/sq.m.

Kfar Saba's Class A space totals only 95,000 sq.m., with prices highly sensitive to any local developments, such as a project that is playing out to be unmarketable. Kfar Saba will continue to gain in popularity as we approach the opening of the 531 Highway at the end of 2015. The new highway will transform the area, creating a desirable alternative to Herzlia.

Ra'anana

An 8% decline from NIS 55/sq.m. to NIS 51/sq.m.

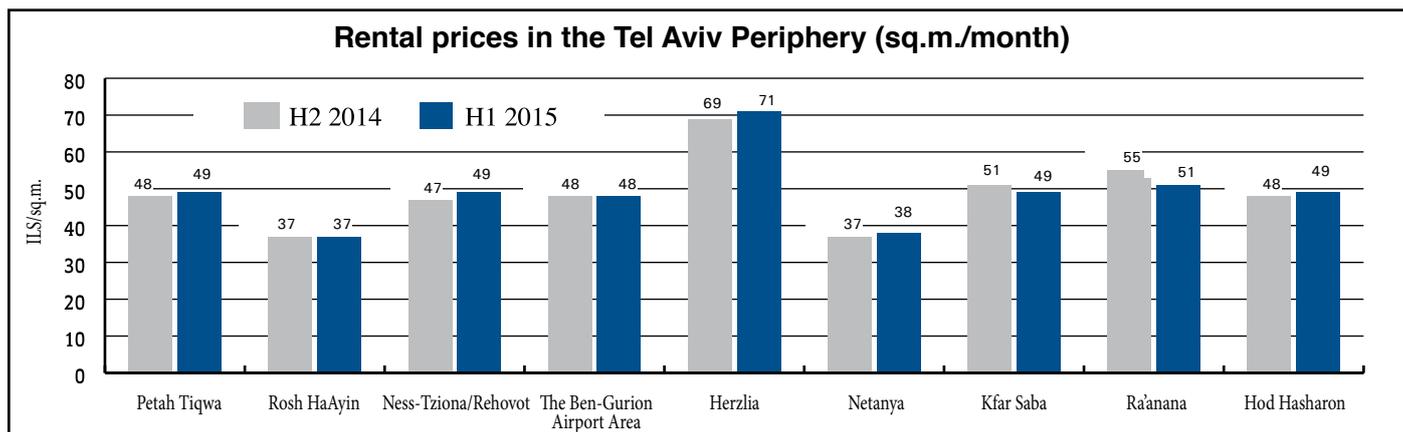
Ra'anana is being affected by a confluence of factors: Companies undergoing space reduction (including only 50% occupancy of Comverse's new building) and the completion of projects and new office space entering the market. The resulting pressure on prices has prevailed over the attractiveness of the area's proximity to Herzlia.

Hod Hasharon

A 2% rise from NIS 48/sq.m. to NIS 49/sq.m.

Ashtrom continues to advance the development of its projects and in the meantime, prices remain stable. We expect Route 531 will raise the profile of this area as well, being largely populated by medical device and software companies. Qualcomm's relocation to Hod Hasharon has helped to increase the location's popularity.

"Newly trending: Large companies are building their own projects instead of leasing or buying"



Office Rental Review in Key Cities

Haifa and the North

Stable with a slight rise in price

Jerusalem

Remains attractive to tenants



Park Yokneam

We have reviewed three main industrial areas in the North – Haifa, Yokneam and Caesarea

The Matam hi-tech park, with 180,000 sq.m. of office space, is located at the southern entrance to Haifa, encloses most of the city's premium office space and is considered the largest hi-tech park in Israel. Matam includes large international hi-tech companies such as Microsoft, Intel, Google and more. Among the three sites discussed here, Matam has the highest price at NIS 64/sq.m.

Yokneam, located 25 km southwest of Haifa, is a satellite city with a large hi-tech park with a significant number of life science companies. Prices here have risen slightly from NIS 54/sq.m. in 2014 to NIS 55/sq.m. during the first half of 2015. We expect pressure on local prices to come from the launch of new projects in the area.

Caesarea, located 35 km to the south of Haifa, has maintained stable occupancy rates for the period, with a slight rise in prices from NIS 56/sq.m. to NIS 57 sq.m. The local industrial park covers 3,500 dunams. The Caesarea Development Corp. has begun to market 15,000 sq.m. of office space, among 3 buildings of 3 floors each, located at the northern end of the park, near the rail station and restaurants. This park is very attractively situated, adjacent to Israel's main North-South (Tel Aviv to Haifa) arterial roads, as well as the railroad and easily accessible to both workers and customers.

We have reviewed the city's two lead business districts – Malha and Har Hotzvim; Jerusalem continues to be a technology and R&D center, in part due to its status as a National Priority Area

Jerusalem's Office Rental Market maintained stable prices and occupancy rates for the first half of 2015. Though there have been no recent building starts, Jerusalem remains an attractive area for technology and development companies.

The Har Hotzvim Hi-Tech Park, located by the city's western entrance, is one of the lead technology parks in Jerusalem. Key residents include Intel, Johnson & Johnson, Cisco, Sigma-Aldrich, Covidien and Teva.

The area has access to highways leading to Tel Aviv and the rest of the country, making Jerusalem an integral part of the center of the country.

Malha, located in Jerusalem's southwest, also houses an impressive list of leading international companies such as Bloomberg, IBM and Thomson Reuters.

Jerusalem has many long-term projects for highway improvement and transportation infrastructure, such as the express rail line between Jerusalem and Tel Aviv, due to be operational in 2017. Advanced infrastructure drives the city's economy and its attractiveness to the hi-tech sector – quality human resources (academics, engineers, technicians), an excellent workplace and flourishing residential areas.



The Malha Technology Park in Jerusalem

Office Rental Review in Key Cities

Beersheba

Prosperity and Economic Stability



The Gav Yam Negev Advanced Technologies Park in Beersheba

We have surveyed the top ten business towers in Beersheba (excluding the Municipality) ● With the imminent relocation of Israel's Military Intelligence unit to Beersheba, the city is poised to transform into the hi-tech and cyber capital of Israel

Beersheba has had no new office building for 15 years, until the construction of the first two buildings of the Gav Yam Negev Advanced Technologies Park, begun in 2011 and completed in 2013 and 2014.

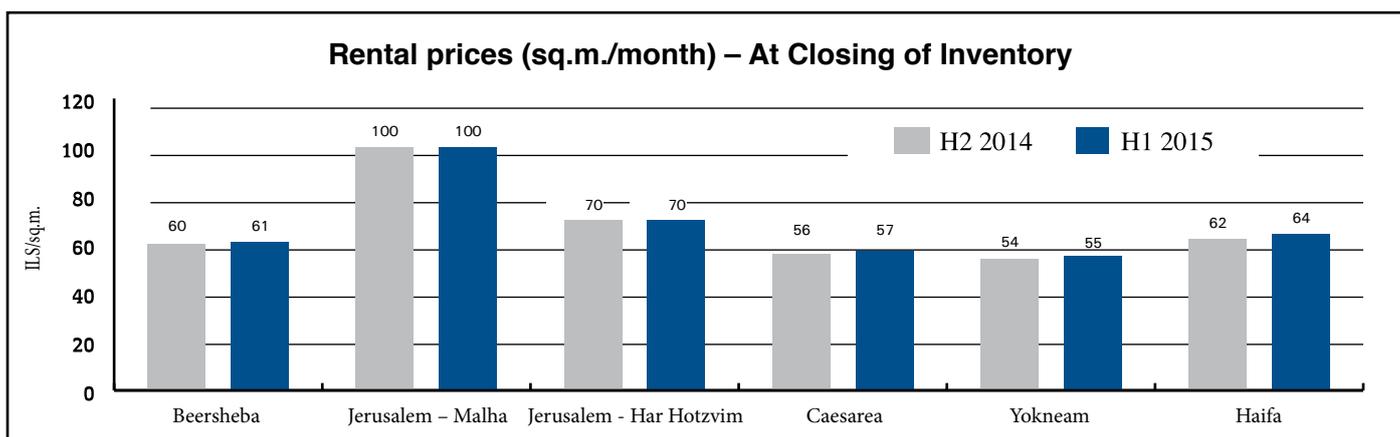
The main reason is the City's lack of a business climate. Most academics in the area are employed by the Ben

Gurion University of the Negev or in Soroka Hospital. There are no major technology development centers or supporting services such as financial services, business consultancies, advertisement agencies, accountants, lawyers, etc. Beersheba's Office Rental Market is characterized by stability with slight rises in rental prices and occupancy rates in the first half of 2015. Change is in the air with the advent of the Gav Yam Negev Advanced Technologies Park. The Park now employs over 1,000 workers, of which 80% are local to the Beersheba area. This is expected to increase to 10,000 workers in the coming years, not including military personnel.

The Park is planned to include 200,000 sq.m. of office space. Residents will include: Elbit, Lockheed-Martin, Oracle, EMC, Audiocodes, Mellanox, PayPal, RAD, WIX, IBM, Deutsche Telekom, the JVP Fund and Israel's National Cyber Bureau.

In addition, the Military Intelligence unit will be relocating to the South. The union of the Military Intelligence unit, the Technology Park and the University will transform Beersheba into the hi-tech and cyber capital of Israel. The military compound is expected to house over 7,000 recruits and career soldiers.

Beersheba is in the process of a rebirth, as all the development and investment of recent years has begun to yield prosperity and economic stability to the City. The State of Israel has set the renewal of Beersheba as a national challenge that will transform it into the true Capital of the Negev.



Secrets to Success

Higher education facilities, developed communication infrastructure, daycare or entertainment facilities and pubs – the ingredients for a successful hi-tech park in 2015 ● What attracts local and international companies to these parks ● Haim Toronto, Senior Consultant Inter Israel, reveals to us the secrets to building a Park

A technology park is an important contributor to a healthy economy for any city in the developed world today. Municipalities today work to attract the right companies as a draw to quality residents looking for the right employment opportunities. Haifa's Matam Park is an example of a successful business area and can count among its residents many large international companies such as Google, Yahoo!, Intel, Microsoft, Apple and GE. There is no doubt that the Matam Park is a key contributor to making Haifa the modern and thriving city that it is today. Other cities are endeavoring to repeat Haifa's success and therefore provide various incentive packages for developers and companies, including grants and tax breaks, to attract the right hi-tech companies, not just as a matter of prestige but in order to create for the city the right branding, revenues and employment opportunities.

Technology-based industries require quality human resources, tend to prefer areas with excellent transportation options (railroads and highways) and prefer to be situated near institutes of higher education and research centers. This sets the scene for receiving appropriate services and a professional workforce as well as easy access for workers to their workplace.

Israel's first hi-tech parks were established in the 1970's and offered a government incentive package of grants and tax breaks to companies, both local and international. Sites were chosen in proximity to universities and research centers in order to increase the potential for attracting a quality workforce. Parks established during this period include the Science Park next to the Weizmann Institute, Atidim near Tel Aviv University and Matam in Haifa (near the Technion Institute and

Haifa University). New government-directed plans and incentives have followed the more recent wave of hi-tech, biotech and biomed industries that have led to the rapid development of Israel's economy. Today there are renewed efforts to develop areas with potential based on this proven formula – prompting, for instance, the establishment of Beersheba's Gav Yam Negev Advanced Technologies Park near a major university.

Hi-tech industries have proliferated in recent years mainly in the Greater Tel Aviv area and its satellite cities and in Jerusalem, Haifa and Rehovot-Nes Ziona. These areas are all in proximity of excellent research centers and institutes of higher education with strong science programs, some of which actively partner in the development of nearby hi-tech parks. Companies that take up residence nearby therefore benefit from a steady flow of ideas and

“Israel today has dozens of industrial areas that host hi-tech companies, but only six can be truly labeled as an advanced technology park”



Park Azorim, Petah Tiqva



Haim Toronto, Senior Consultant at Inter Israel

collaboration with academia, including the auxiliary use of labs and other facilities. In addition, hi-tech industries have flourished due to well-developed supporting service industries such as finance and communications, facilitating access to investors and marketplaces and providing opportunities for collaboration, networking with market



The new building in Park Matam, Haifa

leaders and other critical institutions. Large cities also provide access to a varied and quality workforce, i.e. human capital, to meet human resource demands for academics, engineers and technicians.

Haim Toronto, Senior Consultant at Inter Israel: "Israel today has dozens of industrial areas that host hi-tech companies, but only six can truly be labeled as advanced technology parks. Criteria includes land usage, of which the majority needs to be dedicated to supporting the activities of hi-tech and life science companies. Areas that strictly meet this criteria include Park Atidim in Tel Aviv, Park Azorim in Petah Tiqva, Park Gav Yam Negev in Beersheba, the Science Park in Rehovot-Nes Ziona, the Malha Technology Park in Jerusalem and

Park Matam in Haifa."

How much influence do government grants and incentives have on the success of a technology park?

"The drivers of success for a technology park depends on its stage of development. At its start, it needs to be defined as a National Priority Area A such as Matam in Haifa, Gav Yam in Beersheba and Malha in Jerusalem. This can provide the right incentives to attract large corporates to become the anchor companies for the park, which will then draw in their wake additional local and international companies. Offering government grants and incentives can assure the success of a new park and leaseholds can rapidly be snapped up. This may include grants for research and development, sharing in employment costs, direct government

investment and also municipality guarantees such as reduced city taxes, etc."

What is the right model for park management, to increase its attractiveness to tenants?

"Collaboration between a private institution and an educational institution or a municipality, for marketing and park management, can assure a high level of service and maintenance and increase the attractiveness of the park. Modern buildings and provision of extensive services can also help – such as child care facilities, restaurants, synagogues, postal services, banking services, extensive parking, security services and landscaping. The right mix of services and park design can boost the park's chances of success."

Israel's Advanced Technology Parks

Attributes/Park	Gav Yam Beersheba	Atidim Tel Aviv	Matam Haifa	Azorim Petah Tiqva	Malha Jerusalem	Science Park Rehovot-Nes Ziona
Established	2012	1972	1974	1999	2002	1971
Land Area (sq.m.)	200,000	90,000	220,000	40,000	350,000	120,000
Built Area (sq.m.)	192,000	250,000	270,000	90,000	73,000	70,000
Notable Tenants	Oracle EMC NESS Technologies Dalet, JVP Lockheed Martin Elbit Allscripts (dbMotion) AudioCodes RAD National Cyber Bureau	Ness Technologies Elad Systems Medinol Clal Citi Group (R&D)	Intel Philips Microsoft Matrix Elbit Zim IBM Google Apple	Intel Tadiran IBM EMC CyberArk Marvell Polycom Agilent	IBM Software Co.'s: Answers Ex Libris International Media Companies: BBC Reuters Bloomberg	Intel Philips Microsoft IBM Stanley Healthcare Elbit (Elop) Elbit (Silver Arrow) Nova HP-Indigo Conduit
Sectors	R&D Cyber Hi-Tech	Hi-Tech Communications Finance Medical	Hardware Software Internet Medical Devices Biotech	Hi-Tech Technology	Communications Hi-Tech Technology IT Services	Software Biotech Medical Devices Hi-Tech
Ingredients for Success	joint ownership (developer municipality and University), high level of maintenance, adjacent to public transportation, quality manpower, National Priority Area A	joint ownership (developer, Municipality and University), high level of maintenance, close to academia	close to University and Technion, near highways and public transportation, joint ownership	easy access to transportation, near large city (Tel Aviv), high level of maintenance, modern facility	National Priority Area A, joint ownership (developer and Municipality), high level of maintenance, easy access to transportation, near academic institutes	Near Weizmann Institute, high availability of professional workers, easy access to transportation

The Ingredients for Success for a Technology Park in Israel

Designation as a National Priority Area A (for at least the start-up stage) – in practice, this is a grant to the local council providing assistance, support, discounts, benefits and various government incentives that will catalyze the establishment of a local hi-tech park and attract companies and large institutions to set up shop.

Proximity to Universities and Research Centers – can be an enormous boost to a park's success, for example: Park Gav Yam Negev in Beersheba, near Ben Gurion University, the Science Park in Nes Ziona, near Weizmann University and Park Matam in Haifa, near the Technion Institute and Haifa University. Proximity of such institutions provides opportunities for collaboration and for recruitment of skilled and educated hi-tech workers, benefitting both sides of the deal.

Adjacency to Key Roads and the Railroad – commercial centers, hi-tech companies and offices tend to spring up in easily accessible areas. The development of entire regions can be stimulated through the improvement of available transportation options such as public transportation, railways and highways, increasing its accessibility and thereby attracting both companies and residents to a specific location. Peripheral areas become more

accessible to and from the center, such as Matam in Haifa and Gav Yam in Beersheba and therefore become viable alternatives for the location of employment centers.

Proximity to Large Cities – being near a large city has numerous built-in advantages such as a financial center and a developed hub for transportation. While not designated as a National Priority Area A, nor being adjacent to a research center, Park Azorim in Petah Tiqva is considered a success due to its easy access from Tel Aviv.

Joint Ownership of Park: A Leading Developer and a Municipality or a University – this usually leads to a park that is well planned, well managed and well serviced and includes facilities such as childcare, cleaning, power and AC infrastructure, landscaping and park development, postal services, dining options, banking and more. Parks of this type include Park Atidim in Tel Aviv, Park Gav Yam Negev in Beersheba, Park Matam in Haifa and the Science Park in Nes Ziona.

A Modern and Updated Facility – Park Azorim in Petah Tiqva is one of the most beautiful parks in Israel and certainly is one of the reasons it has proven so successful.

Fighting For Every Tenant

With a flood of office space to enter the market beginning next year, occupancy rates have fallen to 96.7% while rental prices have dropped to NIS 90.5/sq.m. ● In contrast, Take-Up rates have significantly jumped in Tel Aviv's Central Business Districts

Current real estate trends are mixed, driven by a multitude of contradicting factors including: Israel's weak growth rate (GDP growth fell to 2.8% in 2014, from 3.2% in 2013 and 3.0% in 2012), predictions for some recovery in 2015 to 3.5% and expectations for a massive surplus of office space to enter the Greater Tel Aviv market over the next few years. On one hand, this has led to a large jump in Take-Up in comparison to the multi-year average, while rental prices have, in contrast, begun to decline. Inter Israel Real Estate Consultants' office market survey for the first half of 2015 encompasses office space "stock"

totaling 2.3 million sq.m. in 133 office buildings in the Greater Tel Aviv area, of which 66 buildings were analyzed in depth. Tel Aviv includes 6 business districts – Rothschild, Shaul Hamelech, the Coast, Menachem Begin, Yigal Alon and Ramat Hachayal. In addition, we have analyzed the Ramat Gan Diamond Exchange area and the BBC area (Bnei Brak Business Center).

Slight falls in occupancy rates and rental prices:

During the first half of 2015, occupancy rates fell slightly to 96.7% from above 98% in the second half of 2014. Also,

average monthly rental prices declined to NIS 96.5 from NIS 97/sq.m./month. When including Bnei Brak and Ramat Hachayal, the rate falls to about NIS 90.5 from 91.1/sq.m./month in the previous half.

Rothschild Blvd. maintains very high rental prices and has halted its price slide at NIS 108/sq.m./month, similar to H2 2014. A reminder: the average price per sq.m. per month stood at NIS 111 in the last quarter of 2013, a year and a half ago.

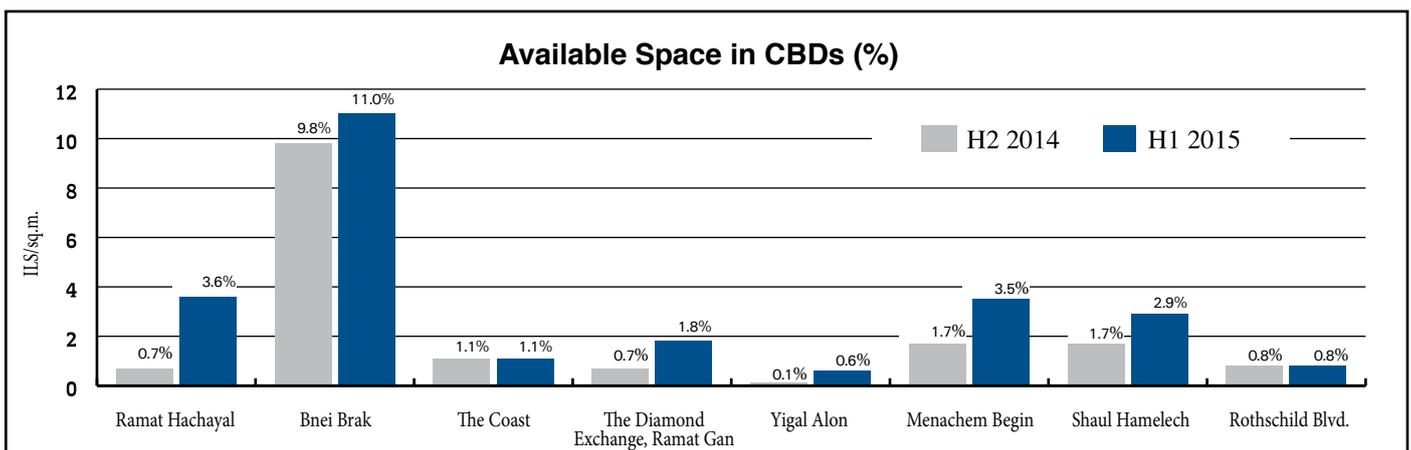
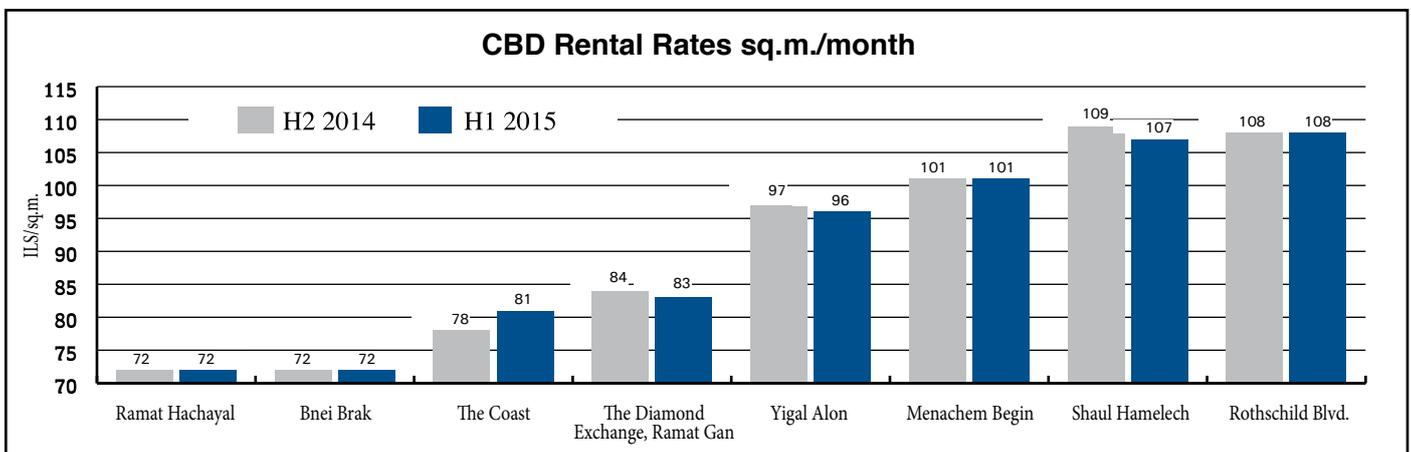
Shaul Hamelech has slipped to second place in price, declining to NIS 107 from NIS 109/sq.m./month in the previous period.

Menachem Begin remained at NIS 101/sq.m.

Yigal Alon fell slightly to NIS 96 from NIS 97/sq.m./month.

The Diamond Exchange fell slightly during the first half of 2015 to NIS 83 from NIS 84/sq.m./month.

The Coast rose to NIS 81 from NIS 78/sq.m.



The Office Market in 2014-2016: Will prices really drop with the flood of new space on the market and what are our expectations for the next two years

The Office Market in 2015-2017: Forecasting a decline in prices with the flood of new space on the market. Our expectations for the next two years

In 2014, 64,000 sq.m. was completed. Over the course of 2013 and 2014, 104,000 sq.m. entered the market on average. In 2015, we expect an additional 100,000 sq.m. to enter the market. The big surge in office space is expected in 2016, when 200,000 sq.m. is expected to enter the market, with the lion's share (85%) in Tel Aviv and the remainder in Bnei Brak.

Therefore, over the course of 2015-2016, 300,000 sq.m. of office space will enter the market, at an annual average of 150,000 sq.m. At a Take-Up rate of only 90,000 sq.m. per year, this will result in a market surplus of 120,000 sq.m. of office space by the end of 2016.

Therefore, as mentioned, 2017 will begin with 120,000 sq.m. of excess office space on the market. And

actually, the largest challenge will come during that year, when an unprecedented 400,000 sq.m. of office space is expected to enter the market. Marketing of such a large amount of space, should take about four years, from our experience, assuming similar conditions to the past decade of growth.

Yoram Blumenthal, Partner in Inter Israel Real Estate Consultants: "The importance of these numbers means that there will be enormous pressure on prices in 2017 if projects are not cancelled or delayed. We expect heavy competition, accompanied by benefits packages to leaseholders (improvements in interior design, infrastructure, services, etc.) due to the large shortfall of demand in relation to supply and also based on geographical positioning. We expect a 15% fall in prices by 2017, providing opportunities to tenants and to those looking to upgrade their premises. Developers without the right financial backing and an aggressive marketing strategy will find themselves in an uncomfortable position."

Bnei Brak and Ramat Hachayal remained at NIS 72/sq.m. on average.

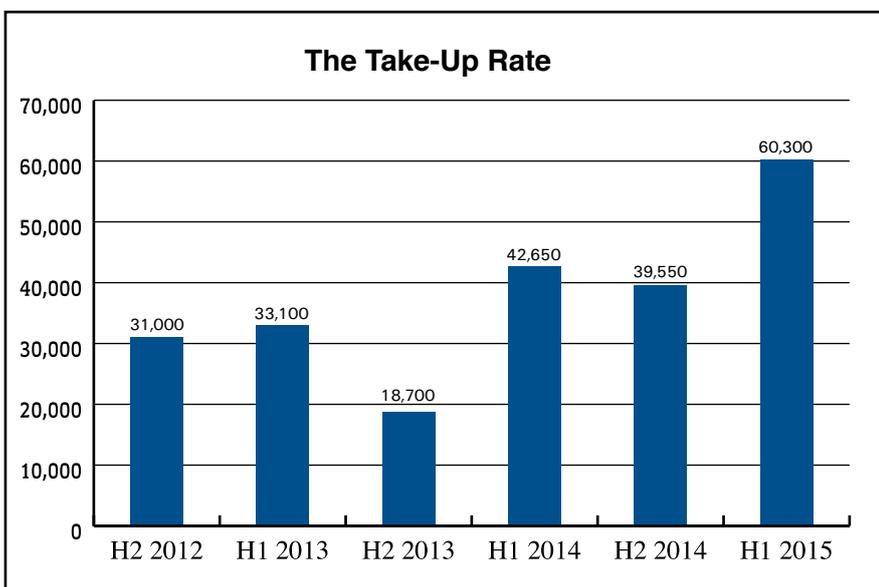
Occupancy Rates (Take-Up) are Skyrocketing

Growth in occupancy rates during the first half of 2015 stood at 60,000 sq.m.,

or an annualized rate of 120,000 sq.m. This follows an 80,000 sq.m. Take-Up rate for all of 2014, which was in line with the multi-year average.

In the half under review, occupancy rates for the office rental market fell slightly to 96.7% from over 98% in the

second half of 2014. Unoccupied space in Ramat Hachayal rose to more than 4% due to the "Comverse Effect" (a large amount of space was unexpectedly released to the market) and completion of the "CU" and "MDC" projects. Unoccupied space in Menachem Begin also reached 4% mostly due to the availability of the Electra City project. In 2015, the office market will expand by 100,000 sq.m., with 60% in Tel Aviv. We expect a return of many businesses to Tel Aviv, including international companies and many R&D centers, interested in being close to young talent concentrated in Tel Aviv. Rising prices in Herzlia will also work to push companies to Tel Aviv. Therefore, we expect both extremely high occupancy rates and prices to remain at current levels in Tel Aviv.



The gap continues to widen

Inter Israel's research department discloses: The Opportunity Index continues to climb due to the negligible interest rate and the resultant shortage in investment instruments with suitable yields • We expect the opportunities from income yielding real estate investments to continue to rise



Ofek Gabai, Head of Capital Markets at Inter Israel

Inter Israel's research department continues to analyze the opportunity presented by income-yielding real estate (Class A office space in Tel Aviv central business districts) versus CPI-linked 10 year government bonds (Galil). Our findings reveal that spreads over time since 2003 averaged 5.7%. Currently (June 2015) spread hovers at 6.8%, up 0.9% from January 2014 and 0.2% since the second half of 2014.

Ofek Gabai, Head of Capital Markets at Inter Israel: "We forecast the interest rate will remain at 0.1% throughout 2015 despite a 0.9% accumulate CPI rise for the period of March-April 2015. We will see a slight drop in yields from income-yielding real estate based on various market factors. The interest rate is expected to reach 1.25% by year-end 2016, based on Bank of Israel projections. This rise will be slightly more rapid than reflected in market expectations, which forecast a 1% interest rate."

The Bank of Israel forecasts, "One-year inflation expectations from various sources remained around the lower

bound of the inflation target range, while two-year and medium-term inflation expectations have risen to the midpoint of the inflation target range. In addition, we estimate that the Israeli market remains in a slowdown and economic data indicates a continued decline in investments in the economy, despite a low interest rate environment."

In Summary: We expect the opportunities from income yielding real estate investments to continue to rise, though at a more moderate pace, given that the interest rate will remain negligible throughout 2015, followed by a gradual rise during the course of 2016.

*Disclaimer: Investing in commercial real estate requires a thorough analysis

of all aspects of the investment, over and above the investment yield and the return on rent and should include examination of the following prior to any purchase: location, type of asset, quality of tenants (if existing), securities taken on the asset, price per sq.m. of construction, existing parking, tax status and more.



Income-Yielding Real Estate Investment Yields in Tel-Aviv



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With 40 years of experience and an expert team in market research, consulting, marketing, brokerage and project management in Israel and abroad, we assist companies and businesses in locating their ideal property and exactly match their requirements and needs - to the last detail.

Our Services Include

- **Consulting Companies.** Our services cover all aspects of a property deal, whether meant as an investment or for occupancy by our client. We provide a full range of consulting services, starting with mapping out client needs to identification of the most suitable property, assisting in closing the deal and preparing and finalizing the property for occupancy or for marketing for sale or rent.
- **Capital Market Group.** We support our clients throughout the investment process, from identifying the desired property to completing the transaction, mediating market-based risk management, sectorial trends and forecasts that may affect the asset – in short, everything necessary to maximize the yield from the investment.
- **Office Department.** We assist developers and property owners with the process of development and construction of commercial centers throughout Israel, from the planning stages and purchase of the property, to the marketing of the project and its full occupancy. We accompany every project from its start until its completion while keeping a close watch on the budget, project schedule, requisite manpower and all associated parties, in order to assist the process, preclude problems and prevent excessive costs to the client.
- **Market Research.** Inter Israel's Market Research Team, together with Cushman & Wakefield's research team, provides quarterly reviews of Israel's real estate market and proprietary analysis for developers and public organizations. As Cushman & Wakefield's exclusive representative in Israel, Inter Israel has access to up-to-date and detailed information of various real estate markets worldwide as well as access to consultants, real estate companies and developers globally. Our market research includes a comprehensive analysis of the real estate sector and provides clear and geographically relevant information on prices, occupancy rates, local trends and future expectations.

Our Services Include:

- **Consulting Companies**
- **Office Department**
- **Retail Department**
- **Capital Markets Group**
- **Industrial & Logistics**
- **Property Management**
- **Market Research**
- **Appraisal Services**

www.inter-israel.co.il

Corporate Address:

15 Abba Hillel Street,
Ramat Gan 5252208, Israel
Phone: +972-3-7516060
office@inter-israel.co.il