Natam Report

Israeli Office and Industrial Market Survey

No. 25 | Winter 2010

Natam COLLIERS INTERNATIONAL

Introduction

Methodology:

Natam report surveys class A buildings in different areas in central Israel.
The survey does not include all the properties in the area but rather constitutes a sampling of buildings which represent the area.
The buildings which are included in the survey answer to the following criteria:

- Spaces which can be occupied within the next 6 month.
- Built space of building excluding ground floor and basements of at least 10,000 sm.
- Full central A/C systems and more than one elevator.
- High standard internal public spaces.
- The building is fully managed by a professional managing company.
- Asking prices for new offices in shell and core state include a standard interior finish of 1,200 NIS per sm.
- Rent reported in the survey is based on the landlord asking price to date 31/12/2009.

Trends:

- The local market characteristics during the second half of 2009 were influenced by the global economic slowdown along with the expectation for improved market conditions.
- The secondary sublease market was not a major market component in comparison to the dot com crisis in 2001-2002. It did not drive leasing prices down as some anticipated it would.
- New construction starts are still dormant and there are very few real estate projects that are being built speculatively. We estimate that within the next year or two, the market will face a shortage of new office space for leasing.
- By the end of 2009 there were many companies seeking to relocate their offices, mainly due to expansion needs, and to exploit lower rents and attractive concession packages. Most of the companies were seeking readymade spaces in order to lower moving and construction costs.
- The investment market is still active. Much of the activity is due to a continuing trend of companies selling properties because of cash flow problems with investments abroad. On the other hand the cap rates have not changed and are in the 8-8.5% range for prime assets. The market activity was not affected by changes in banks' credit policy, but from the feeling that the prices in the market will rise again.
- After a year of rent price decrease in the first half of the year, and price stability in the second half, the beginning of 2010 has been characterized by an increase in rents due to the rise in market demand. The increase in rents is most typical to Tel Aviv and the close periphery.

“SEA VEIW” , Hezelia Pituach

Beer Sheva market center

Natam Management advises the developers of the projects

Tel Aviv - Ramat Gan CBD Office Market – Winter 2010

Natam surveyed 43 buildings in 7 submarkets that represent the major markets in CBD Tel Aviv and Ramat Gan.

In total 764,000 sm. of class A space is represented in this report.

Summary of Findings:

Location	# of Buildings in Survey	Total Area in Survey (sm)	Rented Area (sm)	Occupancy Rate as of Summer 2009 (%)	Occupancy Rate as of Winter 2010 (%) (*)	Average Asking Price Summer 2009 (Shekel/sm)	Average Asking Price Winter 2010 (Shekel/sm) (**)
Courthouse	4	68,388	65,488	93.58%	95.76%	100.39	91.02
M. Begin Rd. Corridor	11	217,800	209,374	96.15%	96.13%	83.95	78.35
Yigal Alon Rd. Corridor	5	88,815	83,955	97.28%	94.53%	58.20	59.02
Manshia	5	87,563	83,685	96.**00**%	95.57%	62.38	65.89
City	4	75,931	69,859	92.72%	92.00%	83.60	83.97
Central Tel Aviv	5	71,348	67,550	94.46%	94.68%	67.77	68.07
Ramat Gan – Bourse	9	154,804	149,831	94.78%	96.79%	77.42	78.87
Total Average	**43**	**764,649**	**729,742**	**95.00%**	**95.07%**	**76.24**	**75.03**
					No change		**↓- 1.61%**

(*) We estimate that the sublease market accounts for an additional 5-10% vacant space.

(**) In current market, closing prices average -5-10% from asking prices.

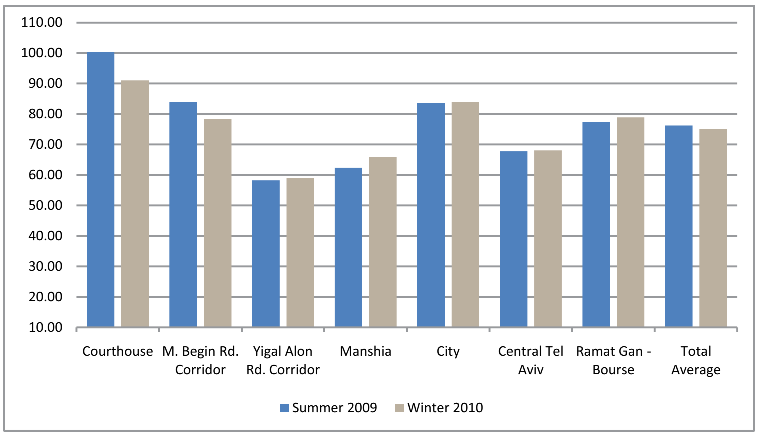
Trends:

- The second half of 2009 is characterized by stable prices and occupancy rates. This is due to the expectation of improved market conditions in the near term.
- In Tel Aviv specifically, there were price decreases in the second half of the year, whereas other areas had experienced stabilization. This was due to the fact that rent prices in Tel Aviv in the first half of 2009 were still quite high. On the other hand the farther we get from the center of Tel Aviv, the rents which declined sharply in the first half of the year stabilized in the second half of the year.
- Occupancy rates in the second half of the year remained unchanged which demonstrated that spaces that became vacant were re-leased in a short period.

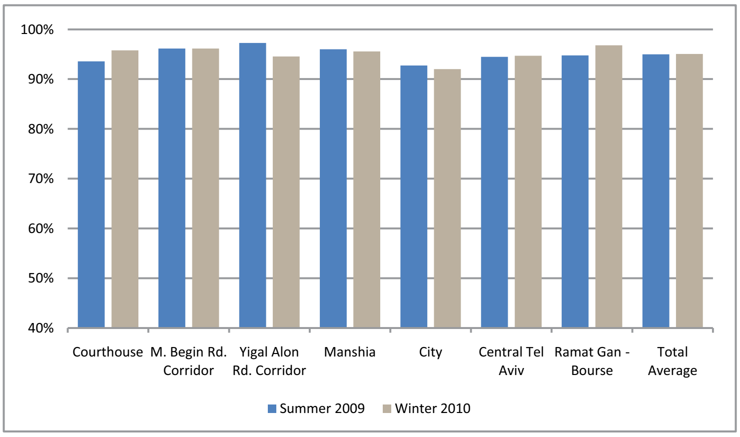
Forecast:

- The office market in the first quarter of 2010 is showing signs of recovery from the crisis, asking rental prices are on the rise, there seems to be confidence that the market is stable now and is expected to grow.
- From the demand point of view, tenants are exploring the market for two major reasons: the fact that on one hand rent prices have decreased but are expected to rise, and because some companies are experiencing growth again and need additional office space.
- There are expectations for demand to grow during 2010 followed by strengthening of the business market.

Average Rental Asking Price Metropolitan Tel Aviv - Ramat Gan Summer 2009 – Winter 2010



Occupancy Rates Metropolitan Tel Aviv - Ramat Gan Summer 2009 – Winter 2010



Greater Tel Aviv Suburban Office Market – Winter 2010

The Greater Tel Aviv Suburban Office Market is divided into two regions:
Periphery I: Locations within a 15 km. radius from Tel Aviv **Periphery II**: Locations within 15-30 km. radius from Tel Aviv.

Periphery I

Location	# of Buildings in Survey	Total Area in Survey (sm)	Rented Area (sm)	Occupancy Rate as of Summer 2009 (%)	Occupancy Rate as of Winter 2010 (%) (*)	Average Asking Price Summer 2009 (Shekel/sm)	Average Asking Price Winter 2010 (Shekel/sm) (**)
Herzliya Pituach	11	138,260	123,858	90.06%	89.58%	69.27	65.03
Or Yehuda (***)	9	51,000	48,361	85.95%	94.83%	43.75	52.56
Petach Tikva	13	169,118	144,257	88.25%	85.30%	60.19	59.56
Ramat Hahayal	11	133,465	121,827	92.69%	91.28%	60.42	60.43
Total Average	**44**	**491,843**	**438,303**	**89.24%**	**90.25%**	**58.41**	**59.40**
					↑ + 1.13%		**↑ + 1.69%**

Periphery II

Location	# of Buildings in Survey	Total Area in Survey (sm)	Rented Area (sm)	Occupancy Rate as of Summer 2009 (%)	Occupancy Rate as of Winter 2010 (%) (*)	Average Asking Price Summer 2009 (Shekel/sm)	Average Asking Price Winter 2010 (Shekel/sm) (**)
Raanana	5	70,277	56,702	78.64%	80.68%	63.53	63.29
Netanya - Poleg	3	84,400	82,934	98.17%	98.26%	52.82	46.71
Nes Ziona / Rehovot	5	81,692	62,883	95.69%	76.98%	50.00	51.41
Kfar Saba	7	58,635	56,877	98.42%	97.00%	50.93	43.29
Rosh Haayin	8	97,770	87,731	91.37%	89.73%	45.25	42.79
Total Average	**28**	**392,774**	**347,127**	**92.46%**	**88.53%**	**52.51**	**49.50**
					↓ - 4.44%		**↓ - 6.08%**

(*) We estimate that the sublease market accounts for an additional 5-10% vacant space.
(**) In current market, closing prices average - 5-10% from asking prices.
(***)There are no Class A office buildings in Or Yehuda, therefore the survey relies on Class B+ buildings.

Trends:

- In Periphery I, we are witnessing a rise in demand for office space and are on the brink of a shortage of supply. This takes into consideration that there is an ongoing trend of companies moving from the center of Tel Aviv to the immediate periphery. This trend provides economic savings to companies (as rental prices are less expensive than in the Center of Tel Aviv), while allowing them to stay at a reasonably close distance.
- In Periphery II the trend in the second half of 2009 remained unchanged in comparison to the first half of the year. Rental prices as well as occupancy rates are still declining. The demand in these areas is still low.
- In the outlying areas, economic recovery is not reflected in real estate market conditions. Companies are still vacating office spaces and since there is low demand, prices and occupancy rates continue to decline.

Forecast:

- The trend we witnessed in the first half of 2009 in which companies were looking to move to the periphery continues due to the overall lower occupancy expenses, including parking and municipal taxes. These areas also often provide buildings that are built suitably for hi-tech companies. We anticipate that this will continue throughout 2010 and prices and occupancy rates will continue to rise.
- The outlying areas from Tel Aviv will continue to suffer from low demand and vacancies during 2010, conditions may improve as the supply in the closer periphery areas decreases.

City Plaza - Petach-Tikva
Managed by NATAM Colliers International

Beit Haforum - Herzelia Commercial Center
Managed by NATAM Colliers International

Industrial Market – Winter 2010

The Natam report surveys a selection of industrial areas in different parts of the country. Following are the types of properties surveyed:

Built-to-Suit - New buildings ordered to meet the specific needs of the tenant (tailor made). Rents of Built-to-Suit include a structure 6-8 meters high, 3 phase electric source, lighting, sprinklers and lot and yard development. Final price is set in accordance with the specific needs and demand of the customer, based on land and construction costs.

Existing buildings - Buildings that were built during the last 10 years or older. Structures with a height of at least 6 meters and including access to loading and unloading for heavy trucks. Rents refer to rent range price for ground floor space.

Land for industrial use - Prices of industrial land are average asking prices. There is a substantial difference in price according to land location, shape and size, proximity and accessibility to main routes, etc.

Industrial Buildings - Average Prices Survey (Shekel/sm)

	Central Israel	Sharon Area	Ashdod Area	Southern Israel	Northern Israel
Built-to-Suit	36-40	35-40	30-32	25-30	20-25
Existing Buildings	35-40	30-37	25-28	15-20	15-20

Land for Industrial Uses - Price Chart (Shekel/dunam)

Central Israel	Petach Tikva	2,100,000
	Holon	2,400,000
	Rishon Lezion	2,500,000
	Lod – Ben Gurion	1,200,000
	Modiin	800,000
Sharon Area	Even yehuda	1,500,000
	Netanya	2,000,000
	Emek Hefer	650,000
Ashdod Area	Be'er Tuvia	650,000
	Yavne	1,100,000
	Ashdod	1,100,000
Southern Israel	Kanot	900,000
	Kiryat Gat	450,000
	Ashkelon	350,000
Northern Israel	Haifa Bay	850,000

Trends:

- The Israeli industrial and logistics market is by nature very rigid and minimally affected by short term changes in the economic market. This market is characterized by long term leases, and therefore is not substantially affected by short term changes in the economic climate.
- Prices are stable in general, though there is evidence of a slight price increase in Central Israel, while the other areas remain unchanged. Rent prices of built to suit reflect the cap rate required by the contractors as well as building costs, land cost and financing expenses. Recently there has been a decrease in building costs, a rise in financing expenses and a slight rise in land prices in Central Israel.
- Prices of land reflect average prices of deals executed, therefore there may be deviations due to specific interests of any of the parties involved or uniqueness of land location. We have not adjusted prices relative to size or location, we have related to similar use and similar building percentages.

Forecast:

- We expect continued stability in industrial and logistics market. The logistics market is considerably more active than the industrial market and will continue to be so.

Industrial center
Managed by NATAM

Decade of Real Estate

The first decade of the 21st Century has been a challenge for real estate investors. In this period, many new markets presented valuable opportunities for real estate investment. Israeli investors have been at the forefront of foreign real estate investment ventures, and in many cases the real estate pioneers in many of these markets. Since the fall of the Berlin Wall and communist regimes two decades ago, the real estate markets have undergone a maturation process which served to attract less adventurous investors.

Israeli investors became market leaders in Central and Eastern Europe during the early years of the decade. Israelis were purchasing income producing assets at cap rates of 13-16%. By the middle of the decade Israelis were exiting these investments and selling to institutional and core investors at cap rates of 8-10%. Once these markets became of interest to core investors, the Israelis moved on to newer pastures such as those in South Eastern Europe.

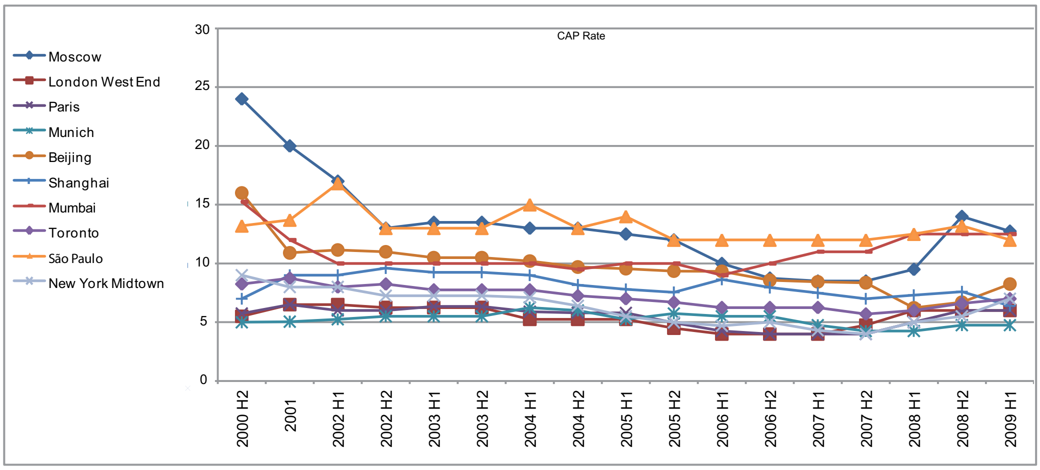
At present many Israeli investors are holding development and value added assets in these markets, waiting for the return of prosperity.

The chart below shows movements of Prime Office cap rates in major office markets worldwide.

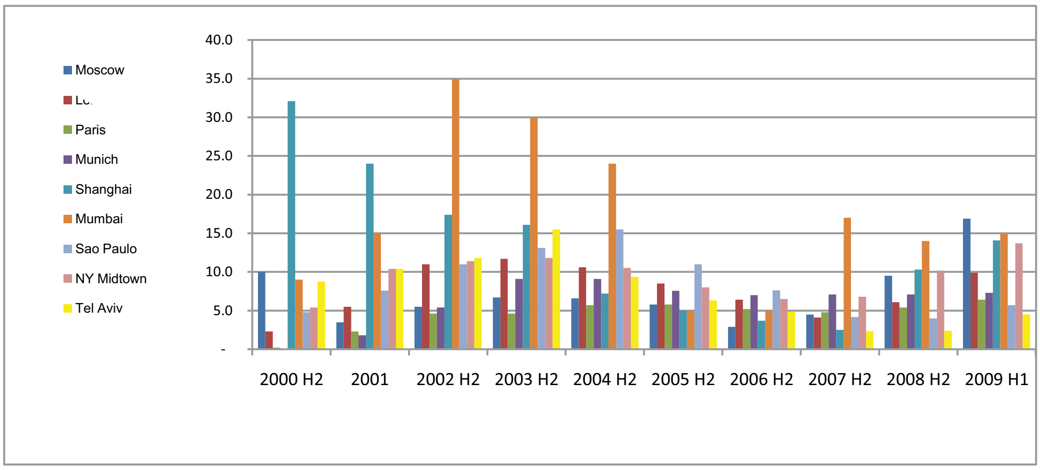
The office real estate sector suffered two major crises during the decade: the explosion of the dot com bubble in 2001 and the most recent financial crisis.

In 2001-2002 the developed markets suffered a decline in capital values due to the dot com crisis, whereas developing markets such as Moscow and Mumbai enjoyed continued capital growth during this period due to market anticipation of rental rate increases and increased developer profits. The high vacancy rates in Mumbai reflect their market's dependency on the technology sector at the time of the dot com crisis, whereas the stable cap rates for the same period are a reflection of consumer confidence in the office sector as a value added opportunity.

Worldwide Trends:
Prime office cap rates over the decade



CBD Offices - Vacancy rates 2000-2009



Source: Colliers International

The financial crisis of 2008 led to different market behaviors. The shortage of direct and indirect financing opportunities, and the specific weakening of income producing real estate, led to increased market capitalization rates, and subsequent declines in capital values in developing markets such as Moscow and Mumbai.

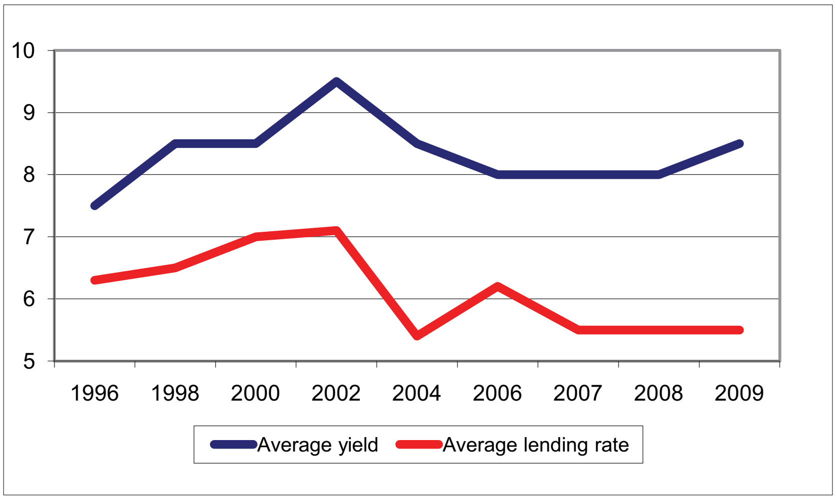
The Israeli market behaved similarly to the developed markets, whereby rising office vacancy rates led to relative declines in capital values. The dot com crisis had a greater impact on the Israeli office market than the recent financial crisis. This is due to the fact that the technology sector is a prime office occupier in Israel, and a major factor in economic growth. The financial crisis affected Israeli investors indirectly. The Israeli real estate financing machine emerged relatively unscathed due to the conservative financing practices in the local market: low leverage, full amortization, and shorter lending periods. Thus capital values barely declined in the 2008-2009 period. The increased trading in investment properties was due to the sell off of assets by companies heavily invested outside Israel that needed to cover losses, or debt arrangements.

Many foreign investors whom invested in Israeli real estate had purchased residential properties rather than income producing properties. There were two major investors who entered the market in the past decade: Boylmelgreen, who purchased Azorim Residential Real Estate and Lagna Holdings, and British Israel, who purchased Azorim Properties.

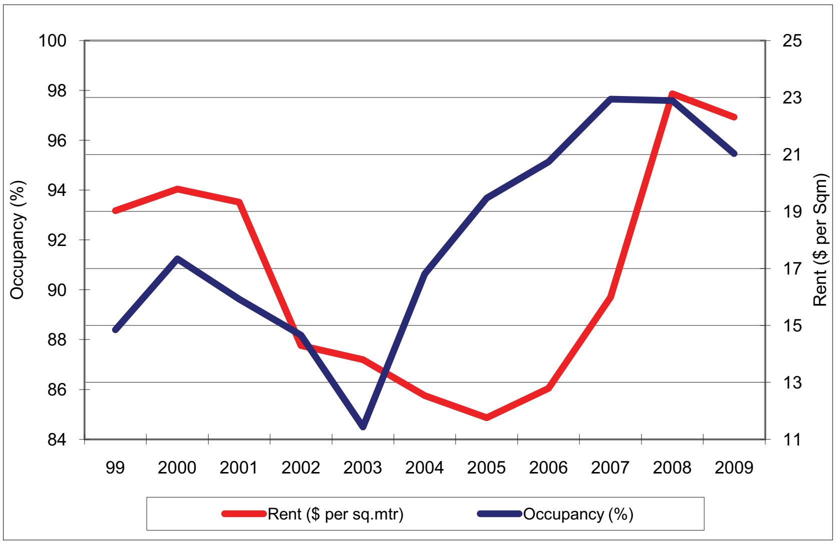
Many foreign investors focused on luxury residential real estate in the urban centers such as Tel Aviv, Jerusalem, Natanya, and Raanana. These areas enjoyed significant increases in value at the height of the market in 2007. With the sharp devaluation of the USD, and impending financial crisis in the West, foreign investment was sharply curtailed, and luxury residential suffered declines in value, especially in locations such as Jerusalem.

Israel has not served as a real investment target for foreign institutional investors due to the limitations of a small market, with limited stock and few players. These characteristics limit the tradability of assets, and provide a limited number of large assets that would suit the portfolios of foreign institutional investors. Any available Class A stock, is purchased by Israeli institutional investors, who are familiar with the marketplace, and can arrange to pre-purchase projects upon 100% occupancy at an agreed yield.

Israel
Average Shekel linked real estate lending rates and prime office investment yields, 1996-2009
(10-15 years full amortization, %)



Class A Offices – Metropolitan Tel Aviv-Ramat Gan CBD
Average Occupancy Rates and Rents 1999-2009



Source: NATAM Colliers International

The real estate investment companies have found the capital markets to be a good source of finance both through issuance of shares and bonds. The Tel Aviv Real Estate 15 stock index, established in 2003, follows the overall trend of the worldwide investment market, rather than the Israeli income producing asset values. This is due to the fact that most of the companies on the index are heavily invested in foreign real estate.

International Markets

In near future we anticipate the continuance of invest the behavior of 2009, whereby investors sought core assets in core locations such as London, Switzerland, Germany, and certain US Cities. The recovery of CEE, SEE, and locations further afield such as Southeast Asia, and the Fareast will require several years for recovery. With the announcement by China in January 2010 regarding further economic contraction, one must weigh this impact on worldwide demand for goods and services, and its consequences to the real estate market.

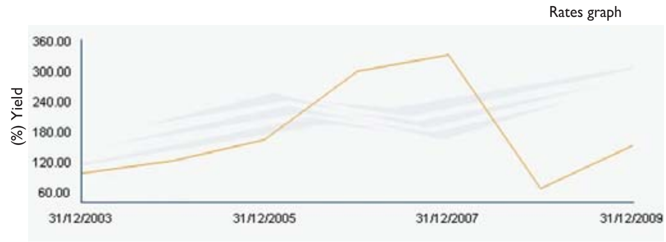
Israeli Market

Israeli developers have limited sources of financing for new development. Only the strongest developers are able to initiate speculative projects, and these are mostly financed through corporate bonds.

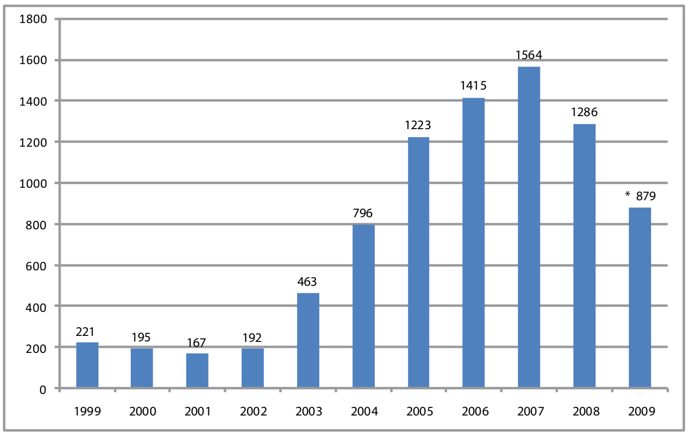
Retail development remains strong though it too is controlled by a handful of developers. Secondary and tertiary retail developments are still under development; however few projects will be leased to leading retail chains. In general the concentration of real estate activity in Israel is in the hands of a few conglomerates and construction companies. This high level of concentration provides

Israeli real estate 15 stock index since inception

Total market value as per 21/01/2010: 30,886,130,000 Shekel



Foreign investment in israeli real estate ($ millions)



*Estimated annual

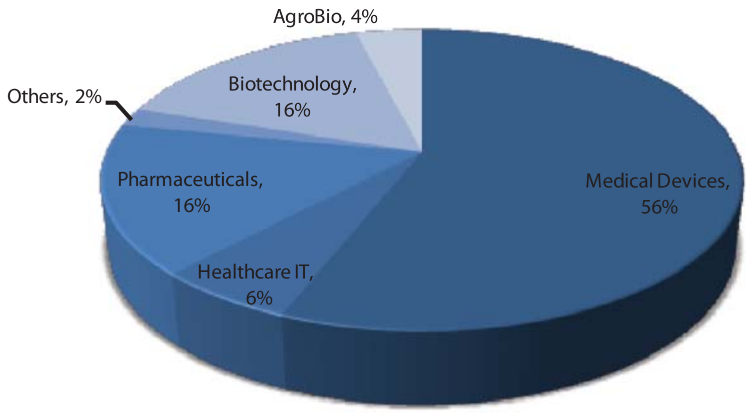
Source: Bank of Israel

Real Estate Considerations for Bio-Tech Companies

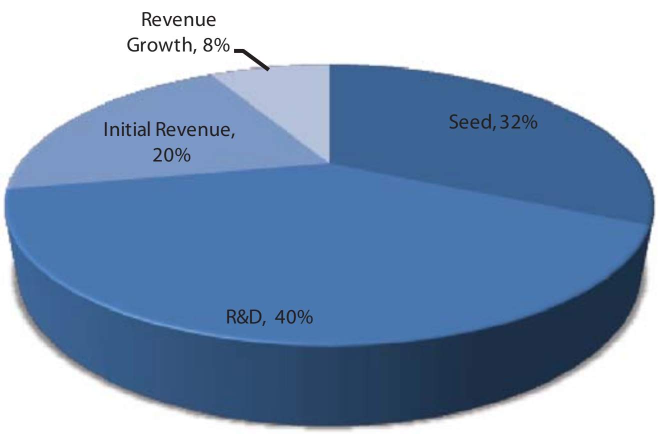
In recent years there has been significant development in the arenas bio-technology and bio-medicine, in terms of both, number of companies emerging in the Israeli market, as well as mergers and acquisitions. Acquisitions are often made by large foreign corporations in various fields of medicine.

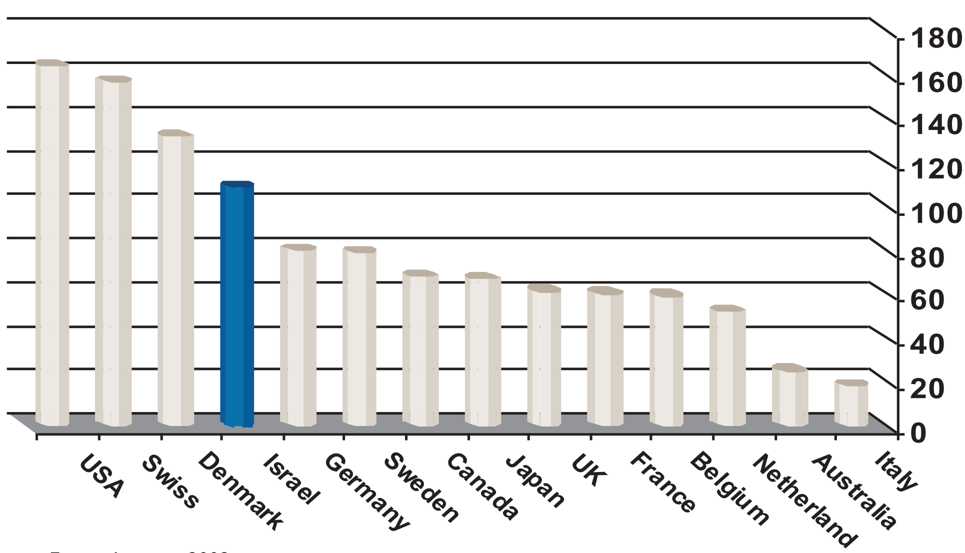
The expansion of the bio-tech industry has caused an increase in demand for appropriate real estate facilities to accommodate the specifications required by these types of companies.
Property owners and developers who seek bio-tech tenancies in their projects should consider the specifications required by these companies and plan accordingly, so that their properties can service a bio-tech usage.

Pie chart depicting the various divisions of activity within the life sciences industry
Over 900 Companies



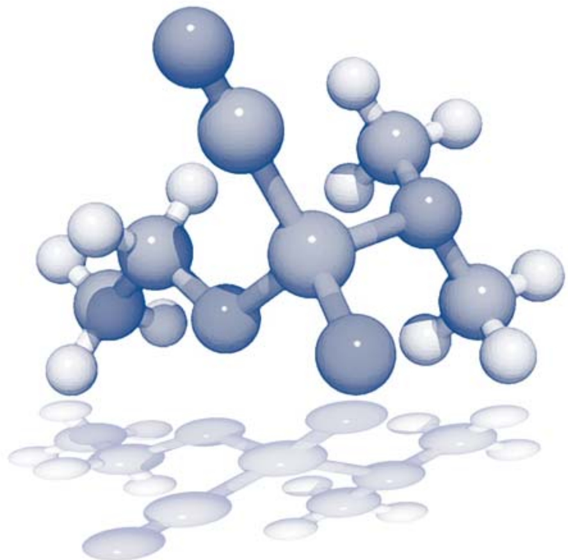
Pie chart depicting the various stages among bio-tech firms
Companies' Stage





Source: Export Institute 2008

NATAM Colliers International has been at the forefront of representing a number of international bio-tech companies in their real estate transactions. Some of the major corporations that are currently active in the Israeli bio-tech sector include: Abbot, Johnson & Johnson, Medtronic and Boston Scientific. Recently NATAM completed a transaction for an Israeli bio-tech company, which was acquired by one the international leaders in the medical device industry. The deal entailed the leasing of a 2,500 sm full scale bio-tech facility in the Sharon region. During the process, NATAM's consulting team encountered several obstacles on both a technical and commercial level. According to NATAM senior consultant, Moshe Miller, most of the obstacles encountered could have been easily remedied, had the building developer and company officials been more informed about the specific requirements of bio-tech companies.



Here are some things to consider when planning a bio-tech facility.

1. Technical Specifications:

1.1. Ceiling Height (floor to ceiling)

Most companies in the field of bio-tech require clean rooms and laboratories. The optimal finished height of a typical clean room or laboratory is approximately 2.70 m. However, for clean rooms it is preferable to have a full 1.00 m above the finished ceiling height for ventilation and air conditioning systems. Therefore, the optimal height (slab to slab) would be a minimum of approximately 3.70 m. This will ultimately enable the proper planning for horizontal transfer of all systems including shafts required for ventilation.

1.2. Air Conditioning and Electricity

Laboratory areas and clean rooms require significantly more electricity (amperage) per sm, than typical office space areas. Moreover, Laboratory areas and clean rooms require greater air-conditioning capacity (refrigeration tons), in comparison to typical office space areas. In addition, these areas may require air conditioning on a 24/7 basis.

One should consider that supplemental air conditioning systems that specifically service laboratory areas and clean rooms may be required and therefore technical consideration should be made from the onset. Likewise, appropriations for supplemental electrical capacity should also be considered. In addition, to avoid situations like power supply outages, the implementation of backup power systems (such as generators) should be considered.

1.3. Shafts

Laboratory areas and clean rooms require vertical shafts for the exhaust of gas emissions as well as air purification and circulation. Typically there is a shaft requirement that constitutes a sum of 2.00 sm of floor space per 500-600 sm of laboratories and clean rooms. In addition there is a need for space on the roof for suction and blowing machinery. Buildings constructed with shaft systems in various parts of the building, can best accommodate bio-tech companies, by allowing them design flexibility in the location of their labs and clean rooms. There is also a cost savings by minimizing the construction of horizontal shafts that would connect to the primary vertical shaft systems.

2. Clean Rooms:

2.1. Setup

The setup of clean rooms, from planning stages through execution, requires a specific set of expertise. Currently in Israel, there is a very narrow range of experts that have the familiarity required to complete such projects. There are two main approaches to planning this type of project:
1. Dividing the planning and implementation stages - Working with a planning team (consultants, engineers, architects...) to define and develop the full scope of the project, ultimately creating a plan. Only then moving the process into a bidding stage and finally hiring of all the various subcontractors and vendors required to physically implement the plan.
2. Turn Key Project - all planning and execution is coordinated through one capable consultant.

2.2. Project Management

The management of a project that requires clean rooms is far more complex than a typical office build-out. There are many more factors, individuals and moving parts involved in the process. Planning and implementation goes far beyond an architect and a contractor.

Keen knowledge in the area of clean rooms and the ability to coordinate a complex process and multiple consultants, while managing budgets is required. Be sure that the entire project will be is managed by a project manager with all of the above skill sets and knowledge. Having the project managed by one capable manager can keep the project together and moving forward, while minimizing conflicts on interest

Natam - Colliers International Services

Natam Colliers International was established in 1985 and today its staff numbers 45 professionals with a diverse range of specialties in commercial real estate.
Natam Colliers International is Israel's leading firm in the sector of commercial real estate services.
Natam Colliers International's dedicated and experienced staff, coupled with its state of the art computerized database, places Natam and the forefront of all things real estate in Israel.

Natam Colliers International's Departments:

Tenant Representation: Natam represents a wide range of Israeli and international companies. We represent the interests of our clients only, not landlords. Our time prove system creates value and savings for our clients. We negotiate all commercial aspects of the lease, whether it is an acquisition of new premises or a renewal of the current premises.

Investment Sales: Specializing in the sales of income yielding properties in Israel and abroad.

Valuation and Appraisal: Valuations in English and Hebrew by Israeli and RICS certified appraisers, Our team specializes in international valuation standards for financial reporting (IFRS). We provide valuation services for Israeli companies worldwide and foreign companies in Israel.

Financing: Real estate financing for projects in Israel and abroad. Natam has relationships with a worldwide network of financial institutions.

Management: Natam manages over 600,000 square meters of office space, industrial space, retail space and luxury residences for owners and developers throughout Israel.

Research and Consulting: Natam assists landowners, developers, occupiers or investors to transform to-be-built properties and underperforming properties into successfully maximized assets.

Marketing: leasing and sales of commercial real estate projects.

Our staff is at your disposal
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With deep sorrow, we announce the untimely passing of
Julio Schutz
We will miss him greatly