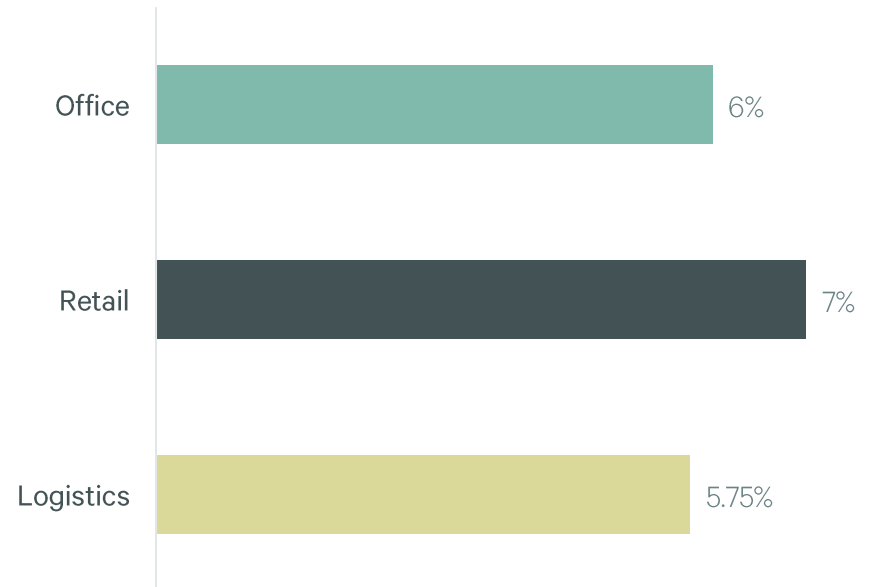


Warmup in areas of demand is leading to record prices in the office market -

A look at the commercial real estate market in Israel



- In this quarter, the first-tier cities led in the increase in rents in the office market: Tel Aviv - 13%, Herzliya - 6%, Ramat Gan - 5%.
- A decrease in the quarterly and annual yields in the office and logistics markets was recorded.
- Retail market rents remain stable over the course of a year: the restrictions we have experienced and the uncertainty about the future make it difficult for the market to recover.
- The fact that the market has not yet returned to pre-COVID employment levels may indicate the potential for continued growth in the economy.



Rent fee and occupancy table

	Sector	Rent ₪/sq m/month	Q-o-Q (%)	Y-o-Y (%)	Occupancy (%)	Trend
Tel-Aviv	Office	122	13%	28%	97%	▲
	Retail	166	1%	0%	92%	▲
Ramat Gan	Office	86	5%	10%	93%	▲
	Retail	124	2%	-1%	90%	▲
Herzliya	Office	88	6%	13%	94%	▲
	Retail	132	0%	-6%	89%	◄►
Ra'anana	Office	54	0%	0%	86%	◄►
	Retail	90	0%	0%	90%	◄►
Petach Tikva	Office	53	0%	-2%	85%	◄►
	Retail	95	0%	0%	88%	◄►
Netanya	Office	47	4%	4%	87%	▲
	Retail	86	0%	-1%	90%	◄►
Rehovot	Office	54	4%	4%	88%	▲
	Retail	86	1%	-2%	90%	▲
Lod	Office	45	2%	2%	85%	▲
	Retail	68	0%	0%	85%	◄►
Haifa	Office	67	3%	3%	89%	▲
	Retail	90	0%	0%	89%	◄►
Jerusalem	Office	68	3%	6%	89%	▲
	Retail	94	0%	0%	89%	◄►

Israeli economy and the real estate market

The fears of the COVID-Omicron variant, and certain limitations that followed, did not stifle the local economy. The economy showed resilience, which was reflected in an increase in rates of employment and impressive quarterly growth of 2.4%. The cumulative GDP growth in Israel since the outbreak of the pandemic has contributed to the GDP of the OECD countries, which has returned for the first time this quarter to pre-pandemic levels.

The Bank of Israel stated that in the absence of lock down in the fourth quarter, the economy is growing at a rapid pace. Businesses are reporting improved health, and exports and imports continue to maintain their high levels.

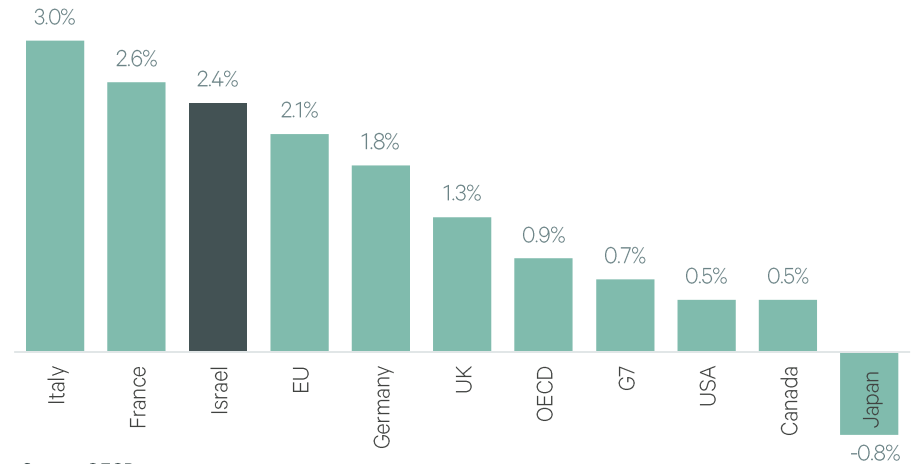
In the course of the quarter, many U.S. companies, from Facebook to automaker Ford, postponed the date of returning to work on premises, or offered employees the option to work from home amid concerns about the spread of the Omicron strain. Yet, a BDI survey found that 56% of companies that adopted a hybrid work model limit work from home to two days a week.

At the same time, Google has announced the mandatory vaccination of its employees (including those working from home), and those who refuse may be fired.

In our estimation, the trend emerging in 2022 in Israel is that with an increase in vaccination rates, the expectation is to return to the pre-COVID routine, with a physical presence in the workplace, which will encourage creativity, mutual enrichment, and identification of the employees with their workplace — features that are missed when working from home.

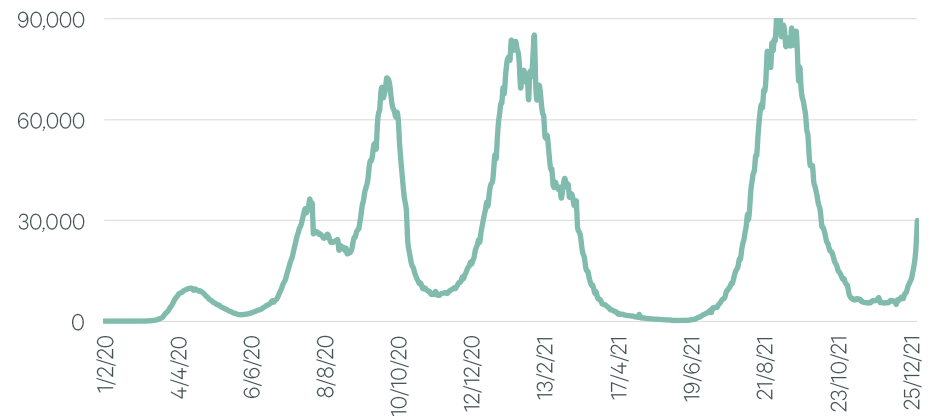
The high-tech sector interferes with traditional economies in many areas and drains the resources they need, leading to structural unemployment on one hand and rising housing prices on the other.

FIGURE 1: GDP Growth Rate Q3 2021



Source: OECD

FIGURE 2: Active Corona Cases



Source: worldometer

The world is sobering up from the weather-dependent green energy euphoria (for example, wind turbines, which are inefficient in the absence of winds) and increased the consumption of fossil energy, such as oil and gas, which has caused their prices to skyrocket. This has been exacerbated by the crisis in the global supply chain.

In Israel, in contrast to the rest of the world, there are two factors moderating the rising inflation: a strong economy, which is driven by high-tech, and which strengthens the shekel against world currencies (up over 10% against the Euro since the beginning of the year) and gas discoveries that satisfy the energy needs of the country, so that it is not affected by the soaring energy prices in the world.

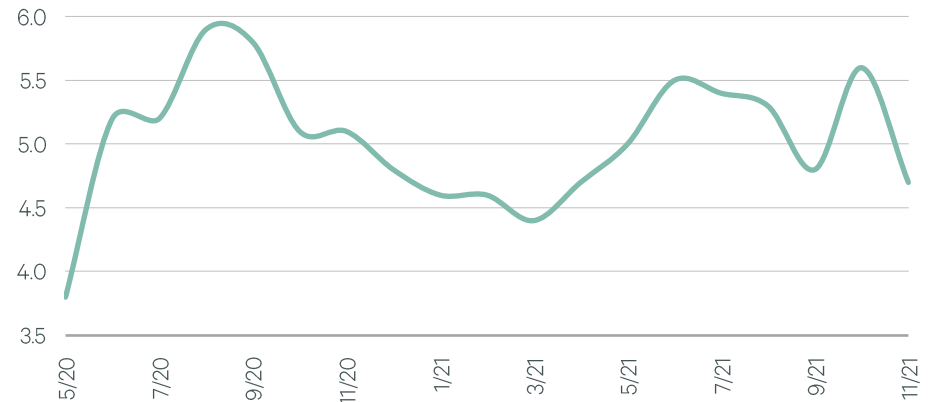
According to the Bank of Israel, inflation for the next 12 months is expected to reach 2.3% in Israel, 4.9% in Europe, and 6.8% in the US. Capital market sources estimate that the Bank of Israel is expected to stop buying bonds and that interest will be raised to 0.5% by the end of 2022 (it stands at 0.1% today).

There has been improvement in the unemployment rate, which stood at 4.7% in the first half of November, compared with 3.5% before the pandemic; this figure also indicates that the economy still has room for growth. (Figure 3)

The Israel Democracy Institute found that most of the COVID unemployed returned to their previous places of employment, but about 42% moved to new jobs. The number of resignations from jobs has increased by 30% in recent months, surpassing their rate before the COVID, which indicates employment security.

With the outbreak of the crisis, the shutdown of low-wage sectors contributed to a rise in the average wage. With the return of the economy to its normal state, there has been a reversal of the trend, but as of November, the average wage is still 10% higher than before the COVID epidemic.

FIGURE 3: Unemployment Rates during the Corona Year (%)



Source: CBS

The Office Market

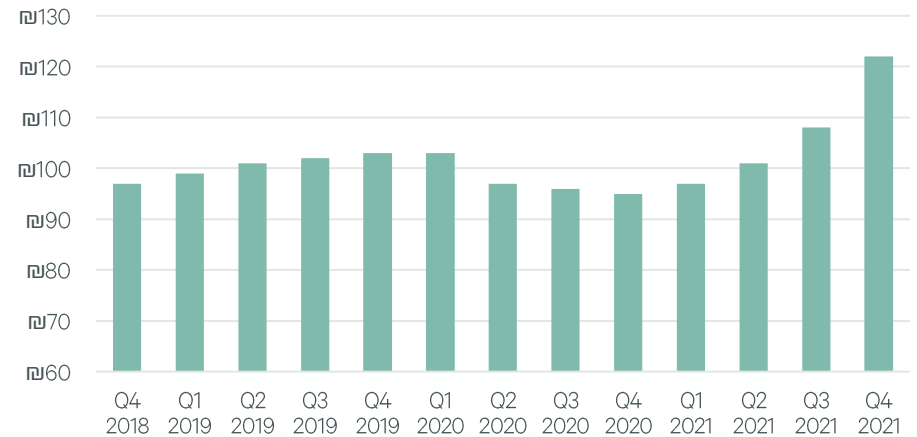
The past year has highlighted the advantage of high-tech companies over traditional companies, as they were the first to take the opportunity and provide a quick response in the form of remote service in medicine, finance, and meetings in zoom, cloud services, cyber, artificial intelligence, and chip manufacturing.

The high-tech industry and the demand for their services made it possible for them to raise funds on the Nasdaq Stock Exchange, with some of them reaching unicorn valuation (private companies with a valuation of more than \$1 B). The raising of funds enabled the expansion of the scope of activity, which necessitated an increase in the workforce that required an expansion of office space, raising occupancy rates and, consequently, raising the rents significantly.

At the same time, there is a clear distinction between the cities of the first tier, Tel-Aviv, Herzliya, and Ramat Gan where the technology companies are concentrated, and the cities of the second and third tiers. In Tel-Aviv, an increase of 2% in occupancy rate in this quarter compared to the previous one, to the level of 97%, brought about a 13% increase in rents in this quarter (after a 7% increase in the previous quarter), to NIS 122/sqm. (Figure 4)

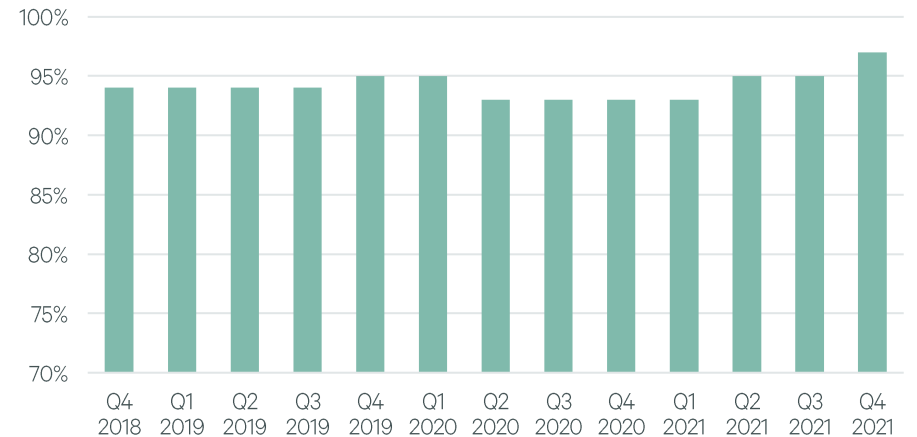
In the neighboring cities of Tel-Aviv, Herzliya and Ramat Gan, occupancy rates and rents are on the rise, this quarter rents going up by 6% and 5%, respectively. The upward trend in prices in this quarter also affected Netanya and Rehovot (4%), Haifa and Jerusalem (3% each), and Lod (2%). Annual rents in Tel-Aviv increased by 28%, in Herzliya by 13%, and in Ramat Gan by 10%. Petah Tikva is the only city that experienced an annual decrease in rents (2%). (Figure 5)

FIGURE 4: Tel Aviv-Average of Office rent fee (ILS/sq m)



Source: CBRE

FIGURE 5: Tel Aviv-Average of Office Occupancy (%)

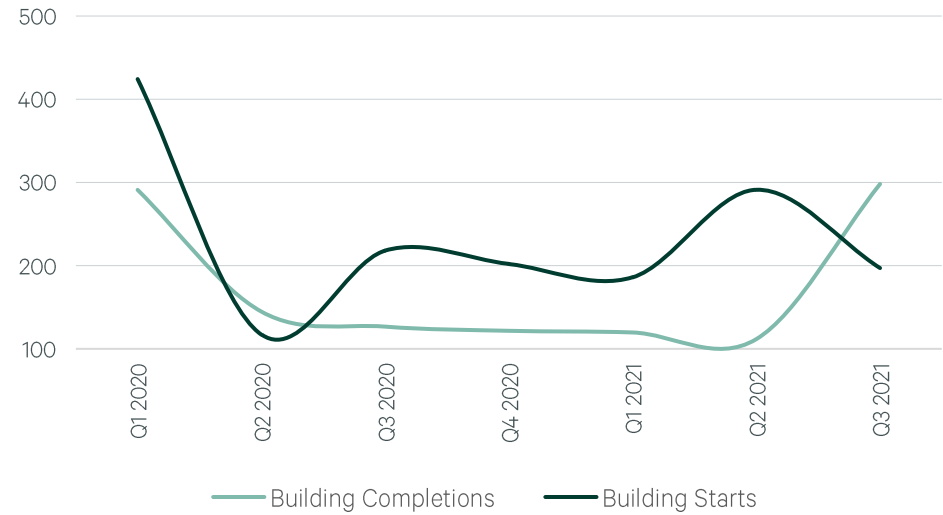


Source: CBRE

The rising demand for offices is causing a revival for joint workspaces in Tel-Aviv, Herzliya, and the periphery. The latter even serve as workstations for high-tech workers who live far from the centrally situated headquarters of the companies.

The optimism regarding the future of the office market is reflected in the difference of over 44% in favor of construction starts compared with construction completions the first three quarters of the year, both in 2020 and 2021. (Figure 6)

FIGURE 6: Office construction starts and completions



Source: CBS

Retail

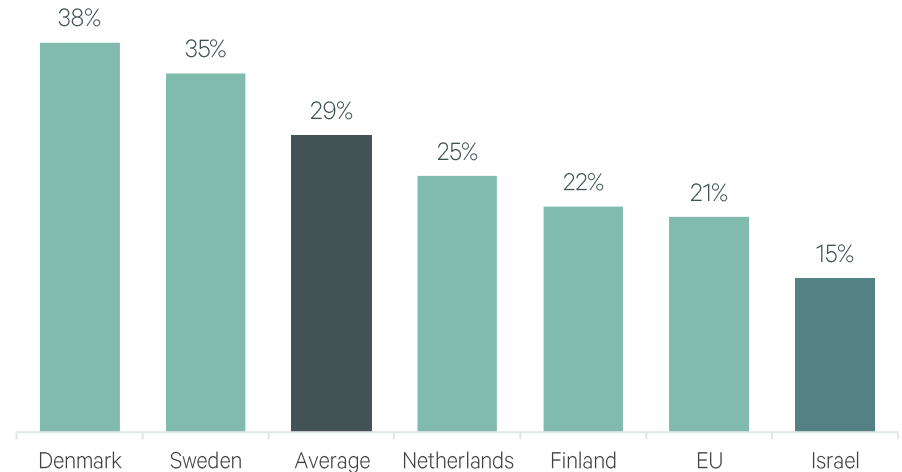
This quarter there was stability in both occupancy rates and rents. This sector experienced the hardest hit in the past year, especially the malls. The damage to open shopping plazas was less significant, and they even "benefited" from the fact that during the lock down shopping in the malls was not possible. On one hand, the restrictions on the malls caused hardships to tenants, such as Fox, Castro, and Brill, and some switched from physical to online selling; on the other hand, a significant portion of Israelis replaced their vacations and shopping abroad with vacations and shopping in Israel. This sector has still not recovered yet, and rents in most cities have now returned to their level in the previous year.

While Covid-19 has accelerated the need for online shopping in Israel, the share of online retail, as a percentage of all domestic retail, has not reached rates seen in European countries. (Figure 7).

In the years 2018-2019, the volume of retail construction starts amounted to 712,000 sqm and 789,000 sqm, respectively; in the first quarter of 2020, the volume of construction starts was high, and stood at 381,000 sqm. With the outbreak of COVID in Israel (second quarter of 2020), there was a significant decrease in construction starts. This decline stopped in the second and third quarters of this year, with an increase of about 50% compared to corresponding quarters of the previous year.

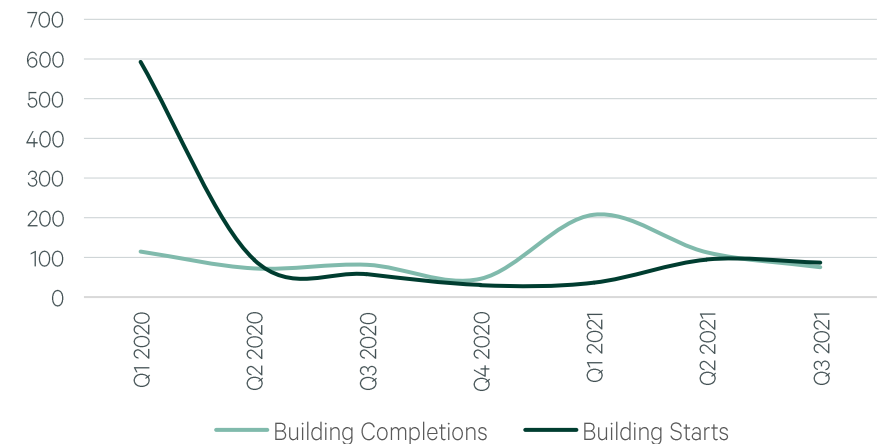
The large volume of construction starts that have accumulated in previous years, and the expectation of the recovery in the commercial sector, led to a 50% increase in the volume of construction completions in the first three quarters of this year, compared to the first three quarters of the previous year. (Figure 8)

FIGURE 7: Rates of online commerce in Europe



Source: OECD

FIGURE 8: Retail Construction Starts and Completions



Source: CBS

Logistics

For a long time the logistics sector has been an attractive investment target. A sharp increase in demand for online shopping has reinforced this trend. The niche demand in the areas of server farms and advanced medical logistic facilities keeps raising landowners' expectations for an increase in prices.

We find support for this from a financial perspective, with low interest rates and alternative investments in real estate showing declining yields (with the exception of the office market in Tel-Aviv, Herzliya, and Ramat Gan).

Warehousing and logistics spaces that were located in the center of the country continue to move away to the peripheral areas because of the rise in land prices in the center. The increase in rent prices has not caught up with the sharp increase in the value of the property, which leads to a consistent decrease in the yield. We anticipate that the share of logistics assets in the portfolio of income-producing real estate companies will increase.

Fourth quarter deals:

- **Amot Investments Group**, controlled by the Alony-Hetz Group, has completed the acquisition of the logistics park in Tzrifin from the Jewish Agency Employees' Benefit and Pension Fund Management Company. The amount of the investment is ILS 1.52 billion.
- **Delta** and the Caesarea Properties Company will establish a logistics center on a 17-dunam plot of land, at a cost of ILS 200 million.

Investment

In the past quarter, there was a clear distinction between the office and logistics sectors, which showed an impressive recovery and a significant increase in rents, with most of the increase in the office market focusing on high-demand areas: Tel-Aviv, Herzliya, and Ramat Gan, whereas investments in the logistics sector expanded in more distant regions.

We estimate that we will see a significant revaluation in the concluding financial statements of 2021 of the companies focusing on these market segments.

In the office market, the yield fell by fifty basis points to 6%.

Yields of logistics assets resumed the downward trend, following stability in the previous quarter, owing to growing demand, and reaching 5.75% (an annual decline of 75 basis points).

The retail market maintains a steady yield of 7%.

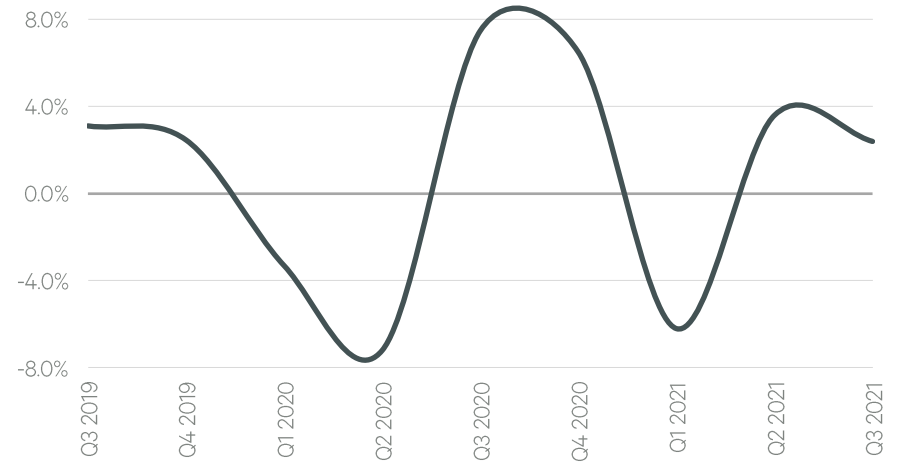
FIGURE 9: Table of yields by sectors

	Occupancy Q4, 2021	Y-o-Y (%)	Q-o-Q (%)	Trend
Offices	6.00%	-7.7%	-7.7%	▼
Retail	7.00%	0.0%	0.0%	◀▶
Logistic	5.75%	-4.2%	-11.5%	▼

Bank of Israel's Interest Rate (%)



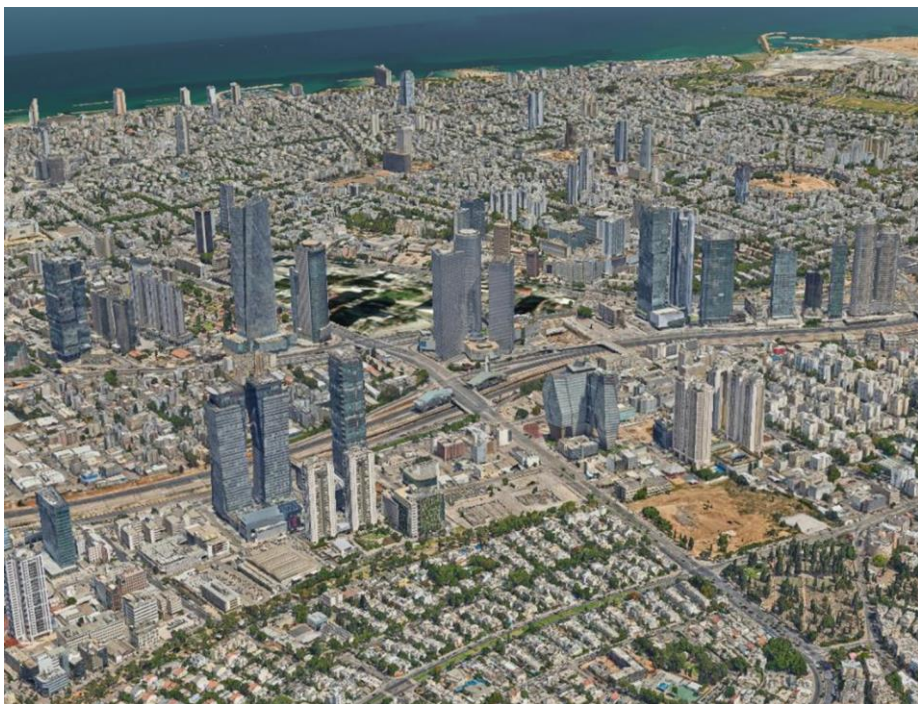
GPD Growth Rate (%)



Israeli Consumer Price Index (%)



Source: CBS



Credit: Simplex

About CBRE Group, Inc

CBRE Group, Inc. (NYSE: CBRE), a Fortune 500 and S&P 500 company headquartered in Dallas, is the world's largest commercial real estate services and investment firm (based on 2020 revenue). The company has more than 100,000 employees serving clients in more than 100 countries. CBRE serves a diverse range of clients with an integrated suite of services, including facilities, transaction and project management; property management; investment management; appraisal and valuation; property leasing; strategic consulting; property sales; mortgage services and development services. Please visit our website at www.cbre.com

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