CUSHMAN & WAKEFIELD | INTER ISRAEL

August 2019

INTER NEWS

Back to the CITY
Tel Aviv has been enjoying high figures for years

What does due diligence for an income-producing property include

Developments in Business Locations
After years of a lack in new construction

Office Market Survey for H1 2019

Dear Readers,

We are pleased to publish the InterNews edition for the first half of 2019.

After rents in Tel Aviv remained stable in the previous half-year, there were increases both in prices and in occupancy rates during the first half of 2019. There was a significant jump in the Yigal Alon axis, where average rents increased by about 10% following years of stability. **Pages 6-8**.

There were a number of changes in the Gush Dan and Sharon business locations, with slight rent increases in Netanya, Kfar Sava, Petach Tikva, and Rosh HaAyin, and declines in other cities. The sharpest and most surprising decline was in Herzliya, where rents dropped to around ILS 92 per sqm, compared with ILS 99 per sqm in the previous half-year. **Pages 4-5.**

The Inter Israel investment funds continued to grow, and after three years of investigating opportunities in the Spanish market, the fund made three investments here in the reviewed period. **Page 10**.

There was also expansion in the Project Marketing Department. With the completion of marketing for the Adgar C 360 Tower, the Department continues to market the Stratsys 2 building in Rehovot and the weTUBE project in Rishon LeZion. The Department has also commenced marketing the PWC Accounting Firm's offices in the Trade Tower on the Tel Aviv coastline. Adv. Shai Adulam provides insight for commercial real estate investors regarding due diligence. **Page 9**.

As always, you can track the income-producing real estate investment feasibility index on **page 11**.

All this and more in the current issue of InterNews.

Enjoy reading!

Yoram Blumenthal
Partner, Inter Israel

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Inter Israel, the Israeli partner of the global real estate giant Cushman & Wakefield, is Israel's leading consultancy for business and commercial real estate, specializing in consultancy, marketing, and management services for projects and assets in Israel and abroad and investment in yielding assets, including purchase and sale in Israel and overseas.

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Office Rental Review in Main Cities

Beersheba

Stability in rents with high occupancy rates

The current survey looked at 5 premium office buildings (excluding the Government Complex). It appears that demand in the City continues to rise due to the City developing into a major hi-tech hub. In terms of new space, construction of three buildings in the Gav-Yam Negev Technology Park (Cyber Park) was completed in the past two-and-a-half years, while the construction of a fourth building has already begun. The latter is planned to comprise around 13,000 sqm, in addition to the approx. 45,000 sqm currently existing in the first three buildings, with close to 100% occupancy. In addition, construction of Oshira's "O-Tower" project near the City's Government Complex has also begun. The project is planned to comprise around 16,000 sqm of offices and commercial space. Following the increase of average rents in the same period last year, there was stability in the current half-year with a slight decline of about 1.3% in average rents to around ILS 75 per sqm in the reviewed period, as compared with ILS 76 per sqm in the previous half-year.

"O-Tower" by Oshira
Illustration: Orit Giladi

Image for illustrative purposes only

Haifa and the North

Stability in high occupancy rates and rents, with slight increases in Haifa and Caesarea

This survey looked at three hubs in the Northern Region, with significant concentrations of office buildings: Haifa, Yokne'am, and Caesarea. In the reviewed period, average rents throughout the northern region were stable, remaining at around ILS 64 per sqm.

In the Haifa area, the surveyed business parks include the MATAM Park, the Life Sciences Park (owned by the Mivneh Group and the Haifa Economic Development Company), and office space in Sha'ar HaCarmel owned by Melisron. All these have high occupancy rates with almost no tenant turnover, with an increase of around 1.4% percent in rents, which reached ILS 70 per sqm, compared to ILS 69 per sqm in the previous half-year.

The hi-tech park in Yokne'am, the second hub examined in this survey, is the main suburban office area. Following the largest increase in the region in recent years (around 9%), in the same period last year, average rents remained stable in the current period, at ILS 63 per sqm.

The industrial and business park in Caesarea is the third and final hub we examined. There, with almost 100% occupancy in existing buildings and including those that received Form 4 occupancy permits just a few months ago, there was an increase of around 1.7% in average rents, which reached ILS 61 per sqm, compared to ILS 60 per sqm in the previous half-year. The Park as a whole remains attractive due to its strategic location in proximity to main traffic arteries and the train station. In about one year, three additional buildings are expected to be added (buildings 13, 14, and 15), each of around 10,000 sqm. These will comprise the "Granite Campus". Here too, some of the space has already been rented out.

Jerusalem

Stability in high occupancy rates, with a slight increase in rents in Har Hotzvim

Jerusalem continues to be an advanced and developing technological center, in part thanks to its position as a National Priority Zone for economic development. However, the City's office area is comparatively small, with no new construction in recent years.

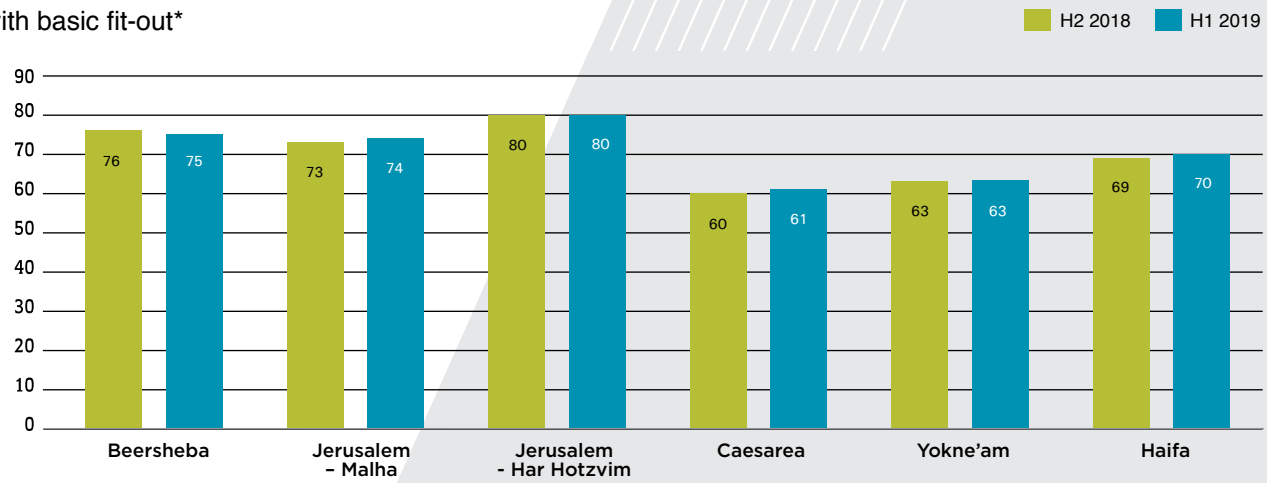
We expect the new "City Gateway" project will attract additional businesses and developers. Work began last year and is expected to include 720,000 sqm of hotels, offices, retail, employment and tourism. In addition to this, Rad-Bynet Group's hi-tech project in Har Hotzvim, is expected to include approximately 50,000 sqm of offices, of which around 14,000 sqm are for the construction of a Data Center. Our research department has reviewed the hi-tech parks at Har Hotzvim and Malha Park, which are the largest technology parks in the City and house major global organizations. Thanks to their attractiveness, together with a lack of new space, occupancy rates have remained high.

As for rent, in the current six month period, Malha has been stable, with rents remaining at ILS 80 per sqm, while rents in Har Hotzvim increased by around 1.4% to ILS 74 per sqm, compared with ILS 73 per sqm in the second half of 2018.

Image for illustrative purposes only

Average Monthly Rents In Business Locations In Central Israel

ILS/SQM with basic fit-out*



* Note: The rents listed include standard fit-out of around ILS 2,500 per sqm. gross in new offices (on top of shell & core) and around ILS 500 per sqm in existing offices ("as is" status).

Sharp decline in rents in Herzliya: Gap of 13% compared to Tel Aviv

Declines in Nes Ziona, Rehovot, and the Ben-Gurion Ring as well, alongside slight increases in the other areas

Illustration: 3dvision

In this report, we have analyzed the average rents in nine different areas in Central Israel, from Netanya in the North to Nes Ziona and Rehovot in the South. The office rental prices checked included basic fit-out. In the current six-month period we were surprised to see that following stability in the past two years, average rentals in Herzliya dropped by around 7% to ILS 92 per sqm, compared to ILS 99 per sqm in the second half of 2018. There were declines in other business locations as well: In Nes Ziona and Rehovot there was a decline of around 3% in rents compared to the previous six-month period, and in the Ben-Gurion Ring area there was a decline of around 6.5%. In contrast, there were increases in Netanya, Kfar Sava, Petach Tikva, and Rosh Ha'Ayin, following years of stability and unchanged markets. In the near future, we may begin to feel other changes in business locations, thanks to construction that has already begun in some of the areas under review and which will commence in the next few years.

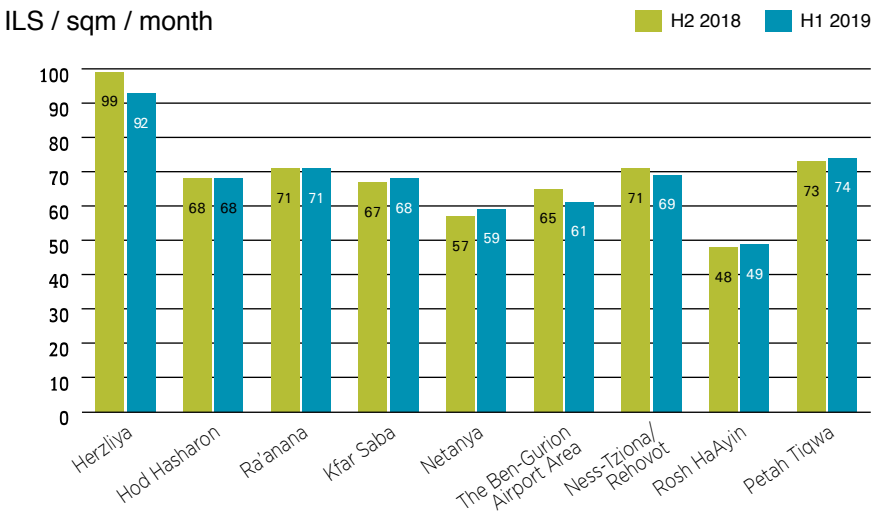
If we weigh all of the surveyed business locations, there was a minor decline of 1.4% with average rents of ILS 68 per sqm, compared to ILS 69 per sqm in the previous six-month period. Excluding Herzliya, rents remained stable at ILS 65 per sqm.

Petach Tikvah - A slight increase of 1.4% in rents, to around ILS 74 per sqm, compared to ILS 73 per sqm in the previous half-year. We believe that at present demand has come to a halt due to the surplus of space currently available, which can be attributed, among other things, to Intel vacating around 20,000 sqm in Ofer Park in favor of moving to the new campus it built. In addition, in the next few years, a considerable amount of space is expected to be added, including, for instance, the Sasson Hogi Group's "Hogi One" Office Tower with approximately 25,000 sqm, (scheduled for completion by the end of 2021), the Global Towers Project (approximately 105,000 sqm spread over two towers), and the "B.S.R City" Project (approximately 180,000 sqm spread over four towers). The Central District Committee recently approved a plan to increase building rights in the entire Kiryat Arye industrial zone, so that the total area of the planned complex will be approx. 5.8 million sqm.

Rosh HaAyin - Following stability in rents over the past two years, we have seen an increase of around 2.1% in the reviewed period, with rents reaching around ILS 49 per sqm, compared to ILS 48 per sqm in the previous six-month period. The area, which did not partake in the accelerated development of the Sharon cities from the standpoint of new office construction, continues to lag behind in rentals compared to nearby industrial zones, such as Kfar Sava, Petach Tikvah, and Hod HaSharon. We believe that this will change with the progress of the "Nitsba City" Project by the Nitsba Company, and the construction of its business park at Kessem Interchange with around 120,000 sqm of office space. This will be adjacent to a mixed-use park (also owned by Nitsba), with residential towers and an additional 80,000 sqm area for commerce and employment. The Park will also comprise green areas, retail, cafes, exhibitions, and places of entertainment. The entire area, located at the intersection of Routes 5 and 6, will be constructed in stages, with the first stage due to be completed in 2020.

Nes Ziona / Rehovot - In the reviewed period, there was a decline of around 3% in average rents, which were ILS 69 per sqm compared to ILS 71 per sqm in the last half of 2018, which as mentioned, followed a sharp and continuous jump in the previous year. Still, the proximity to leading research institutes, a high level of infrastructure, and the homogeneous nature of a relatively small land area, together with the proximity to the

Average Monthly Rents In Business Locations In Central Israel



* Note: The rents listed include standard fit-out of around ILS 2,500 per sqm. gross in new offices (on top of shell & core) and around ILS 500 per sqm in existing offices ("as is" status).

The attractiveness of Tel Aviv may be the leading factor in the decline in Herzliya, with companies factoring in proximity to talent, transport facilities and maximum convenience for employees to their considerations

railway station, preserve the desirable status of the Tamar and Weizmann Science Parks (which currently comprise approximately 450,000 sqm combined) as the leading parks for hi-tech companies and businesses. We believe that the recent decline does not necessarily hint to a trend, but rather is a result of a halt in demand following no new Class A projects being completed. This will change with the completion of among others, the Stratasys 2 project, currently under construction in Science Park and which is owned by Stratasys, planned as the continuation of their campus. Occupancy is planned for the first quarter of 2020.

Sharon Region

Herzliya Pituach - For the first time in 18 months, there was a sharp decline in rents, to around ILS 92 per sqm in the surveyed period (a decline of around 7%!), compared to ILS 99 per sqm in the second half of 2018. The upward creep of rents in Herzliya in recent years was replaced by a sharp drop, due to hi-tech companies vacating space and moving to Tel Aviv as part of the "chase" after talent and access to public transit. At the same time, there was full occupancy in new projects such as Herzliya Hills and the "Rogovin Reit 1" building.

Kfar Sava - An increase of 1.5%, with average rents reaching ILS 68 per sqm, compared to ILS 67 per sqm in the previous six-month period. We believe that the construction of new projects in the area, such as the O-Tech Project by Oshira, alongside the opening of Route 531 in both directions, together with an Israel Railways route, have contributed and will continue to contribute to the increased attractiveness of the area.

Netanya - Following 18 months of stability with average rents of ILS 57 per sqm and no significant development in the area, rents climbed to around ILS 59 per sqm during the reviewed period, an increase of 3.4%.

Ra'anana - Following the largest increase year-on-year in the past two-and-a-half years, rents were stable during the last half-year, remaining at ILS 71 per sqm. Until now, the main business location in Ra'anana was on the northeastern side of the city. Now, thanks to the completion of Route 531 and the opening of the Ra'anana South train station, a new business complex is taking shape, which puts the southwest side of the city on the map. Located at the Ra'anana South interchange, at the junction of three main cities in the Sharon area - Ra'anana, Kfar Sava, and Hod Hasharon - there are already three new projects under construction in the complex. These include Infinity Park by REIT 1 and S.A.N Zahav (the Park will be built on an area of 55 dunams - 13.75 acres - and will include Infinity Tower with around 58,000 sqm of office and work spaces), and the Menivim-Meitav Tower by the Menivim Fund, with around 25,000 sqm of office and commercial space. **Ofer Abram, CEO of Menivim:** "Thanks to the advantages of the Tower's location, in close proximity to Ra'anana's new train station and main traffic arteries and within a lively work environment, we see that the Tower is attracting high demand." All the new projects are built with a relatively high volume of offices for the area and we expect that they will have an impact on attracting the masses from the existing area of Ra'anana.

Hod Hasharon - Following a surprising increase of around 5% in the previous half-year compared to the same period in the previous year (which came after two years of no change), average rents were stable in the current period, remaining at ILS 68 per sqm. Now that Route 531 is fully operational, including direct connections to the train, together with the construction of projects in other cities along such an important transit route in the Sharon region, we expect that demand in the City will slow.

Ben-Gurion Ring

Or Yehuda, Yehud, Beit Dagan, and Airport City

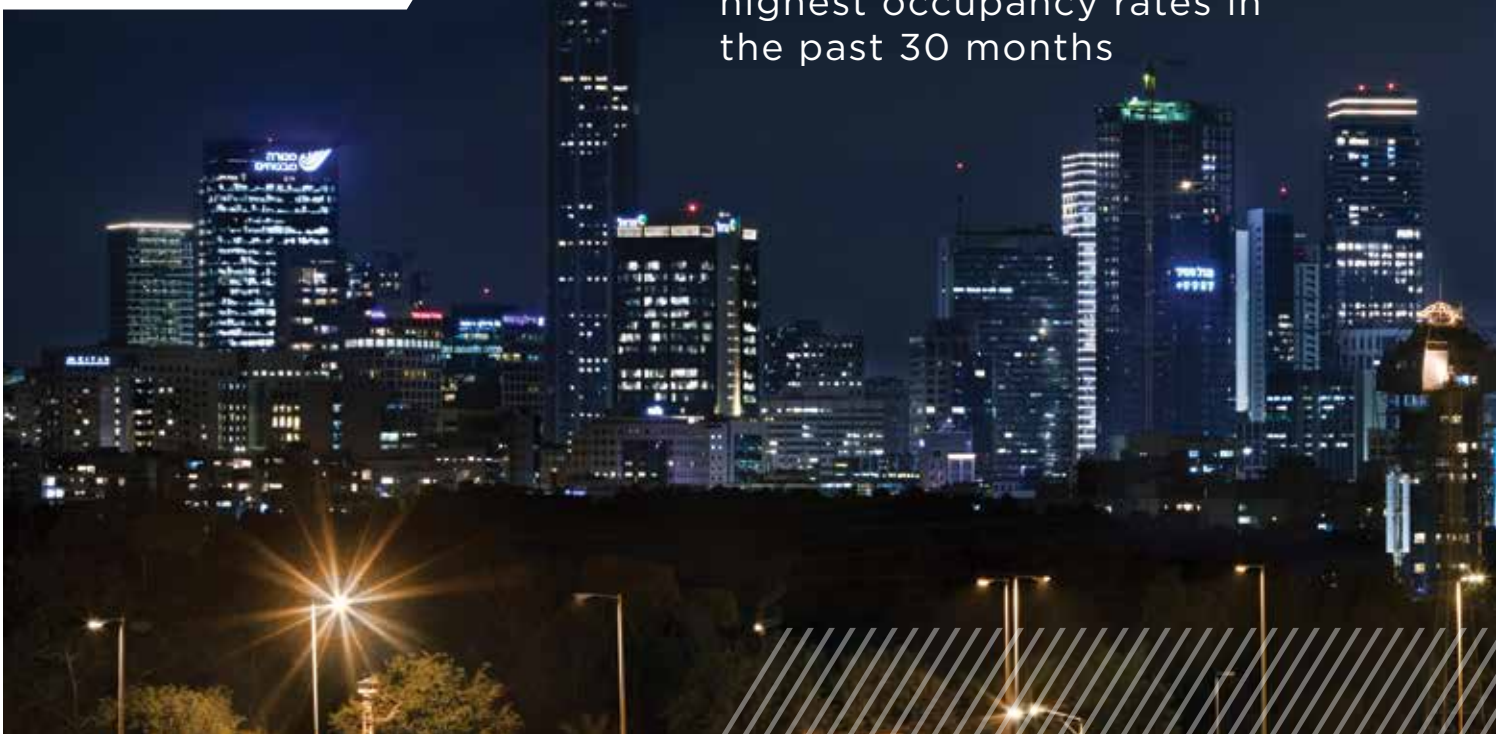
Following stability in average rents in these areas in the second half of 2018, there was a decline of 6.2% during the reviewed period, with average rents of around ILS 61 per sqm, compared to ILS 65 per sqm in the previous six-month period.

Image for illustrative purposes only

Nitsba City, Rosh HaAyin Illustration: View Point

Ya Habibi Tel Aviv

Sharpest increase in rentals was along the Yigal Alon Axis • Tel Aviv shows highest occupancy rates in the past 30 months



Tel Aviv continues to maintain its high rental prices, with an increase of around 3 percent in rentals during the surveyed half-year, which have already reached ILS 106 per sqm. The net take-up in the current half was around 104,000 sqm. - double that of the previous half. This figure, together with the annual take-up in 2018 of around 131,000 sqm, led Cushman and Wakefield Inter Israel's research department to modify the average take-up rate under macro conditions from around 110,000 sqm. per annum to 130,000 sqm. per annum.

Occupancy rates (including Bnei Brak and Ramat Hahayal) also increased, reaching 96.5% compared with 94.4% in the previous half-year. As stated, this is the highest occupancy rate since the second half of 2016. Other than the Diamond Exchange Area and Ramat HaHayal, where the rate of available space increased, there was a significant decline in such rates in all other axis. Largest decline was in the Yigal Alon Axis, with a change of around 66%.

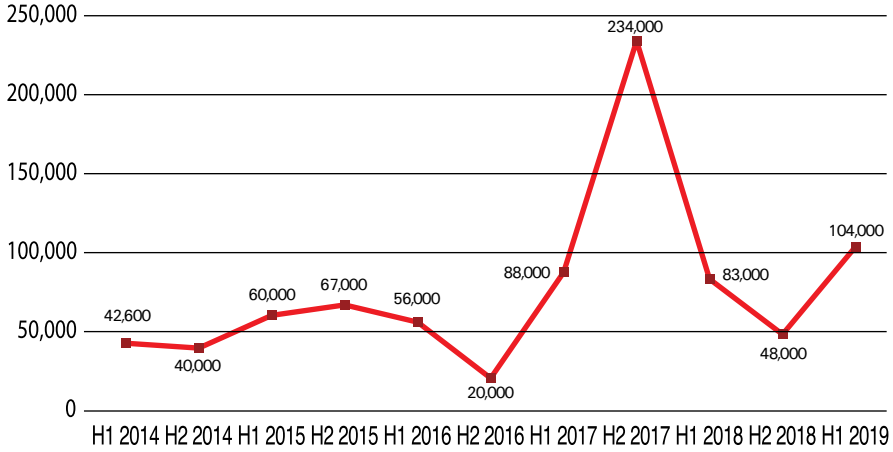
During the current half-year, the construction of two premium office projects was completed: the TOHA project owned by Amot and Gav Yam, located on Totzeret HaAretz street, and the WE mixed-use project by Sofrin and Pandom in the Menachem Begin Axis, which also includes residential units alongside office space. Occupancy of both projects was almost completed even before Form 4 permit was obtained, pointing to the high demand and occupancy rates in the City. Later this year, a further 78,000 sqm are expected to be added to Tel Aviv locality, divided among the Adgar 360 C Tower (approx. 17,000 sqm. constituting the continuation of the Adgar Complex on Hashlosha Street), and the Sapir Tower (around 61,000 sqm.) in the Diamond Exchange Area in Ramat Gan.

As stated, in reviewed period there was an increase in average monthly rentals which jumped to around ILS 106 per sqm., compared with ILS 103 per sqm. in the second half of 2018. This figure is the highest ever recorded in the City. Including Bnei Brak and Ramat HaHayal, average rents increased from around ILS 97 per sqm. to ILS 99 per sqm. (an increase of 3%).

Our office market review for the first half of 2019 was based on around 3.1 million sqm. of office space in some 160 premium office buildings in Gush Dan. For the purpose of statistical analysis, current research was based on 91 office buildings with a total area of around 2.4 million sqm.

Buildings used by a single tenant or a small number of tenants with no turnover were not included. In Tel Aviv, we surveyed five central business districts (CBDs): Rothschild Boulevard, Shaul Hamelech, Menachem Begin, Yigal Alon, and Ramat Hahayal. The projects included in the statistical analysis under the coastline axis were inserted into the Rothschild axis in the current review

Take-Up Rate (sqm.) In Tel Aviv CBD



due to lack of change of tenants in the existing office buildings, the fact that some of the office space became hotels and the close proximity to Neve Tzedek. In addition, we reviewed the Diamond Exchange Area in Ramat Gan and the BBC area in Bnei Brak.

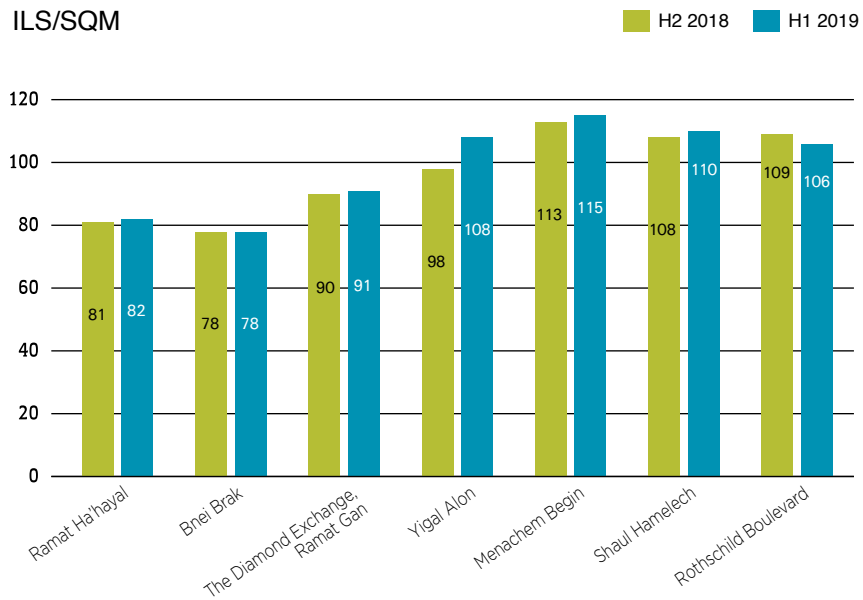
The Rothschild Axis - Including the additional buildings of the coastline Axis, the average rent declined to ILS 106 per sqm, compared with ILS 109 per sqm in the second half of 2018 (a decline of 2.8%). Compared with the previous half-year, in which the projects on the coastline Axis were excluded, rents remained stable at around ILS 109 per sqm. Available space on the Axis declined from 3.3% to 1.5%. After the Axis maintained its prestigious and desirable place mainly among high-tech companies, in the current half it reached fourth place with regard to rent, following Menachem Begin, Shaul Hamelech, and Yigal Alon. Despite the existence of a captive audience (contributing to the lack of available space), this decline in rentals may be the result of the greater importance of accessibility and proximity to efficient public transport, leading companies to turn now to other Axis.

Shaul Hamelech Axis - An increase of 1.85% in average rents, which reached to approx. ILS 110 per sqm., compared with ILS 108 per sqm. in the previous half. The rate of available space reached 4.6%, compared with 5.4% in the second half of 2018. Compared with most axis surveyed in this edition, the Shaul Hamelech Axis is not participating in future development of the City and no addition of office space is anticipated before 2023.

Menachem Begin Axis - Remains in the prestigious first place in rental levels in Tel Aviv CBD. In the surveyed half-year, there was another increase in addition to the one that took place in the second half of 2018 - this time of 1.8%, with average rents of ILS 115 per sqm., compared with ILS 113 per sqm. in the previous half-year. Available space continues to decline (as mentioned, there was a decline of around 30% in the previous half-year) to around 3.6% in the surveyed period, compared with 8.3% in the second half of 2018. With the construction of the light rail station along the Axis, the development of efficient transport and the existing Israel Rail train station, alongside additional space planned for the next few years (an addition of approx. 350,000 sqm. by 2022), the attractiveness of this Axis and demand along it remain high.

Yigal Alon Axis - Surprise of the surveyed period!. After rents on the Axis remained stable at ILS 97-98 per sqm. for more than 3 years, they jumped by 10% in the surveyed half-year, reaching ILS 108 per sqm. (!), which

Average Monthly Rents In Tel Aviv CBD



* Note: The rents listed include standard fit-out of around ILS 2,500 per sqm. gross in new offices (on top of shell & core) and around ILS 500 per sqm in existing offices ("as is" status).

Office Market Forecast 2019-2023

As stated, in the first half of the year, around 80,000 sqm of space were added to the Tel Aviv market thanks to the completion of two new office buildings: the TOHA project (60,000 sqm) by Amot and Gav Yam on the Yigal Alon axis, and the WE project, a mixed-use tower comprising around 20,000 sqm of office space by Pandom and Sufrin on the Menachem Begin axis.

By the end of the year, another 78,000 sqm are expected to be added, divided between the Adgar C 360 Tower on the Yigal Alon Axis and Sapir Tower in the Ramat Gan Diamond Exchange Complex. As such, the total added office space in 2019 will be around 160,000 sqm (contrary to expectations of around 250,000 sqm from the previous half-year, due to a delay in occupancy of two projects).

In the next five years, including 2019, a total of around 1.27 million sqm of office space is expected to be added to the market, with 70% of it under sole ownership. In 2020, around 315,000 sqm is expected to be added, of which 41% will be built along the Menachem Begin Axis. In 2021, a total of around 300,000 sqm will be added, with more than 60% being built in the BBC complex in Bnei Brak. In 2022, the expected addition will be around 280,000 sqm, spread over the various axes, and in 2023, another 220,000 sqm are expected to be added.

As stated, the take-up rate for the reviewed period was around 104,000 sqm. This, together with the take-up rate for all of 2018 which was around 130,000 sqm, led Cushman and Wakefield Inter Israel's research department to modify average take-up rate under macro conditions from around 110,000 sqm per annum to around 130,000 sqm per annum.

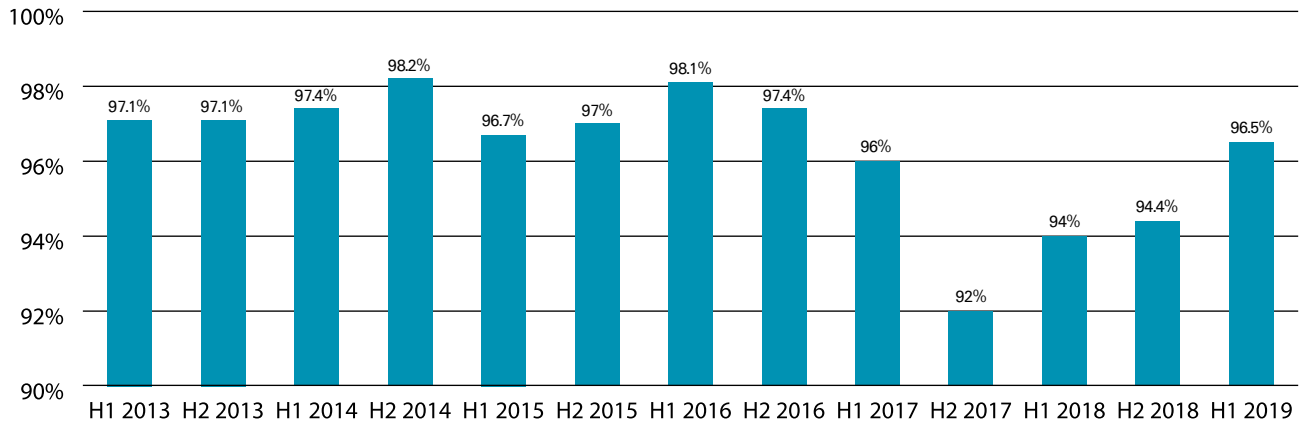
places this Axis for the first time in second place behind Menachem Begin. There was also an impressive decline in the percentage of available space, which declined by around 66% (!) to 2.7 percent in the surveyed half-year, compared with 7.9% in the previous period. These data can mainly be attributed to the continued occupancy of the Alon Towers, alongside the almost full occupancy of the TOHA project, which received its occupancy permit just a few months ago.

The Diamond Exchange Area in Ramat Gan - An increase of around 1% in monthly rents, which were around ILS 91 per sqm. in the surveyed period, compared with around ILS 90 per sqm. in the second half of 2018. In contrast with other axis surveyed so far, the rate of available space in this area actually increased, to around 4%. We expect further changes to follow with the entry of around 45,000 sqm. of new office space in various projects along this Axis in the next five years, including the Sapir Tower this year, the BSR Group's Icon Tower in 2021 and the Rogovin Acro Tower in 2022. The Axis's attractiveness will also improve further thanks to its access to public transport such as the Israel Rail Station and the future light rail station.

Bnei Brak - Continued stability. In the current half-year rents remained at around ILS 78 per sqm. We expect this stability will change with the entry of approx. 375,000 sqm. of office space in the next few years, including the Hachsharat Hayishuv Project (around 50,000 sqm.), the Leumi Card Tower (around 40,000 sqm.) and the Phoenix Tower Project (also around 40,000 sqm.). The Axis should become more attractive for new tenants.

Ramat Hahayal Compound - Here too there were increases, both in average rents, which reached around ILS 82 per sqm. compared with ILS 81 per sqm. in the second half of 2018 (an increase of around 1%) and in the percentage of available space by around 30%. Alongside Vitania's Devorah Hanevi'a Project, currently under construction and fully rented to Teva in the previous half-year, no additional major office space is expected to be added in this area, other than that planned for the more distant future in Kiryat Atidim. This plan includes a new tower zoned for offices, hotels and retail.

Average Occupancy Rates In Tel Aviv CBD



Legal due diligence for a residential unit as opposed to an income-producing property

Adv. Shai Adulam, of the Shai Adulam and Co. law firm

Photo: Oren Kahn

In the world of real estate, an integral part of the examination we perform on an asset is the legal due diligence, which examines the state of the rights to the property. In the world of real estate, there are differences between due diligence conducted on various assets. The difference between legal due diligence for a residence and for an income-producing property, aside from its complexity (an income-producing asset could be a shopping mall or an office building, which require far broader diligence than for a residential property), is due to the intended use of each type of asset.

A residential property is a type of consumer product for self-use. Whilst it is more complex and costly than other products and has characteristics that are unique, it is still a consumer product. In contrast, an income-producing property is an asset purchased in order to generate returns for its owners and the price is generally derived from the net operating profit it generates per annum and from the extent of certainty that the asset will continue to generate such a profit over time. An income-producing property is also in many cases an operational asset meaning that it requires special management and operation in order for it to be usable (such as an office building, shopping mall, assisted living facility, long-term care hospital and so forth), while a residential property is an asset that is comparatively simple to operate.

In relation to both a residential unit and an income-producing property, one must examine the seller's rights as the owner of the property, whether those rights have already been properly recorded in the Land Registry Office or whether it is a contractual right that has not yet been recorded, whether there is a lien on the property and what amount is required to clear the lien, and whether there are other restrictive rights that must be addressed when making the transaction (a restrictive right may also apply to a residential unit registered in the Land Registry Office). For instance, when a right is registered in the name of a married person, the spouse may have a beneficial right to half of the residential unit, even though it is not registered in that spouse's name. Therefore, in such transactions, it is customary to get the spouses that are not recorded to sign an agreement to execute the transaction. However, while in relation to a residential unit the legal due diligence stops at more or less this stage, in the due diligence on an income-producing property the lawyer must also examine the entire contractual system that ascribes to the buyer the right to receive the yield from the property, and the feasability of the transaction.

> "Whilst in relation to a residential unit due diligence stops at more or less the examination of the nature of the right being purchased, on an income-producing property it, by necessity, has to go far beyond this point"

There is no specific course on "income-producing properties" in the law faculties, although a professional and experienced team with years of experience in analyzing commercial real estate transactions knows what to look for within the contractual framework it deals with in a commercial real estate purchase. It begins with an examination of the lease agreements, which are the main documents from which we can learn what the property's "sales" turnover is, meaning what rents and management fees are paid on the property, what the rental periods are and whether it is possible to shorten them, who the tenants of the property are and what collateral they have put up to ensure their compliance with their obligations. If the property is more occupied, rented for longer periods, has stronger tenants, or tenants that have put up appropriate collateral, it will lead to the conclusion that the yield is more secure (and the yield coefficient according to which the value of the property is derived will be lower).

Inspections of the agreements with consultants, service providers, management companies, the Electric Corporation, local authorities and others are also important, since the price of an income-producing property is derived from its net operating profit, and not from straight income. Therefore it is necessary to examine the contractual and legal frameworks from which the expense items are comprised, and other profit points derived from the property, as well as the possibility of replacing the service providers for the property. (This is particularly important in a case of deficit management, or when the buyer is a commercial real estate company that itself provides management services.) For instance, a property where electricity is provided to its tenants through an electric current collector and not directly from the Electric Corporation creates additional profit for its owners, or a property where expenses for consultants, suppliers, and service providers are higher than management fee income is a property that creates an operating deficit and for which the yield is lower than the rents actually collected.

Legal due diligence on an income-producing property has three main functions: The first is to examine the nature of the right being purchased and the restrictions that apply to it. The second is to examine and analyze the contractual and legal framework that creates the operating profit and its provisions. This examination is the basis for the economic analysis that the purchaser conducts on his own or through his professional advisors. The third function is to provide negotiating tools for the purchase of the property.

* The writer is an attorney with his own independent firm, who has been specializing in representing clients in high-volume transactions for 15 years.

The drop in bond yields has led to an increase in the investment spread

The Cushman and Wakefield Inter Israel research department continues to monitor: Is the Bank of Israel interest rate on the way down?

The Cushman and Wakefield Inter Israel research department continues to monitor the feasibility of investment in income-producing real estate (Class A offices in the Tel Aviv CBD), compared to the yield on 10-year fixed interest CPI-indexed government bonds ("Mimshal"). The findings of our examination showed that throughout the measurement period (beginning in 2003), the investment spread averaged 5.9%. As of July 2019, the investment spread is 6.2%, compared to 5.6% in December 2018, and 6.1% in June 2018. The increase in the spread is due to the drop in bond yields against stability in yields at which investors are prepared to purchase income-producing properties in high-demand areas. Institutional real estate investors are currently prepared to purchase at yields of 6-6.5% Among private investors, there is currently a readiness to purchase at even lower yields of 5.5-6%, due to lack of investment alternatives.

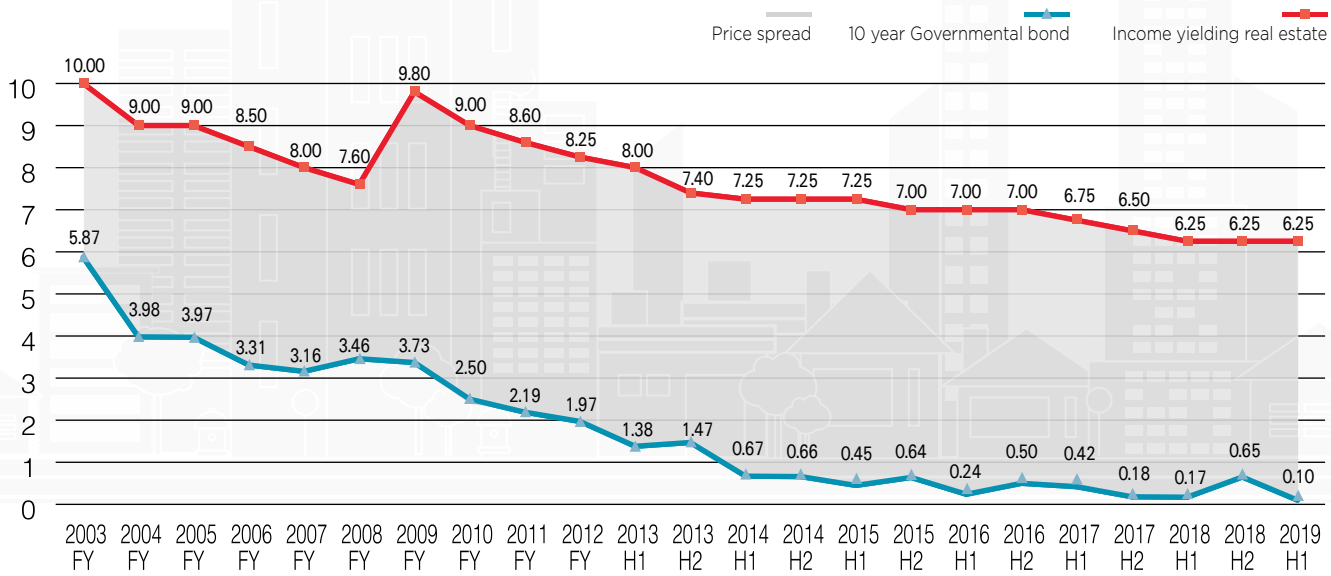
With the Bank of Israel's decision to leave the interest rate unchanged at 0.25% for the seventh consecutive time, it would seem that this was in line with expectations. Prof. Amir Yaron, the Bank's Governor, said earlier this month that the rate would not rise in the near future. Moreover, there was a new tone in the bank's statement which was more aggressive about future use of monetary policy instruments.

* **In summation:** Given the near-zero interest rate conditions until the end of 2019, we find that investment in income-producing real estate remains worthwhile, but investors must act very cautiously. *

* **Clarification:** Investment in commercial real estate requires the examination of a long series of components, beyond yield and rents, and necessitates a comprehensive examination before purchase of: location, nature of the property, level of tenants (if there are any), collateral, price per sqm built, whether there are parking spaces, tax considerations, and more.

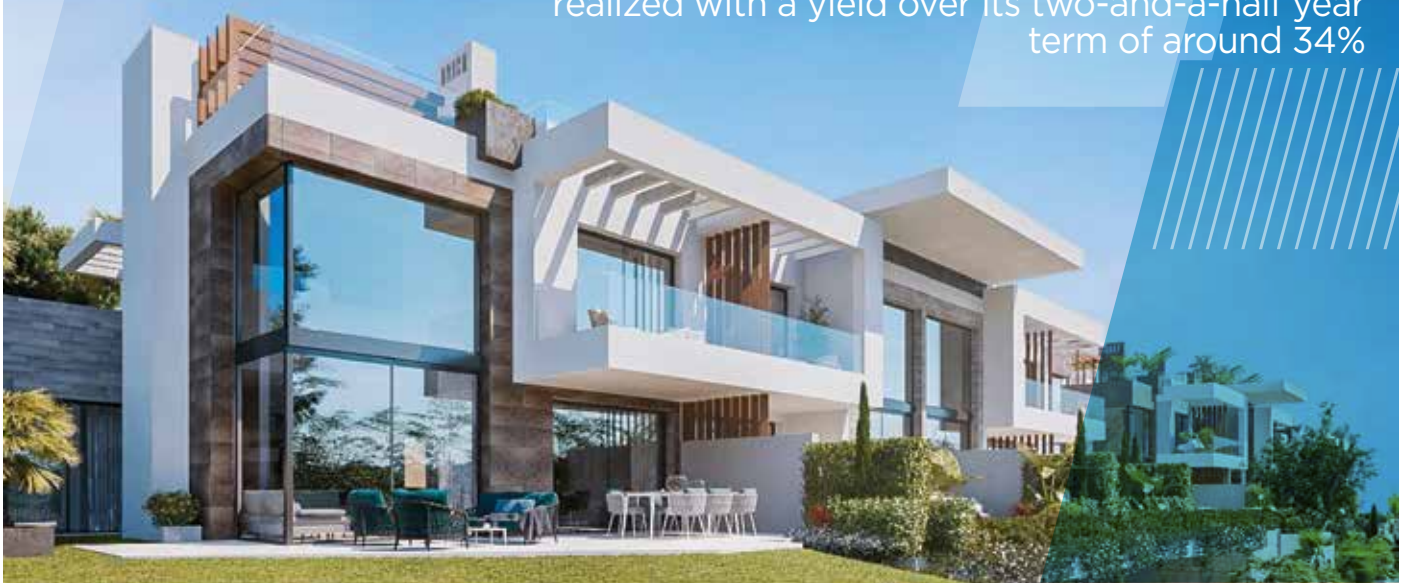
Ofek Gabai, Partner and Head of Capital Markets at Inter Israel

Return On Investment In Income-Producing Real Estate In The Tel Aviv CBD (Percent)



The focus is moving to real estate financing

In the first half of 2019, three investments were made in bridge loans to Spanish developers, expected to generate an annual yield of around 10% for the investors • At the same time, an investment in Berlin was realized with a yield over its two-and-a-half year term of around 34%



Inter Israel's investment funds recently issued three bridge loans to Spanish developers who purchased land to build residential projects in Malaga and Marbella on the Costa del Sol. These loans backed by mortgages on the land are expected to generate an annual return of around 10% for the investors.

"After monitoring and learning about the Spanish market for more than two years," says Ofek Gabai, Partner and Head of Investments at Inter Israel, "and after an in-depth examination of a number of local developers, we finally made a connection with an Israeli developer who has tremendous experience in Spain, and we began making investments. We identified a situation that, in our opinion, provides an interesting "window of opportunity". The banks tend to finance projects under easy terms subject to the presale of some of the dwellings. In contrast, the banks generally refuse to finance the purchase of land by the developer. In such instances, investment funds provide bridge loans (until bank financing is obtained), subject to in-depth due diligence, totaling not more than 3 million euros each, at moderate rates relative to the developer's price for purchasing the land. In our opinion this window of opportunity is not expected to continue for long, since the banks are expected to expand their financing activity to the land purchase stage as well."

In the coming months, the managers of the Inter Israel investment funds expect additional investments to become available, both through the provision of bridge loans and in the form of the purchase and refurbishment of residential buildings in Spain and then selling the apartments. "We are working to identify opportunities in the Spanish market and there are some that can create solid returns that it is difficult to obtain in other markets," Gabai adds.

At the same time, Inter Israel is establishing a fund to finance real estate in Israel, backed by collateral similar to mortgages or liens on the land and property that it will finance. The fund is expected to begin operating next month and at this stage it is working to recruit investors.

Marking another successful exit

At the end of 2016 an investors fund managed by Inter Israel purchased two residential buildings in Berlin for around ILS 10 million. The fund expected that the investment would reach maximum yield within around 6 years at an annual return of around 8% to the investor. However, due to acceleration in the value of the property and the identification of a specific opportunity, the fund's managers recently realized the investment at a return of around 34%, reflecting an annual return to investors of around 12%. This realization is the second in the last year, after sale of a site in Ramat Gan was realized in 2018 at a return of 62% around a year and a half after it was bought.

"This is not magic or coincidence, but orderly and consistent betterment of the properties. To be fair and complete, a little luck and tailwind in the markets didn't hurt us either," explains Gabai. "Many investors understood that investment in commercial real estate - office, commercial or logistics space - is an investment that provides a significantly higher current return than residential real estate, but the entry threshold to this field is significantly higher, and leaves the field in the hands of large entities or highly financed individuals only. We identified the need and the entry barriers, and we are now offering different channels for investment in commercial real estate, with an investment that is not high, relatively speaking."

"It is important to emphasize," adds Gabai, "that there is a risk in any investment. The manager of an investors group that does not list the risks inherent in the investment makes a serious error. At Inter Israel, we are well aware of the various risks, but we are convinced that our cumulative experience enables us to manage those risks wisely. Beyond that, we believe that in the yield-risk test, investing in commercial properties is an excellent alternative."

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Since its foundation in 1973, Inter Israel has been the leading firm in providing consultation services for business and commercial real estate in Israel. The Firm is the local representative of the global Cushman & Wakefield, one of the three largest real estate consultancy firms in the world, with over 45,000 staff in more than 70 countries.

The partnership with Cushman & Wakefield allows our clients to enjoy the benefits of an international network of contacts and to conduct real estate transactions under best possible conditions. With more than 45 years' experience in real estate, we assist companies and businesses in finding their ideal property, investment and transaction, precisely matching the requirements and needs of each client – down to the smallest detail.

Our Services Include

- **Full Consultation to companies and businesses.** Our services comprise all property associated aspects (offices, commercial space, industrial and logistics) designated for occupancy or investment, from initial stage of analyzing clients' requirements, locating most suitable property assistance throughout the transaction, up to completion.
- **Investments.** We fully support our clients all along the way, from characterization of the required property, locating suitable proposals and up to completion of the actual transaction, together with routine advice and recommendations for risk management, based on market conditions and trends in the business and future forecasts that might impact the property – all in order to maximize investment profitability.
- **Investment Funds and Asset Management.** Recently we have expanded the activity of our real estate investment groups of Israeli investors in both local and overseas properties. Inter Israel presents a different and unique model: a relatively low entry level of investment, without two-way guarantees and with investors having an influence on property management. At the same time, Inter Israel undertakes to manage the fund and to provide its experience in the field and no less important: the Firm's directors themselves invest in properties purchased, thus ensuring identity of interests between the group's managers and investors.
- **Project Marketing and Representation of Developers and Landlords.** Accompanying developers throughout the construction process, from site purchase, design and planning stages, through to marketing of the project and its occupancy. We assist from beginning to end, together with control of marketing budget, schedules, coordination between all parties involved, in order to make processes more efficient, to prevent complications and unnecessary costs for the client and to carry out marketing in best possible manner.
- **Research and Market Analysis in Israel and Overseas.** Conducting market surveys as well as designated research for developers and institutions. Market research includes comprehensive analysis of real estate conditions, with in-depth reference to prices in desired areas, occupancy rates, market trends and forecasts for future investment.
- **Due Diligence and Lease Abstracts.** Whether for purpose of investment or for business analysis, we check basis of the asset and its liabilities, in order to minimize financial uncertainty and to look for new ways of maximizing real estate opportunities in the market.
- **Valuations.** Through professional and experienced appraisors acceptable to the banks, we assess valuation of an asset for all purposes, together with advice on the findings.
- **Project Management.** Management and administration, consultancy on design, engineering and statutory matters – we offer a package of services in the field through our in-house team, together with leading experts in their particular market field.

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