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» By John Benzaquen



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Head of Mortgage Division,
Mercantile Discount Bank



Avi Rosen,
Executive VP Nave
Property Building Corp.



In the last elections, the state of the real estate market and, most importantly, the hefty price increases were at the center of the campaigns. All contenders promised the earth with regard to the real estate industry. There is nothing new about that. Promises are the hallmark of politicians, and non-fulfilment is the norm.

Yet the results of the last election created an atmosphere of change, since both the Minister of Finance Moshe Kahlon and the Housing Minister Yoav Galant, who incidentally belong to the same party which Kahlon heads, have staked their political future on at least stabilizing real estate prices.

For the Passover *Real Estate & Investments* magazine the *The Jerusalem Post* gathered a panel of experts to discuss the real estate market at this time.

The panel included the following participants in alphabetical order:

Gurevich, Genady (CPA)

CEO, Afikim 38

Haham, Adina

CEO, Anglo-Saxon Real Estate Ltd.

Katz, Itay

Chairman & CEO, Katz Itay Group of Companies

Levi, Avner

Deputy President of the Israel Contractors and Builders Association and Chairman of the Tel Aviv-Jaffa and Bat Yam Contractors Association.

Miezlik, David

Head of Mortgage Division, Mercantile Discount Bank

Rosen, Avi

Executive VP, Nave Property Building Corp.

Rozenblum, Amir

CEO, Idan (S.N.I) Management & Maintenance, Ltd.

Moderator

Juan de la Roca, Editor, *Jerusalem Post Real Estate & Investments Magazine*

How would you describe the real estate scene in this country during the past twelve months?

Haham: When someone wants to know how real estate fared in 2015, one is referring to real estate prices.

Real estate prices in 2015 increased because demand was high and demand had much to do with the low interest rates.

When interest rates are low, this encourages demand.

When interest rates are low, the yields on solid, secure investments such as government bonds, bank deposits or savings accounts are very low.

Investment in real estate is an safe alternative investment with nice yields, at least in relation to financial investments. The price of real estate usually increases, and in addition, there is the income derived from the monthly rent payments.

In addition, low interest also increases consumer demand for real estate. The vast majority of those who purchase an apartment finance it with a mortgage.

When interest rates are low, the real cost of a home is much lower than when interest rates are high. During the whole length of the mortgage, one pays the fixed interest rate. The accumulated interest rates, together with the price of the apartment, constitute the real cost. This means that when interest rates are low the cost of a home is much lower than when interest rates are high. One must take into consideration that on a twenty-year mortgage, each percentage point adds an extra 10% to the cost of the mortgage.

It is simple arithmetic and this simple

arithmetic increases demand from investors and consumers alike.

Gurevich: I beg to disagree with Mrs Haham. I believe there were many changes in 2015. The new government is making major efforts to stabilize prices.

They have initiated two new programs: one called *Heskemei Gag* (Ceiling Agreement) which is intended to increase supply, and the second called *Mehir Matara* (Target Price), which is meant to lower prices.

The Ceiling Agreement is a program whereby municipal councils agree to vastly increase their building programs, and in return, the central government will finance infrastructures and the construction of public buildings. The Housing Ministry believes that the program will greatly increase housing starts.

The second program, the Target Price program, has dramatically changed the way that land tenders for government are formulated.

In the past, tenders were awarded to the contractor that offered the highest price for the land. Under the Target Price program, they are awarded to the contractor who offers the lowest price for the apartments that will be built on that piece of land.

The apartments built within this program are designated for newlyweds who do not own a home or to singles over 35 who do not own a home of their own.

Despite the fact that the program is open to a small number of people, I believe that in the long run it will at least put a halt to the hefty price rises.

Furthermore, the government is investing →



heavily in transport infrastructure and this, too, is expected to have a positive effect on real estate prices.

According to expert opinions, one of the reasons for the hefty price rises is the fact that most people want to live in the Tel Aviv metropolitan area. Supply in this area is practically non-existent and the price rises in Tel Aviv have a ripple effect on the whole country.

The advancements in roads and railways are improving the accessibility of areas that until now were considered beyond the pale.

Now it is possible for someone living in Hadera or Netivot to commute daily to the employment centers of Tel Aviv and the surrounding areas. Increased and improved transport links will increase demand for homes in outlying areas and decrease demand in the center.

Miezlik: I agree with Ms. Haham that to a large measure, the rises in real estate prices in both 2014 and 2015 were due to low interest rates. One can say that with regard to the rise in real estate prices, the root of all evil is the near-zero interest rates.

The rise in prices is also affecting the mortgage sector.

When prices rise, the mortgages also rises. The size of a mortgage is closely connected to price, and when real estate prices rise and the average size of the mortgage rises, banks get wary and many sectors of the community are not only outpriced from buying a home, they are also outpriced from obtaining a mortgage.

Banks are not willing to approve mortgages to just anyone. The bank only approves mortgages as it only approves loans – if it has reason to believe that the borrower has the means to repay.

With a mortgage, the regulations of the Bank of Israel are very strict. Monthly repayments must not exceed 40% of the net income of the borrower, or borrowers in the case of a couple.

Rosen: I also believe that things in 2015 did not change meaningfully in relation to 2014. Prices are still rising and part of the reason is the connection between the public and the government in issues connected to real estate.

In 2014, it was because of the “Zero VAT” program, and in 2015, it is because of uncertainty with regard to the steps the government is taking, especially in relation to the Target Price program.

I tend to agree with those who are skeptical about the program, because I very much doubt it will get off the ground.

Until now, Target Price tenders were awarded to build 7,000 residential units. Yet none of these tenders were won by large contractors or entrepreneurs with the necessary resources to implement building and marketing of apartment buildings. The tenders were won by sub-contractors, and I have good reason to doubt that these companies have the necessary knowhow and resources, both technical financial, to build what they took upon themselves to build.

For the real estate industry as a whole, 2015 was not a bad year. Demand was strong and despite the fact that prices rose, there was no shortage of customers.

Levi: We at the Contractors and Builders Association are not against a program like Target Price, but not in its present form.

In its present form, paradoxically, this program will bring about a rise in prices. It may bring about a fall in prices to a small sector of the community, but the others – the majority – will be left out in the cold.

Most, if not all, of the land tenders are earmarked for the Target Price program. No building land will be available for those not eligible for the program or the free market, and this means that supply of new housing to the majority will be very limited. In consequence, prices will rise. Prices will also rise for those eligible: because the number of those eligible is so much larger than the potential number of eligible properties, eligible buyers will be determined by lottery.

In my opinion, it will take more than ten years to meet the demand of the eligible buyers, which means that many of these will choose to buy a home on the free market.

Prices have risen and will continue to rise. The only way to halt the rise in prices is to increase housing starts in conjunction with the Target Price program.

But increasing housing starts requires more resources. The local industry has proved that it can do so – to up to 100,000 annual housing starts. We managed that amount in the early 1990s.

However, at those times we had a large labor force and sufficient credit facilities.

Now, in contrast, there is an acute shortage of labor, and the available volume of credit to the real estate sector is exhausted. Unless more credit is made available and unless the government allows us to bring in guest workers from overseas, we will be stuck with low levels of housing starts.

I wish to point out that the government promised to allow 20,000 guest construction workers, but up to now we have not seen a single foreign worker.

In the not-so-distant past, we recruited overseas construction workers ourselves. However, two years ago the government decided that only they would be in charge of recruiting overseas construction workers. Unfortunately, they are apparently not up to the task.

Rosenblum: 2015 was not very different from 2014. Prices rose in 2014, they rose again in 2015, and they are continuing to rise in 2016.

What has not been mentioned here is the effect on prices of demand from overseas buyers from the Diaspora.

The effect on high-end real estate is dramatic, but it is also affecting more moderately priced properties.

Overseas buyers are driving the price of luxury apartments sky high. On the Tel Aviv sea front, prices have reached NIS 130,000 per square meter, which means a modest 100 sq.m.

apartment can cost up to NIS 13 million or \$3.5 million.

In less expensive areas, such as the Florentin quarter and similar areas in Bat Yam and Rishon Lezion, overseas buyers – mostly French Jews – make up some 35% of all buyers.

When the market is stretched so thin, the demand for a few thousand more dwellings can have a disproportionate effect on price rises.

This demand from overseas is set to continue in 2016, largely because anti-Semitism is rising in Europe.

Katz: Things in 2015 have not changed in relation to 2014. Prices are still rising, because, to tell the truth, the government of Israel is not interested in lowering prices. It is their single largest source of income. The increased purchase tax on investors – to up to 10% – is another case in point. In addition, demand for real estate is historically high for cultural reasons.

In this country, it is the dream of parents to buy a home for each of their offspring.

The majority cannot afford such a luxury, but enough can to create a constant demand for housing that can only drive prices up.

I will now ask each of you a question relevant to your line of business.

Mr. Levi, you just said that one of the bottlenecks of the industry is an acute shortage of construction workers. Why then do you, as the deputy president of the Contractors and Builders Association, object so strongly to bringing foreign contracting firms? They can bring their own labor force and it will alleviate the shortage of construction workers.

Levi: We object because it is an outrageous proposition. There are 15,000 – yes, 15,000 – contracting firms in Israel. Believe me, we do not need foreign contracting firms to do the work.

We in Israel use the most modern building techniques and turn out quality work relatively fast. We could build even faster if we were not hampered by a shortage of workers and the stifling regulatory environment in which we are forced to work. I wish to point out that local firms have construction projects all over the world and no one is complaining about the quality of their work.

But that does not justify bringing in foreign contracting firms. If the government really wants to solve the labor shortage, all they need to do is reverse the wheel of time and allow us, the contractors and entrepreneurs, to recruit foreign construction workers. In the past, we did it very successfully. The government's policy to recruit workers themselves has been a dismal failure. They started this policy nearly three years ago and so far, they have not yet recruited a single worker.

Mr. Levi, you seem to forget that there is a Turkish construction company which has been operating in Israel successfully. →

→ **Levi:** I forget nothing. That Turkish construction company is not a good example. The government wants to bring in foreign companies to compete in tenders for the sale of land. They will then build the apartment buildings and sell them to the general public.

The Turkish construction company does not operate independently. They do sub-contractual work for large local entrepreneurial firms.

Having overseas firms execute and market residential building projects on a turnkey basis is not practical. Local companies who have been operating here for years can barely cope with the regulations and the bureaucracy. I do not believe that a foreign company unfamiliar with the business culture will be able to succeed.

Mr. Rosen, Naveh has built a very exclusive luxury building – Migdal Nof in Bat Yam. When you started the project, Bat Yam was a backwater. Prices were very low and the city was stigmatized with a bad name. Why did you choose Bat Yam?

Rosen: Every successful real estate company must plan ahead.

When we started to formulate our long-term strategy, we concluded that Bat Yam had great potential. It is merely a few minutes from Tel Aviv, it has one of the best beachfronts in the country, and real estate prices and land prices were low.

We saw it as a classic example of upgrading an entire area and reaping the profits.

Currently demand for real estate in Bat Yam is strong and prices are high. We recently sold a five-room apartment in one of the high floors of Migdal Nof for over NIS 5 million.

Levi: As chairman of the Contractors and Builders Association of Tel Aviv-Jaffa and Bat Yam, I can say that the potential has not yet been fully realized. In addition to its sea front and proximity to Tel Aviv, it is very accessible by road – and soon by the Tel Aviv metropolitan area light railway.

Yet I must say that in past years the quality of construction in Bat Yam has been problematic. Most of these buildings will have to be torn down and new ones built in their stead while others will have to be refurbished.

Mr. Katz, you are an expert on peripheral areas. Is demand expected to increase? How will this affect prices?

Katz: The hefty price rises in the Tel Aviv metropolitan areas and the metropolitan areas of Jerusalem and Haifa are pushing people to peripheral areas. I expect prices and demand to rise in Tiberias, Kiryat Shmona and Safed in the North, and Sderot, Yeroham and Netivot in the South.

Yet not many of the buyers are moving to these places. After researching this issue, I concluded that in most cases people are very reluctant to leave their hometowns. They are used to the environment, the people, etc.

The same holds true for those that reside in the metropolitan areas. They are not keen to move. So how to explain demand in Yeroham Netivot or Kiryat Shmona?

There is a simple explanation.

Families cannot afford to buy a four-room apartment either in Tel Aviv proper but they can afford buying two or even three apartments in say Kiryat Shmona or Yeroham. Three such apartments can be had for from NIS 1.2 to 1.5 million and will yield a monthly rent income of from 4,500 to 6,000 shekels. With that amount of money, the owners can rent an apartment in Tel Aviv or the surrounding satellite towns.

Mr. Miezlik, this morning the press published a report that banks were refusing to give credits to

Target Price projects. Can you enlighten us in this matter?

Miezlik: No, I cannot.

I know nothing of this, but having said this, I have to point out that if banks are not convinced of the profitability of a certain real estate project, they will rightfully refuse to finance it.

Banks are business entities. They will not knowingly do business that ensures a loss in advance.

I do not know if Target Price projects are profitable or not, but what I do know is that if a bank has any doubts of the profitability of any project, it would be very wrong on their part to agree to finance it. After all, real estate projects are not high-risk hi-tech venture capital projects.

Mr. Gurevich you are the managing director of a company that promotes Tama 38 and Pinui V'binui (Evacuate and Build) projects. The number of such projects is much smaller than that envisioned. Why is that so?

Gurevich: These projects have not been implemented fast enough because the relevant authorities are not acting fast enough to eliminate bottlenecks and bureaucratic impediments and increase the profitability of such projects.

This creates great uncertainty, and uncertainty is not good for business. There are setbacks when one or two proprietors do not cooperate. There are problems with the increased building rights and there are problems in overcoming the bureaucratic hurdles involved in getting the necessary building permits.

We have heard a lot about the difficulty of acquiring land for building purposes. According to a study by the Ministry of the Interior, the Tama 38 program (getting extra building rights in return for strengthening old buildings) and the Evacuate and Build program can add an additional 800,000 dwellings on a nationwide basis.

With these figures, it is nothing short of a crime not to strenuously promote these projects.

Mr. Rosenblum, there is an increase in the number of high-rise residential buildings with a very large number of apartments. Is there not a danger of them soon being converted into slums?

Rosenblum: Very much so.

It is not only the number of apartments in a certain high-rise building, it is also technological complexity.

A modern residential tower has complex modern fast elevators. Many have central air conditioning plants. Some have facilities to supply the building with hot water, and other complex delicate machinery that needs constant maintenance work.

Under these circumstances the only way of preventing such a building not only from becoming a slum, but a total wreck, is by engaging the services of a real estate management company.

The municipal authorities are very much aware of this and consequently building permits are only granted on the condition that the buildings, when completed, are administered by a real estate management company. This specification will include a clause in the bill of sale on the different apartments that will legally bind the apartment owners to engage the services of a management company.

Ms. Haham, are the Target Price program and other government programs that are prioritizing a certain limited section of the

community affecting the second-hand segment of the real estate market?

Haham: Not much. The used real estate market has the lion's share of real estate transactions. In 2014 transactions, new housing amounted to only 25% of total transactions, while in 2015 perhaps because of government programs, the number has risen to 30%.

Demand for used housing is still strong.

What is changing is the geographical spread.

Demand in the peripheral areas is rising fast and real estate concerns feel obliged to open new concessionary branches in places like Arad, Safed, Dimona, etc.

The government is rightfully trying to spread the existing population and is offering intensive monetary, fiscal, cultural, infrastructural and other incentives to persuade people to move to outlying areas of Israel.

Ladies and gentlemen of the panel, can you please assess how 2016 will develop?

Levi: I do not expect anything dramatic. Prices will continue their trend northward.

Prices cannot behave otherwise when we there aren't enough workers to meet our needs, and in consequence, the cost of labor increases constantly and the sources of credit to the industry are limited.

Haham: I agree with Avner. Prices will continue to rise because the low interest rates will increase demand, which will have an upward effect on prices.

Gurevich: I am an optimist, and I believe we will see increased political stability that will allow the government to push through the necessary measures to remove the bottlenecks hampering Evacuate and Build and Tama 38 projects.

Rosenblum: I agree with those of my colleagues who believe that increased demand will continue to push prices up. I have good reason to believe that the through 2016 we will see increased demand for the Diaspora.

Katz: I also believe that prices will continue to rise. They may rise from 8% to 15% in peripheral areas and by approximately 5% in central areas.

Miezlik: I do not see any changes. 2016 will not be any different from 2015, moderate price rises, demand that outstrips supply, etc.

Rosen: Demand for real estate will continue exerting upward pressure on prices.

If the government continues its policy of earmarking most of the building land it sells to real estate entrepreneurs to Target Price projects, I fear that prices in the open market – that is to those not eligible to buy within the Target Price program – will rise substantially. ■

