



The current and future state of real estate

By John Benzaquen

The real estate market in 2011 reached a watershed. After nearly four years of uninterrupted price rises of nearly 40 percent between 2007 and 2010, 14% in 2010 alone, prices seem to be stabilizing.

The rise in real estate prices caused deep social unrest during a large part of 2011, but this unrest seems to have petered out by the end of the year.

The social unrest was one of the major developments in the real estate industry during 2011. In my opinion, it was the most important one because it forced the government to take steps. During 2009 and 2010, many government spokesmen from the prime minister down bemoaned the rise in real estate prices but did very little about it. In 2011 it became a pressing political issue, and politicians being politicians who want to be reelected have taken note.

Real estate prices have reached unacceptable levels. Against a real estate price rise of approximately 40% from 2007 to the first quarter of 2011, average salaries rose by only 12.38% from NIS 7,740 at the beginning of 2007 to NIS 8,698 at the end of the first quarter of 2011.

Real estate became too expensive for large segments of the population. It also highlighted how expensive life is in Israel. Consequently, there was the social unrest,

demonstration tents in many of Israel's cities, boycott of goods, etc.

Tomer Moskovich, managing director of the Mishab Housing Construction & Development Company, is not pleased with all the publicity the real estate industry is getting.

"All the recent developments are harming the industry. The excess publicity is creating unnecessary pressures and new regulations. The government is overly involving itself in the industry, and government involvement in business is not good. It hampers the effects of a free market. The sooner things calm down and we can get on with what we know how to do best – to build houses – the better," he says.

It is doubtful whether the real estate industry will get back to normal in the foreseeable future, and that future is uncertain. At present, demand is weak and prices are slipping. But what can we expect in the near future during 2012?

The real estate industry is cyclical. Demand softens and hardens, and prices react accordingly. Consequently, the current situation of stagnant prices and very weak demand is temporary. The question is how long this temporary period will last. And the bigger question is what will happen afterwards.

With regard to the afterwards, ideas differ.

Dannus Ohad, chairman of the Real Estate Appraisers Association, says, "At present, demand for real estate is practically frozen. Prices have fallen only slightly, and I believe they will not fall further, or at least not substantially. With regard to the year ahead, the chances of prices falling are slim in the extreme. In my opinion, they will rise," he predicts.

"You have to bear in mind that demand for real estate is comparatively rigid. Families need a roof over their heads, and demand is closely connected to the



RENOVATED BUILDING IN DOWNTOWN TEL AVIV (Courtesy RE/MAX)

number of households created annually," he continues. "The reason for the hefty rises in real estate prices was caused by insufficient supply. Unfortunately, the supply situation has not changed substantially. The government through the Israel Lands Authority is marketing land for building purposes, but the lack of construction workers means that the number of homes being built annually is limited."

Supply has been one of the main problems of the industry, despite the fact that the government is increasing the sale of building land and the Bank of Israel is curbing the regulations that are making mortgages more expensive and placing limits on the size of the mortgages.

According to the Central Bureau of Statistics, in 2010 just over 39,000 new households came into existence. This includes newlyweds and singles leaving the parental home. To this must be added demand created by overseas buyers and by families rendered homeless because their dwellings were condemned.

In contrast, housing starts amounted to just 39,000 – a deficit of 2,000 dwellings. During 2000-2009, housing starts amounted to 316,942, or an annual 31,694 on average compared to a natural demand of approximately 410,000 – a 10-year shortfall of 93,058 dwellings. In 2011 housing starts may reach 40,000 and not more.



SUBURBIA (Courtesy Municipality Yahud-Monoson)

