

PANEL DISCUSSION

Insights and opinions

By John Benzaquen

Real estate is undergoing a period of change. To better understand the changes that the real estate industry is experiencing, *The Jerusalem Post* gathered a panel of experts to give their views on the highlights of the real estate industry during the past 15 months, from January 1, 2017, until March, and their predictions for the next 12 months.

The following took part in the panel:

Eran Bar-Tal, business consultant and business editor of Israel Hayom

Sharon Ben-Zvi, VP marketing and sales, the Meshulam-Levinstein Group

Yehuda Herzig, real estate developer

Gera Kaushanski, head of infrastructure, Israel Builders Association

Haim Kehat, architect and co-owner, Mansfeld Kehat

Ariel Maresky, owner and head of business development, Re/Max Vision real estate brokerage, Jerusalem

Galit Tepper, head of the Construction Loan Department, Phoenix Insurance

Moderator: Juan de la Roca
The Jerusalem Post



Ladies and gentlemen of the panel, what in your view were the main developments, the highlights, of the real estate industry in the past 15 months?

Sharon Ben-Zvi: The real estate industry is very varied. We have residential real estate, commercial real estate and office real estate, and they are all influenced by different developments; consequently, the price trends are not necessarily the same.

With regard to residential real estate, it was the same story over again. The government could not fulfil its promises to bring down prices. In addition, the Mehir Le'mishtaken program [price to buyer] has played havoc with residential real estate. Most of the land in Israel is owned by the government through the Israel Land Authority. Currently, they are only selling land to Mehir Le'mishtaken projects. The land available for other residential building projects is minuscule, thereby creating a shortage in housing for those who want to upgrade the way they live. In addition, first-time buyers and those who do not own a home and are eligible for the Mehir Matara project remain on the fence, as it were. Mehir Matara housing is awarded on a raffle basis, so those eligible are waiting to see if they will be lucky enough to be among the winners.

Office real estate is undergoing big changes. The market is dominated by start-up companies. These companies may experience dramatic growth,

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Standing from left to right: Ariel Maresky, Gera Kaushanski, Galit Tepper, Sharon Ben-Zvi, Yehuda Herzig, Haim Kehat, Amit Dupkin.
Sitting from left to right: Eran Bar-Tal, Alyssa Friedland (Photo by Marc Israel Sellem)

which means they may need more space. They need elasticity. The conventional office providers, the office landlords, cannot easily provide such elasticity. The current trend is what is termed 'co-workers,' in which the leases are very elastic.

The commercial real estate sector is influenced by the increase in the virtual trade via the Internet and, of course, by the increase in consumer spending.

Eran Bar-Tal: Two years have passed since the start of the Mehir Le'mishtaken disaster, because it has been a disaster. Because it has been a virtual disaster, it has not brought down prices in any substantial amounts. It has decreased the number of real estate transactions because many homeowners who would in normal circumstances have sold their homes to buy something better are not doing so, and housing starts have fallen. So the Mehir Le'mishtaken is not only not bringing down prices, but it is also negatively affecting housing starts, which means that the number of houses available will fall. One of the major problems in real estate in the past 10 years is the accumulating shortage of housing. Currently, the shortage of housing is estimated at somewhere from 100,000 to 150,000, depending on who you ask. This sorry situation has developed because annual housing

starts were below the annual household creation. The only way to overcome this deficit is to increase housing starts, and this is not happening. In the housing industry, government policy has put us back to the 1950s.

Galit Tepper: One of the major developments these past 15 months is the way the Mehir Le'mishtaken program is being implemented. The whole program is based on the land tenders of the Israel Land Authority, where land is sold at subsidized prices, provided that the land is used for Mehir Le'mishtaken projects. At times, not enough information is given to would-be buyers. At other times, the price is unrealistic and no offers are submitted.

The program is also encouraging would-be buyers to purchase housing in the center of the country. The ratio of supply to demand in these Mehir Le'mishtaken land tenders is 1:8 or even 10 in places like Herzliya and Modi'in, and it is 1:1 in places like Dimona or Yeroham. This means that demand for peripheral areas is small compared to demand for areas in the center of the country. In the past this was offset by government grants to those who went to live in peripheral areas. I don't think the Mehir Le'mishtaken is a good idea, and it is increasing the price of land. The government through the Israel Land Authority owns over 90% of available

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land, and the majority is earmarked for Mehir Le'mishtaken projects. Consequently, the price of the meager amount of land available in private hands is skyrocketing. Land owners are very much aware of the need for land and are taking advantage of this situation. In consequence, housing that is not included in the Mehir Le'mishtaken projects is increasing in price.

Yehuda Herzig: The Mehir Le'mishtaken program is at the heart of the government's real estate policy, but it is not a success. In Elad, for example, there are plans to add 12,500 dwellings. Recently there was a land tender for 107 dwellings. Despite the land tender, nothing was ready. If one wants to build on this land, the government must make sure that these plans include infrastructures, roads and sewage, electricity and water, as well as public buildings. In a place like Elad that is populated by religious people, this includes synagogues and mikvaot, not to mention kindergartens and schools. In addition, the program has some major financial problems. Anyone participating in the program will need a large mortgage. Not everyone will be able to afford the hefty monthly mortgages, and it is doubtful that the mortgage banks will be very obliging. After all, they require that the monthly mortgage repayment amount to less than 33% of the disposable income.

Gera Kaushanski: One of the main developments these past 15 months is the development of infrastructural projects. The government has been developing the infrastructure during the past years, but in the past 15 months the tempo has quickened because they have finally realized that if they want to build more, they will have to increase the infrastructure, especially but not only transportation.

With regard to the shortage of housing, the problem is that there is no long-term thinking. In the US, the planning process takes three years, and the building process takes one. In Israel, it is the other way around. The planning is done haphazardly, but the building process takes three years.

We realize that we need to increase technological innovation in the building process, so we have set up a fund to invest in start-ups that are developing technologies that will upgrade the building process.

Haim Kehat: One of the problems with the building aspects of real estate is that there is no consistency between the planning and the building stage. In my opinion, this is due to the fact that the government is the one executing infrastructural projects, while the actual building process is left to the private sector. In the past, the government was also involved in building housing, and things developed more smoothly.

Nevertheless, some of the governmental infrastructural work has benefited the real estate sector, especially the expansion of the railroad network. Whenever the railways have expanded,

demand for real estate has risen and prices have risen.

Ariel Maresky: In Jerusalem, we do not have any Mehir Le'mishtaken projects, so perhaps that is why demand for real estate has been brisk in the capital and prices have risen to all-time highs.

With regard to the real estate market as a whole, I believe that demand for housing is increasing because the public no longer believes government promises on the future decrease in prices.

With regard to the real estate scene in Jerusalem, all I can say is that I sincerely hope that the second, third and fourth quarters of 2018 will be as good as the first.



Mr. Bar-Tal, how will the budget that was passed last week by the Knesset influence real estate?

Eran Bar-Tal: Very little. The budget has nothing dramatic. There are no structural changes in the economy. The budget leaves things unchanged. But together with the budget, the Finance Ministry published its forecasts for GDP in 2018, a rise of 3.1%. The World Bank also published a very optimistic report on the local economy. I have no reason to disagree. And this means that things will not change much compared to 2017. When people have money, consumption increases, and that includes real estate.

Ms. Ben-Zvi, you are now incorporating elements of the smart home into your building projects. Please elaborate.

Sharon Ben-Zvi: Technology plays a very important part in our lives - buying on the Internet, finding our way via WAZE, smart phones and, yes, the smart home. We believe that the smart home concept is taking off, and we in some ways are pioneering the standard smart home concept. We now have a standard package that we call the 'genius home,' and it sells.

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Ms. Tepper, do you expect that insurance companies like Phoenix will continue to finance real estate?

Galit Tepper: Yes, because the government is encouraging alternative finance methods, not only in real estate but in everything, and that includes consumer spending. We at Phoenix finance only real estate companies, and these includes tear and build [pinui binui] projects. We do not, nevertheless, finance mortgages for individuals.

Mr. Herzig, does an apartment building for observant Jews differ much for one designed and built for the secular population?

of the contractor; it is also the responsibility of the worker.

Mr. Kehat, what do you think is one of the most important recent developments?

Haim Kehat: Not only recently but a gradual development during quite a long time. I am referring to what I call 'the silent high-rise revolution.' Because of the shortage of available building land, more and more use is being made of high-rise constructions. This necessitates new methods of construction and a completely new approach to the maintenance. In a high-rise residence with dozens if not more than 100 apartments, a maintenance company is essential if one doesn't want the building to become a slum.

Mr. Maresky, during Passover many Jews come to Jerusalem for the holidays. Does that affect the Jerusalem real estate scene?

Ariel Maresky: It most certainly does. For Passover and the High Holidays. Most realtors prepare themselves for an onslaught. Many of the realtors are in touch by phone or Internet with potential buyers and when they come to Israel, they get together. But only a few transactions are concluded at that time. The serious negotiations take place a few months after, when the potential buyers have thought things over, put aside money for the purchase, etc. They come to Israel once again and start negotiating.

Ladies and gentlemen of the panel, what are your expectations for the coming year with regard to real estate?

Eran Bar-Tal: I am optimistic. The economy is doing fine, and it will reflect on real estate.

Sharon Ben-Zvi: I agree with Eran, but I believe that new technologies suitable for the smart home will be developed.

Galit Tepper: New alternative sources of financing will be made available.

Yehuda Herzig: Prices will probably rise because there will be a shortage of available housing for the general public.

Gera Kaushanski: I don't expect any changes compared to 2017.

Haim Kehat: More stability in the real estate market. The number of high-rise apartment buildings will increase.

Ariel Maresky: The new fast railway line to Jerusalem will have a favorable effect on real estate in the capital. ■



(All photos by Marc Israel Sellem)

Yehuda Herzig: No, they do not differ much. Religious and secular families can live in the same building. The building will have a Shabbat elevator and double separate sinks in the kitchen for dairy and meat dishes. The latter can be adapted on an individual basis, and the Shabbat elevator can be used by the secular residents. This holds true for the National Religious public and not for the haredi public, who observe a much more strict brand of Judaism and do not usually mix with non-haredim.

Mr. Kaushanski, what is the Builders Association doing to prevent or at least minimize accidents on building sites?

Gera Kaushanski: We are taking a number of steps. The special fund we set up to encourage technologies suitable for the construction sector will include technologies that increase safety procedures. In addition, we have set up a special committee to deal with this problem. We are determined to deal with this problem and minimize accidents on construction sites as much as possible.

But there are problems. The workforce is multinational - Palestinian, Chinese, Ukrainian, Romanian - and they all have different work ethics and practices. Preventing accidents is not the sole responsibility