

## The current and future state of real estate

The accumulated shortfall is the Achilles heel of the real estate industry. It is the single factor that will make a fall in real estate prices an unrealistic possibility.

Despite the current state of the real estate market, Danus believes there are still real estate investment opportunities to be found. He names Ashdod, Ashkelon, Netanya, Hadera, Haifa and Tel Aviv as good possibilities.

Dudu Tavor, the proprietor and manager of the Adirim Construction and Development Company, also believes that price will not fall in the foreseeable future. But in contrast to Danus, he predicts a rise in real estate prices. In fact, he believes that prices will skyrocket in the second half of 2012.

He explains that the fall in demand during 2011 was caused by psychological reasons. "Since 2010, government spokesmen have been talking about the expected fall in prices. Consequently, most potential buyers stalled. Why buy now if in a few months prices will fall? Those who had to buy decided to await developments such as a fall in prices. In the meantime, young married couples "camped" in their parents' apartments, and divorced couples continued to live together, albeit in different bedrooms. There is a canned demand syndrome. I believe that demand will rebound with a vengeance in the second half of 2012. Increased demand without a corresponding increase in supply means increased prices," he explains.

Yitzhak Levi, the CEO of the Ambassador real estate company, also believes prices



PLANNED DEVELOPMENT IN ROSH HA'AYIN  
(Courtesy Afridar Building and Construction Ltd.)

will rise. But as opposed to Tavor, he thinks prices will rise only slightly because the potential buyers cannot afford higher prices.

"In relation to the average monthly incomes, real estate in the Central areas where demand is greatest -- e.g., Jerusalem and Tel Aviv -- have reached impossible levels. The hefty rise in prices in the past two years explains why the government is so keen to bring down real estate prices and why prospective buyers are drifting toward peripheral areas. This is easier now that transport facilities have been upgraded and when living outside the Tel Aviv area is more fashionable," says Levi.

Kamal Shagrawi, the proprietor of the Shagrawi Brothers construction company, is skeptical about prices falling in 2012. He says, "Prices cannot fall in the foreseeable future. We are a construction company; our business is building for development companies. We do not sell finished apartments; we only build them. Consequently, we do not want to comment on the influence of demand and supply on price. Price is influenced by supply and demand but also by construction costs. And these costs are rising constantly. The acute labor shortages are constantly driving up wages."

Bernard Ruskin, general manager of RE/Max Israel, predicts a rise of around 7% in real estate prices. "The government is taking steps to increase demand, but these measures will only be felt in two or three years. In 2012, demand

will still outstrip supply, and in these circumstances prices can only rise," he says.

In the meantime, demand is increasing from the Diaspora. In addition to the improved economic situation in the US and the non-euro zone countries, there is demand from continental Europe.

Some countries of Western Europe, especially France, are becoming somewhat uncomfortable for Jews. In recent years the conflict in the Middle East has spread to Europe, and the Jews in those countries are at the receiving end of Muslim hostility. If on top of this there is an economic crisis, then anti-Semitism, which is never far from the surface in mainstream France, may emerge in the open. That is why many French Jews are buying property in Israel.

The expected increased demand in 2012 without a corresponding rise in supply may drive prices up. Real estate prices have already reached very high levels. In the Tel Aviv metropolitan area, they have reached their full potential.

Despite the fact that most experts believe that the average real estate prices will increase in 2012, it is doubtful whether prices in the Tel Aviv metropolitan area will rise because very few prospective buyers can afford prices at today's levels. Any rise in prices will place them beyond the pale. The only segment in the Tel Aviv metropolitan area that may experience a rise in prices is the very expensive real estate. And overseas buyers may drive those prices up even further. ■



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