



MARKETPLACE: Shlomo Maital

Housing Bubble? Babel? Or Babble?

IS ISRAEL IN THE THROES OF A RISKY housing bubble – inflated prices that rapidly collapse? Will cheap mortgages and overly expensive apartments replicate America's bubble and ensuing financial crash?

In 2007-9, millions of US mortgage holders walked away from their homes when prices fell, causing banks to foreclose and sell the houses, thus driving prices even lower. As a result, US home prices fell by a third, from their peak in June 2006 to their trough in April 2009. This, in turn made many mortgage-backed securities worthless scraps of paper. The result was a global crisis.

Economists love ambidextrous waffling – “on the one hand, on the other.” But I think there is a clear answer. Israeli housing prices are not a bubble. It is just babble.

There are real reasons for concern. Eti Lengerman, CEO of Discount Bank's mortgage division, told the financial daily *The Marker*, “The [housing] market is on fire.” The annual pace of new mortgages is 30-35 billion shekels, compared to 25 b. shekels in 2007. Money is plentiful, interest rates are low. Burned in the bond and stock markets, many Israelis are putting their money into houses. Both the number of new mortgages and their average size have risen substantially in 2009-10. Two-thirds of new mortgages are of the variable rate variety, whose interest rate rises with each increase in the prime interest rate. This is precisely what got America's homeowners in trouble. America's Central Bank, the Fed, raised interest rates sharply, from 1 percent in July 2004 to 5.25 percent in July 2006, sharply boosting monthly mortgage payments, until many Americans could not pay them. And Bank of Israel Governor Stanley Fischer has raised interest rates four times since last August.

The ratio of average US house prices divided by median annual family income soared from 2.75 in 1978 to 4, in 2007. The comparable ratio for Israel, 6.7, is far higher. The average Israeli apartment price is \$200,000 (740,000 shekels), which far exceeds median annual household income of 110,000 shekels.

Despite these facts, here are several reasons why Israel's housing market is no Tower of Babel, soon to collapse.

Unlike American banks, Israeli banks do not give no-down-payment 100 percent mortgages.

Israeli mortgage banks demand a 30 percent down payment. That means the price of an apartment can fall 30 percent before the value of the mortgage exceeds the apartment's market value. Unlike the US, Israeli mortgage-holders cannot easily default. Their co-signers have to pay if they do – generally, friends and relatives.

Israel has a housing shortage. When Israeli real estate developers suffered big losses on investments in the US and Eastern Europe, they cut back on building in Israel. *Business Week* correspondent Neil Sandler estimates that as a result, there is a shortage of 10,000 apartments in Israel. Real-estate broker RE/MAX's Israeli CEO Bernard Raskin says that even if housing construction expands, prices will not likely come down.

Unlike many emerging market nations, Israel did not have a huge property bubble during 1997-2007. Vered Dar, chief economist of the leading investment house Psagot, notes that during this 10-year period, average home prices rose 40 percent. This increase was only slightly more than inflation (34 percent). How come? The surge of Russian immigrants in the 1980s (a million of them came to Israel during 1980-90) caused a decade-long spurt in housing starts, she explains. This led to a housing glut, which kept prices stable for almost a decade. The glut eventually became a shortage.

Israel is not the only country where fears of a housing bubble persist. Experts think property bubbles occurred, or still exist, in over 30 countries, including Lebanon, China, Romania, Ireland, Spain and Australia. A Global Property Guide website expert says, “I thought Mideast real estate was going to turn down by 30 percent but it now looks more like 50 percent,” citing the woes of Dubai.

“Housing prices in Israel rose by 5.6 percent in 2009,” Governor Fischer said recently, in a speech. “This is not a bubble.” The Bank of Israel says Israel's economy grew by 4.8 percent in the last quarter of 2009 and forecasts it will grow by 3.7 percent in 2010, well above the OECD average of 2.1 percent. A strong economy supports strong property prices.

Like Fischer, I believe Israel's housing market is for now rock solid. And that's no Babel. ●

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