



STATE OF ISRAEL  
MINISTRY OF FINANCE

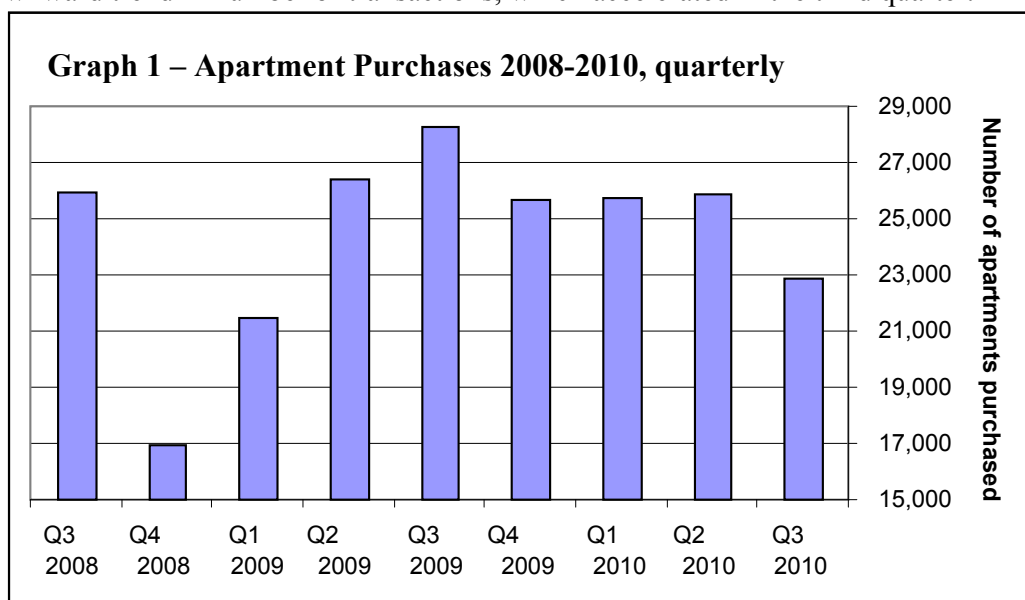
November 23, 2010  
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## The Residential Real Estate Industry – Summary of the 2010 Third Quarter

*The Rate of Decline in Number of Transactions Accelerated Significantly in the Third Quarter of 2010. There was a Decline in the Double Digit Rates in Almost all Areas, in Comparison with Both the Previous Quarter and the Corresponding Period Last Year.*

There was a significant decline in the number of transactions in the third quarter of 2010, in comparison with both the previous quarter and the corresponding period last year. Thus, while the second quarter of 2010 showed a 2% decline in number of transactions in comparison with the corresponding quarter in 2009, the rate of decline reached 19% in the third quarter, in comparison with the third quarter of 2009.

In total, almost 23,000 apartments (new and secondhand) were sold during the third quarter, which is the lowest rate for that quarter since 2006. As shown in Graph 1, since the peak level of activity in the real estate industry in the third quarter of 2009, there is a downward trend in number of transactions, which accelerated in the third quarter.



In a geographic distribution, declines were recorded in all areas, except for Tiberias and the central region and the Nazareth area. There was a double-digit rate of decline in number of transactions in all areas in the third quarter, in comparison with the corresponding period last year. The sharpest rates of decline were recorded in the

Rehovot area (-32%) and in the Netanya area (-26%), which, together, encompassed one quarter of all the transactions in the third quarter this year. With regard to the Netanya area, it should be noted that it also showed high rates of decline in the previous quarter.

<b>Table 1 – Total apartment purchases – third quarter 2010</b>			
Real estate tax offices	Number of apartments sold	Rate of change compared with the 2009 third quarter, in %	Rate of change compared with the 2010 second quarter, in %
Central region <sup>1</sup>	3,790	-2.0	14.4
Jerusalem region	2,367	-21.3	-14.8
Haifa region	3,441	-15.7	-7.0
Tel Aviv region	2,207	-23.1	-8.5
Hadera region	982	-25.5	-16.3
Tiberias region	635	5.9	-17.5
Nazareth region	651	-1.0	-17.4
Netanya region <sup>2</sup>	2,110	-26.3	-17.2
Rehovot region <sup>3</sup>	3,555	-31.6	-24.7
Beer Sheva region	3,157	-15.1	-14.2
National	22,896	-19.1	-11.6
Source: Computerized Processing Service; State Revenues Administration Processing			
Comments:			
<sup>1</sup> The central region includes, among others, the cities Petach Tikva, Holon, Ramat Gan, Givatayim, B'nei Brak and Yehud.			
<sup>2</sup> The Netanya region includes, among others, the cities Ra'anana, Kfar Saba and Ramat Hasharon.			
<sup>3</sup> The Rehovot region includes, among others, the cities Rishon Lezion, Modi'in, Ramla, Lod and Yavne.			

The central region showed a relatively moderate decline in number of transactions, compared with the corresponding quarter last year, and an increase compared with the previous quarter. This was mainly due to a sharp increase in purchases of new apartments resulting from a sales campaign by one of the contractors directed at a large consumer club in the country. It should be noted that in this region, the most prominent decline in apartment sales was recorded in the second quarter in the number of apartments in general and in the sale of new apartments in particular.

***The decline in the purchase of new apartments continued in the third quarter, for the fifth consecutive quarter.***

***Contrary to the findings at the national level, there was an increase in new apartment purchases in the Beer Sheva region, which can be explained, inter alia, by the significant increase in the purchase of apartments for residential purposes by residents who are not from the southern region.***

A total of 5.3 thousand new apartments were sold in the third quarter of 2010, a decline of 15.3% compared with the corresponding quarter last year. In comparison with the second quarter of 2010, this is a moderate decline of 1%, however, it should be noted that in the second quarter there was already a sharp decrease in the sale of new apartments, which was 19% lower than the second quarter of 2009 and over 8% lower compared with the first quarter this year. In total, when examining the development of new apartments sales since the beginning of 2009, it can be seen that since the level of sales reached a peak of 6.7 thousand apartments in the second quarter of 2009, there has been a steady decline in contractor sales.

As will be discussed below, for the first time since the beginning of the year there was also a sharp decline in the purchases of secondhand apartments in the third quarter of the year. After a decline in the fourth quarter of 2009, sales of secondhand apartments remained stable until the second quarter of 2010. This was in contrast to new apartment purchases, which have been in decline for five consecutive quarters. Presumably, one of the factors for the sharper decline in the purchase of secondhand apartments is the disparity in the price between new apartments and secondhand apartments, a fact that has particular impact because of the tightening of financing conditions for borrowers, and the lower income levels of buyers in 2010 compared with the buyers in 2009. We should note that in the first nine months of the year, the disparity in the median price between a new apartment and a secondhand apartment that was purchased by a salaried employee for whom it was the sole apartment was 36%. At the salary levels of the buyers in 2010, 133 salaries are required to purchase a new apartment compared with 115 salaries required to purchase a secondhand apartment.

A geographical distribution shows that all areas showed a significant decline compared with the corresponding period last year, except for an unusual increase in the purchase of new apartments in the central region in the third quarter (due to a large-scale sales campaign to one of the largest consumer clubs in the country, after a sharp drop in the second quarter) and an 8% increase in the purchase of new apartments in the Beer Sheva region. This decline is particularly prominent in the Netanya and Rehovot regions a decline of close to 40% in sales.

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With regard to the Beer Sheva region, it should be noted that the level of new apartment sales was also high in the second quarter of the year compared with the corresponding period last year, a 15% increase since the beginning of 2009, the development of new apartment sales in this region is positive compared with the national level. An analysis of characteristics of the buyers shows that the increase in new apartment sales in the southern region stems at least partly from an increase in the proportion of nonlocal residents. Thus, while in the first half of 2009, the proportion of nonlocals among new apartment purchasers in the Beer Sheva region was at least 10%, their proportion climbed to rates of between 17% and 23% of all new apartment purchasers in the region, for residential purposes. Presumably, one of the reasons for this is the relatively low prices in this region, including the prices of new apartments. The median price of a new apartment purchased in this region for residential purposes was NIS 770,000 in the third quarter of 2010, about 33% lower than the national level.

<b>Table 2 – New apartment purchases – third quarter 2010</b>			
Real estate tax offices	Number of apartments sold	Rate of change compared with the third quarter of 2009, in %	Rate of change compared with the second quarter of 2010, in %
Central region	1,224	19.2	52.8
Jerusalem	571	-14.6	-8.4
Haifa	448	-11.5	3.4
Tel Aviv	387	-20.6	37.1
Hadera	224	-34.1	-25.4
Tiberias	57	63.7	-2.9
Nazareth	134	35.3	59.4
Netanya	568	-36.4	-12.5
Rehovot	960	-35.8	-31.9
Beer Sheva	781	8.0	0.2
National	5,353	-15.3	-1.2

Source: Computerized Processing Service; State Revenues Administration Processing

***New apartment prices in the third quarter declined by 2.9% compared with the second quarter***

New apartment average prices in the third quarter of 2010 were 2.9% lower than in the second quarter, after a more moderate decline of 2% in the second quarter, (compared with the first quarter). Since the peak levels of new apartment prices in December 2009, new apartment prices have declined by a nominal cumulative rate of 6.4%.

Graph 2 shows the development of apartment prices from the first quarter of 2009 to the third quarter of 2010, on the backdrop of the changes in the quantity of new apartments

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that were sold during that period. It can be seen that the new apartment prices began to drop after four consecutive quarters of a decline in quantity of apartments sold by the contractors. It should be noted that the new apartment prices began to drop in the first quarter of 2010 in comparison with the month of December. However, in a quarterly comparison, the median price in the first quarter was still high in comparison with the price in the fourth quarter of 2009, by a rate of 0.6%.



*For the first time since the beginning of the year, there has been a sharp drop in the number of secondhand apartment transactions.*

Secondhand apartment sales in the third quarter of the year amounted to about 17.5 thousand apartments, the lowest level since the first quarter of 2009, which was still suffering the effects of the world economic crisis and Operation Cast Lead. In comparison with the corresponding levels of sales in previous years, these are the lowest levels since the third quarter of 2006. Thus, if by the current quarter, the level of second hand apartments sales had managed to remain stable after the decline in the fourth quarter of 2009 (at a rate of 11%, compared with the previous quarter), the sharp decline in sales in the third quarter, at a rate of about 20% compared with the corresponding period last year, is likely to indicate a turnaround.

A geographical segmentation showed significant declines in all regions, except for the Tiberias region. Particularly prominent is the decline in apartment purchases in the Rehovot region, (a drop of about 30% compared with the corresponding period last year, and a drop of 22% compared with the previous quarter). It should be noted that this region also showed the sharpest rate of decline in new apartment purchases.

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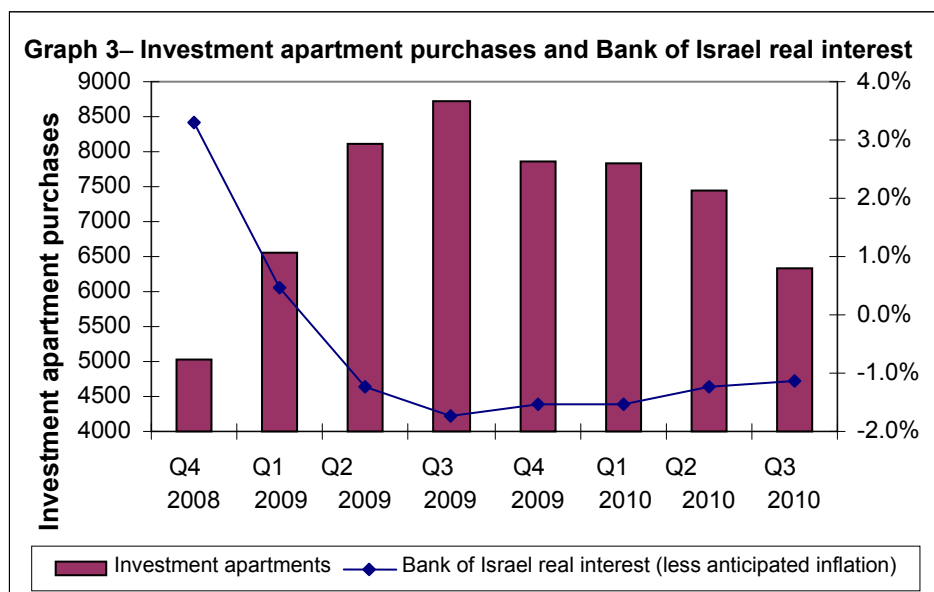
<b>Table 3 – Secondhand apartment purchases – third quarter 2010</b>			
Real estate tax offices	Number of apartments sold, thousands	Rate of change compared with the third quarter of 2009, in %	Rate of change compared with the second quarter of 2010, in %
Central region	2,566	-9.6	2.1
Jerusalem	1,796	-23.2	-16.6
Haifa	2,993	-16.2	-8.4
Tel Aviv	1,821	-23.6	-14.6
Hadera	759	-22.5	-13.2
Tiberias	577	2.3	-18.7
Nazareth	518	-7.4	-26.6
Netanya	1,542	-21.7	-18.8
Rehovot	2,596	-29.8	-21.6
Beer Sheva	2,377	-20.6	-18.1
National	17,544	-20.2	-14.3
Source: Computerized Processing Service; State Revenues Administration Processing			

***The rate of decline in the purchase of apartments for investment accelerated significantly in the third quarter. There is a slump in the proportion of new apartments purchased for investment in the Tel Aviv region and an accelerated rate of apartment sales by investors in the Beer Sheva region.***

The decline in apartment purchases for investment since the fourth quarter of 2009 accelerated significantly in the third quarter of 2010. The rate of decline reached about 28% compared with the corresponding quarter last year, (in comparison to a drop of 8% in the second quarter, compared with the corresponding quarter last year), and in comparison with the previous quarter, the rate of decline was about 15%.

The drop in demand for investment apartments can be largely attributed to the rise in interest by the Bank of Israel, and to the tougher conditions for borrowers determined by The Supervisor of Banks. The sharp rise in prices in 2009 also led to a drop in returns, since the rate of increase in rents was lower, thereby lessening the profitability of the investment.

Graph 3 shows the development of investment apartment purchases in the past two years along with the change in real interest by the Bank of Israel. The correlation between the two series is close to -87%.



A geographical segmentation shows that in all regions, except for the central region and the Tiberias region, the rates of decline in investment apartment purchases in the third quarter are over 20%, compared with the corresponding period last year. Most prominent are the rates of decline in the Tel Aviv, Sharon and Rehovot regions, each with a decline of 40%.

**Table 4 – Investment apartment purchases – third quarter 2010**

Real estate tax offices	Number of apartments sold, thousands	Rate of change compared with the third quarter of 2009, in %	Rate of change compared with the second quarter of 2010, in %
Central region	1,002	-8.9	18.0
Jerusalem	559	-28.3	-17.1
Haifa	1,040	-24.5	-10.9
Tel Aviv	871	-36.8	-20.3
Hadera	216	-20.4	-11.2
Tiberias	219	-9.2	-34.8
Nazareth	134	-24.5	-41.7
Netanya	525	-41.8	-28.5
Rehovot	766	-38.5	-18.9
Beer Sheva	995	-26.8	-14.3
National	6,328	-28.4	-14.9

Tel Aviv, which led the investments in the third quarter of 2009, is ranked fourth in the third quarter of 2010, after Haifa, the central region and the Beer Sheva region. Presumably, the high levels reached by apartment prices in Tel Aviv, particularly after the sharp rise in 2009 has reduced the attractiveness of that area for investors. This is particularly prominent in new apartment purchases for investment purposes. Thus, while

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in 2009, about half the new apartments that were purchased in the Tel Aviv region were for investment purposes, the proportion of those apartments dropped to only 21% in the first three quarters of 2010. In the total number of apartments purchased in Tel Aviv (both new and secondhand) the proportion of apartments purchased for investment decreased from a rate of 51% in the first quarter of 2010 to a rate of 35% in the third quarter.

The area that showed the most moderate decline in investment apartment purchases in the third quarter of the year, (compared with the corresponding period last year,) was the central region with a decline of about 9%. Compared with the previous quarter it showed an 18% increase. This increase stems mainly from a significant, onetime increase in new apartment purchases for investment purposes in the fourth quarter (an increase that focused mainly on the city of Petach Tikva).

In the Beer Sheva region, which, in recent years, has shown a sharp increase in investment apartment purchases, beyond the national increase, there was a 27% decline in the third quarter in investment apartment purchases (compared with the corresponding period last year), similar to the rate of decline at the national level. This occurred after the rate of decline in investment apartment purchases in this area in the second quarter of 2010 was moderate compared with the national level, 3.2% compared with 7.9% respectively. Another finding that is worth noting in regard to the Beer Sheva region is the significant decline of 10 percentage points in the proportion of investment apartments purchased in the city of Beer Sheva itself during the first nine months of the year, compared to 2009. The sharp rise in prices in Beer Sheva in 2009 lead to a partial shift in demand to investment apartment purchases in Ashkelon and Kiryat Gat, (an increase of three percentage points in each of them).

Parallel to the decline in investment apartment purchases in the Beer Sheva region in the third quarter, there was a marked increase in apartment sales by investors in this region in the same quarter. About 27% of the secondhand apartments that were sold in the region in this quarter were held by investors, a growth of 3 percentage points compared with the previous quarter. The increase in the proportion of second hand apartment sales is particularly prominent in the city of Beer Sheva where it went from 26% to 33% in the third quarter. It should be noted that the proportion of investors among the secondhand apartment sellers in Beer Sheva is the highest at the national level, (the national average is about 17%). There was also an increase in apartment sales by investors in Haifa in the third quarter, however, it remained at a low rate in comparison with Beer Sheva, (less than 20% of secondhand apartment sellers in the Haifa region in the third quarter were investors).<sup>1</sup>

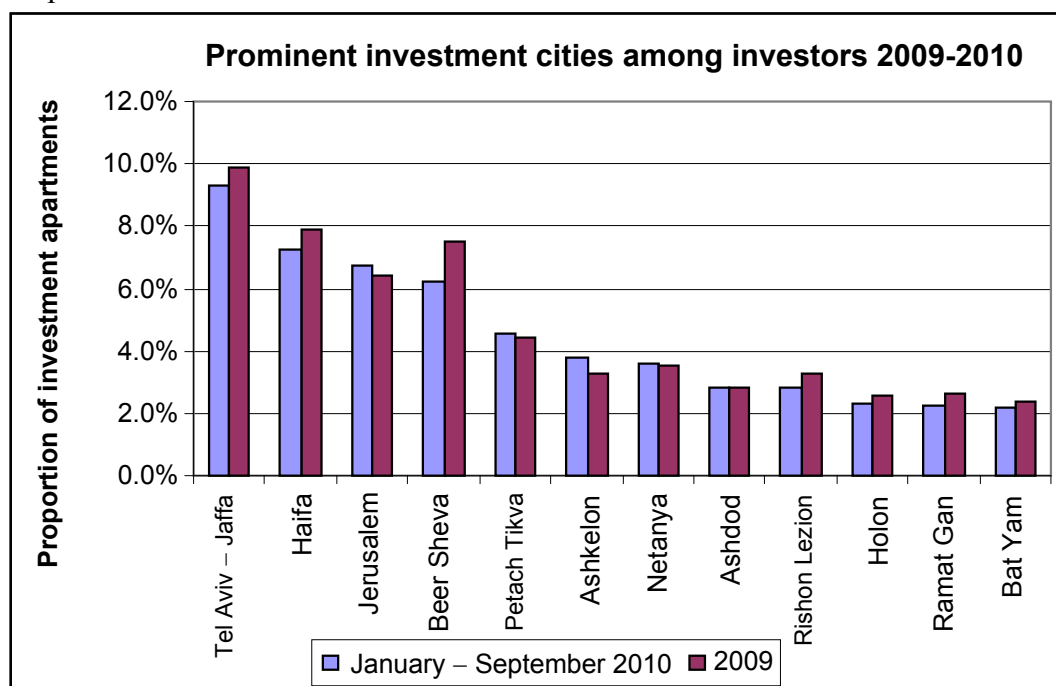
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<sup>1</sup> In this context, it should be noted that the proportion of investors in the Haifa region in recent years was higher than that of Beer Sheva. Therefore, given similar time frames of apartment possession in these areas, a higher rate of apartment sales could have been expected in the Haifa region, compared with the Beer Sheva region.

One of the only areas that actually showed an increase in investment apartment sales in 2010, despite the decline in the third quarter, was the Tiberias region. For example, in the second quarter of the year, there was a 48% jump in the number of investment apartments that were purchased in this region, compared with the corresponding period last year (in contrast to an 8% decline in the national level) and an increase of 120% in the first quarter. However, in quantitative terms, this is still a small number of apartments, but it hints at attempts by investors to locate cheap investment objectives, in view of the rise in apartment prices in most of the regions in 2009. It should be noted that as a percentage of all the apartments purchased, the proportion of investment apartments in this area in the third quarter was about 35% above the national average, while in the second quarter that proportion reached about 43%.

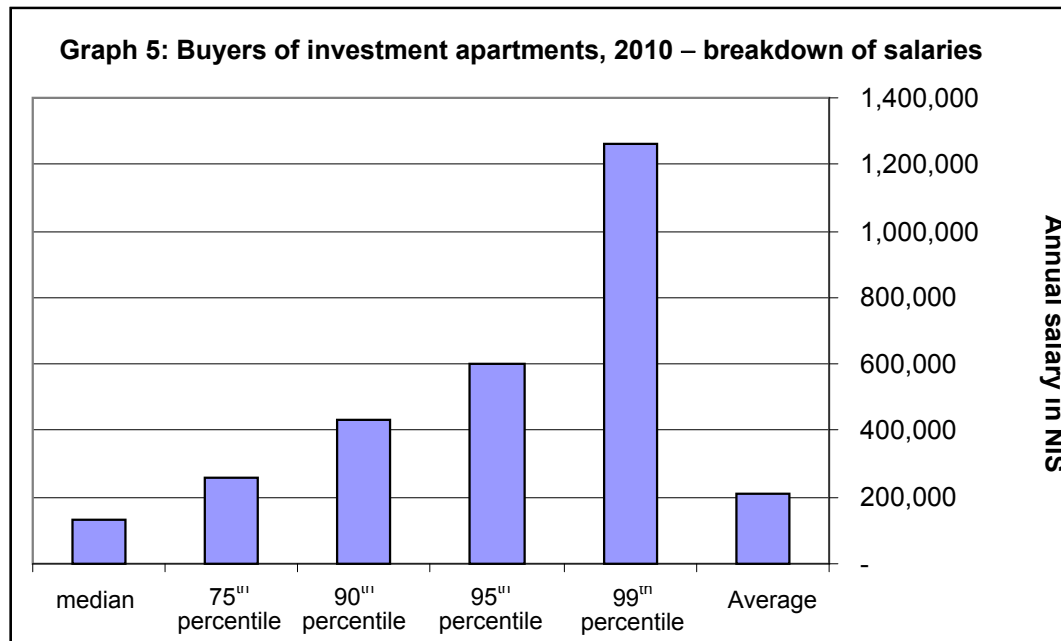
Graph 4 shows a list of prominent cities which investment apartment purchases took place in them in 2009-2010. It can be seen that among the four cities that led the investments in 2009, three of them showed a decline in their relative proportion over the first nine months of 2010. In general, the overall proportion of the 12 leading cities in 2009 was 57% of all the apartments purchased for investments in that year. In 2010, their overall proportion decreased to at least 54%.

Graph 4



***Investors in 2010: Lower income than in the past, primarily among those with high income. A large percentage of the Beer Sheva investors have more than one apartment***

The median gross annual salary of an investor in the real estate market in the first nine months of 2010 was less than NIS 11,000 per month.<sup>2</sup> While this salary is about 36% higher than the average salary, it is still far from the widespread perception that investors in the real estate market are particularly wealthy. It is important to note that there are great variations in the income levels in this population group, as shown by the following graph.



The graph shows that the very high levels of salaries in the top percentile of investors raise the average salary, and the median salary is about 37% lower than the average salary of all the investors, while the salary in the 99<sup>th</sup> percentile (i.e., the lowest level of the top percentile) is 5 times higher.

A comparison of the characteristics of the investors in the real estate market in the first nine months of 2010 with the characteristics in 2009 shows several conspicuous findings:

- **The salaries of the buyers are lower, particularly among those with high incomes –** The average salary of the investors in the first nine months of 2010 was lower by a real rate of 6.9% compared with the salary of investors in 2009. The most prominent decline was among the highest salary levels in general, and among company managers in particular. While there was almost no real change in the median salary of the buyers a decline of 0.2%, there was a significant drop in the salary levels in the upper range of the breakdown. The salary in the 95<sup>th</sup> percentile in 2010 was 3.6% lower compared with 2009, and in the top percentile the decline was 8.4%. Among company managers, the

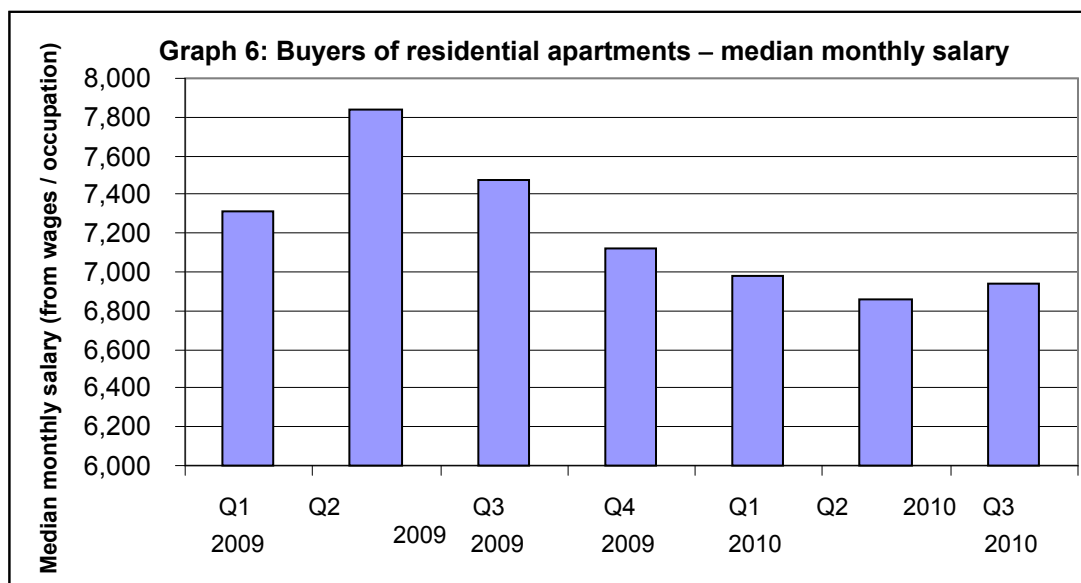
<sup>2</sup> The data relate to salaried employees, the self-employed and company managers based on their reports to the tax authorities.

drop was even sharper: the average salary was lower by a real rate of 16.7% than in 2009, while the decline in the median salary was only 1.8%. The average was lowered by sharp drops among buyers in the top percentile: the salary of investors in the 90<sup>th</sup> percentile in 2010 was 11% lower compared with the salary of investors in that percentile in 2009. In the top percentile, the decline reached a rate of about 21%.

- **Investors in the Beer Sheva region – high rate of buyers of more than one investment apartment** – An analysis of the investors' characteristics in the Beer Sheva region in 2010 shows a prominent proportion of investors who have purchased more than one investment apartment in recent years – 35.1% of all the investors in the region, which is 4 percentage points higher than the national average. This rate is also 4 percentage points higher than the corresponding parameter for this region in 2009. Aside from that, in a breakdown of the number of apartments purchased for investment, the frequency of only one additional apartment is relatively low (i.e., they purchased more than two apartments in recent years). A large proportion of the investors live in the central region. This finding joins other findings that were presented above and previous surveys (such as the relatively rapid realization of the investment property), which hints at the speculative investment characteristics in the Beer Sheva region.
- **Significant decline in the ages of the investors in the Jerusalem region and in the Tiberias region** – The average age of the investors in 2010 was 48.6 years and the mean 46 years. Compared with 2009, this is a decline of about a year in the age of the buyers. From a regional standpoint,, in the Sharon and central regions, the investors are older than the national average, and in the Jerusalem and Tiberias regions, which underwent increasing demand by investors in 2010, the investors were younger. Particularly prominent is the decrease in the ages of the investors in the Tiberias region in the nine months of 2010, compared with 2009, (the average age of these purchasers dropped from 47.2 in 2009 43.7 in 2010).

***The salaries of the residential apartment buyers showed a moderate increase in the third quarter for the first time since the second quarter of 2009***

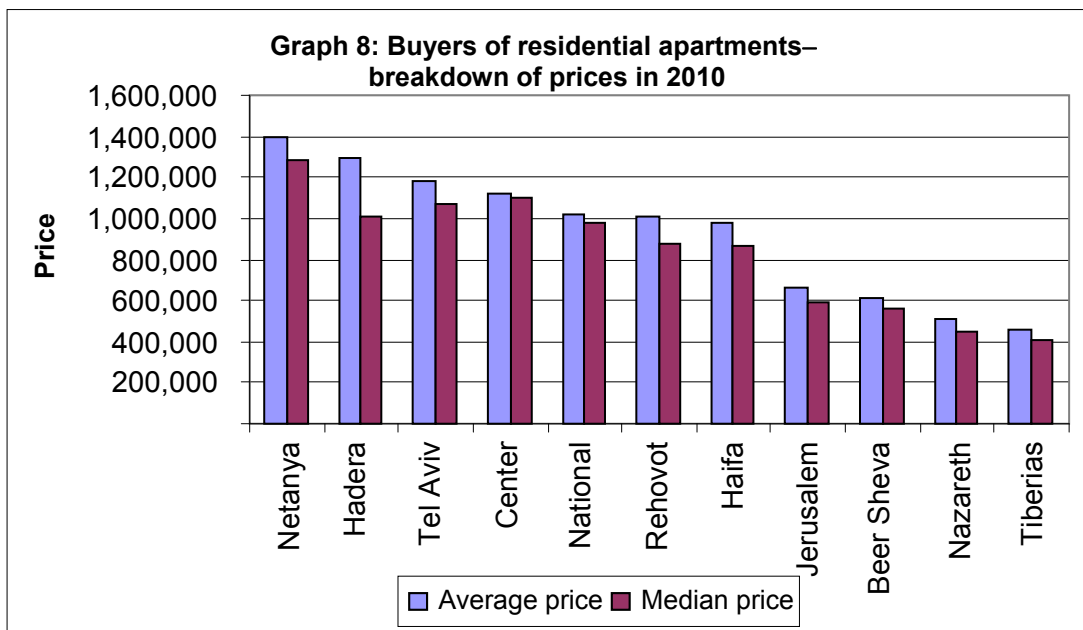
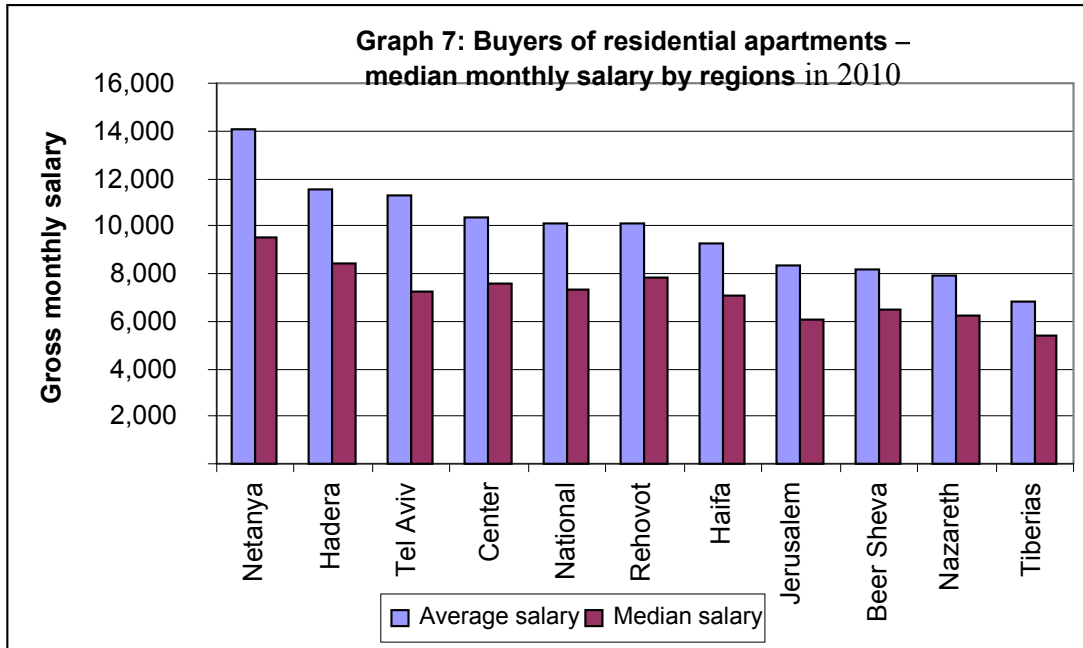
The median monthly salary from wages of the buyers of residential apartments in the third quarter was about NIS 6.9 thousand, compared with NIS 7.5 thousand in the third quarter of 2009. However, for the first time since the second quarter of 2009, there was a 1.2% increase in the salaries of the buyers, compared to second quarter of 2010. It is still too early to determine whether this is a changing trend, however, the tightening of the finance conditions by order of the Supervisor of Banks, which went into effect during the third quarter and further tightening by new guidelines published in October, support this turnaround.



A look at the first nine months of the year shows that both the median salary and the average salary of residential apartment purchasers is about 3.5% lower nominally than salaries of purchasers in 2009. The geographic breakdown shows that the decline is characteristic of all the regions, except for the northern Sharon region (the Hadera real estate tax area) and the Tiberias region, which maintained stability.

The highest salary levels of residential apartment purchasers in 2010 was found in the Sharon region (the Netanya real estate tax area) when examining both the average salary and the median salary, even though there are large differences between them as shown by Graph 6. It is interesting to note that the Tel Aviv region is ranked only third in a comparison of the average salary levels of the buyers (and even lower than the median salary), and the salary differences between the average and the median salaries in this region are the highest at the national level, the median is lower than the average in Tel Aviv by about 36%, compared with a difference of 27% at the national level.

The median salary of buyers of residential apartments in the Tel Aviv region in 2010 was NIS 7,200, similar to the median salary at the national level. In contrast, when comparing the disparity in the prices (see Graph 7) between a median residential apartment that was purchased in Tel Aviv and the price of a median apartment at the national level, we find that the price in the Tel Aviv region is about 17% higher than that of the national level, NIS 1 million compared with NIS 865,000 respectively. This means that buyers in the Tel Aviv region who have medium income levels are required to work 22 more months to purchase the apartment compared with the number of work months required of those with similar income at the national level.



***There was a decline of 14% in apartment purchases by foreign residents in the third quarter, compared with the corresponding period last year.***

A total number of 717 apartments were purchased by foreign residents in the third quarter of the year, a drop of 14% compared with the corresponding period last year and a moderate increase of about 1% compared with the second quarter.

A geographic breakdown shows a prominent decline in purchases by foreign residents, particularly in Jerusalem which showed a 19% drop compared with the corresponding period last year. The proportion of foreign residents, 8.9% of total purchases in the Jerusalem region in the third quarter was slightly higher than the corresponding period last year (8.9%, the highest in a national comparison). There was also a sharp drop in purchases by foreign residents in the Rehovot region (primarily in Ashdod) they , and the proportion of foreign residents in this region constitute less than 2% of the total transactions in the region.

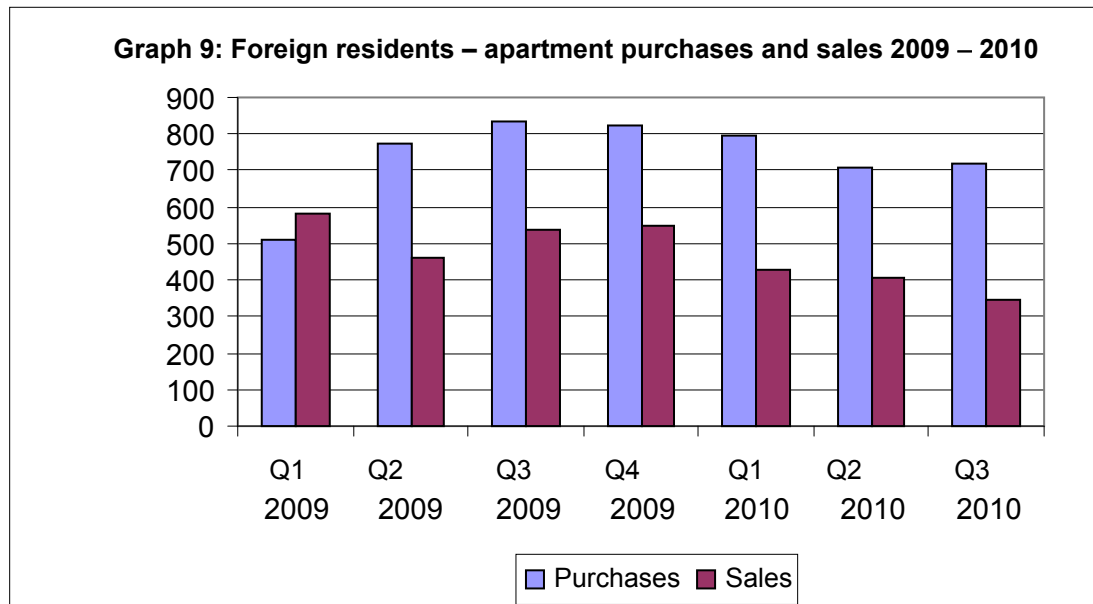
In the Tel Aviv region, about 160 apartments were purchased in the third quarter of the year, a decline of 13% compared with the corresponding period last year. However, compared to the relatively low level that was recorded in this area in the previous two quarters, it indicates a certain recovery in the activities of foreign residents in the region. An analysis of the findings shows that the increase in purchases by foreign residents in the third quarter in the Tel Aviv region, compared with the two previous quarters, is concentrated in purchases of new projects: close to 60% of the purchases by foreign residents in the Tel Aviv region were new apartments, compared with an average rate of about 25% in the two previous quarters.

As a percentage of the purchased apartments, the proportion of foreign residents is not significant: in the third quarter they constituted 3.1%. It should be noted that even in the peak years of activity by foreign residents, their proportion did not exceed 5%. However, since foreign residents focus on a limited number of cities, particularly with regard to luxury apartments, their proportion is more significant in certain market segments. For example, if we focus on the market segment of apartments worth NIS 2.5 million and above, we find that in the first nine months of the year, foreign residents accounted for about 16% of all contractor sales, (compared with only 9% of secondhand apartments at that value). Compared with 2009, this is an increase of about 3 percentage points. Particularly prominent is Jerusalem, in which foreign residents accounted for about 46% of all contractor sales in the price range of NIS 2.5 million and above, (compared with only 24% of secondhand apartments transactions in the same price range). Compared with 2009, this is an increase of 6 percentage points.

348 apartments were sold by foreign residents in the third quarter, a decline of 35% compared with the corresponding period last year, and a more moderate decline of 14%

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compared with the previous quarter. In general, when we examine sales by foreign residents since the beginning of 2009, we can see moderation in apartment sales by foreign residents in the first three quarters of the year, after the peak levels in the first quarter of 2009.



The total monetary scope of purchases by foreign residents in the fourth quarter was about NIS 1.2 billion, a nominal decline of 9.7% compared with the corresponding period last year, and a decline of 6.5% compared with the previous quarter. About 70% of that amount is concentrated in purchases in Jerusalem and Tel Aviv, despite the fact that the proportion of these regions in transactions by foreign residents is 50%. The explanation for that lies in the high levels of the apartments purchased in these areas by foreign residents. The average price for an apartment purchased by a foreign resident in the Tel Aviv region in the third quarter was NIS 2.3 million, and the median price was NIS 1.8 million. The corresponding prices of apartments purchased by Israeli residents in the Tel Aviv region was NIS 1.5 million and 1.2 million, respectively.

☒ The report was written by the State Revenues Administration headed by Frieda Yisraeli