

The Housing Market

Knesset Finance Committee

**Stanley Fischer, Governor
Bank of Israel**

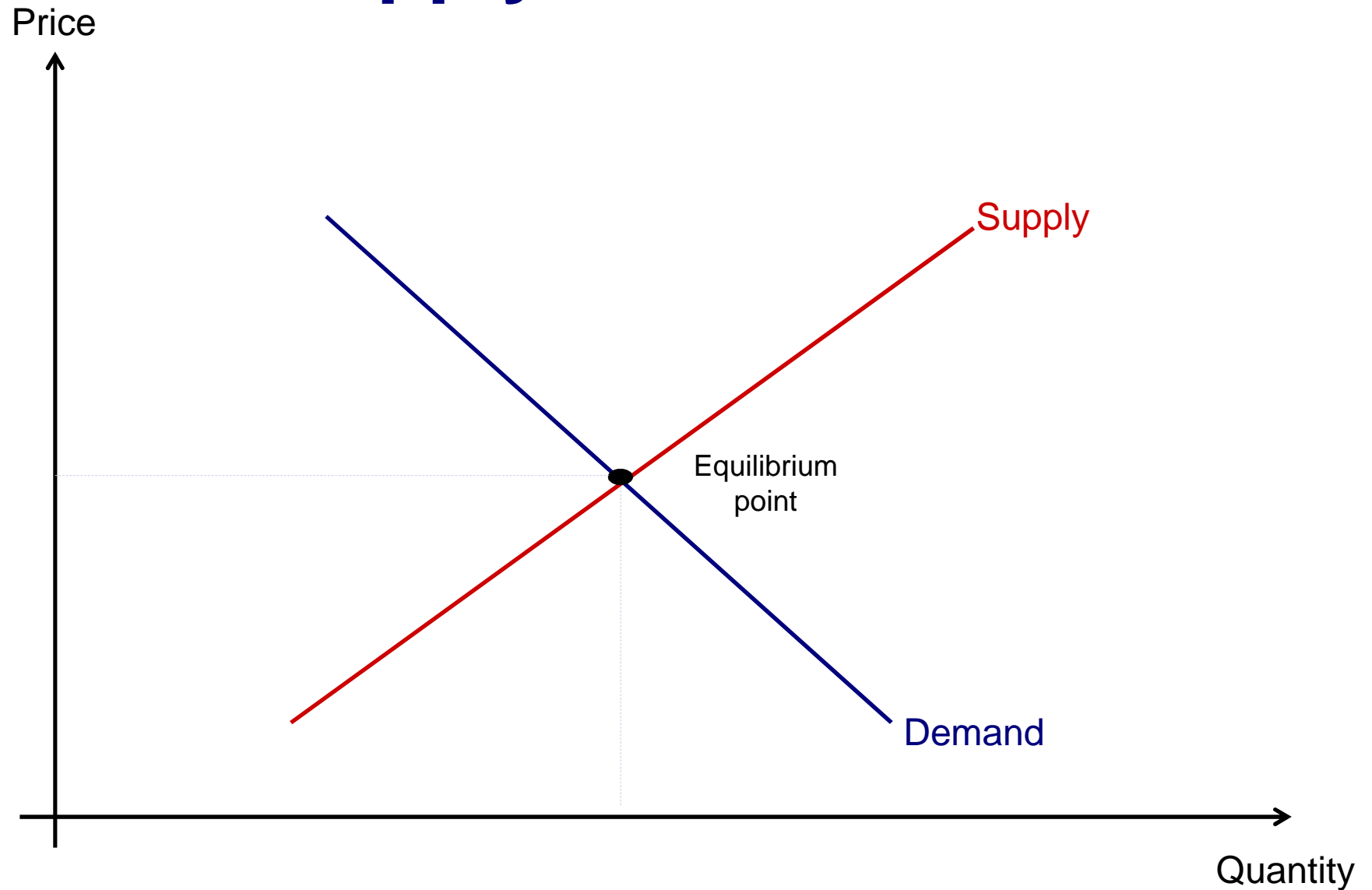
April 29, 2013



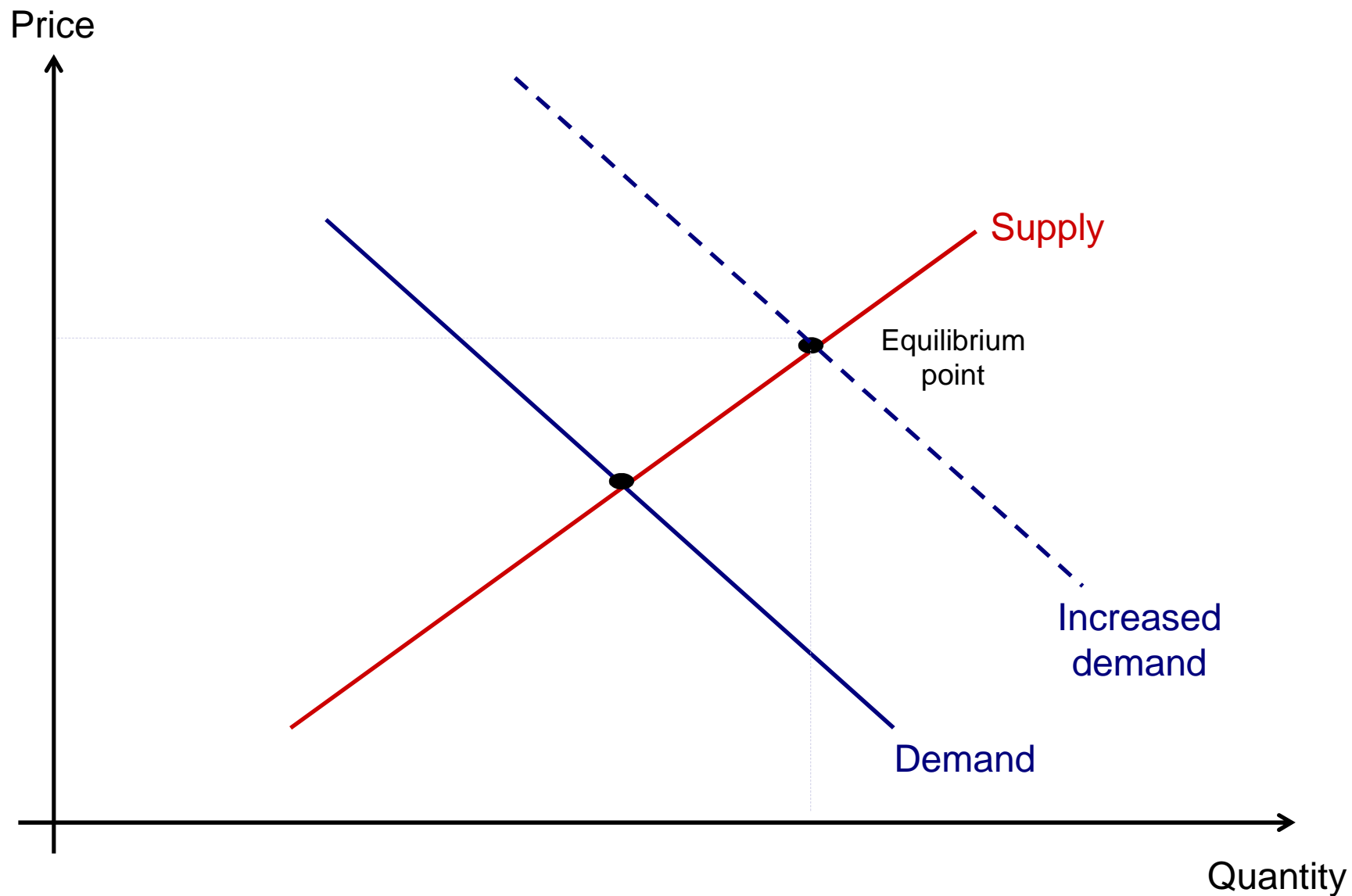
Agenda:

- ❖ **Supply and demand for homes**
- ❖ **Housing market developments**
 - ❖ **The demand side of the housing market**
 - ❖ **The supply side of the housing market**
- ❖ **Conclusion and recommendations**

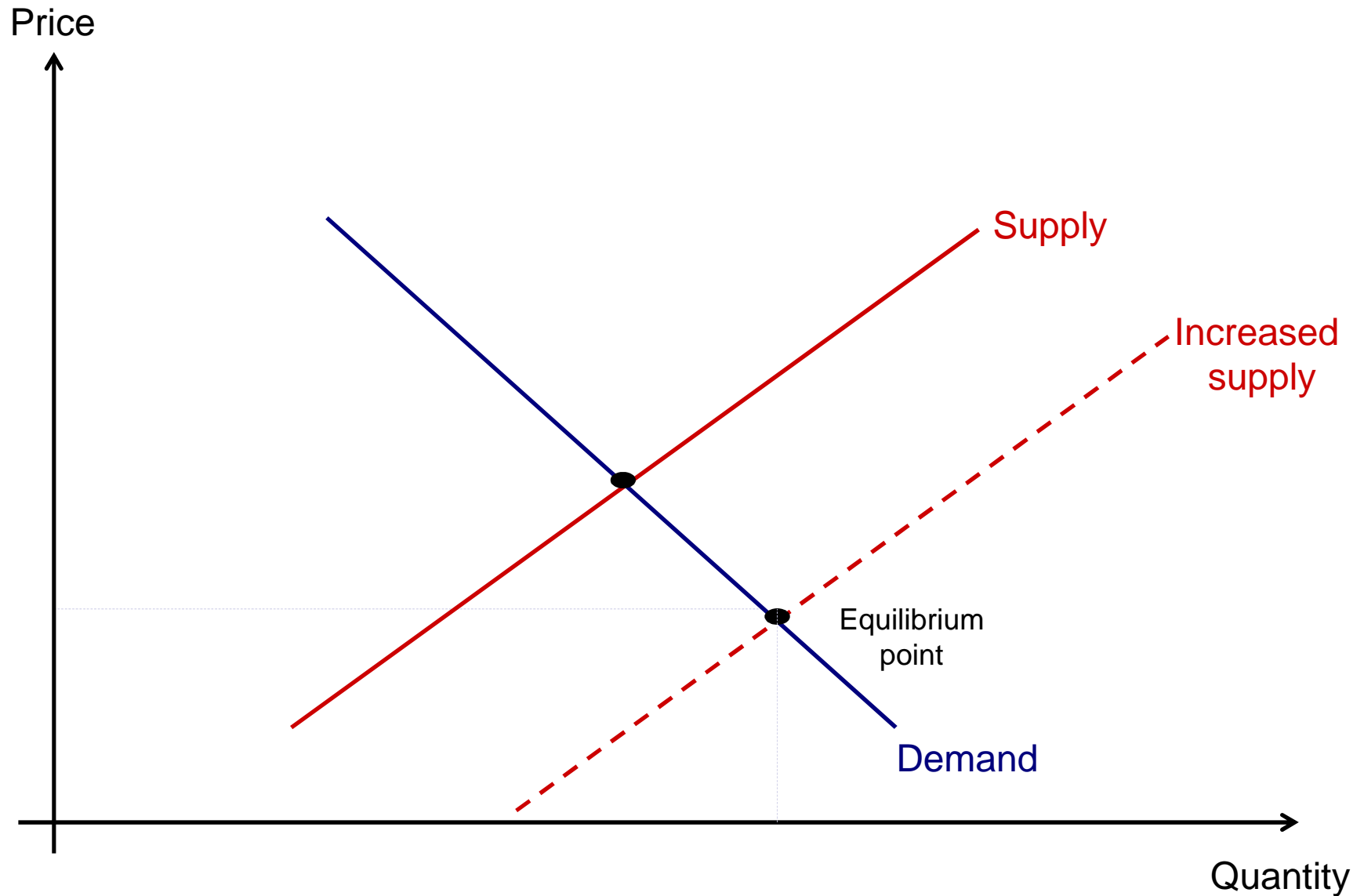
Supply and Demand



Supply and demand: Increased demand



Supply and demand: Increased supply

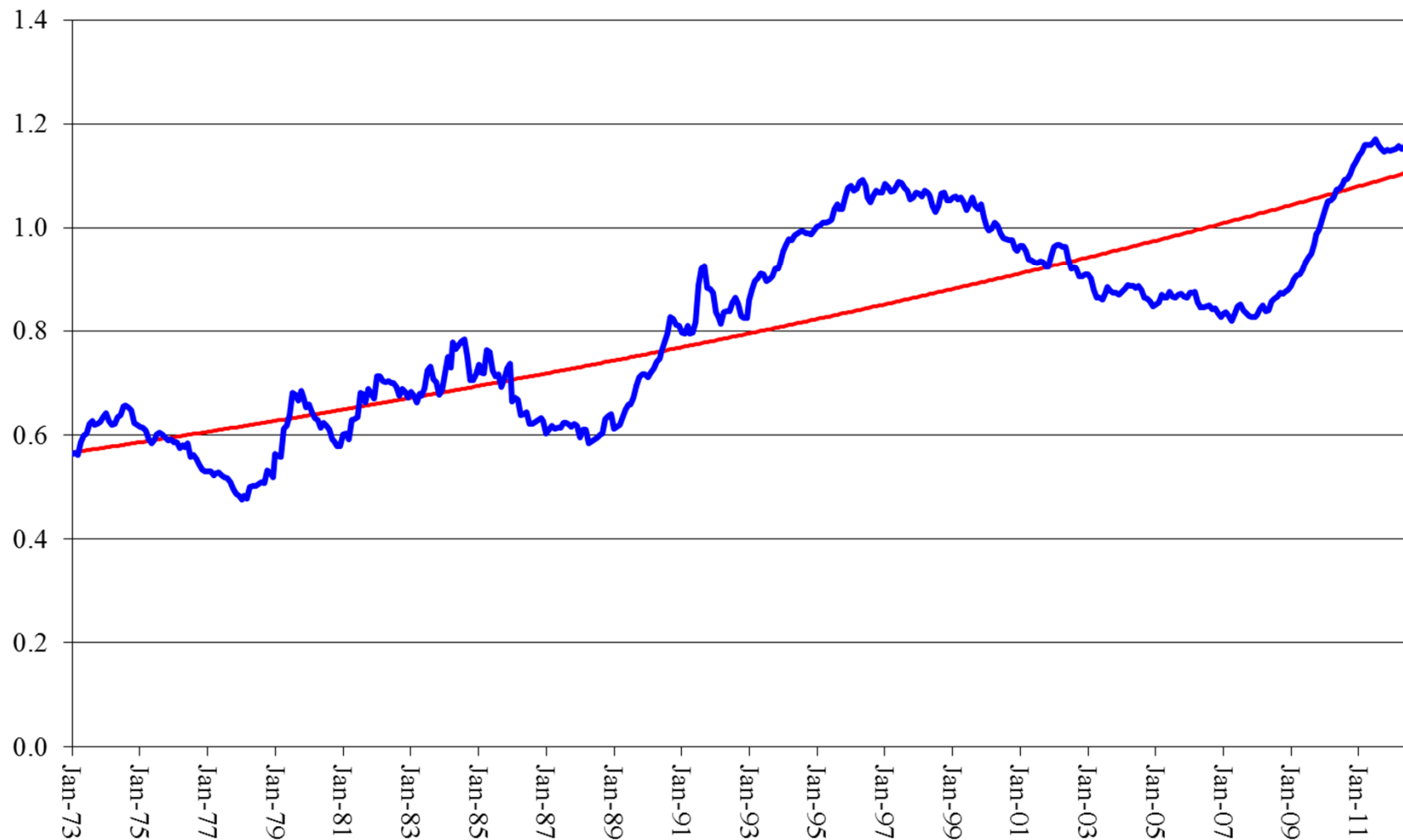




Housing market developments:

Prices and Activity

Index of real home prices vis-à-vis CPI (1=2000, 1973-2012)

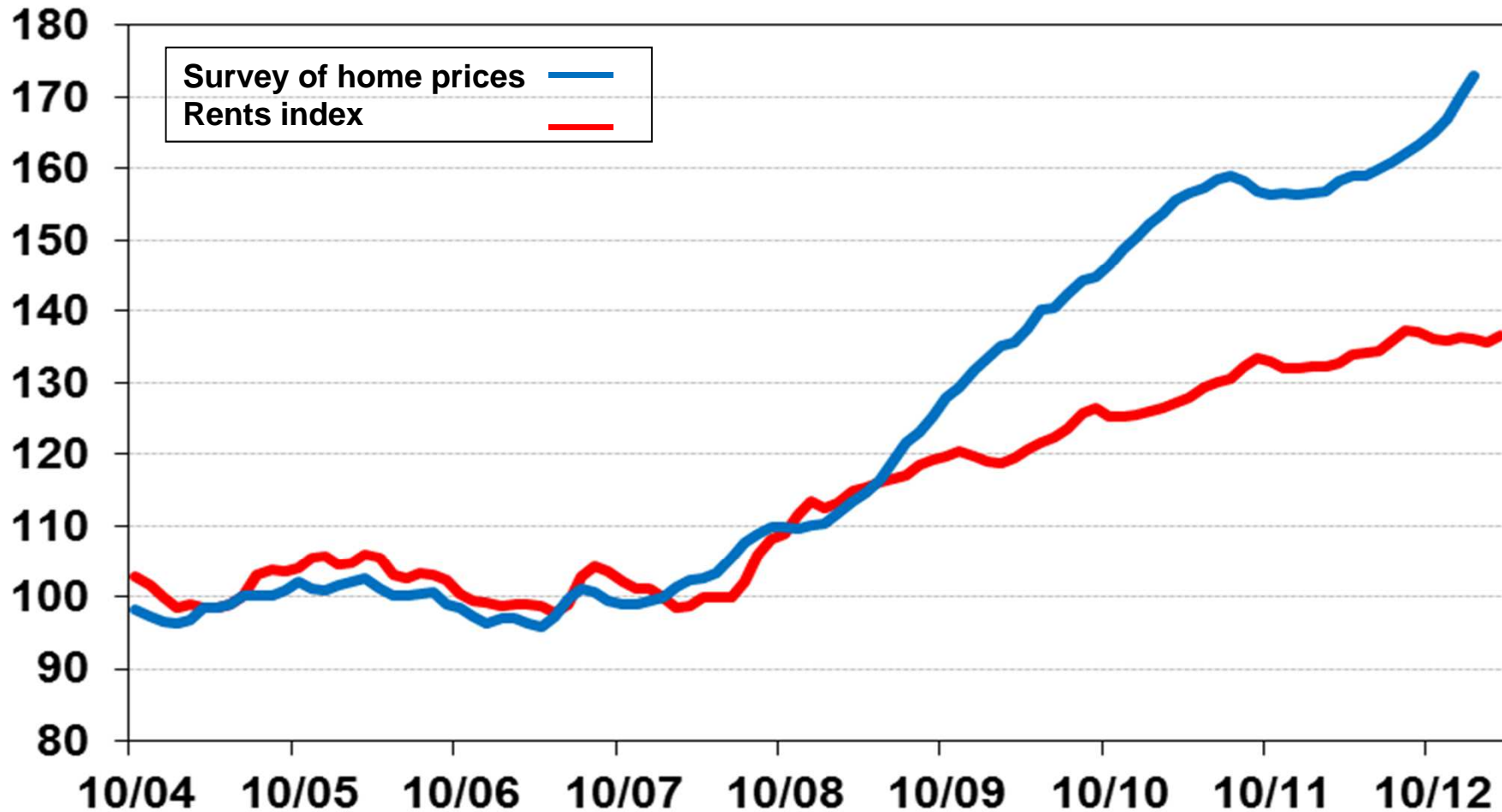


Home prices began to increase again

Rents continue to moderate

Survey of home prices vs. Rents index

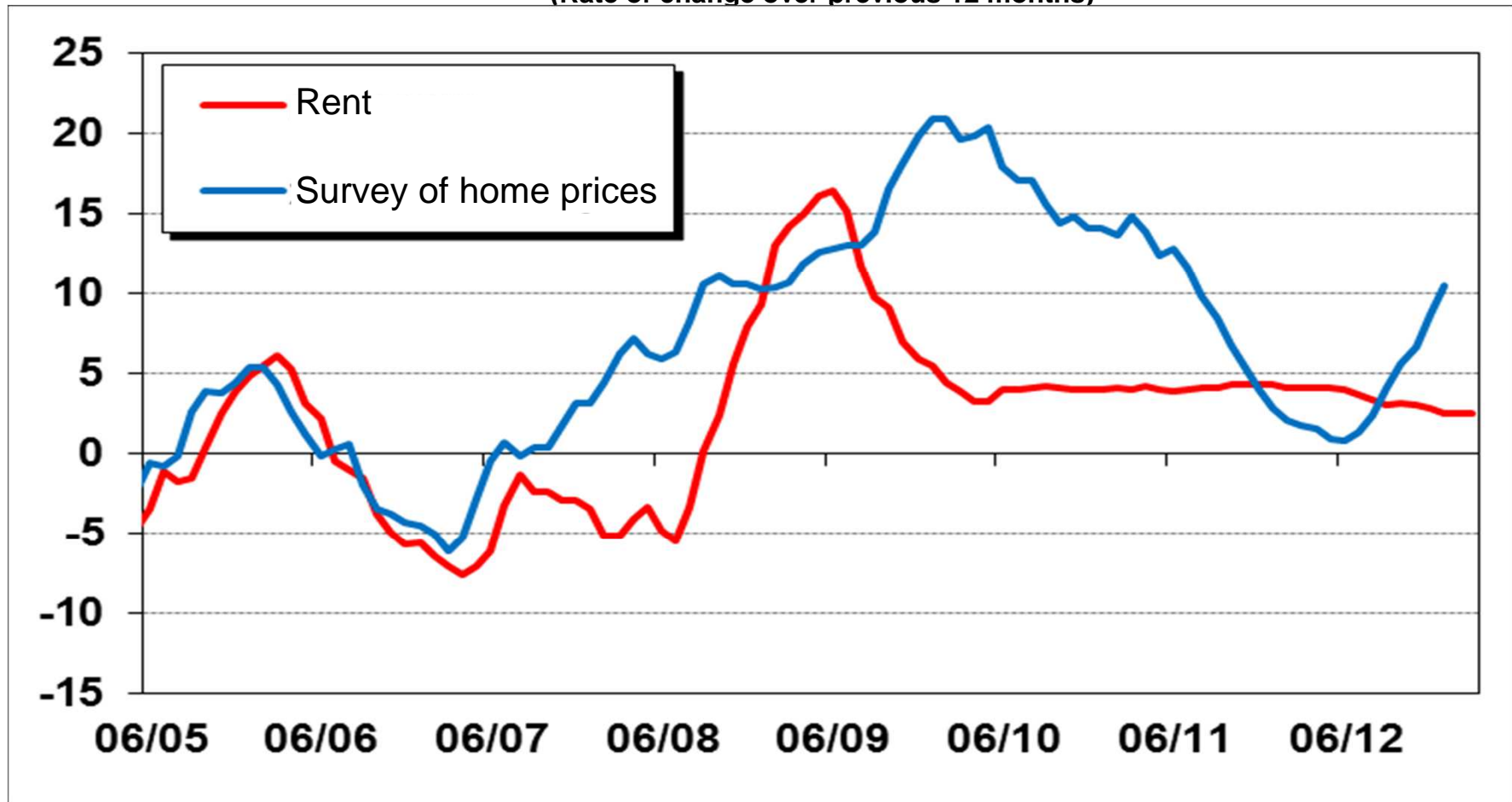
(Indexed to January 2008)



Home prices began to increase again (rate of change)

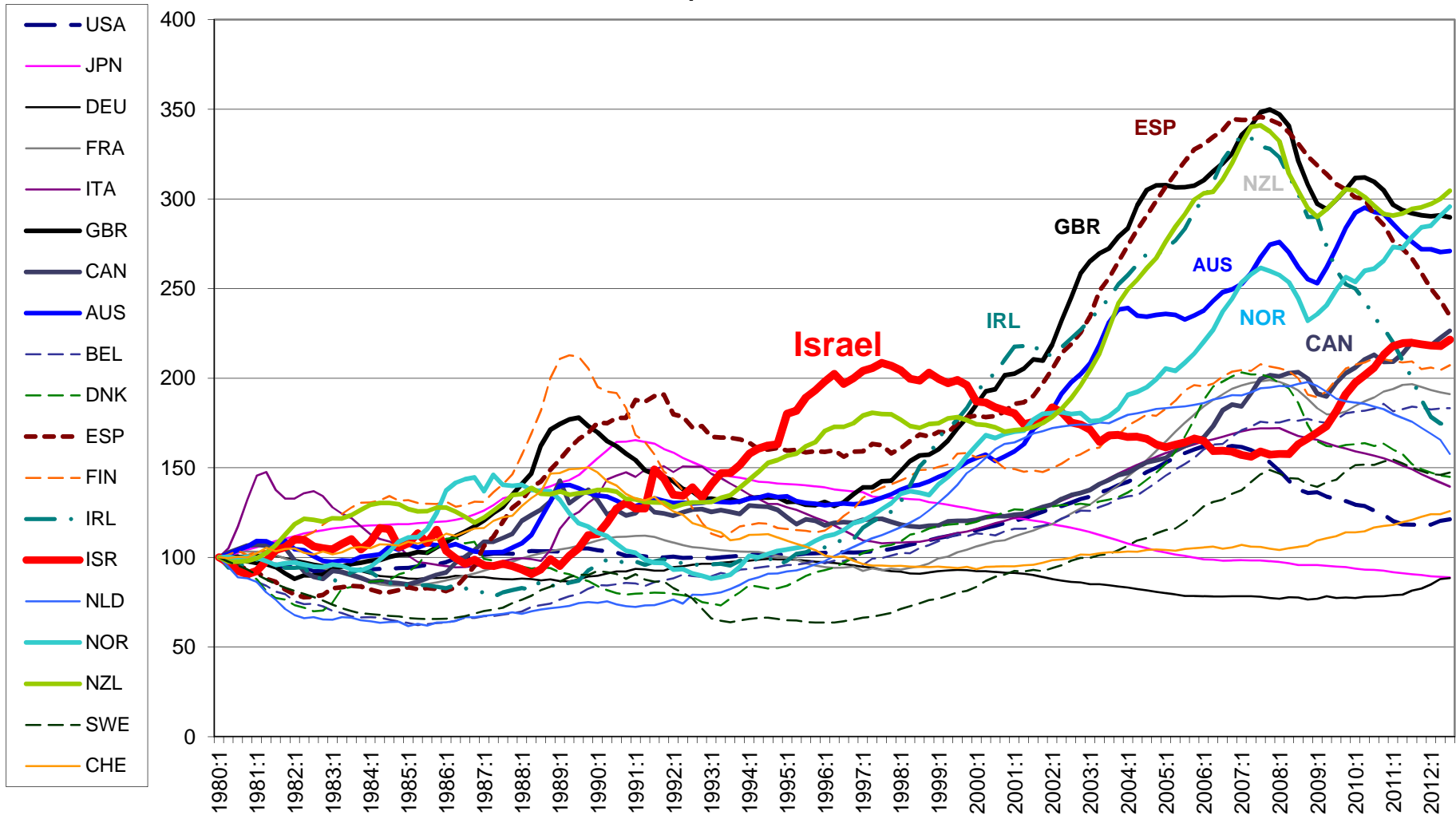
Rents continue to moderate

Survey of home prices vs. Rents index
(Rate of change over previous 12 months)



Home price appreciation is a phenomenon in countries that did not experience the financial crisis

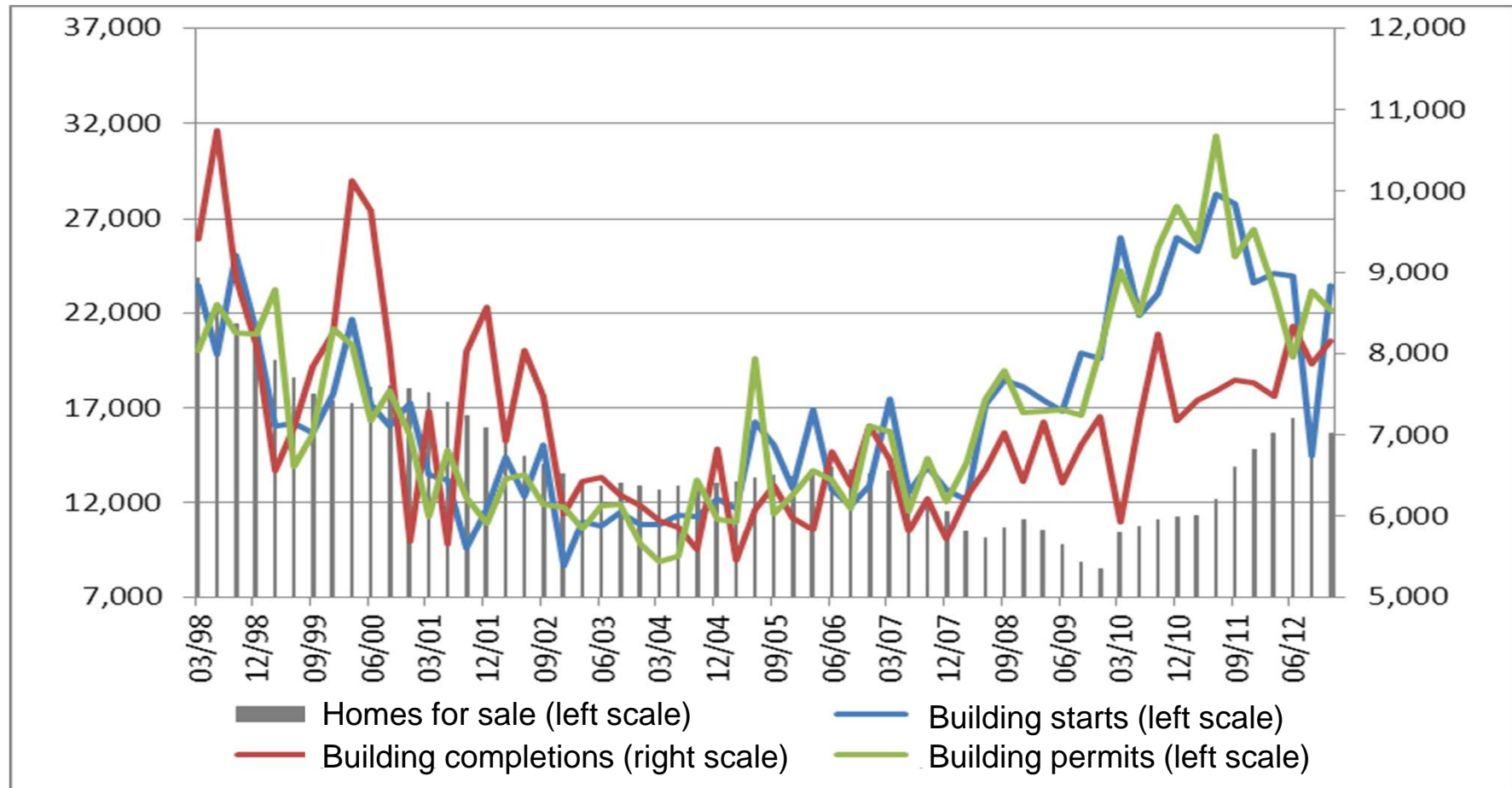
Real home prices, 1980:1=100





Level of Activity

Number of housing units:
Private initiative building starts and completions, and permits
(1998-2012, seasonally adjusted, quarterly)



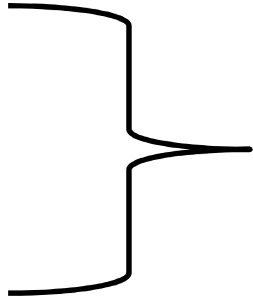
The background of the slide features a large, light blue watermark of the Bank Leumi logo. The logo consists of a stylized menorah with seven branches, set within a circular frame. The Hebrew text "בנק לוי" is written in a semi-circle above the menorah, and "בנק ישראל" is written in a semi-circle below it. The entire logo is rendered in a light blue, semi-transparent style.

Housing market activity:

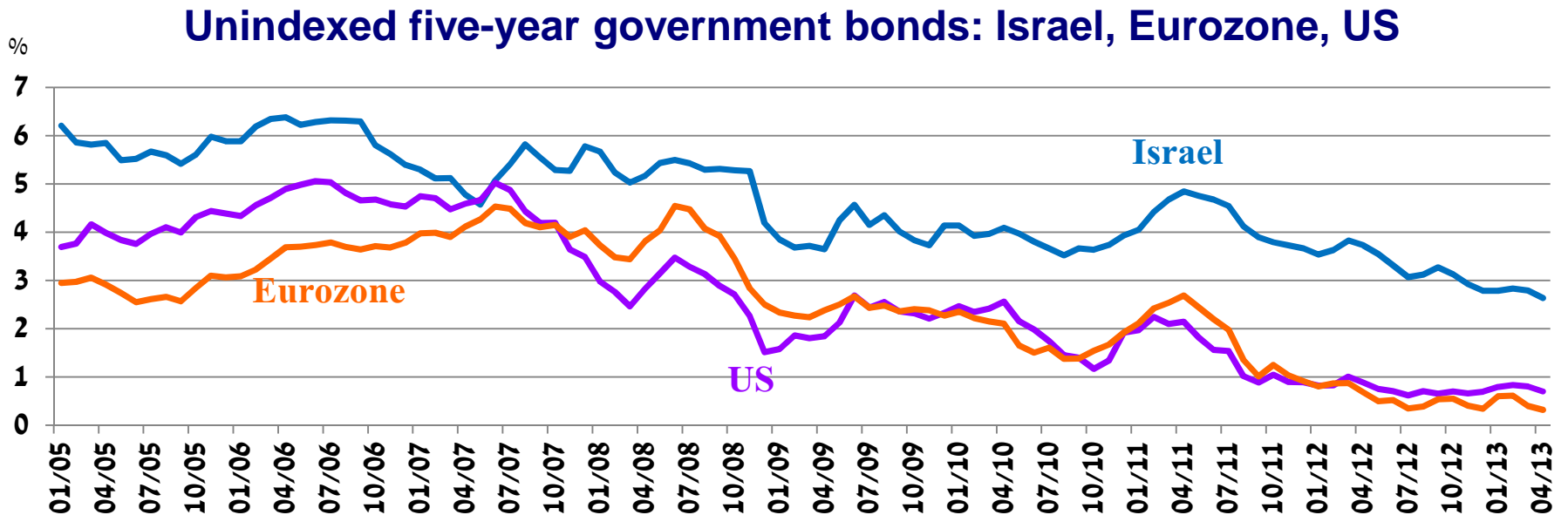
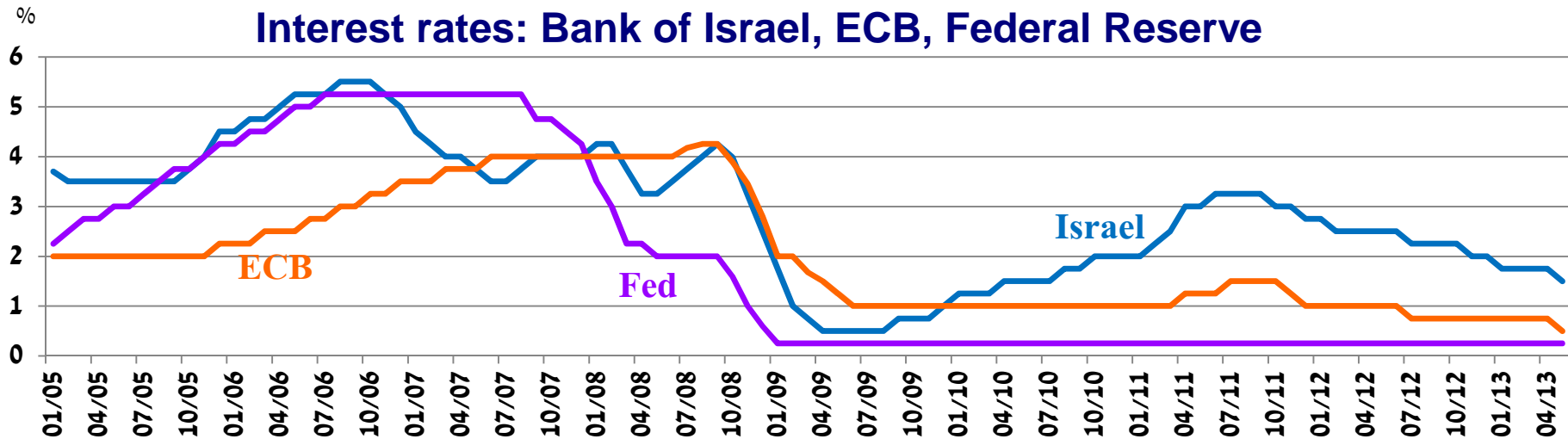
Demand factors



Factors impacting demand:

- ❖ **Demographics – population growth**
 - ❖ **Increased standard of living**
 - ❖ **General decline in interest rates and alternative yields in the economy**
 - ❖ **Increased demand for housing as investment**
- 
- Long-term factors**

Decline in short term and long term interest rates in Israel and worldwide

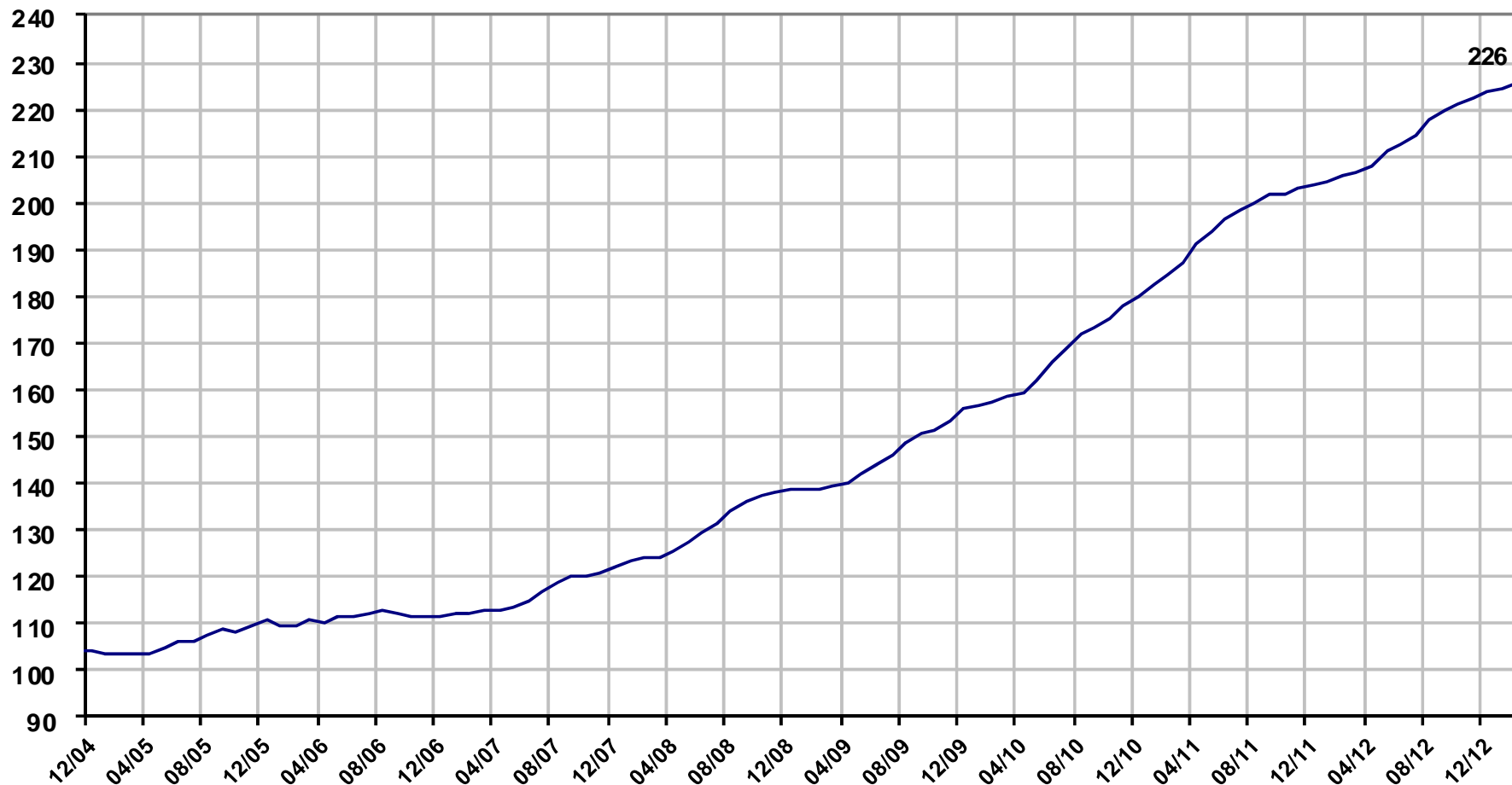


Increased credit for housing

NIS
billion

Outstanding housing loan balances

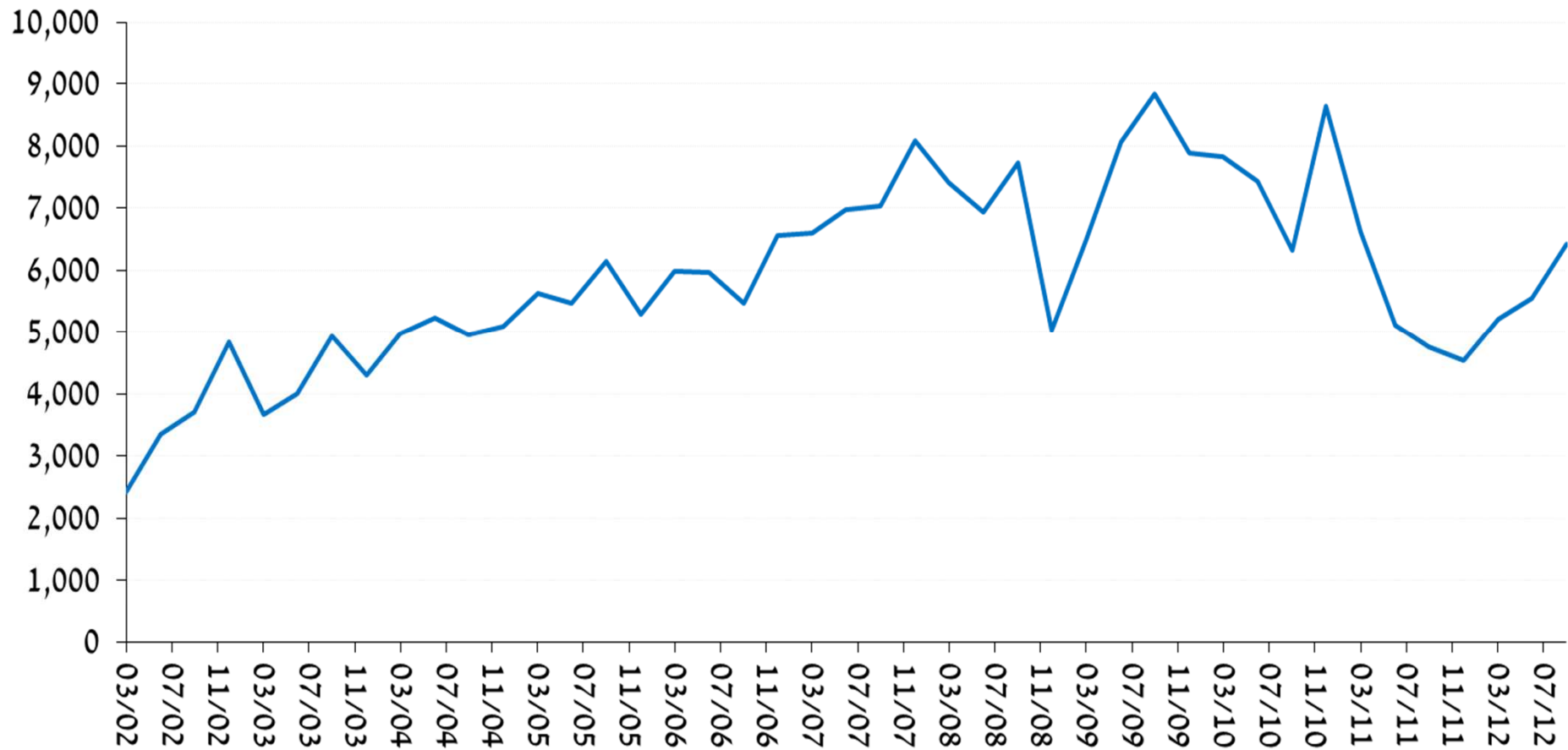
(December 2004 – February 2013)



Increased demand by investors

Number of transactions of second home (Quarterly, 2002-12)

Number of
Transactions





The Bank of Israel works to reduce macroprudential risk

In the past 2 years, the Bank of Israel took 3 main steps regarding credit for houses:

- **May 2011** – Limiting the variable rate (prime) component in a mortgage loan to one-third
- **October 2012** – Limiting LTV: Investors: 50 %, Upgrading current home: 70%, First-time home buyers: 75%.
- **February 2013** – Gradual increase, in line with LTV, of capital allocation rates for housing loans (from 35% to 50% and 75%), and increased group allowance for credit loss in respect of housing loans.

These steps have a cumulative effect of increasing banking system stability and reducing risks for households taking loans.

The background of the slide features a large, light blue watermark of the Bank Leumi logo. The logo consists of a central menorah with seven branches, set within a circular frame. The Hebrew text 'בנק לוי' is written in an arc above the menorah, and 'בנק ישראל' is written in an arc below it. The entire watermark is semi-transparent and serves as a background for the text.

Housing market activity: Supply factors



Factors impacting supply:

- ❖ **Planning process**
- ❖ **Supply of credit**
- ❖ **Supply of land**
- ❖ **Supply of labor**

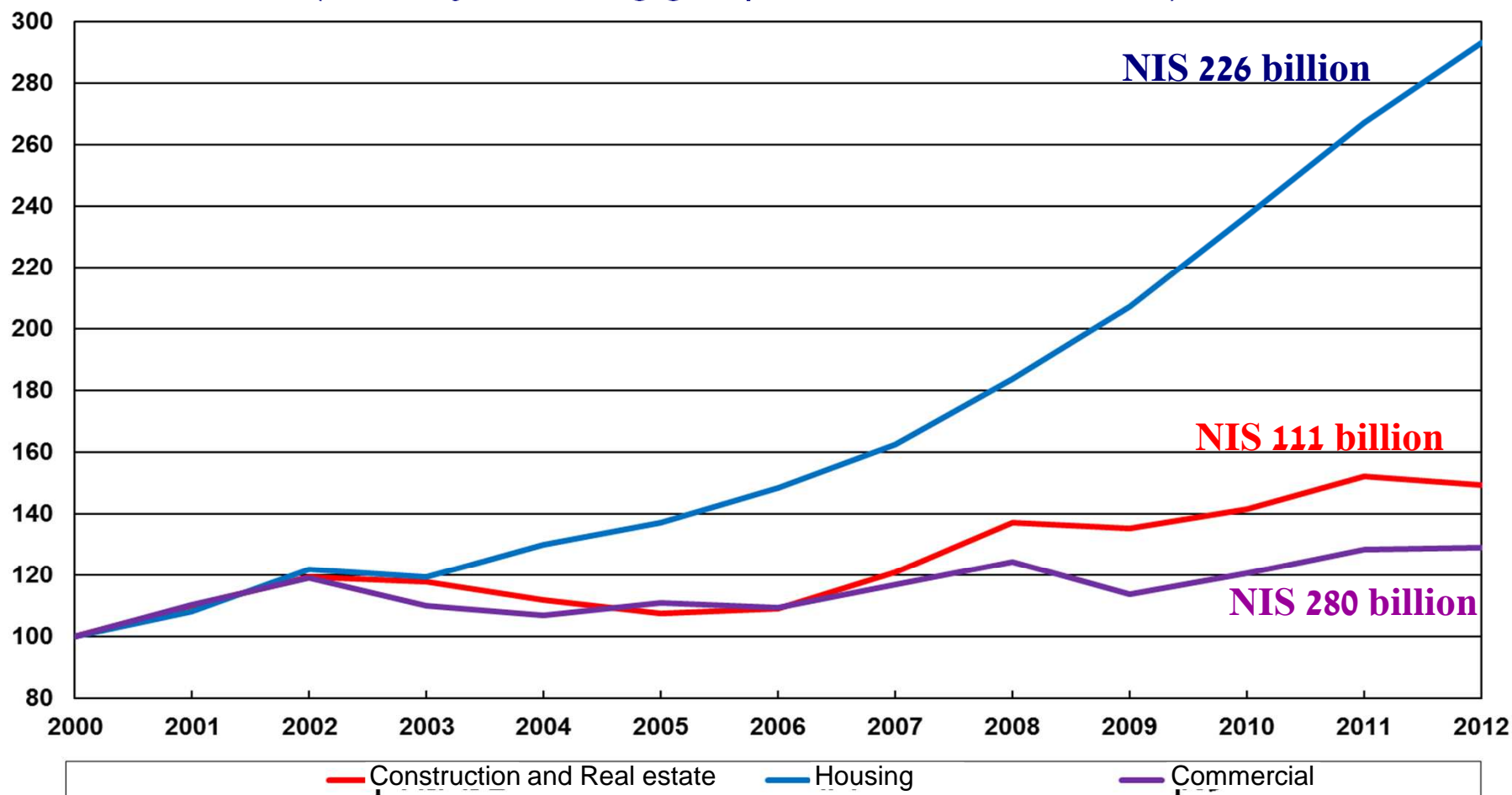
Lengthy process from initiation to building completion

Rigidity of supply—stages of “production” of land planned for construction, and assessment of average time required (years)

Length of time (years)	1	5	1.5	0.5	3	0-0.5	2
Stage	Feasibility study and preparation of plans for submitting to District Planning Committees	District Planning Committee approval	Preparation of development plans (water, electricity and roads) and development costs	Publishing a tender and deciding on a winner	Issuing a building permit (Local Boards)	From obtaining the permit until the beginning of construction	From beginning of construction through completion
Initiator	ILA, Ministry of Construction and Housing (MoCH)	ILA, MoCH	ILA, MoCH	ILA, MoCH	Winning contractor	The contractors	The contractors
Approving entity		Planning Administration, Ministry of the Interior	Local authority and various government ministries		Local planning boards		

Increased credit to the industry

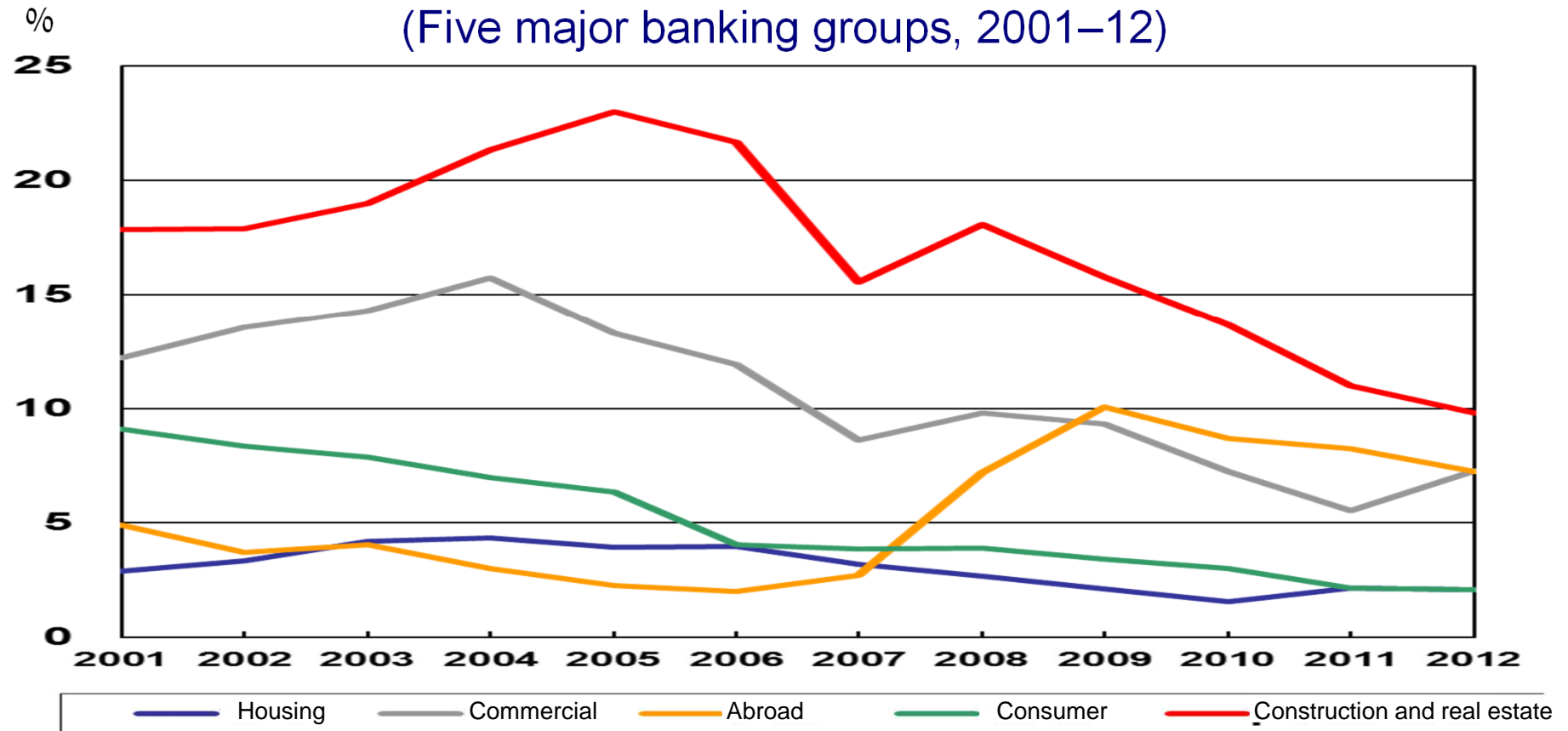
Changes in balance sheet credit (activity in Israel):
Commercial credit*, construction and real estate credit, and housing credit
(five major banking groups, 2000–12, 2000=100)



*Commercial credit does not include the construction and real estate industry.

Credit to the industry increased despite its inherent risk

Share of problematic credit in balance sheet credit to industry
(Five major banking groups, 2001–12)

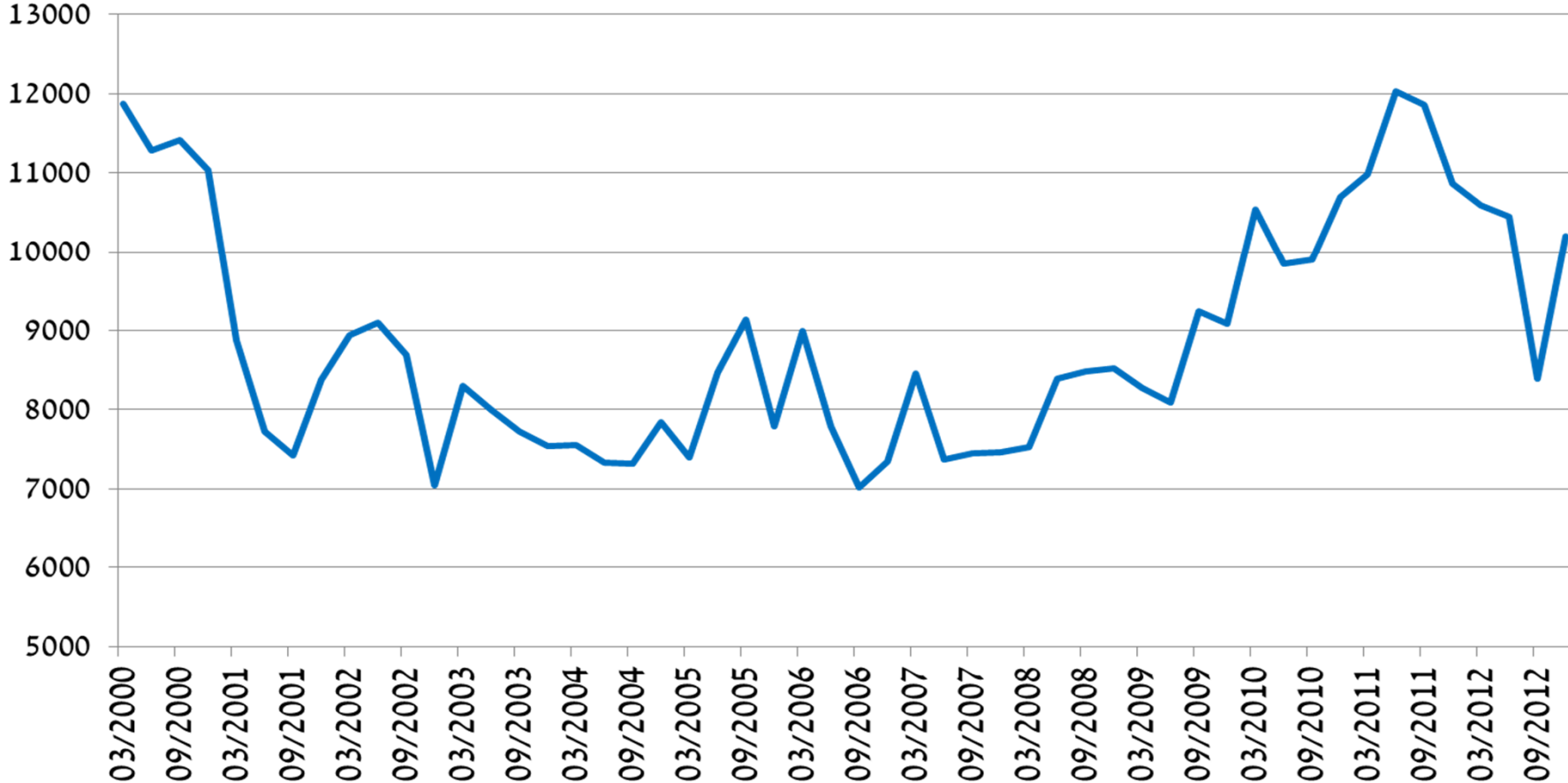


*Commercial credit, housing credit, and other consumer credit are only in respect of activity in Israel. Credit in respect of activity abroad includes commercial and consumer credit. Commercial credit does not include credit to the construction and real estate sector.

Building starts increased following price appreciation, but the increases halted recently

Number of housing units

Total building starts
(Number of units, seasonally adjusted, quarterly, 2000–12)





Bank credit for the construction and real estate industry

- The maximum amount of additional credit that the industry can theoretically raise via the banking system is over NIS 20 billion.
- Some banks are near the industry-specific maximum threshold of 20 percent of total indebtedness.
- A specific easing was set in which the exposure to the construction and real estate industry (including infrastructure) can reach 22 percent, under certain conditions.
- An easing in capital allocation demands—“Sales Law guarantees” (for measuring exposure to the industry)



Conclusion and recommendations



Conclusion

The main reasons for the sharp increase in home prices:

- Since 2008, the stock of existing homes and number of building starts have not been enough to meet the demand deriving from the increase in population and standard of living.
- The increased demand for homes as an investment as a result of the decline in the yields on alternative assets.



Conclusion

What role has interest rate policy had in the increase in home prices and was it right to adopt this policy:

- Leaving the interest rate higher would have led to shekel appreciation, and a negative impact on exports and investments. As a result, growth would have been slower, unemployment higher, and the rate of home building would have been lower.
- Changes in the interest rate impact on demand for homes. In addition, measures by the Supervisor of Banks to maintain financial system stability (such as changes in LTV of mortgages) impact primarily on demand for housing.
- In order to reduce prices and continue to build at a high rate, the supply of homes must be increased.



Recommendations

- **To cause a concurrent increase in the rate of construction and a decline in home prices, the supply of homes has to be affected.**
- **Steps necessary include:**
 - Increasing the amount of land available for construction
 - Steps to reduce the time from planning construction to actual building
- **The government's role in the homes market:**
 1. **Property policy and planning:** Not easy, but crucial
 2. **Constrain investor demand through taxation:** Primarily land betterment tax.

Thank You

