Report: Home buyers’ purchasing power plummets 30% over past 4 years

By SHLOMIT TSUR

Purchasing power of Israelis buying apartments has fallen 30 percent over the past four years, new research by the Gazit-Globe Real Estate Institute at the Interdisciplinary Center (IDC) Herzliya has found.

The research found a substantial and sustained rise in the number of monthly salaries needed to buy an average Israeli apartment. The number of salaries required rose from 100 in 2008 to 128 at the end of 2011. According to the authors of the research, Prof. Zvi Eckstein, dead of IDC’s School of Economics; Dr. Efrat Tolkowsky, academic director of the Gazit-Globe Real Estate Institute; and research assistant Nitzan Tsur, this means that the purchasing power of Israeli home buyers has fallen 30%.

The research also found that apartment prices, perhaps surprisingly, are not the main obstacle to buying an apartment in Israel, but rather the relationship between the average salary in the economy and apartment prices. The researchers show that home prices in Israel are similar to prices in other developed countries, although Israeli homes are smaller, making the price per square meter higher than other comparable countries.

As of the end of 2011, the price of an apartment in Israel cost double that of other developed countries in terms of needing twice the number of salaries to buy a home: 120 in Israel, compared with 60 in other developed countries. While 126 salaries, on average, are needed in Israel, 55 are required in the US, 54 in the UK, 61 in France, 58 in Holland and 56 in Ireland. The average monthly salary in Israel is $2,210, compared with $4,384 in the US, $2,570 in the UK, $2,914 in France, $3,372 in Holland and $4,028 in Ireland.

"The conclusion can be drawn from this that purchasing power in Israel is very low compared to other developed countries worldwide, and that hits consumers hard," the report said.

"Moreover, the price per square meter in proportion to salaries is triple other developed countries because Israeli apartments are smaller," it said. "Assuming building costs in Israel and other developed countries are similar, the gap in price can stem from the cost of land, heavy taxation and higher profits by contractors. Given that the level of taxation and contractors’ profits in Israel are of acceptable and similar levels to other countries, then it is reasonable to assume that the main factor in the difference in apartment prices in relation to salaries between Israel and the developed world stems from differences in land prices."