

Continuing Business Trends Series

**WEAK DOLLAR BOOSTS TREND OF
ISRAELIS BUYING PROPERTY IN
GREATER NEW YORK AREA**

*Avoiding Common Traps is Costly
Challenge for Long Distance Investors*

A LONE STAR WHITE PAPER ANALYSIS

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ISRAELI INTEREST IN US PROPERTY ON THE RISE; PROFITS POSSIBLE, BUT PITFALLS LINE THE PATH

1. In a generally slow US housing market, one set of buyers is still bullish on America. The Israelis.

US real estate has always been a popular option for buyers around the globe. The attraction lies in the general stability, regulation and well-developed legal system of the country compared with competing markets throughout the world, making it a good and efficient place in which to do business. Add to that the fact that the dollar is so weak and interest rates are low and house prices are at their lowest in years... it becomes a compelling combination for a home buyer or investor in commercial buildings.

“The dollar continues to fall opposite the major basket of currencies as well as against the shekel, creating investment opportunities in the real estate market in the US,” says **Eli Kashdan**, CEO of Citibook Services Ltd. Israel, a US-based company that provides title insurance and lease abstraction to major real estate firms.

A study by the National Association of Realtors revealed that almost one-third of NAR members surveyed had at least one international client between April 2006 and April 2007. Buyers often come from Mexico, the United Kingdom, Canada, India and China. 49% percent of them made their US purchase in the southern region of the country, followed by 31% who sought properties in the West. On the East Coast, New York City commands strong interest.

In early January this year, foreign buyers increasingly entered the US market, in particular Manhattan. A recent report by Cushman & Wakefield shows that nearly a third of the commercial real estate deals under contract in Manhattan over the last few months involved cross-border buyers. In comparison in 2007, only 12.4% of the deals involved foreign investors.

Israelis are certainly not going to miss out on any bargain opportunity, in particular in a market they already know and feel very comfortable with. Israeli investors are known for thinking “out of the box” and acting swiftly to take advantage of opportunities and ventures, pursuing these as quickly as possible. The Israeli investor differs from the traditional investor in that once an opportunity presents itself he will spare no effort to grab it.

Illustrating this point in the extreme, Israelis own 10% of the privately owned area on the moon, according to **Tom Wegner**, a spokesman for Crazyshop, a company that sells plots of moon land to private individuals in Israel.

About 10,000 Israelis have purchased moon property since it became available in 2000. Of the 10 million acres sold worldwide, 1 million are owned by residents of Israel. Some Israelis believe that buying land on the moon is an original gift and a great investment that their grandchildren might benefit from and for some the attraction may be the appeal of a promising investment.

“In the American market, the domestic market, there’s a lack of consumer confidence. Israelis buyers are coming in and saying ‘If you don’t buy, I will’,” says **Oren Heiman**, Managing Partner at Shibolet law firm primarily serving Israeli clients who invest in the US.

2. The right time and the right place – real estate investment opportunities for Israelis.

Investment interest in the US is up primarily because of the weak dollar and mixed US real estate prices which gives Israelis more buying power providing a rare opportunity for buying property in the greater New York area and Florida.

“We are seeing rental prices going further up while housing prices are on a downward trend. The fact that in Israel the dollar is weakening presents a great opportunity for the Israeli investor to view the US as a good place for investment,” says **Kashdan** of Citibook Services Ltd. in Israel, who is confident that US housing prices have not yet fallen to their lowest point and are expected to further go down.

In reaction to the subprime mortgage crisis, base lending rates have come down to one of their lowest points and looking ahead the US Federal Reserve is hinting at another interest rate cut to help avert growing signs of a recession in the US economy. At the same time as a result of the credit crisis many lenders are virtually out of business. Financing programs, [which existed a year ago for people with bad credit, have largely](#)

disappeared and stated loans or the concept of 100% financing practically no longer exists.

“This situation has been reducing drastically the amount of people who qualify for loans which in turn means fewer sales, less demand, all of which ultimately brought down home prices,” says **Sam Heskell**, founder and executive vice president of HMS Associates, a New York City-based appraisal firm which provides appraisal services for residences of all types covering all of New York City, Long Island, and five counties to their north.

In such a marketplace buying property at the right time in the right place poses a formidable challenge for overseas investors.

“Around the subprime mortgage crisis there is a cloud of uncertainty. There is a possibility that property prices will stop falling. At the same time we can not single out the chance that prices will continue to decline,” says **Kashdan**.

In a US housing market characterized by mixed real estate prices trends, spotting and assessing buying opportunities at a fair price generating a strong yield is more challenging for foreign investors like Israelis mainly because of the distance.

“In the wake of the US subprime mortgage lending crisis a wave of foreclosures and evictions are expected representing good buying deals for foreign investors such as Israelis,” says **Benny Loyal** of the Anglo-Saxon real estate agency. “In some cases properties originally priced at \$600,000 are offered at \$400,000. However the problem for the Israeli investor in such deals is the limited ability to assess the real value of the property on offer from thousands of kilometers away.”

Some industry watchers are wondering if foreign appetite for US real estate could be waning these days. International buyers could be feeling some of the same jitters that domestic buyers are.

“Although Israelis today have to put down more capital for financing investment in the New York area and housing prices are coming down they are still in a position to seize opportunities that will generate a high yield as rentals have remained stable or are rising,” says **Heiman** at Shibolet.

Loyal at Anglo-Saxon real estate agency adds that the Israeli individual investor has become much more sophisticated over the past five years in that some are purchasing property without going through an Israeli real

estate broker. The current situation of uncertainty in the US market would require a local US expert opinion or real estate appraiser to assess the real value of properties.

“This process is difficult to handle from afar and therefore potential Israeli investors could be expected to be more hesitant,” says **Loval**.

Israelis are willing to travel overseas and fly to the US to see potential investment opportunities they still face the challenge of differentiating between different areas and dealing with an unfamiliar market and a different regulatory system to make a successful investment. For example, even in the midst of the subprime mortgage crisis pushing housing prices down, in some areas such as Manhattan, property prices remain strong and demand high. Some maintain that prices in New York are very much undervalued when compared to other markets like London or Moscow.

“When we look back, there are today many more and bigger opportunities for foreign investors, yet the accompanying risks are also higher,” says **Heskel** at HMS Associates. “In New York City there are still strong markets but some are also declining. There are significant price differences between neighborhoods, which are close to each other and therefore someone who comes to invest and doesn’t know the market can fall into troubling traps.”

For example, Heskel notes some investors have fallen into a situation where they bought a property, invested money in renovating it with the aim of 'flipping' it at a profit -- but if the property is not fundamentally worth the exercise, they may not be able to sell it at all.

“In particular under the current market situation of a slowing housing market the investor is forced to rent the property and fails to make a profit,” says Heskel.

To overcome this challenge extensive time and sufficient resources such as having property evaluated need to be allocated to learn about the market, regulatory framework and in particular differences in close neighborhoods which at the end of the day can save a lot of money.

“This is when an external expert to evaluate or appraise the property needs to be invited into the picture, a service which is common in the US but not so common to Israelis,” says **Erez Cohen**, chairman of the Real Estate Appraisers Association in Israel.

3. What are Israeli buyers looking for? Motives for purchase? Buying trends: What type of property (commercial/private)?

“Over the last five years we have seen a growing trend of the big players of the Israeli investor and development community entering the US real estate market in particular in the New York area seeking good buying opportunities,” says **Loval**.

As the dollar has continued its slump for more than a year and the U.S. economy slows even more, an increasing number of Israeli investors have bought trophy buildings across New York City representing one of the dominating groups of foreign investors. Although the range has proven extraordinarily diverse the focus has been on commercial property rather than residential for the purpose of investment mainly in trophy buildings, condominiums, office space and hotels. These types of properties have been less affected by the subprime lending crisis. Prime examples are **Lev Leviev's** quick purchase of the 41-story Clock Tower on Madison Avenue for \$200 million or **Yitzhak Tshuva's** purchase of the Plaza Hotel in Manhattan, to mention but a few.

“For Europeans and Americans, shaky markets are unacceptable. While Israelis are more flexible to take advantage of opportunities than Americans, despite the fact that in many cases there is language barrier, cultural differences and different concepts such as that of appraisal and title,” says **Heiman** at Shibolet law firm. “From the beginning of the year we see this trend continuing. Now, Israeli investors and developers raise private placements for two purposes: to attract sponsors for new construction and to find foreclosure specialists around Manhattan for assets that sell at 55 or 60 cents to the dollar.”

Heiman says that today about 20 Israeli developers are counted among the 100 leading developers in the New York area.

“There are some new Israeli players coming into the market but not as many as we have seen before,” says **Heiman**. “And investment is no longer tied to Manhattan but the trend is moving to more rural areas as well.”

At the same time, Florida and Las Vegas, prime investment targets of the likes of **Yitzhak Tshuva**, are today considered overdeveloped.

“In Miami the balance between supply and demand is still shaky,” says **Heiman**.

A survey by the National Association of Realtors profiling international buying activity showed that in 2006, Florida was the most popular state with foreign home buyers, followed by California, Texas, Arizona and New York.

Although the trend of Israeli buyers is focused on commercial property, the weakness of the dollar has opened more opportunities for the wealthy to make purchases in residential properties in major international cities, including New York, which are better understood as luxury markets for the international elite than markets for the middle-class.

“With the shekel-dollar exchange rate being more attractive than ever, you also see many individual Israelis purchasing residential property in New York, more for the purpose of reinvestment than to buy a second home,” says **Heiman**. “A typical example is a recent deal which we closed where a 65-year-old Israeli couple had sold their furniture business and reinvested in the purchase of two apartments in New York.”

Still, the weak dollar makes New York highly attractive and affordable where financing is available, since mortgages are harder to get because of the subprime mortgage crisis.

“At the same time, Israeli buyers, if they are able to provide proof of a sound credit history and finance conditions they can also benefit from the subprime crisis as banks in such cases are offering very low and attractive interest rates,” observes **Heiman**.

4.) Trends for having property evaluated – the Israeli perspective.

Israelis invest billions of shekels in purchasing residences each year, but contrary to all logic, until recently they seldom hired the services of professional quality pre-purchase evaluations and inspections.

“It is a very curious phenomenon in Israel. When buying a car, it is taken for inspection or evaluation by an outside expert. However when buying a home which for many is the single most important economic initiative in their lives, Israelis are reluctant to have the asset examined or evaluated by an external capacity although this is most appropriate to avert a potential catastrophe,” says **Erez Cohen** of the Real Estate Appraisers Association in Israel adding that the association is currently working on a proposal to make home inspection provided by the seller compulsory.

Appraisals and home inspection services have started in Israel in the mid 1970s gaining significance only at the end of the 1990s.

For the potential Israeli overseas property investor, appraisal and inspection services are “nice to have” but not a “must have” in assisting in the decision-making process prior to concluding a transaction, says **Tsachi Bardugo**, CEO of Bedek Bait, a leading local appraisal and inspection company, which started to operate in Israel in 2004 with about 13 clients a month, while today they have an average of between 700 and 800 customers a month.

Quality and value inspections have been slowly accelerating during the last 15 years since the growth of the population by newcomers, the increase in property prices and the demand for fair value for the price paid, which in turn have started to raise home buyer’s awareness to the importance of an inspection or evaluation.

“Still lawyers are the ones who are pointing to the importance of using appraisal and home inspection services,” says **Cohen**.

The rising awareness of structural defects and the wave of foreign residents into the local residential real estate market are likely to boost the use of inspection and evaluation services.

“The wave of foreign buyers from France and the United States has certainly contributed to the demand in this industry,” says **Bardugo**. “In their home countries, pre-purchase evaluation is a far more developed concept, where the real estate broker suggests a home inspector and in some places it is even a precondition for mortgage approval, as banks require an engineer’s report on the soundness of the property.”

While in Israel, **Bardugo** explains, real estate brokers don’t want to deal with appraisers and inspections as they are too worried for the deal to fall through.

For years the percentage of particularly second-hand apartments – representing 70% of the market - that underwent pre-purchase evaluation and/or inspection was negligible, compared to inspections of new apartments and to one-year inspection reports.

“Of the 93,000 real estate transactions a year about 5 to 7% have undergone some form of inspection or evaluation before closure,” **Bardugo** estimates. “The most popular inspection for second hand homes is the neighbor profile and for new homes it’s the inspection by an engineer.”

Still many today do not fully appreciate the need for both new and pre-owned home reviews and suffer legal, economic and emotional distress due to inexperience or deliberate deception by both contractors and homeowners.

In Israel the inspection process is often left to either the foreman of the site or in rare instances the quality control person hired by the builder during initial construction phase. Therefore new home buyers as well as second-home buyers in Israel are, however, at risk from contractors or renovators who pretend their work is “excellent quality” all the while doing what many in the industry call “avoda-aravit” which roughly translated means “bad workmanship”.

With rising awareness of structural defects and friends and family who can list people who have been taken in by dubious contractors or deceived by second-home sellers, coupled with the entry of foreign residents into the residential real estate market—all this is boosting a new appreciation of evaluation and inspection services to new heights as buyers understand they must have an external expert with a professional, experienced eye on their side whether it is for evaluation or inspection.

“I believe that we will see the percentage of deals that undergo appraisal double to about 15% of all transactions within the next year and in three year’s time we can expect every third buyer use professional appraisal and inspection services,” Bardugo predicts.

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