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Press Release

Another Step in the Acceleration Plan: Strengthening the Real-Estate Market

Ministry of Finance and Ministry of Construction and Housing offer hundreds of millions of NIS in aid to the residential construction sector, to lead to 6,000 new construction starts

Finance Minister Roni Bar On: "The aid to the residential real-estate sector will accelerate the construction of thousands of housing units and protect the jobs of thousands of workers at various wage levels. We will not hesitate to apply policy tools and provide aid and focused solutions to accelerate economic activity and support the economy in coping with the crisis."

Construction and Housing Minister Zeev Boim: "Contractors will now be able to embark on new projects, thereby increasing the supply of housing, which will provide leverage to the real-estate sector and lead to growth of the economy as a whole."

Today, Minister of Finance Roni Bar On announced extensive aid to the real-estate sector, at a total volume of hundreds of millions of NIS for residential real estate. The plan, formulated by professional staff at the Finance Ministry in collaboration with professional staff at the Housing Ministry, the Tax Authority, and the Israel Land Authority, constitutes another step in the acceleration program led by the Finance Ministry. This plan is part of the third stage of the acceleration program, in which the Finance Ministry is working to identify individual growth-generating sectors of the Israeli economy that have been damaged by the global economic crisis, and to provide these sectors with focused aid and solutions to support their activity during the crisis.

Finance Minister Roni Bar On: "The real-estate sector is one of the key drivers of the Israeli economy; hence the high importance of providing aid and support to this industry. It is one of the largest sectors of the economy. The residential real-estate sector addressed by this plan has a total turnover of more than NIS 20 billion per year. Residential real estate provides direct and indirect employment for thousands of workers, and also supports wider circles of society. The aid we are offering to this sector will accelerate the construction of thousands of new housing units and protect the jobs of thousands of workers at various wage levels. We will not hesitate to apply policy tools and provide aid and focused solutions to accelerate economic activity and support the economy in coping with the crisis."

Construction and Housing Minister Zeev Boim: "These decisions will put an end to the risks taken by banks and contractors. Contractors will now be able to embark on new projects,

thereby increasing the supply of housing, which will provide leverage to the real-estate sector and lead to growth of the economy as a whole."

Key elements of the first two stages of the acceleration plan – the real-market stage and the financial stage, at volumes of tens of billions of shekels – are already being put into practice. The Ministry of Finance has started to promote infrastructure and transportation projects worth billions of shekels; the aid fund for small businesses has been enlarged to NIS 440 million; a NIS 1.3 billion aid fund has been established for mid-sized businesses; the early screening stage has started for leverage funds, which have been allocated NIS 5 billion by the Finance Ministry, to address the non-bank credit market; guarantees of NIS 6 billion have been made available to the banking system in order to increase the supply of credit; and more.

The Ministry of Finance will continue to expand the acceleration plan as necessary, and provide solutions to reduce the impact of the global recession on the Israeli economy and help the economy cope with its consequences.

Aid Plan for Residential Real-Estate Sector

During an economic slowdown, the number of construction starts in Israel is expected to decrease; consequently, a shortage of homes is anticipated, due to a growing gap between demand for homes and the supply of homes on the market. Accordingly, government involvement during the slowdown should focus on the housing supply side, so that homes are available for sale as we emerge from the crisis, when demand for housing is reignited and it becomes necessary to supply this demand. The Ministries of Finance and Housing have therefore announced several policy measures, described below.

Credit

The real-estate sector is characterized by very high volumes of credit. The use of non-bank credit by real-estate entrepreneurs has grown in recent years, to the point where half of the credit to the real-estate market in these years has come from non-bank sources. The two main sources of non-bank credit were foreign banks operating in Israel and the local capital market, i.e. issues of corporate bonds. With the outbreak of the crisis, both of these sources were among the first to suffer, which led to a severe credit crunch in the real-estate industry during this period.

Due to the crisis, banks have raised their requirements regarding contractors' equity. The Finance Ministry has decided to provide guarantees of NIS 200 million to supplement contractors' equity, so that they are able to comply with the banks' new requirements. These guarantees will help contractors receive financing from banks for new projects, and may attenuate the expected decline in construction starts. If the guarantees are used in a manner that accelerates new construction starts, the Finance Ministry will consider increasing the guarantees to a total of NIS 500 million. Guarantees on this scale will accelerate the construction of some 6,000 housing units.

Cancellation of Permit Fees

Permit fees are payments made to the Israel Land Administration as a condition for the realization of rights to land not granted to a lessee in a lease contract, in accordance with the ILA's procedures. The ILA collects permit fees in cases of changes in the designation or usage of the land, the addition of construction rights, and lot splits.

In addition to the collection of permit fees by the ILA, additional payments are collected when improvements are made to properties, including an improvement levy to the local authority and a betterment tax to the Tax Authority. These multiple taxes and levies impair the feasibility of property improvements and impede economic development. This situation also sometimes leads to a failure to fully utilize construction rights in properties allocated by the ILA.

As part of the steps to boost the real-estate market, a proposition has therefore been brought before the Israel Land Council to cancel permit fees for the use of residential construction rights, at a volume of tens of millions of shekels per year, in accordance with professional parameters to be established. This measure should encourage additions to existing construction and the full utilization of construction rights in land already allocated by the ILA.

Real-Estate Taxation

The Minister of Finance has submitted regulations to the Economics Committee for the postponement of VAT payments in respect of rentals of homes where construction has been completed but the homes have not yet been sold, for a period of two years. The directive would encourage contractors who are having difficulties selling homes to rent out these homes for periods of up to 24 months. This step should facilitate the management of inventories of homes, and is expected to cause the postponement of VAT payments at a total volume of NIS 30 million. The regulations were submitted to the Economics Committee of the Knesset for approval.

Postponement and Spreading of Payments

Postponement of payments in respect of development and land for housing – Extension of the time period granted from the date of winning the tender to the date of payment for development and land, at the Ministry of Construction and Housing and at the ILA, by 30 additional days, for a maximum period of 90 days. This decision will facilitate contractors' activity.

Release of Guarantees

Proactive release of construction guarantees – The ministries will act to release a considerable number of guarantees of contractors who have signed agreements with the Ministry of Construction and Housing and who meet the threshold conditions. The volume of guarantees to be released is NIS 20-30 million.

Expedited approval of invoices and reduced credit days in the development budget – Reduction of the number of actual credit days in payments to contractors by the state. Each one-week reduction in days of credit represents tens of millions of shekels in contractors' cash flows.

Promotion of development tenders and financing of "meta-infrastructures" in projects – The ministries will work to identify and remove barriers, and to promote projects with extensive marketing potential (volume of housing units, statutory availability). The removal of barriers will considerably increase the supply of homes.

Release of Sales Law guarantees – The prolonged proceedings for the issuance of lease contracts for buyers of homes at the ILA leads to delays in the release of contractors' guarantees under the Sales Law. This delay weighs down contractors' backlog of liabilities and makes it difficult for the contractors to obtain bank credit. As part of the plan to accelerate real-market economic activity, the ILA has been provided with additional resources aimed at accelerating the issuance of lease contracts to home buyers and releasing contractors' Sales Law guarantees.

As a reminder, in the previous stages of the acceleration plan the ILA Council made a decision to change the spreading of payments in allocations of land designated for industry, commerce, and hotels to entrepreneurs, such that at the time of the win the contractor would transfer only 25% of the capitalized leasing fee, with the remaining payment to be spread over two years. The Council also decided to reduce the minimum price in land tenders from 75% to 50% of the assessor's estimate.