

## **Is it time to take a leap or stay on the fence?**

**By: Moshe Cohen**

For most of us, the single most important financial investment we make in life is our home. While we all spend time thinking and talking about house prices, it is something we think of as an abstract idea that we will rely on as an inheritance for our children, a nest egg for our retirement, or a long term investment for the family. It is important however, in the short to medium term, that we feel safe in our ability to cover the mortgage repayments as well as maintain the property and accordingly, the value of the investment.

This being said, the question everyone is asking is not whether prices of property will continue to rise at the same pace as previous 5 years, but whether prices will rise at all or even fall over the coming 5 years. To answer this question let's look at what happened generally in 2012, what changes have happened since the election in February, and the appointment of Moshe Kahlon as the new head of the Israel Lands authority.

Looking at the facts on the ground, new mortgages were 4% higher in 2012 than in 2011 at NIS 46.6B almost equalling the 2010 record of NIS 47B.

New mortgage regulations came into effect from November 2012, restricting first time buyers to 75% LTV (percentage financing allowed) and foreigners and investors to 50% LTV. Despite these restrictions the rate of new mortgages has continued to rise month on month (since November 2012) with a brief lull in April 2013.

VAT rose by 1% to 18% in June, and one of the immediate effects was the sudden rush of first hand buyers to pay down early to avoid the 1% increase of outstanding amounts owed to contractors.

Those thinking of upgrading homes in the future should also pay attention to the fact that if passed by the Knesset, will need to pay an additional NIS 50,000 in purchase tax due to Ministry of Finance removing previous exemptions for people upgrading their homes.

The one plus, however for home owners and home buyers is that the prime lending rate has fallen substantially over the last 12 months from 4% to 2.75%. The net effect of low interest rates is lower monthly mortgage repayments in the short term which increases demand for people looking to purchase. Taking into account the current low interest rates, this would be a good time for home owners to look at one's current mortgage and consider refinancing.

So, you may ask yourself, do I take the leap and buy now, or stay on the fence and wait? On the one side we have major new mortgage restrictions, a rise in VAT and purchase tax increase but to counter, we have low interest rates (due to the problems in the world economy still looming, interest rates are likely to stay low for the foreseeable future) and continued supply pressure.

While we don't see property prices rising at the pace they have over the past few years, we do not forecast prices dropping significantly or at all due to continued supply demands which are likely to overshadow the downward pressures, as mentioned above.

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