



# Dream Assets

## War & Markets

Assessing the Impact on Israel's  
Economy and Real Estate in

2024-25



# How Did Israeli Real Estate Perform In Previous Conflicts?



## 1967 The Six-Day War:

One year following the conflict, housing prices exhibited a 6% increase, followed by another notable surge of 14% two years later.



## 1973 Yom Kippur War:

Despite Israel's economic challenges, including an inflation rate of approximately 56%, there was a significant upswing of about 39% in housing prices within a year after the war. Another noteworthy increase, around 28%, was recorded in 1975.



## 1982-1985 Lebanon War:

The consistent trend continued, with a post-war price escalation of 28%. A subsequent year witnessed an additional jump of 16%.



## 1992 The Gulf War:

An average increase of 32%.



## 2006 The Second Lebanon War:

Unique episode: Initial dip of 1.6%, corrected to 7% increase two years later.



Despite the real estate market's subdued performance during this conflict, it is crucial to recognize the global recession concurrent with these events, impacting real estate on a global scale.



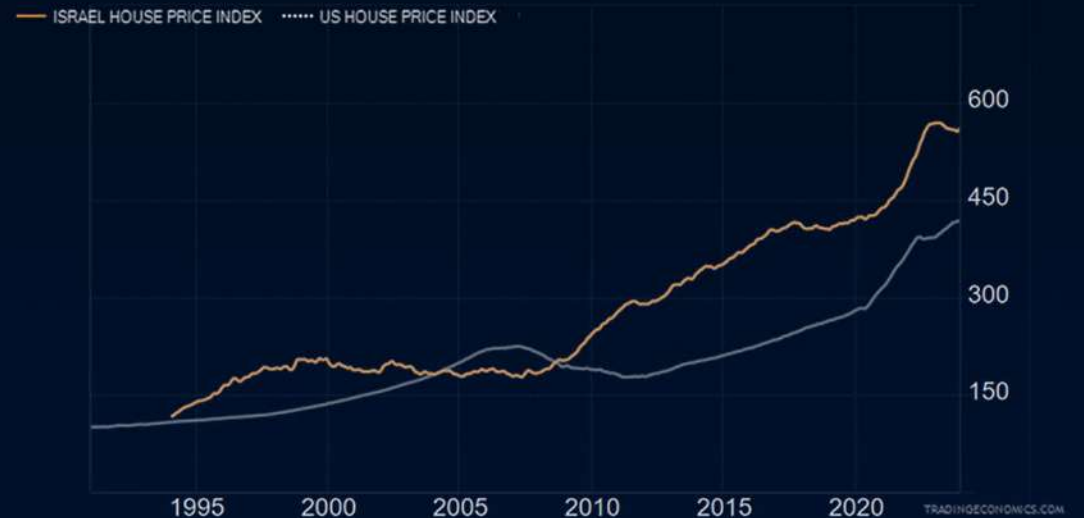
Against the backdrop of the Great Recession, the United States underwent a significant shift in real estate dynamics. The market transitioned from double-digit growth to a 5.5% increase in 2006, followed by a further deceleration to 4.5% in 2007 and a substantial decline of -18.4% in 2008.



## Key Takeaway

Israeli real estate displayed remarkable resilience during war times and economic uncertainties, showcasing its ability to withstand geopolitical challenges.

## Israel versus United States Housing Price Index



# Israel's Economy

## Will the Israeli Economy Withstand the War?



**Professor Avi Simhon**

Chairperson of Israel's National Economic Council

The duration of the conflict remains uncertain, and the anticipated cost is acknowledged to be NIS 200 billion. Even in the worst-case scenario, where the war's cost constitutes 10.5% of the GDP and the debt-to-GDP ratio reaches 70%, it is considered manageable.

In comparison to Israel, the US, France, and Britain surpassed a 100% debt-to-GDP ratio in 2022. The resilience of the Israeli economy suggests its capacity to effectively navigate economic challenges.



**Amir Kahanovich**

Deputy CEO and Chief Economist at Profit

Following the Gaza war, the region is expected to receive substantial humanitarian aid from the US, Qatar, Saudi Arabia, and the EU. The aid, directed towards reconstruction, may inadvertently influence the strength of the Israeli currency, as the funds are likely to be converted into shekels, notwithstanding the uncertainty surrounding Gaza's future leadership.

A significant portion of the NIS 200 billion war cost is expected to circulate back into the private sector, compensating businesses, supporting reservists, and contributing to the overall reconstruction effort.

"Israel's economic revenge will come after the war."

Simhon dismisses economic concerns during the war and emphasizes Israel's economic resilience, highlighting the strong correlation between the shekel-dollar exchange rate and US Treasury bill yields. Israel's economic strength is emphasized by maintaining low-interest rates relative to the United States.

# The Israeli Shekel

How Will The Shekel Be Impacted, and to What Extent?



1

## History of the Israeli Shekel - General Trend:



- Over the past decade, the Israeli Shekel stands as the sole major currency to appreciate against the US Dollar, experiencing a notable increase of 8.9%. In contrast, the GBP depreciated by 30.9%, and the EUR by 24.6%.

2

## Israel's Reserves Allocated to Stabilize the Shekel:

- The Bank of Israel reports a foreign exchange balance totaling \$191.2 billion.
- Despite a designated allocation of \$30 billion for the purpose of selling dollars to stabilize the shekel and bring equilibrium to the foreign exchange market, the central bank of Israel executed sales amounting to approximately \$8.2 billion.
- This figure represents roughly 4% of the nation's reserves, underscoring a prudent and measured approach to managing both currency stability and available financial resources.

## Where the Shekel Stands Now:



- The shekel-to-dollar exchange rate has achieved stability, currently standing at a representative rate of 3.65 shekels (as of March 14<sup>th</sup> 2024).
- Our successful navigation through the conflict has not only been evident but has also resulted in increased resilience and strength compared to pre-war conditions, as illustrated in the accompanying chart.

# The Israeli Shekel

## Key Takeaways



The Israeli Shekel has consistently exhibited superior performance when compared to the US Dollar.



The Bank of Israel possesses substantial resources, positioning it to withstand the impact of the conflict.



Our post-war recovery is not only observable but has also strengthened our position, making us more resilient than before.



# Israeli Real Estate Outlook 2024:

## Navigating Trends and Opportunities



In the realm of economics, the law of supply and demand stands as an indispensable cornerstone governing market dynamics.



The law of supply and demand is the theory that prices are determined by the relationship between supply and demand.



If the supply of a good or service outstrips the demand for it, prices will fall.



If demand exceeds supply, prices will rise.  
(See notes for an in-depth explanation about the Law of Supply and Demand)



Let us now explore the myriad factors influencing supply and demand within the Israeli real estate market and analyze the anticipated impact of the ongoing conflict on these dynamics.



### Supply and Demand



# Israel's Housing Market: Low Supply

## Crisis or Investment Opportunity?



### Pre-War

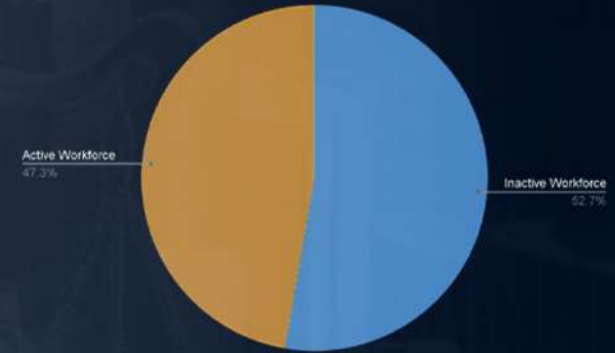
Israel is currently contending with a significant housing shortage.

As of the onset of 2023, the deficit stands at approximately 200,000 units. Additionally, the annual demand for new households hovers around 50,000 to 60,000.

### Interwar



### Construction Workforce



#### 1 The absence of Palestinian workers

has become a notable challenge for Israel's construction industry. Previously, around 102,000 workers (comprising 49% of the construction workforce) from Gaza and the West Bank played a crucial role.

However, Israel has imposed indefinite restrictions on Gazans' employment in the country, and the status of allowing West Bank Palestinians to resume work remains uncertain.



#### 2 The departure of foreign workers

totaling around 23,000 individuals, due to safety concerns has exacerbated the shortage of skilled labor in the real estate sector.



#### 3 Developers serving in the army or affected by military obligations

constituting 8% of Israel's workforce, are facing constraints in their work schedules, impacting the progress of development projects.



#### 4 A slowdown in government offices is contributing to bureaucratic delays

hindering regulatory approvals and permitting processes. This poses challenges for developers and stakeholders in obtaining timely building permits.

# High Demand

Unraveling the Forces Behind the Surge, from Booming Birthrates to Soaring Immigration



## Pre-War



### High Natality:

Israel boasts a comparatively high fertility rate of 2.9, surpassing the rates of 1.7 in the United States and 1.6 in the United Kingdom.

### Immigration:

Israel's immigration policy, rooted in the concept of The Law of Return, welcomes Jews from around the world to relocate and become citizens. The objective is to establish a secure refuge for Jews across the globe, which leads to a significant influx of immigration to Israel, facilitated by their inclusive and open policy.

## Post-War



### Immigration:

Globally, antisemitic incidents surged by 500%, as reported by Amichai Chikli.

In the U.S., antisemitism rose by 337% between October 7 and December 7, according to the Anti-Defamation League, and London witnessed a 1350% increase in antisemitic incidents since October 7, as reported by the Metropolitan Police.

American Jewish Committee (AJC) statistics reveal that up to 79% of antisemitic harassment goes unreported. Israel's ambassador to the UN, Gilad Erdan, highlighted a wave of hatred not seen in almost 80 years.

## Forecast 2024



Over the past year, a global inflationary trend has led to an increase in interest rates in Israel. In December 2023, the Bank of Israel initiated the first step to reduce interest rates.



Anticipated interest rates for the fourth quarter of 2024 are expected to range between 3.75% and 4.00%. With declining interest rates, individuals who had previously stayed on the sidelines due to elevated rates are expected to re-enter the market, leading to increased demand.



Major General Doron Almog anticipates a million new immigrants over the next few years due to rising anti semitism in Jewish communities worldwide, as stated to Israeli news outlet N12.



Dron Almog



New Olim



Bank of Israel



As rates decline and market demand rises, we're already witnessing the trend unfold, as evidenced by January 2024's record-breaking home sales of 8,053 units, marking a 33% increase from the 2023 average, alongside a 46.2% rise in new home sales.

# LOCATIONS

## Risky & Promising Locations



### Pre-War Supply and Demand Dynamics



Investing in areas characterized by limited supply and high demand tends to yield more favorable returns, as elucidated on page 4.



Periphery regions frequently encounter subdued demand, often attributed to the preference for central city living.



The primary driver behind individuals opting for peripheral living is typically the lower cost. Consequently, the potential for price appreciation is constrained, as any significant increase in prices may dissuade residents. Additionally, these areas often exhibit lower socio-economic circumstances.



### Post-War Challenges Border Security Concerns in the North and South



Fear of living on borders due to terrorist infiltration risks.



Increased exposure to rocket attacks.



**Tel-Aviv:** While it serves as a central hub and is generally secure, this location has experienced a significant number of barrage rocket incidents, which may raise concerns for individuals.



**Jerusalem:** A highly central location, Jerusalem has witnessed minimal rocket activity, underscoring its significance not only for its historical importance but also for its relative safety.



While Jerusalem benefits from robust security measures, with both the police and the army highly prepared, there is still a concern about potential terrorist attacks originating from Arab villages in the West Bank.



The military exercises control and maintains access to the West Bank, in contrast to Gaza, thereby minimizing the associated risks.



The heightened concern about potential terrorist incidents could increase the vulnerability of suburbs in the Judea and Samaria region. Conversely, areas within Jerusalem that do not share borders with Arab villages in the West Bank may offer more favorable investment opportunities.

# LOCATIONS

## Risky & Promising Locations



### Light Rail Impact Transformation of Neighbourhoods:

- Israel is undergoing a major shift in public transportation, implementing nationwide light rail commuting.
- The transformative system not only improves accessibility and reduces commute times but also revitalizes neighborhoods. The allure of quick, reliable commuting is drawing residents to outskirts of central cities, making them prime investment locations due to affordability and efficient transportation to the city center.
- As the network expands, about half of Jerusalem's population will be within a five-minute walk of a train station, with the system accommodating over 400,000 passengers daily and reducing waiting times to approximately five minutes between trains.
- The ongoing expansion raises concerns about potential negative impacts on central city areas, as a significant number of individuals may opt to live in outlying regions, potentially leading to a decline in property prices.
- In essence, Israel's efficient light rail system enables peripheral living with swift access to city centers, eliminating the need for expensive urban living and promoting an affordable peripheral lifestyle within the big cities.

### Urban Renewal Revitalizing Communities:

- The Israeli government is undertaking urban renewal initiatives to revitalize communities for two primary reasons:
- Firstly, addressing the seismic and security vulnerabilities in structures built prior to the 1980s, which lack secure rooms for protection against earthquakes and rockets.
- Secondly, the redevelopment involves replacing low-rise structures, typically with 3-4 floors, to construct multi-story buildings, aiming to alleviate the housing shortage prevalent in Israel.
- Urban renewal involves strategically enhancing neighborhoods with improved amenities such as gyms, pools, and workplaces, elevating living standards and making these areas more attractive.
- This strategic improvement not only attracts residents seeking higher socioeconomic status but also contributes to the overall increase in property values.
- The alleviation of housing shortages through improved urban amenities and transportation, such as the light rail, ensures that residents who might have considered leaving Jerusalem can now stay, leading to a surge in demand for properties within the city.



# Why Warren Buffett Invests in Israel?



**Q** Despite Warren Buffett's risk-averse reputation and insurance background, why does he invest in Israel despite its war risk?

**A** Buffett's view is that if facilities are bombed, he can build another plant. The plant does not represent the value of the company. It's the talent of the employees and management, the international base of loyal customers, and the brand that constitute a company's value. Missiles, even if they can destroy factories, do not, in Buffett's eyes, represent catastrophic risk.



**Example:** During the 1991 Gulf War, Intel Jerusalem employees demonstrated remarkable resilience. Unfazed by the conflict, they calmly entered sealed rooms wearing gas masks, then promptly returned to their workstations. Impressively, 75% attended the first post-attack morning shift, with the number increasing to 80% the following day.









Warren Buffett is not alone in his assessment. Many large-cap companies, such as Google, Intel, BMG, Apple, and others, invest in Israel and have R&D centers, seeing Israel as a leader in innovation.



Beyond concerns, they recognize Israel's innovation strength, focusing on talent and technology. The Israeli workforce's adaptability and innovation outweigh geopolitical risks, making Israel a hub of technological excellence.



Company	Amount Invested (Estimated)	Acquisitions
 <b>Apple</b> (USA)	1.2 billion+	3 R&D centers
 <b>Microsoft</b> (USA)	5-7 billion worth of sales per year in Israel	Established in 1991, the first of three R&D centers marked the pioneering expansion beyond the United States.
 <b>intel.</b> (USA)	42 billion invested	3 R&D centers
 <b>CISCO</b> (USA)	2 billion invested in Israel	1 R&D center
 <b>amazon</b> (USA)	Amazon plans to invest up to \$7.2 billion from 2023 through 2037.	2 R&D centers
 <b>bmc</b> (USA)	1 billion	Israel stands as a prominent hub for R&D centers, boasting one of the largest concentrations of such facilities globally.

**“Thanks to Dov Frohman, Eitan Wertheimer, and many others, the question of catastrophic risk for investors and multinationals looking to do business in Israel is virtually irrelevant.”** (Dan Senor and Saul Singer, authors of Start-Up Nation & The Genius of Israel)



# Key Insights and Takeaways



## 1 Previous conflicts:

Israeli real estate has proven its resilience during wars and economic uncertainties, consistently demonstrating the ability to withstand geopolitical challenges. Historical data reveals a pattern of robust performance, with the market not only weathering past conflicts but also experiencing substantial appreciation. This enduring strength highlights the market's capacity to navigate adversities effectively.



## 2 Israel's Economy:

Israel's economy is characterized by its dynamism, and it appears well-equipped to absorb the costs of the war. The economic impact of the conflict seems manageable and sustainable, reflecting the nation's resilience in the face of challenges.



## 3 The Israeli Shekel:

The Israeli Shekel has consistently outperformed the US Dollar, showcasing financial strength. The Bank of Israel, equipped with substantial resources, stands resilient against the impact of the conflict. Furthermore, our post-war recovery is not only evident, but we're also stronger than before the conflict, reinforcing our position and demonstrating increased resilience.



## 4 Supply Challenges:

Israel is grappling with a persistent housing shortage, further exacerbated by the war, which promises to deepen the crisis in the years ahead. The already low supply is expected to worsen considerably, which could lead to price appreciation and presenting a timely investment opportunity.



## 5 Surging Demand:

Israel contends with exceptionally high demand fueled by robust natality rates and immigration. The ongoing war, coupled with a global uptick in anti-semitism, is set to intensify this demand. Paired with decreasing interest rates, 2024 may witness an unprecedented surge in housing demand.



## 6 Strategic Locations:

The war's impact on demand varies across regions. Peripheral areas in the north and south may experience decreased demand, while suburbs of central cities, benefiting from the implementation of the light rail and urban renewal initiatives, could witness heightened demand. These urban hubs emerge as prime investment locations.



## 7 Investor Confidence:

Major players like Google, Apple, and Microsoft, along with seasoned investors like Warren Buffett, view Israel as a leader in innovation. The adaptability and innovation of the Israeli workforce outweigh geopolitical concerns, positioning Israel as a global hub for technological excellence.



## Outlook for 2024

The unique combination of market resilience, increasing demand, strategic locations, and investor confidence in Israel's innovative potential makes 2024 a particularly promising year for those considering real estate investments in the country.



**“Be fearful when others are greedy and  
greedy when others are fearful.”**

*Warren Buffett*

We hope that our presentation has provided you valuable insights and a comprehensive understanding of the current Israeli economy, particularly the real estate market.

Wishing you abundant success in all your future investments, and may we also extend our heartfelt prayers for the protection of our brave soldiers and the swift return of our beloved hostages.

*The Dream Team*