



## EU Twinning Project

Balance of Payments

FDI in Real Estate  
in the Israeli BoP/IIP statistics


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## Overview

- Background and introduction
- Inward FDI
- Outward FDI
- Outward FDI - Possible future sources


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## Background and introduction

- Difficulties in identifying the transactions in the ITRS
- IIP methodological problem
- Inward FDI
  - Transactions are taken from Tax Authorities
  - Positions are taken from Municipalities


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## Inward FDI

Transactions

Tax Authorities.


Registration of actual purchasing prices

Stocks


Building and Dwelling Register

Reportings from Tel Aviv and Jerusalem municipalities

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## Inward FDI

- $T + \text{Transactions} + \text{Revaluations} + \text{Other changes} = T_{+1}$
- Transactions data
  - The distinction via passport
  - Over-reporting
  - Partial ownership
  - Over-estimation

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## Inward FDI

- Positions – Buildings and Dwellings Register in ICBS
  - The data provided starting from 2011 (June)
  - Tel Aviv, Jerusalem and Bat Yam are covered, however only Tel Aviv and Jerusalem can be matched with the transactions
  - The distinction via passport
  - Municipal peculiarities (balconies, ‘false duplicates’)


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## Inward FDI

- Positions – Buildings and Dwellings Register in ICBS
  - The output is the amount of residential units belonging to non-residents (with no prices).
  - The difference between one year and the next is distributed linearly on quarters.


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## Inward FDI

- Estimating the value of the stock
  - Assumption 1: The average price of a residential unit can be constructed as the average of the two surrounding quarters
  - Assumption 2: New investments in average has the same characteristics and value as the average existing unit
- The information on prices from the transactions is re-used to also apply for the position data.
- Outliers


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## Inward FDI

- When estimating the revaluation item of the model the change in the average transaction prices of the following quarter, as compared to the previous one, is used. This change in average transaction price is multiplied onto the number of real estate units to obtain a measure of the total revaluation item.


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## Inward FDI


- Interpretation of the model
  - So far, only 8 quarters have been analyzed , for each end-of-quarter, the value of the stock is estimated as the number of real estate units multiplied by the constructed average price
- Other changes = Closing stock – Opening stock - Transactions – Revaluations
- The main interpretation of the ‘Other changes’ item is as a measure of the total value of the real estate units owned by non-residents at the beginning of the quarter, but not at the end of the quarter

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Inward FDI Estimates – Jerusalem and Tel Aviv											
Jerusalem											
	Opening stock		Transactions	Revaluations	Other changes	Closing stock			Average prices (thousand)		
	No.	Mio NIS				Mio NIS	No.		T_0	T_1	T_2
2011Q2	4,513	8,888	600	736	1	9,489	4,571	2011Q3	1,888	2,051	2,101
2011Q3	4,571	9,489	550	229	-744	9,295	4,629	2011Q4	2,051	2,101	1,915
2011Q4	4,629	9,295	536	-861	-780	9,051	4,687	2012Q1	2,101	1,915	1,947
2012Q1	4,687	9,051	566	150	-119	9,497	4,744	2012Q2	1,915	1,947	2,057
2012Q2	4,744	9,497	739	522	-59	10,178	4,775	2012Q3	1,947	2,057	2,206
2012Q3	4,775	10,178	755	711	-626	10,307	4,805	2012Q4	2,057	2,206	2,084
2012Q4	4,805	10,307	642	-586	-948	10,001	4,836	2013Q1	2,206	2,084	2,052
2013Q1	4,836	10,001	690	-155	-404	10,287	4,866	2013Q2	2,084	2,052	2,176
2013Q2	4,866	10,287							2,052	2,176	
Tel Aviv											
	Opening stock		Transactions	Revaluations	Other changes	Closing stock			Average prices (thousand)		
	No.	Mio NIS				Mio NIS	No.		T_0	T_1	T_2
2011Q2	2,494	6,231	451	-651	-292	6,391	2,513	2011Q3	2,629	2,368	2,718
2011Q3	2,513	6,391	364	880	-437	6,317	2,531	2011Q4	2,368	2,718	2,274
2011Q4	2,531	6,317	462	-1,124	-745	6,035	2,550	2012Q1	2,718	2,274	2,459
2012Q1	2,550	6,035	500	472	-80	6,455	2,568	2012Q2	2,274	2,459	2,568
2012Q2	2,568	6,455	650	280	-188	6,917	2,640	2012Q3	2,459	2,568	2,672
2012Q3	2,640	6,917	528	275	-200	7,245	2,711	2012Q4	2,568	2,672	2,673
2012Q4	2,711	7,245	611	3	-353	7,503	2,783	2013Q1	2,672	2,673	2,719
2013Q1	2,783	7,503	563	128	-334	7,731	2,854	2013Q2	2,673	2,719	2,699
2013Q2	2,854	7,731							2,719	2,699	
Total											
	Opening stock		Transactions	Revaluations	Other changes	Closing stock					
	No.	Mio NIS				Mio NIS	No.				
2011Q4	7160	15,612	4,736	425	-2,797	17,552	7,516	2012Q4			

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Inward FDI											
<ul style="list-style-type: none"> <li>A projection method regarding the quarterly position data has to be thought of. The simplest solution would be to add the current transactions to the latest stock estimate, and only taking the price effects into proper account when new stock data becomes available</li> <li>It should be analyzed whether the considerable amount of FDI gives rise to investment income to the non-resident owners. It is well-known that some of the non-resident owned apartments are empty when not being used by their owners, but part of it may also be rented out.</li> </ul>											
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## Outward FDI

- The outward FDI in real estate, is thought to be considerably less in volume than the inward FDI. The problem is that this idea is just an idea and not based on any evidence
- Some attempts have been made at studying a study on immigrants that was conducted in 2011 in the ICBS, but only very vague information on the financial relations between the immigrants and their family members in the home country can be derived

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## Outward FDI

- It remains to be analyzed whether information from the ITRS can provide any information about real estate brokers in Israel, specializing in selling foreign real estate to Israeli residents
- One disturbing factor is the financing through non-resident banks which is especially relevant for investments requiring some kind of mortgage loans.


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## Outward FDI - Possible future sources

- A sample survey, directed towards Israel real estate brokers specialized in selling foreign real estate to Israeli residents could be a way of obtaining rather solid information on this part of the transactions.
- Even if it was possible to identify the total population of such brokers, the coverage might be unknown because also non-resident brokers (in New York, Paris etc.) are selling directly to Israeli citizens, and some real estate transactions would go through other channels.


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## Thank you !

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