

Hit hard by virus, Jerusalem looks for a turnaround

Nearly a third of residents are on unemployment; real estate players hope a return of foreign buyers will save the city

Hadar Horesh

Jerusalem Day was marked Thursday at a sad time for the city. In recent weeks it had the unwelcome distinction of being an epicenter of the coronavirus pandemic, with scores of deaths and entire neighborhoods ordered into lockdown.

The city's economy was hit badly as well. In April, 30% of the labor force was collecting unemployment benefits, or 101,000 people. That was far more than Tel Aviv's 67,000 or Haifa's 35,000. One reason was the shutting down wholly or partly of the tourism industry – hotels, restaurants, museums and cultural institutions.

Over the last 10 days or so, Jerusalem has begun to emerge from the crisis. Even the local real estate sector, which suffered as much as tourism, is coming back to life.

"Over the last few months we closed on a few deals that had been underway before the lockdown," said Bennie Loyal, who heads the Anglo-Saxon real estate agency in Jerusalem. "The numbers are better than we would have expected, though there still aren't any new home buyers coming into the market."

He said buyers had accepted prices that were agreed on before the lockdown. "But I think that in the coming months we'll see a certain drop in prices, in part because before the lockdown, prices had risen a little too much," Loyal said.

According to the Central Bureau of Statistics, the average home of three and a half to four rooms in Jerusalem sold for 1.9 million shekels (\$540,000). In the

first quarter of 2020, prices in this sector had risen 14% to an average of 2.3 million shekels.

Even though the city is poor, rents have been rising quickly, too. The Yad2 property website said rent on an average for three-room apartments has climbed 21% over the last decade, an increase only exceeded nationally by Tel Aviv's 30%.

Home sellers in the city's most expensive neighborhoods, as well as the ultra-Orthodox areas that are most in demand, are counting on a return of foreign buyers, mainly Diaspora Jews who buy homes for investment purposes or as a second home.

Foreign demand has been declining in recent years and this year got off to a bad start. Diaspora Jews tend to shop for homes during Passover visits, but this year the coronavirus kept them home.

A city of contrasts

The next hope is that buyers will emerge during the second favorite time of the year to go house hunting, the summer.

"The impact of foreigners is smaller than it was in the past; they began withdrawing from the market about four years ago after the purchase tax on investment homes was raised," Loyal said.

"But a new trend could be developing. I'm getting phone calls from Jews who are considering moving to Israel after the coronavirus pandemic and the crisis in the Diaspora Jewish community."

He said there was a good chance of a strong increase in demand in Jerusalem from foreign buyers over



Construction in Jerusalem's Ein Karem neighborhood.

Emil Salman

the next few months. Haim Mesilati, a property assessor and attorney, said the change had already begun.

"Jerusalem is seeing strong demand and pretty big price increases compared to the national average," he said. "But residential properties aren't a lucrative investment; the annual return on average is just 4%."

Economically, Jerusalem is a city of contrasts. In 2017, Jerusalem-based Mobileye, a self-driving-technology company, was bought by Intel for \$15 billion and began to expand and hire workers. Less than a year later, the Interior Ministry lowered the city's socioeconomic rating to 2 on a scale of 1 to 10.

While the city boasts high-tech engineers and much larger numbers of civil servants who earn average to high salaries, the great mass of Jerusalemites live a life of poverty. The city struggles to collect *arnona*, municipal tax, due to its many impoverished residents. And it has little industry to make up the difference.

The result is that it receives about 900 million shekels annually from the central government, equal to 43% of the *arnona* it collects.

High-tech always desired

The city's situation isn't likely to improve in the foreseeable future. Local

authorities' finances are largely dictated by the extent of commercial real estate on their patch. *Arnona* rates are much higher on commercial buildings than residential, even though a city's tax revenues largely go toward services for the people.

The Interior Ministry says that ideally, a city should collect half its municipal tax from commercial establishments, but in Jerusalem the rate is about one-third and the percentage is expected to fall.

"There's not enough non-residential construction in Jerusalem," said Mesilati, the property assessor, adding that residential construction accounted for

an unusually high 89% of building in the capital in recent decades, or 5.7 million square meters (2.2 square miles).

Institutional construction followed at 499,000 square meters, followed by offices (426,000), public buildings (279,000), industry and warehouses (226,000), hotels and accommodation (204,000) and health care institutions (145,000).

The shortfall in creating jobs is mainly due to the city's failure to attract more high-tech companies. Nir Barkat, the city's previous mayor, strove to lure them, but even with the presence of Mobileye and venture capitalist Erel Margalit, the tech hegemony of Tel Aviv and Herzliya was never threatened.

Jerusalem's current mayor, Moshe Leon, said the city was no longer a high-tech laggard. "In Jerusalem today there are 550 multinational high-tech companies," he said.

"In the last five years we've created 5,000 jobs connected to high-tech. We're building the infrastructure for more than 1 million square meters of employment space."

Leon added: "Jerusalem is attracting a young, strong population, and that will soon raise its socioeconomic rating."

Mesilati agreed that Je-

rusalem had stemmed the exodus of young families from the city in recent years and even reversed the trend. Still, according to the statistics bureau, the city suffered a net migration of 8,400 people last year, many of them young ultra-Orthodox families, Haredim, decamping to Beit Shemesh.

Jerusalem has had a rough history in creating jobs. Areas like Givat Shaul and Talpiot, which once housed light industry and some commerce, have become a mix of commercial and residential areas. High-tech parks in Har Hotzvim and Malha have only limited space to develop.

In many cases, Jerusalem has lost out to the suburbs for major projects. For instance, Kass Group is developing a giant 110,000-square-meter furniture center and amusement park in Mishor Adumim just outside the city.

"The character of the city has become more tourism-oriented. Commercial areas are being transformed into residential areas because it pays better for developers," said Hanoach Kass, who leads the Kass Group.

He said Jerusalemites "are getting used to traveling outside the city to do their shopping. Even the Haredim, who used to sticking to their neighborhoods, go to shopping centers outside the city."