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A Decade Without a Housing Policy

The Israeli Government's Withdrawal from the Housing Market and the Social Protests of 2011

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A Decade Without a Housing Policy:

The Government's Withdrawal from the Housing Market and the Social Protests of 2011

Gilat Benchetrit*

Abstract

The summer of 2011 saw an eruption of social protest in Israel. At the heart of the protest were soaring housing prices in Israel. Over the preceding decade, the Israeli government withdrew from the housing market after heavy involvement since the State's establishment. As a result, only those segments of the housing market survived which were not dependent on government subsidies and support. New construction failed to meet the growing demand caused by population growth, and the resulting housing shortage led to a sharp surge in housing prices.

In the current decade, the Israeli government decreased its housing subsidies which in the past enabled widespread homeownership and a steep decline in homeownership rates began. Only a fraction of Israel's public housing program remained, after a large portion of the public housing was sold. The single mechanism that remains relevant for those in need is a rent subsidy, although it creates an unstable housing arrangement. The government's refusal to intervene in the housing market has adverse consequences on several levels, including failure to realize the vision of Israel's current national master plan, TAMA 35; increasing the polarity between the geographic center and periphery of the country; rising prices and inflation, which ultimately forced the Bank of Israel to intervene in the home loan market; and growing discontent among large swathes of the Israeli population.

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Introduction

In the summer of 2011 a wave of social protests erupted in Israel. Spurred by a handful of young organizers, Israelis in the hundreds of thousands assembled in Israel's streets and city squares to call for social justice. This wave of protest was marked by the participation of diverse demographic groups, including the population of well-educated and potentially high earners. Central to the demonstrators' grievances were Israel's high cost of living and, in particular, soaring housing prices.

An analysis of housing data for 2011 reveals a sharp increase in housing prices and a crisis in the housing market. This crisis was not created overnight, but developed gradually over the preceding decade. The housing shortage is the result of the neoliberal conception that market forces should determine housing supply and that government intervention is unnecessary, even harmful. In the decade before the protests of 2011, the Israeli government purposely shunned active housing policies. This lack of intervention led to a severe shortfall in housing, especially affordable housing.[1] Experts disagree whether soaring housing prices represent a "bubble" requiring government interference or a "self-correcting market" in need of no such intervention. Such theoretical debates are of little interest, however, to ordinary citizens facing dim housing prospects.

Housing, by its very nature, is prone to market failure, or inefficient resource allocation. A home is an expensive product, and economic obstacles prevent the market from delivering suitable, affordable housing to disadvantaged households. Suitable housing is an important social desideratum with major social advantages. It is crucial to households' ability to become part of the fabric of modern social life and to individuals' physical and mental health. Secure, long-term housing

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1 Affordable housing is housing whose cost to the household does not come at the expense of other essentials, like food and healthcare. It is generally accepted that housing is affordable when those costs do not exceed 30 percent of the household's available income.

arrangements are also vital to building stable communities. For these reasons and more, governments in developed countries have developed a range of mechanisms to provide their needier citizens with suitable housing – from simple mechanisms of direct intervention, like, government-initiated housing projects, to indirect assistance programs such as the creation of a secondary mortgage market (Werzberger, 2001) and subsidies for home loan credit insurance (Benchetrit, 2008).

The housing market is also prone to great price fluctuations due to supply and demand rigidity. Supply is rigid because of the long time required to produce housing units; demand is rigid because everyone needs a dwelling and residential address in order to become part of modern social life. According to the Ministry of Construction and Housing, the shortfall in housing reached 100,000 units in summer 2011, estimated at less than 4 percent of the total housing stock in Israel. The housing crisis that led to social unrest can thus be summarized as follows: a 4 percent housing shortage led to an over 40 percent surge in home prices within four years.

The present paper is divided into three chapters:

1. **The structure of Israel's housing market:** The extent of new construction in Israel in the last decade fell short of population growth, creating a housing shortage. Chapter 1 discusses the features of the housing units built during this decade and notes several important trends: (i) About half of all new units were built in the Tel Aviv and central districts; (ii) About half of all new units were built on privately owned land; (iii) Compared with the preceding decade, new construction increasingly took the form of large detached homes; (iv) A substantial portion of purchases in the housing market were by investors and foreign nationals. As will be explained, these trends are inconsistent with the Israeli government's stated housing policies.
2. **A decade without a housing policy:** Budgets for the Ministry of Construction and Housing suffered significant cuts during this decade, while several mechanisms of government intervention in the

housing market were eliminated. Israel's housing market has three categories of occupancy: owner occupancy, tenancy, and public housing. During the first few decades of Israeli statehood, government housing support was provided in the form of public housing. In the 1970s, the Israeli government began to provide housing assistance in the form of home loan subsidies. While in the past decade, however, rent subsidies have become the only relevant form of assistance for struggling households, a policy with serious impact on households in need.

3. **Consequences of a decade without a housing policy:** The government's lack of involvement in the housing market has had several adverse consequences: households have had to shoulder a rising housing cost burden; the polarization between Israel's central and peripheral regions has increased, as various obstacles prevented residents of the latter, poorer regions from purchasing local homes even during real estate slump periods, leaving the local market exposed to investors and speculators from the country's wealthier geographical center; and rising home prices led to inflation, forcing the Bank of Israel to intervene in the risk management policies of Israel's mortgage banks which impacted on free-market rules.

1. *Housing and Planning in Israel*

A. *The Structure and Features of Israel's Housing Market*

Government policy as reflected in taxation and housing subsidies for occupants has an impact on the structure of the housing market. Government policy helps create certain housing norms and affects the accumulation of wealth among certain groups. Homeownership is often assigned positive attributes, amongst them it encourages savings, hard work, residential and occupational stability, good citizenship and more (for an extended discussion, see Rohe et al., 2000). According to the Ministry of Construction and Housing (2006), the main justification for policies supporting homeownership is that "homeownership is a multi-generational asset in the form of accumulated family capital which promotes general economic and social stability (Ministry of Construction and Housing, 2006)." This conception is close to claims made in the United States by the Clinton Administration.[2]

From the establishment of the state until the last decade, the Israeli government took various steps to encourage homeownership (Benchetrit, 2003; Benchetrit and Czamanski, 2004). According to Slifer (1979), Israel's pro-homeownership policy was based on three primary considerations: social, economic, and maintenance-related. Socially, it was believed that homeownership fostered a sense of rootedness and personal connection to one's geographical locale, an objective of particular importance in so-called "development areas." Economically, homeownership was believed to encourage savings and lessens government investment. Maintenance-wise, homeownership was believed to encourage higher home maintenance standards.

As a result of this policy, homeownership rates rose steadily during Israel's first five decades – from 60 percent of Israeli households in 1960 to 70 percent in 1980 (Carmon, 1998). Israel is considered to have a particularly high rate of homeownership (Slifer, 1979).

A comparison of the two latest census surveys of the Central Bureau of Statistics indicates a sharp decline in homeownership rates, from 73 percent of households in 1995 to 66.4 percent in 2008. An examination of Table 1 shows that 4.3 percent live rent-free in homes owned by relatives. Yet even when the latter are included in the homeownership category, homeownership seems to have declined in recent decades.[3]

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2 U.S. Department of Housing and Urban Development (1995), *The Clinton Administration's National Urban Policy Report*.

3 The phenomenon of households sharing a home with extended family has been studied among immigrants from the former Soviet Union (Katz and Lowenstein, 1999). Studies in Europe (e.g., Aassve et al.) and in the United States indicate a trend of young adults still living with their parents. This trend known in Germany ironically as "Hotel Mama" has yet to be studied in Israel.

As the table shows, the 2008 census distinguished between two main types of occupancy: owner occupancy and tenancy. This distinction neglects, however, a major housing variable, namely occupancy stability.

According to the 2008 census, 66.4 percent of Israeli households are owner-occupiers. This simplistic category ignores, however, economic distress among heavily mortgaged homeowners. To accurately reflect the structure and stability of the housing market, a distinction between "free-and-clear" and mortgaged homeownership[4] must be made.

Table 1. **Housing market by household housing status,*, 2008**

Housing status	Percentage of households	Breakdown of status type
Owner occupancy/rent-free occupancy in home owned by relatives	70.7%	Owner-occupancy – 66.4% Rent free in home with relatives – 4.3%
Tenancy	26.6%	Private rental market – 17.2% Public housing** – 3.3% Rent subsidies for rental in private market*** – 6.1%
Other/Unknown	2.7%	--

* Based on a representative sample of 2,278,950 households in Israel

** At the beginning of 2011 there were 75,500 public housing units (Fidelman, 2011)

*** In 2011 138,000 households received a subsidy from the Ministry of Construction and Building

Source: Gilat Benchetrit and Taub Center

Data: Central Bureau of Statistics, *Population Census 2008*

4 A British government survey makes this distinction between "free-and-clear" homeownership and ownership with a mortgage (*English Housing Survey 2011-2012*).

Moreover, according to the census findings, 26.6% of Israeli households live in rented homes, although the data do not relate to "key money" which still exists in the housing market, although to a much smaller extent. For the most part, there is no distinction between types of tenancy and the rental type (the ownership of the rental property) which is important for a full picture of the rental market.

Tenancy in Israel falls into three main categories:

Tenancy in privately rented units at market prices: Israel does not have corporate property management companies with large stocks of rental units. The home rental market is relatively small and largely consists of a single landlord with a single property which is not the central business. In the professional literature this is generally referred to as "petty landlords" (Werzberger and Lanchner, 2002). Lease agreements are usually signed annually, sometimes with an option for extension. As a result, tenancy of this type is highly temporary in nature, usually with no long-term residential security.

Tenancy in privately rented units with government subsidies: Households falling into this category rent homes in the private market but receive government subsidies for welfare considerations. The number of such households was estimated at 138,000 in 2011 – almost twice the number of households living in public housing units (about 6 percent of Israeli households), although the rates of those receiving this grant has declined in the past decade by one-third. [5]

Private home renters eligible for government support experience high levels of residential insecurity. On the one hand, they are reliant on landlords, who can evict them. On the other hand, they are reliant on changing political decisions regarding subsidy levels and criteria.

Tenancy in public housing: This category consists of households renting government-owned units with their level of rent determined on

[5] In 2011, 195,000 households received rent subsidies (Ministry of Construction and Housing, *Monthly Information Bulletin*, 20013).

a welfare basis. The stock of public housing units has shrunk in recent years as many government-owned apartments were sold off. As of early 2011, public housing consisted of 75,500 apartments, including 63,500 regular and 12,000 sheltered housing units. In addition, the Ministry of Immigrant Absorption (via state-owned housing company Amidar) allocates 11,600 housing units to recent immigrants (Fidelman, 2011). In total, 3.3 percent of Israeli households are estimated to reside in public housing units.

In summary, homeownership and owner occupancy rates have declined significantly over the last decade.[6] There is currently no data on home loan mortgage takers as a share of all owner-occupiers. The share of households living in rented units is currently 27 percent of the housing market. Of these, roughly a third receive government support in the form of either rent subsidies or public housing, with the former exceeding the latter by a rate of two-to-one.

B. Changing Housing Prices

Israel's publicly available housing price indices are aggregative and combine in one index all geographic and socioeconomic submarkets. As Figure 1 shows, the trend towards a sharp rise in housing prices becomes apparent from 2007 and onwards. The figure presents two indices of real housing prices published by the Central Bureau of Statistics: the Home Price Index, which is based on sales; and the Housing Price Index, which is based on home rental contracts. The latter is included in the Central Bureau of Statistics' Consumer Price Index.

Since homeownership is by far the most common form of occupancy in Israel, the Home Price Index is a central indicator of changing housing prices. Nevertheless, it is not included in the Consumer Price Index. As noted, the housing component that is included in the Consumer Price Index is the Housing Price Index which gives an indication of changes in

6 It is possible that some renters also own homes that they rent out.

the rental market prices, while this market reflects less than a quarter of the housing market (Table 1).

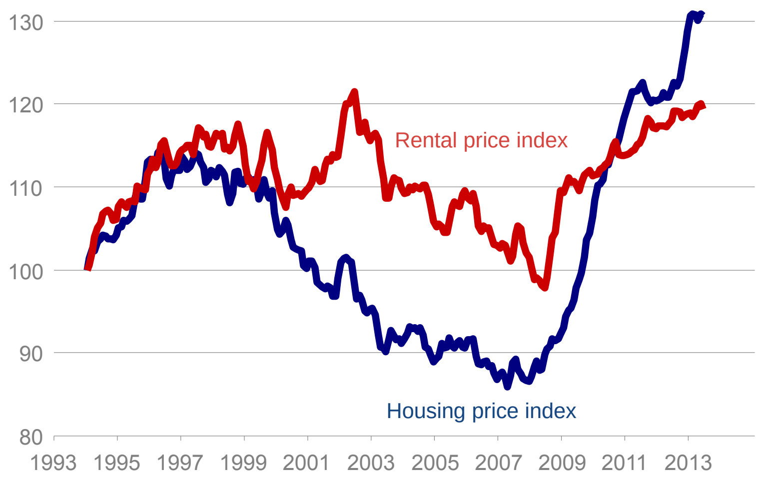
Both indices represented in Figure 1 show a marked decline in housing prices from the early 2000s to 2007. The trend was reversed in 2007, with housing prices soaring since then. The rate of increase that is reflected in the Consumer Price Index is lower relative to the Home Price Index. Between April 2007 and June 2013 there was a steady trend of a steep increase in the Home Price Index. The aggregate increase was 52 percent in real terms, versus an aggregate increase of only 17 percent in the same period in the Home Rental Index, which reflects the rise in rental prices.

As Figure 1 shows, both indices returned to their early-2000s levels in 2009. Since then, a gap has opened between purchase and rental prices. Some economists view this gap as indicating an emerging housing bubble (Case and Schiller, 2004): on this view, the growing gap is the result of speculative expectations of continued price inflation, which in turn inflates the prices home buyers are willing to pay. Notably, however, the decision to include the Housing Price Index (but not the Home Price Index) in the total CPI has helped moderate housing price inflation by tempering precisely such expectations.

Figure 1

Housing price index* and rental price index, 1994 through June 2013**

Index: 1993 average = 100



* Housing index based on home sales transactions

** Rental price index based on rental contracts

Source: Gilat Benchetrit and Taub Center

Data: Central Bureau of Statistics, *Household Survey*

C. Israel's Planning Policy

The Israeli government uses National Master Plans (Hebrew acronym TAMAs) to outline its planning policies. The latest such plan is TAMA 35 (Integrated National Master Plan for Construction, Development and Preservation), approved in late 2005. The plan allows for an annual addition of 50,000 new dwelling units until 2020, the year Israel's population is expected to reach 8.8 million.

TAMA 35 is designed to meet Israel's construction and development needs, subject to the interest of future generations for the allocation of open spaces and land reserves. The plan divides land into five zoning categories, from full-development zones to areas targeted for preservation.

A central prescription of TAMA 35 is the concentration of development in existing urban areas in order to limit suburbanization and thus maximize open spaces, increase infrastructure efficiency, and avoid further traffic congestion. To this end, the plan strongly favors urban development in existing medium-to-high-density urban areas, setting high barriers to the development of new residential communities.

TAMA 35 also prioritizes development in Jerusalem as Israel's capital, the Galilee, and the Negev: "[The plan's] population program aims to reinforce settlement in the Negev, the Galilee, and Jerusalem and to slow down development in the country's [densely populated] central region. By encouraging extensive metropolitan development in Israel's Northern and Southern regions and in Jerusalem, [the plan] aims to promote urban growth in [those areas]" (TAMA 35, "Guiding Principles," p. 18).

TAMA 35 favors the creation and preservation of economically inclusive, or mixed-income, neighborhoods. Mixed-income residential areas are to include occupant-owned alongside rented apartments, with some of the latter subject to rent control. All development plans for new residential areas are to include a detailed appendix specifying the projected residential mix and the proposed array of social services. "In this way," the plan explains, "planning agencies will be able to ensure the availability of apartments for young couples, single-parent families, and senior citizens, alongside more established families." The plan further stipulates that every major development plan be assessed for the availability of "affordable housing" and of different-size units (TAMA 35, p. 164).

In August 2008, the Israeli government under Prime Minister Ehud Olmert adopted a resolution to implement TAMA 35's population objectives in an effort to redirect development from the country's central regions to its periphery. According to the resolution, planning officials were "not to promote any development plan designed to rezone land for residential or job creation purposes in the Central District from 2009 to 2012."[7] Yet despite these objectives, development pressures in central Israel have not subsided.

D. Trends in Residential Construction in the Past Decade

Large detached homes. In the Austerity Period of the 1950s, average apartment size in Israel was 32 m^2. Since then, Israeli dwelling units increased steadily in size, to an average of 153 m^2 in 2000 and 182 m^2 in 2008 (114 and 136 m^2 for publicly built units[8]; 171 and 192 m^2 for privately built units, respectively). New construction in Israel, both public and private, is characterized, then, by increasingly spacious – and, accordingly, more costly – dwelling units.

At the same time, with the increase in average unit size, high-rise construction (three-story buildings and up) has been on the wane compared with the construction of detached homes.

Table 2 compares housing starts in 1995 and in 2007. The number of housing starts in 2007 was half the number in 1995, while the number of high-density units started in 2007 (16,000) was less than one-third the number in 1995 (48,500). These figures contradict the principles of TAMA 35. The proliferation of detached homes as a share of new construction violates the plan's stated objective of urban saturation. Moreover, detached housing is comparatively expensive, mostly serving wealthier households; by contrast, high-density construction serves households of more modest means.[9] The dramatic decrease in high-density construction is at odds, then, with the goal of affordable housing.

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7 Government Resolution 3973, August 24, 2008, pmo.gov.il/Secretary/GovDecisions/2008/Pages/des3973.aspx

8 Public construction is construction initiated by the Israeli government, national institutions such as the Jewish National Fund, municipal authorities, and all companies fully controlled, singly or jointly, by any of the above.

9 Luxury residential towers are an exception in this regard.

Table 2. Number of new housing starts by building types, 1995 and 2007

	1995	2007
Number of building starts	72,876	30,788
Type of building start	**Type (as a percent of all building starts)**	
New building of 1-2 units	21.9%	39.6%
New building of 3 or more units, up to two stories	9.8%	7.4%
New building of 3 or more units, 3 or more stories	66.6%	50.6%
Units added to existing building	1.6%	2.3%

Source: Gilat Benchetrit and Taub Center
Data: Central Bureau of Statistics, *Statistical Abstract of Israel, 2011*

Private construction on privately owned land. Some 93 percent of land within the state of Israel within the green line is designated as public.[10] Public ownership of the majority of Israeli land is designed to serve national goals, including various political, socioeconomic, and security objectives. In theory at least, public ownership allows the government to control development and ensure a supply of land and housing below market prices. It would be reasonable, therefore, to expect new construction to occur mostly on state-owned land. Actual data indicate otherwise, however, putting into question the Israeli government's commitment to achieving the aforementioned national goals.

Since 2005, the Ministry of Construction and Housing has been collecting data on all housing starts and completions, classified by type of

[10] Public land in Israel comprises land owned by the State of Israel, the Jewish National Fund, and the Development Authority.

land ownership. In the period 2008-2011, 51 percent of housing starts were on privately owned land, versus only 47 percent on publicly owned land (MOCH, *Monthly Information*, March 2012).

According to Eckstein and Perlman (1997), the Israel Land Administration (ILA) has a clear economic incentive to maximize revenues from land leasing, among other tactics by limiting the sale of land to developers. To resolve this issue, Eckstein and Perlman have called for the privatization of state-owned land. The empirical model of Parizat (2008) indicates the flawed ILA regulation for rising home prices. According to the model, home prices would have been 38 percent lower in 2007 had the ILA maintained the supply of dwelling units at 1989 levels. It is worth noting that Parizat's model relates to the period before the skyrocketing housing prices that began in the same year.

Tzadik (2007) concludes: "The Israel Land Administration markets its lands monopolistically, at a slow pace and at maximum prices in each area. This is the reason land is relatively so expensive in Israel. The marketing of land has not been subject to reform in recent years, and the supply of land has not grown."

Construction in high-demand areas - central Israel. From its inception, Israeli planning was guided by the principle of geographical diffusion. Adopting this principle, TAMA 35 designated Jerusalem, the Galilee, and the Negev as high-priority development areas. As Table 3 shows, however, central Israel (comprising the Tel Aviv and Central districts) was home to 42 percent of Israel's population in 1995 and 41 percent in 2011, absorbing 48 percent of the Jewish population added during this period (with most of this growth – over 40 percent – taking place in the Central district). These figures are inconsistent with the stated goal of geographical diffusion – except for Judea and Samaria, which absorbed 13.4% of the Jewish population during this period.

In the years 2006-2011, 48 percent of all new construction was concentrated in central Israel: of 213,500 new dwelling units built during this period, 28,500 were located in Tel Aviv, another 73,000 in the

Central District. These data, and the domestic Jewish migration they reflect, are contrary to TAMA 35's express goal of curbing new land allocation to residential and job creation purposes in central Israel (see section 1.3 above).

Table 3. **Population Distribution by District, 1995-2011**

District	**As percent of overall population, 1995**	**As percent of overall population 2011**	**Increase to Jewish population 1995-2011**		**Increase to overall population 1995-2011**
			Thousands	(As percent of overall population)	Thousands
Jerusalem	12.0%	12.4%	163.4	(11.8%)	293.6
North	16.9%	16.6%	112.1	(8.1%)	357.7
Haifa	13.2%	11.8%	67.4%	(4.9%)	183.7
Center	21.7%	24.2%	558.1	(40.3%)	678.1
Tel Aviv	20.3%	16.5%	101.3	(7.3%)	153.0
South	13.4%	14.3%	197.1	(14.2%)	366.9
Judea and Samaria	2.4%	4.2%	185.8	(13.4%)	191.2
Total	**100.0%**	**100.0%**	**1,385.2**	**(100.0%)**	**2,224.3**

Source: Gilat Benchetrit and Taub Center
Data: Central Bureau of Statistics, *Statistical Abstract of Israel, 2011*

E. *Homeownership by Real Estate Investors and Foreign Nationals*

Purchases of real estate for investment more than doubled in Israel during the 2000s, from 14,000 units in 2002 to 29,000 units in 2007. The trend peaked in 2008, with real estate investments constituting 30.4 percent of all real estate transactions in Israel. The upsurge in real estate investment was partly the result of the tax reform initiated in 2003 and partly a product of the global financial crisis which redirected capital from the financial to the real estate market (Ben Naim, 2009a). Many homes were purchased in these years by foreign nationals for investment purposes. These purchases constituted five percent of all real estate transactions, although the trend slowed down in 2008-2009 following the global financial crisis (Ben Naim, 2010). Most dwelling units bought by foreign nationals have been located in four cities – Jerusalem, Eilat, Netanya, and Tel Aviv – representing 6 to 11 percent of all real estate transactions in those cities during these years.

Most foreign nationals buying real estate in Israel are Jewish citizens of the United States, Britain, France, and the former Soviet Union who have some affinity to Israel and for whom homeownership in Israel anchors this affinity. Yet despite some positive aspects, their involvement has had certain negative effects on the Israeli real estate market: (1) Real estate activity by foreign nationals has led to housing inflation in some cities, especially Jerusalem, and the local populations has had great difficulty keeping up with these new prices. (2) Many apartments bought by foreign nationals remain empty most of the year except summers and holidays. The phenomenon of "ghost neighborhoods" damages the surrounding communities, with the reduced demand for services sometimes causing local schools, small businesses and other services to shut down.

2. The Israeli Government's Withdrawal from the Housing Market

A. Unfunded Policy Declarations and Non-Response to Warnings of Housing Shortage

Crises invariably raise questions about the sounding of early warnings by the relevant agencies. In the case of the housing crisis in Israel, warnings abounded but met with no response.

Housing solutions, government policy on construction and housing, and the social and national ramifications of such policies all come under the purview of the Israeli Ministry of Construction of Housing (MOCH). According to the ministry's mission statement, "Every family should enjoy suitable housing in a suitable neighborhood for a reasonable price" (www.moch.gov.il).

As early as the mid-2000s, the Department of Information and Economic Analysis at the Ministry of Construction and Housing foresaw the impending shortage and noted the need to speed up construction. In its monthly report for May 2006, the Ministry announced: "Various data indicate the need to commence the construction of approximately 35,000 dwelling units annually (in the medium term at least) in order to meet demand and maintain minimum frictional vacancy."

The Knesset Research and Information Center voiced similar concern about the emerging housing shortage, warning that a housing crisis and even warned of coming social protests: "The last few years have seen the housing market stagnate and even shrink despite general economic growth. Given the rapid growth of Israel's population and the increasing demand for housing, a dwindling housing supply may cause social unrest, as has been the case in the past" (Tzadik, 2007).

The agencies in charge of sounding early warnings seem to have done their job, then, though in an era of reduced government responsibility their warnings went unheeded. The findings presented below reveal a gap between the Ministry of Construction and Housing's policy announcements and the actual steps taken by the Israeli government, especially with regard to homeownership support programs.

As noted, it is the Ministry of Construction and Housing's official policy to encourage homeownership. Since homes are an expensive product, most households need long-term home loans to buy one. Countries that encourage home ownership subsidize loans in a variety of ways either by offering loans at below-market interest rates or by providing tax benefits on home loans. Subsidized government home loans and housing grants used to be a key element of Israel's housing policy, helping the country achieve a high homeownership rate (Benchetrit, 2003).

In the past decade, however, budgets for homeownership subsidies have been cut, significantly reducing the number of government home loan takers. These budget cuts have probably been a major cause of the decline of homeownership rate in Israel – from 73 percent of all Israeli households in 1995, to only 66.4 percent in 2008 (Table 1).

B. The Ministry of Construction and Housing: Waning Status and Dwindling Budgets

While the necessity of government involvement is generally accepted in the welfare state in the basic areas of social security, health, education, in the area of housing, government intervention is not so clear cut. Amongst welfare state researchers, housing has gained the title of "the wobbly pillar" (Torgersen, 1987; Kemeny, 2001). Throughout the history of the welfare state, housing has been partly private, partly public, never perceived as an unquestioned component of the welfare state, and never provided as a universal social service as is the case in education and health. As a result, public housing programs are easy to cut back without sparking significant public protest. Israel's housing programs suffered such cuts in the last decade: the budget data reflect this downgrading of the status of the Ministry of Construction and Housing. In 2000 its part of the budget was 4.5 percent of the total government budget (or NIS 10.2 billion) and only 1.7 percent in 2009 (Heiman and Benchetrit, 2012).

The beginnings of this trend of cuts could be related to the recession in the Israeli economy, which lasted from July 2000 to November 2003. Following the recession, economic reforms were put in place that included cuts to government expenditure, particularly in the area of welfare programs. In the middle of the decade as the Israeli economy revived and growth was renewed, and against expectations, the erosion of the Ministry's budget did not stop. Between 2004 and 2008, and the Ministry's budget continued to decline relative to the government budget and its status fell accordingly. Most of the cuts consisted in reduced support for households in different occupancy categories as will be discussed.

C. Changes in Government Support to Households in Different Occupancy Categories

During Israel's early decades, the Israeli government initiated building projects. Hundreds of thousands of new immigrants to the state benefitted from its public housing programs. With time, critics increasingly found fault with government efforts to increase the housing supply, arguing that government-built projects failed to satisfy consumer preferences. As a result, public housing came to be viewed negatively by the Israeli public.

In the 1970s, this ideological shift led to the growing substitution of supply-side with demand-side policies, primarily in the form of subsidized government mortgages, also known as directed mortgages. Subsidies were mainly given in the form of reduced interest rates on government mortgages, compared with the higher rates on home loans in the private market. The directed mortgages, which in the 70s were used to encourage young couples to buy their home, underwent changes over the years to cover additional groups. In the 1990s, for example, mortgage subsidies were offered to encourage homeownership among new immigrants from the former Soviet Union. A large percentage of all home purchases in the 1990s – more than 50 percent in some years – were funded by subsidized government loans (Benchetrit, 2003).

The 1970s also saw the introduction of rent subsidies in the private market, a program substantially expanded in the 1990s at the time of the integration of the mass immigrations from the former Soviet Union and Ethiopia (Ahdut and Gordon, 2004). Today, rent subsidies are the policy tool that influences the greatest number of households. For comparison's sake, the number of households that receive rent subsidies in the free market is double the number of households that live in public housing (Table 1). Given the shortage in public housing, rent subsidies are currently the only form of government support available to most households in need of assistance.

The following is a survey of the various government supports and their development over time, by three forms of occupancy: public housing tenancy, private homeownership and private tenancy.

Public Housing. Public housing in Israel consists of a stock of state-owned apartments for rent. Rental prices are not determined by by a mechanism of supply and demand as in the private market, rather on the basis of social need factors. This is the oldest form of government housing support, which enjoyed its golden age in the years following World War II, when the U.S. and various European governments built a large supply of public housing projects.

In its early years, the State of Israel built hundreds of thousands of apartments for rent. These apartments were built as a solution to the housing distress of destitute new immigrants who came to the state. By the late 1960s, the number of public housing units reached 206,000 – about 23 percent of all housing units in Israel (Werzberger, 2007).

Over this time, efforts were made to sell these apartments to their tenants, and, in fact, the stock of public housing declined as a result (Werzberger, 2007). In the 1990s, various social lobbies pressured for the privatization of public housing and for legislation allowing public housing tenants to purchase their apartments at substantial discounts. The theory was that this type of law would rectify the historic disadvantaging of underprivileged groups in Israeli society along with arrangements with the state regarding agricultural lands (Ziv, 2005; Werzberger, 2007; Asiskovitch, 2011).

The resultant Public Housing (Purchase Rights) Law was enacted in 1998, enabling public housing tenants with sufficient seniority to buy their homes at significant discounts. Though implementation was halted only three months later, many public housing units were sold off to their tenants in the ensuing years. According to estimates, 37,500 units were sold during four marketing campaigns held between 1998 and 2011: "My Home" in 1999-2000; "Buy Your Home" in 2000-2004; "Here Is My Home" in 2005-2010; and "A Home of My Own" in 2008-2010 (Fidelman, 2011).

In recent years, fewer and fewer new apartments have been added to the public housing stock. Since 1999, the Ministry of Construction and Housing has built or bought some 1,000 apartments for eligible households, and some 4,000 sheltered housing units were built for new immigrants. As a result of the shortage, stricter eligibility requirements were imposed. As an example, the minimum number of children per eligible family was raised to three, even in single-parent families (Fidelman, 2011). Public housing is designed for the weakest populations groups who are unable to purchase or rent housing in the open market, but even fulfilling all of the economic criteria of distress does not ensure a place in public housing since the number of apartments is so limited.

In 2011, public housing was estimated to constitute 3.3 percent of the housing market, with 75,000 apartments divided into 63,500 apartments in regular housing projects and 12,000 units in sheltered housing. In addition, the Ministry of Immigrant Absorption, through the housing corporation Amidar, offered new immigrants 11,600 units (Fidelman, 2011). Most of the latter were the very same units built in the 1950s and 1960s, now suffering deterioration due to weather damage, subsidence, and poor maintenance (State Comptroller Report, 2009).

Public housing applications by long-time citizens are handled by the Ministry of Construction and Housing, while those by recent immigrants are handled by the Ministry of Immigrant Absorption. The Ministry of Construction and Housing received approximately 8,000 applications in 2010. According to data for July 2011, 2,340 households were found eligible and placed on the Ministry's public housing waiting list. The Ministry of Immigrant Absorption received 175,000 applications in 2011, of which 39,500 met the eligibility requirements. The long waiting lists are met with only 300 available apartments, however, and some cities and towns have no public housing units available at all (Fidelman, 2011).

The public housing stock is managed by several government or municipal firms: Amidar, which manages the majority of public housing units in Israel; Amigur, a subsidiary of the Jewish Agency; Halamish in Tel Aviv-Jaffa; Perazot in Jerusalem; Shikmona in Haifa; and HLD in Petah Tikvah.

As noted, the Public Housing (Purchase Rights) Law of 1998 was designed to give public housing tenants the opportunity to purchase their homes. The law's initiators did not intend to eliminate public housing, however. According to Section 10 of the law, revenues from the sale of public housing units were to be invested in a Public Housing Fund and used to purchase apartments for needy households. In reality, though, according to the Ministry of Construction and Housing data only 60 percent of the revenues were returned to the Ministry, and these funds were used to finance projects that did not actually serve the weakest communities (Fidelman, 2011). These figures are consistent with the fact that from 1998 to 2011 37,500 public housing units were eliminated and only 1,000 were added. The remaining 40 percent of revenues were given to the Jewish Agency, following an agreement signed in 1999 between the government and the Jewish Agency. This money was to compensate the Jewish Agency for the sale of apartments that it owned through its subsidiary Amigur. It was agreed that the government would compensate for the difference between the discounted and the regular market prices of the units it had sold as well as purchase any apartments that were not bought by their occupants at the end of the sale period. The State Comptroller disapproved of the agreement, criticizing the compensation as inflated and claiming it did not leave sufficient funds for the purchase of new public housing units (State Comptroller Report, 2003).

Public housing programs are designed to serve the most disadvantaged groups in society. Shenkar-Shrek (2012), who examined public housing for disadvantaged women, claims, however, that Israel's government has shirked its housing responsibilities toward this group. What is more, in principle, since public housing rights have never been enshrined in law – and since the extent of public housing and its quality have never been defined – this allowed the government to restructure its public housing programs. This was done in the 1990s through contracts of partnerships[11] between the government, mortgage companies (government and municipal) mortgage banks, investigation firms, non-profit organizations, etc., without adequate mechanisms in place for monitoring and supervision. The new contractual regime has had particularly adverse effects on disadvantaged women in need of public housing who are dependent on public help.

The shortage in public housing has led many wormen to alternate and extreme solution, like living with relatives, living on the streets or squatting. In the summer of 2011, many of the women joined the protesters, living in tent enclaves in Tel Aviv, Jerusalem, Holon, and Bat Yam (Shenkar-Shrek, 2012).

The transition to a contractual regime changed the perception regarding the rights of public housing tenants. Under the previous regime, tenants' right to continue to occupy their apartments was formally, but not actually, dependent upon persistent financial need. Thus, it was reasonable to examine the tenant's financial situation periodically, and tenants no longer qualifying for assistance were to vacate their apartments in order to make room for needier candidates. In practice, however, once in public housing, tenants were seen as having a lifelong right to their housing units (Carmon, 1998).

[11] Under a contractual regime, services are provided based on contractual agreements between government agencies and other organizations.

Under the new regime, the perception of tenants' rights underwent a radical change and mortgage companies do, indeed, evict them. These evictions, though, are not based merely on an improvement in the tenant's economic situation or an end in their period of eligibility for the benefit, but also for defaulting on rent payments, despite their often desperate financial circumstances. According to Yona and Spivak (2012), evictions are carried out without prior consultation with welfare officers. As a result, needy families are all too often reduced to homelessness.

Government Assistance through Mortgage and Rent Subsidies. In addition to public housing, the Ministry of Construction and Housing funds two types of housing assistance aimed at two target populations - mortgage subsidies which are aimed to assist those eligible to purchase their home, and rent subsidies.

Directed Mortgage (Subsidized) and Grants. Mortgage subsidies and grants are intended to assist households and particularly young couples and new immigrants who cannot purchase a home without government assistance. The amounts of the directed mortgages and the interest rates are determined by eligibility ratings with a method based on the accumulation of points. In this there is a distinction between two groups: long-time residents who are homeless and new immigrants. In each group the rating is set and the amount of assistance is based on these criteria, including: family status (married, unmarried, single-parent, etc.), years in Israel, number of children,and number of siblings. In addition, home buyers in national priority areas (that is the geographic periphery) are eligible for location-based grants.

Whereas market considerations tend to make mortgage sums directly proportional to household income and property value, mortgage subsidies are need-based, with needier households eligible for greater subsidies. This, however, may all too easily lead to high-risk loans. Loan takers often take full advantage of the subsidies for which they are eligible regardless of their ability to repay, which in turn heavily distorts the housing market.

In the 1990s, subsidized mortgages were linked to the Consumer Price Index and given at a 4 percent interest rate. The monthly amortization schedule was based on the Spitzer Amortization Table, under which loan takers' percentage of ownership of the property remained low even after years of repayments.[12] The government did not create a security net for loan takers in default on their mortgage (Benchetrit, 2008). As a result, thousands of defaulters (many of them recent immigrants from the former Soviet Union) lost their apartments and many took on heavy debts (Benchetrit and Carmon, 2006).

Starting in the early 2000s, the Israeli government scaled back its mortgage subsidies program, turning it from a pillar of its housing policy to a marginal program with negligible effect on the housing market. The number of beneficiaries fell from 55,000 in 1996 and 30,000 in 2003 to as few as 2,200 in 2011.

These numbers were the influenced by two processes. The first consisted of budget cuts and increasingly strict eligibility requirements. In August 1998, the rules of assistance were changed and the amount of government expenditure was drastically changed. The changes included raising the eligibility age for assistance from 18 to 21 in national priority areas and from 27 to 30 in the rest of the country; elimination of the subsidy for those households with the minimum amount of welfare "points" and as a result their interest rates rose from 4 percent to the market rates; and subsidies became fully instead of partially (80 percent) linked to the Consumer Price Index.

The Ministry of Construction of Housing continued to suffer budget cuts throughout the 2000s. Housing grants were eliminated in 2003, considerably reducing the number of mortgage takers, and eligibility

[12] Repayments comprise both principal and interest. The Spitzer Amortization Table divides repayments equally across the entire loan period, such that the principal-to-interest ratio is initially low and gradually increases during the loan period. As a result, loan takers may still owe a large part of the principal (and accordingly have outright ownership of a relatively small portion of the property) even after years of repayments.

requirements for subsidized mortgages became significantly stricter in the years that followed (Tikva, 2008).

The second process that influenced the reduction in the number of mortgage takers was the government's move not to update its interest rates in light of market fluctuations which made them not worthwhile. In the early 2000s, regular market rates on long-term loans were above 6 percent, making the 4 percent subsidized rate a significant benefit to those eligible. Later in the decade, regular interest rates fell while the subsidized rates remained unchanged, making the latter more expensive and therefore worthless to beneficiaries (State Comptroller Report, 2009). Under these circumstances, many eligible households preferred taking loans in the regular market; only those without sufficient bank credit continued to take government loans.

Rent Subsidies. Rent subsidies are designed to assist households unable to afford market-priced rents, including single-parent families, large families, and people with disabilities. Rent subsidies are currently the only major form of government housing support offered to economically struggling households. Public housing programs have been all but eliminated, with long waiting lists and a depleted apartment supply; subsidized mortgages put their takers at risk and are no longer a viable solution for struggling households (Benchetrit, 2008); and the cutbacks to subsidized mortgages have made this instrument less accessible to poorer households. As a result of these developments, 6 percent of Israeli households currently rely on government rent subsidies (see Table 1).

Rent subsidies target a variety of vulnerable households and individuals: recent immigrants, older immigrants and long-term residents from weaker population groups including, people with disabilities and single-parent families. The subsidies are administered by private contractors. Eligibility requirements are complex (Agmon, 2010) and are based on family status, age, place of residence, and social security eligibility, with different criteria for new and existing beneficiaries. In addition, special benefits are offered to particular groups (e.g., "Chernobyl Liquidators"[13]). Eligibility is subject to special restrictions in towns where tenancy constitutes less than 5 percent of all occupancy; as a result, eligibility among Arab Israelis is limited (Agmon, 2010).

Within less than a decade, budgets for "rent participation grants" were cut by 27 percent, from NIS 1.8 billion in 2003 to NIS 1.3 billion in 2011. As a result, the number of households receiving rent support fell from 195,000 in 2001 to 138,000 in 2011 (MOCH, *Monthly Information*, 2011). Furthermore, rent subsidies are exceedingly modest relative to rents. In 2011, the average subsidy per eligible household was NIS 800 – only 25 percent of the average rent of NIS 3,170 (MOCH, *Monthly Information*, 2011). Combined with the fact that most people on the waiting list for public housing are tenants living in rented apartments, this means that most households eligible for housing support must privately fund a considerable portion of their housing expenses. Most of the households in question – needy families with limited resources – find it difficult to do so.

Thus, without any public discussion, Israel replaced its public-housing model of housing support with a market-based rent-subsidies model. The expansion of rent subsidies to cover one-fifth of tenant households (6 percent of all Israeli households) led to rent inflation, which in turn imposed a greater housing cost burden on a broader group of disadvantaged households – those neither capable of buying homes nor eligible for rent subsidies. Moreover, the subsidies' eventual distribution between tenants and landlords depends on the elasticity of supply and demand. Under the current conditions of a scarcity of apartments, and so supply remains rigid, landlords turn out to be the subsidies' main beneficiaries.

The government's reliance on subsidies for the private home rental market as a solution to the housing difficulties of disadvantaged

[13] The "Chernobyl Liquidators" were Soviet personnel sent to "clean up" the radioactive effects of the Chernobyl nuclear disaster in 1986. Some 1,600 "liquidators" currently live in Israel and enjoy certain benefits in appreciation of their efforts.

households has worsened the latters' legal position, since tenants in the private market enjoy few legal protections (Association for Civil Rights in Israel, 2008) and therefore experience occupancy instability. Tenants in public housing enjoy special protections under the Public Housing Tenant Rights Law and the Public Housing (Purchase Rights) Law. By contrast, tenants in the private market depend on their landlords' whims with regard to rents and occupancy duration, on the one hand, and on the caprices of legislators and politicians with regard to budget cuts and reallocations, on the other.

3. Consequences of a Decade Without a Housing Policy

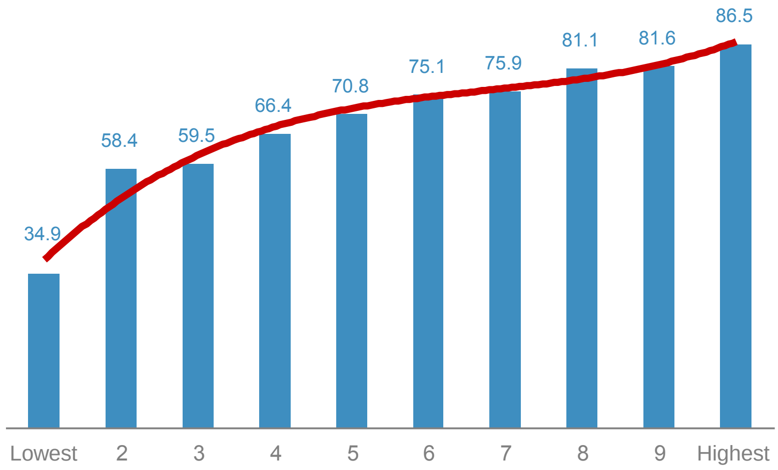
A. Rising Housing Cost Burden for Middle-Class Households

According to the 2009 Household Expenditure Survey, thre is a large gap between homeownership rates between the different income deciles: 35 percent for those in the bottom decile versus 86.5 percent for those in the top decile (Figure 2).

Figure 2

Percent owner-occupiers, 2009

by net income deciles per standardized person



Source: Gilat Benchetrit and Taub Center
Data: Central Bureau of Statistics, *Household Survey*

One reason to encourage homeownership among low-income households is that homeownership stabilizes household expenditure. Taking a long-term loan in order to buy a home stabilizes monthly spending on housing and safeguards households against substantial rent inflation.

Housing expenditures constitute a large share of household spending. In recent decades household expenditures have undergone several changes, with spending on transportation, communications, and housing rising relative to spending on food and clothing. According to the Central Bureau of Statistics, spending on housing as a share of all household expenditures rose from 14 percent in 1968-69 to 25 percent in 2010 (Central Bureau of Statistics, 2012).

The rising weight of housing relative to other household expenditures has affected home owning as well as renting households. Significantly, higher income deciles include a higher percentage of homeowners whose housing expenditures remain constant because they consist of repayments on mortgages taken prior to the recent surge of inflation. Rising housing costs have placed a special burden, then, on those who bought homes during the recent period of inflation and on those renting their homes. As already noted, the percentage of renters is much higher among the lower income deciles.

B. Rising Inequality Between the Center and the Periphery

Lack of government intervention in the housing market has deepened inequality between Israel's central region and the periphery. A publication by the Ministry of Construction and Housing (2006) states: "The lag in construction is especially marked in the high-priority areas of the Galilee and the Negev and among socioeconomically disadvantaged groups in central Israel. The sense of personal economic insecurity felt by members of weaker groups due to high unemployment rates, temporary and/or part-time employment, salary cuts and impending layoffs has had a considerable impact on the housing market due to the long-term commitment required of home buyers."

The first decade of the twenty-first century witnessed migration from the periphery to the center of the country, leading to falling home prices in the former. According to the Ministry of Construction and Housing (2006), home prices in central Israel have been rising uninterruptedly since 2000, whereas home prices in Northern and Southern Israel (included Haifa and the vicinity) fell steadily until the change in the trend in 2008.

The Ministry of Finance interpreted falling home prices in the periphery as a factor that would improve the ability of weaker groups to buy a home. A Ministry of Finance (2007) budget proposal stated: "In recent years, the surplus of housing units and developed land in the country's periphery has caused home prices in those regions to fall. Moreover, falling interest rates on long-term mortgages, rising average income, and substantially lower direct and indirect taxes have all significantly improved the ability of weaker groups to purchase homes in Priority Areas 2 and 3."

Yet, despite plummeting home prices, several obstacles prevented weaker groups from purchasing homes during this period. Investors were quick to identify the financial opportunity created in the periphery, buying real estate for investment in those areas. The new trend emerged as early as 2008 in property investment, and dominance moved from Tel Aviv and the central region to the two large cities in the north and the south – Haifa and Beer Sheba. In the first half of 2009, about one-third of all real estate bought for investment was in the Haifa and Beer Sheba areas. Ben Naim (2009a) describes this phenomenon and presents findings that a large portion of the investors are residents of the Tel Aviv and Central districts: "Investors from Tel Aviv and the center stormed Beer Sheba's real estate market." The sharp rise in real estate investments in Beer Sheba in 2008-2009 is explained by the changing preferences of investors from Tel Aviv and central Israel, whose share in the Southern city's real estate investment market increased from 18 percent in 2007 to a peak of 30 percent in the first half of 2009.

According to Ben-Shahar and Warschawksi's (2011) data for 2010, homeownership in Tel Aviv is out of reach for most Israelis. At a loan-to-value (LTV) ratio[14] of 60 percent or higher, 70 percent of Israeli households "house poor,"[15] whereby the difference between household income and housing expenditures is insufficient for reasonable livelihood.

14 The loan-to-value (LTV) ratio is the ratio of the loan to the total appraised value of the asset purchased. The higher the LTV ratio, the higher the loan taker's risk level. During real estate slump periods, takers of high-LTV loans are at a risk of having the price of their property sink below the value of the portion of the loan still to be repaid.

15 In the literature, 30 percent is normally considered the maximum acceptable payment-to-income ratio above which households find themselves in "shelter poverty."

At an LTV ratio of 80 percent or higher, 90 percent of Israeli households suffer from “shelter poverty.”

Under the above circumstances, poorer residents of the periphery have had to rent homes from wealthier landlords living in central Israel, further impoverishing the former and increasing socioeconomic and geographical inequality in Israel.

C. *A Free Market? The Bank of Israel’s Intervention in the Banking System*

At times the claim is made that government intervention in the housing market is justified as a tool to prevent market failures with potentially serious social impact. One instrument of government intervention is mortgage subsidies (see Chapter 2). Mortgage subsidies may have a distortionary impact ranging from price inflation and a change in household resource allocation and discrimination between groups.

The government’s holding back from intervening in the housing market, whether by traditional means such as public housing or via supply-side incentives, created a housing shortage. Combined with the global financial crisis of September 2008, this shortage led to drastically falling monetary interest rates and to soaring home prices (Nager and Segal, 2011; see Figure 1).

The housing component of the Consumer Price Index reflects estimated ongoing household housing expenses, which, as noted, are calculated based on home rental prices as written in rental contracts. Rising real estate prices generally contribute to a rise in rental prices as well. Since housing is the largest component of household consumption in Israel, higher rental prices result in a higher CPI, that is, in inflation. In recent years, housing expenses as a percentage of the CPI increased significantly, from 21 percent of average household consumption in 2009 to 25 percent in 2013 (Table 4).

Table 4. **Weight of housing in the Consumer Price Index, 2007-2013**

Date of CPI Update	Weight of housing in CPI
1/2007	21.3%
1/2009	20.7%
1/2011	24.4%
1/2013	25.2%

Source: Gilat Benchetrit and Taub Center
Data: Central Bureau of Statistics, *Price Statistics Monthly*, various years

In an era of global economies, central bank governors are gradually losing their power to maintain stability via monetary policy. In response to the economic recession caused by the subprime crisis,[16] central banks around the world lowered their interest rates. The Bank of Israel had little choice but to follow the global trend by lowering interest rates in Israel as well, a step taken to regulate the shekel exchange rate and to protect Israeli exports. (Had the interest rate not been lowered, the difference in interest rates between Israel and other countries would have caused a revaluation of the shekel, limiting the competitiveness of Israeli exporters and damaging branches of industry already struggling with global competition.)

To moderate the effect of low interest rates on mortgage loans, the Bank of Israel sought creative solutions in order to differentiate monetary from home loans interest rates and impose stricter terms on home loans. The following steps were taken:

Step 1 (May 2010): The Supervisor of Banks instructed all banks to set aside a special additional allocation at a rate of 0.75 percent for all loans given after April 2010 with an loan-to-value (LTV) ratio higher than 60 percent.

[16] The subprime financial crisis began in the U.S. in July-August 2007, turning into a global recession in September 2008.

Step 2 (October 2010): The Supervisor of Banks required greater capital allocation for high-LTV loans (LTV greater than 60 percent) where the portion of the loan taken at variable-rate interest is 25 percent or higher.

Step 3 (April 2011): The Supervisor of Banks instructed banks not to approve home loans where a third of the loan or more is taken at variable-rate interest.

Step 4 (October 2012): The Bank of Israel limited LTV ratios based on the type of buyer: up to 50 percent for real estate investors; up to 70 percent for second-time home buyers; and up to 75 percent for first-time home buyers.

These four steps were designed to stabilize Israel's banking system and make mortgages more expensive for mortgage takers, and they intervened in the banks' risk management policies, in contravention of free market principles. Thus, in the end, the government's non-intervention in the housing market and its failure to maintain an adequate supply via housing subsidies eventually caused the Bank of Israel to intervene in the mortgage market.

D. *Loan Takers on the Verge of Ruin*

With pressure for lower housing prices mounting in the wake of the social protests, housing prices are likely to serve as an important benchmark of government performance in the years to come. But while lower housing prices may help some households, they may also harm those who had bought a home and took a mortgage during the recent surge of inflation.

Israeli banks offer their customers recourse-type mortgages, which allow lenders to seize the assets of defaulting loan takers. Under these terms, loan givers must repay the entire mortgage even if the value of the mortgaged property falls below the portion of the loan that has yet to be repaid. As a result, revenues from sale of the seized property may be insufficient to cover the remaining portion of the loan, leaving the loan taker in debt. To make things worse, legal procedures in Israel tend to quickly inflate the debt of defaulting mortgage takers (Benchetrit, 2008).

The only course of action currently left for defaulting mortgage takers is to appeal to the Special Inter-Ministry Commission mandated by Amendment 11 of the 2004 Home Loans Law. The right of appeal is limited, however, to takers of government mortgages, which due to unfavorable interest rates currently constitute a very small part of all mortgages (see Chapter 2).

The mortgage market has two main measures for assessing risk. One is the financing rate: the loan-to-value (LTV) ratio. In the United States the sub-prime mortgage crisis led to a serious drop in the average prices of more than 40 percent. Thus, financing of more than 60 percent represents a considerable risk. The second measure is the relationship between monthly repayments on the mortgage and monthly disposable household income. It is accepted that a household that has to devote more than 30 percent of its income for housing is at risk. New data published by the Bank of Israel on mortgages in Israel[17] allow an analysis of the mortgage market. The data that relates to home loans given from April 2011 to February 2012 enables preliminary assessment of the risk levels experienced by Israeli households. The average sum of a mortgage loan is NIS 560,000. According to the data, 95 percent of home purchases in Israel are financed by mortgages.[18]

The previous section discussed the phenomenon of "shelter poverty," in which the difference between household income and housing expenses is insufficient to allow reasonable livelihood (Ben Shahar and Warschawski, 2011). According to the literature, a payment-to-income

[17] The present analysis is based on data made public starting in April 2011 following a directive by the Supervisor of Banks in the Bank of Israel. Reports submitted by Israeli banks comprise monthly data on home loans, including LTV ratios, property values, and monthly payment-to-income ratios.

[18] Estimates are based on the number of home loans reported by the Bank of Israel over a period of ten months, compared with the number of home purchases reported by the Ministry of Construction and Housing.

ratio of no more than 25-30 percent is needed in order to leave adequate resources for other goods and services. Until the mid-1990s, U.S. agencies in the secondary mortgage market (Fannie Mae and Freddie Mac)[19] refrained from purchasing mortgages at payment-to-income ratios of 28 percent or higher (Schwartz and Wilson, 2008). Lax lending standards and lack of supervision over households' ability to repay were among the causes of the subprime crisis. In Israel, the average payment-to-income ratio is currently 35 percent.

Table 5 presents the incidence of payment-to-income ratios in Israel: 49 percent of all home loans are taken at a 30 percent payment-to-income ratio; 24 percent of loans are taken at a 40 percent ratio; and 12 percent of loans are taken at a 50 percent ratio. These high payment-to-income ratios indicate high risk levels among Israeli mortgage takers.

Table 5. **Home loans, by rate of repayment relative to monthly income, April 2011 to February 2012**

Rate of repayment relative to income (in percent)	**Relative incidence (in percent, of all loans taken in that period)**
More than 60%	6%
50%-60%	6%
40%-50%	12%
30%-40%	25%
0%-30%	51%

Source: Gilat Benchetrit and Taub Center
Data: Bank of Israel website

[19] Fannie Mae and Freddie Mac were established by the U.S. government in order to set up a secondary mortgage market, with the aim of increasing liquidity and making home loan credit more affordable. Both agencies were private until 2008, when they were nationalized by the U.S. federal government following the subprime crisis.

Table 6 focuses on home loans with an LTV ratio of over 60 percent, specifying their incidence among loans takers. As the table show, such loans represented 42 percent of all home loans taken during the period in question. In 2011, average home price was 1.1 million (MOCH, *Monthly Information*, 2011). As the table shows, loans with an LTV ratio of over 60 percent constituted nearly 60 percent of all loans at the low-cost end of the housing market (homes worth NIS 400,000 to NIS 800,000): the more expensive the property, the lower the incidence of high-LTV loans. The implication is that loan takers with comparatively inexpensive property tend to experience higher levels of risk.

Table 6. **Distribution of home loans with an LTV ratio of 60 percent or higher**

by property value, April 2011 to February 2012

Value of property (in NIS thousands)	**Amount of total loan (in NIS millions)**	**Amount of financing at more than 60% (in parentheses: as percent of total loans)**
Up to 400	952	489 (51%)
401 – 800	4,485	2,650 (59%)
801 – 1,200	8,197	4,368 (53%)
1,201 – 2,000	13,010	4,926 (38%)
2,001 – 3,000	5,924	1,781 (30%)
3,001 – 5,000	3,132	908 (29%)
More than 5,000	1,996	574 (29%)
Total	**`37,696**	**15,695 (42%)**

Source: Gilat Benchetrit and Taub Center
Data: Bank of Israel website

4. Conclusion

Despite its long list of past achievements, the Ministry of Construction and Housing has suffered in the last decade in terms of both resources and status, with budgets declining from 4.5 percent of Israel's overall government budget in 1999 to 1.6 percent in 2008. Following the decline in government intervention, new construction over the past decade has mostly targeted wealthier home buyers, resulting in a cumulative shortage of 100,000 housing units and in steeply rising home prices. These developments were a direct cause of the wave of social protest which swept Israel in the summer of 2011.

New construction over the past decade has been inconsistent with the State of Israel's vision of public land ownership designed to impede private land speculation. Though state-owned lands still constitute 93 percent of Israel's sovereign territory (within the 1967 borders), over 50 percent of new construction commenced between 2008 and 2011 took place on privately owned land.

New construction over the past decade has also been at odds with the State of Israel's current vision of land management as laid out in its most recent National Master Plan, TAMA 35. Whereas the plan gives priority to Jerusalem, the Negev, and the Galilee, about 50 percent of new construction has taken place in the Tel Aviv and Central districts. Whereas the plan gives preference to saturated construction and affordable housing in densely populated urban areas, the construction of larger detached units has increased over the past decade.

Finally, new construction over the past decade has been inconsistent with the vision of the Ministry of Construction and Housing itself. The Ministry's vision of increasing household homeownership has not materialized in the form of concrete policies. The past decade saw the elimination of home purchase grants, which in previous decades enabled many households in Israel to become homeowners, as well as drastic cuts to location-based grants designed to encourage migration from the central region to the periphery. Mortgage subsidies were limited even more of the Ministry's power was taken from homeownership. A comparison between the last two population censuses indicates a steep decline in homeownership rates, from 73 percent in 1995 to 66.4 percent in 2008. In the absence of subsidies for disadvantaged and younger households, a large portion of Israel's housing market has been taken by investors and foreign nationals.

In the past decade, disadvantaged groups in Israeli society have suffered increased housing instability. Traditionally, these groups received housing assistance in the form of either public housing or rent subsidies. Some 3.3 percent of Israeli households currently reside in public housing, while 6.1 percent receive rent subsidies. In the last decade, however, rent subsidies have become the only form of housing assistance offered to households newly in need of housing support. Public housing has been all but eliminated, with many apartments sold and few if any added to the public housing stock. Thousands of eligible candidates are placed on the public housing waiting lists but not enough units are available. Finally, to aggravate an already unfavorable situation, families defaulting on rent payments are now vacated by the managing firms without any consultation with welfare authorities.

With over one-fifth of all renting households receiving rent subsidies, reliance on rent subsidies has had a considerable impact on the home rental market. Though the subsidies represent only a small part of total rent payments, they have helped inflate home rental prices in the private market. Under these circumstances, and given the increasing shortage of affordable housing, any attempt to increase the subsidies as urged by some social advocacy groups is likely to lead to a further rise in rental prices. While such a result may improve the lot of some eligible tenants, it would harm non-eligible disadvantaged households competing for the same rental units.

From the perspective of disadvantaged households, rent subsidies are an inferior solution compared with public housing. Households receiving rent subsidies experience housing instability, both because subsidy sums and eligibility criteria may change according to government decisions, and because private rental contracts expose tenants to the risk of eviction on short notice.

Soaring housing prices have imposed a special burden on those who had not purchased a home prior to the recent surge of inflation, increasing the inequality in homeownership rates between those in different income deciles. According to a 2009 Household Expenditure Survey, homeownership rates were 35 percent in the bottom decile versus 86.5 percent in the top decile. In 2010, average household spending on housing was about one-fourth of all household consumer spending. Whereas spending on housing remains constant for homeowners regardless of fluctuating housing prices, housing price inflation increases housing expenditures for renting households and for those buying homes during inflation periods.

Data provided by the Bank of Israel indicate household overspending on housing and excessive risk-taking by mortgage takers. In 2011-2012, the average payment-to-income ratio among mortgage holders in Israel was 35 percent. Moreover, loans with a high loan-to-value (LTV) ratio represented almost 60 percent of all loans for low-cost homes (NIS 400,000 to NIS 800,000). The implication is that the home price deflation yearned for by social advocacy groups may have the unintended consequence of reducing mortgage holders to insolvency and making them unable to sell their homes in order to repay the loans.

Like healthcare, education, and other basic services, housing deeply influences the degree of equality in a society. In the past decade, the Israeli government largely withdrew from the housing market, ending its decades-long policies of intervention. The outcome was what is called “the decade without a housing policy.” The government’s non-intervention in the housing market, in particular in securing stable housing arrangements for disadvantaged households, has had several adverse effects: obstruction of the planning vision laid out in TAMA 35;

rising inequality between the central region and the periphery; inadequate housing supply, leading to rising housing prices and inflation which eventually forced the Bank of Israel to intervene in the mortgage market; and, finally, profound discontent among large swathes of the Israeli population, culminating in the urgent demands for social justice during the social protest of the summer of 2011.

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English

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