



## **Press Release**

**A decade without a housing policy: despite its declared policy, the Israeli government has been consistently neglecting the housing sector**

**A new Taub Center policy paper analyzes the government's reduction of housing assistance during the decade preceding the 2011 social protests. The paper's author, Dr. Gilat Benchetrit, shows how these cutbacks intensified the housing market crisis, particularly hurt weaker population groups, and veered the country off the direction outlined in the National Master Plan**

The paper will be presented at a meeting of the Economics Committee (chaired by MK Prof. Avishay Braverman), as a part of the Knesset's Housing Day, which was initiated by the Housing Caucus (chaired by MK Itzik Shmuli, MK Ilan Gilon, MK Orly Levy-Abekasis, MK Dov Khenin and MK Miri Regev).

A new Taub Center study by Dr. Gilat Benchetrit describes how the government has withdrawn support for housing over the past decade, despite repeated warnings of a serious housing crisis. The various support tools historically employed by the state, including public housing and subsidized mortgages, are of little use today. Benchetrit notes that rent assistance is the sole mode of support that currently remains available to financially distressed Israeli families, and even it is becoming less relevant. Thus, despite the Ministry of Construction and Housing's declared vision of "decent housing, at a reasonable price and in a suitable neighborhood, for every family" in practice, government policies have intensified the housing crisis, as demonstrated by the following:

**Shrinking of public housing availability.** In the 1950s and 1960s, hundreds of thousands of public housing units were built. The majority of these units were sold following the Public Housing Law (1998), which permitted tenants to purchase the purchase these units at a greatly reduced price. Even after this law was repealed, the housing campaigns continued. Although a provision in the law stipulated that income from housing sales be dedicated towards replenishing the supply of public housing, this provision was not implemented. As such, **between 1998 and 2011, the public housing supply dwindled by 37,500 units and only a thousand new units were built.** Despite tightened qualification requirements, thousands of eligible families remain without housing. In 2010, some 8,000 requests for housing were

submitted to the Ministry of Construction and Housing, and in July 2011, there were approximately 2,340 eligible households on the waiting list for public housing. According to the Ministry of Absorption, about 175,000 households have requested public housing since 2011 and of these, approximately 39,500 were deemed eligible. Benchetrit concluded that “in the absence of a basic stock of public housing, it is simply impossible to provide decent housing solutions to low-income single-parent families, to people with disabilities or to the elderly, who for the most part represent the populations eligible for assistance.”

**Deterioration in subsidized mortgages.** The state has historically offered subsidized mortgages; however, over the past decade, these mortgages have become an ineffective tool with a negligible impact on the housing market. The Taub Center study found that the number of people who benefited from subsidized mortgages was about 55,000 in 1996, 30,000 in 2003 and only 2,200 in 2011. Benchetrit attributes this dramatic decline to two causes. Firstly, the eligibility criteria for subsidized mortgages were significantly tightened in 1998 – for example, the minimum age for eligibility was raised – and in subsequent years, qualification requirements have become even stricter. Secondly, the terms of subsidized mortgages became less and less attractive. The standard, partial linkage of subsidized interest rates to the price index (at 80% of the increase in the price index) was increased to full linkage, and mortgage interest rates were not updated according to the rates prevailing in the free market. In the early 2000s, the market interest rate for long-term loans was greater than 6%, in comparison to only 4% for subsidized loans. However, free market interest rates declined over the years, while the interest rates for subsidized loans remained the same; thus, since 2009, interest rates offered by banks are more attractive than those of subsidized mortgages. Under these terms, many have preferred to obtain free market loans and only those with limited bank credit have been obliged to make do with a government mortgage.

**Cuts in rental subsidies.** The system of government subsidies towards private market rent was established in the early 1970s and expanded significantly during the 1990s. Today, it is the government housing tool that affects the largest number of households, despite its ineffectiveness. Nevertheless, even if this policy is examined as an effort at housing assistance in Israel, it is evident that it, too, has been considerably eroded in recent years. Within less than a decade, the budget for rental assistance grants was slashed by 27%, from 1.8 billion shekels in 2003 to 1.3 billion shekels in 2011. In the wake of this cut, the number of households receiving rental assistance declined from 195,000 in 2001 to 138,000 in 2011. Moreover, given the trend toward rising rental prices, the amount of assistance provided is minimal. The study found that the average amount of support per eligible household was 800 shekels in 2011 – just 25% of the average monthly Israeli rent of 3,170 shekels at the time. Benchetrit adds: “The state's shift to housing assistance via the private rental market has made it harder to safeguard the rights of those eligible for assistance, inasmuch as free market renters (in contrast to public housing tenants) have no protection under the law and they are

dependent on landlords, who may raise their rent or request that they move out at the end of their lease.”

### **Housing market trends contradict the government's planning vision**

Israel's National Master Plan for Construction, Development and Conservation (NMP 35) sets forth the government's overall planning vision. It states the need to develop the Galilee and the Negev, and a desire to promote dense urban construction so as to ensure the conservation of open space. However, in the Taub Center study, Benchetrit found that vision and reality do not overlap, and in some cases, actual practices even contradict the vision:

**Less construction, more low-rise buildings.** The average floor size of new Israeli residential units was 153 square meters in 2000, in contrast to 182 square meters in 2008. According to Benchetrit: “New Israeli construction during these years, including public construction, consisted of dwellings that were more spacious and accordingly – more expensive.” The Taub Center study compared housing starts data (i.e., the number of housing units on which construction was initiated) for 1995 and 2007, and found that the number of housing starts for 2007 was less than half that of 1995 (30,788 versus 72,876 respectively). Moreover, high-rise construction (buildings with 3 stories or more) was reduced in favor of more low-rise construction. High-rise buildings accounted for 48,500 housing starts in 1995, versus just a third of that figure in 2007. Benchetrit notes: “Low-rise building is, for the most part, expensive and serves the affluent; therefore, the dramatic decline in the construction of apartment buildings is a far cry from a policy of affordable housing.”

**Less construction on public land.** About 93% of Israel's land area within the Green Line is designated as public land. As such, one may assume that the majority of housing starts would occur on public land. Surprisingly, between 2008 and 2011, 51 percent of housing starts were on privately-owned land, versus just 47 percent on state-owned land. “Changes in land regulation could bring about much lower housing prices,” states Benchetrit.

**Strengthening of the geographic center at the expense of the periphery.** Analyzing the distribution of Israel's Jewish population by region between 1995 and 2011 reveals that 48% of the housing growth took place in the center of the country, in contrast to the development vision set forth in the National Master Plan.

### **Outcomes of a policy of reducing housing assistance in the last decade**

**Sharp rise in housing prices.** Low supply and high demand has led to a dramatic rise in the housing price index since 2007. The study found that both the housing price index (based on sales transactions) and the rental price index (based on rental contracts), have skyrocketed since 2007. The housing price index rose at an even

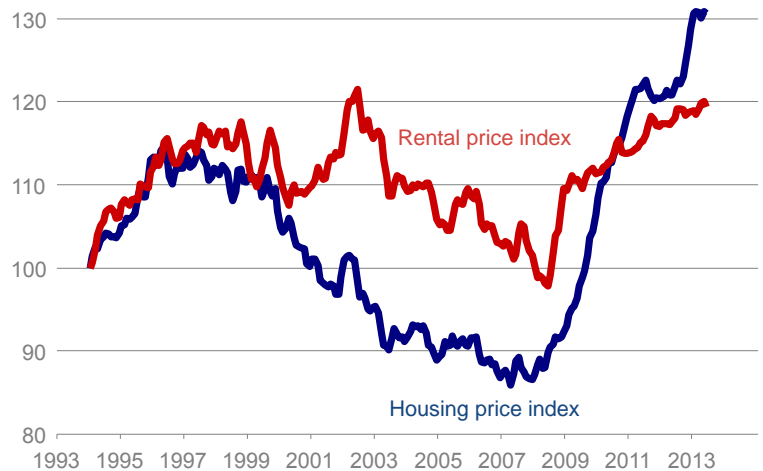
greater rate than the rental price index – a 52% real cumulative increase (that is, controlling for inflation) from 2007 to 2013 (Figure 1). **The disparity between the change in housing prices and that of rental prices indicates the development of a housing market bubble.**

**Sharp decline in home ownership rates.** Between 1995 and 2008 there was a decrease in home ownership rates: from 73% of households in 1995 to 66.4% in 2008. In 2008, the proportion of households that rented their home amounted to 27% of the housing market.

**Widening social gaps.** The Taub Center study found a large gap in home ownership rates between the various income deciles (Figure 2): owner-occupier rates in the lowest decile were 35% versus 86.5% for the highest decile. This disparity means that the country's weakest socioeconomic groups have greater exposure to the risks and instabilities of the private rental market.

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

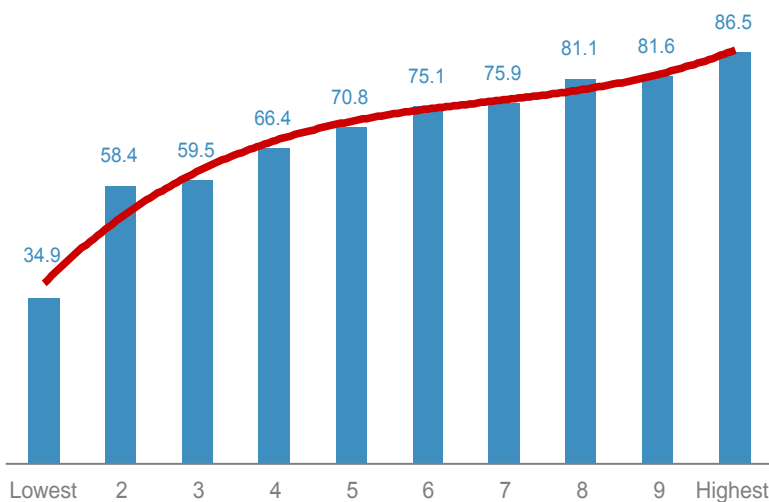
Source: Gilat Benchetrit and Taub Center

Data: Central Bureau of Statistics, *Household Survey*

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*

**Risk to mortgage holders.**

Literature studies suggest that the acceptable level of spending on housing expenses is between 25% and 30% of household income, in order to ensure sufficient resources for the consumption of other vital goods and services. In Israel, however, average mortgage payment rates amount to 35% of borrowers' income. Moreover, 24% of borrowers spend at least 40% of their monthly income on mortgage payments, while 12% of borrowers are obliged to allocate at least 50% of their monthly income to mortgage payments. **This is a very heavy housing burden that puts**

**borrowers in a risky situation and raises the possibility of homelessness.**

Benchetrit concludes: “Housing, like healthcare and education, greatly affects the degree of equality in society. The government’s policy of limiting its involvement in the housing market takes a toll in various ways: it hinders the planning vision of NMP 35; intensifies polarization between the geographic center of the country and the periphery; lowers the supply of housing, leading to a rise in prices; and, in particular, increases the frustration and bitterness amongst broad swathes of the population, as manifested in the social protests of 2011.”

The Taub Center for Social Policy Studies in Israel, headed by Professor Dan Ben-David, is an independent, non-partisan institution for socioeconomic research based in Jerusalem. The Center provides decision makers, as well as the public in general, with a big picture perspective on economic and social areas. The Center’s interdisciplinary Policy Programs – comprising leading academic and policy making experts – as well as the Center’s professional staff conduct research and provide policy recommendations in the key socioeconomic issues confronting the State.

**For details, or to arrange an interview, please contact Gal Ben Dor, Director of Marketing and Communication 054-464-2333.**