



From Housing to Real Estate:

How the Accumulation of Wealth by
a Few Affects Israel's Housing Market

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Executive Summary

Over the past twenty-five years, housing prices have been on the rise. This began in the early 1990s and accelerated after 2008, the year in which the global financial crisis erupted.

Public debate has attributed the rise in housing prices to two causes: first, an ostensibly inadequate supply of apartments; and, second, in more recent years, the low interest rates of the Bank of Israel, which have made investing in real estate more attractive than investing in the capital market.

In this paper we suggest another factor – the accumulation of wealth by a small number of people, transforming them into a significant market force. Other areas have also experienced the effect of wealth accumulation in the hands of a few – exclusionary educational programs for children, private medical services, private, full-time chronic care nursing and more.

Increasing family wealth has enabled this small group to corner a significant share of the housing supply, especially when conditions are favorable, such as low interest rates on loans. For a number of years now, people of wealth – “housing investors” –

have been involved in a large portion of total real estate transactions. Without the accumulation of wealth, the phenomenon of “housing investors” would probably not exist, certainly not to the same extent that it does today. Another group, much smaller than “the housing investors,” are those in the top 1% and .01% income brackets who purchase luxury apartments in city centers.

The economic policies of Israeli governments in recent decades, advocating a free market economy and reducing the role and budget of the state, have exposed the housing market to virtually full control of “market forces,” while the state focuses its activity on measures to make land available and expedite planning.

We contend that the issue of apartment prices cannot be addressed without understanding the activities of the “housing investors” and those in the highest 1% or 0.1% income brackets. Based on this, we conclude that it will not be enough to flood the market with land and buildings, as any new supply will be purchased primarily by those in the very highest income brackets – the top 10%, 1% or 0.1%.

Introduction

Until the late 1980s, the government of Israel viewed itself as responsible for ensuring housing for the residents of Israel – albeit primarily the Jews. Although Israel has never enshrined in law the right to housing,¹ in practice the government acted as if it were committed to housing – again primarily with respect to the Jewish public.

But even for Jews, the government's commitment has never been universal. At first, it focused on helping settle the immigrants who streamed into Israel during the first two decades of the state, and later the policy focused on low-income families who would not have had a roof over their heads without government help.

The assistance policy was a reflection of two primary objectives: first, the desire to ensure that the immigrants would remain in Israel; and second, through settling them, an effort to ensure state control over the border areas and the villages and neighborhoods of the Palestinians who became refugees in 1948.²

The housing policies of the Israeli government were consistent with its vision of a welfare state, a vision that shaped the policies in many western countries in the years following World War II. Housing, however, had never been defined or perceived as a key welfare issue in western countries: Note that Swedish sociologist Esping-Andersen did not incorporate housing policies into his famous

typology of three types of welfare regimes: social-democratic, liberal, and corporatist.³ Nevertheless, many governments saw fit to allocate large budgets to ensure housing for the workers and soldiers who had borne the burden of battle and production during World War II. The most familiar example is that of England, where the government helped local authorities build tens of thousands of rental housing units (council housing) in part to rebuild the urban neighborhoods destroyed during the war.

While state involvement in housing in England and other European countries was dictated by the needs of post-war reconstruction, the policies in Israel were dictated by the need to absorb masses of immigrants and ensure Jewish control of the country's lands. Israeli governments undertook direct responsibility for building – planning, development, and construction – or they did so through public housing companies. Alternatively, they subsidized the cost of purchasing an apartment for those eligible for mortgages and rental assistance; or they made do with regulating construction – the prices of inputs, wages, and investments.⁴

In the late 1970s, three decades after World War II, welfare policy, particularly with regard to housing, began to change in western countries. England again provides the most familiar example, where the neoliberal

Thatcher government began to sell council houses to the tenants⁵ in an effort to reduce government involvement in the economy and rooted in the belief that housing is a commodity like any other, the responsibility for which falls on the individual, not the state.⁶

In Israel, the change took place in stages. Following the 1967 war, the government ended its direct involvement in construction and focused on subsidies and regulation, with the work being carried out by private contractors. The second stage took place two decades later upon enactment of the *Emergency Economic Stabilization Act* of 1985, when the state formally adopted a neoliberal policy not unlike that of the Thatcher government in England.⁷

The government resumed a key role in the housing market in the early 1990s, following the influx of approximately one million immigrants from the former Soviet Union and Ethiopia. At first, the government provided generous rental assistance; then it acquired tens of thousands of mobile homes and prefabricated units, renting these out to immigrants; later the state gave contractors “acquisition guarantees” if the homes they built did not find buyers; finally the government allowed the Ministry of Housing “budgeted construction” – construction funded by the state. The government also issued favorable mortgage terms to those purchasing an apartment.⁸

When the heavy flow of immigrants from the former Soviet Union and Ethiopia

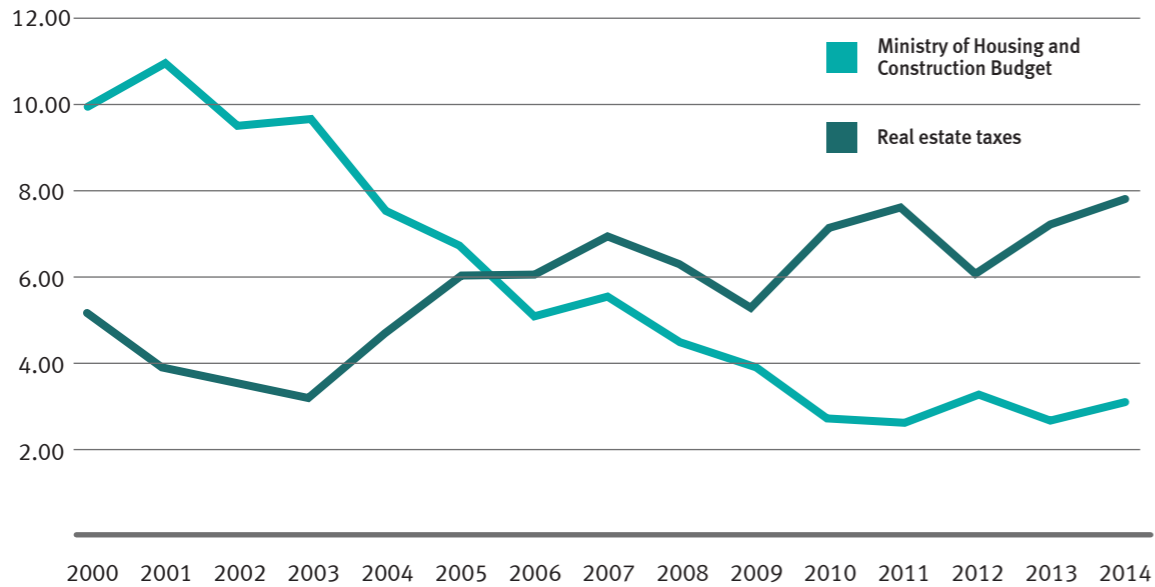
waned, the government resumed its free market approach, shedding its historical commitment to affordable housing.

The most concrete expression of this phenomenon is the shrinking budget of the Ministry of Housing and Construction: The ministry's budget dropped, in real terms, from NIS 9.9 billion in 2000 to NIS 3.13 billion in 2014. In 2014, the Ministry budget comprised 0.78% of the state budget, far below the 5.14% in 1995, and even lower than the 0.94% in 1988 just prior to the immigration wave from the former Soviet Union. Within the ministry budget, mortgage financing shrank from NIS 4.84 billion in 1995 to NIS 0.34 billion in 2014. The government limited its assistance almost entirely to the very needy.

As far as the state was concerned, housing was transformed from a sphere of responsibility and investment into a source of revenue. This can be seen by the fact that, in the past, the state's budgeted expenditure for housing was larger than its budgeted revenues from real estate taxation; over time, housing has gradually moved more and more into the revenues column. State revenues from real estate taxes – property tax, purchase tax, betterment tax, and sales tax – have grown from NIS 5.08 billion in 2000 to NIS 7.8 billion in 2014, while the budget of the Ministry of Housing and Construction, declined from NIS 9.9 billion in 2000 to NIS 3.66 billion in 2014 (all numbers in real terms at 2014 prices).

Ministry of Housing and Construction Budget and State Revenues from Real Estate Taxes, 2000-2014

In NIS billions at 2014 prices



	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Real estate taxes	5.08	3.92	3.47	3.12	4.67	5.92	5.92	6.86	6.33	5.22	7.03	7.57	6.00	7.18	7.78
Housing & Construction budget	9.90	10.88	9.45	9.60	7.46	6.58	5.08	5.53	4.42	3.89	2.69	2.58	3.24	2.64	3.13

Notes:

- The idea for this comparison was drawn from Emma Holmqvist and Lena Magnusson Turner (2014), "Swedish Welfare State and Housing Markets: Under Economic and Political Pressure," *Journal of Housing and Built Environment*, 29. Both in Sweden and Israel, governmental policies were made in the spirit of neoliberal fiscal doctrine. In Sweden, however, increased state revenues from real estate taxes reflect a greater number of owned homes and fewer rented homes, while in Israel the increase stems from a larger population and the rise in housing prices.
- Included in state real estate revenues are property tax, purchase tax, betterment tax, and sales tax. The numbers reflect actual revenues received.

Source: Adva Center analysis of data from the Ministry of Finance, Accountant General, *Financial Report*, various years; Ministry of Finance, State Revenue Division, *Annual Financial Report*, various years; Ministry of Finance, Press Release, "Estimate of Budget Execution and Government Deficit and its Financing January-December 2014," 13 January 2015.

A.

The Rise in Housing Prices

Housing has become subordinated to free market policies, in which an apartment or house is no longer a basic human and social need, but rather a real estate commodity subject to market forces.

Several significant changes came in the wake of this new conception. The first is the increased influence of wealthy families who desire high-end residences, developers intent on maximizing their profits by taking advantage of this trend, local authorities that wish to boost their income from property tax, investors trying to "make a killing" on the market, and foreign residents who merge Zionism with business – all these forces are pushing home construction away from the needs of most Israelis.

The influence of market forces is also evident in the higher standards of new apartments – size, number of rooms, amenities, private parking, etc. Within one decade, from 2000 to 2011, the average (gross⁹) area of a new apartment increased from 143 sq.m. to 178 sq.m. The proportion of apartments with five or more rooms shot up from 39.2% of all new construction in 2000 to 53.8% in 2011, while the proportion of apartments with 3 rooms

or fewer decreased from 20.2% to 10.1%. In 2007, for the first time, the percentage of new housing starts of five-room (or more) apartments exceeded 50%.

Housing Starts by Number of Rooms, 2000-2014

In percentage of total home construction each year

	3 rooms or less	4 rooms	5 rooms or more	Total
2000	20.2	40.5	39.2	100
2001	15.9	42.4	41.7	100
2002	14.9	44.1	41.0	100
2003	18.4	40.0	41.6	100
2004	12.7	43.5	43.7	100
2005	13.3	39.4	47.3	100
2006	11.0	41.2	47.8	100
2007	9.8	38.3	51.9	100
2008	6.9	36.1	57.0	100
2009	6.9	36.4	56.7	100
2010	6.9	38.9	54.2	100
2011	10.1	36.1	53.7	100
2012	8.1	36.6	55.3	100
2013	6.7	41.0	52.3	100
2014	4.7	43.9	51.5	100

Source: Ministry of Housing and Construction, Economic Analysis and Information Division, Quarterly Report, various years.

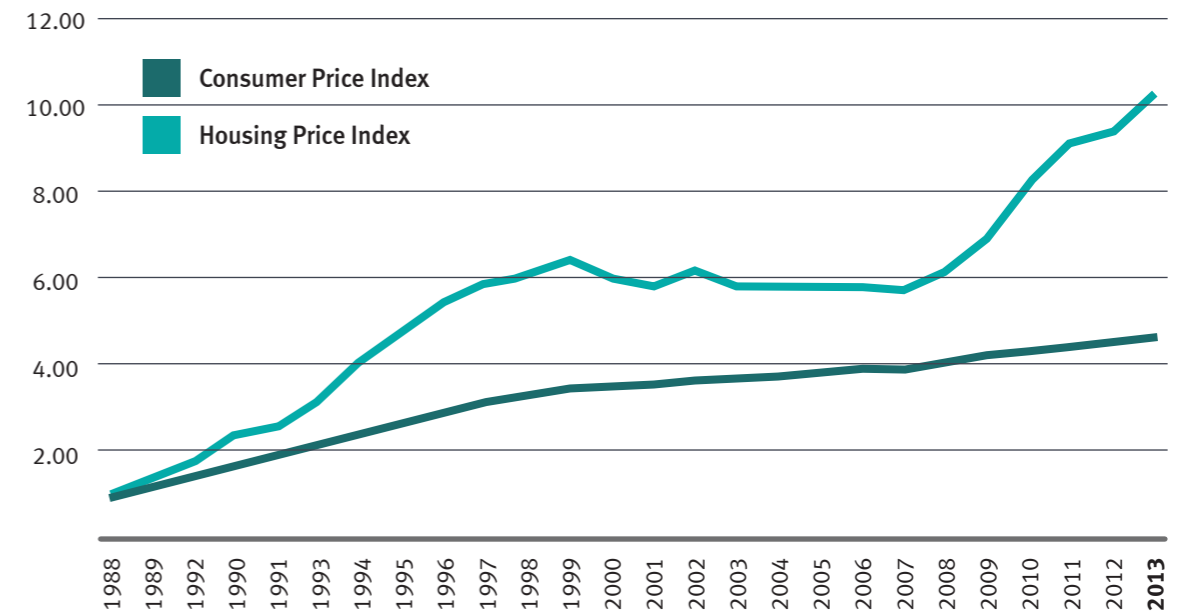
The takeover of the housing market by strong market forces led to a surge in housing prices: Over the last two decades, the Housing Price Index rose more than the Consumer Price Index. This increase occurred in two stages: First the prices rose in the mid-1990s as the waves of immigration from the former Soviet Union and Ethiopia began to ebb; and in 2008, prices began to escalate, ultimately pushing hundreds of thousands of Israelis into protest demonstrations in the summer of 2011.

The rise in housing prices was accompanied by a drop in homeownership: Between the 1995 and 2008 census, the proportion of homeownership among Israeli households fell from 73.0% to 66.4%. The Household Expenditures Surveys of the CBS reveal that the most significant drop occurred in the middle class – income deciles 5, 6, and 7 – from 77.4% in 2000 to 71.8% in 2012. In the other deciles, both higher and lower, changes were less significant.

One possible explanation for the drop in homeownership among the middle class is that while lower income households benefit from special projects and assistance, and wealthier Israelis manage on their own, the middle class, left to its own devices, has a hard time without government help. Another possible explanation is that the middle class is more dependent upon the location of jobs – and employment centers are located primarily in areas where housing prices climbed more than average. And another possibility is that the middle class, rather than enjoying the trickle down of wealth created in Israel in the previous decades, suffers from a trickle down of *wealth consciousness*, so that potential buyers put off the purchase of a modest home or one at some distance from employment centers until they are able to purchase one that meets the newer, higher standards of the housing market. Keep in mind that the size of homes built over the last decade increased by 24%, on average.

The Consumer Price Index Compared with the Housing Price Index, 1988-2013

1988 Index = 100



Source: Adva Center analysis of data from the Central Bureau of Statistics, Statistical Abstract of Israel 2014, Tables 13.3 and 13.6.

B.

On the New Wealth and Higher Housing Prices

Explanations for the rise in housing prices generally focus on economic variables such as the gap between supply and demand, the low interest rates of the Bank of Israel, and the tax disparity between the real estate market and the capital market; or they revolve around political variables such as the state monopoly of land and the priority given to the construction of Israeli settlements in the occupied Palestinian lands.

We would like to offer an additional explanation, according to which one of the factors affecting the housing market, and prices in particular, is the involvement of a relatively thin social stratum whose financial resources grew significantly over the past three decades, while the resources at the disposal of other Israelis changed very little.

This stratum impacts the general housing market because its members are able to purchase homes for investment and also because it infuses the market with lavish standards, which ultimately raise the cost of housing among wider circles of Israelis. The

activity of this economic stratum becomes particularly significant in light of the state's retreat from its historical commitment to housing.

Two groups comprise this wealthy socioeconomic stratum: The first, whom we call "housing investors," includes households primarily in the top income decile, whose income grew following implementation of the *Emergency Economic Stabilization Act* of 1985.

The second group includes households in the top 1%, and particularly the top 0.1%, whose income is incomparably higher than that of the rest of the population, including other members of the top decile.

Foreign residents are included in this group, most of them very wealthy Jews from other countries, who use real estate and high-end apartments in Israel as an investment and tax shelter, and sometimes also as a summer home for vacations in the Holy Land.

C.

The "Housing Investors"

The phenomenon of investors in the housing market is the result of a historical process in which a stratum of households with significantly more income than expenses managed to save up substantial sums of money. These are the Israelis who can today purchase an apartment or two in addition to the one in which they live, whether as an investment for their liquid assets, a home or several for their children, or as an upgrade to their own housing.

These households are mostly in the top decile, the income bracket that saw the most significant income gains after 1985: Between 1988 and 1997, their income rose by 29%. By comparison, income in the ninth decile rose during the same period by 19%, while gains among the other income deciles were more modest. In the decade and a half between 1997 and 2011, the income of almost all the deciles did not change, but the gap between the top decile and other deciles also held steady.

Change in Real Average Income of Households 1988-1997; 1997-2011

Based on gross income per household headed by a wage-earner, selected income deciles

	1988-1997 (1988=100)	1997-2011 (1997=100)
Decile 2	104	108
Decile 6	108	113
Decile 9	119	111
Decile 10	129	109

Source: Adva Center analysis of data from the Central Bureau of Statistics, Household Surveys, various years; Central Bureau of Statistics, Household Income and Expenditure Surveys, various years.

Today the top decile is the only one whose disposable income (after taxes and transfer payments) is greater than its overall spending on consumer goods and mortgage payments – in 2013 the difference was NIS 4,168. In all other deciles, including the ninth, overall consumer and mortgage spending exceeded disposable income, meaning that, on average, the households in these deciles are in a constant state of "overdraft."

To illustrate, assume that the difference between a household's disposable income and its overall expenditures (including mortgage payments) is entirely saved, and assuming that the savings retain their real value over two decades, a household in the top decile can save a million shekels over twenty years – an amount that would currently allow for the purchase of an apartment in the periphery or for taking an additional mortgage and purchasing a quality apartment in the center of the country. This, of course, is a minimalist calculation as it

does not include income from interest on investments, inheritance money, and the like.

Data from the Household Expenditures Survey of the Central Bureau of Statistics (CBS) corroborate the claim that “housing investors” come primarily from the wealthy strata: 20% of homeowners in the top quintile owned two or more apartments in 2012, compared with 10% of the fourth quintile, 5% of the third quintile, and isolated percentages of the lower two quintiles.

Income, Expenditures and Disposable Income per Household, by Income Decile, 2013

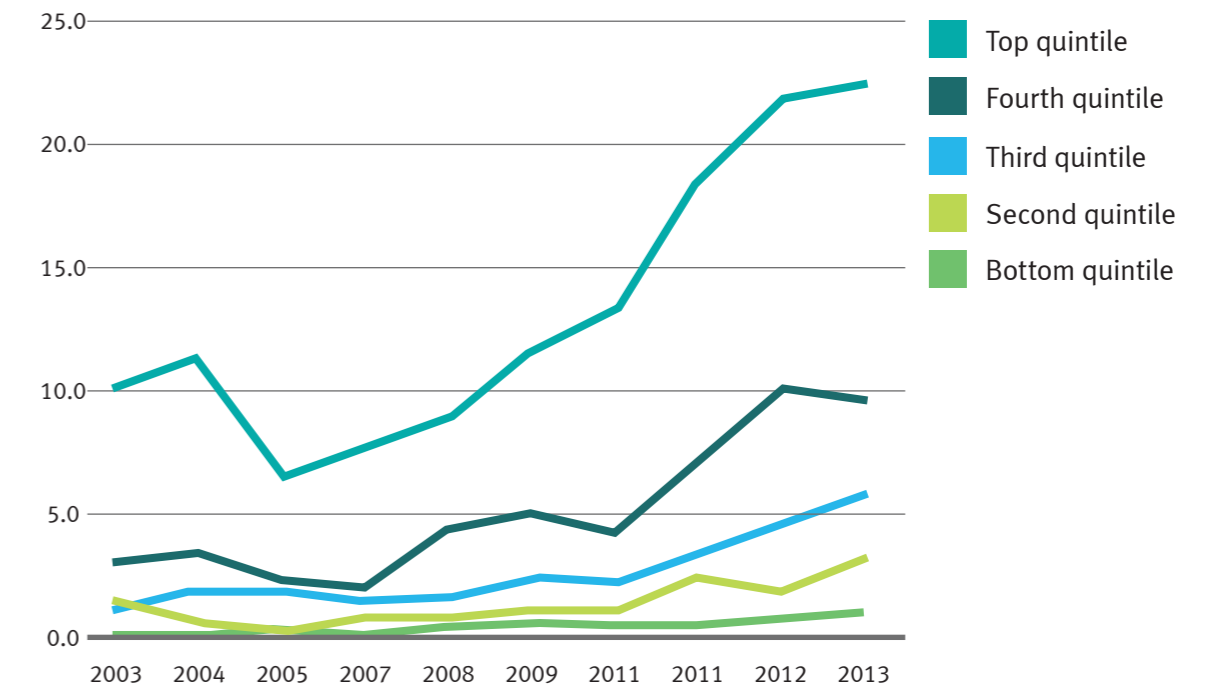
In NIS at current prices

Decile	Net Income	Expenditures	Mortgage payment	Disposable income
1	2,557	4,473	240	-2,165
2	4,876	5,953	674	-1,751
3	6,878	7,913	1,328	-2,363
4	8,934	9,100	1,913	-2,079
5	11,062	10,108	2,655	-1,701
6	13,447	11,572	3,845	-1,970
7	16,156	12,709	5,176	-1,729
8	19,453	15,170	6,764	-2,482
9	24,254	16,382	7,993	-121
10	38,632	23,442	11,022	4,168
Total	14,622	11,681	4,160	-1,219

Note: Disposable income – Net income after expenditures and mortgage payment.
Source: Adva Center analysis of data provided courtesy of the Consumption Department, CBS, July 2015.

Proportion of Ownership of Two or More Homes, 2003-2013

In percentages, by standard net income quintile per person and number of owned homes



	Top Quintile	Fourth Quintile	Third Quintile	Second Quintile	Bottom Quintile
2003	10.0	3.0	1.3	1.4	0.2
2004	11.3	3.5	2.0	0.7	0.2
2005	6.6	2.3	1.9	0.3	0.4
2007	7.9	2.1	1.4	0.8	0.2
2008	8.9	4.5	1.7	0.9	0.4
2009	11.4	5.1	2.4	1.2	0.7
2010	13.4	4.2	2.4	1.1	0.6
2011	18.4	7.3	3.3	2.4	0.6
2012	21.8	10.2	4.6	1.8	0.9
2013	22.4	9.6	6.0	3.2	1.0

Note: The table does not show 2006 because of irregularities in the data that year.
Sources: Household Expenditures Survey, 1997-2012, data provided courtesy of the CBS Consumption Department, July 2015.

Who are the people that comprise the “housing investors” of whom we have been speaking? They are apparently the generation that held jobs in management, administration, and professional services during the years of economic expansion after the 1967 war. They benefited from privatization during the neoliberal era that began with the Emergency Economic *Stabilization* Act of 1985, as well as from the growth of the capital market as an avenue of investment for households.

This assumption is reinforced by data published in *The Marker* and supplied by the Research Division in the Office of the Chief Economist of the Finance Ministry. According to this research, about half (52%) of the “housing investors” in the years 2008-2013 were employees of the public sector, banks, and insurance companies – much higher than their proportion in the population (31%).¹⁰

Another reasonable assumption is that this stratum became active in the real estate market in the late 1990s. Until then, well-to-do parents were giving financial assistance to their children so as to enable them to purchase an apartment. In 1995, when the CBS carried out its National Family Survey, which included the study of inter-generational transfers, the main question about housing dealt with the financial help provided by parents to children who wished to purchase an apartment.¹¹ One decade later, parents of means were apparently already purchasing the apartment for their children.

A report by Galit Ben Naim of the State Revenue Administration in the Finance Ministry provides data that reinforce the assumption that a good many of these “housing investors” are households that managed to accumulate savings over the course of two or three decades of work: In 2009, some 12% of the investors were retirees; their average and median age was 48; a quarter of them were 57 or older; and some 60% were wage-earners, though the percentage of corporate managers among them was double their proportion in the population at large.¹²

The State Revenue Administration defines “housing investors” as households that purchase an apartment when they already own one or more. Underlying this term is the assumption that someone who already owns an apartment acquires another for purposes of investment and in order to profit from rentals and appreciation of the property value. This formal definition, however, does not encompass households and individuals who purchase additional apartments for investment, but register them under the names of family members who do not own an apartment, thereby avoiding designation as an “investors” in the official statistics.

Apartment Purchases by Housing Investors: Ups and Downs, but Overall Stability

Actions taken by “housing investors” are affected by a range of factors, including the monetary policy of the Bank of Israel, the tax policy of the Finance Ministry (e.g., purchase and capital gains tax rates), and the performance of the stock market. As we shall see below, investment in housing has been responsive to these factors, and yet the overall scope has not significantly altered. This is because – beyond the fluctuation caused by changes in interest rates or taxation – the resources of a fairly significant stratum of people now enable them to play an important role in the housing market, a role that is not affected by changes in interest rates or taxation.

Between 2003 and 2012, the proportion of households owning two or more apartments rose from 3.2% to 7.9%.¹³ This increase took place in two main waves: The first was in 2003 when the capital gains tax was instituted. That year saw a dramatic jump in the purchase of investment apartments, from 21% in 2002 to 28% in 2003, and 32% in 2004.¹⁴

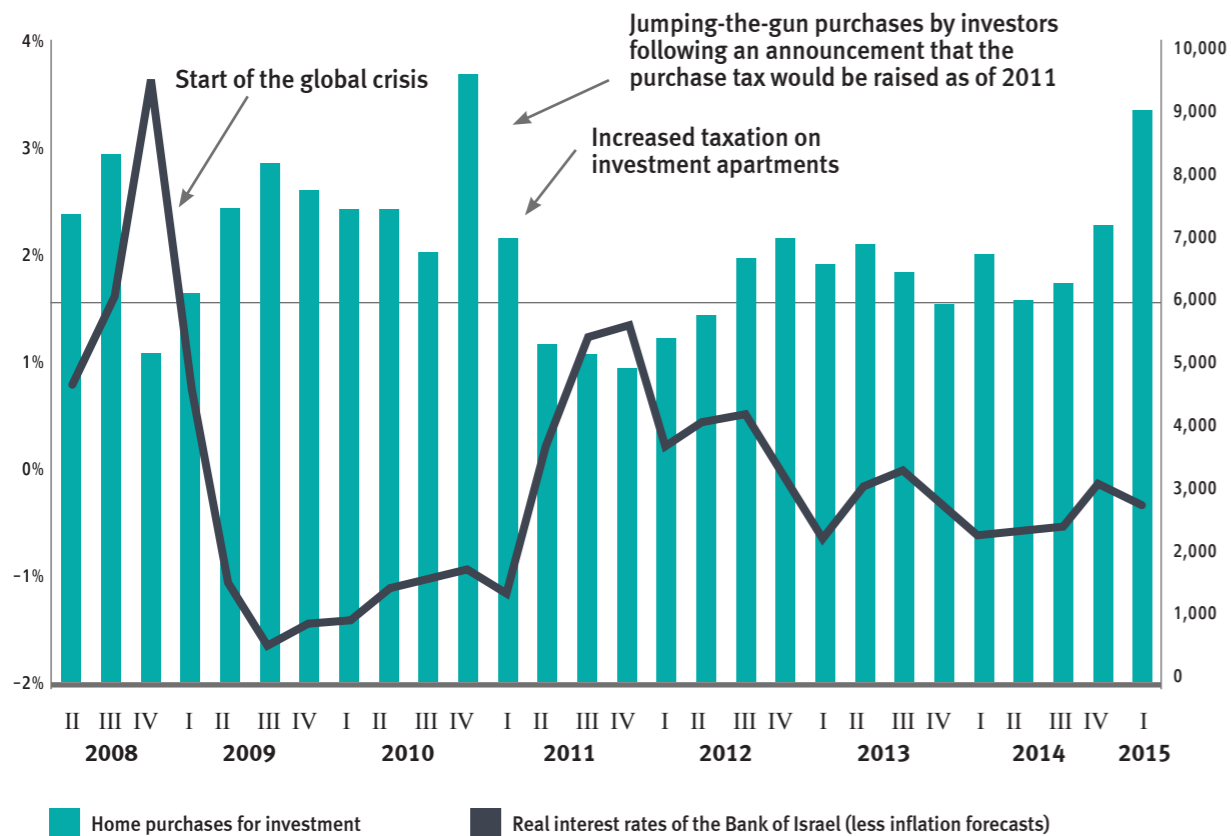
The second wave took place in the wake of the global financial crisis, as the stock market plunged and the Bank of Israel lowered interest rates in an attempt to encourage economic growth. In 2008,

although the number of real estate transactions for residential use declined, those purchases dropped more sharply than apartment purchases for investment: In the fourth quarter of 2008, a record 33% of all apartments purchased were for investment.¹⁵ The rise in investment home purchases eased somewhat toward the end of 2009 and in 2010 with the temporary rise in interest rates.¹⁶

The relationship between Bank of Israel interest rates and home purchases for the purpose of investment was examined by the Office of the Chief Economist of the Finance Ministry, which published the following data in a report surveying the residential real estate sector for the month of January 2015:

Real Interest of the Bank of Israel and the Purchase of Homes for Investment

Quarterly



Source: Ministry of Finance, Office of the Chief Economist, 2015, Survey of the Residential Real Estate Sector for January 2015.

In 2011, the proportion of homes purchased for investment purposes somewhat declined, apparently as a result of a government decision to raise the purchase tax: In February that year, the tax on purchase of an additional (second or more) apartment was raised from 5% to 6% on homes valued at NIS 1-3 million, and to 7.5% on homes valued

at NIS 3 million or more.¹⁷ Home purchases for the purpose of investment dropped from 30% of all home purchases in 2010 to 25% in 2011.¹⁸

In November 2012, another attempt was made to limit the proportion of apartments purchased for investment by a decision of

the Supervisor of Banks to set the maximum mortgage allowable for such apartments at 50% of the value of the apartment, compared with 75% of the value of the apartment for first-time purchasers and 70% of the value when purchased by “apartment upgraders” – those for whom this is not the first apartment purchase.¹⁹ These measures had little impact, however, as the proportion of apartments purchased for investment remained relatively stable in 2012-2014 – approximately 25%. In all likelihood, these measures increased the group of hidden investors who registered apartments in the names of their children.

In early 2015, the issue of real estate investors again came to the fore for various reasons, including the increased proportion of purchases for investment in January 2015 to a level of 30%.²⁰ Eran Nitzan, Deputy Budget Director in the Finance Ministry in charge of real estate, noted that the proportion of homeowners who owned two or more apartments reached about 9% in 2015. Against the background of the elections and the promises of the current Finance Minister Moshe Kahlon to lower the price of apartments, the Finance Ministry announced that some of the policies for lowering the housing prices would seek to discourage the purchase of an apartment for investment purposes: One measure would be to further raise the purchase tax on second apartments, which was done in June 2015. The tax rate for purchase of an additional

apartment valued at NIS 4.8 million was set at 8%, and 10% for more expensive apartments. The view of the Finance Ministry was colorfully expressed by Nitzan:

It is intolerable that the proportion of owners of two or more apartments out of total Israeli citizens surged from 3% to almost 9%. This is not happening somewhere in the world – it’s happening right here. Israelis are in a kind of psychotic frenzy running to buy more and more apartments. These apartments are concentrated in a very specific segment of the population.²¹

“The Investors” Influence more than the Housing Market

Outside the field of housing, the term “investors” denotes the same stratum that, in the late 1980s and early 1990s, promoted “grey education” (educational programs funded by parents and not the state); the same stratum that benefited from the newly formed private colleges where desirable academic degrees could be obtained for those of their children who did not meet the entrance requirements of prestigious courses in the large universities; and the same stratum that pushed for special and/or private medical services, whether through the hospital-based SHARAP (private medical services) or through supplementary medical

insurance policies beyond those mandated by the National Health Insurance Law.

The desire of parents to provide every possible assistance to their children is understandable. The problem is that the activity of people of means in the real estate market, education, higher education, and the public health system is detrimental to efforts to establish egalitarian and universal socioeconomic policies in Israel. In practice, the use made by these parents of their resources is a key factor deepening the separation of students from different income strata in the school and higher education systems, as well as in undermining Israel's excellent public health system. In the field of housing, the activities of "the investors" are raising the price of housing, particularly in areas with fluctuating demand. The Bank of Israel expressed it cautiously: "The investors are making a significant contribution to the changes in housing prices."²²

D.

Residential Real Estate of the Top 1% and 0.1%

Among the "housing investors" is a very thin stratum of the very richest households that purchase "particularly expensive real estate." This refers to what is generally called "the top 1%," and within this group, "the top 0.1%." Although these households are categorized together with investors who purchase an additional, ordinary apartment, the households in the richest group are distinctive both because of their wealth and the price tag of the homes they purchase.

While ordinary investors affect housing prices mainly because they increase demand, the owners of big-ticket apartments affect housing prices by introducing new and expensive standards, which trickle down to others in the top decile, and in varying degrees also to the rest of Israelis.

In Israel, this is a new social phenomenon. In other western countries, especially in the United States, this stratum is familiar from at least two historical periods: the Gilded Age of the last thirty years of the 19th century

and the Roaring Twenties of the 20th century, prior to the stock market crash of 1929.

The Wealthiest Families

Who are the very wealthiest families? Topping the list are the owners of the large business conglomerates and the companies controlled by them. According to a list published by a governmental committee to reduce the concentration of wealth, 31 business groups control 2,500 companies in Israel.²³ These are followed by the stratum of CEOs employed by the wealthiest families to run their companies. An additional and relatively young component of the wealthiest stratum are the owners and CEOs of the hi-tech start-ups that found their way into the global market and were sold for vast amounts – tens and even hundreds of millions of dollars – a phenomenon never before experienced in Israel. To these should be added the CEOs of the multinational companies that

operate in Israel. There is also an industry of auxiliary services – legal advisors, financial consultants, bookkeepers, PR and marketing services, etc. Providers of these services have become a stratum of self-employed with particularly high incomes, largely cut off from other self-employed persons whose income is not very different from that of most Israeli wage-earners. Finally, this stratum includes the wealthy Jews from all over the world, in the last two decades headed by the Russian oligarchs, who seek a haven in Israel for their money and, on a rainy day, for themselves.

There is no official body in Israel that collects and publishes ongoing data about

family wealth. This contrasts with some western countries where such information is published by the tax authorities as part of information on revenues from inheritance and estate taxes. In Israel, in the absence of an inheritance or estate tax, and perhaps even to prevent these from being imposed, the state refrains from collecting data about wealth.

In the absence of official information, we can use the data prepared annually since 2003 about the wealthiest Israelis by the economic magazine The Marker. In 2003, the first year this list was compiled, only eight people were included in the category of the wealthiest Israelis (having capital totaling

\$1 billion or more), while in 2015, the list ran to 84 billionaires. The total capital of these individuals rose from \$37 billion in 2003 to \$140 billion in 2015.

In addition to The Marker, information about the wealthiest people in Israel is published abroad by international financial firms that opened private banking offices in Israel. The very fact that they opened branches in Israel testifies to the fact that there is a sufficiently broad stratum to justify them.²⁴ According to Merrill Lynch, the number of millionaires in Israel – individuals with investment assets worth \$1 million – doubled within one decade from 5,000 people in 2001 to 10,153 in 2010. According to data from UBS, there were 385 multimillionaires in Israel in 2013, who together held assets totaling \$75 billion, or some NIS 260 billion.

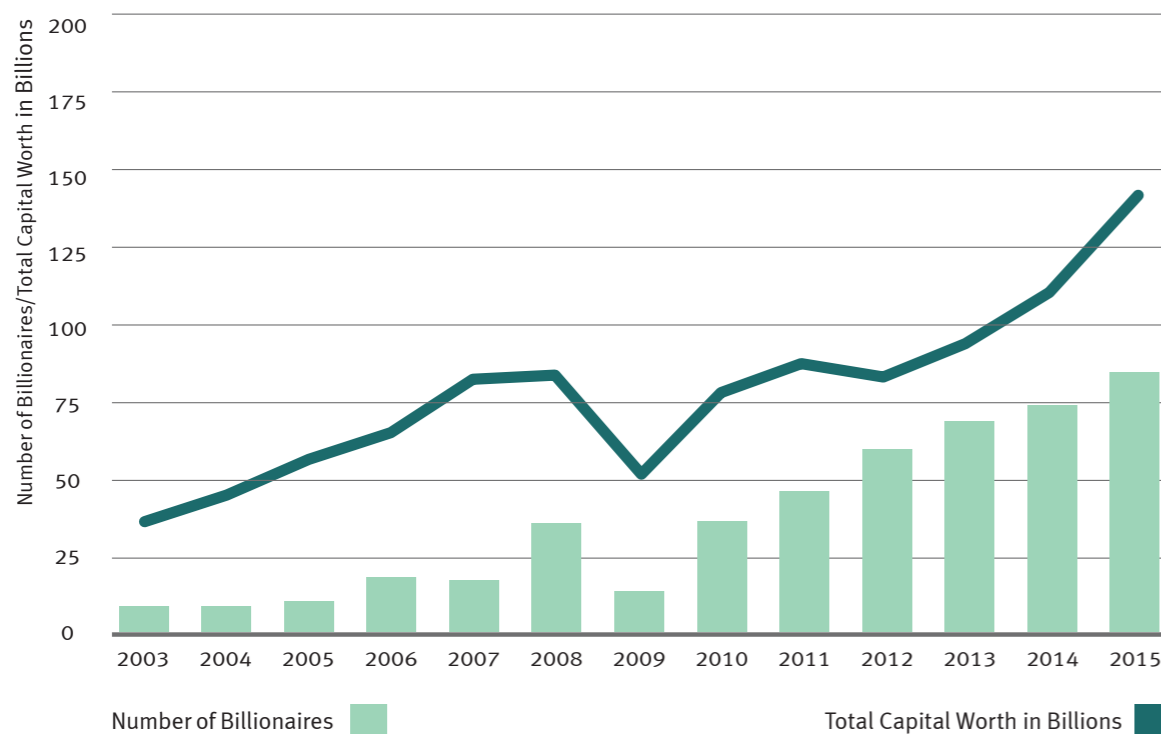
government mortgages, and is far beyond the reach of over 99% of the apartment-buying public. The cost of the extravagantly expensive housing exceeds the sum noted in the purchase contract: To the price of the apartment must be added payments for an architect and interior designers, and after completion of the construction, heavy monthly payments for operation and maintenance. When on sale, this real estate is not published in real estate listings, as it can be sold only to a very small group of wealthy families.

A reflection of this “uniqueness” appears in the words of Yigal Tzemach, CEO of the construction company building one of the luxury high-rises on Rothschild Boulevard in Tel Aviv:

This high-rise is designed for a specific segment of the market, those who can afford an apartment at a high price and who know how to enjoy a unique, quality product...It is a public that appreciates architecture, wants to enjoy the wonderful location and to fulfill the most ambitious dream imaginable of housing...The entire process of construction is different, the purchase experience is not the same, this is not buying an apartment – it's buying a work of art.²⁵

Harbingers of the lavish high-rises in Israel were evident in the 1970s in projects such as the Hadar Weizmann Towers, and even more clearly in the King David Towers, both

Individuals with a Billion Dollars or More and Their Total Capital Worth, 2003-2015



Source: <http://www.themarker.com/magazine/1.2656149> [Hebrew]

Extravagantly Expensive Housing

It is not only the stratum of the very wealthiest that is new; at the same time a new product was created, called here “extravagantly expensive housing.” This product was created especially by and for the stratum of the wealthiest families. The extravagantly expensive housing does not and cannot have a demand beyond this stratum. The product is not sold by ordinary realtors, not purchased through ordinary

in Tel Aviv. And yet in 2001, the city of Tel Aviv-Jaffa had only 13 towers (for residence and business) taller than thirty stories. A wave of construction of high-end apartments began in the early 2000s with the Akirov Towers, symbolizing the beginning of the new phenomenon.²⁶ Since then, many luxury high-rises have been built in Tel Aviv, and these have become islands cut off and separated from the space surrounding them. Today, in 2015, these high-end towers are concentrated in three main areas of Tel Aviv: the Promenade, the southern part of Rothschild Boulevard, and Tzameret Park. The apartments in these projects are being purchased by the wealthiest Israelis, in addition to non-Israeli residents, as they leave their lavish homes in the suburbs (Savion, Kfar Shmaryahu, Herzliyya Pituah, and the like) for the luxury towers in the city; and since these are the very wealthiest, these extravagantly expensive city apartments are in addition to their other lavish homes.

Notwithstanding the fact that extravagantly expensive housing constitutes a separate and closed market from the ordinary real estate market, it should not be excluded from the models used to analyze general housing policy. This is because from the moment it is created, the extravagantly expensive housing turns into a new factor that affects the entire Israeli housing market. Many contractors would now prefer to build luxury apartments in the hope of earning extravagant profits, which could pump up the price of all apartments; mayors of cities

might grant permits and benefits for the construction of extravagantly expensive apartments in the hopes of attracting “strong populations” and charging them extravagant property taxes and improvement levies, while sidelining young couples who do not have significant resources; wealthy Jewish families from abroad might choose to join the limited local market of extravagantly expensive real estate either as a shelter for a rainy day or an investment worthy of their standard of living abroad – which could harm the chances of Israeli families that are not extravagantly wealthy to find affordable housing.²⁷ Ultimately, extravagantly expensive housing constitutes a new and distinctive factor that is reshaping the housing market in Israel. It attracts bodies that finance, produce, and market; and it affects the planning, building, and residential policies of the local authorities.

Extravagantly expensive real estate poses a new model for the general population to emulate. The fact that most mortals are of limited means does not mean that they do not covet goods like those of the wealthy. From the moment extravagantly expensive housing is created, people want more square footage in their apartments,²⁸ more rooms, accessorized bathrooms, and the like. The construction of extravagantly expensive housing changes the “needs” of broad segments of the population, not just the wealthiest. Although one might assume that the families most influenced are the ones closest in income to those heading the

pyramid,²⁹ families at lower levels of income experience a kind of ripple effect – the second, then third, then fourth percentile are affected, and so on: Researchers Frank and Levine called this “expenditure cascades” – a phenomenon that had been described as “conspicuous consumption” by Thorstein Veblen at the beginning of the 20th century, in which one’s home and everything related to it, including nearby educational and cultural institutions, serve as markers of one’s social status. Thus luxury apartments become a “necessity” – even if this requires spending much more money and involves an all-family effort to finance it and carry heavy mortgage payments over many years. As the economist Robert Frank phrased it, “Increased expenditures on housing by top earners appear to have launched an ‘expenditure cascade’ that has resulted in increased housing expenditures even among those whose incomes have not risen.”³⁰

The construction of extravagant residences for the very wealthiest is familiar from other countries as well.³¹ In the United States, emergence of the top 1% that holds a disproportionate share of the fruits of economic growth leads real estate developers and contractors to build more and more extravagant housing in urban centers like New York, San Francisco, and Los Angeles.³² As in Israel, so too in the United States, the appearance of extravagant apartments in the heart of large cities pushes up real estate prices and raises the cost of housing for the entire population.

American economist Joseph Stiglitz calls this “trickle-down behaviorism,”³³ a term that mocks and challenges the oft repeated claim by neo-liberal politicians and economists that economic growth in and of itself is the best way to address social inequality, as the fruits of growth tend to trickle down. In contrast, Stiglitz notes that the fruits of growth have actually tended to trickle up in previous decades, i.e., move toward the thin layer of the wealthy. What does trickle down, however, is not money but behavior patterns – everyone wants to resemble those at the top of the pyramid, even if their income does not warrant it. Daphne Greenwood and Richard Holt use the phrase “negative trickle down,” in which wealth accumulates in the hands of the few, while the standard of living declines for those with less income, even when their real income has not changed.³⁴

A graphic description of the “expenditure cascade” was given by the CEO of a fund that finances luxury apartments:

One example of the influence of high-end apartments on the surrounding area is the effect of the luxury, beach-front high-rises of Tel Aviv on the “second front” housing along HaYarkon Street where, in 2013, luxury apartments went for NIS 40-60 thousand a square meter, about half the amount paid for luxury apartments on the beach front. According to Hanan Shemesh, the CEO of Keren Hagshama, which finances projects along the

“second front,” “one distinctive characteristic of these projects is the planners’ large investment in giving buyers the feeling that they are on the beach front, even though they are not.”³⁵

As a result, even low-end, residential projects now include more square footage, a large entrance foyer, a residents’ clubhouse, and storage space – additions that raise the cost of construction and the price of the apartment, while increasing the property taxes paid to the local authorities.³⁶

These effects are described in an article by Ronit Marom, owner of an architecture and design firm:

When marketing apartments today, the intent is not to market just an apartment, but a dream. Every residential building suddenly gets a name or logo, usually in a foreign language, which conveys the fragrance of mysterious luxury. This began ten years ago with truly high-end projects like the Yoo Tower in Tel Aviv, until foreign logos and names gradually permeated the entire housing market in Israel...As noted, it begins with a name that the developer and his advisors think is sexy, continues with a brand-name architect, then exterior and interior wall coverings in quality materials, such as curtain walls with aluminum or other metal plate; then a well-designed, fancy entrance foyer,

*twice the size of an ordinary foyer; then a clubhouse for residents and fitness rooms. You won’t find an apartment today without electric window blinds or a wall-mounted toilet or 60x60 cm tiles, which were once the exclusive province of wealthy Israelis.*³⁷

The appearance of luxury high-rises in urban centers affects not just the construction of new apartments; it also raises the price of existing apartments in proximity to the luxury high-rises. Developers themselves testify to the effect of the luxury high-rises on the price of nearby apartments in an effort to encourage apartment owners not to object to the project plans. For example, a slide presentation prepared by Shikun & Binui to inform the public about a luxury high-rise in Tel Aviv as part of urban renewal states that, “A project of this type with high-end, quality construction will increase the value of the nearby land and apartments.”³⁸

The construction and spread of extravagantly expensive housing in Israel and the proliferation of luxury high-rises can be seen in the following graph, which shows the average price (at 2014 prices) of the top 10%, 1%, and 0.1% of the most expensive real estate transactions in Israel in the decade 2004-2014.

This graph reveals that the average price in the top 1% of real estate transactions – 500-900 of the most expensive sales each year – rose from NIS 5.3 million in 2004 to about NIS 7 million in 2014 (at 2014 prices). The

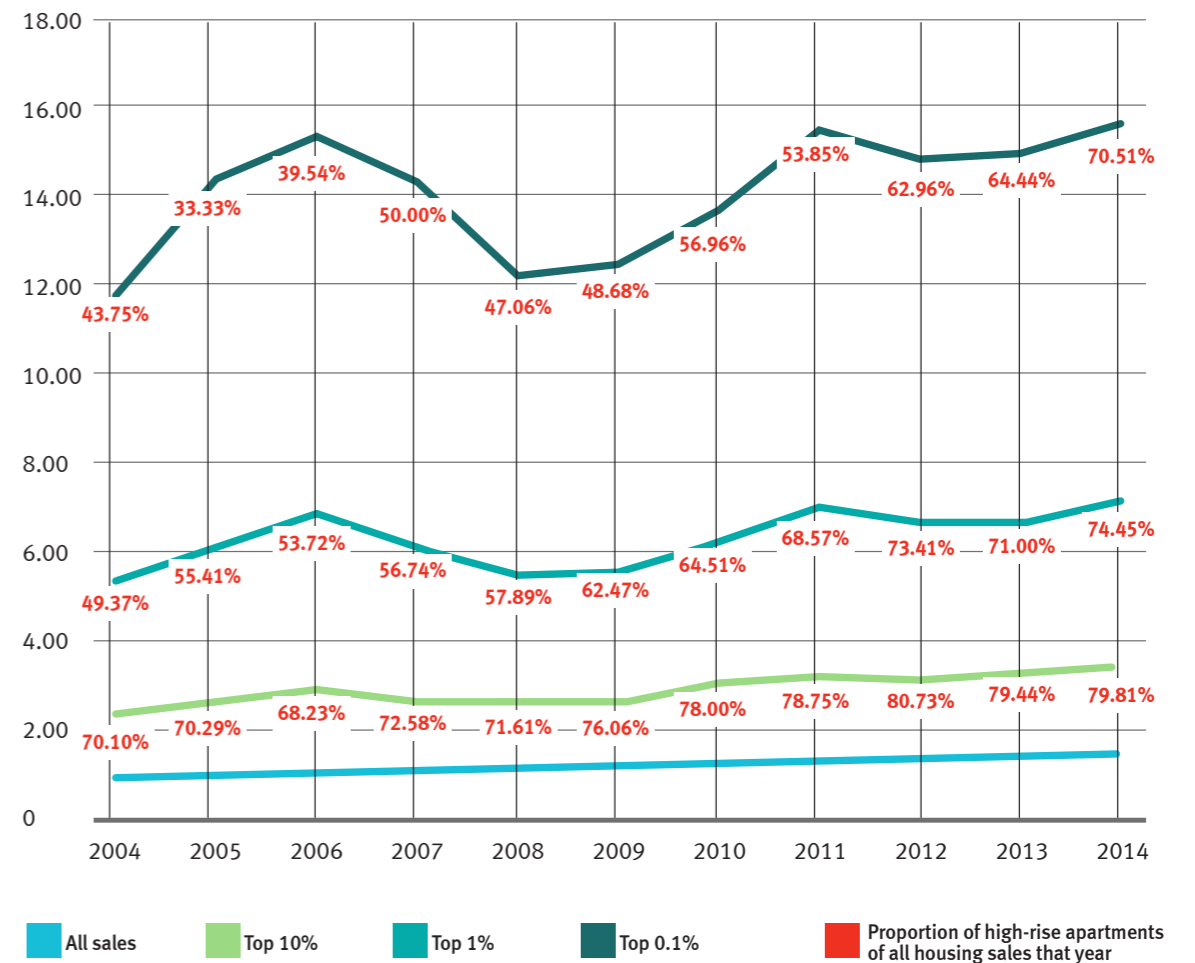
average price of the top 0.1% of sales rose in parallel from NIS 11.3 million in 2004 to NIS 15.5 million in 2014. As can be seen from the data, the extravagantly expensive real estate increased in price despite the general price drop in the years 2007-2008 during the global economic crisis, which slowed the luxury market in Israel, particularly in the

face of fewer purchasers from abroad.³⁹

Also evident during this decade is the increased proportion of high-rises among the expensive housing transactions, which reflects the increasing dominance of high-rise, luxury apartments on the list of the most expensive housing sales each year.

Average Price of All, Top 10%, Top 1%, and Top 0.1% of Housing Sales in Israel; and Proportion of High-Rise Apartments of all Housing Sales, 2004-2014

In NIS millions, at 2014 prices



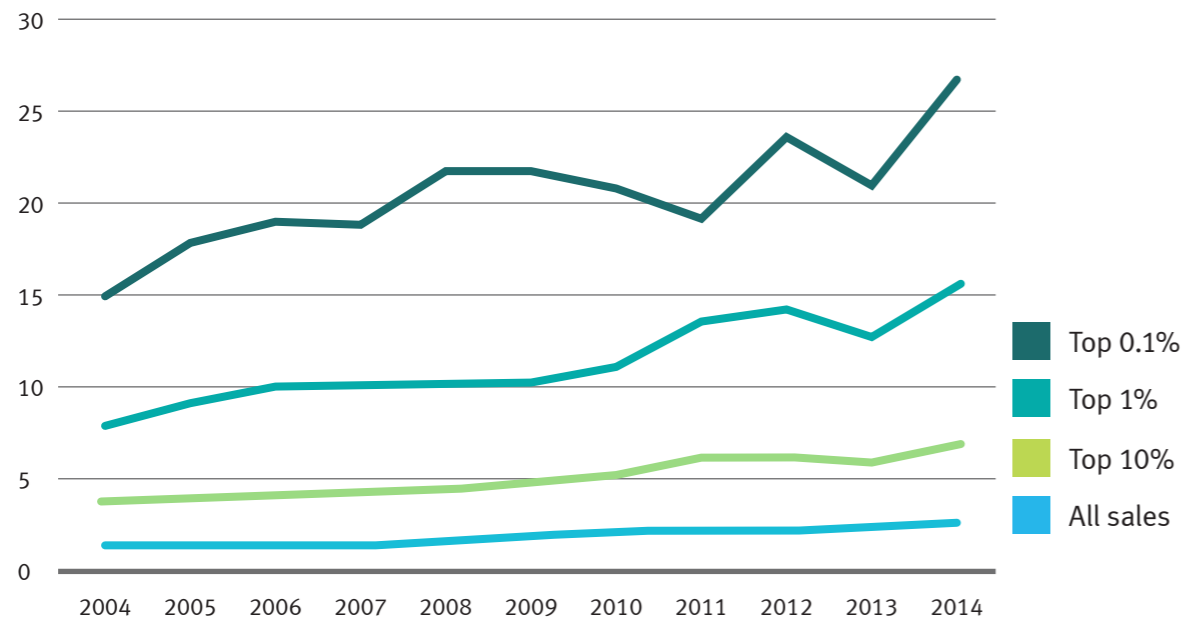
Source: Data from the MADLAN website at the request of Adva, July 2015.

In Tel Aviv, where most of the luxury apartment towers are located, these high-priced deals are even higher: The average price of the top 1% of housing sales in Tel Aviv (40-60 of the most expensive Tel Aviv transactions) almost doubled from some NIS 7.9 million to NIS 15.6 million, while the top 0.1% of Tel Aviv sales rose from NIS 14.9 million in 2004 to NIS 26.8 million in 2014. Included within this average are the

most extravagantly expensive apartments in Israel: a triplex in the Shoftim Tower purchased in 2006 for NIS 57 million; a two-story penthouse in the Sea One Tower on the Tel Aviv Promenade purchased in 2009 for NIS 110 million, and a penthouse in the 10 Herbert Samuel Tower purchased in 2014 for NIS 120 million – which holds the record for the most money paid yet for a residential apartment in Israel.⁴⁰

Average Price of All, Top 10%, Top 1%, and Top 0.1% of Housing Sales in Tel Aviv, 2004-2014

In NIS millions, at 2014 prices



Source: Data received from the MADLAN website at the request of the Adva Center, July 2015.

The Three Most Expensive Sales of Residential Apartments (not separate houses) in Tel Aviv, 1998-2014

In current prices

Year	No.	In Current Prices	Square Meters	Venue
1998	1	NIS 9,775,000	255	Hadar Weizmann Tower
	2	NIS 6,337,650	233	King David Towers
	3	NIS 5,304,000	175	Gan Ha'Ir Tower
1999	1	NIS 15,622,763	200	Akirov Towers
	2	NIS 13,158,670	200	218 HaYarkon
	3	NIS 8,283,473	200	Akirov Towers
2000	1	NIS 22,380,175	140	Akirov Towers
	2	NIS 10,788,063	200	Akirov Towers
	3	NIS 10,210,000	259	4 Recanati
2001	1	NIS 9,657,179	200	Akirov Towers
	2	NIS 8,973,451	150	Akirov Towers
	3	NIS 8,850,158	N.D.	Akirov Towers
2002	1	NIS 10,906,773	325	Beeri-Nehardea Towers
	2	NIS 10,184,550	320	Beeri-Nehardea Towers
	3	NIS 9,184,140	270	Beeri-Nehardea Towers
2003	1	NIS 17,251,057	488	Akirov Towers
	2	NIS 11,127,039	404	Akirov Towers
	3	NIS 10,670,985	280	Beeri-Nehardea Towers
2004	1	NIS 31,735,396	600	Akirov Towers
	2	NIS 16,919,837	N.D.	Akirov Towers
	3	NIS 14,934,304	300	Akirov Towers
2005	1	NIS 25,314,751	846	Akirov Towers
	2	NIS 23,680,226	444	Akirov Towers
	3	NIS 15,055,916	405	Akirov Towers
2006	1	NIS 56,718,200	860	Shoftim-Gindi Tower
	2	NIS 24,914,700	812	Yoo Towers
	3	NIS 17,514,900	388	Sea and Sun

	No.	In Current Prices	Square Meters	Venue
2007	1	NIS 59,374,000	N.D.	1 Rothschild
	2	NIS 55,475,250	780	Yoo Towers
	3	NIS 50,124,320	202	Yoo Towers
2008	1	NIS 66,607,200	N.D.	1 Rothschild
	2	NIS 55,992,706	550	Meier on Rothschild
	3	NIS 45,600,789	658	Meier on Rothschild
2009	1	NIS 109,698,560	654	28 Herbert Samuel – Sea One
	2	NIS 40,000,000	330	Shoftim Tower
	3	NIS 21,614,440	388	1 Rothschild
2010	1	NIS 71,066,535	800	Frishman Tower
	2	NIS 70,280,829	730	194 HaYarkon
	3	NIS 54,428,427	383	1 HaYarkon
2011	1	NIS 62,406,573	600	Beer-Nehardea Towers
	2	NIS 34,998,561	413	Sarona Towers
	3	NIS 25,550,000	360	Akirov Towers
2012	1	NIS 39,904,500	400	10 Herbert Samuel
	2	NIS 39,800,000	N.D.	Shoftim-Gindi Tower
	3	NIS 33,354,645	516	Frishman Tower
2013	1	NIS 79,368,900	560	Lennox Project (45 Ahad Ha'am)
	2	NIS 74,128,911	612	David Promenade Towers
	3	NIS 48,280,800	100	10 Herbert Samuel
2014	1	NIS 110,000,000	690	10 Herbert Samuel
	2	NIS 45,000,000	588	1 Rothschild
	3	NIS 33,183,499	750	Akirov Towers

Source: Adva Center analysis based on the Israel Tax Authority real estate database (CARMAN), accessed 31 March 2015.

In Conclusion

For many years, the high cost of housing has been a critical socioeconomic issue in Israel. Housing prices have been on an upward trajectory for twenty-five years. They have particularly spiraled in the center of the country, the location of many of the major employment centers. The rise in prices has contributed to the decline in homeownership, from 73% in 1995 to 66.4% in 2008, with the most significant drop among the middle class – income deciles 5, 6, and 7 – where homeownership fell from 77.4% in 2000 to 71.8% in 2012.

Public debate about housing costs focuses largely on supply, arguing that if the supply were more plentiful, prices would drop. Government planning bodies are generally accused of not meeting the demand, and the Israel Land Authority of not releasing land at the necessary pace.

Another factor often used to explain rising home prices is the Bank of Israel interest rate, which has remained low in Israel, as in most developed countries, ever since the global financial crisis of 2008, in an effort to make credit less expensive and thereby ease the cost of doing business. However, low interest rates had the effect of making an investment in real estate more attractive than other kinds of investments.

Without minimizing the importance of the above, we suggest that there is an additional factor – the accumulation of wealth by a small group in society, primarily the highest income decile. Historically, this group has benefited from the neoliberal economic policies launched in 1985 and the significant tax breaks instituted in 2003 by then Finance Minister Benjamin Netanyahu. The accumulating wealth enables this group to purchase a significant share of the housing supply, whether to invest their liquid assets, provide an apartment or several for their children, or upgrade their own standard of living. These households have become “housing investors.” Had this wealth not accumulated, the phenomenon of extensive real estate investments would probably not exist, certainly not to the same extent that it does today.

These “investors” include a small minority, the top 0.1%, who have introduced something new to the Israeli landscape: extremely wealthy households – millionaires and multimillionaires. These households purchase extravagantly expensive housing and affect the rising housing prices in Israel by setting new standards of architecture, finish, and maintenance services.

When this wealth accumulation is taken

into consideration, the conclusion seems inescapable: Flooding the market with land or apartments built by private developers will not be enough to lower the price of housing.

A realistic policy for lowering housing prices must include the following measures:

1. **A significant increase in the income tax rate.** This has been recommended for years by the Bank of Israel on the grounds that it will allow for greater allocations to social needs. We believe that raising taxes can also help lower the cost of housing, both by reducing the number of “housing investors” and by providing capital for the state’s deeper involvement in the housing market. These changes are expected to have a greater impact than raising specific real estate taxes such as the purchase tax on second apartments, which can be circumvented by tax planning and/or registering the apartment in the name of one’s children.

2. **Imposing a general wealth tax, or at least a wealth tax on real estate holdings** (such as the “mansion tax” proposed by Britain’s Labor Party in which owners of homes valued at more than GBP 2 million would annually pay a tax of 1% of the property value). This may be more effective than increasing the income tax, particularly in Israel where a large number of the luxury apartment purchasers are wealthy Jews from abroad who do not pay income tax in Israel.

3. **Creating a significant “public option”.** While measures are taken to limit the demand and reduce the effect of Israel’s new wealth on the housing market, other steps should be taken to increase the supply of affordable apartments by creating a significant “public option” – massive public investment in housing for both rent and purchase, near employment centers, at a reasonably high standard of finish and maintenance and at prices affordable by the public at large.

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