



# Public Housing Option:

Adva Center's Response to  
the Housing Crisis in Israel

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# Introduction

This is the Adva Center's third and final report about the housing crisis in Israel.

The first<sup>1</sup> offered a socioeconomic explanation for the rise in housing prices: The increasing concentration of wealth in Israel enabled a relatively small group of Israelis – "the investors" – to corner a growing share of the housing supply, based on their perception of real estate as a lucrative investment. This contributed to the rise in housing prices.

The second paper<sup>2</sup> asserted that the strategy commonly proposed to lower the price of housing – increasing the supply – was not likely to succeed for a number of reasons, including the fact that most of those who can influence housing have a vested interest in preventing the price from dropping. They include "the investors," the Bank of Israel, the Finance Ministry, the big banks, and the real estate companies.

The current, third paper in the series proposes that the crisis of unaffordable and unattainable housing can be addressed by creating a public option – government construction of long-term rental housing at affordable prices for all strata of the population. This housing should initially be built in the center of the country – the high-demand areas. Over time, with investment in and development of the so-called "periphery," similar solutions can be offered throughout Israel as the high-demand areas expand.

The recommendation that the government construct apartments for long-term rental is based on the assessment that the economic and social trends that caused the current housing crisis will continue into the foreseeable future. Naturally, housing prices will not consistently climb – they will fluctuate. But it is unlikely that in the foreseeable future we will see homeownership among those in the bottom half of the income brackets rise to the level of homeownership in the top half, or that the burden of mortgage payments will ease on low-income earners, enabling them and their children to enjoy a reasonable standard of living.

What are the economic and social factors that led to the rising cost of housing, and will they continue to place decent apartments beyond the reach of a large segment of the population?

One factor was discussed in our first paper – the growing concentration of wealth among the few. Current neoliberal policies bring about greater inequality, whether because of tightfisted wage policies or the lowering of direct taxes.

A second factor was discussed in the second document – the vested interests of the wealthy. Actually, all homeowners are implicated, as well as real estate brokers and banks that issue credit for mortgages and finance the construction. All have a financial interest in preventing a significant drop in prices in Israel, which would shrink property values. Remember also that housing (and the land on which it is built) comprises a large portion of the accumulated wealth in Israel, as in many western countries; in some, it constitutes the largest portion, as shown by the French economist Thomas Piketty.<sup>3</sup>

Two more social and economic factors should be added:

One is the concentration of major economic activity in the center of the country. Underpinning this is a rather small number of industries led by hi-tech and finance – both based in metropolitan Tel Aviv. Most investors target this metropolitan area. The credit revolution in which pension savings were placed under the control of insurance companies in order to increase the supply of credit to the economy did not bring prosperity to the periphery: The managers of pension funds are still reluctant to invest in the Israeli periphery, preferring to make investments abroad.

As a result, good jobs with good salaries – one of the two criteria that define high-demand housing areas – are available primarily in the center of Israel, particularly in metropolitan Tel Aviv. Although Israel is small in size, it has managed to create a narrow “high-demand area.” Greater Tel Aviv, like greater London, is at the pinnacle of that housing market, while Haifa, which had once been viewed as an alternative development center to Tel Aviv, is today defined as periphery. Jerusalem holds the main institutions of state and governance, but lacks a significant economic infrastructure. And Beersheba is the hub of a region with traditional industries, chemical quarries, and military bases.

The second criterion that defines a high-demand area for housing, in addition to good jobs with good salaries, is the quality of the school system in the town or neighborhood. Families want to live near good schools. And, yet, the Israeli school system, reflecting the socioeconomic dynamic in Israeli society of many salary levels and large wage gaps, has itself become highly stratified, offer-

ing different futures to different pupils. The school system, which is primarily public and thus should be offering equal opportunity to all, is characterized by large disparities, with the most prestigious schools located mainly in the center of Israel, particularly metropolitan Tel Aviv (with a few exceptions such as the Hebrew University and its affiliated high school in Jerusalem, the Technion and Reali School in Haifa, and the separatist prestigious schools in wealthy towns elsewhere). Meanwhile, in most towns considered "peripheral," the local school is generally run by one of the vocational school networks, and the most common post-secondary school is a public college, not a prestigious private one or a university. The policy most promoted by education ministers in recent years advocates excellence for a few – sometimes with the help of a large infusion of money from the parents – and this comes instead of investing in the entire school population, which reinforces the separation between high-demand areas and other regions of Israel.

**When both criteria for choosing a home are applied – proximity to a good job for the parents and good schools for the children – a "housing crisis" ensues. In other words, the housing crisis is less a product of economic dynamics distinct from the social context, and more a symptom of deepening class divisions in Israel. Good jobs and good schools are located primarily in the Tel Aviv metropolitan area, increasing the demand and skyrocketing prices.**

The most familiar feature of the housing crisis is the rising cost of home purchase. Between 2008 and 2016, Israeli housing doubled in price,<sup>4</sup> which contributed to the falling rate of homeownership, particularly among young, middle-class couples. The homeownership rate among married couples 20–29 years old dropped from 55.8% to 39.1% between 1997 and 2015, and fell for married 30–39-year-olds from 74.3% to 60.3% during this period.<sup>5</sup>

When faced with these trends, one might expect the government to impose its authority and invest resources to halt the rising concentration of wealth and privilege, or at least take action to rein in the effect of class inequality upon the housing options of its citizens.

This is not unrealistic, and has been done before. The state held down housing prices during the mass immigration waves in the 1950s and early 1990s, when hundreds of thousands of Jews immigrated to Israel from the former Soviet Union and Ethiopia.

But today, despite numerous declarations and assorted programs, the government continues to take the opposite course – renegeing on its former obligation to ensure a roof over the heads of all Israelis and shifting responsibility to the “free” market. This was core to various plans set up to cope with the housing crisis over the past decade, despite the Housing Ministry’s declared vision of November 2006 that its task was to ensure “suitable and affordable housing in an appropriate neighborhood for every family...in a quality home that meets its needs in a safe, comfortable neighborhood that has sufficient public institutions, leisure venues, etc. All this at an affordable price that can be paid by reasonable outlays from the family income.”<sup>6</sup> In practice, government policy has done nothing to fulfill this vision.

The state adheres to a policy of budget austerity, which has indeed helped the government reduce the national debt and maintain a reasonable international credit rating, but has, at the same time, reduced government involvement and shifted many areas of responsibility to “the market,” which is motivated by profit-making, not welfare concerns. Today, the largest government expenditure on housing goes to rent subsidies for low income earners, while the main housing projects – the “Buyer’s Price” and “Apartment for Rent” programs – do not burden the government budget, but rather derive support from forfeiting some income from land sales; both, as noted, place the onus for a housing solution largely on the “free” market.

On the face of it, shifting responsibility for suitable housing from the government to “market forces” appears to be a “natural” development consistent with an advanced capitalist economy. This may not be so obvious, however. In recent years, the Israeli government has invested tens of billions of shekels to improve the transportation infrastructure, primarily to ease and expedite access from the periphery to “high-demand areas.”<sup>7</sup> Is it not just as “natural” for the state to invest seriously in the economic development of the periphery in order to expand the high-demand areas; or to create public housing options in the high-demand areas, which would make these areas accessible to local young people and to those who move there for better jobs and schools?

In this paper, we expand upon the idea of a public housing option, explaining why it is needed in Israel. We show how other countries have implemented social housing policies, and outline some guidelines for implementing them in Israel, guidelines that would significantly expand public housing while improving how this policy tool is perceived and applied.

# 1.

## The Burden of Family Spending on Housing

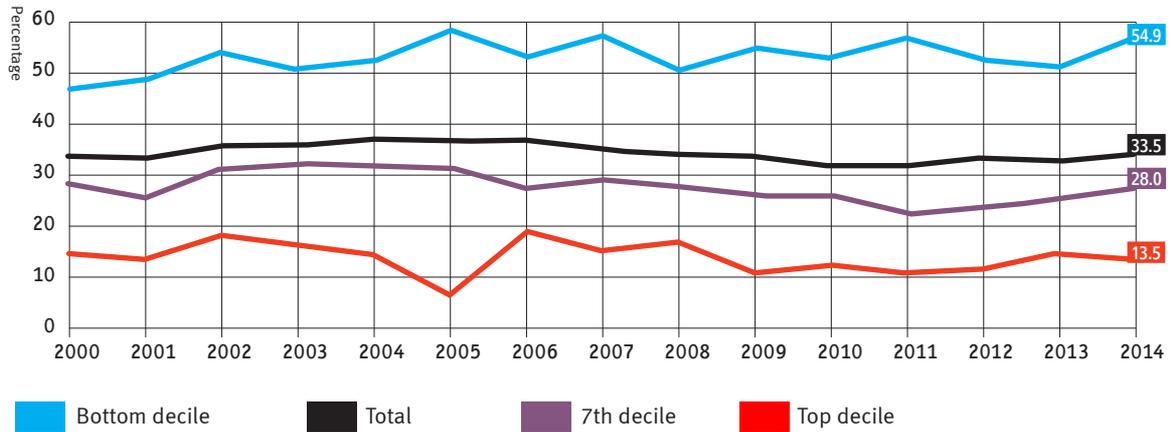
A convention accepted in many countries is that housing expenditures (rent or mortgage as well as ancillary expenses like property tax and utilities) should not exceed 30% of the total disposable income of a household. Spending more than this would be considered unaffordable housing.<sup>8</sup> The State Comptroller of Israel noted the repercussions of paying more than 30% when he wrote, "Exceeding this limit may undermine the ability of a household to finance its basic necessities, may heighten their economic vulnerability, and could adversely impact their standard of living."<sup>9</sup>

### The Burden of Housing Costs in Israel: The Real and the Ideal

Every month, more than half the households in Israel spend some portion of their earnings on rent or mortgage payments. In 2015, this totaled 54.3% of all households, and included those in which the occupants owned the home, but made monthly mortgage payments (27%) as well as households that rented the homes in which they resided (26.7%).<sup>10</sup> As will be seen below, the burden of housing of both exceeds 30% of their income.

Data published by the Central Bureau of Statistics for 2014, the previous year, shows that approximately a third of all households in Israel – 33.5% – spend more than 30% of their income on housing. Analysis by income decile reveals that 54.9% of households in the bottom decile, 28% in the seventh decile, and 13.5% in the top decile spend more than 30% of their income on housing.<sup>11</sup>

## Percentage of Households that Spend 30% or More of Their Disposable Income on Housing, in Deciles of Household Net Income per Standard Person, 2000–2014



Source: CBS, March 2017, *Well-being, Sustainability, and National Resilience Indicators*, 2015. Housing Expenditure Index 2014, Table 4.1.1.

### That's the Reality: But What's the Ideal?

What is the maximum expenditure on rent or a mortgage that, combined with ancillary expenses, will ensure that spending for housing does not exceed 30% of disposable household income (after taxes and social security transfers)?

For purposes of calculation, we defined ancillary housing expenses as the total amount spent on water, electricity, gas, heating fuel, municipal taxes, maintenance expenses, and household improvements (including home association dues), as well as "other housing expenses," which include insurance of the home and its contents and fees for a realtor, assessor, and attorney. All these are based on reports of respondents in the Household Expenditures Survey.

To establish the maximum monthly payment on rent or a mortgage, we calculated 30% of the average income of a household within each decile, and deducted from this the average amount spent in each decile on ancillary housing expenses.

According to these calculations, to spend no more than 30% of the disposable income on housing, the maximum monthly outlay for rent or a mortgage should be NIS 554 for the lowest decile, NIS 1,159 for the second decile, and NIS 1,704 for the third decile. For deciles 4 through 7, the amount would be NIS 2,184, NIS 2,776, NIS 3,169, and NIS 3,885, respectively. The amounts are significantly higher for the top deciles – NIS 4,391 for the eighth decile, NIS 5,445 for the ninth decile, and NIS 8,514 for the tenth decile.

As noted, in practice, many households spend more.

## Maximum Monthly Outlays on Rent or a Mortgage that Would Not Exceed 30% of Disposable Income on Housing

In NIS, by household income deciles, 2015

| Decile | Average disposable income per household | Maximum housing expenditure within the limit of 30% of disposable income | Average ancillary housing expenses per decile | Maximum monthly expenditure on rent or a mortgage that would not exceed 30% of disposable income |
|--------|---|--|---|--|
| 1      | 4,275                                   | 1,282  | 728   | 554  |
| 2      | 6,896                                   | 2,069  | 910   | 1,159  |
| 3      | 8,897                                   | 2,669  | 965   | 1,704  |
| 4      | 10,906                                  | 3,272  | 1,088   | 2,184  |
| 5      | 13,073                                  | 3,922  | 1,146   | 2,776  |
| 6      | 14,676                                  | 4,403  | 1,234   | 3,169  |
| 7      | 17,237                                  | 5,171  | 1,286   | 3,885  |
| 8      | 19,504                                  | 5,851  | 1,460   | 4,391  |
| 9      | 23,589                                  | 7,077  | 1,632   | 5,445  |
| 10     | 35,244                                  | 10,573   | 2,059   | 8,514  |

**Notes:**

Deciles – by net income per standard person.

Ancillary housing expenses include water, electricity, gas and heating fuel, municipal taxes, maintenance and home improvement expenses (including home association dues), and "other household expenses," which includes insurance for the home and its contents, as well as fees for a realtor, assessor, and lawyer.

**Source:** Adva Center analysis of CBS, July 2017. *Household Income and Expenditures Survey*, 2015.

# A. Households in Rental Housing

In 2015, 26.7% of Israeli households lived in rental housing.<sup>12</sup> The highest proportion of renters (including public housing, but excluding key–money rentals) were to be found among households in the four lowest income deciles: 41% in the lowest, 33% in the second lowest, and 26% in the third and fourth lowest deciles.

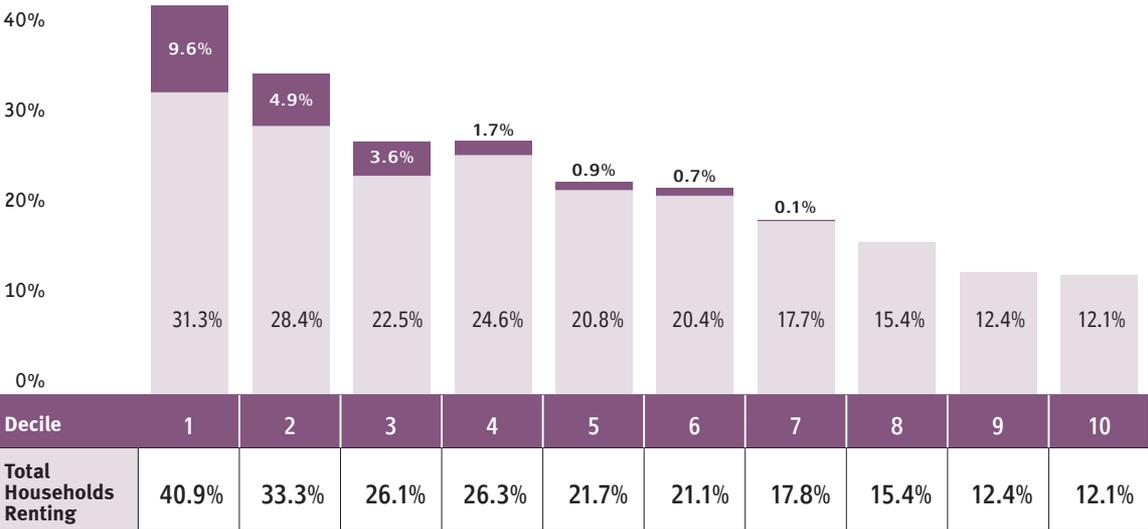
The proportion of those in rental homes was lower in the middle–income deciles: approximately 22% of those in the fifth decile, 21% in the sixth decile, 18% in the seventh decile, and 15% in the eighth decile rented homes. In the top two deciles, the proportion of those in rental housing was only 12%.

Rental housing includes leases with one of the public housing companies – Amidar owned by the government, Amigur owned by the Jewish Agency, or one of the housing companies owned jointly by the local authority and the state. Most families living in public housing are in the low–income deciles: 9.6% of those in the bottom decile live in public housing, 4.9% of those in the second lowest decile, 3.6% of those in the third lowest decile, and 1.7% of those in the fourth lowest decile. In the upper deciles, fewer than 1% live in public housing.

The lower the income, the heavier the financial burden of housing, i.e., the more of one’s household income is spent on rent and

## Households in Rental Housing

Proportion within each income decile of households, 2015

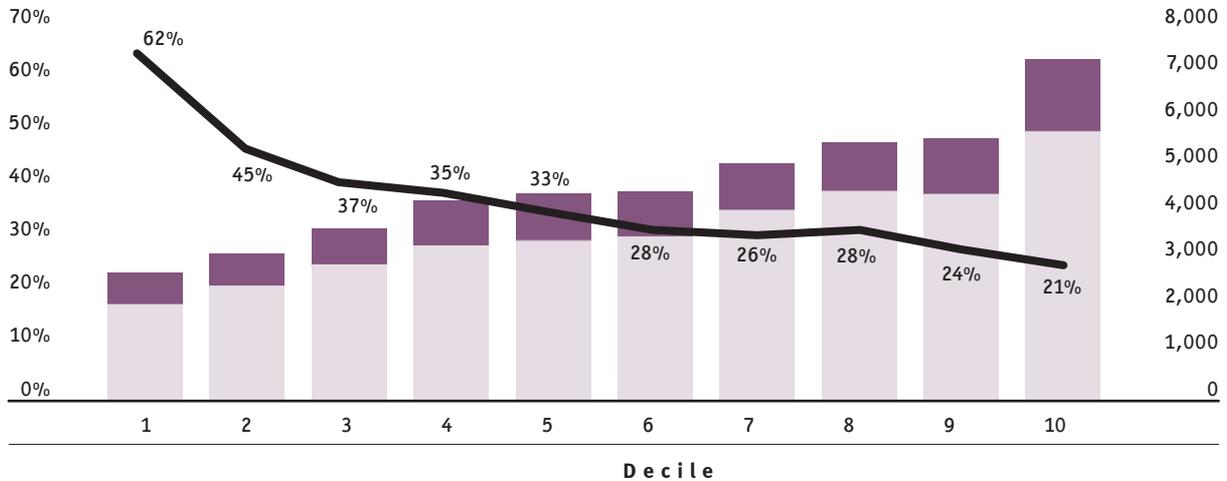
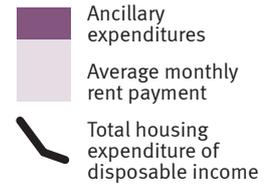


Notes:  
 1. Deciles – by net income per standard person.  
 2. Excludes key money rentals.  
 Source: Adva Center analysis of CBS, July 2017. Household Income and Expenditures Survey, 2015.

Rent public housing   
 Rent on the private market

## Average Monthly Rent and Ancillary Housing Expenditures as a Share of the Average Disposable Monthly Household Income

In NIS, for households in rental housing, by household income decile, 2015



| Decile  | 1     | 2     | 3     | 4      | 5      | 6      | 7      | 8      | 9      | 10     |
|---|-------|-------|-------|--------|--------|--------|--------|--------|--------|--------|
| Average monthly rent payment  | 2,069 | 2,462 | 2,849 | 3,212  | 3,434  | 3,412  | 3,934  | 4,395  | 4,199  | 5,530  |
| Average monthly ancillary housing expenditures                            | 645   | 662   | 804   | 928    | 1,005  | 942    | 999    | 1,035  | 1,244  | 1,550  |
| Average total monthly outlay on housing                                   | 2,714 | 3,124 | 3,653 | 4,141  | 4,439  | 4,354  | 4,934  | 5,430  | 5,443  | 7,081  |
| Average disposable household income of renters                            | 4,369 | 6,961 | 9,849 | 11,729 | 13,605 | 15,424 | 18,649 | 19,499 | 22,707 | 33,495 |
| Percentage of average total monthly disposable income expended on housing | 62%   | 45%   | 37%   | 35%    | 33%    | 28%    | 26%    | 28%    | 24%    | 21%    |

**Notes:**

Deciles – by net income per standard person.

Data are for households in rental housing, excluding key-money, including public housing.

Ancillary housing expenses include water, electricity, gas and heating fuel, municipal taxes, maintenance and home improvement expenses (including home association dues), and "other household expenses," which includes insurance for the home and its contents, as well as fees for a realtor, assessor, and lawyer.

**Source:** Adva Center analysis of CBS, July 2017. *Household Income and Expenditures Survey, 2015.*

ancillary expenses. In 2015, the lowest five deciles of households in rental homes spent more than 30% of their total net income on paying the rent and ancillary expenses. In the bottom decile, outlays on rent were 61% of the net monthly income. In the four next highest income deciles, the average spending on rental housing was 44%, 37%, 35%, and 31%, respectively. In other words, half the households living in rental housing spent more than 30% of their income on housing.

In middle-income households, the proportion of spending on rent and ancillary housing expenses was lower than 30%, but not by much: 27%–28% in the sixth, seventh, and eighth income deciles. In only the top two deciles was the spending on housing among renters relatively low – 24% and 21%, respectively.

## **B. Households Paying Mortgages on Owned Homes**

Seemingly, there is no point in examining the burden of spending by home owners, as they ostensibly have solved their housing problem. However, a significant number of home owners are still paying off mortgages. In 2015, 68% of households resided in homes they owned, but only 41% of all homes were owned outright, i.e., not shared with the bank that holds the mortgage. Over a quarter of all households in Israel (27%) were still bearing the burden of mortgage payments on their home.<sup>13</sup>

The burden of paying off a mortgage is lighter than paying rent. Housing costs proportionate to net income are lower for homeowners paying off a mortgage than for those residing in a rental.

And yet for households in the four lowest income deciles, homeowners paying off a mortgage also have a financial burden that exceeds 30% of their net income.

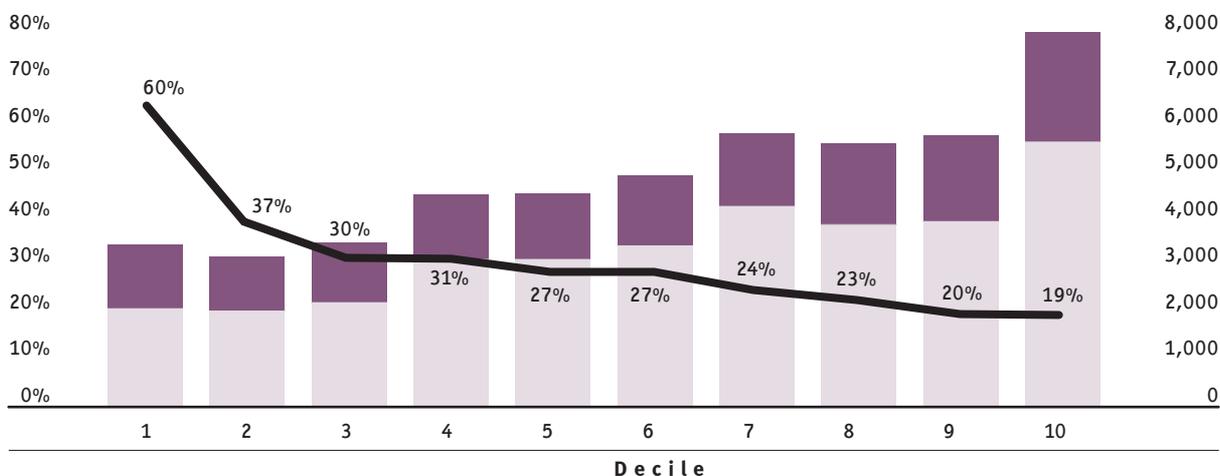
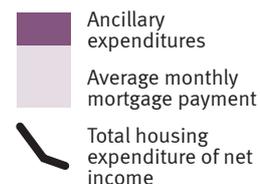
Furthermore, purchase of a home obligates the household not just to mortgage payments, but also to a significant initial down payment. This must come from savings or, in most cases, financial support from one's family or an inheritance. Households that cannot raise sufficient capital cannot purchase a home, even if their income would allow for mortgage payments.

Finally, in assessing the burden of paying off a mortgage compared with rent payments, two factors must be borne in mind:

1. Calculation of the average mortgage payment includes households in various stages of payback, some near the end of their loan term when the monthly payment is relatively small, and this lowers the average. On the other hand, for homes purchased in recent years, the numbers are higher: According to the Supervisor of Banks at the Bank of Israel, the average mortgage payment for 2010–2013 constituted 40–45% of the household income in deciles 1 and 2, and 30–40% of the household income in deciles 3 to 5.

## Average Monthly Mortgage and Ancillary Housing Expenditures as a Share of the Average Disposable Monthly Household Income

In NIS, for households still paying off mortgages, by household income decile, 2015



| Decile  | 1     | 2     | 3      | 4      | 5      | 6      | 7      | 8      | 9      | 10     |
|---|-------|-------|--------|--------|--------|--------|--------|--------|--------|--------|
| Average monthly mortgage payment  | 1,464 | 1,912 | 2,031  | 2,587  | 2,747  | 3,219  | 3,399  | 3,527  | 3,613  | 5,369  |
| Average monthly ancillary housing expenditures                            | 1,233 | 1,067 | 1,151  | 1,255  | 1,289  | 1,442  | 1,446  | 1,642  | 1,715  | 2,297  |
| Average total monthly outlay on housing                                   | 2,697 | 2,979 | 3,182  | 3,842  | 4,036  | 4,661  | 4,845  | 5,169  | 5,328  | 7,666  |
| Average disposable household income of mortgage holders                   | 4,523 | 8,138 | 10,542 | 12,552 | 14,866 | 17,048 | 20,147 | 22,110 | 26,749 | 40,544 |
| Percentage of average total monthly disposable income expended on housing | 60%   | 37%   | 30%    | 31%    | 27%    | 27%    | 24%    | 23%    | 20%    | 19%    |

**Notes:**

Deciles – by net income per standard person.

Data are for households in rental housing, excluding key-money, including public housing.

Ancillary housing expenses include water, electricity, gas and heating fuel, municipal taxes, maintenance and home improvement expenses (including home association dues), and "other household expenses," which includes insurance for the home and its contents, as well as fees for a realtor, assessor, and lawyer.

Source: Adva Center analysis of CBS, July 2017. *Household Income and Expenditures Survey, 2015.*

5. For deciles 6 through 10, the average mortgage payment was exactly 30% of the total household income.<sup>14</sup>
2. Households with insufficient capital to make the down payment on a home take out loans that are not recorded as mortgages, and therefore not included in the above data. These loans, counted as "General Purpose Loans" by the banks and the insurance, pension, and credit companies, are given at much higher interest rates than mortgages and compound the financial burden of housing.

## **C. Which Homes are Affordable for Each Income Decile?**

Which homes are affordable by households in each income decile? Our estimate, which takes into consideration mortgage payments and ancillary housing expenses, and assumes that the total must not exceed 30% of the disposable income of the household, clearly demonstrates that purchase of a home in a high-demand area is a privilege that only the highest earners can afford.

This estimate takes into consideration the average income within each decile, from which we derive the maximum monthly mortgage payment that a household within each decile can afford without exceeding the 30% ceiling.

The estimate assumes that the mortgage will finance 75% of the price of a home, based on

the Bank of Israel limits for first-time home buyers, and that it is granted as a 25-year, fixed rate, non-linked loan. These assumptions allow us to estimate the mortgages that households can afford without exceeding the 30% limit. (In reality, mortgages are composed of several different types of loans, including some with variable interest rates and linkages). We also posited 3.77% annual interest rate, which was the annual average interest for unlinked, 20–25-year mortgages issued by Israeli banks in 2015.<sup>15</sup>

The estimate reveals that if households in the fifth decile limit their housing outlays to no more than 30% of their disposable income, they can allow themselves to make a monthly mortgage payment of no more than NIS 2,776. A mortgage payment at this level would allow them, in 2015, to purchase an apartment that costs no more than NIS 718,000. A similar calculation for households in the seventh decile indicates that the maximum price they could afford for a home was NIS 1 million.

We compared the results of this estimated affordable home by decile with the average price of homes in various areas of Israel in 2015.

This comparison reveals that households in the four lowest income brackets (deciles) cannot purchase a three-or-more room home anywhere in Israel without exceeding 30% of their net monthly income. If households in the fifth and sixth deciles limit themselves to spending no more than 30% of their

## Estimated Maximum Mortgage and Estimated Maximum Home Price Staying Within 30% of Disposable Income

In NIS, by household income decile, 2015

| Decile | Maximum monthly outlay for mortgage within 30% | Estimated maximum mortgage amount within 30% | Down payment required (25% of home price) | Estimated maximum price of home within 30% |
|--------|--|--|---|--|
| 1      | 554  | 107,527                                      | 35,842                                    | 143,369                                    |
| 2      | 1,159  | 224,952                                      | 74,984                                    | 299,936                                    |
| 3      | 1,704  | 330,732                                      | 110,244                                   | 440,976                                    |
| 4      | 2,184  | 423,896                                      | 141,299                                   | 565,195                                    |
| 5      | 2,776  | 538,799                                      | 179,600                                   | 718,398                                    |
| 6      | 3,169  | 615,077                                      | 205,026                                   | 820,102                                    |
| 7      | 3,885  | 754,046                                      | 251,349                                   | 1,005,395                                  |
| 8      | 4,391  | 852,257                                      | 284,086                                   | 1,136,342                                  |
| 9      | 5,445  | 1,056,829                                    | 352,276                                   | 1,409,106                                  |
| 10     | 8,514  | 1,652,497                                    | 550,832                                   | 2,203,329                                  |

**Notes:**

1. Deciles – by net income per standard person.
2. Calculation of the maximum monthly mortgage payment within the 30% limit can be found in the table “Maximum Monthly Outlays on Rent or a Mortgage that Would Not Exceed 30% of Net Income” on page 10.
3. The estimated mortgage payment is based on the following parameters: a 25-year, unlinked mortgage with fixed interest that will cover 75% of the price of the home. This estimate is based on an interest rate of 3.77%, which as the average interest for 25-year, unlinked loans in 2015.

**Source:** Adva Center analysis of CBS, July 2017. Household Income and Expenditures Survey, 2015.

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## Average Prices of Apartments, by Region and Number of Rooms

In NIS thousands, averages for 2015

| Area                         | 2.5-3 rooms | 3.5-4 rooms | 4.5-5 rooms |
|------------------------------|-------------|-------------|-------------|
| All of Israel                | 1,066.5     | 1,408.1     | 1,887.7     |
| Jerusalem                    | 1,484.5     | 1,971.8     | 2,455.0     |
| Tel Aviv                     | 2,162.0     | 2,872.3     | 3,936.0     |
| Haifa                        | 777.5       | 1,296.2     | 1,887.8     |
| Gush Dan                     | 1,279.6     | 1,787.6     | 2,273.8     |
| Center and greater Jerusalem | 1,047.3     | 1,451.1     | 1,886.7     |
| South                        | 705.0       | 1,014.6     | 1,415.6     |
| Sharon                       | 1,253.4     | 1,689.7     | 2,234.4     |
| North                        | 604.3       | 945.5       | 1,323.2     |
| Haifa and the Krayot         | 590.9       | 966.0       | 1,361.2     |

Source: CBS, October 2016. *Consumer Price Index*. Table 6.2: Average Prices of Dwellings (NIS thousands), by Residential Area and Size Groups (Rooms in Dwelling).

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income, they will have to make do with a three-room home far from the high-demand areas – in the north, the south, Haifa, or the Krayot – and that purchase is contingent on their being able to make a down payment of NIS 180,000–205,000.

**The significance of these data is that for 60% of Israelis, purchase of a home in a high-demand area without significant equity capital of their own, will adversely affect their standard of living due to the heavy burden of mortgage payments.**

Even families in income deciles 7 through 9 – if they do not have the money for a down-payment that amounts to 25% of the price of the home – will find it hard to buy an apartment in the high-demand areas of central Israel and Jerusalem. In fact, only families in the top decile could purchase a three-room apartment in Tel Aviv, or a four-room apartment in Gush Dan or Jerusalem, without their standard of living being adversely affected, i.e., without spending more than 30% of their net income on housing.

# 2.

## ”Buyer’s Price” and ”Apartment for Rent” – Limited Government Programs

As seen in the previous section, the purchase of a home at current prices – with mortgages that do not cut into the standard of living of the household – is beyond the reach of families in deciles 1–4, but families in deciles 5 and 6 can purchase a small apartment outside the areas of high demand, if they can make a down payment of NIS 180,000–205,000. We saw that even families in income deciles 7 through 9 would need to make a significant down payment in order to buy a home in high-demand areas.

The government has tried to address this issue via two initiatives – ”Buyer’s Price,” which is the main program, and ”Apartment for Rent,” a smaller and less known program. The housing projects in these programs are constructed by private developers and contractors: The state provides land at a discounted price, in exchange for which the contractor agrees to market the housing – either purchase or rental – at below-market prices in each area. **As we shall see below, neither of these programs has been able to cope successfully with the housing crisis.**

### ”Buyer’s Price”: Somewhat Cheaper Apartments for Households in the Upper Deciles

The leading program of the two is ”Buyer’s Price,” established by Finance Minister Moshe Kahlon in 2015. The program is based on two principles: one, the sale of state-owned land to developers at low prices; and, two, competition among the tender winners to set the lowest price per apartment while meeting the criteria and standards set by the government. The state also subsidizes development of the land, or allocates grants for the purchase of land where its value is so low that discounts are not an option.

”Buyer’s Price” reflects government willingness to increase its investment in order to ease the housing distress, although primarily it is forfeiting income rather than spending budget money. This program does not seem likely to provide a comprehensive solution to the housing crisis for the following reasons:

## **Progress is too slow**

The program has moved at a relatively slow pace for several reasons, including the fact that it has to rely on the willingness of real estate developers to submit bids for land tenders. According to data from the Accountant General, from October 2015 (when the first tender in the program was published) through the end of June 2017, land was successfully sold for some 37,000 housing units, but only 9,572 units were purchased in the lottery. To expedite sales, the Finance Ministry staged a large lottery of some 15,000 apartments, which resulted in a rise in the number of housing units purchased through the program to a total of 24,291 (between October 2015 and August 2017).<sup>16</sup>

## **The apartments are too expensive**

Although the program does slightly reduce the market price of the homes, it does not resolve the crisis because, even given the lower prices, many apartments in the program remained unaffordable to households in income decile 7 or lower. According to a study by the Affordable Housing Center, approximately 40% of the projects in "Buyer's Price" carry price tags that are affordable to households in deciles 8–10 only, while projects intended for households in deciles 3–7 are outside the high-demand areas of Gush Dan (with the exception of several in Lod and Pardesiya).<sup>17</sup>

To illustrate, in two sales events for "Buyer's Price" held in Ramat Gan in which 320 apartments were offered in a September 2017 lottery, the discounted price for apartments was NIS 14,300 per square meter.<sup>18</sup> At this price, a small, 85 sq.m., 3-room apartment would cost NIS 1.2 million or more, which is affordable only for households in income deciles 9 and 10.

In fact, the construction in most of the projects was of larger apartments, so the price would be even higher. Indeed, figures released by the Chief Economist of the Finance Ministry showed that the median price of "Buyer's Price" apartments sold in Rishon Leziyyon in July 2017 was NIS 1.4 million.<sup>19</sup> Although lower than the market price for that time and place, this would be affordable only to households in the top two income deciles.

Another important point is that, although the program does not meet the needs of a large segment of the population, the cost falls upon the entire public as the state forfeits income from land that could have been used to finance various expenditures. The Accountant General of the Finance Ministry estimates that between the start of "Buyer's Price" in its new format (August 2015) to the end of May 2017, an estimated NIS 1.2 billion of income was lost on land sales (compared to the amount that could have been generated by regular tenders).<sup>20</sup> This ultimately benefits only those who are able to purchase an apartment within the framework of these programs.

## **”Apartment for Rent”: Long-term Rental – Yes; Affordable Prices – No**

The second government program is ”Apartment for Rent,” which operates via *Dira Lehaskir*, a government company established in 2014. In this program, the state allows high-density construction in which the developers must build and operate rental projects for a period of 20 years, after which they can sell the apartments on the open market. The developers must lease a quarter of the apartments in each project at rent-control prices (about 20% under market price, based on an assessor’s estimate), and the others can be leased at market price. The tenants for the inexpensive apartments in these projects are selected by lottery, with the eligibility criteria identical to those for the ”Buyer’s Price” program. The tenants can rent the apartment for 5–10 years at a stable price that is linked only to the consumer price index.

Thus, the government seems to have already taken steps along the lines recommended by this paper – creating solutions through long-term rentals. But the scope is too small. Between the time the first tender was issued by the company, in 2015, to the end of June 2017, only seven tenders were successfully marketed to real estate developers for the construction of 1,757 rental apartments (including both those at discounted and market prices). By September 2017, a total of only 554 apartments were turned over to tenants in two projects – Herzliya and Ramat Hasha-

ron.<sup>21</sup> Of these, only a quarter were rented at a discount (80% of the market price) to eligible candidates selected in the lottery. These numbers are so low that they cannot impact the private housing market.

The core problem of ”Apartment for Rent,” however, is not the small numbers, but rather how the program works. Most households cannot afford the rent in high-demand areas. In a Herzliya project from August 2017, for example, four-room apartments for long-term rental were listed at prices starting at NIS 6,865 per month.<sup>22</sup> Based on our estimate (above), this rent, even reduced by 20%, is affordable only to households in the top two income deciles. Indeed, the maximum housing outlay (rent or mortgage) for households in decile 6 that would not exceed 30% of their net income would be NIS 3,200.

Furthermore, because most apartments are leased at market prices in each area, this program will have no effect on rental prices in the private market.

Another attempt to promote long-term rentals, this time on private land, was the government decision to amend the Encouragement of Capital Investments Law so that developers who build rental apartments would gain tax benefits. According to the bill approved by the government in early July 2017, developers will enjoy benefits on purchase and betterment taxes for the construction of rental apartments, and these benefits will be more generous for long-term rentals. This bill and another that would approve

adds-on to existing buildings to developers who construct long-term rental apartments have so far received only a lukewarm reaction from real estate professionals. They point out that even with the proposed benefits, long-term rental construction is not attractive to builders, who make more profit – more quickly – from constructing and selling new apartments. In an interview in *Calcalist*, Avner Levy, chair of the Tel Aviv–Jaffa–Bat Yam Builders and Contractors Organization, noted, “The proposed bills are not profitable for developers. Without an annual return of 7–8%, no developer will build long-term rental projects.”<sup>23</sup>

# 3.

## What Does Work? The Public Housing Option

In light of the limitations of the "Buyer's Price" and "Apartment for Rent" programs, we propose that the government move away from its exclusive reliance on free-market-based housing policy, whether for ownership or rentals. We propose a new model that would run in tandem with these two programs – government construction of long-term rental housing that will be publicly owned and leased at below-market prices. In other words, we propose significant expansion and improvement of public housing.<sup>24</sup>

The fundamental assumption of this proposal is that if the Israeli housing market continues to operate exclusively under "free" market rules, a substantial portion of the population will never be able to enjoy a stable, affordable roof over their heads. Without direct public involvement – a public option – the market will continue to be driven by the vested interests of the affluent, including the "investors" and other powerful actors in the private sector – large banks and real estate companies – for whom real estate is a key profit-making enterprise.

### **The Shortcomings of the Ownership Model**

Currently, many Israeli households cannot afford to purchase an apartment; if they do, it will undermine their ability to maintain a reasonable standard of living, including investing in their children's education, ensuring their family's health, and enjoying leisure time.

Despite this, the government's main program to cope with the housing crisis consists of continuing to encourage the ownership model. But consider the following statements about housing policy contained in the report of the Alaluf Committee, established in 2013 to combat poverty:

*Until recently, Israeli governments for generations have viewed homeownership as the preferred path for most households...For years, aid packages to encourage home purchases were the government's flagship programs, reflected in 'directed' mortgages – government mortgages that provided credit and subsidized interest payments. Over the last 25 years, these programs helped*

*more than 800,000 families purchase apartments.*<sup>25</sup>

In 2003, however, as the government slashed civilian expenditures during the second Intifada, these grants were eliminated and the subsidies for those eligible were drastically reduced. The result was a sharp drop in homeownership. "The relevance of government aid in purchasing an apartment declined over the years and at this point can be described as negligible."<sup>26</sup>

Apart from the circumstances in which government assistance for home purchases was eliminated, the entire model of homeownership is problematic for two main reasons:

3. A young couple's decision to buy an apartment and obligate itself to years of monthly mortgage payments is a weighty one, perhaps equivalent to a CEO's decision to acquire a rival company. The young couple has to assess – or, more correctly, to guess – events and developments that cannot be predicted: future fluctuations in interest rates, damage due to climate change or war, possible unemployment, job moves, and even changes in family life, such as having children or getting divorced.
4. To purchase an apartment, the buyers must put up a large amount of personal capital, money that could have been invested or used to improve the household's standard of living. In many cases, raising funds for the down payment re-

quires the cooperation and assumption of responsibility of the buyer's families. In the current reality in which mortgage interest is relatively low, the down payment is the main obstacle to families wishing to buy a home. Efforts to enlarge the mortgage share of the apartment price have met with resistance by the Bank of Israel: Out of concern for the stability of the banks, it has limited the mortgage to 75% of the value of the apartment for first-time home buyers.

## **The Shortcomings of the Private Rentals Model**

In this paper, we propose that the government not rely on the willingness of private apartment owners to offer long-term leases, or the willingness of private developers to undertake long-term rental projects, whether on private land or on public land as part of the "Apartment for Rent" program, but to create a public option – a government program of long-term rental of public housing.

### **Why is a public option of long-term rentals a better housing solution?**

#### **A.**

From a public perspective, private rentals are fundamentally the transfer of capital from low-income households to high-income households. In the private rental model, apartment owners become "rentiers" – fami-

lies that enjoy rental monies submitted every month by families who are unable to purchase a home. These rental monies become an important element in creating inequality in society.

A calculation based on the *Household Income and Expenditures Survey* reveals that, in 2015, apartment renters (not including public housing) paid NIS 1,825,000 monthly to apartment owners, or NIS 22 billion annually. The graph below shows that 56% of this amount comes from the five lowest income deciles.

Who gets this money? The following graph, also based on the *Household Income and Expenditures Survey*, shows that some 71% of the income from rent is paid to households in the three highest deciles; the top decile alone reaps some NIS 6.3 billion, amounting to 45% of this income.

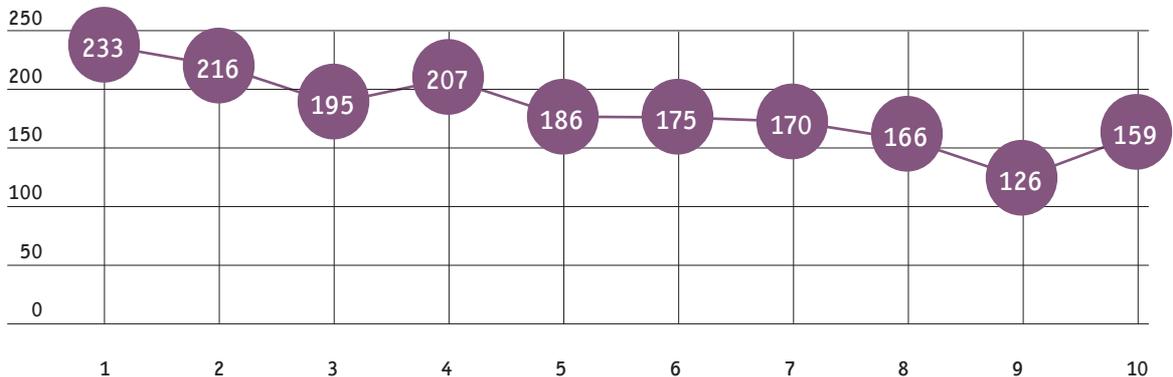
Note that the reported income from rent is significantly lower than the reported spending on rent. Presumably, this discrepancy stems from under-reporting of rental income, as the respondents surveyed by the CBS seemed to report expenditures more conscientiously than income, particularly income from property and real estate. It may also be the case that some of those enjoying rental income from Israeli homes actually reside abroad and were not surveyed by the CBS.

**B.**

The private rental market has been only loosely regulated. The so-called Fair Rental Law, enacted this year (2017), regulates some relatively minor aspects of the private rental market, including setting minimal standards for a livable apartment (e.g., a

**Monthly Rental Payments of Households Renting Privately**

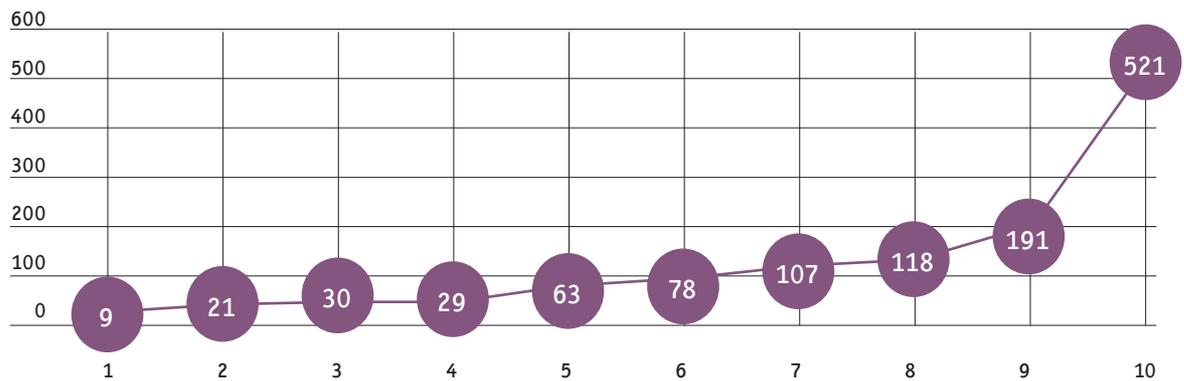
In NIS millions, by household income deciles, 2015



**Notes:**  
 1. Deciles – by net income per standard person.  
 2. Excluding households in public housing.  
**Source:** Adva Center analysis of CBS, July 2017. *Household Income and Expenditures Survey*, 2015.

## Monthly Income of all Households from Rent

In NIS millions, by household income deciles, 2015



**Notes:**

1. Deciles – by net income per standard person.

**Source:** Adva Center analysis of CBS, July 2017. *Household Income and Expenditures Survey, 2015.*

window, a sink, etc.), establishing the maximum amount of the security bond, making brokerage fees the responsibility of the landlord, and obligating the landlord to repair any damages not caused by the occupants.

However, the law does not grapple with two key issues of private rentals – the term of the rental contract and the amount of rent. The law also fails to establish a “rent registry,” which could provide tenants with information about the rental prices of homes in a given area.

In the current rental market, even after passage of the Fair Rental Law, apartment owners still have the right to terminate the contract on short notice, leaving families with schoolchildren to grapple with frequent moves, which can be costly and disruptive.

Figures published by the National Economic Council reveal that the vast majority of rental contracts – 94.1% of all contracts signed in 2015 – specify a one-year term.<sup>27</sup> In practice, however, only 28% lived in their rental units for only one year; many more stayed on for a longer period, and 12% lived in the same rental unit for ten years or more.<sup>28</sup>

In the absence of strict regulation, the private rental market has become a very unlevel playing field – one with an unequal balance of power between home owners and tenants. For the home owners, signing a rental contract is a deal that generates a yield on their property; for the tenants, it provides a home, a place to live. This relationship is particularly problematic for disadvantaged families, for whom even the demand for a bank guarantee before signing the contract may constitute an insurmountable obstacle.

Thus, the public option – construction of a large number of public apartments for long-term rental – can provide not just a quality home for those eligible, but it can affect the entire rental market – not only prices, but standards of maintenance, contract demands, and more.<sup>29</sup>

The public housing option, in which the government constructs a large number of apartments for long-term rental at reduced prices, or creation of a comprehensive public rent registry, is an option familiar from western Europe, which we now briefly describe.

# 4.

## The Public Housing Option: Global Models of Social Housing

Throughout the twentieth century, particularly following World War II, almost all western countries instituted government programs for reconstruction, renewal, and expansion of the existing supply of residential units, with the goal of making suitable apartments available to the middle and working classes.<sup>30</sup> These programs are referred to as “social housing” in the research literature, and were most commonly long-term rentals.

This intense state involvement in housing can be understood in the context of World War II, which compelled governments to play a greater role in all aspects of civil and military activity, not just housing. With respect to housing, the intense involvement came in response to the devastation caused by the war, requiring massive reconstruction. It can also be understood as a reflection of the commitment felt by the political leaders for the welfare of the citizens after long years of war and deprivation.<sup>31</sup> This commitment was strengthened by the post-war rise to power of social democratic parties in many western European countries. Together, these dynamics led to adoption of broad-based welfare policies, in housing as well as in other areas.

The discussion below focuses on western Europe – countries close to Israel through the historical circumstances of its birth and evolution – but government intervention in housing extends beyond western Europe. In the Soviet Union, for example, most housing was owned by the state, which invested little in its upkeep. Although the housing cost to a family was minimal, the physical conditions were inferior and housing density was high. With the dissolution of the Soviet Union, public housing was privatized and apartments that remained in state hands primarily serve low-income families.<sup>32</sup>

Similar to the Soviet Union, the Czech Republic until the 1990s also had a large supply of state-owned public housing. Upon its retreat from Soviet policies, however, the Czech Republic chose not to privatize the apartments, but rather to transfer ownership to the local authorities, which continued to lease the units at market prices to a clientele that included middle-class and wealthy tenants. Rent control policies, however, led the local authorities to sell off the apartments to the tenants, leading to a slow, but steady decline in public housing – from 39% of all apartments in 1991 to 6–7% in 2016.<sup>33</sup> This situ-

ation led the Czech parliament to approve guidelines for a program to rebuild publicly-owned social housing, to be completed by 2025.<sup>34</sup>

In China, as in the Soviet Union, the Communist Party nationalized most urban housing and placed it under the authority of the local authorities and large factories. Here, too, very little was invested in housing, and the result was a shortage. The adoption of a market economy transformed the housing landscape, and government housing was almost completely sold off: China, which had once led the world in public housing, now had the highest proportion of privately owned apartments. Rapid development and urbanization, however, created a shortage of affordable housing, which recently forced the state to renew the massive construction of public housing.<sup>35</sup>

For countries in proximity to China – Japan, Korea, and Taiwan – public housing was negligible, perhaps under the post-war influence of their American patron.<sup>36</sup>

The United States has never had a consistent policy of public housing. During the New Deal era in the 1930s, initial attempts were made to build public housing as part of the “special projects” in select cities (from which the name “housing projects” is derived). These projects were mostly intended for low-income families and marked by poor construction; many eventually became slums or poor neighborhoods. In 1965, the voucher system was inaugurated, given to the owners

of rental apartments to cover the difference between the rent price and 30% of the tenant’s household income; over time, vouchers became the primary form of assistance – and not a very generous one<sup>37</sup> – given by the federal government to those in need of housing. One should also add that many cities instituted rent-control.

But to return to western Europe, the cradle of the welfare state: Housing never became an organic part of the welfare state, primarily because its implementation – construction or upkeep, for example – was at least partially placed in private hands. Nevertheless, both welfare and housing policies assumed a state commitment to the welfare of the citizens in the national, post-war trauma. This commitment may have declined over the years, but has never disappeared entirely. It has even been said that none of the industrialized countries can do without a housing subsidy scheme.<sup>38</sup>

The commitment held steady for three decades. Social housing became a realistic option, even competing with the private rental market, both in terms of quantity and quality, thanks to the many years of government involvement – subsidies, tax benefits, and price controls.<sup>39</sup>

The late 1970s marked a historic turning point when Margaret Thatcher, then British Prime Minister, allowed public housing tenants to purchase their homes, packaging it ideologically as “the right to buy.” Soon after, U.S. President Ronald Regan launched

a campaign to overturn the welfare policies (“the great society”) launched by his predecessor, Lyndon Johnson. The changes introduced by Thatcher and Reagan moved their countries from deep state engagement in economic and social matters to reduced involvement, reflected in tightfisted budget policies. In keeping with the neoliberal approach, they placed the reins of the economy into the hands of the business sector, lowered taxes, and cut back on welfare services, including budgetary support for housing.<sup>40</sup>

Ever since that neoliberal turning point, a constant struggle has been waged between two large political camps – the social–democrats and the neoliberals. The struggle resembles a tug of war: The election victory of one side moves policies closer to its ideology, while a victory of the other camp moves policies in the opposite direction.

The neoliberal camp seeks, above all, to sell off the social housing units and prevent the construction or purchase of new ones. This objective is generally justified as a need for budget cuts, but sometimes also in the name of efficiency – private homeowners managing their own property.<sup>41</sup> One important factor buttressing the neoliberal approach is the European Union, which has signed international trade agreements that prohibit the granting of subsidies, such as those for social housing, on the grounds that government subsidies undermine competition and the freedom of occupation of businesses that lease apartments.<sup>42</sup>

From a historical perspective, although the turn to neoliberalism cut down on social housing in most European countries, the decline was more moderate than the pessimistic forecasts. European public housing survived, despite the changing circumstances.<sup>43</sup> In the first half of the last decade, 12% of the households in Europe, on average, were living in social housing, with the Netherlands, Austria, Britain, Denmark, and Sweden topping the list. In Israel, by comparison, some 2% of housing is public housing.

In Europe, the demand for public housing has recently grown<sup>44</sup> for various reasons, including the fact that it is less expensive than a private rental. This intensified following the global financial crisis of 2008 and the fear of future blows to the housing market.<sup>45</sup> The UN Economic Commission for Europe recently reported that 100 million low- or middle-income European families spend over 40% of their income on housing. In response, the UN committee recommended new forms of financing, including state guarantees and partnerships between the state and business sector, which would allow for extensive construction of public housing.<sup>46</sup> Indeed, some are calling for increased government construction of public housing on the grounds that government spending on rent subsidies has become onerous.<sup>47</sup>

England has the best-known system of public housing, known as “council housing.” Construction of these units surged until the late 1970s, when approximately one-third

of all British households lived in public housing,<sup>48</sup> including 20% of the families in the top decile.<sup>49</sup> Margaret Thatcher, as noted, introduced neoliberal policies, the most prominent one probably the privatization of public housing under the slogans “the right to buy” and “property–owning democracy.” Most apartments were sold to their tenants at a discount. The income, rather than going toward the construction of new social housing, was deposited into the general state budget to reduce the national debt.<sup>50</sup> What’s more, local councils transferred their ownership of public housing to nonprofit housing associations, which allowed the government to show budget savings, as the credit issued to the housing associations does not appear on the government budget as an expenditure. Public housing, which had once been offered to the population at large, now targeted only low–income groups, and renters in the top decile disappeared. Nevertheless, housing associations continue to build public housing, and some 18% of British households continue to live in public housing units.

The Netherlands currently has the highest proportion of public housing – 35% of all households in the country. The Netherlands experienced the neoliberal reform more than a decade after Britain did and it also reduced the scope of public housing, but by much less – from 41% to 35%.<sup>51</sup> Rental income is used for new construction. Note that the Dutch government offers housing support not only via public housing, but also via effective rent control.<sup>52</sup> Although the European

Union seeks to narrow the eligibility for public housing out of concern for “fair competition” (with private rentals), public housing in the Netherlands is not expected to become marginalized, as it did in Britain.<sup>53</sup>

Although Germany does not have a comprehensive program of social housing, it does have stringent regulation of the private rental market. This includes rent control, ensuring long–term residential stability, preventing arbitrary evictions, etc. These regulations make private rentals a more realistic option for many income strata: More than half of households in Germany live in a rental unit.<sup>54</sup>

Sweden has perhaps the most developed public housing policy, in keeping with its reputation as the most progressive welfare state. But even Sweden has experienced the negative effects of neoliberalism, particularly, of course, when right–wing parties headed the government. At its height, public housing encompassed just over half the rentals and some 22% of all apartments,<sup>55</sup> and the government was subsidizing construction by urban housing companies. In 1991, however, a right–wing government came to power and cancelled the subsidies, forcing housing companies to seek credit on the private market, which reduced construction and sparked rental price increases.<sup>56</sup> Some municipalities, particularly those run by right–wing parties, began to privatize public housing by selling them to their tenants or private businesses. After the fiscal crisis of the early 1990s, few new apartments were construct-

## Tenure Breakdown in Selected UNECE Countries and Israel in 2015 or Latest Available Figure

In percentages, by descending order of social rental

| Country              | Owner occupied % | Private rental % | Social rental % | Other    |
|----------------------|------------------|------------------|-----------------|----------|
| The Netherlands      | 58               | 10               | 32              | 0        |
| Austria              | 56               | 17               | 23              | 4        |
| Sweden               | 44               | 35               | See note 2      | 21       |
| Denmark              | 45               | 20               | 19              | 8        |
| United Kingdom       | 66               | 16               | 18              | 0        |
| France               | 57               | 22               | 17              | 4        |
| Finland              | 65               | 17               | 14              | 4        |
| Russia               | 86               | 11               | 14              | 0        |
| Switzerland          | 37               | 49               | 14              | 0        |
| Poland               | 64               | 0                | 11              | 18       |
| Ireland              | 79               | 12               | 9               | 0        |
| Belgium              | 68               | 25               | 7               | 0        |
| Czech Republic       | 56               | 22               | See note 2      | 10       |
| Italy                | 68               | 14               | 5               | 13       |
| Germany              | 42               | 53               | 5               | 0        |
| Portugal             | 75               | 18               | 3               | 4        |
| <b>Israel (2015)</b> | <b>68</b>        | <b>23</b>        | <b>2</b>        | <b>7</b> |
| Luxembourg           | 70               | 27               | 2               | 1        |
| Spain                | 85               | 11               | 2               | 2        |
| Greece               | 74               | 20               | 0               | 6        |

### Notes:

- "Other" includes residential units such as sheltered housing, student dormitories, and cooperatively owned apartments.
- Public housing in Sweden, estimated at 20%, is not defined as "social housing" since it is intended for the entire population and therefore included in "Other." In the Czech Republic, too, no homes are defined as "social housing," but 6–7% are public housing, i.e., apartments owned and leased by the local authorities.

### Sources:

European countries: United Nations Economic Commission for Europe. 2015. *Social Housing in the UNECE Region*. Israel: Raz-Dror, Ofer, and Efrat Shamir, June 2017. *On Renting*. National Economic Council. Table D [Hebrew].

ed. In 1998, the right-wing government sold almost all public housing in the large urban centers. Four years later, the social democrats returned to power and managed to halt the sales,<sup>57</sup> and in 2014 they restored some housing benefits.<sup>58</sup> As in other countries, the trend in Sweden, too, is to move from a universalist to a particularistic approach, which earmarks public housing primarily for the poor.<sup>59</sup> Nevertheless, because public housing rests in the hands of local authorities, the neoliberal retreat on the national level is not necessarily reflected in every municipality.<sup>60</sup> SABO, the organization of all municipally owned public housing associations, estimates that in 2013, some 20% of all households in Sweden were living in public housing.<sup>61</sup>

# 5.

## Public Housing in Israel: A Status Report

### In Israel – “Pubic” Housing is in effect “National” Housing

At first glance, the institution of public housing in Israel seems to belong to the same category of as that in western European countries (or “social housing,” as it is termed there). Both are government initiatives (or a public initiative, such as a municipality), both were constructed with government funding – either state or municipal budgets (more in the past than today), and both offer long-term rentals.

A closer look, however, suggests that these are not the same either politically or economically. In Israel, the massive construction of public housing – initiated and paid for by the government – did not emerge from a social-democratic ideology of shaping a more egalitarian society by ensuring an adequate standard of living to the middle and working classes.

Public housing in Israel grew out of the *national* need to settle hundreds of thousands of Jewish immigrants who arrived in Israel in the first two decades after establishment of the state, in many cases settling them on land that had once belonged to Palestinians. In this respect, the more correct term

would be “national housing” and not public or social housing. During the first post-1948 decades, the state built almost 400,000 apartments, most for immigrants who had been housed in transit camps until then.<sup>62</sup> The public housing project was *national* also in the sense that it was intended only for the Jewish population.<sup>63</sup>

One additional point of similarity between Israel and western Europe should be noted: In Israel, as in most western European countries, public housing has undergone a process of privatization. This process began earlier in Israel. Actually, all the governments of Israel based their housing policy on a model of homeownership. From the very beginning, the apartments built by the government were intended for sale, but “when it became clear that the immigrants were unable to purchase the apartments, a decision was made to transfer them to the ownership of Amidar [a government corporation], which leased them to the tenants.”<sup>64</sup>

In 1959, approximately 23% of all housing in Israel was publicly owned, but this diminished in the wake of reduced construction and the sale of apartments to tenants. In

early 2000, some 107,000 homes were public housing;<sup>65</sup> this had declined to fewer than 60,000 apartments in 2016.<sup>66</sup>

## **Public Housing: A Status Report**

In 2016, fewer than 60,000 apartments remained in the public housing inventory. This number is consistently decreasing as the trend continues to sell the units to their occupants and not build new units. Approximately half (51%) the public housing units today are in the south and north of Israel; the others are in the center of the country, Haifa, or Jerusalem.<sup>67</sup>

According to the Director of the Assets Division in the Ministry of Construction and Housing, *"The decline in the inventory of public housing stems from several factors, including the sale of apartments to eligible tenants, removal from the inventory of run-down apartments that are no longer livable, and the demolition of apartments as part of urban renewal ("Pinuy Binuy")."*<sup>68</sup>

Not only is the supply diminishing and not renewed, those in need of public housing are facing greater obstacles. First, the criteria for eligibility have become increasingly stringent. Eligibility is granted by two government ministries – the Ministry of Construction and Housing and the Ministry of Aliyah and Integration. While the Aliyah Ministry grants eligibility to new immigrants, the Housing Ministry grants eligibility to those in social or

economic distress, particularly single-parent families or families headed by an elderly or disabled person.

Those designated eligible have long waits until an apartment becomes available. In September 2016, 2,458 eligible families from the Housing Ministry were waiting for an apartment.<sup>69</sup> Those designated eligible by the Aliyah Ministry were estimated in July 2014 at 27,000.<sup>70</sup> Combined, some 30,000 families were waiting for public housing apartments.

Families ultimately granted housing encounter dilapidated homes and negative attitudes by the agencies in charge. For years, some public housing residents have engaged in activist campaigns to ensure proper upkeep and the allocation of suitable housing for those eligible. The activists also seek to prevent evictions, which have sometimes left impoverished families out on the street. These activists, among them the Public Housing Forum,<sup>71</sup> report that the authorities show indifference or disdain toward residents, and attitudes are sometimes experienced as hurtful and violent.<sup>72</sup>

Given the stringent criteria that now determine eligibility for public housing, even if the government were to build public housing for all those currently eligible – a necessary and proper measure in and of itself – it would not adequately meet the needs of most families affected by the housing crisis. And, needless to say, it would have no effect on the housing market as a whole.

## The Main Form of Government Assistance – Rent Subsidies

In the absence of new construction and with inadequate investment in upkeep, the government's main housing expenditure is rent subsidization. Some 149,000 families currently enjoy this support, and the allocation for rent subsidies is one of the largest budget items of the Ministry of Construction and Housing: In 2015, it was approximately NIS 1.5 billion – 28% of the ministry budget of NIS 5.3 billion that year.<sup>73</sup>

Rent subsidies are granted to households that do not own a home and whose income does not reach a given threshold. The amount of the subsidy varies greatly and is dependent upon many parameters, including the eligibility criterion (elderly, immigrant, disabled, on income support, etc.), age, number of household members, and residential area. For example, new immigrants are entitled to a relatively low monthly subsidy of NIS 134–402, while a family receiving income support is entitled to NIS 530–1,470 a month. Families eligible for and awaiting public housing are meanwhile entitled to a rent subsidy of NIS 731–3,100.<sup>74</sup> The average rent subsidy received by an eligible household is NIS 860 a month.<sup>75</sup>

The Israel Committee for the War Against Poverty (the Alaluf Committee) noted in 2014 that "There is a significant gap between the rent charged on the open market and the rent subsidy. As a result, those eligible are forced to finance the high cost of rent from their

sparse resources...Housing costs constitute a very large share of the expenditures of most poor households and are a heavy burden, even after receipt of the rent subsidy."<sup>76</sup>

In addition to the problem of the low subsidy, eligible households have to contend with the private rental market from a weak bargaining position and are subject to the idiosyncrasies of the landlord. Testimony from single-mothers who head households eligible for rent subsidies have even cited cases of sexual harassment and assault by apartment owners.<sup>77</sup>

Residents of private rentals are often forced to move frequently. As the Alaluf Committee noted:

*When considering the main alternative to public housing – rent subsidies – one should keep in mind that many of the rental units in Israel are owned by families, not commercial or institutional bodies, hence the rental is not necessarily long-term. Thus, the average rental lease is much shorter than that of a public or private rental. Tenants are often forced to move frequently – every year or two. An analysis of housing tenure for rental subsidy recipients conducted by the Ministry of Construction and Housing reveals that rental subsidy recipients who reside in private rentals are forced to move fairly often, disrupting the stability of poor families and making them particularly vulnerable. Beyond the financial outlay of moving, the wrenching from one place to*

*another takes a toll socially and functionally, particularly for poor families. Forced transition can undermine the stability of the family, weaken it financially, and distance it from the support network of the extended family and community (schools and health services).<sup>78</sup>*

Finally, it should be noted that rent subsidies, intended primarily to benefit tenants, also benefit the landlords. Sending eligible families into the private rental market increases demand, thus contributing to a rise in rental prices. Furthermore, the rental subsidy ensures that the landlords, most in high-income deciles, receive a rent payment each and every month.

## **A Tale of Two Committees: Trajtenberg and Alaluf**

Over the past decade, two state commissions of inquiry addressed housing issues – the Trajtenberg Committee and the Alaluf Committee. Both acknowledged the severity of the housing situation, but their recommendations hardly provided an adequate response.

The Trajtenberg Committee was established by Prime Minister Benjamin Netanyahu following the wave of social protest in the summer of 2011. The committee was asked to advise the government on how to address the issues raised by the protest movement, including the high cost of housing. In its response, the committee remained within the political and economic consensus, attribut-

ing the rise in housing prices to an insufficient supply of housing: "The rise in prices is the result of a severe shortage in the supply of apartments and a steep rise in the demand for housing in the context, inter alia, of low interest rates."<sup>79</sup> The committee also remained within the consensus by attributing the problem of supply to "barriers along the chain of housing production from the planning stage to construction completion."<sup>80</sup> Hence, a large part of the committee discussion focused on the barriers.

Nevertheless, one of the committee's recommendations was to encourage institutional bodies to establish long-term rental housing blocks.<sup>81</sup> "To this day," it noted, "institutional investors [such as pension funds] have refrained from involvement in this in Israel, even though a large number of them invest in residential rental housing abroad and enjoy handsome profits."<sup>82</sup> This recommendation was, however, minor in scope, as the committee set an objective of 30,000 long-term rental units in the housing inventory.<sup>83</sup> This objective reflects quite a low number of long-term rentals, one that is unable to significantly affect either the housing market or, in particular, the rental housing market.

The Alaluf Committee, by definition a "Committee for the War Against Poverty," focused on housing solutions for those below the poverty line, and therefore it did not include a recommendation to make rentals one of the main housing options in Israel. Its primary housing recommendation was to increase public housing to at least 5% of the entire

housing inventory, and it noted that even this is low for OECD countries.<sup>84</sup> To achieve this, the committee recommended "increasing the supply of housing by some 700–1,000 residential units each year for the next 15 years by purchasing second-hand and new apartments at the cost of construction only...and by improving efficiency."<sup>85</sup>

None of these recommendations has the ability to fundamentally change the housing market in Israel.

# 6.

## From Limited "National Housing" to Universal, High-Quality Public Housing

### **A Public Option for the Housing Crisis: Universal, Long-Term Public Housing**

Housing prices have become a socioeconomic problem of the first order. Because the solutions put forward by Israeli governments have continued to promote the homeownership model, they cannot meet the needs of most Israelis in search of affordable housing.

What is needed is housing policy that understands the limitations of the "free" market, and does not push young couples into the "right to buy" regardless of their situation so they can belong to the illusory "property-owning democracy."

We propose that the government become directly involved in the housing market with the aim of creating a public housing option of long-term rentals, offered in parallel with the options of homeownership and private rentals. Public housing will provide housing for those unable or unwilling to buy an apartment and also serve to moderate the prices in the general rental market.

### **The Public Option: Key Principles**

The model proposed in this paper is based on the following principles:

1. Quality housing will be created in or near high-demand areas, and rented out at a price (including ancillary costs such as municipal taxes and utilities) that does not exceed 30% of the total income of the resident households.
2. The government will directly engage in resolving the housing crisis, rather than rely on the profit-making considerations of private developers or "investors" concerned with a profitable return on investment.
3. The apartments will continue to be publicly owned and within the inventory of public housing rentals, i.e., they will not have to be sold to private owners after a given period. This differs from the existing models, which advocate long-term rentals that are financed and built by private contractors, and which become profitable only if the contractors are allowed

to sell the apartments after twenty years of rental.

4. Public housing will be allocated under more generous criteria, so that families in the general population that do not own a home will be eligible, although it is expected that most of the demand will come from households in the six lowest income deciles.
5. To redress a historical wrong, families currently eligible for public housing will be the first to receive apartments under this program. It should be emphasized, however, that this proposal calls for a housing solution for much broader population groups, including the middle class.

## Significant Expansion of the Public Housing Inventory

We propose a public housing option that will provide a solution for a high proportion of households in need, and will significantly affect the housing market as a whole.

Based on the cumulative experience of European countries with extensive public housing and assuming a realistic rate of construction, **we propose that the government create an inventory of approximately 450,000 public housing units over the course of ten years. This inventory will be built and renewed such that at any given time, it will constitute approximately half the rental market and 15–20% of all housing units in Israel.**

Clearly, development of this magnitude requires activity in many channels. The Alaluf Committee also noted that significant expansion of the public housing stock would require expansion of the means used to create this inventory.<sup>86</sup>

Below we propose five methods to effect a massive expansion of the public housing inventory, all of which can take place simultaneously:

1. The basic and principal alternative is state–budgeted construction on state land, to be managed by government and municipal companies or by nonprofits and tenant associations, which will enjoy a commission from the state for managing the project, while the state enjoys income from rent payments.

2. Complementary to the first option, the construction of public housing can be financed by raising capital from institutional investors, i.e., the pension funds, through the issue of government bonds. This is possible only when the state is guaranteed ownership, without allowing ownership to revert to bond holders (privatization).
3. A third option is the sale of land by tender to private developers for residential construction, obligating the developer to turn over to the state a percentage of the units in each project for use as public housing. Although this will lower the value of the land from the perspective of the developers and thereby reduce state income from sale of the land, the state also benefits as it will be able to enlarge the supply of public housing without direct expenditures. This option resembles the two programs currently in use – “Buyer’s Price” and “Apartment for Rent” – in which government financing also comes from forfeiting income from the sale of land. However, in the option proposed here, all population strata will benefit, unlike the existing programs. A similar approach is the decision to allow the Israel Land Authority to include as part of the “Buyer’s Price” tender an allocation of up to 5% of the project units for public housing. The Alaluf Committee took this one step further, proposing an obligatory allocation of 2% of all land tenders for public housing.<sup>87</sup>
4. To ensure the erection of public housing units not just on state land, the state can propose that private rental owners join the model of long-term public rentals. To accomplish this, public bodies (government or municipal companies) will contact private apartment owners and serve as a kind of property manager. These apartments will be leased at prices set by the state for public housing, and the state will subsidize the difference in price. The advantages of this model for eligible families who currently rent on the open market is that large public bodies will now negotiate with the apartment owners from a position of strength, while the families will be in contact with the public company, not the apartment owner.
5. Finally, it would also be possible to have the state purchase existing units – new apartments from contractors or second-hand apartments from private owners – that would become part of the public housing inventory. This method exists today in the program *Divot Nikhsei Rekhissha* [purchased apartments]. It is a relatively expensive method that does not take advantage of the status of the state as a body that controls legislation, planning, and land allocation. Nevertheless, this solution can be immediately applied in modest numbers primarily where there is a real shortage of public housing units and the above methods cannot be used to increase the supply.

## Universal, Quality Public Housing

1. This program is intended for the entire Israeli population. Public housing should also be made available in Arab towns, and Arabs should be allowed access to public housing in areas of high demand. The same with regard to ultra-Orthodox Jews.
2. This paper calls for significant expansion of the supply of public housing, primarily in high-demand areas – Gush Dan, the Jerusalem area, Haifa and the Krayot, and Beersheba. These are the regions where broad segments of the population wish to live as they seek quality employment and a good education for their children.
3. The quantitative expansion of public housing must take place in parallel with major improvement in the quality of the housing and service to the tenants. Every initiative for expanding public housing must address the serious problems in the management formats of the current housing companies, particularly Amidar.
4. To prevent a culture of neglect from evolving, not all the apartments in large residential projects should be public housing. Public housing units must be integrated into the fabric of owned apartments and private rentals. One way to establish an inventory of public housing in built-up areas lacking land for new construction is to allow the building of public housing on land zoned for public use (“public domain”), on condition that this does not come at the expense of other public needs. This was also a recommendation of the Alaluf Committee.<sup>88</sup>
5. Better management of public housing requires appropriate budgets. Incentives should also be offered to encourage the management companies to provide quality services to the tenants. In parallel, management sharing styles should be considered, in which the public housing tenants actively engage in managing and maintaining the apartments and their environs, or even serve as owners of the management company itself.

Note that the solution proposed here need not come in place of other forms of state housing assistance, including programs to assist in the purchase of homes such as subsidized mortgages with state guarantees.

This paper does not call for eliminating the private rental market, but for regulation that will make it competitive with public housing as proposed here. International experience suggests that optimal regulation of the private rental market takes place primarily when, in addition to the private rentals, there is an option of public housing with affordable rent payments, reasonable rental terms, and quality upkeep of the structures.



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