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The unregulated private rental sector and the impact on Israeli housing market

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Abstract

Israel's rapid population growth, deriving from its unique demographics, is generating a consistent rise in the demand for residential housing. The low interest rate environment in Israel since the beginning of the last decade has also contributed to the rise in demand for housing, which exceeded the available supply and led to a continuous rise in the price of housing. The various government programs all attempted to halt the rising prices, with no long-term success, if any. Policymakers focused on making ownership of housing affordable for young couples but directed their activity at repressing the demand for housing among investors and housing upgraders. This interpretive article focuses on analyzing Israel's housing policy and indicates the built-in failure engrained in this policy, as the demand for housing in Israel is a rigid demand deriving from the country's demographics and values and therefore attempts at repressing it are futile in essence. The housing policy aimed at making housing affordable for young people must examine, before it is finalized, their overall incentives to own housing on one hand and the obstacles they encounter that prevent them from opting for rentals on the other, and accordingly formulate the features and different terms of the policy. The research conclusion indicates the need to implement a public policy that will promote the rental alternative as an efficient way of meeting the demand for housing on one hand and of curbing the price of housing on the other.

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1. Introduction

The considerable rise in housing prices in Israel since 2008, after the stagnation (and even realistic drop) in their prices in the early 2000s, placed the concern of a real estate bubble in the Israeli economy on the public agenda. A historical perspective shows the considerable contribution of real estate bubbled in various economies to the evolvement of financial and social domestic crises. Volatile real estate prices are not unusual and can be found in any where there are two particularly conspicuous cases of extreme volatility in domestic real estate prices known to have led to a long-term acute economic crisis within the country and even outside it. The first was in Japan in the early 1990s (the house price bubble crisis) and it has been extensively studied (Cargill, Hutchison, & Ito, 1996; Ito & Iwaisako, 1995; Noguchi, 1994; Ohmi, 2010; Schaede, 1996; Stone & Ziemba, 1993; Weinstein, 2001). The second is the real estate crisis in the US in the late 2000s (the subprime crisis) that has also been the focus of much research (Arner, 2009; Blundell-Wignall & Atkinson, 2008; Brown & Davis, 2008; Demyanyk & Van Hemert, 2011; Gjerstad & Smith, 2009; Gwinner & Sanders, 2008; Hellwig, 2009; Kregel, 2008; Sagemann & Reese, 2011; Whalen, 2008). The financially destructive outcomes of these crises were a warning signs of what might happen in Israel in the event of a real estate bubble development. These concerns encouraged the Israeli public policy makers to design and to promote various policy steps to curb the rise in apartment prices (Cohen, 2016, 2021).

Indeed, previous studies evidence on the possible negative macroeconomic effects of intervening in the housing market in order to reduce the rising apartment prices: like a drop in private consumption, an increase in unemployment and entry into economic recession (Gustafsson, Stockhammar, & Österholm, 2016). Yet, many countries take action and implemented a public policy to reduce the apartment prices in their local market.

The research literature offers several possible intervention methods available to leaderships. First of all, by implementing a monetary policy that curbs the demand for mortgages, for instance by raising interest rates (Getahun, 2011; La Cava, 2016) or by implementation of regulatory limits on mortgage (Cronin & McQuinn, 2016; McQuinn, O’Toole, & Slaymaker, 2021). Second, by utilizing fiscal policy tools to reduce the demand for housing, for instance by imposing transaction taxes, property taxes, and mortgage interest tax deductibility (Alpanda & Zubairy, 2016). Third, by operating macro-prudential regulation aimed at moderating the demand for housing and reducing the risks for the financial system, for instance by higher capital requirements of mortgage applicants and limits on loan-to-value and debt-to-income ratios (Bordon & Jeanne, 2002; Crowe, Dell’Ariccia, Igan, & Rabanal, 2013). And fourth, Policy makers can take action to influence the supply and to increase the number of apartments in the domestic market, with the aim of lowering the point of equilibrium between supply and demand (Gurran & Phibbs, 2013; Karantonis & Janet, 2007).

The global economic crisis in 2008–2009 led to implementation of an expansive monetary policy in various countries around the world, including Israel, manifested in reduced interest rates in the Israeli economy, which in turn helped increase the demand for residential housing and raise prices. However at the same time natural demographic processes occurred in Israel, manifested in population growth, As detailed below:

Israel is considered a country with a more prominent population increase than other developed countries (Schellekens & Anson, 2017; Weinreb, 2020). The increase in Israel’s population stems from a combination of three main factors: First, the high rate of Jewish immigration from other countries to Israel, usually for ideological and Zionist reasons (Eckstein & Weiss, 2004). Second, the rise in life expectancy resulting (among other things) from the

advancement and improvement of healthcare services (Dwolatzky et al., 2017). Third, relatively high marriage, childbirth, and fertility rates for religious, cultural, and traditional reasons (Okun, 2013, 2017; Szajnbrum, 2009; Weinreb, Chernichovsky, & Brill, 2018). The increase in Israel’s population, which began with the founding of the state, has continued consistently in recent years as well (Fig. 1).

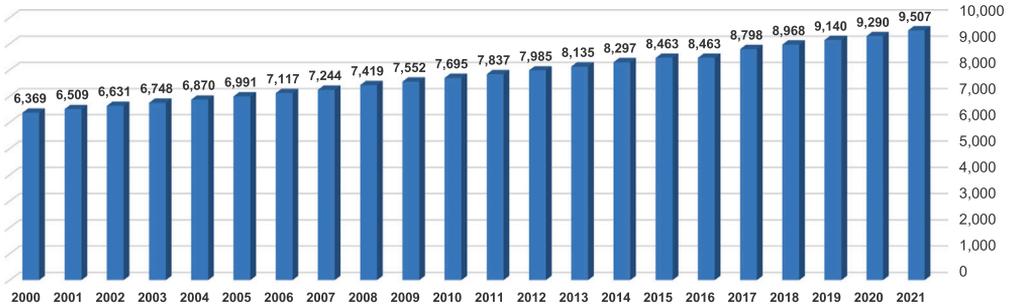


Fig. 1. Israel's population in the years 2000–2021 (Thousands).
Source: Central Bureau of Statistics in Israel, Table 2.1. Population by groups.

Concurrent with the increase in Israel’s population, residents are also inclined to concentrate in the center of the country (DellaPergola, 2004), As can be learned from the following figure. Central Israel (which includes the central, Tel Aviv, and Jerusalem districts) now includes more than half Israel’s residents, while the rest are spread among the close periphery (Haifa district) and the distant periphery (the northern and southern districts), which contributed to the increase in the natural demand for housing and rise in housing prices in Israel in general and in the central regions of the state in particular (Cohen, 2018) (Fig. 2).

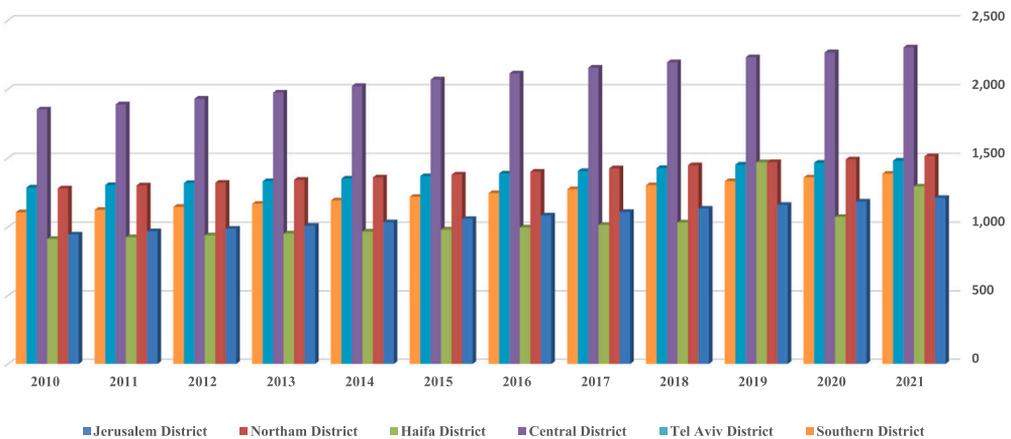


Fig. 2. Population distribution in Israel by districts in the years 2010–2021 (Thousands).
Source: Central Bureau of Statistics in Israel, Table 2.15 Population By District.

From 2009 to 2015, public policy designers in Israel formulated a long list of steps for stalling and even reducing housing prices. These steps can be classified as belonging to three categories: steps for decreasing the demand for housing, steps for increasing the supply of housing, and steps for actual reducing of housing prices (Cohen, 2016). The policy steps taken proved, however, to no avail and housing prices continued to climb. After the 2015 elections and once the new government was established, elected Minister of Finance Moshe Kachlon established a committee to take action to reduce housing prices in Israel. As a result of this committee, a decision was reached in August 2015 to expand the government's "Price for Residents" program, which facilitates discounts for young couples according to certain criteria.

This program acted to market state-owned land to real estate developers at a subsidized price, predicated on selling the apartments constructed at a significant discount. As a result, many developers avoided involvement in projects included in the program. At the same time, the government reduced the marketing of land not included in the program, with a consequent drop in the number of construction starts during 2017–2018. This program was strongly criticized by economists, real estate firms, and media personnel, who claimed that not only was it not efficient, with many distortions and faults (low chances of winning a slot, poor finish grade of the apartments, location in outlying and less attractive areas, delays in construction processes, and more) but also capable only of stalling prices in the domestic property industry and not of reducing housing prices. Moreover, this program also causes real damage to the real estate industry as it artificially and temporarily restrains the demand for housing on the free market, which also affected the level of supply and the number of construction starts (Cohen, 2021).

The various public policy steps in this area in general and the "Price for Residents" program in particular have not achieved their declared goal of generating a lengthy halt in the rise of housing prices in Israel. Aside from the temporary drop in Israel's housing index in 2018 (resulting from the "Price for Residents" program), this index has continued to rise over the past decade. Therefore, policymakers in Israel must realize that it is not possible to reduce housing prices in a market regulated by the supply and demand forces operating in a free market characteristic of the local real estate industry. Past, present, and future regulatory steps aimed at repressing the demand for housing by all those involved (those who do not own a home, home improvers, and investors) will not achieve the declared goal of reducing the price of housing in the long term and for a lengthy period in circumstances that offer no housing alternatives.

Indeed, regulatory steps that endeavor to increase the supply of housing can certainly lead to a halt in price increases or even to a drop for a certain period, until the consistent and rigid demand for housing in the Israeli market will catch up with the pace of the rising demand and lead once again to a rise in the price of housing. However, so long as citizens have no satisfactory alternative for housing aside from owning a home, they will continue to purchase homes at any price, in the constant concern that the present price (high as it may be) is lower than that anticipated in the future and therefore, lacking any other reasonable housing option, they will be motivated to purchase homes and thus increase the demand.

In order to change this pattern of conduct, policymakers must produce an acceptable and reasonable alternative for housing before acting to artificially suppress the demand. This resembles the current state on Israel's roads with their increasing congestion (Cohen, 2019). In that case as well, policymakers must promote an alternative to enable transport mobility (by developing efficient, fast, and accessible public transportation) before acting to restrain the demand for use of private vehicles (by means of congestion fees, restricting access to private vehicles in favor of public transportation lanes, and others). People will probably not relinquish their private vehicles despite the high financial cost of their maintenance and the traffic

congestion, so long as they do not identify a reasonable and readily available alternative that will allow them to travel comfortably, quickly, and efficiently from place to place without needing private vehicles.

Similar to the private vehicle market, in the housing market as well – so long as people do not identify the rental option as one that is relevant for their needs, they will continue to endeavor to obtain ownership. However, unlike the field of transportation, where creating an effective alternative to owning a private vehicle could take many years, in the real estate market it is possible to create an alternative to home ownership in a relatively short span of time. The rental market can be presented as an alternative to owning a home, acting to promote a legislative process that will regulate this market in a way that will meet the various needs of lessees and form a preferred option, as in some other countries (shown below). The various legislative processes that will regulate the rights of lessees on one hand and the obligations of house owners on the other will facilitate long-term (geographical and budgetary) stability and certainty for lessees and thus affect their motivation to purchase a home of their own and create a preference for the rental alternative. At the same time, unlike steps taken to date, policymakers must refrain from implementing policy that limits and represses the activity of investors in the housing market) (Weiner & Fuerst, 2017), as these have the effect of increasing the supply of housing in the rental market.

1.1. Regulation of the Rental Housing Market

For about three decades, and all the more so since the early 2000s, Israel's housing policy has been controlled by a "private market" ideology, meaning that the responsibility for building homes and providing housing solutions has been transferred from the government to the private sector. At present, the Israeli government is no longer investing significant funds in construction projects and in helping people obtain housing solutions. In contrast, the housing market is currently an important source of government income. The "private market" housing policy has brought existing socioeconomic disparities to an extreme, where an increasing segment of the population is finding it difficult to obtain suitable homes for a reasonable price, while this policy has also led to the emergence of a relatively narrow well-established group that increased its resources to a large extent. With the beginning of the global crisis in 2008, the latter group diverted considerable capital to investing in real estate, in a process that partially contributed to the rise in housing prices and further reduced the ability of many to obtain a lasting home.

As part of this policy, the Israeli government abandoned the issue of public housing, instituted stricter criteria for eligibility, and reduced or at times even completely eliminated investments in constructing new public housing. In recent years, providing assistance with rent payments has become the main route of government assistance with housing – one that in its present form suffers from considerable problems, is not sufficiently budgeted, and particularly – does not fulfill its purpose of helping people attain a lasting home. Indeed, a certain change in direction was registered beginning from 2015, with an initial increase in the budget of the Ministry of Construction and Housing, however it is still far from its levels in the early 2000s (Hofman-Dishon, 2021).

Moreover, the proportion of publicly owned rented homes is a very basic expression of the state and/or local authority's level of involvement in housing. This is an important but merely partial expression, as many local authorities around the world choose to intervene in various ways and extents also in the rental market for privately owned homes. One of the more common ways of affecting such intervention is by imposing restrictions on rents or on their rate of

increase. Mualem's study, published in 2014 and reviewing some 30 countries that employ some type of arrangement to supervise rents, attests to the wide spectrum of tools utilized to supervise rents (Mualem, 2014).

This spectrum can be divided into six main categories (sometimes implemented concurrently): 1. Supervision by complete "freezing" of rents; 2. Supervision by partial freezing, applied to some types of homes or those with rents within a certain range; 3. Protection from a sharp rise in prices by setting a maximal annual price hike (in percentages); 4. Supervision of rents by determining the price as a proportion of the property value; 5. Distinction between rents for new versus old homes; 6. "Restarting" supervision when switching tenants. At the same time, there is a significant difference in the level of supervision applied in the private rental market of select countries, with Germany on one end, with its relatively strict supervision of rents relative to other OECD countries, in the middle France and Spain with their moderate supervision of rents, and the US, the UK, and Israel on the lower end, as shall be detailed below.

1.2. Policy regarding supervision of housing rentals in various countries

The high price of homes and the accompanying rise in rental prices have aroused a social debate in many countries, analyzing the role of the state in helping the population obtain access to housing. While in Israel the choice of home ownership has remained a preferred alternative to rentals, due to the existence of a free market with no government regulation, in many European countries the private rental sector of the housing market has become regulated in recent years, with the aim of promising lessees stability and a sense of certainty and thus making the rental alternative a preferred option (Kholodilin, Weber, & Sebastian, 2018; O'Sullivan & De Decker, 2007). Proof of this is the fairly high rate of publicly owned rental properties (by the state or local authority) in these countries in 2021: in Vienna rentals constituted 22 % of all homes, in Berlin 14.4 %, in London 24 %, and in Paris 19 % (Hofman-Dishon, 2021).

As stated, regulatory processes in the private rental sector of the housing market were shaped and implemented in recent years in many European countries, including Portugal (Marques Pereira, 2020; Mendes, 2022); Finland, the Czech Republic, and the Netherlands (De Boer & Bitetti, 2014); France and Italy (Aguilera, Artioli, & Colomb, 2021); Spain (Bian & Fabra, 2020; Yrigoy, 2021); and Austria (Litschauer & Friesenecker, 2021). At the same time, Germany is considered the most active European country with regard to regulating the private rental sector of the housing market. In this country, which has a very large private rental sector, regulation of the rental market has been implemented since 1971 (Kemp & Kofner, 2010).

The German rental market is characterized by regulation that includes many protective means, including restricting rental hikes to a maximum of 20 % in three years. In many German cities tenants can live in a rented home for a lifetime and the owner cannot demand that they vacate the property. Due to the many rights and means of protection assured in the case of rentals, this option is chosen by the absolute majority of city dwellers in Germany. City homes are often owned by real estate companies or foreign residents seeking a lucrative investment. In recent years, following the relatively steep rise in rents in German city centers leading to a wave of public protests, the regulation of this market has been increased and the maximum permitted rise in rents was reduced in some cities, where at times they can only be raised by 15 % over two years.

In addition, as of June 2015, a law for "restricting rents" was enacted in some German cities, limiting rents in new contracts as well, where the rental fee is determined by the size and quality of the property and rent hikes are limited to 15 % in 5 years. Moreover, in recent years attempts

have been made to further strengthen the regulation of Germany's rental market, and on February 23, 2020, the parliament of Berlin adopted a law to freeze all rents in Berlin ("Mietendeckel"). The law was canceled on March 25, 2021, however, since it was perceived as unprecedented interference in the German housing market (Hahn, Kholodilin, Waihl, & Fongoni, 2022; Sagner & Voigtländer, 2022). Unlike the policy implemented in Germany and in many other countries, Israel has no regulations in place for the private housing rental market, as stated, and this market follows unregulated free market forces.

Accordingly, the purpose of this study is to present and analyze Israel's housing indices on one hand and the rental index of privately owned dwellings on the other, while analyzing the impact of the unregulated public policy in the rental market on changes in these indices. In addition, the study seeks to present suggestions for formulating efficient public policy to regulate Israel's rental market, with the aim of generating transformations in the demand for housing, manifested in reducing the demand for ownership of dwellings on one hand and in increased demands for rentals on the other. It can also be assumed that such a policy (if applied) will be capable of providing access to Israeli citizens' housing needs.

This study is unique in combining two types of possible impacts on the price of housing in a given economy. On one hand, sociodemographic factors related to rapid population growth, concentration of the population in the center of the country, and a wide marriage trend, which affect the demand for housing in general and in the center of the country in particular, and on the other, factors related to the housing policy with its wrong and failing goals and efficacy, respectively. The choice of Israel as a case study for exploring the influence of each of these factors on trends in the domestic housing market, stems from the unique sociodemographic characteristics of Israeli society as detailed above and from its deficient public policy in the various life domains, including housing. This public policy reflects deficient long-term planning and even the absolute absence of such planning and derives from the continuous governance crisis typical of Israel. This governance crisis is particularly conspicuous since 2018, evident in five successive recurrent election campaigns that have not managed to resolve the political situation, with each subsequently encountering considerable difficulties in building a stable coalition (Belder, 2021).

This state of affairs might have the effect of encouraging policymakers in Israel to design and promote public policy based on a short-term perspective and political and personal interests in order to enhance their position and that of their political party. Such a public policy avoids taking long-term actions and paying the economic and political price required to introduce long-term reforms that are incapable of generating immediate political returns for decision makers. Accordingly, in recent years various housing programs were formed in Israel, focusing on repressing the demand in the short term, with insufficient actions aimed at increasing the supply of dwellings, removing obstructions, and easing construction processes, as well as promoting long-term rental programs. The effect of this policy on the changes in Israel's housing indices is presented below, in the findings chapter.

2. Methodology

This study is a commentary paper focusing on analysis of public policy on a specific issue and in a given time frame. The research method utilized in this study includes presentation of research premises, presentation of facts and data, refuting or confirming the premises based on the information, and finally reaching conclusions.

The research method combines quantitative research and qualitative research, where the quantitative part is evident in presenting data indicating demand and supply trends for housing in Israel and to changes in housing prices during the period under examination. The data and information were extracted from the website of the Central Bureau of Statistics, the Ministry of Housing, and the Ministry of Finance. The qualitative part of the study will present an analysis of the data while examining public policy as the main factor affecting and regulating them.

3. Findings

The overall demand for housing in Israel encompasses the desire of three groups to purchase a dwelling. These are the group of young couples (who do not own a house and seek to purchase a dwelling), the group of housing enhancers (who seek to upgrade their house to a more spacious dwelling), and the group of investors (who seek to purchase another dwelling as an investment and to receive a return on their investment). The first group opts for ownership over the rental alternative, due to the sense of certainty and the geographical and financial stability that it affords. An unregulated rental market is dynamic, as a result of changing rental terms and frequent mobility that discourage young couples who seek to begin a family and put down roots in a location of their preference (near family, near their workplace, and so on). The second group is usually characterized by older individuals who seek to improve their housing conditions and adapt them to their changing financial and family status (changes in the household income and changes in the number of people in the family, respectively). The third group sees ownership of a dwelling as an attractive investment channel that will allow them to receive lucrative returns on their investment (as a result of an anticipated rise in the future price of the property and due to the unsupervised rental fees that can be received for it). The trends typical of the demand for purchasing dwellings by these three groups are presented in the figure below (Fig. 3).



Fig. 3. Distribution of demand for dwellings in Israel, 2012–2021.

Source: Ministry of Finance - Chief Economist. <https://www.gov.il/he/Departments/DynamicCollectors/weekly-review?skip=10&limit=10&subject=01> (19.10.22).

The figure above attests to the overall increase in the demand for residential units in Israel from 2012 to 2021 among the three groups of purchasers listed above. Indeed, among the group of investors a drop is evident in the number of dwellings purchased in 2017–2018, following a rapid increase in their activity in 2015 before the “Price for Residents” plan was expanded and in the vicinity of the announcement by Minister of Finance Moshe Kachlon regarding raising

the purchase tax on dwellings for investment. Nonetheless, the data in the figure indicate that the investors resumed their activity in the Israeli housing market as early as 2019, together with the conspicuous deceleration in the “Price for Residents” program towards the end of Minister Kachlon’s term in office. At the same time, in 2017–2018 an increase was evident in the number of dwellings purchased by the group of non-owners (young couples), due as stated to the expanded government subsidies for purchasing dwellings as part of the “Price for Residents” program. In addition, the figure attests to the considerable increase in the number of dwellings purchased in Israel by the three groups of purchasers beginning from the second quarter of 2020 and subsequently.

As stated, the many government programs implemented in Israel from 2009 to the present time (2022) with the purpose of curbing the rise in the price of housing, mostly focused on steps to repress the demand for housing (by increasing the taxation on the purchase of dwellings, toughening the mortgage terms, and various attempts to keep investors away from the housing market) and in small part also by increasing the supply of housing. Moreover, these programs included no attempt to revert the demand for housing from the ownership alternative to the rental alternative, rather focused only on repressing this demand. Furthermore, government programs focused on awarding young couples benefits for obtaining ownership of a dwelling rather than improving terms that would encourage them to choose the rental alternative. Therefore, lacking public policy regulating the market of private residences for rental, these three groups will prefer the ownership alternative over the rental alternative, generating an increase in the overall demand for housing and contributing to the rise in prices, as evident from the figure below.

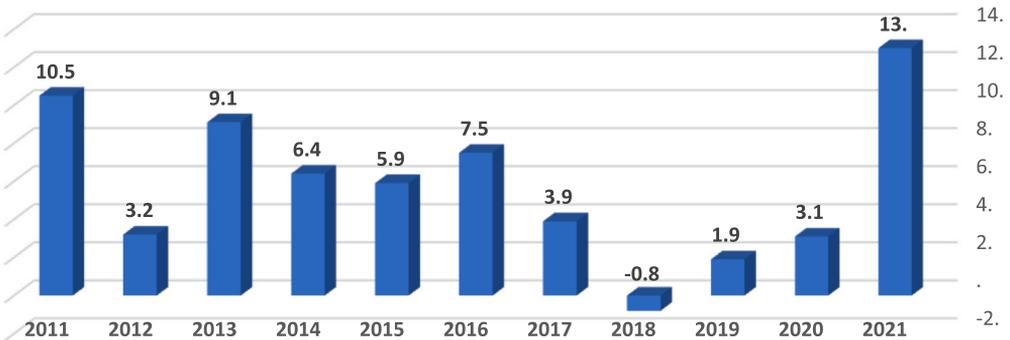


Fig. 4. Housing Price Index in Israel 2011–2021, (Annual percentage change).

Source: Central Bureau of Statistics in Israel. Table 10.6: Changes in Index of Prices of Dwellings.

The figure indicates a rising trend in the price of housing in Israel from 2011 to 2016 (this rise began, as stated, as early as 2008). Nonetheless, in 2017 a deceleration in the rate of increase was evident, and the next year there was even a decline in prices. This trend was consistent with the drop in demand for housing during 2017–2018. At the same time, the slowing increase in the supply of housing during 2017–2018, manifested in a drop in the number of construction starts in those years, led to a moderated rise in supply two years later.² As a result, a renewed rise in the price of housing was evident in 2019, which reached its height in 2021 with a rise of 13 % in the

² Matching the average rate of construction in Israel, which is about two years.

price of housing in Israel. Therefore, it seems that the housing policy formed and implemented in Israel so far has not managed to achieve its declared goal of reducing housing prices in the long term. This policy halted the rise in prices for a short time only, by artificially reducing the overall demand for dwellings, intentionally keeping investors away from the housing market and leaving it almost exclusively for young couples for whom the “Price for Residents” program was relevant (Cohen, 2022). As a result of the continuous rise in prices, the aspiration of Israeli citizens in general and of young people in particular to obtain ownership of a dwelling is becoming unfeasible and they have no option other than the rental alternative. Lacking a policy regulating Israel’s rental market concurrent with the policy implemented to repress investors, the price of rentals in Israel is continuing to rise annually (Fig. 5).

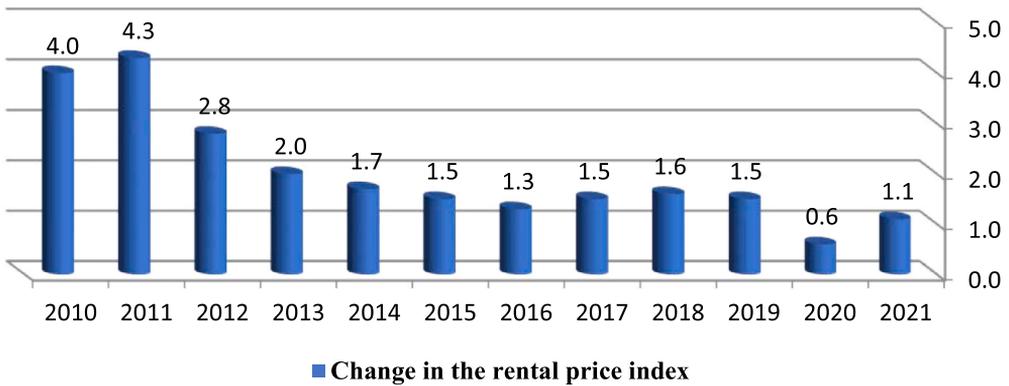


Fig. 5. Change in the Rental Price Index, 2010–2021, (Annual percentage change).
Source: Central Bureau of Statistics in Israel. Table 4.9: Average Monthly Prices of Rent., Compared to Previous Year.

However, the data presented in Figs. 5 and 6 show that the sharp hike in the dwellings price) as shown in Fig. 4), has not yet reached the rental market, and the increase in the rental prices is significantly lower than the rise in the dwellings price rate (Fig. 6).

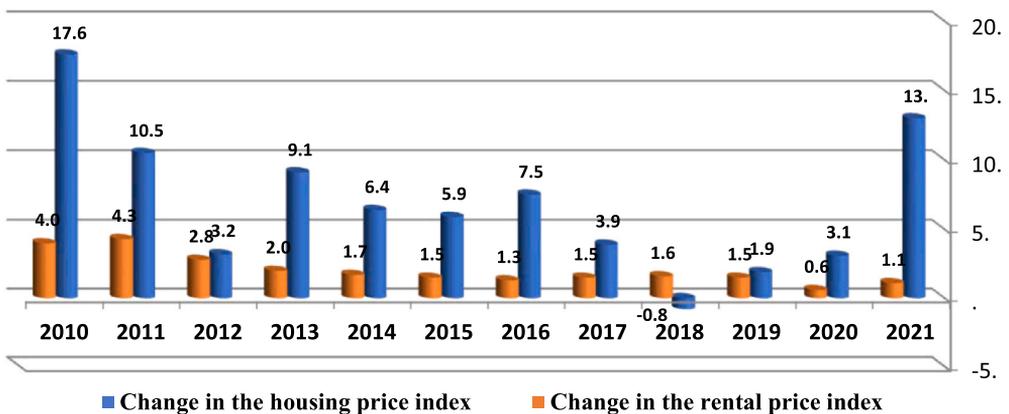


Fig. 6. Housing Price Index vs Rental Price Index, 2010–2021, (Annual percentage change).
Source: Central Bureau of Statistics in Israel. Table 4.9: Average Monthly Prices of Rent. Table 10.6: Changes in Index of Prices of Dwellings, Compared to Pervious Year.

At the same time, the Bank of Israel and elements in the real estate market all cite a high likelihood that the price of rentals will rise shortly. Indeed, while the data of the Central Bureau of Statistics indicate a fairly minor rise in the price of homes for rent in Israel as of 2021, the data in the popular Yad2 website indicate a sharp rise in the price of rentals in the first quarter of 2022, in some cities as much as 20 % or more. Indeed, in July 2022 the Central Bureau of Statistics confirmed that rental prices in Israel had begun to jump by tens of percents, mainly in the context of new rental contracts that do not continue a previous rental period. Therefore, Israel's citizens are confronted at present with two discouraging housing options (ownership or rental of a home) that are both beyond their means.

Furthermore, the global trend of rising inflation in 2022 (Christensen, 2022) has led to a restraining monetary policy manifested in the gradual and rapid raising of interest rates in the Israeli economy and the toughening of mortgage terms for housing. Although this kept a large part of investors away from the housing market, it did not have a noticeable effect (if at all) on apartment prices. Indeed, a number of contractors had to discount the apartments in order to sell them, however, since the demand for apartments based on the high natural increase in Israel, continues to be high and prevents the price from falling. In other words: the mortgage is getting more expensive but the price of the apartment remains high. So, although there are several studies that evidence at the price and demand sensitivities of the housing market to monetary policy shocks (Choudhry, 2010; Gupta & Kabundi, 2010; Iacoviello & Neri, 2010; Moons & Hellinckx, 2019; Yang, Wang, & Campbell, 2010), there are still cases in which the natural demand for apartments is so high that its effect on apartment prices outweighs the effect of monetary restraint (Wadud, Bashar, & Ahmed, 2012). Thus, it can be argued that although the raising interest rates policy in Israel have reduced the demand for housing purchases, it has not yet contribute to the reduce the housing prices, and even increased the demand for rentals, and therefore further contributed to the rise in rental prices in Israel.

4. Conclusions

Public policy in general and policy related to residential issues in particular are critical for Israel's citizens, all the more so with regard to the next generation that will be living in a country with a much larger population. The considerable anticipated increase in the demand for housing in Israel in the next few years will further widen the gradually growing discrepancy between the demand for and supply of housing. The expansion of this discrepancy might contribute to the continuing increase in housing prices (both for purchase and for rental) and result in leaving an entire generation of young people with no realistic residential solution.

Therefore, it is very important to formulate effective public policy capable of curbing and even reducing the price of housing. This should include abandoning attempts to tackle the problem itself (i.e., the continuous rise in housing prices) and focusing on its causes. Any attempt to repress the demand for housing without truly understanding the various incentives underlying this demand will not achieve its goal.

A housing policy offering local citizens access to residential solutions must take into account all the incentives for owning a dwelling as well as the obstacles to opting for rentals, and formulate the various features and terms of the public policy accordingly. Policymakers must recognize several insights when attempting to design an efficient housing policy, as follows: First, housing seekers prefer to own a home over renting a home despite the high prices. The reason for this is because Israel's rental market is unregulated and therefore does not allow

long-term renting in conditions that promise tenants certainty and constancy, which detracts from the attractiveness of this option.

Secondly, the marital status of the person seeking housing affects his or her residential preferences, such that in the current circumstances (unregulated rental market) respondents with young children who attend the educational system (pre-schools and schools) will tend to have more of an incentive to own a home at any price and less of an incentive to rent a home. At the same time, it is likely that given different rental conditions deriving from regulatory processes facilitating long-term rental in terms of budgetary and geographical certainty and stability – housing seekers with these characteristics will prefer the rental option to the ownership one, due to the high price of the latter and the greater dynamism of the former. This hypothesis is based on the understanding that a young couple building a family, which expands over the years and/or contains young children who have not grown up and still live at home, has residential needs that are more dynamic. Therefore, the features of the home in any given period will not necessarily be able to meet the family's future needs (the unit may become too crowded if the number of children grows or too spacious when the older children leave the house). Hence, in a reality of a regulated and stabilized rental market, a young couple or one who has children who are still at home might prefer the rental option to purchasing a permanent home.

And finally, the age of housing seekers affects their residential preferences, such that the older the housing seeker and, accordingly, the more stable the family structure of his household (no plan for increasing the number of children) or in circumstances where the children have already left the house – it is likely that he will have a higher incentive to own a home and accordingly, a lower incentive to opt for a rental, and vice versa. This claim is based on the understanding that whereby the older one is and the more established and stabilized one's family, the more one will prefer to acquire a home that suits one's current needs with no concern of any future change in these needs. Furthermore, the older one is the greater the likelihood of having accumulated more capital, which makes it possible to purchase a home. Moreover, an older person whose children have already left the family home does not need a large home and can make do with a smaller permanent residence whose price is more affordable.

Therefore, the research conclusion is that to help made housing affordable for young people in Israel, decision makers must promote regulation of the private rental market to increase tenants' sense of certainty and stability versus the rental terms. At the same time, the government must encourage developers and institutional financial organizations (such as pension funds and investment houses) to participate in government projects for promoting achievable housing that include rapid government subsidized construction of dwellings for long-term rentals and adjust the eligibility terms to the various insights presented above. This includes giving clear priority to young couples beginning their life as a family over older citizens who usually have a well-formed and stable household as well as a sounder financial background. These courses of action will redirect the focus of the failed public policy implemented in recent years in the Israeli housing market, from a focus on ownership of dwellings and government subsidies for young people (such as the "Price for Residents" and similar programs) to the rental market and to subsidizing rental fees, as part of government programs that include cooperation with investors and developers from the private and institutional market. Moreover, such a policy, if implemented, will increase the demand for rentals and accordingly reduce the demand for ownership of dwellings by young couples while helping reduce or at least halt the price of housing in Israel.

Israel's current governance crisis is detracting from the ability (and even the will) of decision makers to shape and promote long-term programs for the benefit of citizens, although these are essential and critical for the current population and even more so for future generations. The demographic trends characteristic of Israeli society, combining an increase in fertility and childbirth with an increase in immigration to Israel and a continuous rise in life expectancy, are leading together to a continuous burgeoning of the country's population. Therefore, policy-makers must focus on planning long-term policy capable of providing real solutions to the different needs of the population and residential needs in particular.

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