



The Affordable Housing Center
Faculty of Law | Tel Aviv University

Overview of
Affordable Housing in Israel
Policy paper

October 2014

CONTENTS

INTRODUCTION.....	4
1. What is Affordable Housing and Why is It Important?	7
1.1 Definitions of Affordable Housing.....	7
1.2 Target Population for Affordable Housing	8
1.3 Advantages of Affordable Housing	9
1.4 The Housing Market in Israel.....	10
1.5 Populations that Receive Housing Assistance in Israel.....	13
1.6 Affordable Housing in Israeli Legislation	14
1.7 Recommendations	16
2. Who is Eligible for Affordable Housing?	20
2.1 Criteria for Determining Eligibility for Affordable Housing.....	20
2.2 Setting Income Criteria	21
2.3 Eligibility for Affordable Housing in Israel.....	22
2.4 Determining Income Levels in Israel.....	26
2.5 Recommendations	27
3. Where is Affordable Housing Needed?.....	31
3.1 Inclusionary Housing – A Social Mix and a Range of Housing Solutions	32
3.2 Affordable Housing as Part of Urban Renewal.....	34
3.3 Affordable Housing and Access to Transportation	35
3.4 Small Apartments	36
3.5 Inclusionary Housing in Israel.....	38
3.6 Procedures for Advancing Affordable Housing in Israel at the Local Level ...	39
3.7 Recommendations	40
4. Who Should be Responsible for the Development of Affordable Housing?	48
4.1 The Division of Roles in Advancing Affordable Housing	48
4.2 Players in the Israeli Housing Market	51
4.3 Recommendations	53
5. How Much Affordable Housing is Needed?.....	58
5.1 What is Measured in an Assessment of Housing Needs?.....	58
5.2 What Data are Needed for an Estimation of Housing Needs?	59
5.4 Recommendations	65

6. What Tools Can Be Used to Advance Affordable Housing?	68
6.1 Development of Different Types of Residential Holdings	69
6.2 Tools for the Development of the Long-Term Rental Market.....	71
6.3 Tools to Increase Profitability of Affordable Housing Projects	80
6.4 Recommendations	84

Appendix A - Legislation Proposal

Appendix B - Eligibility Criteria for Affordable Housing

Appendix C - Analysis of Long-Term Rental Tenders

Appendix D - Proposals to Improve Rental Contract

Appendix E - Rental Prices for Affordable Housing

Appendix F - Survey of Affordable Housing Projects in Israel (update)

This Policy Paper was made possible by funds granted by the Charles H. Revson Foundation, the David and Inez Myers Foundation, and the David Berg Foundation. The statements made and views expressed, however, are solely the responsibility of the Affordable Housing Center at the Buchman Faculty of Law, Tel Aviv University.

INTRODUCTION

Adequate housing is a basic human right derived from the understanding that a person needs a home in order to live a normal lifestyle and that a home is not only material property or physical shelter, but also a significant component of one's social and emotional life, a place that provides stability and safety, a place for gathering and interacting with others, which is the basis for a large portion of the ability to exercise one's right to education, employment and culture, as well as the ability to improve one's social position. Recognition of housing as a right was acknowledged in the United Nations' Universal Declaration of Human Rights from 1948, which defined the basic human rights that need to be protected in all of U.N. member states. The socioeconomic rights listed in this declaration include the right to housing:

*“Everyone has the right to a standard of living adequate for the health and well-being of himself and his family, including food, clothing, **housing** ...”¹*

The recognition that adequate housing is a right was strengthened and detailed in additional international agreements, including the International Covenant on Economic, Social and Cultural Rights, to which Israel is a signatory.² A note by the committee for this agreement details what is included in the right to adequate housing and enumerates the components of this right, including protection from forced eviction, availability of infrastructure, access for deprived or disadvantaged groups and groups with special needs, as well as access to places of employment and health, education and welfare services. A broad clause in an addendum to this document refers to the issue of affordability and establishes that adequate housing must be within the economic reach of the individual or household, without harming other essential needs or requiring the individual or household to compromise these essential needs. Countries that are

¹ Clause 25(1) of the Universal Declaration of Human Rights adopted by the General Assembly of the UN on 10 December 1948, <http://www.un.org/en/documents/udhr>

² International Covenant on Economic, Social and Cultural Rights adopted by the General Assembly of the UN on 16 December 1966, <http://www.ohchr.org/EN/ProfessionalInterest/Pages/CESCR.aspx>

signatories to this document are called upon to ensure that housing-related expenses correspond to level of income and to provide subsidies for those who are not able to find reasonably priced housing.³

The concept of affordable housing is one of the characteristics that give content to the right to adequate housing. However, the importance of affordable housing is not limited to the individual or household level and is not derived only from a discussion of human rights. Affordable housing allows the formation of a social mix in which households with varied characteristics live side by side. Affordable housing allows individuals to live near centers of employment. Affordable housing allows for the efficient use of public services. Affordable housing has importance at the community, city and national levels. Affordable housing is important for the formation of stable communities and sustainable cities. For these reasons, in many countries around the world, the concept of affordable housing has been well-known for some time and policies have been advanced in this area for decades.

In Israel, the public discussion of this topic has developed in recent years, but is still at an early stage as compared to that in other countries. Until the concept of affordable housing burst into the public consciousness during the social protests of the summer of 2011, most of the discussion of this concept had been limited to social organizations and academics in the field. Only recently has there been the first definition of the significance of this concept in the Planning and Building Law of 1965 (hereafter “the Planning and Building Law”). As we will show, this definition is very limited and incomparable to the accepted international definitions.

Goals of this Document

This document proposes tools for the implementation of an affordable-housing policy in Israel and can serve as a basis for deepening the public discussion of this topic. This document provides a general explanation of the goals of affordable housing, to whom it is targeted, how it is requested, who is responsible for advancement in this area and how it can be implemented. This document presents an up-to-date picture of the current situation in Israel and presents the recommendations of the Hagar Center for the Advancement and Development of Affordable Housing, recommendations that contain different levels of detail. The goals of this document are as follows:

³ General Comment 4: The Right to Adequate Housing from 13 December 1992, <http://www.refworld.org/docid/47a7079a1.html>

- To present preliminary recommendations for the establishment of policy tools, implementation mechanisms and legal arrangements that will aid the development of affordable housing in Israel
- To form a common knowledge base that is straight-forward and accessible to those who are interested in the field, particularly organizations whose function, we believe, includes taking an active role in the development of affordable housing in Israel.

***Our sources of information**

We would like to note that despite the early state of work in the area of affordable housing in Israel, this issue has been discussed within different frameworks for a number of years and quite a bit has been written on this topic. The most comprehensive work to date in Hebrew is the book by Rachelle Alterman, Emily Silverman and Chaim Fialkoff (with Nir Mualem and Michal Iuclea): Affordable Housing: Statutory Planning and Local Policy Instruments.⁴ This book presents a conceptual framework and tools for affordable housing, as well as the subject of the estimation of the need for affordable housing, in a detailed and broad manner based on a survey of international literature. This policy paper is largely based on the work presented in that book and those interested in delving deeper are referred to that work. Within the different sections of this document, references are made to relevant pages in that book. Additional sources of information are detailed in the bibliography at the end of the document.

⁴ Alterman, R., Silverman, E., Fialkoff, C. (2012). *Affordable Housing: Statutory Planning and Local Policy Instruments*. Haifa: Center for Urban and Regional Studies. Technion Foundation for Research and Development [Hebrew].

1. What is Affordable Housing and Why is It Important?

In recent decades, the prices of housing in many cities have risen more quickly than household income. The results of this phenomenon are expressed in the difficulty that many households face in purchasing or renting housing under market conditions. The housing problems faced by poorer populations within societies in the past have expanded and now face the middle class as well.⁵ In response to this phenomenon, in recent years, many Western countries have developed different tools to provide a variety of solutions for the housing problems faced by populations of different income levels, in attempts to bridge the gap between the market price of a residential unit and the ability of a household to pay that price out of the income and personal capital at their disposal.⁶ Therefore:

Affordable housing is housing that meets the needs of populations whose incomes do not allow them to buy or rent housing, without negatively impacting their ability to cover other essential expenses such as food, healthcare and education, through the use of tools designed to lower the price of housing below the market price.

1.1 Definitions of Affordable Housing

There are two main definitions of “affordable housing”:

- **Definition based on income⁷** - This definition is focused on the demand side, from the point of view of the individual household. **This definition establishes the maximum financial burden of housing for a household as a portion of that household’s income.** For example, in the United States and Canada⁸, in keeping with this definition of affordable housing, the amount that a household

⁵ Michael Pacione, *Urban Geography: A Global Perspective*, second edition, p. 230 (2005).

⁶ For more information regarding the definition of and rationale for affordable housing, see Alterman, Silverman and Fialkoff, footnote 4, pp. 21-32.

⁷ For more information regarding different existing approaches, as well as a critique of the approach that presents affordability as a proportion of income dedicated to housing, see Michael E. Stone, What is housing affordability: The case for the residual income approach. *Housing Policy Debate* (Vol. 17, Issue 1, 2006).

⁸ See the website of the U.S. Department of Housing and Urban Development (HUD) at http://portal.hud.gov/hudportal/HUD?src=/program_offices/comm_planning/affordablehousing/ and the website of the Canada Mortgage and Housing Corporation at http://www.cmhc-schl.gc.ca/en/inpr/afhoce/afhoce_021.cfm

spends on housing should not exceed 30% its gross income.⁹ This definition relates to households with low-medium income levels and is based on a desire to allow these households sufficient remaining income to cover the costs of basic living expenses such as food, clothing, heat and healthcare.

- **Definition based on market prices** - This definition is based on the supply side, from the point of view of the government. According to this definition, affordable housing is housing **whose price is lower than the market price as a result of directed public intervention**. This intervention is carried out using regulatory and financial tools that lower the price of housing to below the market price. However, this does not guarantee that the target population will be able to pay the lowered price, which is the main weakness of this approach.

These different definitions relate to the goal of affordable housing by lowering the price of housing below the market rate or by aligning the price with what a household can afford to pay for housing, but they do not prescribe the tools to be used. As we will show in this policy paper, different countries have developed different systems and a wide variety of policy tools to develop affordable housing for rent and for purchase.

1.2 Target Population for Affordable Housing

As mentioned above, the central characteristic of the target population for affordable housing is level of income. According to international practice, the focus is on populations with low to medium levels of income¹⁰, populations that have trouble buying or renting housing under free-market conditions without some sort of intervention. A detailed discussion of the division of a population in terms of income level can be found in Chapter 2 of this document.

⁹ It is important to clarify that transportation expenses are an important part of overall household expenditures, as will be described in Chapter 3. The location of housing is tightly linked with the issue of access to places of employment and educational, health and leisure services. Therefore, any measure of a home's affordability should take into account transportation expenses associated with the location of the home. For example, along side the accepted American guideline that housing expenses should not exceed 30% of household income, an additional guideline has been developed according to which the combined costs of housing and transportation should not exceed 46% of household income.

¹⁰ For further information, see for example, *Housing New York. A Five-Borough, Ten-Year Plan*.

http://www.nyc.gov/html/housing/assets/downloads/pdf/housing_plan.pdf

Last viewed 31 August 31 2014.

Public Housing vs. Affordable Housing

In the Israeli conversation, there is sometimes a lack of clarity regarding the distinction between affordable housing and public housing. In light of this, it is important to clarify that public housing, as opposed to affordable housing, is housing whose construction is fully financed by the state and which is managed by the state outside the framework of the free market. In contrast, affordable housing is usually built and managed according to free-market conditions. The price of this housing is lower as a result of government intervention that bridges the financial gap between the costs of the project and the returns that it yields. Financial mechanisms associated with affordable housing around the world include financial packages that integrate funding from different sources including subsidized loans, subsidies that affect the price of land, government grants, philanthropic contributions, capital investment and other innovative financial tools. It is important to clarify that public housing is intended for populations at the lowest income levels (described in Chapter 2 of this document as “lowest income level” and “very low income level”); whereas affordable housing is intended for populations with medium to low income levels. Therefore, it is important that there be both public housing and affordable housing.

1.3 Advantages of Affordable Housing

In addition to the ethical perspective that views housing as a basic social right, as described in the introduction of this document, affordable housing also has a number of economic, social and environmental advantages:

- **At the household level** — Affordable housing is intended to provide economic assistance to households who are interested in buying or renting an apartment, particularly in areas of high demand, but are having trouble doing so due to a lack of credit or personal capital. In a situation in which many households are unable to purchase or rent an apartment due to low incomes and lack of personal capital, a situation that we will argue exists in Israel, some households may be tempted to take on debts beyond their means, in the form of high monthly

mortgage payments or high monthly rent payments. These large financial commitments can come at the expense of other essential needs and, in the worst-case scenario, can lead those households to insolvency, which in some cases will end in forfeiture of the home and its sale, leaving the household without a place to live, personal security or financial stability. The absolute advantage of properly implemented affordable housing is that it allows the household sufficient remaining income to cover the costs of its needs, protects against insolvency and provides security and economic stability.

- **At the community and city level** — Affordable housing is intended to inhibit the spatial segregation and social exclusion of poor populations through the creation of residential areas that include populations with different income levels. This type of spatial organization in areas of high demand aims to increase the access of poor populations to centers of employment and high-quality public services (such as education and healthcare). In this manner, it helps to create equal opportunities and a more fair distribution of resources.
- **At the national level** — It is understood that household stability contributes to the overall stability of the economy and that the prevention of the creation of concentrations of poverty alleviates the need to cope with the social and economic costs of dealing with such concentrations.

1.4 The Housing Market in Israel

Structural changes initiated in the Israeli economy in recent decades have deepened the economic inequality between those households with medium and low levels of income and those households with high income levels.¹¹ Concurrent with these structural changes, the Israeli economy has experienced a sharp increase in housing prices. Between 2005 and 2014, the price of housing increased by 52% nationally, while the monthly salaries of salaried employees increased by only 5%.¹²

The increase in housing prices can be explained by a combination of factors, including a serious deficit in the supply of apartments due to bottlenecks in the

¹¹ Between 1979 and 2011, the Gini index, which measures the level of inequality in income after taxes and transfer payments, increased by 12%. Today, the level of income inequality in Israel is among the highest in the developed world. Source: Dan Ben-David and Haim Bliekh, Poverty and Inequality over Time: In Israel and the OECD. *State of the Nation Report 2013: Society, Economy and Policy*. Taub Center for Social Policy Studies in Israel.

¹² For more information, see the website of the Ministry of Construction and Housing: http://www.moch.gov.il/meyda_statisti/mechirey_diyur/Pages/mispar_hamaskorot.aspx [Hebrew]

production chain (a deficit of approximately 80,000 residential units¹³), as well as a significant increase in the demand for apartments, due to rapid population growth as well as market conditions that encourage the purchasing of apartments as an investment. This situation has led to an increase in the relative amount of household income spent on housing, from 22.0% in 2000 to 25.5% in 2012. In the large cities of the Tel Aviv metropolitan area and Jerusalem, the proportion of household income spent on housing increased from 26.0% in 2000 to 31.5% in 2012.¹⁴ Therefore, people face increasing difficulty in coming up with the personal capital necessary to buy a first apartment. In addition, in the absence of regulation of the rental market, many households are forced to cope with continuous rent increases¹⁵ and the lack of stability that characterizes the private rental market in Israel.¹⁶

Over the years, different Israeli governments have designed housing policies in keeping with the political and social needs of the hour. Overall and in parallel with structural changes in the economy, government housing policy gradually moved away from direct involvement in the construction of apartments toward regulatory activity in the areas of taxation, purchasing and planning, leaving a wide field open for the activity of the private market. At the same time, there was a decrease in the scope of the target population for housing aid and a change in the form of that aid, from direct to indirect. Today, direct government involvement in the field of housing is limited to assistance to poor populations and mainly takes the form of help covering the cost of rent and the management of the decreasing inventory of public housing.

The combination of increased inequality, increased housing prices and the government's gradual retreat from direct intervention in the housing market have

¹³ Based on data from the Bank of Israel, in January 2014, the gap between housing starts and the cumulative demographic demand for housing starting from 2000 stood at 80,000 residential units. For more information, see Intermediate Report of the Interagency Staff for Betterment of Housing Data, January 2014 [Hebrew].

¹⁴ The Central Bureau of Statistics (Israel). *Household Expenditure Survey 2011*. Chart 1.2: Composition of Monthly Expenses by Secondary Group for 2000-2011 [Hebrew]. The data relate to the proportion of household expenses devoted to housing and these figures include the amount spent on rent or the corresponding amount for owner-occupied apartments. This expenditure figure does not include the costs of maintaining the home, such as water, electricity, gas and fuel for the home, or other costs of maintaining and/or improving the home, household help or other household needs. The proportion of household income spent on maintaining the home and the household stood at 9.4% in 2011 as compared to 9.5% in 2000. The data for the year 2012 were taken from a press release of the Central Bureau of Statistics: Household Expenditures in the 14 Largest Cities in Israel in 2012, 12 November 2013 [Hebrew].

¹⁵ Since 2010, the average rent has increased a cumulative 33% nationally. For more information, see the website of the Ministry of Construction and Housing: http://www.moch.gov.il/meysda_statisti/mechirey_diyur/Pages/mechirim_memutsaim_shel_schar_dira.aspx [Hebrew].

¹⁶ The report of the Committee for Social-Economic Change (the Trajtenberg Report), Housing Chapter – Main Recommendations, pp. 205-207 [Hebrew].

increased the scope of households with medium or low levels of income that have a hard time coping with the burden of housing costs and suffer from the lack of affordable housing. In most cases, this problem is expressed as erosion of the household's ability to cover other essential expenses, such as food, healthcare and education; or living in a home that does not suit the household's needs.

According to an analysis conducted by the Ministry of Construction and Housing that was based on data from the Central Bureau of Statistics, in 2014, the purchase of an average apartment required an amount equal to 139 average monthly salaries, as compared to 103 monthly salaries in 2008.¹⁷ Based on the relationship between the price of housing and current income levels, a report of the International Monetary Fund (IMF) claimed that the current costs of housing in Israel are high both in historical terms and relative other developed countries.¹⁸ The relative size of housing expenditures, including home maintenance costs¹⁹, among all household expenditures in large cities in high-demand areas of Israel ranges from 33.4% to 38.9%.²⁰ According to internationally accepted affordability indices,²¹ this proportion is indicative of a housing crisis related to the economic affordability of housing.

The social protest of the summer of 2011 increased public awareness of the broadened dimensions of the housing crisis and the problem of affordability. The recommendations of the Committee for Social-Economic Change (the Trajtenberg Committee), which was appointed following the social protest, have served as the basis for decisions of the government and of the Israel Lands Authority intended as solutions for this crisis. The steps that have been taken, mainly by the Finance Ministry and the Ministry of Construction and Housing, and which are at different stages of the legislative and regulatory processes, represent the government's awareness of the existence of a problem in the housing market that merits government intervention.

¹⁷ Website of the Ministry of Construction and Housing:
http://www.moch.gov.il/meyda_statisti/mechirev_diyur/Pages/mispar_hamaskorot.aspx#GovXParagraphTitle1 [Hebrew].

¹⁸ International Monetary Fund, IMF Country Report No. 14/48: Israel (February 2014).

¹⁹ This figure includes the clauses "Housing" and "Expenditures to Maintain the Home and Household" minus the subclauses "Household Help" and "Other Household Expenses" in the Survey of Household Expenses, Central Bureau of Statistics, 2011.

²⁰ These data link the housing expenses published by the Central Bureau of Statistics in their press release: Household Expenditures in the 14 Largest Cities in Israel in 2012, 12 November 2013 and maintenance expenses estimated based on the proportion of expenditures directed to maintenance in 2011 among all of the households in Israel, which stood at 7.4% of total household expenditures. The data concerning expenditures on housing, excluding maintenance, for the 14 largest cities are as follows: Rehovot, 26.0%; Jerusalem, Petach Tikva and Ashdod, 27.3%; Ramat Gan, 28.2%; Rishon Letzion, 28.5%; Netanya, 28.7%; Holon, 29.1%; Bat Yam, 30.7%; Tel Aviv-Yafo, 31.5%.

²¹ As mentioned, in the US and Canada, affordability is measured in terms of whether the amount spent on housing, including maintenance costs, exceeds 30% of gross household income.

1.5 Populations that Receive Housing Assistance in Israel

Over the years, the housing assistance policies of the state of Israel have mainly been directed at populations at the lowest socioeconomic level, which were eligible to rent public housing or for rental assistance. In addition to other criteria, the maximum income that one can have and still qualify to rent an apartment in a public housing project is 6,033 NIS per month.²² The maximum monthly gross income at which a household made up of a couple and a child can still qualify for rental assistance today (in addition to meeting the other criteria for receiving such assistance) is 6,160 NIS.²³

In addition, the state assists the purchase of apartments in different ways, but the main way is directed mortgages (mortgages with preferred terms for eligible buyers). This assistance is not directly targeted at individuals of any particular income level, but is generally available to individuals who do not already own an apartment. Both the assistance to populations with very low incomes and the general assistance with purchasing an apartment have decreased over the years, such that wide swathes of the general population have been left without any effective assistance mechanisms for renting or buying an apartment.²⁴

In March of 2012, the government adopted the Housing Chapter of the recommendations of the Committee for Social-Economic Change (the Trajtenberg Committee). Among the issues discussed in this chapter is the fact that the population's housing needs vary in terms of property type, size, location and standard of living and that these needs are affected by considerations of employment mobility, economic ability, personal preferences and needs that change over the course of the life cycle.

²² For information on the concept of "good faith effort to pay rent" for couples, families and single-parent families, see the website of the Ministry of Construction and Housing, <http://www.moch.gov.il/Glossary/Pages/GeneralLIV.aspx?ListID=497b66b7-7388-4405-becc-d285cae1052a&WebId=fe384cf7-21cd-49eb-8bbb-71ed64f47de0&ItemID=10> [Hebrew].

²³ This is for a single-parent family. See page 18 of the (Hebrew) document published by the Rental Assistance Department of Amidar, The National Company for Housing in Israel and available at <http://www.amidar.co.il/wps/wcm/connect/d4a3740047bac8d8bc53bd3551d6a4e7/%D7%97%D7%95%D7%91%D7%A8%D7%AA+%D7%9E%D7%99%D7%93%D7%A2+%D7%A1%D7%99%D7%95%D7%A2+%D7%91%D7%A9%D7%9B%D7%A8+%D7%93%D7%99%D7%A8%D7%94+%D7%A2%D7%93%D7%9B%D7%95%D7%9F+04-13+.pdf?MOD=AJPERES&lmod=-287579794&CACHEID=d4a3740047bac8d8bc53bd3551d6a4e7>

²⁴ For a detailed analysis of the erosion of assistance mechanisms, see Gilat Benchetrit, *A Decade Without a Housing Policy: How the Government Withdrew Support for Housing and the Social Protests of Summer 2011*. Taub Center for Social Policy Studies in Israel, 2014. For further information regarding public housing, see the report of the Committee for the War on Poverty (Alalouf Committee) published 23 June 2014, which raises the fact that the inventory of public housing has decreased significantly in recent years, from 108,000 residential units in 1998 to 70,000 residential units today. Therefore, people who meet the criteria for public housing are often forced to wait years before receiving such housing.

Further mention was made of the social and economic consequences of the sharp increase in prices and the absence of a housing mix that meets the different needs of the population.²⁵ Correspondingly, among the policy goals detailed by the committee was the goal of ensuring the conditions necessary for the establishment of a variety of affordable housing options to meet the needs of the diverse population and groups with different levels of income.²⁶

1.6 Affordable Housing in Israeli Legislation

While in many countries of the world the concept of affordable housing is firmly planted in the public discussion and even anchored in legislation, in Israel, the public discussion of this topic is still at an early phase, though there has been development in this area in recent years, and the legal definition of the concept is still at an early stage.

The first mention of the concept of “affordable housing” in Israeli legislation was in 2005, in the framework of the Integrated National Master Plan for Construction, Development and Preservation, 35 (TAMA 35).²⁷ Among other things, this legislation established that an evaluation of the need for affordable housing would be a condition for depositing local plans for notable expansions and plans for urban renewal and preservation. This act also established that plans for urban renewal and preservation would address the issue of affordable housing for weak populations. However, the meaning of the term “affordable housing” was not defined.

TAMA 35 serves as the first normative infrastructure authorizing planning authorities to consider the issue of affordable housing as they consider the authorization of city building plans. However, as mentioned, this act does not define affordable housing. In addition, in the absence of any reference to affordable housing in the Planning and Building Law or other legislation, there is a question of whether planning commissions have the authority to allocate certain apartments for use as affordable housing and determine the level of economic return from those apartments.²⁸

²⁵ Note 7 in the document mentioned above, p. 210.

²⁶ *Ibid.*, p. 213.

²⁷ Published in *Rishumot* on December 27, 2005 (*Yalkut Pirsumim* 5474, p. 1030).

²⁸ The opinion presented in November, 2010 by the legal advisor of the Ministry of the Interior to the Regional Planning and Building Committee of Tel Aviv stated that, at the planning level, planning authorities are not authorized to enact possessory instructions and that plans cannot include instructions that certain apartments be allocated by their owners to give a dwelling privilege to a certain party or fix the level of return or the conditions under which the apartments are to be sold. On this note, we will also mention that on 9 October 2013 the Secondary Appeals Committee of the National Planning Board presented its decision regarding the Coalition for Affordable Housing's appeal No. 60/12 considering Plan TA/3700 – Northwest Tel Aviv. In this decision, the committee determined that, among other things, “definition of a target population

Only recently within the framework of Amendment 101 to the Planning and Building Law²⁹, in the sixth addendum to the law, was the concept of “affordable housing” first defined. In this legislation, affordable housing is defined as “housing for long-term rent.” In the sixth addendum to the Planning and Building Law “housing for long-term rent” is defined as:

- Residential property for rent for an overall period of no less than 10 years
- A residential unit that will be rented to a tenant for at least one year, with the tenant having the option to extend the rental period for no fewer than five years (overall).

The arrangement laid out in the sixth addendum of the law establishes that, among other things, the rental payment for a residential unit that is considered affordable housing will not exceed that of a unit of similar size and in a similar location in the area.

Amendment 101 to the Planning and Building Law also amends the Israel Lands Authority Law. In keeping with this law, each year, the government or a committee of ministers of its choosing will designate a minimum number of residential units as affordable housing to be marketed to the public during that year. For this matter, residential units that qualify as affordable housing are units that are available for long-term rent, as defined in the sixth addendum to the Planning and Building Law, and residential units available for rent at a discounted price, as defined in the decisions of the board of the Israel Land Authority.³⁰

Now, for the first time, a detailed definition of “affordable housing” appears in primary legislation. However, these definitions are problematic:

- **First of all, the definition in the Planning and Building Law makes no reference to decreasing the price of an apartment and, therefore, can have only a limited effect on the existence/development of affordable housing**

and designating apartments for rent is a planning consideration related to the selection and use of land” and that even if there are possessory consequences, the main aim is the planning goal of providing residential solutions. Therefore, the committee determined that a plan can designate apartments for use as rental units, define eligible target populations and set limits on the transferability of an apartment, even before the issue is dealt with in primary legislation.

²⁹ The Planning and Building Law (Amendment No. 101), 2014 passed second and third readings in the Knesset during March of 2014 and most parts of this legislation came into effect at the beginning of August 2014.

³⁰ Decision 1291 of the board of the Israel Land Authority from 21 July 2013 entitled *Allocating Land for the Construction of Rental Apartments*. In this document, “supervised price” was defined as “rent per square meter of residential unit to be determined at the tender or rent per square meter of a residential unit to be determined by the Israel Lands Authority for residential units to be rented to eligible individuals.” In Decision 1310 of the board of the Israel Land Authority from 16 January 2014, entitled *Unique Track for Allocating Land for the Construction of Rental Apartments – Three Tenders*, “supervised price” is defined as “80% of the rent in that area, as determined by the state appraiser and/or his representative, plus maintenance costs, as determined by the state.”

for the target populations for such housing, namely populations with low to medium income levels.

- The definition in the Israel Lands Authority Law refers to a reduction in the price of an apartment relative to the market price, but **does not make a connection between a household's income and how much it spends on housing and does not designate a target population for affordable housing**. In this manner, a situation may develop in which the population that benefits from the "affordable housing" will include only high-income households, as lower-middle class households will not be able to afford such homes. For example, as described in detail in Chapter 6 of this document, supervised rents for residential units that were marketed within the framework of long-term rental programs advanced recently by the state, are high for households in the eighth or lower deciles.
- In addition, **the definitions refer only to long-term rentals and make no mention of other forms of ownership that could meet the need for affordable housing**.
- Similarly, **the legislation does not establish the mechanisms necessary for the allocation of affordable housing within the framework of primary legislation**. Such mechanisms will be discussed later in this document and include a mechanism for determining who is eligible for residential units designated as affordable housing, verification of the level of equality in the granting of eligibility, the body authorized to determine eligibility, enforcement and oversight of the apartments designated as affordable housing, and so forth.³¹

1.7 Recommendations

As stated above, the goal of affordable housing is to provide an appropriate solution for the housing needs of populations whose incomes do not permit them to buy or rent housing without there being a negative impact on other essential household expenditures, through the use of tools that aim to lower the cost of housing below the market price. A definition of affordable housing, like that which has been proposed, which focuses on lowering the price of housing without any reference to the income of

³¹ This is despite the opinion of the legal advisor to the Ministry of the Interior, cited in footnote 33 of that document, which stated that these matters need to be dealt with within the framework of legislative regularization of the issue of affordable housing.

the target population is likely to leave the housing supply out of the reach of what should be the target populations for such housing.

An upper income limit should be set to define the target community, in order to ensure that the population that is in need of affordable housing will benefit from the public subsidy inherent in such housing, as opposed to a more economically well-established population that is able to acquire housing on the free market. A lower income limit should also be set, in order to define the target community and ensure that the members of that community will be able to afford the cost of this housing.

As stated above, there is a difference between public housing and affordable housing and between the target communities for these two types of housing, although it is difficult to draw a clear border between the two. A lower income limit should be set and, outside the free market, public housing should be supplied to the population that finds itself below this limit and is unable to afford the housing that has been designated as affordable.

It is important to clarify this issue because, in order to direct affordable housing at a certain target population, it is not sufficient to set criteria according to which the threshold for eligibility for affordable housing is greater than the maximum income of the household (see Chapter 2 of this document). As long as the **price of the housing** is not suitable for the target population, low-income households will not be able to afford such housing even if they meet the eligibility criteria.³²

Long-term renting is an important tool in the housing market, in general, and in the context of affordable housing, in particular. The almost complete absence of a long-term rental market in Israel is a failure that should be corrected. Furthermore, it is our position that long-term renting should be viewed as a permanent housing solution and not only as an intermediate solution until a household is able to purchase a home and that the long-term rental market should be seen as a permanent solution and not only something to be used until housing prices fall. However, defining affordable housing solely as long-term rental housing ignores other possible ways of meeting the need for affordable housing.

In light of all that has been discussed above, we recommend the following:

³² For example, there is little sense in setting criteria for receiving a certain residential unit according to which the gross income of the household will not exceed 15,276 NIS/month (Decile 7), if the cost of renting such a unit (including maintenance costs) is greater than 4,583 NIS/month. In such a situation, target populations in the lower income deciles will not be able to afford to pay rent that accounts for 37.1% of the income of a household in Decile 6, 46.3% of the income of a household in Decile 5 and 58.5% of the income of a household in Decile 4.

1.7.1 Defining affordable housing in primary legislation in a manner that makes reference to household income

“Affordable housing” should be defined in primary legislation in a manner that makes reference to the household incomes of the target populations to be eligible for such housing - populations with low-medium incomes. This should be done by setting a maximum overall amount of the household’s income to be spent on housing, to be determined by the Minister of Construction and Housing.

In order to implement this recommendation, the Minister of Construction and Housing will need to determine how much of its income a household can spend on housing and still have enough money remaining to cover its other needs. This determination needs to be made as part of an assessment of needs as described in Chapter 5 of this document. At this stage, until an affordability index is developed for Israel, we recommend the use of the index that has been accepted in other countries, according to which the total amount spent on housing should not exceed 30% of the household’s gross income. It will be up to the minister to set evaluation criteria for determining eligibility for affordable housing, as described in Chapter 2 of this document.

1.7.2 Defining affordable housing in terms of a variety of holdings

Affordable housing should be defined in terms of a variety of holdings that correspond to the different preferences and abilities of different households. Long-term rentals are a holding of particular importance for affordable housing, as this type of holding provides a level of stability without a need for a large initial investment on the part of the household. But, alongside long-term rentals, other arrangements that include full and partial ownership should be developed, as described in Chapter 6 of this document.

1.7.3 Proposed legislation

We propose the enactment of an affordable housing law. The legislation that we propose is presented as **Appendix A** of this document. In keeping with what has been stated in this chapter, we propose that the following definition of affordable housing be made law:

Affordable housing — Housing whose cost to the household, including all necessary expenditures associated with living in the unit, does not exceed the proportion of the eligible household’s income to be set by the Minister of Construction and Housing.

We propose the following definition for “eligible households”:

Eligible households — Households with low incomes and households with medium incomes that meet the criteria to be set by the Minister of Construction and Housing.

2. Who is Eligible for Affordable Housing?

As defined in Chapter 1, affordable housing is housing that provides an adequate solution to the housing needs of low- to middle-income populations whose incomes do not allow them to purchase or rent housing under free-market conditions without negatively affecting their ability to cover other necessary expenses. Aside from income level, we are speaking of populations that vary in many ways, such as type of household, number of household members, phase of life and particular needs related to accessibility or cultural characteristics. Therefore:

An essential part of the development of affordable housing is the establishment of threshold conditions and criteria for the target population based on income level, but including other aspects based on the characteristics of the specific initiative and the policy underlying the decision to advance affordable housing.

2.1 Criteria for Determining Eligibility for Affordable Housing

Since owner-occupied or rented residential units that have been defined as affordable housing involve an economic benefit that is a “public benefit” and since the demand for such units will always exceed the supply, clear and transparent criteria for eligibility for affordable housing should be established along with fair allocation mechanisms.

As we will describe in Chapter 4 of this document, criteria for affordable housing are set by the state or other public body. In some countries (i.e., U.K., Holland, France), these criteria are set by the central government on a national basis. In other countries (i.e., U.S., Spain), the central government sets a range of criteria and local governments choose those criteria (from within that set) that best correspond to local needs and circumstances.³³

The criteria should relate to the characteristics of the target population, mainly household income, as described in Section 2.2. The criteria should include threshold conditions such that only households that meet those conditions will be eligible for assistance. These criteria should include **lack of an apartment** — the household does not currently possess an apartment and has not possessed an apartment over the time

³³ *Inclusionary Housing in International Perspective*, footnote 4, p. 43.

period to be determined; and an **income ceiling** — that is, a household whose income exceeds the specified ceiling will not be considered eligible.

Additional criteria may be set to give **preference to particular populations**, such as immigrants, the elderly or people with disabilities. These criteria might also include preferences regarding **family situation**, such as couples with children or single-parent families³⁴; **age**, such as young people who have trouble renting or buying an apartment; and/or **local residents**, who have trouble staying in the area³⁵. It is understood that the choice of such criteria is influenced not only by housing needs, but by other national or local policy goals.

2.2 Setting Income Criteria

As mentioned, income level is the main characteristic of the target population for affordable housing. The establishment of an upper income limit is a public interest as it relates to the use of public funds and, therefore, the establishment and precise definition of such a limit is important.

The upper limit is generally set relative to the level of income in a particular area. Therefore, it is important to define **the geographic area in question** — whether income will be compared to the general household income in the nation, in a particular region or in a specific city, as well as **what measure will be used** — for example, whether incomes will be evaluated relative to the average or median income in the relevant area. In many countries, individual household incomes are compared with the median income (that is, the income that is less than that of half of the population/households and more than that of the other half), taking into consideration the size of the household.

For example, every year, the U.S. Department Housing and Urban Development (HUD) sets an upper limit for the determination of eligibility. The agency publishes data regarding the median household income, as well as a table showing the relationship between income level and the number of people in a household, local housing expenditures and other factors that affect particular geographic areas. In this manner,

³⁴ We note that these criteria could be used to establish residential areas with heterogeneous populations that include, among other things, households of different sizes and ages. As will be clarified later in this document, we see an advantage to this type of heterogeneous residential areas.

³⁵ Particular initiatives can be targeted to particular populations, such as the elderly, and, in other initiatives, a proportion of the units might be reserved for a particular population, such as people who already live in the area.

upper limits are set for households of different sizes in different metropolitan areas, based on the Area Median Income (AMI).³⁶

For the New York metropolitan area in 2014, the American housing agency set the upper income limit for *lowest income* populations as 30% of the median income in the metro area and set the upper income limit for *very low income* populations as 50% of the median income in the area and the upper limit for *low income* populations as 80% of the median income in the area.³⁷ These definitions can be used to set maximum rents for residential units intended for low-income households.

While there is a public interest in the setting of upper limits for eligibility, related to the manner in which public funds are used, there is no such interest in the setting of lower limits. Therefore, at times, no lower limits are set and, at other times, eligibility tests are established that mainly verify the ability of the household to cover the costs of the unit.

2.3 Eligibility for Affordable Housing in Israel

As stated in Chapter 1, in March of 2012 the government adopted the housing section of the recommendations presented by the Committee for Social-Economic Change (the Trajtenberg Committee), which included recommendations regarding the “setting of criteria for eligibility for renting at supervised prices and for purchasing property within the framework of the Mechir Lemishtaken program.”³⁸ A decision was later made by the Ministers’ Committee for Housing Matters (the Housing Cabinet) that authorized that government’s decision³⁹ and recommended bringing proposed amendments to Decision 1249 of the board of the Israel Land Authority before that body for approval. The recommended amendments concerned the threshold conditions and criteria for participation in the Mechir Lemishtaken program. The government also recommended the proposition of amendments to Decision 1248 of the board of the Israel Land Authority regarding threshold conditions and criteria for renting at discounted, supervised prices.⁴⁰

³⁶ http://www.huduser.org/portal/datasets/il/il14/IncomeLimitsBriefingMaterial_FY14_Rev.pdf Last viewed 31 August 2014.

³⁷ *Housing New York. A Five-Borough, Ten-Year Plan*, p. 19.

³⁸ As we will describe in Chapter 6, Mechir Lemishtaken tenders are tenders in which the state markets land to developers who compete by lowering the price of a portion of the proposed residential units intended for eligible households.

³⁹ Decision No. 13 from 1 July 2013, which was validated by Government Decision 547 from July 14, 2013.

⁴⁰ The board of the Israel Land Authority accepted the above government decision in its Decision No. 1295 on 21 October 2013.

The criteria recommended by the government can be divided into two groups:⁴¹

- **Criteria that serve as threshold conditions** — Requirements that one must meet in order to qualify for the housing. These criteria include: lack of an apartment, as defined by the Ministry of Construction and Housing; an income no higher than that of Decile 7; a “good faith effort to pay rent” [i.e., participation in the workforce], as described in the rules detailed in the decision; and a minimum age for eligibility, which is 35 for single individuals without children.
- **Preference criteria** — Households that meet these criteria will accumulate points that increase the likelihood of receiving an apartment at a lowered price. These criteria include: being a household that includes children; military/national/civilian service; being a new immigrant; seniority of eligibility; an income ceiling, namely an income not exceeding that of Decile 5; and disability.

The criteria in the government decision are directed at specific programs. However, this decision is the most thorough government document regarding considerations for eligibility for housing that is not public housing. Therefore, these criteria can be used as a basis for setting eligibility rules for affordable housing without any relation to a particular program. Our positions regarding the abovementioned criteria are detailed in the table below.

Regarding the Criteria Set Out in Government Decision 547:	
Our positions regarding the criteria that appear in this government decision concerning their suitability for use as criteria for determining general eligibility for affordable housing are presented below.	
Criterion	Comments of the Hagar Center
Threshold Criteria	
Lack of an apartment as defined by the Ministry of Construction and Housing	Not owning an apartment is a necessary threshold criterion for eligibility for affordable housing. The Housing Ministry defines “lack of an apartment” according to the eligibility rules for mortgages. There is an advantage to relying on those rules as the mechanism for determining such eligibility already exists and is well established. However, the sweeping requirement for “lack of an apartment” may harm households that owned an apartment in the past, but for various reasons may have

⁴¹ The criteria in the government’s decision distinguish between eligibility for renting housing at a lowered price and eligibility for participation in the Mechir Lemishtaken program, within which there is an additional distinction between a track for the “general population” and a track for “populations of religious character or minority populations.” In the interest of keeping things simple, we will not distinguish between these criteria.

	lost ownership of that apartment as part of a worsening of their economic status.
Income ceiling up to Decile 7	Level of income is a necessary threshold criterion for eligibility for affordable housing. We believe that setting the income ceiling at Decile 7 is correct. However, this criterion refers to household income without considering the number of people in the household. That is, the income ceiling is the same for individuals, couples and households with children. In addition, this criterion ignores other capital and property to which the household may have access (aside from an apartment).
“Good faith effort to rent”⁴² according to the detailed rules	This criterion has a value-based component, based on a worldview that sees particular value in aiding people who participate in the workforce, and a functional component aimed at ensuring the ability to pay the rent over time. The value-based component is charged and intertwined with the public and political debate in Israel regarding particular employment patterns in Arab and ultra-Orthodox society. That being said, in terms of the functioning and management of the affordable-housing market, there is a need to consider how much the household can afford to pay.
Minimum age for eligibility single individuals without children – 35	The consideration of a minimum age for eligibility is also largely dependent upon a values-based component that gives preference to young families with children. In our opinion, this criterion should not be a threshold condition for eligibility for affordable housing at the national level. Criteria related to age and preferential status for families with children may be set in accordance with local requirements and preferences.
Preference Criteria	
Household with children	We reason that considering income relative to the size of the household, as described in our discussion of the use of an income ceiling, provides a way of giving preference to households with children by raising the income ceiling for those households. In addition, criteria related to age and to preferential treatment for families with children may be set in accordance with local requirements and preferences.

⁴² In the track for “populations of a religious character or for minority populations” this criterion is not a threshold condition, but rather a criterion that grants a household preferential status.

Military/national/civil ian service	We argue that it is best to avoid, as much as possible, the use of conditions based on value judgments that are not directly related to housing. In addition, we argue against using eligibility for affordable housing as any sort of compensation or incentive. Dependent on confirmation that the criteria are not discriminatory, there is room to allow the setting of such criteria at the local level, but not as mandatory criteria at the national level.
New immigrant status	
Seniority of eligibility	Despite the fact that there is a certain logic in granting preference to someone who has previously submitted a request to be considered for affordable housing, we prefer an equitable evaluation of all of the presented requests, in the interest of simplicity and efficiency and in order to avoid the presentation of empty requests aimed at allowing the applicant to accumulate seniority. Therefore, this criterion should not be used as a preference criterion for evaluating eligibility for affordable housing.
Income ceiling up to Decile 5	We argue that those with lower incomes should be given preference over those with relatively higher incomes that are still below the income ceiling. However, there is no value in granting preferential treatment if the rent does not suit the household's income.
Disability	We argue that preference should be given to people with disabilities who need housing that meets their special needs. We argue that this preferential treatment should be based on the establishment of a quota of apartments suited to the needs of individuals with disabilities and designated for their use.

It is important to mention that, in practice, the application of the criteria described above is limited. First of all, following a change in the government's policy, today there is almost no use of the Mechir Lemishtaken program. As an alternative to this program, there has been an attempt to advance the Target Price program, in which apartment prices are determined ahead of time, involving a discount relative to the market price, but without any threshold conditions or eligibility criteria.⁴³

Second, in tenders for the allocation of land for the construction of rental apartments that were published during 2014 in Ramat Hasharon, Herzliya and Haifa

⁴³ See Decision 508 of the Israel Land Authority from 16 July 2014 on the topic of marketing residential units within the framework of the Target Price program. This program is currently frozen and is expected to remain so until the Knesset acts in the matter, due to its connection with the Zero VAT law.

(and which will be discussed in Chapter 6 of this document), the threshold conditions were changed so that the household-income ceiling referred to Decile 8 instead of Decile 7.

Completely eliminating the threshold criteria (as was done in the Target Price program) or raising the threshold conditions to income levels above Decile 7 (as was done in the tenders for long-term rentals) is expected to lead to a situation in which populations with low to medium incomes will not receive preference for eligibility. As a result, the likelihood that they will be able to benefit from the subsidy granted by the state and live in these apartments is low.

2.4 Determining Income Levels in Israel

As stated above, in many countries, the income levels that define the target populations for affordable housing or eligibility criteria for such housing are set relative to the median income. In Israel, the Central Bureau of Statistics categorizes all of the data related to income level in terms of deciles. In a document published by the Knesset Research and Information Center that relates to the middle class in Israel, income levels are defined as part of a translation of the internationally accepted consideration of income as percentage of the median income into the decile-based system.⁴⁴ Data based on that document are presented in the table below.⁴⁵

Income Level	Percentage of the Median Income	Deciles	Proportion of All Households
Lowest	Up to 30%	Up to 80% of Decile 1	8%
Very low	30%-50%	From 80% of Decile 1 through Decile 2	12%
Low	50%-75%	From Decile 3 to 59% of Decile 4	15.9%
Medium	75%-125%	From 59% of Decile 4 to 25% of Decile 7	26.6%
Medium-high	125%-200%	From 25% of Decile 7 to 53% of Decile 9	22.8%

⁴⁴ *Weight of the Middle Class and Analysis of Changes in Recent Years*. The Knesset Research and Information Center, 14 April 2013, p. 3 [Hebrew]. <http://www.knesset.gov.il/mmm/data/pdf/m03157.pdf>

⁴⁵ The Knesset Research Center defined “low income” as up to 75% of the median income. In this table, we added an additional level of categorization: lowest income, very low income and low income. The Knesset Research and Information Center used the term “class,” but we prefer to use the term “income level.”

High	Over 200%	From 53% of Decile 9 through Decile 10	14.7%
------	-----------	--	-------

In light of what was stated in Chapter 1 regarding populations that receive housing assistance in Israel, public housing and rental assistance are directed mainly at those with the lowest and very low incomes (Deciles 1 and 2). Therefore, the target population for affordable housing starts from Decile 3. The upper limit for the target population is located within Decile 7. For the sake of simplicity, we argue for the adoption of the recommendation of the Trajtenberg Committee regarding the income-ceiling criteria for eligibility for renting an apartment whose rental price is supervised and for purchasing an apartment through the Mechir Lemishtaken program described above and for the inclusion of the entire seventh decile in the medium-income level in evaluations of eligibility for affordable housing.

2.5 Recommendations

Affordable housing should provide an adequate solution for the housing needs of populations with low to medium incomes that have trouble buying or renting appropriate housing under free-market conditions. These populations are diverse and have varied housing needs.

Criteria should be set and the population to be eligible for affordable housing must be defined such that the central parameter is income. Overall, policies that allow the integration of populations that differ in income level, age, family status, etc. should be preferred.

In light of all this, we recommend the following:

2.5.1 Defining populations of Deciles 3-7 as the target populations for affordable housing

As stated in the recommendations presented in Chapter 1, affordable housing should be defined relative to the household income of the target population and this definition should refer to populations with low to medium levels of income, who are the target populations for affordable housing. The Minister of Construction and Housing should define “populations with low and medium income” in regulations.

We recommend that the regulations to be enacted in this area use the decile system, such that the target populations for affordable housing will be households with

low levels of income (Deciles 3 and 4) and households with medium levels of income (Deciles 5-7).

We argue that, in Israel, there is no reason to evaluate income on a regional basis, as is done in other countries, and all comparisons should be made on a nationwide basis. This is because the population of Israel is small and in fact is no greater than that of many individual metropolitan areas in the world.

2.5.2 Establishing threshold conditions and a set of criteria for allocating affordable-housing units

In order to properly allocate affordable housing to the target populations defined above, the central government will need to establish a system to ensure the equitable allocation of these residential units. We recommend the use of an integrated model that includes a relatively limited number of strict criteria that will serve as threshold conditions for living in a unit defined as affordable housing by the regulations set forth by the Minister of Construction and Housing, as empowered by the proposed Affordable Housing Law. In addition, we recommend that a set of criteria be established in regulations, along with an allocation range for each criterion. As they develop their own affordable-housing policies and debate specific plans, local authorities should be able to choose which criteria are most relevant in the local context and weigh each criterion according to societal and communal needs.

We recommend that the threshold criteria include:

- A. **An income ceiling** — So that only households with incomes up to Decile 7 will be able to live in units designated as affordable housing. This income ceiling should be set relative to the size of the household. Tables should be developed showing the maximum income at which a household is eligible based on the number of people in the household.⁴⁶ We recommend relying on the definitions of the Central Bureau of Statistics regarding a “standard person”. In addition to an income ceiling, limits should be set regarding the maximum value of capital and property in the hands of the household. In this matter, we recommend the adoption of the criteria established by the City of Tel Aviv-Yafo as a condition for participation in their affordable-housing projects: a maximum sum of personal

⁴⁶ In a similar manner, the U.S. Department for Housing and Urban Development (HUD) publishes maximum income data for households comprised of four individuals with a table that shows coefficients for calculating maximum income levels for households that are smaller or larger:
http://www.huduser.org/portal/datasets/il/il14/IncomeLimitsBriefingMaterial_FY14_Rev.pdf Last viewed August 31, 2014

capital and property of 300,000 NIS per household or 150,000 NIS for an individual.⁴⁷

- B. Lack of ownership of an apartment** — The specified condition is “lack of an apartment.” With regard to this issue, we recommend the adoption of the recommendations of the Committee for the War on Poverty in Israel that were presented to the Minister of Welfare and Social Services on 23 June 2014. According to those recommendations, “lack of an apartment” is defined as not having owned an apartment or part of an apartment (including “key money” apartments) over the past five years.⁴⁸

The set of criteria described above as optional criteria from among which local authorities can choose based on how relevant they are for their own policies or specific plans and which local authorities can weigh accordingly, within the established range, might include certain occupations that are in demand in the area; type of household, such as young couples or families with children; participation in the workforce, etc.

A list of proposed criteria is attached to this document as **Appendix B**.

2.5.3 Incentives for developers to include populations with a range of incomes in their projects

In order to ensure solutions for both populations with mid-level incomes and populations with low incomes and in order to create residential areas that are home to heterogeneous populations, it has been proposed that incentives be provided to developers whose housing developments integrate households with a range of incomes. Possible incentives are described in Chapter 6 of this document.

2.5.4 Providing incentives to developers in order to integrate populations with diverse income levels in ongoing and planned projects

In order to enable both middle- and low-income populations access to affordable housing and to create housing complexes with heterogeneous population, it is proposed

⁴⁷ See the information pamphlet on the subject of a residential project that includes affordable-housing units in the Shapira neighborhood and Yad Eliahu neighborhood of the city of Tel Aviv-Yafo published by the Ezra and Batzran Company, p. 14 [Hebrew]. <http://www.e-b.co.il/html5/Web/1333/db-info.pdf>

⁴⁸ See the chapter on housing in the recommendations of the Committee for the War on Poverty in Israel (the Alalouf Committee) that were presented to the Minister of Welfare and Social Services on 23 June 2014, p. 16 [Hebrew]. <http://molsa.gov.il/focus/documents/%D7%93%D7%95%D7%97%20%D7%94%D7%A2%D7%95%D7%A0%D7%99%2022.6.14.pdf>

that incentives will be given to developers that projects being built by them combined populations with diverse income levels.

Incentives that can be used in this regard are detailed in Chapter 6 of this document

2.5.5 Advancing housing solutions for populations with special needs

Housing solutions should be developed for populations with disabilities, the elderly, students, minority populations and other groups who are in need of special solutions.

This document does not focus on these groups, but rather on populations whose income level alone requires the development of adequate housing solutions to meet their needs.

3. Where is Affordable Housing Needed?

Affordable housing is needed in any area in which the prices of housing for sale or rent are beyond the reach of populations with low to medium incomes. Therefore, in areas in which housing prices are too high for these populations, there is a need to implement mechanisms for intervention in the cost of housing.

On the other hand, the dynamics of the housing market may lead to a situation in which relatively inexpensive residential areas become more expensive as a result of different planning, social and economic processes. This increase in prices may prevent some local residents from remaining in the area. Therefore, the preservation of an inventory of affordable residential units over the long term is also necessary in areas undergoing change (for example, following urban renewal projects). The stock of affordable housing can be protected by preserving existing inexpensive housing and/or through the use of different mechanisms to create new, affordable housing.

According to this approach, a needs assessment should be conducted and this assessment should include an analysis of the existing and planned housing stock in the particular area and the ability of that stock to meet the housing needs of low- to medium-income populations. (For more information regarding the assessment of housing needs, please see Chapter 5).

Therefore:

Affordable housing is mainly needed in areas of high demand in which housing prices are beyond the reach of low- to medium-income populations. Affordable housing should also be included in urban renewal initiatives, in order to prevent the pushing out of long-time residents and in order to preserve the dwindling stock of inexpensive housing in the area. Therefore, even outside areas of high demand, there is a need to examine the need for affordable housing as part of the analysis of long-term trends.

As stated, affordable housing is intended to meet social and community needs, beyond providing a roof over the heads of those who are unable to pay the market rate for housing. The main social challenges of affordable housing are those faced in the formation of heterogeneous residential areas that are home to populations with a range

of incomes, such that populations with medium to low incomes are able to enjoy access to places of employment and the high-level public services that are characteristic of high-demand areas, as well as the establishment of mechanisms to protect these populations from being pushed out of areas that have undergone urban renewal.

In addition, among the issues to be considered in determining where affordable housing should be built, it is important to consider the proportion of household income to be spent on transportation as part of the calculation of whether housing stock is indeed affordable for low- to medium-income populations. Preference should be given to the integration of affordable housing in areas in close proximity to places of employment and areas that have good access to transportation.

3.1 Inclusionary Housing – A Social Mix and a Range of Housing Solutions

Beyond the recognition of the need for affordable housing, there is the question of the best way to integrate such housing into the housing stock of a community, neighborhood or building. The internationally accepted approach is generally to integrate affordable housing into the general housing stock and to avoid the creation of separate sites at the city/town or neighborhood level. At the building level, most experts would want a new building to include both affordable-housing units and units available at market price, arranged so that someone outside the building would not be able to distinguish between them.

One of the basic methods for integrating affordable housing into the general housing stock is the requirement for “inclusionary housing.” This is a requirement for the inclusion of a certain amount of housing units that will be available at a lowered price within **new construction projects** in which most of the units will be sold at market price.

In many Western countries, legislation requires the inclusion of a certain proportion of affordable housing units in each new development on public or private land. In other countries, there are economic incentives for developers who choose to include affordable housing units in their projects, in order to encourage the construction of such housing. These incentives include building rights, tax breaks and the acceleration of processes related to the issuing of building permits.

The proportion of residential units that need to be affordable-housing units varies from place to place, ranging from 20 to 30%. In England, the recommended, but not required proportion stands at 20%. In France the required proportion stands at 20% from

all units that must be set aside as affordable housing units⁴⁹ and, in Spain, 30% of all land zoned for housing must be used for affordable housing.⁵⁰ In certain cases, a developer can choose to pay a certain sum of money instead of setting aside units for use as affordable housing. This money may be paid to a municipal fund for the establishment of affordable housing.⁵¹ In the Netherlands, instead of a uniform national requirement for the proportion of affordable-housing units to be included in each development, each local authority determines the necessary proportion for developments within its boundaries, in keeping with its own assessment of local housing needs.⁵²

In the U.S., in most cases, these requirements are an integral part of the zoning regulations (inclusionary housing) and the proportion of units that developers are required to set aside as affordable-housing units is generally no greater than 20%. Sometimes this requirement is not a fixed zoning requirement, but is determined within the framework of negotiations with the developer as a condition for receiving some sort of public benefit, such as additional rights, access to an accelerated approval process or some other incentive.⁵³

The principle underlying inclusionary housing, in which affordable-housing units are integrated with units available at market price, also involves other characteristics of housing: a mixture of units of different sizes, a mixture of types of holdings (owner-occupied, rentals, partial ownership, etc.) and a mixture of types of construction (e.g., low and tall buildings, different levels of density). The goal of these mixtures is to create residential areas that are home to diverse populations: households with different levels of income, households of different sizes, households at different phases of life, households whose members have a variety of occupations, etc.

⁴⁹ See the report of the Knesset Research and Information Center entitled, *Different Models of Affordable Housing in Developed Countries and in Israel* from 17 November 2010, p. 7 [Hebrew].

⁵⁰ Alterman, Silverman and Fialkoff, footnote 4, p. 78.

⁵¹ Footnote 49 in the work cited above, p. 6.

⁵² *Ibid.*, p. 7.

⁵³ For example, in Project 20/30/50 of the New York City Housing Development Corporation (NYC HDC), low-interest financing is offered to developers of projects in which 20% of the units are designated for people with low incomes, 30% of the units are designated for people with medium incomes and the remaining 50% of units are to be sold at market prices. <http://www.nychdc.com/pages/Mixed%252dIncome-Developments.html>

3.2 Affordable Housing as Part of Urban Renewal

Internationally, the concept of affordable housing (in theory and practice) is viewed more broadly than it is in Israel and is not limited to physical processes, but also includes social and economic processes that are supported by a variety of tools.⁵⁴ In Israel, the concept is linked almost exclusively to what are referred to as clearing-and-construction initiatives, which include a process of physical renewal based on tearing down old buildings and additional construction of new residential units financed by the developer, National Master Plan 38 (TAMA 38) initiatives that involve the renovation of buildings and their reinforcement against earthquakes and plans that are not part of TAMA 38 that involve the addition of additional stories to existing buildings.

Urban renewal programs carried out in older parts of towns and cities can serve as an opportunity to improve living conditions and to create a more balanced mix of populations with different income levels. However, alongside this opportunity, these processes also carry an intrinsic risk of negative consequences, namely, the increase in the price of living and the danger that long-time residents, especially renters, may not be able to cope with the new higher cost of living. For owner-occupied apartments, in addition to the increased value of their property, owners may face higher maintenance costs for the new or improved building (cleaning, gardening, elevator maintenance, etc.) and an increased tax burden (e.g., property taxes). In rental apartments, tenants may face these costs (which Israeli renters are generally directly responsible for), as well as higher rents.

As they are advanced today in Israel, urban renewal processes present unique challenges for affordable housing.⁵⁵

Pushing out of long-time renters and homeowners — Among planners and decision-makers in the Housing Ministry and the local authorities, there is sometimes a belief that urban renewal initiatives need not include the explicit designation of units as affordable housing units. This is based on a belief that urban renewal “creates” affordable housing stock, in that residents who had been living in small, old apartments before the renovation/renewal of the building or site receive a new apartment without having to put

⁵⁴ For more information and examples of the implementation of a holistic approach to urban renewal, see Andrea Colantonio and Tim Dixon, *Urban Regeneration and Social Sustainability: Best Practice from European Cities* (2011).

⁵⁵ This policy paper focuses on the issue of affordable housing in the context of urban renewal and does not include a broad analysis of urban renewal processes. For a critical, up-to-date analysis regarding urban renewal and how it is implemented in Israel, we recommend the report on this topic published by Bimkom – Planners for Planning Rights in September 2014.

out any money of their own. This approach is only partially correct, as it does not take into account the population of renters, who sometimes account for a respectable percentage of the residents and who are likely to be directly hurt by the implementation of the plan via the future costs added to the set of expenses associated with living in the unit, mainly the costs of maintaining the new apartment, which may lead to a situation in which long-time residents will not be able to continue to live in the building/area.

Destruction of existing housing stock — Sites slated for urban renewal often include relatively inexpensive housing stock that is financially accessible to populations with low-medium incomes. The destruction of this housing stock during clearing-and-construction projects removes cheap residential units from the market and replaces them with more expensive units that these populations cannot afford.

Profitability — An additional challenge of urban renewal in Israel stems from the fact that these programs depend almost exclusively on the private market and require large investments on the part of the developers, whose profits are often marginal. For some projects, despite the granting of permission to build more densely, this investment is not worthwhile for the developer and the state tries to encourage the project in different ways (for example, allocating “supplemental land” to a project without requiring a tender process and at a discount). Given this reality, the imposition of an additional economic burden on the developer (i.e., requiring the construction of **new** housing units to be designated as affordable housing) may further decrease the profitability of these projects and, consequentially, the likelihood of their being carried out.

Despite the challenges mentioned above, we argue that there is a need to tightly link urban renewal with the issue of affordable housing. This is due to the fact that designated affordable housing can help prevent the negative consequences of urban renewal, as discussed above, as well as the fact that urban renewal projects have the potential to increase the supply of new apartments suitable for low- to middle-income populations, even in high-demand, centrally located areas.

3.3 Affordable Housing and Access to Transportation

In many countries, including Israel, household expenditures on public and private transportation are second only to expenditures on housing.⁵⁶ According to the Central Bureau of Statistics, in Israel, transportation expenses account for an average of 12.6%

⁵⁶ See the website of the U.S. Department of Transportation, last viewed 3 August 2014. http://www.fhwa.dot.gov/livability/fact_sheets/transandhousing.cfm

of a household's expenses, so that transportation expenses together with housing expenses (25.1%) and upkeep of the residential unit (7.3%) account for a substantial proportion (45%) of total household expenses.⁵⁷ These expenses are tightly linked to the location of the home and its accessibility to places of employment and to education, health and leisure services. Therefore, when evaluating whether housing units meet the criteria of affordability, it is important to take into account transportation expenses derived from their location.

In keeping with this rationale, working together, the U.S. Department of Housing and Urban Development (HUD) and the U.S. Department of Transportation (DOT) have set up an Internet portal that presents housing price data together with transportation costs.⁵⁸ Within this framework, alongside the accepted American guideline that states that housing expenses should account for no more than 30% of a household's income, an additional guideline has been developed according to which the total costs of housing plus transportation should not exceed 46% of a household's income. Based on this guideline, when the cost of housing is below the accepted limit, but the location of the home necessitates a high level of spending on transportation, the home may not meet the standard of affordability. According to this same principle, in a situation in which the price of a residential unit is relatively high, but its location allows for reduced spending on transportation, the unit may actually meet the standard of affordability. At this point in its development, the portal is not used as a statutory tool, but is intended to help developers, planners, decision-makers and private households evaluate the effect of transportation costs on overall housing costs based on location.

3.4 Small Apartments

Despite the fact that small apartments may not meet the definition of affordable housing, as presented in Chapter 1 of this document, we would like to say a few words on this topic.

Mechanisms to ensure a reasonable supply of small residential units are known around the world and considered to be one of the main tools for dealing with market distortions that lead to increased housing prices.⁵⁹ The basic principle underlying this

⁵⁷ Central Bureau of Statistics, Monthly Composition of Consumption Expenditure by Subgroup for 2000-2011, Household Expenditure Survey 2011. This figure includes the amounts spent on private vehicles, public transportation and other expenses.

⁵⁸ http://www.cbs.gov.il/publications13/1517/pdf/t01_02.pdf [English]

⁵⁹ <http://www.locationaffordability.info/default.aspx>

⁵⁹ Alterman, Silverman and Fialkoff, footnote 4, p. 52.

policy tool is that the price of housing is based on the size of the apartment (among other things) and, therefore, the smaller the apartment, the cheaper it will be.

In Israel, many local authorities tend to prefer large apartments over small apartments. This preference is based on an approach that sees the construction of large apartments as a tool for attracting families with relatively high incomes. This creates an incentive for local authorities to increase the supply of large apartments regardless of the actual existing or future local need for such apartments, as a means of competing with other jurisdictions that also want to attract this desired segment of the population.

Over the years, the average size of an Israeli apartment has increased⁶⁰ and the proportion of new small apartments being built has decreased continuously. In 2012, only 6.4% of the apartments built in Israel had 1-3 rooms.⁶¹ This trend has been accompanied by a gradual decrease in household size, from 3.8 people per household in 1970 to 3.34 people per household in 2012. Together, these two trends point to an increase in the housing standards of the population⁶², as well as an incongruent relationship between the size of the apartments being constructed and the composition of Israeli households, 40% of which are made up of one or two people.⁶³

Against the background of the situation described above, the state has chosen to intervene in this area and, as recently established in the Planning and Construction Law, subject to certain limitations⁶⁴, in each development plan that includes at least 100 residential units and has an average density of at least seven units per dunam (1 dunam = approx. ¼ acre), at least 20% of the units must be small units, as defined in the law.⁶⁵

⁶⁰ In the 1950s, the average size of an Israeli apartment was 32 m²; in 2000, it was 153 m² and, in 2008, it was 182 m². Source: Gilat Bencheitrit, *A Decade Without a Housing Policy: How the Government Withdrew Support for Housing and the Social Protests of Summer 2011*. Taub Center for Social Policy Studies in Israel, Series of policy papers, Policy Paper 2014.3, July 2014, p. 14.

⁶¹ Apartments with 1-3 rooms accounted for 71% of the apartments built in 1970, 44% of the apartments built in 1980, 19% of the apartments built in 1990 and 19% of the apartments built in 2000. Source: Central Bureau of Statistics, Construction in Israel 2012, Completed New Apartments by Number of Rooms (A) – Periodic Series [Hebrew].

⁶² The proportion of households in which the number of people per room is less than 0.99 increased from 29% in 1980 to 52.8% in 2011.

⁶³ *Annual Statistical Report for Israel 2013*, No. 62, Chapter 5, Table 1 [Hebrew].

⁶⁴ The chief planning agency will authorize a plan in which the number of small residential units accounts for less than 20% of all of the units, if it is proven that (1) the characteristics of the construction or other special characteristics of the plan justify this or (2) in light of the characteristics of the community, there is no need or justification to allocate land for small apartments.

⁶⁵ In 2001, the Planning and Construction Law (Temporary Order) 2001 was enacted and this temporary order was valid for three years. This temporary order defined small apartments as apartments no larger than 80 m² or a size to be determined by the Minister of the Interior as authorized by the Internal Affairs and Environmental Quality Committee of the Knesset and also established that, during the period covered by the temporary order, planning authorities would not refuse to authorize a plan only because it included small apartments, as long as the small apartments did not account for more than a third of the apartments in the plan. See *Statutes 5761*, p. 208.

It is understood that there is a relationship between the size of an apartment and its price and, therefore, as the abovementioned ruling is applied, we may see the appearance of residential units with prices lower than those at which one can find new units today. However, in light of the fact that these units are not necessarily affordable housing units, as defined in Chapter 1 of this document, the prices of these small units may be quite high, especially relative to the incomes of the target population for affordable housing, namely households in Deciles 3-7.

3.5 Inclusionary Housing in Israel

In Israel, the Law for Planning Processes and Construction to Accelerate Residential Construction – Temporary Order, 2011 [also known as the Temporary Order Regarding National Housing Committees (*vadalim*)] created national housing committees charged with the task of shortening the planning process and established that, among other things, small apartments, units to be rented for at least 10 years and/or affordable rental housing should account for at least 25% of the residential units in any national plan.⁶⁶ Affordability was not defined within the temporary order.

Clause 3 (א) of this temporary order establishes that as long as land in a national housing plan is intended for affordable housing, instructions will be set regarding the conditions under which the residential units can be rented, including the price of rent, limitations on the transfer of rights to these units and who is eligible to rent these units. In the government's view, as expressed in, among other things, the discussions of the Internal Affairs Committee regarding the extension of this temporary order held late in 2013⁶⁷, these instructions need to be fixed in regulations and formalized by an interministerial staff within a period of 160 days, that is, by May 2014. To date, the Minister of the Interior has not published these regulations and, therefore, no use has been made of this clause. The temporary order is set to expire 11 August 2015.

In addition, on 7 August 2014, the Law to Advance Construction at Preferred Sites – Temporary Order, 2014 [also known as the Temporary Order Regarding National Committees for Planning Construction at Preferred Sites for Residential Use (*vatmalim*)] was published. Among other things, this temporary order establishes that in a plan

⁶⁶ Defined as a plan prepared and presented according to the instructions in Clause 9(א) or (1) (1א) of this temporary order, which includes detailed instructions for the establishment of at least 200 residential units on sites at which at least 40% of the land is under the control of the Israel Land Authority, a national plan for housing in minority communities and a national housing plan for clearing-and-construction projects.

⁶⁷ See Protocol No. 134 from the meeting of the Internal Affairs and Environmental Protection Committee on 25 November 2013.

authorized as a “preferred plan for housing,”⁶⁸ 15% of the residential units will be units for long-term rent and other 15% of the residential units will be available for long-term rent at a reduced price.⁶⁹ At this point, it is still too early to evaluate the implementation of this temporary order.

Within the framework of discussions regarding Amendment 101 to the Planning and Construction Law, a version of a proposed law was distributed that proposed that if land were designated for a housing development including at least 100 residential units, at least 25% of the apartments in that development would need to be small apartments, apartments for long-term rent or apartments to be rented out at supervised prices.⁷⁰ In the final version, the instructions regarding units for long-term rent and units to be rented at supervised prices were omitted, leaving only the instruction regarding small apartments. The law requires that at least 20% of the residential units in a plan be small apartments, as long as the conditions detailed in the law are met and subject to restrictions detailed in the law (as described in Section 3.4 above).

3.6 Procedures for Advancing Affordable Housing in Israel at the Local Level

The discussion of affordable housing in Israel is at an early stage and, as discussed in Section 3.4, organized approaches to the manner in which affordable housing should be distributed spatially and incorporated into the urban fabric have not yet been solidified.

In the absence of a clear policy at the national level or appropriate regulation, individual local authorities including Bat Yam, Herzliya, Rishon Letzion, Jerusalem and Tel Aviv-Yafo have begun to advance initiatives to meet their residents’ demands for affordable housing. In some of these cities, steering committees have been established

⁶⁸ Defined as a plan for a site preferred for residential use that is prepared and presented in accordance with the instructions of Clause 9 of the Temporary Order Regarding *Vatmalim*, which includes instructions for the establishment of at least 750 residential units, as well as the instructions discussed in Clause 4 above, and, in a minority community, a plan that includes instructions for the establishment of at least 500 residential units. In accordance with Clause 3 of the temporary order, the government or a committee of ministers it appoints for this purpose is authorized to declare land that is under the control of the Israel Land Authority or land in a minority community as a “preferred site for residential use.”

⁶⁹ The definition of “long-term rental” in the Temporary Order Regarding *Vatmalim* refers to the definition in the sixth addendum of the Planning and Construction Law, with certain changes. The definition of a “residential unit for long-term rent at a reduced price” refers to the way this term is used in decisions of the board of the Israel Land Authority. For further information, see footnote 29 of the document cited above.

⁷⁰ See the version that appears on the website of the Knesset Committee for Internal Affairs and Environmental Protection:
<http://main.knesset.gov.il/Activity/committees/InternalAffairs/PlanningConstruction/2692010.pdf>

and policies have been formalized⁷¹ and, in some of these cities, pinpoint initiatives have been advanced. Most of these initiatives are still at the planning or execution stages, see Appendix F for an update of a Survey of Affordable Housing Projects in Israel conducted In 2013 by Paz Economy and Engineering Ltd.⁷²

To date, the only initiative to be carried out and occupied by residents is an initiative of the City of Tel Aviv-Yafo that was implemented in two areas: Ganei Shapira⁷³ and Yad Eliyahu.⁷⁴ These projects were built on land belonging to the City of Tel Aviv-Yafo and their construction was fully funded by the City. The projects are operated according to the criteria set by the City Council on 20 June 2011.⁷⁵ The municipal company Ezra V'Batzran is responsible for checking the eligibility of potential residents, carrying out lotteries for potential residents, getting the apartments occupied, collecting rent at affordable-housing prices and making sure that residents do not transfer their rights and rent the building to a third party.⁷⁶ Since ownership of the apartments remains in the hands of the City, there are no limits regarding the period of time for which the apartments are to be rented out at “affordable” prices, as defined by the City.⁷⁷

3.7 Recommendations

⁷¹ For example, the published documents of the steering committees established in Tel Aviv-Yafo (July 2008) and Bat Yam (May 2013). The policy document of Bat Yam can be read [here](#) [Hebrew].

⁷² These initiatives vary widely and relate to affordable housing in broad manner that does not match the definition presented in this policy paper and suffices with the granting of discounts relative to market prices. Examples include the Migdal Hayam project in Bat Yam, the Migdal Rishonim project in Rishon Letzion, the Nachalat Azza site in Herzliya and a range of projects in Tel Aviv, including Migdalei Hatzeirim, the Shuk Ha-aliya Site, the Shuk Hasitonai, the Michelangelo Site in Yafo and others. For a full (Hebrew) list of plans advanced in Tel Aviv-Yafo, see <http://www.tel-aviv.gov.il/Pages/ArticlePage.aspx?ListID=48221491-7974-46cb-8fa7-acb804f1b8dc&ItemID=975&WebID=0fbc63bb-5e6c-4555-90d3-f9ad2c4e1204> For further information on this topic, see Sarah Kreimer and Chaim Fialkoff, *Locally Initiated Affordable Housing Projects in Israel*, May 2012, Tel Aviv University Legal Clinics [English]. <http://urbanclinic.huji.ac.il/sites/default/files/Mapping%20Local%20Initiatives%20in%20Affordable%20Housing%20in%20Israel.pdf>

⁷³ The project in Ganei Shapira includes 69 residential units. The original plan was to designate only 45 of these units as affordable housing, but, today, all of the apartments in this project are being rented as affordable housing units, as defined by the City of Tel Aviv-Yafo. These apartments have 3-4 rooms and monthly rents range from 2900 NIS for a 3-room apartment to 3,100 NIS for a 4-room apartment.

⁷⁴ In Yad Eliyahu, the City, acting through the Ezra V'Batzran Company, is renting out 32 units as affordable housing units. These units each have 1-2 rooms and monthly rents range from 1,100 NIS to 2,800 NIS.

⁷⁵ Eligible individuals are individuals who do not own an apartment, have continuously resided in Tel Aviv-Yafo over the past 5 years and are no older than 45 (single individuals must be at least 27). Eligible households have incomes that do not exceed the Decile 7 (approx. 17,000 NIS per household) and possesses no more than 300,000 NIS of capital per household, participate in the workplace and include a child no older than 12 (for apartments set aside for families).

⁷⁶ See for example the booklet for signing up for the Ganei Shapira project and the Yad Eliyahu affordable-housing project, published by Ezra V'Batzran Company (in the name of the City of Tel Aviv-Yafo) <http://www.e-b.co.il/html5/Web/1333/db-info.pdf>

⁷⁷ See also the City's (Hebrew) notice regarding the build-it-yourself section of the Ganei Shapira project, which can be found on the City's website: <http://www.tel-aviv.gov.il/Pages/Article.aspx?List=48221491-7974-46cb-8fa7-acb804f1b8dc&ID=461>

Affordable housing is mainly needed in high-demand areas in which housing prices are beyond the reach of low- to medium-income populations. However, there is also a need to incorporate affordable housing in less popular areas as part of urban renewal processes, in order to prevent long-time residents from being pushed out and to preserve the supply of inexpensive housing in the area. In addition, there is a need to evaluate the need to integrate inexpensive housing into less popular areas in order to protect against rising prices in the future. In light of the fact that, at the most basic level, assessments of the need for affordable housing are needed in all areas, those in high demand and those that are less popular, the detailed recommendations that we present below are all-encompassing in terms of geography, but flexible in all that concerns the ability of each local authority to decide whether and how to make sure that affordable housing is available within its boundaries.

3.7.1 Setting instructions for the inclusion of affordable housing in statutory plans

We would like to see primary legislation that establishes that in every plan for new residential construction that includes at least 100 residential units, 20 to 40% of the units will be designated as affordable-housing units, as defined in Chapter 1 of this document. (Please see the version of the proposed law that can be found in Appendix A.) This instruction will replace the instructions regarding this issue that were set out in the temporary orders regarding *vadalim* and *vatmalim*.

The planning agency will be authorized to set the proportion of units to be designated as affordable housing, within the range prescribed above. In exceptional circumstances, the agency may set a level lower than 20% if, after having been presented with a formal assessment of housing needs (as described in Chapter 5 of this document), it is convinced that there is no justification for requiring the proportion specified in the law or that the setting of the proportion required under the law would prevent the project from being implemented.

In addition, if a developer does not include the specified proportion of affordable housing units in a project, he should be required to pay a sum of money into an affordable housing fund that will work to ensure that other development projects are carried out. The amount to be paid needs to be determined.

3.7.2 Affordable housing in urban renewal processes

The need for affordable housing should also be considered as part of urban renewal processes. This consideration should be based on an assessment of the need for affordable housing to be carried out at the city/town level (as described in Chapter 5). In this context, the affordable-housing requirements for urban renewal plans are no different than those for any plan for a new housing development, as described in Section 3.5.1 above. That being said, the unique characteristics of urban renewal plans require that certain steps be taken, steps that are essential in the context of urban renewal: (1) a social impact assessment, (2) an option to combine new construction (within the framework of clearing-and-construction and reinforcement projects) with the preservation of existing housing stock, (3) increasing the profitability of urban renewal plans that include new affordable housing, and (4) preventing the pushing out of long-time residents.

(1) Social impact assessment — We propose that urban renewal plans be required to include a social impact assessment.⁷⁸ The goal of such an assessment is to estimate the planned and unplanned effects of the proposed development on people living at and around the site and to provide recommendations for coping with these outcomes, particularly as they concern affordable housing. We propose that the costs of conducting these assessments be covered by the government, both for projects led by local authorities and for projects led by private developers.⁷⁹

(2) Option to combine new construction (within the framework of clearing-and-construction and reinforcement projects) with the preservation of existing housing stock — In contrast to the existing situation, in which clearing-and-construction projects involve tearing down all of the existing housing stock at the site and the construction of new housing stock in its place, we suggest that the definitions of the tracks for different types of projects be made more flexible, so that several different types of renewal strategies may be used at a single site designated for urban renewal, including clearing-and-construction, reinforcement and even preservation of existing housing stock. In this way, at a site at which some buildings were torn down and

⁷⁸ For more information on this topic, see Arza Churchman and Emily Silverman, *Social Considerations in Spatial Planning*. (Technion, 2012) [Hebrew].

⁷⁹ For projects led by local authorities, the required funds could be included in the funding those authorities receive from the Interministerial Committee for Urban Renewal.

replaced with new housing, other buildings might be renovated and have new units added to them (based on TAMA 38) and still other buildings might be preserved.

(3) Increasing the profitability of urban renewal plans that include new affordable housing — As mentioned, we propose that the guidelines regarding the allocation of affordable housing in urban renewal projects be the same as those that apply to other projects. As we think should be defined in law, the ability of urban renewal projects to meet these guidelines will depend on the balance between the overall cost associated with the inclusion of these units in the project and its profitability.

Since the price of land cannot be subsidized for these projects and since these projects are, from the outset, fairly expensive for developers, but carry lower public costs than building on empty land,⁸⁰ we propose the allocation of additional public resources to increase the profitability of these projects and to cover the cost of the gap that may be formed following the allocation of units for use as affordable housing. Specifically:

(A) We propose including instructions for the presentation of this gap in the economic profitability reports that are compiled within the framework of the authorization of clearing-and-construction plans that are carried out according to Regulation 21.0.⁸¹ This way, the information will be presented to the planning agencies as they debate the deposit of the plan. This will allow the planning agency to consider how to use the tools at its disposal to improve the economic profitability of the plan. These tools include increasing building rights (beyond what would have been requested if units had not been set aside as affordable-housing units), increasing the level of density (increasing the number of units without increasing the overall permissible perimeter of the building), reducing the number of required parking spots, etc.

(B) We propose the examination of a number of alternatives for increasing the level of public investment in urban renewal projects that include affordable housing. These alternatives include:

1. Providing government compensation to local authorities that provide exemptions to the betterment tax for urban renewal projects that

⁸⁰ For more information, see: *New Communities as Compared to the Expansion of Older Communities: Evaluation of Economic Aspects*. Jerusalem: Ministry for Environmental Protection, Open Lands Division, Economic Division (2009) [Hebrew].

⁸¹ Regulation 21.0 regarding the minute level of detail required in the appraisals of land as part of the economic appraisals of clearing-and-construction plans, December 2012 [Hebrew]: http://www.moch.gov.il/SiteCollectionDocuments/hitchadshut_ironit/teken_21.pdf

include affordable housing. Today, with the agreement of the local authority, local planning committees can decide to exempt urban renewal projects from the betterment tax.⁸² The betterment tax is the most important tax component of these projects, but local authorities, especially those of limited means, have trouble giving up this income. Therefore, in order to encourage these developments, the state should intervene and grant local authorities the ability to receive compensation for having granted exemptions from the betterment tax to urban renewal projects that include affordable housing. This compensation might be partial or full, corresponding to the socioeconomic status of the local authority or some other criterion to be determined.

2. Increased use of the mechanism for allocating supplemental land to urban renewal plans. We recommend that, similar to the instructions of the Israel Land Authority,⁸³ in the case of urban renewal sites that include affordable housing, use should be made of the mechanism that grants supplementary land for these projects without the use of a tender and at a discount (relative to the market price), such that the discount on the price of land could be as high as 100%. This would also involve the removal of the requirement that the supplemental land be land surrounding or adjacent to the site, as well as the limitation on the size of the area.

(4) Preventing the pushing out of long-term residents — As stated in the beginning of this chapter, it is important to distinguish between apartment renters (those who rent on the free market and those who rent public housing) and apartment owners.

(A) **Apartment renters** — In order to allow renters who have been living at a site slated for urban renewal to continue to live at that site even after the plan has been implemented and to preserve the existing community, first and foremost, it is important to make sure that the plan includes rental units that will meet the needs of these residents. Therefore, among the set of criteria to be determined in regulations (as discussed in Chapter 2 of this document), there should be a criterion that applies only to urban-renewal projects and grants

⁸²See Clause 19 (א)(2) to the third amendment to the Planning and Construction Law.

⁸³ In line with Israel Land Authority Decision 1303 from 6 November 2013, supplemental land can be allocated to a site that has been declared an urban renewal site without any need for a tender and at a discount of 80%, in order to bring the project to a reasonable level of profitability.

preference in the allocation of affordable-housing units at a particular site to those who had been renting housing at that site before the renewal project for a period of time to be determined (and who meet the other criteria).

- (B) **Apartment owners** — The main challenge faced in allowing apartment owners who have been living at a site to continue to live there is the need to provide these residents with some sort of assistance regarding the higher maintenance expenses associated with living in new, larger apartments and, often, in a taller building. In order to meet this challenge, we propose that the Committee for Urban Renewal, which operates based on Clause 33(λ) of the Planning and Construction Law, consider the possible steps described below.⁸⁴ First of all, the desire to minimize the future maintenance costs for the proposed buildings should be incorporated into the plan for the project. This may include avoiding the construction of tall buildings, the application of principles of green construction⁸⁵ and/or the construction of buildings that can be easily divided into sections that are more expensive to maintain and sections that are less expensive to maintain.
- Second, local authorities should be encouraged to grant property tax discounts to offset the difference between the property tax bill for the old apartment and the amount due for the new, larger apartment, in accordance with Regulation 3 of the Government Budget Regulations (property tax discount) of 1993.⁸⁶ Despite the fact that local authorities already possess the ability to act in this manner, the City of Bat Yam is the only local authority to do so to date.

⁸⁴ We would like to mention that in Decision DR/12 of the Housing Cabinet from 3 June 2013, which was adopted in Government Decision 376 of 12 June 2013, the Committee for Urban Renewal was instructed, among other things, to compile a plan of action for advancing all aspects of urban renewal and to identify bottlenecks that cause delays in this area and come up with solutions for those issues. Therefore, the committee's authority is not limited to the declaration of sites as clearance-and-construction sites, as described in Clause 33 of the Planning and Building Law.

We would also like to mention that in July of 2014, the media reported intentions to establish a new authority for urban renewal that would act to remove barriers impeding the advancement and implementation of urban renewal projects (link to Hebrew article: <http://themarket.com/realestate/1.2375603>). If and when such an authority is established and its goals and scope of authority are defined, we suggest that this authority be charged with evaluating the tools proposed here.

⁸⁵ Hagai Kot and David Katz, *Costs of Green Construction in Residential Buildings in Israel*, The Israeli Green Building Council (January 2013) [Hebrew].

⁸⁶ In keeping with the regulation enacted as part of the Government Budget Regulations (property tax discount), Amendment 4, 2011, city councils may make decisions regarding property tax discounts for individuals who possess an apartment that they received in exchange for relinquishing their rights to another residential unit that was part of a clearance-and-construction project. The discount is to be granted for a period of 4 years and will cover the difference in area subject to property tax in the old apartment and that in the new apartment. The size of the discount on this added area will be 100% the first year, 75% the second year, 50% the third year and 25% the last year.

Third, a maintenance fund should be established to subsidize the maintenance costs of continuing residents with medium to low incomes. The financing for this fund may come from profit-yielding sections of the project, such as commercial property, offices or residential units defined as part of the shared property, or direct deposits from the developer. Local authorities have begun to develop mechanisms of this type within the framework of clearing-and-construction projects⁸⁷ and have even carried out economic analyses that indicate that the additional costs associated with the establishment of such a fund are insignificant relative to the developer's total costs.⁸⁸

Fourth, the possibility of a differential division of maintenance costs between continuing residents and new residents should be considered. Such a differentiation, which deviates from the standard arrangements laid out in the Land Law of 1969, would need to be protected by a special regulation for the management of jointly owned buildings that would need to be included in the urban renewal plan, so that every developer and potential buyer would be aware of the conditions.

⁸⁷ For example, see the recommendations regarding this issue in the [Housing Policy Paper of the City of Bat Yam](#) and the instructions published on that municipality's website regarding the issue of [maintenance and management](#).

⁸⁸ Analyses of this type are conducted for most of the clearing-and-construction projects in Bat Yam. For an example, see Plan BY/515 – Hagiborim Site, which was debated and accepted by the regional committee. In analyses carried out as part of this plan, the cost of setting up a fund to subsidize continuing residents was estimated as 300,000 NIS per subsidized unit. This calculation was made on 30 September 2011 and was based on the assumption that the subsidy would be granted for a period of 5 years from the time that construction was completed.

3.7.3 Evaluating the need for affordable housing outside areas of high demand

In areas of relatively low demand, affordable housing is important for three main reasons. First of all, the housing market is dynamic. The level of demand and, consequently, prices in a particular community or area do not remain constant over the long term and these changes can lead areas that are relatively cheap today to become more expensive in the future. Second, in terms of household expenses, low housing prices are sometimes accompanied by high transportation costs, which may partially or completely cancel out the advantage of those lower housing costs. In light of all this, we recommend that the requirement to allocate residential units for affordable housing be applied even in areas of low demand and that any decision not to allocate units for use as affordable housing be made only in response to an assessment of housing needs, as described in Chapter 5, with an emphasis on the evaluation of long-term trends and changes that may occur in price levels and consideration of the link between housing costs and transportation costs.

3.7.4 Small apartments

Today, the Planning and Construction Law to which local authorities are bound requires that 20% of the residential units in a project that includes 100 units be small apartments. We recommend being flexible in this matter, in order to make sure that proposed plans suit local conditions and local needs. This is on the condition that the local committee has formalized a policy regarding the mixture of apartment sizes desired within the area of its jurisdiction, as part of a strategic housing plan or general master plan and based on an assessment of housing needs that included an evaluation of the existing housing stock.

4. Who Should be Responsible for the Development of Affordable Housing?

In the past, in many countries, including Israel, the public sector was the leading actor in the field of housing, particularly public housing. Today, for the most part, the setting and achievement of housing goals are still considered the responsibility of the state, similar to its responsibilities in the areas of education, health and welfare. However, in recent decades, there has been an increased emphasis on the role of the private market in this area (similar to other public services) and on cooperation between different sectors of the economy. Therefore:

Affordable housing efforts are led and supported by the public sector, including both the central government and local government, which also provide incentives for others to act in this area. The actual construction of such housing is carried out by the private sector. The development and management of the affordable-housing market is often characterized by cooperation between the public sector, the private sector and non-profit organizations.

The current housing crisis is very different from the one that faced public authorities several decades ago. The increase in housing prices and the broadening of the population that has trouble paying such prices to include the middle class require the development of new strategies, including strategies that involve the private sector in supplying affordable housing. Alongside this, there is a need to ensure that the public sector retains its exclusive responsibility for housing, in general, and for supplying housing for those with low incomes, in particular.⁸⁹

4.1 The Division of Roles in Advancing Affordable Housing

In light of the large number of actors in the affordable-housing market, it is important to define the role of each actor and to understand the relationships between them.

⁸⁹ For more information regarding the division of roles between different sectors, see footnote 4 above, pp. 39-44.

The public sector — The public sector has a responsibility to take the lead in housing issues and is responsible for supporting and implementing affordable-housing programs. Responsibility in this area is split between the central government and local governments, as established in the relationship between these two levels of government (and may also involve additional levels of government in nations in which such levels exist).

In most Western nations, housing is, to varying degrees, the responsibility of local authorities, based on the view that the local government has a better understanding of local housing needs and the understanding that housing issues are closely linked with other issues that are the responsibility of local authorities, such as education and welfare. To that end, the central government authorizes the local government to act in these areas and transfers funds for those activities. The central government may also impose sanctions in situations in which the local government is not capable or interested in advancing affordable housing.⁹⁰

The central government — The central government is responsible for setting national affordable-housing goals and for enacting the legal framework and secondary arrangements needed for the achievement of those goals. Within this framework, the central government's role is to monitor the implementation of these laws and also monitor and estimate the needs upon which the goals are based. In addition, the central government also has a role in funding affordable housing, directly, by providing government grants, allocating land and subsidizing the price of that land; and indirectly, through the granting of tax incentives and exemptions from other mandatory payments, in order to encourage the private sector to participate in affordable-housing programs.

Local government — Local governments are responsible for adapting and applying the goals set at the national level to local housing needs. In some countries, local governments are responsible for managing the housing inventory over the long term and, in some cases, may even own the residential units. In recent years, these roles have often been transferred to non-profit organizations and the private sector. In other cases, local governments have expanded their responsibilities regarding housing and

⁹⁰ For example, in the 1960s, the state of Massachusetts (USA) enacted legislation that allowed it to impose a plan for affordable housing on a local authority in a manner that bypassed the local planning agency. This legislation was intended to prevent the phenomenon in which communities attempt to keep out populations with middle to low incomes.

monitor and respond to residents' needs, set criteria for eligibility for affordable housing and even fund affordable housing in different ways, such as subsidizing the price of municipality-owned land and issuing municipal debt to cover the cost of subsidies granted to developers of affordable housing. They may also act on the supply side of the equation by providing mortgage guarantees for eligible households to use to purchase affordable housing.

The private sector — Private entities are responsible for the construction of affordable-housing developments and are usually responsible for their management as well. In the U.S., which has been a leader in the area of involving the private sector in affordable-housing projects, the government encourages the involvement of private entities in this area by granting incentives and tax benefits. In other Western countries, the role of private entities has also been expanding, particularly for matters concerning the initiation and construction of developments. Sometimes the authorities also transfer to developers the responsibility of evaluating eligibility and kicking out residents who do not obey the rules for living in the project. In other cases, these roles are transferred to non-profit organizations.

The non-profit sector — In certain cases, central or local authorities have transferred responsibilities in this area to non-profit organizations. These responsibilities may include evaluating the eligibility of potential residents in affordable-housing projects. In other cases, they may take on roles traditionally filled by the private sector, such as the direct development of housing projects. Sometimes, non-profit organizations are also the owners of affordable-housing units and are responsible for their management.

In the Netherlands, non-profit organizations carry out a variety of activities related to housing and over 75% of the rental-housing market is managed by housing organizations (known as *woningcorporaties*). Housing organizations buy land (also on the free market), build residential units and manage them for the state.

In the U.S., we find several models for the management and supervision of affordable housing by non-profit organizations. Community Development Corporations (CDCs) are usually small, local corporations that each produce and manage a very small number of residential units. However, cumulatively, the thousands of CDCs in existence produce and manage tens of thousands of units each year. Other models include Community Land Trusts and other cooperatives. These organizations raise funds from

philanthropic foundations and public entities and construct and manage affordable-housing projects. These organizations receive preferential treatment in the purchasing of residential units, for example, units offered for sale by banks or receivers. In addition, there is a law in each state (based on a decision by the federal government) that grants these organizations a certain allocation from the state housing budget or tax benefits.

As discussed in Chapter 2 of this document, the allocation of apartments to eligible households is carried out by the organization managing the particular project, which may be the local government, a private company or a non-profit organization, in keeping with the rules set by the central or local government for the allocation of these units.

4.2 Players in the Israeli Housing Market

Due to the preliminary state of the affordable-housing discussion in Israel, it is difficult to characterize and define the roles of the different entities acting in this area.

Regarding the central government, the Ministry of Construction and Housing's agenda for 2014 includes the goal of "providing a suitable housing solution for the majority of citizens who are unable to find reasonable housing solutions on their own." One of the specific objectives to be achieved as part of work toward this goal is the "initiation of alternative solutions for citizens who are unable to find reasonable housing solutions on their own."⁹¹ Despite the fact that this goal does not use the term "affordable housing", the manner in which the goal is defined indicates that the central government is assuming responsibility for the development of additional housing solutions, beyond public housing.

Government programs such as *Heskemey Gag*, Target Price tenders and the decision regarding 0% VAT are all intended to affect the price of housing in Israel (directly or indirectly by increasing the housing inventory). Additional programs to advance long-term rentals aim to increase the variety of housing solutions available in Israel. That being said, the activities of the government of the State of Israel in the area of affordable housing, as defined in this document, are still quite limited.

We would like to point out two structural deficiencies in the programs that have been advanced by the government, based on what was discussed in previous chapters. First, the goals related to the gap between the market prices for housing and the abilities

⁹¹ Ministry of Construction and Housing, Agenda for 2014 [Hebrew].
http://www.moch.gov.il/SiteCollectionDocuments/odot/tochnit_avoda_2014.pdf

of different segments of the population to pay those prices are not sufficiently detailed and are not accompanied by clear policies regarding ways to bridge this gap. Second, there is no clear definition of the target population for the programs that have been initiated. This means that, in practice, housing prices may fall and the range of housing solutions might expand, but those changes may not be relevant for the target low- to medium-income population.

An even more limited level of activity regarding affordable housing can be found at the local-government level. It is important to note that local governments are very limited in their ability to act in this area, due to the lack of mechanisms in the law books that would allow local governments and local planning committees to obligate private developers to develop affordable housing, as well as a lack of resources and information. With the exception of a few cities in the center of the country, there are few local authorities with the ability to advance affordable housing within their borders, on city-owned land and with funds from the municipal budget.⁹² With regard to this matter, we note the Trajtenberg Committee's statement that local government has a central role to play in the development and implementation of planning and development policies for the real estate market and the development of urban space and their call for the participation of local government in the implementation of their recommendations of steps to be taken in the housing market.⁹³

While the public sector relates to affordable housing in a limited manner, the private sector is almost completely absent from this area. The fact that this is a new market that does not appear to provide sufficient economic rewards to attract private entities, along with the absence of capital investment from corporations and institutions (e.g., banks), as is customary in other countries, leads to a situation in which private developers avoid projects that include affordable housing. As a positive exception to this trend, we note that the long-term rental initiatives currently being advanced by the government provide developers with a safety net that may ease their concerns and encourage their participation in this program.

Today, non-profit organizations are also almost completely absent from this area. This is due to the fact that there is not yet any infrastructure in Israel to support community and social organizations acting in this area or provide them with grants, subsidies or loans. There are a number of non-profit organizations that are active in the

⁹² As recently done by the City of Tel Aviv-Yafo, as described in Chapter 3 of this document.

⁹³ See the Housing Chapter of the report of the Committee for Social-Economic Change, p. 213 [Hebrew].

field of affordable housing, but they mainly act in the areas of advocacy and advancing policies in this area and are not actively involved in housing projects. In recent years, we have seen the early growth of organizations of local residents dedicated to the advancement of different types of urban renewal projects (i.e., clearing-and-construction programs, *Binui-Pinui-Binui*, TAMA 38 projects and new construction), with a goal of including affordable housing in these projects.⁹⁴ However, to date (to the best of our knowledge), none of these initiatives have reached the advanced planning stages or the point of requesting building permits.

In this regard, we note the decision of the Housing Cabinet (DR/12) of 3 June 2013 entitled “Advancing national policy including the renewal and development of urban space,” which was adopted in Government Decision 376 of 12 June 2013. Clause 5 of that government decision concerns the empowerment of residents in the context of urban renewal projects. This clause establishes that the Ministry of Construction and Housing and the Prime Minister’s Office, in consultation with the Ministry of Welfare and Social Services, are to formalize rules to support non-profit organizations, government companies and municipal corporations that represent residents in clearing-and-construction projects. In keeping with the government decision, these tools were to be presented to the Committee for Urban Renewal by 1 November 2013. However, to the best of our knowledge, they have not yet been presented to this committee. As far as rules have been developed, it may be necessary to expand them so that they relate to support for non-profit organizations, government companies and municipal corporations that are generally active in the area of affordable housing and not only to the representation and organization of residents of buildings involved in clearing-and-construction projects.

In light of the above, we present the following recommendations.

4.3 Recommendations

In most countries, governmental authorities, primarily the central government, provide leadership, support and incentives for affordable housing. The setting of housing goals and the leadership of efforts to achieve those goals should be the responsibility of the relevant government ministries, led by the Ministry of Construction and Housing, the

⁹⁴ A document prepared in 2013 by the consulting firm Paz Kalkala V’Handasa described three projects: a clearing-and-construction project in the Kiryat Eliezer neighborhood of Haifa, the integration of new construction and the mobility of TAMA 38 rights in the Bat Galim neighborhood of Haifa and the integration of clearing-and-construction with the renovation of old buildings in Tirat Hacarmel.

Finance Ministry, the Ministry of the Interior and the Justice Ministry. Alongside the preservation of the government's overall responsibility for the housing market and, specifically, the market for affordable housing, it will be important to involve other sectors of the economy in affordable-housing programs, to encourage cooperation between sectors and to delegate authority to local governments.

4.3.1 Advancement of affordable housing at the national level by the central government

The state should establish **clear goals** for affordable housing. These goals should be anchored in different mechanisms as described in previous recommendations, in legislation and in other arrangements that require that affordable housing be incorporated into all developments, define target populations, set eligibility criteria and develop arrangements to advance housing solutions that meet the needs of populations with different levels of income. The central government should also develop incentives to further the advancement of the stated goals, including direct and indirect financing of affordable housing. (For a detailed description of such mechanisms, please see Chapter 6 of this document.)

4.3.2 Establishment of an affordable-housing task force within the Ministry of Construction and Housing

In order to further the issue of affordable housing and mechanisms for the implementation thereof, as mentioned in Section 4.3.1 above, we recommend that one of the goals of the Ministry of Construction and Housing, within the framework of the goal of providing suitable housing solutions for the majority of citizens who are unable to find such housing on their own which the Ministry has set for itself⁹⁵, be the advancement of affordable housing, as defined in this document. To that end, we recommend that a task force be established within the Ministry to act in this area and that that task force be granted the authority necessary to advance this issue.⁹⁶

4.3.3 Development of infrastructure for the advancement of affordable housing at the local-government level

⁹⁵ See footnote 91 above.

⁹⁶ Alternatively, in light of the fact that this issue also involves the extensive involvement of other governmental bodies, such as the Finance Ministry, the Planning Commission of the Ministry of the Interior, the Tax Authority, etc., there is room to consider the establishment of a designated agency for affordable housing.

The state should transfer defined authority and responsibility to local governments, to allow them to advance affordable housing within the areas of their jurisdiction and should also supply the resources and incentives necessary for such activity.

We recommend that the central government take the following steps:

- It should give local authorities the authority to choose from among a set of criteria established by the central government for determining eligibility for affordable housing. Local authorities should choose those criteria that are most appropriate for furthering local policy goals or for specific projects (see Chapter 2).
- It should broaden the authority of local planning committees to grant incentives to developers in exchange for their supplying affordable housing.
- It should pass legislation that explicitly grants local planning committees the authority to cut deals with developers that require the developer to include affordable housing in planned construction projects.⁹⁷
- It should grant local authorities the authority to issue municipal debt to fund developments that include affordable housing (as described in Chapter 6).
- It should reward local authorities who advance affordable housing within their boundaries with early financing from the Israel Land Authority or the Ministry of Construction and Housing, to cover the costs associated with tasks that are the responsibility of the local authority, or grant other benefits, similar to what is done within the *Heskemey Gag* program for the marketing of land for residential construction within the boundaries of a local authority.⁹⁸

⁹⁷ Such an arrangement exists in Great Britain: Clause 106 of the Town and Country Planning Act 1990 grants planning authorities the authority to make agreements with developers as part of negotiations that take place within the process of granting a permit for the development of land for residential use. An analysis based on data published by the Department for Communities and Local Government in Great Britain for the year 2010-2011 found that more than 50% of all of the affordable housing that was built that year in England involved agreements based on Clause 106.

Planning performance and planning contributions (2014). Page 11 .

https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/295035/140320_Planning_Performance_and_Planning_Contributions_-_consultation.pdf

In Israel, the law does not permit local planning authorities to enter into such agreements and there have been conflicting rulings as to whether they may do so. For a detailed discussion of this issue, see Y. Rami, Two sides working together toward what? The legality and necessity of agreements between government authorities and developers, *Mekarkayon* 13/3, July 2014.

We recommend that legislation be enacted that grants local authorities the authority to cut deals with developers that would require those developers to include affordable housing in new construction projects. This legislation should also establish rules to ensure full transparency regarding such agreements during discussions regarding the deposit and authorization of new city building plans.

⁹⁸ See Decision DR/29 of the Housing Cabinet from 29 September 2013, entitled “*Heskimey Gag* with local authorities to improve the removal of barriers to marketing and development,” Government Decision 768 of 9 October 2013.

- It should change the definition of “public needs” in the Planning and Construction Law to include residential units designated for use as public housing or affordable housing and should also grant local planning authorities the authority to determine whether and under what conditions to allow affordable housing or public housing on land zoned for public buildings.⁹⁹

On the other side of the equation, methods and even certain sanctions should be enacted for use in cases in which a local government is unable or uninterested in advancing affordable housing. For example, a local planning committee that does not act to advance affordable housing within its jurisdiction could have the authority described above revoked. In such a case, that authority might be transferred to a national or regional committee that could force through an affordable housing plan, bypassing the local planning agency.¹⁰⁰

In light of the fact that, today, most local authorities do not possess the necessary information or ability to act in the area of affordable housing, alongside the transfer of authority, the state should develop infrastructure to allow the transfer of this authority and its actual use. This infrastructure would include databases of information relevant to making decisions regarding housing. As described in Chapter 5, to this end, a system of incentives should be created to encourage local authorities to carry out assessments of the housing needs within their boundaries and the resources necessary for such assessments should be provided. Similarly, municipal staffs should be trained to act in the area of affordable housing and municipal companies should be given tools and authority to act in this area.

⁹⁹ In many countries there is an integration of affordable housing with other land uses, such as public uses or commercial uses. In certain cases, especially when land resources are limited and there is a great deal of competition between uses, such combinations allow for optimal use of those limited resources. In Israel, planners are careful to keep public uses separate from other uses. However, Amendment 101 to the Planning and Construction is likely to mark a turning point in this area. In keeping with this amendment and the conditions detailed in the law, on publicly owned lots zoned for public use, an independent local committee would be able to add additional uses that are not strictly “public uses” and increase the area that can be built upon, in order to provide space for those additional uses [see Clause 62 (א1) א(11) of the law]. However, the amendment allows the use of space for things that are not public needs only on a relatively small scale. It is too early to determine whether this legislative change will lead to the construction of residential units above public buildings or whether such units will increase the supply of affordable housing. We recommend allowing affordable housing in areas zoned for public use on the condition that the designation of those units as affordable housing be permanent.

¹⁰⁰ See, for example, footnote 90 above regarding what has been done in Massachusetts.

4.3.4 Involving private-sector entities in the supply of affordable housing

Developers and other private businesses should be involved in the development of affordable housing. To that end, the profitability of developments that include affordable housing should be increased along with the attractiveness of these projects for institutional investors. This should be done using the tools described in Chapter 6 of this document, particularly the financial tools discussed in that chapter.

Beyond the issue of profitability, enlarging the role of private entities in the supply of affordable housing also depends on increasing information and expertise in this area. To that end, action should be taken to make such information more accessible and to create frameworks within which knowledge regarding affordable housing can be acquired and exchanged, such as conferences for developers and institutions and the construction of an Internet platform that will serve as a source of information on this topic.

4.3.5 Broadening the role of non-profit organizations in the advancement of affordable housing

The involvement of non-profit organizations in the field of affordable housing should be encouraged and supported. Grants, subsidies and loans should be provided for the establishment of such non-profit organizations and community groups active in this area. Action should be taken to implement Clause 5 of Government Decision 376 from 12 June 2013, regarding the development of tools to support non-profit organizations, government companies and municipal corporations that represent residents in clearing-and-construction projects. Action should also be taken to expand access to these tools to organizations working on affordable housing, in general.

5. How Much Affordable Housing is Needed?

The quantity of affordable housing needed in a state or particular community depends on the answers to questions that were raised in previous chapters of this document: What is affordable housing, for whom is it intended and how should it be built? The answers to these questions are linked to the goals and objectives that have been set regarding housing and, in line with those goals, needs can be defined and methods for measuring how well needs are being met can be adopted. After the necessary definitions and measurement methods have been established, in order to answer the question of how much affordable housing is needed in a state or particular community, an assessment of housing needs (**needs assessment**) should be carried out and that assessment should include an analysis of characteristics of the population and of the housing market within the relevant geographic area.¹⁰¹

The quantity of affordable-housing units needed in a particular geographic area is determined through a needs assessment that has analyzed the housing market and the characteristics of the population within that area, in order to accurately estimate the quantity of affordable-housing units needed and design effective housing policies that correspond to the needs of the target population.

It is important to clarify that a needs assessment does not define how the needs that it describes should be met. Therefore, an effective needs assessment needs to be accompanied by policies or strategic plans that detail recommended ways of meeting the housing needs documented in the assessment.

5.1 What is Measured in an Assessment of Housing Needs?

It is important to distinguish between an assessment of the total quantity of housing units needed and an assessment of the need for affordable housing, in particular. There is a natural link between the two, as a general shortage of housing units can affect prices and, as a result, the financial burden of housing costs for households. However, from a methodological point of view, this distinction is important. As stated, an assessment of the quantity of affordable-housing units requires a definition of the desired level of

¹⁰¹ For more information regarding needs assessments see Alterman, Silverman and Fialkoff, footnote 4, pp. 32-35, 109-196.

affordability or, in other words, what is considered “affordable housing.” Only after the establishment of a definition and the construction of a metric that is appropriate for this definition will it be possible to make a quantitative estimate regarding the number of affordable-housing units needed.

As discussed in previous chapters, affordability is usually measured based on the relationship between a household’s level of income and the price of housing. In many programs of the U.S. Department of Housing and Urban Development (HUD), affordable housing is defined as housing whose cost does not exceed 30% of a household’s gross income.

Sometimes, the measure of affordability is presented as part of a broad measure that includes additional components. For example, the Canada Mortgage and Housing Corporation (CMHC) has developed a national database that, in addition to the **affordability** factor discussed above, also includes measures of the **physical condition** of residential units (i.e., whether a unit needs significant repairs) and the **suitability** of units for different households (i.e., whether a unit includes an appropriate number of rooms for a household of a particular size and type). A household is defined as a household whose housing needs are not being met if it has not received a sufficient solution in terms of one or more of the factors mentioned above and if there is no local alternative to the unit in which the household is living that could meet its needs. This database allows an assessment of needs that includes an estimate of the proportion of the population that meets that definition, the characterization of that population, the monitoring of changes over time and the comparison of different regions. This information is available to the general public and is published to the Internet in a user-friendly manner.¹⁰² As stated in Chapter 3, in the U.S., a guideline has been developed that integrates housing and transportation expenses.

5.2 What Data are Needed for an Estimation of Housing Needs?

The collection of data in a methodical manner is the basis for the ability to design housing policies that will achieve their goals and is necessary if we want to be able to measure and monitor how well those goals are being met. These data can be divided into two main categories: population data and housing-market data.

¹⁰² Canada Mortgage and Housing Corporation website:
<https://www03.cmhc-schl.gc.ca/hmiportal/#Profile/1/1/Canada>

5.2.1 Population data

In most countries, data regarding the population and households are collected as part of censuses and other ongoing surveys and within the framework of collections of information such as population registries. These data include demographic data and economic data.

Demographic data — Some of these data, such as the rate of population growth, the balance of immigration and emigration, and internal migration data, can be used to estimate the overall amount of housing needed. Other data, such as data regarding the size and type of existing households, age-distribution data, dependency relationships and distributions of different ethnic groups and people working at different occupations, can be used to characterize the population in terms of its different housing needs.

Economic data and data regarding government assistance at the individual or household level — These data include data regarding salaries and other income, as well as data regarding household expenditures on housing and on transportation, as transportation expenses are partially a function of where one lives.

In addition, different countries provide government assistance to particular population groups on the basis of income tests or other criteria intended to aid population groups with special needs, such as the elderly, immigrants and students. These data allow the formation of a general picture of the housing needs of the poorest segments of the population. Sometimes, these populations are not considered as target populations for affordable housing, but rather as target populations for public housing or other forms of housing assistance, primarily direct public assistance. The collection of data regarding assistance provided to the poorest populations within a society allows the identification of groups whose needs are not being met by either the market or direct public allocations (e.g., public housing or rental assistance).

5.2.2 Housing-market data

In most developed countries, housing-market data are based on periodic census data. In most cases, a housing census is part of a general census (U.S., U.K., Canada, Spain and others). In contrast, in countries such as Denmark, Sweden and Finland, housing censuses are not conducted. In those countries, there are housing registries based on data from administrative sources that are regularly updated. These data include physical data (size of apartments, year of construction, with/without elevator, standard of

maintenance, etc.)), ownership data and data regarding housing prices. Additional sources of information are the collections of data that relate to property taxes (e.g., land taxes, purchase taxes, municipal taxes). These include data regarding the housing inventory and economic data regarding housing prices.

Housing-inventory data — These include data regarding the existing housing inventory, new units that have been added to this inventory, the mixture of units of different sizes and the physical condition of residential buildings and individual units. Additional data concern the relationship between the household and the unit, that is, the type of holding: owner-occupied, private/institutional rental or public rental; as well as how crowded the units are and how well they meet any special needs of the household.

Economic data regarding housing prices and government assistance to encourage the housing market — These data relate to the prices of housing for sale or for rent and how much mortgages cost. Additional data concern assistance mechanisms that do not relate to individual households, but rather to the housing market, such as tax benefits for developers and assistance with financing for developments that include affordable housing.

5.3. What is the Scope of the Population in Need of Affordable Housing in Israel?

Israel has not yet developed and formalized definitions to allow the identification of population groups that are suffering a housing crisis, as defined by measurable parameters. The reasonable burden of housing costs for a household has not yet been defined nor have “reasonable housing conditions.” In the absence of these definitions, the housing data collected and published by the Central Bureau of Statistics (hereafter, **CBS**), the Ministry of Construction and Housing, the Interior Ministry and the Tax Authority do not provide a sufficient basis for the development of policy tools capable of addressing the desired goals.

Similarly, the state has not authorized local authorities to develop definitions of this type and has not established clear procedures or incentives to obligate or encourage local authorities to carry out assessments of the housing needs within their boundaries. To date, the only statutory instruction in this area is the instruction within National Master Plan (TAMA) 35 mentioned in Chapter 1 of this document, which requires an evaluation of the need for affordable housing and the determination of the quantity and mixture of

types of units needed as a condition for the deposit of certain development plans.¹⁰³ As we pointed out in Chapter 1, this statement does not include a definition of “affordable housing” and is not applied in practice.

Despite the absence of any instructions or incentives at the national level, certain local authorities have conducted some work in this area. For example, the City of Tel Aviv-Yafo conducted work that has provided it with an infrastructure for the determination of criteria for eligibility for affordable-housing developments that have been advanced on city-owned land. To date, the City of Bat Yam is the only local authority to have put together a comprehensive document regarding housing policy that has been published for the public. However, this document has not yet been translated into a detailed strategic plan.¹⁰⁴

Regarding technical aspects of the scope and quality of the available data for assessing the need for affordable housing, we would like to point out a number of challenges present in the Israeli context, which affect the ability to carry out a needs assessment as described above.

5.3.1 Data regarding Israeli households

Demographic data — The demographic and social data collected by the CBS include most of the variables that need to be included in an assessment of housing needs. However, these data also lack a number of components and levels of detail. First, within the collection of data regarding demographic and social data at the city/town level that is published as part of CBS’s publications regarding local authorities, no reference is made to households, which makes it difficult to draw conclusions regarding housing needs. Second, within the survey of household income and expenditures that is published by the CBS, the geographic distinctions that are drawn are not sufficient to allow one to obtain information of a sufficient quality at the individual town/city level for most towns and cities in Israel.

We also note that the CBS’s definition of a household as “one person or a group of people who live together in one unit on a regular basis most days of the week and have a common food budget” may be problematic for the assessment of housing needs. In fact, the Interministerial Committee for the Improvement of Housing Data, led by the

¹⁰³ TAMA 35, Clause 12.1.3.

¹⁰⁴ *Housing Policy for Bat Yam – Summary Report* (2013) [Hebrew].

National Economic Council,¹⁰⁵ has pointed out that the number of households indicates an equilibrium point in the housing market as opposed to the need for housing. That is, groups of individuals may live together as a household in one apartment as a result of a housing crisis and an inability to afford an additional apartment (for example, a young couple who live with their parents). The committee reasoned that the best method for estimating housing needs should be based on a demographic analysis that is not dependent on apartment prices (such as the number of households that would choose to live in separate apartments if they could afford to do so).

Economic data and data regarding government assistance at the individual or household level — The CBS publishes the main economic data regarding the household income and expenditures and housing prices. In addition to national data, it also publishes data regarding the average salary of salaried employees and the average income of self-employed individuals in each city/town in Israel. (This data is not organized by household.) Data regarding the average amount that households spend on housing is published for the nation as a whole and for selected localities, but not for each city/town. As stated in the previous section, **the expansion of the available body of information regarding the demographic, social and economic characteristics of households is a major challenge in this area.**

As far as the data concerning government assistance are concerned, in the Israeli context, the relevant data are data from the National Insurance Institute and the Ministry of Construction and Housing. As the government advances plans that provide benefits to different population groups, the importance of monitoring this data in order to identify population groups that are falling between the cracks and whose needs are not being met will increase.

5.3.2 Data regarding the housing market in Israel

In Israel, a housing census is part of the population census (with the exception of the 2008 census) and, in its current format, does not supply information regarding the national housing inventory. Recently, the CBS has begun building a registry of

¹⁰⁵ This committee was established based on Decision DR/10 of the Ministers' Committee for Housing Issues (Housing Cabinet) of 3 June 2013, which was adopted as part of Government Decision 374(DR/10) of 12 June 2013. http://www.moch.gov.il/Gov_Decisions/Pages/GovDecision.aspx?ListID=f33e0a4b-aa35-4b12-912e-d271a6476a11&WebId=fe384cf7-21cd-49eb-8bbb-71ed64f47de0&ItemID=433
At the time of this writing, the recommendations of this interministerial committee are at the initial implementation stage and, therefore, we cannot estimate their effect on the scope and quality of the data.

apartments and buildings that will be updated annually and will provide all of the information necessary for drawing comparisons between apartments in the registry. Similar to the situation in most countries in which there are registries of residential buildings and apartments, this registry is based on data from local authorities that are collected for tax purposes. This registry is still at the developmental stage and data from this registry have not yet been published for public use.

Data regarding housing prices — The CBS's measure of housing prices is the main measure used to estimate changes in housing prices in Israel. This measure is based on the Tax Authority's central data bank, which it uses to certify data regarding land transactions. This measure is used in regressions in order to control for the effect of changes in the characteristics of housing units and provide a measure of monthly change in prices at the national level independent of changes in quality. The CBS publishes average purchase prices on a quarterly basis, broken down by region and by number of rooms.

In addition to the CBS's measure of apartment prices, there are a number of other measures. One of these is **the Government Appraiser's Index**, which measures changes in the prices of four-room apartments in major cities in Israel between consecutive months, as well as the average change across cities, in order to estimate changes in prices on a nation-wide basis. Another index is used by the State Revenue Administration. That body examines changes in prices of new apartments in the same development over consecutive months and determines the national-level change in prices based the average change in prices across different projects. The **Gazit Globe IDC Index (GGII)** is based on measurements of the prices of apartments that are traded twice within a given period. This repeat-sales methodology allows the correction of prices to reveal changes in the level of apartment prices apart from any changes in the array of apartments traded.

The intermediate report of the Interministerial Committee for the Improvement of Housing Data argued that the main index, the measure of apartment prices published by the CBS, is based on the methodology that is the most appropriate for estimating changes in the prices of housing units owned in Israel. However, the committee also recommended improving this collection of data through the use of online reporting, by

including Sellers' Law data and by including data that banks collect during the appraisals they conduct as part of the process of granting mortgages.¹⁰⁶

5.4 Recommendations

The collection of data in a methodical manner and the assessment of the need for affordable housing will serve as the basis for the development of housing policies that include affordable housing as a goal. Mechanisms should be developed for the collection of data related to the housing market on both the supply side, as regards the housing inventory and its value, and the demand side, as regards households and their housing needs.

The government has taken positive steps toward the improvement of the quality and scope of available data relevant for assessments of housing needs. First among these has been the appointment of an interministerial committee for the improvement of housing data. However, it is too early to determine whether this committee's recommendations will bear fruit in the field or remain on paper only. The national government should define clear measures of the desired level of affordability and local governments should enact policies that relate to these measures.

5.4.1 Setting measures of affordability at the national level

The state of Israel should develop a metric for evaluating the affordability of housing. It appears to us that the authorities in Israel possess sufficient data for the development of a basic measure of affordability that could serve as a first benchmark for the development of a more sophisticated measure in the future. From its early stages, this measure should relate to aspects of economic affordability (i.e., the gap between a household's income level and the price of housing), the physical condition of housing units [i.e., whether a unit meets the basic physical standards required by the household (primarily accessibility for people with special needs)] and aspects of suitability (i.e., whether the size of the apartment is appropriate for the size of the household).

Since geographical factors are particularly significant in this context, it is important to make sure that this measure of affordability can cover as many towns/cities as possible and provide information at least at the individual town/city level. The attempt to develop a measure of affordability for use at the national level is expected to raise

¹⁰⁶ National Economic Council, Prime Minister's Office, Intermediate Report of the Interministerial Committee for Improving Housing Data in Israel (January 2014) [Hebrew].

essential questions such as the level of housing expenditure that is reasonable for an Israeli household, the definition of adequate living conditions for households of different sizes and the minimal physical requirements for a residential unit. In the development of this measure, it would be wise to refer to the existing body of research regarding international efforts in this field, as well as the extant information on this topic in Israel. Similarly, based on the growing body of international knowledge of this subject, we propose that, during the course of the development of this measure, should be examined the possibility of integrating a component that accounts for the relationship between the amount of money that households spend on housing and the amount they spend on transportation, as described in Chapter 3.

5.4.2 Expanding the collection of demographic and economic information at the individual town/city level

At the first stage, the existing body of information regarding demographic, economic and social characteristics of households at the individual town/city level should be expanded, as well as the number of towns/cities for which such information is published. This should be done by expanding the CBS's surveys of household income and expenditures or in some other manner. Once a national measure of affordability has been established, it should be applied to this collection of data. At the second stage, the existing body of information should be expanded to allow the examination of smaller geographic units within a town/city, such as neighborhoods or even smaller geographic units.

5.4.3 Development of a collection of information regarding the demographic demand for housing and the housing inventory

Based on the recommendations of the interministerial committee, a better method should be developed for assessing the demand for housing as part of an analysis of demographic characteristics, as opposed to basing estimates of demand on the number of existing households. A registry of residential buildings and units should be developed to provide data regarding the characteristics of units in existence, under construction and planned in different communities. To this end, the CBS's efforts to develop such a registry should be supported and additional efforts should be made to make sure that this registry will be completed in the near future and will be able to supply the necessary information.

5.4.4 Development of a central, national collection of housing data

In light of the importance and complex nature of this issue, a central collection of housing data that incorporates data from different sources should be established. It is also important to determine what body will be responsible for its management. Among other things, this database should include data from local authorities that is based on data from the National Insurance Institute, surveys of household income and expenditures, a measure of housing prices, the registry of residential buildings and units that is currently in development and data concerning those who receive assistance from the National Insurance Institute and the Ministry of Construction and Housing. The development of such a database is critical for the establishment and use of an affordability measure.

5.4.5 Development of housing policies at the local level

The state should formalize guidance and develop a system of incentives to encourage local authorities to conduct assessments of housing needs within their boundaries. First, the state should develop instructions for the assessment of housing needs at the local level and distribute those instructions among local authorities. Second, the state should supply the necessary resources to permit each local authority to manage a basic database including data mentioned in this document and estimate housing needs within its boundaries. Third, the state should provide an incentive to local authorities to conduct an assessment of local needs. This might involve the incorporation of such an assessment into the process of authorizing independent, local planning committees that is set out in the Planning and Construction Law.

6. What Tools Can Be Used to Advance Affordable Housing?

As stated in previous chapters, affordable housing is intended for population groups with a variety of income levels and housing needs. The public, private and non-profit sectors are all involved in efforts to advance affordable housing and cooperate with one another.

One tool alone is not sufficient for the creation of affordable housing for different populations. There is a need for a set of tools that can be used to provide affordable housing that meets the needs of different populations. This set of tools includes a combination of public mechanisms and market mechanisms.

The integration of market tools with public tools leads to a situation in which tools for the advancement of affordable housing span a continuum, from pure public-policy tools based on the public initiation, financing and management of housing to market-focused policy tools based on low-level regulatory intervention in the market.

In this chapter, we will present a survey of existing tools, with a focus on those that are relevant in the Israeli context, including those that are already part of the existing set of tools used in this country and those that, we believe, have great potential for use in this country. We present the main tools below.¹⁰⁷

(A) Development of different types of residential holdings – This would include the development of a new long-term rental market, the continued support of home ownership and the development of a system of partially owned dwellings (Section 6.1).

(B) Tools to develop a long-term rental market – This would include the development of property-management companies, the granting of tax benefits to encourage investment in long-term rental housing and different financial tools (Section 6.2).

(C) Tools to increase the profitability of developments that include long-term rental housing – This would include methods of decreasing the price of land and planning tools. These tools are relevant for the development of affordable

¹⁰⁷ For more information regarding tools for affordable housing, see Alterman, Silverman and Fialkoff, as cited in footnote 4 above, pp. 47-108.

housing for rent and for purchase. However, the examples we present below focus on the rental market (Section 6.3).

Recommendations based on the presented tools are presented in Section 6.4.

6.1 Development of Different Types of Residential Holdings

The inherent variety of the target population for affordable housing, in terms of income and housing needs, requires a range of solutions involving different types of residential holdings. In Great Britain, the British National Planning Policy of 2012¹⁰⁸ defines housing mechanisms that, in addition to public housing and affordable rental housing, also include something called intermediate housing. Intermediate housing includes housing that is fully owned by its occupants and housing that is partially owned by its occupants.

This shows that affordable housing can include different types of holdings. The most common of these are listed below.

Rental housing – Affordable housing programs are often based on housing available for long-term rent at a reduced price (i.e., submarket long-term rental housing). These residential units are subject to restrictions regarding rent increases over time. As we will describe later in this chapter, the development of an institutional long-term rental market for housing available at market prices would itself help to provide housing solutions for many families that are unable to purchase a home, even if such housing did not meet the strict definition of affordable housing. This is particularly true in Israel, as such units are almost completely absent from the local market.

In many countries, rentals are the most common type of affordable housing. Today, unlike in the past, the owners of these properties are not necessarily public bodies or non-profit organizations, but may include companies or other profit-motivated bodies who have been encouraged to enter this market through the use of tax benefits, government grants and beneficial treatment during the planning process.

The main advantage of using rentals as affordable housing is the number of people who can benefit from the residential units and the government subsidies involved. This number is greater than the number of people who can benefit from subsidies for owner-occupied housing. Populations with different income levels may prefer to rent rather than own housing, temporarily or on a permanent basis. This type of

¹⁰⁸ National Planning Policy Framework (2012)
https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/6077/2116950.pdf

holding is also especially appropriate for populations with relatively low incomes who would not be able to purchase an apartment even with assistance and for populations for whom the opportunity to rent housing at a discounted price for a period of time will allow them to save money that they will eventually use to purchase a home of their own.

Owner-occupied housing – The main advantages of owner-occupied housing are the fact that such housing can allow a household to accumulate capital when housing prices are on the rise and the intergenerational savings associated with the ability of an individual to bequeath property to his children. In addition, research has shown that private owners invest more in the maintenance and improvement of their homes than renters do and that private owners have greater incentive to be concerned with the quality of the residential environment, as they want to preserve the value of the property in which they live.¹⁰⁹ The decision of whether to rent or own is closely linked with cultural and social norms. In Israel, for many years, cultural norms have encouraged households to enter the market of owner-occupied housing.

Affordable housing for purchase generally involves mechanisms that limit the sale of the unit by its eligible owners for a specified time period or the imposition of conditions that require the owners to return the benefits they received when they purchased the unit.

We note that the tools presented in this chapter are focused on the long-term rental market. Alongside these tools, there are others which are not discussed in this document and which are designed to encourage the purchase of residential units, such as mortgage subsidies. We believe that action should also be taken to develop those tools.

Shared equity ownership – Shared equity ownership is a model currently being advanced in several different countries (e.g., Great Britain, Australia and the U.S.) and which represents an intermediate model between full ownership of the unit in which one lives and rental housing. This model allows the ownership of the property to be split between an owner who lives on the property, known as the owner-occupier, and a public or private body known as the passive owner.

¹⁰⁹ Christine Whitehead, Planning policies and affordable housing: England as a successful case study? *Housing Studies*, Vol. 22, No. 1, (2007), pp. 25-44.

Plans known as shared-capital plans are one example of this model. Within the framework of these plans, the owner-occupier who lives in the unit manages and maintains the property and makes all decisions regarding when to sell the unit, how it will be used and any renovations or improvements to be made. In contrast, the passive owner is a silent partner who is only involved when the unit is put up for sale. From the start, the passive partner gives up any claim to rental payments for use of his portion of the property but, when the unit is sold, the passive partner gets back his initial investment together with a portion of any profit made as a result of any increase in the value of the property. This system allows populations with low to medium incomes who would otherwise not be able to do so to enter the market for owner-occupied housing.¹¹⁰

6.2 Tools for the Development of the Long-Term Rental Market

In this section, we will discuss tools aimed at encouraging the development of the long-term rental market, with a focus on tools to encourage the involvement of institutions in this market. We will also propose tools for the regularization of landlord-tenant relations within the private rental market (i.e., units owned by private individuals) and the institutional rental market, as such a market develops. Some of the tools discussed in this chapter are not exclusive to the long-term rental market and are also relevant for developments that include affordable housing that is not necessarily rental housing.

Internationally, the main characteristics of institutional rental markets are as follows:

- They involve the initiation of new construction that includes one or more apartment buildings in which all of the units will be rented out.
- The profitability of the development is evaluated based on the internal rate of return and the return on the invested capital. This is similar to the manner in which the profitability of other income-yielding rental properties (i.e., commercial space, offices) is evaluated.
- The development is constructed by a development company and managed by a management company with expertise in the area of managing residential rental properties.

¹¹⁰ For more information, please see the *Background Report for the Development of Government Affordable-Housing Policies Involving Models of Shared Equity Ownership*, published by Hagar: Research and Development of Housing Policy in April 2014. This Hebrew document is available at the Hagar website: <http://www.israhc.org/#!/policy/cv26>

In light of these characteristics, long-term rental residential developments can present an attractive business opportunity for institutions, as they provide an opportunity for the stable, long-term investment of funds deposited with those institutions. Since these institutions are not directly involved in real estate development, the common practice is for developers to construct the buildings and then sell the finished buildings to an institution.

This is not the only possible model. A developer with experience constructing and managing profit-yielding properties might see an institutional rental project as an attractive business opportunity from several angles.¹¹¹

In many Western countries, including Israel, the private rental market is significantly larger than the institutional rental market. What is unusual in Israel is the **almost complete absence of any institutional rental market, particularly with regard to long-term rentals.**

Similar to the situation in Israel, other countries also face the challenge of encouraging commercial entities, including developers and financial institutions, to enter the residential rental market. There are a number of issues that block such entities from entering this market (in Israel and around the world):¹¹²

- **Difference in the level of economic return: commercial rental properties are more profitable** – Under current market conditions in Israel, the economic return from residential rental units is significantly lower than the return from commercial rental space and, therefore, the profitability of investments in rental housing is also lower.
- **Proof of success** – The absence of examples of the successful implementation of long-term rental projects represents a risk for business entities. As there are more successful projects of this type, the incentive to copy those projects will grow. The absence of proven success stories in this area may also discourage

¹¹¹ The term “institutional rental” was chosen to underscore the fact that the market is organized and managed by companies and large organizations, as well as the level of involvement of institutional bodies in the market.

¹¹² For more information on this topic, see the survey comparing Israel with other countries in the context of the development of a long-term rental market, which was conducted by Mr. Gal Yeshurun within the framework of the interdisciplinary working group established under the auspices of Hagar: Research and Development of Appropriate Housing Policy at the Faculty of Law, Tel Aviv University; and the Alrov Center for Real Estate Research, Tel Aviv University. This report will be included in the final report of this group to be published in the coming months.

See also *Encouraging the Construction of Rental Property Through the Granting of Government Incentives: A Comparative Survey*. The Knesset Research and Information Center, 13 September 2006 [Hebrew]. <http://www.knesset.gov.il/mmm/data/pdf/m01574.pdf>

banks and other financial institutions from providing financing for long-term rental projects.¹¹³

- **Instruments to support the market** – In many countries, operational instruments (such as companies that manage residential rental properties) and different financial instruments (such as mechanisms to enable cooperative investment by financial institutions and companies active in the residential real estate market) are available. The investment required of the first developer to enter the long-term rental market will be very high as long as these instruments have not yet been sufficiently developed.
- **Lack of legal regularization of landlord-tenant relations** – The lack of a tested legal framework for residential rentals also increases the sense of risk felt by business entities, who are particularly concerned about the difficulty of evicting tenants who do not uphold the terms of their lease and, especially, those who do not pay the rent.

In Israel, there is a recognition of the need to develop long-term institutional rental housing. Within the framework of the report presented by the Trajtenberg Committee on 26 September 2011, the committee recommended that action be taken to develop a long-term residential rental market and to encourage institutions to invest in such a market. The Trajtenberg Committee noted that this could be an attractive area for institutional investment due to its stable and long-term nature. Since Israeli institutions are not currently investing in the long-term rental market, the committee recommended that the government act to remove barriers in the areas of land acquisition, planning processes and taxation, in order to develop new channels for investment.¹¹⁴

There are a number of ways to encourage the development of a new long-term rental market and remove the barriers listed above. These include the development of property-management companies; tax benefits; the development of financial tools for the financing of long-term rental developments such as low-income housing tax credits, real estate investment trusts and raising capital through the sale of bonds; and the regularization of landlord-tenant relations.

¹¹³ In order to reduce the degree of risk, a bank that is providing financing for a project might ask a developer to put up more than the usual amount of its own capital (e.g., funds to cover 50% of the total cost of the project instead of the 25-30% that is customary for real estate developments).

¹¹⁴ The chapter on housing in the Trajtenberg Committee Report, pp. 224-225 [Hebrew].

6.2.1 Development of property-management companies

The efficient operation of long-term rental housing developments requires the presence of property-management companies. The Israeli legislature gave its opinion in this matter in the sixth addendum of the Planning and Building Law, which was recently enacted as part of Amendment 101 to this law and which establishes that the owners of affordable-housing units are responsible for the management and proper maintenance of the communal areas of the building and that the Minister of the Interior will issue instructions regarding the management and proper maintenance of such properties and the maintenance and management fees to be paid by tenants. In addition, the tenders that have been published to date for the development of long-term rental housing have assigned responsibility for the management and maintenance of individual apartments and communal areas to the developer. These tenders require the developer to establish a relationship with a property-management company and include precise definitions of the required maintenance.

However, beyond these general instructions, no regulatory framework has been established to regularize the relationship between the tenant and the maintenance company acting as a representative of the developer. Today, in Israel, there are property-management companies that manage office buildings, including those that include long-term rental properties, and there are also property-management and maintenance companies that work with residential properties and perform tasks that would normally be the responsibility of the Building Committee. However, today in Israel, no one has any experience managing long-term residential rental properties, aside from the companies that manage public housing, which have recently been joined by municipal companies such as Ezra V'Batzran in Tel Aviv.

6.2.2 Tax benefits

Internationally, different types of tax incentives are used to encourage investment in long-term rentals. In July of 2012, the Israeli government authorized an amendment to the Income Tax Law of 2012¹¹⁵ that stated that provident funds would be exempt from paying income tax on any profit they made from rental income from residential long-term rental units. In line with this amendment, a provident fund that owns at least 100 long-term rental apartments in a single building or a number of buildings would be exempt

¹¹⁵ *Statutes 5772*, No. 2370 from 23 July 2012, p. 519 [Hebrew].

from any income tax on any rental income from long-term rental units in their possession.¹¹⁶

There are other laws regarding tax benefits for rentals that are not necessarily long-term rentals. The Law to Encourage the Construction of Rental Apartments, 2007, grants an exemption from the betterment tax¹¹⁷ and the Law for the Encouragement of Capital Investment, 1959¹¹⁸, grants different incentives to developers to encourage them to build rental housing. The Value-Added Tax Law of 1975¹¹⁹ grants an exemption from the value-added tax (VAT) due from the sale of part of a building that has been designated as a rental building.¹²⁰ Despite these incentives, as stated, there is currently almost no long-term rental housing in Israel and this area is avoided even by institutions that possess the long-term focus appropriate for owners of long-term rental property.

We would also like to note that within the framework of the tenders for long-term rental housing issued by the government to encourage private entities to enter this market and decrease the associated risks for those entities, the government has provided investors in this area with a safety net. For example, the government guarantees their loans under favorable conditions at the end of the rental period in order to protect the minimal value of the project.¹²¹

6.2.3 Development of financial tools for the financing of long-term rental projects

When a residential development that includes affordable housing is built by a for-profit entity, that entity is faced with a decreased flow of income and the profitability of the project is reduced. This makes it more difficult to secure financing for the development, as banks are disinclined to finance developments whose profitability is lower than that

¹¹⁶ In Decision DR/8 of the Housing Cabinet from 3 June 2013, which was adopted in Government Decision 372 from 12 June 2014, it was decided to amend the law such that the owner who would have benefited from the tax exemption for a period of 20 years would now benefit from the exemption regarding rental income for 5 additional years, even if he owned fewer than 100 residential units. However, the law has not yet been amended.

¹¹⁷ *Statutes 5767*, No. 2092 from 28 March 2007, p. 282, Clauses 3 and 4.

¹¹⁸ *Statutes 5719*, No. 293 from 16 August 1959, p. 234, Chapter 7(1).

¹¹⁹ *Statutes 5736*, No. 791 from 6 January 1976, p. 52, Clause 31(1κ).

¹²⁰ The intention is to exempt the income received from the sale of the apartments at the end of the rental period from VAT. According to the Value-Added Tax Law, in regular real estate transactions involving vacant land in which all of the participants are registered businesses, two types of business activities are subject to VAT. There is **transactional VAT** for the sale of the apartment by the contractor and **input VAT** on any business services provided. In the context of real estate developments, this would include construction inputs, including the purchase of construction materials; services provided to the developer by professionals such as architects and engineers; management costs and any other component subject to VAT.

¹²¹ See, for example, the tender for the construction of apartments for sale and for rent in Haifa, tender no. H/2014/36, Document C – Agreement Between the Government of Israel and the Developer, Clause 13.4 [Hebrew].

which is customary in the market (and which, therefore, carry a higher than normal level of risk). This is an especially problematic issue for developments that include units for long-term rental, as the return on the investment in such units is spread out over many years. Therefore, there is a need for tools to help bridge the financial gap that is created. In this subsection, we present a number of financial tools for increasing the efficacy of the financial infrastructure in this area.

6.2.3.1 Low-income housing tax credits

Plans for affordable housing in the U.S. that include units for long-term rental are primarily supported by a federal program of tradable tax credits. This program is managed by the tax authorities and grants real estate developers tax credits in exchange for the construction or renovation of housing for populations with middle to low incomes. The program allows developers to sell the tax credits they have been granted to commercial investors, giving them access to capital, which then allows them to decrease the amount they need to borrow from banks in order to complete the project. Selling these tax credits lowers the developers' financing costs so that these projects can yield positive economic returns even when the prices of the individual residential units are significantly lower than market prices. It is important to note that in order for tax credits to be awarded, not only must affordable housing units be constructed, but those units must also remain the property of owners with middle to low incomes for a certain period of time.¹²²

This tool has been used in the U.S. since 1986. Over the first two decades of its use, it facilitated the construction of more than 1.6 million residential units, accounting for one-sixth of the total units (in high-density developments) built in the U.S. during that period. This tool does not exist in Israel and to the best of our knowledge no extensive groundwork has been carried out to evaluate its potential use in Israel as a financial instrument for the production of affordable housing or to kick-start the market for long-term rental units at reduced prices.

6.2.3.2 Real estate investment trusts (REITs)

Real estate investment trusts, known as REITs, are corporations that hold and manage income-yielding properties such as offices, shopping centers or rental housing on behalf

¹²² Alex F. Schwartz, *Housing Policy in the United States*, 2nd edition, New York (2010).

of their shareholders.¹²³ REIT funds allow small investors such as households to invest in large income-yielding real estate developments by buying shares, while lowering the cost of the project relative to the cost of directly purchasing land and providing an opportunity to diversify risks and personal investment portfolios. In terms of the market, REIT funds allow funding from a range of sources to be used in the real estate market while decreasing the amount of money borrowed from banks.¹²⁴ REITs first appeared in American legislation in 1960 and in the U.S., as of July 2012, there were 189 active REIT funds, together valued at 560 billion dollars. Use of such funds has expanded to a number of different countries including Singapore, Australia, Hong Kong, Canada and France.¹²⁵

In Israel in August of 2005, Amendment 147 was added to the Income Tax Ordinance [New Topic]. This amendment included, among other things, a chapter concerning a fund for investment in land and the activities of REIT funds.¹²⁶ Today, there are only two REIT funds in Israel, REIT 1, Inc. and Sela Capital Real Estate, Inc.¹²⁷ Following the government's interest in advancing long-term rental developments and in line with the government decision of 27 November 2013¹²⁸, the government decided to establish a subcommittee of the Interministerial Committee for the Development of National Housing Policy to evaluate regulatory barriers to the activity of REIT funds in Israel and to the financing, establishment and operation of rental housing projects, and propose ways of breaking down those barriers. In line with the government decision mentioned above, the subcommittee was supposed to present its recommendations, mostly necessary legislative changes, to the Finance Minister no later than 60 days from the date of the government decision, that is, by 27 January 2014. At the time of this writing, the subcommittee's recommendations have not yet been presented and no legal memorandum has been published on this topic.

6.2.3.3 Using bonds to raise capital

¹²³ Ina Goldfarb, *REIT Funds in Israel: Analysis of Social Welfare Policies and Proposals for Change*. LLM thesis, Faculty of Law, Tel Aviv University (2013) [Hebrew].

¹²⁴ Income Tax and Land Tax Positions, Report of the Committee for the Evaluation and Regularization of the Activity of Real Estate Funds in Israel (2003).

¹²⁵ Ina Goldfarb, as cited in a previous footnote. The research presents figures in Euros. According to the presented data, the scope of the activity of these funds in the U.S. is 450 billion Euros.

¹²⁶ Amendment 147, *Statutes 5765*, No. 2023 from 10 August 2005, p. 766, which added Chapter 2(1) to the Income Tax Ordinance [New Topic].

¹²⁷ Ina Goldfarb, as cited in a previous footnote.

¹²⁸ Clause 4 of Government Decision No. 987 from 27 November 2013.

The fact that banks require a high level of self-financing relative to the cost of the project makes it difficult for institutional bodies and private developers to enter the long-term rental market. This causes difficulty due to the fact that income from rent payments is spread out over time. In order to overcome this obstacle, there is a need for financial instruments that allow capital to be raised from additional sources.¹²⁹

Bonds are a financial instrument commonly used to raise capital from the public. Two types of bonds are issued by public bodies: national government bonds and municipal bonds.

In Israel, national government bonds are used to raise capital to cover the costs of ongoing government activities – bonds that the government sells directly on the Israeli Stock Exchange and in international markets – and to raise foreign currency to help fund national infrastructure projects – bonds managed by the Corporation for Israel Development and known as Israel bonds. Historically, Israel bonds were sold to Jewish investors in the Diaspora but, today, these bonds are also purchased by institutional investors.¹³⁰ The advantage of government bonds over corporate bonds (i.e., bonds issued by private companies) is that the government guarantees these bonds and so they are considered a safe investment. Some bonds also carry a tax exemption on any profits they may yield.

In order to kick-start the long-term rental market, there is a need to raise capital to cover the gap between the self-financing required by the bank and the capital that the developer possesses by issuing government bonds, mainly Israel bonds, and presenting that capital to developers and institutions in the form of loans with favorable conditions.

Western nations have used bonds to raise capital needed to develop a market of privately owned long-term rental units.

6.2.4 Regularizing landlord-tenant relations

There is tension between supervision of private and institutional rental markets and the freedom of association and such supervision may negatively affect the ability of landlords to rent out residential units. However, in many Western nations, there are a variety of arrangements for landlord-tenant relationships. These arrangements are

¹²⁹ This could also be accomplished by reducing the level of self-financing required by the banks, but it is important to remember that doing so would increase the banks' level of exposure and negatively affect their ability to provide financing for such projects.

¹³⁰ Website of the Government Debt Management Unit, Ministry of Finance, last viewed 10 August 2014: <http://www.finance.gov.il/chov/hitzoni/bondsOrg.asp>

intended to regularize relationships between landlords and tenants and to protect the interests of both parties.

A central component of the regularization of the rental market concerns the supervision of rental prices. In New York City, for example, approximately half of the residential units that are rented out are subject to some sort of regulation limiting the cost of the rent or the landlord's ability to raise the rent. Other elements of supervision of the rental market concern maintenance standards to which landlords are obligated and the tenant's right to extend the lease, on the one hand, and the reasons for which a landlord can evict a tenant and tools for doing so, on the other. Regularization of the rental market involves the use of different tools, including legislation, binding rental contracts and institutions charged with the task of mediating landlord-tenant disputes.

A long-term rental market is based on long-term contractual agreements between tenants and landlords. Therefore, there is a need for legislative and regulatory solutions that are tightly linked to the private rental market, with regard to supervision of the raising of rents and the extension of rental contracts (issues for which solutions have been developed in the state's tenders for long-term rental projects), as well as the eviction of tenants who do not pay their rent (an issue on which the state has not yet stated its position in these tenders).

In Israel, the level of government involvement in the rental market is low relative to other OECD nations. Rents are not at all limited in the free market and the level of government involvement in landlord-tenant relations is minimal. On 24 March 2014, the Housing Cabinet decided¹³¹ to ask the Minister of Finance and the Minister of Justice to publish, within 60 days, a memorandum entitled the "Protected Rental Law," which would improve the existing legal framework regarding landlord-tenant relations and ensure fairness and certainty. This decision also stated that the principles of the memorandum were to be determined by a committee including representatives of different government ministries, who would evaluate, among other things, the arrangements for supervision of rent increases, the bodies responsible for such supervision, the regularization of payment requirements and instructions regarding rental contracts, the scope of the needed regulation and sanctions to be imposed on those who violate the law. However, this memorandum has not yet been distributed by the finance and justice ministers.

¹³¹ Decision DR/42, which was adopted in Government Decision 1531 from 3 April 2014.

6.3 Tools to Increase Profitability of Affordable Housing Projects

As stated, when a residential development that includes affordable housing is carried out by the private sector, the private developer is faced with a decreased stream of revenue and decreased profit from the development. The decreased profitability of such projects discourages their development. Therefore, there is a need for tools to increase the profitability of such projects in a manner that will encourage private developers to take part in such projects.

6.3.1 Lowering the cost of land for affordable-housing developments

The cost of establishing new residential units is based on five main components: the cost of the land, construction costs, tax obligations, the cost of financing and associated costs such as those for planning, marketing and management. Since the price of land accounts for a significant portion of the cost of a residential unit, national or local governments that own public land may choose intervention in the cost of the land as a simple and readily available method for influencing housing prices.

Despite the simple nature of this policy tool, experience around the world has shown that sacrificing expected income from the sale of public land is not sufficient for the production of affordable housing. To ensure that the subsidy will indeed further the desired goal, complementary mechanisms must also be employed. Since this tool is already in use in Israel, we can examine concrete steps that have been taken by the government, in order to understand their complexity.

Discounting the price of land for development in exchange for a certain percentage of the residential units in the development being set aside as affordable-housing units could be an effective way to advance the development of such units by private developers in Israel. This is particularly relevant for high-demand areas in the center of the country, in which the cost of the land accounts for approximately 50% of the cost of a new residential unit.

For many years the central goal of tenders issued by the Israel Land Authority was to maximize the profit from the sale of the land. Despite the fact that the roles of the Israel Land Authority are defined by law (law that was amended in this area in 2009) and include the allocation of land for affordable housing¹³², to date, the Mechir L'Mishtaken program is the only instance in which the price of land has been lowered in order to produce discounted housing. Within the framework of that program, land was marketed

¹³² Israel Land Authority Law, 1960, Clause 2κ(1).

at a discounted price set ahead of time and developers competed with one another based on who among them could promise residential units at the lowest final price for eligible households.¹³³

In 2013, there was a change in the state's readiness to give up income from the sale of land managed by the Israel Land Authority in order to decrease the price of housing. After the establishment of a new government following the elections for the 19th Knesset in January 2013, subsidies on the price of land were used more widely and in addition to the Mechir L'Mishtaken program and in the spirit of the recommendations of the Trajtenberg Committee, the government established an additional track: tenders for the construction of long-term rental housing.¹³⁴

The tenders were published on the authority of Decision No. 1240 of the Board of the Israel Land Authority from August 2011¹³⁵ and their Decision No. 1310 from December 2013.¹³⁶ In line with these decisions, the Israel Land Authority, in cooperation with the Ministry of Construction and Housing, has issued a tender for the development of apartment buildings in which all of the units will be rental units and a certain percentage of them will be rented at a supervised price. Criteria for eligibility to rent at the supervised price, as described in Chapter 2 of this document, have been established and include requirements that the household not own an apartment and have an income that does not exceed the seventh decile. (This was later changed to the eighth decile.)

These programs are already up and running and, within the frameworks of these programs, tenders have been issued, developers have responded and developers have won contracts for projects in Raanana and Herzliya. An analysis of these tenders revealed that the payment that the state will receive for the land involved is significantly lower than it would have received had it marketed the land without a requirement for long-term rental housing, some of which can only be rented at supervised prices.¹³⁷

¹³³ Website of the Ministry of Construction and Housing:

http://www.moch.gov.il/siyua_bedyur/mechir_lamishtaken/Pages/mechir_lamishtaken.aspx

¹³⁴ Similarly, an attempt has been made to advance an additional program called the Target Price program, which is based on limiting the maximum price of an apartment to less than 80% of the market price for apartments that cost up to 2 million shekels.

¹³⁵ See Decision 1240 of the Board of the Israel Land Authority from 10 August 2011 entitled "Allocating Land for the Construction of Rental Apartments," which was superseded by Decision 1248 of the Board of the Israel Land Authority from 30 January 2012, which was superseded by Decision 1291 of the Board of the Israel Land Authority from 21 July 2013.

¹³⁶ See Decision 1310 of the Board of the Israel Land Authority from 31 December 2013 entitled, "Special Track for the Allocation of Land for the Construction of Rental Apartments – Three Tenders."

¹³⁷ An analysis of government tenders for long-term rentals was conducted by the assessor Yoni Cherniovsky and will be published in the coming months as part of the final report of the working group – see footnote 112 above.

In the Herzliya tender, the state sacrificed 108 million shekels of potential income (and granted a rent benefit with a cumulative value of 14 million shekels). In the Raanana tender, the state sacrificed 145 million shekels of potential income (and granted a rent benefit with a cumulative value of 13 million shekels). These calculations can be seen in Appendix C.

Despite the significant amount of potential income that was sacrificed, the rents for the rent-controlled apartments marketed as part of these projects are beyond the reach of most of the households who make up the target population for affordable housing (i.e., households in the first through seventh deciles) and only households from the eighth decile and above can afford to rent these apartments.¹³⁸ These calculations are presented in Appendix C and explained in Appendix E.

So, despite the efforts and resources that the state has recently invested in supplying affordable housing through tenders for long-term rental developments, the relevant households cannot benefit from the subsidy granted by the government; they cannot afford to live in those apartments.

6.3.2 Providing planning incentives for affordable housing

6.3.2.1 Increasing building rights in exchange for the inclusion of affordable housing in building plans

A detailed plan defines how much can be built on a given lot in terms of limits on the number of stories permitted (or building height), the number of residential units permitted and the percentage of the lot that the structure can occupy. These parameters are of critical importance for the economic feasibility of a given development project. The greater the area that the structure can occupy, the greater the ability of the plan to meet a variety of public needs. In different countries, local authorities are authorized to increase building rights in exchange for the allocation of residential units for use as affordable housing, in line with legal restrictions. There are different methods for using this incentive, but a basic principle is that the rules governing the use of this incentive are set ahead of time as part of a process in which areas in which building rights could

¹³⁸ This calculation is based on the internationally accepted guideline (presented in Chapter 1) that states that housing expenses, including associated expenses such as taxes, water and electricity, should not exceed 30% of a household's gross income. Since the calculation of expenses in the long-term rental tenders included only the costs of rent and management fees, we calculated these expenses as approximately 20% of gross household income. For a detailed description of the calculations and assumptions, see the final report of the Long-Term Rental Working Group (Footnote 112 above).

be increased are identified and the scope of the incentive is defined and are not set for a particular project based on negotiations between the local authority and the developer.¹³⁹

In Israel, following Amendment 101 to the Planning and Building Law, the law allows local planning committees to increase the percentage of a lot that can be built upon by 20% in plans that include long-term rental housing and are subject to the sixth addendum to the law and also allows independent local planning committees to approve increases of 120%, 85% or 60%, depending on the number of stories in the building.¹⁴⁰

6.3.2.2 Decreasing the required amount of parking

In addition to increasing the quality of the apartments, planning requirements, mostly architectural requirements; engineering requirements and parking requirements can increase the price of apartments. In different countries, it is customary to ease some of these requirements in situations in which units are set aside for use as affordable housing, particularly parking requirements.¹⁴¹ This is based on the simple and crude assumption that populations with low to middle incomes will require fewer parking spaces. In addition, in the majority of residential construction projects in high-demand areas, developers are required to build underground parking, at an average cost of 100,000 shekels per parking spot. Therefore, reducing the number of required parking spots can significantly reduce the developer's costs.

In addition and unlike other requirements that could be eased, this tool enjoys support from planning approaches that favor the reduced use of vehicles and view a reduction in the number of required parking spots as a way of encouraging urban development based on public and unmotorized modes of transportation.

In Israel, following Amendment 101 of the Planning and Building Law, the law allows local planning committees and independent local planning committees to set parking requirements that deviate from the instructions set out in the Planning and Building Law, local master plans, or parking plans for development plans that include long-term rental housing and are subject to the sixth addendum to the law.¹⁴²

¹³⁹ Alterman, Silverman and Fialkoff, as cited in footnote 4 above, p. 82.

¹⁴⁰ Clauses 62κ(κ)(14) and 62κ(1κ)(2)(κ) of the Planning and Building Law, 1965.

¹⁴¹ Alterman, Silverman and Fialkoff, as cited in footnote 4 above, p. 57.

¹⁴² Clauses 62κ(κ)(14) and 62κ(1κ)(2)(κ) of the Planning and Building Law, 1965.

6.4 Recommendations

6.4.1 Developing a new long-term rental market and regularizing the existing private rental market

Continued efforts should be made to advance the institutional rental housing market in Israel, alongside apartment ownership — a type of holding that the Israeli government has encouraged from its inception, but is not suitable for all segments of the population. Action should also be taken to regularize landlord-tenant relations in the private rental market in Israel. In parallel with the development of a long-term rental market for the entire population, it is important to ensure that such a market provides solutions for households with low to medium incomes.

We view the development of a long-term rental market as a central step in the development of affordable-housing policy. The current government has taken positive steps to encourage the development of this market, but for those steps to lead to housing that is actually affordable, it is important to make sure that the prices of such units and the eligibility criteria will ensure that these units will be affordable for households with low to medium incomes. This requires a focus on the relationship between household income and housing expenses, as described in Chapter 1 of this document. Alongside the development of new financial tools to aid the financing of affordable-housing projects and long-term rental projects in particular (as will be described in Subsection 6.4.3), we recommend expanding activity in this area, with a focus on several issues:

- A. Granting additional incentives to encourage institutional involvement in the housing market** – We recommend the **granting of tax benefits** to encourage institutions to enter the long-term residential rental market and advance affordable housing. The granting of new tax credits should be evaluated. Such tax credits would be in addition to those currently in use and described above, which have not succeeded in bringing institutional investors into the long-term rental market in Israel. For example, we propose amending the Value Added Tax Law of 1975 so that the construction inputs for buildings of apartments for long-term rent would be subject to 0% VAT.¹⁴³ If adopted, this proposal would

¹⁴³ In a manner similar to that described in the proposed Value Added Tax Law (Amendment 45) of 2014, which passed a first reading in the Knesset on 7 July 2014 and which proposed a 0% VAT in the context of clearing-and-construction projects and TAMA 35 projects.

constitute a significant reduction in the costs for developments whose budgets would not include any VAT on construction inputs.

- B. Aiding the development of management companies for long-term rental projects** – The efficient operation of long-term residential rental projects can be carried out by property-management companies. In Israel, there are no organizations with experience in this area and there is currently no regulatory framework for relationships between renters and such property-management companies.

We recommend that the Ministry of Construction and Housing task force that will be established to advance affordable housing (as described in Subsection 4.3.2 of this document) invest in the development of property-management companies that will operate in the residential housing market. Among other things, we recommend training for organizations that might be able to function in this area, the consideration of the possibility of grants for these organizations and the development of legal regulation to govern the relations between tenants and property-management companies, as well as mechanisms for resolving disputes between them, particularly concerning the collection of rent and the eviction of tenants who do not honor their contractual obligations.

- C. Developing financial tools to fund long-term rental developments** – We have four recommendations to make in this area, as presented below.

- (1) Low income tax credits** – Affordable housing plans in the U.S. that include long-term rental housing are supported by a federal program of tradable tax credits. We recommend the evaluation of the potential use of similar tax credits in Israel. We recommend that the government lead an evaluation of the potential use of these tax credits, as part of a larger examination of issues regarding the use of these tax credits, mainly cost-benefit calculations and considerations of fair distribution.

- (2) Real estate investment trusts (REITs)** – REIT funds are corporations that hold and manage income-yielding properties such as offices, shopping centers and rental housing for shareholders. REIT funds bring a wider range of sources of funding into the real estate market while decreasing dependency on credit extended by banks.

We recommend broadening the activity of REIT funds beyond commercial property to include residential property as well. This will require the acceleration

of the work being carried out by the Subcommittee for Evaluating Regulatory Barriers to REIT Activity in Israel and monitoring of the implementation of the recommendations of that subcommittee.

(3) Using government bonds to raise capital for long-term rental projects –

Under current conditions in the Israeli market, it is difficult for developers to obtain financing for the construction of residential units that will not be sold at market price. The use of government bonds to raise capital could make it easier to finance developments that include affordable housing, from the perspective of the developer, as it would reduce the amount of self-financing required, and from the perspective of the organization providing the financing, as it would reduce that organization's risk exposure.

We recommend that this primarily involve the use of government bonds, particularly the Israel bonds marketed by the Development Corporation for Israel. These bonds are mostly sold to Jewish investors in the Diaspora and are used mainly to raise capital for national infrastructure projects.¹⁴⁴

We recommend that the Development Corporation for Israel issue bonds specifically for affordable housing and that those bonds be used to establish an affordable-housing fund. The fund would loan money to developers or institutions as complementary financing that would be considered secondary debt (in addition to the secured primary loans granted by the bank). Since, at the time of this writing, Israeli financial institutions do not possess the necessary knowledge to provide this type of financial product, we propose the establishment of a special financial mechanism to manage this fund based upon a public-private partnership. This financial mechanism will put together the loan that the developer wants by combining funds from the bank with complementary financing, will secure the bank's approval and will service the loan for the bank.

A preliminary economic analysis revealed that in order for a long-term rental project to be sufficiently profitable (in terms of the return on the invested capital) and in order to allow the inclusion of units to be made available at reduced rents, complementary financing equal to 25-35% of the cost of developing an average apartment is necessary. The rental housing tenders that have been published

¹⁴⁴ Website of the Government Debt Management Unit, Ministry of Finance, last viewed 10 July 2014: <http://www.finance.gov.il/chov/hitzoni/bondsOrg.asp>

should be subjected to detailed analyses to verify the findings of this preliminary analysis.

(4) Use of municipal bonds to fund long-term rental housing – The state of Israel should act to bridge the gap that exists between it and the majority of developed countries with regard to the use of municipal bonds to diversify the sources of funding for local authorities. We view local governments as central players in the creation of affordable housing and believe that municipal bonds can serve as an important source of financing for affordable housing in Israel, as they have in other countries.

The development of this tool in Israel is particularly important in light of the financial difficulties faced by many local authorities. Preliminary steps in this area have been taken by the Finance Ministry, the Ministry of the Interior, the Israel Securities Authority and different local authorities. We argue for the acceleration of the groundwork that is being conducted, in order to overcome existing barriers and allow local authorities to issue municipal bonds to fund, among other things, affordable housing developments, particularly long-term rental projects.

D. Regularizing landlord-tenant relations in the private rental market – As mentioned above, the level of government involvement in the Israeli rental market is low as compared to other OECD nations. The regularization of landlord-tenant relations is necessary in order to lead to a reasonable balance in landlord-tenant relations and is an important component of the development of an institutional long-term rental market.

We recommend the acceleration of the work being conducted by the committee appointed in keeping with the Housing Cabinet's decision to improve the existing legal framework for landlord-tenant relations. That group was supposed to present and publish a legal memorandum by June 2014. We argue that the law should provide oversight for rent increases, set minimal maintenance standards for apartments and clarify the rights and obligations of tenants and landlords, particularly regarding the eviction of tenants who do not honor their contractual obligations, as defined by law.¹⁴⁵

We recommend that the committee mentioned above evaluate the establishment of legal instructions that would apply to property-management companies active

¹⁴⁵ These principles are taken from a policy proposal developed by the City of Tel Aviv-Yafo.

in the long-term rental market. For example, in order to encourage such companies to enter this market, we recommend the evaluation of instructions that would allow these companies access to a more rapid and simpler process for evicting tenants who do not pay their rent, as mentioned in Clause B of Subsection 6.4.1 above.

Until such a system has been established, we recommend that the state include a uniform rental contract that provides a fair balance of power in relations between the landlord (i.e., the winner of the tender) and the tenant in the tenders that it issues. The winner of the tender would be obligated to use this contract. In Appendix D, we present a detailed description of changes that we recommend be made to a contract published by the state as part of a tender for a project in Haifa.

6.4.2 Tools to increase the profitability of developments that include affordable housing

6.4.2.1 Lowering the cost of land for affordable-housing projects

Subsidizing the price of land for the development of affordable housing is a practice used around the world and is called for in nations, such as Israel, in which a large portion of the land supply is under public control. Today, the government subsidizes the price of land in the tenders it issues for long-term rental developments and an attempt has been made to advance the Target Price program. As the Target Price program develops, it is expected to include similar subsidies of the cost of land. These steps are necessary, but insufficient and the subsidies that are granted often do not reach the target population for affordable housing.

In order to ensure that these subsidies achieve their goal and that the residential units that are constructed can be used by households with low to medium incomes, the price of land for affordable housing should be reduced to the point that this land be available at no cost. This price reduction needs to be accompanied by clear criteria for eligibility for such housing that make reference to household income, as described in Chapter 2 of this document.

We would like to note that this recommendation is less relevant for developments outside high-demand areas, for which land costs are lower. In those areas, other tools from among the set of tools discussed in this chapter should be used.

6.4.2.2 Setting conditions and incentives in planning processes

We recommend increasing the percentage of a lot that a building can occupy in exchange for the construction of affordable-housing units, as well as reducing the amount of required parking.

- A. Increasing the percentage of a lot that a building can occupy in exchange for the construction of affordable housing** – We recommend taking advantage of the possibility that currently exists in the Planning and Building Law, which allows local planning and building committees to increase the percentage of a lot that a building can occupy in order to provide an incentive for the development of affordable housing for households with low-medium incomes, and not only for long-term rentals as specified in the current law. We recommend that this be contingent on the local planning committee formalizing a policy in this area, as part of a strategic plan for housing or a general master plan, as well as its identification of areas in which the building rights of authorized plans can be increased.
- B. Decreasing the amount of required parking** – We recommend that the Planning and Building Law be amended to grant local authorities the authority to approve plans that include reduced numbers of parking spaces and allow exemptions from the obligation to construct parking spots even if the plan in question is not subject to the sixth addendum of the Planning and Building Law, on the condition that the units for which the parking requirement is waived be affordable-housing units or small units.

6.4.3 Developing models of shared equity ownership

The use of models of shared equity home ownership in Israel should be evaluated. These models encourage home ownership and do not necessarily require large-scale government subsidies. They provide a reasonable balance between public expenditures and social benefits and can provide an answer to the housing needs of additional segments of the population.

As stated in the section on shared equity-ownership models in the background document regarding the formulation of a governmental affordable-housing policy published by Hagar: Research and Development of Housing Policy in April 2014,¹⁴⁶ the implementation of these models does not require any dramatic changes in existing

¹⁴⁶ This document is available on the Hagar website: <http://www.israhc.org/#!/policy/cv26>

legislation and can be done relatively easily by using existing regulatory tools to encourage the participation of organizations from the private sector. We recommend the establishment of a steering committee to evaluate possibilities for the use of these models in Israel.

Appendix A - Legislation Proposal

This appendix is merely an initial legislation proposal intended to provide a basis for discussion, and includes the main legal provisions recommended in the policy paper: definition of the term "affordable housing," establishing prerequisites and criteria for entitlement by the Minister of Housing and Construction, and the decision that in any plan with at least 100 housing units between 20-40% of the units will be designated as affordable housing .

The comprehensive affordable housing law must include numerous additional provisions as well as serve as an indirect means to amend, abolish or update some of the existing provisions in the Planning and Building Law, the Israel Land Administration Law, the Temporary Order on the Housing Committees and the Temporary Order on the National Committee for the Planning and Building of Priority Housing Projects.

Affordable Housing Draft Law, 2014

- Definitions**
1. “Affordable housing” – housing units whose rent or purchase costs, including accompanying expenses, do not exceed a percentage, as will be determined by the Minister, of the income of the eligible household;
“Rent” - as defined by the Lease and Lending Law, 1971;
“Accompanying expenses” – “expenses on apartment and household maintenance” as defined by the Central Bureau of Statistics publication, deducting “household help” and “miscellaneous household needs”;
“Purchase expenditures” – the total of monthly expenditures that gross up the cost of the housing unit as determined by the minister;
"The Minister " – Minister of Housing and Construction;
"Planning and Building Law" – Planning and Building Law, 1965;
"The housing needs assessment document” – a document drawn up by a local authority, and approved by the minister and the local authority council, according to the provisions of Section 3;

“Eligible households” - low income households and medium income households who meet the criteria established by the minister under the provisions of Section 4;

"Central Bureau of Statistics publication” - Central Bureau of Statistics publication “Household Expenditure Survey 2011” as updated periodically;

“Local authority” - as defined in the Planning and Building Law.

**Affordable
Housing in
Housing Plans**

2. a. In this section –
 - “The local committee” – as defined by Section 18 of the Planning and Building Law;
 - “Planning institution“ and “plan” – as defined by Section 1 of the Planning and Building Law.
- b. Whereas land is allocated in a plan for housing and includes at least 100 housing units, the program will specify that 20-40% of the total housing units will be affordable housing.
- c. Despite Subsection b., a planning institution may, for reasons that are taken into record, approve a plan of at least 100 housing units even if less than 20% of its housing units constitute affordable housing, in the following cases:
 1. If it was convinced, after being presented with a housing needs assessment document, that the community in which the plan is located has a sufficient reserve of housing units that constitute affordable housing;
 2. In a plan that applies to an area declared as an urban renewal project as defined by Section 33a of the Planning and Building Law, if it was convinced that establishing a rate of housing units that constitute affordable housing according to Subsection b. would make the plan economically unfeasible.

- d. A plan that establishes a land designation for affordable housing or such use of land that was designated for housing shall establish the minimum valid period for such use as long as the period is no less than 30 years from the day a certificate of completion is issued for the construction of the housing units that constitute affordable housing.
- e. The local committee will be permitted to issue building permits that digress from the provisions of the plan set forth in Subsection b., as long as the permit applicant undertook to transfer to an affordable housing fund set up for this purpose the difference between the estimated value of the total housing units in the plan at market price and the estimated value of the housing units in the plan that were supposed to constitute affordable housing.

Housing Needs3.
Assssment

- a. The local authority council may approve a document submitted to it by the local authority including an assessment of the housing needs in its area or part thereof, as long as it meets the following:
 1. The document includes data on the existing and planned housing reserves including the mix of housing unit sizes, forms of possession and prices;
 2. The document includes data about the population composition and the characteristics of the households in the community including their income;
 3. The document includes an assessment of the existing number of housing units that constitute affordable housing and the number of required housing units in its area, considering the existing and predicted population.
 4. The document was made public including on the local authority's website.

- b. Whereas such a permit was issued per Subsection a., the document shall be transferred to the minister; within 30 days of transferring the document to the minister if he has not given notice of his objection, the document will be considered to have been approved by him.
- c. The validity of the permits in Subsections a. and b. will be 10 years.

Determining 4
Eligible
Households

- a. The minister will determine in regulations, in consultation with the Minister of Justice, prerequisites as well as a basket of criteria at the discretion of the local authority, entitling those who meet them to a certificate of eligibility for affordable housing.
- b. A housing unit that is designated as an affordable housing unit, may be occupied only by a person who received a certificate of eligibility for affordable housing.

Appendix B - Eligibility criteria for affordable housing

In order to adequately allocate affordable housing to the target population defined in this document, the central government must establish equitable standards for the allocation of housing units that qualify as affordable housing.

We recommend a combined model with a limited number of fixed criteria as prerequisites for living in an affordable housing unit, to be set forth by the Minister of Housing and Construction in regulations. The regulations should also provide a "basket of criteria," from which the local authority may choose those that meet its social and community needs. The prerequisites might also be anchored in law, whereas the "basket of criteria" might be anchored in regulations, to provide greater flexibility. At this point we propose a version of regulations including both kinds of criteria and the appropriate legislative tool can be left for future discussion.

This appendix presents our proposal for criteria that can be set by the Minister of Housing and Construction. It is an initial proposal offered as a basis for discussion and consists of the main provisions we suggest be included in the regulations. The regulations ought to include additional provisions including those relating to the procedure of submitting and reviewing applications.

Affordable Housing Regulations (Determining Eligible Households) – 2014

By virtue of my power under Section 4 of the Affordable Housing Law 2014 (henceforth: the law), and after consulting the Minister of Justice, I set forth the following regulations:

- Definitions**
3. "Application" – an application for a certificate of eligibility or a local certificate of eligibility;
"Equity" – real estate assets, vehicles, financial assets and deposits;
"Non-homeowner" – an individual aged 21 or up or a household which, in the five years before submitting the application did not own, separately or jointly with another person, any rights to a housing unit or part of a housing unit or a housing unit under construction;
"Applicant" – an individual or household who submitted an application;

"Realized earning capacity" – according to the rules specified in Government Resolution 547 from July 14, 2013 as to the criteria for eligibility for discounted housing;¹⁴⁷

"Certificate of eligibility" – a document issued by the Ministry of Housing and Construction confirming eligibility to reside in a housing unit that qualifies as affordable housing;

"Local certificate of eligibility" – a document issued by the local authority confirming eligibility to reside in a housing unit that qualifies as affordable housing and is located within the boundaries of the local authority;

Prerequisites for receiving a certificate of eligibility

4. (a) The applicant wishing to live in an affordable housing unit must present a certificate of eligibility.
- (b) To receive a certificate of eligibility, the applicant must meet the following prerequisites:
 - (1) The applicant's monthly income does not exceed the corresponding income for the seventh income decile, according to the size of household, as specified in the addendum;
 - (2) The applicant is a non-homeowner;
 - (3) The applicant's total equity does not exceed NIS 300,000 per household or NIS 150,000 per individual.

Basket of conditions to receive a local certificate of eligibility

3. (a) Without derogating from the aforesaid in Regulation 2, a local authority may decide, with regard to no more than 50% of the housing units that constitute affordable housing in its boundaries, that applicants wishing to reside in them must also present a local certificate of eligibility.

¹⁴⁷The referral to the government resolution is for convenience. The regulations will have to include explicit definitions without referral to the government resolution.

- (b) Whereas the local authority did decide as aforesaid in Subsection a, it shall determine which of the following conditions, some or all, the applicant must meet in order to receive a local certificate of eligibility, provided that it explains in writing for each condition why it is necessary to achieve its goals and objectives:
- (1) The applicant meets the requirement to realize his earning capacity;
 - (2) The age of a single applicant, or the ages of the adults in the household, are above a certain age or below a certain age;
 - (3) The applicant is a household with children;
 - (4) For a single applicant, or an applicant which is a household, at least one of the adults therein lived within the local authority for five consecutive years prior to submitting the application;
 - (5) For a single applicant, or an applicant which is a household, at least one of the adults therein has a valid immigrant certificate;
 - (6) For a single applicant, or an applicant which is a household, at least one of the adults therein is employed in a profession required within the local authority;
 - (7) For a single applicant, or an applicant which is a household, at least one of the adults therein is a person with a disability who requires adjustment of the housing unit to his needs;
 - (8) Any other condition the local authority wishes to establish as long as it was approved by the Minister.

- (c) (1) Despite the aforesaid in Regulation 2(b)1, a local authority may establish as a condition for receiving a local certificate of eligibility that the applicant's monthly income does not exceed the corresponding income for the fifth income decile, according to the size of household, as specified in the addendum.
- (2) Despite the aforesaid in Subsection (a), a decision as aforesaid in Section 1 may apply to more than 50% of the housing units that constitute affordable housing within the local authority.

- Addendum update** 5. The sums specified in the addendum are to be updated on January 1 every year according to the Household Expenditure Survey published by the Central Bureau of Statistics.

Addendum
Regulations 2 and 5

Income deciles	1	2	3	4	5	6	7	8	9
Gross monthly income per individual	2,285	2,794	3,208	4,068	5,119	5,916	7,319	9,050	11,946
Gross monthly income per couple	3,656	4,470	5,133	6,509	8,190	9,466	11,711	14,481	19,114
Gross monthly income for household of 3	4,844	5,923	6,802	8,624	10,852	12,543	15,517	19,187	25,326
Gross monthly income for household of 4	5,849	7,153	8,213	10,414	13,105	15,146	18,738	23,169	30,583

Appendix C - Analysis of long-term rental tenders

As part of the government's efforts to develop a long-term rental market, it agreed to forgo significant potential revenues from selling land through long-term rental tenders, by not setting a minimum price for the land. However, as noted in the body of the document, the rental prices for the controlled housing units put up for sale in the project are still too high for most of the relevant target audiences for affordable housing.

This appendix includes two tables:

The first table presents the forfeit of state revenues compared to the savings for the households that rent the apartments in two long-term rental tenders successfully marketed in Ra'anana (December 2012) and Herzliya (May 2014).

The second table presents the incompatibility between the controlled rent in the aforesaid tenders and the desired level of rent for the households that constitute the target audience for affordable housing.

The forfeit of state revenues versus household savings

City	Herzliya	Ra'anana
Number of housing units in project	215	238
Of which are rent-controlled housing units	54	60
Accepted land value per housing unit	850,000	700,000
Land value at market price	182,750,000	166,600,000
Land value – winning tender	75,000,000	21,000,000
Forfeit of state revenue	107,750,000	145,600,000
Rent at market price	5,428	4,500
Controlled rent (80%)	4,342	3,600
Monthly saving per family	1,086	900
Total saving per household of controlled rent for 20 years	14,069,376	12,960,000

(All prices are in NIS)

Controlled rent in teders and AHC recommended affordable rent¹⁴⁸

Income level	Gross monthly household income	AHC recommended affordable rent (NIS)	Controlled rent Herzliya (NIS)	Controlled rent Ra'anana (NIS)
Low	From 5,530 to 8,293	From 1,278 to 1,916	4,342	3,600
Medium	From 8,294 to 13,821	From 1,916 to 3,192	4,342	3,600

(All prices are in NIS)

¹⁴⁸ The explanations to the income levels and how the AHC recommended affordable rent were calculated are presented in Appendix E.

Appendix D - Proposals to Improve Rental Contract

This appendix details our proposals to improve the rental contract published as Appendix G in of the ILA's invitation to submit proposals in the tender to build residential housing for sale and rental in Haifa (tender number 36/2014) in February 2014 ("the rental contract"). These recommendations do not substitute legislating regulating the landlord-tenant relationship, and specifically do not obviate the need to legislate means of evicting a tenant who fundamentally breached the contract.

We believe that a long-term rental contract in a project including affordable housing must adequately balance the rights of the tenant residing in the housing unit with the rights of the landlord – to reduce the risk estimate of businesses who wish to enter the field. In general, the rental contract attached to the aforesaid tender balances these interests but we suggest improving it on a number of points.

1. Adding a summary of the contract main provisions

We think it would be appropriate to add to the beginning of an affordable housing rental contract a summary detailing in clear and simple language the main provisions of the contract including the rental period, the rent and the conditions for evicting the premise, because rental contracts include numerous sections which could be difficult for tenants who are not proficient in reading contracts to understand.

2. The rental period – Section 5 of the rental contract

According to Section 5 of Appendix A of the rental contract, the rental period for eligible renters (for rent control) will be 3 years. Provided they meet the provisions specified in Section 5.3 of the contract, including a valid certificate of eligibility for non-homeowners, the rental contract may be extended for another rental period of 3 years, followed by an additional period of 4 years.

Furthermore, according to Section 5.6 of the rental contract, the tenant undertakes to inform the renter immediately if he loses his eligibility as a non-homeowner, further to which the rental period will terminate at the end of the following rental year.

We believe it would be appropriate to allow an eligible tenant who loses his eligibility to continue living in the housing unit even after losing his eligibility, for the rental period and the additional periods (a total of 10 years). However, for the period from the day of loss of eligibility the rent should be at market price and not at the price of an affordable housing unit, or in the event that the income of an eligible individual rises yet he is still eligible, rent should be adjusted to his current income. It is our opinion that this provision will provide tenants with stability so that they need not fear being evicted from the housing unit in case of a change in their circumstances. Meanwhile, provisions can be made to convert a different housing unit in the same complex to a housing unit that constitutes affordable housing.

Furthermore, according to Section 5.5 of the rental contract, the tenant is given the right to terminate the contract only at the end of each rental year. We believe this provision is detrimental to tenants who wish to terminate their contracts mid-way, and also prevents other eligible individuals waiting for housing units from using the premise. Therefore we propose the tenant be allowed to terminate the contract by giving 30 days notice before the date he wishes to terminate it.

3. Maintenance services – Section 7 of the rental contract

According to Section 7 of the rental contract, the renter shall provide maintenance services as specified in the maintenance specifications attached as Appendix K of the rental contract. This appendix is a blank appendix the renter must fill out.

We think it is appropriate for basic maintenance services to be included a priori in the maintenance specifications attached to the rental contract and the renter may add to them additional services. Among other things, the renter should be responsible for the following:

- a. Cleanliness of common areas;
- b. Safety of facilities in common areas;
- c. Lighting in common areas;
- d. Extermination services;
- e. Maintenance of common grounds.

4. Payments to institutions – Section 11 of the rental contract

According to Section 11 of the rental contract the tenant undertakes to pay bills to institutions no later than their last day of payment without interest. Bills to institutions are broadly defined as including municipal taxes, electricity, water, sewage, gas, communications, cable etc.

We believe that unless the landlord undertook to provide the service, the payment should be arranged between the tenant and the service provider. Therefore, a delay in the aforesaid payments must not constitute a breach of the rental contract between the tenant and the landlord.

5. Determining fundamental breaches – Section 12 of the rental contract

According to Section 12 of the rental contract, the landlord may only cash the security deposit given to him by the tenant in case of a fundamental breach of the rental contract.

We think cases that constitute material breaches in which the landlord may annul the contract must be set forth. We propose a fundamental breach shall be one of the following:

- a) Causing deliberate damage to the housing unit or common areas;
- b) Nonpayment of rent;
- c) Committing criminal activity on the premise that threatens other tenants therein;

6. Transfer of rights – Section 13 of the rental contract

According to Section 13 of the rental contract, in no case may the tenant sublet the premise to a third party.

Since there might be exceptional circumstances (long hospitalization, necessary trip abroad) in which the tenant must leave the housing unit for some time, we believe he should be allowed to sublet the premise for a limited time in exceptional cases and subject to the renter's agreement.

7. Maintenance of the premise - Section 14 and Appendix B of the rental contract

Section 14.1 of the rental contract imposes duties on the tenant to exercise reasonable caution in relation to the premise and maintain it clean and in good repair. Appendix B specifies additional duties concerning the tenant's behavior on the project grounds.

We believe that to the tenant's duties enumerated in Appendix B should be added the duty to maintain the cleanliness of the common areas of the building and not throw garbage therein, and a prohibition against damaging or vandalizing any facility in the housing unit or the common areas.

8. Amending bylaws – Appendix B of the rental contract

According to Section 22 of Appendix B of the rental contract, the renter or maintenance company on his behalf may change the provisions of the project bylaws unilaterally while informing the tenants.

We believe it appropriate to provide that such a change may only be immaterial and non-detrimental to the tenants.

Appendix E - Rental Prices for Affordable Housing

In this appendix we present the housing prices that meet the definition of affordable housing as appears in the body of the document. The figures presented here do not seek to establish absolute numbers but only to illustrate with quantitative figures the meaning of our recommendation to link housing prices to the income of the affordable housing target populations.

The income data is based on the Central Bureau of Statistics' Income Survey 2011, which was the most recent available data at the time of writing this paper.

Income level	Percentage of median income	Income deciles	Gross monthly household income (NIS)	Total rental costs in affordable housing (NIS)	Rent ¹⁴⁹ excluding maintenance and other expenses (NIS)
Extremely low	Up to 30%	Up to 80% of the first decile	Up to 3,317	Up to 995	Up to 766
Very low	30%-50%	From 80% of the first decile to the end of the second decile	From 3,318 to 5,529	From 996 to 1,659	From 767 to 1,277
Low	50%-75%	From the third to decile to 59% of the fourth decile	From 5,530 to 8,293	From 1,660 to 2,488	From 1,278 to 1,916
Medium	75%-125%	From 59% of the fourth decile to 25% of the seventh decile	From 8,294 to 13,821	From 2,489 to 4,146	From 1,916 to 3,192
Medium-high	125%-200%	From 25% of the seventh decile to 53% of the ninth decile	From 13,822 to 22,114	From 4,147 to 6,634	From 3,193 to 5,108
High	Above 200%	From 52% of the ninth decile to the end of the tenth decile	Above 22,115	Above 6,635	Above 5,109

As it says in the body of the document, the target audiences of affordable housing are low to medium income households from the third to seventh income deciles. The addition to the regulations proposed in Appendix B specifies the income of the aforesaid households. Rental prices will have to be determined so that housing expenses for renters (the price of rent plus

¹⁴⁹According to the Central Bureau of Statistics' Household Expenditure Survey 2011, expenses for housing maintenance (the house and household maintenance items minus the subsections "household help" and "miscellaneous household expenses") constitute between 8.6 and 7.9 of total household consumption. Out of total housing expenses (rent plus maintenance), the rent component constitutes 77% of total expenses whereas maintenance and miscellaneous expenses constitute 23%.

household maintenance expenses) do not exceed 30% of the gross monthly income of these households.

The table above shows prices that can be considered affordable housing according to the household's income level. The prices are derived from the income level of a median household in Israel, which in 2011 was NIS 11,057 (gross), for 3.4 persons (the average number of persons per household in the fifth decile). These prices illustrate the total cost of rent in affordable housing for a two bedrooms apartment according to the rent that can be collected and still be considered affordable housing.

Appendix F - Survey of Affordable Housing Projects in Israel (update)

In 2013 Paz Economy and Engineering Ltd. conducted an initial survey of affordable housing projects in Israel, funded by the Myers and Revson Foundations. This appendix presents the current status of the reviewed projects and several comments as to the growth potential of the affordable housing market in Israel.

Background

The Myers Foundation and the Revson Foundation are philanthropic foundations that have been working for decades to address social needs throughout the Jewish world including Israel. In recent years (in response to the housing crisis in Israel) the foundations have begun developing solutions to the need for affordable housing in Israel.

In 2013, under the foundations' guidance, a study was done of the current status of efforts to promote affordable housing in Israel (henceforth: "the survey"). Paz Economy and Engineering Ltd., headed by CEO Daniela Paz Erez, conducted the survey along with the Myers Foundation. The survey was conducted by planner Atalia Reznik from Paz Economy & Engineering & Amara Ingber on behalf of the Myers Foundation.

The data was collected through a series of meetings with local authorities, civil society organizations, entrepreneurs and other stakeholders. The data yielded a survey of 10 active projects to promote affordable housing in Israel and a description of six models to create affordable housing, most of which were in the early conception stage.

The survey produced a number of insights that indicate the considerable potential to develop an affordable housing market in Israel:

- The increase in activity over time: in 2008-2011 the first local initiatives (by local authorities and citizens) to develop affordable housing appeared. After the 2011 social protest, the central government became more interested in affordable housing, reflected by a series of decisions and laws about affordable housing passed by the government, the housing cabinet and the Israel Land Authority.

- The appearance of unique stakeholders: efforts to promote affordable housing go beyond players in the real estate market to include stakeholders who represent social and public interests, including grassroots initiatives, academics and nonprofits concerned with social, legal and planning issues.

The current state of affairs

The projects reviewed reflect the state of affairs as of the end of 2013. What distinguishes the survey is that it was the first attempt to chart out initiatives to provide adequate housing solutions for populations that cannot obtain housing at market prices in the project locations. Even though some of the projects do not offer affordable housing as it is presently defined by the Planning and Building Law, or by the definition suggested in the body of this document, their activity in itself indicates the high demand for affordable housing that is going unmet.

The survey states that the purpose of presenting the data is to provide the relevant stakeholders with access to the data collected and create a common learning base for all of the parties active in the field. Accordingly, following is a table with a status update of the projects presented in the survey. We should note that one of the goals of the Hagar Center for 2015 is to create a national database to provide current information and facilitate the monitoring of affordable housing projects.

The projects appear in the table in the same order they appear in the survey.

	City	Project	2013 survey status	October 2014 status
1	Bat Yam	Migdal Hayam	Urban Building Scheme (UBS) for a residential tower to be built as part of a purchase group organized by the municipality, in which discount apartments will be offered to city residents	UBS BY4/450 of which the project is a part was approved at July 2014. All of the discounted apartments were sold. Construction has not yet begun. Regardless of the discounted apartments, the UBS provided that 20% of the apartments in the entire complex would be small apartments of up to 80 m ² .
2	Haifa	Kiryat Eliezer	A grassroots gentrification initiative without municipality support	The municipality does not support the initiative and it is currently inactive. However, the municipality announced at the end of 2013 that it is promoting an urban renewal outline plan for Kiryat Eliezer and Kiryat Eliahu number HP2370/

	City	Project	2013 survey status	October 2014 status
3	Haifa	Bat Galim	Initial conception of a project including the renovation of existing apartment blocks, transferring building rights based on NOP (National Outline Plan) 38 to available land in the neighborhood and building a housing complex on the available land	No progress has occurred
4	Herzliya	Nachalat Ada	A UBS providing for the construction of 235 housing units, a contract with a private contractor providing 30% of the apartments will be offered for subsidized rental	UBS HER 2172/ was prepared. The scheme was approved in principle by the local committee and its conditions are currently being completed. The scheme has not been presented to the district committee yet. The contract with the future private contractor is not specified in the UBS and no formal procedure has been decided yet.
5	Tirat Hacarmel	The Ben Zvi neighborhood	A citizens' initiative to build a new building including affordable housing as well as gentrification	The project lacked both economic and planning feasibility. Due to the lack of cooperation by the central government activity to promote the project stopped
6	Rishon Lezion	Migdal Harishonim	Allocating 40 of 104 housing units in a residential tower in the Nachlat Yehuda neighborhood at a lower than market price as part of a purchase group	The USB has been approved, the procedure of building permit is on its way. All submarket units were allocated in a raffle to local residents based on criteria set by the municipality
7	Tel Aviv	Migdal Hatzeirim	Allocating 48 housing units at reduced rent according to criteria determined by the municipality	According to Tel Aviv Municipality publications, the tower contractors will allocate 48 housing units of at least 62 m ² per housing unit to affordable housing for 10 years. Rent will be limited to 25% of average income of a household in the seventh decile (according to criteria for affordable housing determined by the city council). The agreement also set a limit for management fees at NIS 350.
8	Tel Aviv	Habesht	A gentrification project using NOP 38 rights and including affordable housing for rental as part of the project	The Tel Aviv Municipality agrees in principle to increase building rights to make it economically feasible to include long-term rental housing in the project.

	City	Project	2013 survey status	October 2014 status
9	Tel Aviv	Ganei Shapira	Allocating 45 out of 70 housing units for rental according to criteria determined by the Tel Aviv Municipality.	All of the housing units were allocated for affordable rental according to criteria determined by the Tel Aviv Municipality. Construction has been completed and the project is populated.
10	Tel Aviv	Aliya Market	Allocating 70 out of 147 housing units for 10-year rental according to criteria determined by the Tel Aviv Municipality.	In February 2014 UBS TA 3844/ was approved, providing that residential buildings will include 70 housing units for rental according to the policy and criteria determined by the Tel Aviv-Yaffo Municipality. The main area of each housing unit will be 80 m ² (92 m ² including a safe room).

Conclusion

The projects reviewed in the survey can be divided into three groups, with overlap between their geographical distribution and the success of the project as an affordable housing project:

- Projects in Tel Aviv: Due to the high cost of housing in Tel Aviv, the city took the initiative both to establish independent criteria for affordable housing and to build affordable housing projects on city-owned land as well as including affordable housing in projects at different planning stages.
- Projects in Gush Dan (Rishon Lezion, Herzliya, Bat Yam): New building projects on available land, where the city led an ad hoc initiative to include reduced cost apartments for sale or for reduced rent for a number of years, without having a comprehensive city policy on this issue.
- Projects in Haifa and surroundings: Initiatives by citizens/social activists, seeking to promote projects including discounted housing, but unsuccessfully due to the lack of economic feasibility and lack of support from the city and national planning bodies.

A review of the projects indicates that except for the projects in Tel Aviv, the initiatives resulted from local housing shortages or opportunities, but were not part of an overall city housing policy (including an affordable housing policy).

There are a number of mechanisms and instruments necessary for the development of an affordable housing market (as noted in the body of this document) which go conspicuously unaddressed in the projects presented in this survey:

- Definition of target audiences – in most of the projects outside of Tel Aviv no target audience was defined according to measurable social economic quantitative parameters and no economic criteria were set such as household income. In the absence of determining economic criteria, the rent is calculated as a discount from market price so that the project does give sufficient attention to the households' payment capacity according to their income.
- Needs assessment – except for some of the projects in Tel Aviv, the number and mix of housing units defined as affordable housing was not determined on the basis of an assessment of the extent and type of demand for affordable housing but was derived from an existing urban building scheme.
- The ownership model – most of the projects presented offer a model of long-term rental. Models of full or partial ownership were hardly examined.
- State involvement – most of the projects were planned on municipal or private land. The state is currently promoting long-term rental projects through tenders (Ra'anana, Herzliya, Ramat Hasharon, Haifa) as well as through legislation (allocating discounted housing in the National Committee for the Planning and Building of Priority Housing Projects Law).

Some of the projects reviewed above have already begun but others failed – whether because they did not provide real solutions to the need for affordable housing or due to a lack of economic or planning feasibility.

We believe that the judicious use of the mechanisms and instruments offered in the body of this document, including those stated above, could facilitate the future maturation of some of the projects reviewed in the survey.