Government policies and initiatives aimed at reducing housing prices, increasing construction volumes and developing the housing construction sector
Welcome Address

Upon the formation of the current government, the Ministry of Construction and Housing is determined to resolve the housing crisis in Israel by fully concentrating its efforts on central challenges in the housing sector. The complexity of the challenge has led us to promote solutions derived essentially from different sectors, which are interrelated: promotion of new construction, support and improvement of the public housing sector, strengthening peripheral communities, promotion of urban renewal processes, improvement of bureaucratic procedures and industrialization of the construction industry.

One of the main areas of economic activity in the State of Israel is the construction industry, whose importance is reflected in its significant scope, investments and accumulated capital. The industrialization and productivity levels in this area are relatively low compared to other sectors of the Israeli economy and worldwide. As a growing state, with one of the highest rates of population growth in the developed world, increasing housing construction capacity is of crucial importance, both as an answer to an immediate need for new homes as well as a contributing factor to the growth of the Israeli economy.

The key factor for resolving the housing crisis is a conceptual change in the planning process, the land development and the construction methods. A fundamental change is required, which, at the end of the process, will enable the entire population of the State of Israel to obtain appropriate housing solutions within a reasonable time and at reasonable prices.

The “Design and Build” plan, initiated by the Ministry of Construction and Housing, will enable large scale development of entire residential neighborhoods, by establishing partnerships with foreign constructions firms, which, inter alia, will be responsible for providing the manpower and innovative construction techniques.

This course of action, alongside the training of local workers, introduction of new construction methods and making the planning system more efficient, is expected to shorten the construction period and to lower building costs.

MK Yoav Gallant
Minister of Construction and Housing
Israel Key Figures

Population size
8,464,000
Annual growth rate
2.0%

Number of households
2,364,000
Annual growth
50,000

Gross Domestic Product
1,150.5 (Billion NIS)
Annual growth rate
2.5%

Of which 5.5% within the construction sector

2015 Figures.
Source: Central Bureau of Statistics, Bank of Israel
<table>
<thead>
<tr>
<th>Unemployment rate</th>
<th>5.3%</th>
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<tbody>
<tr>
<td>Inflation rate</td>
<td>-1.0%</td>
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<tr>
<td>Bank of Israel Interest Rate</td>
<td>0.1%</td>
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Number of employees working in the construction industry

- 241,200
- 181,200
  Of which are local employees

Construction starts (total area)

- 11,648,000 sqm
- 9,006,000 sqm
  of which are residential

Housing starts

- 48,500 units

Housing completions

- 43,500 units
Israel is a technologically advanced open economy, with exports that account for nearly one third of GDP. The local market is characterized by rapid growth of GDP compared to other developed economies, low level of unemployment, which has been decreasing for numerous years now and rising real wages. In recent years, the growth of the economy was driven by increase of private consumption along with increased demand for investments – especially in residential construction. The low rate of interest alongside the shortage that has arisen over the years in residential apartments has led to an increase in investments in this sector.

In terms of fiscal policy, the deficit in the State’s budget amounted to 2.4% of GDP in 2015. As a result, the ratio of public debt to GDP has declined to 65%. This is a relatively low level of debt, compared to the average in developed countries, close to Israel’s long-term goal of 60%.
Israel’s fiscal strength is reflected, inter alia, in its ability and willingness to promote projects in the infrastructure and residential housing sectors, which creates investment opportunities and attracts local and foreign developers.

The State of Israel is characterized by a young population with an annual growth rate of 2%, which is significantly higher than the population growth rate in the European Union and the United States. At present, there are 2.4 million households. This number grows by 50 thousands each year, as new households that require housing solutions are formed. Nonetheless, between 2001 and 2009, the building starts in Israel were considerably lower than the housing needs. In fact, for nearly a decade the average number of annual building starts was 32.5 thousands, which according to estimates has contributed to an accumulated deficit of over 100,000 apartments.

In recent years, housing prices in Israel have risen sharply. The upsurge in prices has occurred due to the rise in housing demand, against the backdrop of plunging interest rates after the global crisis of 2008. The increase in demand for apartments combined with rigid supply has had a continuing effect on price escalation. Thus, as of the end of 2008 until the end of 2015, the housing prices rose by more than 75% in real terms. In comparison, rental prices increased during this period by a lower rate: roughly 23%.

The amount of mortgage debt outstanding has reached over NIS 300 billion in 2015. However, the leverage of households in Israel is relatively low, as one can see in the following diagram. The regulation in the field of consumer credit, and especially credit for housing, endeavors to limit the general risk level.
In light of the above, the Israeli Government has set a goal of increasing housing supply by means of reducing the existing barriers in the planning and building processes, with regard to both new construction and urban renewal. In recent years, the government has taken several measures in order to simplify and streamline the “manufacturing” process for apartments. As a result, the total number of building permits issued by the planning committees has increased significantly. In 2015 the number of housing plan approvals has reached a record high of 100,000 housing units. One can assume that the rate of planning approvals will continue to be high due to the streamlining of the planning system.

Along with the increased supply, the government is actively working through a number of additional channels, aimed at solving the housing crisis. These channels include integration of innovative construction technologies, enabling the participation of foreign companies alongside local companies in residential construction projects, and the improvement of the means of financing real estate projects via the equity market. In addition, the Israeli Government has been promoting affordable housing plans for long term rental and for first time apartment buyers.
The erection of hundreds of thousands of new housing units in the coming years together with the development of the residential construction sector in Israel, create opportunities for companies and foreign investors to step into the market in Israel and to be part of this process.

**Units Approved by District Planning Committees, 2007-2016**

*2016 Development Targets*
A Call for Proposals for Foreign Construction Companies to Perform Large Scale Residential Projects

Purpose – Expanding building activity and increasing productivity in residential construction sector, while exposing Israeli companies to advanced construction methods.
In compliance with the Government of Israel’s resolution, the Ministry of Construction and Housing published a Call for Proposals on 23.3.2016, inviting foreign construction companies, with proven experience in the residential construction sector, financial strength and experience in industrialized methods of construction, to submit requests to be included in a pool of foreign contractors who are permitted to construct residential buildings in Israel. The pool will consist of 6 foreign companies for a period of 5 years, with an option of a 3 year extension.

A foreign company that is included in the pool will be permitted to build residential buildings and manage residential construction projects in Israel as the entity in charge of all engineering and performance aspects of the project. The construction companies will be entitled to operate in Israel as performance contractors, even by subcontracting, or establishing joint ventures with Israeli firms. Each company will be entitled to bring up to 1,000 foreign workers for the purpose of employing them in professions that are defined as “Wet Works” in construction.

The admission of a construction company into the pool of foreign contractors is an opportunity to take part in building thousands of housing units in Israel.
The main threshold conditions for construction companies:

- The Offeror is a legal entity that is a limited liability company or registered partnership.
- The Offeror is incorporated outside of the State of Israel.
- The Offeror has an average annual turnover from activities in the construction and infrastructure industry amounting to at least USD 500,000,000 over the last three financial years.
- The Offeror has a net financial debt to total assets ratio that does not exceed a rate of 60% on average over the three financial years prior to the final date for submitting proposals.
- The Offeror has a stock percentage of mechanical equipment and materials for construction that exceeds 30% of the Offeror’s total assets.
- Over the last three years the Offeror has carried out and completed at least 15 different residential construction projects outside of Israel, each project covering at least 3,000 sq. meters, of which at least one project is a residential building of 15 floors or more.
- Over the last three years, the Offeror has executed at least one residential project of not less than 3,000 sqm, in a foreign country, which is subject to regulatory rules regarding residential construction which differ from those in force in the candidate’s home country, and which has a gross domestic product per capita of not less than USD 30,000.
- Over the last three years, the Offeror has employed a chief engineer, who has practical experience in residential building over the last five years, and who professionally accompanied the projects which have been presented as proof of the company’s experience.
Questions and Answers - Questions can be addressed in writing, up until May 20, 2016 at 17:00, to email cfp@moch.gov.il

Final Date for Submission - The proposals must be in the tender box of the Ministry of Construction and Housing, by no later than June 27, 2016 at 12:00 PM.

Selecting the Winner - The proposals that meet the threshold condition requirements will be ranked from highest to lowest. The six proposals that obtain the highest score will be included in the database of registered foreign contractors for the construction of residential buildings in Israel.

One may review the Call for Proposal in the following link:
http://www.moch.gov.il/English/new_construction/Pages/new_construction.aspx

Questions can be forwarded to the following e-mail address: cfp@moch.gov.il.
"Design and Build" – Large Scale Development of Residential Areas

Main Goals – Shortening construction period, and reducing costs by implementing advanced construction methods in large residential projects.
The development of residential neighborhoods in Israel is usually performed by numerous entities. Infrastructure and public facilities development are under the responsibility of the government and/or local authority. The construction of residential units is under the responsibility of land owners. The existence of numerous players involves bureaucratic and engineering complications of coordination, prolonging the planning and execution processes as well as increased costs.

The "Design and Build" program will eliminate the abovementioned bureaucratic issues by casting the responsibility for development of an entire site (of at least 1,000 housing units) on a single contractor.

This method is expected to shorten the construction process and make it more efficient; however, beyond that – the merging of the responsibilities for construction of such a huge number of housing units and the development they require, in the hands of one entity, will encourage the implementation of new and advanced construction technologies, which up until now have been utilized to a very limited extent in residential construction in Israel. The terms and conditions of the tender will require compliance with strict timetable, which will require the use of advanced technologies.
Israeli developers who meet the prerequisites will be entitled – for the purpose of executing the project – to establish a partnership with a foreign company which has been proven to be one that constructs residential buildings according to advanced methods. Proven experience in constructing large residential areas by means of progressive technology as well as work methods that can shorten and improve the efficiency of the construction processes, will be an advantage when competing in the tenders for the marketing of the sites.

The principles of the "Design and Build" agreements

The participants in the tender will compete with respect to the price of the land, which, inter alia, will include the following requirements:

- A maximum price per apartment after a reduction of NIS 200,000 from the market price including VAT.
- Execution of the required development works included in the neighborhood.
- Erection of the compulsory institutions by the developer (partially financed by the Ministry of Education’s budget).
- Setting the timetable for the completion of construction will require industrialized construction methods.
- works included in the neighborhood
- Erection of the compulsory institutions by the entrepreneur (with partial financing from the Ministry of Education’s budget)
- Setting the timetable for the completion of construction will require industrialized construction methods
Initiatives for Increasing the Housing Stock and Other Supply Side Solutions
Frame Agreements

Main Goal – Construction of new residential quarters alongside existing cities, by significantly expanding the residential area and the population. This step is expected to substantially increase the housing supply in areas of demand in Israel in the short-term, and furthermore to create a secure planning inventory for years to come. Frame agreements are executed in cooperation with government agencies and local authorities.

Frame agreements are drawn up between the Government of Israel and the local authorities that have a potential for building more than 5,000 residential units in their areas pursuant to plans that have been approved, or plans expected to be approved, within not more than 18 months of the date of signature of the agreement. The agreement provides comprehensive framework to the needs of the new neighborhood for public institutions, roads and all the necessary infrastructures.

The agreements are based on the principle that the expected revenues from the marketing of the land will cover the costs and expenses related to the development works and the construction of public buildings required for the neighborhood. The local authorities undertake to execute, by themselves and though other acting on their behalf, the planning and performance of the development works and the public structures via pre-financing which will be provided by the Israel Land Authority (ILA) on account of proceeds from future sales. The agreement will be accompanied on a regular basis by a steering committee that supervises the project, whose members are representatives of the government and the local authority. The full mobilization of the Israel Land Authority (ILA) and promotion of the plan to the top of the list of priorities ensures the creation of a high level of certainty amidst the developers and the potential buyers.

Up until now, the government has signed frame agreements with more than 10 local authorities.
with a total volume of about 140,000 new housing units, and discussions are being held for signing further agreements with approx. 10 other local authorities which will bring the volume of construction to above 210,000 housing units.

**Principles of the Frame Agreements**
- Pooling resources and mutual undertakings for a long-term solution in short-time schedules.
- The infrastructures are developed in one process by the local authority and under its responsibility.
- The various government ministries are mobilized to ensure fast tracking the planning and its implementation.
- The marketing of the site by the Israel Land Authority (ILA) is being performed in close cooperation with the local authority – the local authority undertakes to allow marketing at the rate of not less than 2,000 housing units per year.
2 Industrialization of Construction

Main Goals – Increasing productivity, shortening construction period, reducing construction costs and improving construction quality and safety of the workers by implementing advanced construction methods and technologies in the residential construction sector.

Alongside significant progress in the construction sector in Israel and the introduction of advanced technologies and work methods, especially in high-rise construction, a substantial amount of the new housing units in Israel are being constructed with methods based on extensive manpower and little use of industrialization and advanced technologies.

In July 2015, the Government of Israel decided to implement a comprehensive program to encourage industrialization of construction and to improve the productivity of workers in the construction sector. Among other things, this program proposes the promotion of tenders for the marketing of residential sites for 1,000 housing units and more, where the winner is also responsible for the development of infrastructures and public buildings in a short period of time, which compels the use of industrialized methods as detailed above in the section “Design and Build”.

In addition, the program stipulates the need to train skilled workers in the construction professions, to establish an institute for the construction professions which will increase the knowledge and awareness in this field and initiate plans for increasing the number of authorized workers in the construction sector in Israel, as well as to introduce changes in the various regulations and standardizations which require or encourage the use of advanced technologies.

In order to import advanced technologies into the Israeli construction market, including technologies for steel construction which is rarely done in Israel, there is a need to establish joint ventures and to bring knowledge from companies and professionals in countries where the use of these technologies is more common.
"Mechir Lamishtaken"
Buyers Price - Construction of Apartments at a Pre-Known Lowered Price

The Government of Israel has decided that in the years 2015-2017 all land tenders for the marketing of state lands intended for dwellings will be according to the "Mechir Lamishtaken" method, as opposed to the regular land tenders where the competition is based on the highest offer for the land. In the Mechir Lamishtaken tenders, the applicants compete on the lowest selling price per sqm. The land is offered with a large discount of up to 80%. In addition, subsidies and benefits are offered to the developers and the purchasers. The total package of benefits results in a discount of at least NIS 200,000 from the apartment market price.

In general, the "Mechir Lamishtaken" is intended for first time buyers, and the criteria of entitlement are clearly and openly published. The purchasers of the apartments may not sell their apartments for a period of 5 years, but they may rent them out.

The "Mechir Lamishtaken" tenders include apartments in high-density buildings only, with an average surface area of 120 sqm. The apartments must be constructed pursuant to uniform technical specifications set by the Ministry of Construction and Housing, and it is forbidden to charge additional amounts for alterations or improvements to the technical specifications. The tenders that have been published up until now include approx. 30,000 housing units and new tenders are continuously being published.
The “Buyer’s Price” Plan – summary of published tenders as of December 2015

Northern District
Appx. 4,000 Units

Haifa District
Appx. 7,000 Units

Central District
Appx. 7,500 Units

Jerusalem District
Appx. 5,500 Units

Southern District
Appx. 5,500 Units

Nationwide Appx. 30,000 Units
Long Term Rental Housing

Main Goal – Development of an institutional rental housing market in Israel, and creating feasibility for its operation by entities which specialize in this field, as an alternative to purchasing an apartment or to short term rent in the private sector.

The number of households in Israel that reside in rented apartments amounts to approx. 30% of the market, similar to the average in European countries. Notwithstanding this number, there is no institutional rental housing market in Israel, which, amongst other things, is due to the yield that has continuously diminished over the last few years because of the sharp increase in apartment prices and a moderate rise in rental fees of apartments.

As of the year 2012, the Government of Israel has approved several legislative changes aimed at encouraging and supporting rental housing:

- **The Capital Investment Encouragement Law**
  - tax benefits for projects where half of their area has been rented for at least 5 years.

- **Exemption from Tax to Institutional Entities**: exemptions from current tax and tax on the sale of the apartments to institutions that invest in long term rental housing.

- **Amendment to the Income Tax Act – REIT Funds**: an amendment that enables the REIT funds to acquire property intended for rental housing and provides several tax benefits.

- **Amendments to the Planning and Building Law**: benefits of additional building rights when constructing apartments for long term rent.

- **ILA Tenders**: Concurrently with the advancement of the aforementioned tools, the Government of Israel began marketing sites designated for long term rental without setting a minimum price for the land, in order to achieve economic feasibility and attractive rates of return.

  The sites were marketed subject to the undertaking to rent all the apartments for at least 20 years. Upon the expiry of 20 years it will be permitted to sell all the housing units.

  Until today, five sites have been successfully marketed. The tender results reflected a rate of return for the investor in rental housing of about 6%.
Integration of experienced international players in the institutional rental sector of the Israeli market is an opportunity, given the lack of local experience and knowledge in entrepreneurship, financing and management in this area. In view of the growing number of renters, especially among the young population who seek an assured tenancy under good terms – due to difficulties in acquisition and realizing the advantages of renting – this market is expected to grow and develop in Israel.

Apartment for Rent
The Rental Housing Government Company

Apartment for Rent - The Rental Housing Government Company Ltd is a company owned by the State of Israel, and which was incorporated in 2013 by the Government of Israel. The company was established for the purpose of promoting the issue of housing and solving the housing crisis in the country within the framework of the national housing project. The company is active in expanding the supply of housing solutions and reducing housing prices in Israel, both with respect to the sale of apartments as well as the support for long term rental housing. The company pursues this, inter alia, through the planning of new residential neighborhoods, the marketing of land owned by the State for the purpose of erecting thousands of housing units for long term rental and supervision of the execution, and the construction and operation of the projects that it initiates. In this context the company is also active in developing an institutional market for long term rental housing and encouraging investments by real estate funds (REIT) in such rental projects.

The company is involved in promoting, planning and building housing units, including rental housing units, in significant numbers within the shortest possible periods of time, while paying special attention to meticulous and sustainable construction and at the same time to considerable savings of construction time and costs.
Main Goal – Construction of student dormitories in the institutions of higher education, intended to strengthen the academic institutions and the students who study there and the development of the institutional rental housing market in Israel.

The number of beds compared to the number of students in Israel is very low by international standards.

Most of the tenders for the construction of student dormitories are published on a BOT method, where the project planning, its financing, performance and operation for a period of 25 years are executed by the private sector, after which the dormitory buildings are returned to the ownership of the institutions for higher education or the local authorities.

The tender normally includes a security net with respect to occupancy of the beds in the project.

The tender includes price competition on the scope of the minimal construction grant that is required by the developer, while the rental fees are defined in the tender (usually with a 20% reduction off market prices). In some of the tenders (especially in areas of demand) the competition is for the lowest rental fees, while the construction grant is set in the tender. In general, the project includes commercial areas as part of the dormitory area, which improves the developer’s rate of return.
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