CHAPTER XII

CONSTRUCTION AND HOUSING

1. Main Developments

In 1962 activity in the construction sector expanded considerably. Investment[1] in building and earthwork[2] rose by approximately 15 per cent in real terms, as compared with a rise of 12 per cent in 1961, and totalled IL 1,132 million (see Table XII–1). In earthwork the increase came to about 22 per cent, and in building to approximately 12 per cent.

The expansion embraced all types of construction apart from industrial buildings, commercial premises, and hotels and other guest accommodation, and was due to the increased demand for dwellings and to the intensification of activity in the productive and service sectors.

Residential construction grew at a more rapid pace than other building, and its weight in total construction rose somewhat. In publicly-financed immigrant housing[3] a large increase took place in 1962, as a result of stepped-up immigration and of expectations (not entirely realized) of a further acceleration. The rise was mainly in building completions, for the erection of immigrant housing began to pick up already in 1961.

In non-immigrant residential housing, private and public alike, the increased demand stemmed from the growth of the population and the rise in incomes, particularly from personal restitution payments. To a lesser degree it was due to the large increase in liquidity, which made credit cheaper and easier to obtain, and to inflationary investment in dwellings motivated by the expectation, growing out of the experience of recent years, of a rapid rise in housing prices.

There was an increase in almost all types of non-residential construction, particularly for mineral extraction, transportation, and national water projects, and to a smaller extent, public buildings. This increment constituted part of the general expansion of investment in these fields. In transportation the increase

[1] The investment estimates cited in this chapter do not constitute the total output of the sector, which also includes repair and maintenance work and security construction, for which no direct data are available.

[2] The construction sector covers many types of works which differ greatly from one another in character and destination. Apart from the erection of buildings for residential and other purposes, it includes earthwork, such as drilling, drainage, levelling, etc. The demand for residential building is autonomous, while the other construction activities are connected with the development of the various sectors of the economy.

[3] Defined as building by the Ministry of Housing and the Jewish Agency alone.

was mainly due to the building of Ashdod harbor, and in minerals it was due to the expansion of the Dead Sea Works; as regards agriculture and irrigation, work on the National Water Carrier was stepped up, but on the other hand farm construction fell off. In respect of public buildings, the increase was mainly in schools and clinics in immigrant housing projects. A restraining factor was the ban imposed at the beginning of the year on the erection of public offices and institutions other than for immigrant absorption.

Housing prices climbed by 21 per cent in 1962, primarily because of booming demand. There are several reasons for ascribing the rise to this factor. First, the substantial increase in the volume of residential building coincided with an appreciable rise in housing prices, which exceeded the rise in the consumer price index. Second, the increase in housing prices was greater than that warranted by the rise in building costs. Third, the rise in land prices outstripped that of other building costs and of finished buildings alike.

The marked expansion of construction activity as a result of increased demand, as well as the greater speculative demand, pushed up land prices by about 50 per cent, after a similar rise the year before.

The rise in the index of building costs[1] during 1962 was the highest since 1956. In contrast to 1961, the increase in wages matched that in the index of total building costs. The most rapid increase was in the prices of lumber and iron, this being in the main a direct result of the devaluation. The expansion of building caused the prices of some inputs, such as transportation, to rise to a higher degree than warranted by the increase in production costs stemming from devaluation and the cost-of-living allowance increment. In another type of input the rise in price was mainly due to the devaluation and the increased cost-of-living allowance, but these factors had only a secondary effect on the increase in general building costs.[2] The prices of other inputs, such as gravel, cement, building sand, rental fees for equipment, etc., did not rise at all or rose only moderately. This is attributable to the fact that they adjusted to the expanded activity, mainly because of their elastic supply, but also because of the Government's efforts to restrain price increases.

Operations in this sector began to expand in 1961, but the supply of the factors of production failed to keep pace, owing to the contraction of the previous year. Nevertheless, this expansion facilitated the growth which took place in 1962. The sector, which apparently regarded the previous year's activity as the start of a long-run trend, enlarged its productive capacity: employment rose, mechanization was increased, vocational training was stepped up, and more cement was imported.

[1] This index differs from that published by the Central Bureau of Statistics owing to a different measurement of wages.

[2] The increase in the prices of these inputs tends to be absorbed, at least in part, by a decline in the price of land, the supply of which is inelastic.

Table XII–1

INVESTMENT IN CONSTRUCTION, BY SECTOR OF DESTINATION, 1961–62[a]

(IL million)

Sector	1961	1962: At 1961 prices	1962: At current prices	Increase or decrease (–) from 1961 to 1962: At 1961 prices	Per cent: At current prices	Per cent: At constant prices
Housing						
Private building	252.0	280.5	318.4	28.5	26.3	11.3
Public building for immigrants	127.6	182.5	207.1	54.9	62.3	43.0
Public building for others	73.4	80.1	91.0	6.7	24.0	9.1
Total public building[b]	201.0	262.6	298.1	61.6	48.3	30.6
Total housing	453.0	543.1	616.5	90.1	36.1	19.9
Productive and service sectors						
Agriculture and irrigation	94.9	109.0	123.1	14.1	29.7	14.9
Industry	69.1	62.0	69.3	–7.1	0.3	–10.3
Minerals and drilling	11.4	33.8	38.3	22.4	236.0	196.5
Electricity	18.5	22.0	25.6	3.5	38.4	18.9
Transportation and postal services	49.0	54.6	62.1	5.6	26.7	11.4
Hotels and other guest accommodation	23.9	21.2	24.1	–2.7	0.8	–13.0
Commercial premises	20.7	14.4	16.4	–6.3	–20.8	–30.4
Total	287.5	317.0	358.9	29.5	24.8	10.3
Public buildings	130.8	138.0	156.6	7.2	19.7	5.5
Grand total	871.3	998.1	1,132.0	126.8	29.9	14.6
Of which:						
Structures	677.8	761.4	863.0	83.6	27.3	12.3
Earthwork	193.5	236.7	269.0	43.2	39.0	22.3

[a] For 1961, corrected data; the data in this table are not comparable with those in the Bank of Israel Annual Report for 1961.
[b] Building by the Ministry of Housing and the Jewish Agency.
SOURCE: Central Bureau of Statistics.

The efforts of the Government to hold prices down, including the threat of permitting competing imports and the establishment of competing enterprises, succeeded in curbing price rises in a number of inputs, but owing to the rising demand, it failed to prevent an increase in housing prices or contractors' profits, or even the prices of building inputs as a whole. On the contrary, in this sector, where the supply of one of the inputs—land—is inelastic, such an attempt is bound to neutralize itself by leading to an accelerated increase in the price of this input.

The number of persons employed in construction rose by 10 per cent in 1962, compared with 4.5 per cent the year before. This increase, which was almost double the rate for the country as a whole, is attributable to the rapid increase in construction wages in 1961 and 1962 over and above the official rates, and to the deliberate diversion of workers to this sector.

Housing conditions continued to improve in 1962. The per capita dwelling stock increased by 4 per cent, continuing the trend prevailing in previous years. There was also an improvement in the quality of building, as evidenced by the larger amount of high-standard building materials produced. The average area and number of rooms per housing unit continued to rise in private and public building alike.

In contrast to the marked expansion of construction, particularly residential, which took place in 1962, there was a 63 per cent decline in net credit[1] extended to the sector by the banking system and the financial institutions. This decline is explained mainly by the premature repayment of mortgage loans after the devaluation, under the arrangement whereby the linkage clause was cancelled and other alleviations granted. Further causes of the decline may be found in the considerable growth in immigrant housing, which is essentially rental housing financed by the Government, and in the easy liquidity situation, which made it possible to obtain credit from other sources under more favorable terms, particularly since the linkage provisions constituted a deterrent to long-term loans.

2. Volume of Construction

Investment in construction showed a real increase of 14.6 per cent in 1962. This substantial rise encompassed all types of building, except industrial, commercial, and hotel. It continued, at an accelerated rate, the upward trend which began in 1961. In nominal terms, investment increased by 30 per cent, totalling over IL 1,000 million.[2] This rapid expansion, coming after a year which had also witnessed a marked growth in building operations, found the supply of inputs adjusting to demand—a factor which permitted the large increase of

[1] In this context it is better to refer to gross credit, but the relevant data are not available.

[2] The value of construction excluding land; it follows that the market value of construction was higher.

Table XII-2

COMPOSITION OF BUILDING, BY SECTOR OF DESTINATION, 1959-62

(percentages, at current prices)

Sector	1959	1960	1961	1962
Housing				
Private	31.9	34.8	28.9	28.1
Public[a]	26.7	23.5	23.1	26.3
Total	58.6	58.3	52.0	54.5
Productive and service sectors				
Agriculture and irrigation	12.6	14.0	10.9	10.9
Industry	8.4	8.0	7.9	6.1
Minerals and drilling	1.3	1.5	1.3	3.4
Electricity	3.3	3.2	2.1	2.3
Transportation and postal services	7.9	5.6	5.6	5.5
Hotels, other guest accommodation, and commercial premises	2.9	4.2	5.1	3.6
Total	36.4	36.5	33.0	31.7
Public buildings	5.0	5.2	15.0	13.8
Grand total	100.0	100.0	100.0	100.0

[a] Building by the Ministry of Housing and the Jewish Agency.
SOURCE: Central Bureau of Statistics.

1962 to take place with less dislocation to the economy. The changed composition of the increment also facilitated this expansion, since it involved a change in the inputs as well. In earthwork, where the equipment component is high, the increase came to 22 per cent during the year reviewed, while in respect of buildings, where the shortage of inputs (particularly labor and land) presents a more serious problem, there was a rise of 12 per cent. The substantial growth in earthwork during 1962 was made possible by the excess productive capacity of existing equipment, which stemmed from the increased import of this item in 1961 owing to the high fees charged for rental. The expanded construction of buildings was made possible thanks to the rise in employment at a rate double that of the previous year.

Value added in construction went up 32 per cent, from IL 313 million in 1961 to IL 413 million. This increment reflects a substantial rise in wage payments following an increase in both the number of wage-earners and in wages per employee, as well as a rise in profits.

Table XII-3

AREA OF BUILDING STARTED AND COMPLETED, BY TYPE, 1961–62

(thousands of square meters)

Type of building	Building started 1961	Building started 1962	Building started Increase or decrease(–) (%)	Building completed 1961	Building completed 1962	Building completed Increase or decrease(–) (%)
Residential building						
Public building	1,458	1,562	7.1	729	1,290	77.0
Other building	1,452	1,627	12.1	1,277	1,395	9.2
Total	2,910	3,189	9.6	2,006	2,685	33.8
Non-residential building						
In productive and service sectors						
Hotels and other guest accommodation						
Public building	4	—	–100.0	2	—	–100.0
Other building	84	76	9.5	94	90	–4.3
Total	88	76	–13.6	96	90	–6.3
Business premises						
Public building	8	8	—	5	10	100.0
Other building	201	89	–55.7	128	92	–28.1
Total	209	97	–53.6	133	102	–23.3
Industrial premises						
Public building	12	6	–50.0	12	9	–25.0
Other building	444	405	–8.8	527	363	–31.1
Total	456	411	–9.9	539	372	–31.0
Farm structures						
Public building	84	99	17.9	99	72	–27.3
Other building	75	81	8.0	120	75	–37.5
Total	159	180	13.2	219	147	–32.9
Total, all productive and service sectors	912	764	–16.2	987	711	–28.0
Public buildings						
Public building	116	97	–16.4	79	97	22.8
Other building	348	307	–11.8	265	266	0.4
Total	464	404	12.9	344	363	5.5
Total non-residential building	1,376	1,168	–15.1	1,331	1,074	–19.3
Grand total	4,286	4,357	1.7	3,337	3,759	12.6
Of which:						
Public building	1,682	1,772	5.4	926	1,478	59.6
Other building	2,604	2,585	–0.7	2,411	2,281	–5.4

[a] The method of calculation in this table differs from that in the equivalent table in the 1961 Report; hence the difference in the figures for 1961.

SOURCE: Central Bureau of Statistics.

(a) *Building for productive and service sectors and public buildings*

The real increase in building for the productive and service sectors amounted to about 9 per cent in 1962, and accounted for approximately 29 per cent of the total increase in construction activity. About half the increment is attributable to the expansion of building for mineral extraction, which was about 200 per cent higher than the 1961 figure owing to the large-scale earthwork carried out at the Dead Sea Works.

The increase in agriculture and irrigation totalled 15 per cent, and it reflects the combined effect of an increased investment in the National Water Carrier and a reduction in the building of local water projects and farm structures.

The volume of industrial building fell off in 1962 after a substantial expansion the year before.[1] The explanation seems to lie in the relatively greater investment in equipment than in buildings on the part of existing enterprises, for the replacement of equipment in an existing enterprise does not necessarily lead to investment in buildings as well. The increase in building for electricity stemmed from the completion of the power station at Ashdod. In transportation, the source of the increase was the speeding up of work on Ashdod harbor. In respect of hotels and other guest accommodation and commercial premises, there was a decline in 1962, after the rapid expansion of 1961, but the volume was still higher than in 1960. There was an increase of about 5 per cent in the construction of public buildings, which can be attributed to the building of schools, clinics, etc. in immigrant housing quarters.

(b) *Residential building*

Investment in residential construction amounted to IL 600 million[2] in 1962, an increase of about 20 per cent over the previous year. This was a considerable rise, even in comparison with the accelerated rate of 1961, and it represented 71 per cent of the total increase in the volume of construction. The expansion embraced all types of residential construction, the highest rate being in public immigrant housing (see Table XII–1). In order to make possible the expansion of immigrant housing, an effort was made in 1962, unlike the case in 1961, to curtail other public building. The erection of asbestos structures for immigrants continued in 1962 as well.

The volume of residential construction has been on the rise ever since the establishment of the State, but there have been fluctuations resulting mainly from the extreme fluctuations in public residential construction; the latter in turn stems from changes in the Government's scale of priorities owing to the ups

[1] It may be that the decline can be ascribed to the method of collecting the data and that there was no actual decline, since the information on the expansion of existing enterprises is deficient, and recently there has been a greater expansion of such building than in the erection of new enterprises.

[2] See footnote 2 on p. 260.

and downs in immigration. In private residential construction the fluctuations have been more moderate, and since 1957 there has been a steady increase in volume, albeit at varying rates.

Three main factors account for the expansion of residential construction: a growth in population, an increase in real disposable income per capita, and the inflow of personal restitution payments, about 40 per cent of which are used for the purchase of dwellings.[1] The fluctuations in residential construction are explained mainly by the varying rates of increase in these factors.

These factors, particularly the rapid growth of the population and the inflow of personal restitution payments, whose volume in Israel pounds almost doubled over the previous year, accounted for the substantial expansion of 1962. Further contributory factors, although of secondary importance, were the availability of easy, long-term credit following the monetary growth which occurred during the year, and the mounting expectations of a rise in prices in general and of housing prices in particular, which strengthened the propensity to invest in real estate as a means of protecting the value of savings while earning a handsome capital profit.

Public residential construction was influenced not only by the larger influx of new arrivals, but also by the expectation of a further rise in immigration—

Table XII-4

INVESTMENT IN RESIDENTIAL CONSTRUCTION, 1957–62

(at 1961 prices)

Year	Private construction[a]		Public construction		Total residential construction	
	IL million	Increase or decrease (–) as against preceding year (%)	IL million	Increase or decrease (–) as against preceding year (%)	IL million	Increase or decrease (–) as against preceding year (%)
1957	184.5		190.6		375.1	
1958	188.1	2.0	169.1	–12.3	357.2	–4.8
1959	220.2	17.1	178.8	5.7	399.0	11.7
1960	228.8	3.9	155.8	–12.9	384.6	–3.4
1961	252.0	10.1	201.0	29.0	453.0	17.8
1962	280.5	11.3	262.6	30.6	543.1	19.9

[a] The figures for the preceding years have been revised, and therefore should not be compared with those in the 1961 Annual Report.

SOURCE: Central Bureau of Statistics.

[1] According to the 1957/59 savings surveys.

an expectation which did not fully materialize. The volume of immigration in 1962 was slightly higher than in 1961, but whereas in 1961 the immigration was partly unanticipated and building for the newcomers did not meet the needs, in 1962 fewer immigrants arrived than were expected and many dwellings remained empty. Consequently, Amidar's inventory of vacant dwellings rose by about 140 per cent in 1962, as against a decline of about 50 per cent in 1961.

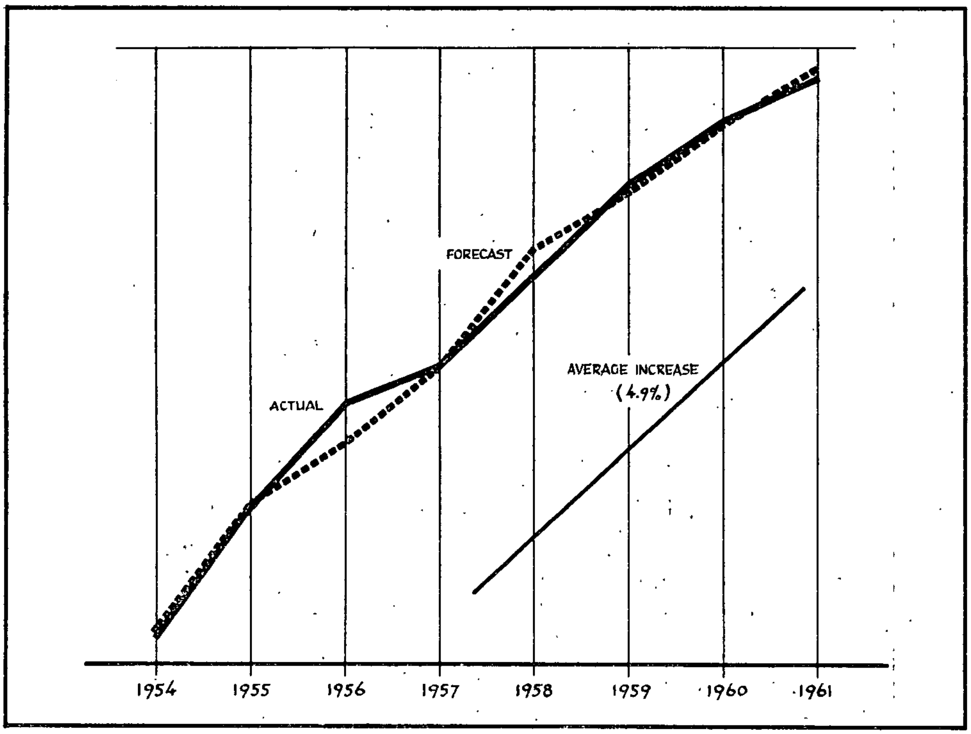
About 70 per cent of all occupied publicly-built homes went to new immigrants, as against 30–40 per cent in previous years (see Tables XII–11 and 12).

In public construction as a whole, there was a large expansion in 1962 owing to the increase in immigrant housing. Non-immigrant public housing starts were curtailed, although there was a considerable rise in completions because of the bigger number of starts in 1961.

The weight of public building in total non-immigrant housing continued to decline.

Diagram XII–1

INCREASE IN AREA OF HOUSING UNIT PER FAMILY, ACTUAL AND FORECAST,[a] 1954–61[b]



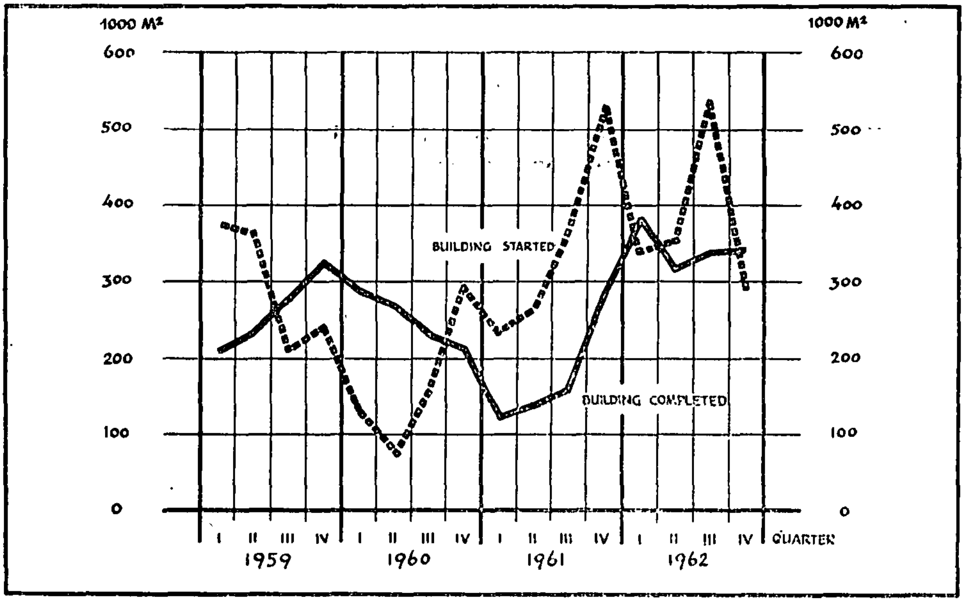
[a] The forecast change in the housing area per family is based on the rates of change in real disposable income per family and in real per family income from personal restitution, which are the two chief factors determining the demand for housing.
[b] Semi-logarithmic scale.

The majority of the new publicly-built dwellings occupied in 1962 were in the North and South, in contrast to 1960 and 1961 when the Central District accounted for most of the increase. The expansion of public building in the Central District has apparently decelerated in relation to the North and South (see Tables XII-11 and 12).

The rate of public residential construction during 1962 was marked, as in previous years, by a lack of uniformity. However, in contrast to 1961 when there was a steady increase throughout the year, in 1962 there were ups and down in both building starts and completions (see Diagram XII-2).

Diagram XII-2

PUBLIC RESIDENTIAL CONSTRUCTION, BY QUARTERS, 1961-62



During the year reviewed, construction was begun of some 27,000 housing units financed from public funds. This was an increase of about 4 per cent over 1961, and was the result of a growth of approximately 16 per cent in immigrant housing starts and a decline of about 23 per cent in other housing starts. The number of publicly-financed housing units completed in 1962 was 23,000, which is 82 per cent more than in 1961. This rise reflects the increased completion of immigrant dwellings started in 1961. About 78 per cent of the public housing started during the year was intended for new immigrants, as compared with 70 per cent in 1961 and 61 per cent in 1960. In completed building, too, there was an increase in the proportion for immigrants—71 per cent in 1962 as against 66 per cent in 1961 and 62 per cent in 1960.

In the first half of the year it was proposed that private residential construction be curtailed in order to release construction inputs for immigrant housing. This proposal spurred potential home buyers to advance their purchases out of fear of a rapid rise in prices, and it may also have increased the speculative demand for housing at the beginning of the year. Apparently, it likewise led to an increase in private building in the early part of the year, since it was assumed that no restrictions would be applied to building already begun.[1]

The number of residential units started by the private sector in 1962 was 16,400, as compared with 14,600 in 1961—an increase of 12 per cent. The number of units completed was 13,750, as compared with 12,950 in 1961—an increase of 6 per cent.

Table XII-5

RESIDENTIAL CONSRUCTION BY THE MINISTRY OF HOUSING, BY TYPE, 1961-62

Type	Number of housing units				Per cent			
	Started		Completed		Started		Completed	
	1961	1962	1961	1962	1961	1962	1961	1962
For immigrants								
Urban housing projects	15,545	19,579	5,836	14,960	60.4	72.9	45.4	46.0
Liquidation of transit camps	2,411	1,370	2,625	1,628	9.4	5.0	20.4	7.0
Housing in agricultural settlements	81	—	81	—	0.3	—	0.6	—
Total	18,037	20,949	8,542	16,588	70.1	77.9	66.4	71.0
For others								
Slum-clearance projects	969	442	460	703	3.8	1.6	3.6	3.0
Saving-for-Housing Scheme	4,045	4,127	2,930	3,618	15.7	15.4	22.8	15.5
Housing projects in development areas for veteran settlers and young couples	2,114	934	548	1,915	8.2	3.4	4.3	8.2
Others	577	390	377	534	2.2	1.9	2.9	2.3
Total	7,705	5,893	4,315	6,770	29.9	22.1	33.6	29.0
Grand total	25,742	26,842	12,857	23,358	100.0	100.0	100.0	100.0

SOURCE: Ministry of Housing.

[1] There is also the view that the Land Betterment Tax bill likewise exerted an influence in this direction.

3. Inputs

The index of building costs,[1] which does not include land, was 14 per cent higher, on the average, than in 1961. The increase registered in this index during 1962 (from December 1961 to December 1962) amounted to 15 per cent, the highest rate since 1956.

The intensification of construction activity led to a rise in building costs, which was greater than that warranted by the devaluation and the increased cost-of-living allowance. Wages, which in 1961 soared above the official rates, continued to rise more rapidly than the latter. Most of the inputs, it is true, adjusted to the expanded demand and their quantities increased. This adjustment was aided, on the one hand, by market forces such as high wage payments and a greater import of equipment due to the high local rental charges, and on the other, by the steps taken by the Government and the Histadrut to train new building workers and to encourage workers in other fields to switch to the building trades. The curtailment of the construction of public institutions at the beginning of the year and the continued erection of asbestos structures for immigrants also tended to weaken demand for inputs. Nevertheless, owing to the increased demand, a substantial rise took place in the prices of a number of inputs, including transportation and, to an even greater extent, land.

Table XII–6

INDEX OF BUILDING COSTS,[1] BY ITEM, 1961–62

Item	Weight at end of 1961	Per cent increase: December 1961 as against December 1960	Per cent increase: December 1962 as against December 1961	Contribution to rise in index from January 1962 to January 1963 (%)
Wages	47.9	14.2	14.3	46.0
Transport	5.3	7.9	11.2	4.0
Gravel	2.7	29.3	0.0	—
Building sand	2.5	14.6	1.3	0.2
Cement	13.1	11.4	0.0	—
Lumber	17.8	5.8	25.3	30.1
Iron	10.7	16.9	27.2	19.7
Total	100.0	12.5	14.9	100.0

Source: Central Bureau of Statistics and Bank of Israel estimates.

[1] This index differs from that published by the Central Bureau of Statistics, owing to a different measurement of the wage items.

The index presented here is that of the Central Bureau of Statistics, with the wage items adjusted. This index still does not reflect the total increase in building costs,[1] nor should it be concluded that the increase in 1962 stemmed primarily from the items included in the index. For the index does not include one of the main inputs—land, the price of which rose very steeply during the year reviewed.

(a) *Wages and employment*

Wages in the construction sector rose by about 14 per cent in 1962, a similar rate as in the previous year. This increase constituted about 46 per cent of the total rise in building costs. The official wage rates went up by about 10 per cent as a result of the cost-of-living allowance increment paid as from July and a rise in fringe benefits as from August. The rise in wages over and above the official scale also in 1962 indicates that there was still a shortage of workers in this sector. Evidence of this shortage may be found in the statistics of the National Employment Service, which show that in 1962 skilled workers accounted for 15 per cent, on the average, of all unfilled requests for labor placed with the labor exchanges and 34 per cent of all unfilled requests for skilled labor. In respect of unskilled labor as well, the percentage of unfilled requests for construction workers was high. In this context it should be noted that persons engaged in the building trades constituted only 9.7 per cent of all gainfully employed persons in 1962, as shown in Table XII–7.

Table XII–7

EMPLOYMENT IN THE CONSTRUCTION SECTOR, 1958–62

	Average No. of gainfully employed	Per cent increase over preceding year	Gainfully employed in construction, as a per cent of all gainfully employed
1958	64,000		9.8
1959	65,000	1.6	9.6
1960	65,000	—	9.3
1961	68,000	4.5	9.3
1962	75,000	10.0	9.7

SOURCE: Central Bureau of Statistics and Bank of Israel.

[1] The index of building costs includes only seven items, which constitute the main components of the building skeleton, and whose weights were fixed in 1950. The prices measured are the official producer prices.

The number of construction workers rose by 10 per cent in 1962, and totalled approximately 75,000. This was about twice the rate of increase of total gainfully employed in the country, and it explains the increase in the proportion of construction workers to total employed persons from 9.3 to 9.7 per cent, after a steady decline since 1958. There was also an increase in the number of days worked per gainfully employed, although a more moderate one than in 1961.

The main increase in employment took place among steadily employed persons, whereas among temporary workers there was even a decline from the previous year. The total number of construction workers rose by 12 per cent in 1962, totalling about 54,000. The number of building companies and contractors was also higher, 2,400 in 1962 as against 2,200 in 1961—an increase of about 9 per cent.[1]

Table XII-8

TRAINING OF NEW BUILDING WORKERS,[a] BY DISTRICT, 1960/61 TO 1962/63

District	1960/61	1961/62	1962/63[b]	Per cent increase	
				From 1960/61 to 1961/62	From 1961/62 to 1962/63
Jerusalem	45	99	207	120.0	109.1
South	241	452	702	87.5	55.3
Tel Aviv and Center	73	369	1,179	405.5	219.5
Haifa and North	56	216	414	285.7	91.7
Total	415	1,136	2,502	173.7	120.2

[a] The courses last 75 days, and those who complete them are considered low-grade building workers.
[b] Estimate.
SOURCE: Builders' and Contractors' Association.

The increase in the number of gainfully employed was due to various factors which in 1962 tended to expand the labor supply and enabled it to adjust to the greater demand. A major factor was the high wages relative to the short training period required in order to work in the building trades; this made such work attractive despite its impermanence. There was also an increase in the supply of unskilled workers as a result of larger immigration and the shift of workers from agriculture, where employment is not steady. In addition, a deliberate effort was made to expand employment in this sector, since it was realized that a shortage of workers constitutes a bottleneck in the development of construction. This effort took the form of intensified vocational training, the diver-

[1] According to figures of the National Insurance Institute.

sion of workers (particularly new immigrants) to this sector, and the improvement of working conditions, such as promotions and the guarantee of permanent employment within a shorter period. In addition, the Ministry of Housing and the building workers' union appealed to former building workers to return to the trade.

(b) *Building materials and transport*

The average prices of building materials included in the index of building costs rose by 16.6 per cent in 1962 as compared with the previous year, and transport prices by 14.7 per cent. The increases from the beginning to the end of the year were approximately 16 per cent for building materials and 11 per cent for transport. Together, these increases accounted for 54 per cent of the total rise in the index of building costs during 1962.

According to a second index,[1] which comprises more materials, the rise in building material prices in 1962 was more moderate.

The fact that the price increases in most of the materials which became dearer in 1962 occurred after the devaluation indicates that it was the main cause of the increases, especially as regards materials with a high import component. Only in the price of iron was there a further increase as a result of the payment of the higher cost-of-living allowance as from July. The prices of some materials did not rise at all during the year, and only in a minority of cases did the prices go up more than warranted by the increase in production costs.

Thus it may be said that the Government's efforts to absorb the increased cost-of-living allowance, and the campaign to curb the raising of prices—coupled with the threat of competing imports and the establishment of competing enterprises—succeeded to a large degree with regard to building materials. In this manner it may be possible to partially curb a rise in prices due to higher production costs, but not, in a period of buoyant demand, to prevent a rise in the price of output or that of inputs whose supply in inelastic. Indeed, the rise that was averted in the price of materials found its expression in a twofold increase in the price of land.

The greater demand for building materials following the upsurge of activity in this sector led not only to an increase in the prices of some of the materials, but also to an expansion of production and the curtailed export of many building materials. The reduction of export affected mainly cement, which has been on the decline since 1960, although the decrease was slower in 1962 than in 1961. Actually, part of the overseas sales were made only in order to protect markets, so that it was necessary to import Portland cement in an amount

[1] The index of building material and service prices, as fixed by the Committee to Determine Procedures for the Award of Government Work to Contractors, calculated by the Central Bureau of Statistics.

equal to 20 per cent of the cement exported. In the export of other building materials, such as marble, building woodwork, and tiles, which are manufactured mainly for the local market, there was also a substantial decline in 1962.

(c) *Land*

The greater demand for housing and other building in 1962 led to an increase in the demand for building plots, to which was added the growing speculative demand for land. As the supply of land is the least elastic of building inputs, its quantity could not be expanded as fast as the demand. The growth of demand —which was accompanied by a corresponding increase in the supply of some of the inputs, the prices of part of which were frozen—was reflected in a strong upward movement in land prices in 1962. The steps taken by the Government to curb price increases in part of the inputs led to a more rapid increase in the prices of building plots. These measures were in the wrong direction in that they unduly rewarded owners of land at the expense of the producers of other inputs. For, on the one hand, a rise in land prices cannot lead to an increase in the supply of building plots,[1] and on the other, freezing material prices is liable to reduce the future growth rate of their supply.

The partial figures available on the prices of building plots indicate a rise of 40–60 per cent during 1962.[2] A similar rise took place in 1961. The prices of urban plots in densely populated areas went up at a much higher rate than either building costs or housing prices. This is to be expected in years when there is a big demand for building, because when housing prices outstrip building costs, the prices of building plots will rise more rapidly than either.[3] From the viewpoint of the individual builder, the higher prices of building plots means an increase in his total costs, and it is inevitable that he should raise the price of the homes he is putting up in order to maintain his profit margin. But the fact that there have been buyers for more dwellings, even at the higher prices,

[1] In fact, it is even likely that higher land prices create the expectation of further increases, and thus lead to a decline in the supply of land for immediate building.

[2] Based on data of the Builders' and Contractors' Association, Rassco Rural and Suburban Settlement Co., the Land Appraisal Department in the Ministry of Justice, and the Research Department of the Bank of Israel.

[3] To give an example, in the case of a dwelling whose market value is IL 40,000, building costs IL 24,000, and the contractor's profit, at 10 per cent, IL 4,000, the price of the land will be IL 12,000. Following an increase in demand, the price of the dwelling will jump by, say, 20 per cent, to IL 48,000, building costs will go up by only 5 per cent, while the contractor's profit, as a result of competition, will remain 10 per cent; thus the price of the land will rise to IL 18,000, or by 50 per cent. This example, which may seem extreme, essentially reflects the situation in the last few years when the speculative demand for land has pushed up land prices still further. The inelasticity of the supply of land, together with the elasticity of the other inputs and the competition between contractors, is what has caused land prices to soar and made dwellings more expensive following the rise in housing demand.

is sufficient to prove that the mounting of land prices is mainly due to the substantial increase in the demand for housing.

The steep rise in land prices in recent years has had a number of effects: (a) it has spurred economy in the use of this scarce item and its more efficient exploitation, e.g. by building more stories; (b) it is increasing the supply of land in the long run, e.g. by encouraging the razing of old or small buildings; (c) it is causing the exploitation of the available land to be spread over the coming years, since the landowners tend to refrain from offering it for sale if they do not need more liquid assets, in the expectation that prices will rise so rapidly in the future as to ensure them a high return on invested capital. This last effect tends to regularize the volume of residential construction, preventing sharp fluctuations in building from year to year, and in boom years prevents the excessive concentration of factors of production in this sector. On the other hand, the mounting expectations of an accelerated rise in the prices of building plots and the capital gain accruing therefrom tend to increase the speculative demand for land, which in turn drives up land prices beyond the level resulting from the increased demand for housing. In recent years, and particularly in 1962, these expectations encouraged persons from abroad to invest in land, thus causing prices to climb even more rapidly. A negative aspect of this demand is the possibility of earning substantial capital profits in the real estate market without paying the full tax.

The sale of Government land below the market price would not only mean a loss for the Government, but it would fail to bring about a reduction in housing prices. It would be tantamount to giving a premium to the purchaser of such land, since he would be able to resell it immediately at a handsome profit. The price of building plots must be determined by the market, and from this point of view there is no justification for freezing their price.

4. Housing Prices

In 1962 housing prices soared 21 per cent.[1] This rate exceeded that in the index of building costs, and was the highest of all items in the consumer price index. The expansion which took place in the volume of private residential construction (11.3 per cent), together with the rise in housing prices, is evidence of the considerable increase in the demand for dwellings during the year reviewed.

The rise in housing prices at a more rapid pace than in the index of building

[1] This increase is measured on the basis of the consumer price index, a measurement which may not be sufficiently precise, but is the only one available. Various other indicators also point to a substantial rise in housing prices in 1962. A further discussion of the rise in housing prices will be found in Chapter VI, "Prices", p. 86.

costs has persisted since 1959.[1] From January 1959 to July 1962 housing prices went up by about 56 per cent,[2] as compared with a rise of about 36 per cent in the index of building costs. The main reason for this difference is to be found, as has been noted, in the increased demand for dwellings, which is also reflected in land prices, particularly in urban areas, rising more rapidly than housing prices.

Table XII–9

INDICES OF HOUSING PRICES (GENERAL AND SAVING-FOR-HOUSING SCHEME) AND BUILDING COSTS, JANUARY 1959 TO JULY 1962

Period	Housing prices		Prices in Saving-for-Housing Scheme		Building costs[a]	
	Index	Per cent increase over preceding period	Index	Per cent increase over preceding year	Index	Per cent increase over preceding year
January 1959	100.0	—	100.0	—	100.0	—
July 1959	102.0	2.0	102.5	2.5[b]	101.5	1.5
July 1960	110.9	8.7	111.5	8.5	107.8	6.2
July 1961	126.7	14.2	128.2	15.0	119.7	11.0
July 1962	155.8	23.0	150.0	17.0	136.5	14.0

[a] The changes in building costs here differ from those in the index of building costs of the Central Bureau of Statistics owing to a different measurement of wages.

[b] Between July 1958 and July 1959 the increase in this index, which is measured once a year, amounted to 5.0 per cent. For the sake of simplicity, we have assumed a linear trend in the rise of the index during the year.

SOURCE: For housing prices and building costs—Central Bureau of Statistics (see footnote [a]); for prices of housing in Saving-for-Housing Scheme—Ministry of Housing; for wage costs in building—Bank of Israel estimates.

The land component in the value of the dwelling has thus been increasing over the last few years. It should be remembered that this is mainly due to the booming demand for housing, coupled with the inelastic supply of land, and is not a cause of the increase in housing prices. The price of the land is high because the price of the dwelling is high; the opposite is true only when the speculative demand for land is the principal reason for land becoming more expensive. The rapid rise in housing prices in 1962 is apparently a result of both factors operating simultaneously—the increased demand for dwellings on the one hand, and the increased speculative demand for land on the other.

[1] Information on preceding years is not available; the measurement of housing prices began only in January 1959.

[2] Apparently this figure even has a downward bias.

Key money[1] rose by an average of 27 per cent in 1962, or by 24 per cent from the beginning to the end of the year. In general, key money may be expected to increase *pari passu* with housing prices. However, with the publication in September 1962 of the regulations providing for higher rent in dwellings covered by the Tenants Protection Law, it might have been expected that key money would rise to a smaller degree than the prices of purchased dwellings. The fact that the opposite occurred was due to the uncertainty which prevailed in this market for some time. An increase in rent was anticipated for a number of years, and potential lessees apparently feared a loss of part of the key money following such an increase. Consequently, many of them bought a home instead of renting one, and this prevented a rise in key money from its relatively low level. The publication of the regulations fixing the new rents served to clarify the situation, and since there is now no expectation of a further amendment to the Tenants Protection Law, key money has gone up.

5. Housing Conditions

Dwelling capital stock per capita rose in 1962, as it did in 1961, by 4 per cent; this increase points to an improvement in the average standard of housing.[2]

The quality of new building is generally higher than the average standard in the past. The demolished buildings have generally been temporary structures, abandoned Arab houses, or located in slum areas, so that housing conditions have improved over the years. A further indicator of this improvement is to be

Table XII–10

DENSITY OF OCCUPATION AMONG JEWISH FAMILIES, 1957-61

(cumulative percentages)

No. of persons per room	1957	1958	1959	1960	1961
Less than 1	6.1	5.5	6.1	6.6	7.8
Less than 2	44.1	43.0	43.1	47.5	54.5
Less than 3	75.8	77.1	77.1	79.2	82.2
Less than 4	87.3	87.7	87.8	89.5	91.6
All families	100.0	100.0	100.0	100.0	100.0
No. of families	455,200	486,500	499,600	505,700	530,900

Source: Central Bureau of Statistics.

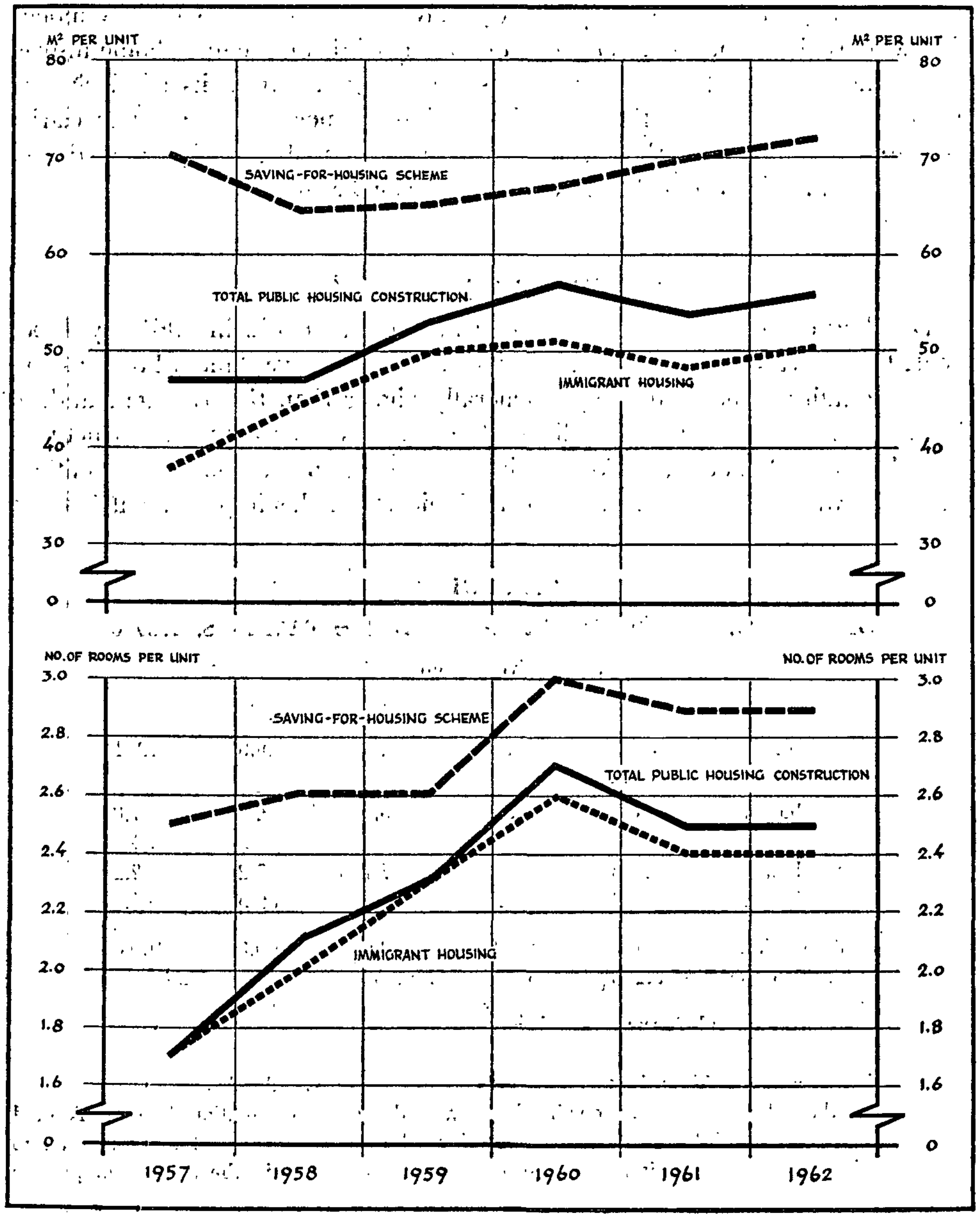
[1] A one-time premium paid by the tenant to the owner upon renting the dwelling.

[2] This year the calculation of the decline in average density of occupation (see the Annual Report for 1961, p. 233) was discontinued, since the changes measured are too small to be significant. Nevertheless, it may be assumed that the decrease in the number of persons per room continued.

found in the increased consumption of high-standard building materials. The consumption of porcelain wall tiles was 160 per cent higher in 1962 than in 1957, whereas the consumption of cement rose by only 58 per cent and the

Diagram XII-3

AVERAGE NO. OF ROOMS AND AREA OF PUBLIC RESIDENTIAL CONSTRUCTION, 1957–62



volume of residential construction by 45 per cent. The average number of persons per room per family has been declining steadily, i.e. the density of occupation has been reduced. Similarly, the percentage of families with a low density of occupation has been rising steadily. According to the population census of 1961, housing density was substantially lower in the urban than in the rural areas.

Another indicator of better housing conditions is the increase in average floor space and number of rooms per unit. The average area per housing unit built by the public sector rose in 1962, but there was no change in the average number of rooms. At the same time, the number of rooms per unit of new construction is higher than that in existing units. The average area per unit of private housing rose by about 6 per cent in 1962.

6. Financing of Construction and Housing

Most of the credit extended to this sector is intended to finance the purchase of dwellings and consists principally of long-term mortgage loans. The outstanding balance of credit granted to the sector by the banking system and financial institutions totalled approximately IL 548 million at the end of 1962, an increase of IL 149 million over the end of 1961. Of this increment, IL 68 million constitutes an increase in the borrowers' liabilities due to the linkage differentials after the devaluation, and IL 23 million represents the transfer of existing loans from building companies to mortgage banks. Net new credit granted in 1962 thus totalled only IL 58 million, as against IL 147 million in 1961, despite the substantial expansion of residential construction in 1962. This decline is mainly explained by the premature repayment of mortgage loans,[1] which totalled IL 50–60 million. But even the gross credit extended in 1962 was lower than in the previous year. This decline was due to a number of factors:

(a) Building for immigrants, which expanded considerably in 1962, was largely on a rental basis, with the financing borne mainly by the Government. The number of public housing units rented in 1962 was about 12,500 as against 4,500 in the previous year; conversely, there was a decline in the number of flats sold (see Tables XII–11 and XII–12);

(b) The high liquidity prevailing in the economy enabled persons buying dwellings (and redeeming mortgages) to obtain alternative financing more easily. Financing from other sources was probably available in previous years as well, although under slightly less favorable terms; however, a long-term mortgage loan was always regarded as convenient, and the linkage provision was not a deterring factor in previous years. On the other hand, in 1962 (at least at the beginning of the year) there were growing reservations about

[1] For a detailed discussion, see Chapter XVII, "Financial Institutions".

linked loans of this kind, apparently because of the influence of the devaluation.

Mortgage loans granted to purchasers of homes in the Saving-for-Housing Scheme averaged 35 per cent of the price. Purchasers of other types of public housing were granted mortgages for 55–85 per cent of the price. For the most part the loans were given from Government funds, the rest being granted by financial institutions (mainly mortgage banks), building companies, and the Jewish Agency.

Rental charges in public housing schemes ranged between IL 20 and IL 30 in 1960–62, depending on the type of dwelling.

Table XII–11

PUBLIC RENTAL HOUSING AND AVERAGE COST PER UNIT, BY TYPE AND DISTRICT, 1960–62

	1960		1961		1962	
	No. of housing units	Average cost per unit (IL)	No. of housing units	Average cost per unit (IL)	No. of housing units	Average cost per unit (IL)
For immigrants						
Liquidation of transit camps and huts	1,279	6,532	1,167	7,583	958	9,210
Housing projects for new immigrants	1,549	6,909	3,194	7,968	11,181	9,179
Total	2,828	6,739	4,361	7,865	12,139	9,181
For others	298	6,973	125	8,244	307	10,277
Grand total	3,126	6,761	4,486	7,876	12,446	9,208
Of which:						
In the South	857	6,782	1,796	8,221	5,062	8,879
In the Central District	1,468	6,803	1,812	7,592	4,447	9,267
In the North	801	6,663	878	7,755	2,937	9,685

NOTE: South is Gedera and southward; the Central District is between Gedera and the Haifa-Afula line; North is north of this line.
SOURCE: Amidar Ltd.

A slow rise is discernible in the rent charged for new units, but even for those which were leased in 1962 the average rent was only IL 22.50 a month. This rent gives an annual return of less than 3 per cent of the value of the unit and does not even cover the cost of current maintenance.

Table XII–12

PURCHASES OF PUBLIC HOUSING UNITS,[a] PRICE, AND SIZE OF MORTGAGE, BY TYPE OF HOUSING AND DISTRICT, 1959–62

Type of housing	1959			1960			1961			1962		
	No. of units	Average price (IL)	Average mortgage (IL)	No. of units	Average price (IL)	Average mortgage (IL)	No. of units	Average price (IL)	Average mortgage (IL)	No. of units	Average price (IL)	Average mortgage (IL)
For immigrants												
Housing projects for new immigrants	432	7,691	5,431	825	7,776	6,129	668	8,617	5,951	845	11,082	8,520
Liquidation of huts and transit camps	1,238	7,530	4,015	1,863	7,917	5,574	1,079	8,491	6,447	587	9,752	7,652
Total	1,670	7,572	4,381	2,688	7,874	5,744	1,747	8,539	6,257	1,432	10,537	8,164
For others												
Saving-for-Housing	705	10,504	3,695	2,370	10,283	3,585	3,371	13,103	4,005	2,994	13,892	4,824
Slum clearance	—	—	—	236	7,664	6,096	351	11,104	6,147	345	13,050	10,139
Young couples and veterans' projects	—	—	—	324	8,719	6,867	456	9,709	4,748	18	9,910	8,077
Miscellaneous	23	9,100	6,200	172	7,452	6,443	225	10,220	3,474	155	12,855	5,849
Total	728	10,460	3,774	3,102	9,763	4,277	4,403	12,445	4,226	3,512	13,743	5,408
Grand total	2,398	8,448	4,198	5,790	8,879	4,958	6,150	11,336	4,752	4,944	12,815	6,207
Of which:												
In the Central District[b]	2,206	8,342	4,149	4,745	8,887	4,876	5,045	11,739	4,823	3,129	12,289	6,831
In the South[b]	158	10,010	4,620	781	8,999	5,382	515	9,544	3,655	1,283	14,099	4,960
In the North[b]	34	8,088	5,429	264	8,374	5,379	590	9,446	5,078	532	12,808	5,533

[a] Excluding units built by the Shikun Ovdim company.
[b] South is Gedera and southward; the Central District is between Gedera and the Haifa-Afula line; North is north of this line.
SOURCE: Amidar Ltd., Rassco, Mishkenot Haboneh, and Meonot-Amamiim companies.