

## CHAPTER XIII

# CONSTRUCTION AND HOUSING

### 1. MAIN DEVELOPMENTS

ACTIVITY IN THE CONSTRUCTION sector in 1963 was on approximately the same level as in 1962, and may even have been slightly higher.<sup>1, 2</sup>

This stability stands out all the more when compared with the marked rise of 15 per cent in 1962. During the year reviewed investment in construction amounted to approximately IL 1,260 million. But whereas the construction of buildings was 4 per cent below the 1962 level, the volume of public works was 6 per cent higher. The relative share of residential construction declined; this was due to a 20 per cent reduction in publicly financed home building,<sup>3</sup> private construction continuing to expand at about the same rate as in the six preceding years.

<sup>1</sup> According to the estimate based partly on the area of new construction, investment in building and public works in 1963 was similar to that of 1962. On the other hand, there was an increase in inputs to this sector, a rise of 6–10 per cent being recorded in the number of persons employed, in domestic cement sales, gravel production, transport, mechanization, etc. The estimated investment in construction does not constitute the total output of the sector, which also includes repair and maintenance work and defense construction, which are not defined as investment but as consumption. The two measures—output and input—cannot be reconciled even if we take into account the conceptual differences: the rise in inputs should have been expressed in some growth in investment from the sector's output. It may therefore be assumed that the level of activity in the construction sector in 1963 was higher than in 1962, and in any event not lower. The discussion below is based both on the measure of investment from the sector's output and on that of inputs, ignoring the contradiction between the two, since for the time being they may both be considered provisional. It may also be that the contradiction is essentially only an illusory one, the result of factors not yet known.

The output of buildings and earthwork constitutes, in the final analysis, part of the investment of the various sectors of the economy. But the estimated total construction expenditure of the different sectors does not equal the value of construction output: the difference stems from the existence of a stock of finished and unfinished buildings and from the changes occurring therein from one period to another.

<sup>2</sup> The construction sector covers many types of works which differ greatly from one another in character and destination. Apart from the erection of buildings, it includes various public works. The demand for housing is a final demand of households, but the other construction activities stem from the derived demand of the various sectors of the economy and are intended to meet their development needs.

<sup>3</sup> Construction by the Ministry of Housing, the Jewish Agency, and Israel Housing Development Ltd.

The considerable decrease in public immigrant housing construction occurred only in building starts, whereas completions were higher than in 1962. This increase reflects the growth in the area of new construction begun in the second half of 1962, while the decline in the number of new dwellings started in 1963 was due to the accumulation of a large stock of empty units by Amidar Ltd. Public nonimmigrant housing construction was also smaller than in 1962.

Construction for the productive and service sectors showed very little change—a rise of only 1 per cent over 1962. Transportation construction expanded at the rapid rate of 24 per cent as a result of more road building, chiefly improvements to main traffic arteries. In contrast, there was a sharp decline in industry and in mining and drilling. In the other sectors and the erection of public institutions there was a slight increase.

The upward trend in construction activity has actually continued since the establishment of the State, and is due to the rise in population and per capita incomes. Productive capacity in the construction sector has adjusted itself to this growth by employing additional factors of production—primarily by absorbing more workers—and by increasing productivity, mechanizing construction processes, and stepping up the manufacture of other inputs. In view of past development and on the assumption that the population will continue to grow at approximately the same rate as hitherto, there is reason to believe that normally an expansion of 5–7 per cent p.a. will not generate any special pressure on inputs or cause any marked rise in building costs. However, this is largely contingent on an even rate of expansion in the sector, in contrast to the volatile trend up to now (see Table XIII–2 and Diagram XIII–1). Public construction has fluctuated from year to year, causing oscillations in residential building as a whole. From this aspect, 1963 was not exceptional. This irregularity has negative effects, which will be discussed below; however, it should be stressed here that construction can be regulated, or at least its oscillations can be flattened out considerably, without resorting to direct or indirect controls.

The index of building costs went up by only 2 per cent in 1963. Nor is there evidence that wages rose much higher than the official rates. Owing to the increase in the cost-of-living allowance, the official wage scale rose by an average of 9.5 per cent, while actual wages per employee rose by 11.4 per cent. However, most of the increase in excess of the official rates presumably occurred in the last months of 1962.

The moderate rise in building costs in 1963 was entirely due to the higher wages paid, there being no increase in the cost of materials or transportation. The stability of material costs is partly ascribable to the administrative price curbs imposed by the Ministry of Commerce and Industry. But even complete stability in input prices, for whatever reason, cannot keep housing prices from moving up if there is a growth of demand. In such a case, the rise in housing prices will be expressed in bigger contractors' profits, and primarily in the mounting of land prices.

Table XIII-1

## INVESTMENT IN CONSTRUCTION, BY TYPE, 1962-63\*

(IL million)

Type	1962	1963		Increase or decrease (-)		
		At 1962 prices	At current prices	IL m. at 1962 prices	Per cent <sup>b</sup>	
					At current prices	At 1962 prices
<b>Housing</b>						
Private building	342	372	393	30	15	9
Public building <sup>c</sup>						
For immigrants	187	143	150	-44	-20	-24
For others	134	115	122	-19	-9	-14
Total public building	321	258	272	-63	-15	-20
Total housing	663	630	665	-33	0	-5
<b>Productive and service sectors</b>						
Agriculture and irrigation	133	139	146	6	11	5
Industry	85	77	82	-8	-4	-10
Minerals and drilling	32	19	21	-13	-35	-38
Electric power	25	26	28	1	10	3
Transportation and postal services	66	82	86	16	31	24
Commercial premises and guest accommodation	41	43	45	2	11	5
Total	382	386	408	4	7	1
<b>Public institutions</b>						
Public buildings <sup>d</sup>	133	140	148	7	11	5
Public installations <sup>e</sup>	34	37	39	3	15	9
Total public institutions	167	177	187	10	11	6
Grand total	1,212	1,193	1,260	-19	4	-2
Of which:						
Public works	270	285	301	5	11	6
Buildings	942	908	959	-34	2	-4

<sup>a</sup> For 1962, revised data; for 1963, preliminary estimate only. The data in this table are not comparable with those in Table XII-1 in the Bank of Israel Annual Report for 1962.

<sup>b</sup> Based on unrounded figures.

<sup>c</sup> Construction by the Ministry of Housing, the Jewish Agency, and Israel Housing Development Ltd.

<sup>d</sup> Schools, hospitals, offices, etc.

<sup>e</sup> Sidewalks and other public works.

SOURCE: Central Bureau of Statistics.

The most recent measure of housing prices is the average for the period April–September 1963. During these months the level was 26.7 per cent higher than in the corresponding period of 1962, and 13 per cent higher than in the period October 1962–March 1963. There is no reliable measure for the second half of 1963. According to various sources, the rise was checked during this period. But there is no doubt that the soaring of housing prices in the first half of 1963, which was in continuation of a trend that began as far back as three years ago, stemmed from the greater housing demand in the wake of the monetary expansion and the rise in disposable income, which continued in 1963 at the same rate as in 1962. The rapid expansion of demand probably terminated in the second half of 1963, as the sluggishness of the real estate market from August onward would seem to attest. But the tapering or weakening of land prices, even if expressed in the checking of the rapid upward climb in housing prices, does not indicate an easing of demand for housing, since the dullness of the land market may have been due to a decline in the speculative demand for building plots.

That the upward movement of housing prices in 1963 was due, as in previous years, to the increased demand is borne out by the fact that the rise in such prices outstripped that in building costs, and that residential construction was expanded—even though at a slower rate—simultaneously with the soaring of housing prices, which exceeded the general price rise to an even greater degree than in the past.

The number of persons employed in construction was 6 per cent higher in 1963, which is a good indicator of the rise in the labor input in this sector.<sup>1</sup> The growth rate in the number of gainfully employed exceeded the average for the economy as a whole, being surpassed only in industry.

Housing conditions continued to improve in 1963. The per capita dwelling stock rose by 5 per cent, about the same as in 1962, and per capita housing consumption rose at the same rate. Apparently there was a further drop in the density of occupation. The improvement in the quality of buildings was also sustained, in respect of public and private construction alike. The average size of dwelling units completed in 1963 was 4 per cent larger than in 1962, the increase occurring in public housing.

The transition to owner-occupancy continued. This trend can be attributed to the Tenant Protection Law, the expectations of a relatively rapid rise in housing prices, and the increased possibilities of obtaining credit for home purchases.

Net credit (i.e. less repayments) extended to the sector by the banking system and the financial institutions was doubled in 1963 as compared with 1962. This was due to several factors: (1) In 1962 there had been a decline, stemming on

<sup>1</sup> The variance between the two may be due to a change in the average number of man-hours per employee.

the one hand from advance mortgage-loan repayments to the amount of IL 54 million, and on the other from a reluctance to take on linked loans, which was even more noticeable after the devaluation. (2) The area of residential construction completed was 9 per cent higher in 1963 than in 1962. (3) Housing prices continued to rise, and with them the size of mortgage loans—especially for privately constructed homes—which are related to these prices.

## 2. VOLUME OF CONSTRUCTION

The product (or value added) of the construction sector rose by 18 per cent at current prices, from IL 427 million in 1962 to IL 504 million in 1963; the real increase was fairly moderate.

The growth of product was greater than that of output, since wages per

Table XIII-2

### REAL CHANGE IN CONSTRUCTION INVESTMENT, BY TYPE, 1956-63

	Per cent increase or decrease (-) as against previous year <sup>a</sup>							
	1956	1957	1958	1959	1960	1961	1962	1963 <sup>b</sup>
<b>Housing</b>								
Private building	-10	-2	9	16	6	9	11	9
Public building <sup>c</sup>	-18	60	-11	6	-13	29	31	-20
Total housing	-13	22	-2	11	-2	17	20	-5
<b>Productive and service sectors</b>								
Agriculture and irrigation	-16	-13	11	3	11	-1	15	5
Industry	37	0	122	34	-2	23	-11	-10
Mining and quarrying	-44	-12	-46	91	8	21	195	-38
Electric power	28	-39	-12	34	-11	-3	19	3
Transportation and postal services	-15	158	-33	45	-31	36	11	24
Commercial premises and guest accommodation	20	16	-2	14	52	36	-20	5
Total	-13	13	3	22	1	15	11	1
<b>Public institutions</b>	14	16	14	13	1	4	6	6
Grand total	-10	19	2	15	-1	14	15	-2

<sup>a</sup> Based on unrounded figures.

<sup>b</sup> Estimate.

<sup>c</sup> Construction by the Ministry of Housing, Jewish Agency, and Israel Housing Development Ltd.

SOURCE: Central Bureau of Statistics.

employee went up faster than the prices of other purchased inputs. This rapid rise in wages was connected with the greatly increased demand for workers and with the larger output per worker. In view of the steep rise in housing prices and the expansion of construction activity in recent years, it may reasonably be assumed that profits in this sector also grew at a fast rate, at least not less than did wages. In the absence of a direct measure, the rate of increase in profits has been assumed to be equal to that for wages; an exact measurement of profits would probably widen the gap between the rate of growth in product and that in output.

In contrast to product, the data on output show a decline in 1963. However, as already pointed out,<sup>1</sup> a measurement of inputs suggests that the sector actually underwent a moderate expansion during the year and that output too was on a somewhat higher level than in 1962.

Investment in construction during 1963 totalled IL 1,260 million, which was 2 per cent less, in real terms, than in 1962. This slight contraction was due to the decline in residential construction, while that for the productive and service sectors and public institutions increased moderately. The value of construction put in place<sup>2</sup> went up by 4 per cent, at current prices, but this stemmed from a rise in construction costs.

The curtailment of construction activity in 1963 was a departure from the general upward trend exhibited by the sector. The decline is particularly striking when compared with the 15 per cent expansion in 1962 and the average 8 per cent annual increase since 1955.<sup>3</sup>

#### (a) *Construction for productive and service sectors*

The real increase in construction for the productive and service sectors amounted to 1 per cent in 1963, which was much lower than the 9 per cent growth in 1962 and the average of 8 per cent since 1955.

The rapid increase in the transportation sector was mainly due to the accelerated pace of road construction. The paving of primary highways was considerably stepped up following the receipt of a loan from the International Bank

<sup>1</sup> See footnote 1 on p. 246.

<sup>2</sup> This is lower than the market value, since it does not include the land. The figures cited here refer to the rise in the cost of the product without taking note of its market value.

<sup>3</sup> It should be noted that this is an average of sharply fluctuating figures, a year of rapid expansion being followed by a year of slower growth, and occasionally (as in 1956 and 1960) even a drop. Only in 1961 and 1962 were there two consecutive years of relatively rapid expansion. A calculation of the increase according to two-year moving averages leaves it at 8 per cent (including 1963), but the annual oscillations are of course considerably flattened. In view of the method used to measure investment in construction, a moving-average comparison may be much more meaningful than the conventional comparison, since it tends to eliminate chance errors in attributing investment to one year rather than to another. The system of measurement and especially the length of time involved until the completion of construction make it reasonable to believe that the weight of such chance errors in the annual estimates of construction investment is not negligible.

Table XIII-3

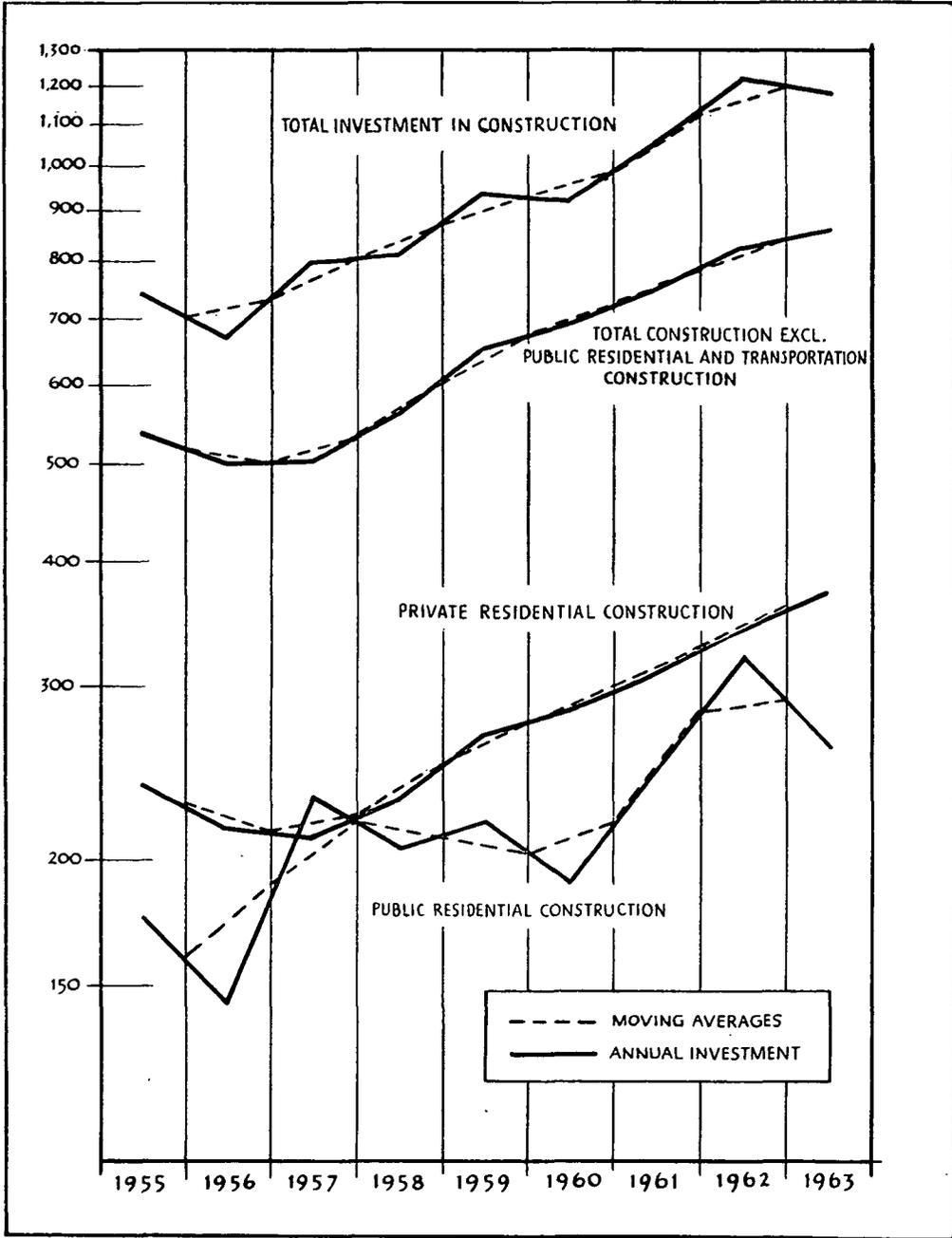
**AREA OF CONSTRUCTION STARTED AND COMPLETED,  
BY TYPE, 1962-63**

(thousands of square meters)

Type	Construction started		Per cent increase or decrease (-)	Construction completed		Per cent increase or decrease (-)
	1962	1963		1962	1963	
<b>Housing</b>						
Private building	1,652	1,848	11.9	1,441	1,509	4.7
Public building						
For immigrants	1,021	459	-55.1	712	904	27.0
For others	547	549	0.4	567	547	-3.5
<b>Total public building</b>	<b>1,568</b>	<b>1,008</b>	<b>-35.7</b>	<b>1,279</b>	<b>1,451</b>	<b>13.4</b>
<b>Total residential construction</b>	<b>3,220</b>	<b>2,856</b>	<b>-11.3</b>	<b>2,720</b>	<b>2,960</b>	<b>8.8</b>
<b>Productive and service sectors</b>						
Agriculture and irrigation	204	166	-18.6	170	162	-4.7
Industry and crafts	531	493	-7.2	452	482	6.6
Commercial premises and offices	106	181	70.8	110	93	-15.5
Hotels and other guest accommodation	79	28	-64.6	98	18	-81.6
<b>Total</b>	<b>920</b>	<b>868</b>	<b>-5.7</b>	<b>830</b>	<b>755</b>	<b>-9.0</b>
<b>Public buildings</b>	<b>444</b>	<b>451</b>	<b>1.6</b>	<b>391</b>	<b>400</b>	<b>2.3</b>
<b>Grand total</b>	<b>4,584</b>	<b>4,175</b>	<b>-8.9</b>	<b>3,941</b>	<b>4,115</b>	<b>4.4</b>
Of which:						
Public building	1,779	1,179	-33.7	1,476	1,605	8.7
Private building	2,805	2,996	6.8	2,465	2,510	1.8

SOURCE: Central Bureau of Statistics and Ministry of Housing.

**Diagram XIII-1**  
**TOTAL CONSTRUCTION, PRIVATE AND PUBLIC RESIDENTIAL**  
**CONSTRUCTION, ANNUAL INVESTMENT,\* 1955-63**  
 (IL million, at 1962 prices)



Semi-logarithmic scale.

\* Annual data and two-year moving averages.

SOURCE: Central Bureau of Statistics and Bank of Israel.

for Reconstruction and Development for this purpose. Total construction for this sector rose by 24 per cent, which is not unusual. As in the case of public residential building, transportation construction displays marked fluctuations from year to year. This applies to the electric power sector as well. Common to all three is the fact that the bulk of the work is carried out by the public sector. But whereas construction for the electric power sector accounts for no more than 2-3 per cent of aggregate construction activity, that for transportation and public residential building cause sharp oscillations in total construction activity, and even in gross domestic investment. Moreover, in every year since 1955, with the exception of 1963, the fluctuations in these two sectors were in the same direction, thus intensifying the fluctuations in the aggregate volume of construction.

Construction for agriculture and irrigation increased by 5 per cent, a lower rate than in 1962. The expansion occurred mainly in the National Water Carrier. Agriculture and irrigation accounted for 10-14 per cent of all construction for the productive and service sectors. Here too the Government accounts for a large share of the total investment, but the annual fluctuations are not big. Since 1955 construction for agriculture has shown a downward trend and that in connection with irrigation projects an uptrend. Construction for agriculture and irrigation together declined moderately until 1957, but as from 1958 has moved up at a moderate rate.

Construction for the mining and quarrying sector was below the 1962 level. This reduction came after a rapid increase in 1962, but the level was still higher than in 1961.

There was a slight increase in the electric power sector, which was mainly due to the erection of a power station at Ashdod. In this sector as well, the rate of expansion was much lower than in 1962, owing to the fact that the investment program for 1963 was not fully implemented.

In industrial building, the decline that began in 1962 continued during the year reviewed, in contrast to the increased investment in equipment during these two years. This can partly be explained by the fact that the replacement of equipment in an existing enterprise does not necessarily involve an investment in buildings as well. A further and more important reason lies in the fact that in the past few years the amount invested in the expansion of existing enterprises has been proportionally greater than that in the establishment of new enterprises, and the equipment component is higher in respect of the former: the life of buildings exceeds that of equipment, while the expansion of enterprises is expressed mainly in the addition of equipment.

In recent years the construction sector increased its investment in equipment to an appreciable degree. This is attributable, on the one hand, to the process of mechanization which has been going on for several years, particularly since 1961, and on the other hand to changes in the character of building, such

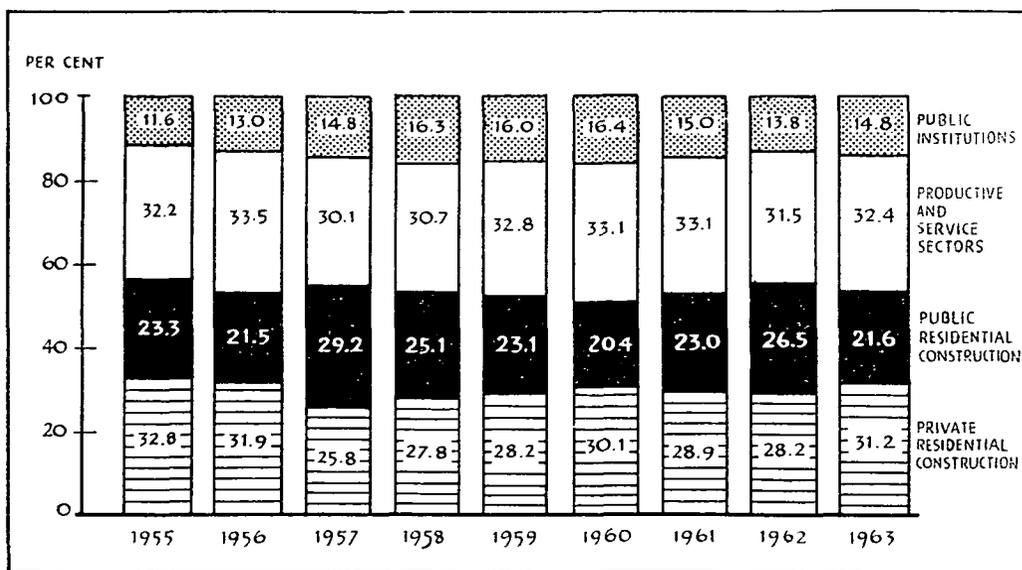
as the increased erection of multiple-storey buildings. The additional equipment acquired by the sector in 1963 amounted to IL 55 million. Mechanization, which boosts output per worker, is especially important when there is labor shortage; however, the main form of manpower released thereby is unskilled labor, where the shortage is less acute.

(b) *Residential construction*

The value of residential construction in 1963 amounted to IL 665 million, a decrease of 5 per cent from 1962. This was in marked contrast to the 20 per cent expansion in 1962, and to the average annual increase of 7.6 per cent during the years 1955–62.

The share of housing in total construction contracted somewhat in 1963, but was still close to the average level for the years 1955–62. As already noted, residential construction is marked by sharp fluctuations from year to year; these are caused by public residential construction, in which there is an almost systematic irregularity—expansion in one year and contraction in the next. The oscillations range from a decline of 20 per cent to a rise of 60 per cent. This pattern has characterized public construction since 1955, with the exception of 1961 and 1962, which were two consecutive growth years followed by a decline in 1963. These fluctuations have a very negative effect.

**Diagram XIII-2**  
**CONSTRUCTION, BY MAJOR TYPE, 1955-63**  
(percentages)



SOURCE: Central Bureau of Statistics.

The irregularity of construction activity creates problems of adjustment. The slump in 1960, coming after the boom of 1959, led to the withdrawal of workers from the sector; in 1961 activity expanded once again, causing a shortage of workers, which in turn pushed up wages well beyond the official rates. On the other hand, the expansion of 1962, which was even greater than that in 1961, was not accompanied by the same difficulties of adjustment, and caused less dislocations to the sector than the buoyant activity of 1961 or the low level of 1960. It may be concluded, therefore, that a more even expansion of construction activity would eliminate the pressure on the factors of production, lead to a more balanced growth of employment, and largely avert steep rises in the various input prices.

Table XIII-4

PUBLIC RESIDENTIAL CONSTRUCTION, BY TYPE, 1962-63

	No. of units				Per cent			
	Started		Completed		Started		Completed	
	1962	1963	1962	1963	1962	1963	1962	1963
Immigrant housing	19,384	8,040	14,956	16,571	69	50	63	65
Liquidation of transit camps and slums	1,841	1,194	2,331	1,975	7	7	10	8
Saving-for-Housing Scheme and housing projects for veteran settlers and others	5,060	5,240	5,684	4,738	18	33	24	19
Housing in Arab communities	376	349	323	358	1	2	1	1
Housing in agricultural settlements	1,412	1,282	349	1,661	5	8	2	7
<b>Total</b>	<b>28,083</b>	<b>16,105</b>	<b>23,643</b>	<b>25,303</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>

SOURCE: Ministry of Housing.

Since the main factor in the fluctuations is public construction (see Diagram XIII-1), the Government could regularize activity in this sector by planning its own building program accordingly, without having to resort to controls over construction activity as a whole.

The erection of immigrant housing declined in 1963 at a steeper rate than other types of construction, whereas in 1962 it had shown the most rapid rise. The decrease occurred only in new construction started, which fell off by 55 per cent; completions were up 27 per cent. It is clear, therefore, that immigrant

housing was the principal cause of the sharp fluctuations<sup>1</sup> in public residential construction. However, it should not be concluded from this that these fluctuations are unavoidable and stem from changes in the size of immigration. Since 1961 there have not been any marked variations in the number of newcomers, nor is a reduction expected in the near future; nevertheless, as has been noted, in 1963 there was a decline in immigrant housing starts. The fluctuations here are due to an accumulation of dwelling stock one year and drawing on this stock the following year. In 1962 the number of vacant housing units held by Amidar rose by 3,090, to 5,340—of which 2,810 were new. The increase continued in 1963. At the end of the year reviewed, Amidar had 6,380 vacant units, of which 4,080 were new.<sup>2</sup> Hence it is not surprising that in 1963 new housing starts fell off appreciably.

The maintenance of a reserve of vacant dwellings is of course designed to enable the absorption of unforeseen immigration. However, aside from the considerable expense involved, this solution has a serious drawback in that it causes dislocations in the construction sector. The accumulation of this dwelling stock over the last several years has taken place precisely in a period of heavy activity, when in any case there was pressure on the factors of production. The fluctuations in the dwelling inventory in recent years have been very sharp, even though there have been no substantial changes in the size of immigration and none is expected in the near future.

The problem of an unanticipated immigration increase can be met in other ways which do not suffer from the same drawback. For example, a stock of prefabricated components can be kept on hand for immediate assembly, or building skeletons, which are nondamageable and can be rapidly completed, can be put up, and so forth.

Construction of nonimmigrant public housing was on a smaller scale than in 1962; there was no change in building starts, but there was a moderate decrease in completions. The share of public construction in total nonimmigrant residential construction also continued to fall.

Public construction is very erratic, not only between one year and another but even during the course of the year (see Diagram XIII-3). The average time required to put up a housing unit<sup>3</sup> rose from 11.1 months in 1962 to 13.3 months in 1963—an increase of about 20 per cent. This is mainly attributable to immigrant housing, the erection of which took 33 per cent longer during the year reviewed. The reason can be found in the accumulation of a stock of vacant dwellings by Amidar.

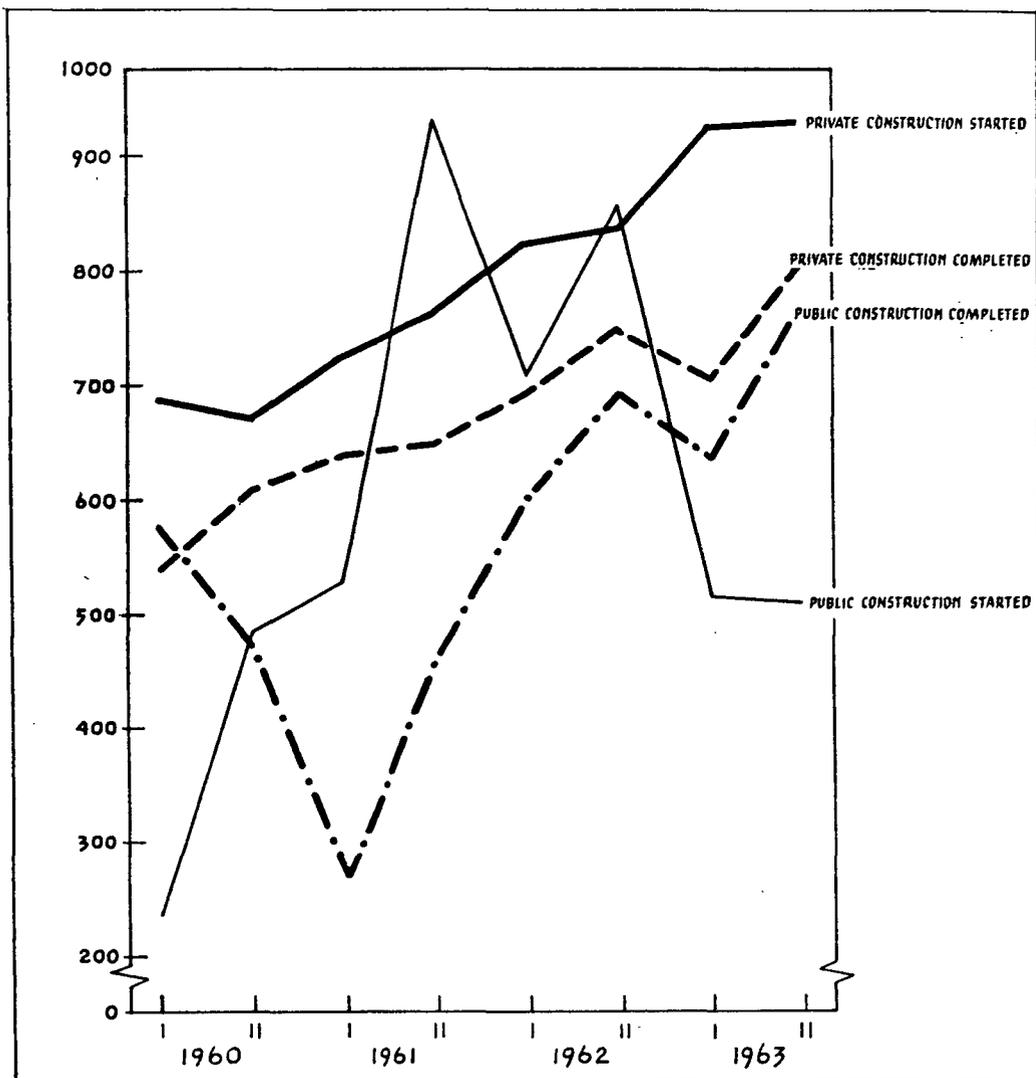
<sup>1</sup> There is a view that part of the measured fluctuations in the past can be ascribed to a faulty system of measurement. The introduction of a more precise measure of public residential construction gives reason to believe that the data for 1963 are quite reliable. (For details, see the Appendix to this Report—in Hebrew only.)

<sup>2</sup> According to data of Amidar Ltd.

<sup>3</sup> The reference is to housing units completed in 1963.

Diagram XIII-3

RESIDENTIAL CONSTRUCTION, BY HALF YEARS, 1960-63  
(thousand sq. meters)



Construction of 16,100 housing units financed from public funds was begun in 1963, as compared with 28,100 in 1962. The number of publicly financed units completed rose from 23,600 to 25,300. There was a decline in the relative share of public immigrant housing starts during the year, reversing the trend prevailing since 1960.

In private residential construction, the upward swing which began in 1958

continued in 1963, although at a slightly slower tempo—9 per cent as against 11 per cent the year before. This rate is still higher than the average for 1955–62, which came to 6 per cent.

Private construction is characterized not only by a fairly even growth over the years, but also by uniformity in the number of units started and completed each year (see Diagram XIII–3). This may be due to the form of organization of the building companies and contractors, who cannot step up or reduce their operations to any great extent within a short period.

The number of residential units started by the private sector in 1963 was 18,590, as compared with 17,150 in 1962. The number of units completed was 15,540, as against 14,560 in 1962.

### 3. INPUTS

The index of building costs<sup>1</sup> was 7 per cent higher, on the average, than in 1962. The increase registered during 1963 amounted to 2 per cent, which is considerably less than in 1961 or 1962. But it should be remembered that this index does not reflect the entire rise in building costs, since it does not include land prices.

#### (a) *Wages and employment*

Wages in the construction sector went up by 5 per cent, as compared with a rise of 14 per cent in each of the two previous years. The average wage level was 11 per cent higher in 1963 than in 1962. This deceleration was due to the slower expansion of construction activity and, to a lesser degree, to increased mechanization. The sector, however, has not yet reached the saturation point in workers, for despite the deceleration, the average wage increase in 1963 was slightly higher than that in the official scale. Evidence of a labor shortage can be found in the statistics of the National Employment Service, which show that skilled building workers accounted for 12 per cent, on the average, of all unfilled requests for labor placed with the labor exchanges in 1963 and 26 per cent of all unfilled requests for skilled labor,<sup>2</sup> whereas the share of the sector in total gainfully employed did not exceed 10 per cent.

It appears that in 1963 there was no longer a shortage of unskilled workers, but only of skilled workers. At the end of the year the shortage was reduced, but not to the point of creating unemployment in the sector.

<sup>1</sup> The index of building costs, as measured by the Central Bureau of Statistics, with the wage items adjusted in accordance with Bank of Israel calculations. The index does not include changes in land prices.

<sup>2</sup> These data should be regarded as only a partial indicator; see Chapter IX, "Population, Labor Force, and Employment".

Table XIII-5

INDEX OF BUILDING COSTS,<sup>a</sup> BY ITEM, 1962-63

Item	Actual weight in index, average 1963	Per cent average increase over previous year		Contribution to total rise in index from 1962 to 1963
		1962	1963	
Wages	49.5	14.3	11.4	84.5
Transport	5.0	14.7	2.1	1.6
Materials				
Gravel	2.2	16.6	-1.9	-0.6
Building sand	2.2	11.5	2.2	0.7
Cement	11.0	0.9	0.0	0.0
Lumber	18.7	24.0	1.4	3.9
Iron	11.4	24.9	5.8	9.9
All materials	45.5	16.6	2.0	13.9
Total index	100.0	15.4	6.7	100.0

<sup>a</sup> Based on the index of building costs of the Central Bureau of Statistics, but including other estimates with respect to wage changes.

The number of construction workers rose by 6 per cent in 1963, continuing the upward trend that began in 1961. This percentage increase was greater than that of total gainfully employed in the country, and it raised the proportion of construction workers from 9.5 per cent of total employed persons to 9.8 per cent. There was no change in the number of man-hours per gainfully employed, and consequently the total labor input also rose by 6 per cent. The number of wage earners increased relatively less than the number of self-employed, including subcontractors, and stood at 57,500 in 1963.

The number of building companies and contractors rose rapidly, by 15 per cent—reaching 4,500 at the end of 1963 as compared with 3,900 at the end of 1962.<sup>1</sup> This accelerated increase can be attributed to the high profits earned in the sector in 1961 and 1962.

After the expansion that took place in 1961 and 1962 in the vocational training program for new building workers, the number of participants in these courses dropped by 50 per cent in 1963, totalling some 1,000.<sup>2</sup> On the other hand, the number of workers undergoing advanced vocational training rose by 13 per cent in 1963/64, as compared with a reduction of 10 per cent in 1962/63, and totalled 1,260.<sup>3</sup> These developments are consistent with the reduction of the shortage of building workers in 1963 as compared with 1962. The number of

<sup>1</sup> According to data of the National Insurance Institute; the figure for 1962 has been revised.

<sup>2</sup> According to data of the Building Workers' Association.

<sup>3</sup> According to data of the Ministry of Labor and Bank of Israel calculations.

new workers undergoing training is no doubt connected with the aggravation of the shortage of workers, and the opposite is true of advanced courses, which enable the workers to increase their earnings, otherwise difficult to achieve, particularly in a year when there is no labor shortage.

Table XIII-6

EMPLOYMENT IN THE CONSTRUCTION SECTOR, 1958-63

	Average no. of gainfully employed	Per cent increase over previous 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	4.6	9.3
1962	75,200	10.6	9.5
1963	79,700	6.0	9.8

SOURCE: Central Bureau of Statistics and Bank of Israel.

The wage level in the construction sector in 1963 was considerably higher than the official wage rates. It was also high relative to the short period required to train building workers. In the years of buoyant construction activity the wages of unskilled workers also exceeded the official scale, and it was these high wages that made possible the comparatively rapid growth in the number of building workers. Working conditions in the building trades, including the unsteady nature of employment, make it necessary to pay high wages; otherwise workers would leave these trades, particularly when there is a labor shortage in other sectors.

(b) *Building materials and transport*

Prices of building materials and transportation did not rise during 1963. Their average level was 2 per cent higher than in 1962, but the increases took place at the end of 1962.

As in the case of other industrial products, the stability of building material prices was primarily due to the administrative curbs imposed by the Ministry of Commerce and Industry. Demand for building materials apparently rose, as attested by the increased production of materials serving as inputs to the sector: domestic cement sales advanced by 10 per cent in 1963, and production of iron, gravel, and sheet glass expanded.

The increased domestic demand was reflected in the absolute decline in the export of building materials, particularly cement, despite the fact that their local prices did not go up. Cement exports have been on the decline since 1960; in

1961 and 1962 this was a by-product of the considerable expansion of construction activity; in 1963, on the other hand, the decrease was even greater despite the slower growth of construction.

The persistent brisk demand for construction led to an increase in the prices of the sector's output, particularly housing, despite the stability of building material prices. The rise in output prices was reflected by the rise in other input prices, including wages and land.

(c) *Land*

The upward movement of urban land prices, which began in 1959 and gathered momentum in 1962, carried over into early 1963. The factors pushing up prices were the steady growth of demand for housing and the speculative demand for land, the latter also connected with expectations of a continued expansion of the housing market. The supply of land is the least elastic of building inputs; because of this, as well as the efforts to stabilize the prices of the other building inputs during the year reviewed, the sustained expansion of demand for housing drove up the prices of building plots even more rapidly than housing prices.<sup>1</sup>

The partial figures available on land prices indicate a rapid rise in the first half of 1963, and a weakening, and even decline in some areas, in the second half.<sup>2</sup> In Tel Aviv there was apparently only a deceleration of the upward climb.

The main cause of this change was the amended Land Betterment Tax Law which became effective in August 1963, as evidenced by the fact that the turning point almost coincided with the date of the new law. The amended law, which closed existing loopholes, reduced capital gains and led to relative stagnation in the real estate market. Its impact was felt mainly in the speculative land market, but it affected the housing market as well. Part of its influence no doubt derived from the fact that it compelled contractors and building companies to revise their cost calculations. This factor was to some degree transitory, but there was an additional factor connected with land taxes: owing to the soaring of land prices in the last few years, the municipalities reassessed—though with a slight lag—land values for tax purposes, so that general property tax collections rose sharply, even though the rate stayed fixed. This increase was more rapid than that in land prices,<sup>3</sup> and the difference was even more pronounced in 1963. It appears that in 1962/63 the gap between the appraised value of land for general property tax purposes and its market value began to narrow. This has made the holding of building plots more expensive and reduces its profitability; presumably it will

<sup>1</sup> For a detailed discussion of this point, see the Bank of Israel Annual Report for 1962, pp. 272-73.

<sup>2</sup> Data on changes in land prices were obtained from the Land Appraisal Department of the Ministry of Justice and the Builders' and Contractors' Association.

<sup>3</sup> According to the Builders' and Contractors' Association, on the basis of data obtained from various municipalities.



even bring down land prices. It is obvious, therefore, that this increase in property taxes has also helped to curb the rapid mounting of urban land prices.

#### 4. HOUSING PRICES

Housing prices in 1963 were 22.4 per cent higher than in 1962. This rate of increase was similar to that of 1962—22.6 per cent—but higher than the average for the years 1959–62, which came to 17 per cent.<sup>1</sup>

The rise in housing prices was much greater than that of other items in the consumer price index, accounting for 35 per cent of the total increase in the index as compared with its average level in 1962. This rapid rise stands out even more when compared with the slowing down of the increase in construction costs in 1963.

Table XIII-7  
INDICES OF HOUSING PRICES, KEY MONEY, AND BUILDING COSTS,  
JANUARY 1959 to JULY 1963

Month	Housing prices		Key money		Building costs <sup>a</sup>	
	Index	Per cent increase over preceding period	Index	Per cent increase over preceding period	Index	Per cent increase over preceding period
January 1959	100.0	—	100.0	—	100.0	—
July 1959	102.0	2.0	101.2	1.2	101.5	1.5
July 1960	110.9	8.7	103.4	2.2	107.8	6.2
July 1961	126.7	14.2	117.9	14.0	119.7	11.0
July 1962	155.8	23.0	152.1	29.0	136.5	14.0
July 1963	197.4	26.7	214.1	40.8	145.6	6.7

<sup>a</sup> See note to Table XIII-5.

SOURCE: For housing prices and key money—Central Bureau of Statistics; for building costs—Central Bureau of Statistics and Bank of Israel.

Demand for housing continued to grow during the year reviewed, as attested by the expansion of private residential construction despite the rapid climb of housing prices. However, the changes that took place in land prices toward the end of the year<sup>2</sup> suggest that the growth of demand slowed down, but so far there

<sup>1</sup> The variation in housing prices is measured according to the housing item in the consumer price index. This measure may not be sufficiently precise, and it is calculated for the previous six months. According to other sources, housing prices probably levelled off in the last four months of 1963, but no reliable yardstick was available at the time of this Report. For a discussion of housing prices, see Chapter VI, p. 89.

<sup>2</sup> See the above discussion on land prices.

is no evidence of such a development in housing prices or in the volume of construction.

From January 1959<sup>1</sup> to July 1963 housing prices rose by 97 per cent, or an average of 22 per cent per annum. Over the same period building costs went up by 46 per cent, or 10 per cent p.a. The main reason for this difference was the increased demand for housing. The rise in housing prices drove up the prices of building plots at an even greater rate, owing to the inelastic supply of this input. As a result, the relative share of land in the total value of the housing unit went up, leading to a rapid rise in housing prices. The higher prices of building plots was not the cause of the rise in housing prices; rather, both of them stemmed from the same factor—the expanded demand for housing.<sup>2</sup>

Key money was 34 per cent higher in 1963 than in 1962—and this after a 31 per cent increase in 1962. In general, housing prices can be expected to rise to the same extent as key money. Such a trend is indeed discernible, although only for a period longer than one year. Between 1959 and 1963 key money went up by an average of 25 per cent per annum, as compared with 22 per cent for housing prices. Up to 1962 the rise in housing prices was the more rapid, but since then an opposite trend has prevailed. In 1962, after discussions that lasted several years, it was decided to raise rents in dwellings covered by the Tenant Protection Law. The relatively slow increase in key money in the period immediately following is apparently attributable to the uncertainty which prevailed in the years preceding the final decision on the rent question. The moderate increase laid down in the 1962 amendment to the law, and the certainty that there would be no further change in the next few years, led to a rapid rise in key money—even more rapid than that in housing prices. A further explanation of this development—although carrying less weight—is that the demand for low-cost housing expanded to a much greater extent than the demand for housing in general, owing to the more rapid increase of housing prices in recent years than that of other products and incomes. Key money dwellings are classified as low-cost housing, but their supply is more or less fixed, which explains the accelerated increase in key money.

In view of the trends in land prices and reports on the sluggishness of the housing market in the last months of 1963, there is reason to believe that the rise of housing prices slowed down toward the end of the year.

## 5. HOUSING CONDITIONS

Dwelling capital stock per capita rose in 1963, as in previous years, by 5 per cent.<sup>3</sup> This increase points to an improvement in the average standard of housing.

<sup>1</sup> The measurement of the change in housing prices began only in 1959.

<sup>2</sup> See the Bank of Israel Annual Report for 1962, pp. 273–275.

<sup>3</sup> This rate of increase can serve as an approximation of the growth rate in per capita housing consumption.

The quality of new building is generally higher than the average standard in the past, while that of demolished buildings is usually very inferior, so that average housing quality is progressively advancing. A further indicator of this improvement is to be found in the expanded construction of high-standard building materials, such as porcelain wall tiles, marble products, etc. Amenities not customary in the past are being installed to a growing extent—central heating, electrical floor heating, adjustable shutters, elevators, etc.

There has also been a steady increase in average floor space and number of rooms per unit (see Table XIII-8 and Diagram XIII-5). The average area per housing unit completed in 1963 in publicly financed construction rose by 10 per cent, and in private construction by 1 per cent. The area of the new housing units is most likely greater than the average area of existing units, and it may be assumed that both average area and number of rooms are on the increase.

**Table XIII-8**  
**HOUSING UNITS COMPLETED, BY NO. OF ROOMS, 1961-63**  
(percentages)

No. of rooms per unit	Private construction			Public construction*			All construction		
	1961	1962	1963	1961	1962	1963	1961	1962	1963
1	6	5	5	2	1	1	4	3	2
2	40	32	29	46	55	39	43	46	35
3	45	49	53	52	43	60	48	45	58
4 and more	9	14	13	0	1	0	5	6	5
Total	100	100	100	100	100	100	100	100	100
Total units completed	13,070	14,560	15,540	13,290	23,800	24,120	26,360	38,360	39,600
Total rooms in units completed	33,920	39,990	43,060	33,300	58,270	62,820	67,220	98,260	105,880

\* The data here differ from those presented in Table XIII-4, since they do not include construction in agricultural settlements.

SOURCE: Central Bureau of Statistics.

The last few years have been characterized by a preference for owner-occupancy over renter-occupancy. Approximately 60 per cent of all families in Israel<sup>1</sup> owned their own homes in 1963. There are a number of reasons for this situation:

<sup>1</sup> Excluding kibbutzim, institutions, and Beduin tribes.

1. The Tenant Protection Law deters the building of rental housing.
2. Past experience encourages expectations that housing prices will rise more rapidly than other prices, so that the purchase of a dwelling is a form of investment guaranteeing a capital gain, the actual expression of which for most families is a saving in housing expenditure in the future.
3. Mortgage loans are granted only to persons buying a home and not to those renting a dwelling against payment of key money. In 1963 such loans were granted up to 25 per cent of the value of privately built homes.

**Table XIII-9**  
**GOVERNMENT-FINANCED HOUSING CONSTRUCTION,\***  
**BY DISTRICT, 1961-63**  
 (percentages)

District	No. of housing units started			Population in 1962
	1961	1962	1963	
Jerusalem	5	9	8	9
North	12	11	9	15
Haifa	16	14	14	17
Center	19	16	24	18
Tel Aviv	19	24	19	32
South	29	26	26	9
Total	100	100	100	100
Total in absolute figures	25,301	26,295	14,474	2,332,000

\* Excluding construction in agricultural settlements and Arab communities.

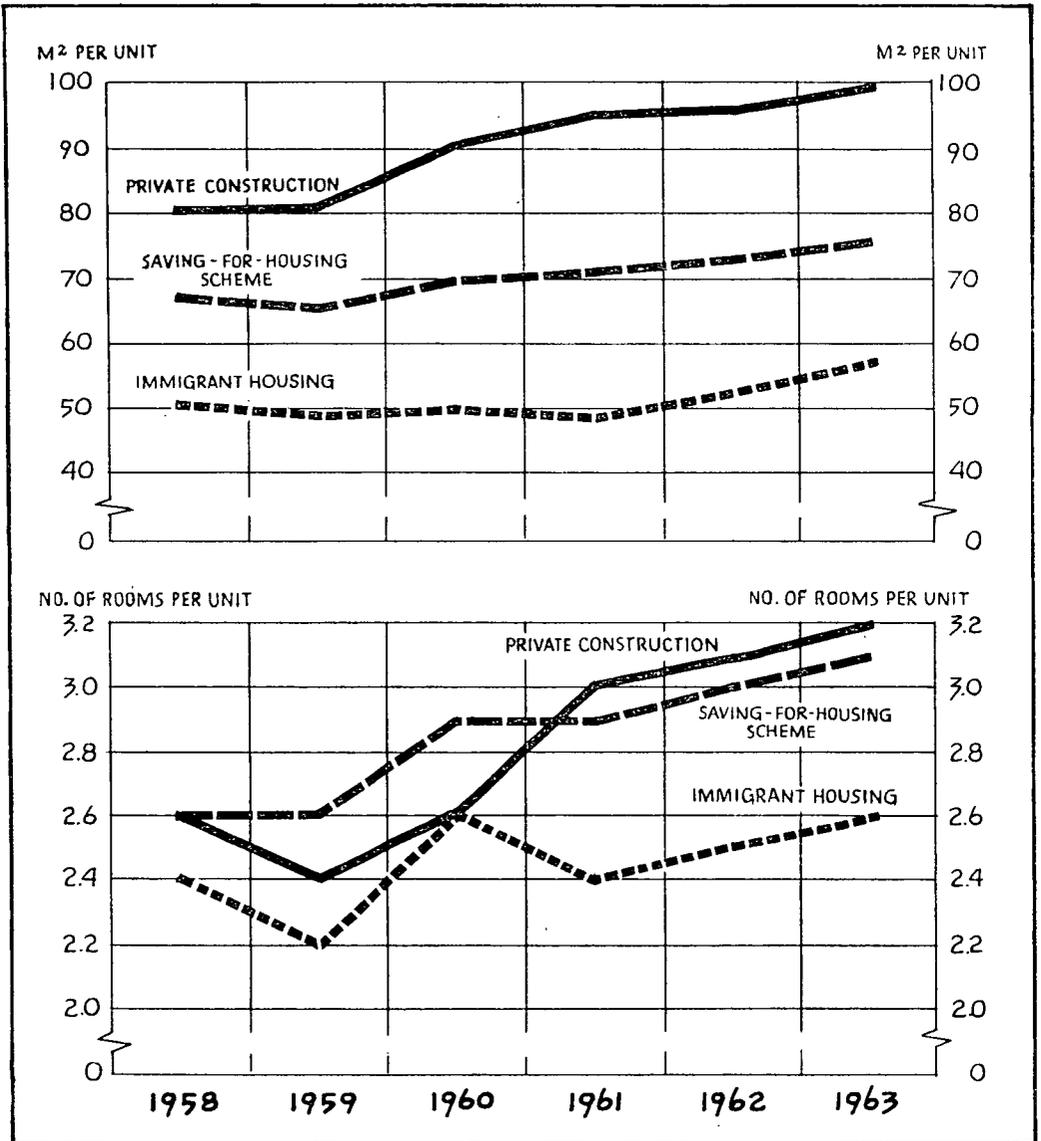
SOURCE: Ministry of Housing and Central Bureau of Statistics.

The percentage of subtenants among all families living in rental housing went up during the year reviewed.

The distribution of public housing construction by district in 1961-63 was roughly similar to the distribution of the population, with the exception of Tel Aviv and the South. The Southern District accounted for 9 per cent of the population but 26 per cent of all public housing, while Tel Aviv accounted for 32 per cent of the population and only 19 per cent of all public housing. This distribution is in accord with the population dispersal policy. At the same time, the share of the Central and Tel Aviv Districts in total public construction rose in 1963. However, since public residential construction in the Central, Tel Aviv, Haifa, and Jerusalem Districts together accounts for a smaller percentage of total residential construction than that in the Southern and Northern Districts, public construction there does not necessarily constitute a factor in

Diagram XIII-5

AVERAGE NO. OF ROOMS AND AREA OF RESIDENTIAL CONSTRUCTION, BY MAIN TYPE, 1958-63



SOURCE: Central Bureau of Statistics and Ministry of Housing.

Table XIII-10

AVERAGE PRICE OF PUBLIC RENTAL HOUSING,<sup>a</sup> BY TYPE, AREA, AND DISTRICT, 1960-63

	1960			1961			1962			1963		
	No. of units	Average price per unit (IL)	Average floor space per unit (m <sup>2</sup> )	No. of units	Average price per unit (IL)	Average floor space per unit (m <sup>2</sup> )	No. of units	Average price per unit (IL)	Average floor space per unit (m <sup>2</sup> )	No. of units	Average price per unit (IL)	Average floor space per unit (m <sup>2</sup> )
<b>For immigrants</b>												
Liquidation of transit camps and huts	1,379	6,682	46	995	7,775	50	691	9,456	53	1,297	11,208	54
Housing projects for new immigrants <sup>b</sup>	1,889	7,234	48	3,239	7,990	50	11,811	9,285	49	9,104	10,695	52
Total	3,268	7,001	48	4,234	7,932	50	12,502	9,294	49	10,401	10,760	52
<b>For others</b>	347	6,629	47	144	9,026	57	224	9,888	58	765	11,984	58
Grand total	3,615	6,965	48	4,378	7,968	50	12,726	9,305	50	11,166	10,844	53
Of which:												
In the South	1,146	7,223	47	1,784	7,986	49	5,238	9,025	47	4,032	10,633	52
In the Center <sup>c</sup>	1,543	6,719	47	1,568	7,953	51	4,081	9,318	52	5,255	10,736	53
In the North	784	6,998	49	781	7,871	50	2,852	9,603	50	908	10,536	55
In Jerusalem	142	7,380	48	245	8,238	48	555	9,985	51	871	12,798	48

<sup>a</sup> The price at which the Ministry of Housing is ready to sell the dwelling to the tenant.

<sup>b</sup> The 1963 data do not include the construction of asbestos huts, which totalled 646 units averaging 38 sq. meters in size.

<sup>c</sup> Tel Aviv, Haifa, and Central Districts.

SOURCE: Bank of Israel.

the dispersion of the population. The comparison must be made between the distribution of total residential construction by districts and the population distribution.

## 6. FINANCING OF CONSTRUCTION AND HOUSING

Most of the credit extended to this sector is for financing 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 amounted to IL 768 million at the end of 1963, an increase of IL 226

Tab

### PURCHASES OF PUBLIC HOUSING UNITS,<sup>a</sup> PRICE, AND SIZE C

Type of housing	1960				1961	
	No. of units	Average price <sup>b</sup> (IL)	Average mortgage (IL)	Average floor space (m <sup>2</sup> )	No. of units	Average price <sup>b</sup> (IL)
<b>For immigrants</b>						
Liquidation of transit camps and huts	2,447	7,594	5,659	55	1,108	8,856
Housing projects for new immigrants <sup>c</sup>	1,687	7,550	5,913	53	709	10,528
<b>Total</b>	<b>4,134</b>	<b>7,576</b>	<b>5,763</b>	<b>54</b>	<b>1,817</b>	<b>9,508</b>
<b>For others</b>						
Saving-for-Housing Scheme	4,407	10,698	4,048	66	2,751	13,275
Slum clearance	490	8,156	5,948	60	292	10,625
Young couples and veteran residents projects	720	8,703	6,058	55	205	10,149
Miscellaneous	204	8,061	6,776	57	126	10,688
<b>Total</b>	<b>5,821</b>	<b>10,145</b>	<b>4,552</b>	<b>64</b>	<b>3,374</b>	<b>12,759</b>
<b>Grand total</b>	<b>9,955</b>	<b>9,208</b>	<b>5,127</b>	<b>61</b>	<b>5,191</b>	<b>11,621</b>
<b>Of which:</b>						
In the South	1,008	9,041	5,699	59	344	9,789
In the Center <sup>d</sup>	7,541	8,918	4,906	60	3,924	11,632
In the North	635	10,002	5,926	65	341	9,906
In Jerusalem	771	9,933	4,948	61	582	13,632

<sup>a</sup> Excluding part of the construction by Mishkenot Ltd.

<sup>b</sup> Including land registry fee, which averaged about IL 200.

<sup>c</sup> Including housing for specialists.

million over the end-1962 figure. However, IL 74 million of this increment was an accounting transfer of existing loans from building companies to mortgage banks. Actual credit extended during the year, less repayments, thus totalled about IL 152 million, which is twice the 1962 figure. The rapid increase was due to several factors:

1. The credit figure is net of repayments, and in 1962 there were advance repayments to the amount of IL 54 million in the wake of devaluation.

2. Building completions in 1963 were 9 per cent greater than in 1962.

3. The size of the average mortgage loan rose from IL 6,200 in 1962 to IL 7,000 in 1963. This increase was due both to the higher housing prices,

### III-11

#### MORTGAGE, BY AREA, TYPE OF HOUSING, AND DISTRICT, 1960-63

		1962				1963			
Average mortgage (IL)	Average floor space (m <sup>2</sup> )	No. of units	Average price <sup>b</sup> (IL)	Average mortgage (IL)	Average floor space (m <sup>2</sup> )	No. of units	Average price <sup>b</sup> (IL)	Average mortgage (IL)	Average floor space (m <sup>2</sup> )
7,078	55	632	9,448	8,033	55	559	12,596	10,218	55
6,212	64	1,168	10,985	8,346	58	2,185	12,812	10,405	58
6,740	59	1,800	10,446	8,236	57	2,744	12,768	10,367	57
3,999	70	3,723	14,103	4,634	71	3,072	17,134	5,434	68
6,553	59	553	12,714	9,552	52	174	12,934	9,566	57
6,016	59	58	10,163	8,245	58	248	12,084	9,662	55
5,236	63	112	12,324	2,346	67	12	10,300	9,150	52
4,390	68	4,446	13,834	5,235	69	3,506	16,545	5,951	66
5,212	65	6,246	12,858	6,100	65	6,250	14,887	7,890	62
6,051	58	1,294	14,204	4,670	69	422	14,493	2,389	66
5,258	66	4,041	12,458	6,569	64	5,179	14,883	7,994	62
4,897	58	530	12,881	5,519	66	157	13,830	9,209	64
4,594	66	381	12,493	6,787	60	492	15,602	6,146	59

<sup>a</sup> Tel Aviv, Haifa, and Central Districts.

SOURCE: Bank of Israel.

since the amount of the loan is in direct proportion to the price of the home, and to enlarged sources of financing.<sup>1</sup>

Mortgage loans granted to purchasers of homes in the Saving-for-Housing Scheme in 1963 ranged between IL 5,000 and IL 6,000, without regard to the value of the home. The loans averaged 32 per cent of the value, as compared with 33 per cent in 1962. In immigrant housing, the average loan amounted to more than 80 per cent of the value of the unit, and bore interest of 4.5 per cent, which is less than that normally charged on index-linked loans. These big mortgage loans and low interest rates are in line with the policy of the Ministry of Housing and Amidar Ltd. which is designed to encourage tenants in public housing to purchase their dwellings. In the existing circumstances, when the average monthly rent for a new dwelling is IL 26—an amount which perhaps covers current expenses but not depreciation or imputed interest on invested capital—this policy is economically justified. But the mistake lies in permitting the lessee of an Amidar dwelling to receive an assured grant for the entire period of his tenancy. It would be desirable to collect an economically calculated rent and provide needy families with a housing allowance through the social welfare office. Such a system would ensure that the economic situation of the tenant receiving an allowance would be re-examined each year, and the allowance discontinued when he reaches a position where he can pay the full rent.

<sup>1</sup> See Chapter XVII, "Financial Institutions".