

## Chapter 8

# The Housing Market

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- » The construction industry experienced a shortage of labor and a decline in building activity this year due to the prohibition on the entry of Palestinian workers following the outbreak of the war. This primarily resulted in extended construction timelines, a decline in building completions, and a more serious impact to nonresidential construction starts.
- » The volume of residential real estate transactions increased this year, accompanied by a 7.3 percent rise in home prices and an increase in the inventory of unsold homes. This is likely due to concerns about limited future supply due to the current decline in the volume of construction, and the need to repair war damages.
- » The increased demand for new homes drove the increase in transaction volume, further boosted by financing offers from developers.
- » Despite the challenges posed by the war, planning authorities approved 204,000 housing units, some as part of rehabilitation plans for the south and north. However, transitioning from approval to execution in some of these plans requires overcoming significant obstacles.
- » The number of housing units marketed by the Israel Land Authority through tenders with winners and without tenders remained stable compared to 2023, but compared to 2021 and 2022, there was a reduction alongside a decrease in land prices.
- » The government initiated “mega umbrella agreements” to accelerate the increase in housing supply. The new model sets a high bar for the scope of agreements and the pace of implementation, but infrastructure challenges in transportation and water, which already delay the implementation of regular umbrella agreements, may also pose obstacles for the “mega” agreements.
- » The evacuation of localities from the south and north reduced the effective housing stock and increased demand for housing services in other areas. In contrast, the availability of hotel rooms, which helped accommodate evacuees, a negative migration balance, and a high rate of young people serving in the reserves moderated the demand for housing services. Rental prices increased by 4.0 percent.
- » The shortage of non-Israeli workers in the industry since the outbreak of the war underscores the importance of improving the workforce by enhancing workers’ readiness to adopt industrialization, which will compensate for the labor shortage.

## 1. BACKGROUND AND MAIN DEVELOPMENTS

The housing market in 2024 was primarily affected by the Swords of Iron war, which broke out in October 2023. The war impaired the construction industry's production capacity and the availability of housing, shifted demand for housing services from conflict areas to other regions, and increased demand for reconstruction work. The main supply constraint for the construction industry was the low availability of workers. The number of Palestinian workers remained very low after their entry to Israel was prohibited due to security constraints at the start of the war. The government responded by increasing quotas for foreign workers and providing incentives to encourage Israelis to join the industry. The increase in foreign workers was noticeable but gradual, and by the end of the year, it compensated for only a small portion of the decline in Palestinian workers. The rise in the number of Israeli workers was surprisingly positive, but it was also insufficient to fully compensate for the shortage.

Despite the labor shortage, building starts in 2024 remained stable, at about 65,500 housing units. The volume of starts, excluding units demolished in urban renewal processes—60,000 units—was below the long-term annual increase in housing needs in Israel.

The evacuation of localities halted the housing supply in evacuated areas and at least temporarily increased demand for housing services in other regions. At the start of the war, approximately 143,000 residents were evacuated by government decision, and an additional 100,000 people evacuated independently.<sup>1</sup> However, during the year, some of them, mainly in the south, returned to their homes. Most evacuees from the north had not returned to their localities<sup>2</sup> by the end of the year. Many homes and infrastructures were damaged during the war, impairing their short-term availability and increasing the need for reconstruction work.

From the beginning of 2024, there was an accelerated increase in housing prices, to a cumulative annual rate of 7.3 percent by the end of the year, alongside a 30 percent increase in the number of transactions relative to October 2022–September 2023. However, the transaction level is not historically exceptional. Part of the increase in the number of transactions, especially at the beginning of 2024, was due to the deferral of transactions from the last quarter of 2023 to 2024, but even after accounting for deferred transactions, there was an increase of approximately 23 percent.<sup>3</sup> The increases in the number of transactions and in housing prices, following declines last year, were likely driven by expectations influenced by concerns about future supply shortages.

<sup>1</sup> According to estimates from the Information and Knowledge Center, Spotlight: Evacuation Plans, Evacuees, and Those Evacuating during the Swords of Iron emergency, December 4, 2023.

<sup>2</sup> The number of evacuees from southern localities gradually declined, reaching 7,000 by the end of 2024. In contrast, the number of evacuees from the north remained stable at approximately 68,500.

<sup>3</sup> The deduction is based on calculating the transactions expected in the fourth quarter of 2023 according to the monthly average of transactions in the first three quarters of 2023, the gap between expected transactions and actual transactions in the fourth quarter of 2023, and subtracting this gap from the transactions of 2024.

Table 8.1 | Selected Housing Market Data, 2006–2024

	2006–2018 average	2019	2020	2021	2022	2023	2024
<b>Factors of demand</b>							
General population (rate of change) <sup>a,b</sup>	1.9	1.9	1.8	1.7	2.0	2.1	1.1
Population aged 25+ (rate of change) <sup>a,b</sup>	2.1	2.0	1.7	1.8	2.5	2.0	1.4
Average real wage per Israeli employee post (rate of change)	1.1	2.1	3.1	4.9	-1.7	1.9	2.6
Average net real household income (rate of change)	2.8	2.4	-0.9	0.5	4.9		
Unemployment rate among those aged 25–64 (annual average)	5.9	3.4	14.6	9.6	3.3	3.0	3.0
Weighted real interest rate on new mortgages (annual average)	2.1	1.5	1.1	0.8	1.7	3.4	3.1
Real per capita GDP (rate of change)	2.2	1.9	-3.2	7.7	4.3	-0.1	-0.4
Rate of those planning to buy a home in the next 12 months <sup>c</sup>		8.0	6.4	7.4	5.6	3.6	3.9
<b>Factors of supply</b>							
Building starts (thousands of housing units)	44.5	56.6	56.6	64.6	69.6	64.1	65.5
of which: Dwellings not for sale under construction (thousands of housing units)	18.0	20.6	16.4	19.2	24.7	21.5	18.9
of which: Rental dwellings (thousands of housing units)		2.9	2.5	2.5	3.1	2.1	1.9
Building completions (thousands of housing units)	39.3	53.3	50.2	47.1	53.3	60.9	53.4
Construction duration of completed buildings, weighted by number of units in the building (months)	26.7	29.2	31.2	31.0	33.1	32.7	34.3
Stock of homes under active construction (end of year, thousands of housing units)	87.6	126.7	133.0	150.3	167.6	170.7	182.9
Building permits (thousands of housing units)	44.8	56.9	53.8	73.3	78.4	73.8	77.1
Real investment in residential construction (rate of change)	4.6	3.4	-7.8	16.8	16.1	-8.0	-14.4
Housing units approved in the district committees and in the VATMAL (thousands)	66.4	140.6	95.3	108.1	158.4	168.4	204.0
Land marketed in ILA tenders (thousands of housing units)		39.0	26.0	63.0	81.0	55.0	52.0
<b>Outcome data</b>							
Housing transactions (thousands) <sup>d</sup>	90.4	101.1	101.5	150.1	107.4	71.7	102.2
of which: New homes sold (thousands)	23.1	40.4	40.6	57.0	41.1	27.6	46.2
of which: With government support (thousands)		16.7	4.0	12.0	7.8	6.0	4.1
Home prices - nominal (rate of change during the year)	6.3	4.2	4.0	13.1	14.7	-1.7	7.3
Home prices - real (rate of change during the year) <sup>e</sup>	5.3	4.1	4.8	10.4	9.3	-4.5	4.3
Rents - nominal (rate of change during the year) <sup>f</sup>	3.4	2.8	0.2	3.3	6.3	3.1	4.0
Rents - real (rate of change during the year) <sup>e</sup>	2.4	2.7	1.0	0.8	1.3	0.3	1.0
Rate of households that do not own a home (annual average)	28.3	29.7	28.9	31.3	30.4		
Rate of households that own one home (annual average)	64.9	61.2	61.0	59.5	59.5		
Rate of households that own two or more homes (annual average)	6.9	9.1	10.1	9.2	9.9		
Percentage of homes purchased by investors as a share of total purchases (annual average)		12.8	14.2	18.0	14.3	13.8	12.5

<sup>a</sup> Rates of change are shown as the average of the current year compared with the average of the previous year.

<sup>b</sup> From 2023 on ward, a new estimate is used - based on the 2022 census.

<sup>c</sup> The Central Bureau of Statistics Consumer Confidence Index. The rate of respondents who believe that it is quite likely or very likely that they will buy a home in the next 12 months.

<sup>d</sup> Market transactions only. Excluding inheritances, transfers with no payment, among relatives, etc.

<sup>e</sup> Adjusted for the Consumer Price Index excluding housing.

<sup>f</sup> Rents in new and renewing contracts (the owner-occupied housing services item in the Consumer Price Index).

SOURCE: Central Bureau of Statistics, Ministry of Construction and Housing, Israel Tax Authority, Israel Land Authority, and Bank of Israel.

Mortgage interest rates declined slightly this year compared to 2023 but remained high compared to previous years (Table 8.1), with a reduction in mortgage spreads.<sup>4</sup> Against this backdrop, and given the increase in the inventory of unsold homes, developers offered financing promotions—deferring a significant portion of the payment until occupancy (80/20 promotions), without bank underwriting of the buyer, and “bullet” loans—which supported the demand for new homes.<sup>5</sup> These financing promotions are essentially an indirect way of reducing the effective price of the home for the buyer without lowering the reported price.

<sup>4</sup> For further details, see Box 4.1 in this Report.

<sup>5</sup> “Bullet” loans are taken by buyers as housing loans, with the contractor paying the interest. Upon delivery of the property, the principal is repaid by the buyers in a single payment, often by replacing it with a regular mortgage loan. For more information, see the Financial Stability Report for the first half of 2024, Spotlight 3.

The background conditions described above increased excess demand, particularly in the home purchase market, while the rise in rental prices moderated to 4 percent since the outbreak of the war. This occurred despite increased demand due to evacuee needs. Low hotel occupancy made it possible to accommodate some evacuees in hotels, absorbing the increased demand for housing services without an unusual impact on rental prices. Additionally, the increase in housing needs was moderated this year due to a negative migration balance and a high rate of young people serving in the military reserves.

## 2. SUPPLY

### a. Labor Shortage and Government Policy

Following the outbreak of the war, the number of employees in the construction industry declined by more than a third, primarily due to the prohibition on the entry of Palestinian workers.

In order to deal with the shortage of workers, the government encouraged the employment of Israelis in the industry and increased the quota of foreign workers.

The war had a significant impact on labor supply in the construction industry due to the prohibition on the entry of Palestinian workers. Prior to the war, the industry employed approximately 365,000 individuals—about 224,000 Israelis, 109,000 Palestinians, and 32,000 foreign workers, including undocumented workers (Figure 8.1). Following the outbreak of the war, the number of employees in the industry declined by more than a third, primarily due to the prohibition on the entry of Palestinian workers. Despite the official ban on their entry, approximately 16,000 Palestinians were employed in the industry during the third and fourth quarters of 2024, according to National Accounts estimates.

The government addressed the shortage through two main channels: encouraging the employment of Israelis in the construction industry and increasing the quota of foreign workers. The incentives offered by the government to Israelis entering the construction industry included monthly grants of NIS 2,000–3,000, and NIS 3,000–4,500 for wet trades, for a maximum period of six months, subject to eligibility conditions.<sup>6</sup> In addition to the grants, a budget was allocated for training, which is a prerequisite for entering the industry and receiving the grant. The number of Israelis employed in the construction industry increased throughout the year, reaching approximately 250,000 by the end of the year—a 12 percent increase compared to the third quarter of 2023. Most of the increase in Israeli workers this year took place in occupations from which Palestinian workers were removed (Figure 8.2).

The number of foreign workers gradually increased from about 29,000 at the end of 2023 to approximately 63,000 by the end of 2024 (Figure 8.1). The quota for foreign workers in the construction industry was increased from 42,000 to 110,000<sup>7</sup>,

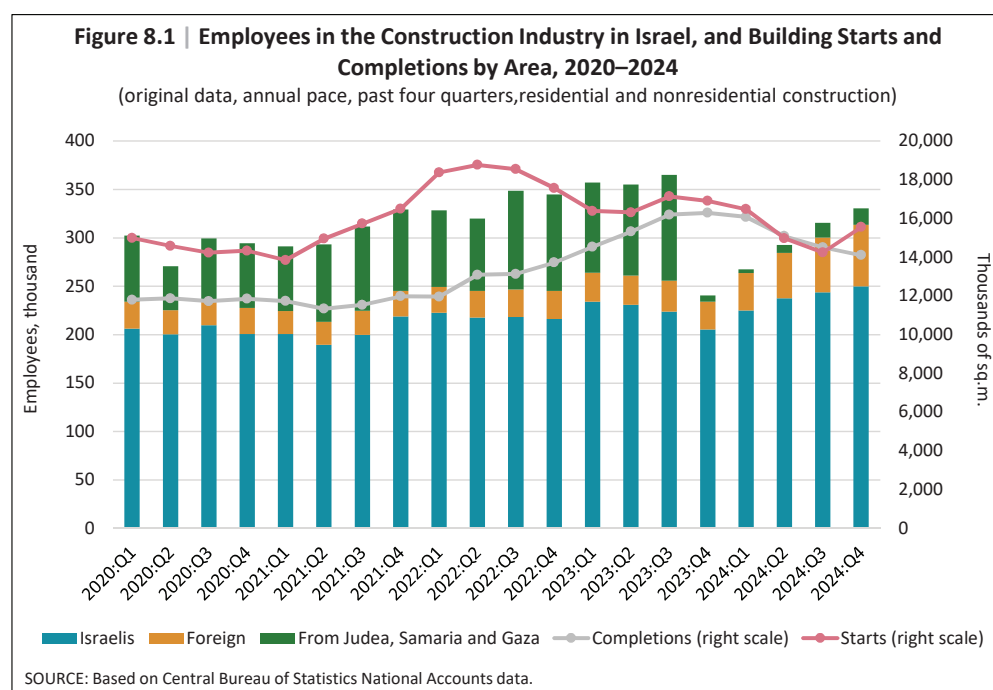
<sup>6</sup> Eligible individuals are Israeli residents who began working in the construction and renovation industry (physical work) during the period from April 1, 2024, to December 31, 2024, have appropriate training, and did not work in this industry in the three months preceding the eligibility period.

<sup>7</sup> Of these, 25,000 are in performance companies and 85,000 in construction corporations: bilateral agreements and private conveyance.

including about 25,000 in the private track, where the employment of workers was not permitted before the war.<sup>8</sup>

Although the total number of employees in the industry increased during 2024, it remained about 10 percent below its prewar level by the end of the year. The process of bringing foreign workers into the country is gradual, as expected. The rate of replacing Palestinian workers with foreign workers is similar to that observed after the outbreak of the Second Intifada.<sup>9</sup> If the process of bringing in new foreign workers continues at the same pace, the number of foreign workers will reach approximately 100,000 by the end of 2025, and assuming the number of workers from other groups remains unchanged, the total number of workers in the industry will be similar to the prewar level. Given the growing needs of the industry, additional measures will be necessary to compensate for the labor shortage. This shortage may also be alleviated by employers' willingness to increase wages, which will be necessary, especially once the grant program ends. So far, the average nominal wage of Israelis in the construction industry increased by only 4.4 percent in 2024.<sup>10</sup> (For further details, see Chapter 5.)

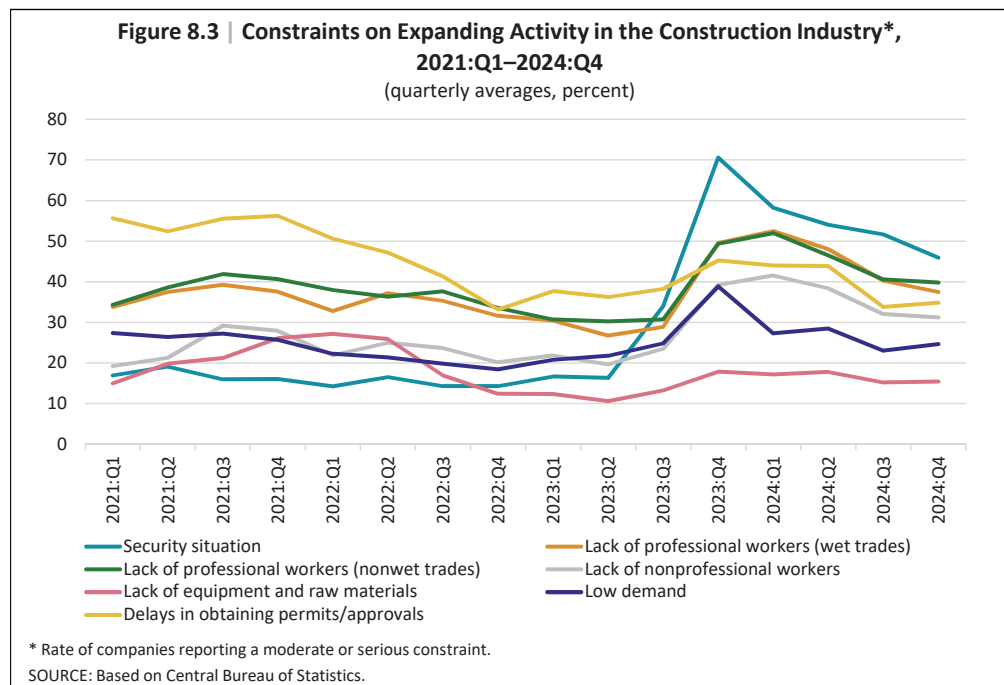
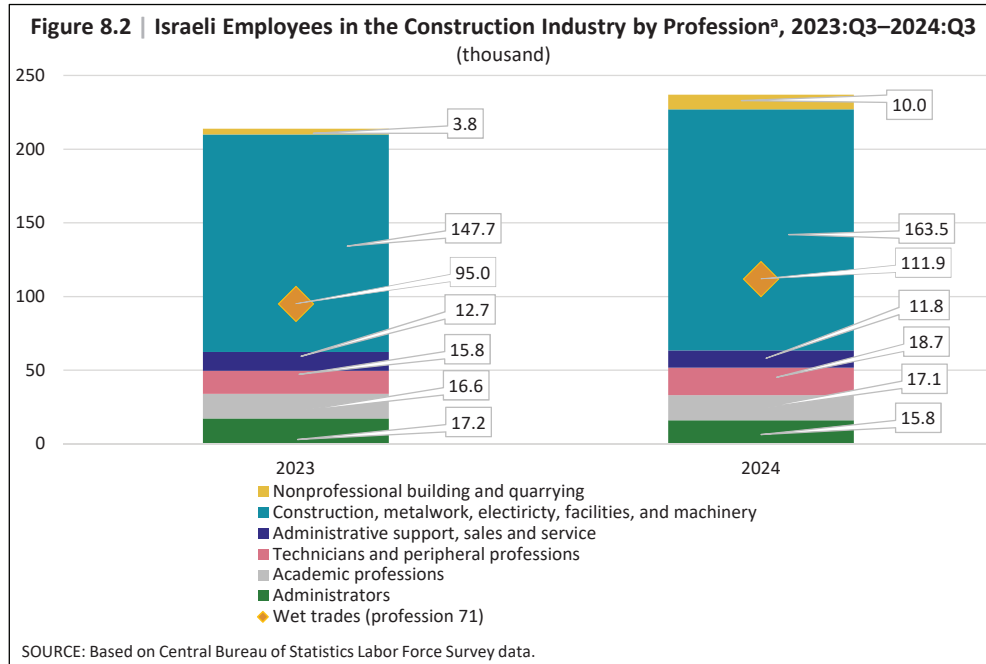
The number of employees in the construction industry largely recovered from the decline, but additional measures will be necessary to compensate for the labor shortage.



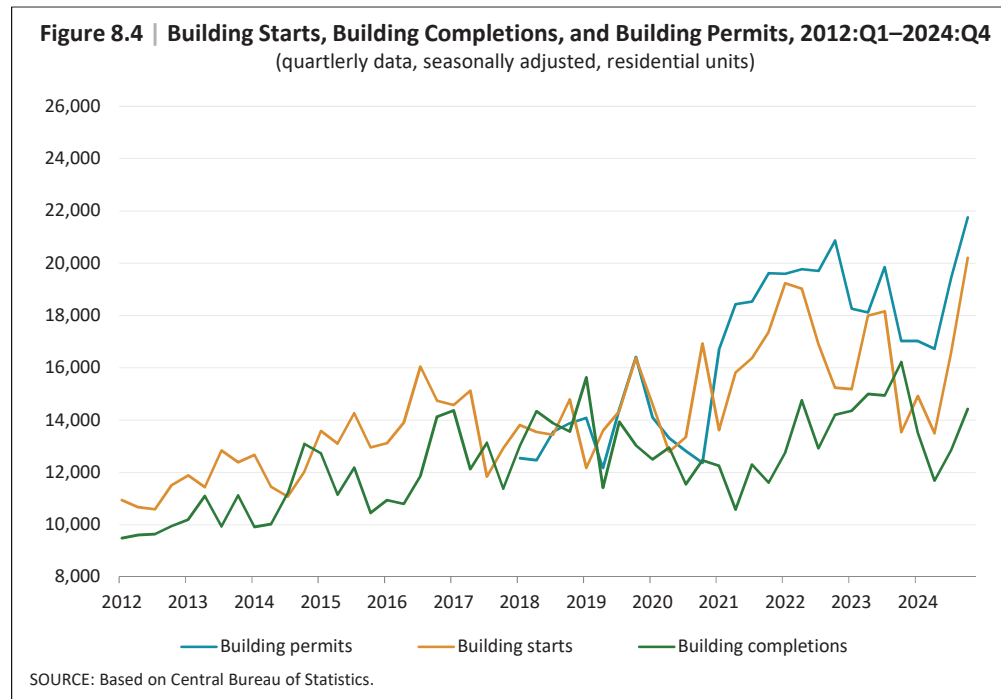
<sup>8</sup> Since 2005, the government has mandated that construction workers be employed only through manpower agencies.

<sup>9</sup> For further details, see Box 5.1 in the Bank of Israel's Annual Report for 2023.

<sup>10</sup> New workers in the industry who meet the eligibility conditions receive a grant for a maximum period of six months, in addition to their salary, equivalent to approximately 24 percent (and in wet trades, about 35 percent) of the average wage in the industry.



Findings from the Central Bureau of Statistics Business Tendency Survey confirm the assessment that the labor supply constraint was predominant. At the beginning of the year, the proportion of companies reporting severe and moderate constraints on expanding operations due to a shortage of both skilled and unskilled workers was double that of the period before the war (Figure 8.3). Although this proportion decreased over the course of the year, it remained high compared to the first three quarters of 2023. In contrast, the proportion of companies reporting severe or moderate constraints due to a shortage of raw materials and equipment increased only slightly. (See Box 2.2 in this Report.)



## b. Residential Construction

The labor shortage caused by the war led to a significant decline in residential construction activity in 2024. This reduction was most evident in a roughly 10 percent decline in building completions in 2024 relative to the October 2022–September 2023 period.

By the end of the year, building starts had jumped to a high level of about 65,500 units, a decline of just 2 percent compared to the October 2022–September 2023 period (Figure 8.4). The decline in starts was mainly concentrated in nonsale units (often self-built homes) and government-subsidized units, while the number of housing starts for sale in the open market (about two-thirds of the market) increased by approximately 9 percent.

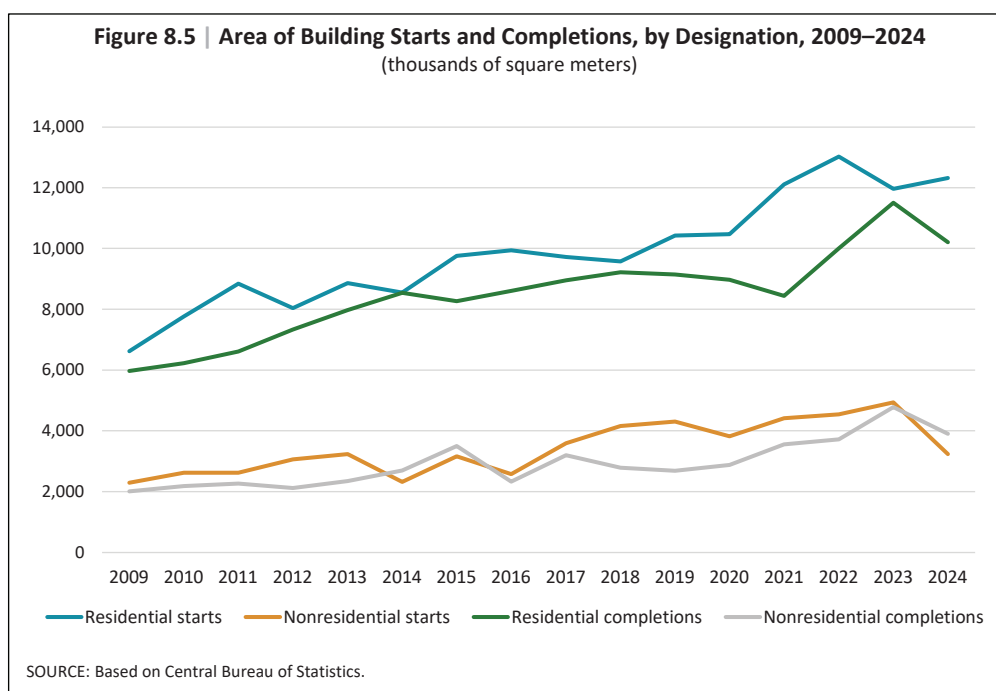
The decline in residential construction activity in 2024 was most evident in the decline in building completions.

As the number of workers in the industry continues to return to routine levels, it is expected that building completions will also increase in the coming years, returning to the levels that would have been expected had it not been for the war, which are in line with demographic growth.

### c. Nonresidential Construction

There was a significant decline this year in the volume of nonresidential building starts.

The recovery of nonresidential construction during 2024 was slower than that of residential construction, and activity levels remained below prewar levels (Figure 8.5). Comparing 2024 to the October 2022–September 2023 period, there was a decline of about 36 percent in building starts and of approximately 21 percent in completions. It appears that the severe labor shortage, a trend of declining yields in income-generating real estate<sup>11</sup>, and the increased demand for residential units led to a shift of production resources from initiating new nonresidential construction projects to residential projects.



### d. Reduced-Price Housing Supply

The supply of reduced-price housing increased this year. Approximately 16,900 units were allocated in the “Discounted Apartment” program in 2024, compared to only about 7,000 in 2023, with an additional lottery for around 4,000 units closing in

<sup>11</sup> For details, see the Financial Stability Report for the first half of 2024, Spotlight 2.

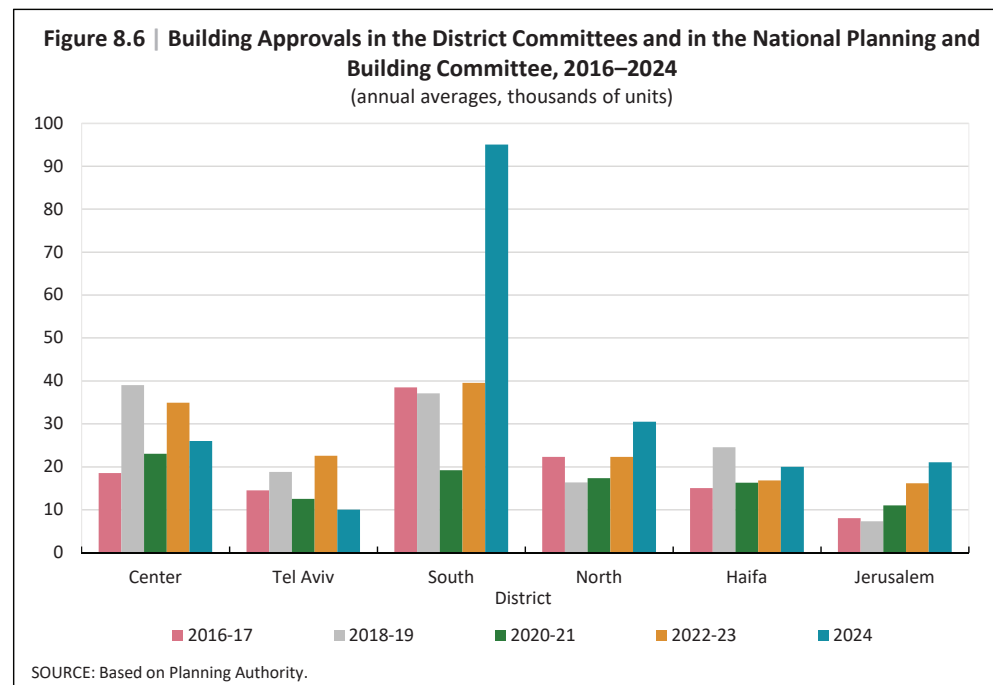
January 2025. Changes were made in the allocation of these units during the year. About half of the units in the September lottery were designated for the Haredi (ultra-Orthodox) sector, and in other tenders, preference was given to active reservists, with 20 percent of the units allocated to them in the December lottery.

## e. Early Stages of Housing Production

### (1) Committee Approvals

The number of housing units approved by planning authorities in 2024, approximately 204,000, was historically high. Most of the increase came from the southern and northern districts (Figure 8.6). Planning authorities approved about 95,000 units in the southern district, including approximately 55,000 in localities in proximity to the Gaza Strip, and about 30,500 in the northern district, a significant portion of which were part of rehabilitation efforts. However, the effective constraint on increasing construction volume lies in more advanced stages. A significant portion of the plans approved by planning authorities have not yet been implemented due to a lack of infrastructure to support housing (transportation, wastewater treatment, electricity infrastructure, water supply), causing significant delays.<sup>12</sup> Beyond infrastructure barriers, there is sometimes a lack of economic feasibility, which arises during the land marketing stages.

The number of housing units approved by planning authorities this year, some of which were part of rehabilitation efforts in the north and the south, was historically high.



<sup>12</sup> According to the State Comptroller's data (2023), about 35 percent of the plans approved between 2017 and 2021 are still pending the removal of barriers.

Approximately 80,000 units were approved as part of urban renewal projects” similar to the number in 2023. Expanding construction within this framework has advantages<sup>13</sup>, yet, these are often plans that require a longer time to implement compared to regular construction, which may affect the pace of execution of the approved plans.

## *(2) Land Marketing*

The number of housing units sold in ILA tenders recovered in 2024, alongside a decline in ILA revenue from land marketing.

As part of the plans approved by planning authorities for construction on state lands, the Israel Land Authority (ILA) markets land for residential purposes. Due to the war, tenders were postponed, and success rates at the beginning of 2024 were low, influenced by the war, the high interest rate environment, and low demand for new homes in 2023. Throughout 2024, following actions taken by the ILA to encourage marketing—such as reducing minimum prices and subsidizing development costs in some tenders—the number of housing units sold in ILA tenders recovered, alongside a decline in the ILA’s revenue from land marketing. The increase in transactions for new homes likely supported this recovery in land sales.

Figure 8.7 presents data on the number of housing units marketed by the ILA, both through tenders and without tenders, as well as data on building starts in urban renewal projects, which do not require land marketing. ILA marketing and urban renewal form the basis for the annual addition of housing supply in the coming years.<sup>14</sup> In 2024, approximately 50,000 housing units were successfully marketed by the ILA, and construction began on about 17,000 units under urban renewal, with nearly half of them in the Tel Aviv district.<sup>15</sup> The end of the National Outline Plan 38 (TAMA 38) in August 2024 may cause a temporary slowdown in the promotion and execution of urban renewal projects due to the uncertainty associated with the changes.<sup>16</sup>

The number of housing units in tenders with winners in 2023–2024 was lower than in 2021–2022.

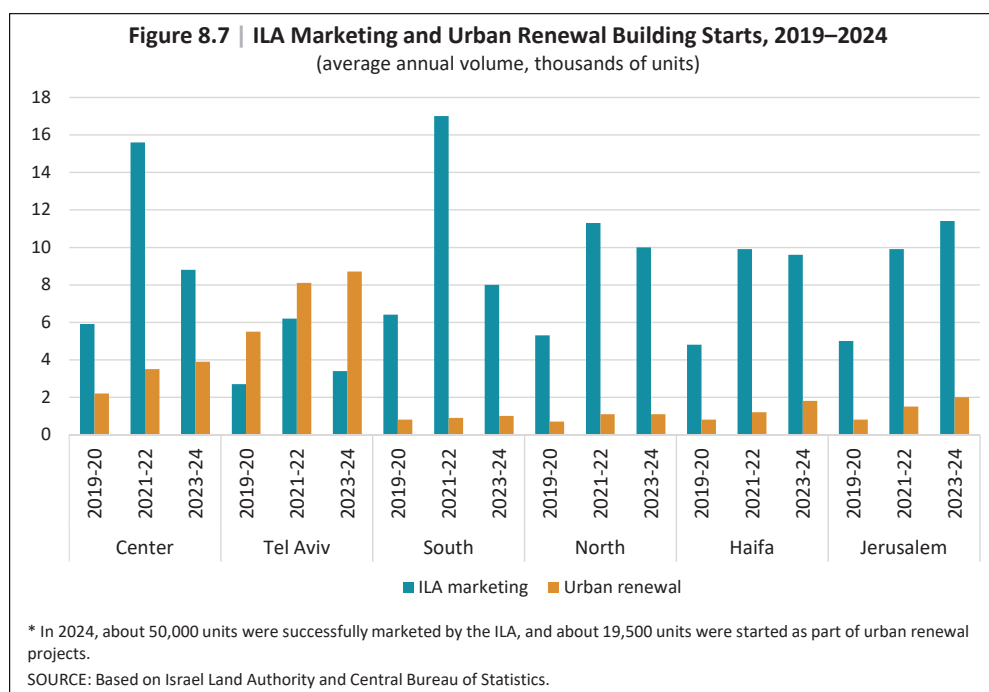
In view of the high interest rate environment, which increased financing costs for developers, and the decline in demand for new homes, developers’ demand for land for residential construction decreased in 2023, with the decline intensifying at the end of 2023 due to the war. Thus, despite the recovery during 2024 and the increase in demand for new homes, the number of housing units in tenders with winners in 2023–2024 was lower than in 2021–2022.

<sup>13</sup> D. Vaisman (2023). “Examining the Macroeconomic Benefits of ‘Urban Renewal,’” Periodic Papers, Bank of Israel Research Department.

<sup>14</sup> There is typically a two- to three-year gap between land marketing and building starts. In addition to homes built on state lands, there are projects, mostly in high-demand areas, built on private lands, a significant portion of which are part of urban renewal.

<sup>15</sup> Building starts in urban renewal are presented without deducting approximately 5,000 units demolished in redevelopment (vacate-and-build) or TAMA 38(2) projects in 2024.

<sup>16</sup> Between 2005 and 2024, more than half of the total residential building starts in urban renewal were initiated under TAMA 38.



### (3) “Mega Umbrella Agreements”

Since 2013, the government has been promoting umbrella agreements with local authorities to increase the housing supply. These agreements are designed to incentivize municipalities to expand residential construction within their jurisdictions. While some agreements have been successfully implemented, many have encountered challenges during the planning, development, and marketing stages. As part of the 2025 budget proposal, the government introduced a new model to accelerate the increase in housing supply—“Mega Umbrella Agreements.” This new model sets a higher threshold for construction volume, requiring a minimum of 15,000 housing units in approved plans within the municipality and a planned marketing rate of 5,000 units per year.<sup>17</sup> The incentive package in the mega umbrella agreements includes both urban development funding and ongoing budget support, priority in planning processes, and support for developing employment, commercial, and industrial areas. The 2025 budget proposal includes NIS 600 million for this purpose. Payments are based on meeting specific milestones, including marketing, issuing building permits, and obtaining Form 4 occupancy permits.

However, the new model poses several significant challenges. First, only a few municipalities currently meet the required criteria. Second, there is doubt about the readiness of local committees to meet the requirement of approving building permits within 90 days. Additionally, transportation and water infrastructure challenges,

The government introduced a new model to accelerate the increase in housing supply—“Mega Umbrella Agreements.”

The new model sets a high threshold for construction volume, but also poses several significant challenges.

<sup>17</sup> In regular umbrella agreements, the requirement is for at least 5,000 units in approved plans within the municipality and a marketing rate of at least 2,000 units per year.

which already delay the implementation of regular umbrella agreements, may also pose obstacles for the mega umbrella agreements.

### 3. THE HOUSING SERVICES MARKET

#### a. Demand for Housing Services

Long-term demand for housing services is primarily driven by demographic needs. We estimate that the annual demand for housing has gradually increased from an average of about 45,000 units in 2003–2009 to approximately 60,000 units in 2016–2024, mainly due to demographic trends (high birth rates, increased life expectancy) leading to population growth. According to the National Economic Council's assessment<sup>18</sup>, the demographic need for additional housing units in 2026–2035 amounts to approximately 65,500 units per year, of which 4,000 units are required to increase the housing stock due to the shortage that has developed over the past two decades.

The war caused an excessive shock to the housing services market in 2024. Approximately 75,000 homes, representing about 2.5 percent of the housing stock, were evacuated due to being in conflict zones. Housing about half of the evacuees in hotels mitigated the pressure on rental prices. In the south, most evacuees returned to their homes by the end of 2024, while in the north, the number of evacuees remained stable until the end of the year. By the end of 2024, at least 20,000 units remained outside the effective housing services stock.<sup>19</sup> According to Gamrasni and Yachin (2021)<sup>20</sup>, a 1 percent decrease in the housing stock, equivalent to about 30,000 units, could potentially lead to a 5.8 percent increase in rent after one year.

Another change affecting the demand for housing services this year is the negative migration balance to Israel<sup>21</sup>—a net decline of approximately 18,700 Israelis compared to a net increase of about 25,000 in 2023 and about 64,000 in 2022. Based on the average household size of 3.25 people, this represents a gap of about 19,300 households in 2024 compared to the average for 2022–2023.

The evacuation of residents from combat areas in the north and south of the country caused a shock in the housing services market.

<sup>18</sup> D. Bedell, R. Helleu, and I. Bozaglo (2025). The Strategic Housing Plan 2050, National Economic Council.

<sup>19</sup> This is likely an underestimate, as it is based only on data from government-mandated evacuees at the end of 2024: approximately 68,500 evacuees from the north and about 7,000 from the south—around 20,000 households. There are no data on the return of independently evacuated individuals to their localities, but it can be estimated that due to the lack of government support for financing alternative housing arrangements, and since the localities that were not evacuated are safer than those that were, their return rates were higher than those of government-mandated evacuees, although some likely had not returned to their homes by the end of 2024.

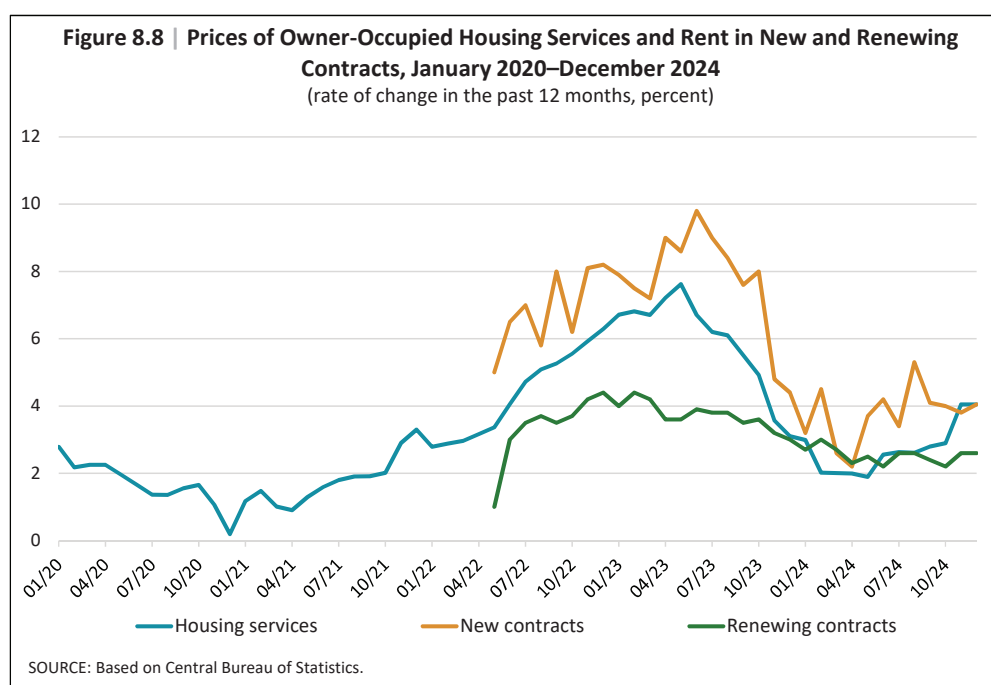
<sup>20</sup> I. Gamrasni and Y. Yachin (2021). "The Housing Market in Israel: Long-Run Equilibrium and Short-Run Dynamics", Discussion Paper Series, 2021.08, Bank of Israel Research Department.

<sup>21</sup> The net migration balance in a given year, as defined by the Central Bureau of Statistics, is the number of immigrants and returning Israelis minus the number of those leaving for an extended period.

While the evacuation reduced the available housing stock, the negative migration likely reduced demand by a similar magnitude. In addition, many evacuees were provided accommodation in hotels, which remained almost without demand from foreign tourists. Furthermore, we can estimate that a high percentage of young people served in the military reserves, and therefore gave up independent residential accommodations, which contributed to the moderation.

Taken together, these factors resulted in a relatively moderate increase in rental prices (the index of owner-occupied housing services). This index rose by 4.0 percent over the past 12 months (Figure 8.8)—a slight slowdown compared to September 2023 (5.5 percent) and a moderate increase compared to December 2023 (3.1 percent). The ratio of rent to wages remained stable throughout 2024.

The accommodation of evacuees at hotels and the negative migration balance to Israel moderated the pressure on rental prices.



## b. Demand for Home Purchases

The 0.25 percentage point cut in the Bank of Israel's interest rate in January 2024 led to a slight decline in mortgage rates across all tracks, supporting a recovery in demand, although the interest rate environment remained high. Demand was also influenced by expectations of limited future supply, particularly due to the labor shortage and the need for reconstruction in the south and the north. The tight labor market further supported demand (see Chapter 5).

There was a notable increase in the number of transactions for new homes, driven by two main factors. First, developers offered attractive financing promotions, particularly deferred payments and "bullet" loans, which postponed the start of

Demand for home purchases increased this year, even though the interest rate environment remained high.

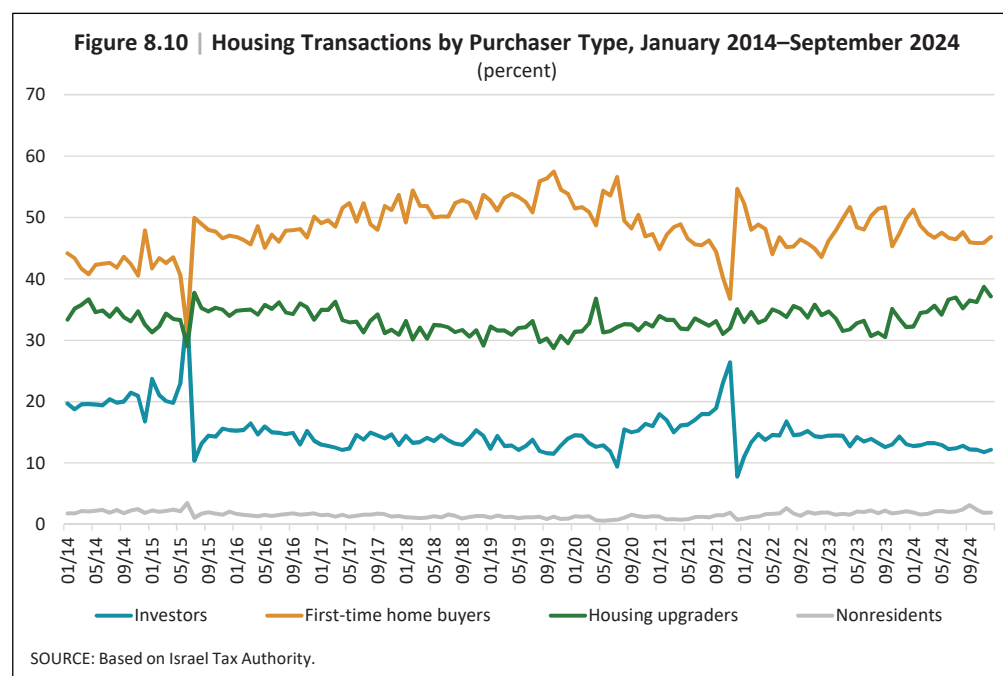
mortgage interest payments until occupancy. This effectively reduced the cost of homes, likely prompting earlier home purchases. In 2024, there was a significant 30 percent increase in the volume of new mortgages, with a substantial rise in the use of “bullet” loans (see Chapter 4). Second, the war highlighted the importance of secure rooms (MAMAD), an inherent advantage of new homes.

## 4. HOME PRICES

After home prices fell last year, they again increased this year.

After a 1.7 percent decline in home prices in 2023, there was a turnaround in 2024. Housing prices increased by 7.3 percent in the 12 months ending in December 2024 (Figure 8.9). New home prices rose by 4.1 percent, and due to the financing benefits offered to buyers, their reported prices may be skewed upwards. Consequently, the increase in second-hand home prices is what primarily drove the rise in home prices in 2024. This may be attributed to buyers’ preference for certainty and quicker occupancy.

Although the inventory of unsold homes reached a peak at the end of 2024, with a 12 percent increase compared to the end of 2023, the inventory-to-sales ratio declined from 2.1 to 1.7 (Table 8.2). This indicates a shorter time until the existing inventory is depleted if the current demand level is maintained.



Expectations of a limited future supply of homes likely encouraged early purchases and supported price increases. The pressure on home prices was also exacerbated by rising input costs. The residential construction input index rose by 2.9 percent in 2024 and continued to rise by 2.6 percent in January 2025.<sup>22</sup>

Expectations of a limited future supply of homes likely encouraged early purchases and supported price increases.

**Table 8.2 | Stock of Unsold Homes, Ratio of Inventory to Sales<sup>a</sup> and Home Prices, by District , 2023–2024**

District	Stock of unsold homes			Ratio of inventory to new home sales		Rate of home price increases
	30.09.2023	31.12.2024	Rate of change (%)	30.09.2023	31.12.2024	2024 (%)
Jerusalem	6,663	8,917	33.8	2.0	2.6	3.1
North	4,117	4,109	-0.2	1.3	0.9	8.8
Haifa	4,415	5,357	21.3	1.3	1.2	10.6
Center	15,365	17,198	11.9	2.5	1.7	5.6
Tel Aviv	18,845	21,916	16.3	3.9	2.8	9.0
South	9,586	9,768	1.9	1.2	0.9	4.8
Total	61,448	75,939	23.6	2.1	1.7	7.3

<sup>a</sup> The ratio of inventory to sales equals the stock of unsold homes divided by new home sales in the past 12 months.

SOURCE: Based on Central Bureau of Statistics.

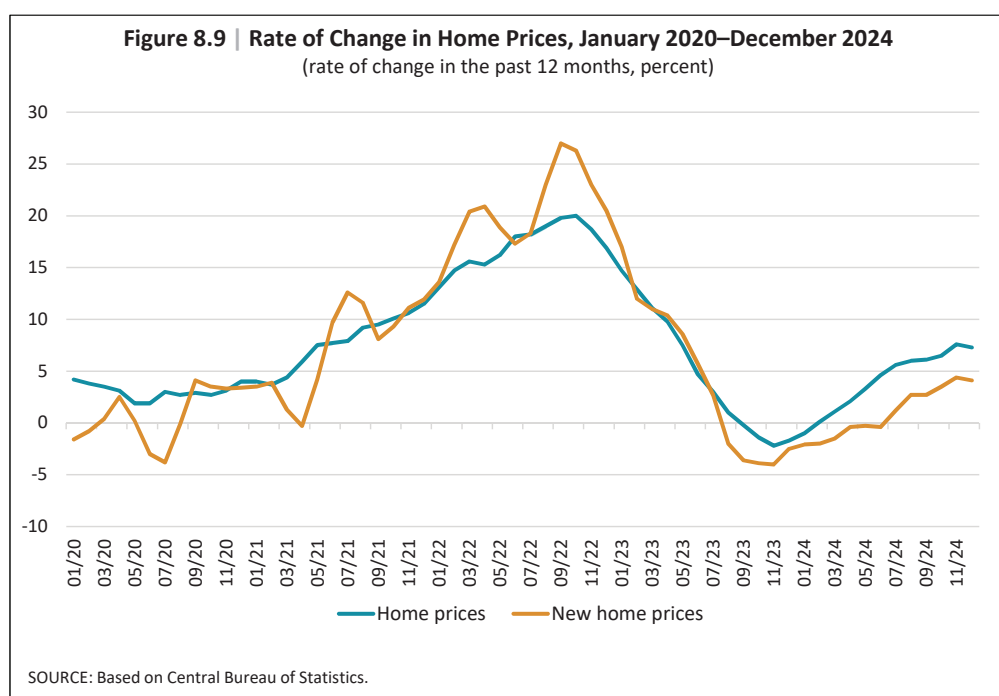
## 5. TRANSACTIONS

The number of transactions increased in 2024, led by transactions involving new homes. There was an overall increase of about 30 percent in total transactions and approximately 54 percent in new home purchases compared to the period from October 2022 to September 2023. Part of this increase resulted from transactions deferred from the last quarter of 2023 to 2024 due to the outbreak of the war. After adjusting for the deferred transactions, total transactions increased by about 23 percent and new home transactions increased by about 46 percent during the specified period. The steep rise in new home transactions in December also contributed to the increase, as buyers rushed to complete purchases before the VAT increase in January 2025.

The number of transactions increased in 2024, led by transactions involving new homes.

The growth in the number of transactions was primarily driven by housing upgraders, whose share of total transactions increased following the outbreak of the war (Figure 8.10).

<sup>22</sup> Most of the increase is due to revised weightings.



The increase in the number of transactions, led by transactions involving new homes, spanned all districts. The ratio of the remaining inventory of homes for sale to the number of new homes sold in the last 12 months decreased in most districts (Table 8.2). This indicates that the time frame in which the existing inventory can meet the growing demand has shortened across the board, including in the northern and southern districts, which were the hardest hit by the war.

## BOX 8.1: PREPAREDNESS TO INTEGRATE INNOVATION IN THE CONSTRUCTION INDUSTRY

- Between 2013 and 2023, the work environment's readiness to integrate innovation in construction improved, yet a significant gap remains compared to the other developed countries.
- The notable improvement in education and in the proportion of skilled workers in the construction industry has not been reflected in basic skills as measured by the PIAAC tests, and the rate of professional training in Israel remains low compared to other developed countries. These factors may hinder efforts to close this gap.

The capital stock per worker in Israel's construction industry is low by international comparison<sup>1</sup>, indicating a lag in industrialization and innovation within the industry. A key barrier to adopting new technologies, often based on the digitalization of planning and construction processes, is the shortage of skilled labor in the industry (Farmer, 2016). This shortage is prevalent in most advanced countries, and one way to address it is through training and courses.

The OECD (2024) estimates that direct skill gaps among adults between countries can explain between a quarter and a third of the differences in industry labor productivity. Hazan and Tsur (2019) found that closing the gap in human capital could also help reduce the gap in physical capital.

The gaps in worker skills and work environment characteristics in Israel's construction industry, compared to selected OECD countries (hereafter referred to as benchmark countries<sup>2</sup>), were examined over time using the PIAAC survey. This survey enables the assessment of workers' skills and education, the availability of training, and work environment characteristics at two points in time—2013 (Wave 1) and 2023 (Wave 2).

In Israel, about a third of those employed in the construction industry are foreign and Palestinian workers—a significantly higher proportion than in other developed countries. For example, in the UK<sup>3</sup>, Denmark (Overgård et al., 2023), and the Netherlands, the proportion of foreign workers in the industry is only between 10 and 15 percent. Most non-Israeli workers are employed in jobs characterized by low or medium skill levels. Since the PIAAC survey represents only the local resident workforce, the actual proportion of employees in medium and low-skilled occupations in Israel's construction industry is higher than reflected in the survey data, likely more so than in other countries. It is important to note that the proportion of non-Israeli workers in the industry remained stable between the two survey waves (2013 and 2023), allowing for a valid comparison of trends over time.

The proportion of skilled workers<sup>4</sup> employed in Israel's construction industry increased significantly between 2013 and 2023, yet remains substantially lower than the average in the benchmark countries—24

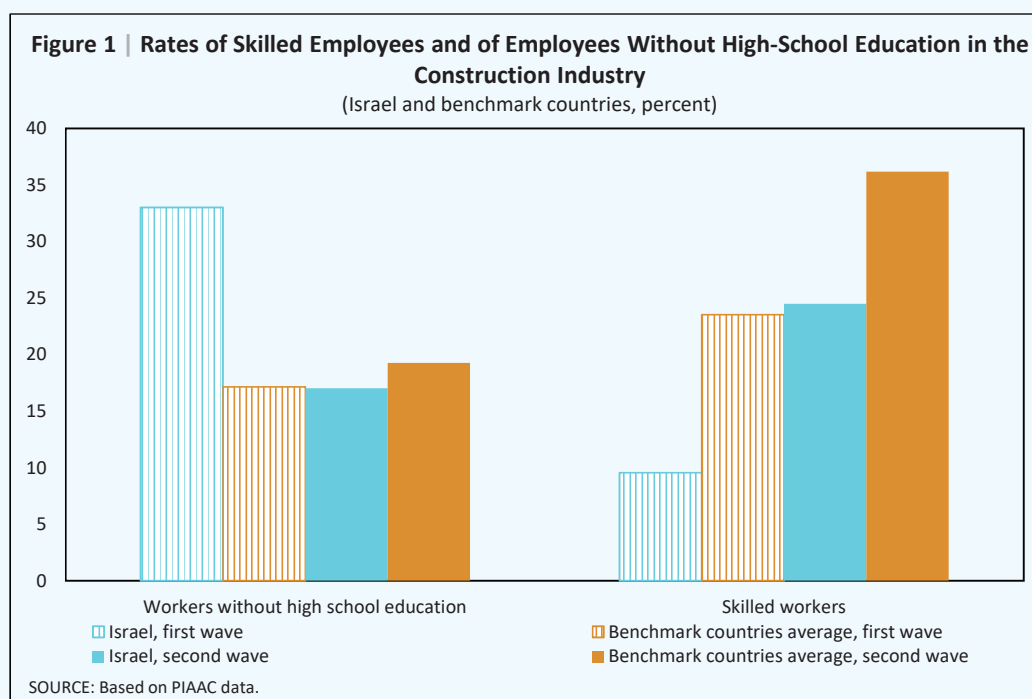
<sup>1</sup> For further details, see Box 8.2 in the Bank of Israel's Annual Report for 2023.

<sup>2</sup> "Benchmark countries" are those similar to Israel in terms of population and in terms of growth characteristics, which rely on human capital. They have higher per capita GDP and productivity, and lower poverty rates. Such countries include Austria, Denmark, Finland, Ireland, the Netherlands, and Sweden. However, due to a lack of data for Austria and the Netherlands in the second wave, they were replaced by Belgium and France. Thus, the comparison group is: Belgium, Denmark, Finland, Ireland, France, and Sweden.

<sup>3</sup> See the UK Office for National Statistics website: <https://www.ons.gov.uk/peoplepopulationandcommunity/populationandmigration/internationalmigration/articles/migrantlabourforcewithintheconstructionindustry/august2018>.

<sup>4</sup> ISCO occupational classification of respondent's job (4 skill-based categories), Category 1: "Skilled occupations".

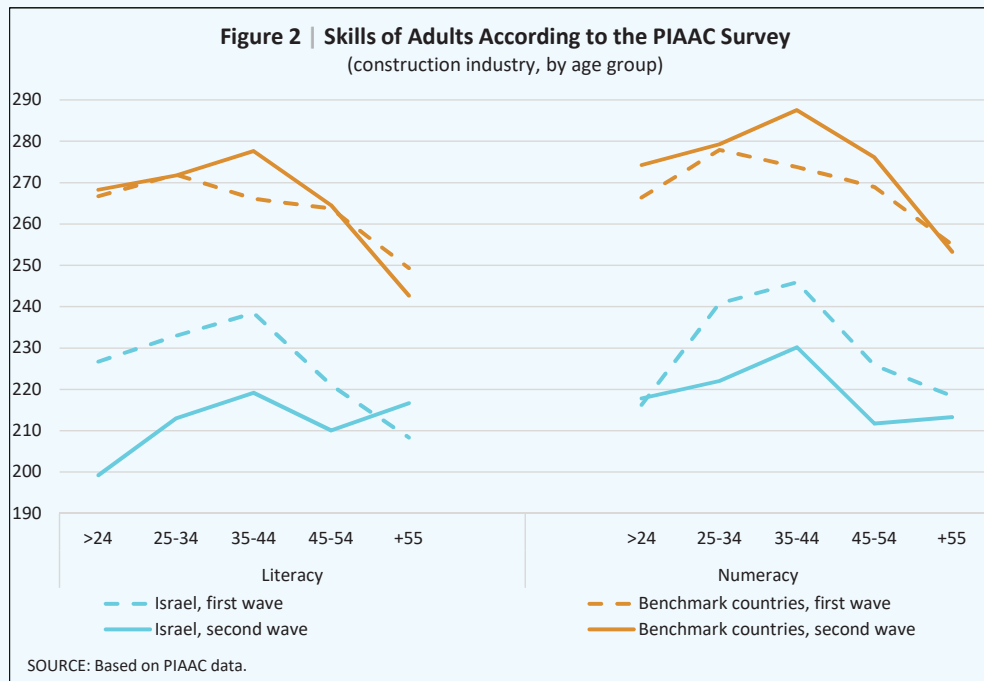
percent compared to 32 percent (Figure 1). The rate of employees without secondary education in the construction industry was about 33 percent in 2013 and declined to 17 percent in 2023, closing the gap with benchmark countries.<sup>5</sup> This change in employee characteristics is expected to support the integration of technologies and industrialization in the construction industry.



However, the significant improvement in education and the proportion of skilled workers in the industry has not translated into fundamental skills, as measured by the PIAAC tests (Figure 2). The substantial achievement gaps between Israel and the benchmark countries in literacy and numeracy, identified in 2013, only widened by 2023.<sup>6</sup> The scores by age group are concerning. In the benchmark countries, the score trend by age is declining, meaning that the achievements of retiring workers are lower than those of new entrants. In contrast, in Israel, the literacy scores of younger individuals are lower than those of older individuals.

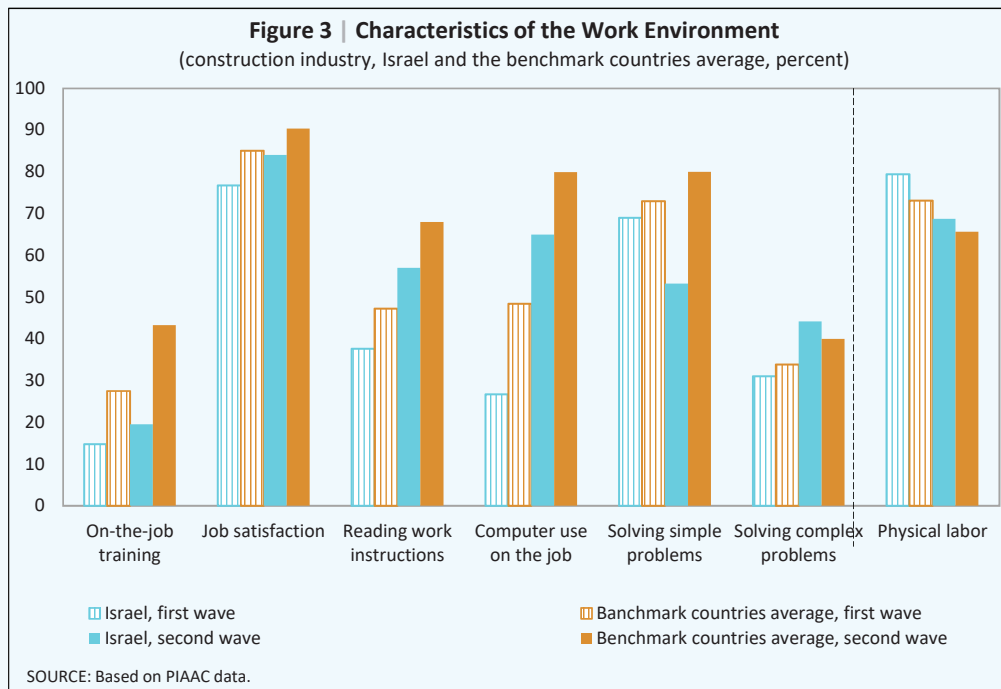
<sup>5</sup> A similar trend is observed in the comparison of Labor Force Survey data on the construction industry between 2013 and 2023. A significant part of the decrease in the proportion of employees without secondary education is explained by the decline in the rate of those aged 20 and under employed in Israel's construction industry between the two survey waves.

<sup>6</sup> Gaps also exist across the broader economy compared to OECD countries, but they are smaller than those in the construction industry. For details, see Bahar and Demalach (2024).



When examining work style metrics between Israel and the benchmark countries, the most significant gap is found in the rate of participation in professional training (Figure 3). This rate in Israel is about half the average of the benchmark countries, and this gap has remained stable over the decade. In the areas of digitalization and automation, despite nearly doubling the rate of computer use in Israel's construction industry from 2013 to 2023, a negative gap still exists compared to the benchmark countries. The rate of physical labor remains higher in Israel than in the benchmark countries, despite a decrease of about 10 percentage points over the last decade.

In conclusion, the survey findings reveal a persistent gap in the construction industry between Israel and other OECD countries. Despite improvements between the surveys in education and the proportion of employees in skilled occupations in Israel, the rate of professional training remains low, and the gap in fundamental skills measured by PIAAC tests has even widened. It is important to note that the picture for Israel is biased upwards, as it does not include foreign and Palestinian workers. Particularly concerning is the fact that young workers entering the construction industry are characterized by notably lower skills than new entrants in this industry in other countries. The shortage of non-Israeli workers in the industry since the outbreak of the war underscores the importance of improving the workforce, while enhancing workers' readiness for the integration of industrialization, which will compensate for the labor shortage.



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