



Report of the State Comptroller of Israel | July 2024

Ministry of Construction and Housing

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# **Purchase and Sale of Public Housing Apartments – Follow-up Audit**





## Purchase and Sale of Public Housing Apartments – Follow-up Audit

### Background

The government's housing assistance framework is a key component of the safety net provided to vulnerable populations in society. One form of assistance is the rental of state-owned apartments, offered without time limits and at subsidized rent, to households meeting eligibility criteria set by the state. The Ministry of Construction and Housing is in charge of managing the public housing inventory, including the purchase, allocation, and maintenance of apartments, as well as their sale to tenants in alignment with government decisions and the Public Housing (Purchase Rights) Law, 1998. The law objective is to mitigate with poverty among underprivileged populations through the transfer of capital to tenant families. The law expired in February 2023; however, as of December 2023, legislative procedures are underway in the Knesset to extend its validity, following private member bills that the government decided to support at the preliminary reading. It should be noted that in recent decades, the number of public housing apartments has steadily declined, mainly because the state sold more apartments to tenants than it purchased. Simultaneously, the number of eligible individuals waiting for public housing has continued to rise.



## Key Figures

**about  
48,000**

the number of public housing apartments in the public housing inventory in 2023, compared to about 54,000 apartments in 2018

**only 460**

the number of apartments purchased by the Ministry of Construction and Housing in 2020–2022 for about NIS 676 million, compared to about 3,500 apartments sold during the same period for NIS 1.13 billion

**only  
1.7%**

the public housing apartments and housing units rate for the elderly managed by the Ministry of Construction and Housing out of all apartments in Israel in 2022 – lower than the in 2018 which was 2%

**0**

public housing apartments included in the "Reduced Price" and "Target Price" programs in 2021–2023, in which the state marketed land at a discount for the benefit of those without housing

**about  
4,300**

the number of eligible individuals waiting for public housing in May 2023, compared to 3,700 in 2019

**35 months**

the national average waiting time for a public housing apartment as of May 2023, compared to 31 months in 2019 (increase of about 13%)

**6**


public housing apartments purchased by the Ministry of Construction and Housing in Modi'in Illit by the end of 2023, where there were no public housing apartments at all, out of 11 apartments approved for purchase in the city in 2022

**0**

public housing apartments purchased by the Ministry of Construction and Housing in minority communities, where there were no public housing apartments at all by the end of 2023, despite a 2020 decision to purchase 10 apartments in these communities



## Audit Actions

 In May 2020, the State Comptroller published a report on the purchase and sale of public housing apartments (the previous audit). From February to September 2023, the State Comptroller's Office conducted a follow-up audit to assess the rectification of the main deficiencies highlighted in the previous audit. The current report presents the findings of the follow-up, including the implementation of decisions, actions taken to increase the inventory of public housing, and measures by the Ministry of Construction and Housing to maximize utilization of the existing public housing stock. The audit was conducted at the Ministry of Construction and Housing and Amidar, the National Housing Company in Israel Ltd. Supplementary examinations were carried out at the Ministry of Finance, the Ministry of Justice, and the Ministry of Aliyah and Integration.

## Key Findings

-  **Increase in the Number of Eligible Individuals Awaiting** – in May 2023, the number of eligible individuals awaiting for a public housing apartment was approx. 4,300, compared to 3,700 in 2019 (about 16% growth).
-  **Average Waiting Time for Public Housing** – it was found that the national average waiting time for a public housing apartment increased since the previous audit period, from about 31 months in 2019 to about 35 months in May 2023, an increase of about 13%, averaging about 4% per year.
-  **Public Housing Apartment Purchases and Sales** – it was found that in each of the years 2014–2022, the number of apartments sold by the Ministry of Construction and Housing under the Public Housing Law exceeded the number of apartments purchased. In total, about 12,900 apartments were sold for NIS 3.55 billion, compared to the purchase of about 3,100 apartments for NIS 3.93 billion. Additionally, in 2016–2019, the total cost of purchasing apartments exceeded the total revenue from apartment sales (about 2,300 apartments purchased for NIS 2.93 billion versus about 5,700 apartments sold for NIS 1.53 billion). However, in 2020–2022, the total revenue from apartment sales exceeded the total cost of apartment purchases (460 apartments purchased for NIS 676 million versus about 3,500 apartments sold for NIS 1.13 billion). As a result, the amount allocated in the Public Housing Fund for apartment purchases increased from about NIS 453 million in 2020 to about NIS 1.254 billion at the beginning of 2023 – nearly a threefold increase. Notably, by September 2023, about NIS 1 billion from the fund was allocated for paying for apartments under signed purchase agreements, leaving



an actual available balance of about NIS 250 million for further purchases. It should also be noted that the Public Housing Law expired in February 2023, and as of December 2023, the legislative process to extend its validity, which began in the Knesset with government support, had not yet been completed.

**📌 Decline in the Public Housing Apartments Rate Out of the Total Housing in Israel** – in 2022, public housing apartments were about 1.7% of all housing units in Israel, a decrease from 2% in 2018. This decline occurred as the number of public housing apartments decreased from about 54,000 in 2018 to about 48,000 in 2022 (a reduction of about 10%), due to the sale of apartments to eligible individuals. Simultaneously, the total number of housing units in Israel increased from about 2.65 million to about 2.85 million (an increase of about 8%).

**📌 Policy Work on the Public Housing Inventory** – in the previous audit, it was found that an inter-ministerial team established by the government had not submitted recommendations for a multi-year action plan to increase the public housing stock. The follow-up audit found that this deficiency was only partially rectified. In February 2022, a public committee was established to examine the eligibility criteria for public housing. By the end of 2023, the committee was working on formulating its conclusions and recommendations, but these had not yet been submitted. The committee's discussions addressed issues such as integrating public housing into housing tenders and long-term rental housing, which have not been implemented. Additionally, in August 2021, the Ministry of Construction and Housing and the Budget Department at the Ministry of Finance agreed to allocate funding for the purchase of 1,700 public housing apartments as part of a multi-year plan. However, by the end of the audit, no such plan had been formulated or submitted to the government. The importance of developing a plan to integrate public housing into long-term rental tenders has grown in light of the rise in the Rent Index by approx.12% in 2020–2023, according to data from the Central Bureau of Statistics (CBS)<sup>1</sup>.

**📌 Failure to Purchase Public Housing Apartments in Certain Local Authorities Where Eligible Individuals Await Housing, Particularly in Minority Ones (Arab, Druze, and Bedouin) and in an ultra-Orthodox (Haredi) Ones Where no Public Housing Existed** – the previous audit raised that, as a matter of policy, the Ministry of Construction and Housing did not purchase apartments in local authorities without existing public housing. These included cities in low socioeconomic clusters, most of which were predominantly inhabited by minorities or ultra-Orthodox populations. The follow-up audit raised **that this deficiency was only partially rectified**. The Ministry of Construction and Housing changed its policy and initially decided to purchase

1 It should be noted that this index reflects changes in rent for tenants under existing contracts, tenants who have renewed contracts, and new tenants. For the latter two groups, it is possible that the increase in the index was higher. On this matter, see, for example: Central Bureau of Statistics, press release on "Consumer Price Index for June 2022," p. 4 (published July 2022).

apartments in local authorities without public housing: ten apartments in three minority ones, Umm al-Fahm (Arab), Rahat (Bedouin), and Shfaram (Arab-Druze), and 11 apartments in the ultra-Orthodox local authority of Modi'in Illit. However, the efforts by the Ministry of Construction and Housing and Amidar to purchase apartments in these local authorities were incomplete, and potential channels to facilitate apartment purchases in minority local authorities were not fully utilized. These included measures such as advertising on online platforms relevant to the populations in these areas and offering vouchers. As a result, by the end of 2023, no apartments had been purchased in the aforementioned minority local authorities, and only six apartments were purchased in Modi'in Illit.

#### **Construction of Public Housing Apartments Within "Discounted Housing" Projects**

– in the previous audit, it was found that until August 2019, the Israel Land Authority (ILA) issued tenders for only some of the projects, which included the construction of 203 public housing apartments within various "buyer's price" projects in six localities. The follow-up audit raised that this deficiency has not been rectified. It was found that by the end of 2020, the ILA marketed land through "discounted housing" tenders that included only 232 public housing apartments (including the 203 apartments cited in the previous audit). In 2021–2023, the ILA did not market any land that included public housing apartments, partly due to a policy change by the Israel Land Council on this matter. According to the Accountant General's Department in the Ministry of Finance, the construction of public housing apartments within these projects gave rise to methodological challenges that did not align with fiscal rules and national accounting standards. As a result, in 2021, the Israel Land Council's resolution permitting such construction was amended. Thus, the state has made almost no use of its primary tool to assist public housing eligibility amid the housing crisis. In 2020–2022, the state signed agreements for the construction of about 33,000 housing units under the "target price" and "reduced price" programs, providing land discounts of at least NIS 8.6 billion, according to the Accountant General's Department.

#### **The Discrepancy Between Household Size and Number of Rooms in Public Housing Apartments**

– the previous audit raised that about 2,100 public housing apartments were mismatched in size relative to the size of the families residing in them; for example, four-room or larger apartments occupied by a single tenant or two tenants only. The follow-up audit found that this deficiency remains unrectified. Aside from defining "housing surplus" as a situation where tenants hold more than one apartment, the Ministry of Construction and Housing failed to address the definition of "excess space housing", where a household eligible for public housing consists of one or two individuals living in an apartment with four or more rooms, as noted in the previous report. Furthermore, the Ministry of Construction and Housing has not yet examined potential mechanisms to incentivize tenants to exchange their apartments for smaller ones, nor has it assessed the proportion of tenants who would be willing to make such a change.







**Expanding Ways of Identifying Apartments for Purchase** – in February 2022, the Ministry of Construction and Housing launched a pilot program for apartment purchases by eligible individuals, titled: A Home for You. As part of this program, 400 eligible individuals were given vouchers that allowed them to identify an apartment for themselves, which the ministry would purchase for their residence. In December 2022, the Ministry's Director General instructed to expand the program, to include an additional 1,100 eligible individuals, bringing the total to about 1,500 participants. This initiative by the Ministry of Construction and Housing, allowing eligible individuals to locate apartments independently, is commendable. However, by the end of 2023, only 185 individuals had successfully purchased an apartment through this program, out of about 1,500 who received vouchers in 2022–2023.

**Addressing Vacant Apartments** – the Ministry of Construction and Housing sold 116 vacant apartments for which there was no demand by eligible individuals, with the proceeds from their sale earmarked for purchasing additional public housing apartments. Additionally, the ministry worked to refurbish 278 apartments to accommodate new immigrants.

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## Key Recommendations


 The Ministry of Construction and Housing, together with the Ministry of Finance and in collaboration with other relevant bodies including the Israel Land Authority (ILA), the Ministry of Welfare and Social Affairs, and the Ministry of Aliyah and Integration, should formulate a multi-year national action plan to provide optimal government support for those in need of housing assistance. This plan should consider the work of the public committee established in February 2022 by the then-Director General of the Ministry of Construction and Housing, to examine eligibility criteria for public housing. Additionally, it is recommended that the Minister of Construction and Housing monitor the implementation of the government's March 2021 decision to develop a multi-year plan for those eligible for public housing assistance, provided by the Ministry of Construction and Housing. Following the government decisions from June 2023 to extend the validity of the Public Housing Law and as the legislative process advances, it is further recommended that the Ministry of Construction and Housing and the Ministry of Finance reach relevant agreements. These agreements should include a review of eligibility criteria for purchasing apartments, such as an assessment of the tenant's financial situation and the scope of the benefit.


 It is recommended that the Ministry of Construction and Housing and Amidar purchase apartments for the public housing inventory in local authorities without existing public housing, particularly in minority communities such as Arab, Druze, Bedouin, and Circassian communities, and in Ultra-Orthodox (Haredi) ones. They should fully utilize all available channels, including advertising in local newspapers and websites relevant to these





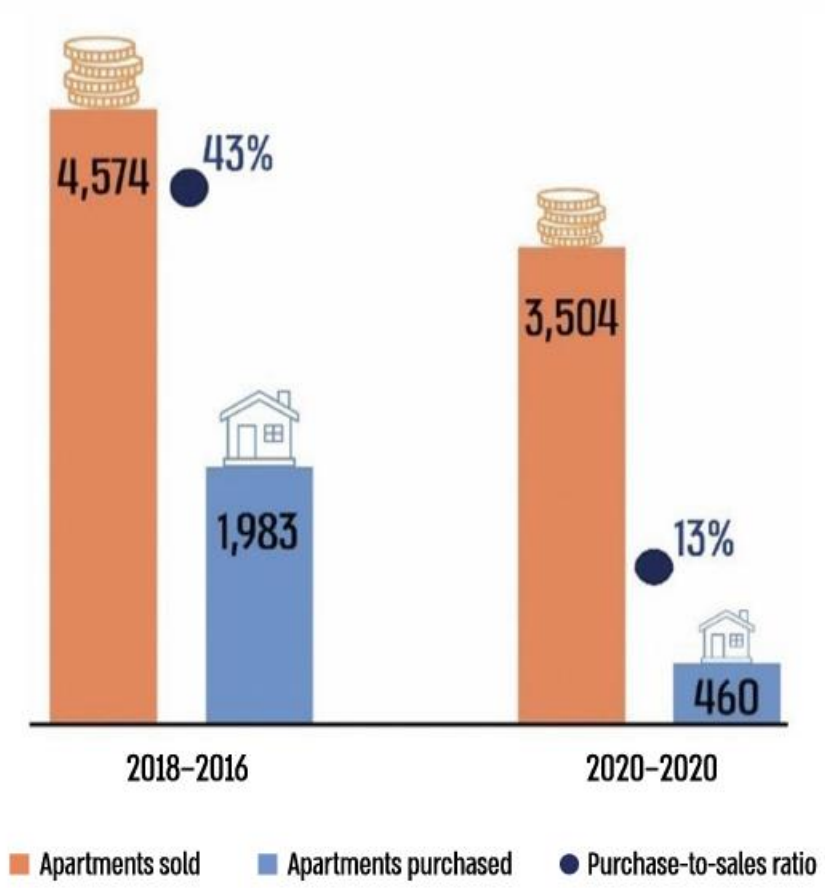
communities, and organizing informational seminars for real estate agents and residents in collaboration with local authorities.

 It is recommended that the Minister of Construction and Housing consider advancing the allocation of public housing apartments as part of the state's land marketing efforts. The Ministry of Construction and Housing, in collaboration with the Israel Land Authority (ILA), the Budget Department at the Ministry of Finance, and the Accountant General's Department, should consider including public housing apartments in "discounted housing" tenders. This would involve allocating funding for their construction, where only the land cost component would be discounted. Such an approach would enable the Ministry of Construction and Housing to acquire new public housing apartments at a reduced price through one of the government's key tools for addressing the housing crisis. This would improve the response to public housing-eligible individuals, particularly in local authorities where purchasing apartments has proven challenging.

 It is recommended that if the validity of the Public Housing Law is extended in the future, the Ministry of Construction and Housing will issue a notice to public housing tenants regarding their right to purchase the apartments they reside in, in their native languages, including Amharic. Additionally, this information should be published on the Ministry of Construction and Housing's website.



**The Number of Public Housing Apartments Purchased and Sold, and the Rate of Purchased Apartments Relative to Those Sold, 2016–2018 (previous audit) Compared to 2020–2022**



Based on data from the Ministry of Construction and Housing, as processed by the State Comptroller's Office.



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## Summary



Over the years, the number of public housing apartments has decreased, while the number of eligible individuals awaiting public housing has risen to about 4,300 in 2023. Consequently, the national average waiting time for a public housing apartment has increased from about 31 months in 2019 to 35 months in 2023.

The follow-up audit raised that some deficiencies noted in the previous audit were partially or significantly rectified. Examples include the Ministry of Construction and Housing's policy shift to purchase apartments in local authorities that previously had no public housing, the Ministry's handling of vacant and uninhabitable apartments by selling or refurbishing them, and the return of apartments rented for public purposes to the public housing inventory. However, significant deficiencies raised in the previous audit remain unrectified or were only slightly rectified. These include the lack of a multi-year plan for the public housing stock, the exclusion of public housing in "discounted housing" projects, and the failure to advance efforts to match apartment sizes to household sizes.

The Minister of Construction and Housing should rectify the remain deficiencies and implement the recommendations detailed in this report, to improve responses for those eligible for public housing. It is further recommended that, following the government decisions regarding the extension of the validity of the Public Housing Law and depending on the progress of the legislative process, the Ministry of Construction and Housing and the Ministry of Finance should reach relevant agreements. As part of this, they should review eligibility criteria for apartment purchases, such as evaluating the tenant's financial situation, as well as the scope of the benefit.



### The Rectification Extent of the Key Deficiencies Noted in the Previous Report

The Audit Chapter	The Audited Body	The Deficiency Noted in the Previous Audit	The Extent of Deficiencies Rectification Noted in the Follow-up Audit			
			Not Rectified	Slightly Rectified	Significantly Rectified	Fully Rectified
Staff work on the public housing stock	Ministry of Construction and Housing	The mismatch between household size and the number of rooms in public housing Apartments.				
Failure to purchase public housing apartments in certain localities where eligible individuals await	Ministry of Construction and Housing	The Ministry of Construction and Housing did not purchase apartments in local authorities without public housing, including cities in low socioeconomic clusters, most of which are predominantly inhabited by minorities or Ultra-Orthodox (Haredi) populations.				



The Audit Chapter	The Audited Body	The Deficiency Noted in the Previous Audit	The Extent of Deficiencies Rectification Noted in the Follow-up Audit			
			Not Rectified	Slightly Rectified	Significantly Rectified	Fully Rectified
Construction of public housing apartments within "discounted housing" projects	Ministry of Construction and Housing Israel Land Authority (ILA) Accountant General's Department Budget Department at the Ministry of Finance	The Israel Land Authority (ILA) issued tenders for only some of the projects, which included the construction of about 200 public housing apartments as part of various "buyer's price" projects in six local authorities.				
Mismatch between household size and number of rooms in public housing apartments	Ministry of Construction and Housing	In 2,100 public housing apartments, there was a mismatch between apartment size and size of family residing in them.				
Addressing the issue of vacant apartments	Ministry of Construction and Housing	The previous audit raised that about 270 public housing apartments were unoccupied and remained vacant for over a year.				



The Audit Chapter	The Audited Body	The Deficiency Noted in the Previous Audit	The Extent of Deficiencies Rectification Noted in the Follow-up Audit			
			Not Rectified	Slightly Rectified	Significantly Rectified	Fully Rectified
Issuing notifications to tenants in various languages regarding eligibility to purchase public housing apartments	Ministry of Construction and Housing	The Ministry of Construction and Housing sent letters to public housing tenants about their right to purchase the apartments only in Hebrew, through the companies managing the housing inventory.				

