

The Homestead Initiative for Israel¹

Background: One of the primary reasons for the establishment of the State of Israel is to provide a safe haven for Jews throughout the world. In an unparalleled achievement among all nations on earth, Israel absorbed 350% of its population in its first 60 years since its founding. Many of these immigrants during Israel's early years were impoverished Holocaust survivors from post-war Europe or hailed from Arab and Muslim countries spanning from Morocco to Yemen and Afghanistan. In its fledgling years, the State of Israel created camps – often under harsh living conditions – that evolved from tents to tin structures to development towns or even suburbs of existing towns. Decades later, waves of new immigrants arrived from Ethiopia and the former Soviet Union. Indeed, nearly a million people immigrated to Israel from the former Soviet Union between 1989 and 2006.

The rise of anti-Semitism sweeping across Europe from political extremists and Islamic radicals underscores Israel's crucial mission. Indeed, *The Atlantic* magazine featured a cover story in its April 2015 edition asking whether Jews should leave Europe.² The experience of immigration from France is indicative of this serious concern and the deteriorating situation in Europe. Between 1948 and 1967, a total of 10,030 French Jews immigrated to Israel. According to the Jewish Agency for Israel, 10,000 to 15,000 French Jews are expected to immigrate to Israel in 2015 *alone*, which is in addition to the 7,000 immigrants who came in 2014.³ Simultaneously, housing prices are escalating in areas such as Netanya, Tel Aviv and Jerusalem where many immigrants wish to settle. Wealthy Jews from France and Anglo nations have purchased many apartments and homes in Israel that remain vacant apart from holidays and summer vacations.

The *Wall Street Journal* reported on February 4, 2015 that this wave of French immigration could push housing Israeli prices even higher. Housing prices have risen at an annualized rate of 6.5% through the end of the third quarter of 2014. Currently, the average three bedroom apartment in Tel Aviv costs an incredible \$766,000. The number of monthly salaries needed to save to buy a home leapt from 103 to 137, compared to other OECD countries in the 60 range. This is beyond the financial reach of many Israelis. In February 2015, Israel's State Comptroller Joseph Shapira released a scathing report on the country's housing crisis, blaming the escalating housing costs on government inadequacies and a stifling bureaucracy. The 294 page report revealed that from 2008-2013, the average cost of an apartment in Israel rose 55%, with rents rising 30% during the same time period. The report noted, "The various government departments responded with no strategic plan of action in the long term, and without having set any goals."

To illustrate the problem differently, the average monthly family income in Israel is NIS 14,000, of which approximately NIS 5,600 goes to rent. This leaves about NIS 8,400, which goes to food, utilities, car payments, fuel, and child-related expenses. Not much remains. With a typical modest apartment in Israel within a reasonable commuting distance to one's job priced at

¹ A version of this Paper was presented in a Tikvah Fund Workshop in New York City in April of 2015.

² <http://www.theatlantic.com/features/archive/2015/03/is-it-time-for-the-jews-to-leave-europe/386279/>

³ France has about 475,000 Jews, about 2/3 of Sephardic origin from North Africa. There are 1,426,900 Jews in total in the European Union.

a million shekels at a minimum, it is a significant challenge for most families to obtain the required 30% (or NIS 300,000) down payment. When apartment prices are rising at 10% or more a year and salaries increasing at only around 1% to 5% per year, it becomes impossible for a typical family to save enough long term for a down payment. Even if a family is able to save NIS 24,000 per year and in 15 years it can then afford the apartment – the same apartment now costs NIS 2.5 million, so the family will be short NIS 400,000 on the down payment. This economic pressure creates an intolerable financial situation for many Israeli families.

93% of land in Israel—“Israeli Land”—is owned by the State with only about 7% under private ownership. According to Israel’s Basic Law on real estate, Israeli Land is jointly owned by the State (69%), the Development Authority (12%), and the Jewish National Fund (12%). The situation *de facto* is that leaseholder rights closely resemble full property rights.

Israeli Land is administered by the Israel Land Administration (ILA). While there is no legislative mandate prescribing the objectives that the ILA must advance, these have been established through judicial precedent. A seminal ruling dictating these objectives can be found in the Israel Supreme Court case of *Adal Ka’adan v. the Israel Land Administration* (2000):

“...The objectives that comprise the core authority of the Israel Land Administration are the continuation of State control of Israeli Land and the perpetuation of the administration and development of land in Israel under the concentration of a singular government entity. This is to prevent the transfer of ownership to non-favorable entities, to advance security issues and to authorize the operation of different national projects – such as: the absorption of new immigrants, the proper distribution of the population and agricultural settlement...”

In that case the Israeli Supreme Court ruled that the State may not allocate land to its citizens on the basis of religion or nationality, even if it allocates the land through a third party such as the Jewish Agency. The Court's decision precludes restrictions on the leasing or sale of land based on nationality, religion, or any other discriminatory category.⁴

In August of 2009, the Knesset passed an Israel Land Authority Law that permits people to own land property. As part of the legislation, the Israel Land Authority was created to eventually replace the Israel Land Administration. Under the reform some 200,000 acres of State-owned land, comprising 4% of total Israeli Land, was be sold to private buyers, including homeowners, developers and kibbutzim. The law intended to accelerate development and new, lower-cost housing, and boost the economy. While this law recognizes that State-controlled land and rigid regulation creates a market distortion and scarcity in housing, this legislation has not yet met its promise.

Affordable housing and cost-of-living issues played a significant role in the March 2015 Knesset elections. The Kulanu party website explains that construction time for new apartments in Israel requires *seven years*, considering all aspects of the construction procedures from

⁴ To address this issue, the Knesset passed the "Admissions Committees Law" in March of 2011, which allows committees to reject applicants who wish to move to a village or community of 400 or fewer families in either the Negev or Galilee regions on the grounds that living in these communities is "socially unsuitable" because of the "social and cultural fabric of the town." A legal challenge before the Israeli Supreme Court remains pending.

planning, marketing, development, and licensing. Moreover, many potential immigrants wishing to leave France and other Western countries because of anti-Semitism may be hesitant to do so because of the lack of affordable housing and limited job opportunities in Israel. At the same time, large areas of land in both the north (Galilee and Golan) and south (Negev) in Israel remain sparsely populated.

Finance Minister Moshe Kahlon's plan implementing on July 1, 2015 an additional tax on residential real estate meant for investment, intends to make investing in inexpensive homes less attractive, leaving them to first-time buyers. While this plan is well intentioned, increasing taxes on investment property may actually increase housing costs for renters of these less expensive homes. Landlords may well pass on these costs to their renters. Indeed, this tax could negatively impact Israeli families who are the most vulnerable financially.

Significance: The crisis of affordable housing significantly degrades the quality of life for many Israeli families, and may destabilize the Israeli economy and political system. It also impairs a major promise of Zionism – the rescue of Jews fleeing from persecution. Israel is also American Jewry's "insurance policy" should the unimaginable happen in the United States.⁵

Strategy: This paper advocates the implementation of a Homestead Initiative for Israel, a concept adapted from America's own successful experience, to be executed by the Ministry of Construction and Housing in conjunction with other agencies, and pursuant to Knesset land reform legislation. A well-crafted and innovative Homestead Initiative implements the following important political policy goals simultaneously:

- Substantially addresses the affordable housing crisis in Israel.
- Provides immigrants from Western countries with socio-economic incentives to move to and work in Israel.
- Provides socio-economic incentives to expand populations into both the north and south of Israel.

Historically, homesteading has been used by governments engaged in national expansion to help populate and make habitable hitherto undesirable areas. While a pure market-based solution for the Israeli government might be to auction off land for development, doing so in remote areas without strong economic or development incentives may not achieve the aforementioned policy goals. In the American experience, many families used the Homestead Act to populate the land, build towns, and eventually create new states from the territories. More than 270 million acres – 10% of all U.S. lands – passed to individuals through the Homestead Act and its successors.

President Abraham Lincoln signed into law the Homestead Act of 1862 to encourage settlement in the western United States. The homestead was an area of public land in the West (usually 160 acres) granted to any U.S. citizen willing to settle on and farm the land for at least five years. The law (and those following it) required a three step procedure: file an application,

⁵ As quoted in *The Atlantic* article cited previously, none other than Vice President Joe Biden candidly expressed the following to an audience in September 2014: "... You understand in your bones that no matter how hospitable, no matter how consequential, no matter how engaged, no matter how deeply involved you are in the United States ... there's only one guarantee. There is really only one absolute guarantee, and that's the state of Israel. ..."

improve the land, and file for deed of title. After residing on the land for five years and making improvements, applicants received a deed to the land. About 1.6 million homesteaders improved on their claims and earned a deed of title for the land from the federal government. In fact, other nations have also encouraged settlement through homestead laws, including Brazil and Canada.

The Jewish Agency for Israel (JAFI) provides new immigrants financial assistance (*sal klita*), free health insurance, free *ulpanim* (Hebrew language courses), rental assistance, and other benefits. Nefesh B’Nefesh (NBN) also operates the Go North program. Participants receive a range of specially-tailored services and benefits, including social and educational programs and activities for *olim*, and assistance through the absorption process. In the first year of Aliyah, advisors speak with Go North Olim at least once a month. To secure employment, Go North provides *olim* with an employment advisor, who helps *olim* with interview preparation, networking assistance, finding leads on career opportunities, and even assists *olim* with starting a business. Similarly, a program called Go South offers a variety of benefits through NBN, including enhanced financial grants, ongoing local support, employment counseling, pilot trip guidance, and social networking.

These benefits, while constructive, do not solve the current housing crisis within Israel, provide Israelis with new housing options, nor provide strong financial incentives and opportunities for Western immigrants making Aliyah to settle in the north or the south. To address these deficits, the Knesset should enact homestead legislation similar to that in other countries to encourage first time home owners in Israel as well as prospective Western immigrants to homestead in selected regions in the north and south.

The Homestead Initiative strategy must first identify homesteading regions in the north and the south of Israel. The initial areas should have speedy transportation access to larger cities (such as Haifa and Nahariyah in the north, and Ashdod, Ashkelon and Be’er Sheva in the south) for employment, goods, and services. Once the target regions are determined, the Knesset should adopt the contours of the Homestead Initiative policy including the following general principles (which are not exhaustive):

- 1) Homesteading will be open to Israelis who are serving in or have been honorably discharged from the Israel Defense Forces or National Service, and Diaspora Jews who are willing to make Aliyah to Israel, with a commitment to the terms of the Homestead Initiative.
- 2) Eligibility will not be financially need-based so as to encourage a diversity of applicants to participate and move to the homestead regions.
- 3) Applicants would be required to make a pilot trip to the region where they wish to homestead and obtain placement, education, and employment counseling prior to being accepted into the program. Need-based grants for pilot trips will be available.
- 4) Applicants must not already own residential real estate in Israel.
- 5) Approved applicants (participants) would be allocated a plot of land in a community of their choosing and be offered low interest loans for building a residence on the plot.

- 6) Apartments and existing homes will also be available for purchase under the Homestead Initiative.
- 7) The Israeli government will build infrastructure (i.e., transportation, utilities, high-speed internet, schools, clinics, parks, synagogues, and community centers).
- 8) The Israeli government will establish economic “enterprise zones” to stimulate economic growth, facilitate the creation of new jobs, and increase entrepreneurial opportunities for businesses in homestead regions.
- 9) The Israeli government will streamline the bureaucracy to accelerate building permitting and timelines for infrastructure, homes, and businesses in homestead regions.
- 10) Incentives, such as sponsored community synagogues with Rabbis, will be offered for groups of ten participant families willing to homestead at one time.
- 11) Certain neighborhoods in homestead areas could be reserved to attract communities that maintain cohesive elements (i.e., English or French speaking, Haredi, Religious Zionist, Secular, etc.)
- 12) Homestead participants must remain current on their low interest loans and reside at least ten months out of each year on the plot, for a minimum of five years.
- 13) After the five years, the homestead participant will receive title to the plot or apartment/house as allowed by law.
- 14) *Olim* will be entitled to support from JAFI and NBN with employment assistance, *ulpanim*, and other financial benefits.

The Homestead Initiative should be implemented not to harm private building in areas near homestead regions or to artificially depress the housing market of non-homestead areas. The five year commitment required of homestead participants should limit any negative impact on housing values of neighboring communities.

The initial costs of building infrastructure and operating the Homestead Initiative program will be paid by general revenue and from leasing or selling land to businesses to serve the new populations, with the desired outcome of developing communities throughout the north and south which will pay taxes, build new businesses, and contribute financially to the state into the future. Projected initial costs are yet to be determined as it will depend upon many factors, including but not limited to the amount of land allocated for homesteading and the number of participants. The establishment of economic enterprise zones within homestead regions will help encourage businesses to invest within these zones with job and corporate tax income tax credits or VAT refunds. The program should be performance-based; meaning that without the promised jobs and investment, the business would not receive any of the benefits.

To use an example from the United States, the state of Florida has 65 enterprise zones in 52 counties. The largest enterprise zone in Miami-Dade recently assessed the effectiveness of the program. The report concluded that businesses and residents benefited from the tax rebates and credits received by businesses as well as from new hires of enterprise zone residents and the associated increase in consumer buying power. From 2011 to 2013, businesses in the Miami-Dade enterprise zone paid \$7.1 million in wages and received \$1.8 million in tax benefits for creating 482 jobs (approximately \$4 in wages per \$1 of tax rebate). Of course, those wage earners are paying taxes. The goal is for Israel to replicate this success in homestead regions in order to provide much needed economic development and investment in these areas.

There will be obstacles to the Homestead Initiative, particularly by the stultifying government bureaucracy and the initial lack of job opportunities in homestead regions. Additionally, opposition to the privatization of the ILA earlier brought together an unlikely alliance of some Jewish nationalists, Arabs and environmentalists who might also object to the Homestead Initiative. Nevertheless, this program should appeal to political parties across the ideological spectrum. For Likud and its allies on the Right, the Homestead Initiative will help relieve some pressure on the housing market and provide young Israelis and Western *olim* with an opportunity to obtain affordable housing within cohesive communities. For the Zionist Union (Labor) and its allies on the Left, the Homestead Initiative will provide young Israelis with opportunities to obtain affordable housing outside of Judea and Samaria, the later which causes much friction with the United States and the international community.⁶ For the Kulanu Party, which campaigned to break apart the Israel Lands Administration, this proposal could serve as one of several strategies to help reform land and construction policies as well as to provide affordable housing for Israeli families. Finally, businesses and trade unions should be recruited to support the Homestead Initiative as both gain with employment and development opportunities.

The rigid state control of land, burdensome building regulations, and slow development process all constrain the amount of land available for residential housing in Israel. Using Economics terminology, the limitation of supply shifts the demand curve for developable land upward and to the left, raising housing prices. To address this crisis, Israel must open hundreds of thousands of acres to residential housing and business development. The Homestead Initiative offers the opportunity for the north and south of Israel to become more vibrant, provide economic opportunities, and grow regions where more affluent populations might desire to live. Homesteading, as part of an overall land reform effort in Israel, will help bring needed relief to both Israelis and *olim* as well as create cohesive and dynamic communities of diverse populations in what have up until now been remote and sparsely populated regions.

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⁶ The Jewish presence in Judea and Samaria has increased from 290,000 in 2009 to the current number of 385,000 according to the Yesha Council.