

Chapter 8

The Housing Market

- » During 2025, the total number of home purchase transactions declined, and home prices decreased moderately. Against this, the volume of housing starts was high, as was the volume of land purchases by developers in Israel Land Authority (ILA) tenders.
- » The number of persons employed in the construction industry returned to its prewar level, due to a marked increase in the number of foreign workers and the entry of Israelis into the industry. However, a shortage of workers still persists, in view of the considerable increase this year in the volume of activity in the industry. This increase was reflected in about 80,000 housing starts and in reconstruction needs.
- » The decline in the number of transactions in both new and second-hand dwellings relative to the previous year occurred against the background of the interest rate environment, which remains high relative to the years preceding the outbreak of inflation globally and in Israel, and the attractiveness of the returns offered by the capital market relative to the housing market. The decline in new home transactions also reflected measures to limit contractor sales promotions, as well as the bringing forward of purchases to the end of 2024 in order to precede the VAT increase.
- » In view of the increase in construction activity and the decline in new home transactions, the stock of unsold new homes increased this year and reached a high level relative to the past.
- » In 2025, the planning institutions approved 223,000 housing units—an increase of about 10 percent relative to 2024. The number of housing units marketed by the ILA, through tenders with a winning bid and without tender, totaled about 60,000 units, similar to 2024.
- » In October 2025, about 7,400 housing units in the North, the Gaza periphery, and the Center remained outside the effective housing stock due to war-related damage. By contrast, negative net migration moderated demand for housing services. Rental prices increased by 3.2 percent during 2025.
- » Following the increase in home prices that began in November 2023 and continued through January 2025, home prices declined during most of the year (February–October 2025). In October–November, home prices resumed rising, alongside a slight decline in the stock of unsold new homes. On an annual basis, home prices declined by 0.9 percent.



Construction volume, especially **building starts** increased this year



There is still a **shortage of workers** in the construction industry



A decline in transactions led to **record-high stock** of new homes for sale



Home prices declined this year, led by new homes

1. BACKGROUND CONDITIONS AND MAIN DEVELOPMENTS

During 2025, the housing market was affected by the continuing consequences of the war that broke out on October 7, 2023, and by an interest rate environment that remained high relative to the years preceding the outbreak of inflation globally and in Israel. Despite these challenges, construction volume was high, but the volume of transactions—particularly new home purchases—contracted relative to 2024.

The supply constraint in the construction industry, which was due to limited worker availability, eased relative to 2024 but continued to weigh on the industry in view of the volume of activity and the need for reconstruction work. By the end of 2025, the increase in the number of foreign and Israeli workers had offset about 90 percent of the decline in the number of Palestinian workers relative to the eve of the war.¹

During 2025, there was a marked increase in housing starts, which totaled about 80,000 units. The increase in construction activity this year followed the high number of building permits issued in 2024, and was made possible by the large number of housing units marketed by the Israel Land Authority (ILA) in 2021–22. It is likely that some projects on which construction could have begun earlier were postponed to 2025 due to the severe labor shortage created by the war. The ability to sustain a high volume of residential construction under labor shortage conditions was made possible by shifting production factors from nonresidential construction to residential projects. Nevertheless, construction times lengthened as a result of the shortage.

While supply continued to expand, only about 34,000 new homes were purchased this year—a marked decline relative to 2024. As a result of this gap, the stock of unsold new homes continued to increase, reaching about 83,000 units at the end of December 2025 (Central Bureau of Statistics figure based on seasonally adjusted reporting).

¹ Most Palestinian workers in the industry were employed in “wet trades” (Occupation 71)—“Building and related trades (excluding electricians)” —as were foreign workers. The offset for the absence of Palestinians is calculated as the increase in the number of foreign workers in construction plus the increase in the number of Israelis working in Occupation 71.

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Table 8.1 | Selected Housing Market Data, 2006–2025

	2006–2018 average	2019	2020	2021	2022	2023	2024	2025
Factors of demand								
General population (rate of change) ^{a,b}	1.9	1.9	1.8	1.7	2.0	2.1	1.1	1.1
Population aged 25+ (rate of change) ^{a,b}	2.1	2.0	1.9	1.8	2.2	1.9	1.4	1.4
Average real wage per Israeli employee post (rate of change) ^{a,c}	1.1	2.1	3.1	4.9	-1.7	1.9	1.5	0.3
Unemployment rate ^c among those aged 25–64 (annual average)	5.9	3.4	14.6	9.6	3.3	3.0	3.0	2.7
Weighted real interest rate on new mortgages ^d (annual average)	2.1	1.5	1.1	0.8	1.7	3.4	3.1	3.0
Real per capita GDP (rate of change)	2.2	1.9	-3.2	7.6	4.4	0.1	-0.3	1.7
Rate of those planning to buy a home in the next 12 months ^e (annual average)		8.0	6.4	7.4	5.6	3.6	3.9	3.6
Factors of supply								
Building starts (thousands of housing units)	44.5	56.5	56.7	64.6	69.4	65.2	69.8	80.0
<i>of which</i> : Dwellings not for sale under construction (thousands of housing units)	18.0	20.6	16.4	19.2	24.4	22.1	21.0	23.8
<i>of which</i> : Rental dwellings (thousands of housing units)		2.9	2.5	2.5	3.1	2.3	2.6	3.8
Building completions (thousands of housing units)	39.3	53.3	50.2	47.1	53.3	61.0	54.4	59.7
Construction duration of completed buildings (months)	26.7	29.2	31.2	31.0	33.1	32.7	34.3	37.8
Stock of homes under active construction (end of year, thousands of housing units)	87.6	127.0	133.0	150.4	167.5	171.5	186.8	207.2
Building permits (thousands of housing units)	44.8	56.9	53.8	73.0	77.8	73.6	79.5	81.2
Real investment in residential construction (rate of change)	4.6	3.4	-7.8	16.8	16.1	-8.1	-17.4	16.0
Housing units approved in the district committees and in the VATMAL (thousands) ^f	66.4	140.6	95.3	108.1	158.4	168.4	204.0	223.0
Land marketed in ILA tenders (thousands of housing units)		39.0	26.0	63.0	81.0	55.0	58.4	60.0
Outcome data								
Housing transactions (thousands) ^g	90.4	101.1	101.5	150.1	107.4	71.5	102.9	90.7
<i>of which</i> : New homes sold (thousands)	23.1	40.4	40.6	57.0	41.1	27.4	45.7	34.0
<i>of which</i> : With government support (thousands)		16.7	4.0	12.0	7.8	6.9	9.6	10.2
Home prices - nominal (rate of change during the year)	6.3	4.2	4.0	13.1	14.7	-1.0	7.7	-0.9
Home prices - real (rate of change during the year) ^h	5.3	4.1	4.8	10.4	9.3	-3.7	4.5	-3.0
Rents - nominal (rate of change during the year) ⁱ	3.4	2.8	0.2	3.3	6.3	3.1	4.0	3.2
Rents - real (rate of change during the year) ^{h,i}	2.4	2.7	1.0	0.8	1.3	0.3	0.8	1.1
Homes purchased by investors as a share of total purchases (annual average)		12.8	14.2	18.0	14.3	13.8	12.8	12.2

^a Rates of change are shown as the average of the current year compared with the average of the previous year.

^b The 2006-2018 average does not include 2009 due to a break in the statistical series.

^c Correction in respect of the COVID-19 crisis in 2020 and 2021: The real wage is adjusted to the composition of employees and the broad unemployment rate.

^d Assuming an annual inflation rate of 2 percent.

^e 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.

^f The multiyear average is from 2007 to 2015.

^g Market transactions only. Excluding inheritances, transfers with no payment, among relatives, etc.

^h Adjusted for the Consumer Price Index excluding housing.

ⁱ 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.

Due to the slowdown in the number of new home transactions and the rapid increase in the stock of unsold homes, a turning point occurred in February 2025 and home prices began to decline. By September, the cumulative decline reached 2.8 percent, while in the new homes segment the decline was even more pronounced (5.4 percent). However, in October–November, against the background of the ceasefire and declining interest rates in the economy, home prices again rose, alongside a slight decline in the stock of new homes. On an annual basis, home prices declined by 0.9 percent.

The total number of transactions amounted to about 91,000, a decline of about 11 percent relative to 2024.² This decline occurred partly against the background of the attractiveness of the returns offered by the capital market relative to the housing market.

At the beginning of 2025, at least 15,000 dwellings—mainly in the North—were outside the effective stock of housing services. Between January and September 2025, most evacuees returned to their localities, and by October 2025 about 7,400 housing units in the North, the Gaza periphery, and central Israel remained outside the effective housing stock.

The background conditions described above increased excess supply, mainly in the market for home purchases, since most dwellings are sold before construction is completed but begin to provide housing services only after completion. The market for housing services was affected by the decline in the effective housing stock—a decline that narrowed during the year—and by the relatively low growth rate of the population aged 25 and over by historical standards. These factors contributed to moderating the increase in rents (the owner-occupied housing services component) to 3.2 percent.

It appears that the effort to increase housing supply—from the planning stage through the execution stage—which the government began about a decade ago supported the increase in construction activity and the moderation in prices, which have declined by 2.5 percent in real terms since January 2023. Thus, in recent years the number of housing starts has been consistent with annual demographic housing needs, and in the coming years this is expected to also be reflected in an increase in building completions and in the stock of homes available for occupancy.

2. SUPPLY

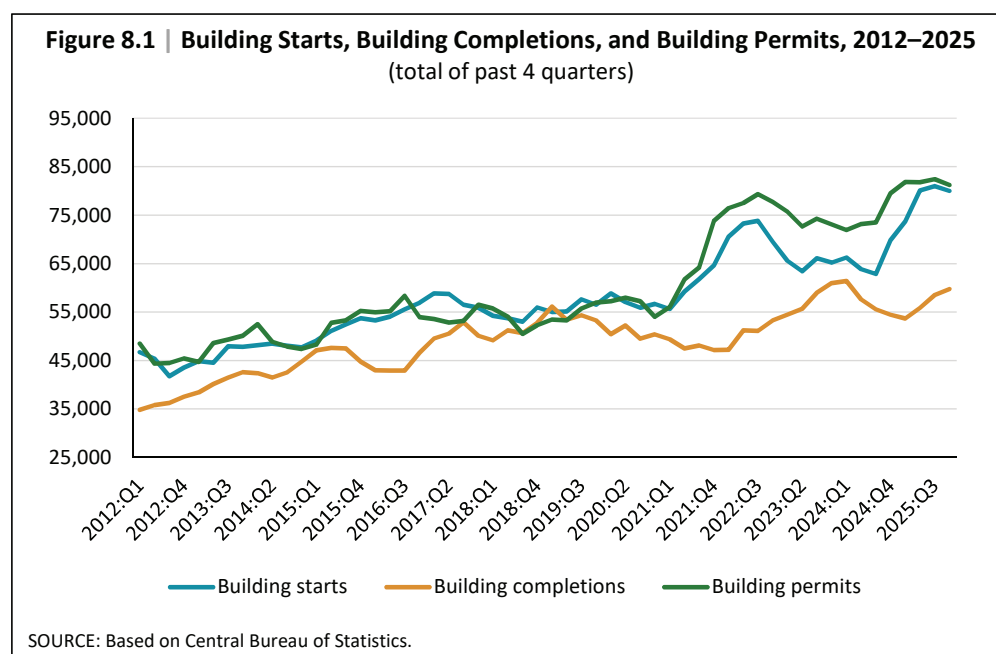
a. Activity in the residential construction industry

In 2025, the volume of residential construction starts increased. About 80,000 housing units were started this year—an increase of about 15 percent compared with 2024 and of about 20 percent compared with October 2022–September 2023 (Figure 8.1). The increase in housing starts occurred against the background of the high level of building permits issued in previous years. The increase in the number of dwellings for which permits were issued was made possible by the continued rise in the number of urban renewal projects and the high level of land marketing for residential construction by the ILA in 2021–22. The purchase of land in ILA tenders includes a condition requiring completion of construction within a defined period, and this—together with the high level of interest rates, which raises the cost of holding land inventories—creates an incentive to begin construction of projects despite the

² Net of the effect of bringing forward transactions from 2025 to December 2024 and postponing transactions from the end of 2023 to the beginning of 2024, this represents a decline of about 6 percent.

The number of building starts grew this year, to 80,000.

decline in demand for new dwellings.³ In addition, following the outbreak of the war and the resulting severe labor shortage, the start of construction of some projects that were close to receiving permits was apparently delayed. However, with the decline in the intensity of the fighting during 2025 and the increase in the number of persons employed in the industry, there was a marked increase in residential construction starts.



During 2025, the number of persons employed in the construction industry continued to increase. This year, the number of foreign workers employed in construction⁴ totaled 75,200—an increase of about 44,500 workers relative to the prewar period. According to National Accounts data, the pace of increase in the number of Israelis employed in construction accelerated during 2025, and their number⁵ totaled about 267,000—an increase of about 19 percent relative to the prewar period.⁶ The increase in the number of Israeli workers in occupations from which Palestinian workers had been absent offset about 25 percent of the decline in

The increase in the number of foreign and Israeli workers compensated for most of the decline in the number of Palestinian workers in “wet trades”.

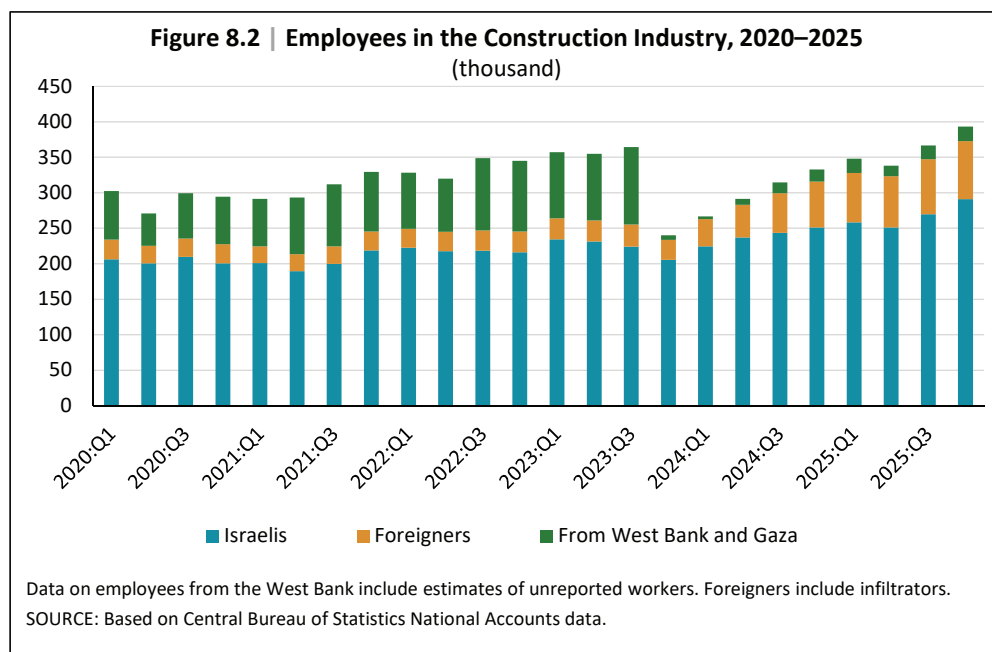
³ For further discussion, see Chapter 8 of the Bank of Israel *Annual Report* for 2023.

⁴ 2025 average.

⁵ 2025 average.

⁶ There are significant gaps between the quantitative estimates of the increase in the number of Israelis employed in construction since the outbreak of the war. Administrative employee-post data indicate a more modest increase in the number of Israelis in the construction industry than do the National Accounts data cited here, which are based on the Labor Force Survey. (For further discussion, see Chapter 5 of this Report.)

the number of Palestinians (Figure 8.3)⁷, while the increase in the number of foreign workers offset an additional approximately 65 percent. (These percentages relate to the wet trades. See Footnotes 1 and 7.)



In 2025, there were about 361,000 people employed in the construction industry as a whole⁸—similar to the number prior to the war. Nevertheless, in view of the marked increase in the volume of activity in the industry and the need for reconstruction work following war damage, a shortage of workers still exists. In the last quarter of 2025, the number of job vacancies totaled about 20,000. The vacancy rate—8.8 percent—was high relative to its prewar level (6.8 percent). (For further discussion, see Chapter 5.) According to the Central Bureau of Statistics Business Tendency Survey, the share of firms reporting a constraint (severe or moderate) in recruiting workers increased in 2024 and moderated in 2025, but remained high relative to its prewar level (Figure 8.4).

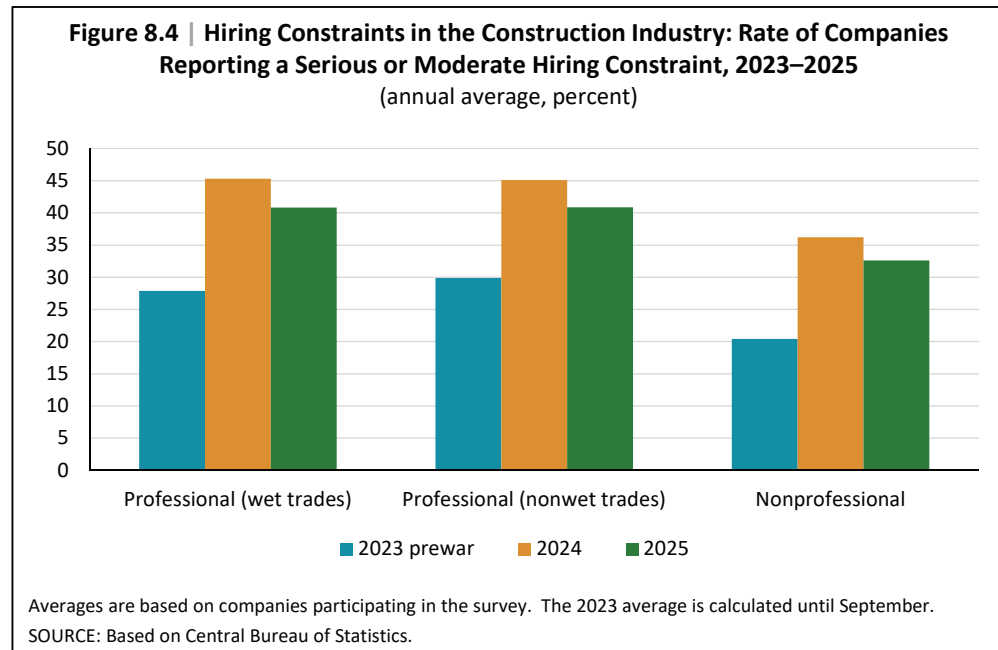
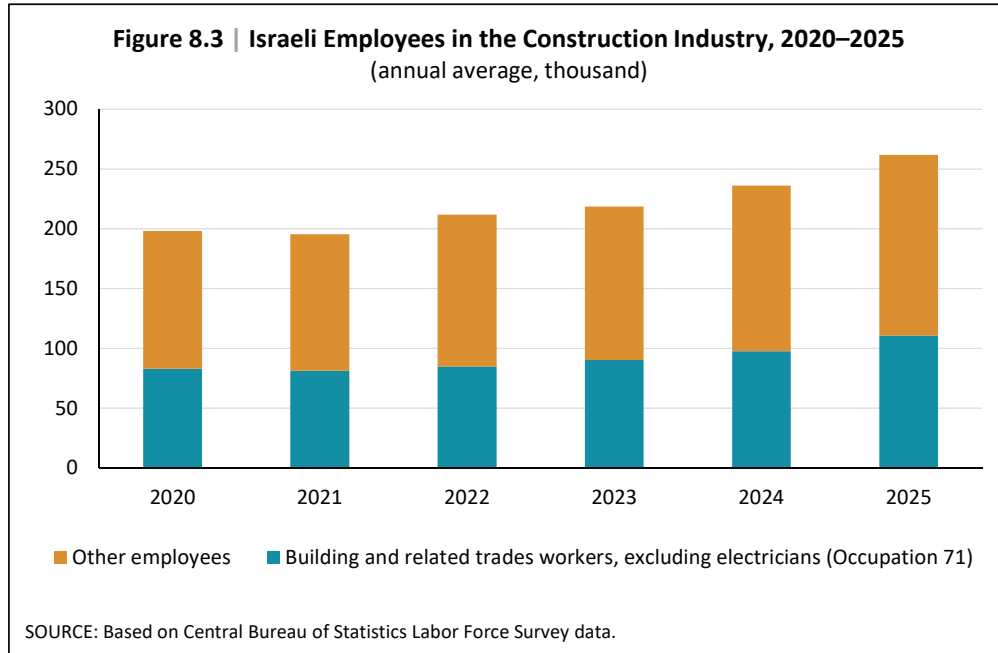
The vacancy data and the findings of the CBS Business Tendency Survey support the assessment that, despite the closure of the gap in the number of persons employed relative to the prewar period, a labor shortage persists due to the increase in the volume of activity in the industry. The gap between the ratio of the volume of active construction to the number of persons employed in construction this year and that ratio prior to the war reflects a shortage of about 30,000 workers as of the

Despite the increase in the number of workers this year, there is still a shortage of workers in the industry.

⁷ Most Palestinian workers in the industry were employed in “wet trades” (occupation 71)—“Building and related trades (excluding electricians)”.

⁸ According to National Accounts data, annual average.

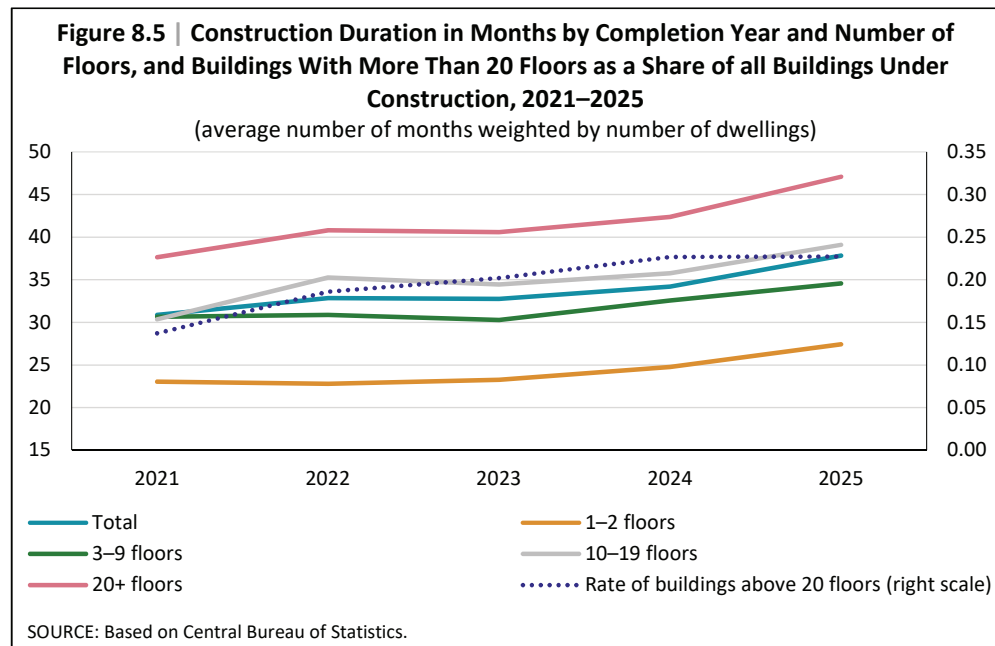
last quarter of 2025. Since the outbreak of the war in October 2023, the residential construction input price index has increased by 9 percent. The wage component led this increase, rising by about 13.8 percent. The increase in wages in the construction industry also reflected the change in the composition of workers: the replacement of Palestinians by foreign and Israeli workers, whose employment cost is higher than that of Palestinian workers.



Despite the labor shortage relative to the prewar period, real wages per employee post of Israeli workers in construction increased by less than wages in the business sector⁹, although in the second half of 2025 the relative wage in construction increased.

Diverting production factors from nonresidential to residential construction supported the increase in residential construction.

The gap between the high volume of residential construction and the labor shortage was apparently made possible by the contraction in nonresidential construction and the shifting of production factors from the initiation of new nonresidential projects to residential projects. Alongside the acceleration in residential construction starts, the recovery in nonresidential construction has been slow. In 2025, nonresidential construction starts and completions were lower by about 16 percent and 28 percent, respectively, than in 2023.¹⁰ Another factor that may enable an increase in construction activity without an increase in the number of workers is greater use of equipment, technologies, and advanced production methods, which constitute a partial substitute for labor. (For further discussion, see Box 8.2 in the Bank of Israel Annual Report for 2023.) However, at present, data on investment in machinery and equipment in the construction industry in 2024–25 do not indicate an increase. (For further discussion, see Chapter 2 of this Report.) Beyond this, there is no firm information regarding technological developments in the construction industry.



⁹ Real wages per employee post of Israeli workers in the business sector increased by about 5 percent from October 2023, compared with about 3.8 percent in the construction industry.

¹⁰ There is no breakdown of employment in the industry between residential and nonresidential construction, but the assessment is that about two-thirds of workers in the industry are employed in residential construction and about one-third in nonresidential construction. Accordingly, a decline of between 16 and 28 percent in the number of workers in nonresidential construction implies a transfer of between 19,000 and 33,000 workers to residential construction projects.

The number of building completions in 2025 totaled 59,700 housing units—an increase of about 10 percent relative to 2024. Construction duration (weighted by the number of dwellings) stood this year at about 38 months per dwelling—an increase of about 3.5 months relative to 2024. The lengthening of construction duration almost certainly reflects the labor shortage, and is manifested in the gap between building starts and completions. In addition, it appears that an ongoing change in the composition of construction has also contributed to the lengthening of construction times: an increase in the share of buildings with more than 20 stories, for which construction duration is the longest among all buildings under active construction (Figure 8.5).

The number of building completions increased this year, even as construction duration lengthened.

b. Supply of subsidized housing

About 11,400 dwellings were allocated by lottery in 2025 under the “Discounted Apartment” program, down from about 16,400 dwellings in 2024. In September 2025, it was decided that beginning in November 2025, land tenders under the “Discounted Apartment” framework would be limited to localities in which the price per square meter is up to NIS 20,000 including VAT—an arrangement that is expected to confine the program to periphery areas only. This change did not affect the market in 2025, since the tenders closed in 2025 had been published before November. However, beginning in 2026, the quantity of subsidized dwellings offered in high-demand areas is expected to decline gradually. During the year, changes were made in the allocation of dwellings, and preference was given to active reserve-duty soldiers. However, it is likely that the dwellings to be allocated under the benefit will not be located in high-demand areas.

c. Early stages of housing production

(1) Approval of plans by the district committees and the National Building Committee for Priority Housing Areas

The volume of dwellings approved by the planning institutions continued to expand, and even exceeded the government targets. In 2025, approvals totaled about 223,000 units (Figure 8.6)—80 percent above the target. The increase in the stock of approved plans in recent years followed a prolonged period of planning shortage. A high volume of approved plans contributes to greater planning certainty and to the creation of a substantial planning inventory, which can support flexibility and an increase in the future supply of housing units. However, the effective constraint on increasing the volume of construction lies at more advanced stages. A significant share of plans is approved subject to various conditions, and if these conditions are not met, construction cannot proceed under the plan. Accordingly, these plans have not yet been implemented due to the absence of housing-supportive infrastructure (wastewater treatment, transportation, electricity infrastructure, and water conveyance). In recent years, the lack of wastewater treatment infrastructure

The number of dwellings approved by the planning institutions continued to increase beyond government targets, but most of them were approved with significant conditions.

has become one of the main factors delaying the implementation of housing plans (Economic Arrangements Law 2025, p. 143). The government decision adopted at the end of 2025¹¹ advances the removal of barriers to the establishment of wastewater treatment plants. The decision authorizes Mekorot (through its subsidiary Mekorot Initiatives) to build and maintain wastewater treatment plants, mainly in localities that face difficulties in doing so.

In addition, in order to increase the pace of implementation of plans, in January 2026 the National Planning and Building Council decided to advance a new National Outline Plan for infrastructure hubs—NOP 55—the purpose of which is to integrate national infrastructure systems in designated complexes throughout the country. The plan seeks to address the widening gap between the pace of housing planning and the pace of infrastructure development.

These are important steps, which, once implemented, are expected to increase the pace at which approved housing plans are realized. This will also reduce the risk of irrelevance: the longer the period between planning and implementation, the greater the likelihood that some plans will no longer suit market needs or infrastructure policy by the time they are actually implemented. Such a situation may lead to a waste of planning resources and to a gap between the volume of approved plans and the actual supply of land available for construction.

(2) Land marketing

Stability in ILA land sales reflects positive sentiment among developers.

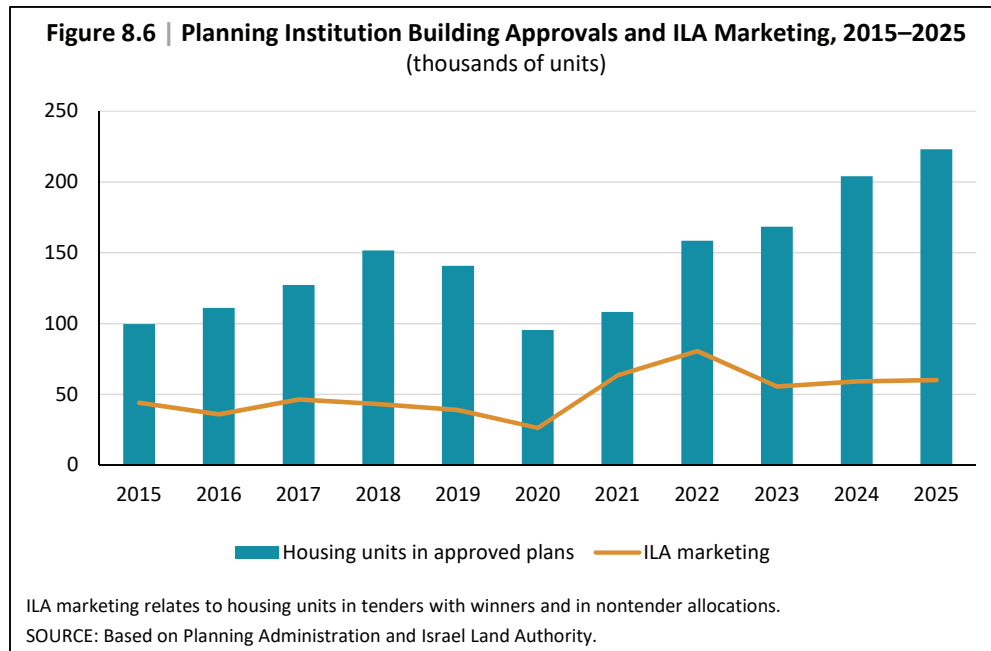
The growing volume of plans approved in recent years, together with efforts to advance the establishment of supporting infrastructure, made it possible to increase the number of housing units offered in ILA tenders. In 2025, land was sold for about 60,000 housing units—a slight increase compared with 2023–24—of which about 43,000 were sold through tenders and the remainder without tender. The stability in ILA land sales reflects positive sentiment among developers, and is the result of measures taken by the ILA to encourage land marketing, including reductions in minimum prices and subsidies for development costs in some tenders. These measures allow land prices to respond to changes in the macroeconomic environment, and in particular to changes in the housing market. Thus, for example, given the increase of about 1.5 percent in residential construction input prices in 2025 and the slight decline in home prices, it is possible that without downward adjustments in minimum prices and without subsidies for development costs in certain tenders, those tenders would have closed without a winning bid and land marketing would have declined. This would have slowed the market's response in the event of a renewed rise in demand.

Profitability in projects being built on land acquired in 2021–22 declined due to the erosion in home prices in real terms¹², which totaled about 2.5 percent in 2023–

¹¹ Government Decision No. 3587 of December 4, 2025.

¹² The index of home prices net of the CPI excluding housing.

25, and due to the increase in input costs in the construction industry. However, from the developers' perspective the cost is sunk, since the land has already been purchased, and delaying the issuance of a building permit may lead to additional costs. Therefore, even when expected profitability is low, many developers choose to continue advancing construction, partly in order to preserve cash flow and reduce potential losses.



(3) Urban renewal

Alongside the marketing of land for residential construction, construction within the framework of urban renewal constitutes an additional source for increasing the future housing supply—through the addition of housing units on existing land by means of demolition and reconstruction or the addition of floors to existing buildings. In 2025, construction began on 22,600 housing units as part of urban renewal—about 28 percent of all housing starts¹³—about half of them in the Tel Aviv District. This took place alongside the demolition of about 5,700 existing housing units. In 2025, the volume of construction in this channel remained stable relative to previous years. However, against the background of the decline in new home purchases, interest rates that were higher than expected at the time projects were contracted, rising construction costs, and the benefits promised by developers to residents¹⁴, there

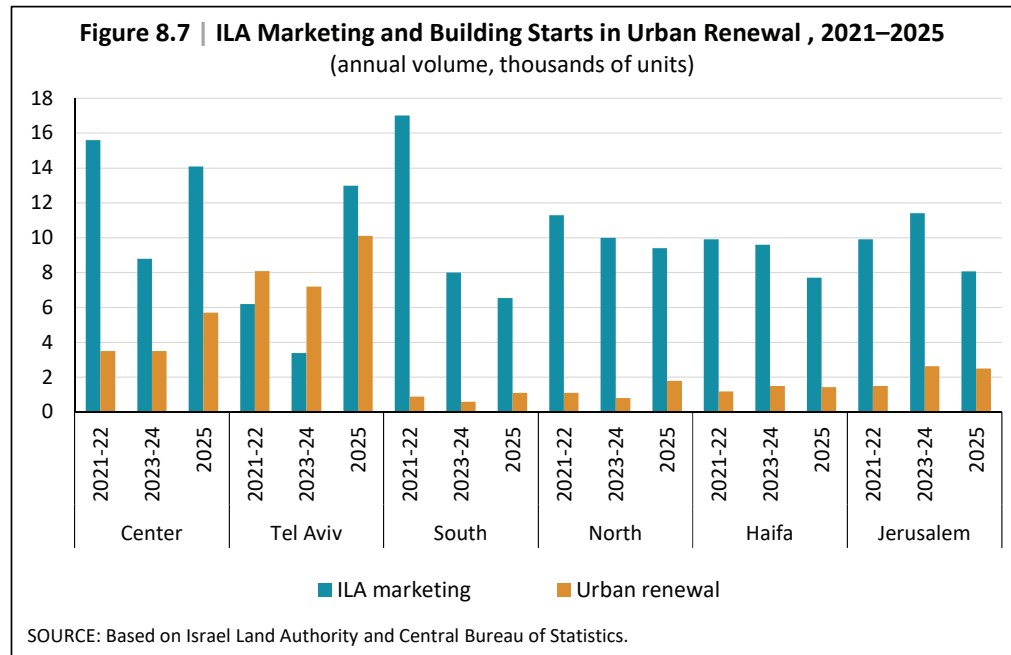
The volume of urban renewal construction remained stable at a high level.

¹³ Of these, about 16,800 housing units were within the framework of National Outline Plan 38 (TAMA 38) and vacate-and-build projects.

¹⁴ The benefits and rights granted to apartment owners in an urban renewal project—such as an increase in apartment size, the addition of parking or a balcony, and compensation for relocation costs—provided in exchange for their consent to demolish the existing building and construct a new one in its place.

There is concern that some urban renewal developments in advanced planning stages will become unfeasible due to changes in market conditions.

is concern that some projects currently in advanced planning stages may become economically unfeasible. The 2025 year-end data published by the Urban Renewal Authority indicate a decline in the number of urban renewal permits issued in 2025 relative to 2024.



3. THE HOUSING SERVICES MARKET

The negative migration balance to Israel supported a moderation of demand for housing services.

Demand for housing services in the long term is derived mainly from demographic needs. In our assessment, annual demand for dwellings increased gradually from about 45,000 on average in 2003–09 to about 60,000 in 2016–23—mainly due to demographic processes (high fertility in the past¹⁵, and rising life expectancy), which increase the number of households. According to the estimate in the “Strategic Housing Plan”¹⁶, the demographic need for additional housing units in 2026–35 amounts to about 65,500 units per year. However, in 2024–25 the growth rate of the population aged 25 and over moderated, partly due to a change in Israel’s migration balance. Israel had a negative migration balance of 38,800 persons this year relative to 2016–19.¹⁷ Based on the average household size—3.25 persons—this implies an

¹⁵ Demand for housing services, measured by the number of housing units, is determined mainly by the population aged 25 and over.

¹⁶ D. Badel, R. Hilo, and E. Buzaglo (2025), The Strategic Housing Plan 2050, National Economic Council. (in Hebrew)

¹⁷ A significant part of the increase in the number of Israelis leaving the country (about 19,000) was due to the departure, within a short period, of immigrants who had come to Israel following the Russia–Ukraine war as a temporary refuge, and therefore may not indicate a continued decline in the coming years.

annual gap of 11,900 households in 2024–25 compared with 2016–19. Moreover, among emigrants from Israel there was a high share of persons aged 30–44 (about 29 percent, while their share in the population is about 18 percent), the age group with the highest incidence of home purchase.¹⁸ If these trends continue, they will reduce the demographic need for dwellings. By contrast, the rapid increase in the number of foreign workers¹⁹ creates additional demand for housing services. In our assessment, and based on research on the subject²⁰, this amounts to an annual addition of about 2,000 housing units to demand for housing services in 2024–25.

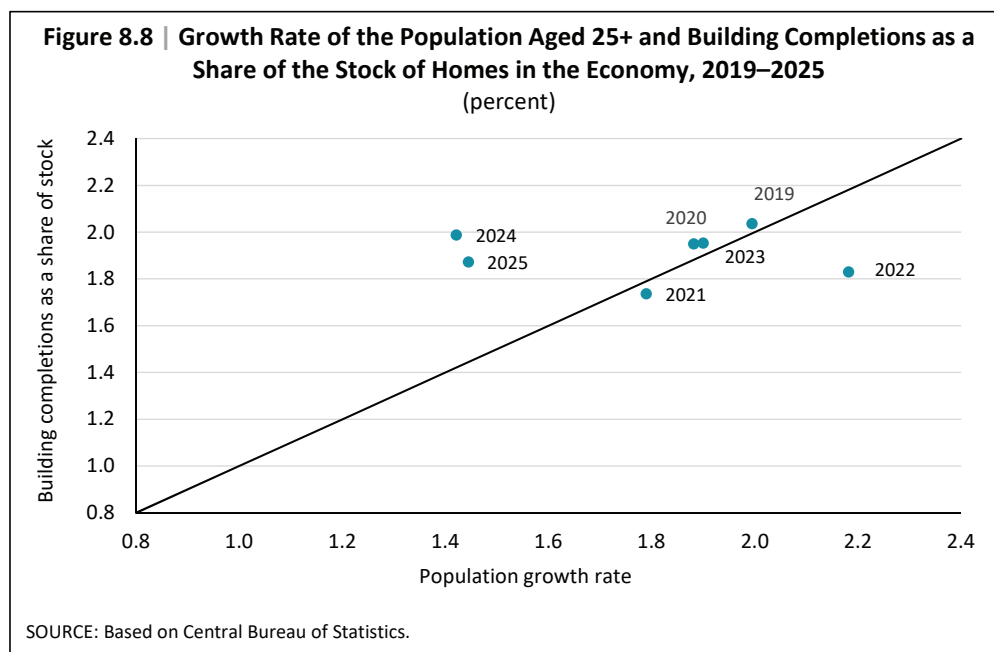


Figure 8.8 presents the rate of change in the economy’s housing stock (equal to construction completions divided by the housing stock) relative to the growth rate of the population aged 25 and over. According to the data, current construction volumes provide a response to demographic needs. However, beginning in October 2023, the evacuation of residents and missile fire left thousands of dwellings outside

The decline in the effective stock of homes due to the evacuation of homes in various parts of the country slowed in 2025.

¹⁸ According to the CBS publication *Home Ownership, 2013–2023*, 42 percent of those under age 34 and 62 percent of those aged 35–44 live in owner-occupied dwellings. At older ages, the increase in the ownership rate moderates considerably.

¹⁹ These are workers employed in construction, manufacturing, accommodation, and food services. Foreign workers employed in caregiving and residing in the patient’s home are not included. Foreign workers employed in agriculture generally reside in portable structures, which are not included in the supply of dwellings.

²⁰ See: R. Rajjman and N. Kushnirovich (2019), *The Effectiveness of the Bilateral Agreements: Recruitment, Realization of Social Rights, and Living & Employment Conditions of Migrant Workers in the Agriculture, Construction and Caregiving Sectors in Israel, 2011–2018*. Emek Hefer: Ruppin Academic Center and Center for International Migration and Integration.

the effective housing stock, which moderated its increase. Following the anomalous shock generated by the war in 2024, at the beginning of 2025 at least 15,000 dwellings still remained outside the effective stock of housing services.²¹ Between January and September 2025, most evacuees from the North returned to their localities, while the number of evacuees from the South declined from about 7,000 at the beginning of 2025 to fewer than 5,000.²² Based on estimates derived from average household size, from October 2025 about 7,400 housing units remained outside the effective housing stock: about 4,000 in the North, about 1,000 in the Gaza periphery, and about 2,400 additional dwellings as a result of Operation Rising Lion²³—most of them in central Israel.

Over the past 12 months, rental prices (the owner-occupied housing services component of the CPI) increased by 3.2 percent—somewhat slower than in 2024, when they increased by 4 percent.

4. TRANSACTIONS

a. Demand for home purchases

During 2025, mortgage interest rates in all tracks showed a moderate downward trend, mainly in the second half of the year. Nevertheless, the interest rate environment remained high relative to the 2014–21 average, before the interest rate increases that began in 2022. In the mortgage market, the volume of new mortgage borrowing remained relatively stable despite the decline in the number of home purchases. This stability reflected an increase in the average mortgage size, accompanied by an increase in the share of new borrowing related to transactions carried out in the past. (For details, see Chapter 4.)

At the end of March 2025, the Bank of Israel imposed a limit on the share of new borrowing through “bullet” or “balloon” loans subsidized by contractors, such that they would not exceed 10 percent of total monthly borrowing for housing loans.

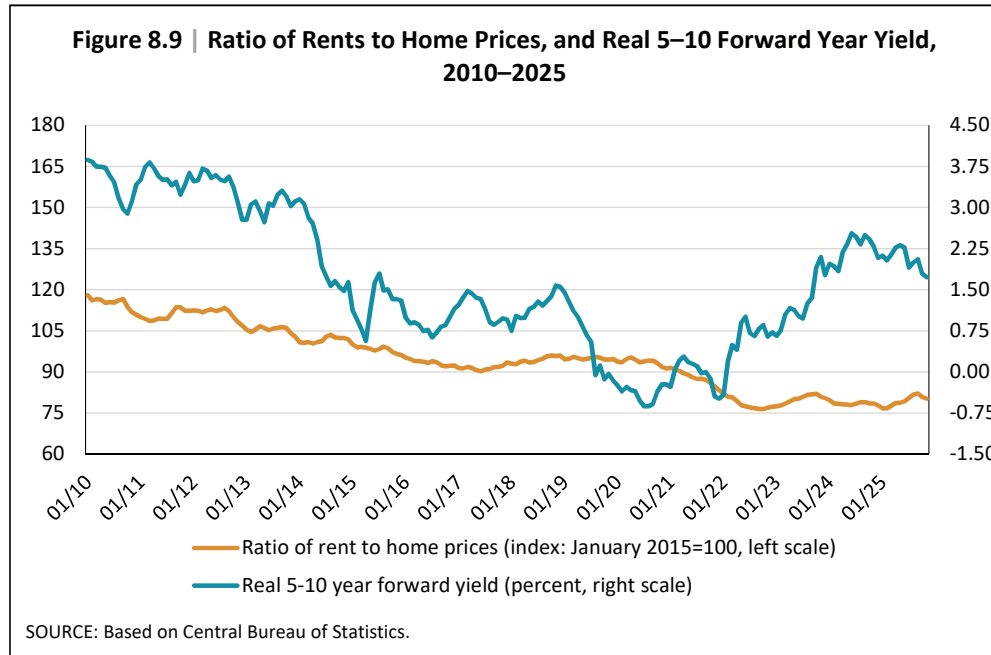
²¹ This may be an underestimate, since it is based only on data for evacuees under government decisions at the beginning of 2025: about 68,500 evacuees from the North and about 7,000 from the South—about 20,000 households, of whom about 17,500 were staying in the evacuated locality. It is therefore assumed that their dwellings had returned to the effective housing stock. There are no data on the return of self-evacuees to their localities, but it may be estimated that, due to the absence of government support for financing alternative housing arrangements, and because the localities that were not evacuated are safer than those that were evacuated, their return rates were higher than those of evacuees under government decisions. However, it is also likely that some of them had still not returned to their homes at the beginning of 2025.

²² According to the September 11, 2025 publication of the Information and Knowledge Center, at least 55,500 of the evacuees from the North had returned to their localities. As of the end of May 2025, about 5,000 evacuees from southern localities remained displaced, and some of them returned to their localities by the end of 2025.

²³ Operation “Rising Lion” led to the immediate removal of about 6,400 housing units during June, and the return of about 4,000 housing units to residential use by September.

Deferral of payments until occupancy constitutes an effective discount relative to the stated home price and encourages bringing home purchases forward. Therefore, these restrictions likely had a moderating effect on the quantitative demand for new homes beginning in April 2025, since contractors preferred to minimize direct reductions in home prices themselves. In November–December 2025, a number of developers began offering substantial financing promotions, but their effect on demand for home purchases has not yet been reflected in the data.

The restrictions imposed by the Bank of Israel on financing promotions moderated demand for new homes.



A comparison between the 5–10 year real forward yield and the ratio of rent to home prices (Figure 8.9) indicates that capital market yields have returned to their level of about a decade ago, while the rent-to-price ratio is now markedly lower than it was then. Government bonds therefore currently offer a more attractive return than the housing market relative to the years preceding the COVID-19 pandemic, and this likely moderates demand for home purchases. (For further discussion, see Box 1 in the Bank of Israel’s Financial Stability Report for 2025.) This is compounded by the strong performance of the equity market in Israel, and in recent years globally as well.

The excess yields in the financial markets relative to the housing market worked to moderate demand for dwellings.

Economic and security uncertainty during 2025 also likely had a moderating effect on demand. By contrast, the labor market remained tight and real wages increased during 2025 (see Chapter 5), which supported demand.

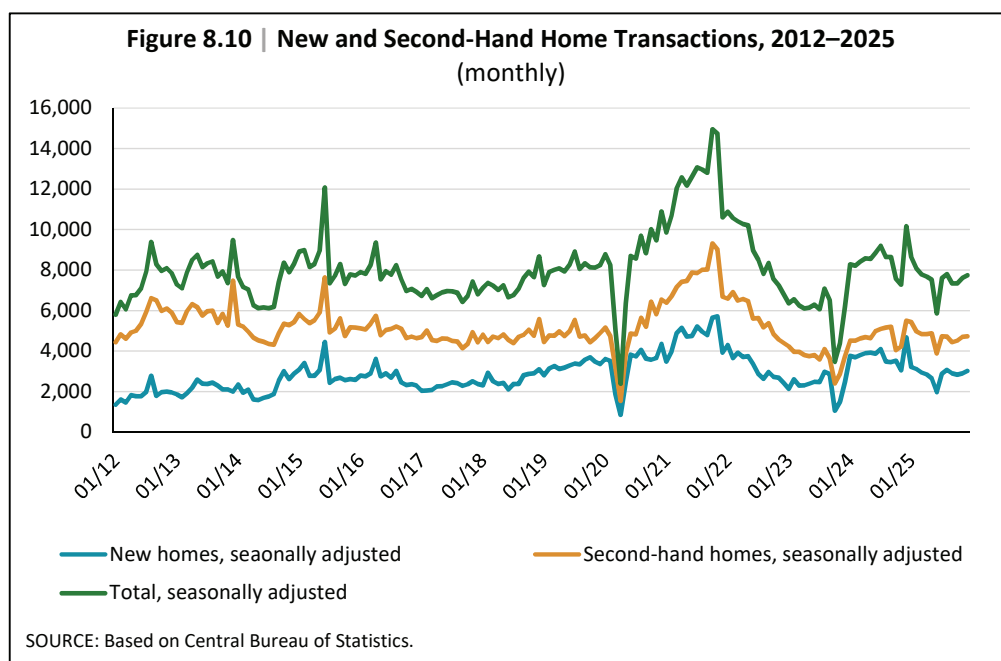
b. Total transactions

The number of new home transactions declined this year, while the number of second-hand home transactions remained stable.

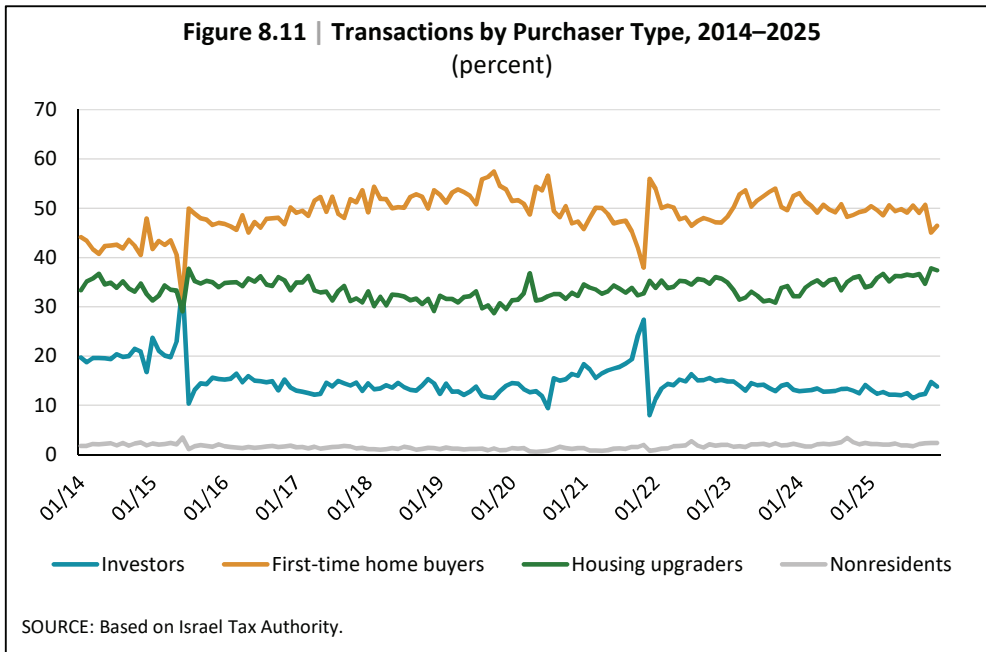
There were a total of about 91,000 transactions this year, a decline of about 11 percent relative to 2024. The decline occurred in new home purchases, while the number of transactions in second-hand dwellings remained stable (Figure 8.10). The decline specifically in new homes reflected the bringing forward of purchases from 2025 to December 2024 due to the VAT increase, and the postponement of transactions from the end of 2023 to the beginning of 2024 against the background of the outbreak of the war²⁴; the restrictions imposed by the Bank of Israel at the end of March 2025 on the share of new borrowing in contractor-subsidized loans; and uncertainty regarding the final occupancy date of new dwellings in view of the lengthening of construction times.

The decline in the number of transactions was concentrated among first-time home buyers and investors.

The decline in the number of transactions relative to 2024 was concentrated among first-time home buyers and investors, compared with home upgraders, although the latest data point to a certain increase among investors and a decline among first-time home buyers (Figure 8.11).



²⁴ Net of bringing forward purchases from 2025 to December 2024 and postponing transactions from the end of 2023 to the beginning of 2024, this represents a decline of about 15 percent in new homes and a decline of about 6 percent in the total number of transactions.



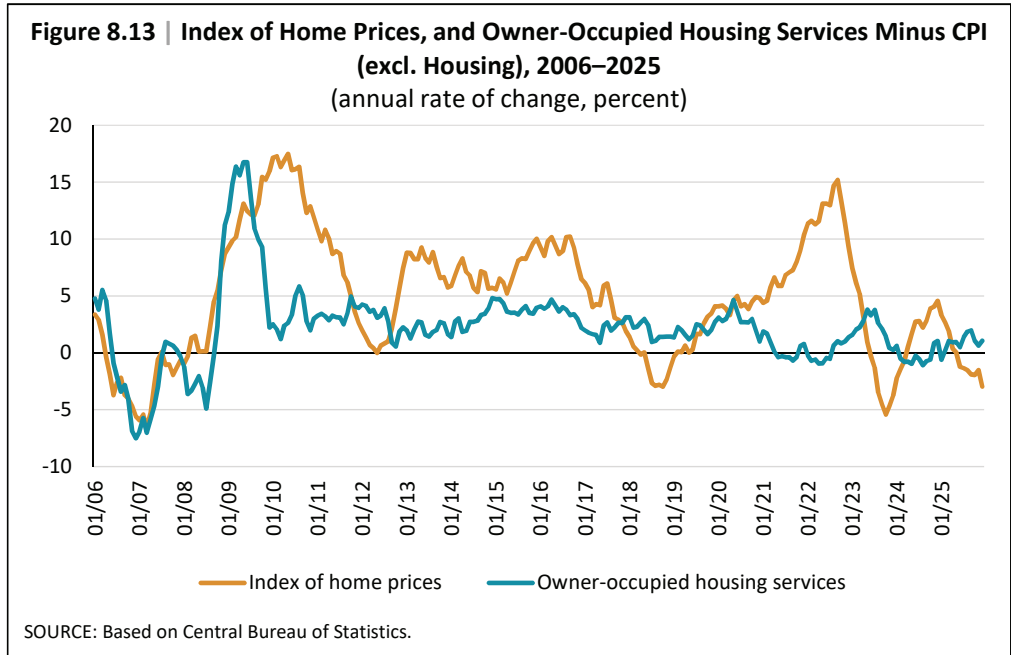
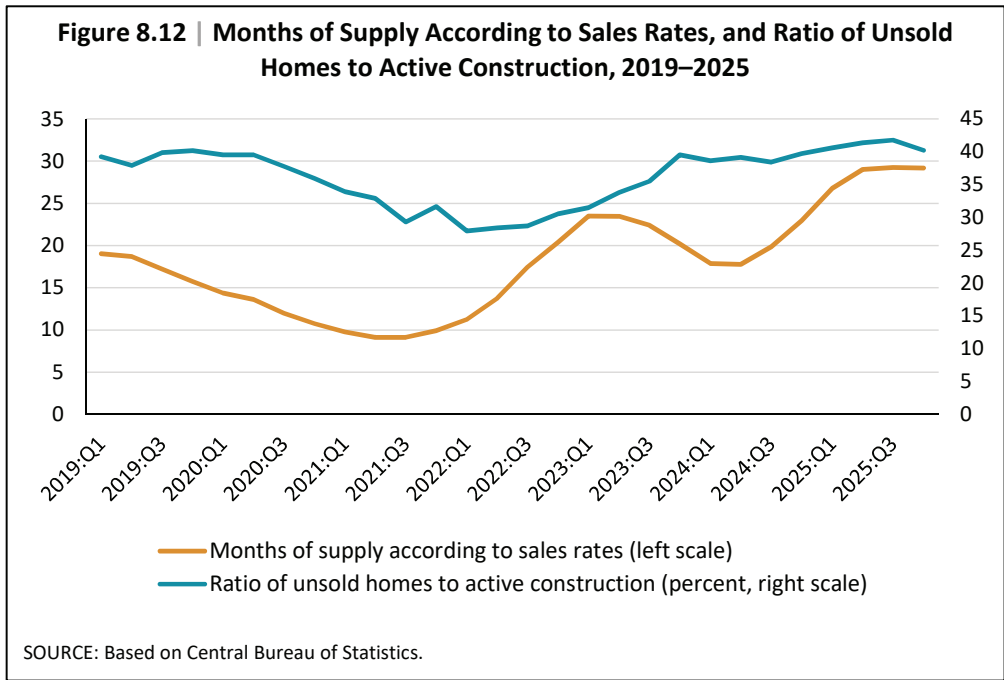
c. New dwellings remaining for sale (stock of unsold homes)

The stock of unsold homes²⁵ continued to increase this year, reaching a high level of about 83,000 dwellings at the end of December 2025—an increase of about 13 percent relative to the end of December 2024.²⁶ The increase in the stock of new homes for sale occurred in most districts. The “months of supply” indicator presents the estimated time required to sell the stock of unsold homes if the pace of sales over the previous 12 months continues. This increased from about 24 months at the end of 2024 to about 30 months in August 2025 and remained stable thereafter (Figure 8.12). The stock of unsold homes increased beyond the increase in construction activity this year as well. The ratio of the stock of unsold homes to the total number of homes under active construction increased from mid-2024, and stabilized in the second half of 2025 (Figure 8.12). The existence of excess inventory supports a decline in new home prices in the short term.

The stock of unsold homes continued to increase this year, reaching a high level of about 83,000 dwellings.

²⁵ According to the CBS definition, the stock of unsold homes at the end of the period equals the stock of unsold homes at the beginning of the period plus the number of permits issued during the period for the construction of homes for sale, minus the number of new homes sold during the period.

²⁶ A high level relative to 2019–24. Data on new homes for sale in their current definition are available only from 2019 onward.



5. HOME PRICES

a. Current developments

After 2024, in which homes prices increased by 7.3 percent, there was a continuous decline in home prices between February and September 2025, totaling 2.8 percent, while prices of new homes declined by about 5.4 percent during that period.²⁷

However, in October–November 2025, against the background of the ceasefire in Gaza and declining interest rates in the economy, there were cumulative increases of about 1.4 percent in home prices and 1.7 percent in new home prices. The increase in homes prices in the latest data occurred alongside a slight decline in the stock of unsold new dwellings in November–December 2025. In December, home prices declined by 0.1 percent, and on an annual basis they declined by 0.9 percent. Net of the CPI excluding housing, home prices declined by 3 percent this year (Figure 8.3).

Home prices declined by 0.9 percent this year.

b. Historical perspective on home prices

Between 2008 and 2022, home prices increased almost continuously²⁸, but this increase began after a prolonged period of erosion in real home prices. The period between 1996 and 2007 was characterized by a sharp transition from peak activity—driven by the absorption of the large immigration wave of the early 1990s—to a prolonged process of adjustment in the economy’s housing stock, a slowdown in activity, and price erosion. After the immigration wave subsided, the volume of residential construction declined persistently as part of the process of adjusting the housing stock to changing demographic needs. Home prices underwent a process of continuous real decline (net of the CPI) throughout that period. With the recovery in demand in 2004–05, prices began to rise—initially only in high-demand areas and subsequently also in periphery areas. However, the ability to adjust construction volumes to the level of demand was limited due to supply rigidities, partly due to a shortage of planning inventory and a limited supply of land for construction in high-demand areas. Against the background of excess demand, home prices began to rise rapidly.

In January 2023, the increase in home prices came to a halt, and between March 2023 and October 2023, against the background of a contraction in the volume of transactions, home prices declined continuously, by a total of 2.5 percent. Net of the 2.4 percent increase in the CPI excluding housing during the period, this amounted to a real decline of 4.9 percent. With the outbreak of the war in October 2023, against the background of uncertainty and concerns regarding a decline in supply due to the

²⁷ This index was calculated separately and independently from the general index of home prices. Due to the financing benefits granted to purchasers, the reported prices of new dwellings may be biased upward.

²⁸ Between October 2017 and January 2019, against the background of an increase in the volume of subsidized transactions (“Buyer’s Price”), home prices declined. The cumulative decline during that period was about 2.9 percent.

labor shortage, home prices began to rise, while the volume of transactions increased in general and particularly in new dwellings. The increase in prices continued through January 2025. Over the period from January 2023 to December 2025, home prices increased by 5.6 percent, while the CPI excluding housing increased by about 8.1 percent (Figure 8.13).

In recent years, the number of building starts has been in line with the increase in annual demographic needs for dwellings.

It appears that the effort to increase housing supply, which the government began about a decade ago, supported the increase in construction activity, such that in recent years the number of housing starts has been consistent with annual demographic housing needs. This is expected to also be reflected in the coming years in an increase in building completions (an addition to the stock of homes that actually provide housing services). Moreover, the mechanism for adjusting minimum prices in ILA tenders allows residential land prices to decline when home prices decline. In the past, the adjustment occurred only through a decline in land marketing, which would have led to a reduction in construction activity several years later.

BOX 8.1: THE PREMIUM ON A RESIDENTIAL SECURE ROOM FOLLOWING OPERATION RISING LION

- **Dwellings that include a secure room (Mamad) are priced higher than similar dwellings without one. Accordingly, their rental prices are also higher.**
- **Operation Rising Lion (Israel's military campaign against Iran in June 2025) did not lead to any change in the Mamad premium in the asking rents listed in rental advertisements.**
- **With regard to the premium in home prices, the results were mixed. While the estimated premium based on sale listings increased slightly, actual transaction prices indicate a slight decline in the premium. This difference suggests that sellers tended to value the Mamad in their dwellings above its actual market value.**

1. Introduction

The war that began on October 7, 2023, and the accompanying rocket threat, increased the demand for dwellings with a Mamad. Yachin and Talmon (2025) estimated the Mamad premium in home prices and rents—that is, the price and rent gap between otherwise similar dwellings differing only in the presence of a Mamad.¹ They found that the war led to an increase in the rent premium, whereas in home prices, the premium rose at the outbreak of the war but declined shortly thereafter to its prewar level. The authors argued that since a dwelling's price reflects the value of the housing services it is expected to provide over its entire lifetime, a temporary security threat has only a limited effect on the Mamad

¹ Yossi Yachin and Aya Talmon (2025). "The Premium on a Residential Secure Room in Home Prices and Rents", Research and Policy Analysis Notes Series 2025.03.

premium embedded in its price. In contrast, rent reflects the value of housing services during the rental period only, and since the security threat intensified during that period, the rent premium increased more sharply.

This box estimates the impact of Operation Rising Lion (June 13–24, 2025) on the Mamad premium in home prices and rents. The analysis covers data through the end of 2025. In view of renewed confrontation with Iran in Operation Roaring Lion (beginning February 28, 2026), it will be interesting to examine, over time, whether the market's response after the latest operation differs from that following Rising Lion.

2. Methodology

The Mamad premium is estimated using a hedonic regression that models the dwelling's price or rent as a function of its various characteristics (size, location, floor, etc.), and in particular, estimates the contribution of having a Mamad to the price or rent. This contribution is the premium attributed to the Mamad.

For the analysis, we use both transaction prices² and asking prices from online sale and rental listings. In the listing data, we use two versions of the price: the asking price in the first publication of the listing and the asking price in its latest observed update.

The indication of whether a dwelling includes a Mamad is based on its year of construction in the transaction data and on the listing's report in the advertisement data. For further details on the estimation methodology, see Yachin and Talmon (2025).

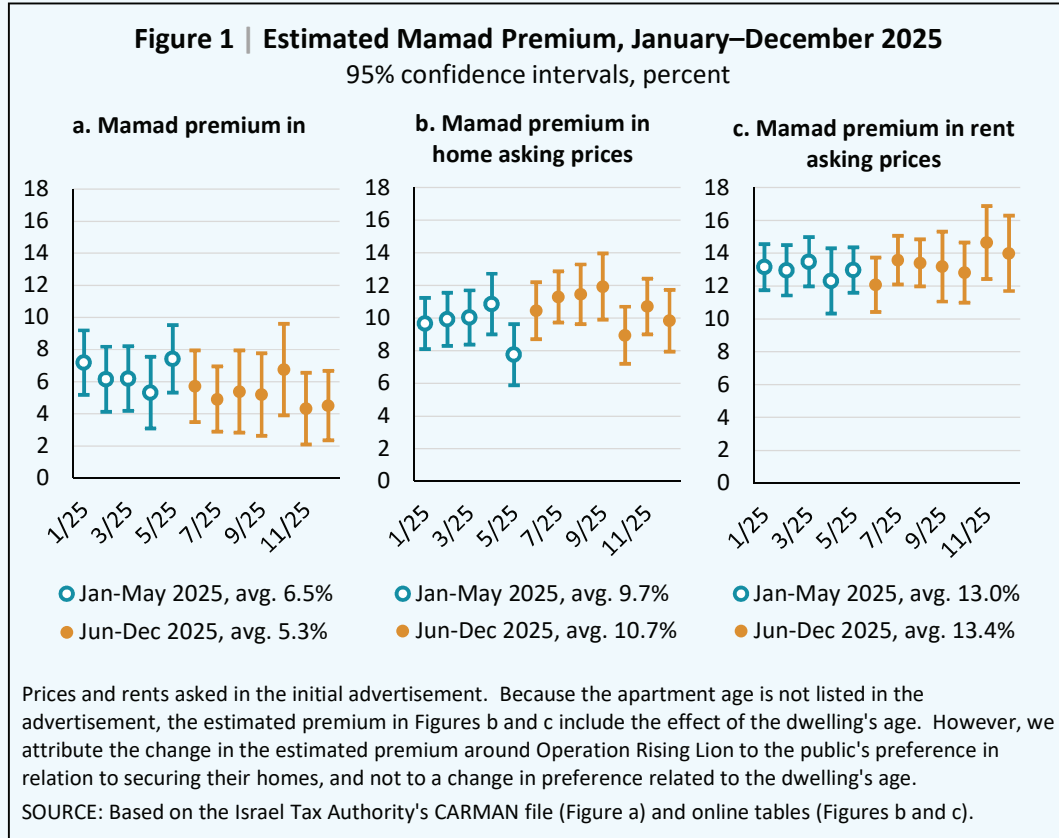
3. Results

Figure 1 presents the evolution of the estimated Mamad premium over time, and Table 1 examines whether the change in the premium after Operation Rising Lion is statistically significant across the different estimations.

Premium in home prices: The results for the price premium are mixed. The premium in actual transaction prices declined slightly after the operation (Figure 1a and first row of Panel A in Table 1). In contrast, the listing data indicate a slight increase of up to 1.3 percentage points (Figure 1b and Panel B in Table 1), although this result may be driven by an outlier observation in May (Figure 1b). The difference between the results suggests that sellers valued the Mamad in their dwellings above its market value.

The hedonic regression assumes that controlling for the observed characteristics of dwellings is sufficient, so that the estimated premium compares dwellings with similar attributes except for the presence of a Mamad. Naturally, the regression cannot control for all characteristics, as some are unobserved, and even for observed ones, control is imperfect. To partially address this issue, we re-examined the results for more homogeneous subsamples—specifically, second-hand dwellings only, and an even narrower sample of dwellings built around the time the Mamad construction regulation was introduced (between 1985 and 2000). The results are shown in the second and third rows of Panel A.

² CARMAN file (Real Estate Price Registry) of the Israel Tax Authority.



For second-hand dwellings, the result remained unchanged—a slight decline in the premium. For dwellings built between 1985 and 2000, the decline was smaller and not statistically significant.

In summary, the range of estimated changes in the premium is relatively narrow, and after more than a year and a half of ongoing rocket threats, Operation Rising Lion appears to have had only a limited impact on the Mamad premium in apartment prices.

Premium in rents: The asking rent premium in listings did not change significantly during the year (Figure 1c and Panel C in Table 1). There appears to have been a slight increase toward the end of the year (Figure 1c), possibly influenced by the renewed threat from Iran. However, overall, the change in the half-year following Operation Rising Lion is not statistically significant (Panel C in Table 1). Finally, it should be noted that the level of the estimated premium is similar to that found by Yachin and Talmon (2025) for 2024.

Table 1 | Estimated Mamad Premium and its Change Following Rising Lion, January–December 2025

	95% confidence intervals ^a				
	Premium before Rising Lion	Change in premium	Premium after Rising Lion	Number of observations	R ²
Panel A: Home transactions					
All observations	0.0656***	-0.0142***	0.0514***	51,613	0.8018
Second-hand homes	0.0740***	-0.0151**	0.0589***	33,045	0.7799
Homes built between 1985 and 2000	0.0339*	-0.0040	0.0299	5,651	0.7780
Panel B: Home sale advertisements					
First publication	0.0984***	0.0076	0.1060***	35,757	0.8085
Most recent update	0.0944***	0.0131**	0.1075***	49,291	0.7425
Panel C: Home rental advertisements					
First publication	0.1278***	0.0080	0.1358***	85,463	0.6067
Most recent update	0.1323***	-0.0044	0.1280***	85,286	0.5780

^a* - 10% significance; ** - 5% significance, *** - 1% significance.