

## **Missiles: The Housing Market Effects of a Credible Terrorist Threat**

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### **Abstract**

The paper examines the enduring housing market effects of the Hezbollah missile attacks against Israel during Second Lebanon War of 2006. The analysis is based on three sources: (1) a detailed dataset containing the universe of housing market transactions in Israel from 1998 to 2012; (2) information on private construction starts during that period; (3) data on the exact location of missile hits during the war. Our identification strategy is based on comparing the most severely hit localities (the treatment group) to other localities within missile range in Northern Israel (the control group). We first show that house price dynamics were identical in the two groups of localities prior to the war and that in less than two years relative prices in the treatment group declined by about 7 percent and remained at this depressed level until the end of 2012. We then document a qualitatively similar but much stronger pattern for private construction starts. The results suggest that since the Second Lebanon War participants in the Israeli housing market have viewed the Hezbollah missile threat as credible.