Ireland’s housing crisis –
The case for a European cost rental model

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Abstract

Lack of access to affordable quality homes constitutes a significant crisis for workers, families and communities in the Republic of Ireland. Current government plans appear to be insufficient to make a significant impact. Pressure on individuals and families is a direct consequence of under-investment over many years, as well as a failure on the part of a market-led and property-developer-led model of housing to deliver enough dwellings to meet the needs of a growing population. The optimum solution, we propose, is the establishment of The Housing Company of Ireland, which will draw on long-term borrowing combined with an equity injection from the Ireland Strategic Investment Fund, and will undertake or commission, on a commercial basis, a programme of planning, building, acquiring and renting of new homes. This investment will supplement and further strengthen work by the local authorities and the voluntary housing associations in the area of social housing.

Keyword: Housing
Introduction

The publication *Housing Supply and Land: Driving Public Action for the Common Good* by the National Economic and Social Council (NESC) was a landmark report (NESC, 2015). Carefully worded and reflective of the diverse range of interests on the NESC Council, the report very clearly pointed up the dysfunctional nature of the housing market in Ireland. While acknowledging and welcoming positive steps that had been undertaken by the then government, NESC provided a menu of public policy actions that were needed to scale up the level of activity and accelerate building. Looking back at the report, which was published in July 2015, it is evident that its key messages remain highly relevant. There has been much debate and re-presentation of government targets and action plans. Yet, the scale and ambition of activity – as noted by NESC over two years ago – are still lacking.

The thrust of public policy and the spread of a culture of housing as an investment good have shifted the balance of the housing market away from a social and needs-based activity related to providing homes, to an investment activity driven by profits as well as expectations of capital gains or income from renting. Allied to this, a policy of relative non-intervention in relation to the price and availability of land has strengthened the market power of private developers and builders at the expense of social considerations or the wider common good.

We understand accommodation to be a fundamental human right and obligation shared by individuals, communities and societies. The first social priority in relation to housing ought to be the protection of the right to a home, as well as the right to affordable rent in the case of rented property. Lack of access to affordable homes of acceptable quality constitutes a significant crisis for all parts of Irish society. While much progress had been made over the decades with dramatic improvements in conditions of accommodation, far too many families and individuals live in unsuitable and substandard accommodation across the state. Recent decades have seen a shift in local authority and, more broadly, social housing policy. Social housing is increasingly seen as a route to home ownership. This was legislatively established in the 1966 Housing Act, which applied a right-to-buy provision to the urban social housing sector that had previously been confined to rural tenants (Norris & Fahey, 2011).

In this paper we outline a case that policymakers and civil society organisations need to rethink public and social housing models and
consider the adoption of European norms of mixed-income renting provided by public enterprises that are funded and operated, where possible, ‘off-the-books’ and in a way that does not add to general government expenditure or debt.

The nature and extent of the housing crisis

Housing output and stock since the 1990s

In 2016 there were an estimated 2,003,645 habitable housing units, including vacant or unused properties, in the Republic of Ireland according to the Central Statistics Office (CSO, 2017a). Approximately 68 per cent of habitable housing units were owner-occupied in 2011, corresponding to about 58 per cent of the overall stock. Twenty-seven per cent of the active stock was taken up by rental dwellings, of which a little under a third could be counted as social housing units. The proportion of owner-occupied housing has fallen in recent years and is now close to the average for the twenty-eight member-state EU.

The total estimated housing stock increased by just under 8,800 between 2011 and 2016 – indicating an annual average increase of less than 2,000 (Table 1). The number of occupied dwellings increased by 3 per cent while the number of unoccupied dwellings fell over the same period. The increase in the stock of occupied dwellings was broadly in line with population growth of 4 per cent (CSO, 2017b). The stock of habitable vacant dwellings substantially decreased by over 20 per cent between 2011 and 2016.

<table>
<thead>
<tr>
<th>Occupancy status</th>
<th>2011</th>
<th>2016</th>
<th>% change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Housing stock</td>
<td>1,994,845</td>
<td>2,003,645</td>
<td>0.4</td>
</tr>
<tr>
<td>Occupied households</td>
<td>1,660,111</td>
<td>1,707,453</td>
<td>2.9</td>
</tr>
<tr>
<td>Temporarily absent</td>
<td>45,283</td>
<td>50,732</td>
<td>12.0</td>
</tr>
<tr>
<td>Vacant holiday homes</td>
<td>59,395</td>
<td>62,148</td>
<td>4.6</td>
</tr>
<tr>
<td>Other vacant dwellings (habitable)</td>
<td>230,056</td>
<td>183,312</td>
<td>-20.3</td>
</tr>
</tbody>
</table>

Source: CSO (2017a).

Figure 1 shows trends in construction activity between 1994 and 2016. New building ‘completions’ peaked in 2006 at over 93,000 units and fell back sharply to 8,300 units per annum in 2013 (Department of Housing, Planning, Community and Local Government, 2017a). It
should be noted that these data are based upon new electricity connections and include reconnection of buildings that were not connected for two years or more. As a result, these data likely flatter estimates of newly built units.

**Figure 1: Annual completions (as measured by ESB connections)**

![Graph showing annual completions](image)

*Source: Department of Housing, Planning, Community and Local Government (2017a).*

Net changes in the housing stock reflect new ‘completions’ as well as changes arising from dwellings falling out of habitable use. We estimate the annual average rate of obsolescence to be in the region of 0.2–0.5 per cent of total housing stock in any one year, which falls in a range used by most analysts in their forecasts as well as estimates derived from published Department of Housing, Planning and Local Government data (Housing Agency, 2014, 2017). Given the current stock, this implies that between 5,000 and 10,000 units are withdrawn annually from the total stock of habitable dwellings.

**Land supply and building costs**

The supply and cost of land for residential building are an important part of the story on housing supply. Clearly, the price of land and the final cost of a new house will vary greatly by location within Dublin as well as across the state. It is very surprising that there are no official statistics on land prices in Ireland. This needs to be addressed as a matter of urgency by the appropriate bodies. This is especially so in urban, suburban and near-suburban areas where land transactions, over the decades, have yielded high returns to those selling land for development.

A recent report assessing the costs of apartment delivery in Dublin highlights various cost pressures (Society of Chartered Surveyors...
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Ireland, 2017). The site value component of a 91m² two-bed apartment amounted to between 11.3 and 21.6 per cent of development costs, or between €363 and €1,374 per metre. This constituted the single-biggest variance in cost between the differing project categories, reflecting differences in the price of suburban versus urban land prices in the Dublin area (Society of Chartered Surveyors Ireland, 2017). The report concludes that development costs are such that most project categories are unviable.

Figure 2 provides data on the total supply of serviced and zoned land over time. It shows a generalised increase in ‘serviced land’ between 2000 and 2010, where supply reached its maximum. It declined substantially between 2010 and 2012 although land stocks remain significant.

Figure 2: Supply of serviced land and estimated housing units deliverable on that land, 2000 to 2012

Source: Department of Housing, Planning, Community and Local Government (2017b).

Costs associated with construction and development are sometimes cited as a key constraint on output (e.g. see Lyons, 2015, 2016). It is emphasised that many builders and developers have insufficient profit margins to build, caught between a slow recovery in house prices and high costs of construction. More empirical evidence would be needed to test these claims. Missing from the debate is a thorough analysis of the price of land and how it may influence overall cost and supply of housing.

NESC has made the case for an integrated approach to containing costs rather than a piecemeal approach on one aspect of cost (NESC,
2015). For example, a lowering of development cost levies might transfer too much of the necessary cost of investing in infrastructure to the public purse, especially where local or central government is constrained by budgetary rules or limits. Improvements in technology in the industry could increase productivity and deliver more for the same. For example, adoption of Building Information Modelling (BIM) technology provides 3D technology to improve information flow between design and construction, and could lower costs and improve quality of delivery and design.

**The need for housing**

It is important to distinguish market demand from needs based on human rights. The market demand for housing is based on the existing distribution of income and associated spending power by prospective buyers or renters. This may not necessarily match the extent of need for housing of a particular kind in a given area. Historically, home ownership has been publicly subsidised through various means, including tax relief, direct grants and schemes to sell off public housing stock at attractive prices.

Demand for accommodation – rental or for purchase – changes slowly in line with demographic shifts and emerging patterns of household formation. Linked to demand are factors such as transport and availability of key public services and goods. Patterns of residential living have been shaped by centuries of cultural practice. Typically, much housing or residential development has been characterised by standalone or ‘one-off’ housing in rural areas, as well as dispersed, low-density suburban sprawl in built-up or urban areas. Partly due to population density as well as a legacy of underinvestment in public transport, large numbers of people rely on private transport to get to and from work or places of education and social interaction. Recent decades have witnessed significant population growth especially in the Greater Dublin Area and surrounding counties.

The Housing Agency (2014) has undertaken a projection of future housing demand based on population projections published by the CSO in 2013. The agency analysis did not take account of ‘pent-up’ demand resulting from shortage of supply in years prior to 2014. Duffy et al. (2016) have projected an increase in household formation rates from an estimated 16,000 in 2016 to around 32,000 by the year 2024 (peaking at around 36,000 per annum in 2021). They projected a meeting of supply and demand around 2018 at a level of 27,000 new ‘completions’ in that year (up from just under 15,000 in 2016). In 2016
total estimated demand was in the region of 26,000 while new housing output was just under 15,000 per annum according to the Department of Housing – albeit subject to some degree of statistical inflation due to measurement issues.

Pressures in the housing market may delay household formation to some extent but growth in demand among the 20–39 age cohort will exert considerable extra demand pressures over the coming years (Byrne et al., 2014). Furthermore, unexpected increases in net inward migration (above those assumed in any of the scenarios by the CSO in 2013 and more recently by the Economic and Social Research Institute) will add to the estimated household formation rate.

It is likely that a long period of time will elapse before a greater balance is restored to the housing market. In the meantime, a much stronger, more ambitious and better-funded lead by public agencies is required to break the back of the supply shortage.

**Public expenditure on social housing**

‘Social housing’ includes non-publicly owned dwellings (e.g. those owned by cooperatives and other voluntary associations) and may, in the way the term is used increasingly in public discourse, include public measures to subsidise private landlords renting to low-income households. According to this more expansive understanding of the term, social housing typically refers to all types of accommodation or assistance provided by the community for persons who, by reason of health, economic or social circumstances, might otherwise find it exceptionally difficult to access accommodation.

One of the many challenges in tracking housing activity is to locate consistent, through-time trends in public expenditure (general government, including local authorities) on housing. Eurostat provides a consistent time series for various components of public spending directly related to social housing (Figure 3).

An examination of real public expenditure under the Classifications of Functions of Government (COFOG) reveals a pattern of sharp decline between 2007 and 2013 under the heading of ‘Housing and Community Amenities’. Between 2007 and 2015, real expenditure fell by nearly 63 per cent, from a high of over €3.5 billion to approximately €1.3 billion. Gross capital formation by government fell from almost €2.5 billion in 2007 to just over €600 million in 2015.

The pattern of decline in public spending on housing development (excluding community amenities) is highlighted even more dramatically in Figure 4. It shows a large drop in gross capital formation from
2011 onwards related to the ‘austerity’ period. Overall expenditure in 2015 was lower, in real terms, than in the mid 90s.

**Figure 3: Trends in public spending on housing and related community amenities (€ millions in 2010 constant prices)**

![Graph showing trends in public spending on housing and related community amenities](image)


**Figure 4: Real general government expenditure components of housing development and social protection related to housing (COFOG) in millions of euro at 2010 prices**

![Graph showing real general government expenditure components of housing development and social protection related to housing](image)


However, the collapse in public housing investment and related expenditure is paralleled by a surge in public expenditure under the heading of social protection (also Figure 4). Included by Eurostat under the heading of ‘housing-related social protection’ are payments
such as Rent Supplement and the Housing Assistance Payment (HAP), as well as public subsidies to local authority tenants. Just as government cut back sharply the spending on housing investment, it was forced to increase spending on social assistance directly related to the worsening housing supply crisis, and excess demand for rental accommodation in particular.

Internationally, Ireland spends a lot on social protection housing payments while spending relatively less on direct housing development (Figure 5). In 2014 combined expenditure on housing development and social protection payments relating to housing exceeded expenditure in all countries compared here, with the exception of the UK, as a percentage of GDP. Data for 2015 see Ireland fall behind France, though this is likely an artefact of upward revisions in GDP statistics for that year in the Irish case.

**Figure 5:** Comparison of combined housing development and social protection payments related to housing (COFOG) compared to other European countries as a percentage of GDP in 2014


**Affordability**

The notion of affordability is key to a consideration of housing demand and need. A generally accepted (but scarcely ever explored) norm in social policy discussions is that housing costs ought not to absorb more than a third of net household income. This is based on the assumption that housing is of an acceptable and safe standard. In the case of those aspiring or attempting to buy a house to live in, the ratio of house price to annual typical household income is an important metric. Some measure of affordability may be provided by taking the ratio of average house prices to average earnings (Figure 6).
Figure 6: Ratios of house prices to average annual earnings for full-time equivalent employees

Sources: CSO (2017c, 2017d) and OECD (2017).

Note: Average wages denote average annual wages per full-time equivalent, calculated by dividing the national accounts wage bill by average number of employees. This, in turn, is multiplied by the ratio of average normal hours per full time employee to average usual hours of all employees.

The ratio of average full-time equivalent wages to average new-build and second-hand housing prices shows substantial growth from 1993 to 2006. In 1993 average newly built house prices were approximately 3.2 times the average income, while the corresponding second-hand house price was 3.1 times the average income. At their peak in 2006 newly built house prices were 7 times the level of average income while the corresponding figure for second-hand houses was 8.5. Relative prices fell substantially between 2007 and 2012, reaching levels comparable to those in the late 1990s. Housing prices have risen faster than earnings since 2012. For the first time since the late 1990s, average new-build prices have exceeded those of second-hand dwellings.

Figure 7 shows quarterly data on average national rents (Daft.ie, 2017) as a proportion of average gross monthly earnings. The graph similarly shows decreases in average rents consistent with depressed conditions in residential markets following Ireland’s economic crash. This ratio has since exceeded 2008 levels as a signalling rental cost growth well in excess of average earnings growth. The latest data for the second quarter of 2017 indicate that average rents have exceeded 40 per cent of average gross earnings.
Figure 7: Average monthly rent as a percentage of gross average monthly earnings

Source: Daft.ie (2017), CSO (2017c) and author’s calculations.

Reasons for the crisis

That there is a large mismatch between demand and supply is evident to all concerned. The diagnosis of this mismatch and the offering of policy solutions are not a matter of universal agreement. Some argue that costs are too high; as a result of which, profit margins are inadequate for builders, resulting in a shortage of supply. The argument of a cost-inhibiting supply constraint leads for calls to reduce important elements of cost, including a reduction in rates of VAT as well as a lowering of development of ‘Section V’ levies and contributions by developers. Calls have been made for more financial assistance to households, whether through tax reliefs or direct financial assistance or relaxation in credit rules for first-time buyers. If implemented, such policies would add to the rate of growth in demand.

Among the supply-side factors cited as possible inhibitors to enhanced housing supply are shortage of labour skills, availability of lending for developers and builders, and lack of suitable land for development (Department of Finance, 2015; NESC, 2015). In this section we offer other likely alternative or additional reasons for the mismatch in supply and demand.

Failure of previous and current government housing strategies

A key development in land ownership has been the divesting of publicly owned land for development since the 1970s. Whereas, in the past, local government exerted some influence and market power in
relation to transactions in zoned land, power has decisively shifted to developers in more recent decades. Driven by a narrow agenda of profit maximisation rather than a broader range of social and planning objectives, the concentration of ownership of building land in the urban areas, including Dublin and Cork, together with insufficient planning, control and delivery by local authorities, has added to the supply crisis in the major cities. The ‘Kenny report’ published in the early 1970s recommended that the price of rezoned land should be limited to 125 per cent of the price of agricultural land (Government of Ireland, 1974). Failure to implement this proposal, which met with political, legal and administrative objections, played a part in the property bubble and subsequent crisis of 2008–13 (Healy & Goldrick-Kelly, 2017).

The main thrust of public policy on housing in the Republic of Ireland has been a marked reliance on the private sector. House-building and development has been led, in the main, by private developers. Land speculation – notwithstanding much analysis, recommendation and feeble public interventions – has been a feature of the housing market for decades. There is no evidence that recent statements of public policy, as outlined in Rebuilding Ireland (Government of Ireland, 2016), Construction 2020 (Government of Ireland, 2014a) or Social Housing Strategy 2020 (Government of Ireland, 2014b), have departed from the traditional reliance on the private sector and market incentives. Policy has placed the emphasis on public subsidies to private landlords and plans to leave the lead role to the private sector in building the houses when and where markets dictate (albeit influenced by regulatory and planning restrictions).

Policy targets and statements of intent must be judged alongside outcome in terms of dwellings built or acquired and persons and families housed. The numbers of individuals availing of emergency accommodation by local authorities increased substantially between July 2014 and September 2017, pointing to a dramatic failure in stated public policy in 2014. While homelessness has increased substantially (particularly in Dublin), children have been especially affected. The number of homeless children state-wide has grown by almost 317 per cent since 2014. Local authorities in Dublin also saw substantial increases in need between 2013 and 2016, with Dublin City and Fingal County Councils seeing 22.5 and 13.9 per cent increases, respectively (McCarthy, 2017).

Instead of committing funds to the building of new social or public housing units, policy continues to operate based on rent supplements
or subsidies to private landlords for renting to those in need of social housing. Hence, the expenditure of large sums of money on the Rent Supplement or the Rental Accommodation Scheme (RAS) does not add to the stock of social housing but keeps a revenue flow to private landlords, while it does little to help those trapped in low income to secure adequate rented accommodation or buy their own homes. This trend has continued with the introduction and continued expansion of the HAP. In a report of the Oireachtas Committee on Housing and Homelessness (Houses of the Oireachtas, 2016, p. 34) the state was described as:

a significant funder of activity in the private rental sector, with over one half of all rents received by private landlords coming from Rent Supplement, the Rental Accommodation Scheme and other schemes, at an annual cost to the Exchequer of over €500m.

The current strategy puts the emphasis on indirectly supporting construction through the private enterprise, as well as an enhancement of the capacity of approved housing bodies (AHBs), more commonly known as housing associations or cooperative housing providers. While AHBs have a role to play, their capacity to raise funds and deliver the required output of social housing is very doubtful under current conditions. This is particularly salient given the comparatively low stock of social housing in both local authority and voluntary body form, as shown in Figure 8. Social rental models are a relatively small portion of overall rental stocks, which are themselves

Figure 8: Composition of total occupied housing stock census 2016

Source: CSO (2017e).
comparatively small as a portion of occupied housing units. Moreover, as private market bodies, AHBs are not directly accountable to the Exchequer or local community. Hence, their role in leading a recovery in housing output is likely to be confined to specialist areas of provision or local-based initiatives.

Supply is the key issue but further increases in demand are likely to exacerbate the crisis

Movement of population as well as the arrival of immigrant workers and the changing patterns of family formation in Ireland have influenced the nature of home ownership and renting. A high turnover in rental accommodation, as well as mobility of persons, is a feature of life in many places. A legacy of poor planning and distortion of market prices as a result of tax incentives have provided an incentive for imbalanced and disjointed housing developments – poorly serviced, badly connected and without proper social services and amenities. The rise of ‘ghost estates’ in far-flung locations with little or no connection to larger centres in the wake of the crash of 2008 illustrates this.

Three aspects of the crisis come to the fore:

• Changing patterns of demand for housing reflecting long-term demographic, regional and employment shifts as well as short-term supply bottlenecks (the composition of demand shifts as supply shortages arise).
• Sharp variations in patterns of supply and demand by location. By its very nature, housing supply and demand are highly sensitive to spatial considerations. Hence, evidence of acute supply shortages in the Greater Dublin Area and environs as well as Cork and Galway co-exists with oversupply in other areas. These regional imbalances are associated with large variations in prices and in rental charges.
• Cyclical movements in the supply of housing mirroring underlying economic conditions in the domestic and global economies.

The latter point is crucial, as is evident from the statistics on new building completions (Figure 9). ‘Social housing’ is officially quantified as including both local authority and voluntary and cooperative output. Acquisitions of second-hand dwellings by local authorities are not included in Figure 9. New units acquired under Part V of the Planning and Development Acts, 2000–8, for local authority rental purposes are included in the statistics on social housing.
What is striking about Figure 9 is the highly ‘pro-cyclical’ nature of building activity, particularly in the period from the mid 1980s, as noted by Norris & Byrne (2016). The fortunes of the building industry serve to magnify the impact of boom or recession. The experience since 2012 is unusual because the recovery in building output is nowhere at the pace of general recovery in the economy. There has been a modest recovery in output but, notwithstanding various tax incentives and announcement of government plans in 2014, officially counted new completions in 2016 were little more than they were in 2010.

Figure 9: Composition of ‘house completions’ over time

The ‘pro-cyclicity’ of housing output also applies to social housing. While there has been a long-term secular decline in the number and share of social housing in total output, it is clear from the time-series data that social housing output has moved in tandem with the level of economic activity, increasing modestly during the height of the boom years. The catastrophic fall in estimated social housing completions (and the associated escalation in homelessness and upward rent pressure in the private sector) is hardly surprising given the available data on government capital spending on social housing, including spending on regeneration. In nominal terms, the total capital spending on social housing peaked at just under €1.3 billion in 2007 and fell back to less than €200 million in 2014.

Norris & Byrne (2016) have noted the impact of a centralisation of public funding for local authority housing since the 1980s. The impact, along with the absence of a significant recovery of costs via rental
income to local authorities, they have argued, is to render the full upfront cost of all spending on social housing a charge to general government spending. Funding for social housing became more vulnerable to fiscal shocks, especially as capital funding is often the first casualty of a cutback in spending.

How a cost rental model could work in the Republic of Ireland

Introduction

The state and its various agencies need to take a more decisive and coordinating role in relation to housing supply. Left to itself, the private market in housing will not be able to deliver the required output and will not adequately address affordability issues in the case of low-income families and individuals. Taking the lead will require a much more active and interventionist policy on land as well as vacant but potentially useful property held by the National Asset Management Agency (NAMA) or local authorities.

Clearly, a crisis of housing and accommodation will not be fixed in one year. Coordination of planning, land management, site development and mobilisation of skills, finance and other resources will take time. A proactive role by public agencies and local public authorities with respect to acquisition of land and use of integrated planning to ensure balance, and inclusive and sustainable supply of accommodation linked to public services is required.

A European cost rental model (ECRM) similar to that operated in a number of other European countries (Healy & Goldrick-Kelly, 2017) would distribute the cost of new homes over a long period of time and would socialise the costs of constructing and renting high-quality accommodation. While institutional and funding arrangements vary, the principle of full cost recovery is a widespread feature in European housing systems. Rents are not directly tied to income, as occurs in the Irish case.

Cost rental funding allows independent housing bodies elsewhere to avail of diverse sources of capital funds, as rents can, themselves, cover interest and amortisation costs on advanced credit. Funding for the construction of new social housing in the Republic of Ireland, which has been severely cut back and is now very limited relative to the past, is largely derived from central government sources. As CECODHAS (2013) shows in its review of social housing systems, government authorities provide supports by way of subsidies, limited capital grants and favourable fiscal treatment in many instances.
Independent corporations or agencies can facilitate access to capital markets by aggregating credit demands and offering guarantees such that financing can be availed of at favourable terms. Housing bodies can also avail of grants in kind in the form of transfers of land from public agencies and authorities at substantial discounts.

Elements of these arrangements are present – to varying degrees – within the housing system in the Republic of Ireland. Housing associations can avail of low interest Capital Advance Leasing Facility (CALF) loans, and non-governmental sources of funding are being availed of through the Housing Finance Agency. The high subsidy levels associated with the Irish system are not present in many other jurisdictions although demand-side subsidies are present universally to support tenants who have difficulty paying rent (NESC, 2014a). This allows other national systems to accommodate broader swathes of the population, facilitating further sector stability and the promotion of unitary markets,1 whereby social rental providers can compete with private market actors. Unitary or integrated markets refer to a situation where social housing is engaged in competition with private providers and provides an alternative in both market coverage and rent terms (Kemeny et al., 2005). A prominent social housing sector availed of by a number of income groups is a key feature of a unitary market and is observed in a number of other countries (NESC, 2014b).

The ability to raise financing independently – facilitated by the cost rental model – allows other national social housing sectors to remain ‘off books’. In the Irish case the preponderance of funding sources from central authorities means that the Irish social housing system is largely classified within the general government sector (NESC, 2014b). This means that other social housing systems are not counted on the balance sheets of many European governments. Given the Irish state’s recent fiscal retrenchment, and disproportionate reductions in capital spending, a new model of funding mixed-income, cost-recovery public housing stock could relieve the pressure on public spending and offset cyclical tendencies arising where rents are decoupled from cost (Norris & Byrne, 2016).

Thus, diversified funding models undergirded by an approach to rent setting that takes account of costs appear well established in a European context. There is considerable scope for an approach in the Republic of Ireland informed by these models.

1 See Kemeney (1995) for further discussion.
Funding a European cost rental model

To increase the supply of housing to a level that meets aggregate housing demand as well as socially affordable demand within the aggregate, we propose a single, unitary, mixed-income rental model operated by a commercial, publicly owned company and operating on a full-cost recovery basis. To that end we propose the establishment of The Housing Company of Ireland. This new entity would supplement and strengthen investment in social housing by the local authorities. By claiming a very significant place in the market, The Housing Company of Ireland could exert downward pressure on rent increases and, at the same time, contribute to higher supply. This would reap benefits by way of less strain on household finances and more options for temporary or migrant dwellers, including high-skilled workers, students, etc.

To get started and to ensure a minimum and rising amount of new housing output in each year from 2017 through to the next decade, a certain additional level of Exchequer funding will be required. This will, under current EU fiscal rules, involve a claim on ‘fiscal space’. This may be attenuated somewhat by the establishment of a publicly owned and accountable company to plan, commission, deliver and rent newly built accommodation ‘off the books’. Such a company could draw on and incorporate the staff and resources of the Housing Agency as well as resources and expertise in the local authorities, NAMA and other relevant bodies. Recruitment of the necessary expertise from the private sector and abroad should also be undertaken. Within NAMA there is a National Asset Residential Property Services division. This unit of NAMA acquires empty property and leases these to local authorities or AHBs for the purposes of social housing. This experience could be harnessed.

Such an approach would involve a relatively modest upfront ‘on the books’ injection of Exchequer funds to get a new public commercial enterprise on the way and with a clear and ambitious business plan to operate on a medium-term full-cost recovery basis. In other words, the undertaking could be self-financing in the medium term on the strict condition that rental income would cover costs (which would include the servicing of debt attributed to the new entity).

The Housing Company of Ireland would operate separately from the existing, but reformed, Housing Finance Agency, which would provide funding mainly to The Housing Company of Ireland but also, where appropriate, to housing associations and local authorities, as well as municipal housing associations established by the latter. All
lending would be undertaken according to sound and verifiable criteria, taking advantage of exceptionally low current interest rates on capital markets and drawing on the considerable reserves of equity and cash at the National Treasury Management Agency, as well as the international reputation and market access of the latter on international capital markets.

The announcement of €750 million by way of lending to private developers through the establishment of the Home Building Finance Agency is unlikely to have a dramatic impact on the supply situation. Moreover, it misses the need to engage public organisations in delivering long-term rental accommodation.

The funding base for an emergency housing programme to be undertaken by The Housing Company of Ireland could be made up of a number of components including:

- Irish Exchequer;
- Irish Strategic Investment Fund;
- European Investment Bank and other EU funding institutions;
- NAMA surplus funds expected from 2018 onwards;
- a new Irish Housing Solidarity Bond (e.g. for long-term pension investment);
- domestic and international financial agencies, including trade unions, credit unions and other civic organisations with capital;
- green bonds issued as part of a European investment programme to invest in renewables and build new hyper-insulated housing;
- private investment funds, including pension funds.

Were it possible to locate €1 billion, in the first instance, in additional funding over a period of 12 months, it should be possible to put in place a building programme to construct just over 5,000 new dwellings at an average cost of €180,000 each, consistent with average costs nationally. This would be an ambitious but realistic start – well short of what is needed in the medium term to tackle the current crisis. Part of the upfront investment in this undertaking could be a free transfer of development land along with associated debt servicing costs from local authorities to The Housing Company of Ireland. In Figure 10 we outline a possible funding model with the aim of achieving 70,000 new homes over a 5-year period. We estimate that the total capital investment would be in the region of €12 billion over a 5-year period. This would include the cost of buying or acquiring 20,000 vacant but habitable houses over the same period. Some of these are currently in the possession of NAMA and other agencies as well as private owners.
An injection of €3 billion in equity by the Strategic Banking Corporation of Ireland (SBCI) would establish a strong, initial capital base for the Housing Company. One option would be to restructure state holdings of equity in Allied Irish Banks, Bank of Ireland and Permanent TSB, and consolidate these into a new lending facility as part of the SBCI, with a transfer of functions in order to strengthen the role of the SBCI. Switching equity by the state in these ‘pillar’ banks to a new SBCI would represent a restoration of the National Pension Reserve Funds, which were built up by payments from Irish taxpayers over many years prior to 2009 and were intended to meet the future rising cost of providing the Old Age Pension to a growing older population. Channelling this investment in long-term infrastructural projects such as the proposed Housing Company of Ireland would represent a good and safe investment backed by state guarantees.

In the long-term the SBCI, which was established in 2014, could be developed into a national investment bank with a network of branches serving small and medium-sized businesses. The SBCI could invest in, or lend to, various infrastructural projects, of which the activities of the proposed Housing Company of Ireland would be one.

An initial injection of €3 billion directly from the SBCI to The Housing Company of Ireland could be leveraged by a lending flow of €9 billion (three times the equity injection) through the existing Housing Finance Agency to the Housing Company. The company would commission new housing directly through private companies, local authorities or existing AHBs. The aim is not to replace the existing social housing building activity of the local authorities, which in any case is at an all-time low as they have been crippled by lack of finance. The proposed company could channel funding to local
authorities to scale up social housing activity. Rental payments would service the cost of debt, construction and maintenance, as well as providing for contingencies and upkeep.

A crucial difference between ECRM and the current tiny level of local authority direct building of social housing is that ECRM would be on a full-cost recovery basis with no differentiation of rents by household income. Rents would be charged at full economic cost while the HAP would be expanded to ensure that low-income households have the option of paying full-cost rent. We estimate that these payments would cost the Exchequer between €40 and €70 million annually (see Healy & Goldrick-Kelly, 2017). Rents could be set at full-cost recovery but significantly below market rates, which have become inflated due to a severe supply shortage. Other supporting measures which would ease financial pressure on the newly proposed company would be acquisition of land from local authorities for free or below cost.

Operating a European cost rental model and other measures
A key feature of the housing crisis has been a slow, gradual and marked loss of necessary technical skills in the local authorities. Given the mixed history of public agency development in Ireland, it is important that a new model for publicly managed house construction, financing and renting would be operated on a very different basis to that in other areas of public administration or commercial enterprise. A single commercial enterprise would have the advantage of being able to pool particular resources and expertise from design to procurement to quality assurance, as well as work with local authorities in the discharge of their statutory obligations in relation to social housing.

Among the responsibilities of The Housing Company of Ireland would be the development of a comprehensive public register of land that has been rezoned for development. The public and policymakers have a right to know what land is available, who owns it, approximately how much it is worth at current market values and what evaluations have been undertaken with regards to the suitability of such land for building, as well as relevant data on local public services (schools, health centres, transport, sports and other community facilities).

However, The Housing Company of Ireland would not, without supplementary action by government, be in a position to close down the deadly loop of land hoarding in expectation of price increases driving even more land hoarding. Urgent action is needed at govern-
ment level to freeze the price of development land at a maximum level above agricultural land price. This requires an active land management policy linked to taxes on vacant sites and a long-term strategic plan to develop and manage sites within an overall spatial and social plan for a county or larger unit.

In Budget 2015 the windfall profit tax of 80 per cent on rezoned land for development, which had been introduced in 2009, was subsequently abolished. The evidence that formed the basis for this decision in late 2014 has never been brought to light. It was claimed by the Minister for Finance, at the time, that the tax yielded little by way of revenue and may have become a barrier to a supply of land. However, it should be possible to combine a super tax on the profits or capital gains from a land sale for development with a substantial vacant site levy. In this respect, the government’s announcement, in Budget 2018, to increase the vacant site levy to 7 per cent if a site lies idle for more than one year is welcome, although the extent to which exemptions will be granted remains to be seen. The measure should be brought forward to take immediate effect, and not just on 1 January 2019.

The short-term objective of maximising the sale value on NAMA-held property needs to be tempered with a strategic planning objective of relieving pressure on land and housing supply. With claims of hasty sales of NAMA property to large vulture funds or private equity corporations, there is an added risk of market power transfer to corporations that have no regard for social or community need given their overriding objective of short-term return and quick purchase and sale with foreclosure or business liquidation forced on existing borrowers.

Conclusions

Our conclusion is that public policy needs to take the lead by investing in cost rental, affordable and quality accommodation for its citizens. We concur with the views of NESC that the hallmark of a good societal housing policy is that it enables people to secure accommodation that is:

- affordable;
- consistent with sustainable living;
- inclusive of all.
The main drawback with current public policy is that it is wasteful, costly and inefficient. Relying on the private sector, to the extent that has happened, to meet demand for social and affordable housing has not worked, as evidenced earlier.

The state has an important role in not only providing quality social housing but setting the framework through planning and regulation to ensure a balance of provision and a better coordination of public services in new developments. Society needs to avoid a plan for social housing that, unintentionally or otherwise, reinforces social class segregation by place of residence, education and association in the community.

Taken together these general policy orientations speak to a better and more joined-up programme of planning, funding, development and delivery, with the state playing a leading and ‘coordinative’ role. Tackling the housing crisis requires more than tinkering with the system at the edges or stand-alone measures in one domain or aspect of the overall jigsaw.

The concept and use of the term social housing suggests that it is a ‘residual’ notion – something the state or voluntary bodies provides of necessity to low-income or needy families when all else, including the market, fails. We need to rethink ‘social housing’ to avoid segmenting people into separate estates and living arrangements.

References


