Paul Goldrick-Kelly & Michael Taft

Building a unitary housing market

Proposals to end Ireland's housing woes

In 2017 the Nevin Economic Research Institute (NERI) published a study on the private rented sector – 'Ireland's Housing Emergency - Time for a Game Changer' . At that time, the report described the private rental market at that time as 'in crisis'. Since then, affordability and accessibility in the private rental sector has only worsened.

NERI proposed a radical reform of Ireland's rental market which would have the capacity to significantly reduce rents and provide more rental accommodation.

In the intervening years, housing has climbed up the electorate's list of priorities, topping the list of issues for the public, and the previous government's "Rebuilding Ireland" strategy has made way for the "Housing for All" plan. Despite these developments, and new initiatives within the housing system which have emerged in response to them, the government has failed to intervene at the scale required.

We argue that this is largely the result of a mistaken view about the deficits in the Irish housing system. Where government sees temporary supply constraints derailing an otherwise functional market, we see fundamental structural issues which warrant a structural response. We should not aspire to return to the pre-crash housing system. We need a fundamental reform.

Developing NERI's original proposals in 'Time for a Game Changer' we propose the introduction of a unitary rental market, merging the public and private sector, based on 'Cost Rental' housing that is available universally; that is, to all those with housing need regardless of means. By Cost Rental we mean rental accommodation where the rent charged tied to the cost incurred in constructing, managing and maintaining the dwelling rather than what the market can bear.

* * * * *

Given the crisis in private rents and rental accommodation, it is surprising there is so little real debate and new policy proposals over how we can address this. The latest government plan "Housing for All" says little about how to reduce rents across the private rental market. It proposes extending Rent Pressure zones to the end of 2024 but in those areas affected these only limits increases in rents that are already excessive. It proposes the building of 2,000 'cost-rental' homes per year out to 2030 but this represents less than six percent of total housing output.

Access to Cost Rental units to date has been determined by means testing, limiting the number of households that can access this tenure. While we welcome recent moves to increase the net household income threshold for Cost Rental units, this segregation in access limits the degree to which these units can affect the wider housing system. Ultimately, supply limits do the same thing in practice – in situations of limited supply, units tend to be reserved for certain cases.

Other measures that have been taken include tax credits for renters. Such interventions can perversely operate to exacerbate upward rent pressures as landlords, especially in a market where demand exceeds supply, adjust rent upwards to capture the credit. In any event, the credit – worth €42 monthly for a single person – represents only a fraction of average rents.

A particular aspect that has been little discussed is the impact of supply constraints. Measures to increase security of tenure and rent certainty are welcomed. However, if landlords exit the market due to these measures, then supply may contract with all the consequences this has for accessibility and affordability. This is not an argument for limiting tenure security or rent certainty; it merely points out that without compensating measures to stimulate or directly add to supply, there is a danger that the existing market will contract even further as demand climbs. Though the Residential Tenancies Board shows a reduction in supply, we note that this is disputed by data from the CSO's 2022 Census. There is an urgent need to clarify this issue of supply.

We need a decisive public intervention capable of increasing supply while engineering a transformative reduction in rents. We propose, by way of restating NERI's 2017 report, that this can be done by the introduction of a unitary market in the rental sector grounded in cost-rental housing.

* * * * *

Ireland's rental market can best be described as 'dualist':

'a dualist housing system [involves] social housing for lower-income or marginalised households alongside the dominant private-sector model of housing provision. Under a dualist model, social-housing provision tends to operate on an almost specialist basis, using means testing and other mechanisms to control prices and rents, and also to protect the private market from potential competition from this sector.'

Ireland's rental market is basically divided into two parts: (a) means-tested social housing delivered by local authorities or approved housing bodies (AHBs).; and (b) a for-profit private sector or private rental sector, though there are considerable public subsidies flowing into the private sector via such programmes as the Housing Assistance Payment (HAP).

In this dualist framework, social housing becomes residual.

'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.'

A dualist system inevitably leads to income segregation, through means-tested social housing. The State only makes direct provision for those on low-incomes. This can have a number of negative impacts including poverty concentration, poor neighbourhood effects, stigmatisation, and environmental degradation.

A dualist system inevitably leads to income segregation, through means-tested social housing. The State only makes direct provision for those on low-incomes. This can have a number of negative impacts including poverty concentration, poor neighbourhood effects, stigmatisation, and environmental degradation.

These negative effects of a dualist system can also be seen in reverse, as tenants in the private sector are put at a disadvantage. First, private sector tenants have less protection (as featured recently in the debate over temporary anti-eviction legislation). Second, they are subject to market pricing. Even Housing Assistance Payment, an ever-increasing burden on public finances, comes with a number of qualifications and limitations. As mentioned above, steps to provide tenants with greater price and tenure security is being met by a withdrawal of accommodation from the market, driving rents even higher and squeezing supply.

The issue isn't, in the first instance, the level of investment into the rental sector (though that is an extremely important element). Rather, it is the structure of the rental market – including both social and private sectors

Therefore, the issue isn't, in the first instance, the level of investment into the rental sector (though that is an extremely important element). Rather, it is the structure of the rental market – including both social and private sectors.

As Anthony Leddin comments:

'Rebuilding Ireland cost €10 billion over six years whereas Housing For All is projected to cost €36 billion over nine years. But throwing money at the housing problem will not suffice if the underlying policy is flawed . . . This haemorrhaging of the public finances . . . is clearly unsustainable.'

In addition, this set up pushes people towards home ownership given unfavourable terms in the private rental sector and the shortage of social housing. This, in turn, forces governments in dualist systems to support homeownership for marginal buyers, exacerbating boom bust trends in these markets.

Recent trends have highlighted how the Irish housing market falls between two stools. While the rental market remains dualist, fewer and fewer households can afford to purchase homes. Ireland is no longer a home ownership society – 20 EU member states have higher levels of homeownership. A new housing system must confront this new reality, and offer choices.

We will argue that addressing the 'flawed' rental market framework itself is the first step towards providing substantially reduced rents for key social and economic constituencies while achieving fiscal efficiency.

* * * * *

As per 'Time for a Game Changer', we propose that the current dualist rental market be transformed into a single 'unitary' model, with the state providing rental accommodation to all in housing need with rents based on a truly cost-rental basis.

'Strategically, we propose that public policy be re-orientated away from a limited social housing policy to a unitary publicly owned but rented housing system that ensures a mix of social and income groups in one location. From being a left over, public housing provision moves from social housing for the poor to support for a unitary rental market, accommodating both traditional tenants of social housing and individuals/households currently renting in the private sector.'

In this model, the means-test in the social housing provision would be eliminated with all public housing units (including AHBs) being available to tenants regardless of income or employment status.

There are three principal effects:

1. A unitary model integrates the two separate markets in the rental sector under direct state provision. This would result in universal state provision of affordable accommodation in the rental market. This doesn't mean the elimination of private rental accommodation. However, it would mean that public housing would compete with private provision in the rental market.
2. This new unitary model would provide accommodation based on cost-rental; that is, the level of rent is determined by the cost of constructing, maintaining and managing the accommodation. These costs could potentially be reduced through further state subsidies (see below).
3. All tenants under this new model would have the same security of tenure and rent certainty that tenants in traditional means-tested social housing currently enjoy.

These three simple steps would begin to provide accommodation not only to those in 'social' need, as defined by the number of households on social housing waiting lists (57,800 in 2022 – this figure could actually be double that according to the Parliamentary Budget Office due to the role that Housing Assistance Payment serves to disguise housing need) but to those in 'economic' need; namely those in need of affordable rental accommodation.

* * * * *

In this manner, public housing would become a universal provider. Housing for All targets the construction of 90,000 'social' homes by 2030 with an additional 18,000 'cost rental' homes. Under a unitary model, these targets would be rolled up into a single target of over 100,000 Cost Rental units, delivered universally through non-means tested public housing. These new units would represent net additions to the housing supply, ending the dynamic of public funds driving demand imbalances in already strained markets.

There would no longer be a segregated target for low-income households only (i.e. traditional means-tested social housing). However, as we discuss below, this will require additional investment for specialist social housing targeted at particular disadvantaged groups; and more robust and realistic output targeting consistent with our capacity.

'Cost Rental' is a fairly straight-forward concept: rents are based on the construction and management costs of providing the rental unit.

Housing for All introduces a confusing qualification by pegging rents against market value:

'Cost Rental will be targeted to achieve rents that are at least 25% below what they would be on the private market.'

'Proper cost-rental is indifferent to market value. It is based on the all-in costs of providing a rental unit regardless of market rents. Subsequent rent increases are tied to the cost of maintaining the stock and meeting capital costs (borrowing costs), regardless of market movements

This link to the private market is unnecessary. Proper cost-rental is indifferent to market value. It is based on the all-in costs of providing a rental unit regardless of market rents. Subsequent rent increases are tied to the cost of maintaining the stock and meeting capital costs (borrowing costs), regardless of market movements.

A further complication is the provision of cost-rental by private developers. This would seem to be a contradiction in terms. Cost-rental housing is essentially non-profit housing (save for surpluses necessary to reinvest in new-builds and a sinking fund). The only way that private actors can deliver cost-rental would be for the state to subsidise land costs and developer margins. The government has conceded this with a recent announcement that private developers will be eligible to receive a subsidy of €150,000 to build and operate a cost-rental model. This is fiscally inefficient.

* * * * *

The goal of a Cost Rental network under a unitary model is to bring about a transformative reduction in rents. According to Numbeo (a user generated database used by the National Competitiveness and Productivity Council) single-bedroom city centre rents in other high-income European capital cities are 35 to 50 percent lower than the same unit in Dublin city centre. Were Dublin rents reduced to levels that exist in other comparable cities, tenants would save hundreds of Euros per month. This would be a boon to living standards, competitiveness and the productive economy. This would be achievable under a unitary market.

The construction and operation of cost-rental accommodation by public and voluntary bodies on public land can begin this transformative reduction as the cost of land and developer margins are eliminated. Efficient state subsidies can play an important role in further reducing rents.

The following are examples:

- A 25 percent Exchequer contribution to the construction costs of cost-rental homes, which reduces the level of rent payments.
- Interest payment subsidies which reduce interest payments over the life-time of a long-term loan (e.g. 50years).
- An Exchequer subsidy toward maintenance and management costs.
- The state could act as a bank, accessing some of the excessive corporate tax revenue in the National Reserve Fund, with structured loans that leave large exit repayments towards the end of loan maturation.

There are a number of subsidy channels through which efficient fiscal interventions can result in a transformative reduction in rents.

The impact of such a reduction in rents would not be confined to tenants in the cost-rental sector. By creating competition with private sector tenancies, downward pressure would be created throughout the entire rental sector. As a consequence, tenants in private sector accommodation would benefit from the expansion of a proper cost-rental network.

* * * * *

There are a number of institutional mechanisms which can deliver a unitary model.

Option 1: provision would remain a function of local authorities and AHBs, in the same way as traditional means-tested social housing is currently provided.

Option 2: as per 'Time for a Game-Changer', a public enterprise body could be given a mandate to roll out the cost-rental network. This could involve repurposing the Land Development Authority and/or the Housing Agency to this end.

Option 3: local public housing associations could be established that would be linked to the local authorities but would have independent powers.

Option 4: a central housing body could be established to develop scale in the roll out of a cost-rental network (e.g. procurement, design, regulatory compliance) with local public bodies mandated to construct the units.

We believe that the institutional design of the unitary model should be based on what can be expedited in the shortest amount of time with the minimum of bureaucratic barriers, and the optimal level of commercial efficiency. Once the principle of a unitary model is adopted, the institutional framework for the development of a cost-rental network becomes a pragmatic decision.

* * * * *

Construction of cost-rental housing would be financed in the same manner as traditional means-tested housing – through Exchequer capital grants and borrowing. However, the main difference with traditional means-tested social housing is that over the long-term there would be full, or nearly full, recovery of the construction costs as rents are set at cost.

If a public enterprise, or a hybrid public enterprise-local public body is adopted as the institutional mechanism for developing a cost-rental network a number of options could be pursued.

1. The public enterprise could receive an initial capital injection which would leverage an enhanced lending flow, operated through the Housing Finance Agency or through its own state-backed bonds.

2. An innovative use of the anticipated sizeable National Reserve Fund (which will house the excess corporate tax receipts) could be to set aside a sizeable capital element from which the public enterprise could borrow long-term at steady-state interest rates or back-loaded loan repayments.
3. All or most traditional means-tested social housing stock could be transferred (with compensation) from local authorities to the new public agency. This would provide (a) an initial large asset base to facilitate borrowing in the market at favourable rates, (b) allow new vacancies to be filled by cost-rental tenants, and (c) lower overall rents (as most housing stock transferred would be unencumbered by debt).

* * * * *

While rents are reaching unaffordable levels throughout the country, the crisis is particularly acute in Dublin and other main urban areas. In 2019, over a third of Dublin tenants, and 28 percent of those living in the adjoining commuter counties, paid over 35 percent of their disposable income on rent (a threshold the Land Development Agency uses for affordability). For the four main urban areas the comparable figure is 28 percent with the rest of the country coming in at 19.8 percent). Dublin also has the highest proportion of households on the social waiting list (42 percent) with the other main urban areas comprising another 15 percent.

Therefore, the initial focus of the cost-rental network should be Dublin and the main urban areas. This could help ease demand and, so, rent pressures in surrounding non-urban commuter areas. However, there may be other large town areas that could be included depending on rent affordability. For instance, in Carlow town, Mallow, Portlaw and Belmullet, rents exceed 27 percent of disposable income.

This new tenure type could also help address long standing spatial issues within the Irish state. New Cost Rental housing could aid development in hitherto underserved areas of the country and could complement the Government's National Development Plan. The presence of housing, and the commercial activity brought with it, could aid regional clustering and hence a build-up of jobs and living standards.

* * * * *

High rents impose costs on households and businesses. This undermines the productive economy. For households, tenants are forced to pay an excessive amount of their income on rents. This not only reduces their consumption of non-rent goods and services (and, so, depress living standards); it also deprives business of income. This can negatively impact wage increases, in-work benefits, and investment – all to the detriment to growth; in particular, growth in the domestic sector. It can also fuel wage increases, not to increase living standards, but to pay higher rents.

The Taoiseach, in his previous role as Tánaiste correctly stated that housing is a drag on foreign direct investment. This occurs when global companies assess the availability of labour supply in a particular region, availability that can be undermined by high rents. Issues of affordability and accessibility become an input into investment decisions.

Further, as tenants are unable to access affordable accommodation in the main urban areas, they are forced to secure accommodation further away from work – increasing travel costs, reducing life quality (as more time is spent in commuting) and, depending on mode of transport, increasing carbon consumption. This can undermine our capacity to meet carbon reduction targets.

As stated previously, the creation of a Cost Rental system could help build a more resilient unitary housing system less prone to boom bust cycles. As such, this new system could be seen as an aid to wider macroeconomic stability, tempering private sector imbalances rather than exacerbating them.

New builds and refurbishments within a unitary market offer the opportunity to create an environmentally-sustainable housing sector. The regeneration of Mary's Mansions in Dublin's North Inner City – a social housing estate – is one example. Recent refurbishment included a BER upgrade to A, installation of solar panels and insulation technology, centralised heat system and monitored heat units in each home. In 2020, it was estimated that annual heating costs would be €300 per apartment (and while this will have increased in the last couple of years, the environmental investment will have created a bulwark against rising prices,).

New builds and refurbishments within a unitary market offer the opportunity to create an environmentally-sustainable housing sector. The regeneration of Mary's Mansions in Dublin's North Inner City – a social housing estate – is one example. Recent refurbishment included a BER upgrade to A, installation of solar panels and insulation technology, centralised heat system and monitored heat units in each home

Environmental sustainability, combined with regeneration of inner cities and town centres and reuse of vacant buildings, can generate significant carbon reduction, reduce fuel poverty, enhance health outcomes (reducing demand on the health system) and boost the productive economy through lower fossil-fuel imports and increased non-energy consumption. A regional focus could lend itself to more viable green infrastructures in areas which have been difficult to decarbonise.

* * * * *

While a unitary market would eliminate means-tested social housing, there would still be a role for local authorities and voluntary bodies to provide specialist housing for particular disadvantaged groups with distinct needs. In this respect, means or condition-tested housing would still be Exchequer-financed and built through traditional channels. Such specialist housing would be directed at those with disabilities, older people, Traveller accommodation, sheltered housing for domestic abuse victims, etc. It would also allow local authorities to prioritise addressing the homelessness crisis.

Focusing on specialist social housing, local authorities – in cooperation with AHBs – could make substantial reductions in the housing waiting list. Twelve percent of households on the waiting list are headed by older persons (60 years and over) while another 10 percent are headed by someone suffering from a disability.

Through a combination of cost-rental and specialist social housing tenancies, considerable reduction in the waiting lists could be achieved; a reduction that doesn't rely on continually expanding Housing Assistance Payment tenancies in the private sector.

* * * * *

Tenants of Cost Rental would benefit from levels of security associated with local authority / AHB tenants. By indexing rent increases to maintenance costs, rent certainty can be established. This can facilitate longer-term planning by tenants – in particular, their ability to save for deposits on house purchases.

While the rent of current means-tested social housing tenants is based on income under the differential rent scheme, rents in the unitary market would be based on construction costs and management costs. For many low-income tenants this could still be a burden. Therefore, tenants would have access to the Housing Assistance Payment. The proportion of income to be paid for rent with a HAP subsidy would be a matter of public policy. This would have the advantage of simplicity – with no need to fundamentally reengineer an existing programme – and offsetting the current tendency towards subsidising rent rises in private rental markets. Indeed, HAP within a Cost Rental system would ultimately be directed towards upkeep of the existing stock, building equity within these systems, and additional supply. This represents a far more efficient use of public funds

* * * * *

There is the potential to integrate private landlords – especially 'small' landlords – into the unitary model. While this would not necessarily increase the supply of overall rental accommodation (though it could save some units from market exit), it could expand the benefits of Cost Rental to a larger number of tenants.

There are two possible ways this integration could be achieved:

1. Private landlords could be given the option of selling their premises into the unitary market. The incentive would be that the sale would be exempt from capital gains tax.
2. Another possible option would be to allow landlords to sub-lease their rental units to the unitary market on a long-term basis. The public body would take over the cost of maintenance, rent collection and new tenant advertisements. 50.5 percent of landlords earn less than €10,000 per year , so this could be an attractive option.

These and other options for integrating private landlords into a Cost Rental network need to be stress-tested to ensure fiscal efficiency.

* * * * *

Introducing a unitary rental model would face considerable obstacles. Labour shortages in the construction sector will continue to be an obstacle to maximising output, at least in the medium term. Solas has estimated that 50,000 more construction workers will be needed to fulfil the Government's housing and retrofitting targets. This number could rise when factoring in capital projects, commercial and industrial building, and other residential activities. There is no short-term solution to this. The Government could consider putting a moratorium on certain sectors of construction in the short-term to allow for an increase in labour and ensure housing construction is prioritised. Whatever measures might be taken to redirect labour into increasing housing output, it is important that housing output targets are realistically linked to capacity.

The rolling out of a cost-rental network through direct state construction and provision would give us an opportunity to remove precarious features from construction employment. In particular, there is the potential to end 'bogus' self-employment in the building sector, whereby employers' mis-classify workers as self-employed to avoid social insurance contributions and other social benefits. This could set a high-road benchmark for decent work in the building industry.

However, the rolling out of a cost-rental network through direct state construction and provision would give us an opportunity to remove precarious features from construction employment. In particular, there is the potential to end 'bogus' self-employment in the building sector, whereby employers' mis-classify workers as self-employed to avoid social insurance contributions and other social benefits (e.g. paid holidays). This could set a high-road benchmark for decent work in the building industry.

* * * * *

According to the National Economic and Social Council, the benefits of cost-rental:

'. . . can include limiting the residualisation and stigmatisation of publicly-provided social housing, levelling the playing field between rental and homeownership, disciplining the profit rental sector through competition, insulate households from the full investment returns required by profit rental landlords . ..'

That is to say that cost-rental can address a number of long-standing market failures in the Irish housing market. These failures are particularly acute in the current moment, but could have been applied in the decades leading up to the boom. In our view, an expansive cost-rental housing sector would be desirable even in a situation where supply issues eased. In the current context where supply is insufficient – especially supply of affordable accommodations – a new independent source of supply which does not simply follow prevailing market conditions is especially necessary.

Against the claim that a cost-rental network would result in an unsustainable fiscal liability we would argue that:

(a) costs would be fully or nearly fully recovered in the long-term, turning the issue into one of cash flow;

(b) reduced rents would boost consumption as household payments for rent are redirected into goods and services, thus privileging the productive over the rentier economy;

(c) the privileging of the productive economy would generate additional government revenue from the increased consumption;

(d) to the extent that cost-rental homes conform to best-practice built-sustainability, further savings would be made to carbon consumption while redirecting expenditure on energy products into other goods and services.

Protocols would be put in place to regulate who would be eligible for accommodation. This is not the place to go into such details. However, while all those with housing need, regardless of employment status or income, would be eligible, there would be qualifying conditions. For example, people who already own an accommodation would be excluded. Other conditions would be introduced to ensure that only those in need would be eligible.

We should deploy our considerable resources to fundamentally transform our housing model. Doing so would begin to address emerging issues for the productive economy related to housing and end a system geared towards asset values rather than the provision of homes

In light of its viability, we should deploy our considerable resources to fundamentally transform our housing model. Doing so would begin to address emerging issues for the productive economy related to housing and end a system geared towards asset values rather than the provision of homes.

A new and expansive Cost Rental sector, open to all, could offer high quality, secure housing to the Irish public in a sustainable way. A unitary system could end the boom bust dynamics that have characterised our housing market for decades, balancing otherwise volatile markets. This would represent a better investment in long-term macroeconomic stability than the use of receipts for tax cuts.

In this way, a new Cost Rental system could help realise housing as an effective social right while moving towards economic and environmental sustainability. We should not miss this opportunity to build a new system fit for a new, prosperous Ireland in the twenty first century.