



*Research for new economic policies*

# Budget 2016 and Housing Post Budget Seminar, 21/10/2015

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# Some opening remarks...

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- ▶ **Budgetary policy alone does not a housing system make**
  - ▶ Nonetheless, fiscal and monetary policy are more instrumental than ever before in determining effectiveness of Irish housing policy
  - ▶ Construction 2020
  - ▶ Social Housing Strategy 2020
  
- ▶ **Budget 2016 remains unfinished business for Irish Housing**
  - ▶ Disappointing for some i.e. little to no real details
  - ▶ Finance Bill, 2016 may yet be quite revealing

# Budget 2016: the housing details that are known..

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- ▶ **DECLG vote for 2016 is €1.495bn**
  - ▶ €539 Capital and €956 Current
  - ▶ 12% increase on 2014 (€1.328bn) and 83% increase on 2014 (€255m)
- ▶ **Housing capital is €432m (up from €376m in 2015: approx 15%)**
  - ▶ To deliver 1,000 new social housing units (only 284 delivered in 2014)
- ▶ **Housing current expenditure is €379m (up from €310m in 2014; approx 22%)**
  - ▶ RAS, HAP and Social Housing current expenditure (renovations etc)

# Budget 2016: the housing details that are known..

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- ▶ Allocation of additional €17m for homeless services (funding under S10, 1988 Housing Act) to
  - ▶ Give €70m allocation in 2016
  - ▶ Dublin's expenditure is ahead of this in 2015
- ▶ Dublin's Pilot HAP for Homeless
  - ▶ New rent limits and eligibility criteria
- ▶ Mortgage to Rent scheme
  - ▶ €17m allocation in 2016
- ▶ Pyrite Remediation Scheme
  - ▶ €17m allocation in 2016

# Budget 2016: the housing 'add-ons'...

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- ▶ **NAMA to deliver 20,00 new dwelling units**
  - ▶ 90% located in GDA
  - ▶ Expectation that Part V arrangements deliver 2,000 for social rental
  - ▶ No detail on budgets, financing, delivery etc etc
  
- ▶ **New PPP for social housing (not private housing)**
  - ▶ 'Availability model' previously used to deliver roads, schools and courthouses
  - ▶ Procurement of a consortium (design, build, finance, maintain for 25 years)
  - ▶ Sites remain in public ownership and units returned to state after 25 years
  - ▶ 500 units to be delivered on 6 publicly owned sites
  - ▶ Capital of €100m
  - ▶ Social Housing Strategy 2020 provides for €300m capital investment in social housing via PPP to deliver 1,500 units

# Irish housing tenure allowances: not 'tenure neutral'

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- ▶ MITR for new loans abolished from Dec 2012 – however...
- ▶ For mortgages taken out between Jan 1<sup>st</sup> 2004 and 31<sup>st</sup> Dec 2012, entitlement to MITR continues to 2017
  - ▶ Years 1&2 @ 25%;
  - ▶ Years 3,4&5 @ 22.5%;
  - ▶ Years 6&7 @ 20%
  - ▶ Ceiling €20k (couple)
- ▶ Higher rates of MITR for 'bubble' FTB (Jan 2004-Dec 2008)
  - ▶ 30% MITR for years 2012 to 2017
  - ▶ Ceiling €6k (2004/5) raised to €20k (2006/7/8) (couple)
- ▶ Tax allowance for owner-occupiers who rent out a room to a private tenant remains in place
  - ▶ Ceiling raised from €10k to €12k p.a. in 2015 and stays for 2016

# Irish housing tenure allowances: not 'tenure neutral'

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- ▶ Where is equivalent for tenants?
- ▶ No equivalent exits
  - ▶ Tax credit (at standard rate of 20%) for single person under 55 years is €800 in 2014 (worth €160)
  - ▶ REDUCED to €600 in 2015 (worth €120)
  - ▶ Tax credit is not available for individuals who began renting after 7 December 2010
  - ▶ Tax credit will cease in 2017
- ▶ Why does Fiscal policy continue to maintain this inequity?
  - ▶ Tenants pay income tax but do not have equivalent tax treatment (allowances/ reliefs) as owner-occupiers and landlords
  - ▶ Homeowners (and those who are also acting as landlords) vs tenants?

# Budget 2016: the housing ‘vexatious’

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- ▶ Rent Certainty – how (CPI) and duration (4 years or 2 or less?)
  - ▶ New Tax allowances for landlords ‘to sugar the pill’?
- ▶ Targeted?
  - ▶ Registered and fully compliant landlord with low-income (HAP or SWA rent allowance) tenants who agrees to rent certainty and ‘fixes’ a rate of annual rental inflation for the period
- ▶ Open-ended?
  - ▶ Value of tax foregone?
- ▶ ‘Highly adverse equity effects alongside a regressive distributional impact in terms of net benefits to higher income earners’ (Goodbody, 2005)



# Using fiscal policy to deliver rent stability: some 'framing' principles

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- ▶ Ensure rent certainty = income certainty for landlords = cost certainty for tenants
- ▶ Recognise shift to rental under the overall macro-prudential position in Ireland is very relevant
  - ▶ QE by ECB
  - ▶ Low interest rates (ECB)
  - ▶ EZ inflation is -0.1%
- ▶ Tax equity between homeowner and tenants is required
  - ▶ Requires immediate attention and new allowances
  - ▶ Introduce windfall taxation on 'hyper' rates of rental inflation (measure via increases in declared rental income in a tax year where no additional units purchased and no other allowable expenditure incurred – needs refining but the principle is straightforward)
  - ▶ Rental inflation – allow an increase once a year and no higher than 10% above market in an area for similar SPACE standards and BER ratings
- ▶ Uncertainty leads to increased 'price taking' at present
- ▶ Low-income households being squeezed out of private rental and into homelessness – not just a Dublin phenomenon