Research for new economic policies

NERI Working Paper Series

Ireland's Housing Emergency - Time for a Game Changer

Tom Healy and Paul Goldrick-Kelly

March 2017

NERI WP 2017/No 41

For more information on the NERI working paper series see: www.NERInstitute.net

Ireland's Housing Emergency -

Time for a Game Changer

Tom Healy and Paul Goldrick-Kelly*

Keywords: Housing

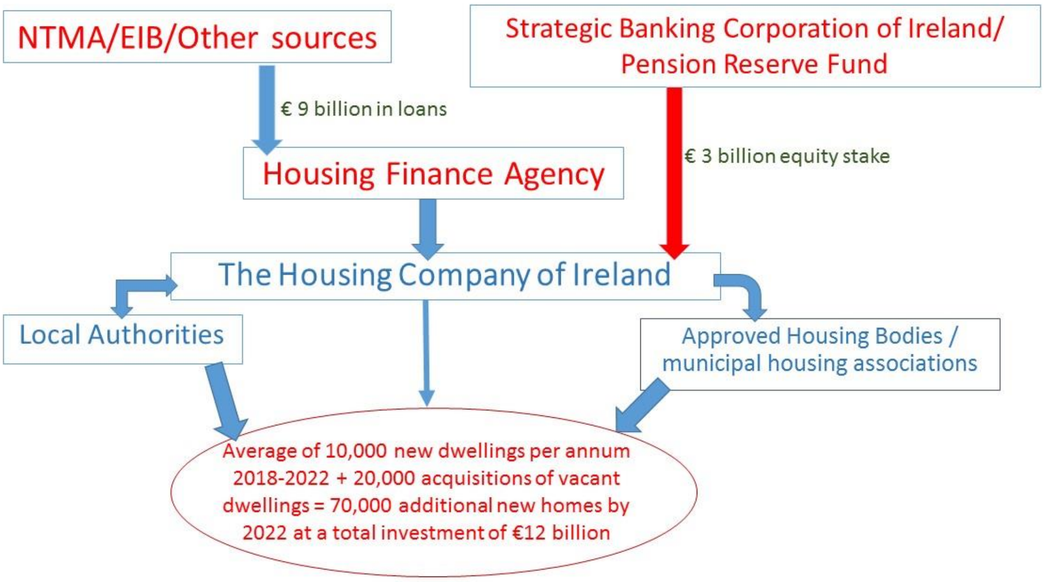
JEL Codes: R21, R31, R42

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 and strain 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 houses to meet the demands of a growing population. We propose a carefully planned programme to construct 70,000 new homes in addition to the existing stock of normally occupied housing in the Republic of Ireland. A key part of this plan is the putting in place of a *European Cost Rental Model* (ECRM) on lines already outlined by the *National Economic and Social Council* (NESC) and referred to in a recent report of the *Oireachtas Committee on Housing and Homelessness*. 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 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 that of the Local Authorities as well as the voluntary housing associations in the area of social housing. The figure, below, summarises some of the key features of the ECRM.

* The authors wish to thank NERI colleagues and a number of other researchers for advice and assistance in relation to this paper. Any errors are entirely our responsibility. Further observations and comments on this working paper are welcome. These can be directed to the authors: tom.healy@NERInstitute.net and/or PaulGK@NERInstitute.net

A self-funding European Cost Rental Model (2018-2022)



-

Table of Contents

LIST OF TABLES

LIST OF FIGURES

1 INTRODUCTION

Lack of access to affordable quality homes constitutes a significant crisis for workers, families and communities in the Republic of Ireland.

Some sense of the social crisis in accommodation is given by the most recent data on rental accommodation. According to DAFT (2017:6) just under 4,000 dwellings were available for rent on 1st February 2017 compared to 23,000 in 2009. Average rents now exceed those of 2008 while they increased at an annual rate of over 13% in 2016.

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 sub-standard accommodation across Ireland.

Difficulty of access to housing, quality of housing – especially rented – and affordability of rented accommodation were key trigger points for the period of social class conflict in 1913 in Ireland and in subsequent years. A housing crisis was an important backdrop for the 1916 rising in Dublin. Huge efforts were made in the years following World War 2 to build new local authority housing in the new Republic of Ireland. Rising population and conservative fiscal policies in the 1950s laid the basis for housing shortages in the 1960s followed by intense social protest into the early 1970s (refer to Giblin, Kennedy and McHugh, 1988 for discussion of fiscal policy in the 1950s).

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 and has been promoted, explicitly, as a social policy goal. In the Republic of Ireland, this was legislatively established in the 1966 Housing Act which applied right to buy provisions to the urban social housing sector that had previously been confined to rural tenants (Norris and Fahey, 2011). The rise of a neo-liberal political philosophy and financialisation of the housing market in the preceding decades provides an important context. A severe cut in public investment in social housing and an increasing emphasis on private sector led provision (Kitchen, Hearne and O'Callaghan, 2016) laid the basis for an acute crisis in the housing sector.

In this paper, we argue that policy makers and civil society organisations need to rethink 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' in a way that does not add to General Government expenditure or debt. 'Social housing' is one important component of the overall housing picture. Though definitions and understandings vary, 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[1].

Considering long-term patterns of household formation and distribution of income it is clear that there is a need for some form of 'social housing' on a scale required to meet demand and avoid further increasing household poverty or homelessness. However, we suggest that the model of social housing needs to be re-thought. The construction of dedicated estates including blocks of apartments or dwelling units to cater for low income groups has failed in the past notwithstanding certain ex post public interventions that have effectively reduced social disadvantage in certain estates (Fahey, Norris, McCafferty and Humphreys, 2011). A social stigma or 'ghettoisation' of social housing associated with particular social, migrant or family structured groups has reinforced a widespread view that people, if they can afford to, should not only aspire to owning their own homes but move up an invisible social ladder to socially homogenous locations. The result is that social divides are further increased along class, ethnic or age grounds. There were other challenge posed by traditional models of local authority provision including poor maintenance and a lack of integration of housing policy with planning.

The solution to the housing crisis will involve a combination of actors and policies. However, to succeed it will require a high degree of societal and political consensus that the solution to this problem necessitates a 'whatever-it-takes' approach. The right to shelter and a home has touched the minds and hearts of a large number of people in recent times not least because of particular civic protest movements – suggesting the existence of a widespread sense of compassion and justice which is to be welcomed. That there is a crisis of housing may very well signal a deeper crisis of public values and choice in so far as the balance between private and public interest has been too far weighted towards the private.

[1] The term 'social housing' is a relatively modern term and is used to describe local authority and other not-for-profit housing activity under the same concept and measure.

We understand accommodation to be a fundamental human right and obligation shared by individuals, communities and societies. The first social priority 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. Failure to respect and vindicate these rights will only add to the crisis and create new negative pressures somewhere in the system of demand for accommodation.

This paper considers the nature and extent of the housing crisis in the next section. The reasons for the crisis are considered in Section 3 while possible lessons and policy solutions in a selection of other European countries are outlined in Section 4. Section 5 of this paper proposes and elaborates a European cost rental model of housing adapted to the organisational and financial circumstances of the Republic of Ireland at this time. Section 6 concludes.

2 THE NATURE AND EXTENT OF THE HOUSING CRISIS

A crisis in housing is characterised by an acute and enduring shortage of appropriate housing given current and emerging patterns of demand for accommodation in the Republic of Ireland. The evidence reviewed in this Section points to a systematic imbalance in housing supply and demand with rising levels of homelessness and a gathering crisis of affordability for individuals and households. In this Section we review various dimensions of housing supply and demand while leaving an analysis of the underlying causes to Section 3.

2.1 Housing output and stock since the 1990s

Housing – whether rented or owned – consumes, for most people, a large amount of income over their lifetime which is why most owners of houses take out mortgage loans to meet the upfront purchase price which may be a multiple of their normal annual income. Housing takes on many roles at one and the same time. A house may be a:

- place or a home where people live.
- form of wealth or asset along with other forms of wealth.

In practice people often combine investment and home functions of housing at the same time. Buying a home means that one can live in it and at the same time have the option of selling it to pay for nursing care in the long-term should that need arise. Given the very incomplete nature of social provision for health and income protection over the lifecycle some people, in Ireland, treat the value of their home as the backstop or insurance against large foreseen or unforeseen costs as personal circumstances change. The thrust of public policy and the spread of a culture of housing as an investment good has shifted the balance of the housing market away from a social 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.

In 2016, there were an estimated 2,022,895 habitable housing units including vacant or unused properties in the Republic of Ireland (Central Statistics Office, 2016). Table 1 provides a breakdown of housing by ownership and use drawing on data from the 2011 census[2]

Table 1 Number of habitable housing units by type of ownership and use in 2011 Census

Occupancy Status	Housing Units
Owner Occupied with a Loan or Mortgage	583,148
Owner Occupied without a Loan or Mortgage	566,776
Owner Occupied Total	**1,149,924**
Rented from a Private Landlord	305,377
Rented from a Local Authority	129,033
Rented from a Voluntary Body	14,492
Rented Total	**449,352**
Occupied Free of Rent	25,436
Other	24,696
Total Occupied by Persons Normally Resident in the State	**1,649,408**
Occupied by a non-resident	10,703
Temporarily Unoccupied on Census night	45,283
Not occupied on Census night	**289,451**
Total Housing Stock on Census Night	***1,994,845***

Source: Census of Population 2011 Profile 4 – The roof over our Heads (Central Statistics Office, 2012)

Approximately 70 % of habitable housing units were owner occupied in 2011, corresponding to about 58 % of the overall stock. Twenty seven % of the active stock was taken up by rental dwellings, of which a little under a third could be counted as social housing units[3]. The proportion of owner-occupied housing has fallen in recent years and is now close to the average for the 28 member-state European Union.

Preliminary results from the latest census in 2016 are shown in

[2] Full data from Census 2016 have not, at the time of writing, been released.
[3] This corresponds with the local authority and voluntary housing stock as enumerated here. See section 4 and associated footnotes for definitional discussions.

Table 2. Total estimated housing stock increased by just under 19,000 between 2011 and 2016 – indicating an annual average increase of just under 4,000. The number of occupied dwellings increased by 3% 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 (which was 4%). The stock of habitable vacant dwellings has substantially decreased by almost 14% between 2011 and 2016.

Table 2 Changes in the Habitable Housing Stock 2011-2016

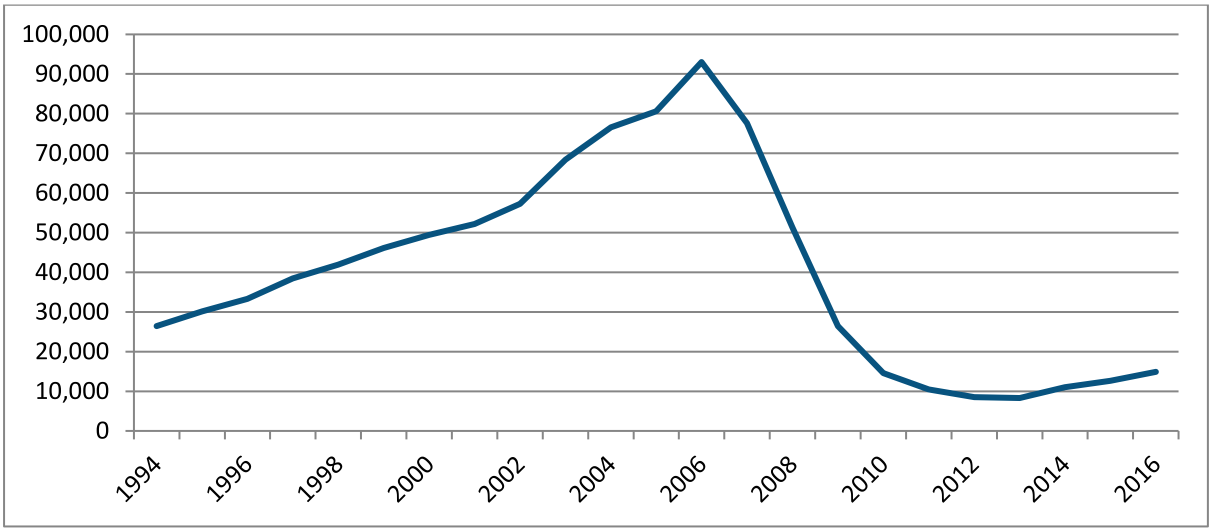
Occupancy Status	2011	2016	% Change
Housing stock	2,003,914[4]	2,022,895	0.9
Occupied households	1,669,180	1,718,465	3
Temporarily absent	45,283	44,868	-0.9
Vacant holiday homes	59,395	61,204	3
Other vacant dwellings (Habitable)	230,056	198,358	-13.8

Source: Census of Population 2016- Preliminary results - Housing (Central Statistics Office, 2016)

Figure 1, below, displays reported construction activity between 1994 and 2016. According to these statistics, building activity peaked in 2006 at over 93,000 units and fell back sharply to around 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 recorded monthly and includes reconnection of buildings that were not connected for two years or more. The rate of house completions as proxied by ESB new connections or reconnections is likely to flatter estimates of newly built units.

[4] It appears that some revision of census 2011 data occurred. As a portion of the stock however, this change is negligible.

Figure 1 Construction Activity- Completions (as measured by ESB connections) Annual Units



Source: National New House Completions by month (Table A1) (Department of Housing, Planning Community and Local Government, 2017a)

Net changes in the housing stock reflect changes that augment the existing stock. This corresponds to the difference between additions to habitable stock in the form of new buildings, conversions of existing buildings not currently in residential use and, retrofitting and restoring of buildings that have fallen out of residential use, on the one hand, and residential obsolescence flows as a result of dwellings becoming inhabitable for one reason or another on the other. We estimate the annual average rate of obsolescence to be in the region of 0.2-0.5% 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 data of the Department of Housing, Planning Community and Local Government (Housing Agency, 2014 and 2017)[5]. This implies that, given estimates of a housing stock of just over 2 million units, between 5,000 and 10,000 units are withdrawn annually from the total stock of habitable dwellings.

2.2 Land supply and building costs

[5] Or simply 'Department of Housing' for short and for the rest of this document

Costs of associated with construction and development are frequently cited as a key constraint on output (Lyons, 2015 and 2016). Caught between a slow recovery in house prices and high costs many builders and developers have insufficient profit margins to build, it is suggested. 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 impact on overall cost and supply of housing. Comparisons of costs, internationally, are not readily available. However, in a submission to the *Oireachtas* by the UNITE trade union it cites no evidence that construction costs including labour and materials are out of line with those in similar Northern European economies. Hourly labour costs in the construction sector were found to be broadly in line with those in comparable Eurozone countries (UNITE, 2016).[6]

The National Economic and Social Council 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 on developers 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. Adoption of Building Information Modelling (BIM) technology could help reduce costs and improve productivity in an industry generally characterised as low-productivity. BIM provides 3-D technology to improve information flow between design and construction and could lower costs and improve quality of delivery and design (see Stewart, 2016 for more information on BIM).

A number of methodological approaches exist for tracking changes in cost of construction and finalisation of building. No comprehensive index of construction costs is available. It is very surprising that there is no comprehensive time series data on development land prices. This gap in vital information relevant to housing policy ought to be rectified by the appropriate bodies.

A detailed breakdown of costs for constructing a three-bedroom semi-detached house has been provided by Walsh and Associates (2012). This shows a breakdown of costs for a typical build as follows: cost of house at €91,598, external works at €11,173, site development plus indirect site costs at €26,903, Other costs such as financial

[6] Data source: Online Eurostat databank – 'Labour cost levels by NACE Rev. 2 activity [lc_lci_lev]'

Contributions and Local Authority Bond, 'Part V'[7] contribution to Local Authority, show-house, advertising and marketing, sales and legal Fees, consultant design fees, site and building finance at €41,700 and, finally, an assumed profit margin of €25,706 (or 15%). Adding the various parts gives an estimate of overall cost at €197,080. The latter figure does not include the cost of land or the application of a VAT rate of 13.5% on the sale of newly built property. Lyons (2015) has cited various costs estimates to claim that costs have increased significantly between 2009 and 2014 due, in the main, to regulatory changes and greater energy efficiency requirements. He argues for containment of costs as the primary route to encouraging greater supply. Reform of the regulatory application process is not, in his view, a significant means to change supply. Rather, it is suggested that reducing the cost of regulation is a key element of a pro-supply strategy.

The availability and cost of land for housing or commercial property development is a vital part of the general housing jig-saw. 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 key development in land ownership has been the divesting of publicly-owned land for development since the 1970s. According to Casey (2007) around 30% of zoned building land was owned by local authorities in the Dublin area in the 1970s. This proportion fell to 9% in 2006 just prior to the crash. Whereas, in the past, local government exerted some influence and market power in relation to transactions in zoned land, power decisively shifted to developers in more recent times. 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' issued in 1973 recommended that the price of rezoned land should be limited to 125% of the price of agricultural land (Government of Ireland, 1973). Failure to implement this

---

[7] Part V refers to Part V of the Planning and Development Act 2000. This set out that up to 20% of all new housing developments were to be reserved for social and affordable housing. A review carried out by the Department for Local Government and the Environment in 2012 showed that less than 5% of 'Part V' planned housing provision over 2002-2011 was delivered (DKM Economic Consultants and Brady, Shipman, Martin, 2012).

proposal which met with political objections[8] played a part in the property bubble and subsequent crisis of 2008-2013.

The supply and cost of land for residential building is an important part of the story on housing supply. A survey undertaken by the Society of Chartered Surveyors in May 2016 (Table 3) showed that the typical land acquisition cost associated with a three-bedroom semi-detached house in the Dublin area was €57,500 or approximately 17% of the estimated average cost of delivery given as €330,500.

Table 3 Cost of Delivery for 3 Bedroom, Semi-detached House Dublin 2016

Component of Cost	Total Cost in Euro	Euro Cost per Square Metre	Percentage of total Costs
Construction	150,251	1,332	45
Professional Fees, Levies and Sales and Marketing Costs	25,450	226	8
Finance Cost	20,002	177	6
Land and Acquisition Costs	57,500	510	17
Margin	37,980	337	12
VAT	39,310	349	12
Total	**330,493**	**2,930**	**100**

Source: The Real Cost of New House Delivery – Analysis of Real Market Data to Evaluate Viability and Affordability of New Housing Development (Society of Chartered Surveyors Ireland, 2016)

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. The estimate of land cost was set at €510 per square metre which, together with an assumed 10% social housing provision and associated transaction costs brings the overall estimate of land and associated costs to

[8] Though it has been claimed the measures might be unconstitutional the matter appears to never been tested in the courts. If it were and found to be an obstacle, then a constitutional amendment could be considered.

€57,500. However, the Society report concedes that this site cost estimate is 'considered substantially less than the market value of sites in some Dublin suburbs'.

The Society also observes (Society of Chartered Surveyors Ireland, 2016:6) that:

> *Government has already sought to introduce measures to encourage the best use of land, including the Vacant Site Levy, which will become effective in 2018, with a view to charging the owners of unused development sites. In light of the viability issues illustrated by our study, the fact that the tax penalty will not arise until 2018 may not bring forward any additional land or housing supply. As development land prices have started to increase again while the viability of developing sites has reduced, it is clear that some land owners have decided they have no option but to retain their land. Land hoarding is a term commonly used as a factor in our deficient housing supply.*

The Report goes on to note that:

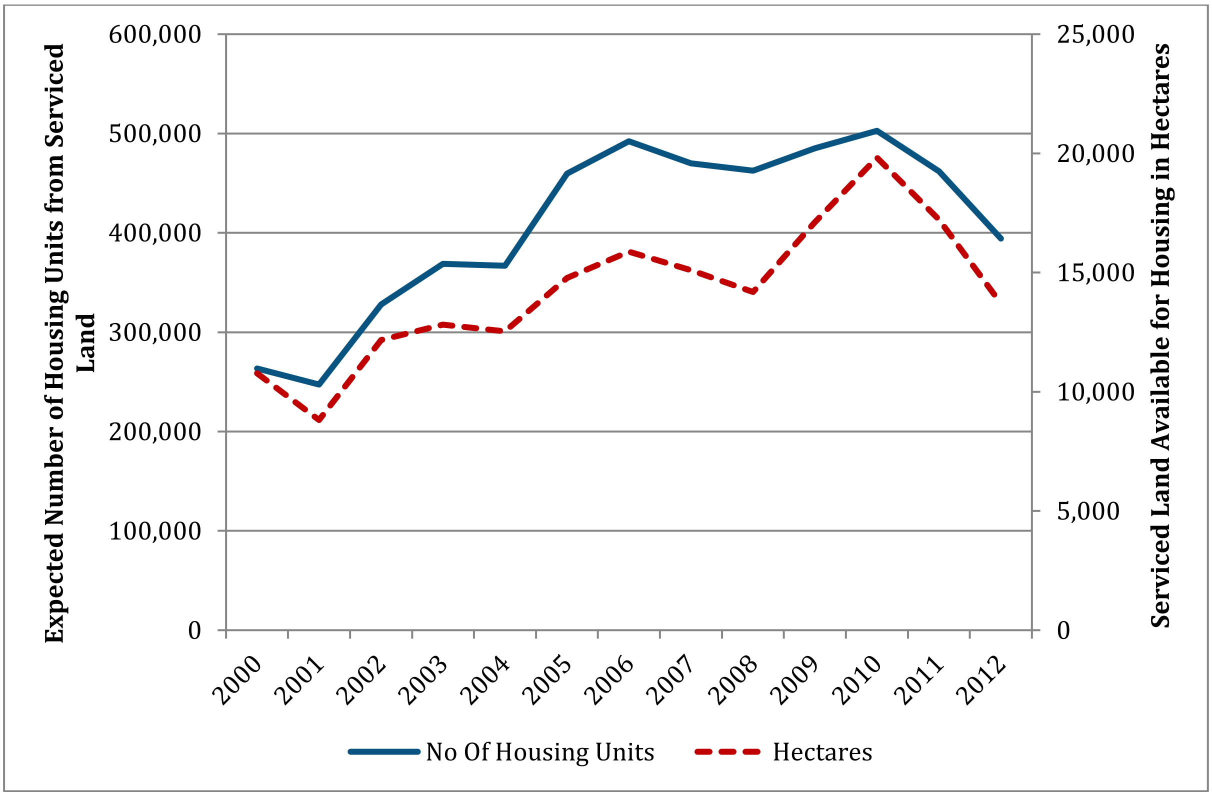
> *The sale of large land portfolios to single asset fund buyers has meant fewer transactions and opportunities for local developers to participate in the market.*

Figure 2 and Table 4 provide data on the amount of zoned land within the state and selected Local authorities over time. Figure 2 shows a generalised increase in "serviced land" between 2000 and 2010, where supply (and estimated housing unit potential) reached its maximum. It declined substantially between 2010 and 2012 although land stocks remain significant.

An audit, in 2010, of undeveloped residential land held by local authorities in 2010 identified 775 hectares of land purchased on which little or no prospective development appeared forthcoming. The outstanding loan value on these sites was approximately €500 million, owed by Local Authorities to the Housing Finance Agency (HFA).

The *Land Aggregation Scheme* (LAGS) was established under the aegis of the Housing Agency to alleviate the burden of these loans that were traditionally redeemable from the Department of Housing, Planning, Community and Local Government upon site development for social housing. Under this scheme, Local Authorities could (for a nominal fee of €1) transfer development land on which loans to the HFA were outstanding. LAGS was closed in 2013 at which point the Department of Housing, Planning, Community and Local Government had approved 247 hectares between 2010 and 2013. Outstanding loan principal owed to the HFA by local authorities remains substantial (Office of the Comptroller and Auditor General, 2016).

Figure 2 Supply of Serviced Land and Estimated Housing Units Deliverable on that Land 2000 to 2012



Source: Supply of Housing Land 2000 to 2012 (Department of Housing, Planning, Community and Local Government, 2017b and 2017c)

Note: The Department refer to Serviced land as "land that has the necessary water, sewerage, transport or other services required to bring the land into development and sufficient for planning permission to be granted and construction to commence" (Supply of Housing Land 2000 to 2012 (frontpage),2017c)

Table 4 provides data on the availability of residential zoned land within a number of local authorities together with data on the number of potential new dwelling that could be delivered on those lands. The stock of available development land appears substantial within a number of sizable metropolitan authorities, with over 27,000 Hectares of zoned land available within the state.

Table 4 Zoned land supply within selected Local Authorities 2014

Local Authority	Hectares of Zoned Land	Potential No. of Dwellings
Cork	1,526	27,372
Cork City	79	3,472
Galway	1,266	23,697
Galway City	303	6,317
Limerick	823	20,126
Limerick City	180	6,005
Louth	1,068	28,082
Co. Dublin	2,812	123,451
State	27,363	611,302

Source: Residential Land Availability Survey 2014 – Summary Report (Department of Environment, Community and Local Government, 2015)

Note: Data refer to undeveloped residentially zoned land. This may not include land serviced with water, communications, energy, and transport infrastructures as well as other amenities or schools. The Residential Land Availability Survey replaces data previously tabulated within the Supply of Housing Land dataset.

We are surprised that there have been no official statistics on land prices in Ireland. This needs to be addressed as a matter of urgency by the appropriate bodies. How is it possible to assess underlying housing costs and policy interventions without information on this vital aspect of the housing market?

As one observer has put it (Sirr, 2016):

> *We know more about our farm animals than our housing stock. Connection to the ESB appears to inflate figures.*

2.3 Demand for housing

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 under-investment 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. 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[9]. A high turnover in rental accommodation as well as mobility of persons is a feature of life in many places. A legacy of bad 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 the 'Ghost Estates' in far flung locations with little or no connection to larger centres in the wake of the crash of 2008 illustrates this.

The Housing Agency (2014) has undertaken a projection of future housing demand based on population projections published by the Central Statistics Office in 2013. The analysis took account of the stock of residential housing, obsolescence and household composition. As remarked above, the Housing Agency, in line with the view of other analysts, assumed an annual obsolescence rate of 0.5% of total housing stock. In other words, it may be assumed that approximately 10,000 housing units are rendered obsolete each year. This rate of withdrawal from the housing stock will require an additional output flow of 10,000 to meet the current level of demand. Based on estimates of total housing stock and new completions published by the Department of Housing the implicit rate of obsolescence seems to be at or slightly less than this rate.

The Housing Agency analysis did not take account of 'pent-up' demand resulting from shortage of supply in years prior to 2014. It should also be noted that realised net immigration has proven substantially higher than that implied by the projections produced by the Central Statistics Office in 2013 utilised within this study. Net migration exceeded standard estimates over the course of 2015 and particularly in 2016 by

[9] While normally domestically resident population is easier to project, the extent of new arrivals or departures is harder to predict and is related to many factors including labour market conditions and matters arising from Brexit or wider EU migration policy.

substantial margins given unforecastable developments since (Central Statistics Office, 2017).

Research by Duffy, Foley, McInerney and McQuinn (2016) has focussed on the impact of credit conditions on housing demand. Housing activity may diverge from estimated demand depending on these conditions. A critical factor in driving demand is the rate of household formation especially among those aged 25 to 39. They found that, other things equal, an expansion of 1% in the level of credit leads, in the long-run, to increased housing activity in the order of 1.3%. They project 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).

Duffy, et al. (2016:49) project a meeting of supply and demand around 2018 at a level of 27,000 new builds in that year (up from just under 15,000 in 2016). The reader is referred to Pressures in the housing market may delay household formation to some extent but growth in demand among the 20-39 year cohort will exert pressures on house supply over the coming years (Byrne, Duffy and FitzGerald, 2014). Furthermore, unexpected increases in net inward migration (above those assumed in any of the scenarios by the Central Statistics Office in 2013 and more recently by the ESRI) will add to the estimated formation rate.

It is not clear that supply will rise as much as is projected or assumed in the analysis by the ESRI and summarised in Table 5 above. Moreover, neither the ESRI analysis or the research commissioned by the Housing Agency in 2014 take adequate account of the extent of pent-up demand arising from the recent and pre-recession crisis in accommodation. It is likely that a long period of time will elapse before order and 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 a matter to which we return in Section 5 of this paper.

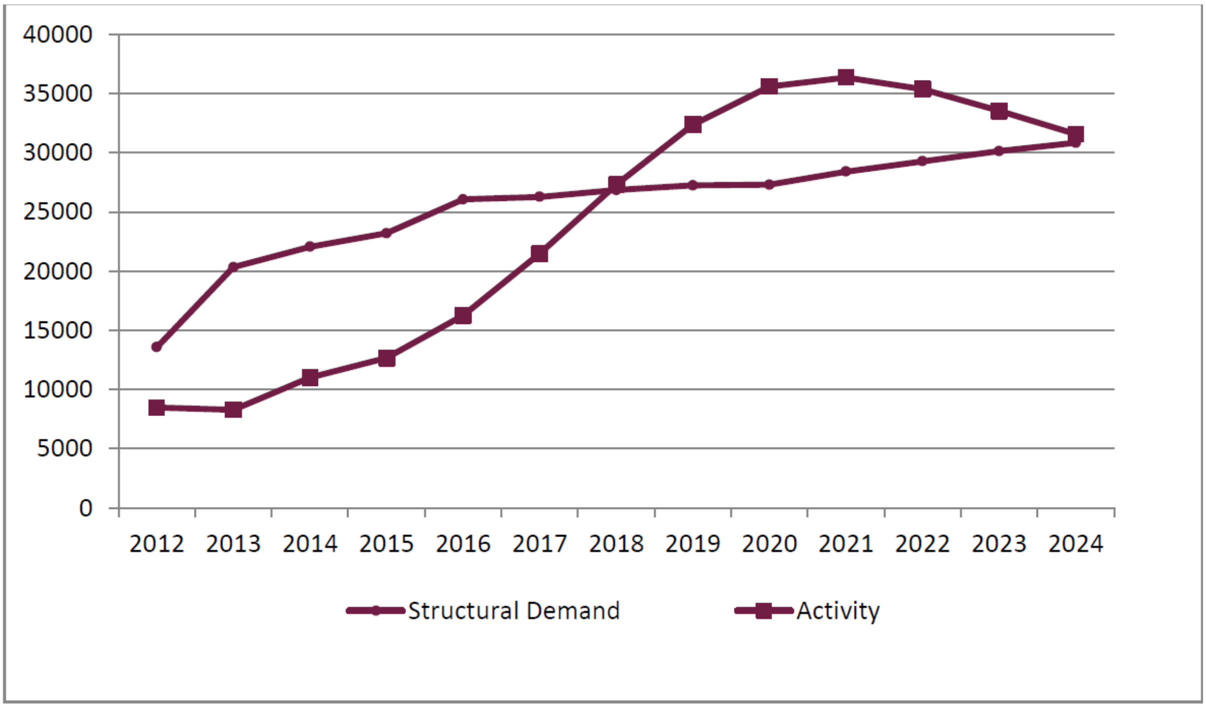
Table 5, below. In 2016, total estimated demand was in the region of 26,000 while new housing output was just under 15,000 per annum according to The Department of Housing[10].

[10] Although the number of newly built dwellings was likely to be well short of this figure given difficulties in measuring new building output.

Pressures in the housing market may delay household formation to some extent but growth in demand among the 20-39 year cohort will exert pressures on house supply over the coming years (Byrne, Duffy and FitzGerald, 2014). Furthermore, unexpected increases in net inward migration (above those assumed in any of the scenarios by the Central Statistics Office in 2013 and more recently by the ESRI) will add to the estimated formation rate.

It is not clear that supply will rise as much as is projected or assumed in the analysis by the ESRI and summarised in Table 5 above. Moreover, neither the ESRI analysis or the research commissioned by the Housing Agency in 2014 take adequate account of the extent of pent-up demand arising from the recent and pre-recession crisis in accommodation. It is likely that a long period of time will elapse before order and 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 a matter to which we return in Section 5 of this paper.

Table 5 New Housing: Supply and Demand trends according to ESRI research

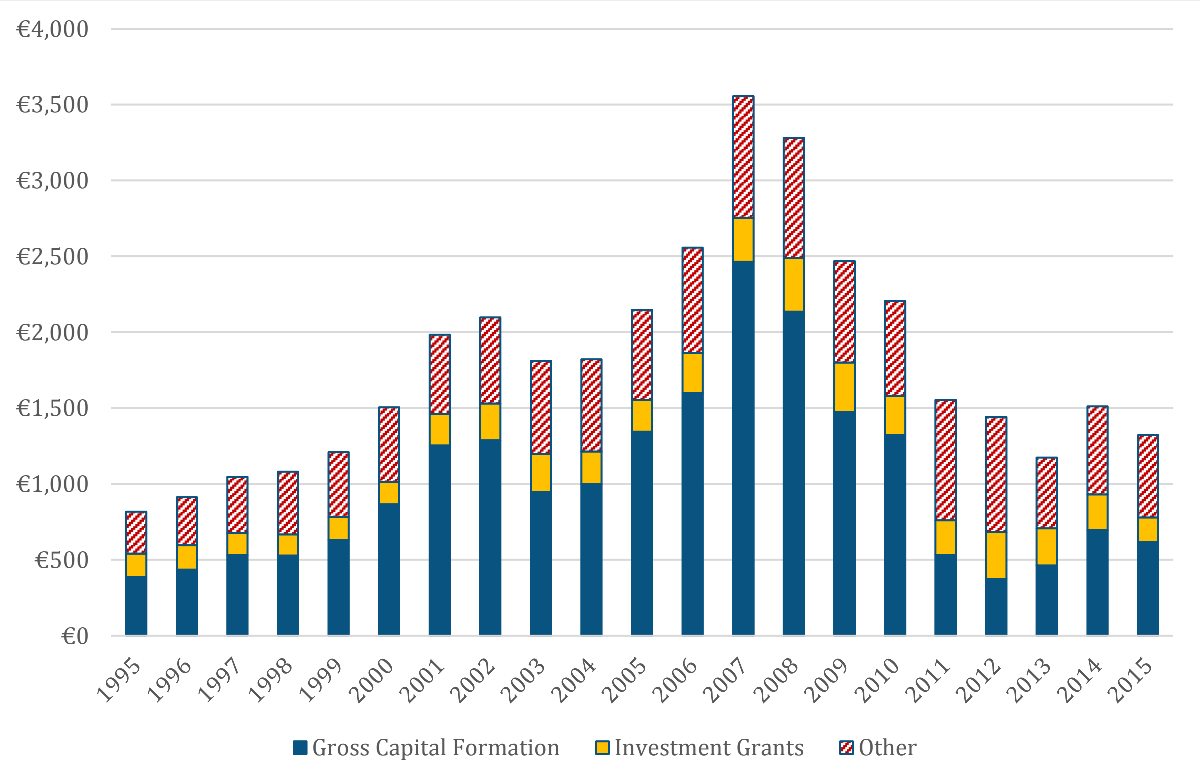


Source: Chapter 3: Demographic Change, Long Run Housing Demand and the Related Challenges for the Irish Banking Sector (Duffy, Foley, McInerney and McQuinn, 2016) Figure 3.6 from Ireland's Economic Outlook- Perspectives and Policy Challenges pg. 48 (ESRI, 2016)

2.4 *Public expenditure on social housing*

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

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



Source: Classifications of Functions of Government – Division 6 of COFOG and labelled 'Housing and Community Amenities' (Eurostat, 2017a). GDP Deflator is from GDP and main components (output, expenditure and income) (Eurostat, 2017b).Note: Housing and Community Amenities entails all public expenditure within the sub-sectoral categories of Housing development, Community development, Water supply, Street lighting, R&D Housing and community amenities and Housing and community amenities not elsewhere classified.[11] To be noted, this division does not include cash benefits and benefits in kind to assist households with housing costs. The latter is contained in division 10.6 Social Protection spending related

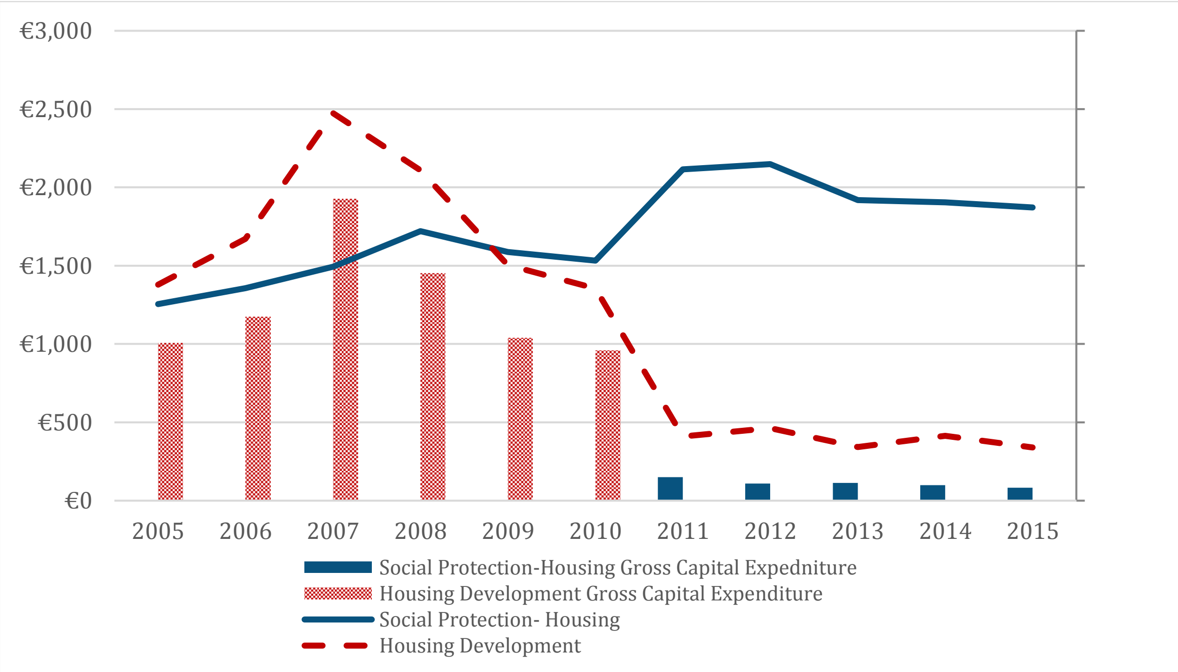
[11] See United Nations (2017) for more detail as to category inclusions.

to housing. The economic categories presented here relate to Gross Capital spending, investment grants and the difference between the sum of those categories and total government expenditure,[12]

An examination of real public expenditure under the *Classifications of Functions of Government* (COFOG) reveals a pattern of sharp decline between 2007 and 2013 in spending under the heading of Housing and Community Amenities. Between 2007 and 2015, real expenditure fell by nearly 63%, 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 below. It shows a stop in gross capital formation from 2011 onwards. Overall expenditure during the period of fiscal austerity collapsed and had not reached, in 2015, its level in real terms twenty years previously.

Figure 4: Real General Government Expenditure Components of Housing Development and Social Protection related to Housing (COFOG) in Millions of Euro at 2010 prices.



12 See Manual on sources and methods for the compilation of COFOG statistics (Eurostat, 2011) for explanations of economic categories of expenditure.

Source: Classifications of Functions of Government – Group 6.1 'Housing Development' and Division 10-Social Protection, Group 10.6 (Eurostat, 2017a)[13]; Housing GDP Deflator from GDP and main components (output, expenditure and income) (Eurostat, 2017b).

However, the collapse in public housing investment and related expenditure is paralleled by a surge in public expenditure under the Eurostat 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 as well as public subsidies to local authority tenants. Just as Government slashed spending on housing investment it was forced to increase spending on social assistance directly related to a worsening housing supply crisis and excess demand for rental accommodation in particular.[14] The mismatch in expenditure trends highlighted in Figure 4 shows how short-sighted and partially self-defeating fiscal austerity measures were in the period 2009-2013.

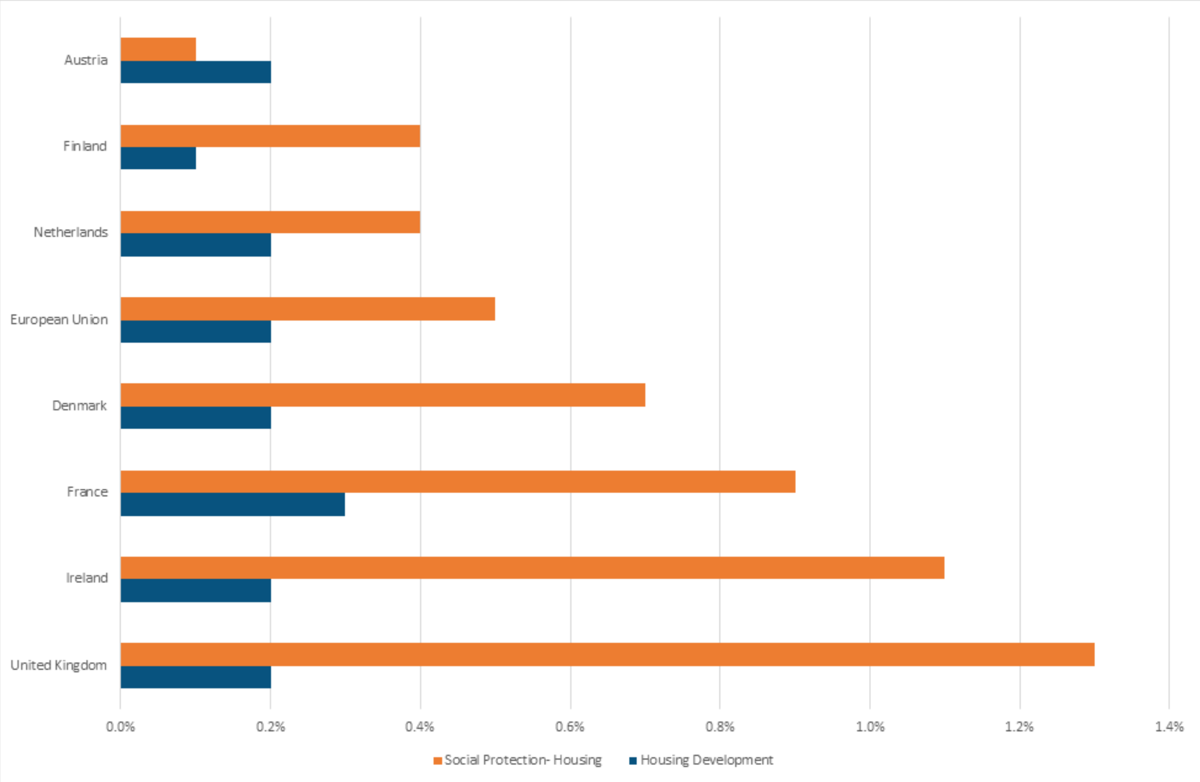
Internationally, the Republic of Ireland spends a lot on social protection housing payments (e.g. Rent Supplement and other subsidies) while spending relatively less on direct housing development (Figure 5 below)

further illustrates this point. In 2014, combined expenditure on Housing Development and Social Protection Payments relating to housing exceeded expenditure in all comparators with the exception of the UK as a percentage of Gross Domestic Product. 2015 data see Ireland fall behind France, though this is likely an artefact of upward revisions in GDP statistics for that year, which likely bias data downwards in the Irish case.

[13] See United Nations (2017) explanatory note for further exposition of category classifications under COFOG.

[14] As Figure 4 demonstrates, the near extinction of gross capital spending under the category Housing Development (6.1) in 2011 was accompanied by the appearance of gross capital spending under Social Protection – Housing. However, even with this expenditure included, capital outlays declined significantly.

Figure 5: Comparison of Combined Housing Development and Social Protection Payments related to Housing (COFOG) relative other European Countries as a percentage of GDP in 2014

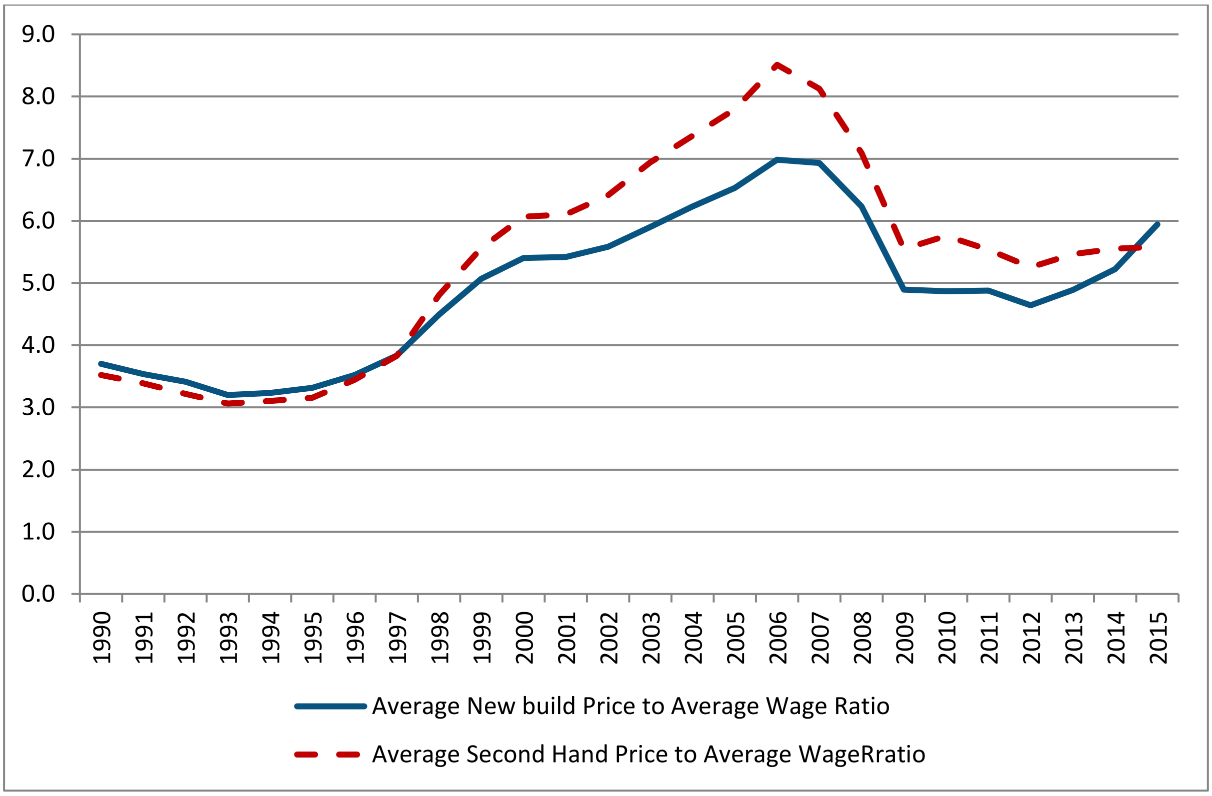


Source: Classifications of Functions of Government *– Group 6.1 'Housing Development' and Division 10- Social Protection, Group 10.6 (Eurostat, 2017a)*

2.5 Affordability

The notion of affordability is key to a consideration of housing demand and need. A generally accepted norm in social policy discussions is that housing costs ought not 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.

Figure 6 Ratios of House Prices to Average Annual Earnings for Full-time Equivalent Employees



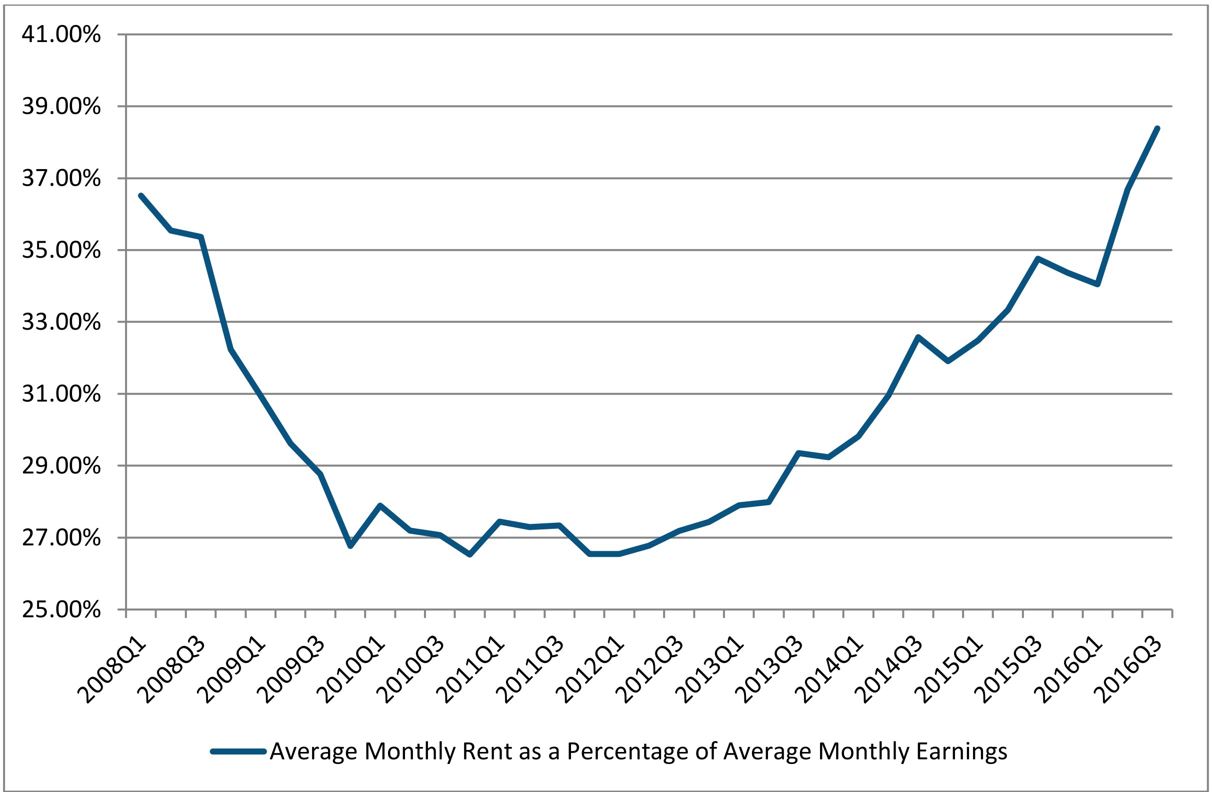
Source: Average Price of Houses by Area, Quarter and Statistic (Central Statistics Office, 2017b and 2017c) and Average Annual Wages (Organisation for Economic Cooperation and Development, 2017)

Note: Average wages denote average annual wages per full-time equivalent. This is 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 prices were approximately 3.2 times average income, while the corresponding second hand house price was 3.1 times 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 earings since 2012. For the first time since the late 1990s, average new build prices have exceeded those of second hand dwellings.

Figure 7 displays quarterly data on average national rents (Daft, 2017) as a portion 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. Rental prices have since exceeded 2008 levels as a portion of incomes signalling rental cost growth well in excess of average earnings growth. The latest data for the last quarter of 2016 indicate that rents have, on average, exceeded 38 % of average gross earnings.

Figure 7 Average Monthly Rent as a Percentage of Average Monthly Earnings

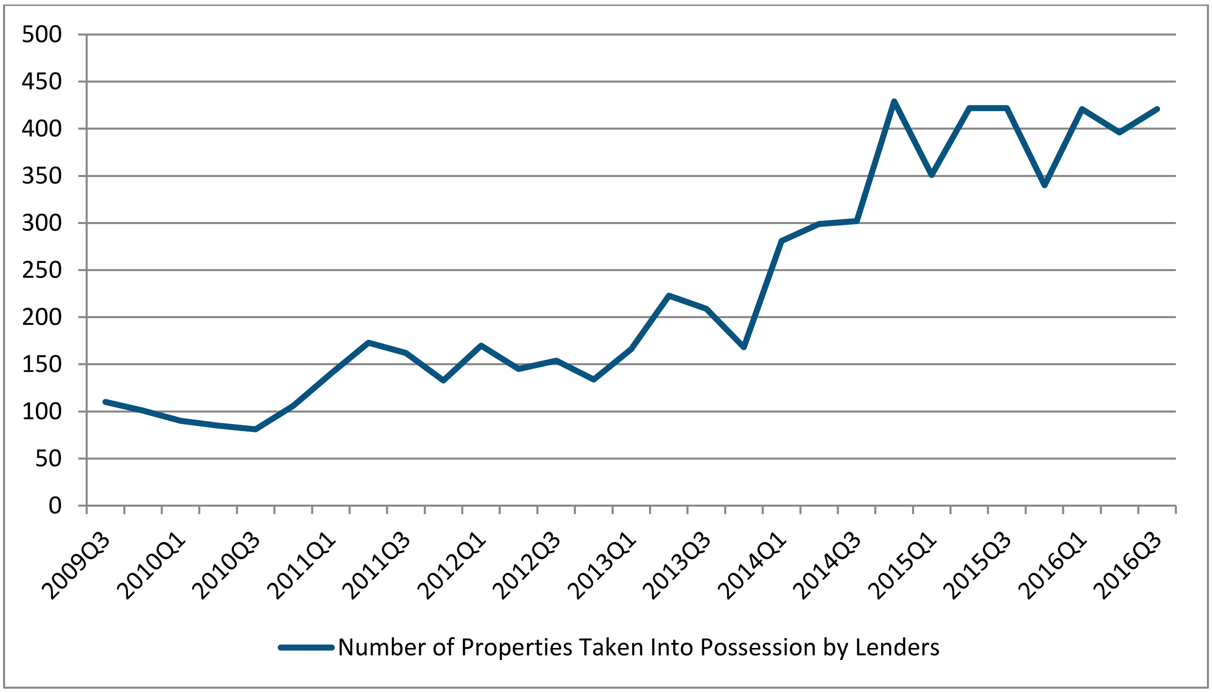


Source: Irish Rental Report- Q4 2016 Daft (Daft, 2017), Average Earnings, Hours Worked, Employment and Labour Costs by Economic Sector NACE Rev 2, Type of Employee, Quarter and Statistic (Central Statistics Office, 2017c) and Author's calculations

Information on household repossessions can also give an indication of trends in affordability. Figure 8, below, shows quarterly trends in properties taken into possession by lenders from the third quarter of 2009 to the third quarter of 2016. The number of primary housing dwellings taken into possession by lenders rose by more than 66%

between the third quarter of 2009 to the final quarter of 2013. The rate of repossession rose rapidly in subsequent quarters and the number of repossessions occurring in the quarter three of 2016 was more than twice as high as recorded in the fourth quarter of 2013 from 168 to 421.

Figure 8 Trends in Possession of Properties by Lenders



Source: Residential Mortgage Arrears and Repossessions Statistics: September 2016

(Central Bank of Ireland, 2016)

2.6 Social and economic implications of the housing crisis

The immediate impact of the crisis is seen and felt by families and individuals who struggle with space, with household budgets, with repairs, with saving, with planning and with health and well-being. Worry about making ends meet from week to week as well as plan for a future takes its toll on many families. In the rush to get a foothold in the housing market, hard-pressed couples locate far from places of work or close family networks. This may result in long commutes to work and disconnection from networks of support and engagement. Given the cyclical nature of the housing market and the economy more generally, households subject to high levels of mortgage debt remain vulnerable to macro-economic shocks over time. Those in the private rented sector have been particularly vulnerable to the pressures of available accommodation and escalation in rents in line with a crisis of supply as the evidence in this Section indicates.

Set in a wider context, the crisis in housing has implications for labour markets and inward as well as domestic investment. This is illustrated graphically by the crisis in supply and cost in areas such as Dublin city where it might be hoped additional employment and business will be generated in the coming years in financial and ICT sectors. Availability of accommodation and its cost along with transport connectivity and local public services is already a key consideration for companies employing high-skilled professionals and seeking to locate in the Republic of Ireland.

3 REASONS FOR THE CRISIS

That there is a large mismatch between demand and supply is clear to all concerned. The diagnosis of this mismatch and the offering of policy solutions is not a matter of universal agreement. Some argue that the cost is 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 Value Added Tax as well as a lowering of development of 'Section V' levies and contributions by developers.

On the demand side, 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.

Among the supply-side factors cited as possible inhibitors to enhanced housing supply is shortage of labour skills, availability of lending for developers and builders and lack of suitable land for development (NESC, 2015a) (Department of Finance, 2015). Added to these factors it should be borne in mind that fixing the supply of housing will require careful coordination of a range of social policies including long-term investment in infrastructure. A surge in new building in north county Dublin where there appears to be ample zoned land availability might lead to huge additional pressures on public transport and local public services (education, community healthcare, hospitals, water and waste services).

3.1 Failure of previous and current Government housing strategies

The publication by the National Economic and Social Council, in 2015, was a landmark report (National Economic and Social Council, 2015a). Carefully worded and reflective of the diverse range of interests on the Council of National Economic and Social 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 almost two years ago – is still lacking.

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 in *Rebuilding Ireland* (Government of Ireland, 2016a) or in *Construction 2020* (Government of Ireland, 2014a) Social Housing Strategy 2020 (Government of Ireland, 2014b) has 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).

In its report, the National Economic and Social Council (2015:24) commented on recent Government strategic plans and responses to the housing crisis as follows:

> *While this constitutes considerable progress, there is still a sense that something is missing in the scope and scale of the current response so far – namely stronger policy and executive capacity to undertake a more active and ambitious approach to housing and land supply management.*

The 2016 Programme for Government contains the following commitment:

> *Our actions will increase housing construction to create a functioning housing market. Some 25,000 new homes will be built every year by 2020, with higher targets thereafter, to address unmet needs.*

A key measure of success or failure is provided in statistics of households accessing local authority managed emergency accommodation (Table 6, below).

Table 6 Households accessing local authority managed emergency accommodation in July 2014 and January 2017

Persons Accessing Emergency Accommodation	July 2014	January 2017	Percentage Change
Dublin			
Adults in Dublin	1551	3247	109
Children in Dublin	585	2046	250
Total	**2136**	**5293**	**148**
State as a whole			
Adults	2478	4760	92
Children	749	2407	221
Total	**3277**	**7167**	**119**

Source: Details of Households Accessing Local Authority Managed Emergency Accommodation during the Week of 23 – 29 January 2017 Table (Department of Housing, Planning, Community and Local Government, 2017e), Breakdown of Homeless Persons in Emergency Accommodation during the week 22 to 28 December 2014 (Department of Housing, Planning, Community and Local Government, 2017d).

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 has increased substantially between July 2014 and January 2017 pointing to a dramatic failure in stated public policy in 2014. While homelessness has increased substantially (particularly in Dublin), children have been especially effected. The number of homeless children state-wide has grown by over 220 % since 2014. Local authorities in Dublin have also seen substantial increases in need between 2013 and 2016 with Dublin city and Fingal county councils seeing 22.5 and 13.9% increases, respectively (McCarthy, 2017).

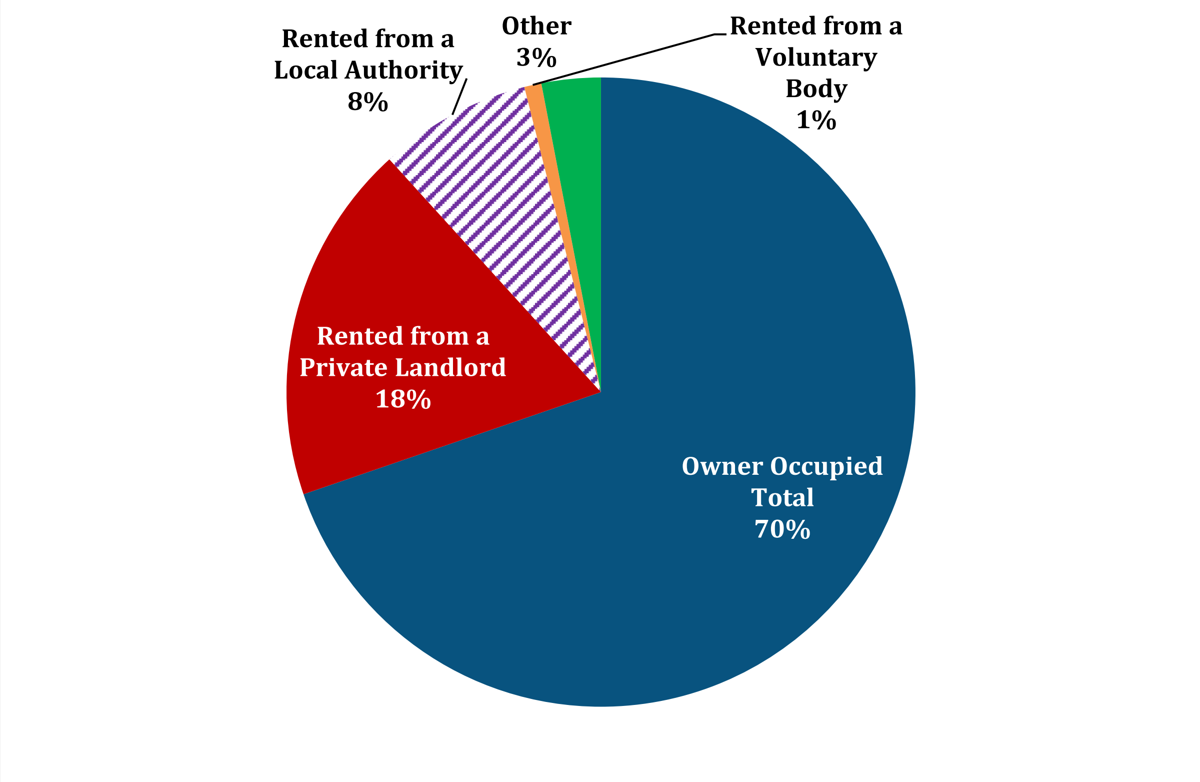
As outlined in section 2.4, above, the thrust of current Government policy is to encourage private builders and providers to gradually increase supply while, at the same, directing funds or subsidies to renters or first time buyers in order to relieve pressure on the private rental market. Instead of committing funds to the building of new social housing units, public policy continues with an approach based on rent supplements or subsidies to private landlords for renting to those in need of social housing (refer to Figure 5 in the previous section). Hence, the expenditure of large sums of money on Rent Supplement or 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. In a recent report of *the Oireachtas Committee on Housing and Homelessness* (Houses of the Oireachtas, 2016:34) the State has been 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 an important 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 9, below. Social rental models are a relatively small portion of overall rental stocks, which are themselves comparatively small as a portion of occupied housing units.[15] 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.

[15] See Section 4 for a comparison of Irish social housing stocks to other European countries.

Figure 9 Composition of Total Occupied Housing Stock Census 2011



Source: [CD417: Private Dwellings in Permanent Housing Units by Aggregate Town or Rural Area, Regional Authority, Nature of Occupancy and Census Year] (Central Statistics Office, 2017a)

The common thread in social policy failure in the area of housing is:

- Over-reliance on profit-seeking enterprises to provide the optimal level of housing including social.
- Use of passive tax reliefs to stimulate construction activity
- Use of scarce public funds to, effectively, subsidise private landlords through Rent Supplement and Housing Assistance Payments.

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

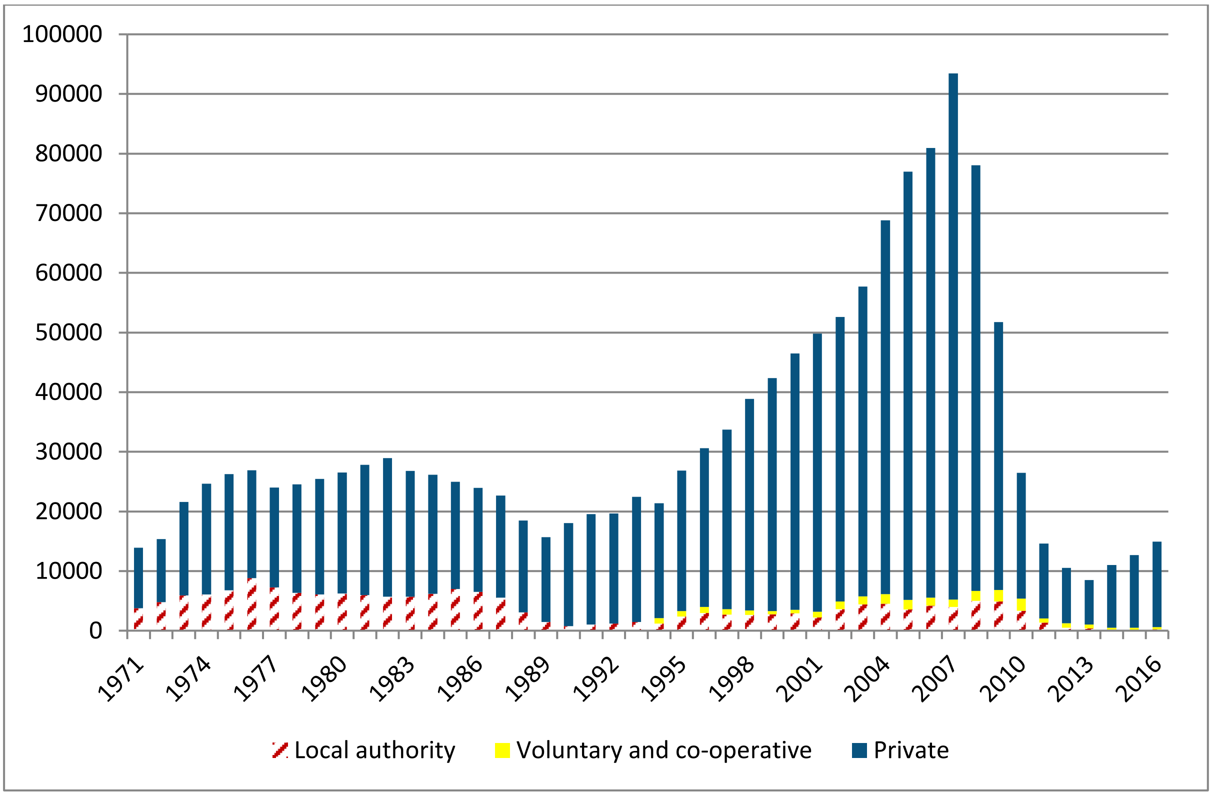
Three aspects of the crisis come to the fore:

- 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 is 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-exist with over-supply 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 10, below). These data are based on electricity connections to newly built or previously built but not recently occupied dwellings. The data may significantly diverge from the number of new buildings actually built and completed in any given 12-month period[16]. Property that had been built was brought into residential use or completed.

Figure 10 Composition of 'house completions' over time



16 For a discussion of housing statistics and associated problems see a recent NERI staff blog, "[Housing Statistics: some challenges]" [www.NERInstitute.net]

Source: Completions by Type Annually (Table A5) (Department of Housing, Planning Community and Local Government, 2017f) Completions by Sector Quarterly (Table A10) (Department of Housing, Planning Community and Local Government, 2017g).

Note: 2016 figures are imputed such that they are consistent with overall completion statistics for 2016 given proportions consistent with 2015 sectoral data.

'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 10, above, above. New units acquired under Part V of the Planning and Development Acts 2000-2008 for local authority rental purposes are included in the statistics on social housing.

What is striking about Figure 10 is the highly 'pro-cyclical' nature of building activity in the Republic of Ireland particularly in the period from the mid-1980s as noted by Norris and 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[17].

A key driver of the recent acute crisis in homelessness or threat of homelessness for many more struggling with high rents (relative to household income) is the sharp pro-cyclical drop in public investment in social housing. Within the overall total the component of local authority social housing sharply contracted to such an extent that a total of 75 were built in the year 2015. This corresponds to a little over 1 new house per week for the entire jurisdiction. In the first three quarters of 2016 a total 161 new social housing units were built by local authorities. The final figure for 2016 is unlikely to be much more than 200. In 2015, a total of 476 new dwellings were completed by local authorities or the voluntary sector. Based on data for the first three quarters of 2016, the total of social housing including the voluntary sector is likely to come in at the same level or slightly

[17] Once again, the potential distortion in numbers of new dwellings actually built and completed is such that new building output, in 2016, may have fallen short of output in 2010 and even 2013 when new completions hit an all-time low since statistics became available.

lower than in 2015. In other words, notwithstanding the scale of the problem and the rising numbers of homeless, total social housing new completions have not risen in two years and remains very approximately 20 times smaller than what it would need to be to make a significant difference (see Section 5.2 for further detail).

Of the total of 75 new local authority social housing builds in 2015, 19 were 'completed' by Dublin City Council. Local authority areas that recorded no new 'completions' in 2015 included: Dublin Fingal, Dun Laoghaire Rathdown, South Dublin, Kildare, Meath, Louth, Wicklow and Limerick city[18]. It should be noted, however, that in addition to new builds there were a total of 1,099 housing acquisitions by local authorities in 2015. Over the course of 30 years there has been a sharp decline in local authority building of social housing and it is evident that the private market including not-for-profit and voluntary housing associations have hardly filled any of the gap left by the withdrawal by local government from this area of activity.

The 'pro-cyclicality' of housing output also applies to social housing. While there has been a long-term secular declined 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 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 €200million in 2014[19].

Norris and Byrne (2016) has 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

[18] Department of Housing, Planning, Community and Local Government, Housing Statistics, 2017. All 'completions' statistics are based on ESB connections to new dwellings or previously built dwellings that have been vacant for two years or more. Hence, estimates of new output based on 'completions' are subject to distortion.

[19] The authors are grateful to Dr Michelle Norris of UCD for assistance in estimating spending on housing on a consistent basis.

spending. Funding for social housing became more vulnerable to fiscal shocks especially as capital funding is often the first casualty of a cut-back in spending.

Various stop-gap measures were introduced or greatly expanded to meet the shortfall in social housing provision as well as address affordability concerns. Hence, Rent Supplement expenditure (and more recently the Housing Assistance Payment, HAP designed to replace Rent Supplement for those in long-term need) peaked at €517 million in 2010 though it has fallen back to €373,000 in 2014 (including HAP)[20].

3.3 Ownership and management of land is a key factor in the crisis

There is a complex history woven through ownership of land, dwellings and financial credit. A decisive shift in public policy happened in the closing decades of the 20th century reversing the thrust of policy in the immediate aftermath of World War 2. To some extent this shift reflected developments internationally - at least in Anglophone countries where the dominance of market models in the domain of housing took root. From public or local authority mortgage schemes the rise of 'building societies' and risky lending and borrowing behaviour by same marked a new departure in housing policy. The severe restriction on new social housing building in the decades prior to the financial and fiscal crisis of 2008-2012 represented a crucial stage in the road to a gathering homelessness crisis in 2010-2017. The hoarding of land together with the lack of coherent spatial planning and joined up public services (transport, health, education, broadband and water services) greatly exacerbated the current social crisis. The ideology of market dominance over-ruled the common good with disastrous consequences for many.

---

20 This fall was associated with restrictions in Rent Supplement as well as tightening of eligibility.

4 LESSONS FROM OTHER JURISDICTIONS

4.1 Introduction

Patterns of home ownership and renting have changed over the years. Important shifts have occurred from a period of widespread private rental accommodation in the main urban areas in the early 20th century to a period of extensive social housing (financed and provided by or for local authorities) in the immediate post-world war 2 period and to a period of scaling back in state involvement and the advent of bust-boom cycles of building in the first 16 years of the present century. While private rented accommodation has increased significantly in recent years due to a severe shortage of housing and a lack of affordability of home ownership there is, an enduring, norm of home ownership in Ireland. Renting is seen as either a temporary pattern of accommodation for young or migrant groups in transit or as a more or less permanent pattern of accommodation for low-income households. A culture of widespread renting seen as a long-term and desirable option is not well established as in other parts of Europe.

In the literature, definitions of social housing vary considerably. Haffner, Hoekstra, Oxley and Van der Heijden (2009) distinguish between social and market *provision*. According to them, social housing is allocated according to need, usually entailing rents below prevailing market rents. Market provision, by contrast, allocates according to demand. In other approaches, social housing is defined according to *ownership* (Scanlon, Fernández Arrigoitia and Whitehead, 2015).

Table 7, below, contrasts a number of jurisdictions in regards to provision and ownership. Social Housing however, defined or institutionalised, accounts for varying proportions of total stock across Europe. The Netherlands has a social housing sector that is about four times as large in relative terms as that present in the Republic of Ireland, where, approximately 8% of the total housing stock is comprised of social units (Cahill, 2014)[21]. Northern Ireland, Austria, Denmark, England and France similarly have social housing sectors that comprise between 17 and 24 % of indigenous housing stocks.

[21] In the Irish case, social housing includes properties leased from the private sector. For the purposes of international comparisons we refer to data that corresponds to Local Authority and Approved Housing Body stocks.

Similarities in the relative extent of these national systems belie many differences in the manner in which funding is procured for social housing construction and the rental model utilised to cover costs.

Table 7 Social Rented Housing Stock

Country	Number of Dwellings	Social Housing Providers	Percentage of Total Habitable Housing Stock
Republic of Ireland	164,000	Local Authorities & Voluntary Housing Bodies	8%
Northern Ireland	132,000	Northern Ireland Housing Executive & Independent "Housing Associations"	17%
Netherlands	2,555,000	Independent "Housing Corporations"	33%
Finland	595,000	Municipal companies, Local Authorities & Limited Profit Housing Companies	16%
Austria	891,000	Municipalities, Limited-Profit Housing Organisations	20%
Denmark	554,000	Non-Profit Housing Associations	20%
England	4,045,000	Local Authorities & Housing Associations	17%
France	4,472,000	HLM Organisations, Semi Public Enterprises, Non Profit Organisations	17%

Source: Local Authority Rented Stock by Year (Department of Housing, Planning Community and Government, 2017h), AHB Regulation (Housing Agency website, 2017b) Northern Ireland Housing Statistics 2015-2016 (NISRA, 2016), The State of Housing in the EU 2015 (Housing Europe, 2015), Social Housing in Europe (Scanlon, Fernández Arrigoitia and Whitehead, 2015), Review of Irish Social and Affordable Housing Provision (National Economic and Social Council, 2014), Study on Financing of Social Housing in 6 European countries (CECODHAS, 2013), Social Housing in Portugal and Denmark: A Comparative Perspective (Alves and Thor Anderson, 2015)

4.2 Public Facilitation of Social Housing Finance

There has been a shift in many European countries to forms of financing that divest (at least directly) the state from direct funding of social housing through capital grants. While many states continue to provide some grants on a targeted basis, most funding arises elsewhere (CECODHAS, 2013) (Tsenkova and Vestergaard, 2015)[22]. As National Economic and Social Council (2014a) point out, this 100% capital grant model – which formed the basis of the traditional social housing model in Ireland – is less common among comparator countries.

Table 8 Public Financial Supports for Social Housing Construction

Country	Capital Grants	Public Loans	Public Loan Subsidies	Tax Advantages	Loan Guarantees
Republic of Ireland	✔	✔			
Northern Ireland	✔	✔		✔	✔
Netherlands					✔
Finland	✔		✔	✔	✔
Austria		✔	✔	✔	
Denmark	✔	✔	✔	✔	✔
England	✔			✔	✔
France	✔		✔	✔	✔

Sources: Study on Financing of Social Housing in 6 European countries (CECODHAS, 2013), Social Housing Provision in Copenhagen (Tsenkova and Vestergaard, 2011).

Payments in kind can also take the form of discounted land provision by local authorities, which can reduce costs for social housing projects (Braga and Palvarini, 2013)(CECODHAS, 2013) (Amann and Mundt, 2005). In England, the planning system is also utilised to facilitate social housing builds (Department of Community and Local Government, 2006). This requires that private developers agree to sell a portion of units within a project at discounted rates. Similar provisions, under Part V of the Planning and

[22] Against this general trend, Copenhagen and other cities have recently been allowed directly fund up to 25 % of the cost of new social housing builds to offset emergent affordability issues within certain districts.

Development Act (2000) are used in the Republic of Ireland to deliver social housing (National Economic and Social Council, 2014).

In Austria long-term public loans from provincial government fund cover 35 % of total new development costs (CECODHAS, 2013). These loans typically have a maturity of some 35 years and charge low interests between 0 and 2 % to Limited-profit Housing organisations. In Denmark, about 7 % of the costs of new social housing provision are covered by means of interest free loans (Tsenkova and Vestergaard, 2011).

More commonly among the national systems surveyed here, public authorities assist social housing organisations by offering loan subsidies and guarantees. Housing corporations in the Netherlands have access to a three-layer security scheme involving an independent public body (*Central Fund for Social Housing*), a private organisation set up by the Housing Corporations (*Guarantee for Social Housing*) and, in the last instance a guarantee provided by the central Dutch state and municipalities. These guarantees act to lower debt interest incurred by housing corporations (CECODHAS, 2013).

In Finland, the *Housing Finance and Development Centre of Finland* (ARA) offers public guarantees for private sector loans to providers. The French state offers loan guarantees at a cost of 2 % of the guaranteed capital value (CECODHAS, 2013). The government in the United Kingdom has similarly introduced government guarantees for social housing providers and Danish municipal governments guarantee that portion of mortgages used to fund builds above 65 % of initial build costs (Williams and Whitehead, 2015) (Tsenkova and Vestergaard, 2011). Austria appears unusual in that it offers no such facility (CECODHAS, 2013).

Austria does, however, offer subsidised interest rates by way of tax incentives (specifically exemptions from capital gains tax) for loan funding raised through private bond issue (CECODHAS, 2013). France maintains a similar system through its public sector financial institution *Caisse des dépôts et Consignations* (CDC) which raises capital through tax free, regulated interest rate *Livret A* accounts available through all banks (Schaefer, 2003). Finland offers 10-20 year interest rate subsidies of publically guaranteed loans (CECODHAS, 2013). The Danish central government subsidises construction mortgage interest rates through interest co-payment with housing associations (Tsenkova and Vestergaard, 2011).

All of the countries assessed here offer exemptions and discounted tax regimes for housing providers by way of income and corporate tax rates as well as VAT and property tax reductions with the exception of the Netherlands (CECODHAS, 2013) (Tsenkova and Vestergaard, 2011). In the Republic of Ireland, housing providers can avail of subsidised interest rates through the *Capital Advance Leasing Facility* (CALF) (and channelled through the *Housing Finance Agency*), which also allow capital and interest payment deferral for extended periods of up to 30 years (National Economic and Social Council, 2014).

These public interventions are intended to generally facilitate an expansion of finance from private sector sources. In addition to interest subsidisation, guarantees and favourable tax treatment, increasing recourse is had to private finance through bond issuance. This can take the form of bonds issued by housing associations, themselves. The size of association can also facilitate use of equity to directly finance new building as well as borrowing from financial institutions. Provider associations in England, Northern Ireland and the Netherlands are increasingly assessed for credit worthiness by international ratings agencies (Williams and Whitehead, 2015). As explained earlier with respect guarantees, Dutch housing corporations have themselves formed associations to pool risk (Boelhouwer, 2003). Austrian sales of housing bonds through special financial vehicles ('Wohnbaubanken' or 'Housing Banks') offer households an attractive vehicle for savings given tax exemptions on the first 4 % of returns (Amann and Mundt, 2005).

In England and   and, *The Housing Finance Corporation* (THFC) acts as an independent credit aggregator for smaller housing associations. Pooling credit needs and issuing debt through the THFC allows housing bodies to avail of private credit on favourable terms (European Investment Bank, 2014).

4.3 Various European Rental Models

In Austria, Denmark, France and Finland rents are derived on the basis of the costs of provision. Cost rental also applies to social housing provided by independent housing associations within Northern Ireland (Young et al., 2013). This covers credit costs (interest payments and capital amortisation), management fees, taxes as well as costs associated with the maintenance and continued viability of projects (Young et al., 2013). (Tsenkova and Vestergaard, 2011) (CECODHAS, 2013).

In the Austrian and Danish cases, housing providers are legally obliged to ensure rents cover costs of provision at the level of individual projects. Finnish municipal and Limited Profit Housing Companies as well as French HLMs are allowed balance costs over projects such that rents cover expenses in the aggregate. This gives HLMs some flexibility with respect rents, as certain developments can be subsidised by higher rental income elsewhere (CECODHAS, 2013). Housing associations in Northern Ireland must apply rents and charges that cover expenses, though this can entail cross subsidisation between projects or other market activities (Young et al., 2013).

In all of these cases, rents are also subject to legislative conditions. In Denmark, rents are based on historic costs. Housing agencies are allowed; however, maintain these rental costs upon credit maturity. This allows organisations to supplement their equity. In Austria, subsidies are linked to rent limits over the subsidisation period and fixed rents are applied after loans have been repaid. The French state also applies rent regulations with respect financing schemes and subsidies. Net construction costs – which include reductions from state subsidies – also affect rental costs. Financing schemes availed of on the basis of renter income can also entail rental increases should tenant income rise above stipulated scheme levels (CECODHAS, 2013).

In Finland, cost rental provisions are mandated for a fixed period (usually 45 years) after which the rents can be determined by prevailing market conditions or the property sold. Rents can also vary according to the distribution of developments across "expensiveness zones" (CECODHAS, 2013).

Housing corporations in the Netherlands can lease housing according to a points based system. This points system establishes reference rents by accounting for features like size and living facilities. Reference rents are seldom the rents charged however, as legislative rent limits apply and corporations attempt to reach a balance whereby the financial viability of a project is maximised in relation to affordability constraints given tenant income. Rents are allowed adjust according to inflation (Aedes, 2013). Social rents in housing administered by the *Northern Ireland Housing Executive* (NIHE) is similarly set according to a points based system subject to annual regulated uplift – primarily based on the number of rooms in a given dwelling - although this does not include location or demand conditions. The NIHE calculates rent uplift on the basis of an identification of required total rental income. Housing stock administered by Housing associations built or procured before 1992 have rents set in accordance with the NIHE points system (Young et al., 2013).

In the English case, rents are determined in accordance with a rent formula which incorporates the weighted average of a given property relative average national property values and local relative manual earnings relative national averages. This is further adjusted to account for the number of bedrooms and extant rental caps. Some properties are also rented "affordable rent" levels at rates set up to 80 % of prevailing market rents. Both rental schemes are adjusted according to retail or general inflation (Wilson, 2016). This is somewhat similar to prevailing "differential rents" in the Irish system calculated, primarily, with reference to tenant income (National Economic and Social Council, 2014a)[23].

Table 9 Social Rental Models

Country	Cost Rental	Income Related Rents	'Utility' based Points system
Republic of Ireland		✔	
Northern Ireland	✔		✔
Netherlands			✔
Finland	✔		
Austria	✔		
Denmark	✔		
England	✔	✔	
France	✔		

Source: The Role of Social Housing in Europe (Whitehead, 2015)

In all cases, general allowances and benefits can be availed of by qualifying tenants. While this is not restricted to social housing as such, this is an important supplement to rental incomes for providers (National Economic and Social Council, 2014a).

23 It should be noted that while income is factored into English social rental calculations, Irish social rent is effectively solely determined by income level.

4.4 *Some possible European lessons*

In this Section we have reviewed arrangements for social housing funding in a number of European countries. While institutional and funding arrangements vary the principle of significant cost recovery[24] is a feature of most cases we have reviewed. Rents are not directly tied to income, as occurs in the Irish case.

Cost rental funding in these cases 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 compared to the situation in the past, is largely derived from central government sources. In all of the cases reviewed, 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. As the National Economic and Social Council (2014b) point out, however, debt servicing is subsidised at rates well above European norms. While this high subsidy level is not present in other jurisdictions examined although demand-side subsidies are present universally to support tenants who have difficulty paying rent. This allows other national systems to accommodate broader swathes of the population, facilitating further sector stability and the promotion of unitary markets[25], 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, Kersloot and Thalmann, 2005).

---

[24] Albeit with varying levels of public subsidy and loan guarantee.
[25] See Kemeney (1995) for further discussion.

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, 2014a). 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 would relieve the pressure on public spending.

Norris and Byrne (2016) have pointed out that funding arrangements have tended to accentuate pro-cyclical tendencies in the Irish housing market since rents were decoupled from costs. They suggest that this marks a stark shift from a provisional model that acted to attenuate demand shortfalls in the economy from the 1930s through the 1960s, providing macro stability to the Housing sector and economy at large.

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.

5 HOW A EUROPEAN COST RENTAL MODEL COULD WORK IN THE REPUBLIC OF IRELAND

5.1 Introduction

We concur with the analysis of National Economic and Social Council that the State and its various agencies needs 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 or local authorities.

In this paper we have reviewed the extent and causes of the current housing crisis. The crisis is embedded in policies, norms and practices which favour private property over the common good. The reliance on the private sector to fill the gap between demand and supply is misplaced. A new departure is required. The State needs to step up to the mark and take the lead not only in better regulating, planning and coordination of land use and related services across the country, but in the financing and delivery of new homes according to a new model which we refer to as the *European Cost Rental Model* (ECRM). In Section 4 we have reviewed models for the financing and delivery of homes in a number of European countries. European norms of ownership and renting allow for greater flexibility as well as security and affordability of rents. We concur with the assessment of organisations such as NESC and Social Justice Ireland (2016) that the option of a publicly built and owned housing stock but operated on a commercial 'cost rental' model is the best way forward as part of an overall plan to boost output and ensure a sustainable, affordable and high-quality housing stock with choice for different households.

By its very nature, construction and related activity is cyclical. However, a combination of inappropriate social policy and fiscal stance has served to augment the cycle with the effect that building activity is highly vulnerable to sudden economic shocks. Restoring activity in the sector is particularly challenging in the current period given a large overhang of public and private debt as well as evidence a lack of coordination and leadership from Government. Typically, a lead-in time is required to restore building activity following a major shock such as was experienced in recent years (Kennedy and Stuart, 2016). 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 pro-active role by public agencies and local public authorities in regards to acquisition of land and use of integrated planning to ensure balance, inclusive and sustainable supply of accommodation linked to public services is needed.

A *European Cost Rental Model* 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. A key feature of this model is the development of a much stronger rental sector availed of by a mix of household types and incomes. To be effective and sustainable, the model would have to be self-financing in the medium term following an initial start-up phase where exchequer funding or injections of public and private capital would be necessary. In this Section we describe how a European Cost Rental Model would operate, how it would be funded and how it might impact on the housing market in Ireland in the medium-term. We begin by considering the scale of housing output required.

5.2 How many new dwellings are needed?

A Report, in June 2016, of the *Oireachtas Committee on Housing and Homelessness* notes 'a lack of building by local authorities, combined with an over-reliance on provision by the private sector' as critical to the shortage of supply. It recommends an annual average of 10,000 new social housing unites 'through a programme of acquisition, refurbishment and new build' (*Houses of the Oireachtas*, 2016).

Due to a lack of data on supply and demand it is difficult to project future requirements. The latest available projections of population relate to the 2011 Census (Central Statistics Office, 2013). Total population, in April 2016, exceeded by almost 60,000 the highest population projection scenario in the last available projections. It is very likely that population growth will accelerate given emerging demographic trends including migration patterns in response to cyclical and long-term pressures. On this basis, demand is likely to increase at a rate close to that of total population. This would imply an annual growth rate in demand for new accommodation of just over 1% of stock – in the region of 20,000-25,000 new units per annum. However, against this, an obsolescence of between 5,000-10,000 may be assumed (that is, between 0.2 and 0.5% of total stock in recent years). Based on these assumptions the total of new habitable dwellings required is between 25,000 and 35,000 a year in the coming years. On the supply side, due to data deficiencies it is difficult to provide a precise estimate of the number of newly built houses completed in any given year. However, it is clear that the required number is likely to be in the region of 30,000 a year allowing for obsolescence and demography[26]. This is probably three times the actual level of newly built dwellings in 2016. However, that scale of increase will not even be adequate to clear the excess demand already built up due to cumulative shortages in the last few years.

To reach a total output of new dwellings of 30,000 a year – just to meet additional demand will take some time. It is likely to take anything between 2 and 3 years to reach this level of output depending on market conditions and public initiatives. It will require a public-led programme of construction to deliver on that component of new housing output which meets social housing needs as well as needs for affordable and secure rental accommodation. Rather than continue with the current model of social housing provision and funding which has failed we propose an entirely new approach and governance and funding mechanism which is outlined in the next sections.

5.3 Funding a European Cost Rental Model (ECRM)

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[27] 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. We spell out how this new entity could be operated in the next section.

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

[26] A figure that would be consistent with long-term trends in output (see Figure 1).
[27] That is, owned by the State.

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 (Brooke and Downey, 2008)(Taft, 2015). 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, more options for temporary or migrant dwellers including high-skilled workers, students, etc.

The possibility of what has been termed 'temporal ownership' or temporary ownership (Sirr, 2017) might provide a basis for greater flexibility in the housing market as well as affordability for those in search of medium-term accommodation. The idea of temporal ownership is that a property could transfer to someone for a fixed period of time. The temporal owner is responsible for maintenance and upkeep and is liable for an upfront payment equivalent to the present value of a future stream of rental income on the property over the lifetime of temporary ownership[28]. Such a model of ownership might also be used by a public housing agency

Lyons (2016) suggests a Universal Housing Subsidy to enable significant numbers of households to afford to pay market-clearing rents[29]. His argument rests on the premises that the shortage of supply is related to (a) high construction costs in Ireland and (b) suppressed prices and rents. The solution, he argues, is to allow rents and prices to increase and thereby shift supply upwards and, at the same time, to protect low-income households by means of publicly-funded subsidies. We take a different approach because the market is broken there is a strong case for a state-sponsored initiative.

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 to get started. This will, under current EU fiscal rules, involve a claim on what economists refer to as 'fiscal space'. However, the claim on 'fiscal space' can be attenuated in a number of ways:

---

[28] Temporal ownership models are used in countries such as Spain.

[29] The Housing Assistance Payment (HAP) is a form of universal subsidy and is applied to those renting public or private accommodation and is based on income of the applicant. However, the core problem remains that of lack of supply and associated pressure on rents and household budgets as well as exchequer funding trying to catch up with escalating rents.

1. Careful management of the timing of public capital expenditure taking advantage of flexibility in the way the attainment of ‘medium-term objectives’ (MTO) on the General Government deficit (balance) is realised in the case of capital spending as distinct from current spending. In other words, the EU requirement to lower the deficit is less onerous in the case of capital spending. Member states such as Ireland who are in the ‘preventive arm’ of the continuing fiscal adjustment can spread additional public capital spending ‘on the books’ over a longer period of time.
2. Careful and strategic establishment of a new publicly owned and accountable company to plan, commission, deliver and rent newly built accommodation ‘off the books’. We describe such a company, here, as *The Housing Company of Ireland*. 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 the National Asset Management Agency (NAMA) there is a *National Asset Residential Property Services* (NARPS)[30]. This Unit of NAMA acquires empty property and leases these to Local Authorities or Approved Housing Bodies for the purposes of social housing. This experience could be harnessed.
3. 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).
4. The new *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* (HCI) but also, where appropriate housing associations, local authorities as well as municipal housing associations established by the latter. All lending would be undertaken according to sound and

[30] NAMA debtors (developers who originally borrowed from the pillar banks) are typically required to complete properties and service common site areas.

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 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:

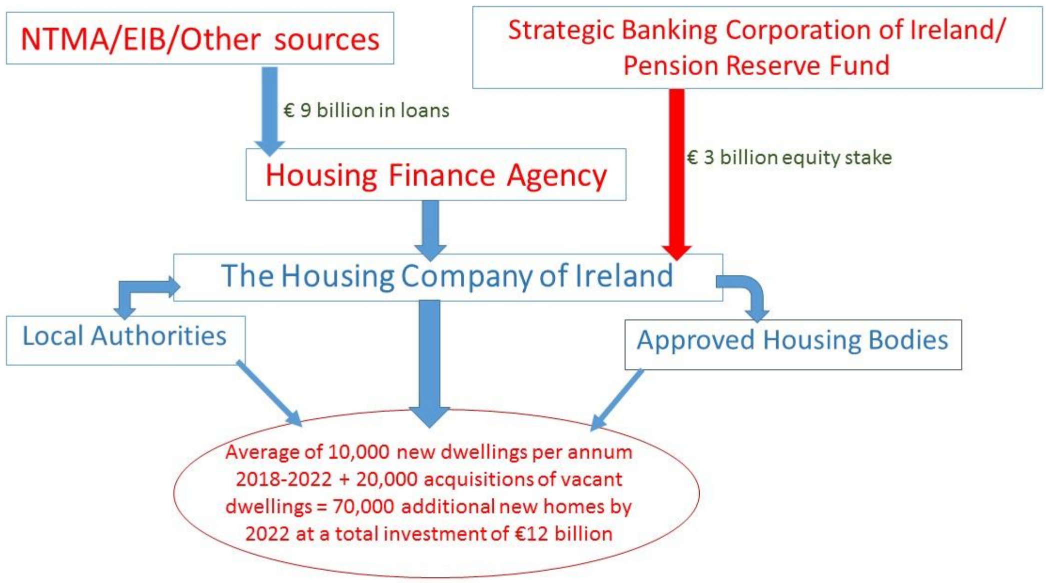
- Irish Exchequer
- Irish Strategic Investment Fund.
- European Investment Bank and other EU funding institutions
- National Asset Management Agency surplus funds expected from 2018 onwards
- A new Irish Housing Solidarity Bond (e.g. for long-term pension investment)
- Domestic and international financial 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 as proposed by SIPTU (2014)

Were it possible to locate one billion euro, 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[31]. This would be an ambitious but realistic start – well short of what is needed in the medium-term to being 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 7, we outline a possible funding model with the aim of achieving an aim of 70,000 new homes over a five-year period. We estimate that the total capital investment would be in the region of €12 billion over a five-year period. This would include the cost of buying or

[31] Estimates of unit cost vary and it is difficult to obtain reliable information. However, €180,000 seems to be a reasonable national average estimate for a mix of two and three-bedroom housing. Some information and insight may be gleaned from a recent exchange in the Dáil here.

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.

Figure 11 A self-funding European Cost Rental Model (2018-2022)



An injection of €3 billion in equity by the Strategic Banking Corporation of Ireland would establish a strong, initial capital base for the HCI. One option would be to re-structure 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 tax payers 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. It is only proper and good economic sense that the monies from this Fund which were earmarked for pension funding in the long run be used for the original purpose to which they were intended. By 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 SBCI to HCI could be leveraged by a lending flow of €9 billion (three times the equity injection) through the existing Housing Finance Agency to the HCI. The HCI would commission new housing directly through private companies, local authorities or existing approved housing bodies. 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 of around 200 units per annum as they have been crippled by lack of finance. The HCI could channel funding to local authorities to scale up social housing activity.

The basis for the European Cost Rental Model would be a mixed system of leasing to households and sales to others at a ratio of 80:20 (rentals to owners). 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 Housing Assistance Payment (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 Appendix 8.2).[32] The aim would be to set rent levels 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 HCI would be acquisition of land from Local authorities for free or below cost.

An example of how a full cost recovery and cross-subsidisation model might work is provide by Workers Party (2016a and 2016b). Cost rental accommodation is common in many European countries such as Austria and Netherlands as noted in Section 4, above. By anchoring rents in costs it is possible to ensure stability in rental payments. Otherwise, cyclical changes in demand and supply as well as the possibility of excessive profiteering could jeopardise rent stability. Rental payments would service the cost of debt, construction, maintenance as well as provision for contingencies and upkeep.

---

[32] It should be noted that the estimates of rent used in Appendix 8.2 are inclusive of rent, implying a lower net payment by the state. These are included, however, to provide conservative estimates.

The establishment of the HCI on the lines suggested above does not preclude supplementary measures such as, for example the newly introduced Repair and Leasing Scheme (RLS) operated through The Department of Housing. This scheme should be used to encourage property owners to bring vacant houses into use. The scheme, for which €32 million has been allocated in 2017 (with a target of just under 1,000 units), has the potential to free up property where the owner has difficulty accessing funds to repair the property[33].

A number of examples are given to illustrate how a cost-rental system might operate on the basis of various assumptions in regards to credit conditions. Further detail is provided in the Appendix to this paper.

5.4 Operating a European Cost Rental Model and other measures

The National Economic and Social Council has made the case for a 'strengthening of 'competencies and capabilities within the housing, planning and land management systems' (National Economic and Social Council, 2015:32). The Council suggested the creation of (i) 'centres of excellence within the policy system', (ii) 'coherent and integrated strategies for housing, land management, urban development, planning and infrastructure provision, and access to development finance' (iii) 'enhanced levels of collaboration between the relevant institutions in the public and private sectors' and (iv) 'appropriate enhancement of executive authority and capability'.

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 (HCI) 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.

[33] A minimum 10-year lease is required and the cost of repairs is deducted from the proceeds of the rental income which goes to the owner who is not obliged to assume landlord responsibilities for the rented property.

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 policy makers 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 Government level to freeze the price of development land at a maximum level above agricultural land price. 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% on rezoned land for development which was 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 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. A sufficiently high vacant site levy should be introduced without delay so as to prevent land hoarding.

Consideration could also be given to giving legislative authority to the Minister in the relevant Department to make compulsory purchase orders as well as intervene by shortening and simplifying the process in particular planning disputes where there is a clear, undeniable and evidence-based case for a new development. A balance needs to be struck between the rights of private property, the common good as well as the needs of all families and individuals where affordable, quality housing is seen as a fundamental human right. The Report of the *Oireachtas Committee on Housing and Homelessness* has urged for reform of the planning process and a review of the operations of *An Bord Pleanála* as well as a policy of making better use of Strategic Development Zones to bring forward social housing work. Some streamlining of planning application process to encompass fire and disability access could help to speed up planning time.

The National Economic and Social Council (2015:20-21) has noted the in-built incentive for the National Asset Management Agency (NAMA) and developers still in ownership of land bought at pre-crash prices to ensure that a price floor is maintained at the level at which bad bank loans to developers were bought up (at a discount) by NAMA. There may even be an expectation on some owners or purchasers of lands to hold out for higher land prices (and associated rental or building profits) in the future. These factors do not help in regards to the supply of suitable land and associated housing supply in the short-term and may also serve to drive up, further, underlying construction and development costs.

The legislation governing the National Asset Management Agency (NAMA) needs to be reviewed in order to facilitate rapid sale of lands on NAMA books without the constraint of a price floor. By freeing up land at a lower cost would help apply downward pressure on house prices and could help, in the medium-term, to constrain rent increases[34].

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.

Public private partnerships (PPPs) have consistently featured in Government plans to deliver housing. PPPs were much in vogue in the 1990's and pre-crash noughties when Governments entered into binding agreements with private companies to design, build and maintain a residence or provide a service for a specified fee recouped from user charges. PPPs have been common place in the building of roads, schools including even social housing before the crash. The capacity of public private partnerships to deliver social goods and to save the Exchequer money in the long-run is unconvincing even when the economy was booming. The current approach to PPPs involves annual payments to developers. Hearne (2011) has charted the use of PPPs in a number of housing

---

[34]Although development seems to have been slow to date on land sold by NAMA

developments in Dublin. The evidence points to a wasteful use of public resources with very poor results. Moreover, private sector interest in PPPs is cyclical – related to the overall state of the economy.

5.5 How the new model could have a long-term impact on the housing market

One of the advantages of the ECRM is that it helps insulate the housing sector from business cycles and sudden stops in flows of lending. A regulatory system the forces the long-term profits from the cost rental model to be retained in the system and reinvested in housing supply is one of the key advantages of the European models reviewed in Section 4 (especially that of Austria). Moreover, such insulation done via a public entity 'off-the-books' guards against volatility of General Government funding strapped by European Union fiscal rules. That said, it is not certain that an entity such as the HCI would be classified as 'off-the-books' by Eurostat – the European statistical agency with ultimate responsibility for ruling on specific cases of classification. At the time of preparing this document a number of agencies including the housing associations are being studied by the Central Statistics Office with a view to deciding about their classification. Some of the key criteria used by Eurostat and the CSO include not only the actual or expected commercial revenue flow from user charges or rental income in the case of the suggested HCI, but how any entity is structured, governed and how it relates to the delivery of a particular social policy objective. Whether HCI is, ultimately, on the books or off the books is not vital to the argument for ECRM provided that it is self-funding and not a draw on exchequer resources.

The situation governing the Northern Ireland Housing Executive is relevant. In light of the Office of National Statistics reclassification of housing bodies in England and Northern Ireland as Public Non-Financial Corporations and the attendant appearance of association debt on those incurred by the exchequer, it may however become more difficult for associations to access private finance. (ONS, 2016) (Murphy, 2016). Murphy (2016) notes that the government of the UK (and certain devolved governments) appear to be pursuing a strategy of deregulation of the sector in response to the ruling, to limit government influence on the sector. The financial effect of this ruling may be especially pronounced in Northern Ireland given the exit of the central public authority NIHE from new social housing delivery (RSM McClure Watters, 2015) (McFlynn, 2015).

While there is a strong case for regulation and limiting of rent increases as a short-term emergency measure the solution to the problem of supply is to build more houses and to develop a culture and norm of high-quality cost rental accommodation. Rather than seeking to control rents for long periods of time, public policy should focus, instead, on (i) raising supply of quality and affordable accommodation and (ii) implementing rent regulation which reflects underlying costs and is coupled with appropriate security of tenure and certainty around rents. The case for rent regulation, rent security and maintenance of quality standards in the privately rented sector has been made by economist P.J. Drudy (2016). He has drawn attention to the monopolistic behaviour in the housing market and the need for public regulation. Furthermore, high rents create distortions in other areas of social policy and the labour market. Unaffordable rents make it difficult for firms to attract skilled workers to Ireland as well as place intolerable burdens on families and workers who cannot afford more than a particular proportion of their disposable income on accommodation related costs.

6 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 the National Economic and Social Council that the hallmarks 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 as discussed in section 2.4. Relying on the private sector, to the extent that has happened, to meet demand for social and affordable housing has not worked as evidenced in sections 2.1 and 2.2.

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 standalone measures in one domain or aspect of the overall jigsaw. A key weakness in housing policy in recent times has been the following observation by the National Economic and Social Council:

> *The policy system has still to fully embrace a more ambitious and activist approach to land and housing supply management.*

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.

There is a case for the inclusion of housing as a fundamental economic and social right into the Constitution. This would be in keeping with the 8th report of the Constitutional Convention on economic, social and cultural rights.

7 REFERENCES

A Programme for a Partnership Government (2016)

Aedes (2013) Dutch social housing in a nutshell. Dutch Association of Social Housing Organisation

Alves, Sónia, and Hans Thor Andersen (2015) Social housing in Portugal and Denmark: a comparative perspective. ENHR-European Network for Housing Research Conference 2015. Aalborg Universitet, 2015.

Amann, Wolfgang, and Alexis Mundt (2005) The Austrian System of Social Housing Finance. Institut für Immobilien, Bauen und Wohnen GmbH, Vienna

Braga, Michela, and Pietro Palvarini (2013) Social Housing in the EU. *Directorate General for Internal Policies, Brusseles*

Brooke, Simon and Dáithí Downey (Eds) (2008) Rental Systems in Ireland – The Case for Change. Focus Ireland Report. Dublin:Focus Ireland

Byrne, David, David Duffy and John FitzGerald (2014) Household Formation and Tenure Choice. ESRI Research Note. Dublin: Economic and Social Research Institute.

Casey, Jerome (2007) 'Second vote of thanks in relation to a paper presented by P.J. Drudy at the Statistical and Social Inquiry Society of Ireland' (Drudy, P.J., 2007)

CECODHAS (2013) Study on Financing of Social Housing in 6 European countries. CECODHAS

Central Bank of Ireland (2017) Residential Mortgage Arrears and Repossessions Statistics: September 2016. Dublin:CBI

Central Statistics Office (2011) Census 2011 Profile 5 Households and Families – Living Arrangements in Ireland. Dublin: CSO

Central Statistics Office (2012) *Measuring Ireland's Progress*. Dublin: Central Statistics Office.

Central Statistics Office (2013) Population and Labour Force Projections 2016-2046. Dublin: CSO

Central Statistics Office (2016) Census of Population 2016 – Preliminary Results: Housing. Dublin: CSO

Central Statistics Office (2017a) Population Estimates (Persons in April) by Age Group, Sex and Year. Dublin: CSO

Central Statistics Office (2017b) Average Price of Houses by Area, Quarter and Statistic. Dublin: CSO

Central Statistics Office (2017c) Average Earnings, Hours Worked, Employment and Labour Costs by Economic Sector NACE Rev 2, Type of Employee, Quarter and Statistic. Dublin: CSO

DAFT (2017) The Daft.ie Rental Price Report An analysis of recent trends in the Irish rental market 2016 in Review

Department of Finance (2015) Construction 2020: Report on Access to Finance for Construction & Development. Dublin.

Department of Housing, Planning, Community and Local Government (2015) Residential Land Availability Survey 2014 – Summary Report. Dublin.

Department of Housing, Planning, Community and Local Government (2017a) Construction Activity - Completions by Month/Year. Dublin.

Department of Housing, Planning, Community and Local Government (2017b) Supply of Housing Land 2000 to 2012. Dublin.

Department of Housing, Planning, Community and Local Government (2017c) Supply of Housing Land 2000 to 2012 (frontpage). Dublin.

Department of Housing, Planning, Community and Local Government (2017d) Breakdown of Homeless Persons in Emergency Accommodation during the week 22 to 28 December 2014. Dublin: DOHPCLG

Department of Housing, Planning, Community and Local Government (2017e) Details of Households Accessing Local Authority Managed Emergency Accommodation during the Week of 23 – 29 January 2017 Table. Dublin: DOHPCLG

Department of Housing, Planning, Community and Local Government (2017f) Completions by Type Annually. Dublin: DOHPCLG

Department of Housing, Planning, Community and Local Government (2017g) Completions by Sector Quarterly. Dublin: DOHPCLG

Department of Housing, Planning Community and Government, (2017h) Local Authority Rented Stock by Year. Dublin: DOHPCLG

DKM Economic Consultants and Brady, Shipman, Martin (2012) Review of Part V of the Planning and Development Act, 2000. Consultation document prepared for the Housing Agency. Dublin.

Drudy, P.J. (2007) 'Housing in Ireland: philosophy, affordability and access'. Journal of the Statistical and Social Inquiry Society of Ireland Vol. XXXVI.

Drudy, P.J. (2016) 'The Housing Problem and the Case for Rent Regulation in the Private Rented Sector'. Oireachtas Committee on Housing and Homelessness.

Duffy, David and Daniel Foley, Niall McInerney and Kieran McQuinn (2016) 'Demographic change, long-run housing demand and the related challenges for the Irish Banking sector', in Adele Bergin, Edgar Morgenroth, Kieran McQuinn (eds.) Ireland's Economic Outlook – Perspectives and Policy Challenges. Dublin: Economic and Social Research Institute.

European Investment Bank (2014) Social Housing and Energy Efficiency in Ireland – Final Report for the Department of Public Expenditure and Reform. Dublin: DEPR

Eurostat (2011) Manual on sources and methods for the compilation of COFOG statistics. Luxembourg: Eurostat

Eurostat (2017a) Classifications of Functions of Government. Luxembourg: Eurostat

Eurostat (2017b) GDP and main components (output, expenditure and income). Luxembourg: Eurostat

Fahey, Tony, Michelle Norris, Desmond McCafferty, and Eileen Humphreys (2011) Combating social disadvantage in social housing estates: the policy implications of a ten year follow up study. Combat Poverty Agency Working Paper Series 11/02. Dublin: Combat Poverty Agency/Department of Social Protection

Giblin, Thomas and Kieran Kennedy and Deirdre McHugh (2002) *The Economic Development of Ireland in the Twentieth Century*. Taylor & Francis.

Government of Ireland (1974) Committee on the Price of Building Land. Report to the Minister for Local Government Robert Molloy by Mr Justice J. Kenny. Dublin

Government of Ireland (2014a) *Construction 2020: A strategy for a renewed construction sector*.

Government of Ireland (2014b) Social Housing Strategy 2020 – Support, Supply and Reform.

Government of Ireland (2016a) Rebuilding Ireland.

Holton, Niamh (2017) The Distribution of Household Income in the Republic of Ireland. NERI Research inBrief, no. 39

Houses of the Oireachtas (2016) Report of the Committee on Housing and Homelessness. June.

Housing Agency (2014) *Housing Supply Requirements in Ireland's Urban Settlements 2014 - 2018 Overview*.

Housing Europe (2015) The State of Social Housing in the EU. the European Federation for Public, Cooperative and Social Housing, Brussels.

Housing Agency (2016) 'Guidance Note on the Capital Advance Leasing Facility (CALF) for Approved Housing Bodies and Housing Authorities'.

Housing Agency (2017a) Housing Supply Requirements in Ireland's Urban Settlements - 2016-2020, A Preliminary Update.

Housing Agency (2017b) AHB Regulation. Dublin: Housing Agency

Kemeny, Jim, Jan Kersloot, and Philippe Thalmann (2005) *Non-profit housing influencing, leading and dominating the unitary rental market: Three case studies* . Housing Studies 20.6: 855-872.

Kennedy, Gerard and Rebecca Stuart (2016) 'Housing supply after the crisis' Economic Letter, Vol. 2016, No 12. Dublin:Central Bank of Ireland.

Kitchen, Rob, Rory Hearne and Cian O'Callaghan (2015) Housing in Ireland: From Crisis to Crisis. NIRSA Working Paper Series, No.77 February 2015. National Institute for Regional and Spatial Analysis: National University of Ireland Maynooth.

Lyons, Ronan (2015) Housing supply in Ireland since 1990: the role of costs and regulation. Barrington Lecture, Statistical and Social Inquiry Society of Ireland, Dublin.

Lyons, Ronan (2016) 'A Right to Housing? The case for a Universal Housing Subsidy' in Brigid Reynolds and Seán Healy (eds.) Basic Income: Radical Utopia or Practical Solution?. Dublin: Social Justice Ireland.

McFlynn, Paul (2016) Social Housing in Northern Ireland- What Does the Future Hold? NERI Research inBrief, no. 33

McCarthy, Daragh (2017) Summary of Social Housing Assessments 2016. NERI Seminar 22nd February 2017.

McDonnell, Tom (2017) 'Innovative Competence: How does the Republic of Ireland compare and does it matter?', NERI Working Paper, no. 40.

Murphy, Eleanor (2016) The re-classification of Housing Associations in England – implications for Northern Ireland. Research and Information Service Briefing Paper No. 56/16. Belfast: Northern Ireland Assembly.

National Economic and Social Council (2014a) Social Housing at the Crossroads: Possibilities for Investment, Provision and Cost Rental. Report number 138 June, 2014. Dublin: NESC

National Economic and Social Council (2014b) Review of Irish Social and Affordable Housing Provision. NESC Secretariat Papers number 10 July, 2014. Dublin: NESC.

National Economic and Social Council (2015a) Housing Supply and Land: Driving public action for the common good. Report number 142 July, 2015. Dublin: NESC.

National Economic and Social Council (2015b) Review of Irish Social and Affordable Housing Provision. NESC Secretariat Papers number 10 July, 2014. Dublin: NESC.

Norris, Michelle and Tony Fahey (2011) 'From asset based welfare to welfare housing? The changing function of social housing in Ireland'. *Housing Studies*, 26(3), 459–469.

Norris, Michelle and Michael Byrne (2016) "Social housing's role in the Irish property boom and bust". UCD Geary Institute for Public Policy Discussion Paper Series number WP2016/15.

Office of the Comptroller and Auditor General (2016) Report on the Accounts of the Public Services 2015. Dublin: Comptroller and Auditor General.

Office for National Statistics (2016)Statistical classification of registered providers of social housing in Scotland, Wales and Northern Ireland: September 2016. London: ONS

Organisation for Economic Co-Operation and Development (2017) Average Annual Wages. Paris: OECD

RSM McClure Watters (2015) Funding Mechanisms for New Social Housing in Northern Ireland: A UK-wide Comparative Study. Final Report for the Northern Ireland Housing Executive

Scanlon, Kathleen, Melissa Fernández Arrigoitia, and Christine ME Whitehead (2015) Social housing in Europe. European Policy Analysis 17 (2015): 1-12.

Schaefer, Jean-Pierre (2003) 'Financing social housing in France'. Housing Finance International 17.4: 27.

SIPTU (2014) Discussion paper on Ireland's Housing Crisis.

Sirr, Lorcan (2016) 'The Challenge of Housing Obsolescence', paper presented to a Conference on Housing held by Eolas in Dublin in December 2016.

Sirr, Lorcan (2017) 'Analsis Economico de la Propriedad Compartida y de la Propriedad Temporal', in Aznar, SN (ed.) La Propriedad Compartida Y La Propriedad Temporal: aspectos legales y economicos', Tirant Lo Blanch: Valencia

Social Justice Ireland (2016) Social Housing Supply – Submission to Oireachtas Committee on Housing and Homelessness. Dublin: Social Justice Ireland.

Society of Chartered Surveyors (2016) The Real Cost of New House Delivery - Analysis of Real Market Data to Evaluate Viability & Affordability of New Housing Development.

Stewart, Paul (2016) An overview of the process from an irish construction project management perspective

Taft, Michael (2015) Housing Without Profit, People with a Home. Retrieved from: Unite's Notes on the Front Blog.

Tsenkova, Sasha, and Hedvig Vestergaard (2011) Social Housing Provision in Copenhagen.ENHR International Conference Sustainable Urban Areas.

UNITE Trade Union (2016) Note to the Oireachtas Committee on Housing and Homelessness. Public Submissions to the Oireachtas Committee on Housing and Homelessness, 17th May 2016.

United Nations (2017) UN Detailed structure and explanatory notes COFOG, UN Statistics Division.

Walsh and Associates (2014) *Cost Study of 3 Bedroomed Semi Detached House*

Williams, Peter, and Christine ME Whitehead (2015) Financing affordable social housing in the UK; building on success?. Housing Finance International: 14-19.

Wilson, Wendy (2016) Rent setting: Social Housing (England). London: House of Commons Library

Workers' Party (2016) Solidarity Housing: getting the vultures out of Irish housing.

Workers' Party (2016) Solidarity Housing – Financial Aspects of a Solution to the Irish Housing Crisis.

8 Appendix

8.1 Setting Cost Rent

In this section we illustrate a number of examples of how a full cost rental model could operate. In the examples shown in Table 11, 12 and 13, we assume:

- A 100%, 90% and 70% 25-year loan to the Housing Company of Ireland at varying rates of interest (1.5 and 3%).
- Vacancies provision and costs of management are derived from the case study for a social rental project in Vienna included in CECODHAS (2013). In the Viennese case 2% of credit cost is set aside for vacancies. In this case, this 5% is budgeted to maintain properties and facilitate development of "credit repayments". Management costs are approximately 4% of costs within the Viennese example provided, though they are not set at this level. This is applied according to first interest case, as probably not linked to cost of loan.
- VAT is included in this example. However, the HCI could avail of an exemption on VAT paid in the course of construction under the European Union VAT Directive but on condition that the rate is applied to rents charged (CECODHAS, 2013).
- Maintenance is assumed to be 1% of build costs annually (or €1800).
- CALF (Capital Advance Leasing Facility) is included in examples, 2 and 3, below, and would allow for the HCI to avail of a public loan from the Exchequer at a fixed nominal rate of interest of 2% annually for a term of up to 30 years. This can fund between 10 and 30% of project funding. The repayment schedule for CALF grants is flexible and bodies that avail of this

facility can opt for no payments over the lifetime of the loan and a single upfront payment at the end of the term (Housing Agency, 2016). In this case, rents cover annual interest costs.

Table 10 Example 1 - Representative Cost Rent for Full Mortgage at various Cost levels

Housing Cost Estimate	€180,000		€200,000		€220,000		€240,000	
Element of Monthly Rental Cost	Interest rate 1.5%	Interest Rate 3%	Interest rate 1.5%	Interest Rate 3%	Interest rate 1.5%	Interest Rate 3%	Interest rate 1.5%	Interest Rate 3%
Credit Repayments	€720	€854	€800	€948	€880	€1,043	€960	€1,138
Maintenance	€150	€150	€167	€167	€183	€183	€200	€200
Provision for vacancies and Development	€36	€43	€40	€47	€44	€52	€48	€57
Costs of Management	€29	€29	€32	€32	€35	€35	€38	€38
Total Cost without VAT	€935	€1,049	€1,015	€1,166	€1,116	€1,283	€1,217	€1,399
VAT (13%)*	€117	€131	€127	€146	€140	€160	€152	€175
Total with VAT	€1,052	€1,180	€1,142	€1,312	€1,256	€1,443	€1,369	€1,574

Table 11 Example 2 - Representative Cost Rent for 90% Mortgage, 10% CALF at various Cost levels

Housing Cost Estimate	€180,000		€200,000		€220,000		€240,000	
Element of Monthly Rental Cost	Interest rate 1.5%	Interest Rate 3%	Interest rate 1.5%	Interest Rate 3%	Interest rate 1.5%	Interest Rate 3%	Interest rate 1.5%	Interest Rate 3%
Credit Repayments	€648	€768	€720	€854	€792	€939	€864	€1,024
CALF Interest	€30	€0	€33	€33	€37	€37	€40	€40
Maintenance	€150	€150	€167	€167	€183	€183	€200	€200
Provision for vacancies and Development	€32	€38	€36	€43	€40	€47	€43	€51
Costs of Management	€26	€29	€29	€32	€32	€35	€35	€38
Total Cost without VAT	€886	€985	€985	€1,129	€1,084	€1,241	€1,182	€1,353
VAT (13.5%)*	*€120*	*€133*	*€133*	*€152*	*€146*	*€168*	*€160*	*€183*
Total with VAT	€1,006	€1,118	€1,118	€1,281	€1,230	€1,408	€1,342	€1,536

Table 12 Example 3 - Representative Cost Rent for 70% Mortgage, 30% CALF at various Cost levels

Housing Cost Estimate	€180,000		€200,000		€220,000		€240,000	
Element of Monthly Rental Cost	Interest rate 1.5%	Interest Rate 3%	Interest rate 1.5%	Interest Rate 3%	Interest rate 1.5%	Interest Rate 3%	Interest rate 1.5%	Interest Rate 3%
Credit Repayments	€504	€598	€560	€664	€616	€730	€672	€797
CALF Interest	€90	€90	€100	€100	€110	€110	€120	€120
Maintenance	€150	€150	€167	€167	€183	€183	€200	€200
Provision for vacancies and Development	€25	€30	€28	€33	€31	€37	€34	€40
Costs of Management	€20	€29	€22	€32	€25	€35	€27	€38
Total Cost without VAT	€789	€897	€877	€996	€965	€1,095	€1,053	€1,195
VAT (13.5%)*	€107	€121	€118	€134	€130	€148	€142	€161
Total with VAT	€896	€1,018	€995	€1,131	€1,095	€1,242	€1,195	€1,356

8.2 Setting Paid Rent and Housing Assistant Payment Calculation

In this section we illustrate a number of examples of how a full cost rental model could operate. In the examples shown in Tables 13-18, we assume:

- Rents determined as a percentage of disposable income after the 50% percentile. Specifically, the midpoint of the 50-60th percentile and the 60th to 80th percentile disposable income groups given the 2014 income distribution (Holton, 2017)
- Existing differential rents for social tenants stay constant €279 on average for this group from Worker's Party (2016).
- Annual incoming tenant population distributed as shown in table 3.
- After year 1, rents above 50th percentile increase by 2% annually.
- 1) Cost Rent is taken as €995, corresponding to a build cost of €200,000, 70% LTV at 1.5% and 30% CALF. 2) Cost Rent is taken as €896, corresponding to a build cost of €180,000, 70% LTV at 1.5% and 30% CALF, including VAT.
- Required Subsidy amounts to between €164 and €313 million after 5 years, or between €37 and €69 million annually, depending on cost and number of tenants. Annual additions lessen over time as rents increase on higher income groups.

Table 13 – Disposable Income by Percentile and Midpoint Calculation

Household Disposable Income Bracket	Disposable Income Level €	Income Midpoint €
To 50th percentile	34,704 or below	-
50th to 60th percentile	34,704 to 40,923	37, 814
60th to 80th percentile	40,923 to 59,924	50,424

Table 14 – Initial Rent Levels by Income

Average Disposable Income	Differential Rent as a % of Disposable Income	Monthly Differential Rent	Total Monthly Rent €180,000	Total Monthly Rent €200,000
-	-	€279	€896	€995
37, 814	25%	€788	€896	€995
50,424	25%	€1050	€896	€995

Table 15 - Distribution of Tenant Population

Household Disposable Income Bracket	Percentage of Incoming Tenant Population	Annual incoming tenant Population (New Builds)	Annual incoming tenant Population (New Builds+Acquisitions)
To 50th percentile	50%	5,000	7,000
50th to 60th percentile	30%	3,000	4,200
60th to 80th percentile	20%	2,000	2,800

Table 16 - Rents over Time

Household Disposable Income Bracket	Year 1	Year 2	Year 3	Year 4	Year 5
To 50th percentile	€279	€279	€279	€279	€279
50th to 60th percentile	€788	€804	€820	€836	€853
60th to 80th percentile	€1,050	€1,071	€1,093	€1,115	€1,137

Table 17 - Total Revenue and Subsidy Calculations for New builds

Household Disposable Income Bracket	Year 1		Year 2		Year 3		Year 4		Year 5	
House Cost € Thousands	180	200	180	200	180	200	180	200	180	200
Required Rent € Millions	108	119	215	239	323	358	430	478	538	593
Received Rent € Millions	70	70	143	143	217	217	294	294	374	374
Subsidy Required € Millions	37	49	72	96	105	141	136	183	164	223
Average Monthly Subsidy €	310	409	301	400	292	391	283	382	273	372

Table 18 - Total Revenue and Subsidy Calculations for New builds and Acquisitions

Household Disposable Income Bracket	Year 1		Year 2		Year 3		Year 4		Year 5	
House Cost € Thousands	180	200	180	200	180	200	180	200	180	200
Required Rent € Millions	151	167	301	334	452	501	602	669	753	836
Received Rent € Millions	98	98	200	200	304	304	412	412	523	523
Subsidy Required € Millions	52	69	101	134	147	197	190	257	230	313

Nevin Economic Research Institute (NERI)

31/32 Parnell Square
Dublin 1
Phone + 353 1 8897722

Email: info@NERInstitute.net
Web: www.NERInstitute.net

Carlin House
4-6 Donegall Street Place
Belfast
BT1 2FN,
Northern Ireland
Phone +44 28 902 46214