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An Overview of the Irish Housing Market and Policy

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Executive Summary

Context

This paper provides an overview of the Irish housing market and housing policy. It reviews the factors that drive the supply and demand for housing in Ireland, the increasing cost of housing inputs and the impact this is having on the affordability of homeownership¹ and rents² for households. The dependence of viable development in the homeownership and private rental sectors on affordable house prices and rents for private households is discussed. A summary of housing policy from 2005-2021 is provided as well as a descriptive analysis of the broad set of existing social housing initiatives and associated expenditures. The paper reviews some of the literature on international models of public housing and identifies key differences between Ireland's public housing model and those of some of its European counterparts, particularly those that pursue cost rental.

Key Findings

Housing prices, input costs and the land trap

- The price of dwellings has been increasing significantly since 2014, primarily driven by increases in cost of factor inputs (e.g. building materials, labour, land costs);
 - Between 2014 and 2020 new builds increased by 10% pa and existing dwellings by 5% pa. albeit from depressed asset values following the Global Financial Crisis
 - There has been a 10% increase in the CSO's Industrial Price Index for building and construction (i.e., materials and wages) for the period 2015 – 2020.
 - The price of cement, paints, oils and varnishes, fabricated metals, structural steel and plaster are between 18% - 25% greater than 2015 levels (Source: CSO).
- Speculative land hoarding by landowners and developers can restrict the supply of development land, increasing the cost of land as a housing input.
- In development land auctions, sites tends to be acquired by the most optimistic bidders (those with highest expected sale prices) therefore property tends to be developed close to the margin of viability.

Affordability and viability in the homeownership and Private Rental Sectors

- Increasing input costs erode affordability and reduce the number of private households with the financial capacity to purchase new builds for homeownership;
 - At least 50% of households that rent from a local authority and from the private market are unable to access the credit needed to purchase a property at the median price of a dwelling in Dublin based on current loan-to-income mortgage criteria (3.5 x income).
 - Despite a strong preference for homeownership (87% of Irish renters; Corrigan et al. 2019), the financing/affordability barrier that exists amplifies demand for rental accommodation.
- The above, along with other factors such as urbanisation, changes in household formation (smaller units), rising rents and a supportive monetary policy environment has driven growth in institutional investment in the Private Rental Sector (PRS);
 - The institutional PRS has been an important source of housing supply such that 78% of annual total development finance for real estate between 2017 and 2019 was international debt and equity (Lyons, 2021).
 - The recent increase in the scale of the institutional PRS is further reflected by the levels of apartment acquisition within the real estate, financial and insurance sectors in 2020 (53% of non-household apartment purchases).
- Despite the significant contribution of the PRS to housing supply in recent years, increasing input costs may undermine the viability of apartment development through this sector;
 - Medium rise urban apartments from 5 to 15 stories costs between €378,600 and €479,000 (SCSI, 2021) and can run as high as €615,000 for a city centre apartment (IIP, 2020).
 - According to Lyons (2021), only one-sixth of renter households in the greater Dublin area could afford the €1,640 monthly rent that investors require to break even on an apartment with a €400,000 build cost at prevailing yields.

- Supply will be constrained if increases in input costs excessively impact the rate of return and/or the required rent level needed to attract institutional investment in the PRS.
- High input costs require rents high enough to deliver a sufficient rate of return to attract investment. If such rents become unaffordable for the large majority of renters, this may undermine the necessary level of investment to drive supply and meet demand.

Housing Policy and International Comparisons of Social Housing

- Irish capital spend on housing demonstrates pro-cyclical characteristics;
 - In 2008 capital expenditure was over €1.5 billion before falling to less than €300 million in 2013. Since then, as economic growth, house prices and housing input costs have all rebounded strongly, capital expenditure has returned to previous levels (close to €1.4 billion in 2020).
 - The interruption of social housing development during recessionary periods undermines the long term, sustainable and timely supply of social housing.
- Alternative forms of social housing supply, such as cost rental, may have the potential to avoid the pro-cyclicality and viability issues outlined above;
 - Unlike Ireland's social housing model, supply within Austria's cost rental model of public housing delivery has proved resilient to fluctuations in the economic cycle and provided more sustainable housing delivery over time.
 - Austrian cost rental public housing operates under a self-financing model. Rents charged for public housing cover only the cost of construction, debt servicing and maintenance. Revenue generated from matured cost rental stock is also used to fund additional public housing.
 - Compared to public housing in Ireland, the financing of Austrian public housing is more diversified. Rather than acting solely as a safety net for lower income households, as has traditionally been the case in Ireland, public housing is open to a larger range of income cohorts in Austria. This, coupled with a cost rental model and large stock of municipal dwellings, has contributed to less of a reliance on demand side housing subsidies compared to Ireland.

Expenditure on Social Housing Delivery Mechanisms (2020) and HFA liability (2020)

- Total Housing spend in 2021 amounts to €3.09bn. Government expenditure on housing has been increasing annually since 2016. Projected 2021 spending is 328% increase on 2016 levels.
- Relative to the height of the boom (2006 – 2008), capital expenditure has reached comparable levels since 2018, while current expenditure has remained above boom levels since 2009.
- The HFA loan book stood at €5.18bn in 2020. The HFA is an extension of the State's own in house activity and its borrowing is effectively State borrowing. HFA loans advanced to LAs and AHBs are paid for by the exchequer.
- In 2020 approximately 79% of housing related expenditure was captured by:
 - The Housing Assistance Payment: €464.6m [40% annual average increase since 2017]
 - Local Authority Housing: €890.5m [47% annual average increase since 2014]
 - Approved Housing Body (CALF, CAS): €249.5 [34% annual average increase since 2014]
 - Social Housing Current Expenditure Programme: €197.3m (34% annual average increase since 2014)
 - Homeless Accommodation: €270.9m [26% annual average increase since 2014]

	2016	2017	2018	2019	2020	2021
Total Expenditure (€m)	835.5	1308.6	1,965.9	2,349.9	2,537	3,093.1
Annual % increase	31.2%	56.6%	50.2%	19.5%	7.9%	21.9%
Capital	55.6%	58.1%	62.7%	61.5%	54.9%	59.4%
Current	44.5%	41.9%	37.3%	38.5%	45.1%	40.6%
Social Units Delivered	19,044	25,901	27,086	28,072	24,622	28,550

¹ The Central Bank of Ireland's mortgage lending rules mean that a household's loan-to-value limit must fall between 70 and 90 per cent of the value of a property they wish to purchase, while the loan-to-income rule restricts household borrowing to 3.5 times the a household's gross income.

² In terms of affordability within the private rental sector (PRS), a common threshold for assessing affordability in Ireland is whether rental costs are within 35% of households' net monthly income.

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1. Introduction

The Irish housing market has been in an inflationary phase since 2014. While this is in the context of recovery from a period of recession from 2007-2013, Ireland has experienced a significant increase in the price of housing since the mid-1990s; e.g. Duffy et al. (2005) show that house prices doubled between 1996 and 2002. The surge in demand and in the cost of development land, building materials and thus outputted builds has been significant. To the extent that the Irish housing market, particularly in major urban centres, is characterised by supply, affordability and viability issues, the situation has ramifications for homelessness, Irish competitiveness (wage price inflation) and the healthy functioning of society in which adequate and affordable housing is attainable.

The increasing cost level also has ramifications for the cost of providing social housing. As detailed in previous IGEES Spending Review papers, much of the cost for supplying social housing in Ireland falls to the state so an increase in the cost per social-housing unit, either through capital or current expenditure, places greater demand on exchequer capacity. The reliance of the social housing sector on exchequer funding also makes the supply of social housing vulnerable to fluctuations in fiscal capacity.

Since 2017 a series of IGEES Spending Review and Social Impact Assessment papers have provided analysis of the Irish housing market (O'Callaghan 2017; O'Callaghan et al. 2018; O'Callaghan and Kilkenny 2018; O'Callaghan and Farrell 2019; O'Callaghan and Farrell 2019). This series of papers looked at Government expenditure based schemes such as the Housing Assistance Payment (HAP), the Rental Accommodation Scheme (RAS), the Social Housing Current Expenditure Programme (SHCEP) Rent Supplement, Social housing acquisitions and the Social housing build programme.

A core finding of these papers was that government expenditure on social housing was increasing, following a period of contraction in capital spending during the GFC. In this sense, capital expenditure followed a pro-cyclical pattern. In addition to this increase, they showed the composition of expenditure had changed in the years that followed the 2008 credit crisis, with a greater proportion made up of current expenditure supports. This was also partially a result of a pro-cyclical decrease in capital expenditure in GFC years. More recently, capital expenditure on housing has been increasing, but in the context of increasing supply costs. These trends suggest there is a need for a stocktake on all costs arising from housing expenditure to bring elements of the analysis of these previous IGEES papers up to date. Such an update need not only consider direct spending by the state on housing measures, but any exposure the state has to housing costs, for example through the Housing Financing Agency's lending facilities to AHBs.

The capacity of the Irish state to provide social housing is highly contingent on market conditions. In an inflationary housing cycle like the one Ireland is in now, that capacity is undermined greatly simply because costs increase and most costs accrue to the exchequer. Some EU Member States have had success in getting around pro-cyclicality in the supply of public housing by adopting alternative financing approaches to housing supply, such as cost rental. In some cases, the supply of new builds from public housing strategies observed internationally exhibit resilience to fluctuations in economic growth; in that sense, a steady stream of public housing supply is observed irrespective of the economic cycle, with less dependence on capital budgets. The paper reflects on the contrast between these counter and pro-cyclical strategies to housing supply.

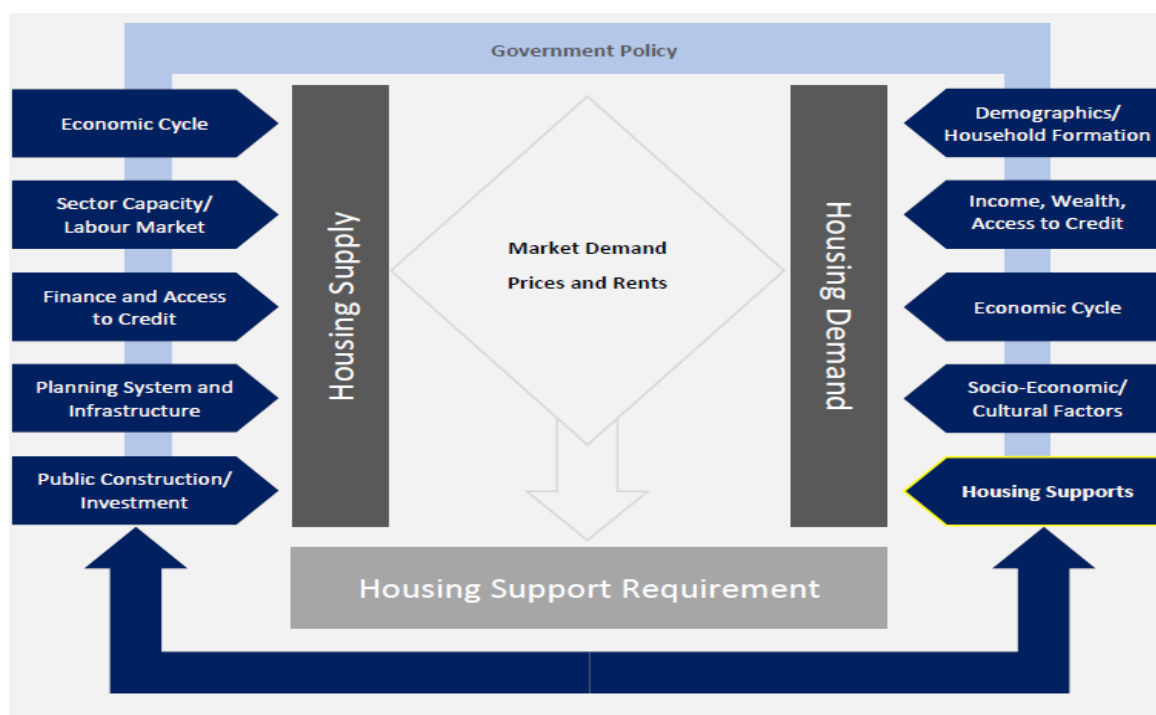
At the core of this paper is an overview of the relationship between the level of affordability of homeownership and market rents for private households, and the implications for the viability of new builds for buy-to-live development (for homeowners) and development in the institutional Private Rental Sector to supply units to renters.

Section 2 provides an overview of the Irish housing market as it stands today, addressing price increases, new commencements, planning, affordability gaps and other contextualising topics pertaining to the Irish housing market. Section 3 summarises housing policy since 2000, the set of expenditure measures on housing analyses the most recent data available for each. Section 4 reviews land supply dynamics. Section 5 addresses the cost efficiency of social housing supply in Ireland and financing of social housing in European countries by comparing the housing models of Austria and Ireland. Section 6 provides a discussion of material covered in the paper.

2. The Irish Housing Market

IGEEES (2017) provided a conceptual framework of the housing market, listing the core drivers of supply and demand. Figure 1 is intended to highlight the gap in new housing supply that social housing measures address and captures the mechanism by which factors driving house price dynamics operate and thus to some extent, impact affordability

Figure 1: Key Factors Driving Supply and Demand in the Irish Housing Market and Government Intervention



Demographics

In terms of demand for housing, an array of annual demand estimates have been produced in recent years. Key variables for these estimates include population changes, fertility, mortality, headship rates, household size, internal migration, net migration, obsolescence, and the extent to which a backlog of past unmet demand is taken into account. Recent projections based on ESRI research (Bergin & Garcia-Rodriguez, 2020) indicate annual housing demand arising from population growth and migration to be up to 33,000 units per year between 2016 and 2040 under a high migration scenario. These ESRI scenario estimates inform the Department of Housing, Local Government, and Heritage's *Housing Need and Demand Assessment* tool.³ However, higher estimates have also been produced. For example, based on obsolescence rates and falling average household size, Lyons (2021) argues that annual demand may be up to 50,000 units per year. Household formation, in particular

³ <https://www.gov.ie/en/publication/eea99-housing-need-and-demand-assessment-hnda/>

the trend towards smaller average household size, increases the number of dwellings required to house a population, *ceteris paribus*. In any case, comparing these ranges of annual demand estimates to the number of new residential dwellings completed since 2016 it is evident that existing demand is currently not being met. As outlined in Figure 2, the number of annual commencements has not exceeded 30,000 since 2007.

Economic Cycle

Property prices and economic growth are historically strongly correlated. Increasing employment, access to credit, and wages fuel demand for housing in the local population. Changing migration patterns associated with economic growth (less emigration and more immigration) also increases the number of households that require dwellings. As detailed in Section 5, the cyclicity of housing supply is an important factor for long run price stability because changes in supply tend to be slower than changes in demand. During recessionary periods, while preferences over factors such as dwelling size, quality or location may be subdued, the demand for additional units arising from demographic factors is never truly diminished beyond the short to medium term. On the supply side, the pattern of housing supply in Ireland has been strongly correlated with the economic cycle in recent decades (Figure 2). Since average prices and the supply of new units reached a trough in the 2011 to 2014 period, employment, incomes and demand have rebounded faster than the capacity of the construction sector and the supply of additional units. This has resulted in a backlog of housing demand and upward pressure on prices.

Housing Supports and Public Construction

In relation to social housing, as detailed in section 3, capital spending provides funding to Local Authorities (LAs) and Approved Housing Bodies (AHBs) to construct and acquire dwellings for use as social housing. These activities are almost entirely funded by the exchequer, and, in recent decades, have been strongly correlated with the economic cycle in Ireland. This means that capital investment falls away in downturns, causing a drop in supply, and increases in periods of high economic growth, when the cost of providing housing inflates. This pattern poses questions for the sustainability of social housing supply which is funded through exchequer means alone.

Capital housing projects, such as the construction of social housing units by Local Authorities (LAs), can be classed as pro-cyclical because activity has been heavily correlated with the Irish business cycle and exchequer resources (Norris & Byrne, 2016). Rising construction costs (such as land, labour or material) increase the cost faced by the exchequer in providing housing, and can result in the provision of housing becoming fiscally unsustainable if economic growth and house market inflation persist long term.

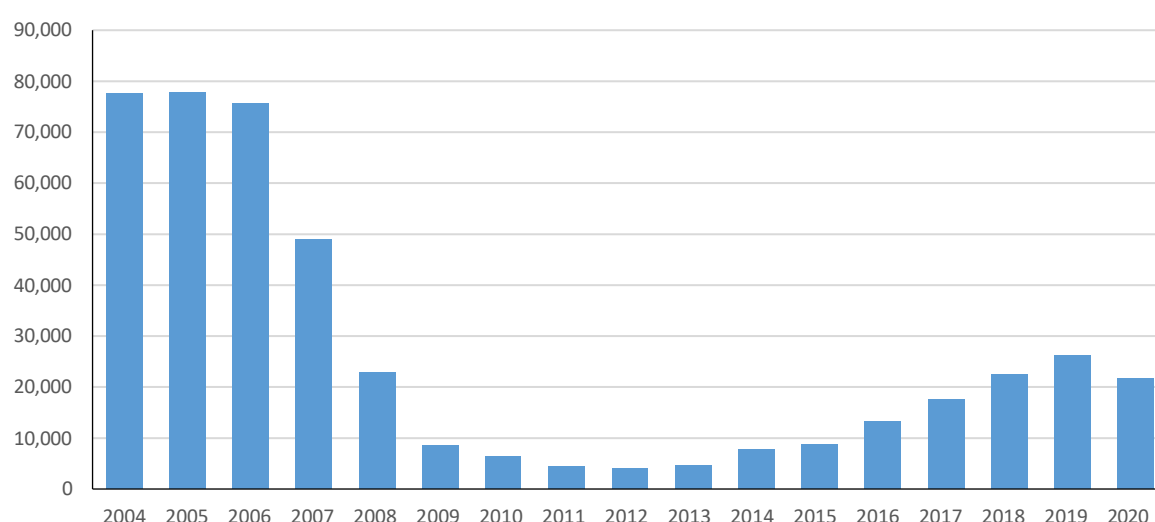
Rising rents can also increase the cost faced by the exchequer in providing housing. With regard to housing measures funded through current expenditure, a large share of the rental sector in Ireland is in receipt of some form of support. Data from the 2016 census indicates that 326,832⁴ households rent from a landlord (including voluntary and co-operative bodies). As of 2021Q2, there were approximately 62,000 active HAP tenancies, 17,500 RAS tenancies, and 5,000 privately leased SHCEP operational units (DHLGH). This indicates that approximately 26% of households residing in the rental sector are in receipt of some form of housing support that is funded through current expenditure.

Land, Planning, Infrastructure and Sectoral Capacity

While the supply of land is fixed at any given time, the supply of suitable development land is not (though it has an upper ceiling). The availability and usability of development land is dependent on a range of geographic factors as well as zoning, planning regulations, and access to infrastructure such as water, energy and transport. Other important supply side considerations include the capacity of the construction sector and access to finance to fund development.

Figure 2 shows the annual level of residential unit commencement from 2004 to 2020. The pattern is one of a major fall in supply from 2006 onwards, particularly as a result of the financial crisis which unfolded in late 2007 and 2008. Supply has been steadily rising in recent years, as the construction sector responds to the market's increasing price signal and as increased Government Capital expenditure on housing comes on stream.

Figure 2: Residential Units Commenced Annually



Source: DHLGH

⁴ CSO, Private Households 2011 to 2016, (EB077).

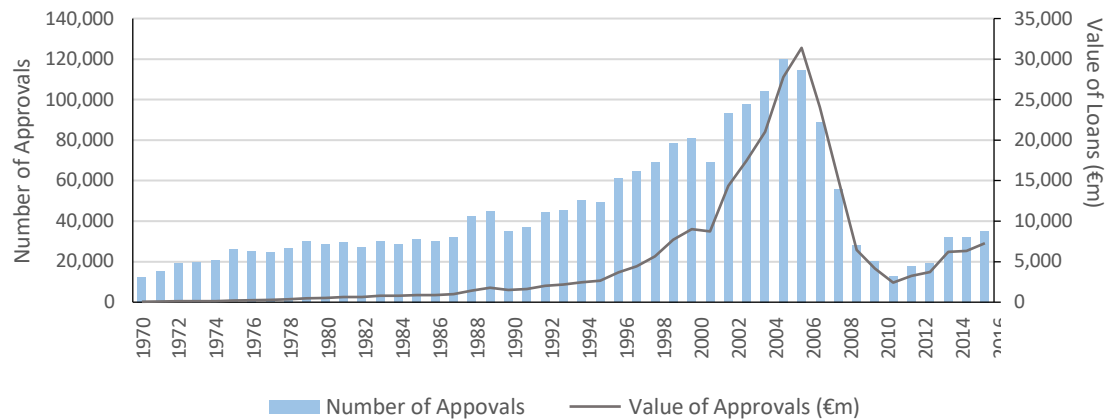
Income and Access and to Credit

Income and access to credit support demand for housing and can also inform preferences regarding the size, quality and location of dwellings. Access to credit has an important role to play in the transference of demand between homeownership and rental markets. Access to credit, if left unchecked, can drive price inflation to the level of a market bubble, as in the run-up to the 2008 financial crisis. Stricter Central Bank lending rules now offset this risk in Ireland.

An important question is why such a high level of housing could be supplied prior to the Global Financial Crisis (GFC) compared to the modern era, given the strong demand that currently exists for new housing stock. One phenomenon which may partially drive this outcome is that despite the strong demand for housing, the capacity of consumer prices to signal for the level of supply required to quell demand is constrained by stricter mortgage lending rules than previously existed. The Central Bank of Ireland's mortgage lending rules mean that a household's loan-to-value limit must fall between 70 and 90 per cent of the value of a property, while the loan-to-income rule restricts household borrowing to 3.5 times the a household's gross income. This means that given gross income constraints, the number of households that can attain the sufficient financing required to purchase a home at market prices is greatly reduced. *Ceteris paribus*, this should prevent high levels of inflation in the property market. However, demand for dwellings is simply displaced when households cannot purchase/own their properties. Some of this displaced demand will be channelled into the rental market. Typically, the net present value of an asset is given by the discounted sum of future cash flows which it gives rise to. As displaced house-buyer demand transforms into demand for residential rental space, the profitability of the sector for investors increases. This attracts higher levels of investment, a price signal in itself, so that even in the presence of strict Central Bank lending rules, price inflation in the property sector can be expected, albeit with lower rates of home ownership across households. As discussed later, this dynamic is exemplified by the fact that average rental prices currently exceed peak prices reached prior to the Global Financial Crisis (GFC), while average house price have not.

As we can see in Figure 3, a defining characteristic of the Irish property market in the late 90s and 00's was a significantly increasing rate of mortgage approvals, which coincided with 100% mortgages and the absence of rules limiting lending to 3.5 x median income. This was a primary driver of the property bubble in Ireland; one which lead to the 2008 financial crisis and essentially masked the affordability issues inherent in the Irish property market at the time. Limiting lending to private households controls house price inflation but channels demand (and the price signal) into the rental market. Thus the lending rules impact tenure type and create opportunities in the rental development sector.

Figure 3: Mortgage Approvals and Value of Loans (1970 – 2016)

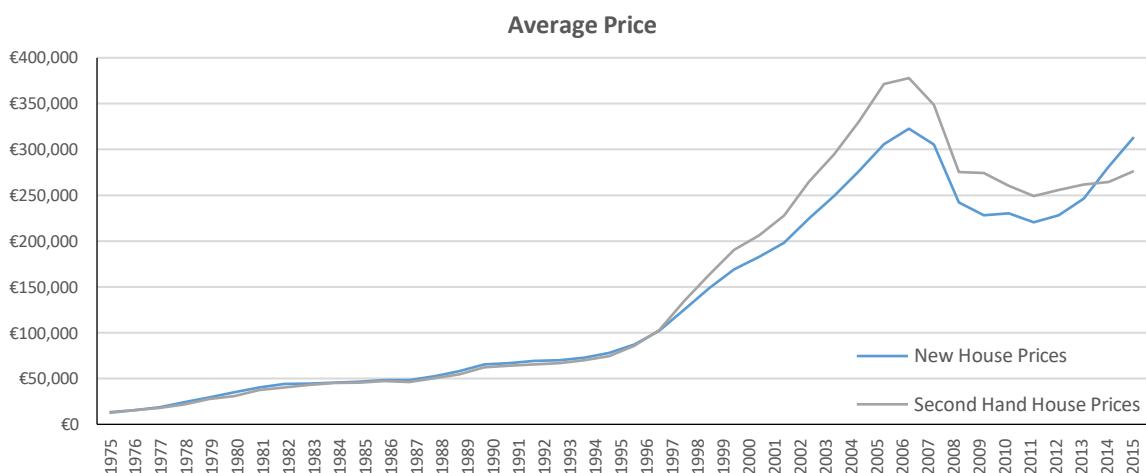


Source: DHLGH

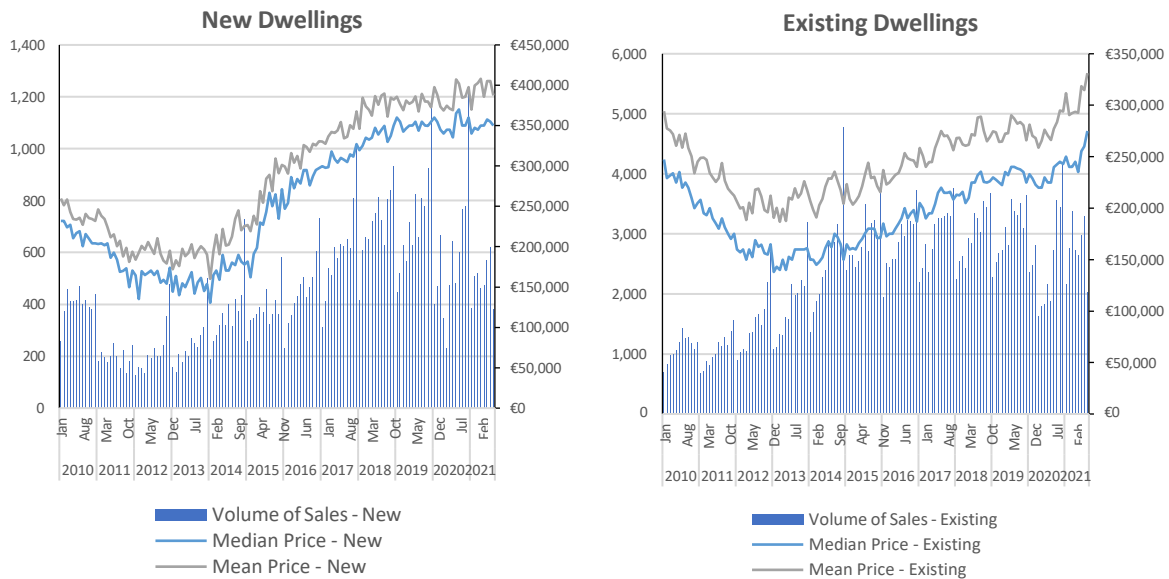
Prices

Figure 4 displays the trend in average prices between 1975 and 2016, and the monthly mean and median sale price and volume of sales for both new and existing dwellings in Ireland, from 2010M01 to 2021M08. Following the bursting of the Irish property bubble in 2008, prices bottomed out between 2012 and 2014. Since 2014, the mean price of new builds has risen by approximately 100% ($\approx 10\%$ pa), compared to an approximately 50% increase in the mean price of existing dwellings ($\approx 5\%$ pa). While incomes have also risen over this period, it has not been to the same extent. Between 2011 and 2018, median annual earnings rose from €33,300 to €36,095, an increase of approximately 1.1% pa. In the same period, mean annual earnings rose from €39,721 to €44,180, an increase of approximately 1.5% pa.⁵

Figure 4: Long and Short Term Trends in Average Prices and Dwelling Transactions



⁵ CSO, Mean and Median Annual Earnings (NEA05).



Source: CSO, *Average Price of Houses (HSA06)*, and *Market-based Household Purchases of Residential Dwellings (HPM03)*.

2.1 Affordability of Homeownership and Private Rental

Census data indicates that the age at which home ownership became the majority tenure category was 35 years in 2016. Below the age of 35, the number of households renting exceeded those owning a home. Previous censuses indicate the ages which have marked the changeover between renting and homeownership; 32 (2011), 28 (2006), 27 (2002), 26 (1991).⁶ The monotonic increase in the average age of first time home ownership observed in census data suggests a steady deterioration in the capacity of the average earning household to attain homeownership.

Figure 5 attempts to capture the level of housing affordability in Dublin. Using adjusted⁷ household income data from the 2016 census, the four clusters of bars represent the maximum mortgage amount available to the median household based on loan-to-income mortgage criteria (i.e., 3.5x median household income across different tenures and local authorities)⁸. For example, the first group of bars shows the median mortgage potential (3.5x median income) for households who own a house outright in Dublin City, South Dublin, Fingal and Dún Laoghaire-Rathdown respectively. The three horizontal lines represent the mean, median and modal residential dwelling sale price in County Dublin for 2020. The distance between the clusters of bars and horizontal lines reflects the level of affordability in different areas and tenure types. The two main categories of interest from Figure 5 are those who rent from a local authority and those who rent in the private market. As illustrated, at least 50% of all households who rent from a LA and the private market (i.e., those below the median income level)

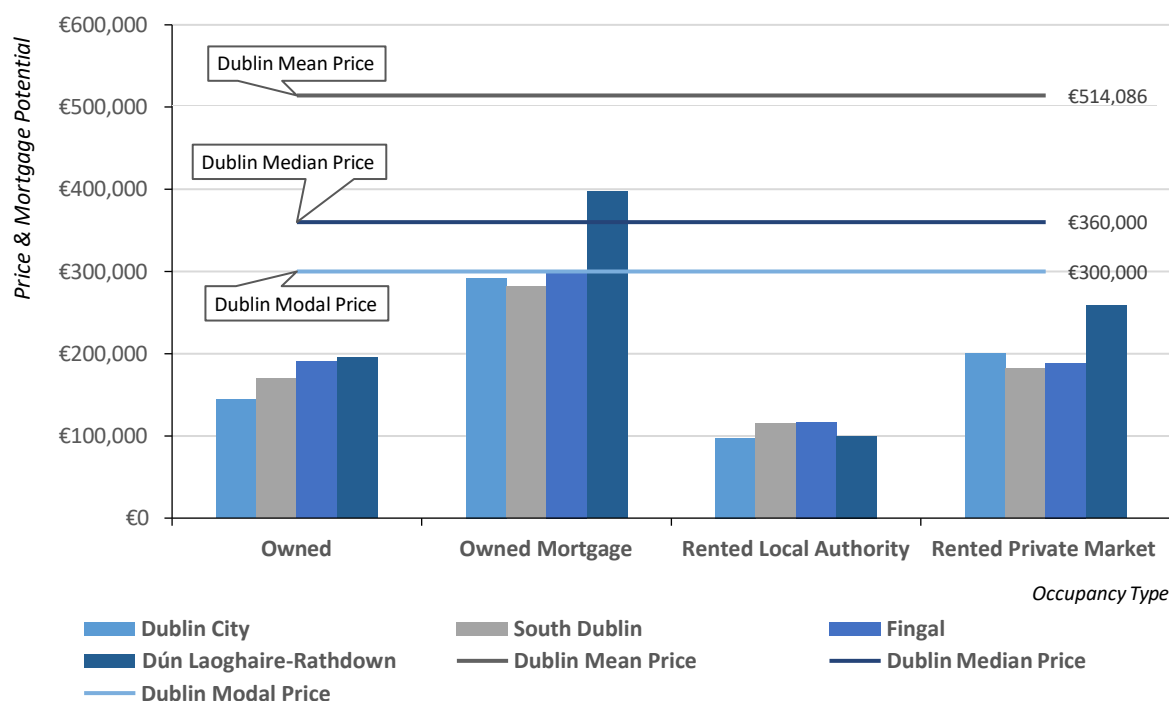
⁶ [Tenure & Rent - CSO - Central Statistics Office.](#)

⁷ A 3% annual growth rate was applied to 2016 household gross income figures for the years 2016-2019.

⁸ Mortgage applications in Ireland require the applicant(s) to possess at least a 10% deposit for the value of the property, which increases the purchase price of a property to approximately 3.9 times gross salary.

would be unable to access the credit necessary to purchase a property at the modal, median and mean price in Dublin.

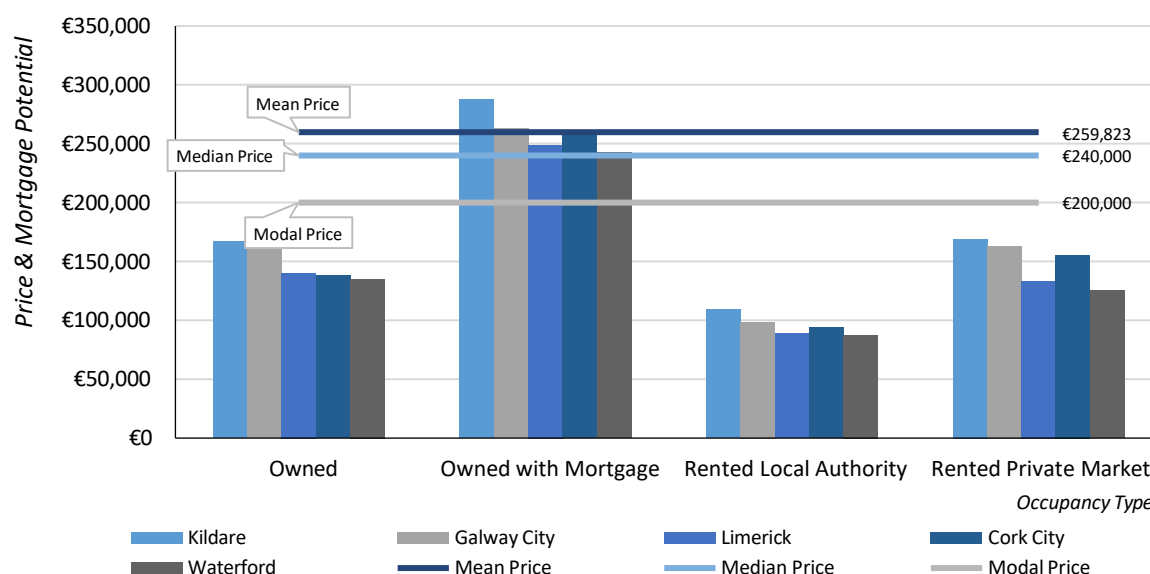
Figure 5: Median Mortgage Potential of Households in Dublin LAs, and Average Property Prices



Source: CSO Household Gross Income (HIA15), PSRA Residential Property Price Register, and Author Calculations.

Figure 6 displays the same information as Figure 5 for several other local authorities that contain significant urban or built up residential areas. Mean, median and modal price represent combined residential dwelling prices across the Local Authorities of Kildare, Galway City, Limerick, Cork City and Waterford in 2020. A similar trend to Dublin emerges for these areas, with at least 50% of all households who rent from local authorities and within the private market being unable to access the credit necessary to purchase a house at the modal, median and mean price. However, the gap between average prices and mortgage potentials is not as severe relative to Dublin.

Figure 6 Median Mortgage Potential of Households in Major Urban Areas relative to Average Property Prices

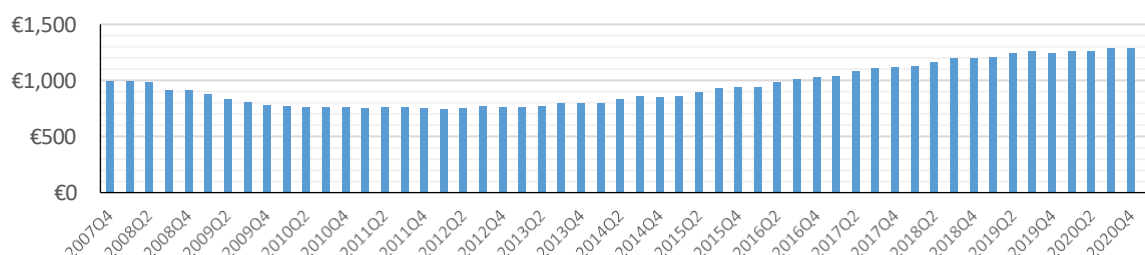


Source: CSO Household Gross Income (I1A15) and PSRA Residential Property Price Register

Corrigan et al. (2019) carried out a survey of 750 renters in the Irish market in 2018, examining renters' attitudes towards housing tenures. 86.5% of respondents demonstrated a strong preference for homeownership. As demonstrated above, there is a significant difference in the affordability-level of property depending on the region in question. This reality is also reflected in the survey results of Corrigan et al. (2019); the median Dublin-resident expected to buy a house in the range €350,000-399,000 while the median non-Dublin resident expected to buy a house in the range €200,000-249,000.

Figure 7 displays the Residential Tenancy Board's standardised national rent metric from 2007Q4 – 2021Q1. Rent levels have been gradually increasing since 2013. In 2016Q3 average national rent exceeded the pre-financial crisis peak reached in 2007Q4. There is significant regional variation in rent levels. As of 2021Q2, standardised average rent in Dublin was €1,848 per month. Average rent in the greater Dublin area stood at €1,387, and €1,007 outside of the greater Dublin area (Residential Tenancy Board, 2021)

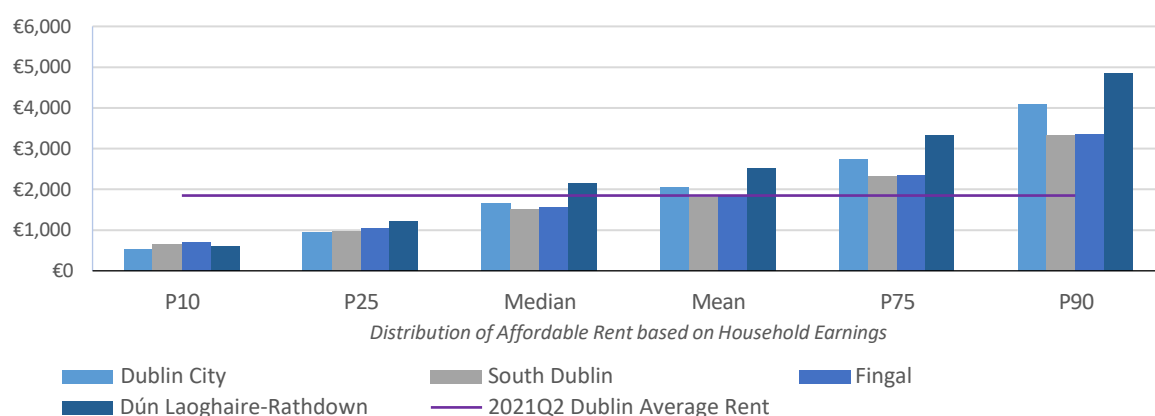
Figure 7 Residential Tenancy Board's Standardised National Rent, 2004Q4 – 2021Q1



Source: Residential Tenancies Board Rent Index, Q1 2021

In terms of affordability within the private rental sector (PRS), a common threshold for assessing affordability in Ireland is whether rental costs are within 35% of households' monthly income.⁹ Accommodation costs that exceed this amount are considered unaffordable. Using the same adjusted income data as above (Figure 5 & Figure 6) for households who rent from the private market, Figure 8 compares the distribution of household affordability thresholds (i.e., 35% of gross monthly income at different points of the income distribution) across the four Dublin LAs with the Residential Tenancy Board's 2021Q2 standardised average rent figure in Dublin (€1,848). Results indicate that households in the 10th, 25th and 50th (median) income percentile of Dublin City, South Dublin, and Fingal would be unable to afford the 2021 standardised national rent level in Dublin (i.e., rent exceeds 35% of gross monthly income). The median household in Dún-Laoghaire Rathdown falls within this affordability threshold.

Figure 8 Adjusted Affordability Threshold Distributions for Households in Private Rental Markets of Dublin LAs and Dublin Standardised Average Rent, 2021Q2

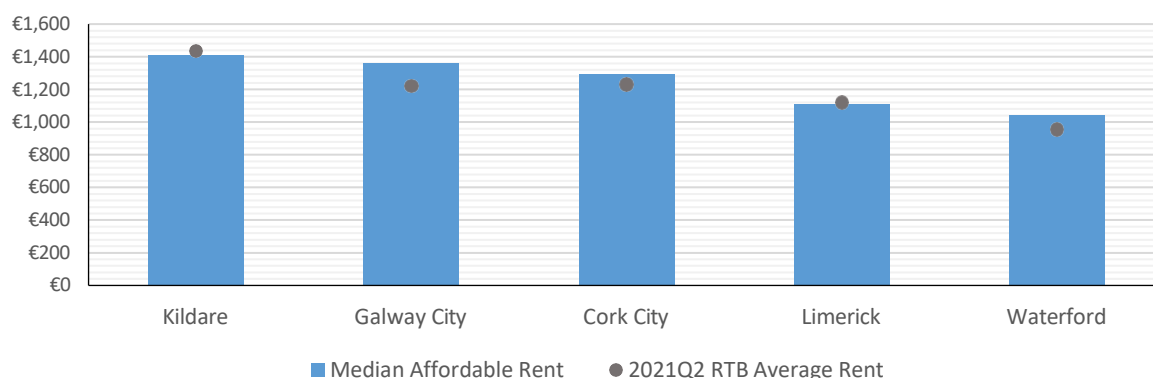


Source: CSO Household Gross Income (HIA15) & Residential Tenancies Board Rent Index, Q1 2021

Figure 9 compares the affordability threshold for the median household (i.e., 35% of median gross monthly income) with standardised average rent figures, from the Residential Tenancy Board's 2021Q2 report, for other counties. The affordability threshold and standardised average rent figures are broadly similar across Kildare, Galway city, Cork City, Limerick City and Waterford; indicating that approximately 50% of households who rent from the private market in these areas are facing unaffordable rents.

⁹ 35% of *net* monthly income is the standard benchmark. However, the data available for this analysis is gross household income and therefore the levels of regional affordability estimated in this section are overstated. Rent supports, which cover a significant share of the rental market in Ireland, such as RAS or HAP are also not accounted for in these calculations.

Figure 9 Adjusted Affordability Threshold for Median Households in Major Urban Centres and Standardised National Rent, 2021Q2



Source: CSO Household Gross Income (IIA15) & Residential Tenancies Board Rent Index, Q2 2021

Viability and Land Prices

Sufficient housing supply requires viable development projects, which themselves depend on achieving affordability for a sufficient number of renters/buyers/households. The widening affordability gap therefore stifles viable development, stalling supply. As shown above, the widening gap is evident in the buy-to-live/homeownership segment of the market and also the PRS (Private Rental Sector). Affordability issues were witnessed in the buy-to-live segment of the Irish market as recovery from the GFC unfolded. Households quickly redirected this demand into the rental sector as homeownership became less attainable. This redirection drove up rental prices, which in turn increased the prospective rental income investors/developers anticipated for future units.

More optimistic expectations about future income streams impact the willingness developers have to pay for land and development sites. This drives up the price of land, and thus the cost of production of housing units. As demand for development land intensifies, there is a rational incentive for developers to shore up development land banks, which can further interfere with smooth supply of development sites and drive up land prices (Murray, 2020). Speculation and holding land for capital gains rather than development can also arise, further constraining supply. As housing production prices increase, the rents required to attain an acceptable level of return for investors' also increases. At some point of inflation in costs and rents, the common measure of affordable housing (35% of households' monthly net income) is surpassed by the PRS. As costs and rents are driven higher, the portion of households in the rental market that can afford the necessary rents to attract investment and incentivise supply is eroded. Eventually the viability of new supply from the private rental sector in all but the most affluent areas, where high rental prices can be attained, is curtailed. Viability costs associated with development and construction are described in more detail in the following section.

2.2 Delivery Costs and Construction Activity

The Cost of Apartments and Impacts on Viability

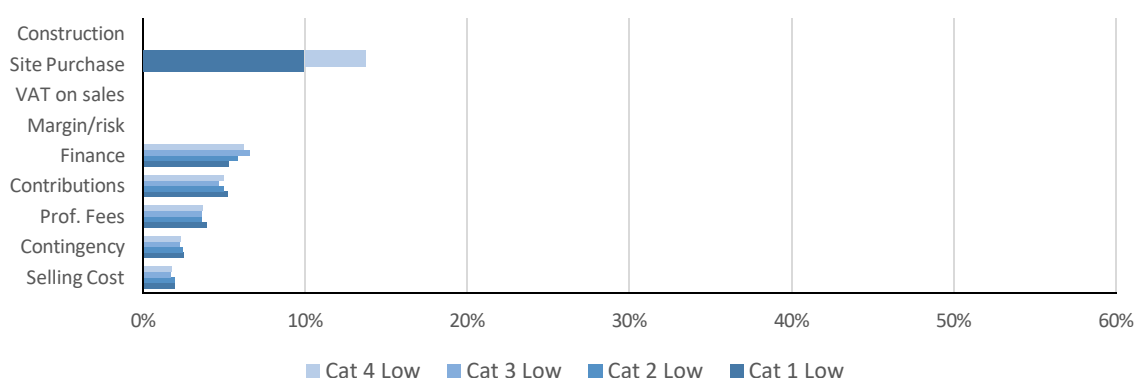
Lyons (2021) highlights how viability issues pertaining to the private rental sector (PRS) undermine supply. Lyons (2021) shows that an apartment with a €400,000 build cost (approximately in line with SCSi average cost figures discussed later in this section) must generate a breakeven monthly rent of no less than €1,650 in order to be viable, and that a gross annual income of €100,000 p.a. in Ireland yields a net monthly disposable income, for a married couple, of €5,400 per month. Accounting for affordability of 30%, this leaves a maximum monthly rental expenditure of €1,620, meaning that the construction of new rental homes at this price is only viable for households with a gross annual income of at least €100,000. According to Lyons (2021), just one-sixth of renter households in the greater Dublin area can afford these costs.

The Society of Chartered Surveyors Ireland (SCSi) have undertaken analysis for apartment delivery cost. A recent 2021 report (SCSi, 2021) provides a lower and upper estimate of costs based on the delivery of a two-bedroom apartment in Dublin within a variety of apartment complex types. These categories and corresponding costs estimates are listed below, and exclude VAT:

- *Category 1:* Low Rise Suburban: €273,300 - €317,000
- *Category 2:* Medium Rise Suburban: €314,400 - €406,500
- *Category 3:* Medium Rise Urban (5 – 8st.): €378,600 - €451,000
- *Category 4:* Medium Rise Urban (9 - 15st.): €395,600 - €479,000

Figure 10 displays the component breakdown of costs within each category. Cost breakdowns are roughly the same across apartments types and also similar to the component breakdown of the average cost of a new 3-bed semi-detached home in Dublin. Overall construction costs make up approximately half of the cost of delivery. Non-construction costs such as VAT, profit margin and finance make up the remaining half.

Figure 10: Component Breakdown of Lower Estimate Delivery Costs for 2-bed Apartment in Dublin across Complex Types



Source: Society of Chartered Surveyors, The Real Cost of New Apartment Delivery, 2021.

SCSI compare the viability of apartment delivery between build-to-sell and build-to-rent models based on current market prices. For build-to-sell developments, it found that only the lower ranges of categories 1 and 2 are viable. SCSI note that these findings are not necessarily reflective of all build-to-sell apartments generally as targeting more affluent areas can in some cases overcome viability issues.

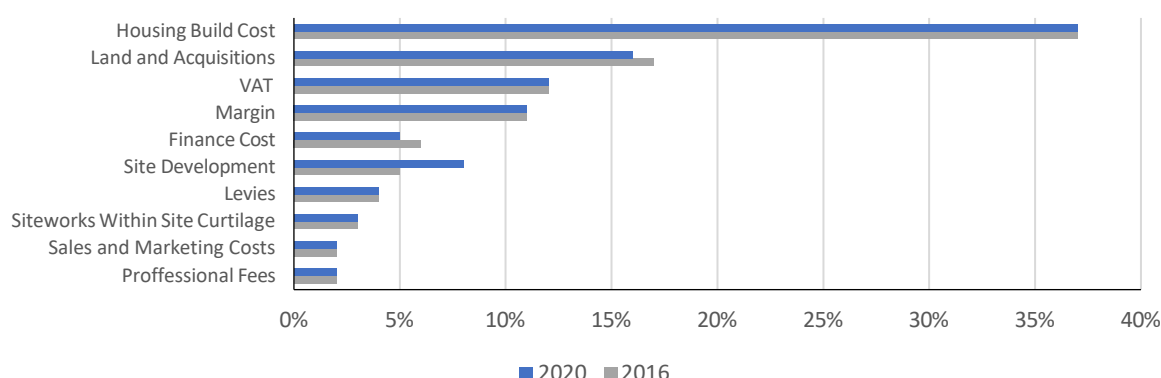
In contrast, SCSI found that the build-to-rent model achieves viability in all categories except for the upper range of category 3, and note two reasons for greater viability in build-to-rent developments. The first relates to affordability and the Central Bank's mortgage lending rules. The inaccessibility of mortgage credit means some households may be able to pay market rent, despite not being able to obtain a mortgage for a similar property. The second relates to how apartments are valued. Sales price minus VAT determines the value of a build-to-sell development. In contrast, build-to-rent developments are valued as investments where rent, operating costs and yield inform net development value.

The Cost of Houses

SCSI have also produced a series of reports analysing the cost of new housing delivery. In 2016 SCSI found that the average price paid for a new 3 bed semi-detached home in Dublin would need to equal or exceed the total cost of €330,493 in order to be viable (SCSI, 2016). A 2020 report found this figure had risen by 12% to €371,311 (SCSI, 2020). Comparing this to the affordability analysis outlined above in section 2, this figure is slightly above the 2020 median price in Dublin. This would suggest significant affordability and viability issues as at least 50% of households who rent from a landlord would be unable to obtain the credit necessary to purchase a dwelling at this price. Beyond general inflation in the sector, SCSI note that the increase in cost since 2016 can be attributed to increases in hard costs (i.e., structure of the house), overall site development, near Zero Energy Building requirements, fire detailing, and Irish Water connections.

SCSI provide a detailed breakdown of these costs which is summarised in Figure 11 for 2016 and 2020. Although there can be a lot of variability between the cost of development projects, based on factors such as abnormal site features, land cost, or specifications and finishes, this breakdown is a useful benchmark. Overall construction costs make up approximately half of the cost of delivery. Non-construction costs such as VAT, profit margin and land costs make up the remaining half.

Figure 11 Breakdown of Delivery Costs for Average 3 bed Semi-detached house in Dublin, 2020 & 2016.



Source: Society of Chartered Surveyors, *The Real Cost of New Housing Delivery, 2016 & 2020*.

The Cost of Land

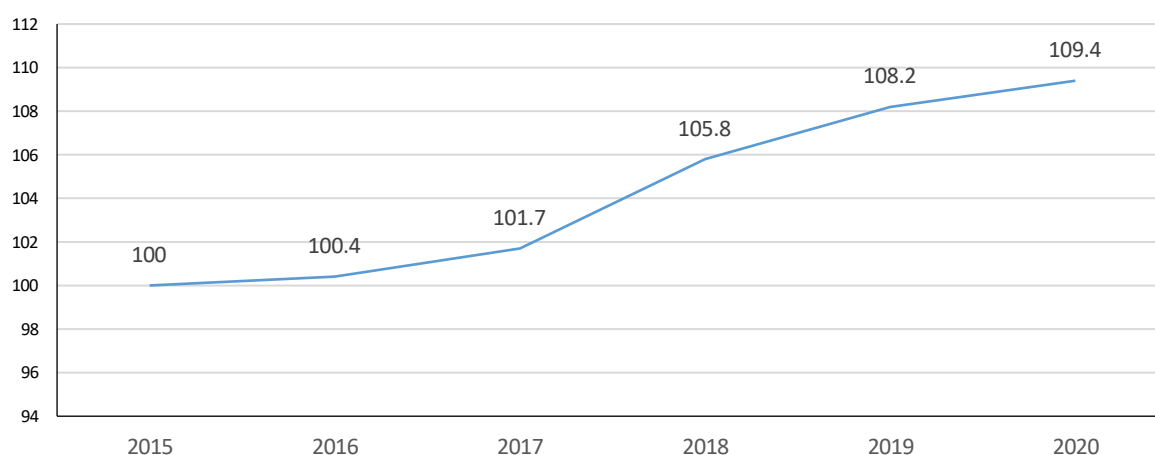
The cost of land can often be the largest single expense associated with development. SCSl reports cited above reveal that, on a per unit basis, there is a notable difference in the proportion of delivery costs accounted for by land acquisition/site purchase between houses and apartments (16% for houses and between 8% - 14% for apartments). This difference may be partially explained by the higher number of units per area of land within apartment developments. However, higher story apartments are often built in urban areas where land costs are greater. Thus in some cases the savings from a higher concentration of units can be undone by the high land costs associated with densely populated urban areas. In addition, apartments become more expensive to build as the number of floors increases.

Across the multiple reports cited above, SCSl stress that the price of development land is a source of significant variation and dependent of an array of factors such as location, land quality, proximity to services, and availability/quality of nearby infrastructure. For example, in the 2016 report on housing delivery, a figure of €50,000 is used to capture average land costs. However SCSl note; *‘the site cost of €50,000 is considered substantially less than the market value of sites in some Dublin suburbs where site values can be 25.30% of the expected sale value.’* From a policy perspective, the issue of land price variability is further compounded by a lack of up to date and detailed data on the cost of development land nationwide.

The Cost of Materials

The cost of construction materials is an important element of delivery and may be an explanatory factor to the rapidly increasing cost of new residential dwellings seen in recent years (Figure 1). Figure 12 displays the CSO's Industrial Price Index for building and construction (i.e., materials and wages) for the period 2015 – 2020. There has been almost 10% increase in this metric since 2015.

Figure 12: Industrial Price Index (Excl. VAT), Building and Construction Materials and Wages, Base 2015=100



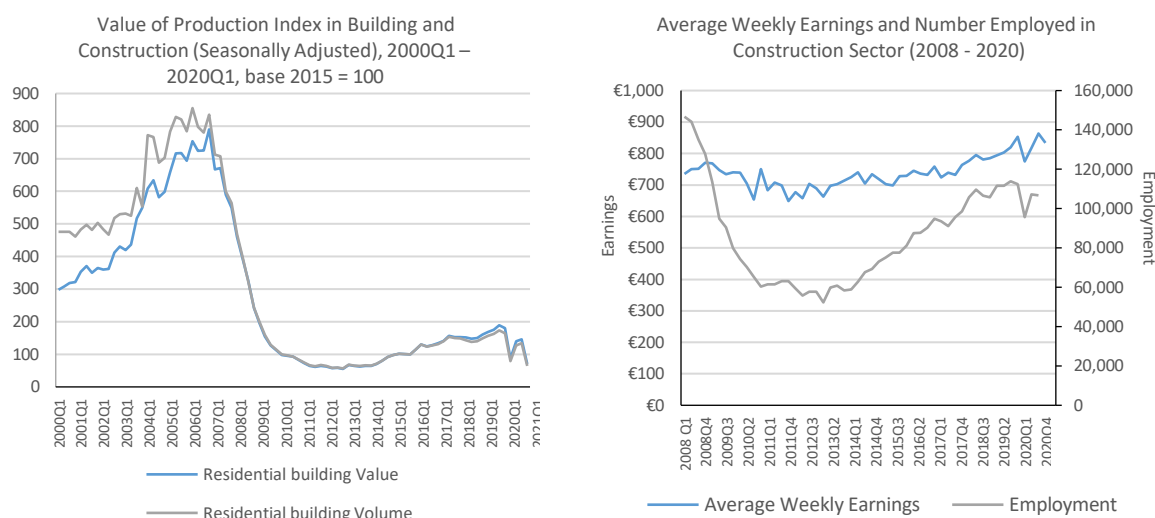
Source: CSO, Industrial Price Index (Excl. VAT), (WPA12)

The CSO's Wholesale Price Index for Building and Construction Materials (Appendix 3) suggests that there has been a greater degree of price inflation for certain construction materials. For example, as of 2020, the price of cement, paints, oils and varnishes, fabricated metals, structural steel and plaster are between 18% - 25% greater than 2015 levels. Supply delays and shortages arising from pandemic related economic restrictions throughout 2020 and 2021 may have been a compounding factor in this regard as well as Brexit.

Activity in the Construction Sector

Figure 13 displays data published by the CSO on the Value and Volume of the Residential Building and Construction Production Index, as well as on the average weekly earnings and number of persons employed in the construction sector. These figures highlight the drastic fall in construction sector activity that occurred in the years following the financial crisis. Persons engaged in construction activity steadily increased between 2014 and 2019, while the value of the building and construction production index has been increasing throughout the same period. 2020 onwards has seen declines in all of the below metrics mainly due to economic restriction imposed in response to the COVID-19 pandemic. The latest 2021Q1 figure for the value of production index is 70.5 (base 2015 = 100).

Figure 13 Building and Construction: Value and Volume of Production Index & Average Weekly Earnings and Number of People Employed in the Construction Sector



Source: CSO, *Indices of Total Production in Building and Construction Sector (Base 2015 = 100), by Type of Building and Construction, Year and Statistics, (BEQ04)* & CSO, *Average Earnings, Hours Worked, Employment and Labour Costs, (EH103)*

2.3 Planning

Recent Planning Permission Trends

displays data from the CSO on planning permissions granted for both houses and apartment units along with data on the amount of new dwelling completions. A metric of interest is the difference between the level of new dwellings completed and the level of planning permissions granted in any given year. As outlined in Table 1, the difference between permission granted for housing units and housing completions has remained between approximately 1,000 and 4,000 annually over the past decade. In contrast, the difference between permission granted for apartments and the amount of apartment dwellings completed has increased rapidly in recent years from 3,123 in 2017 to 22,300 in 2020. Data reported by the Dublin Housing Supply Coordination Task Force indicates that as of 2020Q4 in Dublin, there were 2,277 houses under Construction and 6,972 permitted housing units which have yet to be commenced. In contrast, there were 9,970 apartment units under construction and 35,505 permitted apartments yet to be commenced. More detailed time series planning data reported by the Dublin Housing Supply Coordination Taskforce is available in Appendix 4.

Figure 14 Units for which Planning Permissions Grants (Houses & Apartments), and New Dwelling Completions Nationally.

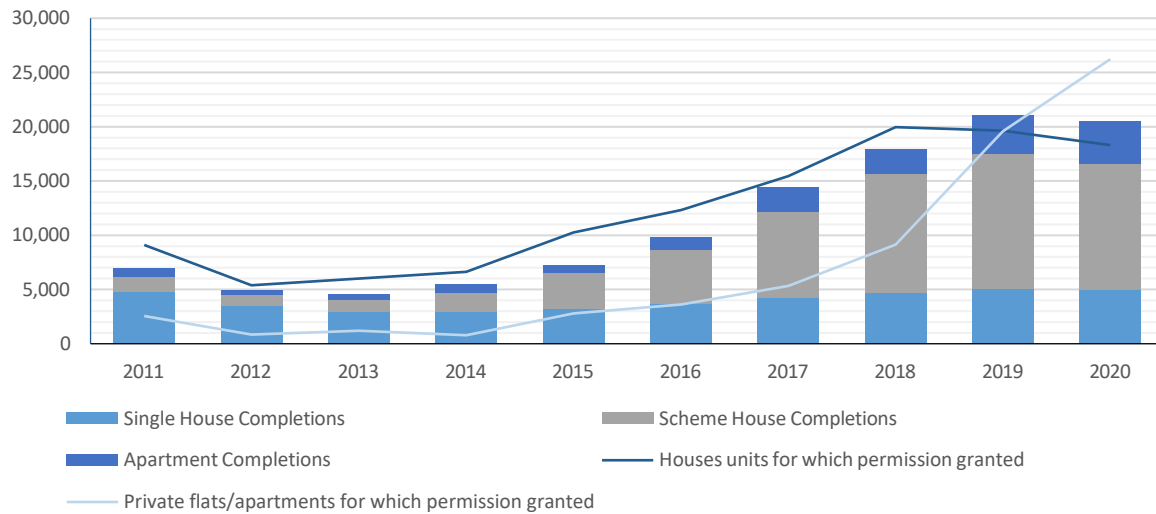


Table 1 Annual Difference between Units for which Planning Permission is Granted and New Dwelling Completions.

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Houses	2,926	924	1,900	1,856	3,704	3,611	3,307	4,317	2,074	1,703
Apartments	1,725	415	724	37	2,121	2,473	3,123	6,877	16,093	22,300

Source: CSO, New Dwelling Completions (NDA02), and Planning Permissions Granted for New Houses & Apartments (BHQ05).

Planning, Supply Barriers and the 'Fast Track' Approach to Regulation

Lennon and Waldron (2019) refer to the assertion made by some that planning is 'a brake or obstacle to growth, productivity and competitiveness' (Parker & Doak, 2012) and discuss the institutionalisation of a streamlined 'Fast Track' process to enable planning applications for large-scale housing developments of 100 units or more to be made directly to the Irish planning appeals board. In light of acute house price inflation since 2014, they discuss the argument of construction sector lobbyists, developers and real estate investors that onerous costs imposed upon developers by the planning system, including development fees, levies and planning gain contributions, and the lack of development certainty in the planning process, as well as the costs imposed by planning's bureaucracy, made housing construction economically unviable, thus undermining supply. In particular, they draw attention to the fact that the development sector identified the planning system as the key barrier to housing supply and promoted planning reforms that were facilitative of development interests.

Utilising planning permission data to measure regulatory conditions at a local authority level between 1990 and 2013, Lyons (2015) examines the interaction between Irish planning regulation and housing supply before and after the financial crisis. Results indicate that regulatory conditions appear counter

cyclical. Planning applications were roughly twice as likely to be refused between 2002 and 2007 when compared to before or after that period. Similarly, between 1998 and 2004 conditional approvals were subject to increasing numbers of conditions. Lyons (2015) argues that the supply of permits is elastic while the demand for permits is inelastic, noting:

“Regulations that affect the supply of permits [...] will have very little impact on quantities. This suggests that process-focused regulation will have far less of an impact on housing supply than regulation that affects outputs. The lack of construction activity in Ireland since 2010, then, is likely to stem from some aspect of the demand for permits, in particular the cost base of housing, included where this is affected by regulation, rather than the supply of permits”

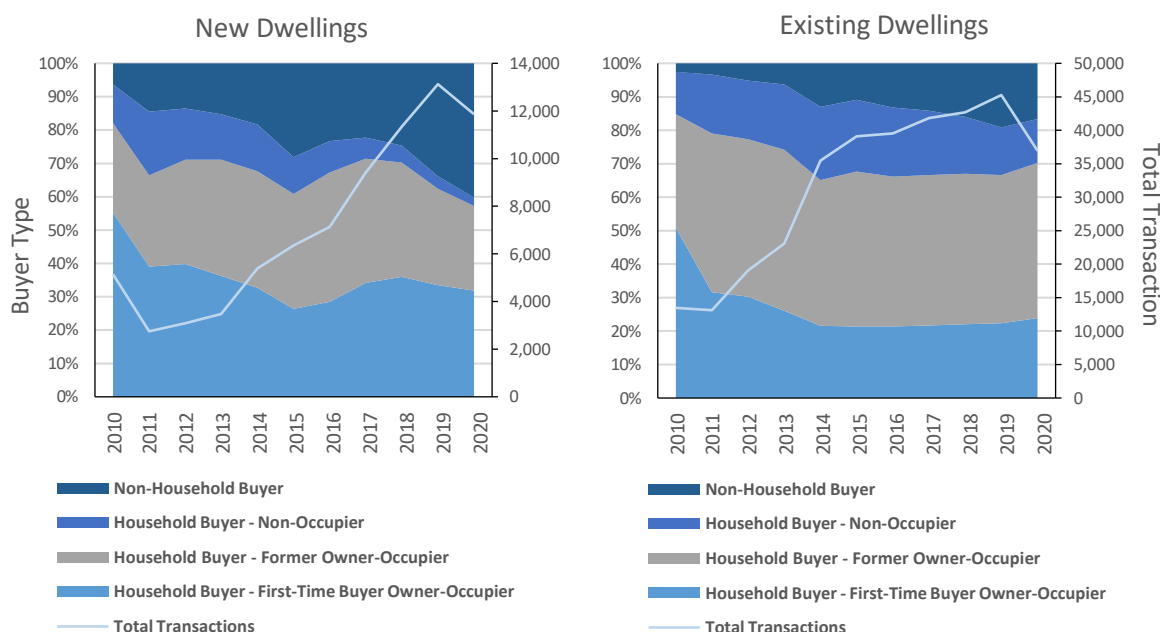
A less complex planning process can support improvement in housing supply *if* planning is indeed one of the primary bottlenecks to supply, but if other factors such as viability are the primary driver of supply shortages, there is a risk that process focused regulation, such as fast tracking, will have little impact on supply. Observing changes in the gap between permission granted for apartments and the amount of apartment dwellings completed (3,123 in 2017 to 22,300 in 2020), and noting the 9,970 apartment units under construction in 2020Q4 compared to the 35,505 permitted apartments yet to be commenced, it is evident that planning permissions alone do not guarantee supply, and that additional and complementary measures to incentivise development may be warranted. In particular, measures to address the hoarding of development land and the use of land for speculative purposes could be effective.

2.4 The Composition of Buyers and Activity of the Non-Household Sector

The non-household sector is made up of private companies, charitable organisations as well as state institutions, LAs and AHBs. Figure 15 displays data published by the CSO on the composition of buyers and number of annual transactions for new and existing residential dwellings since 2010. In the market for new dwellings, the trend is one of decreasing activity by non-occupier households, and increasing activity in the non-household sector. A similar but more subdued trend can be observed in the market for existing dwellings. The total number of transactions in the market for new and existing dwellings increased annually between 2011 and 2019.

Relative to 2019, 2020 saw the number of new dwellings purchased by household first time buyers and former owner-occupiers decrease, while the number of dwellings purchased by non-household buyers increased. In 2020, the non-household sector accounted for the most new dwelling purchases of any buyer type nationally (40.26%). This is amplified in Dublin where 53.01% of new dwellings were purchased by the non-household sector. The fact that 2020 was a year of some disturbance to market transactions due to Covid-19 suggests the proportion of non-household buyers observed in 2020 may be above what one would expect had a normal transaction trend been observed.

Figure 15 Composition of Buyers & Total Transactions for Residential Dwelling Property Transactions – Volume of Sales, Market Sale, New and Existing Dwellings



Source: CSO, Residential Dwelling Property Transactions, (HPA02)

Composition of the Non-Household Sector

The non-household sector is made up of private companies, charitable organisations as well as state institutions. To illustrate, Figure 16 below displays a breakdown of non-household purchasing activity by sector for both new and existing apartments (4,938 total units) and houses (5,832 total units) in 2020. The sector within the non-household segment of the market accounting for the highest proportion of apartment purchases in 2020 was the Financial & Insurance sector (39.08%).¹⁰ The sectors accounting for the highest proportion of house purchases in 2020 were the public, education and health sectors (47.43%).¹¹ The Real Estate sector¹² accounted for 14.56% of non-household apartment purchases, and 10.75% of non-household house purchases.

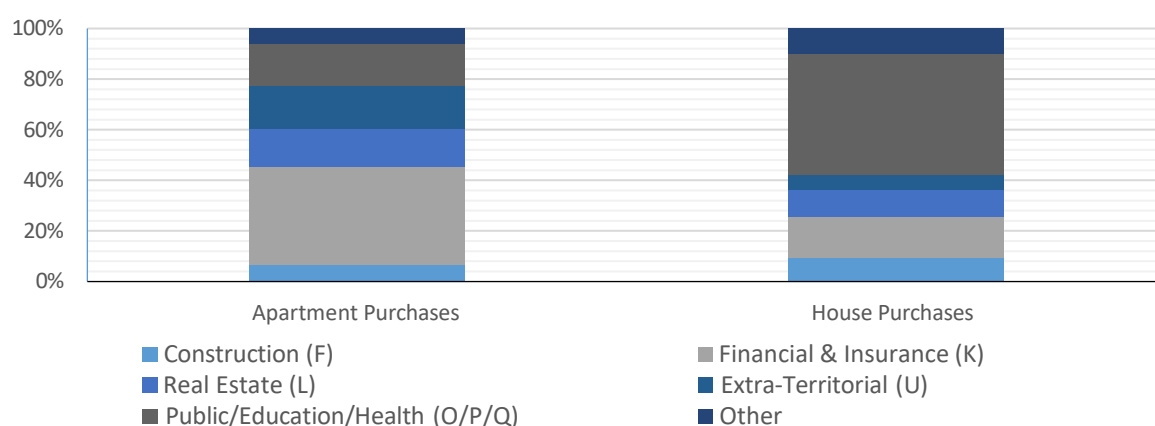
With the exception of the public, education and health sectors, other components of the non-household sector have largely been net sellers (i.e., sold more units than they purchased) between 2010 and 2020 (See appendix 1 for more detail on net activity).

¹⁰ Includes banks, holding companies, trusts, funds, and similar financial entities.

¹¹ Includes Approved Housing Bodies and residential care units.

¹² Includes real estate management companies, and companies engaged in buying, selling, renting or operating their own real estate.

Figure 16 Sector Breakdown of Non-Household Purchases for Apartments and Houses, 2020



Source: CSO, Market-Based Non-Household Transactions of Residential Dwellings, (HPA12)

Households and Non-Households

Importantly, the household and non-household segments of the market interact with each other such that households sell to households, non-households sell to non-households, households sell to non-households and vice versa. These sectoral overlaps are displayed in

Table 2 for new and existing apartments and house for 2020 nationally. Time series for these categories since 2010 are available in the Appendix.

In 2020, the market for new apartments was dominated by intra-non-household activity (77.21%) suggesting the majority of newly constructed apartments were absorbed by the private rental sector. Notably, new apartments tend to make up the smallest portion of new units delivered annually when compared to houses (see Figure 14). The market for new houses is dominated by non-household to household sales (63.47%), though over a quarter of new house sales (27.30%) were intra-non-household. Approximately half (51.49%) of sales in the market for existing apartments was intra-household. A combined 40.36% of existing apartment sales went to the non-household sector through both intra-non-household and household to non-household sales. Finally, the market for existing homes was dominated by intra-household activity (82.87%).

Table 2 Volume of Residential Dwelling Sales for New and Existing Houses and Apartments by Sectoral Flow, 2020

	New		Existing	
	Apartments	Houses	Apartments	Houses
Household to Non-Household	3.98%	1.82%	19.50%	6.96%
Intra-Household	2.08%	7.41%	51.49%	82.87%
Intra-Non-Household	77.21%	27.30%	20.86%	3.60%
Non-Household to Household	16.74%	63.47%	8.15%	6.57%
All sector flow types	2,312	9,379	7,584	29,356

Source: CSO, Residential Dwelling Property Transactions, (HPA09)

Trends in Institutional Investment

The Department of Finance (2019) found that, as of 2018, large-scale professional landlords have not played a major role in the Irish market to date. Instead the rental sector has traditionally been made up of relatively small scale 'buy-to-let' investors. However, the report notes that, since the financial crisis, the role of investment companies such as pension funds, specialist private rental firms, and Real Estate Investment Trusts, has been increasing although from a very low base. The report concludes that these companies represent a very small proportion of landlords relative to the entire rental stock.

Byrne (2021) notes that the private rental sector (PRS) in Ireland, specifically institutional investment in private rental housing and purpose-built large scale residential assets, has become an increasingly attractive option for investment in recent years due to factors such as urbanisation, demographics driving demand for smaller units, lack of supply, rising rents, and a supportive monetary policy environment. Byrne also touches on the point of Beswick et al (2016), which argues one of the main factors driving the influx of institutional investment in the private rental sector was the wave of distressed assets which opened up the opportunity for investors to accumulate stock to be converted into PRS housing. Indeed, as outlined above, there has been growth in the activity of the non-household sector since 2010, and relatively high levels of apartment acquisition were seen within the real estate, financial and insurance sectors in 2020 (53% of non-household apartment purchases).

Byrne (2021) argues that, from an industry perspective, the private rental sector is seen to be counter cyclical. This view is supported by the performance of the sector following the GFC, and because a decline in economic activity, reduced viability of build-to-sell developments, and consequently reduced access to homeownership, intensified demand for private rental sector housing. The flip side of this counter-cyclicity is that the PRS may be less capable of providing supply during periods of high growth in an economy. Attractive returns in the years following the GFC were partially brought about by the depressed prices of distressed assets. In recent years these prices have recovered, potentially impacting margins and investment incentives.

Lyons (2021) details the role of international capital in meeting supply and outlines viability issues curtailing the delivery of private rental units for sale. A notable structural evolution that occurred following the GFC in Ireland was an increase in the flow of international capital into the market, and a process of financial disintermediation arising from a bypassing of domestic banks. Lyons (2021) points out that 78% of annual total development finance for real estate between 2017 and 2019 was international debt and equity. Lyons argues that international capital has a vital role to play in delivering the necessary supply of housing, and that despite the growing prevalence of international capital, there remains substantial barriers to viability in the private rental sector that limit supply and

exacerbate affordability issues. These include construction costs, site costs, the cost of capital, taxes, and delays and uncertainty arising from the planning system.

3. Irish Housing Policy and Measures

This section will outline the various ways in which the State intervenes in the market for housing and is split into two main parts:

- 1) An Overview of Housing Policy Developments
- 2) The Delivery of Social Housing Units

3.1 An Overview of Housing Policy Developments

The Government published the *Housing Policy Framework - Building Sustainable Communities* in 2005 followed by a policy statement, *Delivering Homes, Sustaining Communities* in 2007. Both documents set out the Government's aim to develop the Irish housing sector from 2008-2017 by delivering more and better quality housing responses and by doing this in a more strategic way. In 2008 the financial crisis stalled the urgency and capacity to add to the housing stock in Ireland as capital expenditure and private investment in housing fell.

In 2011 the Government published a housing policy statement outlining several measures including more equitable treatment of housing tenure, maximising the delivery of social housing supports within the resources available, transfer of responsibility for long term recipients of rent supplement to local authorities, new mechanisms for the delivery of permanent social housing, the standing down of all affordable housing schemes and a formal review of Part V. More equitable treatment of tenures reflected movement away from incentives to home ownership; the review of Part V was with a view to reducing the requirement on developers to sell a proportion of new builds as affordable homes.

In 2014, with Ireland's economy showing significant recovery (4.8 per cent growth) and a stabilising of house price levels (see Section 2) the Government launched *Construction 2020*. This was a strategy for a renewed construction sector with key objectives such as creation of the National Framework for Housing Supply and the Housing Supply Coordination Taskforce for Dublin. *Construction 2020* cited the importance of "attracting large scale investment in professionally managed residential property, for example using Real Estate Investment Trusts and other options for long-term investment".

Construction 2020 was concerned with the risk that development would be hampered if the necessary financing for projects was limited. Indeed the urgency for housing may partially have been a result of the drop off in supply that took place in the previous years as a result of pro-cyclical contraction of housing spend. A High Level Working Group chaired by the Department of Finance was established to explore the issue of sustainable bank financing for the construction sector. It was to establish

current levels of development finance provision, identifying obstacles to increasing development finance provision and explore how best to facilitate the resolution of disputes over the availability and terms of development finance. The Group was to evaluate options to support complementary sources of financing, e.g. mezzanine finance, on viable terms and facilitate the provision of financing by specialist funds and NAMA (with regard to the property it holds as security for its loans). It also had the role of evaluating the potential for increasing foreign capital into the development finance area. The fact that foreign capital and PRS had the potential for a large counter-cyclical impact made it a strong potential source of swift investment into the housing sector.

In 2016 the Government launched *Rebuilding Ireland: Action plan for Housing and Homelessness*. It had five main pillars: To address homelessness, accelerate social housing, build more homes, improve the rental sector and utilise existing housing. The plan was to increase new homes for the growing and working economy and to address the rising social housing need. The Plan alluded to the fact that Construction 2020 and actions taken by Government over the previous 5 years were insufficient in delivering housing development at the scale and speed required. While the measures in these previous plans sought to attract investment into the PRS, they did not engage with other issues that were likely to arise such as rapid inflation in the price of development land (increasing unit costs and reducing affordability and viability), land supply issues, land speculation and hoarding. Rebuilding Ireland 2016 acknowledged the complex interactions that had to be facilitated across factors such as land supply, development finance, market viability, industry capacity, various regulatory systems and the needs of house-buyers and tenants if successful housing outcomes were to be achieved.

The 2016 Action Plan highlighted persistent under supply in the housing market. According to data from the Dublin Housing Supply Task Force, of 26,886 potential units with planning permission in place in Q1 of 2016, only 18 per cent were under active construction, thus 82 per cent (22,077) of potential homes with planning permission in Dublin were not commenced at all. The Action Plan put the housing supply deficit in 2016 at over 50,000 homes and argued supply in excess of 25,000 units per annum was needed to account for pent up and future demand. According to the action plan, this would require moving from the then current level of supply (12,666 in 2015) towards 25,000 per annum as quickly as possible, through transformational actions across social, private and rental housing.

Pillar 2 of the plan, accelerating social housing, was to be supported with Exchequer funding of €5.35 billion, again demonstrating the pro-cyclical nature of the capital spending pattern. To supply an intended 47,000 units over the period 2016 to 2021 would require 1.) private development activity capable of meeting market demand while delivering 10% social housing units under Part V and providing a supply for targeted acquisitions and 2.) local authority and AHB capacity in terms of skills,

access to developable land, borrowing, processes etc., to directly deliver programmes across capital and current expenditure, and particularly direct build/refurbishment.

Increased funding and financing from the HFA was provided to local authorities and AHBs to increase delivery. The Action Plan anticipated a progressive increase in social housing build activity to over 5,000 homes a year by 2021. The eventual outcome in this regard was 3,000 homes build in 2019, up from a very low base in 2015-16.

From the GFC until the launch of the Housing for All plan in 2021, government policy on public housing has been characterised by pro-cyclicality and has taken place alongside significant housing supply deficits in general. Whether or not the Housing for All plan will address these issues is beyond the scope of this paper, but we give a brief description of the plan below.

Housing for All

In 2021, the Government's latest set of policies to address housing issues in Ireland was announced as part of the Housing for All Plan. Housing for All points out the lack of supply in both the private market and social housing sectors, acute affordability issues resulting in average income households being unable to afford accommodation costs, high levels of homelessness, high construction costs, underutilisation of vacant housing stock, and environmental concerns.

Housing for All identifies the need for over an additional 300,000 homes by 2030. To deliver these homes, the plan commits to increased capital funding through a combination of social homes (90,000), affordable homes (36,000), and cost rental homes (18,000). The remaining 170,000 homes are to be delivered through the private sector.

In response to rising private market rents, Housing for all included cost rental. This is a form of accommodation whereby the payments made by tenants only cover the costs of unit delivery, debt servicing and refurbishment. Cost rental is distinct from for-profit rental models because profit margins are not factored into rent payments.

In response to affordability constraints in the homeownership market, Housing for All commits to greater levels of homeownership subsidisation through the launch of a LA led affordable purchase scheme whereby LAs provide homes at a reduced costs by taking an equity stake equivalent to the difference between the affordable price offered through the scheme and the prevailing market price for the property. In a similar vein, Housing for All introduces a *First Home* shared-equity scheme that looks to bridge affordability gaps by providing up to 30% equity support for first time buyers.

In response to the impact of residential zoning and planning permissions on land prices, Housing for All introduces a new system of land value sharing whereby the State can secure a proportion of the value uplift in development land after it has been rezoned for residential purposes.

Housing for All contains a range of measures to support and stimulate private market development. Effective from 2026, Housing for All also introduces new Part V contributions requiring an additional 10% contribution applied to affordable and cost rental housing. With regard to planning, Housing for All takes several steps to streamline the planning process for large scale developments. At the same time, to address under-utilised planning permissions, Housing for all sets out *Project Tosaigh* which provides an additional €1bn in funding to the Land Development Agency (LDA) to identify slow or stalled developments, and explore the possibility of entering into a strategic partnership with landowners to increase delivery.

3.2 The Delivery of Social Housing

State housing expenditure is primarily targeted at addressing housing need by providing accommodation to those that cannot access it by private means. Housing need refers to households that do not have access to a certain basic standard of accommodation. High accommodation costs and income constraints are the primary drivers of housing need. Social housing support is delivered through current and capital expenditure. There are multiple measures in place to provide social housing supports which are delivered by Local Authorities (LAs) and Approved Housing Bodies (AHBs).

More detailed analysis of the costs, outputs and rationale of different social housing delivery mechanisms is available in previous IGES Spending Reviews (O’Callaghan 2017; O’Callaghan et al. 2018; O’Callaghan and Kilkenny 2018; O’Callaghan and Farrell 2019; O’Callaghan and Farrell 2020). This section will give a brief overview of social housing delivery mechanisms, recent trends in output and expenditure, and briefly outline the various funding programmes in place that support the delivery of social housing.

Social Housing Demand and Delivery Mechanisms

Table 3 displays the number of households with an unmet social housing need, and the total number of social housing units delivered annually. The number of households with an unmet social housing need has declined every year since 2016, while the number of social housing units delivered increased every year between 2016 and 2019.

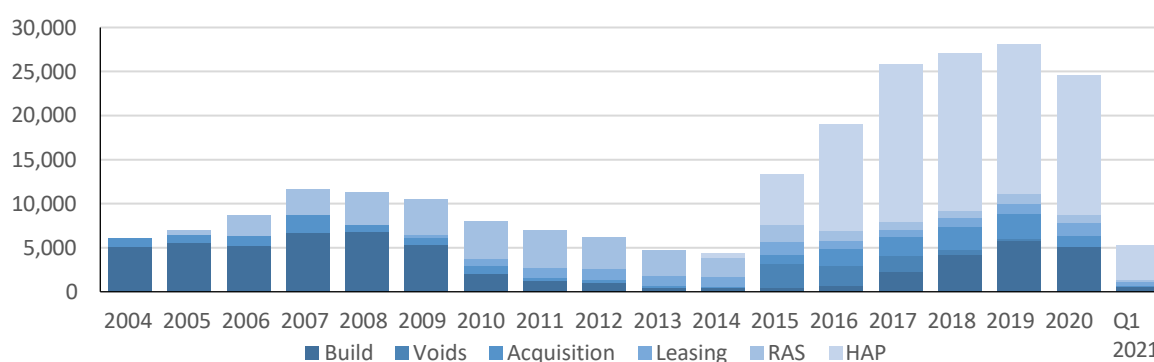
Table 3 Households with Unmet Social Housing Need and Social Housing Units Delivered Annually

	2016	2017	2018	2019	2020
Households with Unmet Social Housing Need	91,600	85,799	71,858	68,693	61,880
Social Housing Unit Delivered	19,045	25,885	27,090	28,075	24,626

Source: DHLGH

There are a number of mechanisms currently in place by which the state delivers social housing units. Capital expenditure measures include the construction of new units by Local Authorities, the acquisition of units from the private market for use as social housing as well as programmes which support LAs to develop and reutilise vacant houses for social housing purposes such as void programmes. Leasing by LAs and Approved Housing Bodies (AHBs) is facilitated by the Social Housing Current Expenditure Programme (SHCEP). This allows LAs to recover the cost of dwellings which are sourced for leasing as social housing under this programme. The Housing Assistance Payment (HAP) provides support towards rent to recipients who source accommodation within the private rental market. Finally, the Rental Accommodation Scheme (RAS) allows LAs to source accommodation from the private market and enter into a tenancy agreement with recipients. The delivery of social housing units across these different delivery mechanisms is illustrated in Figure 17. Between 2004 and 2009, builds accounted for the largest share of newly supplied social housing units annually. Between 2016 and 2020, HAP has accounted for the largest share of units delivered by a significant margin, followed by builds, leasing and acquisition.

Figure 17: DHLGH Social Housing Output by Delivery Mechanism



Source: DHLGH

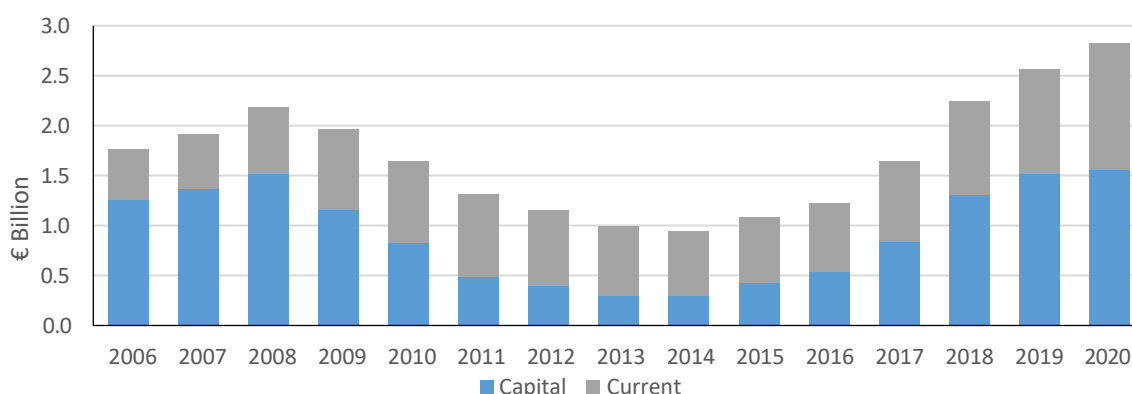
Though not displayed above, the Rent Supplement is a noteworthy measure that was first introduced in 1977 as an income support (rather than a direct housing support) administered by the Department of Social Protection. The Rent Supplement assists those in private rental accommodation who are unable to afford accommodation costs. Originally Rent Supplement payments were intended to deal with short term need caused by unexpected changes in household circumstances. Those in receipt of Rent Supplement are still considered in need of housing (O'Callaghan, 2017). Both HAP and RAS were

introduced to target households in receipt of Rent Supplement long term. In contrast to the Rent Supplement, under RAS and HAP households do not lose their support if income increases. As outlined in previous IGEEES spending reviews, annual increases in current expenditure between 2015 to present have been accompanied by a shift away from the Rent Supplement and consolidation of all housing supports in the local government sector (O’Callaghan & Kilkenny, 2018).

Current and Capital Housing Expenditure

Figure 18 graphs the trend in current and capital housing expenditure for 2006-2020. Due to austerity measures following the 2008 financial crisis, capital expenditure on housing fell significantly from the years 2008-2012. As the economy recovered from 2012 until 2016, and demand for housing has increased, demand was increasingly facilitated through current expenditure. This trend is symptomatic of the reliance of social housing delivery on exchequer funding and post GFC trends in overall exchequer expenditure and construction sector activity. As the Irish economy has recovered from the GFC, capital expenditure on social housing has increased.

Figure 18 Current and Capital Housing Related Expenditure



Source: DPER Databank and DHLGH. Note: Current and capital expenditure between 2015 and 2020 include LPT own funding. Current expenditure includes Rent Supplement and Mortgage Supplement through DEASP.

Table 4 displays a more detailed breakdown of housing related expenditure (current and capital) and social housing delivery since 2016.

Table 4 Housing Related Expenditure and Output, 2016 – 2021.

	2016	2017	2018	2019	2020	2021
Total Expenditure (€m)	835.5	1308.6	1,965.9	2,349.9	2,537	3,093.1
Annual % increase	31.2%	56.6%	50.2%	19.5%	7.9%	21.9%
Capital	55.6%	58.1%	62.7%	61.5%	54.9%	59.4%
Current	44.5%	41.9%	37.3%	38.5%	45.1%	40.6%
Social Units Delivered	19,044	25,901	27,086	28,072	24,622	28,550

Source: DHLGH, DPER and Author Calculation

Local Authority and Approved Housing Body Finance

As illustrated above, both LAs and AHBs construct, acquire and lease units for the purpose of social housing. Funding to facilitate this delivery is provided through a variety of sources. These include;

- Social Housing Investment Programme (SHIP)
- Capital Advanced Leasing Scheme (CALF)
- Capital Assistance Schemes (CAS)
- Social Housing Current Expenditure Programme (SHCEP)
- Capital Loan and Subsidy Scheme (CLSS)¹³

The delivery mechanism that these schemes fund are summarised in Table 5, while details of each scheme are summarised in Table 6. RAS and HAP are described above and are not included in the below tables.

Table 5 Current Funding Programmes of Social Housing Delivery Mechanisms for Local Authorities and Approved Housing Bodies

	LA			AHB				
Type of Delivery	Build	Lease	Acquisition	Build	Lease	Acquisition		
Funding Programme	SHIP	SHCEP	SHIP	CALF	CAS	SHCEP	CALF	CAS

Table 6 Description of Social Housing Funding Programmes available to LAs and AHBs.

SHIP LA	CALF AHB	CAS AHB	SHCEP AHB & LA	CLSS LAs & AHB
Funding to LAs to finance: <ul style="list-style-type: none"> • Direct Build • Rapid Build • Regeneration • Turnkey • Part V 	LA loan facility to AHBs to finance: <ul style="list-style-type: none"> • Construction • Purchase • Refurbishment Loan covers up to 30% of upfront capital costs. Repayments on the loan are not required during the term of the P&A agreement (outlined below).	LA loan facility to AHBs to delivery housing for specific needs such as homeless or elderly individuals. Funding of up to 100% available. Loan is non-repayable provided scheme conditions are adhered to.	Funding to LAs & AHBs to finance the leasing of social housing units from various sources: <ul style="list-style-type: none"> • LA sourced units from private market. • AHB sourced units from private owners. • AHB sourced units from NAMA NARPS.¹⁴ • AHBs leasing units funded through CALF to LAs. • Part V Lease 	Funding provided to AHBs to meet construction costs of social housing. LAs access funding from the housing finance agency (HFA) and provide this to AHBs via non-refundable loan. No longer operational, though loan liabilities are outstanding.

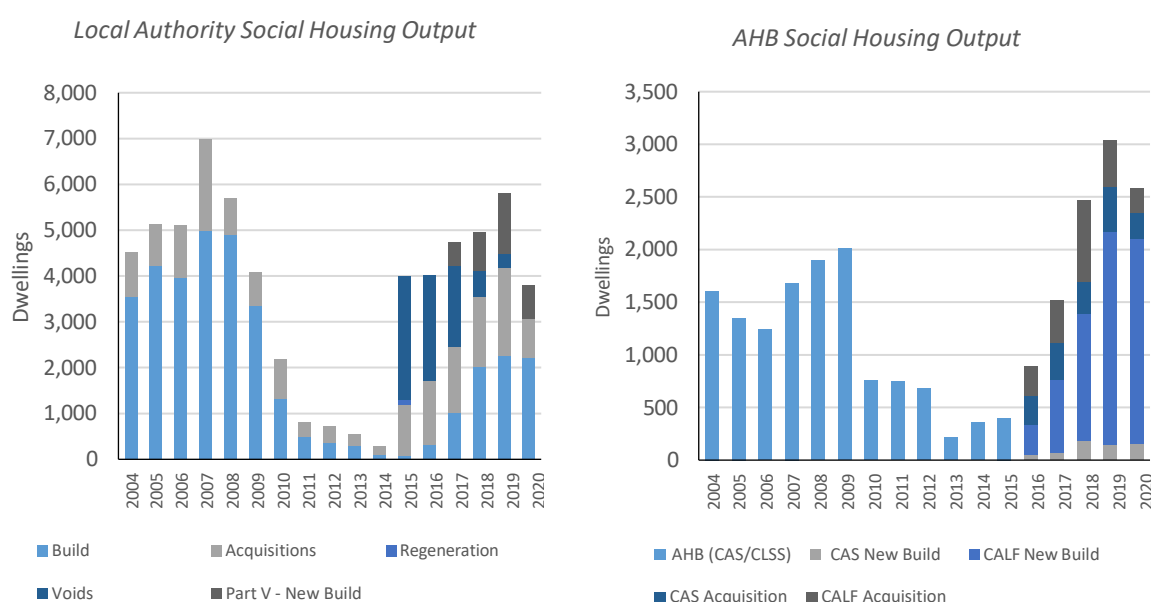
¹³ This scheme was wound down from 2009 onwards, though loan liabilities associated with this scheme are still outstanding.

¹⁴ National Treasury Management Agency (NAMA) and National Asset Residential Property Services (NARPS)

Local Authority & AHB Social Housing Output

The Approved Housing Body (AHB) sector has been increasingly utilised in recent years. AHBs (also known as voluntary housing associations) are independent, not-for-profit organisations which provide affordable rental accommodation for those unable to pay private market rents; as well as housing for particular groups such as elderly or homeless people.¹⁵ Figure 19 outlines the annual amount of social housing units delivered broken down by delivery mechanism between AHBs and LAs and, in cases where data is available¹⁶, by funding programme. AHB social housing output follows a similar trend to LA output with a significant drop in units delivered during the 2010 – 2016 period. In recent years CALF has funded the highest proportion of units delivered by AHBs. Since 2018, LAs have built roughly twice as many units as AHBs annually.

Figure 19 Local Authority and Approved Housing Body Social Housing Output by Delivery Mechanism, 2004 - 2020



Source: DHLGH

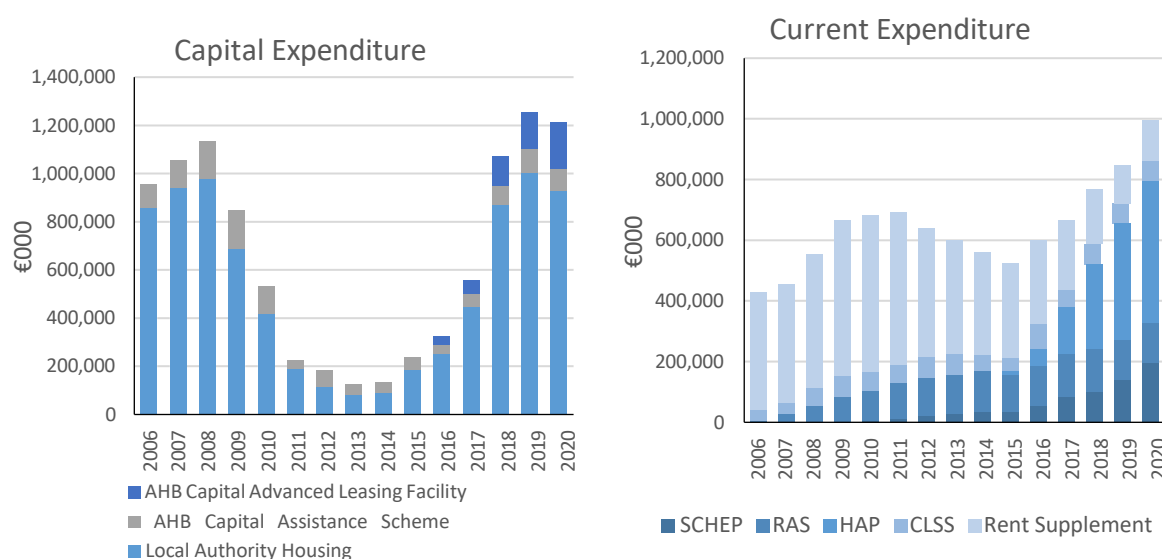
Expenditure by Delivery Mechanism

Figure 20 graphs social housing related current and capital expenditure measures between 2006 and 2021. In the period following the GFC, Irish public expenditure in the area of housing is characterised by decreased supply side (Construction by LAs and AHBs) and increased demand side (current spending) public expenditure (RAS, HAP, SCHEP) .

¹⁵ AHBs also include housing co-operatives. These are organisations controlled by members and tenants who actively participate in setting policies and decision making.

¹⁶ Due to changes in the way data is reported, there is a greater amount of funding mechanism detail available for social housing units delivered from 2016 onwards.

Figure 20 Expenditure on various Social Housing Delivery Mechanisms, 2006 – 2020



Source: DPER Databank & DHLGH. Capital and CLSS expenditure between 2015 and 2020 include LPT own funding.

In 2020 approximately 90% of housing related expenditure was captured by the following policies;

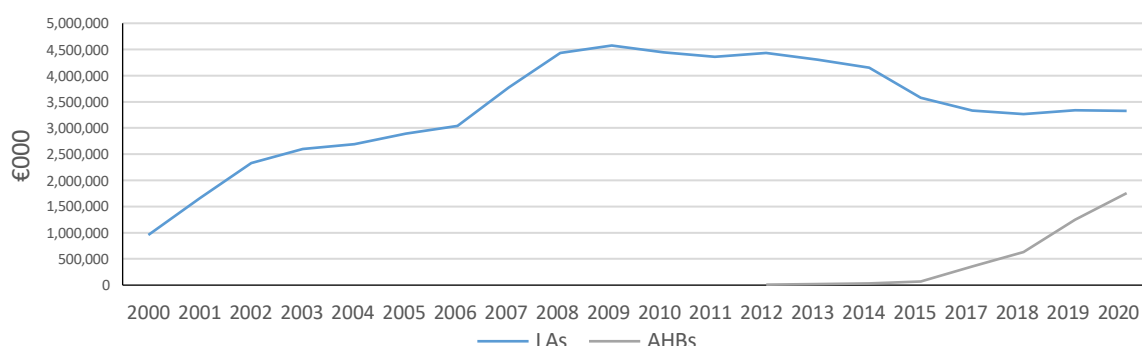
- The Housing Assistance Payment: €464.6m [40% annual average increase since 2017]
- The Rental Accommodation Scheme: €132.9m [stable trend since 2014]
- Local Authority Housing: €890.5m [47% annual average increase since 2014]
- Approved Housing Body (CALF, CAS): €249.5 [34% annual average increase since 2014]
- Social Housing Current Expenditure Programme: €197.3m [34% annual average increase since 2014]
- Capital Loan Subsidy Scheme: €53m [3% annual average increase since 2014]
- Homeless Accommodation: €270.9m [26% annual average increase since 2014]

The Housing Finance Agency

Shown in Table 6, CALF provides for up to 30% of the upfront capital costs of AHB delivery. Another important source of financing for AHBs and LAs is the Housing Finance Agency (HFA). The function of the HFA is to advance loans to LAs, AHBs and Higher Education Institutions to be used by them for any purpose authorised by the Housing Acts and to borrow or raise funds for these purposes. The HFA avails of long term fixed and variable rate finance from the National Treasury Management Agency (NTMA), European Investment Bank (EIB), Council of European Development Bank (CEB), local authorities and others. HFA fundraising can be subject to a guarantee by the Minister of Finance and

as such the HFA is considered an extension of the States' own in house activity.¹⁷ As of 2020, the HFA currently has an outstanding loan book of €5.28 billion.¹⁸ Figure 21 displays the overall amount of outstanding loans to both LAs and AHBs since 2000.

Figure 21 Housing Finance Agency Loan Book for AHBs and LAs, 2000 – 2020



Source: Housing Finance Agency Annual Reports, 2000 – 2020

HFA & Local Authorities

Outstanding loans to local authorities advanced since 27 May 1986 total €3.2bn as of the end of 2020.¹⁹ A significant portion of these funds are retained by LAs for social housing purposes. The remainder is lent by LAs to individual borrowers (LAs are responsible for any losses that may arise on these loans). The HFA has not experienced any loan losses on loans advanced to LAs after 1986 and maintains that no credit risks, other than sovereign risk, exist on loans advanced to LAs during this period.

AHB and LA Leasing Arrangements

A Payment and Availability (P&A) Agreement is the contract which forms the basis of availability arrangements between LAs and AHBs for the purpose of social housing support. While a P&A payments come out of the SHCEP budget it is not technically leasing.²⁰ Under a P&A agreement, AHBs continue to own the unit and agree to make it available to LAs for the purpose of social housing support. LAs identify tenants, confirm the market rent, and make regular payments to AHBs. DHLGH then reimburse LAs. In cases where an LA does not provide 100% of the upfront cost of delivery to AHBs, for example under the Capital Assistance Scheme (CAS) described above in Table 6 whereby LA

¹⁷ [State aid N 209/2001 - Ireland \(europa.eu\)](https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:32009N0209)

¹⁸ [The Housing Agency Annual Report 2020.](#)

¹⁹ Loans to LAs approved pre 27 May 1986 were converted to variable and fixed rate loans in 2015, on the maturity of an underlying index-linked bond. As of 2019 these loans represent outstanding balances of €5.2m, and the HFA is liable for any credit losses that may arise on these loans.

²⁰ In the event that the property is not available the P&A payment is stopped. With a lease agreement the lessee is obliged to make a payment irrelevant of whether it is occupied or not

to AHB loans cover up to 30% of the upfront capital costs, a continuation agreement may be entered by the AHB, the LA and a third party lender when the AHB looks to take out a loan in addition to finance provided by LAs. The units avail of the P&A payment, subject to the terms and conditions of the Payment and Availability Agreement. AHBs enter into a loan agreement with a third party lender and in certain circumstances a continuation agreement allows the lender to appoint a receiver and in that instance to continue to receive the P&A payment subject to the property being maintained and other terms of the P&A being complied with. In that instance the LA would make the P&A payments to the bank appointed receiver.

HFA & Approved Housing Bodies

Since 2012, AHBs have been able to borrow directly from the HFA. Prior to 2012, LAs would borrow from the HFA and then provide funding to AHBs through the CLSS (Table 6). AHB properties are either bought or built by AHBs and financed by loans raised by the AHB. These loans can be through CALF, CAS, the HFA and the private sector. After CALF, in most cases the HFA provides for approximately 90% of the remaining finances.

The remaining 10% can be provided for through either AHBs own funds or through private sector credit. Income received by the AHBs from a Payment and Availability Agreement (P&A) with a local authorities and the differential rent from tenant will fund the repayment of HFA loans, after their management and maintenance costs are met . AHB finance sourced from parties other than LAs are subject to continuation agreements. AHBs enter into a loan agreement with a third party lender and in certain circumstances a continuation agreement allows the lender to appoint a receiver and in that instance to continue to receive the P&A payment subject to the property being maintained and other terms of the P&A being complied with. In that instance the LA would make the P&A payments to the bank appointed receiver.

4. Land

While the supply of land is fixed at any given time, the supply of suitable development land is not (though it has an upper ceiling theoretically equal to the supply of land). The availability and usability of development land is dependent on a range of geographic factors as well as zoning, planning regulations, and access to infrastructure such as water, energy and transport.

NESC (2015) point to Evans (2004) who argues that the supply of urban development land is uncertain and variable because landowners have motives other than maximising the current income from land. Instead they can speculate on future increases in development land value. Information inefficiencies and uncertainty in the market for urban development land result in land not being smoothly allocated

to its most current profitable use. Searching for sites and negotiating with land owners is convoluted and can be costly and fraught with delays for developers. In the same vein, Bentley (2017) argues that the current value of development land is the net present value of expected cash flows arising from immediate development *as well as* the potential expected values of developing land at a future date thereby giving it option value. Such option value can incentivise land owners and developers to forestall the current sale of land and speculate based on future potential values. High speculative forecasts could thus reduce the level of development activity. Increases in uncertainty in land values increases the option value of land, and thus speculative behaviour, which can in turn curtail genuine output (Costello and Leishman, 2011).

A further behavioural response of developers to irregular land supply is that, to ensure ongoing works, a sustainable stock of development land must be acquired well in advance of any intended development (Evans 2004, NESC 2018a). Uncertainty in supply can incentivise the establishment of land banks. This can contribute to greater supply irregularity in the overall market. The combination of land acquired for its option value and the need for developers to establish land banks to ensure their development activities are secure, means that developers may compete with one another for a scarce supply of sites. This can create a positive feedback loop, further driving up development land prices and thus the land's option value, potentially encouraging more speculation and land hoarding.

An outcome of intense competition among developers for land is that the most optimistic bidder (who foresees highest house prices and/or lowest build costs) will acquire a given site (since willingness to pay is a function of expected value). The result is that property tends to be developed close to the margin of viability (NESC 2018a). It may not be in developers' best interests to prioritise development above all else, but to allow a steady stream of supply into the market. As Bentley (2017) puts it, developers will not wish to build more houses in a given period than can be sold at the market price in the area concerned. Jefferys *et al.* (2014) argues that the rational response of developers to the above 'land trap' scenario is to manage land risk by releasing homes slowly, further arguing that competition in the building/development market occurs at the wrong stage; in the asset acquisition stage, and not the customer facing production stage.

The systemic nature of the land trap problem, which means rational decision making agents will tend towards business decisions that drive up land and house prices, suggests a holistic approach to achieving sustainable housing supply is required. Indeed, in 2016 the Government's Action Plan for Housing and Homelessness acknowledged the barrier that existed for new builds by local authorities

as a result of inflated land prices. Despite land being zoned across planning authorities, it points out that landowners may have unrealistic expectations and choose to withhold sale of land until very high prices are agreed (Rebuilding Ireland, Govt. of Ireland, 2016). According to NESC (2018a), it is an overall system of land management, housing provision and secure rental that will underpin affordability.

Some evidence of land hoarding in the Irish housing market exists. NESC (2018a) points out that NAMA's 2016 annual report showed that just 6 per cent of residential development land sold by NAMA had been built on by 2018. The CEO of NAMA claimed in 2017 that significant hoarding of land released by NAMA was taking place in order to increase developer profits; specifically, that the agency had sold enough land to build 50,000 homes but just 3,000 had been delivered (Irish Independent, 2017)²¹.

NESC (2018a) looks at land supply dynamics in the Irish housing market. Two factors driving variation in the supply of land are put forward; landowners' decisions to sell, develop or hold land and the decisions of public authorities on zoning, planning and infrastructure. According to the report, Irish planning regulation can prevent undesired development but can also fail to ensure sufficient housing supply is generated. In addition, the report argues that the focal point of competition in the sector can be land acquisition and holding, rather than output in the form of high quality housing units. It is asserted that these can make land supply "uncertain, patchy and costly" leading to an unstable housing market characterised by builds unaffordable to the average income household. A later NESC report in 2020²² welcomed the formation of the Land Development Agency and suggests it should be established on a statutory footing with a mandate to provide land for social housing, and a planning role/tools to assemble land and engage in direct development (including CPO, master-planning, and land value capture).

Following a separate analysis of international experiences in housing and development infrastructure (NESC 2018b), the report outlines four commonalities which successful international approaches to affordable housing possess:

1. Active land management from public authorities with high influential power
2. Active urban development (planning/infrastructure)
3. Housing policy aimed at permanent affordability
4. A construction sector with financial/organisational/technical capacity to integrate operate effectively given traits outlined in points 1-3 above

²¹ [Nama Chief Makes Dramatic Accusations of Land Hoarding amid Housing Shortage Crisis. Irish Independent, 2017.](#)

²² NESC, 2020. [Housing Policy: Actions to Deliver Change](#)

These observations stem from analysis of countries such as the Netherlands, Germany Austria and the UK. In this sense, the problems Ireland faces in the housing market are not unique as many countries experience challenges in housing affordability. In the Netherlands in the 1990s for example, the system of social housing provision came under threat from cuts in social housing, higher prices and adaptive speculative behaviours on the part of private developers (anticipating areas intended for housing development in advance, buying/hoarding accordingly, such that municipalities then had to pay a higher price for the land, driving up the cost of social housing). Rational economic behaviour will drive speculation via the land trap and create challenges for any affluent region with high population density and growth. Successful actions, internationally, are those that can work around or off-set this phenomenon.

5. International Models of Social Housing

Definitions of social and public housing vary among European nations. International social and public housing systems can differ in terms of: the kinds of measures utilised to provide housing supports (demand or supply side); how housing co-operatives are treated; the income cohorts eligible to avail of social housing; public and private provision of social housing; as well as the ways in which social housing is financed. Kenna (2021) describes four features of social housing that vary between countries:

- 1) **Tenure:** In what form is social housing provided?
- 2) **Provision:** Who provides social housing?
- 3) **Beneficiaries:** Who is eligible to avail of social housing?
- 4) **Funding Arrangements:** How is social housing financed?

5.1 International Approaches to Social Housing

NESC (2014b) refers to the CECODHAS study which analysed the financing models used in the provision of social housing in the Netherlands, Austria, France, England, Finland and Germany. The picture of social housing provision laid out by the CECODHAS study is one of a diminishing trend in capital grants in the study countries and increasing subsidisation of lending by public authorities to low or non-profit housing agencies. Loan guarantees have also increased as a form of public support for social housing²³ All countries included in the CECODHAS study had state granted housing allowances or benefits to tenants in private and social rental sectors. The authors argued that while not a support for social housing directly, housing allowances brought about increased financial sustainability for social-housing providers, thereby stabilising the total stock of housing available to those in need of social

²³Austria is the exception.

housing. Study countries at opposing ends of the scale were the UK, with high levels of housing allowances/benefits, with Austria at the other end of the spectrum.

Austria, France and Finland follow a cost based rental model so that rents cover both current and capital costs not already covered by subsidies. In England, affordable rents are set using calculations based on property values and manual wages; 80 per cent of market rent being the level set. This explains why housing allowances/benefits form a central part of the English social housing system.

Reducing the cost of providing social housing means it can be provided with less requirement for subsidisation or allowances/benefits. The CECODHAS study compared the project development costs for social housing in the 6 study countries, as shown in Table 7 and also compared the costs of site acquisition, construction and other costs, as shown in Table 8.

Table 7: Project Development Costs for Social Housing in Study Countries.

	Helsinki	London	Netherlands	Bremen	France	Vienna
Project Development costs per sq. meter	€3,500	€3,283	€2,422	€2,306	€2,011	€1,990
Total project development costs (77sq meter dwelling)	€269,500	€252,791	€186,494	€177,562	€154,847	€153,230

Source: NESC (2014b)

Table 8: Site Acquisition, Construction and Other Costs in Study Countries (€s per m²)

	Helsinki	London	Netherlands	Bremen	France	Vienna
Site/Land Acquisition	N/A	€933	€307	€176	€402	€280
Construction work and fees	€3,381	€2,146	€1,993	€1,924	€1,407	€1,710
Other Costs	€199	€204	€122	€204	€201	€0
Total	€3,500	€3,283	€2,422	€2,306	€2,011	€1,990

Source: NESC (2014b)

The acquisition of land is a significant driver of development costs. In Austria, municipalities are encouraged to provide land at affordable prices to the providers of social housing. Housing associations in Austria have a strong hand in acquiring land for social housing due to significant equity, good access to subsidies and by using the higher density of city scapes to compensate for higher land prices. Austrian housing agencies also lease rather than buy land from municipalities to reduce up-front capital costs, paying a fixed interest rate on these leases.

NESC (2014b) points out that unlike in Ireland, major social-housing providers are not classified within the general government sector so that their borrowing does not add to the total government deficit. The reason for this difference is due to the fact that social-housing providers in the CECODHAS study countries have higher rental income compared to the rents set in local authority housing in Ireland. This is used to underpin borrowing to provide new social housing. In the past, most Irish social housing provision was through 100 per cent capital grants, but Ireland is moving toward a system using low interest government loans to housing associations, for example the Capital Advance Leasing Facility (CALF) loan described in Table 6 of Section 3. Under CALF, low interest government loans cover 30% of the cost of social housing builds. To this, housing agencies can add their own funds as well as those from the Housing Finance Agency or a bank.

There is a major difference between the borrowing of Irish housing agencies and those of their European counterparts. The rents paid by social-housing tenants in Ireland are relatively low. Thus to service borrowings, Irish housing agencies rely on subsidies (92 per cent of market rent) so that housing agencies expect to be paid slightly more than market rent²⁴. This has ramifications for the capacity of Irish AHBs to sustain payment. In Ireland, as outlined above, AHBs repay loans by leasing out builds to LAs, and directing the loan proceeds to the HFA. The possibility of self-financing projects, where tenant rents do the heavy-lifting in terms of loan repayments, is extremely limited.

5.2 A comparison of Austria and Ireland

Trends in Tenure and Prices

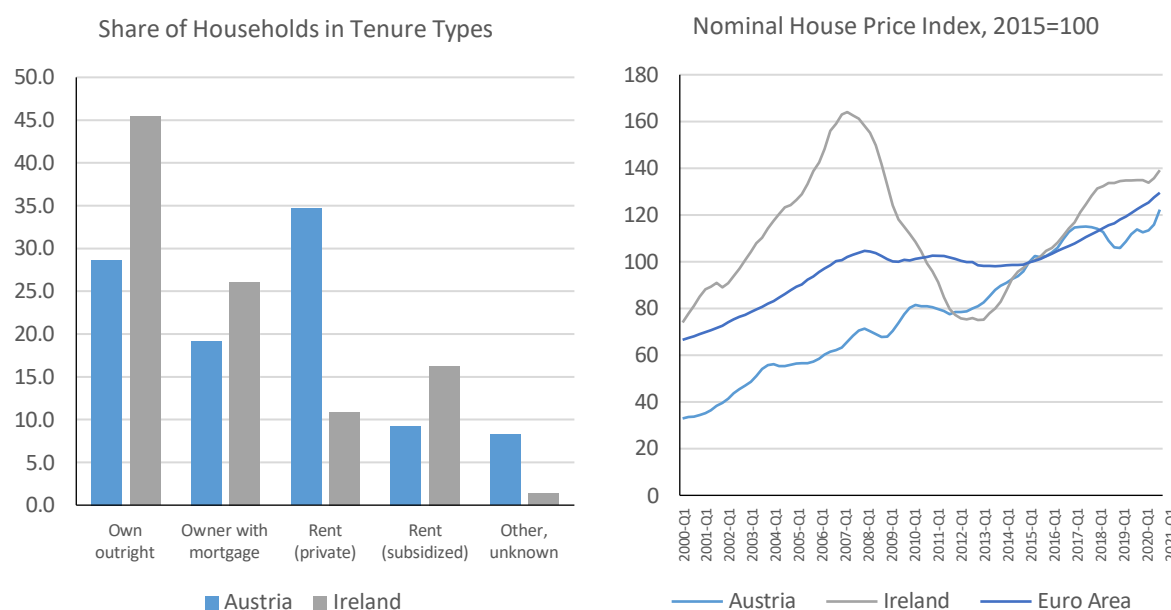
Austria is a regionalised federation of nine “Länder” or provinces, including Vienna, and a large number of smaller municipal governments (around 2,400). In urban areas, households typically rent apartment dwellings from municipal landlords, limited profit housing associations (LPHAs) and from the private markets. In contrast, Ireland has a much more centralised form of government, social housing is generally restricted to lower income groups, although cost rental is beginning to be introduced under the new Housing for All plan, and middle to higher incomes rely almost exclusively on the private market to source accommodation.

In terms of tenure, according to OECD data, Ireland has a higher level of home ownership (71.5% in Ireland and 47.8% in Austria), while Austria has a higher proportion of residents residing in the private rental sector (34.7% in Austria and 10.9% in Ireland). Notably, these differences in tenures between Austria and Ireland played an important role in how each country fared following the GFC. Low

²⁴ According to NESC (2014), the P&A agreements commit the state to providing 92 per cent of private-sector rents.

ownership rates (and therefore lower mortgage debt), conservative lending standards, and well-developed rental market were among the most important structural features of the Austrian housing market that ensured its resilience to exogenous shocks (Mundt, 2018). Irish house prices have also experienced a greater degree of volatility when compared to Austria and the Euro Area average. These features of both countries are displayed below.

Figure 22 Share of Households in Different Tenure Types, 2019, OECD International Housing Tenure Data & OECD Nominal Housing Prices, 2015=100.



Source: OECD

Social Housing Delivery Mechanisms and Financing

Key differences between the Austrian and Irish social housing models include the income levels eligible to avail of social and affordable housing, the ways in which social housing units are funded, the size of the municipal housing stock, and the degree to which demand and supply side interventions are utilised.

Austria has a larger stock of public housing compared to Ireland. Social housing delivery in Austria can be broadly split into two categories. Firstly, limited-profit housing associations (LPHAs), which manage a stock of over 900,000 units and construct around 15,000 units annually, accounting for approximately 25% - 33% of all new housing construction in Austria (Amann et al. 2017), and almost half of all dwellings in the capital city of Vienna (Deutsch & Lawson, 2012). Secondly, there is a municipal rental stock, largely concentrated in Vienna, of over 200,000 units. The municipal housing stock is mostly targeted at disadvantaged groups and households in need of social housing.

Affordable rental accommodation is a cornerstone of Austria's housing system and is provided for by LPHAs, housing cooperatives, municipal housing companies, and also private landlords. In Austria demand side assistance plays only a modest role in facilitating housing affordability and is largely available to those receiving social security and living in private rental housing (Deutsch & Lawson, 2012). Rather than relying on demand side assistance, affordability is ensured primarily through reducing the cost of housing. For example, rents within the limited profit sector are cost-rents meaning they cover the cost of debt-servicing and maintenance.

In terms of eligibility, Austrian social housing, particularly the LPHA sector, is available to a broad range of income groups. In contrast, social housing in Ireland has been traditionally targeted almost exclusively at lower income and disadvantaged cohorts. However, the roll out of the cost-rental model in Ireland represents a step change in this regard. Allowing a larger, more affluent tenant pool to access the social housing sector allows tenant contributions to finance the cost of construction projects. Another critical point is that, if the state backed affordable rental sector covers a large enough share of the market through adequate supply and accessible income criteria, the state backed affordable housing sector acts in competition with the private rental sector, thus moderating private market rents. Competition with a large cost rental sector quells private investor/developer expectations about future rental income streams, which in turn translates through into the land-bidding stage of developers' process, reducing the price of land and speculation on land.

Table 9 gives a breakdown of social housing output by provider. In Ireland the vast majority of social housing was provided by Local Authorities in 2020. 10.5% was provided by AHBs. In contrast, the limited profit sector in Austria provided for over half of social housing units.

Table 9 Supply of Social Housing in Ireland and Austria

Austria	Ireland
Limited Profit Housing Associations: 53%	Approved Housing Bodies: 10.5%
Local Government (municipal): 40%	Local Authorities: 89.5%
Central and regional government: 3%	
Other: 4%	

Source: Austria; Norris & Byrne, 2018. Ireland; author analysis of DHLGH social housing output overview, 2020.

In terms of how social housing is funded, Deutsch & Lawson (2012) outline a general breakdown of a typical financing arrangement for the limited profit sector in Austria, though individual projects are likely to differ. Notably, public loans in Austria are not just available to LPHAs but also to commercial developers with limits placed on rents during the period of the loan.

Table 10: Financing of Austrian Social Housing

Funding	Description	Typical Share of project
Public Loans	30 year maturation, fixed interest	30-40%
Commercial Loans	20-0 year maturation, fixed or variable interest	40-60%
Equity of Developers	Mostly for land purchase or temporary construction financing	10-20%
Tenant Equity	Upfront Tenant Payment	0-10%

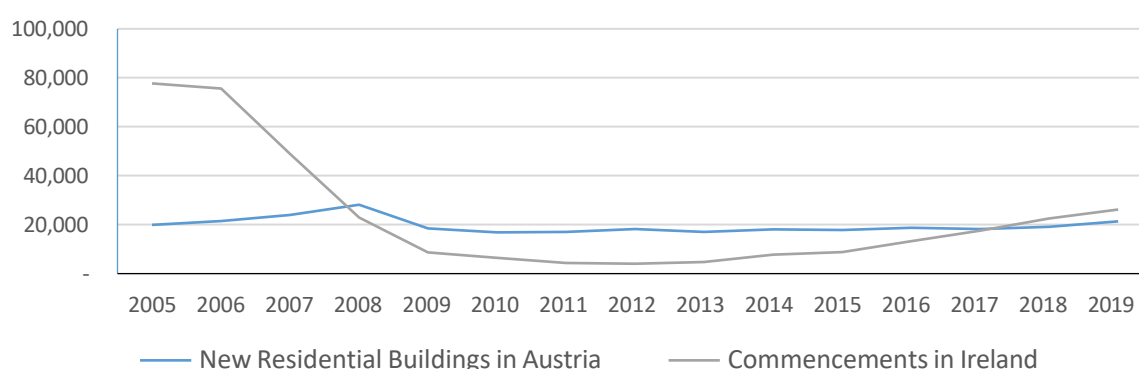
Source: Dutch & Lawson, 2012.

In contrast, and as outlined above in Section 3.2, Ireland has a variety of social housing delivery mechanisms. Some through direct capital funding of local authorities, others through current expenditure via local authority leasing arrangements or rental subsidies, and through both current and capital funding to AHBs. In all cases social housing is almost completely exchequer funded, with tenant contributions only covering a portion of the ongoing costs of housing such as maintenance. Though the Irish AHB sector is somewhat unique in that it is further removed from central government when compared to local authorities, the vast majority of AHB funding is sourced from local authorities and DHLGH, be it through CALF, CAS, or leasing arrangements.

Supply Cyclicity

Norris and Byrne (2017) highlight differences in housing output between Austria and Ireland, noting both differ drastically in how housing supply responded to the effects of the GFC. Austrian housing output was relatively stable throughout the 2000s. Social Housing accounted for between 28% - 36% of all housing built in Austria between 2000 and 2014, though tenure output varied between regions and in Vienna accounted for over half of housing output between 2000 and 2008. In contrast, the 2000–2008 period in Ireland is characterised by rapid economic growth and a booming construction sector, which was reflected in high levels of social housing output at the time. As outlined in Figure 20 and Figure 23, the period following the GFC in Ireland saw a drastic drop in housing supply, both in the private and public sectors, as well as an increased utilisation of demand side public expenditure. In contrast, the supply of residential units in Austria exhibited far greater stability.

Figure 23 New Residential Buildings (Austria), New Commencements (Ireland), 2005 – 2019.



Source: DHLGH & Statistik Austria

To explain these differences experienced by Austria and Ireland, Norris and Byrne (2017) argue that the dependence of Irish social housing output on capital expenditure undermines sustainable housing delivery regardless of point in the economic cycle. This was exemplified by the austerity measures of 2008 onwards and the fall in supply of social housing that arose. In contrast, the diversification of Austrian social housing finance is an important aspect of its counter cyclical function. Irish social housing finance arrangements, which rely almost entirely on exchequer funding, “exposes the sector to fluctuations in the strength of central government finances and also to changes in central policymakers’ spending priorities” (Norris & Byrne, 2017).

Dual and Unitary Housing Models

In comparing the housing models of Austria and Ireland, Norris and Byrne (2017) draw on a distinction made by Kemeny (1995)²⁵ between two general forms of rental market structures; “Dual” and “Unitary” rental systems. Under this framework Ireland is classified as a “dual” system, while Austria is classified by a “unitary” system.

Stephens (2017) describes “dual” systems as profit orientated rental markets which create acute social problems producing demand for a public safety net. Under “dual” systems, the private, for-profit rental market is largely unregulated and unsubsidised. Further, the social rental sector serves to protect the private rental sector from competition by virtue of limits on government subsidies and restrictions on access to social housing to lower income or disadvantaged cohorts. Rent differentiation will arise as the state supported social housing sector matures and its rents fall below market levels. However, governments tend to limit eligibility to lower income groups and reverse the maturation process by allowing tenants to purchase properties at discount. This produces residualisation; the

²⁵ Kemeny, J. From Public Housing to the Social Market. Rental Policy Strategies in Comparative Perspective London/New York, Routledge, 1995.

tendency for social housing to cater for an increased proportion of deprived people. Under “dual” systems, homeownership arises as the predominant tenure type because high costs and lack of security make the private rental sector unattractive, and the social housing sector is restricted to disadvantaged groups.

In contrast, under a “unitary” system, the rental market is more integrated. Government provides similar levels of support to all tenure types and also makes social and public housing accessible to a broader range of income levels. As such, rather than acting as a safety net, the social rental sector acts in competition with the private rental sector. This is first achieved through regulations in the for-profit rental market and subsidisation of cost-rental landlords. As the cost-rental sector matures, and because it is accessible to a wider range of income groups, it is capable of exerting downward pressure on private rents. This curtails investor/developer expectations about future rental income streams and suppresses the optimism of bids on land at auction, which in turn, can bring down the price of land. At such a point the system can become unitary because private market rent regulations can be eased. This downward pressure on private market rents is furthered strengthened by security of tenure in the cost rental segment of the market.

Ultimately, Kemeny (1995) argues that “dual” systems are unstable because the higher owner-occupation levels become, the more likely it is that the marginal home owner will be unable to afford mortgage repayments. This is why homeownership subsidies become a feature of “dual” systems, as does the favourable legal treatment of homeowners. Unitary systems, Kemeny (1995) argues, are ultimately more stable than dual systems. Under “unitary” systems, tenure diversity is encouraged because the rental sector provides an attractive alternative to homeownership.

Conclusions and Challenges

In comparing the Irish and Austrian models of social housing, the primary differences that emerge include:

- Lower ownership rates in Austria, facilitated by access to affordable and secure rental accommodation, contribute to the stability of the overall housing sector.
- Social housing output in Austria is not concentrated as strongly in the local government sector when compared to Ireland.
- Demand side interventions in Ireland (Acquisition, HAP, RAS, Rent Supplement, Help-to-Buy etc...) play a more prominent role in social housing output and housing support measures. In contrast, while housing allowances do exist in Austria, construction by local governments and the limited profit sector are the primary drivers of social and affordable housing output.

- While social housing is partly funded by local government in Austria (30% - 40%), commercial lending, developer equity and tenant contributions are important aspects of social housing finance. In contrast, financing for social housing in Ireland is almost exclusively tied to the exchequer and tenant contributions cover only a small portion of costs. The diversity of Austrian social housing finance arrangements contributes to its counter cyclical function.
- Social housing is open to a much broader range of income groups in Austria. In Ireland, social housing is almost exclusively targeted at lower income and vulnerable cohorts (though the increased rollout of cost rental in Ireland is changing this trend). In Austria, greater accessibility of social housing contributes to the financing of construction projects and also acts a source of competition that mediates the private rental sector.

It is worth noting that Austria is not without its challenges when it comes to housing. Mundt (2018) notes that Austria is facing problems similar to other European nations such as rising demand and challenges to affordability arising from land scarcity and stagnating wages. While the accessibility and large stock of limited profit and municipal housing in Austria contributes the sustainability and social diversity of the sector, an issue Austria must grapple with going forward is how to sustain these qualities while at the same time catering for the increased need of lower income and disadvantaged cohorts.

5.3 Social Housing and State Aid

Another important consideration in this context is the interaction between social housing provision and EU State aid rules. Since the construction and management of housing is considered an economic activity, it is subject to EU State aid rules. Some forms of State aid are illegal under EU law. In order for State aid to be deemed compatible there are a variety of conditions that must be met. These include the following;²⁶

- 1) The service must be a Service of General Economic Interest (SGEI)²⁷ and accurately defined by Member States.
- 2) The undertaking must be entrusted by Member States with the provision of such a service.
- 3) The exemption should be limited to what is necessary.
- 4) The exemption must not affect the development of trade within the Union to an extent that would be contrary to the Community's interest.

²⁶ State Aid N 209/2001 – Ireland Guarantee for borrowings of the Housing Finance Agency.

²⁷ SGEI are economic activities that public authorities identify as being of general interest and subject to public service obligation on account of a lack or undersupply in the absence of state intervention. Examples include water, sewerage and energy.

In past EU Commission decisions relating to Ireland, the availability of favourable credit via the HFA and provision of social housing by both Local Authorities and AHBs has been found to be compatible with State Aid rules and the above criteria were satisfied. However, as outlined by Kenna (2021), other EU nations such as Sweden and the Netherlands have faced challenges in this regard.

In the Dutch case, complaints were submitted by Dutch institutional investors over concerns regarding the compatibility of Dutch housing corporations (known as *wocos*) with EU State Aid rules. *Wocos* are not-for-profit organisations tasked with acquiring, building and letting residential units for use as social housing. The Dutch social housing sector is among the largest in Europe. Some 33% of dwellings in the Netherlands are owned by *wocos*. *Wocos* also play a large role in providing and managing rental dwellings.

The concerns raised referred to private competitors suffering as a result of State aid to *wocos* because of expanding activities beyond the sector of social housing, increasing activity in the market of more expensive dwellings, allowing higher income groups to avail of *wocos* housing, and a lack of clear definition of the scope of activities. Following decision by the European Commission, the Netherlands amended housing allocation rules, set out more precise functions of for housing associations, established maximum rent levels, defined the target group eligible for *wocos* housing with income caps, and required that at least 90% of *woco* units be allocated to the specified target group.²⁸

The burden of proof that State aid qualifies as an SGEI ultimately lies with Nation States. It is therefore important to precisely define public interest missions with reference to market failures and identify vulnerable or disadvantaged target groups. In the Dutch case, the lack of this specificity contributed to the decision to reform the remit of Dutch housing corporations. The Dutch example also highlights a tension that can exist between commitments to adhere to State aid rules by restricting activity of the social housing sector to vulnerable and disadvantage cohorts, and attempts to avoid residualisation and promote social cohesion by making social housing available to a broader range of income cohorts. Kenna (2021) refers to this tension as a conflict between two models of social housing; a *targeted* and a *universalistic* social housing model respectively. Further, Kenna (2021) argues that because the burden of proof lies with Nations States to identify market failure and justify intervention in the form of SGEI, there is a wider scope for social housing as an SGEI beyond housing only for “disadvantaged citizens or socially less advantaged groups who due to solvency constraints are unable to obtain housing at market conditions”.

²⁸ State aid No E 2/2005 and N 642/2009 – The Netherlands Existing and Special Project Aid to Housing Corporations.

6. Discussion and Conclusion

Expenditure

Housing expenditure has been increasing since 2014. In 2014 gross housing related non-pay current expenditure was €285.76m and increased to €1.16bn in 2020. Similarly, in 2014 gross housing related capital expenditure was €299.64m and increased to €1.469bn in 2020. While this spending supports various housing initiatives such as LA and AHB Construction, HAP, and RAS, the level of output associated with additional spending is not necessarily linear, as rental and construction costs increase. Indeed, increased capital spending during a period of high price inflation will have a pro-cyclical impact. Following the 2008 GFC and austerity measures that ensued, capital spending on housing decreased to very low levels, while social housing supports (current expenditure) were relied upon to meet social housing demand. Throughout the economic recovery, as the demand for and cost of accommodation grew, current expenditure on housing increased significantly. This effect was compounded by the lag of social housing supply brought on-stream post GFC due to the near cessation of capital expenditure. The legacy of this is that the current spend now remains high, corresponding with increased capital expenditure in recent years (2014-present). Combined, the two trends create a very high housing spend for Ireland in 2021. In terms of outcomes, Housing for All is aiming at 33,000 new dwelling per annum. There are various opinions on the exact level of supply that will be needed to meet demand in the coming years. Depending on the scenarios and assumptions used to estimate demand, estimates of annual housing demand can range from below 30,000 to 50,000. There are also questions as to the amount of supply that spending alone can provide. If a pro-cyclical pattern continues, and the costs associated with construction continue to rise, the spending needed to attain the target level of social and affordable housing may become increasingly unsustainable.

Housing market and Affordability

Section 2 highlighted the rate of house price inflation in Ireland since 2014 (75 per cent on new builds, 50 per cent on existing builds) as well as the less substantial increase in earnings from 2011-2018 (1.5% p.a.). The implications of this contrast for housing affordability, especially in major urban centres, was demonstrated;

- At least 50% of households that rent from a local authority and those that rent in the private market would be unable to access the credit necessary to purchase a property at the modal, median and mean price in Dublin.
- Households in 10th, 25th and 50th (median) income percentile of Dublin City, South Dublin, and Fingal are unable to afford the 2021Q1 standardised national rent in Dublin.

This outcome is not necessarily a function of changes in the housing market over the last 7 years, but part of a longer trend. Section 2 showed from Census data that the age at which home ownership becomes the majority tenure category has been increasing; 35 (2016) 32 (2011), 28 (2006), 27 (2002), 26 (1991). While sociocultural factors can contribute to this trend, the widening gap between wage levels and house prices is likely to be *the* major driving force.

Section 2 outlined the factors that contribute to the supply, demand, and equilibrium price of housing. Major factors on the supply side included the output capacity of the sector (e.g. labour and machinery), the scale of access the sector has to financing and credit, the level of difficulty in attaining planning permission, the quality of infrastructure to open up land to development and the level of public construction and development.

On the demand side, an upward phase in the economic cycle drives employment and wage growth, contributing to demand for housing. Economic growth increases migration (domestic and international) into major urban centres, bolstering demand for housing in these areas. Demographic changes e.g. population growth and changes in household formation also impact the type and number of housing units demanded.

In Classical Economic Theory, house prices are determined where supply equals demand. In an upward economic cycle, as demand increases due to the factors listed above, increases in prices should signal to the construction/development sector that more supply is demanded. Housing markets however are highly complex and it is impractical to expect Classical economic outcomes to arise. Theoretically, and allowing for a lag in supply-response, the sector should increase capacity and produce housing output of various types until supply is such that output is affordable to buyers, of various product differentiation. However due to supply side distortions, this is an outcome that rarely arises.

Supply and Costs

Section 2 looked at data relevant to critical supply side factors:

- Housing delivery costs and construction activity
- The cost of land and materials
- The relationship between planning permissions and new commencements/completions
- Public sector construction, investment and the financing structures in place in Ireland for social housing builds

Increases in costs since 2016 were partially attributable to increases in materials, overall site development, near Zero Energy Building requirements, fire detailing, and Irish Water connections. For example, as of 2020, the price of cement, paints, oils and varnishes, fabricated metals, structural steel and plaster were shown to be between 18% - 25% greater than 2015 levels. For both 3 bed semi-

detached houses and apartments, SCSi found that overall construction costs made up approximately half of the cost of delivery while non-construction costs such as VAT, profit margin and land costs made up the remaining half. The substantial proportion of costs made up by materials and the inflation in these inputs in recent years are a significant challenge to affordability and viability. Lyons (2021)²⁹ points out that housing input costs (labour and materials) have increased by 2.5 times the general consumer price index since the mid-1970s. Lyons identifies VAT, which has also grown, as a contributory factor in limiting viability, and argues that its reduction could increase the viability of new development, particularly in the PRS where a given rate of return is mandatory to attract sufficient investment. Beyond VAT, the construction sector is a price taker in the market for materials and so there are limited options available to industry and policy makers to reduce costs through this channel.

Section 2 identified land as the potentially largest *single* expense associated with development. An array of factors such as location, land quality, proximity to services, and availability/quality of nearby infrastructure drive variation in the price of development land. While the development sector is a price taker with respect to construction materials, complex interactions can be facilitated for greater efficiency across factors such as land supply, development finance, market viability, industry capacity, and various regulatory systems; something which is acknowledged by Government in Rebuilding Ireland 2016.

The Land Trap

A review of relevant literature in Section 4 identified land as a significant driver of costs, and described some of the approaches internationally to prevent this factor inflating housing costs excessively. Land costs can be magnified when supply issues and bottlenecks occur. In particular, the supply of urban development land can be uncertain and variable because landowners/developers can speculate on future increases in development land value, rather than focus on supplying housing units. Increases in uncertainty in land values increases the option value of land, and thus speculative behaviour, which can curtail genuine output. Further, because developers can start to anticipate uncertainty in the supply of development land in the market, they are incentivised to act speculatively, building up land banks, further stifling supply. Under such dynamics, land banking is a rational and essential part of development activity, where land supply is haphazard and competitive.

Another feature of the above scenario is that competition in the development sector takes place at the land bidding phase, not in the construction phase in which units are supplied. Developers will calculate the price per unit they can attain in sales as well as their projected development costs and

²⁹ Lyons, 2021. Institutional Investment and the Private Rental Sector in Ireland. Irish Institutional Property.

price these into their bids for available development land. Assuming multiple developers are competing for urban development sites, the sale price will be some function of the maximum price developers anticipate they can attain (or put another way, need to attain) for housing units in the future. Thus high housing unit prices are locked into the system at the land bidding stage, which is realised by landowners as inflation in the value of their land. This dynamic is highly counterproductive for affordability and viability; it essentially means that any reductions in development costs and higher profits, either through tax breaks or labour/material cost falls, are priced into what developers will bid for land, thereby increasing bidding rates, and dissipating any savings in costs achieved elsewhere.

The previous points on development costs (land, labour, materials) as well as the dynamics of the land trap, suggest viability and not planning, is the major obstacle to urban housing supply. Data in Section 2 showed that, for example, the difference between permission granted for apartments and the amount of apartment dwellings completed has increased rapidly in recent years from 3,123 in 2017 to 22,300 in 2020. This coincides with a period of greater relaxation of planning rules. It stands to reason that if planning was the major obstacle to housing supply, granted planning permissions on apartments would be more highly utilised and the difference would not be so significant. Another point to note is that the nature of land bidding dynamics alluded to above poses questions for the assertions of Lyons (2021) that reducing VAT will help to address the viability problem. If such tax breaks are priced into developers' bids on land in the future, then over time it is possible the cost reductions from the tax breaks will be lost, with the savings eventually directed into land purchase instead of VAT.

Given that the Irish construction sector is a price taker in the market for building materials, and given that planning permissions are already substantially higher than output levels in urban development areas, addressing development financing as well as the uncertainty in land supply appear to be the challenges where solutions could impact prices and affordability of housing.

As shown in Section 2, the proportion of renters in the Irish market that wish to attain home ownership is high (in the 80th percentile), but as Section 2 also demonstrated, considerable financial barriers to this outcome exist for most. In the rental market, significant affordability issues were also shown to exist. It is possible that a high rate of home ownership preference is bolstered by the lack of affordability, tenant-security and suitable supply in the rental market. Thus it is possible that improvements in this regard could see a reduction in the numbers desiring home ownership. In other EU countries, where affordable rental solutions have been found, such as cost rental, the proportion of renters that desire home ownership is significantly lower.

Viability

The achievement of housing at an affordable range in major urban centres in Ireland requires a substantial increase in supply in the coming years. The PRS is a large potential contributor to that supply. Lyons (2021) demonstrated the impact of increases in development costs on the rate of return (and thus viability) of PRS development. A key question is whether PRS development can be supplied at a sufficient rate over time to reduce rental-costs in major urban centres to affordable levels (30% or less of average net incomes), or whether viability issues will prevent this. (IIP, 2020) estimate the cost of construction of an 83- square-metre two-bedroom apartment in a medium-rise development to be €455,000 (incl. €43,000 site costs, €52,000 cost of equity, €54,000 VAT) leaving a break even cost of approx. €450,000. For a city centre apartment, the figure is €615,000. These costs are driven by construction (labour and materials), related costs like capital and taxes for building and by the availability and cost of development land. Lyons (2021) shows that an apartment with a €400,000 build cost must generate a breakeven monthly rent of no less than €1,650 in order to be viable, and that a gross annual income of €100,000 p.a. in Ireland yields a net monthly disposable income, for a married couple, of €5,400 per month. Accounting for affordability of 30%, this leaves a maximum monthly rental expenditure of €1,620, meaning that the construction of new rental homes is only viable for households with a gross annual income of at least €100,000. According to Lyons (2021), just one-sixth of renter households in the greater Dublin area can afford these costs.

These figures pose questions for the reliability of long term dependence on the PRS and its viability in supply housing solutions to the “squeezed middle”. Lyons (2021) claims that VAT reductions could alleviate viability issues, but given the bidding dynamics of urban development land acquisition, it is not clear that these reductions in costs would not simply be transferred over to land purchase costs.

Social Housing

The demand for social housing can be understood as a function of income and affordability constraints (i.e., wages and the cost of accommodation). The number of households with an unmet social housing need stood at 61,800 in 2020. This is down from over 90,000 in 2016. As shown in Section 2, this has meant that government commitment to social housing programmes has intensified since the GFC, initially through current, and more recently capital, expenditure.

Non-Household Activity

Data cited in Section 2 on the composition of buyers of residential dwellings showed a trend of an increasing proportion of non-household buyers, particularly since 2014, In 2020, non-household buyers purchased 40% of new dwellings nationally which was more than any other buyer type that

year. This trend was amplified in Dublin where the non-household sector accounted for 53% of new dwelling purchases. Within the non-household sector, the highest proportion of apartment purchases was in the Financial & Insurance sector (39.08%). Public, education and health sectors accounted for the highest proportion of house purchases (47.43%). On aggregate, the non-household sector has been a net seller of dwellings since 2010. However, since 2010 intra-non-household sales have accounted for an increasing proportion of new apartment sales, and in 2020 77.31% of new apartment sales were intra-non-household.

Cyclical

Byrne (2021) cites reports of large property consultants and real estate agents to suggest that the PRS is countercyclical in nature and can withstand economic downturns. Despite viability issues, the fact that economic growth is positively correlated with the price of urban development land indicates that for long-term horizon investors, returns will be higher on development that takes place during recessionary periods (assuming rents recover long term), bolstering investment activity counter-cyclically, and dampening it during inflationary periods due to viability issues. Byrne (2021) also notes further counter-cyclical in the PRS in that a decline economic activity may intensify demand for PRS housing as households are unable to access homeownership.

Because government capital expenditure on housing is more feasible when economic growth is strong (tax take is high), and because economic growth is associated with increased housing demand and inflation, Government housing expenditure can be understood as pro-cyclical. This undermines the capacity of the government sector to provide a sufficient supply of social housing; in recessionary periods, capital expenditure tends to be reduced, while in high growth periods, when capital expenditure increases, heightened costs associated with land acquisition and development (aside of other issues like capacity constraints) diminish the level of output possible from government expenditure. If housing costs become sufficiently high, even strong tax returns cannot ensure sufficient government capital spending to satisfy social housing need.

Dualistic and Unitary Housing Systems

Section 5 referred to the two general forms of rental market structures, Dualistic and Unitary, as laid out by Kemeny (1995). The description of a Dualistic system in Section 5 reflects elements of the Irish system; the social rental sector applies to a limited cohort, i.e. to lower income or disadvantaged groups, and through a process of process of residualisation³⁰, an increased proportion of deprived

³⁰ Residualisation refers to the process whereby publicly subsidized rental housing moves towards a position in which it provides only a safety net for low-income households.

people. Government restriction on access to social housing acts to protect the private rental sector from competition from alternative forms of housing provision. Homeownership arises as the preferred tenure type because high costs and a lack of security make the private rental sector unattractive, and the social housing sector is restricted to disadvantaged groups.

In a unitary system, the Government makes social housing accessible to a broader range of income levels so that the social rental sector acts in competition with the private rental sector. Under a unitary system, the PRS is regulated and cost rental providers are subsidised. The cost rental sector, since it is applicable to a wider range of income groups, can attain a sustainable level of self-financing and exerts downward pressure on private rents. The system becomes unitary when regulations on private market rents can be eased and prices in the private and cost rental sectors do not diverge.

Kemeny (1995) argues that “dual” systems are unstable because the higher owner-occupation levels become, the more likely it is that the marginal home owner will be unable to afford mortgage repayments. In the Irish case, unaffordable rents and house prices and the Government response to these (e.g. rent protection, attempts to improve tenure-security, the Help to Buy Scheme, the Shared Equity Scheme as part of the Housing for All Plan) are outcomes driven by the nature of a dualistic system. This contrasts starkly with a unitary system where tenure diversity is encouraged because the rental sector provides an attractive alternative to homeownership.

Cost Rental

Under the cost rental model a social-housing provider raises finance to provide accommodation and charge rents that are sufficient to cover current and capital costs (SVP, 2020)³¹. There are already examples of such initiatives coming on stream in Ireland, such as a development on the Eniskerry Road in Dublin this year (50 cost rental homes where tenants will pay €1,200 per month for 2-bed dwelling). This project involved support from the HFA and the EIB. The cost rental model is to expand in Ireland, with 18,000 homes to be provided through cost rental by 2030 in the Government’s Housing for All plan released in August 2021.

Section 4 identified fundamental differences in the approach used between Ireland and some EU countries with respect to social housing agencies and the housing they provide. In Ireland, social housing providers (LAs and AHBs) are classified as being within the general government sector. This matters because of how rent is paid on social housing in Ireland. As shown in Section 3, a high portion of local authority rents are collected through government rent subsidies. For example the HFA lends money to AHBs to produce housing that is then leased to LAs. Rent subsidies from the state to

³¹ [Saint Vincent de Paul. The Cost Rental Approach: What is it and what does it mean for Ireland?](#)

socially housed tenants is paid to LAs, which is then paid to AHBs as lease payments, which in turn is paid to the HFA. The advantage of this system is the higher rate at which AHBs can provide social housing compared to relying solely on LAs, and there may be an element of counter-cyclicality, although LA/State capacity to make lease payments may be undermined in recessionary periods. In any case, because rents paid by tenants in LA social housing are at a very low level (if rental supports are not counted), debt acquired by government agencies to build social housing cannot be serviced by the market. Instead rental supports provided by government through current expenditure ensure the AHBs and LAs can service their HFA debt. In this sense, borrowing by AHBs is akin to government borrowing for the purposes of capital investment in housing. Current expenditure then, which is used for rental supports for tenants of such units, is akin to debt repayments on borrowing for capital investment.

Other EU countries such as Austria and Denmark have had success with the cost rental model of housing provision. In these jurisdictions, major social housing agencies are not classified as within the general government sector. Thus their borrowing does not add to the general government deficit or debt. Instead, favourable financing terms, low land acquisition costs and broader income-criteria for household eligibility fosters a self-financing culture of housing development. The focus is less on providing housing supports through current expenditure as we see in the UK and Ireland, and more on supplying low cost developments that can attract sufficient rents from private households to cover those costs. The advantages of this approach to cost rental is that it is counter-cyclical³², ensures a steady supply of housing throughout periods of high and low growth, leads to a reliable long term rental sector available to a mix of household types and incomes and due to maturation, costs tend to fall in real terms over time, allowing cost-based rents to fall also.

As discussed in Section 5, affordability issues due to inflation in the price of development land are pernicious, and Austria continues to face challenges in this regard. Mundt (2018) notes that Austria is facing problems similar to other European nations such as rising demand and challenges to affordability arising from land scarcity and stagnating wages. While the accessibility of limited profit and municipal housing in Austria contributes to the sustainability and social diversity of the sector, an issue Austria must grapple with going forward is how to sustain these qualities while at the same time catering for the increased need of lower income and disadvantaged cohorts.

³² Counter-cyclicality is achieved due to the fact that development land values fall in periods of low economic growth and the nature of cost-rental financing allows for development during recessionary period, as demonstrated in Austria during the 2010s. Austria was also less susceptible to mortgage payment defaults due to the preponderance of cost rental housing.

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Appendix 1 – Net Sales of the Non-Household Sector (i.e., Sales minus Purchases), 2010 – 2020

Table 11 and Table 12 display the net sales of sectors within the non-household segment of the market between 2010 and 2020 (i.e., sales minus purchases). Negative figures indicate that a sector was a net purchaser of units, while a positive figure indicates that a sector was a net seller of units. Between 2010 and 2020, the construction sector has been a net seller of both apartments and houses. The same goes for the financial and insurance sector with the exception of a net purchasing of apartments in 2019. The real estate sector has been a net seller of house since 2010. In 2014, and between 2016 and 2019, this sector was a net purchaser of apartments. The public, education and health sectors have been net purchasers of apartments and houses since 2010.

Table 11: Net Sales of Apartments within Non-Household Sector (i.e., Sales minus Purchases), 2010 - 2020

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Construction (F)	664	357	517	436	860	886	440	1,071	1,303	1,203	1,309
Financial & Insurance (K)	123	114	90	209	512	-66	621	923	544	1,127	-303
Real Estate (L)	222	77	174	-19	-691	225	-76	-533	-320	-872	8
Extra-Territorial (U)	13	7	-29	102	-69	-63	-80	-213	-710	-687	-794
Public/Education/Health (O/P/Q)	-78	-156	-148	-115	-124	-363	-593	-550	-759	-1,080	-658
Other	112	85	119	58	347	387	673	381	403	322	-128
All NACE Economic Sector	942	484	445	671	835	1,006	985	1,079	461	13	-566

Source: CSO, Market-Based Non-Household Transactions of Residential Dwellings, (HPA12)

Table 12: Net Sales of Houses within Non-Household Sectors (i.e., Sales minus Purchases), 2010 - 2020

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Construction (F)	1,434	712	982	1,023	1,628	2,059	2,778	3,922	5,368	6,375	5,802
Financial & Insurance (K)	304	416	843	1,032	1,674	3,023	3,667	3,262	3,427	3,454	2,469
Real Estate (L)	172	66	172	128	-306	35	237	344	340	395	170
Extra-Territorial (U)	24	23	55	64	-137	-43	-498	-44	-151	-174	-245
Public/Education/Health (O/P/Q)	35	-123	-96	-240	-156	-776	-1,606	-1,923	-2,620	-3,357	-2,619
Other	314	171	363	279	940	760	708	659	621	-122	91
All NACE Economic Sector	2,150	1,265	2,132	2,286	3,643	5,058	5,286	6,220	6,985	6,571	5,668

Source: CSO, Market-Based Non-Household Transactions of Residential Dwellings, (HPA12)

Appendix 2 – Volume of Residential Dwelling Sales by Sectoral Flow

Apartments, New

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Household to Non-Household	73	34	36	41	36	92	28	73	217	25	92
Intra-Household	235	149	154	135	143	100	127	104	190	99	48
Intra-Non-Household	157	164	164	151	572	778	361	983	854	1,572	1,785
Non-Household to Household	962	448	432	435	535	417	446	715	701	642	387
All sectoral flow types	1,427	795	786	762	1,286	1,387	962	1,875	1,962	2,338	2,312

Houses, New

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Household to Non-Household	50	107	50	108	123	293	126	128	150	98	171
Intra-Household	1,711	857	929	1,093	1,435	1,287	1,158	1,021	1,109	877	695
Intra-Non-Household	46	95	169	229	255	625	1,152	906	1,582	2,749	2,560
Non-Household to Household	1,912	897	1,151	1,281	2,289	2,759	3,734	5,472	6,538	7,061	5,953
All sectoral flow types	3,719	1,956	2,299	2,711	4,102	4,964	6,170	7,527	9,379	10,785	9,379

Apartments, Existing

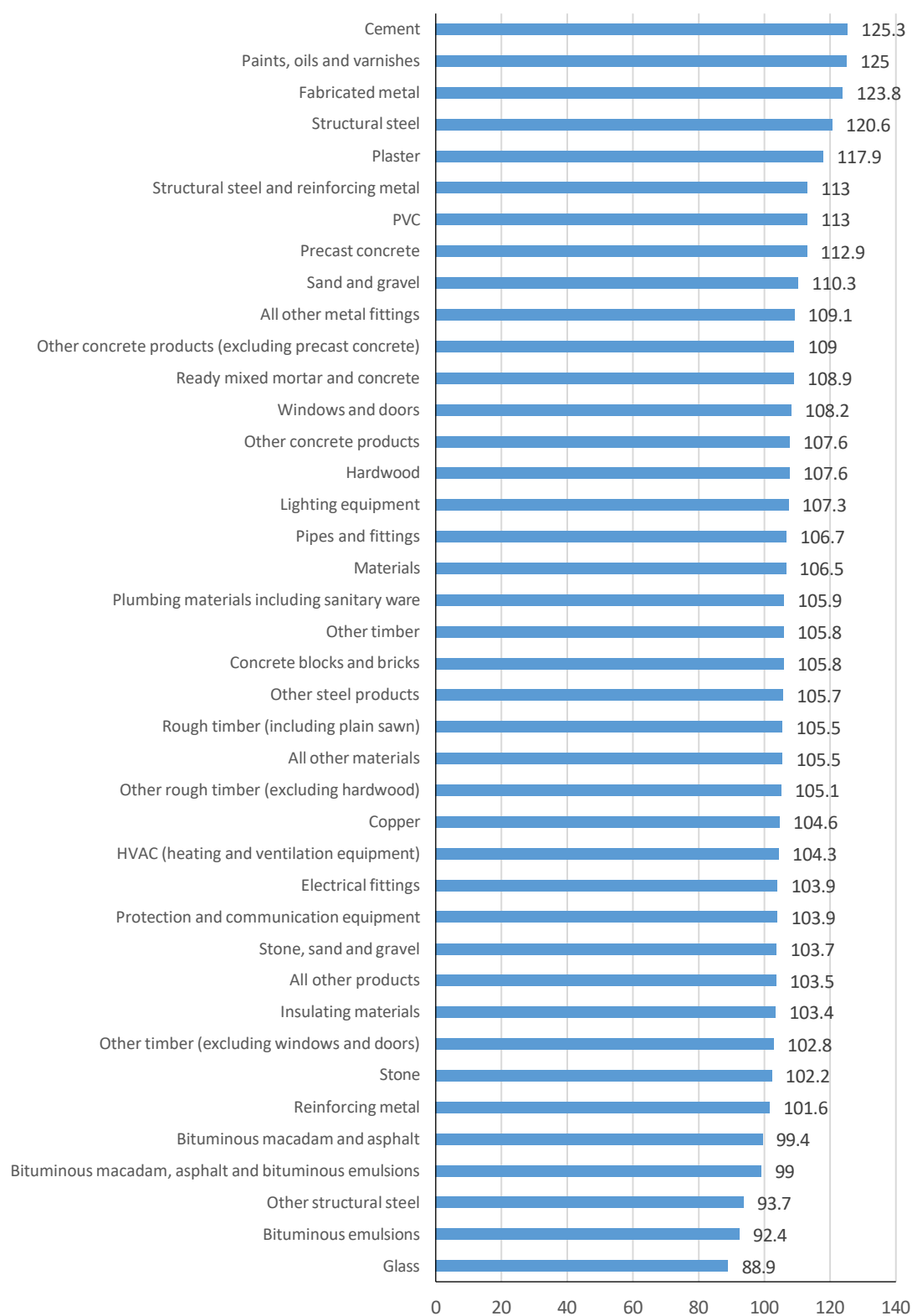
	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Household to Non-Household	33	103	241	230	644	679	853	1,135	1,320	1,597	1,479
Intra-Household	904	911	1,488	2,390	3,681	4,038	4,068	4,995	5,120	5,392	3,905
Intra-Non-Household	83	24	285	279	1,234	1,169	1,529	1,548	2,046	2,779	1,582
Non-Household to Household	86	173	290	507	964	1,360	1,420	1,572	1,297	993	618
All sectoral flow types	1,106	1,211	2,304	3,406	6,523	7,246	7,870	9,250	9,783	10,761	7,584

Houses, Existing

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Household to Non-Household	206	270	345	568	1,370	1,339	2007	2080	2,184	2,638	2,043
Intra-Household	11,629	10,846	14,934	17,056	23,347	25,493	25,136	26,349	26,661	27,963	24,326
Intra-Non-Household	21	47	120	379	1,356	1,088	828	1,163	1,268	1,651	1,058
Non-Household to Household	494	745	1,376	1,681	2,863	3,931	3,685	2,956	2,781	2,246	1,929
All sectoral flow types	12,350	11,908	16,775	19,684	28,936	31,851	31,656	32,548	32,894	34,498	29,356

Appendix 3 - Material Costs

Figure 24 CSO, Wholesale Price Index (Excl VAT) for Building and Construction Materials, 2020, base 2015 = 100.

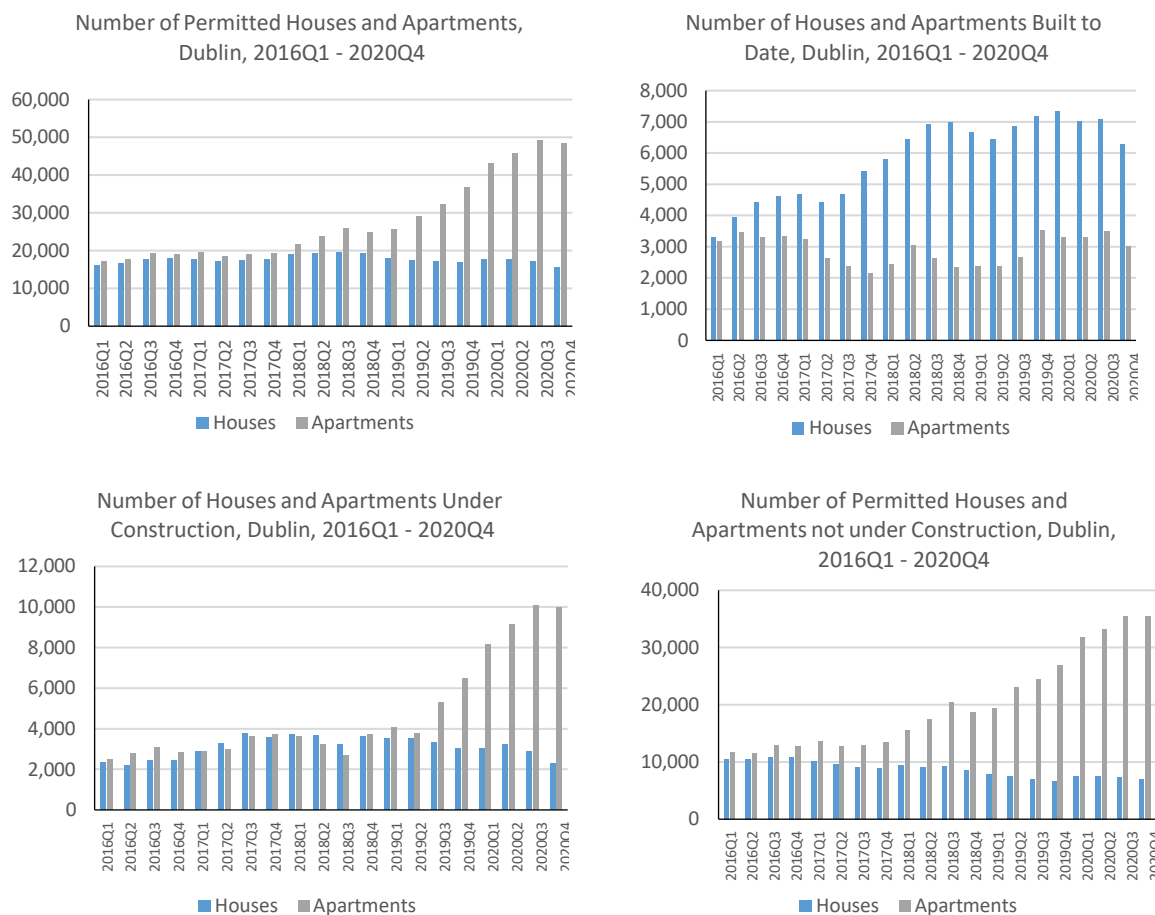


Source: CSO, Wholesale Price Index (Excl. VAT) for Building and Construction Materials, (WPM28).

Appendix 4 –Dublin Taskforce Planning Data

Dublin Housing Supply Coordination Taskforce Planning and Construction Data

Figure 25 Dublin Housing Supply Coordination Task Force, Breakdown of Tier 1 Strategic Housing Development Construction and Planning



Source: Dublin Housing Coordination Taskforce.