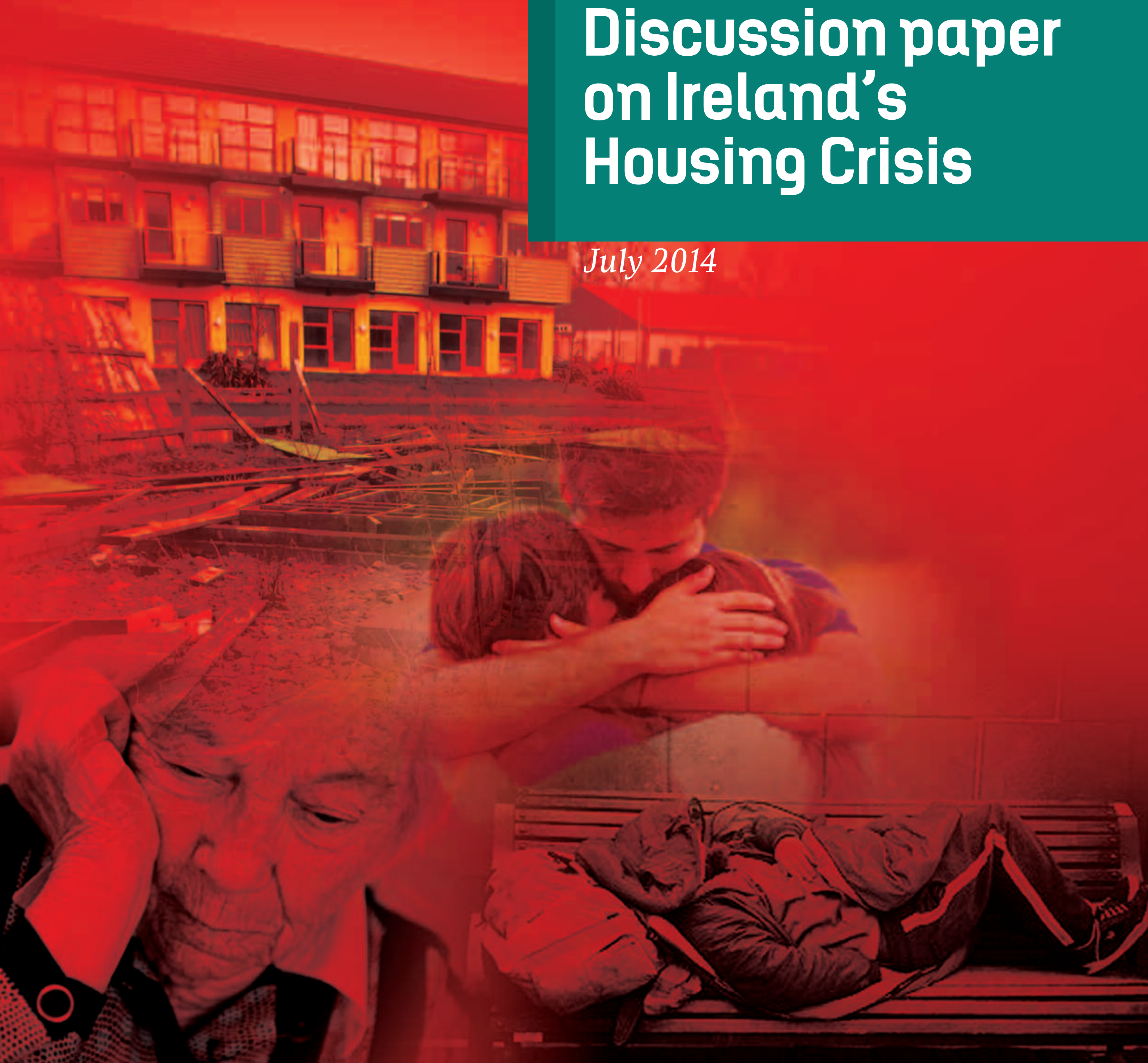
SIPTU

Discussion paper on Ireland's Housing Crisis

July 2014



Introduction

We are approaching the centenary of 1916, ironically afflicted once again by a major housing crisis – and while still in the shadow of the catastrophic collapse of a credit-fueled property bubble. While things are not nearly as bad as the horrific conditions that so appalled Connolly and Larkin, they are nonetheless totally unacceptable in any civilised society. Indeed, all the ingredients which existed in the Dublin of 1913 to 1916 are present again, from homelessness through overcrowding to speculative rack-renting landlords.

It is a poor reflection on our progress as a society which evolved since the attainment of independence in the twenty-six counties. Indeed, when viewed against the Proclamation, which envisaged a Republic which would guarantee…*"equal rights and equal opportunities to all its citizens and declares its resolve to pursue the happiness and prosperity of the whole nation and all of its parts cherishing all the children of the nation equally…"*, it simply doesn't measure up.

Commemorating the heroic sacrifices of the men and women of 1916 in terms of military gallantry and inspiring rhetoric will ring hollow indeed with the hundred thousand households languishing on housing waiting lists. It won't mean much either for the inter-generational families sharing a cramped single roof or for those struggling to retain their homes in face of the ever impending threat of eviction and for those whose daily routine entails scouring the streets of our cities for a hostel bed or an unused doorway in which to sleep.

Our contention in SIPTU is that it would ring equally hollow with Connolly, Pearse and the others who signed the Proclamation and many of those who followed them in their heroic endeavour. Indeed, in our view, it would amount to an insult to their memory to celebrate the replacement of the Union Jack with the Tricolour without addressing the reality that tens of thousands are denied the most basic of human requirements - a place to live. It would certainly offend the memory of Connolly who, after all, was the man who said*, "Ireland apart from its people means nothing to me".*

Accordingly, we propose that the task of resolving the housing crisis over the period between now and 2019, (the centenary of the Democratic Programme), should be embraced as the major societal project in the context of commemorating the centenary of 1916. To be clear, we are not arguing that this should serve as an alternative to the array of political, historical and cultural events which will unfold. It is rather about asserting the real meaning and practical value of independence in the realisation of the aspirations of the Proclamation.

We urge the parties in the Government and indeed all of the political parties represented in the Oireachtas to provide the leadership to promote the task of resolving the housing crisis within the timeframe envisaged as the key societal project of our time.

Towards that objective, the National Executive Council of SIPTU is publishing this "Discussion Paper" which has been drafted by economist, Marie Sherlock. It is anchored around the demand for the provision of 25,000 social housing units over the four year period 2015 – 2018, generating 65,000 jobs at an overall estimated cost of €3.7bn gross, (i.e. excluding the economic and fiscal benefits which would accrue). This, together with the introduction of temporary rent controls, accompanied by a range of other measures constitutes our core proposition.

We are publishing this "Discussion Paper" to promote the idea of adopting resolution of the housing crisis as the core social project of the 1916 Commemoration. It endeavours to offer an avenue of approach which we do not see as exhaustive.

Jack O Connor

JACK O'CONNOR
SIPTU General President

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Executive Summary:
The most critical social issue of our times: housing for all.

Despite the reality that more houses were built between 1996 and 2006 compared to the increase in the total population of this country, Ireland now faces a major housing problem. In the decade since 1996, some 641,686 housing units were built in Ireland compared to a population increase of 613,761.

The reasons for the problem are many. The long term failure of successive governments to ensure an adequate social housing supply, the more recent dramatic slowdown in the construction of private housing stock plus the under-provision of bank and state backed credit. Together these have combined to give rise to a situation where private rents increased by 9.3% on an annual basis over the first six months of 2014.[1] This is turn appears to be driving the increase in social housing demand.

Social housing demand is not just a Dublin based problem. Of the 89,872 households on the housing list in May 2013, just 35% of demand came from the four local authorities in Dublin (31,814). Some 12.5% of the demand was located across the two local authorities in Cork. Kildare, Galway, and Kerry were the areas with the next highest volumes of demand in that order.

This crisis demands three key responses:

(i) Ensure a secure and viable rental accommodation sector.

This will depend on a stronger, more effective Private Residential Tenancies Board. Measures to ensure greater enforceability of landlord/tenant registration must be put in place, protection must be afforded to tenants when receivers are appointed to 'Buy to Let' mortgages and a certification scheme for private rented properties must be a necessary qualifying condition for tax relief on buy to let mortgages.

These reforms will have to be complemented by the introduction of temporary rent controls. Rent controls can only function effectively and work as a deterrence measure to unscrupulous landlords if they are accompanied by a steady increase in housing supply. Otherwise, they are likely to be detrimental to the private rental market and will exacerbate existing rental conditions. However, rent controls index linked to the cost of living may prove necessary in the short term to address the alarming annual increases in rent and the growing pressure on tenants to meet this demand.

(ii) Roll out of a major social, affordable and private housing programme.

The Government's recently published Statement of Priorities 2014-2016 sets down a target of tripling existing housing output to 25,000 per year each year to 2020. This is most welcome, but will depend on a combination of major changes to planning legislation and the opening up of new streams of financial supports.

[1] CSO Consumer price index.

SIPTU calls on the Government to lead this house building and warns against excessive reliance on tax and planning incentives to generate appropriate supply in the areas that need it most. This will involve the establishment of a National Building Agency which would co-ordinate the planning and financing of major projects between Government, Developers and Financiers. We urge strong consideration of the Scottish model whereby corporate partnerships between local authorities, the Scottish Futures Trust and participating developers are established.

Existing social housing needs are estimated to be close to 100,000 and in order to address this national crisis SIPTU is calling for a major house building programme that would deliver 25,000 social housing units over a four year period 2015-2018. This measure would cost somewhere of the order of €3.7bn over four years and would have the capacity to generate 65,000 jobs over that period. It would involve the construction of social units alongside affordable and private houses and would be complemented by the full take up of NAMA housing units that are currently available (1,371) along with the remediation of existing housing stock.

A major State led house-building programme requires substantial financial resources and the key question is to what extent this initiative can be kept off the State's balance sheet. It is inevitable that the State will have to allocate a significant capital injection into any major social housing project. However, compliance with EU debt reduction rules will impose a severe constraint on public sector borrowing over the medium term. Alternative sources of finance will have to be sought and incentivised.

SIPTU believes that the Strategic Investment Fund can play a major part in investing in social and other housing projects, alongside the use of REITs for social housing plus increased drawdown of funding by the National Finance Housing Agency of NTMA funding. Already, NAMA has committed to spending approximately €1.5bn on residential housing developments in the Greater Dublin Area over the next five years, alongside the financing of €1.5bn in constructing commercial office space and apartments in its Dublin Docklands Plan. SIPTU calls on Nama to allocate a significant share of this funding to developing a mix between social, affordable and privately owned housing.

(iii) Meeting private housing finance need.

At present, there is only one functioning building society in Ireland, the ICS. Strong consideration needs to be given to either building up this mutual or the establishment of a new State backed mutual for the purpose of mortgage lending at low long term rates.

1. A Housing crisis in need of urgent action

An immediate priority is to ensure a secure and viable rental accommodation sector. This will require looking at short term solutions, of which a form of rent control will be one. Another will be to strengthen the powers of the Residential Tenancies Board to protect tenants over the short term.

Over the medium term, two challenges will have to be addressed:

(i) Ensure an effective mix and supply of private, social and affordable housing stock to meet the needs of middle and low income households, irrespective of the source of that income (earned income and social welfare benefits).

(ii) Ensure greater affordability and access to credit for private house purchase.

Over recent decades, the share of persons placed in local authority housing has fallen, with an increase in State resources for new housing list applicants being allocated to the rental accommodation scheme (RAS) and the Social Housing Leasing Initiative (SHLI). Compared with the 89,872 households on the housing waiting list as of May 2013, both schemes are wholly inadequate. The RAS and related housing supports have supported just 48,503 between 2005 and February 2014, with the SHLI supporting a total 4,858 between 2009 and February 2014.[2]

In order to meet the current quantum of social housing need, the issues of finance and supply of land need to be addressed. At present, some 2,000 hectares are available for development in Dublin and 1,000 elsewhere.[3] This will meet only a small share of current social housing demand and so the tax treatment of zoned unused land and unzoned land may have to change in order to spur an increase in land available for sale and development.

In terms of finance, the constraint to further increases in general government debt is generally accepted, which means that private and semi-private sources of finance will have to be leveraged. This will require a major re-think about how we fund social and private housing in Ireland.

To date, Ireland is relatively unique across Europe in that the State provides 100% funding for social housing through exchequer capital grants. In the cases where it doesn't wholly fund social housing and is involved in a capital asset leasing facility (CALF) with Approved Housing Bodies (Housing associations), the terms of the scheme design do not appear very favourable to the State nor to the Housing Associations. Furthermore, the European Investment Bank (EIB) appears to be involved in only one housing project in Ireland, i.e., Dublin City Council.

In order to significantly scale up the volume of social and affordable housing provision in Ireland, a number of measures will have to be taken in order to finance such construction;

(i) greater leverage of EIB loans and Council of Europe Development Bank loans,

(ii) the setting up of a Government backed social housing REIT,[4]

[2] PQ 16752/14 and 16753/14 on 30th April, 2014. Minister Jan O' Sullivan.

[3] Government of Ireland (2014). Construction 2020. A strategy for a renewed construction sector.

[4] Real estate investment trust – tax beneficial funds whereby pension and other funds could invest in social housing over a long term time horizon.

(iii) Greater drawdown of NTMA Guaranteed Notes by the Housing Finance Agency plus recommencement of sales by the agency of Eurocommercial paper on the Irish Stock exchange.

(iv) Co-investment by the State Investment Fund with the above.

In future, it appears that social housing provision will require greater participation of private not for profit/for profit partners in the delivery of housing stock i.e Housing Associations for a number of key reasons.

(i) In effect, Ireland will have to move to a position where social housing will be delivered by both the private and public sectors in order to keep as much borrowing off the State's balance sheet.

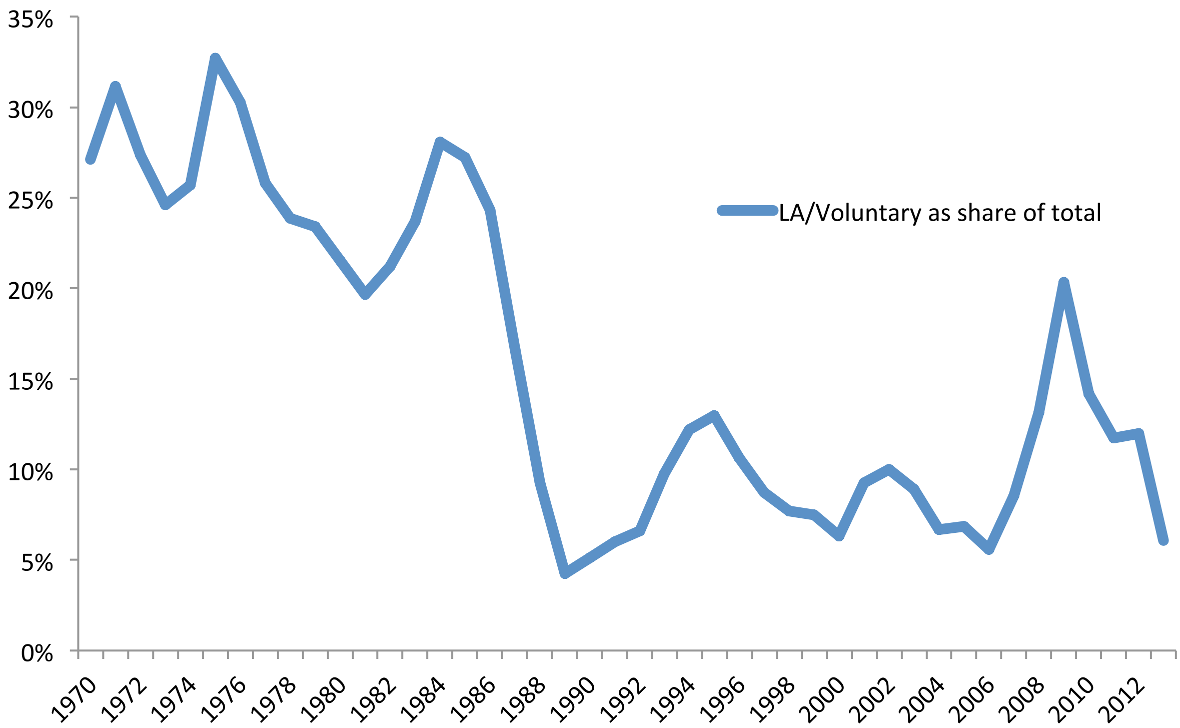
(ii) More importantly, a new system of social and affordable housing provision needs to be put in place to ensure that over the longer term, investment in social housing is met from recycled rental income and not exclusively from exchequer or Local Authority capital funding. This will require the generation of higher volumes of rental income above that currently generated by Local Authorities or Housing Associations and will have to come from a variety of tenant income types and not just social welfare dependents with no other income stream. It is worth noting that Local Authority capital budgets will come under even greater pressure in future years order to fund reductions in the local property tax by up to 15%.

Ultimately, there is a need to move beyond a three tier system of housing in this country that is divided into (i) private housing, (ii) social housing – usually used by social welfare dependents and (iii) the rental system. There is a need to envisage a broader social and affordable home sector which is not just confined to social welfare dependents and which involves a healthy mix of private, affordable and social housing households. In a report that has yet to be published, NESC (2014) argues for a cost rental scheme which depends on state subsidies and renters paying for the construction and maintenance of housing cost by way of rent.

2. The scale of the problem

To put the current social housing crisis in context, LA/voluntary housing accounted for an average of 20% of total residential construction throughout the 1970's and early 1980's and between 1988 and 2007 this average fell to 8%[5]. This coincided with a greater dependence on rent supplement and other cash based leasing schemes plus the impact of the credit boom of the 2000's, which induced a major substitution effect as households moved from a dependence on social housing provision to being able to make their own house purchase.

Figure 1. LA/Voluntary Housing association housing construction as a share of total residential output 1970-2013.



Source: Dept of Environment Housing Statistics

To add to this, the voted capital budget for social housing provision and regeneration has fallen by 82% between 2007 and 2014.[6]

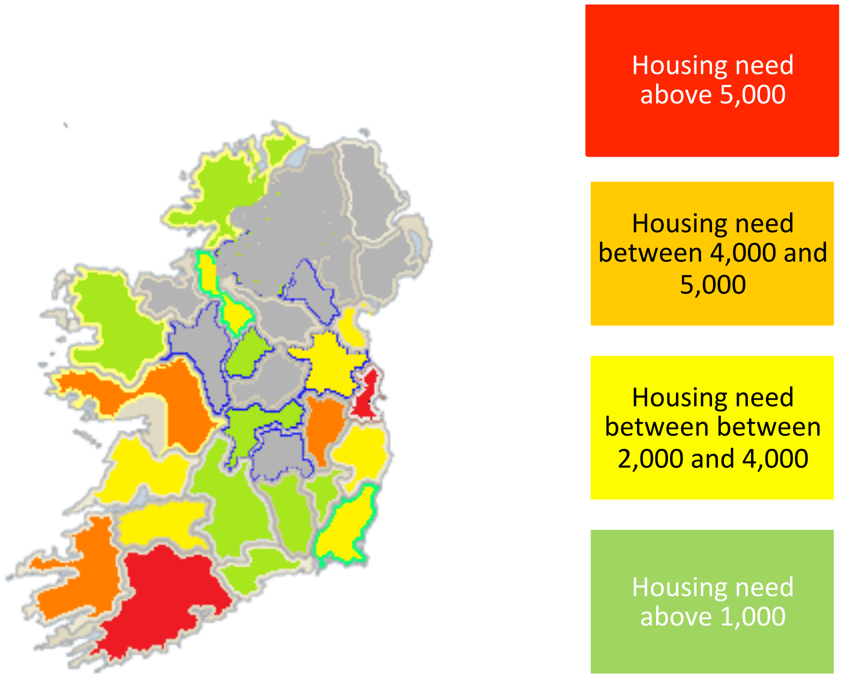
In terms of general housing need, it is estimated that an additional 79,660 residential units will have to be built to meet the increased housing needs among the urban based population (excluding rural needs) between 2014 and 2020.[7] Looking at the housing completion data, the current rate (excluding one off housing) is only about a fifth (22%) of what is needed on an annual basis (an average of 15,932 per annum is required), which means that social housing demand is only going to get much worse, as those capable of renting and/or funding purchases will snap up new housing

[5] Based on Dept of Environment Housing Statistics.
[6] Dept of Finance, various budgets.
[7] Housing Agency (2014). Housing Future Needs to 2020.

stock. Just under half of this new demand (47%) is expected to arise in Dublin, yet just 1,459 units were commenced in Dublin last year.[8]

However, housing demand is not just a Dublin problem. Of the 89,872 household on the housing list in May, 2013, just 35% of demand came from the four local authorities in Dublin (31,814). Some 12.5% of the demand was located across the two local authorities in Cork. Kildare, Galway, and Kerry were the areas with the next highest volumes of demand in that order.

Figure 2. Social Housing Need, May 2013



Source: Housing Agency (2013) Summary of Social Housing Assessments.

An additional challenge is that despite a presumed shift by households in favour of housing units relative to apartment dwellings, it is forecast that 55% of housing supply requirements will be for 1 and 2 person households over the medium to long term.[9] This is also reflected in the composition of social housing list applicants, which is discussed below.

The Government plans to publish a social housing strategy later this year. Given that the latest data on net housing need is for May 2013, it is probably safe to assume that the net figure is now just short of 100,000 in 2014. This compares with plans to roll out just over 5,000 new social housing units this year.

In 2014, 1,500 new units are to be leased, 2,500 additional houses will come on stream in the rental accommodation scheme and 579 units will be built across 2014 and 2015 plus another 1750 vacant

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[8] Dept of Environment Housing Statistics.
[9] Government of Ireland (2014). Construction 2020, A strategy for a renewed construction sector.

units will be brought into use.[10] Just 504 social and voluntary housing units were completed last year.[11]

Only 33% of the Nama units have been released into social housing by the start of this year. Of the 4,374 housing units identified by NAMA as being potentially suitable for take over by the Local Authorities up to the end of 2013, some 2,055 have been confirmed as suitable. However, by April 2014, just 684 units were actually put into use (or being readied to be put into use at that time) for social housing.

Of those on the housing list, 75% are in private rented accommodation, with two thirds dependent on rent supplement (2013 figures). 44% are single adult households,[12] 30% are lone parents, couple households with children account for 25%, with multi-adult households accounting for just 1% of the total. 64% of those on the housing list are aged under 40 and 72% are social welfare dependents. Almost one third of those on the list (32%) have been waiting for 4 years or more to have a house granted to them.

[10] Dept. of Environment (2014). Statement by Minister Jan O' Sullivan on 1st May, 2014 and 13th May, 2014.
[11] Dept of Environment Housing Statistics.
[12] Housing Agency (2014). Summary of housing needs. Social Justice Ireland (2014) – Steps towards a fairer Future.

3. Potential Solutions

(i) Short term solutions

Rent controls typically tend to apply in countries with much longer rental tenure compared with the relatively transitory nature of renting here in Ireland. However, what are termed third generation rent controls should be considered. These are in place in many EU countries since the 1990's and effectively index the increase in rent to the cost of living to the Consumer Price Index (CPI) etc. It does not cap the actual level of rent and is determined on a case by case basis.[13] In Germany, there is legislative provision for rent control, the Economic Offences Act. In effect, an increase cannot be 20% above the maximum local rents in the area (average of 4 years) and there is a convention entitled the Mietspiegel which limits an increase to 20% over three years.

With regard to the Irish situation, rent controls can only function effectively and work as a deterrence measure to unscrupulous landlords if they are accompanied by a steady increase in housing supply. Otherwise, they are likely to be detrimental to the private rental market and will exacerbate existing rental conditions.

The second main issue is the need to understand why there has been a major reduction in rental property stock. The vacancy rate at the time of the 2011 census was 14.5% of which 58% was residential (non holiday home housing) with the highest rates found in Leitrim, Donegal, Kerry and Mayo. It does appear though that there may be a growing share of "voids" or vacant properties in the main urban areas as the current volume of houses sold does not seem to tally with the reduction in rented stock. It is possible that a number of buy to let units have been effectively mothballed to avoid maintenance costs while negotiating mortgage restructuring. A change in the tax treatment of private vacant accommodation could be introduced to ensure that such units are brought back into use. Consideration should be given to an increase in the local property tax rates for vacant properties.

With regard to Local Authority voids, there appears to be a wide divergence in the pace of remediation of vacant stock between the various Local Authorities. Availability of funding appears to be one such issue. However, there is also an issue with regard to the quality of remediation and the time this takes. It is reported that some Local Authorities are refurbishing to a very high standard which over the longer run should reduce maintenance costs. However, it also means a slower pace of output over the short term. Added to that, there are a large number of bedsits (which are now illegal) contained within the voids data and the policy of many urban Local Authorities appears to be to wait until a number of units can become vacant in order to merge and refurbish. All in all, there are minor logistical issues, but they do account for the slow rate at which social housing voids are becoming available.

[13] NESC (2014). Social Housing at a Crossroads Report no. 138

(ii) Longer term solutions

A starting point must be to reject the discounted sale of social housing as a solution in the absence of a significant flow of new stock. This should only be considered if the housing were to be sold at market rate and if the money generated were to be ring-fenced into a special social housing construction fund.

In general, if the current volume of stock is relatively fixed and is not rising to meet demand then the sell off will only serve to exacerbate the social housing problem. This is not to deny the aspiration of the many households who are in secure long term tenancies and who wish to buy, but the significant flow must commence before sales can take place.

1. Available Land

In terms of available land, the State now holds a very large stock of land due to the work of NAMA, the Land Aggregation scheme[14] and lands retained by Local Authorities that were purchased during the boom years and are only partially used.

According to the Government's latest Strategy for Construction to 2020, there are some 2,000 hectares of land zoned for housing in Dublin in areas well serviced by transport and other essential infrastructure, of which 1,000 hectares is currently in large blocks of brownfield and greenfield sites. This would roughly accommodate 30,000 housing units.[15] At a rough cost of €152,500 per housing unit, approximately €4.6bn would be needed to fund such development in the Dublin area. An additional 1,000 hectares is also available in less central areas and these areas are less well served by essential infrastructure but could contribute to supply over time.

2. Finance – Help to Build, Not to Buy?[16]

A first option could be to extend the Capital Asset Leasing Facility (CALF) loans provided to Housing Associations. These are State loans which are more generous than comparable public loans in other countries and where both capital and interest repayments can be deferred for up to 30 years.[17] The downside is that these loans may have to go onto the Government's balance sheet. However, this may be necessary in order to scale up existing activities within Housing Associations over a short period of time.

In contrast to loan arrangements prior to 2011 where the Government loaned a very significant share of the construction costs, the Government has since contained its loan risk to just 30% of the cost. The Housing Association borrows the remainder from the Housing Finance Agency or commercial banks. However, the flipside is that the State is exposed to paying 92% of market rent for the lease on the houses built. While this may well be merited by the need to reassure the Housing Associations of their long term income flow, it does appear to be an overly punitive contingent cost for the State.

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[14] Its role was to take unused land from the LA and allocate to the HFA.
[15] Government Projections (2014).
[16] SIPPR (2012). Together at Home. A new strategy for housing.
[17] NESC (2014). Social Housing at a Crossroads Report no. 138

As of end 2013, there were only 6 approved housing bodies (Housing Associations) operating in the State,[18] most of which engage in small scale construction. Issues of technical and financial expertise plus conservative construction planning appear to be significant inhibiting factors to future scaling up of the sector. This will need to be tackled through enhanced guarantees, a greater volume of public loans and cheaper access to HFA funding.

A second and more significant option is to increase the volume of borrowing by the Housing Finance Agency from the NTMA. At present, borrowing by the Housing Finance Agency in Ireland is classified within general government borrowing with the exception of the NTMA as it is classified as an intra-governmental loan.[19] The Housing Finance Agency currently oversees the lending of funds to Local Authorities and to Housing Associations for the construction of social funding and acquisition of land. In 2013, the HFA loaned 79% of a total of €177m in loans to Local Authorities with the balance going to Housing Associations.[20] In order to keep this HFA lending off balance sheet for the purposes of general government debt, most future borrowing will have to be granted to the Housing Associations.

At end 2013, the HFA had drawn down just over €3.7bn in a guaranteed note facility from the NTMA along with over €293m in commercial paper, out of total available fund of €4.5bn. A starting point must be to increase the drawdown of these funds and filter the additional loans to both the Local Authorities and Housing Associations.

The third main option is to leverage private funds. This could be done through the establishment of a social housing REIT which attracts private investors seeking a long term low risk investment, principally pension funds. Already a small number of residential REITs have commenced operations in Ireland in the long term rental market. NESC (2014) suggests the setting up of special savings accounts with the State to fund social housing similar to that in existence in France.

At present, the EIB appears to have no involvement in the Irish social housing sector, with the exception of the pilot project in Dublin City Council which is only commencing. This is despite very considerable involvement in the UK voluntary housing sector. A major supplementary source of finance could be the EIB plus funding from Council of Europe Development Bank, which provides low cost funding for social housing projects across Europe.

The fourth option is for the newly formed Strategic Investment Fund to co-invest with private investors in social housing. The ICTU is calling for €1bn to be invested by the fund into a Public Capital programme for housing.[21]

Lastly, a key question remains as to how sources of finance alternative to the main pillar banks can be supported. At present, there is only one functioning building society in Ireland, the ICS. Strong consideration needs to be given to either building up this mutual or the establishment of a new State backed mutual for the purpose of mortgage lending at low long term rates.

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[18] Housing Finance Agency (2014). Annual Report, 2013.
[19] NESC (2014). Social Housing at a Crossroads Report no. 138.
[20] Housing Finance Agency (2014). Annual Report 2013.
[21] ICTU(2014). Pre Budget Submission 2015.

3. Proposals for a major house building programme.

In order to meet the current volume of demand, SIPTU calls on the Government to significantly step up its house building programme to 25,000 social housing units over a four year period 2015 to 2018. This envisages that the volume of social and voluntary house building at an average of 6,200 per year over the four years would be just 6% above the annual average 2003-2008 in terms of social and voluntary housing output (5,920). This would be complemented by the full take up of NAMA housing (1,371) along with the remediation of existing housing stock.

This would cost somewhere of the order of €3.7bn over four years although this may vary due to land acquisition costs and is based on social housing average construction costs of €152,000 per unit. This social house building programme has the capacity to generate 65,000 jobs over the period of the building programme based on the assumption that it would takes 26 workers to build 10 homes (source Aylward and O' Toole, 2007).

Table 1: Gross and Net cost of construction

	2015	2016	2017	2018	2019	Total
Direct construction cost	€304.4m	€761m	€1.37bn	€1.37bn		€3.81bn
Cost of capital (2013 weighted average floating interest rate 1.25%)	€3.81m	€9.51m	€17.12m	€17.12m		
Gross total costs	€308.2m	€770.5m	€1.39bn	€1.39bn		€3.85bn
Houses becoming available		2,000	5,000	9,000	9,000	25,000
Savings from RAS (average across the country)*		€12.944m	€323.6m	€582.48m	€582.48m	
LA rental income		€5.242m	€13.1	€23.59m	€23.59m	
NET COST	€308.205	€75.,327m	€1.34bn	€1.31bn	(€81.84m)	€3.7bn

This plan envisages that some €1.78bn could be raised between 2015 and 2016 through exhaustion of the NTMA guaranteed funds facility, loans from the Council of Europe Development Bank and the EIB, plus the establishment of a social housing REIT and this funding would scale up to €1.4bn per year in 2017 and 2018.

4. Conclusion

The social housing crisis in Ireland will ultimately be resolved by no one single measure, but a combination of remediation of vacant properties and new builds. Furthermore, the longer term sustainability of the social housing sector will need to be reviewed. Provision of a combination of social, affordable and housing provision may well prove critical to ensuring a steady flow of housing to meet social housing demand across various geographical areas. Added to that, lessons must be learnt from previous episodes of social housing planning and provision. Social housing must not be delivered in isolation but delivered as part of a healthy private and social mix.

Part V of the Planning Acts was in a theory a good idea, but failed miserably to deliver social housing in mixed developments due to loopholes and exemptions in the legislation which in turn was compounded by patchy enforcement.

A number of planning regulatory and tax changes will need to be made to ensure this is not repeated in the future. The tax treatment of unused, unzoned and zoned land will need to be considered. SIPTU calls for vacant or underdeveloped lands to be made subject to a Land Value Tax, similar to that proposed by the 2009 Commission on Taxation. Different tax bands should apply to zoned and unzoned land. This may have the effect of pushing land assets onto the market.

Furthermore, where planning permission is granted for residential developments, a condition must be that essential social/educational infrastructure is constructed prior to the building of any residential units. All too often, these recreational and transport amenities have been abandoned or not provided for at all, contributing to a major absence of facilities for families living in these areas.