



An Chomhairle Náisiúnta Eacnamaíoch agus Shóisialta
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Social Housing at the Crossroads: Possibilities for Investment, Provision and Cost Rental

Executive Summary

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Ireland's approach to social housing is at the crossroads. In *Construction 2020*, the Government says it will develop a comprehensive strategy for social housing when setting out a vision for the sector. This report is an input to formulation of that new strategy.

Serious problems are evident in each of the main channels of social-housing provision. Among these are:

- **Local authorities:** lack of supply because of borrowing constraints and costs not covered by differential rent;
- **Housing associations:** small uptake of CALF and P&A, state exposure to rising private rents, capabilities to undertake large-scale investment and development;
- **Provision through the private rental sector:** increasing rents, exit of low-income tenants, creating a risk of overcrowding and homelessness, state exposure to rising private rents, limited availability of secure, affordable, long-term tenancy.

An issue across all three channels is institutional arrangements for planning housing provision, land management, development, and long-term protection of a rental stock capable of providing affordable accommodation for a significant share of the population.

In devising responses it is vital that policy is informed by housing economics and international housing research. These show that housing markets differ significantly from the standard conception of a perfectly competitive market and from casual ideas of 'supply and demand'. Around one-quarter to one-third of the population will not find satisfactory housing through the market alone. Housing research reveals big differences in the way rental systems work, depending on whether 'profit rental' or 'cost rental' prevails. European countries with more stable, affordable and socially inclusive housing systems generally provide modest support for large-scale provision of secure rental accommodation, mostly by non-profit bodies, in which rents reflect costs, not the maximum that market pressures will sustain.

Irish policy must now devise effective new approaches on three fronts:

- i. Financial mechanisms capable of funding the quantity and quality of housing we require;

- ii. Policies to grow cost-rental provision that will gradually shape the overall rental sector; and
- iii. Direct public-policy influence on housing supply and urban development.

These three are strongly interdependent, as shown in the figure below.

To fund social-housing provision on the scale needed will require creation of public-housing institutions capable of attracting finance without adding to the national debt. Such housing providers would need an adequate rental-income stream to meet Eurostat’s test of being in the market sector rather than the government sector.

This, and our overall analysis, underlines the importance of cost rental. Cost-rental provision with secure occupancy to a significant share of the population is the best available response to the dynamics of rental systems and housing markets. A movement in this direction will require complementary adaptation of housing-assistance payments on two fronts: limiting the state’s current exposure to rising rents in the private-rental sector, and ensuring affordability for tenants currently paying differential rent.

The third pillar of a new approach is increased direct public-policy influence on supply. Experience shows that in housing there are limits to reliance on passive, arm’s-length incentives, however smartly designed. If, as Government wishes, housing provision is no longer to be developer-led, it will have to be led by some other identifiable actor or actors.

The report outlines a number of ways of combining finance, cost-rental and active supply: through (i) local-authorities or a national-housing corporation, (ii) housing associations and (iii) ‘soft finance’ to private investors willing to provide secure long-term homes, at cost-related rents, to ‘intermediate households’ whose incomes are too high for social housing.

New institutional arrangements will be required to move policy in this direction. Creation of a ‘financial aggregator’ or special-purpose vehicle, to facilitate borrowing and onward lending, will only address *one* of the three pillars. Such a vehicle will require an engine capable of planning, driving, delivering, allocating, protecting and maintaining the supply of affordable rental homes. Many of the required capabilities are now present in the Housing Agency, NAMA, the local authorities and other bodies. Government should immediately establish a high-level task force to explore these requirements and design institutional arrangements capable of providing a coherent and mutually reinforcing combination of *all three* pillars—finance, supply and rental policy.

The approach suggested here involves something of a departure from a number of the elements of Ireland’s traditional approach to social housing. The analysis has implications for the long-term evolution of Ireland’s social housing. The conditions that made the elements of our traditional approach—fully funded local-authority provision, differential rent in a secure local-authority tenancy and tenant

purchase—effective and sustainable have largely disappeared. As a result, policy relies on a strong queuing system and greatly increased, and unsatisfactory, reliance on the private rental sector. We see an unstable policy compromise involving retention of differential rent and tenant purchase, with pressure to limit spending on rent supplement and leasing through limiting the maximum payment available and restricting supply. This is not the best balance between economic reality and social solidarity. We suggest a reframing of the issue to support more constructive deliberation and consensus on the direction of Irish social-housing policy.

Interdependent Pillars of a More Unified, Cost-Effective and Sustainable Model and Need for New Institutional Arrangements



