



An Chomhairle Náisiúnta Eacnamaíoch agus Shóisialta
National Economic & Social Council

Urban Development Land, Housing and Infrastructure: Fixing Ireland's Broken System

Executive Summary

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The Challenge: Affordable Housing and Infrastructure Investment

Ireland must urgently find a way to provide affordable rental and/or owner-occupied housing for a growing proportion of the population. In addition, we need to achieve a sustained increase in the level of investment in public transport infrastructure. In this report, the Council argues that land use, land value, locational value instruments and urban development policy are central in addressing these twin policy challenges, although, as noted in the Preface the members of the farming pillar entered reservations on some of the policy recommendations.

The Problem: A Dysfunctional Housing and Development Land System

The availability of land for housing in appropriate locations, in a way that is consistent with affordability, has long been an unresolved policy issue in Ireland.

Economic analysis of housing and urban development identifies the critical role of land supply and land cost in housing and infrastructure (see the Council's 2004 report *Housing in Ireland: Performance and Policy*). The supply conditions of land can vary for two main reasons: the decisions of land owners on whether they will sell, develop or hold their land; and decisions of public authorities on zoning, planning and infrastructure. Public decisions on zoning, planning and infrastructure often confer disproportionately large benefits on the owners of land. Planning, of the kind found in Ireland and Britain, can prevent undesired development, but lacks the ability to ensure that development takes place. Land can be zoned for housing, and even serviced, but there is no guarantee that it will be used within a reasonable period. To date, there has been limited housing development on land sold by NAMA. Indeed, the supply conditions of land help to create the speculative development land and housing market. The focal point for competition is land acquisition and land hoarding, rather than quality or value for consumers. Overall, the supply of land is uncertain, patchy and costly. This tends to make the housing system risky, unstable and unaffordable.

Ireland's approach to infrastructure also has a number of weaknesses:

- It has been highly pro-cyclical, reflecting periodic economic and fiscal crises.
- There has been an inability, even when resources were available, to identify and undertake 'game-changing' public infrastructure projects.
- The cost of land has formed a major component of the cost of infrastructure.

Effective Approaches Internationally: Active Land Management

There are effective approaches to these issues. In countries such as Austria, the Netherland and Germany, they involve a combination of:

- active land management by highly skilled and respected public authorities;
- active urban development, including both planning and infrastructure;
- housing policies that focus on achieving permanent affordability (where housing costs are no more than 30-40 per cent of household income); and
- increasing use of a range of locational value mechanisms to help fund infrastructure.

Publicly owned land plays an important role, allowing integrated urban development, provision of quality affordable housing and timely and cost-effective infrastructure. Effective approaches also mobilise development land in private ownership to create housing and quality urban neighbourhoods. Our research and dialogue with international experts reveals the following features of active land management:

- It typically involves close collaboration between public urban development bodies, private owners of urban development land, development enterprises and not-for-profit housing entities.
- It depends on the existence of highly skilled and respected public agencies capable of managing land, and driving urban development and infrastructure investment.
- Incentivisation of productive engagement between the public and private actors depends on framework conditions, in particular the status of the urban development bodies, their planning powers and a credible system of compulsory purchase of urban development land at below full development value, used as a last resort and under judicial supervision.

Lessons and Recommendations for Ireland

Recommendation 1: Ireland must change its *system* of urban development, land management and housing provision

The dramatic experience of boom, bust and prolonged stasis makes it clear that the problem is largely systemic. It is a mistake to see the current crisis as simply a legacy of the crash, which, as it fades, will yield a return to ‘normality’. It is the system that shapes the interaction of the different elements and actors. Dysfunctional patterns, interactions and outcomes are hard-wired into our approach. Without a change in the system, we are condemned to an endless sequence of isolated measures. Reforms should be based on a coherent, evidenced-based view of what an effective and inclusive system of urban development, land management and housing affordability looks like—as set out in the Council’s work (NESC 2004; 2014a; 2014b; 2015a; 2015b).

The National Planning Framework (NPF) and the National Development Plan (NDP) set out clear and inspiring principles and goals: compact growth (40 per cent of housing development within or close to existing built-up areas); higher housing and job densities; much greater use of brownfield sites, under-used land and buildings; and integration of policies and objective for the protection of biodiversity into statutory development plans. To achieve these, we need to change the system of urban development, land management and housing provision. But adoption of the NPF and NDP also creates the perfect moment, and probably the last chance, to start the transition to a better system.

Recommendation 2: Build affordability into policies that are designed to increase the supply of housing, starting with land and cost rental

While an increase in the supply of housing can have some effect in reducing its market price, the nature of housing markets, land markets, credit markets and urban development means that this is not in itself a reliable or sustainable means of achieving housing affordability. Ireland must now engineer affordability into the supply of housing through systems of land management, cost rental and social housing. International experience suggests that cost rental is the most effective and fiscally sustainable way of achieving permanent affordability (as explained by the Council in its 2014 report *Social Housing at the Crossroads: Possibilities for Investment, Provision and Cost Rental*). Cost rental uses modest supply-side supports, such as land and finance at favourable rates, to underpin affordability, and it makes this permanent by ensuring that rents cover costs and that the equity that accrues as loans are repaid creates a revolving fund, used in the service of further affordable housing. Cost rental makes rental a realistic and secure long-term option, quite different from the current Irish system (as explained in the Council’s 2015 report *Ireland’s Rental Sector: Pathways to Secure Occupancy and Affordable Supply*). It also avoids the creation of segregated social housing occupied only by those on low incomes and dependent on welfare.

Recommendation 3: Give public institutions a strong developmental mandate, political authorisation and executive capacity to drive sustainable urban development

Government has announced the establishment of a National Regeneration and Development Agency (NRDA). It is to work with local authorities, government departments and other bodies to secure the best use of public lands and infrastructure and to drive the renewal of strategic areas. This is an important policy development and the Council strongly supports it.

Effective active land management involves public authorities working with a range of private and non-for-profit development and housing organisations. A wide range of contractual, joint venture, partnership models and financing arrangements are used. This requires well-staffed and well-led urban development agencies that are dedicated to the task and have the professional competence to draw up master plans and engage in complex arrangements for implementation with the private sector and community groups.

In moving to a new Irish system, a number of other institutional possibilities will need to be considered. Beyond the establishment of the NRDA, it may be necessary to create new entities at municipal level, or other spatial scales, and/or to enhance the remit and capabilities of existing bodies.

Recommendation 4: Use publicly-owned land to increase the supply of housing, ensure affordability and create quality residential developments

The most critical resource available to the State is land in public ownership. A substantial amount of state-owned land exists in our cities and towns, including large city-centre areas that were former docks or rail depots, other areas in key locations and along new public transport corridors opened up by infrastructure projects, such as the Luas Cross-City line in Dublin.

Publicly owned sites now have a central role in addressing the housing crisis and starting the transition to a new system of active land management and urban development. There is an element of trade-off between two important goals: making housing affordable and capturing value to support the funding of infrastructure. However, it is possible and desirable to pursue both goals and, viewed from a longer-term perspective, they are complementary.

In using state land for housing and related infrastructure, there are a number of priorities:

First, it is vital that the land be put in the hands of actors who will develop it in a timely and appropriate manner, rather than seeking to maximise state revenue by selling it outright, without regard to when and how the land will be developed. This would constitute a change from the approach adopted by many public bodies, including NAMA. As well as direct use, state-owned land should be used to provide opportunities for a range of actors with the capacity to build appropriate housing, but who may not have the capital to meet the upfront cost of land purchase,

including approved housing bodies (AHBs), community land trusts and other co-operative groups, developers and individuals (self-build).

Second, public land should be used to create permanent housing affordability. This can be achieved through cost rental, social housing and affordable housing for purchase, subject to conditions that ensure permanence. The relative advantages of homeownership and rental, and the need for honest discussion of aspirations and policy possibilities, are discussed in the Council's 2014 report *Homeownership or Rental: What Road is Ireland On?*

Third, in the case of significant public sites, the area should be master-planned before entering partnership or other arrangements with development entities.

Fourth, given the fiscal constraints on capital investment, the opportunity should be taken to use public land in a way that creates locational value and garners a share of this to support the cost of investment in infrastructure (see Recommendation 6). This could include long-term leasing or licensing arrangements.

Fifth, development on public land should deliver a step-change in the level of environmental sustainability of Irish urban areas.

Recommendation 5: Work with private holders of urban development land to ensure the delivery of affordable housing and sustainable urban development

Current arrangements with respect to urban development land in private ownership, such as the vacant site levy, while useful, are not sufficient to assure appropriate housing supply and affordability. It is now necessary to create the conditions and institutions for more active land management and new kinds of relationships between public authorities and private holders of development land. The forthcoming establishment of the NRDA is an important step in the right direction. It is vital to recognise that the NRDA can, and should, go well beyond simply bringing more publicly-owned land into housing provision, in order to simply increase supply. It also has the potential to model new patterns of housing provision and to change the relationship between public bodies and private owners of urban development land (as proposed in the Council's 2015 report *Housing Supply and Land: Driving Public Action for the Common Good*). Indeed, as in other countries, a key function of the new agency should be to work with the owners of private land. There are a number of mechanisms and models to ensure more effective relationships between public bodies and private actors: joint ventures combining public and private land, land readjustment as undertaken in Germany, and planning conditions concerning affordability and social infrastructure.

More effective engagement between public bodies and private holders of urban development land will require enhanced compulsory purchase powers. This is necessary to ensure that owners of urban development land engage constructively with the public agencies. International evidence shows that the dynamic of the land market changes where there is a credible possibility of public purchase of urban development land at less than its full development value, even where the

compulsory purchase powers are rarely used. They ensure that all actors take planning seriously.

In addition to the major reforms recommended here, introducing a site value tax (SVT) on development land would have a number of advantages. First, it would have less distortionary effects than other forms of taxation. Second, it could promote improved land use. Third, it could, arguably, ensure greater fairness as it would play a role in recovering some of the value added to land by public investment and services. However, such an arms-length instrument would not be sufficient to achieve the desired pattern of land use and urban development. This requires the active land management, institutional development and affordable housing policies set out above. While driving these reforms, Ireland should learn more about how countries such as Denmark design and implement a site value tax.

Recommendation 6: Use the potential of locational value creation and sharing to help fund strategic infrastructure, particularly public transport infrastructure

Ireland must now actively explore the use of locational value creation and sharing instruments to support its new ambition for enhanced infrastructure and sustainable urban development. This should be part of a broader commitment to complement state expenditure with alternative sources of financing and more innovative and tailored funding mechanisms. In addition to development levies, the range of possible locational value mechanisms include: property tax in the vicinity of transport amenities; site value tax; tax increment financing;¹ direct public or joint development; sale or lease of land; auctioning of development rights or air rights, and leasing of commercial space.

Recommendation 7: Adopt an ambitious national programme of specific, understandable and socially accepted flagship projects

Government should start the transition to a new system by driving a number of major projects to provide affordable housing, quality urban development and strategic infrastructure. It can draw on the experience of projects such as the Dublin Docklands Development Authority and Grangegorman Development Agency. Both were highly ambitious and transformative urban regeneration projects. They both involved bespoke institutional development agencies engaging with a range of complex and interconnected policy issues: land management and development, planning, infrastructure funding and a multi-institutional environment. Delivery of such flagship projects will reveal the need for connections across policy areas and co-operation between agencies.

¹ Tax increment financing is the allocation of increases in total property tax revenues above an agreed baseline to public transport investment within a designated area.

