

# Housing in Ireland: Performance and Policy

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# **Housing in Ireland: Performance and Policy**

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# Abbreviations

<b>AHS</b> Affordable Housing Schemes	<b>DTO</b> Dublin Transport Office	<b>LA</b> Local Authority	<b>RPG</b> Regional Planning Guidelines
<b>AHSO</b> Affordable Housing and Shared Ownership	<b>ECB</b> European Central Bank	<b>LCHO</b> Low Cost Home Ownership	<b>RPT</b> Residential Property Tax
<b>APOCC</b> All-Party Oireachtas Committee on the Constitution	<b>EMU</b> Economic and Monetary Union	<b>LIHTC</b> Low Income Housing Tax Credit	<b>RSL</b> Registered Social Landlords
<b>AWT</b> Anti-Withholding Tax	<b>ESB</b> Electricity Supply Board	<b>MITR</b> Mortgage Interest Tax Relief	<b>RWS</b> Remedial Works Scheme
<b>BGE</b> Bord Gáis Éireann/ Irish Gas Board	<b>ESI OP</b> Economic and Social Infrastructure Operational Programme	<b>MTR</b> Medium Term Review	<b>SDZs</b> Strategic Development Zones
<b>CAS</b> Capital Assistance Scheme	<b>ESRI</b> Economic and Social Research Institute	<b>NAPS</b> National Anti-Poverty Strategy	<b>SO</b> Shared Ownership
<b>CE</b> Community Employment	<b>EU</b> European Union	<b>NDP</b> National Development Plan	<b>SVT</b> Site Value Tax
<b>CEC</b> Commission of the European Communities	<b>EURIBOR</b> European Interbank Interest Rate	<b>NESC</b> National Economic and Social Council	<b>SWA</b> Social Welfare Allowance
<b>CGT</b> Capital Gains Tax	<b>GDA</b> Greater Dublin Area	<b>NSS</b> National Spatial Strategy	<b>UCD</b> University College Dublin
<b>CLSS</b> Capital Loan and Subsidy Scheme	<b>GDP</b> Gross Domestic Product	<b>NRA</b> National Road Authority	<b>UK</b> United Kingdom
<b>CLT</b> Community Land Trust	<b>GNDI</b> Gross National Disposable Income	<b>PPF</b> Programme for Prosperity and Fairness	<b>US</b> United States
<b>CPO</b> Compulsory Purchase Order	<b>GNP</b> Gross National Product	<b>PPP</b> Public Private Partnership	<b>VAT</b> Value Added Tax
<b>CSO</b> Central Statistics Office	<b>HBS</b> Household Budget Survey	<b>QNHS</b> Quarterly National Household Survey	<b>ZGL</b> Zoning Gain Levy
<b>CSW</b> Commission on Social Welfare	<b>IAVI</b> Irish Auctioneers & Valuers Institute	<b>RAS</b> Rental Accommodation Scheme	
<b>DoEHLG</b> Department of the Environment, Heritage and Local Government	<b>ICSH</b> Irish Council for Social Housing	<b>REITs</b> Real Estate Investment Trusts	
	<b>IFSC</b> International Financial Services Centre	<b>RIAI</b> Royal Irish Academy Institute	
	<b>IPI</b> Irish Planning Institute	<b>RPA</b> Railway Procurement Agency	

## Preface

In preparing its 2003 strategic overview of Irish economic and social policy, *An Investment in Quality*, the Council agreed that it should undertake a study of housing policy. The subsequent partnership programme, *Sustaining Progress*, contained a number of important housing initiatives and looked forward to discussion of housing in the NESC.

In this report the Council outlines a shared understanding of the economic, social and policy mechanisms at work in the housing system and the key problems that now need to be addressed. Part I identifies the issues and anxieties concerning housing that have been expressed by citizens, the social partners and others in recent years. These cluster into three broad areas of concern: the *stability* of the housing market, the degree of *inequality* in the opportunities and difficulties experienced during the Irish housing boom and the *sustainability* of the settlement patterns and neighbourhoods developed in the past few decades.

Part II of the report provides an analysis of the Irish housing system. Chapter 2 describes the main drivers of the demand for housing and the patterns of supply response since the early 1990s. The interaction of demand and supply explains much of the observed trends in prices, rents, home ownership and settlement. The chapter also documents the main trends in housing policy, including planning, infrastructure and the provision of social and affordable housing. A more detailed analysis of the demand and supply of housing is contained in a series of papers available as a Background Analysis on the NESC website. Based on that analysis, Chapter 3 outlines the Council's interpretation of the Irish housing system as a dynamic but unbalanced one. Chapter 4 assesses the future outlook and identifies the core policy challenges. The most pressing of these are the need to achieve high-quality, sustainable, neighbourhoods and to provide a more effective range of supports to those households that fall below the affordability threshold. These must be achieved while managing the evolution of the housing sector in the national economy.

Part III contains the Council's policy recommendations. Two general findings inform these recommendations. First, the instruments that can address the core challenges are to be found in the areas of planning, urban design, infrastructural investment, land management and public service delivery, rather than in manipulating tax instruments to alter the supply or demand for land or housing. Second, the Council rejects the idea that a greater quantity of housing must be at the expense of quality development. Increased housing quantity and better quality neighbourhoods can be complementary and, indeed, mutually reinforcing. This requires a clear vision of the kind of high-quality, integrated, sustainable neighbourhoods that are worth building.

Accordingly, in Chapter 5, the Council strongly endorses the new principles of sustainable development adopted in the National Spatial Strategy, explains the nature and advantages of sustainable neighbourhoods and suggests ways to ensure greater integration of housing and transport. Chapter 6 recommends that Ireland create a significantly expanded stock of social housing and a wider range of graduated supports for 'intermediate' households. Chapter 7 draws attention to the uncertainty and variability of land supply and recommends an approach which combines long-term land-use strategies, sufficient active land management to ensure delivery of both private and social housing and betterment-sharing measures, designed in a way that does not damage supply. The Council's conclusions and recommendations are summarised in Chapter 8.

The magnitude and significance of the challenge of sustainable neighbourhoods and social balance needs to be recognised. It bears comparison with two other great challenges that Ireland faced and met in the past half century—the opening of the economy in the early 1960s and the creation of a new economy through partnership in the mid-1980s. It is similar in three ways. First, it is essential to the social and economic future of Irish society. Second, it requires a widely shared understanding and consistent action by numerous organisations, both public and private. Third, it challenges not only established behaviour but also the self-perception that underpins that behaviour. Achievement of the new principles of urban development and social integration seem to be blocked, more than anything else, by the belief that Ireland is so attached to dispersed development and so divided between different social groups and interests, that we cannot make quality, sustainable, socially-cohesive cities and towns. Since earlier self-perceptions were confounded by the emergence of a prosperous society and a world centre of engineering and information technology, there is no reason why we cannot prove ourselves wrong again.

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Numerous organisations – including Comhar, Comhairle, Hamilton Osborne King, the Homeless Agency, Hooke and MacDonald, the Irish Financial Services Regulatory Authority, the Irish Council for Social Housing, the Irish Auctioneers and Valuers Institute, the Irish Housebuilders Association, the Irish Wheelchair Association, the National Association of Building Co-operatives, the Permanent TSB and Threshold – also assisted the Council. In addition, we would like to thank the Economic Research Unit of Allied Irish Bank for the provision of data and charts on affordability and the ESRI for information on second homes contained in Chapter 2 and in the Background Analysis. The staff of the Department of the Environment, Heritage and Local Government were particularly generous in commenting on drafts and providing information. The NESC retain full responsibility for all opinions and information contained in the report.





## Introduction: Issues and Anxieties in Irish Housing

The dramatic change in Irish housing in the past decade and a half has created many anxieties. These cluster into three broad concerns: the *stability* of the housing market, the degree of *inequality* in the opportunities and difficulties experienced during the housing boom and the *sustainability* of the settlement patterns and neighbourhoods developed in recent decades. Judgements on stability, inequality and sustainability require an understanding of the evolution of the housing system.

## Understanding the Irish Housing Boom

The trends in construction, settlement, prices and affordability in the past decade allow an interpretation of the Irish housing boom, summarised in the following narrative.

Given the remarkable strength of demand—driven by unprecedented growth in incomes and employment and a range of demographic factors—a significant increase in Irish house prices was inevitable. Although supply response was delayed, Ireland has displayed a very large increase in housing stock by both historical and international standards. There were important regional differences in demand and supply, giving rise to higher prices in Dublin and a spread of development to dormitory settlements. Problems of long-run sustainability and rising prices were exacerbated by the dominance of low-density housing in a context of poor transport infrastructure. The predominance of dispersed, low-density, car-dependent, green-field development, especially in the East region, was a consequence of a set of land-use, planning and transport systems which did not accommodate a sufficient supply response in and near the main cities. In this process, land prices were largely determined by the strength of demand for housing and the supply response in areas of greatest need.

A significant minority of households experience affordability problems while many are insulated from increasing property rises. The sharp contraction of local authority construction in the late 1980s and early 1990s has been a significant factor in increasing problems of affordability and access. That contraction reflected both fiscal problems and the poor quality of some earlier local authority estates. Pressure of reduced affordability and increased housing need in the 1990s gave rise to greater take up of rent supplement, prompted a somewhat higher level of social housing provision and the creation of new approaches, such as Affordable Housing schemes. The need for a resumption of social and affordable housing provision in the past decade was a reflection of the fact, observed in modern liberal democracies, that the market for owner-occupied and rental accommodation will not, on its own, meet the housing needs of those on low incomes or with special housing needs. Private investment in the provision of increased rental accommodation was significantly dependent on the expectation of increasing asset values.

## Judging Stability, Inequality and Sustainability

Taking the past decade as a whole, most analyses suggest that the huge expansion of output, home ownership and mortgage borrowing has reflected fundamental economic and social realities. Nevertheless, several studies suggest that, at certain times, Irish house prices have risen higher than can be explained by the underlying patterns of incomes, employment, demography and interest rates. Regardless of whether house prices are now in excess of their fundamental value, there are a number of reasons why the evolution of the housing industry in the coming years is of great significance. Among these are the fact that house building has become a significant sector of the economy, the current level of housing output is above the level of long-term private housing demand and there continues to be unmet need for social housing.

The analysis confirms anxieties about inequality in the distribution of opportunities and difficulties. Despite its dynamism, the private market for owner occupied housing has not met the housing needs of many and the market for private rental accommodation has displayed rent levels that are not affordable for some households. In addition, rapidly rising property prices have been an independent source of significant change in the distribution of wealth and income in Irish society.

The analysis also confirms concerns about the sustainability of the housing system. A strong case can be made that the patterns of settlement, neighbourhood design and density in the past decade are storing up significant social, environmental, budgetary and economic problems in years to come. Furthermore, this has been occurring in a context in which there are clear, well-defined, feasible alternatives that are sustainable.

## A Dynamic but Unbalanced System

The Council's view is that the Irish housing system has been dynamic, but unbalanced. Dynamism is evident not only in the strong increase in supply, but also in the many policy initiatives since the early 1990s. The unbalanced nature of the system is evident in the gap between demand and supply, especially in Dublin in the early years of the housing boom, in the inequality of opportunities and pressures across income groups and in the imbalance between the provision of private and social housing. There has also been an imbalance between home ownership and rental, although this has moderated. A series of imbalances undermine the economic, social and environmental sustainability of the settlements and neighbourhoods being constructed. Finally, in the views of some, but not all, there has been an unbalanced distribution, between landowners and wider society, of the increase in land values or 'betterment' that arises as a by-product of general economic and social development.

## Future Outlook and Policy Challenges

Estimates of future market demand suggest that a significant level of additional housing output will be required over the next decade. With the current high level of output, balance between supply and demand should be achieved in the coming years, although imbalances may persist for a time in certain locations or market segments. It is not clear when annual housing market output will begin to decline.

While we confront a number of difficulties in estimating the future provision of social and affordable housing and the scale of future housing need, the overall balance is clear. Both housing-specific measures (such as local authority waiting lists, estimates of affordability problems and take-up of SWA rent supplement) and wider social and economic trends (in benefit dependency, disability, low earnings and single earning households) suggest that there remains a gap between the projected provision of social and affordable housing and the number of households that will be unable to achieve home ownership on the open market or who will face affordability problems in private rental accommodation.

Consequently, the key policy challenges are:

1. To achieve high-quality, sustainable, development in both urban and rural areas;
2. To provide an effective range of supports to households that fall below the affordability threshold;
3. To assist the market to continue to provide a high level of supply;
4. To ensure a tax and subsidy regime that supports these goals.

## A Changing Perspective on Housing Policy

Two general orientations inform the Council's recommendations. First, the instruments that can address these challenges are to be found more in the areas of planning, urban design, infrastructural investment, land management and public service delivery, than in manipulating tax instruments to alter the supply or demand for land or housing. Second, the Council rejects the idea that a greater quantity of housing must be at the expense of quality development. Increased housing quantity and better quality neighbourhoods can be complementary and, indeed, mutually reinforcing. This requires a clear vision of the kind of high-quality, integrated, sustainable neighbourhoods that are worth building.

## Sustainable Neighbourhoods and Integrated Development

In the past five years there have been important developments in the principles, strategies and procedures that govern spatial development and residential settlement. These include the National Spatial Strategy (NSS), Regional Planning Guidelines, Local Authority Development Plans and Residential Density Planning Guidelines. These initiatives contain five clear principles:

- ◆ Sustainable urban densities;
- ◆ Consolidated urban areas;
- ◆ Compact urban satellites;
- ◆ Rapid communication networks; and
- ◆ Sustainable rural settlement.

This evolution of thinking and procedure is potentially of great significance. The characteristics of sustainable neighbourhoods are now clear and easily understood. Such neighbourhoods have a number of social, economic and environmental advantages over the patterns of sprawling suburban development common in Ireland over recent decades. These include lower levels of car dependence, greater inter-generational and social integration, combined with greater independence for old and young people, easier access to social, community and sporting organisations and higher levels of social and commercial services. Contrary to what is sometimes believed, sustainable urban density does not necessarily imply high-rise development. Nor does a sustainable neighbourhood necessarily mean city-centre living. Sustainable rural housing need not be in conflict with the Irish rural tradition.

The policy approach has been evolutionary and incremental: enshrining the new principles in the overarching national strategy, creating a hierarchy of plans and guidelines and instigating new procedures in local and regional authorities. This was appropriate, given the dispersed nature of decision making in the fields of physical planning, housing, infrastructural investment and transport. The strength

of the approach is that it has gradually built a degree of consensus—among local and regional authorities and, hopefully, among developers and builders—on the new principles listed above.

There is a risk, however, that the procedures and institutions will not achieve sufficient coordination to ensure rigorous and widespread implementation of the new principles.

First, there is a risk to the overall spatial strategy. In rationing investment between the regions and Dublin, policy might achieve neither balanced regional development nor an effective city-region in Dublin. Dublin could continue to grow as before, but because this was not envisaged in the NSS, it would not be provided with sufficient infrastructure to allow it function as a successful city-region. It is necessary now to identify and prioritise the next generation of major infrastructural investments necessary for a competitive regional and national economy. The analysis of past experience, showing the critical role of transport in both housing supply and sustainable neighbourhoods, strongly suggests that further transport infrastructure, probably in rail, is necessary.

A second risk is that the strategies and procedures put in place in recent years will not achieve sufficient integrated land-use planning to ensure sustainable urban settlements linked by regional transport. To turn the new principles and guidelines into reality requires an active process in which the central Department, the regional authorities and the local authorities engage with each other, and with other actors, to scope out a desirable pattern of long-term settlement for each region, city, gateway, hub and, indeed, town.

There are also a number of risks at local authority level. These include, first, the risk that the six year county development plans will not be sufficiently informed by a longer-term strategic vision of local and regional development, second, the risk that the new principles will not be sufficiently reflected in the projects proposed by builders and given permission by planning authorities, third, the risk that local authorities will not create and maintain the level of local infrastructure and services necessary for sustainable neighbourhoods and, fourth, the possibility that the overall planning process will not be fast enough.

To minimise these risks it is necessary to ensure that there is, within the public system, enhanced capacity and capability for analysis of spatial policy problems. There is a need for better research on physical development and property markets, more analysis of the links between land-use and transport planning, identification of best practice through comparison of plans and trends and a sophisticated repository of spatial data. The purpose of this enhanced capacity would be to support national government, regional authorities and local authorities in the complex task of achieving integrated development.

## Social Balance: Social and Affordable Housing

Given the future market outlook and the gap between existing social housing provision and likely future housing need, the Council recommends:

- ◆ An expanded and more flexible stock of housing available at a social rent to ensure an adequate safety net for vulnerable households;
- ◆ A wider range of graduated supports for 'intermediate' households;
- ◆ Provision of adequate resources for social and affordable housing.

A high level of ambition is now appropriate in the provision of social housing. The Council wishes to signal the scale of the response that should be planned for, while believing that the eventual level is better finalised in the wake of the next assessment of housing need in 2005, and as trends in housing and rental affordability become clearer. Given current information, the Council believes that an increase of permanent social housing units, owned and managed by local authorities and voluntary and co-operative housing bodies, in the order of 73,000 in net terms between 2005 and 2012, is necessary to meet the need for social housing. The cost to the Exchequer of such an increase will depend on a combination of factors, including the composition of the additional supply and the approach to tenant purchase. An initial estimate by the Council suggests that it would cost in the order of €1.4 billion per year in 2004 terms, or an additional €500 to €600 million per year above existing capital expenditure. It is clear that the Council envisages a substantial increase in investment in social housing with significant implications for the public capital programme.

If the strategic objective of increasing the stock of social housing is accepted, the Council recommends that the current tenant purchase scheme be modified to better support that strategic objective. The further step—of redirecting tenants who wish to purchase exclusively to the Shared Ownership and Affordable Housing Schemes—should be actively considered.

In raising the output of social housing, an important factor will be how increased quantity is combined with high quality. This can only be achieved by close monitoring of the effectiveness of the various forms of social housing provided in particular contexts. The Council encourages the Housing Forum to help ensure that the required monitoring takes place.

The Council welcomes the reform of the SWA rent supplement scheme announced in July 2004; through the Rental Accommodation Scheme (RAS) the private rental sector is to be contracted to provide long-term accommodation to people in receipt of SWA rent supplement for longer than 18 months. The RAS should support a more flexible social housing stock, while adding to the set of social housing options. It is important, however, to monitor this innovative measure and not to lose sight of the strategic value of maintaining an appropriate balance between the use of privately owned rental units and the construction or acquisition of permanent social dwellings.

The Council advocates a wider range of graduated supports for ‘intermediate’ households. Currently, policies to provide Affordable and Shared Ownership housing enable 5 to 6 per cent of home buyers to secure their housing at a discount. The Council recommends continuing support at, at least, this level for the foreseeable future.

To date, the limited intermediate sector is focussed on supporting home ownership. Subsidies to support supply of affordable rental accommodation have not been developed. The evidence suggests that, over the past decade, the most severe affordability difficulties were experienced by tenants in the private rental sector. The Council believes that the potential exists to develop a cost-rental segment in the Irish housing system over the medium to long-term. It recommends that a feasibility study be conducted on a joint basis by the Department of the Environment, Heritage and Local Government and the Department of Finance—involving local authorities, development agencies and other relevant stakeholders, where appropriate—on the funding, institutional arrangements and other supports that could support affordable rental accommodation on a cost-rental or limited-profit basis.

## Tax and Resource Issues

There is a substantial gap between the current situation and the priorities identified by the Council: increased provision of social and affordable housing and of infrastructure necessary for well-designed, sustainable, settlements. The needs identified by the Council have implications for both current and capital expenditure.

If the needs identified are to be met, a higher level of capital spending in these areas will be necessary. While this need not exclusively be exchequer financed, it seems likely that there will be a need for higher exchequer capital expenditure. The Council recognises that its proposals imply a very substantial increase in the level of investment in housing and suggests that these priorities should be factored into the next National Development Plan. Provision of the capital investment necessary to provide an adequate level of social housing and infrastructural amenities for sustainable neighbourhoods must be undertaken in a way that is consistent with other public investment needs and sound public finances.

Additional social housing and more sustainable neighbourhoods also imply a need for current resources. While there is scope to provide some of these needs through the reallocation and more efficient use of existing resources, it is likely that there will still be a need for additional resources. Some possible ways of raising additional current funding will be explored in the review of Ireland’s taxation system that the Council will undertake and will be considered in the Council’s next *Strategy* report, to be prepared in 2005. The raising and allocation of current revenue must have regard to the potential impact of taxation on the level and pattern of economic activity and employment.

As noted above, the Council's analysis of the housing system does not suggest that the current policy challenges can be adequately addressed through using tax instruments to alter the supply or demand for housing or land. Mortgage Interest Tax Relief (MITR) should be retained in its current restricted form. The main elements of the tax treatment of the rental sector—MITR for landlords, targeted supply subsidies, such as Section 23 and Section 50 tax relief, and tax relief to tenants on rent payments—continue to have a role.

While stamp duty imposes a significant transactions cost, the Council does not believe that abolition of stamp duty is a good idea in current circumstances. Stamp duties on residential property are now a significant source of revenue. Indeed, stamp duty, as a tax on transactions in property, is the main form of property tax in Ireland. There are arguments in favour of property taxes, on both equity and efficiency grounds. The Council believes that it would be unwise to abolish a source of revenue from property as significant as stamp duty. However, there are a number of possible amendments to stamp duty that should be considered.

Government should explore possible ways of providing support to those who need assistance in achieving a deposit for owner-occupied housing. Such support could take the form of tax relief on saving for a deposit or a loan from the state to cover the deposit. In considering whether to adopt either of these approaches, attention should be paid to the position of the housing cycle, overall levels of indebtedness and the vulnerability to interest rate increases. Furthermore, any such measure must not place an excessive burden on the public finances.

There are a number of reasons why the prevalence of second homes should be a focus of public policy. Second homes can drive up land and housing costs for people seeking primary homes and frequently do not cover the true costs of connection, services, environmental damage and lost amenity. Some local authorities use development contributions in a way that recoups a greater proportion of the true costs, and this is a welcome development. In addition, the Council believes that consideration should be given to a separate tax on second homes.

## Land, Land Management and Betterment

The evolution of the Irish land market, building industry and planning system underlines the degree to which the supply of land can be variable and uncertain. This variability and uncertainty means that the land and housing markets work very imperfectly. Sites sold for development are unlikely to be adjacent to each other and development tends to sprawl across the landscape. Planning often attempts to control such development, but in doing so can increase the scarcity value of land and housing. Planning of the type undertaken in Ireland cannot ensure that land allocated for development is actually built upon. In some countries, large scale public land banking is used to combine a smooth supply of land with integrated development, while in other countries, including Ireland, activist land management is used in a more selective way. The uncertainty and variability of land supply and the planning system shape the business practice of

developers and others in the market. They prompt them to invest in land-banks to ensure that they have an ongoing supply of suitably located sites. Planning and perceived land scarcity give particular land owners the power to influence the timing and location of development.

This analytical framework draws attention to a number of things that can go wrong in the land and housing markets and some associated challenges for public policy:

- ◆ Things can go wrong if insufficient land is zoned and serviced, hence one policy challenge is to achieve sufficient zoned and serviced land in areas of greatest need;
- ◆ Problems can arise if the owners of land do not want to sell, so a further policy challenge is to achieve an adequate and smooth supply of land;
- ◆ If the long-term development needs of a city are not strategically identified then land across a whole region tends to be zoned in a haphazard way and made available to builders in a patchy manner;
- ◆ The strength of demand in a given location can create a large price premium.

The Council believes that an effective policy on land requires a combination of four approaches:

- ◆ A land-use strategy over a long horizon, including zoning and servicing of land;
- ◆ Land for enhanced social and affordable housing programmes;
- ◆ Sufficient active land management to ensure delivery of housing;
- ◆ Betterment-sharing measures, designed in a way that does not damage supply.

The first two policy approaches are central to the Council's recommendations for sustainable neighbourhoods and increased provision of social and affordable housing, summarised above. They should be seen as part of an overall policy approach which entails sufficient active land management to ensure the delivery of housing to meet the needs of different income and demographic groups.

Elements of public land management are evident in a number of aspects of Irish policy: the Serviced Land Initiative, affordable housing schemes, Part V, public private partnerships for neighbourhood design and housing provision, the Critical Infrastructure Bill, Strategic Development Zones, and urban development entities, such as the Dublin Dockland Development Authority. Indeed, the affordable housing initiative under *Sustaining Progress* highlights the critical role of a central policy driver engineering the delivery of land. The Council acknowledges the role of these elements of active land management in meeting the goals of market supply, sustainable neighbourhoods and the provision of social and affordable housing. It believes that these approaches should be enhanced in appropriate contexts.

The fourth component of an overall approach to land is betterment-sharing measures designed in a way that does not damage supply. Recognition of the variability and uncertainty of land supply calls into question the traditional assumption that betterment value could be taxed without any impact on the supply of land. Other elements of land policy—land-use strategies, zoning and active land management—will, to some degree, *reduce* the degree of land value betterment. Nevertheless, there can remain a high level of land value betterment, reflected in extremely high land prices and the high share of land value in house prices, as has been seen in Dublin and other places.

In particular contexts, where a high level of betterment-value remains after appropriate zoning and existing betterment-sharing measures, the goals of housing policy could be advanced by selective use of additional betterment-sharing instruments. Where an element of active public land management exists and a high scarcity value of land remains, an opportunity arises for a negotiated form of betterment sharing. Indeed, development is increasingly undertaken in partnership with private developers. The terms on which land is made available can include a fair sharing of betterment value between the private sector and the public interest. Likewise, were compulsory purchase of un-zoned land to be used to manage the provision of land for social and affordable housing, the power to zone the land and to negotiate its provision to developers would allow a sharing of betterment.

## Conclusion

The analysis in this report provides a unified rationale for a housing policy that addresses the need for social and affordable housing and sustainable neighbourhoods. The provision of social and affordable housing has a long history in Ireland, but has come through a period of retrenchment, and is only now achieving a secure rationale in the economy and society of the 21st Century. The move to sustainable settlements and integrated land-use strategies with a longer horizon has been recent and gradual and has yet to be fully achieved. Active land management has developed independently in a number of different contexts, and has yet to be seen as an essential element of overall housing policy. A key to deliver on each of these goals, and linking them successfully, lies in the flexible use of a combination of the policies on land, land management and betterment, described above. Based on its analysis of past experience and future challenges, the Council urges government, the social partners and others involved in housing to ensure that all three lines of policy are fully developed.

This is a major national challenge which bears comparison with other great challenges that Ireland has faced and met in the past half century. It is essential to the social and economic future of Irish society. It requires a widely shared understanding and consistent action by government and other actors. It challenges many established approaches to housing, social segregation and urban development.

A summary of Council recommendations can be found at the end of the Chapter 8.

## **PART I**

# Introduction

# 1

## Issues and Anxieties in Irish Housing

## 1.1 Introduction<sup>1</sup>

Following the identification by the social partners of housing and accommodation as one of the ten special initiatives to be undertaken during the period of *Sustaining Progress*, a commitment was made that NESC would undertake a study on housing. This report is the outcome of this study. The Council has long considered housing to be a key determinant of economic and social well-being and progress in Ireland. In its 2003 Strategy, *An Investment in Quality*, the Council stated that there were a number of inter-related problems which must be addressed to deliver a sustainable housing market. These included supply and demand imbalance, affordability, the sustainability of low-density development and the potential costs of one-off rural housing.

From the outset of this study, the Council agreed that it should adopt a broad approach, undertaking a review of many aspects of housing systems and public policy. It was necessary to cast the net wide because it was not clear that the most widely reported aspect of the Irish housing system, the rising price of new houses, adequately describes the problem that public policy should and can address.

One aspect of the Council's work on any policy issue is the development of a shared understanding of the nature of the problem and the economic and social mechanisms at work in a given sphere. In the case of housing, this turns out to be a difficult task, given the dramatic change in Irish housing in the past decade, the variety of individual experiences and the complexity of the issues involved. Nevertheless, it is a necessary step in reaching conclusions which add value and which provide a basis for a consensus on medium-term policy approaches.

In order to begin this task, this chapter outlines the principal issues and anxieties concerning housing and housing policy that have been expressed by citizens, the social partners and commentators in recent years. These are stated here without comment on their validity. Part II of the report provides an analysis of the Irish housing system. That analysis allows an interpretation of the evolution of the system, provided in Chapter 3. The interpretation contains an assessment of the accuracy, validity and importance of the various anxieties listed in this chapter. On the basis of that assessment, the Council identifies in Chapter 4 the key policy challenges that it considers of most importance in the coming years. Part III analyses ways in which the main policy challenges might be addressed and outlines the Council's recommendations.

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1. Throughout this report the Secretary General of the Department of Finance did not consider it appropriate to comment on budgetary policy.

## 1.2 Anxieties and Perspectives on Irish Housing

### 1.2.1. Concerns regarding the strong increase in house prices

Concerns in relation to the effect of the large increase in house prices arise from a number of perspectives. They include the following:

- ◆ House prices have risen so high that there is a general problem of affordability, except for the very rich;
- ◆ House prices have risen so high that they form a constraint on the overall development of the economy by limiting inward investment and labour mobility;
- ◆ House prices are fueling wage pressure and thereby damaging competitiveness and undermining national partnership;
- ◆ The arbitrary wealth effects of house price increases have contributed to growing social polarisation.

### 1.2.2. Anxieties and Perceptions Concerning the Cause of High House Prices and Rents

A number of ideas about the cause of high and rising Irish house prices can be identified in discussion in recent years:

- ◆ House price increases mainly reflect the remarkable growth of the Irish economy and population since 1990;
- ◆ House prices have been driven up by pure speculation, which has a limited basis in any underlying economic reality and therefore constitutes an asset price bubble that could burst at some point;
- ◆ The high price of houses is caused, in large part, by the high price of land;
- ◆ House prices have been driven up by changed behaviour on the part of financial institutions, who lend excessive amounts;
- ◆ House prices have been driven up by competition between investors and those seeking to purchase their primary dwelling;
- ◆ House prices have been driven up, and kept high, by deliberate restriction of the supply of land or housing by a small number of landowners or developers who control the market—often referred to as withholding or ‘land hoarding’;
- ◆ House prices are made higher by VAT on houses and will be further increased as development contributions are increased;
- ◆ Upward pressure on house prices has been increased by the restrictive nature of planning decisions or delays in the planning process;
- ◆ Increased Irish house prices are a consequence of our decision to join the euro, given the low interest rates set by the European Central Bank;
- ◆ Private rents at the lower end of the market are being kept up by the large increase in the number of people in receipt of SWA rent supplement.

### 1.2.3 Anxieties and Perceptions Concerning Inequalities in the Housing System

While some of the concerns listed above focus on the overall system, there are also a range of anxieties and perceptions about inequalities. Some of these are as follows:

- ◆ Given the pattern of earnings growth and tax reductions, there are particular problems of affordability for those on low incomes;
- ◆ Increased local authority waiting lists are evidence of housing need that will not be met by the market and has not been adequately met by social housing;
- ◆ Although problems of affordability have increased, local authority waiting lists are not an accurate indicator of the extent or pattern of unmet housing need;
- ◆ High house prices and the limited availability of local authority housing mean that the major problem of housing affordability is faced by those whose only option is the private rented sector;
- ◆ The evolution of the system has placed a particular burden on those people who cannot afford to buy, but whose incomes are too high to qualify for local authority housing;
- ◆ Part V is an important policy response to the problems faced by low income households, but is not likely to operate on a sufficient scale;
- ◆ Affordable housing policies are unfair to those who purchase similar homes at full market cost;
- ◆ The pattern of house price movement has redistributed income and wealth from the new entrants to established property owners and from the young to the old;
- ◆ The pattern of land and house price movement has redistributed income and wealth between landholders and those whose incomes are derived from labour or enterprise;
- ◆ Recent developments have made many households vulnerable to an increase in interest rates and any slowing of income growth;
- ◆ Developments in the housing market have been particularly disadvantageous for those who work in Dublin and need to set up home there;
- ◆ Low-skilled immigrants and people granted official refugee status who want to stay in Dublin are being exploited by landlords;
- ◆ The high entry costs of home ownership have conferred advantages on those whose families have housing equity and disadvantages on those who do not have access to 'parental gifts';
- ◆ Strong demand for sites in certain rural areas have made it difficult for young people to become home owners in their local area;

- ◆ Rising site values at a time of depressed agricultural incomes has added a perverse incentive for one-off housing of an unregulated kind;
- ◆ Generous tax breaks for second and holiday homes during the 1990s displaced homes for primary residence;
- ◆ Increased homelessness is one consequence of the key trends in the housing system.

#### 1.2.4 Concerns and Anxieties Regarding Economic and Social Sustainability

A number of concerns about the economic and social sustainability of current trends are being voiced. These include:

- ◆ Low-density suburban development is economically unsustainable because it creates high car dependence and increases the cost of public infrastructure;
- ◆ Low-density suburban development is socially unsustainable because it makes it difficult to support social, recreational and retail services;
- ◆ Low-density suburban development is what most people want and policy should not discourage it;
- ◆ Widespread construction of one-off housing in rural areas is not economically, socially or environmentally sustainable;
- ◆ Rural housing has a number of social and economic advantages and avoids some of the problems evident in urban areas;
- ◆ Quality of life is reduced and issues of sustainability arise, as young first time buyers locating in ever expanding commuter belts and dependent on double incomes are likely to experience pressures at later stages of the lifecycle;
- ◆ The growth and spread of Dublin is economically and socially sub-optimal and it would be better if new settlement was in other towns and cities.

In addition, there are a number of other qualitative issues that need to be considered.

### 1.3 Three Main Concerns: Stability, Inequality and Sustainability

Above we have listed a range of anxieties and perceptions concerning various aspects of the Irish housing system. While these contain highly diverse ideas and theories, they do cluster into three general areas: stability, inequality and sustainability. On each of these three issues there are some who have strong anxieties and some who take a more benign view.

Consider first the stability of the Irish housing system, particularly the stability of the private market. One group of observers consider that the Irish housing market displays strong instability and irrationality, amounting to a 'bubble' that is likely to burst when the irrational expectations and exuberance that drives the market turn from positive to negative. Then, the upward spiral of asset values, wealth appreciation and demand will turn into a downward spiral of falling prices, negative equity and withdrawal from the market. More optimistic observers do not fear for the stability of the Irish housing system. They believe that the patterns of demand, supply and price movement can be understood by reference to rational economic and social behaviour, based on a more-or-less realistic view of Ireland's likely economic and social development. They do not believe that the huge expansion of output, home ownership and mortgage borrowing has occurred without reference to fundamental economic and social realities.

The second main theme in the issues and anxieties listed above is inequality and the distribution of opportunities and difficulties across different income and social groups. Some see this as the major problem in the Irish housing system. They point to the problems of affordability faced by low income households, the limited supply of social and affordable housing, the acute problems faced by those with special housing needs and the uneven distribution of the increased value of property, particularly the limited sharing of the increased value of land, or 'betterment', that arises as a by-product of wider economic and social development. Others argue that these pressures will take care of themselves as overall supply of housing comes into greater balance with the greatly increased demand experienced in the past decade. Indeed, some would go further and argue that major policy initiatives to alter the distribution of gains and losses in the housing market would actually have a negative effect on overall supply and demand and, ultimately, on the weakest groups.

The third general issue concerns the economic, social and environmental sustainability of the Irish housing system. The positive view is that the pattern of overall settlement, neighbourhood design and low density reflects Irish social preferences, given that it has emerged largely through the market mechanism. A related view is that these patterns are an inevitable feature of a great increase in housing supply, such as that of the past decade. The alternative perspective is

that the patterns of settlement, neighbourhood design and density in Irish housing in the past decade are storing up huge social, environment, budgetary and economic problems in years to come. Advocates of this view do not accept that these patterns are inevitable, and argue that there are clear, well-defined, feasible alternative options that are sustainable.

The Council's view on the accuracy, validity and importance of the concerns and anxieties listed above is outlined in Chapter 3.

## **PART II**

# Analysis of the Irish Housing System

# 2

## The Supply and Demand for Housing

## 2.1 Introduction

This chapter provides the background analysis for the Council's interpretation of the Irish housing system which is presented in the next chapter. The Council has separately published a more detailed set of papers which provide further Background Analysis and which are available on the Council's website ([www.nesc.ie](http://www.nesc.ie)). The chapter opens with consideration of a number of analytical tools which aid our understanding of housing markets. Factors influencing demand and supply are discussed and supply and demand are then considered in tandem and the evidence of a number of recent models of housing demand and supply presented. The possible measures of housing affordability and its evolution are outlined in Section 2.5 and the variety of public supports provided under social and affordable housing measures in Section 2.6. Section 2.7 presents the current level of public expenditure on, and taxation from, housing.

## 2.2 Analytical Approaches to Housing

### 2.2.1 The Characteristics of Housing

There are a number of features of housing which require an analytical approach somewhat different from the economic analysis applied to the markets for most other goods. Housing economists identify the following characteristics (Meen, 2001, Miles, 1994):

- ◆ The *longevity or durability* of the housing stock;
- ◆ The importance of *financial markets*;
- ◆ The *cyclical*ity of housing markets;
- ◆ The *volatility* of house prices which can have significant effects on wealth and consumption;
- ◆ The *lumpiness* of purchase and consumption;
- ◆ *Housing wealth* which tends to differ from most other forms of wealth: since every household needs shelter, increases in house prices simultaneously change the market value of wealth and the costs of future housing;
- ◆ *Tax treatment*: the complex interaction of the property market with the tax system is widely regarded as an important feature of housing markets.

Some of these characteristics of housing are reinforced by the fact that settlement tends to agglomerate, with the formation of large cities.

### 2.2.2 Land And House Prices

#### The Economic Theory of Factor Prices

From an accounting perspective, land prices are correctly seen as a component part of the price of housing. In times of rising house prices, it is natural to wonder whether they are driven by rising land prices. This would be true if the accounting relation stated above was also a *theory* or *explanation* of how prices are determined. Such an ‘adding up’ theory of prices was common in the 19th century and was the subject of major debates in political economy. Opponents of the adding up theory argued that it did not really explain prices, since it required a clear independent theory of what determines each of the components of price: such as wages, land prices and profits. From the mid 19th century on, the adding up theory of price was rejected. But, in the theories that replaced it, it remains true that the price of a good is, in general, *equal* to the sum of inputs costs, even if it is not *determined by* them alone.

Modern economic theory views the prices of products as being determined by the interaction of ‘supply and demand’. Supply and demand are themselves seen as an expression of three underlying determinants: the preference of economic actors, the relative abundance or scarcity of factors of production and the technology available for turning factors of production into goods and services. It is these three underlying determinants that make the forces of demand and supply and, consequently, these three that do the explanatory work in modern economic theory.

This analytical approach has implications for the way the market for factors of production—such as land, labour or capital—is understood. The demand for these factors is described as a ‘derived demand’, derived from the demand for the final products and services that they produce. Stronger demand and higher prices for a final product will be associated with an increase in demand and higher prices for the inputs used to make that product.

#### Applying the Economic Theory of Factor Prices to Housing and Land

The economic theory of goods and factor prices would suggest that house prices are primarily determined by the demand and supply of housing. If the price of existing houses exceeds the cost of construction of new housing, new construction takes place. The gap between house prices and construction costs shapes the competition for the land that is available, given its location.

This economic theory of house and land prices is sometimes presented in a slightly simplified way as a ‘residual’ theory of land prices. This is useful for some purposes, especially as an antidote to the ‘adding up’ view, but can also be misleading. The ‘residual’ view is derived from looking at how the business of housing development is sometimes done. Developers compete for the available land and the price of land gets bid up to the point where, given developers’ expectations of the prices and costs of houses, a ‘normal’ profit can be earned

on the provision of housing. Hence the price of land is the ‘residual’ left after the costs of construction, including interest and profits, have been deducted from house prices.

Thus the idea that land prices are *determined by* house prices, reflecting the pressure of housing demand, captures an important feature of both the long-term evolution of housing—in which the increased demand for housing deriving from economic and social development gives rise to a strong upward pressure on land prices—and of the business practice of developers in certain contexts.

However, while capturing an important feature of house prices, the ‘residual’ view cannot be regarded as a universal explanation of house prices. As Evans points out:

*given the supply of land, house prices determine land prices, but it is quite illegitimate to then drop the qualification and say that since house prices determine land prices, the supply of land is irrelevant and will not affect either the price of land or the price of housing (Evans, 1988: 5).*

In other words, the *supply conditions of land* have a major influence on the degree to which a given demand for housing translates into an increase in land prices and house prices. Conceptually one can imagine a situation where at one extreme, if abundant zoned and serviced land was available, even a dramatic increase in housing demand could be met without driving up land prices and house prices very much. At the other extreme, if land supply was highly restricted, a strong demand for housing would feed through to a very strong increase in land values and house prices. The implications of the fact that the supply of land for housing is variable and uncertain rather than being fixed has only recently been fully articulated (Evans, 2004).

The supply conditions of land can vary for two main reasons:

- ◆ Decisions on planning and infrastructure; and
- ◆ The decision of land owners to sell or develop their land.

Decisions on planning and infrastructure are major influences on the supply of land suitable for housing. Major efforts have been made in recent years to expand the supply of land that is zoned and serviced. There is a need for a high level of sustained investment in infrastructure to ensure an adequate land supply that not only has the basic services but also has satisfactory transport links and other services.

While the planning system decides on the designation of land where development will be permitted, landowners have a key role in the development process. As Evans notes:

*Once one thinks in terms of the supply of land, then the owner of land has to make decisions as to whether the land should be put to this use or not, should be developed or not, should be let or not. Thus the owner has to make choices. There are alternatives ... one of which will be continuing as before, and the owner has to decide what to do (Evans, 2004: 246).*

Much economic discussion of land supply is based on the idea that the owner of land will allocate land to its most profitable current use — i.e., the owner will seek to maximise the current rent or income from the land. If this is true then the price of the land that is available will be determined by demand; planning decisions will affect what this available supply is, but once this is decided, the price of this supply will be demand determined. The motivations of landowners as such will not be a significant factor as landowners will behave in a predictable automatic way in allocating land to its more current profitable use.

Evans points out that there are a number of reasons why this is not an accurate analysis of how the land market works. First, landowners may have motives other than maximising the current income from their land. One possible motivation is that a farmer occupying potential development land may have a high attachment to living and working in that area, even if the development of land for housing is more profitable. Second, speculation regarding future increases in land values may lead to land being used in a way that does not maximise current income. A third reason why land may not be smoothly allocated to its current most profitable use is that the land market is characterised by information inefficiencies and uncertainty. While some land is formally advertised, this is not true for all land suitable for development. Developers do not necessarily know if sites are available or which sites might become available in the future. They have to search for sites, a process that can be costly. When sites are found owners have to be negotiated with; these owners will have different motivations regarding their land and different reservation prices.

Both of these factors — the fact that owners have objectives other than maximising the current income of their land and the information inefficiencies and uncertainty in the market — mean there is not a smooth allocation of land to its most profitable use. Given this, the willingness of landowners to make land available for development can affect land prices and, to the extent that it affects the supply of housing in a given area may also affect house prices.

Another significant feature of the land market is the fixed location of each piece of land. This means that the relative location of sites, in particular their contiguity may be of overriding importance. This has significant implications:

*If the likelihood of a piece of land being put on the market depends solely on the owner's preferences, then the sites which are sold for development are unlikely to consist of sites adjacent to each other at a favourable location. Development is likely to sprawl in a quasi-random way across the landscape, sprawl which was seen in Britain between the wars and which continued to occur in countries like Australia and the United States after the Second World War (Evans, 2004: 181).*

Governments around the world use a variety of policies in seeking to avoid an undesirable pattern of sprawling development. Planning is the major response to this concern and the planning system in turn becomes an important influence on the supply conditions of land. Consequently, this is a theme in analytical work on housing and is discussed in Section 2.4.4 below. In addition, compulsory purchase powers are widely used to address the problem of contiguity, in, for example, road construction. In some countries, public land banking (which may involve compulsory purchase) is used as a means of ensuring that the operation

of the land market does not frustrate the goal of achieving integrated development. The role of activist public policy in land management is discussed in Chapters 7 and 8.

The uncertainty and variability of land supply is one important factor that shapes the business practice of developers and others in the market. On the one hand, it increases the uncertainty that developers face and, on the other, it gives great market power to particular owners of land. If developers and builders are to maintain continuity in their operations they need to ensure that they have an ongoing supply of suitably located sites. They cannot rely on the market making land available at the time they require it. To ensure adequate land, developers need to invest in land banks. The practice of land banking by developers, in turn, becomes another influence on the supply of land in the market. Because the land that is available for development is limited, developers compete with one another for a scarce supply of sites. This tends to create rising land prices. And it 'encourages developers to buy land ahead of development to make absolutely sure of their own land stocks while, at the same time, making it more difficult for their competitors to find land on which development would be permitted' (Evans, 2004, p. 178).

### **Conclusion**

The Council's analysis of the relationship between house and land prices suggests that neither the idea that 'high land prices are the cause of high house prices' nor the idea that 'high land prices are the result of high house prices' provides a full explanation of the relationship. Land and house prices are jointly determined. The strong demand for housing in Ireland in recent years led to a bidding up of housing and land prices. However, it is increasingly recognised that the supply conditions of land are a key influence on land prices and on both the supply and price of housing.

### **2.2.3 The Impact of the Planning System on Land Supply and the Housing Market**

Given the importance of the supply conditions of land in determining both land and house prices, it is not surprising that the impact of planning on those supply conditions is the subject of much analytical and empirical research. The following section outlines the views of the All Party Oireachtas Committee on the Constitution (APOCC, 2004) on the operation of the planning system and land market.

#### **Report of the All-Party Oireachtas Committee on the Constitution (APOCC)**

In an Irish context, the effect of land use planning on property market is discussed in the recent Report of the All-Party Oireachtas Committee on the Constitution (APOCC). Drawing on the work of Dunne, the report outlines the following argument on the timing of development, the hoarding of land and the upward pressure on land prices (Dunne, 2003).

Planning allocates development rights to some land owners and denies them to others. If, in addition to this, the amount of land zoned is inadequate, the value of zoned land further increases. If this value is 'given by way of gift to the

owners of zoned development land', it 'distorts the operation of the market'. 'The super profits available to those dealing in this land send a signal to entrepreneurs to involve themselves in the acquisition and holding of zoned development land' (APOCC, 2004, p. 84).

The Committee argues that this analysis points to the critical need to zone and service an adequate amount of development land. 'In fact a marginal shortage, resulting from a landowner deciding not to bring zoned land to the market, can have a disproportionate effect in the market. Such a deficiency in the supply of zoned land to the market will probably result in a substantial increase in the value of the land that does come to the market' (APOCC, 2004, p. 85).

As the Committee states 'The solution might appear to be to zone and service much more land than required to meet forecast development needs. Local Authorities are, however, understandably reluctant to do this because the resources available to service land are scarce. Plainly it would be wasteful to provide services to land that may not be developed for a generation.' (APOCC, 2004: 85).

The Committee goes on to note that, 'As a result of this, and bearing in mind that planning authorities have no real control over the rate at which zoned land will come to the market, there may be a perceived shortage of development land. Once there is a perception of shortage, speculators will buy land with the intention of cashing in on anticipated price rises and, having bought it, they are likely to have an incentive to maintain the shortage and keep values up by not developing the land until it suits their interests' (APOCC, 2004, p. 85).

The Committee notes that there has been considerable comment on the apparent concentration of land ownership and on land hoarding. It accepts that developers must maintain at their disposal a steady supply of land as this is of vital importance in being able to conduct their business. Additionally it reports that, when pressed, those whose submissions cited hoarding, 'were unable to provide clear evidence of land hoarding in the sense of a deliberate policy of accumulating land holdings and withholding these from the market' (APOCC, 2004, p.86). It comments that, 'the planning system as operated at present facilitates those with the resources to buy up development land and hold on to it: this, as we have shown, creates distortions of the market' (APOCC, 2004, p. 86).

It argues that when Irish planning law was drafted there was insufficient appreciation of 'the difference the planning process could cause in relative land values when there are even marginal shortages in the amount of serviced land available or when zoned land does not come to the market for development'. Nor was there sufficient appreciation of how this could give rise to intense speculation in development land. This led to flaws in the planning laws, flaws that 'remain today' (APOCC, 2004, p. 88).

The Council's own assessment on the operation of the market and the implications for planning and other policies is presented in Chapters 3 and 7.

### 2.2.4 Theories of House Price Dynamics

#### Explaining House Price Movements

A significant portion of the economic analysis of housing is concerned with the movement of prices over time and differences in prices across regions. A range of empirical studies seek to determine the degree to which changes in house prices are predictable and to forecast price movements on the basis of past and present determinants. Models of this type focus on the aggregate drivers of supply and demand, such as national income, changes in interest rates and demographic developments.

Regional house price models are commonly used in the UK because of the degree to which the South East and London tend to lead the house price cycle. They find that the gap between prices in the South East and elsewhere widens in boom times and falls back at other times. It is also noted that geographical differences in house prices tend to exceed those in incomes. This approach has an obvious application in Ireland, where there are significant differences between Dublin and the rest of country (see Section 2.5.2 below and papers 4 and 5 of the Background Analysis).

#### Level of Rents

Allied to the determination of house prices is the level of rents charged in the market. Total returns to the property investor comprise the annual level of rent charged and any change in the capital value of the asset. These returns must be sufficient to compensate the investor to hold residential property as part of his/her investment portfolio with the necessary level of return being determined by the relative risk associated with holding property. Only 'normal' returns ought to be available to an investor in residential property. If excess returns are available then new investors will tend to enter the market raising the price and thus diminishing the possibility of significant capital appreciation and depressing rents by bringing greater supply of rental accommodation to the market. If rents fall below a satisfactory level of return then some investors will be driven out of the market until an equilibrium level of return is restored.

Fiscal policies to aid the development of a vibrant and healthy private rental market contribute to higher house prices—as investors compete with potential owner occupiers to take advantage of the fiscal incentives—and also to lower rents for tenants as the supply of rented accommodation increases in order to return to equilibrium level of yields for investors. The key elements underpinning rental levels therefore include: expectations of future capital appreciation, the cost and availability of finance, public support for the rental market and the relative risks associated with being a residential landlord. Policies which alter the dynamics of any of these are likely to have impacts upon rents and consequently the level of affordability in the rental sector.

### Cyclicality in Housing Markets

Housing markets are prone to cyclical movements in both prices and the volume of new construction. It is important to clearly distinguish the different factors that can generate strong cycles in the housing market. At least three causes can be identified (Wheaton, 1999):

1. *Housing demand and construction*: the core characteristics of housing (listed above) can generate cycles because supply takes time to respond to demand. Indeed, this can be amplified by the fact that demand can increase quickly in response to income or interest rate movements, since it is largely financed by borrowing rather than saving (Miles, 1994);
2. *The macroeconomic cycle*: cycles in the property market may be driven by the underlying macroeconomic cycle. Indeed, there are a number of reasons why the housing cycle can be an amplified version of the macroeconomic cycle;
3. *Market speculation and asset price bubbles*: housing, property and asset markets can be the subject of speculative activity that drives prices well above what is justified by the economic ‘fundamentals’. While prices are rising it is possible to make gains from capital appreciation, and hence demand feeds on itself. At some point, such a bubble must burst, and prices can collapse. The resulting negative sentiment can hang over the market, limiting supply for a considerable period.

This categorisation suggests that observed cyclical behaviour in the housing market does not necessarily imply the presence of a bubble.

#### 2.2.5 The Impact of Credit Constraints

Despite liberalisation of financial markets and increased availability of credit, home buyers still face credit constraints—in particular, loan-to-value ratios and loan-to-income ratios. Meen analyses the possible implications of down-payment constraints on the impact of a rising housing market (Meen, 2001). He distinguishes between credit-constrained households and householders that are unconstrained due to their overall wealth, including parental gifts and other bequests. His analysis suggests that:

- ◆ Credit constraints can generate ‘lock in’ costs that reduce the ability of some groups to move or take advantage of profitable housing opportunities, can maintain regional price variations and can exacerbate housing market cyclicality;
- ◆ The consumption of housing and the type of housing occupied is typically bumpier and more fragmented for low income households who face credit constraints;
- ◆ Low income households are likely to adapt more slowly to changes in the economy.

This analytical approach would seem to have relevance in analysing developments in the Irish housing market. As will be seen, some households have been in a

position to benefit from the dramatic movements in the Irish housing market, while others experience these changes as an increased source of financial and other pressure.

### 2.2.6 The Dynamics of Rental Systems: Unitary and Dualist

The dynamics of rental housing and its impact on overall housing systems have been identified in a number of influential studies by Kemeny (1990, 1995). The core of Kemeny's approach is identification of an underlying economic dynamic, what he calls the 'maturation process'. The inflation of construction and land costs means that houses currently being constructed cost much more than those erected earlier. Maturation refers to the widening gap between the outstanding debt on existing housing units and the debt on new units<sup>2</sup>.

Kemeny argues that the process of maturation and policy responses to it is central in understanding the dynamics of housing systems. In identifying these dynamics he makes a distinction between 'profit renting' and 'cost renting'. Profit renting refers to a situation in which a landlord charges the maximum obtainable rent for a dwelling, regardless of the historic cost. Cost renting refers to a situation in which rents cover only the actual incurred costs of providing the dwelling. Because of maturation, these costs tend to fall in real terms over time, allowing cost-based rents to fall also. Cost renting may involve charging the historic cost of an individual dwelling or rents that reflect a pooling of costs across a large housing stock.

#### Strategic Policy Responses to Maturation

Kemeny argues that various housing systems can be seen as a result of the strategic policy response to the maturation process. The maturation process reaches a point at which cost renting, such as the public rental system, begins to compete strongly with other forms of housing, particularly profit renting and owner occupation. This is reflected in falling real rents and lengthening waiting lists for cost rental housing. This creates pressure for some policy response. One response is to increase the supply of cost rental housing, cater for wider and wider groups of households, and use its high level of maturation to compete with profit renting. Kemeny terms the market that results from this policy strategy a 'unitary rental market'. The alternative policy response is to undermine or reverse the maturation process by hiving off cost rented units and limiting cost renting to a public rental sector that is a strictly controlled minority form of housing. Kemeny terms the rental system that results from this a 'dualist rental system', since its distinguishing characteristic is the existence of parallel public and private rental systems subject to increasing divergent forms of provision and conditions of tenure.

A dualist rental system is found primarily in English speaking countries: Britain (particularly England), Ireland, the US, Canada, Australia and New Zealand. It is also found in some other countries, notably Iceland and Finland.

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2. Economists tend to be uncomfortable with Kemeny's concept of historic cost. From an economic perspective, maturation does not reduce the cost of providing old housing since the true cost is the opportunity cost; this would include the return that could be earned from investing the full capital value of the property. In the economic perspective, setting rents based on actual money cost of mature housing (Kemeny's historic cost) means that the return on investment is being used to offer renters accommodation below the market price. Whether one adopts Kemeny's terminology, whereby costs refer to actual money costs, or the economist's terminology, where costs refer to opportunity costs, the maturation process undoubtedly makes it possible to set rents below the market rate without any external monetary subsidy.

Unitary rental systems take advantage of maturation by allowing cost renting to compete with profit renting and owner occupation, hence the term 'unitary'. In such a market, the maturation of cost renting is used to exert downward pressure on profit rents in order to limit landlord extraction of profits that reflect the rising value of property rather than the historic cost of the dwelling. Renting provides a realistic alternative to owner occupation by making it attractive for a significant proportion of households to remain in the rental market. The two crucial variables are the relative size of the cost rental sector and its level of maturity. The long term strategic orientation of state policy is, in turn, decisive in determining what form the rental market and the overall housing system will take.

Kemeny's analysis suggests that one of the overall effects of a dualist system is to limit the development of a commercial rental sector, thereby restricting the availability of rental housing overall:

*In a well functioning rental market where there is a reasonable degree of security of tenure the price of rental property will reflect the rental income it is able to generate. Vacant possession price will play a marginal part in determining values. In a residential property market dominated by heavily subsidised owner occupier housing vacant possession prices will be more important in determining the market value of rental property and the high level of subsidisation of owner occupied housing will make it worth while to sell rental housing into owner occupation. Another way of putting this is that the owner occupied housing market penetrates the rental market to such an extent as to undermine the autonomy of the latter. This is one important factor in the drastic decline of private renting in home owning societies with dualist rental systems.*  
(Kemeny, 1995, p.162)

These features of a dualist system may have important consequences for those on modest incomes and the poor. 'The exclusion of important groups from access to owner occupation in home-owning societies comprises a major source of inequality. Dualist systems provide no viable alternative to owner occupation for most households' (1995, pp. 70-71). 'By structuring housing choice in such a manner that favours owner occupation a built-in bias in favour of two-income households which can afford to buy is created' (1995, p.70). Single-income households, especially those among lower income earners, will be severely disadvantaged in gaining access to housing.

This analysis of the economic and social effects of a dualist, command, rental system has had some influence on the British policy debate. It must be considered when the strategic direction of Irish social housing policy is considered (see Chapter 6 below).

## 2.3 The Demand for Housing in Ireland

There are a number of factors which have contributed to a strong demand for housing in Ireland in recent years. These are outlined in the following sections. The third paper in the Background Analysis provides a fuller treatment of the factors contributing to housing demand.

### 2.3.1 Economic Growth

Average annual growth in GNP per capita was 7.2 per cent between 1993 and 2000, with annual average employment growth of 4.7 per cent. During the economic slowdown post 2000 growth in net take home pay remained strong and the economy now appears to be on track to return to medium term growth potential. Economic growth was not evenly spread with some 46.1 per cent of employment growth occurring in the East region and income growth in Dublin and the Mid East outpacing the national average.

### 2.3.2 Demographic Developments

Total population growth was 8 per cent between 1996 and 2002. while growth was limited to 6 per cent in Dublin but reached 19 per cent in the remainder of the Greater Dublin Area (GDA). There were particularly high levels of growth among those of household formation age and immigration of 250,000 persons between 1996 and 2002. Changing social patterns also contributed to the formation of additional new households. Household size fell to an average of 2.94 persons per household in 2002.

### 2.3.3 Patterns of Income Distribution

Income distribution potentially has a significant influence on housing demand and the housing system. Changes in income distribution can be both cause and effect: changes in the distribution of income might alter the overall demand for housing and the demand among different social groups, and changes in house prices can be a significant source of change in the distribution of market income and wealth. The implications of changes in the distribution in disposable income on housing demand are complex. Firstly, many of those in the lowest income deciles do not pay directly the market cost of their housing. A further complexity arises from the fact that a similar percentage increase for all will not alter the income distribution but will imply significant differences in people's ability to pay for housing through differences in the level of monetary increases.

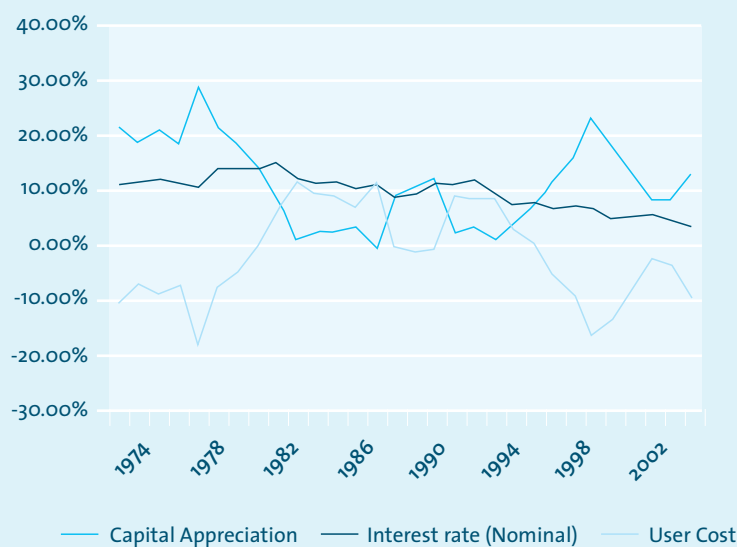
### 2.3.4 The Level and Distribution of Wealth

The absolute levels of wealth, particularly housing wealth, have increased dramatically in the last decade. Personal wealth has increased demand for housing through the increase in residential property held for consumption purposes, the funding of additional property for investment purposes and the transfer of wealth between generations to support the purchase of property. Equity withdrawal was valued at €75 billion in 2002 (Downey, 2003) and according to market research by Gunne and ICS Building Society some 71 per cent of first time buyers earning less than €40,000 obtained parental or third party assistance of some form in 2002. Increased wealth has also fuelled the demand for second homes.

### 2.3.5 The Cost and Availability of Finance

'User cost' is a common measure of the cost of holding a given asset. It is widely used in housing research as an indicator of the attractiveness of property purchase. The user cost of housing measures the difference between the expected capital appreciation of the asset and the cost of financing its purchase. Measured in *ex post* terms, the user cost has been negative throughout much of the 1990s, implying the 'cost' of 'holding' housing has been very cheap and providing the incentive for individuals to hold as much housing as possible. Figure 2.1 showing the evolution of the user cost of housing in Ireland is presented below.

Figure 2.1 User cost of housing 1974–2003



Source NESC calculations

The figure shows that the trends in interest rates and capital appreciation have resulted in a negative user cost since the mid 1990s. User cost rose somewhat in 2001 and 2002 to approach zero, but fell again to reach a double digit negative in 2003. This means that those in a position to do so faced a very strong incentive to purchase property: the annual increase in its value tended to exceed the annual interest payments due. This is a central factor in explaining the remarkable strong demand for housing in the past decade.

Another aspect is the availability of finance. The volume of mortgage borrowing has continued to rise significantly with the annual rate of mortgage credit growth in July 2004 running at 27.7 per cent. Borrowers can increasingly source mortgages with higher loan to value ratio and over a longer term than was previously the case.

### 2.3.6 Fiscal Policy

There have been a number of fiscal interventions which have increased the demand for housing, while a number of other measures have had some limited effect in dampening demand. Most important of all has been the reduction in the level of income tax which has contributed to the post tax income growth described above. Other changes have included: abolition of Residential Property Tax in 1994, gradual curtailment of mortgage interest relief including allowing interest to be offset against tax only at the standard rate since 1997, the decreasing real value of the First Time Buyers' grant culminating in its abolition in 2002, and changes in the tax treatment of investment property (and second homes) both with respect to the relief on of mortgage interest and the level of stamp duty payable. Further details on these is provided in the Background Analysis.

### 2.3.7 Housing Stock

The housing stock per 1,000 inhabitants can provide an indication of likely demand for housing. Assuming a given population structure and pattern of household formation, a low housing stock suggests that increased housing demand and upward house prices are likely. An increasing stock might be expected to moderate demand and prices.

The historically low level of housing stock per 1,000 population in Ireland has contributed to a 'pent up' demand for housing. It has elsewhere been estimated that a 1 per cent increase in the housing stock could lead to a 2.08 per cent decrease in the price of housing (Bacon *et al.*, 1998). While there is no official measurement of the housing stock in Ireland, total ESB connections suggest a stock close to 1.6 million dwellings or 400 per 1,000 population.

## 2.4 The Supply of Housing

### 2.4.1 The Quantity of Housing

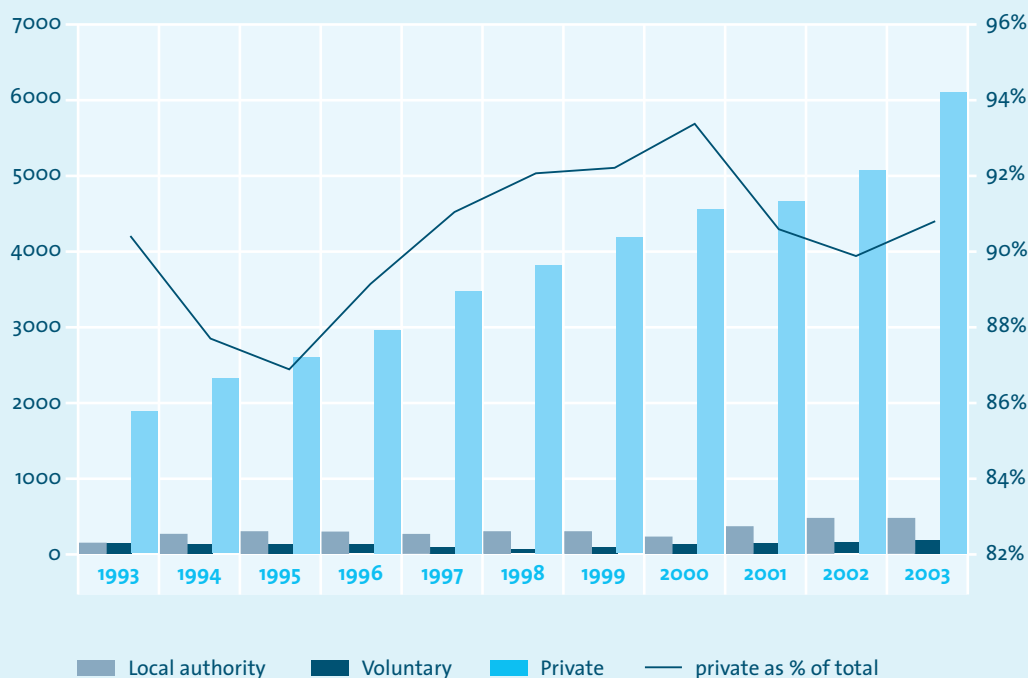
#### Very Significant Increase in Supply

The number of households has increased by 77 per cent since 1971, the decade in which growth in housing really began to escalate. One of the implications of this is the reduction in average household size—which has fallen from 3.9 persons per household in 1974 to 2.9 in 2002. However, Ireland is still some way short of the European average of 2.48 persons per household<sup>3</sup>.

Figure 2.2 illustrates the level of dwelling completions since 1993, distinguishing between private and non-private provision. Three times as many units were completed in 2003 as in 1994. Recent additions to the local authority stock have also been greater, following over a decade of marginal additional contribution and a sustained sell-off of local authority property at the end of the 1980s (see Section 2.6 below).

3. The EU average is 450 dwellings per thousand population with the implication being that average household size will reach 2.25. There is a difference between the number of households and the total housing stock which in addition comprises obsolescent, vacant and second dwellings.

Figure 2.2 Dwelling completions by sector – 1993-2003



Source *Housing Statistics Bulletin, December 2003*

Note Local authority output does not include second-hand houses acquired by local authorities but does include newly-constructed units acquired under Part V

The increase in the level of overall construction is unprecedented and is also exceptional when compared to other European countries. This is the case both when new construction is expressed as a percentage addition to the current stock of dwellings and also when the number of new dwellings is assessed relative to the size of the population.

### Housing Construction and Housing Supply

An important question is the degree to which this increased construction of new dwellings provides additional primary homes for new households<sup>4</sup>. It does not do so where old dwellings become obsolescent and are replaced or where new construction provides second homes.

Data on number of households and housing completions are shown in Table 2.1.

4. A household is a permanent private household occupying one dwelling, be that house or flat/ apartment and be it a dwelling occupied by a single family unit or by more than one family or in multiple occupation by those who are not related—Households in Multiple Occupation (HMO).

**Table 2.1** Changes in the Housing Stock and Number of Households

	No. of Permanent Households	Housing Completions in Intervening Period	Difference between new completions and new households
1971	726,363		
1981	896,054	246,591	76,900
1986	964,882	129,865	61,037
1991	1,029,084	92,728	28,526
2002	1,287,958	405,561	146,687

**Notes** The data are calculated for inter-censal periods e.g. April 1991 – March 2002.  
The data for 1991 – 2002 use data for q1 2002 but assume even distribution of construction for 1991.

**Sources** Census of Population various years; Department of Environment Housing Statistics Bulletin (various issues)

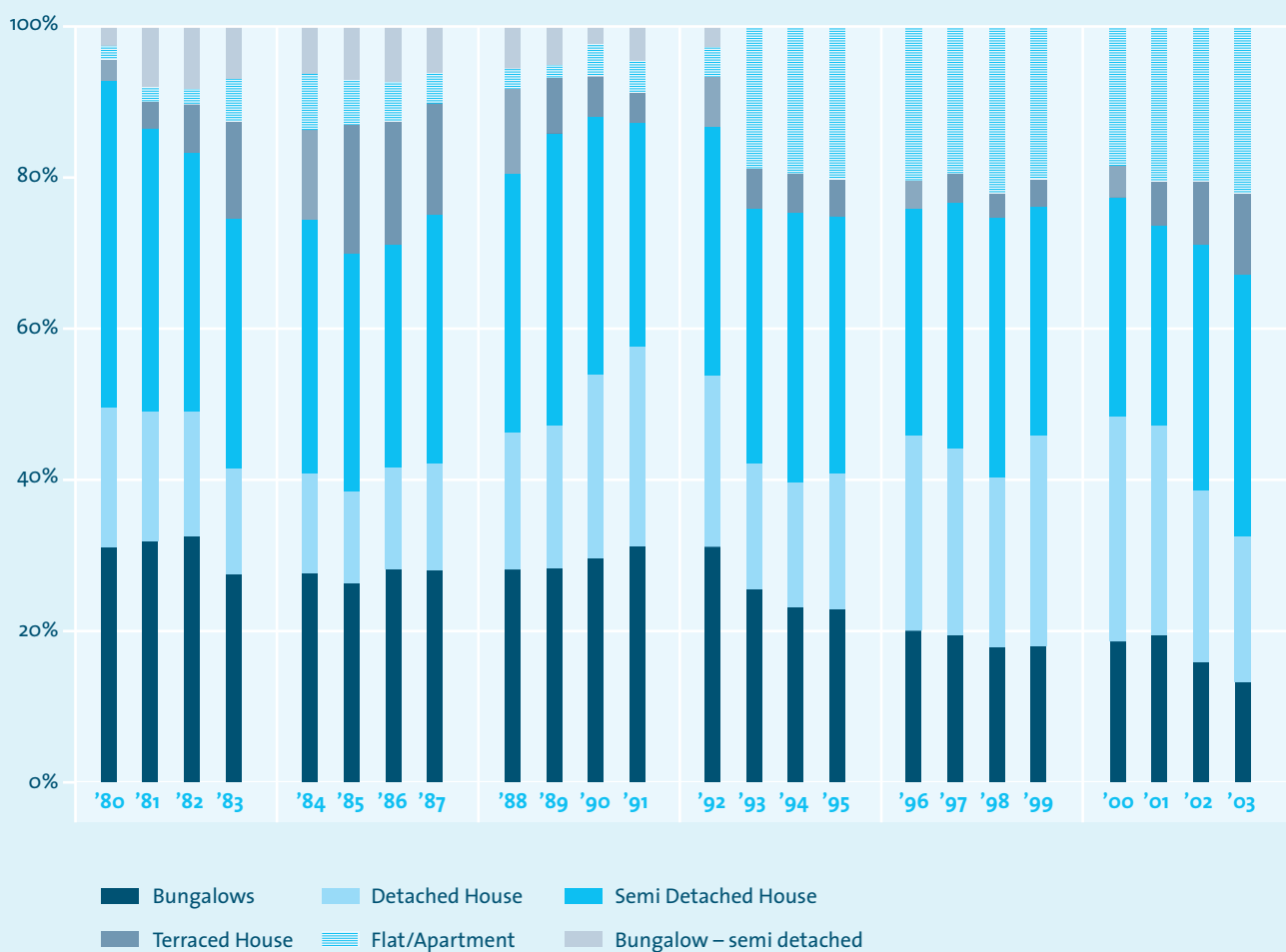
The data show that between 1991 and 2002, 146,687 new houses did not contain permanent households. This implies that over 36 per cent of the construction of new dwellings over the past 11 years contributed in no way to the housing of additional households. This effect may have been even more dramatic in recent years. AIB estimate that obsolescent, vacant and second dwellings averaged 17,300 per annum between 1996 and 2002 and were running just below 20,000 per annum towards the end of the period (AIB, 2004). Drawing on the Quarterly National Household Survey, Davy recently noted that the CSO estimated an increase in households between 1998 and 2003 of 134,000 but that 267,000 dwellings were built during the same period implying that some 50 per cent of new dwellings constructed did not result in the formation of a new household.

As can be seen from Table 2.1 the discrepancy between the number of houses constructed and the number of new households formed has been significant throughout the past 30 years and peaked as a percentage of the level of new construction in the early 1980s. However, in absolute terms the numbers are now far greater than was previously the case. Although we cannot be certain, the nature and composition of the gap between new construction and new households is likely to have altered. The building of additional second dwellings has probably become more significant and the rendering obsolete existing buildings less significant. This is as a result of both tax incentives to encourage seaside resort development and of rising economic prosperity. However, it is also the case that while the numbers of houses which do not give rise to the formation of permanent households may be high on the Atlantic seaboard, where one would expect significant holiday home concentration, it is also significant across the entire country.

### Type of dwelling constructed

The increased stock of housing has also seen a change in the type of new dwellings being constructed. Increased price pressures, smaller household size and a reduction in the available supply of land have led to some increase in density. The shares of different dwelling types are shown in Figure 2.3. Since 1992, there has been a significant increase in the number of new apartments constructed and a corresponding reduction in the number of bungalows and detached dwellings. Bungalows and detached dwellings represented half of all construction in 1981, but by 2002 they accounted for less than a third. Semi-detached houses are still the most common, comprising almost 1 in 3 units built. There has been a dramatic increase in the number of terraced houses constructed, but these still comprise less than 10 per cent of all new build.

Figure 2.3 Type of Dwelling Constructed 1980 – 2003



Source: Housing Statistics Bulletins (various)

There are considerable regional differences in new construction. In 2003, 43.5 per cent of all units constructed in Co. Dublin were apartments, 73.7 per cent in the area of Dublin City Council. In the same year more than 42 per cent of all apartments constructed were within the GDA, although apartments are becoming increasingly prevalent in Cork, Limerick, Galway and Waterford. In terms of future outlook the number of planning permissions for apartments has risen very substantially since 2002. This is documented by AIB in its Review of the Irish Housing Market, which noted that apartments now account for 41 per cent all permissions, up from 25 per cent in earlier years (AIB, 2004).

### **Composition of New Housing Stock Single Dwellings**

A significant proportion of the new additions to the housing stock are single dwellings, that is those which are not part of a housing development. While we do not have precise figures for these, they can be proxied by the number of 'non-scheme' connections carried out by the ESB.<sup>5</sup> In 2002 18,539, or 32 per cent, of all dwellings were non-scheme. This varies from 7 per cent in Dublin South and Central to 60 per cent of dwellings in the Midlands and West<sup>6</sup>.

In 2003, the percentage of non-scheme houses fell to just over one quarter, houses in developments made up 52.7 per cent of new construction and apartment complexes comprised 21.7 per cent of all new development (DOEHLG, Annual Housing Statistics)

#### **2.4.2 The Spatial Pattern of Construction, Settlement and Population**

Residential development in Ireland has displayed a marked spatial pattern and this is reflected in the spatial pattern of population growth. The detailed analysis in the fourth paper in the Background Analysis suggests three main findings:

1. For much of the period of housing boom, the supply response in Dublin was weaker than in the rest of the country;
2. Within the East region, there is a pronounced doughnut effect, with the greatest levels of construction and new settlement in the outer counties;
3. In recent years, the level of housing supply in Dublin has increased considerably, reflecting response by government, local authorities and the building industry.

### **Weaker Supply response in Dublin**

The increase in housing output in Dublin and the GDA has been significantly slower than the national average. While national housing output grew by 156.2 per cent over the period 1994 to 2003, it increased by just 82.4 per cent in Dublin City and County and by 112.4 per cent in the GDA. The housing output share of Dublin City and County has fallen from 29.4 per cent of national completions in 1994, to around 21 per cent in 2003, while the share of the GDA fell from over 40 per cent in 1994 to just over 33 per cent in 2003. These figures somewhat

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5. 'Non scheme' refers to the type of electricity connection. By and large it refers to developments of less than five units.

6. Data provided by the ESB to NESCC.

understate the relative supply response in the Dublin area insofar as primary residences are concerned, since the number of new second homes is higher in the other areas.

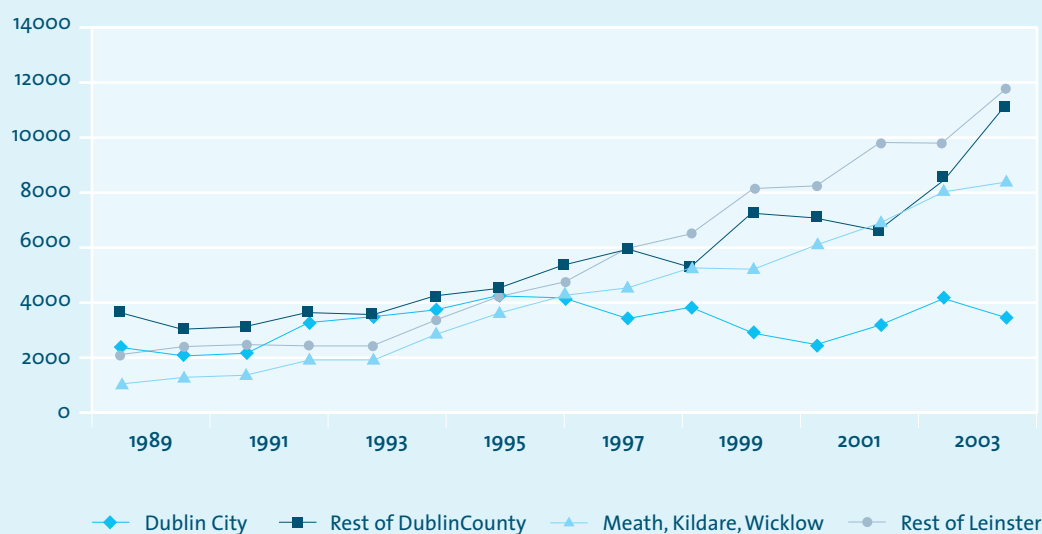
It was estimated by Bacon, MacCabe and Murphy (1998) that the responsiveness of housing output to increased prices in Dublin (city and county) was significantly less than the national average. The long run supply elasticity for the country as a whole was estimated at 3 (indicating that a 1 per cent increase in prices led to an eventual increase in housing output of 3 per cent) while the corresponding figure for Dublin was 1.8 implying only a 1.8 per cent increase in housing output in Dublin for a 1 per cent increase in prices.

### **The Doughnut Pattern in the East Region**

McCarthy suggests that the best way to observe these patterns is to compare residential development and population growth in four areas: Dublin City, Dublin County (Fingal, South Dublin and Dunlaoghaire-Rathdown), 'Inner Leinster' (the counties of Meath, Kildare and Wicklow) and the 'Rest of Leinster' (comprising eight counties) (McCarthy, 2004).

McCarthy observes that the growth in population in the counties surrounding Dublin and in particular the outer counties of Leinster 'bear testament to the pronounced doughnut pattern and are perhaps the ultimate evidence of sprawl' (McCarthy, 2004:20). Likewise, Williams and Shiels (2002) identify a leapfrogging effect whereby residential development around Dublin has increasingly moved from the traditional residential suburbs to locations involving longer distance commuting such as Mullingar, Drogheda and Gorey. The relative increase in the construction of new houses is shown in Figure 2.4. It is undeniably the case that development has spread beyond the boundaries of Dublin County—the balance as to whether the GDA or outer Leinster predominates depends upon the timescale chosen<sup>7</sup>. However, the recent increase in the share of new dwellings within the boundaries of Dublin County is also notable.

Figure 2.4 Regional Share of New House Construction – Leinster



Source: Housing Statistics Bulletins (various)

This trend is reflected in densities: There has been a steady decrease in density in the city of Dublin over the last half a century or so and a corresponding rise in suburban areas and beyond. Almost all the mature suburbs of Dublin witnessed absolute *decline* in population in the last inter-censal period, and have populations today below that in the 1970s despite having risen in the 1980s. This is despite the substantial pressure for houses in the Dublin area and infilling in many of these areas.

These spatial patterns of housing supply are reflected in distances travel to work and modes of travel. The percentage of persons commuting 10 miles or more to work has more than doubled from 13.7 per cent in 1981 to 28.5 per cent in 2002. The number commuting more than 15 miles has almost quadrupled in absolute terms from 76,000 in 1981 to 282,000 in 2002. A further subset travel in excess of 30 miles and over to work. Of these the greatest number are in counties Meath and Laois, where they represent in excess of 15 per cent of persons at work. Other counties within the Dublin commuter belt also have in excess of 10 per cent of people at work commuting over 30 miles—namely Carlow, Louth, Offaly, Westmeath and Wicklow. Overall, the level of long distance commuting, in excess of 30 miles from the workplace, is currently running at 5.7 per cent of the workforce.

7. It is also worth remembering that in dealing with administrative boundaries one can fail to capture some of the richness of settlement development and that some parts of Meath and Kildare which are subject to rapid levels of growth, such as Leixlip, Maynooth, Clonee and Dunboyne may indeed be less than 10 miles from the centre of Dublin and contiguous to the overall city development.

The patterns of suburban development and increased commuting distances also imply significantly increased car dependence. Census data show that in the country as a whole, the proportion driving to work has increased from 38.9 per cent in 1991, to 55.1 per cent in 2002. The percentage walking or cycling to work has fallen from 17.5 per cent in 1981 to 13.5 per cent in 2002. In 2002, less than 9 per cent used public transport (bus and train) in order to travel to and from the workplace.

### **Recent Increase in Supply Response in Dublin**

The most recent years have seen stronger housing growth in Dublin and the GDA. Housing output in Dublin City and County increased from 9,600 units in 2001, to around 14,400 units in 2003, an increase of almost 50 per cent. The share of Dublin City and County in national housing completions recovered from 18.3 per cent in 2001, to almost 21 per cent in 2003. Over the same period, housing output in the GDA also grew strongly, increasing by 39 per cent. In the first six months of 2004, housing output in Dublin was up 25.6 per cent on the same period in 2003 while completions in Meath, Kildare and Wicklow were up 23.4 per cent. The level of new house completions in Dublin City and County in the first six months of 2004 was greater than that in the three counties of Ulster and all of Connaught combined and the completions in the three Dublin County authorities was almost as many as all of the counties of Leinster outside of the GDA.

One reason for the recent increase in supply response in Dublin has been the Serviced Land Initiative. The Serviced Land Initiative has been in operation since 1997 with the objective of encouraging the supply of additional serviced land for housing schemes. The initiative was initially aimed at local authorities and provided a 40 per cent subsidy towards the provision of water and waste water infrastructure. In January 2000, the scheme was extended to allow for the payment of the 40 per cent subsidy to developers where they were willing to undertake the works on behalf of the local authority (Developer-Led Served Land Initiatives). These projects are referred to as Design, Build and Finance (DBF) projects. Public expenditure of around €10 million was provided by the exchequer in 2002 to make more land suitable for residential development.

### **Possible Reasons for Weaker Supply Response in Dublin**

The weaker supply response in Dublin has some major consequences, including higher prices and a spread of development across the counties of Leinster. Consequently, there is considerable interest and much debate on the reasons for the weaker supply response. A number of different interpretations have been offered. The Council's interpretation is outlined in Chapter 3.

### 2.4.3 Public Policy And The Supply Of Housing

There are a number of public policies that impact on housing supply. Here we identify some of the relevant fiscal policies and important developments in planning policy.

#### Fiscal Policies that Influence Housing Supply

The following policy measures are relevant in understanding housing supply in Ireland:

- ◆ Urban renewal policy has used Section 23 type tax relief to encourage investors or owner occupiers to build, renovate or convert houses or apartments in designated areas and offer them for rent for 10 years;
- ◆ In 1998, Capital Gains Tax on sales of development land for housing was reduced from 40 per cent to 20 per cent, in a bid to unlock land banks more quickly. Initially, this was for a 4-year period only and the intention was announced to raise the rate to 60 per cent in 2002. The period for which the 20 per cent rate would apply was subsequently extended;
- ◆ Interest relief on the provision of rental accommodation was first abolished (in 1998) then subsequently restored (in 2002)<sup>8</sup>.

#### Recent Planning Policy Initiatives

In recent years, there have been very significant developments in Irish planning law, planning policy, and planning procedures. These include a new hierarchy of strategies and plans for spatial development and new instruments to support the provision of infrastructure:

- ◆ The National Spatial Strategy;
- ◆ Regional Planning Guidelines;
- ◆ Local Authority Development Plans;
- ◆ Strategic Development Zones;
- ◆ Integrated Framework Area Plans;
- ◆ Local Level Housing Strategies.

These are described in more detail in the fourth paper in the Background Analysis, and are discussed in Chapter 5 of this report. The Council is strongly supportive of these developments. Cumulatively, together with the development contribution schemes, the Council sees them as central to Irish housing policy and, indeed, to overall economic and social policy. A vital challenge, however, is to ensure that mechanisms are put in place to enable them to operate effectively. In the immediate context, an analysis of past housing supply, they are of somewhat less significance. This is because they are only recently beginning to have a significant impact on the quantity and pattern of housing delivered.

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8. A number of further schemes also contributed to overall housing supply but might be dealt with more fully under the provision of public supports for housing. The Capital Assistant Scheme, introduced in 1984, provided capital grants to housing associations meeting special needs. In addition the 1991 Low Cost Housing Sites Scheme empowered local authorities to provide housing sites at nominal prices to specified individuals or groups; for example those on waiting lists, those surrendering a LA dwelling or one rented from a housing association or co-operative, etc.

## 2.5 Interaction of Supply and Demand

### 2.5.1 Introduction

The price, quantity, and affordability of private housing are shaped by the interaction of supply and demand. Here we summarise the analysis of this interaction outlined in the fifth paper in the Background Analysis.

### 2.5.2 House Prices and Economic Fundamentals

#### Statistical Studies of National House Prices

Several studies have examined whether the rise in house prices can be explained as a result of changes in economic fundamentals. The general approach has been to relate changes in house prices to the factors that drive demand, such as changes in income, employment and demography. Relevant explanatory variables are likely to include the rate of change in the lagged value of real disposable income per head, the housing stock per head of population, the user cost of housing and the proportion of the population in the household formation age group. The rationale for focusing on demand rather than supply factors is that the housing stock changes slowly, so that house prices in the short run are mainly demand driven.

In general, these statistical models find that the increase in Irish house prices can be explained by the underlying trend of demand for housing<sup>9</sup>. However, a number of studies found that prices in the late 1990s were higher than would be expected on the basis of underlying demand pressures<sup>10</sup>. Bacon and MacCabe have inferred from this that speculative or transitory factors could have contributed significantly to the level of housing demand by 1999.

#### The Income and Price Elasticity of Housing Demand

The income elasticity of prices is the effect of a 1 per cent increase in income on prices. Looking at data from 1972 to 1996 it was estimated that the long-run effect of a 1 per cent increase in disposable income was to increase prices by 1.2 per cent (Bacon and MacCabe, 2000). However, incorporating more recent data changes the relationship significantly and between 1972 and 1999, it was estimated that the effect of 1 per cent increase in disposable income was to increase prices by 4 per cent. The first estimate is within the range of estimates in the UK housing literature (1.5 to 3), but the second is considerably higher than this range (Meen and Andrews, 1998). The large increase in the income elasticity of prices that occurred with the addition of the data for 1997 to 1999 further suggests the possibility of a speculative or transitory element in house prices in the late 1990s.

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9. Bacon, Murphy and MacCabe, 1998.

10. Murphy and Brereton, 2001; Bacon and MacCabe, 2000; Stevenson, 2003 and IMF, 2002.

The price elasticity of demand is the percentage change in housing demand in response to a 1 per cent change in prices. The elasticity of housing demand for the period 1974 to 1996 was estimated at around an average of 0.3. It fell sharply in the period since 1995, and by 2000 was estimated at around 0.1 (Bacon and MacCabe (2000)). This means that a 1 per cent increase in prices was associated with a reduction in the quantity demanded of just 0.1 per cent. This implies that there has been very low responsiveness by house buyers to higher prices.

### Modelling Supply

In 1998 Bacon, Murphy and MacCabe estimated a model of housing completions with the following variables as the explanatory factors:

- ◆ House completions in the previous year;
- ◆ Change in real house prices;
- ◆ Real house prices in the previous years. (Bacon *et al*, 1998)

All of these factors were shown to be statistically significant and the model was able to explain a high proportion (86 per cent) of the variation in housing completions over the period 1974 to 1996. This model was subsequently re-estimated by Murphy and Brereton using data up to 1999 (Murphy and Brereton, 2001). The relationship was still reasonably stable, but housing output in the late 1990s was somewhat less than that predicted by the model. This finding of housing output being less than predicted in this period was replicated by Duffy *et al.* (2001). However, such an analysis is by its nature retrospective and has the benefit of hindsight, including outturn numbers for population, including immigration, interest rates and economic growth. An alternative means of examining supply is to look at the number of units delivered compared to the number forecast to be required at the time. When supply is examined in this way it shows that the actual number of units supplied consistently exceeded forecast levels of demand.

While these studies found that housing output was less than might be expected on the basis of economic fundamentals in the late 1990s, the most recent study by Brereton found that in recent years housing output was greater than would be predicted. It would therefore appear with the initial rise in house prices, completions were less than would be expected given the higher prices, but that private housing completions are now in line with or possibly ahead of what would be expected given the fundamentals.

Of the three studies that extend in their coverage of data up to 2001 or 2002 (Roche, 2003, Stevenson, 2003, IMF, 2003) only one—that carried out by the IMF—found (inconclusive) evidence of prices continuing to be significantly above their fundamental value. The apparent elimination of a significant price premium which may have been present in 1999/2000 has occurred on the basis of some slowdown in nominal price growth, continued growth of disposable income and further reductions in interest rates. However, given that interest rates are unlikely to fall further, and in the medium term may be expected to rise somewhat,

combined with the very significant increase in the level of housing supply documented above, we would expect nominal house price growth to be more modest and closer in line with levels of real income growth in the next couple of years.

The observation that prices might rise above their fundamental value can be understood in a number of possible ways as was described in the section on cyclicalities above where three versions of cyclicalities were outlined.

- ◆ Cyclicalities resulting from the necessary timeframe required to expand or contract the housing stock;
- ◆ Cyclicalities resulting from changes in the underlying macroeconomic cycle; and
- ◆ Cyclicalities as a result of market speculation and the presence of an asset price bubble.

### **Supply And Demand In Dublin**

The detailed analysis of demand and supply in the Background Analysis focuses to a considerable degree on the way in which the housing market in Dublin is distinct. This focus is necessary because the trend in prices shows that there has been much greater pressure in the Dublin market.

The analysis suggests that this is explained by both demand and supply factors, but that it was the smaller supply response in Dublin that was most important. As discussed above the increase in housing output in Dublin and the East region has been slower than the national average.

While housing supply may have been lower in Dublin, demand was also greater than elsewhere. The East – this includes Dublin and the GDA – region's share of GDP grew from 45.1 per cent in the mid 1990s to 46.8 per cent in 2001. The annual growth rate of employment in the East region was 5.1 per cent between 1994 and 2002, half a percentage point above the national average. This is a non-trivial difference, particularly bearing in mind that the stock of employment is very much concentrated in the East region. Indeed the East region accounted for 46.2 per cent of total employment increases over the period. Disposable income, even after taking into account housing costs, is also higher in Dublin than elsewhere and exhibited a 14 per cent premium to the national average in 2001. This higher demand helped contribute to more rapidly rising house prices in Dublin than elsewhere.

It is the greater imbalance between demand and supply that explains the higher house prices in Dublin. The price premium for Dublin fluctuates over time, tending to fall when economic growth is weak and rising at times of buoyant growth. The price premium fell in the early 1990s from 23 per cent in 1990 to 8 per cent in 1993. It then increased sharply over the period of buoyant growth from the mid-1990s, rising to 33 per cent in 2000. It seems to have fallen slightly since, but remains significant. We return to the nature of the difference in the housing market in Dublin as compared with the national experience in the next chapter.

### 2.5.3 Evolution Of Housing Affordability

The net effect of the interaction of supply and demand factors has been a very substantial increase in house prices. The implications for affordability are analysed in depth in Chapter 5 of the Background Analysis and summarised here. Further interpretation of the trends in affordability is provided in Chapter 3.

There are a number of ways to measure levels and changes in affordability for the individual. These include:

- ◆ The user cost of housing, described above, which gives an indication of the relative price of holding housing and other assets. While the user cost is an important variable in explaining demand it is not very useful when considering affordability as it takes no account of the individual's ability to pay for the asset;
- ◆ Measures of entry cost or the costs of accessing the market (the deposit on a house plus transactions costs), relative to income. These allow us to assess the hurdle to home ownership and the degree to which wealth transfers (such as parental gifts) allow some to overcome that hurdle;
- ◆ Mortgage repayments on an average new house as a percentage of average post-tax income (for a single earner or dual earners), which gives an indication of overall effects of changes in house prices, earnings, taxes and interest rates;
- ◆ The purchasing power of income remaining after housing costs have been taken into account. This reflects the level of goods and services which can be consumed after housing has been paid for and can vary across time and across income. In particular, while two households might expend the same percentage of income on housing an individual household on a higher level of income can afford to expend a greater percentage of that income on housing and still be left with sufficient income for the consumption of other goods and services;
- ◆ Survey evidence of expenditure on housing as a percentage of total household expenditure, which gives an indication of the burden of housing costs in a range of actual households;
- ◆ A categorical definition of affordability and non-affordability, an example of which is the government's definition of affordability based on the percentage of net income required to service a given mortgage or pay rent.

One distinction evident in this list of measures is between the affordability of *access to the market* and the affordability of *repaying mortgage debt*. It is widely acknowledged that in examining trends in the affordability of mortgage repayments one must take into account not only changes in house prices and changing real incomes, but also changes in direct taxation, changes in the tax treatment of mortgages and changes in both real and nominal interest rates.

There are a number of dimensions which make a discussion of trends in affordability complex. Depending on the exact timeframe chosen, affordability can be shown to have improved, disimproved or stayed the same. Depending on the income of the household used for calculation, affordability can be seen as

unproblematic or a severe problem. Very different messages may also be drawn by looking at the state of the overall market as opposed to the position of various households within it.

All of the measures outlined above throw light on aspects of affordability and all have limitations. These limitations reflect the partial aspect of housing cost that each measure captures and the degree to which each is based on different averages. In several dimensions of housing, averages are not very informative. Consequently, the most reliable approach is to review a number of estimates.

### **The Official Definition of Affordability**

The Planning and Development Act, 2000, defines a person eligible for housing assistance from the State as “a person who is in need of accommodation and whose income would not be adequate to meet the payments on a mortgage for the purchase of a house to meet his or her accommodation needs because the payments calculated over the course of a year would exceed 35 per cent of that person’s annual income net of income tax and pay related social insurance.” In determining eligibility, the local authority should also take into account “half the annual income net of income tax and pay related social insurance of any other person who might reasonably be expected to reside with the eligible person and contribute to the mortgage payments” (Section 93: Planning and Development Act, 2000).

### **Mortgage Payments as a Percentage of Post Tax Earnings**

Taking account of house prices, earnings, taxation, mortgage interest rates and mortgage interest relief we calculate the trend in housing in affordability for an individual on average industrial earnings purchasing an average new house on a 20 year mortgage, where the loan to value ratio is 90 per cent in the first year. This is shown in Figure 2.5. A 20 year mortgage is used throughout the sample period for consistency. To the extent that longer mortgages are prevalent this will over-estimate the percentage of income actually required to be expended. It is widely recognised that many young people are now taking out significantly longer mortgages which will lower the burden of repayments in initial years but which have in themselves been capitalised into higher house prices. The ability to take out a longer mortgage in part reflects an expectation in society that one will enter into home ownership at an early age. However, a longer mortgage also implies that a greater proportion of the monthly repayment is made up of interest and a lesser proportion from the repayment of principal. This implies a greater degree of vulnerability to any increases in the interest rate.

It can be seen from Figure 2.5 that the percentage of net income required fell in the early 1980s rising again in the late 1980s and peaking in 1990. It subsequently fell to a trough in 1994 before rising rapidly once again. Another peak occurred in 2000. Calculations would suggest that affordability reassured in this very improved somewhat between 2000 and 2002 but has remained relatively static during 2003 with 59 per cent of net income being required<sup>11,12</sup>. Figure 2.5 also

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11. to service an average mortgage on an average house for a single person on average income

12. A single person on average industrial earnings could, in 2002, afford to purchase a house costing €87,300 over 20 years or €108,700 over 30 years under the government’s affordability criteria assuming he/she could acquire the assumed 10 per cent deposit required. This is clearly well below the average level of house prices across the country.

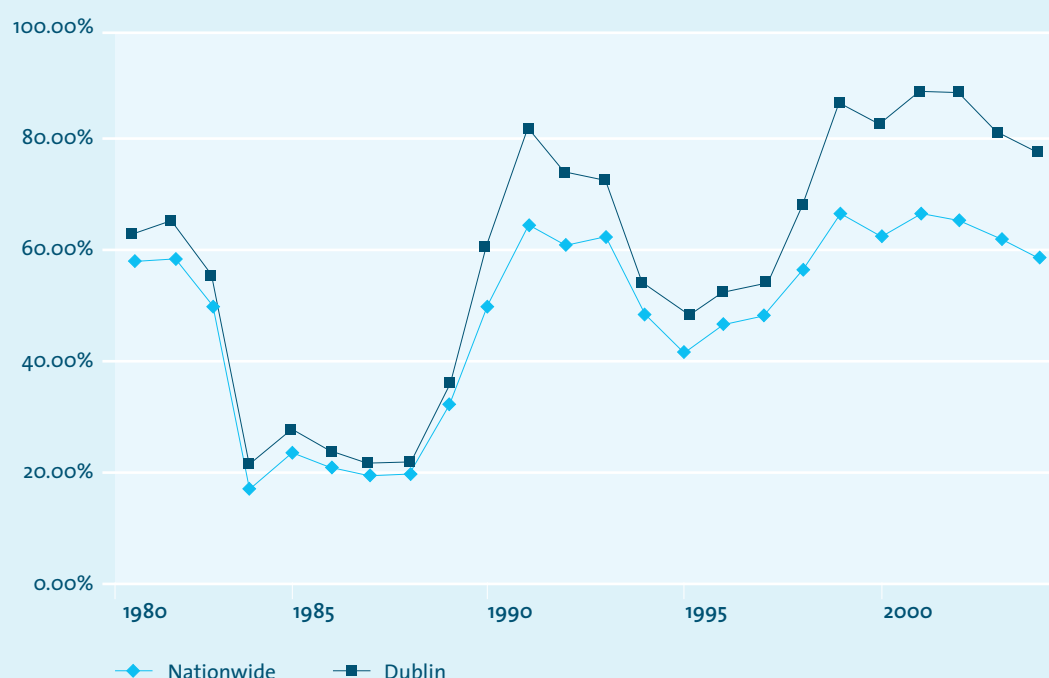
shows the trend for Dublin<sup>13</sup>. It can clearly be seen from the figure that any judgement about affordability at present or in the recent past depends on the time period we choose for comparison.

These calculations of mortgage repayments from post tax earnings can be compared to the government's official affordability criterion. The percentage of net income required to meet the mortgage repayment for an average house today would exceed the government's affordability threshold of 35 per cent. Indeed, this has been the case for every year since 1988, although the margin by which cost exceeded the affordability threshold varies considerably over time.

### Dual Earning Households

Figure 2.5 is constructed for a single earner. Where the household is dual earning, and the incomes are equal, and where full individualisation applies, the percentage of net income required to service a mortgage will be halved<sup>14</sup>. These dual earning households would always have always fallen under the affordability threshold at a national level and would have met it in Dublin every year except for 2000 and 2001, when it would have been marginally exceeded.

**Figure 2.5** Percentage of Net average industrial earnings required to service 20 year mortgage on average house 1980-2003



Source: NES C Calculations

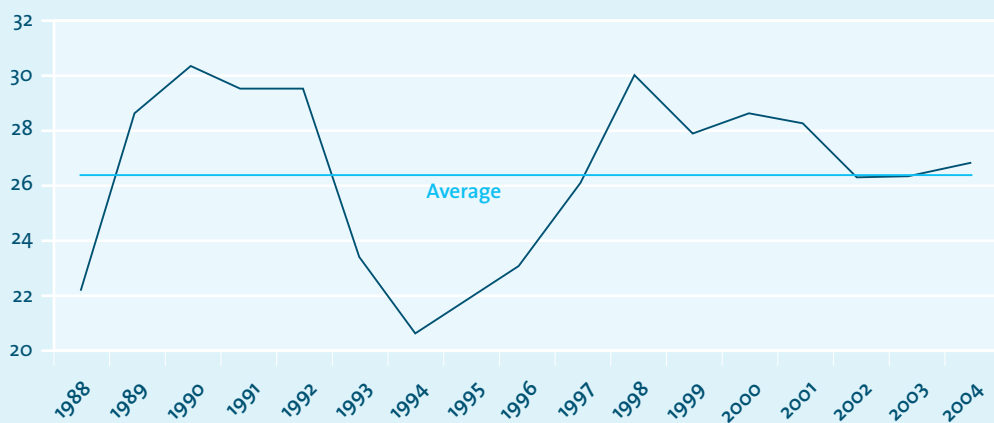
13. The data take account of the higher level of average new house prices in Dublin but use national earnings figures and therefore make no allowance for the possibility of higher earnings in Dublin.

14. For such households, the government's affordability threshold rises to 42.5 per cent of net household income. This is the case because the government's affordability threshold for a dual earning household takes into account half the net income of the second earner (Section 93, Planning and Development Act, 2000).

A recent paper by AIB carried out a similar exercise, based on a dual earning family in which the first earner was earning the average managerial wage and the other the average industrial wage (AIB, 2004). This is shown in Figure 2.6. The pattern is similar to that for average industrial earnings, as shown in Figure 2.6. However, the figures in AIB's case are substantially lower because substantially higher earnings average managerial wage plus average industrial wage—are used. They found that, based on a 20 year mortgage, that current levels of affordability are close to the long term average (between 1988 and 2004) and that approximately 26 per cent of this household's net disposable income would be required.

**Figure 2.6 New House Affordability**

% of disposable income required for mortgage repayments\* 1988-2004



Source AIB ERU

\* based on two income family

### Mortgage Payments out of below Average Earnings

The discussion so far has been based on average house prices and average industrial or managerial earnings. We have also calculated the percentage of income which a person on two-thirds of average industrial earnings would require to purchase an average new house. Since the tax liability of such an earner would be lower, the required percentage of net income is less than 1.5 times the amount required on average earnings. The calculations show that the purchase of an average house by a single earner on 2/3rds of average industrial earnings would always have exceeded the government's affordability threshold. However, a dual earning couple, each on 2/3rds of average earnings, would have met that criterion in the mid 1990s, but would have been unable to meet it in the recent past, or indeed at present. Interestingly, a dual earning couple each on 2/3rds of average earnings would just about have met the criteria during the previous peak in 1990.

### Affordability of Access to Home Ownership

An important aspect of affordability is the ability to acquire the deposit, fees and taxes necessary to enter home ownership. These entry costs have risen in line with house prices, but the burden of them has not been reduced by the fall in interest rates. To accumulate a 10 per cent deposit on an average new house today an individual on average industrial earnings must save 100 per cent of one year's net earnings as opposed to only 62 per cent of one year's net earnings in 1989. In the case of the average Dublin house, a person on the national average industrial earnings must acquire 130 per cent of annual net income to accumulate 10 per cent of the purchase price. This means the entry costs associated with acquiring housing have become distinctly less affordable. The increase in point of entry costs has greatly increased the pressure to acquire wealth from sources other than savings, most commonly through parental gifts. Consequently, those with access to parental or other support have both less affected by this reduction in affordability and have been able to move more swiftly to profit from changes in market conditions and expectations of rising prices than those who have less wealth.

#### 2.5.4 Survey Evidence of Actual Housing Costs

Additional information on affordability is available from a number of periodic surveys: the Household Budget Survey (HBS) (the most recent of which was 1999/2000), the Irish National Survey of Housing Quality (last conducted in 2001/02), specific special modules of the Quarterly National Household Survey (QNHS) on housing and households (the latest of which was conducted in 2003 and published in 2004) and the Census (last carried out in April 2002)<sup>15</sup>.

#### Survey Evidence on Rents

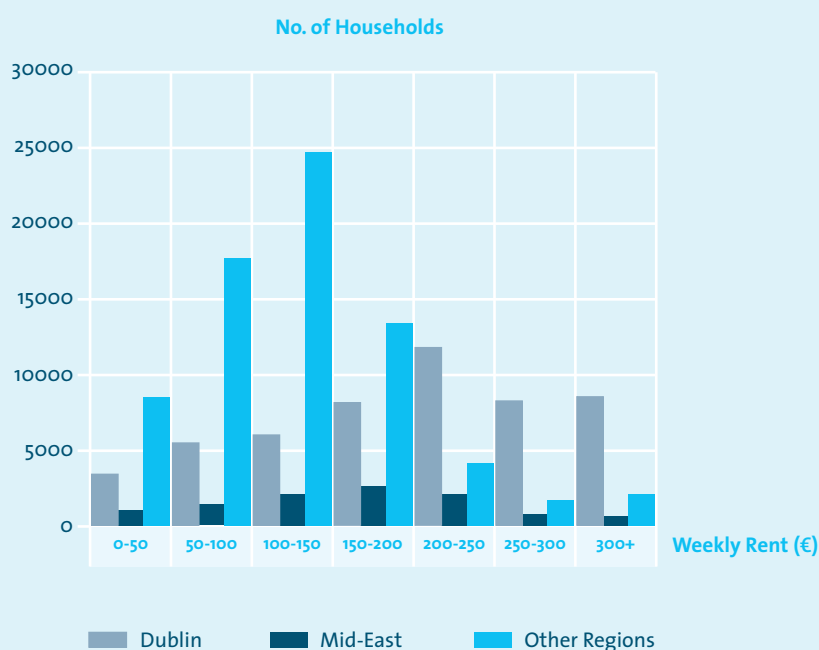
Rented properties can be divided into three categories—those rented from Local Authorities, those rented privately but unfurnished and privately rented properties inclusive of furnishings. The distribution of private rents calculated as a weighted combination of those properties that are furnished and unfurnished—is shown in Figure 2.7. This is broken down into three regional variations—Dublin, the Mid East Region and all Other Regions. We can discern differences both in the average level of rents in each region and in the distribution. The modal rent, (that is the weekly rent that is most commonly paid), is between €100–€150 outside of the Greater Dublin Area, between €150 and €200 in the Mid East and between €200–€250 in Dublin<sup>16</sup>. In addition a significant difference can be seen for the pattern of rents in Dublin whereby a significant proportion of people pay well in excess of the average rent with the second most common level of weekly rental payment being in excess of €300 per week equivalent to in excess of €1,300 per month.

<sup>15</sup> The Household Budget Survey is the only survey which contains data linking the payment for housing to household income. This allows one to look at actual individual household affordability rather than averages across an entire sample. However, the most recent HBS was carried out in 1999/2000. The other surveys are more recent. While the QNHS examines mortgage repayments and levels of rent paid, the Census only provides information on the level of rental payment.

<sup>16</sup> These figures were further confirmed in the 2003 QNHS where it was found that the average weekly rental payments were €224 in Dublin, €184 in the Mid East and ranged from €110 to €165 per week in other regions.

In order to translate these level of rents into a measure of affordability it is necessary to be able to relate them to household income. The HBS is the only survey which allows us to do this, however it is more dated, the last survey being carried out in 1999/2000. In 1999/2000 some 20 per cent of all private renters spent more than 35 per cent of total household expenditure on rent. The figures in from Census 2002 and the QNHS in 2003 continue to show that weekly rental payments are significant despite the fact that there is some evidence that rents in the private sector have been falling in the past couple of years.

**Figure 2.7 Distribution of Private Rents on a Regional Basis – 2002**



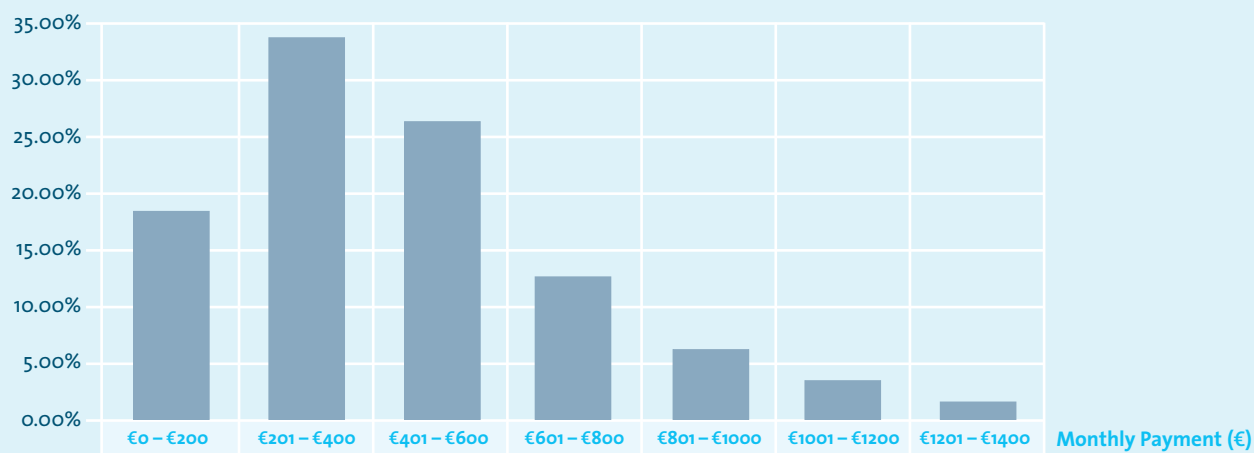
Source: CSO Census of Population 2002 – Volume 13 - Housing

### Survey Evidence on Mortgage Payments

The CSO has recently published figures on the level of actual expenditures on housing from its Quarterly National Household Survey carried out in the third quarter of 2003. This survey asks households a range of questions concerning housing including questions of affordability.

Figure 2.8 shows the average distribution of mortgage repayments on a national basis. This distribution excludes the almost 62 per cent of owner occupiers who own their property outright and do not make a monthly mortgage repayment. The figure shows that the vast majority of households spend between €201 and €400 or €401 and €600 on monthly mortgage repayments. The percentage of households whose monthly mortgage repayment exceeds €600 is 23.1 per cent, while just over 10 per cent of households making a monthly mortgage payment currently pay in excess of €800 per month.

**Figure 2.8 National Distribution of Monthly Mortgage Payments – 2003**



Source CSO : Quarterly National Household Survey, 2003: module on Housing and Households

### Regional Mortgage Payments – Survey Evidence

Table 2.2 shows mortgage repayments broken down on a regional basis. We can see significant regional differentiation in the level of mortgage repayment with almost 20 per cent of mortgagors paying more than €800 per month in Dublin compared to less than 4 per cent in regions outside the Greater Dublin Area.

**Table 2.2 Regional Distribution of Actual Monthly Mortgage Repayments – 2003**

	€0-€200	€201-€400	€401-€600	€601-€800	€801-€1000	€1001-€1200	€1201+
Dublin	15.30%	22.75%	19.60%	14.17%	8.66%	6.40%	3.24%
Mid-East	14.49%	26.33%	25.92%	12.65%	6.73%	2.86%	1.02%
Other Regions	17.16%	35.74%	24.88%	8.95%	3.00%	0.74%	0.00%

Source CSO : Quarterly National Household Survey, 2003: Module on Housing and Households

### Survey Evidence from First Time Buyers (FTBs) and Recent Purchasers (RPs)

Two particular categories of owner occupier who might be thought to face greatest affordability pressures are First Time Buyers (FTBs) and Recent Purchasers (RPs). Data is available from the QNHS on the distribution of mortgage payments for FTBs (those who have purchased their first house or apartment since 1996) and RPs (those who have purchased since 2001). Some 32 per cent of FTBs had a monthly mortgage payment of over €600 per month (as opposed to 23 per cent of all those paying a mortgage) and 13.5 per cent had a payment exceeding €800 (as compared to 9.7 per cent of all those paying a mortgage). Separately the CSO identified those who had purchased property since 2001 (RPs)—both First Time Buyers and those moving from a previously owned property. Looking at these figures allows us to examine the repayments of those who have not benefited from significant maturation in their mortgage repayment. Of those who had purchased since 2001 47.2 per cent had a monthly mortgage repayment exceeding €600 and 25.3 per cent exceeding €800 per month. It is not possible to draw any inference about affordability for either First Time Buyers or recent purchasers from this data as we do not have details on the household incomes of these households.

However, Table 2.3 shows how First Time Buyers self-assess the difficulty of meeting their monthly mortgage payments. Over 3/4 of all first time buyers perceive their mortgage repayments to be very affordable or manageable, with less than 10 per cent stating that they are difficult or ‘very difficult’ to manage. There is little regional variation in the perceived affordability, although Dublin is the only region which registers a statistically significant reading for those who find it very difficult to manage their mortgage repayments.

**Table 2.3 Perceived Affordability for ‘First Time Buyers since 1996’**

	Very Affordable	Manageable	Difficult to Manage	Very Difficult	Not Stated
<b>Border</b>	12.88%	58.33%	13.64%	0.00%	14.39%
<b>Midlands</b>	17.57%	63.51%	8.11%	0.00%	10.81%
<b>West</b>	16.67%	51.75%	8.77%	0.00%	21.05%
<b>Dublin</b>	21.82%	56.03%	9.45%	3.26%	9.45%
<b>Mid-East</b>	19.53%	60.94%	9.38%	0.00%	9.38%
<b>Mid West</b>	25.69%	55.96%	9.17%	0.00%	10.09%
<b>South East</b>	27.01%	48.91%	3.65%	0.00%	19.71%
<b>South West</b>	21.39%	50.27%	6.95%	0.00%	20.86%
<b>Total</b>	<b>20.79%</b>	<b>55.13%</b>	<b>8.59%</b>	<b>1.35%</b>	<b>14.14%</b>

Source CSO (2004), *Quarterly National Household Survey Special Module Housing Households*

## Comparison of Survey data on Rents and Mortgages

These surveys consistently show that average levels of expenditure on housing are low reflecting high levels of outright home ownership. However, as we have discussed average figures across the entire population are not always that revealing. It is clear that the average monthly mortgage payment is significantly less than the average rental payment and lies close to €400 per month, while average monthly rental varies from €600 to €1,000 with a significant proportion of households in Dublin paying in excess of €1,300 per month. While the levels of mortgage payment is significantly higher both for Recent Purchasers (since 2001) and First Time Buyers (since 1996) the percentage who are paying €1,000 per month or more are 4.9 per cent and 13.2 per cent respectively

Further interpretation of the data on affordability is provided in Chapter 3.

## 2.6 The Provision of Social and Affordable Housing

An important part of the analysis of the Irish housing system is the changing role of social housing. The Background Analysis contains a detailed review of general trends and developments in the provision of social and affordable housing which is summarised below. Due to the focus on trends and issues arising in relation to the housing system at a broad level, a number of specific issues such as Traveller accommodation and homelessness have not been considered in any significant detail. The Council is aware that the most recent social partnership agreement, *Sustaining Progress*, contains acknowledgement of the importance of these issues, and homelessness in particular. Notwithstanding the above, the Council believes that addressing the broader housing issues, not least the adequacy of supply, will contribute significantly to attaining the policy goals outlined for these particular groups.

### 2.6.1 Main Forms of Housing Support

The Irish system contains three broad types of support to those unable to acquire adequate housing from their own resources:

- ◆ The provision of rental accommodation by local authorities and the voluntary and co-operative housing sector—termed social housing;
- ◆ Various supports to marginal households to become home owners—termed Affordable Housing<sup>17</sup>;
- ◆ Other supports in lieu of social housing—the largest being rent supplement to welfare recipients in private rental accommodation under the SWA scheme.

Table 2.4. provides an overview of the main schemes in place in 2004.

17. It is important to note that 'affordable' housing is used in two contexts in current Irish housing policy—referring firstly to the policy objective of ensuring general affordability across all tenures (targeting those households that are expending more than 35 per cent of disposable income on housing—either mortgages or rent), and secondly to Affordable Housing programme—which refer specifically to the provision of discounted houses for sale to eligible households.

Table 2.4 Main social and affordable housing schemes as at 2004

Schemes providing social rental housing	Other supports in lieu of social housing	Schemes supporting 'affordable' home ownership
<p>General needs housing</p> <ul style="list-style-type: none"> <li>◆ Construction and maintenance of local authority rental housing stock</li> <li>◆ Construction and maintenance of voluntary and co-operative rental housing (funded under the Capital Loan and Subsidy Scheme)</li> </ul> <p>Specific needs housing</p> <ul style="list-style-type: none"> <li>◆ Construction and maintenance of voluntary and co-operative rental housing for specific needs (funded under the Capital Assistance Scheme)</li> <li>◆ Provision of Traveller accommodation and support</li> <li>◆ Homeless accommodation</li> </ul> <p>Arrangements with private rental sector for long term accommodation at a social rent (Rental Accommodation Scheme)</p>	<p>Assistance with housing costs in private housing market</p> <ul style="list-style-type: none"> <li>◆ Rent supplement under Supplementary Welfare Scheme</li> <li>◆ Grant assistance for adaptation of private homes of disabled persons</li> <li>◆ Improvement Works in Lieu of social housing</li> <li>◆ Special improvement works and general housing aid for elderly persons</li> </ul> <p>Supports to existing local authority tenants</p> <ul style="list-style-type: none"> <li>◆ Grant assistance for adaptation of homes of disabled local authority tenants</li> <li>◆ Remedial works</li> <li>◆ Extensions to local authority dwellings</li> </ul> <p>Emergency or temporary accommodation</p> <ul style="list-style-type: none"> <li>◆ B &amp; B accommodation</li> </ul>	<p>Subsidised home ownership</p> <ul style="list-style-type: none"> <li>◆ Tenant purchase scheme</li> <li>◆ Local Authority Affordable Housing Scheme</li> <li>◆ Affordable Housing through Part V provision</li> <li>◆ Affordable Housing Initiative (Sustaining Progress)</li> <li>◆ Shared Ownership Scheme</li> <li>◆ Mortgage Allowance for local authority tenants</li> <li>◆ Low cost subsidised sites scheme</li> </ul> <p>Access to finance</p> <ul style="list-style-type: none"> <li>◆ Local authority home purchase loan</li> </ul>

It is evident from the above that social and affordable housing measures address a wide spectrum of need.

### 2.6.2 The Development of Social and Affordable housing in Ireland

The trajectory of Irish social housing explains much of its uniqueness (see Background Analysis—Section 6.2). Key historical influences have been the early impact of UK legislation, the heavy emphasis on provision for low-income workers in rural areas, and the long-standing policy of tenant purchase. Each of these has contributed to the particular model of Irish social housing, which is relatively small and residualised in comparison to many other European housing systems.

#### Developments since 1991

A number of developments have led to significant changes in both the scale and nature of social and affordable housing in recent years. First, increasing *demand* for state supported housing was a feature of the system since the late 1980s. This was fuelled by the growing number of households which could not meet their housing requirements from their own resources, reflecting the confluence of a number of factors: the increase in the overall population and the related growth in household formation; the pricing out of a greater proportion of households from the private housing market due to the dramatic growth in house prices and market rents; but also the contraction in the relative share of housing available outside of the private housing market.

Since they began in 1988, each tri-annual assessment has registered an increase in the number of households deemed in need of housing or other supports<sup>18</sup>. There are a number of concerns about the accuracy and completeness of recent assessments of housing need under local authorities (see Paper 6 of the Background Analysis for further detail). Nevertheless, they help to identify the overall trends in the demand for social housing. Table 2.5 shows the number of households registered on local authority housing waiting lists from 1989 to 2002.

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18. It is noted however that a wide variation was noted across local authorities at the time of assessment – ranging from an increase of 5% in net need in Borough Council areas to an increase of 41.8% in the Town Council areas. 23 of the 90 local authorities saw a decline in net need from 1999 (Housing Statistics Bulletin, September 2002)

Table 2.5 Local Authority Assessment of Housing Need –  
no. of households, 1989 – 2002

Category of Need	1989	1993	1996	1999	2002
Unable to Afford	6,432	2,809	7,659	13,328	21,452
Overcrowded	7,075	4,621	5,912	8,328	8,513
Unfit Dwelling	5,122	4,324	4,799	4,796	4,065
Involuntary Sharing	3,345	2,001	3,120	4,086	4,421
Elderly	2,191	2,349	2,140	2,363	2,006
Medical	1,861	1,187	1,762	2,347	3,400
Homeless	1,452	987	979	2,219	2,468
Traveller	884	834	749	1,406	1,583
Disabled	194	108	241	236	423
Leaving care	68	156	66	67	82
<b>Total</b>	<b>19,376</b>	<b>28,624</b>	<b>27,427</b>	<b>39,176</b>	<b>48,413</b>

*\* It should be noted that results following 1996 are not strictly comparable to the earlier assessments.*

It is interesting to note the changing prominence of certain categories. Whereas overcrowded and unfit dwellings accounted for the majority of households being added to the waiting lists in 1988 (62 per cent), general affordability problems were the overwhelming cause of measured housing need in 2002 (43 per cent). A separate assessment of homelessness which is also carried out every three years also shows an increase in the number registered in that category.

Policy has responded to this increase in demand, with the introduction of a number of new housing measures and increased public investment in housing since 1991 (see below for a summary of individual programmes). A number of structures and processes have also been developed to strengthen the on-going development and implementation of housing policy: the Cross-Departmental Team on Housing, the Housing Forum (involving the social partners), local authority Strategic Policy Groups, the introduction of local authority Housing Strategies and supporting action plans. Cross-sectoral approaches to addressing particular housing needs have been enhanced through strategies and supporting implementation frameworks, such as those established for Traveller accommodation and homelessness.

This return of a more active social housing policy was evident in the targets set under the National Development Plan for 2000-2006. Table 2.6 below shows the targets for total output to 2006 under the various measures, with further planned increases in output most noticeable for voluntary and co-operative housing.

**Table 2.6** Expenditure and output of units to end 2003 against key mid-term NDP targets

	NDP target (2000–2006)		NDP mid-term target (to end 2003)		Actual output (to end 2003)			
	Units	Expenditure (€m)	Units	Expenditure (€m)	Units	% of target	Expenditure (€m)	% of target
Local authority housing starts (Measure 1)	40,100	4,152	20,000	2,324.9	17,558 <sup>1</sup>	87.8%	2,577.6	110.9%
Vol & co-op (Measure 2)	15,500	1,860	5,500	621.4	5,181	94.2%	672.5	108.2%
Affordable and shared ownership (Measure 3)	14,000	1,613	8,000	885.3	8,249	103.1%	944.4	106.7%
<b>Total</b>	<b>69,600</b>	<b>7,625</b>	<b>33,500</b>	<b>3,832</b>	<b>30,988</b>	<b>92.5%</b>	<b>4,195</b>	<b>109.5%</b>

Source Annual Housing Statistics Bulletin 2003; Indecon (2003); Figures from DoEHLG

Note 1. Includes units acquired under Part V for rental purposes. It excludes units provided for under major regeneration schemes (Measure 4 of NDP)

It is evident that while output of physical units is marginally behind mid-term targets (almost 95 per cent of the target level of output has been achieved), targeted expenditure has been surpassed. Total expenditure is more than 9 per cent above that projected in the NDP to the end of 2003, or over €363 million. The implication of this development for future supply is considered further in Chapter 4.

Perhaps the single most important policy development in recent decades has been the introduction of Part V of the Planning and Development Act, 2000. Part V stipulates that local authorities can ensure up to a maximum of 20 per cent of all residential developments is retained for social and affordable housing. The measure not only aims to provide an additional source of supply of social and affordable housing but as a mechanism to achieve greater social integration in new private developments. In practical terms, this means that a developer as part of their planning permission would be required to transfer land at its existing use value to a local authority or housing association for social and affordable housing. The Local Authority may subsequently enter into a separate contract to purchase completed dwellings from the developer. Housing units resulting from these provisions can either be allocated for social rental housing, or sold on as affordable housing by Local Authorities. Since 2002 approved voluntary and co-operative housing bodies have also been permitted to provide Affordable Housing for sale to their tenants. Where the size, shape or attribute of the site of a particular private development was deemed unsuitable for social or affordable housing, the planning authority could receive payment equivalent to the value of the transfer of land.

The legislation was amended in 2002 to provide additional methods of compliance for developers. These include the building and completion of new houses on behalf of the local authority or housing association on another site, the transfer of alternative land in the local authority functional area, the payment of a specified amount or a combination of options). Table 2.7 shows the actual and planned output of social and affordable housing as at March 2004, but also other contributions arising.

**Table 2.7 Actual and planned output under Part V Provisions, as at March 2004**

	Acquired	In progress	Proposed
Social housing – local authority	85	109	504
Social housing – voluntary and co-operative	0	80	127
Affordable Housing	104	595	916
<b>Total no. of units</b>	<b>189</b>	<b>784</b>	<b>1,547</b>
<b>Other contributions</b>			
Payments in lieu of sites / dwellings		€1,560,348	
Payments received under Section 96B (6) Withering Levy		€267,420	
Land transferred		1.645 hectares	

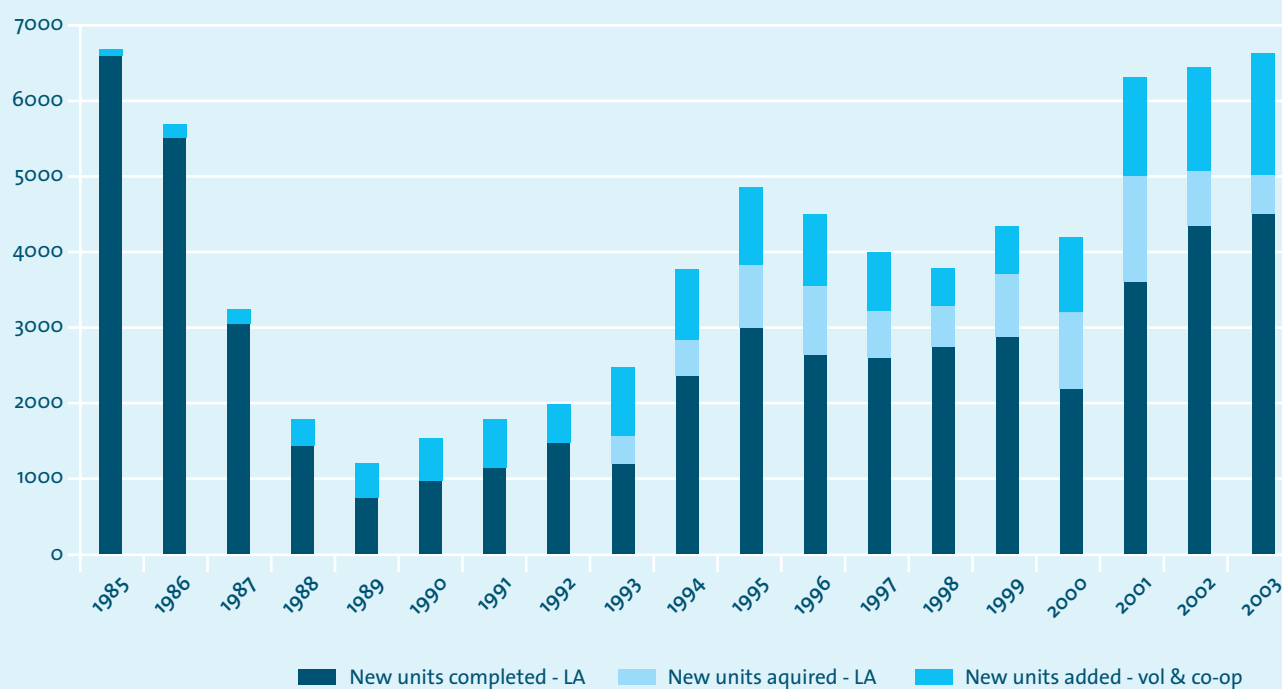
Source: Housing Statistics Bulletin March 2004, figures from DoEHLG

### Total Supply of Social Affordable Housing

The developments described above have contributed to increasing levels of supply across the range of social and affordable housing measures. Social and affordable housing combined to enable some 13,000 additional households to secure accommodation in 2003<sup>19</sup>. In relation to social housing specifically, Figure 2.9 below shows that supply recovered from a low of just over 1,000 units in 1989 to reach over 6,500 units in 2003. The growing contribution of voluntary and co-operative housing output to this increase is particularly notable.

19. It should be noted of course that this figure does not translate to a direct reduction of the Local Authority housing waiting lists by the same amount, as some households assisted will not have been registered on waiting lists, particularly those allocated Affordable Housing and others will have joined the waiting lists in the interim.

Figure 2.9 Social housing output, 1985-2003



Source: *Housing Statistics Bulletins, various*

This has resulted in an overall stock of some 127,000 social rental units at the end of 2003 almost equal to the total stock in 1961. But this absolute increase in stock has not reversed the relative decline in the share of the overall housing stock. Private house-building has averaged some 90 per cent of total building over the past decade, thereby increasing its proportionate share. The changing proportion of stock held in each tenure is detailed in Table 2.8 below.

Table 2.8 Breakdown of total housing stock by tenure, 1946 – 2002

	1946	1961	1971	1981	1991	2002
<b>Owner occupied</b>	52.6 %	59.8 %	68.8 %	74.4 %	79.3 %	77.4 %
Rural	69.3%	77.4%	85.5%	85.6%	87.8%	n/a
Urban	23.2%	38.0%	52.5%	65.6%	73.1%	n/a
<b>Social housing</b>	42.7%	18.4%	15.5%	12.5%	9.7%	7.9%
<b>Private rental</b>		17.2%	13.3%	10.1%	8.0%	11.0%
<b>Total</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>
<b>Total no. of dwellings (000s)</b>	<b>662.6</b>	<b>676.4</b>	<b>726.4</b>	<b>896.1</b>	<b>1019.7</b>	<b>1279.6</b>

Source: Censuses of population 1946–2002, from Fahey, Nolan and Maitre (2004)

This shows a falling proportion of accommodation available outside of the private housing market. The effects of this reduced share have been mitigated somewhat by an increase in the range and number of alternative housing supports to modest and low income households which are discussed in Section 2.6.5 below.

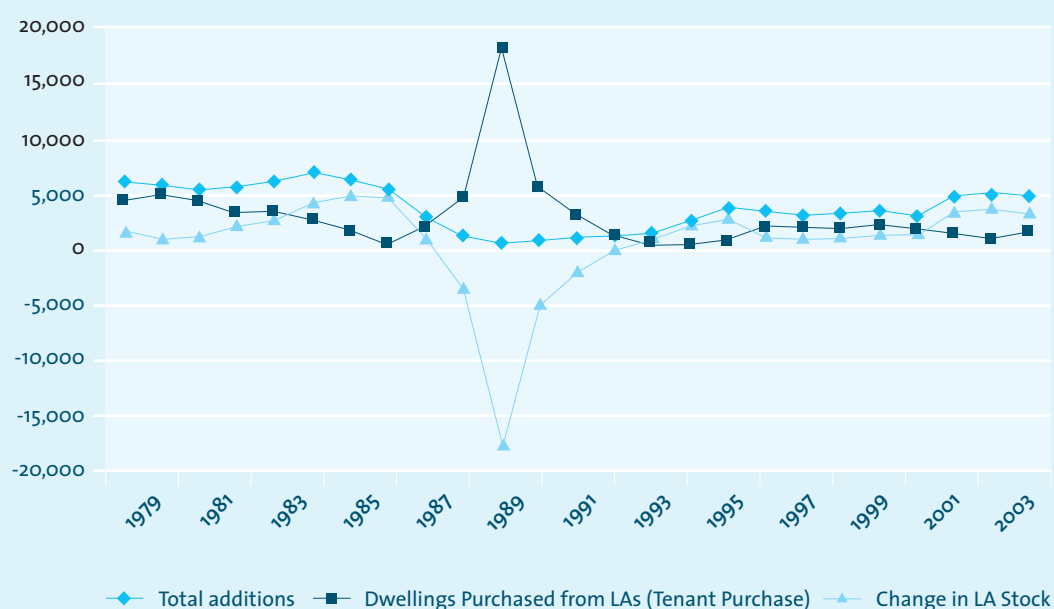
In line with increased output, public capital expenditure on housing has increased seven-fold since 1993. Total public capital expenditure on housing in 2003 accounted for €1.7 billion (corresponding expenditure for 2004 is estimated at €1.79 billion.) Significant current expenditure also arises due to rent supplement arising under the SWA scheme. In 2003 this accounted for an additional €330 million. Combined, current and capital expenditure on social and affordable housing totalled over €2 billion in 2003, or 2 per cent of GNP. Further details of public expenditure on housing programme is presented in Section 2.7.

The *nature* of social and affordable housing has also changed considerably. A shift away from the provision of large-scale local authority housing estates has led to a more diverse social housing stock. An increasing proportion of social housing is now located within more mixed developments, while the growing contribution of the voluntary and co-operative housing sector has led to a wider range of services available to social tenants than heretofore, involving greater integration of welfare and social supports. Diversity in approaches to the management of social housing is also evident due to the greater variety and number of social landlords. The degree to which various programmes have contributed to both qualitative and quantitative outcomes is summarised below.

### 2.6.3 The provision of local authority housing

Two main factors have determined the current stock of local authority housing. First, the stock is strongly influenced by the level of new local authority construction—which declined significantly between the mid 1980s and the mid 1990s. Secondly, sales of local authority houses to sitting tenants have led to a reduction of the overall stock. This was particularly significant in the late 1980s. Conversely, this trend has contributed to the high level of owner-occupation across the income spectrum. Figure 2.10 shows the total additions to the stock, dwellings sold to tenants, and the resultant change in stock over the period illustrated (1979-2003).

Figure 2.10 Evolution of local authority housing stock: 1979-2003



Historically low levels of annual output and high rates of tenant purchase combined to produce a steady decline in stock from a peak of over 125,000 units in 1961, to a low of under 98,000 units in 1991. Since the mid-1990s, the level of local authority construction has kept above the level of disposals, ensuring annual net additions to the stock but at a very low level.

The construction and acquisition of new dwellings is not the only source of new lettings to households on waiting lists however. Vacancies arising in the existing social housing stock also account for a significant number of first time lettings in any year. In 2003, vacancies arising in the local authority housing stock allowed an additional 4,000 first time lettings. Table 2.9 below shows the trends in vacancies between 1993 and 2003, and their proportionate share of first time lettings.

**Table 2.9** Number of vacancies arising in local authority stock as percentage of first time lettings – 1993-2003

Year	Total first time lettings	Number of vacancies	As percentage of new lettings
1993	4,881	3,312	67.9%
1994	6,086	3,245	53.3%
1995	7,451	3,609	48.4%
1996	7,503	3,930	52.4%
1997	7,012	3,795	54.1%
1998	6,660	3,378	50.7%
1999	6,834	3,121	45.7%
2000	6,061	2,854	47.1%
2001	8,026	3,004	37.4%
2002	8,194	3,120	38.1%
2003	8,767	3,795	43.3%
<b>Total</b>	<b>77,475</b>	<b>40,542</b>	<b>47.9%</b>

Source: Annual Housing Statistics Bulletin, 2003

The Background Analysis also highlights a number of important qualitative changes in the local authority housing stock. These include new approaches to the regeneration and redevelopment of large-scale housing estates and estates with acute problems; support for more mixed tenure developments, and improvements in the management of local authority housing. The redistributive effects of allocation and rental policies and the role of social housing generally as an anti-poverty measure are also detailed.

Another important trend in the development of the local authority stock has been its increasing residualisation. In 1987, 53.2 per cent of local authority tenants in urban areas had below 60 per cent of average income (this was as high as 63.9 per cent for rural local authority tenants). By 2003, 62.2 per cent of all local authority tenants were below 60 per cent of the median, compared with 22 per cent of all households. This increase in the level of residualisation can be attributed to the following:

- ◆ As the stock of local authority dwellings has shrunk as a proportion of the total housing stock, public tenants have consisted of an increasingly marginalised group;
- ◆ Some of the poorest and most vulnerable households, which traditionally would not have been located in the social housing sector, are now being accommodated (e.g. persons leaving institutional care, homeless etc.).

A residualised local authority stock means that providers of diverse social supports are able to exploit the spatial concentration of households in need to target delivery of their services (e.g., social welfare offices, health clinics, MABS offices, area-based partnerships etc.). However in most respects, the strengthening association between local authority tenancy and marginal households has negative implications. A local population with high levels of social need can overwhelm the social services and neighbourhood amenities that are available. A related issue arising from this phenomenon is the shortfall between rents and expenditure on local authority housing - rents have covered less than 70 per cent of maintenance and management costs on an annual basis since 1997 (see the sixth paper in the Background Analysis). The implication of these trends for policy is considered further in Chapters 4 and 6.

#### 2.6.4 The provision of voluntary and co-operative housing

The recent rise in the social housing stock has been significantly bolstered by output from the voluntary and co-operative housing sectors. Output from these sectors increased from its lowest level in recent times of 485 units (1998) to over 1,600 units in 2003. The sector now has a managed stock of over 16,000 dwellings. This reflects the expansion of the sector, which was estimated to comprise 330 active non-profit housing organisations in 2001, but also increased funding (Mullins, Rhodes and Williamson 2003). The step increase in supply since the late 1990s is outlined in Table 2.10 below. The table distinguishes between the two different funding schemes available to the sector—the Capital Assistance Scheme (CAS) and the Capital Loan and Subsidy Scheme (CLSS)<sup>19</sup>.

Table 2.10 Voluntary and co-operative housing output, 1993-2003

	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	Total
<b>CAS</b>	749	607	613	501	345	283	314	484	554	699	1018	<b>6167</b>
<b>CLSS</b>	141	294	398	416	411	202	265	467	699	661	599	<b>4553</b>
<b>Total</b>	<b>890</b>	<b>901</b>	<b>1011</b>	<b>917</b>	<b>756</b>	<b>485</b>	<b>579</b>	<b>951</b>	<b>1253</b>	<b>1360</b>	<b>1617</b>	<b>10720</b>

Source: Housing Statistics Bulletins (various)

The growing importance of the sector is evident in the fact that almost 1 in 3 social dwellings in 2003 were provided through approved housing bodies. Voluntary and co-operative housing also adds to the diversity of current provision, both in terms of the nature of accommodation provided but also a wider range of management approaches. The type of social housing project varies from independent, low support, transitional housing through to sheltered

19. The Capital Loan and Subsidy Scheme was introduced in 1991 and is for the most part used to fund family type social housing broadly similar to accommodation provided under the local authority housing programme. Under the Capital Assistance Scheme (CAS), in place since 1984, accommodation is provided by approved housing bodies for special needs categories such as the elderly, homeless, elderly returning emigrants and people with disabilities

housing; while home ownership co-operatives support an alternative form of affordable owner-occupation. The ability of the sector to reach ever increasing targets under the NDP (2006 output is targeted at 4,000 units) will depend on continued development of sectoral capacity, adequate funding (both capital and revenue) and access to affordable land.

### 2.6.5 The Supply of Affordable Housing for Purchase

Modest and low income households have traditionally been supported by the State through the right for local authority tenants to purchase their homes. Tenant purchase, or the right to buy, has had a major effect on overall levels of home ownership in Ireland. Approximately two-thirds of the estimated 300,000 plus dwellings constructed by local authorities have been transferred into private ownership through this scheme, leaving a stock of 109,000 local authority dwellings at the end of 2002. It was estimated in 1998 that about a quarter of all owner-occupied homes had originated from local authority stock (Fahey, 1998).

The introduction of Shared Ownership and the various Affordable Housing programmes has provided an additional range of supports to marginal home buyers—for local authority tenants but also other households. Table 2.11 shows that approximately two-thirds of all houses allocated by local authorities to low-income home purchasers in 2001 and 2002 were provided by way of Shared Ownership or purchase of Affordable Housing. A further breakdown of public support for house purchase including an annual breakdown of the affordable housing programmes and individuals assisted under shared ownership is presented in the sixth paper in the Background Analysis.

**Table 2.11** Number of households assisted to purchase discounted housing, 1973-2003

	1973-1980	1981-1990	1991-2000	2001-2003
Tenant purchase	49,101	46,807	17,072	4,173
Shared ownership <sup>1</sup>	n/a	n/a	9,666	4,295
Affordable housing programmes <sup>2</sup>	n/a	n/a	126	2,887
<b>Total</b>	<b>49,101</b>	<b>46,807</b>	<b>26,864</b>	<b>11,355</b>
Annual average over period	6,137	4,680	2,686	3,785

**Source** Housing Statistics Bulletins (various)

**Notes** 1. Introduced in 1991 following A Plan for Social Housing

2. Three separate affordable housing programmes were introduced over the period 1999-2003 each of which aim to provide discounted housing to households fulfilling conditions of eligibility (including certain income limit)

The recent annual average of 3,785 households assisted under the various schemes constitutes an increase of over 30 per cent on the number of households assisted annually during the 1990s. Indeed output is anticipated to increase further under each of the three Affordable Housing programmes (see Chapter 3 below).

### 2.6.6 Rent Supplement under the Supplementary Welfare Scheme

The Rent Supplement is an income support payment covering a portion of the rent payable. The introduction of rent supplement under the Supplementary Welfare Allowance scheme was initially planned to deal with emergencies and short-term housing need that arose from a change in personal circumstances. However the current scheme had in effect become a long-term housing support for many. The change in the numbers requiring assistance under the scheme shown in Table 2.12 below. Data provided to NESC on 2004 levels indicate a slight drop in recipient numbers—down to 58,500 households at the end of May.

**Table 2.12** Number of recipients and associated expenditure under SWA scheme, 1996-2003

	1996	1997	1998	1999	2000	2001	2002	2003
<b>No. of recipients</b>	34,700	36,800	39,999	41,873	42,863	45,028	54,200	59,976
<b>Total cost (€m)</b>	€79.5	€95.6	€111.7	€127.7	€150.7	€179.5	€252.2	€332
<b>Average annual cost per recipient</b>	€2,291	€2,598	€2,792	€3,049	€3,531	€3,988	€4,653	€5,535
<b>Av.monthly cost per recipient</b>	€190	€216	€232	€254	€294	€332	€387	€461

Source: Department of Social and Family Affairs, NESC calculations

Average expenditure for each household in receipt of the allowance was €5,535 per annum in 2003. This reflects an expenditure increase of 31 per cent on 2002 levels (on top of a 41 per cent increase in 2002 on 2001 levels). The fact that the number of households in receipt of Rent Supplement now equates to 40 per cent of the entire private rented sector (and is half the size again of the total social rental housing sector) indicates the reliance of the housing system on this measure to provide affordable rental accommodation.

In July 2004, significant reform of the rent supplement scheme was announced by the Ministers for the Environment, Heritage and Local Government and Social and Family Affairs. It was proposed that within a three year timeframe rent supplement recipients assessed as having a long-term housing need will be catered for through new arrangements with private sector landlords under the Rental Accommodation Scheme. These will include specifically built premises, existing supplementary welfare allowance rented properties, new developments under public-private partnerships, but also more adequate access to social housing.

An interpretation of the development of social and affordable housing in the overall housing system is provided in Chapter 3.

## 2.7 Housing Budget and Resources

This section reports existing public expenditure on housing and revenue from the housing market. Expenditure is further sub-divided into two categories, public expenditure, both current and capital, and tax expenditures – tax which would otherwise have been due to the exchequer but which is foregone through the uptake of designated property tax reliefs.

### 2.7.1 Public Expenditure

An outline of public expenditure on housing in 2003 is shown in Table 2.13 below. The table is divided into current and capital expenditure.

**Table 2.13 Public Expenditure on Housing - 2003 (€ million.)**

#### Capital Expenditure

Local Authority (new build) (B.1.1 – Estimates) + non exchequer funding)	695.5
Local Authority (regenerative works) (B.1.2 – Estimates)	162.9
Site Subsidy	27.9
Traveller Accommodation	29.0
Capital Assistance Scheme – Voluntary Housing (B.1.4 – Estimates)	95.9
Capital Loan Subsidy Scheme (Section X – Housing Statistics and B.1.4 – Estimates)	115.0
Shared Ownership (Section X – Housing Statistics)	212
House Purchase & Improvement Loans	96.0
New House Grants (B.2.1 – Estimates)	43.8
Disabled Persons Grants (B.2.2 – Estimates)	49.3
Affordable Housing (Section X – Housing Statistics) <sup>1</sup>	139
Other Housing (Section X – Housing Statistics)	13.6
Provision of serviced land (C.1.3 – Estimates)	5.2
<b>Total Capital Expenditure</b>	<b>1685.1</b>

#### Current Expenditure

Central Administration (DOEHLG) (A.1 – Estimates)	8.6
Research Grants (B.1.13 – Estimates)	2.1

Local Authority current expenditure	See section below
Voluntary Housing current grants (B.1.10 – Estimates)	20.4
Travellers accommodation (B.1.6 – Estimates)	4.9
Homelessness expenditure by central government (B.1.9 – Estimates)	49.3
Other expenditure (B.1.11 & B.1.12 – Estimates)	3.0
Rent Supplement (DSFA)	331.5
Mortgage Supplement (DSFA)	7.7
<b>Total Current Expenditure (excluding LA current expenditure)</b>	<b>427.5</b>
<b>Total Expenditure (Current + Capital)</b>	<b>2112.6</b>

**Source** Department of Finance, Revised Public Expenditure Estimates 2004; Department of Social and Family Affairs, Statistical Information on Social Welfare Services 2003; Department of the Environment, Heritage and Local Government, Housing Statistics Bulletin.

**Notes** 1. Some affordable housing is self-financing in monetary terms given that it is provided on existing state lands or on land contributed by developers under Part V of the planning and Development Act, 2000.

In addition to exchequer spending, the National Lottery provided €11.5 million in 2003 on special improvement works and general housing aid for elderly persons (B.3.1 – Revised Public Expenditure Estimates) and €1.9 million for communal facilities in housing projects by voluntary bodies. The detail of public expenditure on housing is dealt with in the sixth paper of the Background Analysis.

It can be seen from the table that the level of capital expenditure is approximately four times the level of current expenditure. However, while current expenditure must be expended each and every year capital expenditures can be expected to last many years. One possible approach in assessing the impact of capital expenditure is to express it in current expenditure terms. This can be done by summing the opportunity cost of the capital on the value of the public housing stock and adding in depreciation on the assets.

To calculate the opportunity costs one must first calculate the value of the total public housing stock. This is by its nature a rough approximation but if one takes 120,000 units at an average construction cost/value of approximately €150,000 each, the total value of the stock would equal €18 billion. The opportunity cost of capital can be approximated by being assumed to be the cost of reducing the national debt which has a servicing cost of approximately 4 per cent. The opportunity cost on a public housing stock valued at €18 billion is therefore €720 million. We also assume that depreciation can be proxied by the expenditure on regeneration and redial works - €162.9 million in 2003. Based on a stock value of €18 billion this represents depreciation of just under 1 per cent per year. The total cost of public housing in current cost terms therefore approximates to €720 million (the opportunity cost of the public housing stock) + €162.9 million

(depreciation) + €427.5 million (other current expenditure) = €1,310.4 million or approximately 1 per cent of GDP. There is additional capital expenditure (approximately €560 million) on areas such as affordable housing that does not easily lend itself to conversion into current terms.

### **Additional Current Expenditure by Local Authorities**

Local Authority current expenditure on the management and maintenance of the local authority housing stock was €221.64 million in 2002. The corresponding rental income from that stock was €161.81 million with further additional receipts of €5.29 million. This implies a net ongoing deficit in respect of local authority housing of approximately €55 million per annum. The gross proceeds from local authority sales was €104.1 million in 2002. This corresponded to the sale of 1,195 dwellings.

These figures represent the monetary receipts and expenditures on rent and maintenance. However, the rents payable by occupants of local authority housing are assessed by means of the differential rents scheme and reflect not market rents but an ability to pay. An alternative way of looking at the public expenditure associated with the provision of local authority housing is to assess the resources foregone in providing homes below market price. This is a similar calculation to that for the overall current cost of the provision of social housing which we outlined above. The National Accounts provide details of the current transfer payment to local authority tenants under the heading 'Local Authority rental deficit'. This reflects the difference between the market rent which could have been achieved and the level of differential rent actually payable. In 2002 the CSO estimated this transfer payment to have been €628 million. As market rents would have included the cost of management and maintenance, this would have been included in assessing the level of the transfer payment and should not be added again to the level of the transfer payment. In addition to this a further implicit cost is the revenue foregone through the sale of local authority housing to tenants at below market price.

In addition to local authority current expenditure on public housing, there are additional expenditure requirements for local authorities arising from the construction of housing, both public and private. These include the provision and maintenance of additional local roads infrastructure, public lighting, maintenance of common public areas and the provision of additional local amenities. While some of the capital expenditure is provided through development contributions under Section 48 of the Planning and Development Act, 2000, for new construction, each new house still imposes additional resource requirements on the local authority. The evolution of development contributions is outlined in Chapter 5.

### **2.7.2 Tax Expenditures**

In addition to the direct public expenditure, there are a number of tax expenditures – i.e., where tax has been foregone – related to the housing market. The most widely available of these is relief from capital gains tax on the sale of a principal residence standing on up to one acre. However, tax expenditures also include mortgage interest relief on loans relating to a principal residence,

exemption on, and reduced rates of stamp duty for purchasers of new housing (discussed again in the next section), tax relief given to private tenants, reliefs for the provision of accommodation in areas of urban and rural renewal, seaside resort relief, relief for the provision of student accommodation and for Living Over the Shop schemes.<sup>20</sup> Some of these tax expenditures are presented in Table 2.14.

**Table 2.14 Cost of Tax Expenditures on Housing**

<b>Nature of Relief</b>	<b>Cost to the Exchequer (€ million)</b>
Mortgage Interest Relief (2000/01)	199
Capital gains Exemption on primary Residences (2002)	787
Reduced rates of Stamp Duty for New Homes (2001)	112
Rented Accommodation relief (2000/01)	31
Urban Renewal and other incentives	Not available

**Source** Revenue Commissioners Statistical Report and information provided by Revenue Commissioners to NESC.

The total level of tax expenditures therefore exceeds €1 billion per annum. However, if government were to introduce capital gains on primary dwellings it would almost certainly have to allow roll-over relief. The benefits arising from some of these tax expenditures is considered in Chapter 7.

### 2.7.3 Revenues

This section looks at some of the revenue currently derived from the production of new housing. It first describes the structure of revenue yielded by stamp duty and then reviews the main revenue sources from new housing. The object is not to compare the contribution from the housing sector with the expenditure devoted to it, nor to legitimise such comparisons. Such an exercise would not be that illuminating and would likely show that all sectors other than the public sector were net contributors while the public sector was a net beneficiary of public funds. Rather, it allows us to examine some of the most significant current contributions – both in cash and ‘in kind’ - and therefore to provide information on the public finance treatment of new and existing homeowners and of landowners and developers. It also allows us to take stock of the significant existing tax take which exists and to assist discussion of the likely market impact of any further taxation on land and housing as a sector.

20. Mortgage interest relief for investors is not classified by the Revenue Commissioners as a tax expenditure.

## Stamp Duty

The predominant form of taxation on residential property in Ireland is stamp duty which is levied on all transactions in second-hand housing<sup>21</sup>.

The revenue received from stamp duties on land and property other than stocks and shares was €666 million in 2002. This rose to €1,075 million in 2003 and €778 million had been taken in stamps up to the end of July 2004.

## Revenue from New Housing

The following are the key current taxes levied on the provision of new build housing:

- ◆ VAT on the completed dwelling at 13.5 per cent;
- ◆ A contribution for 'scheme' houses under Part V of the Planning and Development Act, 2000;
- ◆ Capital Gains Tax and Stamp Duty on land sales in certain circumstances;
- ◆ Corporation tax on developer profits;
- ◆ Development Contributions; and
- ◆ Income Tax and PRSI.

21. The rates of stamp duty for residential property are presented in Table 2.15 below. In the case of new properties, owner-occupiers pay a substantially reduced rate of stamp duty. Where the property is less than 125 square metres in size there is full exemption from stamp duty provided the individual occupies the property for 5 years and derive no rent from it during the 5 year period. Non-owner occupiers pay the same rate of stamp duty on new houses as they do on second hand properties.

**Table 2.15 Rates of Stamp Duty – Residential Property**

	First Time Buyer	Full Rate
Not exceeding €127,000	Exempt	Exempt
€127,000 - €190,500	Exempt	3%
€190,501 - €254,000	3%	4%
€254,001 - €317,500	3.75%	5%
€317,501 - €381,000	4.5%	6%
€381,001 - €635,000	7.5%	7.5%
> €635,000	9%	9%

The contribution of each of these is considered in turn.

- ◆ *VAT on Housing* – VAT is levied at 13.5 per cent on the cost on new houses. The Council estimates a total VAT take from new housing of approximately €1.8bn in 2003 terms and is based upon 2003 output<sup>22</sup>. There would be additional VAT receipts from repairs and maintenance of housing.
- ◆ *Contribution under Part V* – Value is transferred to local authorities through the provision of land at existing use value, houses, cash or equivalent under Part V of the Planning and Development Act, 2000. Part V provides for ‘up to 20 per cent’ of the land or its equivalent to be set aside for the purposes of social and affordable housing. Based on an average 15 per cent transfer of value, and following the assumption that this has already been subtracted from the average site value to get the price the developer is willing to pay, the value equates to €9,844 for each scheme dwelling. If the number of private scheme dwellings is approximately 45,000 units per annum (based on completions in 2003) the implicit level of revenue assuming an average Part V take of 15 per cent is almost €450 million<sup>23</sup>.
- ◆ *Capital Gains Tax (CGT) and Stamp Duty on Land Sales* – Two significant taxes are CGT and Stamp Duty on land sales. Published revenue statistics only show total CGT on all assets, but do not identify the revenue yield on residential land sales<sup>24</sup>. Published statistics show the yield from Stamp Duty on ‘land and property’ transactions together but do not specifically identify the yield from development land (the figures on land and property were reported above). Difficulties arise in attempting to calculate the total tax take from CGT and Stamp Duty on land. An accurate calculation would require information on the level of capital gain on land sold for residential development and on how many such transactions occur. In many cases the developer is likely to be the existing owner of the land at the point of zoning, servicing and planning. This is particularly the case in Ireland where the uncertainty created through the zoning and planning system encourages developers to accumulate significant landbanks of land prior to it being included in local authority development plans. Where capital gains tax does not apply there will be an appropriately higher take in terms of corporation tax. Corporation tax on profits solely from residential land is levied at 20 per cent. This is discussed in the next bullet.

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22. The average price of a new house in Ireland in March 2004 was €238,084. This implies that at a rate of 13.5 per cent VAT of €28,318 would have been payable to the exchequer upon its completion. This would be the case for houses sold by developers on the open market. In addition VAT on the costs of construction would be payable on the provision of social housing and on houses developed by the occupiers themselves. These would not include the cost of the site or any developer profits. We estimate the VAT on these houses to be in the region of €20,500 per unit. The Council estimates that there were approximately 15,800 such houses built in 2003, with the remaining 53,000 built and sold via the market.

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23. According to the recently published *Construction Review and Outlook*, the average value of a site is 23 per cent of the final selling price, or €55,782. This is the price which a developer is willing to pay even after taking into account his/her Part V obligations. In calculating the value of the contribution under Part V one must first estimate the value of the site if no contribution under Part V been payable. We assume that the entire cost of Part V comes in a reduced price offered to the landowner. It is reasonable to assume that a 15 per cent is of an average with respect to Part V, although no obligation exists for developments of less than five dwellings.

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24. Total capital gains tax from all asset classes was €1,443million in 2003.

- ◆ *Corporation Tax on Developer Profits* – Corporation tax is levied at 12.5 per cent on housebuilding and 20 per cent on the development of residential land<sup>25</sup>. According to the submission of the Irish Housebuilders Association, in 2003 the average level of corporation tax payable on a new house is €1,993 (IHBA, 2003)<sup>26</sup>.

### Development Contributions

Development contributions are discussed in Chapter 5. To the extent that development contributions are a payment for services, rather than a form of taxation, they are more akin to payment for the provision of general services whether sourced from the private, semi-state or public sector.

### Income Tax and PRSI

The relevance of income tax and PRSI arises when considering the role of the housing industry in the overall and the impact of the tax system on the industry. The contribution of income taxes from one industry as compared with another reflects the labour intensity and wage levels in one process as compared to others. To the extent that taxes on labour differ from those on capital the overall tax system does provide different levels of incentive to labour intensive as opposed to capital intensive industries. To the extent that labour taxes are higher and that construction is a labour intensive activity, the overall level of tax take will exceed the average<sup>27</sup>.

#### 2.7.4 Public Resources on Housing – A Summary

Clearly, therefore the total revenue derived from housing, even excluding the contributions from income tax, significantly exceeds the level of current expenditure on housing by public authorities. This is not surprising, as we noted above this would be the case for most sectors. However, it is worth noting that in a sector which is a key concern of public policy that the exchequer is in fact a significant net recipient of revenues.

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25. Where a company purchases land zoned for residential development, constructs and then sells the houses all profits arising from such activity are taxed at the standard corporation tax of 12.5 per cent.

26. The level of profit, and correspondingly the level of tax payable would be expected to be somewhat higher if the developer owned the land prior to zoning and therefore benefited from any gains associated with the re-zoning decision.

27. However, labour intensity must be measured across the entire process. A decision to include the income tax paid directly by developers but to exclude the taxation on income upstream or downstream of the developer interests – such as the taxation of income from shareholder receipts or the income tax payable by providers of raw materials to the process – says less about the contribution to revenue from the process and more about the structure of the industry and the composition of the firm. One could imagine an altered industry structure where the level of income tax and PRSI could be substantially higher or lower at the individual firm/ developer where a different technology such as the construction of prefabricated units or timber frame housing was employed but might be no higher or lower for the industry or process as a whole.



# 3

## Interpretation of the Irish Housing System

### 3.1 Introduction

This chapter provides an interpretation of the Irish housing system, based on the analysis of supply, demand and policy summarised in Chapter 2. Section 3.2 outlines our understanding of the Irish housing boom during the 1990s and the early years of this decade. This is done by stating and explaining a number of propositions. In Section 3.3, we recall the issues and anxieties listed in Chapter 1 and outline the Council's own interpretation of Irish housing as a dynamic but unbalanced system. The strong element of dynamism means that the overall housing system has worked reasonably well in certain respects in the past decade and a half. But this dynamic system has been unbalanced in a number of important ways which are examined in detail in this chapter.

### 3.2 Understanding the Irish Housing Boom

The trends in construction, settlement and affordability summarised in Chapter 2 above (and analysed in more detail in Papers 3 to 6 of the Background Analysis) can be understood as the outcome of Ireland's housing system operating in the context of several main developments. It is important to identify these developments and to trace their effects, distinguishing between their impact on house prices, rents, affordability and the sustainability of settlement patterns.

The analysis allows an interpretation of recent developments and suggests an orientation for the remainder of the study. This interpretation is summarised in the following propositions:

1. Given the remarkable strength of demand, a significant increase in house prices was inevitable;
2. Although supply response was delayed, Ireland has displayed a very large increase in housing stock by international and historic standards;
3. There were important regional differences in demand and supply, giving rise to higher prices in Dublin and a spread of development to dormitory settlements;
4. Problems of long-run sustainability and rising prices were exacerbated by the dominance of low-density housing in a context of poor transport infrastructure;

5. The predominance of dispersed, low-density, green-field development, especially in the East region, was a consequence of a set of structures and systems which did not accommodate a sufficient supply response in and near the main cities;
6. In this process, land prices are largely determined by the strength of demand for housing and the supply response in and near the cities;
7. A significant minority of household can experience affordability problems while many are insulated from increasing property rises;
8. The sharp contraction of local authority construction in the late 1980s and early 1990s was a significant factor in increasing problems of affordability and access;
9. There is an interaction between the *quality* and *quantity* of social housing, an interaction that has sometimes encouraged the provision of social and housing and at other times undermined it;
10. Pressure of reduced affordability and increased housing need in the 1990s gave rise to greater take up of rent supplement and prompted a higher level of social housing provision and the creation of new approaches, such as Affordable Housing Schemes;
11. The need for a resumption of social and affordable housing provision in the past decade was a reflection of the fact, observed in modern liberal democracies, that the market for owner occupied and rental accommodation will not, on its own, meet the housing needs of those on low incomes or with special housing needs;
12. Investment in the provision of increased rental accommodation was significantly dependent on the expectation of increasing asset values.

Each of the elements in this narrative is explained below.

### 3.2.1 A Large Increase in House Prices Was Inevitable.

The most important development in the past decade was the enormous increase in demand for housing, fuelled by the demographic and economic factors summarised in Chapter 2 and described in detail in Paper 3 of the Background Analysis. Given the strength of demand, some of the trends observed were more or less inevitable. In particular:

- ◆ A significant increase in price was inevitable;
- ◆ A significant spread of housing development beyond existing urban areas was inevitable.

Some qualifications to both statements will be noted below. But for two reasons it is important to note the inevitability of an increase in price and a spread of development.

1. There was no easily available policy instrument that could entirely prevent such strong demand giving rise to increased price;
2. Although better planning and housing policy could have yielded far more balanced outcomes (see below), there would still have been development on green-field sites;

### 3.2.2 Although supply response was delayed, Ireland has displayed a very large increase in housing stock by international and historic standards.

Ireland has experienced a sharp and prolonged period of very strong housing demand. It is a well known feature of housing markets that the response of supply to demand takes considerable time. This lag between demand and supply can have important implications for the housing market, and has been identified by housing researchers as one reason for the cycles often observed in both prices and quantities. It should be distinguished from other restrictions on land and housing supply, such as restrictive planning policies, planning procedures that protract the development cycle or the withholding of zoned land.

#### Overall Supply Response

Over the past decade there was a very significant supply response in Ireland. The number of dwellings constructed reached an all time high in 2003, approximately 69,000, three times the number completed in 1994. The vast majority of this increase has been provision of private dwellings (see Figure 2.2 in Chapter 2). The quantity constructed has not only reached an historic high in Ireland, but has also exceeded construction in any other part of Europe as a percentage of the current dwelling stock.

There are two important qualifications to this story of increased supply: one arises from the quantity of second homes and the other reflects regional differences in land and housing supply.

#### Important Difference between New Construction and New Supply

The level of new house construction at national level is not, however, a fully accurate indicator of the increased supply available to meet new housing demand. A distinction must be made between the construction of new dwellings and the increase in units available to house those seeking accommodation. It is interesting to note that accompanying an increased quantity of new dwellings has been a corresponding increase in the number that are rendered derelict, vacant or used for second homes. Approximately 35 per cent of all new dwellings constructed in the recent past do not appear to lead to the formation of a new permanent household. While 405,000 new dwellings were constructed between 1991 and 2002, only 259,000 new households were formed, implying that 146,000 dwellings did not result in the creation of a new permanent household. One possible interpretation is that a large share of Irish house construction is second homes rather than primary houses.

### 3.2.3 There were important regional differences in demand and supply, giving rise to higher prices in Dublin and a spread of settlement to dormitory towns.

Both construction figures and prices show that the Dublin housing market experienced greatest pressure. The increase in the price premium for Dublin over the period of buoyant growth arose from both demand and supply factors, but a smaller supply response was the major cause.

In discussion of the weaker supply response in Dublin, especially in the early years of the housing boom, two opposing arguments are often advanced: one sees it as a result of deliberate hoarding of land in order to maximise land and house prices; the second says that local authorities have zoned insufficient land. The Council considers that the withholding versus zoning debate is an unproductive one, since neither polar position is sufficient to describe what was a complex process.

In that debate, reference is made to a number of indicators: the rate of utilisation of zoned land in a given time period, the pattern of ownership of land and the number of years of output that could be supported by the stock of zoned and serviced land. While these indicators are important, they do not allow us to advance either withholding or insufficient zoning as an adequate explanation. This is because the rate of utilisation, the pattern of ownership and the effective stock of zoned and serviced land are each dependent on a range of other features of the overall system.

In seeking to understand the smaller supply response in Dublin, especially in the early years of the housing boom, note should be taken of the following:

- ◆ The overall system of planning and building in Ireland, and the UK, is one in which it is necessary for firms to hold land banks to ensure that land is available when they require it, a feature that is well explained in the economic analysis of the land market (Evans, 2004);
- ◆ In the Irish land market and planning system, local authorities can zone land for residential development but cannot ensure the rate at which it comes available or that it comes available in contiguous sites;
- ◆ The zoning of a substantial volume of land for open space in the Dublin metropolitan area and at its fringe influenced the quantity and location of housing supply (Williams and Shiels, 2001);
- ◆ In seeking to zone land for new residential development, local authorities frequently face resistance from existing residents;
- ◆ The low density at which land was developed (reflecting both 'industry norms' on the part of developers and the density at which permissions were granted by local authorities) undoubtedly reduced the supply response that was achieved from a given amount of land;

- ◆ Even when the policy of higher density became accepted, local authorities were constrained in granting planning permission for suitable densities by lack of infrastructure (for example waste water treatment and transport) which is necessary to support sustainable densities;
- ◆ The creation of adequate transport corridors that would have allowed higher densities would have required an integrated land use strategy for the Greater Dublin Area supported by major transport decisions at national government level;
- ◆ New developments on brownfield sites in urban areas are more complex than greenfield developments and, consequently, they tend not to occur unless both planners and the building industry focus on solving the inherent problems.

Overall, the lower supply response and greater market pressure in Dublin, especially during the early years of the Irish housing boom, seems to have been a product of the structures, systems and processes for both planning and infrastructural development.

Given the complexity of the factors involved, the findings of existing research and enquiry are not surprising. No direct evidence of deliberate or oligopolistic withholding of land has been reported. This is the view stated in the most thorough research on this question, undertaken for the Department of Environment, Heritage and Local Government by Goodbody Economic Consultants (2004). Detailed analysis of the patterns of land utilisation in two local authority areas, Dun Laoghaire-Rathdown and Fingal suggested that low rates of land utilisation, in certain areas at certain times, could be due to withholding of land for speculative purposes. It could also be explained by the time required to expand the capacity of the industry or both. The research concluded that it is not possible to choose between these explanations.

In addition, the NESC Secretariat held meetings with the county managers and other senior officials in several of the local authorities in the Dublin area. None of the officials consulted were of the view that the withholding of land was a significant constraint on the supply of housing in the Dublin area. In relation to the concentration of ownership, it was pointed out that the presence of a relatively small number of landowners can facilitate faster development; where there are many smaller landowners, plans need to be co-ordinated to achieve integrated development.

Likewise the APOCC report noted that none of those whose submissions cited hoarding, were able to provide clear evidence of land hoarding in the sense of a deliberate policy of accumulating land holdings and withholding these from the market (APOCC, 2004 p. 86). Research by Williams *et al.* on housing supply and urban development policies in the GDA found that 'No direct evidence was found of the existence of an oligopoly of development interests intentionally withholding land in the Dublin market'. But they argued that the overall planning system creates 'an internalised or contrived market in which the existing holders of land have no economic incentive to dispose of surplus land due to the absence of alternative supply options' (William *et al.*, 2003:40).

Whatever the full explanation for trends in the early years of the housing boom, increasing the supply in Dublin has been a concern of national government, local authorities and the building industry in recent years. There has been a very significant increase in the amount of serviced land in Dublin in recent years. Land is being developed at higher densities. Housing output in Dublin has grown substantially (43 per cent) since 1999. Output in Fingal, the area of Dublin with the largest availability of serviced land, has increased by more than the rest of Dublin over this period and almost doubled in the past two years.

#### **3.2.4 Problems of Long-Run Sustainability and Upward Pressure on Price were Exacerbated by the Dominance of Low-Density Housing in a Context of Poor Transport Infrastructure**

This analysis of Irish housing in recent decades highlights the central importance of policies for planning, transport and infrastructural development. These were not just desirable add-ons to housing policy. They were integral to it. They influenced not only the quality of development, but also some of the key quantities in the system—including the supply of new housing units, the degree of upward pressure on land prices, commuting times, the cost of social infrastructure and services and ultimately, the degree of social and economic cohesion.

The dominance of low-density suburban development seems likely to have increased upward pressure on prices and problems of affordability. It does this by its extensive use of the scarce factor, land. In addition, many of the settlement patterns, neighbourhood designs and densities in evidence in the past decade, and before, are not economically, socially or environmentally sustainable.

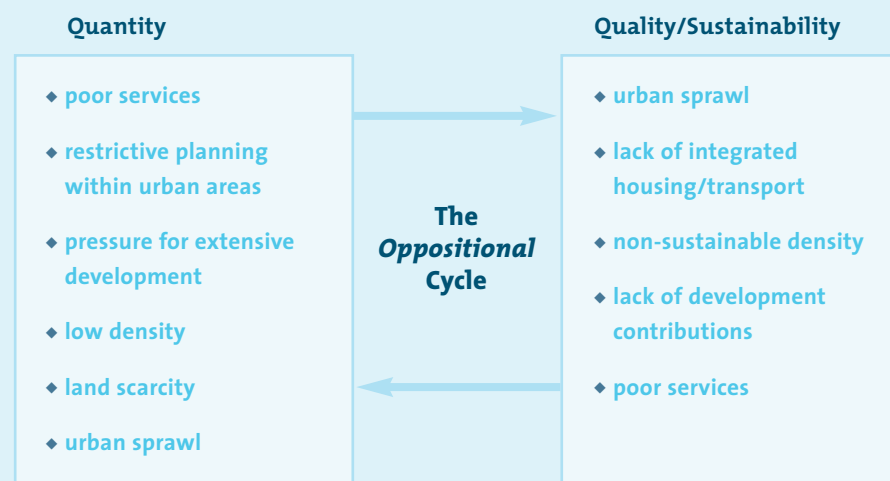
The Council's systemic interpretation of the relationship between sustainability and price is the opposite of that often adopted in partial or casual observation. An individual household seeking accommodation, or an individual builder providing it, might be excused for thinking that there is a negative relationship between price and sustainability. It can seem that one of the only ways to achieve an affordable price is to go far from cities and towns and to simple suburban estates of the traditional kind, even if the result is low-density, unsustainable, development. But if we analyse the system as a whole, the relationship between sustainability and cost is more likely to be the opposite: unsustainable development drives up cost both to individual households—through higher land and house prices, greater transport costs, longer commuting times and, in the long run, higher taxes—and to society, through higher infrastructural costs, increased service costs and environmental damage.

#### **3.2.5 The predominance of dispersed, low-density, greenfield development was a consequence of a set of structures and systems which did not accommodate a sufficient supply response in and near the major cities.**

We have argued above that, given the strength of demand, some spread of development on green field sites was inevitable. It is important to be clear what this does and does not imply. Casual observation of trends in recent decades might suggest the following interpretation: extensive new development of traditional suburban estates in greenfield sites has been an important component of the increased supply of housing that was necessary to meet the greatly

increased demand. Consequently, urban sprawl and distant settlement are unavoidable features of the strong supply response necessary to address the overall housing problem. This might be seen as a reflection of an underlying fact that quantity and sustainability are conflicting objectives. This negative relationship between quantity and quality sustainability is illustrated in Figure 3.1.

**Figure 3.1** The Potential for Opposition between Quantity and Quality/Sustainability



While this interpretation has an obvious plausibility, it is undermined by more careful long term and comparative analysis. Williams, Shiels and Hughes (2003) show that the heavy reliance on distant green-field development in Ireland, and especially around Dublin, is largely a consequence of a set of structures and systems which did not accommodate a supply response in and near the city. The absence of a clear strategy for dealing with housing shortages in Ireland's growing cities, combined with systems that failed to create transportation and utility infrastructure, has effectively 'exported' housing demand from cities to the surrounding counties. Only in this context are supply response and sustainability conflicting objectives. Indeed, in an altered policy and institutional context, the goals of housing provision, sustainability and social integration can be complimentary (see Chapter 5 below).

Some of these problems—and the negative, but contingent, relationship between quantity and quality/sustainability—can be traced to the absence of an integrated housing, land use and transport strategy for the Greater Dublin Area (GDA). A more desirable pattern of new development would have required the public authorities to have operated on a similar time horizon to that adopted by the most sophisticated private development companies, i.e. 15 to 20 years.

### 3.2.6 In this process, land prices are largely determined by the strength of demand for housing and the supply response in and near the cities

It was noted in Chapter 1 that one of the anxieties about the Irish housing system is that high land prices are a key factor contributing to the high level of house prices. In Chapter 2, we discussed the relationship between land prices and house prices and summarised the evidence<sup>1</sup>. Both analytically and empirically, it is not adequate to say that land prices are the cause of high house prices. Modern economic analysis views the prices of products as being determined by the interaction of ‘supply and demand’. The demand for factors of production—such as land, labour or capital—is described as a ‘derived demand’, derived from the demand for the final products and services that they produce.

Applying this to housing and land, would suggest that the demand for land is derived from the demand for houses. In expectation of a given price of houses, builders compete for land. Depending on how much land is available, this competition will tend to drive up the price of land. It is the intensity of demand for houses, relative to the supply, that generates an increasing transfer of value to landowners.

Within this approach, the supply conditions of land do have a major influence on the degree to which a given demand for housing translates into an increase in land prices and house prices. At one extreme, if enough land was available, even a dramatic increase in housing demand, such as that experienced in Ireland in the past decade, could be met without driving up land prices and house prices very much. At the other extreme, if land supply was highly restricted, a strong demand for housing would feed through to a very strong increase in land values. The two major influences on the effective supply of land is (i) the willingness of landowners to sell suitable sites and (ii) the planning and public investment system. We say the planning *and public investment system*, because it is not only its willingness to zone land and grant planning permission that is important, but also its efficiency in servicing land, providing integrated infrastructural development and the density guidelines adopted. As noted above, an important aspect of the supply conditions of land in Ireland was a set of planning and infrastructural policies that did not allow a sufficient supply response in and near the major cities, especially Dublin. These supply conditions of land must be seen as one of the factors that explain the price of both houses and land in Dublin.

The analysis suggests that the prevailing market conditions and market price of houses are not inevitable and unchangeable facts. They reflect both the strength of demand for housing and the supply conditions of land. Both of these can be influenced by public policy. As noted above, the effective supply of land in Ireland was until very recently limited by planning densities and lack of infrastructure that limited housing construction in and near the major cities, especially Dublin. Consequently, these are part of the explanation of the price increase.

High overall demand for housing increased the price of land for social housing. From the perspective of social housing, high land prices are a *cause* of higher costs. The cost of providing additional social housing has increased significantly in the past decade and has, at times, limited the amount of social housing constructed.

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1. A more detailed discussion can be found in Paper 2 of the Background Analysis.

### 3.2.7 A Significant Minority of Households Experience Affordability Problems While Many Are Insulated from Increasing Property Prices

The patterns of demand and supply analysed above go a long way to explaining the trends in house prices and affordability. As outlined in Chapter 2, there are a number of ways of measuring affordability. It is agreed that in judging the implications of rising house prices for affordability it is necessary to take account of earnings, reduced taxation and lower interest rates. A distinction must be made between the affordability of access to the market, such as the deposit that must be acquired to buy a home, and the affordability of ongoing housing costs, such as monthly mortgage payments or rents. In judging the trend in affordability, a lot depends on the exact years chosen. The measure of affordability problems will depend also on the income of the household used for calculation. The most commonly cited measures of affordability are based on average houses and average post-tax earnings. In several respects, such averages are not very informative. Some measures of affordability provide an indication of the problems faced by particular groups of households, while other measures provide an indication of macro-economic conditions and the stability of the housing market.

In interpreting the evidence on affordability reviewed in Paper 5 of the Background Analysis and summarised in Chapter 2, above, we ask two questions: what is the nature of the affordability problem that should be the focus of public policy? Second, how are a majority of households insulated from the full effects of rising home prices?

#### What Is The Nature Of The Affordability Problem That Should Be The Focus Of Public Policy?

The data summarised in Chapter 2 suggest several, overlapping, categories of household that are likely to have experienced significant housing affordability problems in recent years. These are:

- ◆ households which have below average earnings and are awaiting accommodation in public, voluntary or co-operative housing;
- ◆ households which have below average earnings but are not eligible for publicly assisted housing;
- ◆ those with special housing needs, such as people with disabilities, that have not had access to supported housing;
- ◆ single earner households, including those on average earnings, especially in the early stages of household formation or seeking to set up house;
- ◆ many households living in private rented accommodation;
- ◆ those seeking entry to owner occupation on modest incomes, but who do not have access to parental gifts or other wealth;
- ◆ those in any of the above categories that live in Dublin.

This overlapping set of groups constitutes a sizeable minority of the total population. Those who have experienced a significant deterioration of housing affordability comprise of a larger share of new households, as do those aspiring to form new households, than those households who have been in owner

occupation for a significant period of time. This pattern of affordability problems can be understood by reference to a number of features of the Irish housing system and dimensions of the economic boom of the past decade. Consider developments in three forms of housing: owner occupation, social housing and private rental.

Owner occupation has long been difficult for those on low incomes and the increase in house prices in recent years has increased these difficulties. Recall the finding that a dual earning couple, each on 2/3rds of average earnings, would have met the official affordability criterion in the mid 1990s (and even during the previous peak in 1990), but would have been unable to meet it in the recent past, or indeed at present (see Section 2.5.3 above). In addition, it has become more difficult to enter the housing market as the required deposit has risen, a rise not mitigated by the fall in interest rates. Recall that an individual on average earnings today would need to accumulate 100 per cent of one year's net earnings in 2003 to put down a 10 per cent deposit on an average new house, compared to 62 per cent of one year's net earnings in 1989.

In the case of social housing the sharp contraction of social housing provision in the 1980s and the falling social housing stock meant that that option was much less available than at any time since the Second World War (see our next proposition).

The decreased affordability of owner occupation and the decreased availability of social housing meant that many in the groups listed above had to seek private rental accommodation. As Kemeny says, in a dualist housing system 'the choice that is made available to the vast majority of households is that between owner occupation and profit renting' (Kemeny, 1995, p. 125). Private rental became significantly more expensive in the past decade, for reasons that are well understood. In a system of profit renting, rents tend to rise to reflect the current market value of property. 'The landlord and not the tenant benefits from the maturation process' (Kemeny, 1995, p. 42). Since property values and rents rose much faster than incomes, rent payments absorbed an increased share of the disposable income of those at or below average earnings. Thus, one of the most important drivers of the Irish housing market, the fall in interest rates, impacted very differently on those who could and those who could not get into owner occupation. The increased pressure on those in private rental is reflected in the huge increase in the take-up of Rent Supplement under SWA.

### **How are a Majority of Households Insulated from the full Effects of Rising Property Prices?**

Many households have been insulated from the full effects of rising property prices. The evidence allows us to identify a range of groups, amounting to a large majority of households, for whom housing affordability is unlikely to be a problem:

- ◆ the 61 per cent of owner occupiers who own their homes outright;
- ◆ the 69 per cent of mortgage holders who pay less than €600 per month on mortgage payments (QNHS, 2003);

- ◆ households with high earnings and/or significant wealth;
- ◆ any households in which there are two or more earners;
- ◆ many tenants of local authorities and voluntary bodies who pay a rent proportionate to their income;
- ◆ households in private rental accommodation who pay less than €100 per week on rent (some 30,000 households), some of whom are supported by Rent Supplement.

A less direct indicator is that in 2003 almost 44 per cent of new houses were purchased without recourse to loan finance; and of those who took out loans, 7.6 per cent of single earners and 18.3 per cent of dual earning households had incomes in excess of €80,000.

The insulation of many households from the negative effects of increased property prices can be explained by a number of features of the Irish housing system and dimensions of the economic boom of the past decade. First, the high rate of home ownership insulated a large section of the population from any negative effects of rising prices. Previous periods of high general price and income inflation had eroded the value of many people's mortgages and increased their equity. Consequently, a large number of households have gained from the increase in house prices, since it has increased their wealth, and a small number have gained spectacularly. The limited housing affordability problem among another, much smaller, section of the population can be explained by the fact that social, voluntary and co-operative housing are extremely effective means of insulating low-income households from rising property prices. The greatly increased availability of cost rental student housing also had an important effect in protecting the affordability of housing for students. Turning to those who entered home ownership during the housing boom, the insulation of many from affordability problems is explained, in part, by the fact that the overall pattern of economic growth yielded a strong increase in both employment and after tax earnings. A critical feature was clearly the reduction in interest rates. While this certainly had a role in driving up house prices, it greatly reduced the ongoing burden of mortgage payments. Finally, the high rates of home ownership and equity in housing have greatly increased the availability of parental gifts and loans, which have become widely used to assist home buyers.

### Increased Vulnerability

But the very factors which have maintained affordability for many new owner occupiers mean that many of them are more vulnerable than in the past:

- ◆ The need to spend a significant proportion of income on housing will probably be more sustained than in the past, as it is less likely that inflation will significantly erode the value of outstanding debt<sup>2</sup>;
- ◆ Previous periods of low affordability were associated with high points in the interest rate cycle; today it is associated with a low point. In the past, it was

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2. This is increasingly so with the increased uptake of mortgages with longer life-spans.

likely that interest rates would fall, so easing the burden; today, the likelihood is that they will rise, albeit modestly;

- ◆ A given increase in interest rates will create a greater burden in today's low interest rate environment than in one where high interest rates pertain. A 2 percentage point increase in interest rates in 2003 would raise loan repayments by 19 per cent, on a 20 year mortgage raising the percentage of net average industrial earnings required for a single earner from 59 per cent to 70 per cent. In 1990, it would have increased payments by 13 per cent, raising net income required from 65 per cent to 74 per cent<sup>3</sup>;
- ◆ Recent work by Kearns, based on the 1999/2000 Household Budget Survey, confirms that a modest rise in interest rates would result in a significant number of newly mortgaged households experiencing significant repayment burdens (Kearns, 2003).

The vulnerability of many recent home buyers to an increase in interest rates is a very significant feature of both the housing systems and the wider economy, as emphasised by the Central Bank. The issue of overall stability is discussed in Section 3.3.1 below.

### 3.2.8 The sharp contraction of local authority construction in the late 1980s and early 1990s was a factor in increasing problems of affordability and access.

In understanding the limited extent of, and exact nature of, the affordability problem described above a major factor is a change in the way public policy impacted on the Irish housing system. Starting in the mid 1980s, there was a sharp reduction in local authority house construction, an increase in the sale of local authority houses and, most importantly, a significant reduction in the share of social housing in the overall housing stock. As noted in Chapter 2, (and discussed in detail in Paper 6 of the Background Analysis) a number of other forms of support were created later in the 1990s. Nevertheless, the contraction in local authority social housing, meant that at the very time when housing need and demand was rising to its greatest ever level, there was a reduction in public housing provision. The source and significance of this change in housing policy stance are discussed in Paper 6 of the Background Analysis.

The reduction in public housing supply should not be seen as a major factor in increasing *price*, but was probably a key factor in increasing the problem of *affordability* and access to housing for people on low incomes. As noted in Paper 5 of the Background Analysis, there were similar periods of high house prices and low affordability in earlier decades. But at those times social housing constituted a much higher share of the total housing stock and new supply than it did during the past decade. That meant that the housing system operated differently. In the past decade a greater number of marginal households were exposed to housing market forces, that is to the rapid increase in housing costs, particularly rents. This is one of a number of ways in which the Irish housing system, though it displayed significant dynamism, became unbalanced.

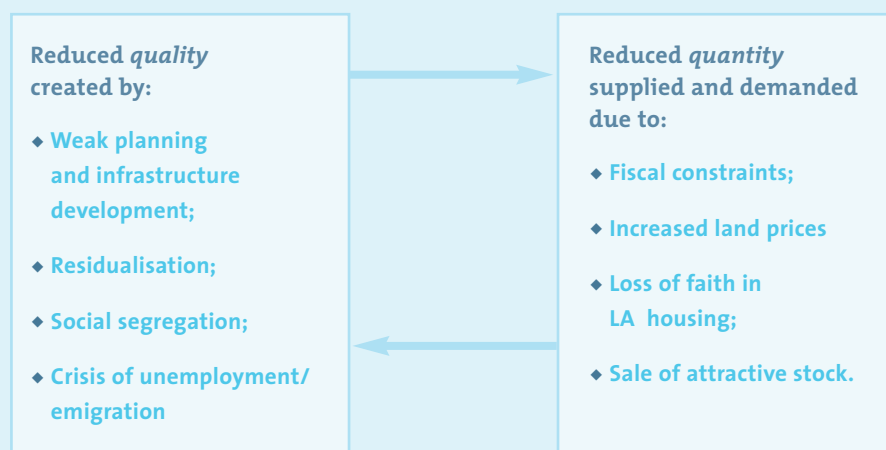
3. See Paper 5 of the Background Analysis. The proportionate effect of a 2 percentage point increase in interest would be greater in the case of a 25 year or longer mortgage.

### 3.2.9 There is a Relationship Between the Quality and Quantity of Social Housing

The analysis suggests that there is a strong relationship between the *quality* and *quantity* of social housing. This relationship operated in two different ways in the past:

- ◆ *A positive cycle from the 1940s to the 1960s:* the quality of social housing confirmed belief in its role in meeting housing need and providing a route to home ownership;
- ◆ *A negative cycle from the 1960s to the late 1980s:* the problems evident in many local authority housing estates, combined with fiscal constraints, eroded belief in the value of social housing.

**Figure 3.2 The Relationship between Quality and Quantity in Social Housing: The *Negative Cycle***



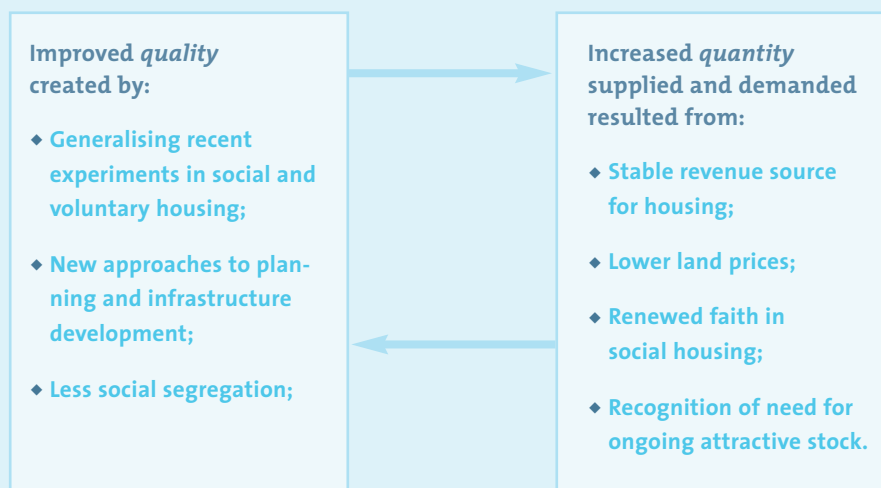
This negative cycle is depicted in Figure 3.2. Recent experience strongly suggests that the position to which social housing had sunk in the late 1980s was not sustainable. The overall Irish housing system had become unbalanced.

At the beginning of the 1990s, changes in housing policy were largely motivated by the need to deal with the legacy of the 1980s and earlier. They addressed qualitative concerns about social housing arising from the deterioration in living conditions in inner city areas and on local authority estates. The focus was on enhanced design and planning, regeneration, refurbishment and estate management, including more proactive consultation with tenants. Housing concerns were largely absent from social partnership discussions until the mid-1990s and in the formulation of the first National Anti-Poverty Strategy in 1997.

Towards the end of the 1990s, this emphasis on quality was accompanied by a renewed focus on the overall quantity of social housing provision. Housing assumed an important place in the National Development Plan, 2000-2006, in the national social partnership programmes (the Programme for Prosperity and Fairness, 2000-2002, and Sustaining Progress, 2003-2005) and the revised NAPS, 2002-2007.

The combined effect suggests a re-emergence of a positive cycle between the quality and quantity of social housing, as depicted in Figure 3.3.

**Figure 3.3 The Relationship between Quality and Quantity in Social Housing: Creating a *Positive* Cycle**



### 3.2.10 Pressure of reduced affordability and increased housing need in the 1990s gave rise to greater take up of rent supplement and prompted a somewhat higher level of social housing provision and the creation of new approaches, such as Affordable Housing schemes.

Central to the expansion of social and affordable housing has been the increase in output supported through increased capital investment. This increase in the construction of local authority housing for rent was accompanied by a number of new approaches to meeting housing need:

- ♦ The creation of new Affordable Housing and Shared Ownership schemes to assist low incomes households become home owners;
- ♦ Increased use of the voluntary and cooperative sector in providing social housing to both low income households and those with special housing needs;

- ◆ Part V of the Planning Act, 2000, which seeks to simultaneously achieve a stronger supply of social and affordable housing and more integration;
- ◆ Greatly increased take-up of the Rent Supplement provided within the SWA system;
- ◆ Greater involvement of the private sector through the use of public-private partnerships and joint ventures to achieve additional output and new management approaches.

As noted in Chapter 2, the increase in social housing provision faltered somewhat between 1996 and 2001.

**3.2.11 The need for a resumption of social and affordable housing provision in the past decade was a reflection of the fact, observed in modern liberal democracies, that the market for owner occupied and rental accommodation is unlikely, on its own, to meet the housing needs of those on low incomes or with special housing needs.**

Ireland has a very high rate of home ownership by international standards, and this rate has increased significantly since the 1960s. The economic crisis of the 1980s, which included renewed emigration, prompted a sharp reduction in social housing provision and a major sell-off of local authority stock. The combination of these two factors may have led some to believe that as the economy recovered new public housing provision would not be required. The experience since 1990 demonstrates graphically that this cannot be so.

In a period of unprecedented economic growth, prosperity, employment creation and unemployment reduction, those on low incomes and with special needs faced increased, rather than decreased, difficulty in the markets for home ownership and rental accommodation. This combination of overall economic prosperity and increased housing need underlines the fact, observed in modern liberal democracies, that the market for owner occupied and rental accommodation is unlikely, on its own, to meet the housing needs of those on low incomes or with special housing needs. This derives from four general features of liberal market economies—the pattern of income distribution, the core features of housing markets, the scale of social need and the persistence of social disadvantage. This central proposition is based on both empirical observation and economic analysis<sup>4</sup>. The future implications of these realities are discussed in Chapter 4.

Consequently, a significant level of public policy support for housing should be seen as an ongoing feature of Irish social and economic policy. The nature of this ongoing support is discussed in more detail in Chapter 6.

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4. Observation shows that most liberal democracies have extensive systems of housing support and/or housing provision not only for marginalised households, but also for a significant share of those in employment. Those with less extensive housing policy or provision, such as the US or Brazil, have housing outcomes among those on low incomes that should not be accepted in Ireland. The extensive use of housing support and housing provision in liberal market democracies can be understood by reference to numerous features of the labour market, the land market and the housing market that are widely cited in both economic and social analysis. In the Irish context, some of the relevant features of land and housing markets are summarized by Dunne, in his evidence to the APOCC. Among these is the cyclicity of property markets. As Dunne says 'Inevitably, when prices are high those at the bottom end of the market will be priced out. When prices are low, supplying those at the bottom end of the market will not be profitable' (Dunne, 2003).

### 3.2.12 Investment in the provision of rental accommodation was significantly dependent on the expectation of increasing asset values.

In the Irish housing system, the stock of private housing contains both owner occupied and rental stock. Changes which affect either the rental or owner occupied market will have knock-on consequences in the other sector, given the linkages between them and their dependence upon a common stock of dwellings.

The total return from investment in the property market comprises current rental yields and expected changes in the capital value. Investors in residential property in Ireland have done extremely well in the past decade, based primarily on the strength of capital appreciation. Reflecting this, there are now a large number of small property investors in the market. The presence of such a large number of investors has recently driven rental yields down to under 2 per cent of the capital value in some cases. Possible future trends are discussed in Chapter 4.

## 3.3. Assessment: A Dynamic but Unbalanced System

Chapter 1 listed a range of anxieties and perceptions concerning various aspects of the Irish housing system. While these contained highly diverse ideas and theories, we argued that they do cluster into three general areas: stability, inequality and sustainability. On each of these three issues, some have strong anxieties and some may take a more positive view. The analysis of the housing system summarised in Chapter 2 and the interpretation of the Irish housing boom outlined above allow us assess each of the main perspectives.

### 3.3.1 Stability

The stability of the Irish housing market is an important policy concern for the Central Bank, given its role in monitoring credit creation and macroeconomic stability. It is not the central concern of the Council in this study, which is focused on housing need and methods of provision. The Council is, however, aware that house building has become a significant sector of the economy<sup>7</sup>. Avoiding a sharp disruption of output of this sector is an important goal, both from the perspective of meeting housing needs and contributing to the stability of the wider economy. In analysing the stability of the housing market, a key issue is whether the patterns of demand, supply and price movement can be understood by reference to roughly rational economic and social behaviour, based on a more-or-less realistic view of Ireland's likely economic and social development. Taking the past decade as a whole, the analysis summarised in Chapter 2 and a number of other studies, suggest that the evolution of the Irish housing market can be understood as the outcome of economic decisions by households, developers, builders and planners in a fairly unusual set of economic and public policy conditions. These conditions produced a remarkably strong increase in demand for housing in a situation where there had been a major downward adjustment in the provision of social housing and in which there were (especially in the early

7. The Quarterly National Housing Survey (QNHS) shows that employment in construction is over 11 per cent of total employment (First quarter, 2004). Employment in house building is contained within this but is not separately identified.

years of the boom) some ongoing institutional and policy constraints on meeting the increased demand with appropriate supply. Most analyses suggest that, overall, the huge expansion of output, home ownership and mortgage borrowing has reflected fundamental economic and social realities. Nevertheless, several studies suggest that, at certain times, Irish house prices have risen higher than can be explained by the underlying patterns of incomes, employment, demography and interest rates.

The stability of the housing market has recently been assessed in the first Stability Report of the Central Bank. This assessment finds mixed evidence as to whether or not the current level of house prices can be explained in terms of economic fundamentals: the report finds that some measures suggest that there is a significant overvaluation while others do not provide evidence of overvaluation. The report also points out that even if houses are not overvalued in terms of fundamentals, house prices could still fall if there were to be a change in these fundamentals, such as a rise in unemployment.

The current low level of interest rates cannot be regarded as permanent. The Central Bank has estimated that the equilibrium interest rate for the euro area is around 6 per cent, compared to a current variable mortgage rate in Ireland of around 3.5 per cent. There is a risk that some house buyers have not sufficiently taken into account the possibility of higher rates and would be vulnerable to an increase in rates. While the Central Bank does not expect a substantial increase in the short term, over time it expects rates to converge to the equilibrium rate of 6 per cent.

Regardless of whether house prices are in excess of their fundamental value, it is generally accepted that the current level of housing output is above the level of long-term housing demand. This excess of housing output over long-term demand is in relation to private demand; there continues to be unmet demand for social housing. Housing output is expected to fall over the coming decade although imbalances are likely to remain in certain areas and segments of the market for some time. A key issue is how any decline in output is managed. A hard landing, associated with a fall in house prices and a sharp fall in housing output could bring housing output below the level of long-term demand. However, this would be undesirable both in terms of meeting housing needs and could also have significant negative effects on the economy and the overall fiscal position.

Public policy has a significant influence on the housing sector and the level of housing output. There is a role for policy in seeking to avoid a disruption of housing output and a smooth transition to a lower level of output. In particular, in view of the likely eventual easing of private demand over time, the Council's objective of achieving an increase in social housing output could contribute to the goal of delivering a soft landing for the housing sector.

### 3.3.2 Inequality

The second main theme to emerge in Chapter 1 was inequality in the distribution of opportunities and difficulties across different income and social groups. While some express real anxiety about this, others argue that these pressures will take care of themselves as overall supply of housing comes into greater balance with demand. The Council does not share this view. The Council considers that, even though the overall system has displayed considerable dynamism, it remains unbalanced in some important respects; it does not meet all housing needs and has created a very uneven pattern of gains and losses for different groups of people. On its own, the private market for owner occupied housing has not, and will not, meet the housing needs of those on low incomes and a number of other social groups. Likewise, despite falling rents the market for private rental accommodation is likely to continue to display rent levels that are not affordable for some households. In addition, a rapidly changing housing market has been an independent source of very significant changes in the distribution of wealth and income in Irish society. Indeed, these changes in wealth distribution had further knock-on effects on the housing system. This perspective defines the major challenge that Irish housing policy must meet (see Chapter 4 below).

### 3.3.3 Sustainability

The third general issue concerns the economic, social and environmental sustainability of the Irish housing system. Some consider that the pattern of overall settlement, neighbourhood design and density reflect individual and social preferences. Some take the view that these patterns are an inevitable feature of a great increase in housing supply, such as that of the past decade. The Council does not share these views on the issue of sustainability.

An integral part of the sustainability perspective is the idea that sustainability may not be reflected in the incentives which actors face at any given moment and, consequently, non-sustainable actions are commonly taken by rational economic and policy actors. Experience confirms the truth of this insight—in the social, environmental and economic spheres. A strong case can be made that the patterns of settlement, neighbourhood design and density in Irish housing in the past decade are storing up significant social, environmental, budgetary and economic problems in years to come. Furthermore, this seems to be occurring in a context in which there are clear, well-defined, feasible alternatives that are sustainable—alternatives that are articulated in key Irish strategies, such as the National Spatial Strategy. Indeed, some of these are beginning to be reflected in Irish development, building, planning and wider public policy.

### 3.3.4 An Unbalanced System

Looking at the three main issues stability, inequality and sustainability together, the Council's view is that the Irish housing system has been dynamic, but unbalanced. The dynamic nature of the system is evident not only on the strong increase in supply, but also in the many important policy initiatives since the early 1990s. The unbalanced nature of the system is evident in the following features:

- ◆ Imbalances between demand and supply, especially in Dublin in the early years of the housing boom;
- ◆ A unequal distribution of opportunities and pressures across income groups;
- ◆ An imbalance between the provision of private and social housing;
- ◆ An imbalance between home ownership and rental, with an insufficient rental sector, although this is moderating;
- ◆ A series of imbalances that weaken the economic, social and environmental sustainability of the system:
  - An imbalance between housing development and infrastructure;
  - An imbalance between low-density suburban development and consolidation of urban areas;
  - An imbalance between extensive development outside cities and the creation of compact urban satellites;
  - Until recently, an imbalance between construction of houses and apartments,
  - An imbalance between one-off rural housing and settlement in rural villages;
  - An imbalance between the building of second homes in rural areas and the primary housing needs of rural dwellers;
  - A severe imbalance between the number of people working in housing construction and the number of skilled people working on analysis of spatial development, strategic spatial planning, integration of housing and infrastructure and planning control;
- ◆ A somewhat unbalanced distribution of state supports to different actors in the housing system; and,
- ◆ In the views of some, but not all, an unbalanced distribution, between landowners and wider society, of the increase in land values or 'betterment' that arises as a by-product of general economic and social development.

In order to assess what policy action is necessary to achieve a more balanced system we need to identify the likely future outlook under current policy arrangements and market conditions. This is done in Chapter 4.

# 4

## Future Outlook and Policy Challenges

## 4.1 Introduction

In Chapter 3 we have described Ireland's housing system as dynamic but unbalanced. This chapter provides an assessment of the future outlook, given current knowledge of likely demand, supply, house prices, social housing provision and affordable housing policies. While existing trends will restore balance in some respects—for example, between overall demand and supply—the system is likely to remain significantly unbalanced in other respects. It is these remaining imbalances that define the major policy challenges that need to be addressed.

## 4.2 Housing Demand

The future demand for housing will be determined largely by economic growth, demographic developments and interest rates. Each of these is discussed in turn.

### 4.2.1 Economic Growth

The ESRI Medium Term Review (MTR) published in July, 2003, forecast that from 2005 the Irish economy would return to strong economic growth. The projected annual rate of GNP growth between 2005 and 2010 was 5.4 per cent. The rate of employment growth in the first few years of this decade has been low and there has been a modest increase in unemployment. This underpins the potential for above average growth from 2005. The MTR forecast an increase in unemployment to 5.7 per cent in 2004, falling over the remainder of the decade to restore full employment. Employment is forecast to grow by 2.1 per cent annum between 2005 and 2010. This benign projection was dependent on the external environment and to a very significant extent on the competitiveness of the economy<sup>1</sup>.

Forecasters are projecting reasonably strong economic growth during 2004 with GNP growth in excess of 4 per cent. Provided competitiveness can be restored in the economy and assuming no major shocks, the ESRI forecast of strong economic growth from 2005 still appears reasonable.

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1. In relation to the external economy, developments over the past year have been encouraging. The US economy experienced quite a strong recovery during the course of 2003 and the ESRI Quarterly Economic Commentary (Winter 2003) noted that there were clear signs throughout the latter half 2003 that the international economy has entered a strong recovery, although this pre-dates the recent rise in oil prices to record highs. In relation to competitiveness, there has been a welcome fall in price inflation in Ireland, but both the rate of inflation and price level in Ireland remain the highest in the Euro area and is likely to increase again as increased energy prices feed through the economy. Wage inflation has moderated, but 2003 saw a further loss of cost competitiveness and this appears likely to continue in 2004. The strength of the Euro remains a key pressure on cost competitiveness.

A resumption of strong growth will underpin growth of personal income, albeit at slower rates than experienced in the 1990s. The MTR projects real growth in non-agricultural wages of around 1 per cent per year in 2004 and 2005 while the annual average growth over the second half of the decade is projected to be 2.2 per cent. In addition, real average living standards will continue to be supported by employment growth in excess of population growth (i.e., falling economic dependency). A comprehensive measure of living standards is Gross National Disposable Income (GNDI) per capita. The MTR projects real growth of GNDI of 5.4 per cent over the period 2005 to 2010. Allowing for population growth of around 1 per cent, this implies real growth in GNDI per capita of around 4.4 per cent. Subject to the above caveats, there should be significant growth in living standards from the middle of this decade. In summary, the economic outlook seems likely to sustain continued strong demand for housing but well below the levels of recent years.

#### 4.2.2 Population Projections and Demographic Structure

In 1999 the CSO outlined a number of scenarios for population and labour force growth based on varying assumptions of fertility and migration rates. Under each of the scenarios developed, a total increase over the period was forecast, with two of the six scenarios showing a peak in 2021 followed by a slight drop by 2031 due to declining fertility rates. The scenario leading to the largest population growth (M1F1) assumed continued but diminishing immigration (from 20,000 plus per annum in 1996 / 2001 to 5,000 plus per annum in 2011/ 2031), with the total fertility rate increasing from its 1998 level to 2.0 by 2001 and to remain constant thereafter. Based on this scenario, the total population would reach 4.254 million by 2011.

In April 2004, the CSO estimated the actual population to be 4.04 million, the highest since 2001 and an increase of 120,000, or 3 per cent since the census of population taken in 2002. This indicates that on current trends, continuing population increases are likely to match or potentially exceed the CSO projections, in the medium-term. As indicated by the CSO, migration is likely to be the key factor underlining future increases, accounting for about 60 per cent of the difference between the highest and lowest population levels projected for 2011. Difficulties in forecasting future levels of net migration, not least due to the openness of the Irish economy, reduce the level of overall certainty about future population forecasts. We return to assumptions concerning migration when we look at the total demand for housing below.

#### 4.2.3 Interest Rates

Given the high degree of leverage in property markets, interest rates are an important determinant of demand for housing. The reduction in interest rates associated with Ireland's entry into EMU in 1999 was one of the most significant economic developments in recent years and resulted in a capitalisation into higher house prices.

Interest rates are now set for the entire euro-zone by the European Central Bank. The European Central Bank determines the appropriate level of interest rate based upon its target rate of inflation, currently set at 2 per cent. Inflation in

Europe has remained close to, or around this level and average economic growth across Europe has remained relatively sluggish in recent times. However, it is generally accepted that we are at or near the bottom of the interest rate cycle. With sluggish growth and a strong euro, it is reasonable to expect that any rate increases will be gradual and signalled to the market well in advance. Indeed, short term forecasts for rates would appear to be relatively flat or have even built in an expectation of a slight downward revision in rates in the coming months.

The longer term yield curve which sets out current 'best predictions' for future interest rate movements is, however, upward sloping signalling expectations of higher rates in the future. We can already see evidence of this in the residential mortgage market through the increase in fixed residential lending rates announced in recent times by lenders. However, the market does not expect a sharp or sudden increase in base rates, although it has to be recognised that these are likely to rise by 100 to 200 basis points in the medium term. Admittedly, interest rate increases are likely to come on the back of otherwise buoyant economic conditions and therefore are less likely to be associated with employment shocks<sup>2</sup>.

The likely impact of changes in interest rates on the demand for housing is discussed in Paper 3 of the Background Analysis. The first Bacon report on housing estimated that a 1 percentage point change in the user cost of housing (of which mortgage interest rates are a part along with expected changes, in capital prices) will give rise to a 0.45 percentage point decrease in the price of houses<sup>3</sup>. In the absence of any other changes a 2 per cent increase in the interest rate would imply an increase in loan repayments of 19 per cent for an average earner seeking to purchase an average house.

#### 4.2.4 Overall Outlook for Housing Demand – Alternative Perspectives

An estimate of housing demand based on demographic and related factors is contained in the ESRI's Medium-Term Review. Based on its assumptions regarding rising headship rates, a continuing net inflow into the country and the natural population increase, the ESRI estimates a demand of almost 49,000 new dwellings per annum between 2001 and 2006. This is predicted to fall to 42,000 new dwellings per annum between 2006-2011, mainly due to a declining rise in headship rates and lower demand for second and replacement homes. The ESRI's forecast, and its assessment of the historic contribution of a variety of factors to demand, is shown in Table 4.1.

2. A separate issue is the longer term dynamic of interest rates. Not only are base rates currently at historically low levels but the real cost of borrowing, which is what matters for consumers, is also at very low levels, approaching zero in many cases. This low level of real rates differs significantly from the most of the post war period. However, we should be aware that rates may return to positive levels in the future which would have consequences for housing demand, house prices and affordability.

3. As Bacon et al. note there is simultaneity here between the growth in the price of houses which is one component of the user cost and the price of houses which is the dependent variable.

Table 4.1 Decomposition of housing demand - ESRI

	1991–1996	1996–2001	2001–2006	2006–2011	2011–2016
Population growth	14.7	15.4	18.0	16.9	15.0
Change in headship	3.1	12.4	11.4	11.9	4.6
Migration	0.0	5.9	5.2	6.1	3.7
Replacements	9.3	11.0	14.3	7.1	9.0
<b>Total</b>	<b>27.0</b>	<b>44.6</b>	<b>48.9</b>	<b>42.0</b>	<b>32.3</b>

Source ESRI, 2003

Notes Headship rates refers to the proportion of each age group who are heads of households)  
The category for replacements refers to demand for second and replacement dwellings

AIB revisited the ESRI forecast for housing demand in its review of the Irish Housing Market, published in April 2004, by examining the ESRI forecasts against the actual outturns recorded in the Census of population taken in 2002 (AIB, 2004). The AIB paper argues that the ESRI may have over-estimated the likely contribution to demand from increases in household headship. They estimate that between 2002 and 2006 increases in headship<sup>4</sup> and underestimated the contribution to housing demand arising from immigration<sup>5</sup>.

The paper also suggests that the ESRI may have underestimated the likely demand for second homes over the period to 2010<sup>6</sup>. The net effect of the different assumptions from AIB and the ESRI are summarised in Table 4.2 below.

4. They estimate that between 2002 and 2006 increases in headship rates will contribute 6,000 units per annum to demand rising to 10,000 per annum between 2006 and 2011.

5. Employing the relationship modelled by the ESRI which translates net immigration of 10,000 into demand for 3,100 housing units, it estimates that net immigration will contribute 8,800 units per annum between 2002 and 2006 and 6,500 units per annum between 2006 and 2011

6. AIB estimate that second, vacant and replacement dwellings accounted for 17,300 per annum between 1996 and 2002 with the possibility that the figure reached 30,000 in the year to April 2003. While the level of completions attributable to second, obsolete and vacant dwellings remains somewhat unclear (see discussion in Section 2.4.1 of Chapter 2) their contribution to demand appears likely to remain significant over the next few years and AIB have factored in a contribution of 25,000 units per annum

Table 4.2 Comparison of Forecasts of Future Demand for Housing (per annum)

	2002 – 2006		2006 – 2011	
	ESRI	AIB	ESRI	AIB
Population Growth	18,600	21,800	17,600	20,800
Migration	5,500	8,800	7,800	6,500
Change in Headship	10,600	6,000	11,700	10,000
Second, vacant and replacement units	18,500	25,000	9,900	15,000
<b>Total</b>	<b>53,300</b>	<b>61,600</b>	<b>46,900</b>	<b>52,300</b>

Source: *The Irish Housing Market* (AIB, 2004)

Regardless of the precise forecast chosen, the anticipated increase in population and the existing backlog in demand (as reflected in the historically lower ratios of dwellings to population size) suggest that a significant level of additional housing output is likely to be required over the next decade. What is less certain is the point at which annual housing output will decline. This will in part be determined by the rate and composition of housing supply.

## 4.3 Housing Supply

### 4.3.1 Future Supply Outlook – Serviced Land

An important requirement for future housing supply is a sufficient land-bank of zoned and serviced land. Figures from the Department of the Environment, Heritage and Local Government indicate that there were 12,800 hectares of zoned and serviced land available as of June 2003 and that this had an estimated yield of some 369,000 units. In addition to the serviced land-bank, there is additional capacity for housing on non-serviced land, primarily single dwellings in rural areas.

The available serviced land within Dublin city and county was approximately 2,600 hectares with an estimated yield of 118,200 units, the greatest proportion of which—almost 1,500 hectares and 44,500 units—are in Fingal. The land-bank for Dublin city and county therefore accounted for some 32 per cent of the total available. The land available in Dublin City amounted to 119 hectares and this had an assumed capacity of 24,000 units implying an average density in excess of 200 to the hectare. (See Table 4.8 in the Background Analysis)

Examining the available supply of serviced land in terms of the landbank, based

upon the historic level of construction within the local authority boundary, is not without its limitations. Firstly, the implied landbank can vary significantly from year to year as the level of construction completed in the previous year varies. Under the 2002 levels of output there were 6.39 years of prospective output, based on actual construction, while under the higher output achieved in 2003 this falls to 5.36 years. The difference is even more susceptible to change at the local authority level. For example, in Dun Laoghaire-Rathdown the implied landbank fell from over 15 years to just over 6 as a result of higher levels of output.

Secondly, it is not necessarily the case that an accurate assessment of the adequacy of the serviced landbank can be made by reference solely to historic levels of construction within an area. Historic levels of output may not be a fair reflection of the overall level of *demand* for housing in a particular area. This may particularly be true where levels of construction have not kept pace with population growth and historic shares of population. Instead of focusing on historic levels of build, the public authorities ought to assess the likely demand for accommodation over the medium term — and beyond the six year timeframe currently envisaged for development plans — and to zone sufficient suitable tracts of land to meet that demand while adhering to the principles of good planning. Further consideration of the objectives of planning in delivering sustainable development and the planning process is found in Chapter 5.

Finally, the patchy release of land for development by existing landowners may mean that a significant quantity of land that is zoned and serviced is not brought forward to the market or actually available for development at a given point in time. This reluctance of landowners to supply cannot be measured. But it is of interest that Minister of the Environment issued a direction to Dun Laoghaire-Rathdown Council to zone more land in their current development plan, in a context in which the statistics point to the fact that they have a significant bank of zoned and serviced land.

A study of potential land in north Dublin and the south Fingal fringe by Williams and Shiels identified some 2,088 hectares of green land that could potentially be made available for development excluding parks and other amenity areas (Williams and Shiels, 2001). Of this, over 1,000 hectares was to be found in the area under the jurisdiction of Dublin City Council. Depending on the precise density chosen or deemed appropriate, this land could accommodate a very large number of additional households.

A recent assessment has also been made by Bacon & Associates of the available land for development in inner city Dublin. They projected that there was potential for a total of a further 19,000 units in Dublin city centre (between the canals) by 2012 and that this would be matched by demand which they estimated to be for almost 22,000 additional units (Bacon & Associates, 2003). Were this to be the case, the entire potential for new residential development within the canals would be exploited over the next decade.

Progress under the Serviced Land Initiative in the Dublin region was recently assessed by MacCabe (MacCabe, 2003). He identified the completion of 13 schemes providing for the servicing of over 43,000 sites in and around the Dublin area since the publication of the third Bacon report into housing in 2000. This

study also noted a significant increase in the potential planning capacity in Ireland, given that UCD had increased its annual output of qualified graduates from 20 in 1999 to over 50 by 2003, and a new course in DIT had the potential to yield a further 20 planners per year.

Overall, the figures appear to imply a potential construction output of some eight or more years of new developments. This suggests that there is no physical land constraint on housing supply in Dublin or elsewhere—provided land is zoned, serviced, brought to market and utilised in an efficient manner through the building of sustainable densities. The application of higher densities envisaged in the current planning statements and strategies is highly dependent on the availability of transport and other infrastructure. Without these, local authorities will be reluctant to grant permission at sustainable densities and the land, although available in sufficient quantity, will not support the amount of extra housing supply that is possible.

#### 4.3.2 Outlook for Private Rented Accommodation

Private rented accommodation has increased as a share of total housing in recent years. The experience of the past decade suggests that investment in rental accommodation is fairly responsive to a number of key market conditions and, in particular, is dependent, to a large degree, on expectations of capital gains.

As noted in section 3.2.12 above, rental yields have reduced in the past few years. These low rental yields, combined with expectation of more modest rates of capital appreciation and the possibility of somewhat higher interest rates, may have a negative effect on the supply of rental accommodation. Any withdrawal of rental accommodation is likely to have consequences for tenants, tending to push up rents. It would also weaken capital values both for investment properties and across the entire market.

### 4.4 Outlook for Affordability

#### 4.4.1 Affordability for Owner Occupiers

The current level of housing output, some 70,000 plus units in 2004, exceeds the underlying level of demand identified above. With the current high level of output, balance between supply and demand should be achieved during the course of this decade, even given the lagged response of housing output to increased demand pressures in the early and mid 1990s and the associated pent-up or back log in demand. Achieving balance in supply and demand will moderate nominal house price growth. Output by the end of decade is expected to fall to 45,000 units compared to a level of 58,000 in 2002 (ESRI, 2003).

As identified in Chapter 2 on-going affordability for house purchasers reached a low in 2000 but has improved slightly since then. The projections of continuing strong growth in personal disposable income and moderate house price growth imply some improvement in this measure of affordability. From its peak (a ratio of new house prices to personal disposable income of close to 12 in 2000), this

ratio is expected to fall to below 10 by the end of the decade (ESRI, 2003). This forecast implies that the real price of housing would fall over that period.

#### 4.4.2 Affordability in the private rental market

As indicated earlier, affordability has become a particular issue for private tenants in recent years. However, the expectation of continued increases in supply has led some commentators to conclude that current affordability problems are likely to reduce as rents fall in line.

Rents have already started to show signs of softening. In its 2003 Property Survey, the IAVI pointed to signs of a stabilisation in the residential rental market: Dublin residential rents fell by 4 per cent in 2003, while those in the rest of the country fell by 2 per cent or less. In the immediate term, IAVI members expect rents to drop by a further 3 per cent in 2004.

Even with improvements in general affordability, the Council expects that affordability problems are likely to be experienced by tenants in the private rental sector at the lower end of the income spectrum, for a number of reasons:

- ◆ Despite a softening of rents, private rented accommodation continues to be an expensive housing option. Average rents reported in Quarter 3 of 2003 (QNHS) were €177 per week nationally, or €224 per week in Dublin<sup>7</sup>. The QNHS data for June-August 2003 indicated that 32.7 per cent of private tenants paid over €800 per month (or 57.1 per cent in Dublin)<sup>8</sup>. While these figures are not adjusted for income, comparative data for other tenures point to the continuing higher costs associated with private rented accommodation (a mere 9.8 per cent of recent first time buyers<sup>9</sup> countrywide made mortgage repayments over €800, rising to 24.4 per cent in Dublin);
- ◆ Rents would need to fall significantly to reverse sustained increases since the mid 1990s. The requisite supply response necessary to achieve such a reversal could prompt some level of disinvestment, given responsiveness to expectations of capital appreciation and given rental yields on overall supply as outlined above;
- ◆ The disproportionately large share of households with high housing costs in private rental points to particular and persistent affordability problems—linked in turn to the income profile of tenants in the sector (Fahey, Nolan and Maitre, 2004). As outlined below, demand for private rental accommodation at the lower end of the income spectrum is likely to remain strong due to demographic and wider social changes.

While these factors suggest that ongoing affordability problems are likely for some groups, actual trends in rents and affordability need to be monitored. They can inform the emphasis given to different strands of policy within the overall system of housing supports.

7. It is noted that the data generated by the QNHS on average rents is not adjusted for income. This makes it more difficult to identify the extent to which multiple incomes in accommodation sharing arrangements arise.

8. As we noted in Chapter 2 the QNHS does not survey household income and therefore no comparison between household income and expenditure on housing can be made.

9. Defined as those who purchased their dwellings since 1996.

## 4.5 Outlook for Social and Affordable Housing

In assessing the future outlook for social and affordable housing we face a number of difficulties. Future social housing provision is hard to estimate because it emerges from the judgements and actions of a large number of local authorities and voluntary/co-operative housing associations. Given Part V, it also depends on the action of private developers. In addition, housing support is provided not only through the physical provision of accommodation but also through a range of financial arrangements, the extent of which is partly determined by economic conditions and the rate of take-up<sup>10</sup>. On the side of housing need, there is considerable difficulty in defining an appropriate measure of the number of households that will require public policy support in meeting their housing needs.

On both the side of provision and the side of need it is possible to take a minimalist or a maximalist view. For example, need could be defined to include only those who currently qualify for allocation of a local authority dwelling, or all who fall below an affordability measure and are, therefore, in need of some form of housing support, either permanent or temporary.

### 4.5.1 Likely Future Provision of Social and Affordable Housing

In judging the likely future provision of social and affordable housing we begin by noting trends in the very recent past and current estimates of output in the near future and then consider possible provision in the medium term.

As described in Chapter 2, combined output from the local authority and voluntary and co-operative housing sectors provided over 6,000 new units in 2003. In the same year, another 4,000 households were assisted to purchase their own homes at below market cost under Affordable Housing or Shared Ownership schemes.

The impact of this projected total supply of social and affordable housing on overall targets is worthy of note. Table 2.6 (Chapter 2) illustrates remaining targets for expenditure and output of units to end 2006 under the NDP. Signals have already been made that 2004 targets for social housing output in particular will prove increasingly challenging to meet within budgetary allocations, with an estimate of the likely shortfall for voluntary and co-operative housing alone of some 950 units. Additional costs have also arisen in the implementation of Part V, because of higher unit costs and costs arising from the management of social housing units arising in mixed tenure. These concerns about the adequacy of existing funding lead to fears that the policy could actually result in a lower output of social rental units overall.

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<sup>10</sup>. These uncertainties are discussed in more detail in Chapter 6.

In relation to the supply of affordable housing for purchase, supply under the 1999 Affordable Housing Scheme, in particular, has begun to exceed annual targets<sup>11</sup>. More than 1,500 units were provided in 2003 against the annual target of 1,000 units; while an additional 1,326 units were in progress, and a further 1,628 units were at proposal stage, by the end of the first quarter in 2004. The announcement of a number of developments under the Sustaining Progress Affordable Housing Initiative (with a commitment of 10,000 additional units) will also contribute to overall output. By mid-2004, 8,891 units were in prospect under the initiative, with some 3,500 units identified for completion by 2006. The creation of more formal long-term arrangements with private landlords, in the reform of the SWA Rent Supplement scheme, is likely to become another source of social rental housing.

#### 4.5.2 Likely Future Need for Social and Affordable Housing Supports

In making a broad judgment of the likely future scale of overall need for social and affordable housing supports of various kinds, we consider first some official, indicative, measures of housing need. These housing-specific measures need to be complemented by estimates of the likely direction of wider social and economic outcomes. One set of these concerns outlines the likely scale of welfare dependency, disability and disadvantaged minorities. Another set includes the extent of low-skilled employment and low earnings and the increasing prevalence of single person households.

#### Indicative Measures of Housing Need

In an initial overview of the outlook for social and affordable housing, it is useful to record a number of measures of current housing need:

- ◆ The most recent official measure of local authority waiting lists, made in 2002, revealed that over 48,000 households were on the lists. A new official enumeration of housing need is due in 2005. The outcome will be influenced by two factors working in opposite directions: the number of households assisted since 2002 and the apparent underlying upward trend in housing need. The mid-term review of the NDP (2003) indicated that social housing needs had risen by 23.5 per cent since the NDP was framed in 1999;
- ◆ Calculations of general affordability by local authorities in 2002<sup>12</sup> indicated that up to a third of all new households (almost 14,000 households annually) formed in the period 2001-2006 would fall below the affordability threshold. This was as high as 42 per cent in some urban areas;

11. 1,000 per annum to the end of 2006

12. In drawing up their housing strategies in 2001, local authorities – following central government step-by-step guidelines – each estimated the proportion of need for new households in their area that would fall below a common affordability threshold. Trends in income distribution, house prices and interest rates were studied using the best available data. A team of researchers assembled by four NGOs to study the full set of local authority housing strategies revealed this implicit joint conclusion of the housing strategies, viz. that approximately one third of all new households likely to be formed in the State between 2001 and 2005 would fall below the affordability threshold (Full Research Report. An Analysis of Housing Strategies and Homeless Action Plans, 2002). However they found wide variation in estimates of affordability problems across the 33 strategies, and reckoned that some had in all likelihood come up with an overestimate. The methodology for estimating affordability problems and experience in using it will certainly improve but the first round of housing strategies provides a comprehensive and useful perspective onto likely trends in housing need.

- ◆ There were over 58,000 recipients of SWA rent supplement in May 2004, of which some 14,500 were registered on local authority waiting lists. The recent announcement that long-term recipients of SWA will be accommodated under new arrangements with existing and potential private landlords should reduce the number of long-term recipients of SWA rent supplement significantly.

While opinions differ on whether these different estimates of housing need should be summed, reflecting the different types of need involved and what form of support is appropriate, the data undoubtedly reveal a very significant level of housing need to be addressed in the years ahead.

### **Welfare Dependency, Disability and Disadvantaged Minorities**

Nor can it be assumed that the need for social housing is destined to fall away. On the contrary, several considerations suggest there will be a continuing need for a significant number of people to have their housing needs met by non-profit providers:

- ◆ Welfare dependency among people of working age (termed the “benefit dependency rate” by the OECD<sup>13</sup>) currently accounts for nearly one in five of the population aged 15-64 and should not be expected to decline significantly. It is more likely to continue changing in its composition than to decline in its overall level. This is what happened during the boom years of the 1990s: at the beginning and end of the decade, 19 per cent of people of working age were in receipt of a weekly social welfare payment. This was because the numbers in receipt of the one parent family payment and disability allowance grew by more than enough to offset the fall in the numbers receiving unemployment compensation. This is the experience of other countries also—in Denmark, which has the highest employment rate in the EU, 23 per cent of its population of working age are typically dependent on social welfare (OECD, 2003; Madsen, 2002);
- ◆ The number of people in Ireland aged 65 and over is set to increase substantially in absolute numbers, from 436,000 in 2002 to 698,000 in 2021 or by 60 per cent. It is estimated that the proportion who will live alone is estimated to rise from 26 per cent to 30 per cent (Connell and Pringle, 2004: 4). While a good number of these older people living alone may be expected to enjoy good health and good incomes well after the age of 65, a growing subset of them can be expected to need appropriately tailored accommodation and supports if they are to continue living independently;
- ◆ The number of people in Ireland living with a disability was 323,000 in 2002 (Census, 2002). As in other countries, the prevalence of a long-standing health problem or disability rises sharply with age. While it is unclear whether the ageing of a population must lead to an increase in the *proportion* of the population living with chronic health condition or disability, it is likely that their absolute numbers will grow. This is because there will be a larger

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13. OECD *Employment Outlook*, 2003.

population of elderly people and because the survival rates from disabling accidents and illnesses continue to improve. (Statistics in Focus 26/2003; Social Protection in Europe 2003);

- ◆ While the identity of socially disadvantaged minorities may change (currently, a growing proportion of births in Ireland are to low skilled migrants from outside the EEA), the question of access to satisfactory housing for disadvantaged minorities – including Travellers, those granted refugee status, low skilled migrants, and others – is likely to remain, if not increase in importance.

These various indicators of need suggest that that even if current targets are met, a very significant number of households will remain on the Local Authority housing waiting lists in 2006, or the end of the NDP. The next assessment of housing need by local authorities is due to be conducted in 2005. This will provide a somewhat clearer picture.

### **Low Earnings and Single Earning Households**

Similarly, for the following reasons, the proportion of the employed population in the Irish economy with earnings below the level at which it is possible for them to purchase a home without some support, or indeed sustain a private tenancy, is likely to remain significant. Firstly, between 27 per cent and 30 per cent of all jobs in the Irish economy are forecast to require less than upper secondary schooling to be adequately performed and their earnings levels are likely to remain modest. A notable feature of Ireland's strong employment performance of recent years has been the expansion of services jobs across the skills spectrum. Many jobs continue to need doing which do not require high levels of skill. In 2001, almost one in three jobs in the Irish economy were being done by people who had not completed secondary school (Sexton *et al.*, 2004). Looking forward to 2010, it is forecast that this will continue to be the case for between 27% and 30% of all jobs in the Irish economy (op. cit.). Wages in these jobs have improved, pulled up by the introduction of a national minimum wage, additional increases in national wage agreements for low paid workers and – above all – by a strong aggregate demand for labour. However, the general approach to economic policy does not feature a commitment to a smaller dispersion of earnings. It cannot be assumed, therefore, that a time is imminent when market forces alone will bring house prices within the reach of those employed in many of the expanding service sector jobs.

Secondly, a growing number of young workers (in their 20s) are not marrying and finding independent living more difficult to achieve. Marriage rates among people in their twenties have fallen dramatically in Ireland. For example, 64.6 per cent of all females aged 25–29 were married in 1986 but this proportion had fallen to 26.8 per cent by 2002 (Connell and Pringle, 2004: 53). If independent living is made increasingly difficult for young single people, whether because of housing costs or unemployment, the experience of other countries – Italy, Spain, Japan – points to a growing reluctance to assume the responsibility of becoming a parent and a major collapse in birth rates. The growing instability of couple relationships is affecting the demand for housing in a further way. Steadily more households are headed by a lone parent, rearing children on her or his own, while the other parent has had to establish an independent household. Household resources in each case are diminished and housing costs become a much more significant influence on the standard of living that people can enjoy.

#### 4.5.3 The Balance of Likely Housing Provision and Likely Housing Need

There are undoubted complexities in estimating the future provision of social and affordable housing and the scale of future housing need—complexities that are discussed in more detail in Chapter 6. Our initial look at both housing-specific measures and wider social and economic trends suggest that there remains a gap between the projected provision of social and affordable housing and the number of households that will be unable to achieve home ownership on the open market or who will face affordability problems in private rental accommodation. It seems that some of the most important imbalances in the Irish housing system outlined at the end of Chapter 3—particularly the unequal distribution of opportunities and pressures across incomes groups, the imbalance between the provision of private and social housing and a somewhat unbalanced distribution of state supports to different actors in the housing system—are likely to continue under current policies.

## 4.6 The Policy Challenge: Rebalancing the System

The imbalances described in Chapter 3 are reflected in the following two main problems:

- ◆ Extensive low-density development, lack of integration with transport and social infrastructure and excessive one-off house building in rural areas which are storing up significant social, fiscal and environmental problems and costs for the future;
- ◆ Even with recent increases in the provision of social and affordable housing supports, a significant minority of households will experience problems of housing affordability and access.

The interpretation of the Irish housing system in Chapter 3 and the review of likely future trends in this chapter suggest, therefore, that the key policy challenges are:

1. To achieve high quality, sustainable, development in both urban and rural areas;
2. To provide an effective range of supports to those households that fall below the affordability threshold;
3. To assist the market to continue to provide a high level of supply;
4. To ensure a tax and subsidy regime that supports these goals.

These policy challenges are addressed in Part III.

## **PART III**

# Policy Recommendations

# 5

## Sustainable Neighbourhoods and Integrated Development

## 5.1 Introduction

The analysis in Part II shows that in the Irish context planning is a most important policy influence on the quantity, price and sustainability of housing. This chapter underlines the case for sustainable settlement and development and asks what is necessary to achieve it. The next section examines current planning policy and spatial strategy, outlining five characteristics of quality development. Section 5.3 examines a number of issues arising in the delivery of sustainable settlements: What are sustainable neighbourhoods and what are their advantages? Are quality sustainable development and adequate quantity of housing conflicting or complimentary goals? Does sustainable urban density mean high rise? Does a sustainable neighbourhood mean city-centre living? Is sustainable rural housing in conflict with the tradition of rural housing? Section 5.4 asks what is necessary to ensure that all future residential development accords with the stated policy goal of sustainability. The concluding section emphasises the magnitude of the challenge and shows how it bears comparison with two other great challenges Ireland has faced in the past half century.

## 5.2. Ireland's new Principles, Priorities and Procedures

In the past five years there have been very important developments in the principles, strategies and procedures that govern spatial development and residential settlement in Ireland. The Council believes that this evolution of thinking and procedure is potentially of great significance in assuring both high-quality sustainable residential areas and an adequate supply of housing. Our purpose in this section is to explain this evolution and underline its importance in overall housing policy.

### 5.2.1 Outline of The New Hierarchy of Strategies

There are a number of recent planning policy initiatives which combine the desire to achieve sustainable densities with efforts to improve the supply of serviced land and to streamline the planning process. They include the hierarchy of plans associated with co-ordinated spatial development:

- ◆ The National Spatial Strategy (October 2002);
- ◆ Regional Planning Guidelines (Introduced Planning and Development Act, 2000: adopted Spring 2004);

- ◆ Sustainable Rural Housing Guidelines (Draft guidelines Spring 2004);
- ◆ Local Authority Development Plans (Required under the 1963 Act);
- ◆ Integrated Framework Area Plans (Local Area Plans – S.18 of Planning and Development Act, 2000);
- ◆ Local Level Housing Strategies (Required under the Planning and Development Act, 2000);
- ◆ Residential Density Planning Guidelines (1999).

In addition, a number of policy instruments have been created to enhance the supply of serviced land, strengthen integrated planning and support the creation of infrastructure necessary in new residential areas:

- ◆ Strategic Development Zones (introduced in the Planning and Development Act, 2000: first SDZ approved by Bord Pleanála in September 2003);
- ◆ Serviced Land Initiative (introduced 1997 – extended to PPP in 2000);
- ◆ Development Contribution Schemes (introduced in the Planning and Development Act, 2000: adopted Winter 2003/Spring 2004).

These initiatives not only help contribute to the overall supply of housing and a well-functioning residential market, but also contribute to key planning goals such as the development of integrated mixed-use neighbourhoods and, in some cases, co-ordinated land use plans.

In the Council's view, these are truly important policy developments. The next section sets out five characteristics the Council believes to be critical in the emerging spatial policy and examines how each of the initiatives and strategies above helps contribute to their delivery<sup>1</sup>.

### 5.2.2 Five Characteristics of Sustainable Settlement

These national policy initiatives identify five characteristics of sustainable housing and integrated development:

1. *Sustainable Urban Densities* – Significantly increased urban densities are required to make best use of the available land, ensure effective service provision, create quality neighbourhoods and reduce car dependence;
2. *Consolidated Urban Areas* – Cities and towns must be consolidated within a well-defined urban footprint;
3. *Compact Urban Satellites* – Where satellite settlements are necessary these should be compact and well-defined and seek to include not only residential development but also commercial and employment opportunities;

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1. The Serviced Land Initiative is discussed briefly in Chapter 2.

4. *Rapid Communication Networks* – Areas within cities and their commuter belts should be connected through a transport infrastructure that facilitates rapid transit and the provision of effective transport services;
5. *Sustainable Rural Settlement* – Rural settlement patterns and house design should support vibrant rural communities and protect Ireland's remarkable landscape.

These characteristics of quality sustainable development are discussed in more detail below.

### 5.2.3 National Spatial Strategy

The over-arching framework for spatial planning is the National Spatial Strategy (NSS), published in 2002. The Strategy considers the regional pattern of development across the country as a whole, the challenge of developing each region, the desirable pattern of economic and social activity within each region and the principles which should guide the planning of cities, towns and their surrounding settlements. Our focus here is on the implications for housing policy. These arise from several aspects of the NSS: the approach taken to the overall growth of Dublin, the balance between new settlements and existing cities and towns and the 'Green Structure' proposed to ensure sustainability.

The NSS emphasises that economic activity and competitiveness in any region depends on 'a critical mass of population, a range of skills, an innovative capacity, as well as business and transport linkages in an environment attractive to people' (p.35). On the overall regional pattern, it seeks to strike a balance between the development of the Dublin area, as a dynamic competitive region in the European context, and dispersal of development across the country. The NSS recognises that while all development should not be encouraged to occur on the eastern seaboard, it was more important that each region grow to 'its own potential' than that similar levels of growth are achieved in all regions. This is consistent with the Council's view that Ireland is in many ways a regional economy with mobile factor flows (NESC, 2003). Consequently, the Council supports the focus on growing a competitive region in the Greater Dublin Area with the provision of the necessary infrastructure and international transportation and communication access that this requires. Policy must also achieve consolidation and economic development of the centres identified in the NSS as 'gateways' and 'hubs', through enhanced infrastructure and other measures.

On the balance between new settlements and existing towns, the NSS argues that growth at entirely new locations 'would involve unprecedented and unsustainable levels of investment' (p.36). Therefore, there is a critical need to 'develop the capabilities of existing cities, towns and villages and previous investment in them' (p.36). The Council supports the need to 'capitalise upon the strengths and investment in Ireland's existing major urban areas' (p.36). This highlights the importance of consolidated urban areas in any vision of sustainability.

The National Spatial Strategy envisages a ‘hierarchy of access to social infrastructure’, premised on ‘the fact that different types of infrastructure are appropriate to different points within the urban and rural structure’ (p.112). The Strategy notes that there is a strong relationship between the size of settlement and the range and level of service that can be supported. This is one of the key arguments for sustainable densities. Within settlements, there must be effective urban transport systems, including facilities for pedestrians and cyclists, access to healthcare facilities, and facilities for those with special needs. The hierarchy of access to a range of services as suggested in the National Spatial Strategy is shown in Figure 5.1. The Council strongly endorses this approach<sup>2</sup>.

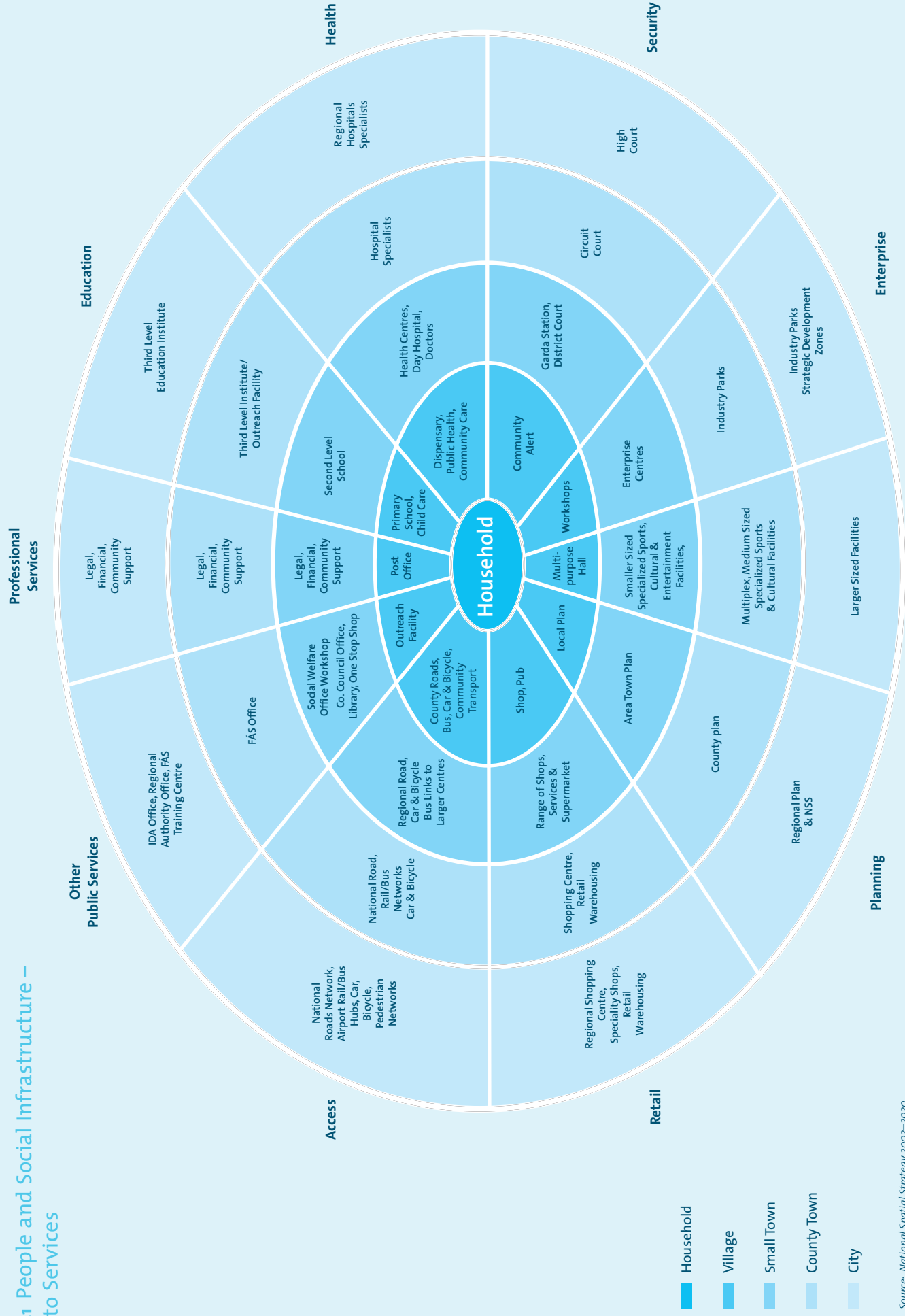
In outlining the characteristics of sustainability the NSS suggests a ‘Green Structure’ including the following objectives:

- ◆ The prevention of urban sprawl;
- ◆ Reduction in the loss of agricultural land to other uses;
- ◆ The protection of rural identity through the protection of rural/urban distinction;
- ◆ The conservation and enhancement of biodiversity;
- ◆ The protection of existing buildings and other elements of cultural heritage; and
- ◆ The creation of a green setting for cities and towns providing outdoor recreation within easy reach (National Spatial Strategy, 2002: p115).

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2. It provides a balance between the need for every settlement to have access to services which benefit from significant economies of scale (such as airports, or centres of excellence in healthcare), while ensuring that no small town or village should be without a range of basic services including a post office, primary school, adequate childcare and community transport.

Figure 5.1 People and Social Infrastructure – Access to Services



The Spatial Strategy states that the sustainable provision of housing in urban areas requires:

- ◆ Concentration of development in locations where it is possible to integrate employment, community services, retailing and public transport;
- ◆ Mixed use and well-designed higher density development, particularly near town centres and public transport nodes; and
- ◆ The efficient use of land by consolidating existing settlements, focusing in particular on development capacity within central urban areas through the re-use of under utilised land and buildings as a priority, rather than extending Greenfield development (National Spatial Strategy, 2002: p103)

These principles are reflected to a significant degree in the official guidelines and development plans that constitute the evolving system of spatial planning in Ireland. We briefly describe some of these before addressing some questions which are commonly asked.

#### 5.2.4 Ministerial Planning Guidelines

The Planning and Development Act, 2000, provides that the Minister may issue guidelines to planning authorities regarding their functions under the Act and that planning authorities shall have regard to those guidelines in the performance of their functions. A series of such guidelines have been issued, such as those on residential density and the draft guidelines on sustainable rural housing. The Minister also has the power to issue directives in respect of local authorities' development plans, under Section 31 of the Act. For example, the Minister has exercised these powers in the case of Dun-Laoghaire-Rathdown Council, directing it to zone more land in its current development plan.

#### Residential Density Planning Guidelines

The Residential Density Planning Guidelines were introduced in 1999. Guidelines are issued to planning authorities under Section 28 of the Planning and Development Act, 2000. Planning authorities are to 'have regard to' such guidelines in the performance of their functions. The Residential Density Planning Guidelines state the benefits of increased residential density to include:

- ◆ More economic use of existing infrastructure and serviced land;
- ◆ A reduced need for the development of greenfield sites, urban sprawl and ribbon development;
- ◆ Reduced need for investment in new infrastructure;
- ◆ Better access to existing services and facilities; and
- ◆ More sustainable commuting patterns (DoELG, 1999. p. 6).

The guidelines exhort planning authorities to promote increased residential density, where appropriate, in the context of their existing Development Plans. They recognise that higher density will not be appropriate in every circumstance and that higher densities must not be achieved at an unacceptable amenity cost to the surrounding dwellings and the residents of the proposed development (Residential Density Guidelines: 7).

The Residential Density Planning Guidelines give priority to the re-development of brownfield sites near town centres and public transport corridors. This may require the preparation of 'capacity studies' to identify the potential for providing additional housing (p.13). Other aspects of development policy which might inhibit the provision of higher density settlement—such as 'the need to take cognisance of prevailing adjacent density', 'off street car-parking standards' and 'height restrictions' should be reviewed and revised if necessary (p.13).

Figures for projected average densities at the local authority level can be derived from the zoned and serviced land statistics and these are presented in Paper 4 of the Background Analysis. While no published statistics are available on the actual densities built, the composition of dwelling type provides some indication. Recent changes in the composition of dwellings were shown in Figure 2.3. It is clear that the introduction of the residential density guidelines has had a significant impact in some areas. In the case of South Dublin County Council, the composition has changed significantly: between 1996 and 1999, three bedroom semi-detached unit accounted for over 60 percent of permissions; between 2000 and 2002, apartment units accounted for 60 per cent. Given the lead time between the granting of permissions and the completion of dwellings, these shifts are only just starting to show in the completion statistics.

### **Draft Guidelines on Sustainable Rural Housing**

Planning for rural housing must now be set in the context of the National Spatial Strategy and the recently published Draft Planning Guidelines on Rural Housing. These policies encourage the development of new rural housing for those who have a connection with the rural area through family, work or other attachment. They encourage new development by all in areas that are subject to rural depopulation and that are structurally weak.

The recent draft guidelines on Sustainable Rural Housing contain a number of provisions which the Council endorses. These include the need to link rural housing provision with the conservation of the landscape and the protection of natural assets (including ground and surface water) (p. 23).

### 5.2.5 Regional Planning Guidelines

Another new element of the system is the preparation of Regional Planning Guidelines (RPGs) by groups of local authorities. These are to be consistent with the NSS, outlining its implications for each region. Draft RPGs were published by each regional authority towards the end of 2003 and all regions have now adopted guidelines. The RPGs for the Greater Dublin Area (GDA) promote the intensification of development within the metropolitan area and a consolidation of designated growth centres within the hinterland, consistent with the characteristics of sustainable settlement outlined above and described in more detail in Section 5.3 below.

The Regional Planning Guidelines for the Greater Dublin Area refer to both a City-Region and Compact-Dispersed model of settlement planning. A City-Region is described as a cluster of urban centres which are separated by strategic greenbelts, have differentiated but complementary economies and are held together by multi-modal transport networks and communications. The guidelines argue that in this way the region can be greater than the sum of its parts. Maximising quality of life and increasing scale makes it more viable and attractive to invest in improving accessibility (RPG, 2003). A related concept is that of the Compact-Dispersed model. Under this settlement pattern the individual urban settlements should be compact, but their overall pattern within the region should be dispersed. Compact settlements deliver cost effective service provision while the overall dispersal of settlements helps reduce peripherality, and may encourage the economic development of the individual elements.

The provision of rapid transport links between settlements helps increase the 'effective' land supply with access to the urban centre. It also supports economic development of the satellite settlements. It can facilitate their transition from primarily residential or dormitory settlements to more integrated urban areas, incorporating opportunities for work and recreation. The Regional Planning Guidelines for the Greater Dublin Area emphasise the need for multi-modal transport corridors.

### 5.2.6 Local Authority Development Plans

The Planning and Development Act, 2000, requires each planning authority to make a development plan every six years. In making its development plan, an authority shall have regard to those of neighbouring authorities and co-ordinate with them where appropriate. A development plan is to 'set out an overall strategy for the proper planning and sustainable development of the area' and to include provisions for zoning, provision of infrastructure, conservation and protection of the environment and the integration of the planning and sustainable development of the area.

#### Local Area Plans

The Act also provides for the preparation of local area plans by one or more local authorities. They are particularly relevant in those areas 'which require economic, physical and social renewal and for areas likely to be subject to large scale development within the lifetime of the plan' (Planning and Development Act, 2000 S.19 (1)(a)). A local area plan is to provide 'for the proper planning and sustainable development of the area to which it applies, including details on community facilities and amenities and on standards for the design and developments and structures.' The option exists for the Minister to provide regulations for the preparation of a local area plan in respect of certain areas.

#### Local Level Housing Strategies

The 2000 Act requires that within its development plan each authority include 'a strategy for ensuring...the housing of the existing and future population of the area in the manner set out in the strategy' (Planning and Development Act, 2000 S.94 (1)(a)). A housing strategy must assess the existing and future need for housing, ensure that housing is available for persons with different levels of income, that a mixture of house types and sizes are developed to match the different categories of households (including the special requirements of elderly persons and persons with disabilities) and counter undue segregation. In conjunction with its housing strategy 'a planning authority shall ensure that sufficient and suitable land is zoned for residential use ... to meet the requirements of the housing strategy and to ensure a scarcity of such land does not occur at any time during the period of the development plan' (Planning and Development Act, 2000 S.95 (1)(a)).

#### Development Contributions

For many decades, Ireland had a limited system of development contributions. This meant that house construction imposed significant costs on local authorities. In recent years, there has been increased recognition of the range of costs that arise from housing development. These include not only the direct infrastructure necessary for residential construction—such as fresh water provision, waste water disposal and local roads—but also the indirect infrastructure necessary for high-quality neighbourhoods and transport. Consequently, the legislative framework for development contributions was revised in the 2000 Act.

In determining the level of development contribution local authorities have to set out schedules of infrastructure due to be constructed. The relevant costs,

including any working capital costs, are included in determining the development contribution payable. The infrastructure covered by Section 48 contributions includes:

- ◆ The acquisition of land;
- ◆ The provision of open spaces, recreational and community facilities and amenities and landscaping works;
- ◆ The provision of roads, car parks, car parking places, sewers, waste water and water treatment facilities, drains and watermains;
- ◆ The provision of bus corridors and lanes, bus interchange facilities, infrastructure to facilitate public transport, cycle and pedestrian facilities and traffic calming measures;
- ◆ Rail, light rail or other public transport infrastructure;
- ◆ The refurbishment, upgrading, enlargement or replacement of roads, car parks, car parking places, sewers, waste water and water treatment facilities;
- ◆ Any matters ancillary to the above.

Another new feature in the legislation is that local authorities can enter into arrangements with other parties to arrange the provision of public infrastructure funded by contributions. This includes the option of public private partnerships.

The fees that are proposed or being charged under the legislation are higher than those that have been charged before. Table A5.1, appended to this chapter, sets out some of the current development contribution schemes under Section 48 of the Act. These are based on the estimated capital costs of a list of infrastructural improvements each local authority intends to carry out over the course of its development plan. The charges generally identify the cost of fresh water, waste water and sewerage, roads and other amenity or community-based infrastructure. The contributions are not assessed by reference to the infrastructural costs imposed by the individual development, but with regard to the overall costs of new infrastructure within the whole local authority area.

There is substantial variation between local authorities, both in the overall level of the charge and in its composition. Some authorities levy a fixed charge per dwelling, while others levy on the basis of floor area. The charges range from as little as €2,000 in the case of rural housing in Wicklow, to over €15,000 for a variety of local authorities and, in particular, some of those within the Greater Dublin Area.

The bulk of the development contributions levied under Section 48 of the Planning and Development Act, 2000 are for recovery of the cost of infrastructure and services such as the provision of water, waste water and roads. Section 48 3(b) states that, in arriving at the determination of the charge ‘any benefit which accrues in respect of existing development may not be included in any such determination.’ However, local authorities may require a payment in respect of ‘public infrastructure’ which includes ‘the provision of open spaces, recreational and community facilities and amenities and landscaping works’ (Section 48 17[b]).

There is inevitably some degree of uncertainty regarding the extent to which the provision of any individual facility is required by new development and, therefore, some discretion on the Local Authority's part as to the contribution associated with new development. The construction industry has strongly expressed the view that, at times, some local authorities have included infrastructure, such as the construction or renewal of bridges, that largely benefit established areas within a city. Local authorities may not use the scheme to directly fund the provision of public transport services, however, contributions can include monies for 'the provision of bus corridors and lanes, bus interchange facilities (including car parks for those facilities), infrastructure to facilitate public transport, cycle and pedestrian facilities and traffic calming measures.' (Section 48 17(d)). Provision is made for the funding of specific public transport infrastructure under the Special Development Contribution Scheme in Section 49 of the Act, which has been employed by Dun Laoghaire-Rathdown and Cork County Councils to date and which is discussed below.

The use of the power to levy monies in respect of wider community and amenity infrastructure varies considerably from one local authority to another. The greatest percentage of the levy on primary homes for such facilities is in Roscommon—35 per cent, closely followed by Dun Laoghaire-Rathdown—33 per cent. The bulk of development levies will be raised from established urban settings, in which a minimum of 20 per cent of funds will be used for community and amenity facilities. The average would appear to be about 20 per cent. However, in many authorities the percentage for community and amenity facilities is much lower—5 per cent in Wexford, 8 per cent in Sligo, 9 per cent in Cork, Offaly and Cavan. Often, the level of contribution is such that only the most basic open space and low level amenity can be provided<sup>3</sup>. This is despite the significant additional capital contribution now being made to local authorities towards the provision of infrastructure associated with new development under the development contribution scheme. This reflects not just development levies, but wider issues concerning the efficiency and resourcing of local authorities.

One issue that arises is the speed at which local authorities plan for and proceed with the infrastructural investment listed in their Development Contribution Schemes. It is important that each project proceed fairly rapidly, in order to avoid the need to include the same projects in subsequent schemes.

A number of local authorities have employed innovative approaches in setting development contributions. In the case of Donegal and Clare, a supplementary charge of €5,000 and €2,000 respectively applies, for dwellings which are not intended for primary residence. In the case of Mayo, first time buyers can receive a 'discount' on the charge of up to €1,500, depending on whether or not they have made a contribution to the provision of fresh and waste water services.

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3. For example, in the course of NESCC's consultations, one local authority said that the current level of resources available, including the increased development contributions payable, would only provide for bands of open grass along the roadside or large swathes of open ground in parks, rather than the compact high-amenity type of urban park found in the sustainable neighbourhoods described in Section 5.3.1.

An example of the evolving approach can be found in Dun Laoghaire-Rathdown. That local authority is using development contributions to part-fund an extension of the Luas line. Under this scheme, a contribution is required from all those granted planning permission within a catchment area approximately one kilometre on either side of the proposed Luas line. The contribution rate is set at €250,000 per hectare for residential development and €570,000 per hectare for commercial development. The authority envisages that densities of 50 units per hectare are attainable. This would imply a contribution of €5,000 per residential unit. While this is an important innovation in the funding of Irish infrastructure it seems modest relative to the likely increase in property values attributable to the Luas.

Cork provides another important example of what is possible. The local authorities of Cork City and County have cooperated in the formulation of a Land Use Transportation Study, which links housing development with the provision of transportation infrastructure. Use is being made of Section 49 to fund public transport improvements including the re-opening of the Cork-Middleton line to the east of Cork city.

#### 5.2.7 Strategic Development Zones

The use of Strategic Development Zones (SDZs) to facilitate more efficient and integrated planning of large-scale housing developments was provided for in the 2000 Act. An SDZ can be designated by the Government on foot of a Ministerial Order, where it is deemed to be of importance to the economic and social development of the State, and following consultation with the relevant development agency(ies) or planning authority. The Government must specify the kind of development which may be established and give reasons for the designation. The relevant development agency must prepare a detailed planning scheme for submission to the planning authority, which must include an environmental impact statement. A planning authority 'may use any powers to acquire land that are available to it under any enactment, including any powers in relation to the compulsory acquisition of land, for the purposes of providing, securing or facilitating the provision of, a site' (Planning and Development Act, 2000 S.167 (1)).

In 2001, under Part IX of the Act, three SDZs were designated: in Adamstown (near Lucan), Navan and Hansfield. The SDZ at Adamstown includes provisions for over 10,000 units of residential accommodation. The local authorities have set up steering groups to manage the development of these zones, to prepare planning schemes and to deal with any issues or constraints that may be encountered during the development of the sites. An Bord Pleanála approved the development proposals for the first of these zones, the village of Adamstown near Lucan, in September 2003. The SDZ at Navan has also been approved by Bord Pleanála in summer 2004 and approval for the third at Hansfield is expected shortly.

The preparation of a draft master plan for SDZs seems a major innovation, as it should allow all agencies and bodies to plan with certainty for the development of the designated area over a long time period. The SDZ has the potential to

achieve a holistic treatment of residential, commercial and industrial development, in combination with associated infrastructure and services. While this may initially add to the time it takes to achieve planning permission, the fact that a comprehensive overall plan is in place is certain to deliver better planned areas and could, if the procedures were correct, deliver more streamlined development in the longer run. The construction industry feels that the preparation of the first three SDZs has, in fact, been unduly cumbersome and slow. Much can be learned from the experience of the first three SDZs.

### 5.2.8 Conclusions on Planning Policy Initiatives

The evolution of planning principles, strategies and procedures in the past 5 years has been very significant. An important next step is to ensure that the principles contained within the strategies and guidelines are translated into actual construction and settlement by the building industry supported by planning authorities.

## 5.3 Issues Arising in the Delivery of Sustainable Settlements

The policy developments described above are of major significance. The principles and priorities contained in them are quite radical and unfamiliar given the pattern of residential development in the past four decades. Consequently, it is not surprising that they prompt questions. Here we discuss a number of questions about the principles of sustainable densities, consolidated urban areas and compact satellites. What are sustainable neighbourhoods and what are their advantages? Are quality sustainable development and adequate quantity of housing conflicting or complimentary goals? Does sustainable urban density mean high rise? Does a sustainable neighbourhood mean city-centre living? Is sustainable rural housing in conflict with the tradition of rural settlement patterns.

### 5.3.1 What Are Sustainable Neighbourhoods and What Are Their Advantages?<sup>4</sup>

The Irish and international interest in sustainable settlement and neighbourhoods reflects disappointment with the pattern of zoning, planning, settlement and building adopted in several western countries, including Ireland, after the Second World War. That pattern was characterised by a strict separation of land use, remarkable high car dependence and a pattern of suburban housing described by urban analysts as 'sprawl'. Dissatisfied with the outcome of this approach, there is now a return to a more traditional neighbourhood design in many countries, including Ireland, as illustrated in the strategies and guidelines described above.

4. The material in this section draws on interviews with a number of local authority planners and practising architects, as well as a range of Irish and international studies. These include *The New Housing*, published by the RIAI, the RIAI/IPI joint taskforce which reported in 1998 (RIAI/IPI, 1998), DTLR (2001), Duany et al (2000), Robbins (2004), Urban Task Force (1999).

In the analysis of these issues, the word ‘sprawl’ is not used to denote the expansion of cities and towns to new green spaces. Such an expansion is also a feature of the sustainable neighbourhood approach advocated in the NSS and other guidelines. ‘Sprawl’ refers to a particular, low-density, layout of housing which has numerous characteristics, but one of which is definitely its remarkably high use of the scarce factor, land.

### Unsustainable Suburban Sprawl

The National Spatial Strategy and other guidelines advocate mixed-use, well-designed, higher density development which integrates employment, community services, retailing and public transport. This contrasts sharply with post-war suburban development in Ireland and many other countries. The post-war suburban development has five components:

- ◆ *Housing arranged in pods involving a like-tree pattern;*
- ◆ *Shopping centres* which are places exclusively for shopping;
- ◆ *Civic institutions*—schools, churches, town halls—separate from each other and each with its own parking area;
- ◆ *Office parks* and business parks, as places only for work; and
- ◆ *Road ways*—miles of roads and pavements necessary to connect the other four disassociated components.

This pattern of development has a range of implications for the way people deal with their daily needs. The most important is the quite remarkable level of car dependence that necessarily follows from this pattern of development. Houses are at unwalkable distances from almost all amenities, so people have no alternative but to drive to schools, churches, shops and clubs. Not only is car dependence high, but traffic congestion per hundred cars is high, because all traffic feeds into a small number of ‘collector roads’. A remarkable feature of suburban sprawl is that traffic congestion is often as bad at the edge of cities as at their centre.

This pattern also explains the much greater use of the scarce factor, land. Not only is the density of housing low, but large amounts of land are devoted to roads per head of population and each public amenity (school, church, pub), has a separate car park<sup>5</sup>. Another feature of sprawling development is that things which are physically adjacent are frequently far away by road. This is true mainly because of the tree-like layout of streets and separate housing estates. It also reflects the policy of zoning land for a single use, and enforcing this through a road layout that makes shopping centres for example accessible only through a dedicated route.

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5. Research shows that the lower the density (say 20 dwellings per hectare) the larger the amount of area that is occupied by buildings, roads and open space (Urban Task Force, 1999). An hypothetical low density ‘neighbourhood’ could extend to nearly 1.5 km in diameter pushing over 60 per cent of houses beyond the 5 minute/500 metre walking limit that is deemed to be acceptable. As density increases even moderately (to 40 or 60 dwellings per hectare) the land take required diminishes considerably and people are close enough to walk to services and an efficient bus service can be made viable. The lower density suburban-style layout promotes excessive car dependence and makes it difficult to justify a bus route. A critical mass of development also contributes to the informal vitality of the streets and public places that attracts people to urban neighbourhoods.

While one of the hoped-for advantages of post-war suburban development was access to open space, this has not materialised in any real way. Although there is a large residue of land left over after roads and buildings are laid out, much of it has proven to be of low amenity and little used<sup>6</sup>. This approach discourages walking and cycling not only because of the distance to amenities, but also because its road junctions are typically wider and more dangerous than those of neighbourhood streets.

In addition to its negative impact on the environment, through car dependence, the post-war approach to suburban development is now recognised to have a number of negative social consequences. One is a stronger segregation of society by income than is typical in the alternative sustainable neighbourhood approach (described below). A second is a strong segregation by age. This reflects the single housing type that is normal in suburban estates. Indeed, the high level of car dependence can give rise to isolation, and ultimately the need for institutional care, once older people are unable to drive. Initial low densities fall even further as young people leave the family home<sup>7</sup>. The reduced density makes it even less likely that a wide range of services will be available. The pattern is also recognised to have negative consequences for teenagers and young adults. Their independence is limited by having to be driven to school, sports and social events by parents. Another segment of the population inconvenienced by sprawling suburban development is the commuter. Long commuting times add hours to the working day. This has significant consequences for the quality of family life, community involvement, social engagement and health<sup>8</sup>. It is important to note that it is not the distance from the city, per se, that causes most of the time lost in commuting. It is that fact that this type of residential development cannot effectively be served by rapid public transport, such as trains. Perhaps the most important social effect of this development pattern is one that affects all ages, the lack of both social and commercial services. The low density of population makes it economically unfeasible to provide adequate services.

### **The Sustainable Neighbourhood: Centred, Diverse, Walkable**

The alternative to suburban sprawl advocated in the National Spatial Strategy and other guidelines, is the sustainable, integrated, neighbourhood. Sustainable neighbourhoods have six characteristics that distinguish them from sprawl:

- ◆ The *centre*: each neighbourhood has a clear centre focused on common activities such as commerce, culture and public governance;
- ◆ The *five minute walk*: residences are rarely more than five minutes walk from the ordinary means of daily life;

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6. The analysis of different sub urban patterns shows that the details are very important. It is the detailed features of sprawling suburban estates that, together, create their unsustainability and negative effects. The other side of this coin is that, in some situations, some residents of such estates can avoid some of these negative consequences. This can arise, for example, where some residents are adjacent to green space which can be used actively and without car transport.

7. This phenomenon is now evident not only in some of the inner suburbs of Dublin, but even in areas constructed as recently as the 1970s, such as parts of Tallaght.

8. Recent research in the US identifies a correlation between urban sprawl and obesity (McCann and Ewing, 2003). Changes in Irish commuting patterns were outlined in Chapter 2.

- ◆ The *street network*: the street pattern takes the form of a continuous web or grid;
- ◆ *High amenity green spaces*;
- ◆ *Mixed use*, including residential, commercial and other activities; and
- ◆ *Narrow versatile streets*.

It is clear that the sustainable neighbourhood is, in many respects, based on traditional urban neighbourhoods common in cities over many centuries. The pattern has numerous advantages over that of suburban sprawl. It involves much less car dependence for daily tasks and can much more easily be served by effective public transport. It is more convenient in numerous ways. It contains many high amenity green spaces and playgrounds, rather than large tracts of green space at a distance from housing<sup>9</sup>. International research confirms that the level of walking and cycling is higher in more compact neighbourhoods (Ewing et al, 2002). It allows much greater independence to both young people and the elderly. It is more easily able to support the social integration of different income groups which is now a core element of Irish housing policy. Diversity prevents the demise of services, as density does not fall due to population ageing to the same extent as in homogeneous estates. The Regional Planning Guidelines for the Greater Dublin Area recognise 'that services in denser and more compact settlements are more affordable because their cost relates more to the overall area covered than it does to population', therefore implying that higher density development yields an overall lower per household cost (RPG, 2004). There is growing international interest in the role of urban design in crime prevention and the sustainable neighbourhood approach seen as an significant improvement (Katyal, 2002).

The sustainable neighbourhood approach is demonstrated in some recent Irish developments and numerous old and new settlements nationally and internationally. A good Irish example is found in the plans for Adamstown. These are based on a grid of streets which allow a higher level of walking and cycling. The overall plan includes a number of distinct neighbourhoods, each with a centre and identity. The plan includes a mixture of densities and a range of planned, parking solutions. Although there is a well thought out overall plan, it retains a significant organic element, since its various parts will be constructed by a number of developers over a number of years.

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9. Recent research carried out for the Barker report in the UK suggested that a hectare of well-maintained city centre park would be likely to yield annual benefits of £54,000 Stg. equivalent to a capital value in excess of £10 million Stg. (Barker Report, 2004).

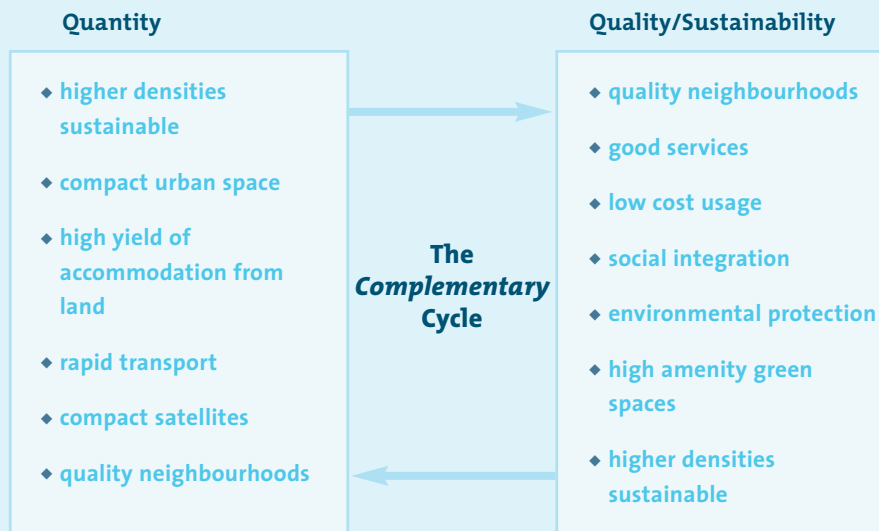
### 5.3.2 Are Quality and Quantity Conflicting or Complementary Goals?

In making the case for sustainable development it is necessary to deal with an important possible objection concerning the interaction between the quantity and quality of development. Casual observation of trends in recent decades might be open to the following interpretation: extensive new development on distant greenfield sites has been a vital component of the increased supply of housing and has been necessary to meet the greatly increased demand. In Chapter 3 we outlined a view, held by many, that quantity and quality development are inherently in opposition and that urban sprawl and extensive low density settlement are an unavoidable feature of the strong supply response necessary to meet Ireland's housing needs. Consequently, placing a limitation on extensive development is likely to reduce the supply response and worsen the overall housing problem.

While this interpretation has an obvious plausibility, it is undermined by more careful long term and comparative analyses. Heavy reliance on distant greenfield low density development in Ireland is largely the result of a set of structures and systems which did not accommodate a supply response in and near urban areas.

The Council believes that in an altered institutional context, such as that emerging in Ireland, the goals of housing provision, sustainability and social integration can be complimentary. This positive relationship between quantity and sustainability quality is illustrated in Figure 5.2. Well-designed neighbourhoods will have sustainable densities, good educational, recreational and retail services accessible with limited car usage, and good transport links to other urban and rural areas. These environmentally sustainable features will be supportive of social sustainability: a rich associational life, inter-generational integration, employment opportunities, balanced work/life arrangements and crime prevention. The elements of this approach are now well known and the principles are part of Irish policy. The complementarity of quality and quantity will be achieved if the projects proposed by the industry embody the new principles and the new procedures for setting guidelines and planning are operated effectively by central government, regional authorities and local government.

Figure 5.2 The Potential for Complimentarity between Quantity and Quality



Higher density and better planned neighbourhoods can contribute to a compact urban environment, efficient use of the scarce land close to the urban core, effective and viable provision of services, a critical mass necessary to provide a frequent interconnected public transport system and increased opportunities to walk and cycle to work, school and shops. When combined with high amenity areas—such as playgrounds and well maintained green spaces in the form of urban squares and public parks—an area of good environment and high amenity will command a price premium. The strong preference for integrated neighbourhoods is demonstrated by the very high price paid for property, even quite small houses and apartments, in such areas<sup>10</sup>.

The failure to build at sufficient density throughout most of the 1990s meant that large tracts of serviced development land yielded significantly less residential units than might have been the case had they been built at higher densities. This exacerbated the difficulties of meeting the necessary housing supply from a given supply of serviced land. It implied that settlement spread to a greater extent than was necessary and that land and house prices rose more than would otherwise have been the case. In addition, the spread of settlement has given rise to ongoing public and private costs in the form of costly service provision (in new schools and other services) and through lengthy commuting patterns.

10. An example would be the area of Drumcondra in Dublin. While the high price of property in such an area might, in part, reflect its central location, this is by no means the main explanation. This can be seen by noting that equally high prices are paid for quite small houses and apartments in well laid out neighbourhoods that are located many miles from the city centre, so long as they are served by public transport, such as rail.

A recognition of the important contribution of low density and under-utilisation of scarce land resources to the problems of the recent past underlines the importance of ensuring that development of high quality and appropriate density is delivered in the future and that the greatest possible benefit is derived from the provision of costly public services.

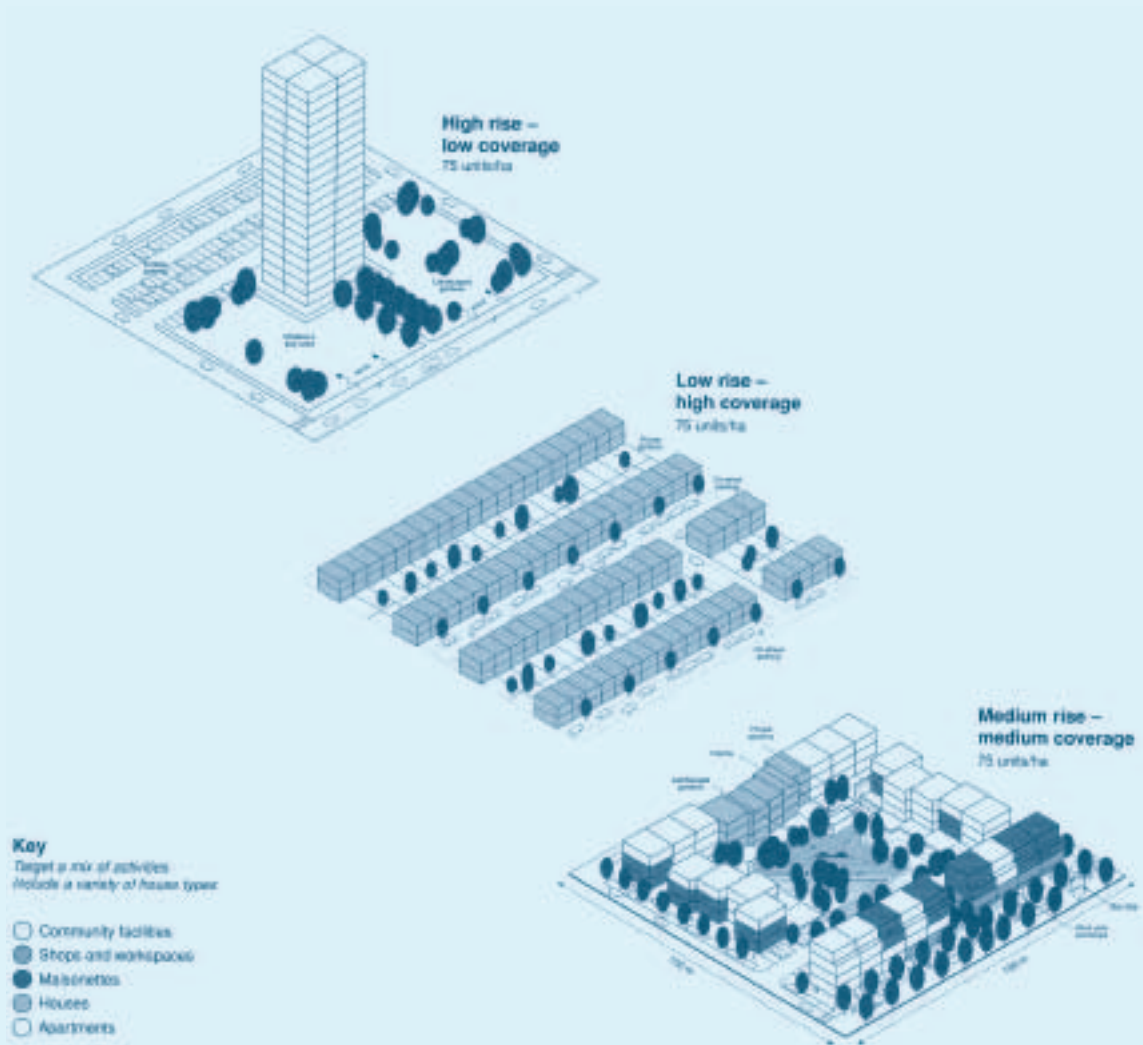
While land close to the urban core is scarce, it is still possible to accommodate a significant number of new households within and near existing metropolitan areas. Where greenfield development is necessary, and it is, it can consist of the construction of new sustainable neighbourhoods, as described above.

### 5.3.3 Does Sustainable Urban Density Mean High Rise?

A second possible objection to the principles in the NSS and the new guidelines is that higher density means high rise tower blocks. This is an understandable, but factually incorrect, view.

High density does not necessarily mean high rise. One of the common misperceptions is that the tower blocks and deck access housing built in the 1960s and 1970s, and which generally was not a success, was high-density development. In fact, given the amount of open space left surrounding the blocks the overall density of the schemes was often quite low. Moreover the open space that was provided was often of a low amenity value and could detract from the overall living environment within the development. Figure 5.3 shows how a variety of different housing layouts, ranging from the Victorian back-to-back layout to the modernist high rise 'tower in the park', achieve the same overall density of development. The third layout shown in Figure 5.3 is one used to create sustainable neighbourhoods. It includes a variety of dwelling types—house, apartments, maisonettes—and a mix of activities. It is possible to achieve sustainable densities without either high rise towers or the grim monotony of some Victorian back-to backs. However, high rise development should not in itself be ruled out. Moreover, its deployment should be dependent on factors such as location and the range of other facilities and amenities available in the locality.

FIGURE 5.3 Relationship between Density and Urban form



Source: *Urban Taskforce (1999)*

#### 5.3.4 Does a Sustainable Neighbourhood Mean City Centre Living?

A third objection to the new principles in the Spatial Strategy and other policy documents is that the kind of sustainable neighbourhood advocated means city centre living. This is also an understandable, but incorrect, belief. While the debate on urban settlement did, at one stage, take the form of an argument about 'city-centre housing' versus 'edge development', this is no longer the case. In countries with dynamic economies and expanding populations—such as the US, Ireland and others—it became accepted by all that housing needs required significant new development beyond the bounds of existing cities and towns. Likewise, those building new suburbs, and those living in them, came to accept

that the post-war pattern of suburban sprawl was highly problematic. Thus, the core idea is not so much the *location* of housing, but the nature of a high-quality, sustainable, neighbourhood.

This convergence of views suggests that the location of sustainable neighbourhoods is not the key issue. But it does, of course, underline the fact that when they are located at a distance from the city, from employment, from universities or hospitals, then high-quality, rapid, transport is an absolutely essential requirement. This does set limits to the possible locations of new residential neighbourhoods, since adequate transport infrastructure and services cannot be provided in all directions.

### Urban Advantage and Added Value of Good Planning

The answer to these questions shows that the essence of the new neighbourhood approach is neither 'higher density' nor 'urban form'. Higher density applied to new settlements that still conform to the post-war model of suburban sprawl could even be worse than the original. While the higher density will save on land and might support some more services, it is likely to make traffic and other problems worse. Equally, isolated pieces of urban-form housing, without the necessary supporting neighbourhood and services, are likely to be seen as less desirable places to live. Indeed, experience shows that isolated pieces of urban-form housing, often come to be occupied predominately by welfare recipients and immigrants. What is missing in both cases is the urban advantage or added value that characterises the kind of sustainable neighbourhoods now prepared by the leading urban designers, planners and architects and provided by the most progressive developers and builders. It is this *urban advantage* or *added value* that is reflected in the high prices paid for property, even small units, in those integrated, diverse, neighbourhoods that are available<sup>11</sup>.

#### 5.3.5 Is Sustainable Rural Housing in Conflict with Irish Rural Tradition?

The principles, strategies and policies adopted in Ireland in recent years outline a new perspective on rural housing. These include a resistance to urban-generated rural housing, a focus on the true costs of one-off rural housing (which can include costs of connection to infrastructure, service provision, environmental damage and negative effects on the beauty of the landscape) and the goal of encouraging new settlement in existing villages or new clusters. In this context, it is natural to ask whether this model of sustainable rural housing is in conflict with the Irish rural tradition.

There are undoubtedly complex, contentious issues involved. There are significant costs associated with rural housing and, in particular, one-off or individual houses. Some of these reflect the cost of dealing adequately with waste water or, if this is not done, the cost to the environment. Others reflect the cost of providing infrastructure connections and services to widely dispersed houses. One effect of these is that services—such as transport, policing and social services—are not provided to rural dwellers at an adequate standard. But there are also substantial benefits in a thriving rural community with high levels of social capital, informal networks of care and a strong sense of community.

<sup>11</sup> It is the lack of urban advantage and added value that explains the fact that many suburbs built in earlier decades have increased in value by relatively little.

In addition to the undoubted costs associated with one-off rural housing, it is necessary to take note of the following realities:

- ◆ The changing nature of agricultural production and continued reduction in the number of viable farm units;
- ◆ A recognition of the existing policy statements contained within the National Spatial Strategy and the White Paper for Rural Development;
- ◆ The fact that over 40 per cent of the existing population live in dispersed rural settlements;
- ◆ The need to allow for sufficient housing for those whose work is tied to the rural environment and to ensure that it is affordable;
- ◆ That landowning is highly dispersed among the rural population and that the sale of sites and land for development has often provided an important supplement to income; and
- ◆ That self-promoted and one-off housing in the countryside has been one of the primary means of providing access to affordable housing.

The key issue is surely finding a balance between the social, economic and environmental factors listed above. Such a balance will need to be appropriate to Ireland's settlement patterns and evolving rural tradition. It will need to be responsive to current land use and transport issues, particularly in rural areas surrounding the gateways and hubs identified in the NSS.

One mechanism that could move the debate forward might be a forum on housing in rural areas. Such a forum could focus initially on best practice in the implementation of the draft planning guidelines on sustainable rural housing. This could facilitate engagement of the different voices on the practical task of identifying and disseminating best-practice in both planning and design. Given that a significant level of rural housing is constructed in Ireland, the quality of its design seems vital in both minimising any negative effects and ameliorating conflict over its location. A number of local authorities have commissioned work on housing design in rural areas. It seems that well designed housing, which blends with the landscape and vernacular rural housing, can overcome a number of otherwise legitimate objections to the location of new dwellings. Acceptable design standards could be adopted across rural local authorities. It may be possible to learn from guidelines which apply in Northern Ireland, which has a similar rural heritage.

## 5.4 Achieving Integrated Sustainable Development

### 5.4.1 The Significance and Strengths of Ireland's Evolving Settlement Policy

Because of the policy developments described above, Irish housing policy is now informed by a new set of principles: sustainable densities, consolidation of urban areas, creation of compact urban satellites developed around transport infrastructure and sustainable rural settlements. The approach taken to policy change has been evolutionary and incremental: enshrining new principles for sustainable settlements in the overarching national strategy, creating a hierarchy of plans and guidelines and instigating new procedures in local and regional authorities. This approach was appropriate, given the dispersed nature of decision making in the fields of physical planning, housing, infrastructural investment and transport. Indeed, what was described above as the 'hierarchy of plans' is a hierarchy in a weak sense, since the overarching National Spatial Strategy is an indicative one, as are the guidelines.

The strength of the approach is that it has gradually built a degree of consensus—among local and regional authorities and, hopefully, among developers and builders—on the new set of principles. Consequently, it has engaged the energy of these important actors, rather than create a polarised debate and prompt resistance in day to day planning decisions. The strengths of this approach are demonstrated by the fact that it has already achieved a significant improvement in patterns of physical development, and that improvement can be expected to increase considerably as more new settlement is planned and built as sustainable neighbourhoods.

### 5.4.2 The Risks to Ireland's Evolving Settlement Policy

As noted above, the Council attaches great significance to these policy developments. Since they are recent, and are gradually informing the approach at national, regional and local level, it is in many respects, too early to judge whether the procedures and institutional arrangements are now adequate. Nevertheless, there is a risk that the procedures and institutions will not achieve sufficient coordination to ensure rigorous and widespread implementation of the new principles. It is possible to identify a number of areas of policy where this risk applies:

- ◆ Risks to the overall Spatial Strategy if Dublin continues to grow;
- ◆ Risks regarding the links between settlement and transport planning at regional level, especially in the GDA;
- ◆ Constraints on development at local authority level.

Each of these risks is described below.

#### The Risk to the Overall Spatial Strategy

The NSS goal of balanced regional development in gateways and hubs implies significant regional investment. Equally, ensuring that the Greater Dublin Area develops as a competitive European and world city has substantial infrastructural implications. The potential risk is that in rationing investment between the

regions and Dublin, overall policy might achieve neither balanced regional development nor an effective city-region in Dublin. The risk is that Dublin would continue to grow as before, but, because this was not envisaged in the NSS, it would not be provided with sufficient infrastructure to allow it function as a successful city region.

This suggests that it is necessary to now identify and prioritise the next generation of major infrastructural investments necessary for a competitive regional and national economy. Within the Greater Dublin Area, several major projects such as the LUAS, M50 and port tunnel are now nearing completion. Elsewhere, integrated transport and land use plans are now being put in place<sup>12</sup>. For Dublin, it is crucial that decisions on the next generation of infrastructural investments are made quickly and given priority.

The analysis of past experience in Part II, showing the critical role of transport in both housing supply and sustainable neighbourhoods, strongly suggest that further transport infrastructure, probably in rail, is necessary. The analysis of the lower supply response in Dublin over the past decade highlights the fact that the availability of transport is critical in facilitating adequate housing supply in two ways. First, it allows builders to propose settlements at sustainable densities and allows local authorities to grant permission for them. Second, it brings new land into the effective supply of land. A narrow cost-benefit approach to public transport investment decisions, which measured *current* demand and usage, would miss a fundamental aspect of urban development: transport not only connects existing places, it makes new places<sup>13</sup>.

These risks to the overall national spatial strategy highlight the key role of national government. Most of the large-scale infrastructural investments necessary to secure regional development, in Dublin or the gateways, require, in the first instance, central government decision and national funding.

### **Risks Regarding the Links Between Settlement and Transport at Regional Level**

A related risk is that the strategies and procedures put in place in recent years will not achieve a sufficient degree of integrated land use planning to link settlement and transport. This is a risk because the procedures might not be informed by sufficient in-depth analysis and spatial planning, linking land use decisions to transport and other service requirements. It is also a risk because the procedures for co-ordinated implementation at regional level, though much improved, may not prove adequate.

Once again, this risk seems greatest in the Dublin area. The recently published Regional Planning Guidelines for the Greater Dublin Area recognise that 'there are many issues, including physical, social, economic and environmental issues, which have impacts across a number of Local Authorities and which require a common agreed response in order to meet the requirements of national policy'. The problem of achieving consensus could be significant where a large number

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12. These arise in Waterford, Galway and in the recently approved Cork to Middleton railway line.

13. Indeed, it is not sufficiently recognised that transport offers a solution to some of the problems created by high house prices. One of the problems commonly identified is that young people cannot afford to settle in the areas where they grew up and where a network of support is available. Improved transport can significantly address this problem, since it dramatically reduces the effective distance between people.

of local authorities, and indeed more than one regional authority, must collaborate if effective overall settlement design is to be achieved, such as in the Greater Dublin Area. These numerous local actors must also interact with a number of other national agencies, such as national public and private transport providers, the DTO, the NRA and providers of other forms of infrastructure.

The Council is not the first body to express concern about the long standing weakness of integrated planning and implementation in the Greater Dublin Area. The issue was explored in the joint Consultation Paper prepared by the then Departments of the Environment and Local Government and Public Enterprise in 2001, entitled *New Institutional Arrangements for Land Use and Transport in the Greater Dublin Area* (Department of Environment and Local Government, 2001). That paper proposed the creation of a new Greater Dublin Authority and the Programme for Government contained a commitment to introduce legislation to establish a Greater Dublin Land Use and Transport Authority. The Council supported the creation of a such a body in its 2003 Strategy report (NESC, 2003). It continues to see merit in the idea, since the deficit of long-term strategic planning, co-ordination and implementation which motivated the proposal for a GDA authority is a central finding of the Council's examination of the Irish housing system. However, if broad consensus on the nature and functions of such an agency does not exist, then the creation of the agency is likely to become the question rather than the solution. In particular, debate on the relative responsibility of national government, local authorities and the new Dublin authority for planning and execution could divert energy from the urgent issues involved.

For this, and other reasons outlined below, the Council does not suggest the creation of an executive agency for the Dublin region at this time. But it emphasises that, if current institutional arrangements are retained, it is vital that two things are achieved:

- (a) Active engagement with the new set of national, regional and local procedures to ensure that Regional Planning Guidelines both align with the NSS and strongly inform county development plans; and
- (b) Support for this process by creating enhanced capacity and capability in the provision of spatial information and the conduct of spatial analysis (see below).

To turn the new set of principles and guidelines into reality requires an active process in which the central Department, the regional authorities and the local authorities engage with each other, and with other actors, to scope out a desirable pattern of long term settlement for each region, city, gateway, hub and, indeed, town.

### **Risks at Local Authority Level**

There are also a number of risks at local authority level. These include, first, the risk that the six year county development plans will not be sufficiently informed by long term strategic plans for local and regional development; second, the risk that the new principles discussed above will not be sufficiently reflected in the projects proposed by builders and given the permission by planning authorities; third, the risk that authorities will not create and maintain the level of local

infrastructure and services necessary for the sustainable neighbourhoods described in Section 5.3; and, fourth, the possibility that the overall planning process will not be fast enough.

We have argued above that it is crucial in designing well planned settlements that both regional and local authorities have a time horizon at least as long as that adopted by most pro-active developers. This does not mean that every county development plan must provide a detailed plan over a 15 or 20 year horizon; but that they need to be informed by both regional planning guidelines and the NSS that do adopt a longer time horizon. The risk is that the current overall planning horizon may in practice still not be sufficient to provide the necessary certainty for developers and to allow local authorities to accurately forecast the appropriate quantity of land to be zoned, serviced and made ready for development. This is particularly true in a situation where the processing of planning applications, including the appropriate recourse to third party appeals, takes a considerable period of time. The relative length of the planning time horizon and the speed of the planning process has an important influence. The current planning horizon and sometimes protracted planning process means that, in some cases, housing developments included in a county plan cannot be completed within the life of the plan. It is likely that a longer term development framework, adopting a 10, 15 or 20 year horizon—achieved by an effective combination of national, regional and local strategies, guidelines and plans—would considerably reduce the speculative element in land transactions and could reduce the level of betterment associated with land rezoning by relieving the scarcity of zoned and serviced land<sup>14</sup>.

Some argue that the Irish planning system is slow, cumbersome and subject to appeal at so many levels that it is unable to respond in a flexible manner to the demands placed upon it. It is clear that the demands on the planning system have increased dramatically in recent years. Not only has the number of applications and permissions increased, but applications have become more complex because of the increased focus on integration of residential development with other infrastructure and services<sup>15</sup>. It is true that the Irish planning process provides for significant consultation and appeal, not only at the level of the development plan but also at the granting of each individual permission, which can subsequently be appealed to Bord Pleanála.

The speed and efficiency of the planning system is governed by both Acts and Regulations and business procedures. The recent discussion of this issue in the All Party Oireachtas Committee report concluded that ‘in considering the range of issues involved in the process of development planning the committee concluded that there was a need for a national development forum through which the best thinking and practice would be made available continuously to the whole planning system’ (APOCC, 2004 p.123). The Council believes that such a forum could consider issues such as the alteration of the development framework to a longer time horizon; the possibility of streamlining the stages of

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14. This point is picked up again in Chapter 7.

15. The Irish planning system is now handling around 80,000 applications a year. The majority of these are housing related, with permission being granted for 25,401 new dwellings in the first quarter of 2004 compared to 13,541 twelve months previously.

appeal in the process while balancing this with the need to maintain local level democracy; procedures to help ensure that a consistent approach is taken at the local authority level throughout the processing of planning applications both between applications and over time; the co-ordination between national agencies, government departments and local authorities responsible for the delivery of infrastructure including the opportunity to learn from best practice. We return to the issue of this co-ordinating role in the next section.

The APOCC Committee also examined the level of resources and expertise available to the planning system and recommended that An Bord Pleanála be adequately resourced to expedite the planning process including the provision of economics skills and the ability to take measures to foster a continuing improvement of the understanding of urban and regional economics (APOCC, 2004 p. 125). The Council endorses these suggestions.

Some of the complaints about delays in the planning process relate to Local Area Plans. It is felt by some builders that the lack of a Local Area Plan is used as a reason to see applications as premature. Whatever the validity of this complaint, given the importance of Local Area Plans in ensuring integrated, sustainable, neighbourhoods, it is important that they are not marginalised. The Council welcomes the fact that in the case of some local area plans a two year time frame already applies<sup>16</sup> and believes consideration should be given to extending it to all such plans, although this would obviously have additional resource implications. It might also be useful to encourage a closer co-operation between developers and local authorities at an early stage to ensure that a local area plan that meets both the needs of the community and developers can be delivered. The most forward thinking developers realise that there is considerable potential for a win-win situation to be created from good local area planning.

In general, a high priority should be given to ensuring that the new planning principles are fully reflected in Regional Planning Guidelines, Local Authority Development Plans and Local Area Action Plans. The Department of Environment, Heritage and Local Government intends to issue a guidance note to planning authorities on the implementation of regional planning guidelines.

The third risk at local level is that authorities and others will not create and maintain the level of local infrastructure and services necessary for the sustainable neighbourhoods described in Section 5.3. It is the range of amenities and services that, combined with good design, make it possible for a neighbourhood to be more than the sum of its parts. It is this that constitutes the *added value* referred to above. Developers and builders have a critical role, and some have already recognised that well-planned and desirable developments command a price premium. If the vision of sustainable neighbourhoods in effective towns and cities is to be realised, then higher quality local infrastructure and associated services are an indispensable requirement.

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<sup>16</sup>. For those towns with a population in excess of 2000, which are not themselves planning authorities.

### 5.4.3 Enhanced Capacity for Spatial Analysis

The Council believes that the risks discussed above reflect a number of remaining weaknesses in the evolving system of spatial planning:

- ◆ Insufficient research on spatial patterns and trends;
- ◆ Insufficient analysis of the interaction between land use decisions, transport infrastructure and other service requirements;
- ◆ Insufficient monitoring of the degree to which local plans and new construction are achieving sustainable development; and
- ◆ Delays and indecision at national government level on major transport investments, particularly for the GDA.

The Council believes that the risks can be minimised by ensuring that there is within the public system the capability to support decision makers at all levels by:

- ◆ Undertaking research on physical development and property markets;
- ◆ Analysis of the links between land use and transport planning;
- ◆ Identification of best practice through comparison of plans and trends;
- ◆ Supporting national government, regional authorities and local authorities in achieving integrated development; and
- ◆ Acting as the repository of spatial data.

The creation of this capability can add to recent improvements by assisting those who make and implement policy at several levels. In particular, it could:

- ◆ Assist national government in identifying major infrastructure requirements, especially in the GDA, and making early decisions on investments;
- ◆ Assist regional authorities in the complex task of analysis necessary to frame integrated housing and transport plans across groups of local authorities; and
- ◆ Assist local authorities with the in-depth analysis necessary to fully reflect national principles and guidelines in local development plans.

For example, the analysis provided by this new entity might assist the overall national, regional and local planning process to achieve the move to a longer time horizon. As argued above, a longer time horizon is necessary to achieve an effective zoning and supply of land and to achieve greater integration of settlement and transport decisions.

An enhanced capacity and capability for spatial analysis would meet a number of needs also identified in the APOCC Report (APOCC, 2004): data gathering and transparency (p. 75), research (p. 94), increased national planning guidance (p. 110), planning advice by suitably qualified professionals (p. 121), 'a national development forum through which the best thinking and practice would be made available continuously to the whole planning system' (p. 123), and the provision of adequate resources to expedite the planning process, including 'economic skills...and continuous improvement of the understanding of urban and regional economics' (p. 125).

## 5.5 Conclusion

National policy is now committed to sustainable settlement. This has been created by a series of incremental policy developments over the past decade which have begun to have a real influence. However, to date the perceived conflict between quality and quantity has too often been invoked, and the urgent objective of ensuring greater quantity has been at the expense of quality development. The Council believes that increased quantity and better quality can be complementary. They can, in fact, be mutually reinforcing if the industry is committed to creation of sustainable neighbourhoods and the planning procedures and structures at national, regional and local level are correct.

The magnitude and significance of this challenge needs to be recognised. It bears comparison with two other great challenges that Ireland faced and met in the past half century—the opening of the economy in the early 1960s and the establishment of the partnership approach in the mid 1980s.

It is similar in three ways. First, it is essential to the social and economic future of Irish society. Second, it requires a widely shared understanding and consistent action by numerous organisations, both public and private. Third, it challenges not only our traditional behaviour but, more importantly, the self perception that underpins that behaviour. The opening and modernisation of the economy challenged the self-perception that Ireland was a cohesive society, but one that could not aspire to the levels of material prosperity found elsewhere. The recasting of policies and approaches in the 1980s challenged the self-perception that the Irish are a creative and convivial people, but not capable of high-grade manufacture of sophisticated objects. Achievement of the new principles of urban development seems to be blocked, more than anything else, by the self-perception that Ireland is so attached to extensive development, and so divided between competing interests, that although we can create a dynamic economy, we cannot make quality, sustainable cities and towns. Since the earlier self-perceptions were confounded by the emergence of a prosperous society and a world centre of engineering and information technology, there is no reason why we cannot prove ourselves wrong again.

**Table A5.1** Development Contributions under Section 48, Planning and Development Act, 2000<sup>1</sup>

	Water	Sewerage	Roads	Amenity/ Community	Total
Carlow					
Residential	€1,216	€1,622	€557	€405.41 *	€3,800*
Cavan					
Residential	€1,250	€1,250	€1,050	€350	€3,900
Clare					
Towns and Villages	€2,000	€2,000	€400	€1,100	€5,500
Single Rural House	€1,500	€1,500	€100	€200	€3,300
Holiday Home	€2,000	€2,000	€400	€3,100	€7,500
Cork*					
Urban – All Services	Up to €19 per m²	Up to €19 per m²	€13 per m²	€5 per m²	€18 per m² – €56 per m²
Cork City Council					
Residential	€23.92 per m²		€37.16 per m²	€7.17 per m²	€68.25 per m²
Donegal					
Residential	€1,100 + €8 per m² over 125 m²	€2,400 + €19 per m² over 125 m²	€2,000 + €15 per m² over 125 m²	€800 - €1,000	€6,300 – €6,500 + €42 per m² over 125 m²
Holiday Home	€1,100 + €8 per m² over 125 m²	€2,400 + €19 per m² over 125 m²	€2,000 + €15 per m² over 125 m²	€6,000	€11,500 + €42 per m² over 125 m²
Dublin City					
Residential	€6,592		€2,588	€2,318.40	€11,500
South Dublin					
1 bed unit	€1,335		€2,490	€1,175	€5,000
2 bed or more	€2,670		€4,980	€2,350	€10,000
Dun Laoghaire/Rathdown					
Residential	€3,202		€4,487	€3,811	€11,500
Fingal					
Residential	€45.02 per m²		€63.00 per m²	€20.98 per m²	€129 per m²
Galway					
Residential	€900 – €2,600	€1,500 – €1,700		€500 – €2,300	€2,900 – €6,600

	Water	Sewerage	Roads	Amenity/ Community	Total
<b>Galway City Council</b>					
Residential					€8,000 – €10,000
<b>Kerry</b>					
Private Residential	€1,500	€3,000*	€1,200	€750	€6,450
<b>Kildare</b>					
Residential	€4,000	€2,500	€4,000	€3,500	€14,000
<b>Kilkenny</b>					
Residential					€45.00 per m <sup>2</sup>
<b>Laois</b>					
Residential	€1,100	€1,100	€190 – €444	€381	€2,671 – €3,025
<b>Leitrim</b>					
Town					€4,500 plus €15 per m <sup>2</sup> in excess of 210 m <sup>2</sup>
Rural					€1,000 – €1,700 plus €15 per m <sup>2</sup> in excess of 210 m <sup>2</sup>
<b>Limerick County</b>					
Residential	€750 where applicable	€750 – €1,500	€1,275 – €4,125	€750 – €1,500	€2,025 – €7,875
<b>Limerick City Council</b>					
Residential					€3,000 – €3,800 + €10 per m <sup>2</sup> over 112m <sup>2</sup>
<b>Longford</b>					
Residential	€1,500	€1,500 – €2,000	€1,000 – €1,500	Zero – €1,500	€4,000 – €6,500
<b>Louth</b>					
Residential	€2,794	€2,397	€2,090	€1,397	€8,678
<b>Mayo*</b>					
Residential	€1,500	€1,500	€1,475	€800	€5,275
Single Houses	€1,000 as appropriate	€1,500 as appropriate	–	–	€2,500 if appropriate

	Water	Sewerage	Roads	Amenity/ Community	Total
<b>Meath</b>					
Zoned Land					€10,500 – €15,000 depending on size
Rural					€3,800 – €15,000 depending on services available and size
Graig					€3,300 – €15,000 depending on services available and size
<b>Monaghan</b>					
Residential	€1269	€2,539	€634	–	€4,442
<b>Offaly</b>					
Residential	€1,500	€2,000	€500	€500	€4,500
<b>Roscommon</b>					
Residential	€800	€1,400	€1,700	€2,100	€6,000
<b>Sligo</b>					
Residential – County	42 per cent	42 per cent	8 per cent	8 per cent	€4,800 + €15 per m <sup>2</sup> over 150 m <sup>2</sup>
Residential – Town	42 per cent	42 per cent	8 per cent	8 per cent	€6,000 + €15 per m <sup>2</sup>
<b>Tipperary NR</b>					
Partially Serviced	€5.40 per m <sup>2</sup>	–	€9.20 per m <sup>2</sup>	€8.00 per m <sup>2</sup>	€22.50 per m <sup>2</sup>
Fully Serviced	€5.40 per m <sup>2</sup>	€11.10 per m <sup>2</sup>	€12.30 per m <sup>2</sup>	€8.00 per m <sup>2</sup>	€36.80 per m <sup>2</sup>
<b>Tipperary SR</b>					
House – Town	€6.66 per m <sup>2</sup>	€17.60 per m <sup>2</sup>	€12.80 per m <sup>2</sup>	€10.87 per m <sup>2</sup>	€ 47.93 per m <sup>2</sup>
House – Countryside	€6.66 per m <sup>2</sup>	–	€12.80 per m <sup>2</sup>	€10.87 per m <sup>2</sup>	€30.33 per m <sup>2</sup>

	Water	Sewerage	Roads	Amenity/ Community	Total
<b>Waterford</b>					
Residential	€10 per m <sup>2</sup>	€15 per m <sup>2</sup>	€5 per m <sup>2</sup> to 150 m <sup>2</sup> and €10 per m <sup>2</sup> thereafter	€5 per m <sup>2</sup>	€35 – €40 per m <sup>2</sup>
<b>Waterford City Council</b>					
Residential	€1,003 – €1,333	€1,003 – €1,333	€1,245 – €1,701	€1,015 – €1,275	€4,266 – €5,624
<b>Westmeath</b>					
Residential	€1,500	€1,500	€750	€750	€4,500
<b>Wexford</b>					
Urban	€1,400 – €2,400	€2,100 – €3,600	€3,000 – €5,000	€250 – €500	€6,750 – €11,500
Rural*	€1,400 – €2,400	€2,100 – €3,600	€250 – €3,000	€250 – €500	€4,000 – €9,500
<b>Wicklow</b>					
Urban	€1,400		€3,200	€400	€5,000
Rural	–		€1,780	€220	€2,000

**Notes** 1. This table only provides development contributions for the county and city authorities and not the town councils.  
In some cases the town councils may require a greater contribution towards community and amenity facilities.

*Carlow* – An additional €10.90 per m<sup>2</sup> for developments above 126m<sup>2</sup> is levied for the purposes of recreation, parks and leisure.  
Where the units greater than 186m<sup>2</sup> this rises to €21.79 per m<sup>2</sup>.

*Cork* – The first 40 m<sup>2</sup> for conventional housing does not attract a charge.

*Galway* – Houses connected to private water supplies will be charged 50% of the water rate.

*Galway* – Private houses of <125 m<sup>2</sup> will benefit from a reduction of €200 in the recreation/ amenity charge in each area.

*Kerry* – A special levy of €6,000 applies where accelerated village sewerage is required.

*Mayo* – A First Time Buyer can receive a discount of €1,500

*Tipperary NR* – A FTB in a house of <125 m<sup>2</sup> will be entitled to a 50% discount on the charges.

# 6

## Social Balance: Meeting the Challenge of Social and Affordable Housing

This chapter outlines a number of recommendations on the management and supply of social and affordable housing. Section 6.1 documents the need for greater dynamism in supplying social and affordable housing. Section 6.2 outlines general principles that should inform policy on social and affordable housing and the strategic direction that should be taken. The following three sections then outline the Council's principal recommendations for an expanded and more flexible stock of social housing (Section 6.3), for a wider range of graduated supports for 'intermediate' households (Section 6.4), and for supporting an increased provision of social and affordable housing (Section 6.5). Section 6.6 concludes with a discussion of a set of miscellaneous policy issues considered to require further analysis and debate before definitive recommendations can be made.

## 6.1 Introduction

There is greater dynamism in the supply of private housing than in that of social and affordable housing in the Irish housing system (Chapter 3). The Economic and Social Infrastructure Operational Programme (ESIOP) of the NDP for 2000-2006 envisaged approximately 85 per cent of the total housing requirement over the period of the plan being met by the private sector, with the balance coming from social and affordable housing measures.<sup>1</sup> By mid-term (end 2003), the supply of private dwellings, however, was far in excess of what the ESIOP had foreseen (it reached almost 69,000 units, up from the then peak of 46,500 in 1999, the year in which the ESIOP was drawn up). By contrast, the increments envisaged by the ESIOP for local authority housing and voluntary and co-operative housing to the end of 2003 were 9 per cent and 6 per cent behind target respectively although expenditure was actually greater than forecast.<sup>2</sup> The links between such a rapidly growing supply of private dwellings and difficulties in meeting targets for social and affordable housing are complex. For example, the much greater supply of private dwellings may make it easier to redirect some of these to social and affordable housing; however, competition for sites and construction capacity can mean that a given budget for social housing translates into fewer dwellings.

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1. *Economic and Social Infrastructure Operational Programme (1999: 83, section 6.3.1).*

2. *Targets in tables 6.6 and 6. of the Economic and Social Infrastructure Operational Programme: Output to date in Appendix table 6.9 of the Background Analysis.*

The Council is firmly of the view that a robust policy response is required in the coming years in order to ensure that the need for social and affordable housing receives protection in Ireland's changing housing market and priority in its public spending. Increased levels of public investment have certainly taken place across a growing range of social and affordable housing measures under the NDP and earlier, resulting in significant qualitative and quantitative improvements. However, the combination of higher levels of direct provision by local authorities and the voluntary & co-operative housing sector, on the one hand, and the re-channelling of private supply for non-market allocation through measures such as Part V, on the other, has not been sufficient in the Council's view to address the full extent of housing need not catered for by the private market.

One estimate of the scale of emerging need—calculated from Housing Strategies prepared by local authorities in 2002 on the basis of projections of household formation, income growth, house price inflation and interest rates—suggests that up to *one third* of projected new households that will form in the coming years may need housing supports. While some concerns have been expressed about the accuracy of this composite estimate<sup>3</sup>, it is challenging that, in the context of such an overall trend, the share of *new* supply accounted for by social housing fell as low as 6 per cent in 2000 and has averaged less than 10 per cent since the late 1990s. The emerging policy challenge, therefore, is both to ensure that support for social and affordable housing is on an adequate scale and that it is provided through an effective and integrated range of supports which reflects the wide spectrum of households currently falling below the affordability threshold being used by local authorities to measure housing need. Issues in relation to current methods of assessing housing need are considered further below.

The less dynamic social housing supply has had a number of important consequences: (1) the capacity of the system to address the growth in social housing need in a planned manner has been reduced. There has been a growing recourse to demand-side subsidies of questionable long-term efficiency that seek to redirect a share of private housing to social purposes (e.g. supplementary welfare rent allowance, and the use of B & B accommodation for homeless persons and families); (2) local authority waiting lists have grown at a rate and to a level which are unacceptably high; (3) the social housing sector could be viewed as having been further residualised; (4) more households in the private rental sector are experiencing affordability problems; and (5) the options facing intermediate households caught between paying high private rents or struggling to become home owners have deteriorated.

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3. In drawing up their housing strategies in 2001, local authorities—following central government step-by-step guidelines—each estimated the proportion of need for new households in their area that would fall below a common affordability threshold. Trends in income distribution, house prices and interest rates were studied using the best available data. A team of researchers assembled by four NGOs to study the full set of local authority housing strategies revealed this implicit joint conclusion of the housing strategies, viz. that approximately one third of all new households likely to be formed in the State between 2001 and 2005 would fall below the affordability threshold (Full Research Report. *An Analysis of Housing Strategies and Homeless Action Plans*, 2002). However they found wide variation in estimates of affordability problems across the 33 strategies, and reckoned that some had in all likelihood come up with an overestimate. The methodology for estimating affordability problems and experience in using it will certainly improve but the first round of housing strategies provides a comprehensive and useful perspective onto likely trends in housing need.

Without claiming to be able to estimate the need for social and affordable housing with precision, given the current contexts of significant demographic and social change and an extraordinarily dynamic private supply of dwellings, the Council, nevertheless, considers it clear that the likely medium-term scenario points to the need for increasing the proportion of new supply coming from social and affordable housing measures. It wishes to signal the scale of the response that should be planned for, while believing that the final level and its composition are better finalised in the wake of the next assessment of housing need in 2005 and as current trends in housing and rental affordability become clearer. In the following sections, the Council's recommended approach is set out.

## 6.2 Future Policy Direction

The overall aim of housing policy as expressed by the Department of Environment, Heritage and Local Government is "to enable every household to have available an affordable dwelling of good quality, suited to its needs, in a good environment and as far as possible at the tenure of its choice" (2003). The Council fully endorses this inclusive vision and its respect for diversity. Implementing it will require that the following general principles should inform policy on social and affordable housing.

### 6.2.1 General principles

- ◆ The *provision* of social and affordable housing has to be adequate in its scale and composition. A reasonable scale and diversity in the supply of social and affordable housing is, and will continue to be, an integral part of meeting the housing and accommodation needs of significant groups in Irish society.
- ◆ *Quality must not be sacrificed to quantity.* Housing policy is about people's homes and quality neighbourhoods. It also has an important role in helping to achieve greater social integration. People are members of the one society and extreme segregation of housing by social class, race, age, tenure, or along any other parameter, is damaging to social cohesion. Concentrations of disadvantaged households fuel social needs.
- ◆ *Social, economic, geographic and tenure mobility* are to be encouraged. A vibrant and effective housing system features flows of dwellings and households between tenures, across the generations and within the country.
- ◆ *Equity* is important. Households in similarly difficult circumstances should receive the same proportionate support regardless, for example, of whether they are local authority tenants or in private rental accommodation.
- ◆ Public housing policy has an important responsibility for ensuring the overall *efficiency* of the housing system. It is important that interventions to improve the supply and composition of social and affordable housing do not have excessive distortionary effects on the housing market, and that cyclical factors are not reinforced.

### 6.2.2 The strategic policy direction

Before outlining the Council's preferred strategic direction for policy on social and affordable housing, it may be useful to articulate what the Council did not accept.

The Council does not believe that the market alone – even when it reaches broad equilibrium – can be relied upon to eventually erode most of the current need for social and affordable housing supports, nor to stem the emergence of new need. Chapter 4 reinforced this view by examining the future composition of housing needs which it is prudent to plan for in the light of likely developments in the pattern of income distribution, demographic changes affecting the scale of social need, the persistence of social disadvantage, and core features of housing markets. It concluded that a significant level of housing support, including a significant share of socially owned housing, must be seen as constitutive elements of the Irish housing system for the foreseeable future.

The Council does not accept either that the scale of the current need for social housing is due in a significant part to the adoption of broader criteria for identifying need and admitting people onto local authority waiting lists. Standards can and should rise in housing as in other areas but the disadvantaged socio-economic profile of local authority tenants confirms that access to such housing has become more restricted rather than relaxed in recent decades. While there are genuine issues to be addressed in how housing need is currently measured, the Council believes a normative value should not be given to patterns in allocating local authority housing which have been forced by existing constraints. The very low incomes currently characterising local authority tenants is confirmation of successful targeting, but the adoption of such extreme targeting is not, necessarily, the optimal policy for social housing going forward.

Finally, the Council does not believe that it is feasible – given the existence of parallel public and private rental systems in the Ireland that are subject to divergent forms of provision and conditions of tenure – to attempt to create a unitary rental system in which social and private renting are integrated into a single market such as exists in Germany and Sweden<sup>4</sup>. It is of the opinion, rather, that the continuing existence of a non-active cohort of the population with long-term welfare dependency strengthens the rationale for continuing state provision of a core housing stock, and that the extent and impact of income inequality within Irish society would make it difficult on equity grounds to overcome the dualist nature of the current housing system.

In adopting what is its preferred strategy, the Council considers that it does not impugn the undoubted dynamism of the private markets for owner occupied housing and rental accommodation in Ireland to accept that they have not met, nor can be assumed to be able to meet in the future, the housing needs of a number of socially disadvantaged groups and of a section of the workforce with low earnings. The strategic approach favoured by the Council, therefore, involves two core arguments:

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4. Chapter 2 summarises an influential analytical treatment of the dynamics of rental markets as detailed in the Background Analysis. That analysis revealed the different impact of the maturation process on the availability of affordable rental accommodation in unitary and dualist rental systems.

1. the level of social housing provision has fallen too low, and the increases in stock levels in recent years need to be continued for the foreseeable future;
2. in addition to the provision of social housing to those on very low incomes (which is subject to rationing), there is a need for more graduated forms of support to meet the needs of those who are not in poverty but who face continuing housing affordability problems.

If these two arguments are accepted, it is then necessary to advance proposals which can meet the varied needs for social and affordable housing in a manner that ensures both adequacy of supply and social integration. This is done below in the following three sections which contain the Council's recommendations for:

- ◆ An expanded and more flexible stock of housing available at a social rent to ensure an adequate safety net for vulnerable households and support more dynamic flows between tenures (Section 6.3);
- ◆ A wider range of graduated supports for 'intermediate' households by strengthening the measures which make housing affordable for purchase and by actively exploring supply-side measures to create a supply of 'affordable' rental accommodation (Section 6.4);
- ◆ Providing adequate resources for social and affordable housing (Section 6.5).

The interlocking effect of these three sets of recommendations does not, in fact, constitute a radical departure in public housing policy. If anything, it confirms and strengthens the core elements of the current policy approach – viz., its emphases on supply-side supports and subsidies and a range of delivery models – as the most effective in meeting the twin objectives of adequate supply and social integration.

## 6.3 The Provision of Social Rental Housing

### 6.3.1 Availability of social rental housing

Chapter 3 argued that the core social housing stock has fallen to a level which is too low relative to the composition of the housing needs of the population. Chapter 4 outlined the Council's view that overall need for social housing is unlikely to diminish, given likely economic and social developments. While it is difficult to make accurate forecasts in relation to the extent of the future need for social housing, and to predict future supply (more below), it is possible and important to accept the current need for the supply of social housing to catch up more with the supply of private housing.

Two issues then arise when considering the future availability of social housing:

1. The scale of increase in the overall stock of social housing necessary to provide an adequate supply;
2. The manner of additional delivery.

### **Uncertainties in Planning the Future Provision of Social Housing**

Several uncertainties face planners of social housing in predicting future levels of supply. Social housing requirements are met from a number of different delivery mechanisms, each of which requires different management approaches and differs in the degree to which it is under the direct control of public housing authorities.

For example, supply under Part V is dependent on the outcome of negotiations with private developers and can result in various options being agreed (e.g. land transfer, financial contributions etc.) other than the supply of physical housing units. Local authorities – responsible for assessing housing need and planning the actual delivery of housing – have some discretion to vary the scale of requirements they make of developers. It is also difficult to quantify the contribution that will be forthcoming from new contractual arrangements with the private rental sector under the Rental Accommodation Scheme to provide accommodation on a long-term basis for people who would otherwise be long-term recipients of the Supplementary Welfare Rent Allowance.

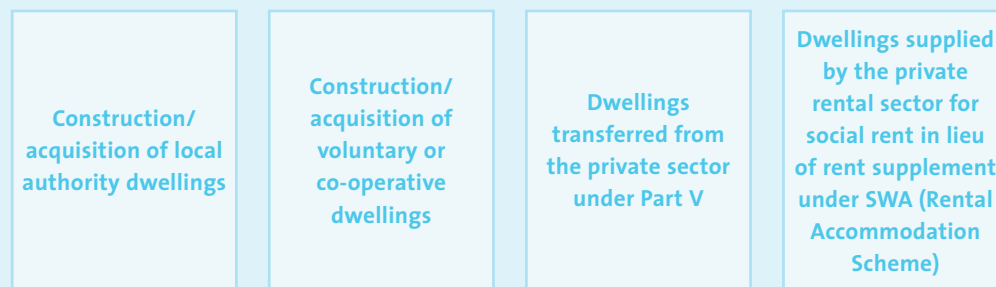
In fact, the management of the supply of social housing can be considered as influenced simultaneously from two directions within the same public system—top-down, and bottom-up. On the one hand, supply is determined by the level of funding and overall priorities set at a national level; on the other hand, local authorities are responsible for assessing need and planning the actual delivery of housing.

On the demand side, complexities also arise due to challenges associated with ensuring a rigorous approach to the assessment of need and the implementation of an effective system of prioritisation of this need. The Council is of the view, however, that the Government should expect the next formal assessment of need, due in early 2005, to show the requirement for a greater rate of increase of social housing than that currently planned. This is because of aspects of the future outlook outlined in Chapter 4 and because responses are outstanding to existing social housing need (e.g. homelessness, community based accommodation for disabled and elderly persons).

### **The Scale and Composition of Future Supply**

The future supply of social housing will occur through four main channels, outlined in Figure 6.1 below. The extent of reliance on each particular channel cannot be dictated by relative costs. The data suggest that the costs of building a new local authority dwelling, acquiring a dwelling from the private sector for use as social housing or supplementing private rents are not sufficiently different to dictate that one channel should be adopted as the principal route through which to add to the national stock of social housing.

Figure 6.1 Sources of social rental housing



A more pertinent distinction in choosing the relative share of each of these approaches might be the different impacts on wider market supply of building new public housing and re-channeling existing private housing stock towards social provision respectively. Increased construction would complement the goal of increased housing supply, while providing an alternative to demand-side subsidies. However, possible situations arise in which increased new build might not be the best method in isolation of securing additional social or affordable housing:

- ◆ If it was judged that overall housing output was approaching major over-supply, significant new build in the social housing system could perpetuate cyclicalities;
- ◆ If the use of private rental accommodation provided a more effective way of meeting housing need.

It is vital that the future provision of social housing meet both social and economic requirements. While the Council wishes to influence levels of future social housing provision with a firm recommendation, the enduring uncertainty and complexity in these matters, and the need to take account of future market situations, provides a challenging context for its assessment. Nevertheless, recognising the complexity of the systems of provision, the Council strongly recommends that a high level of ambition is now appropriate for the future provision of social housing.

It considers that agreement on such an ambitious level is an important and necessary input to medium-term planning, including the allocation of sufficient resources. Without agreement on the scale of increase that should be anticipated, the long range planning and preparation necessary to achieve additional increases in supply are unlikely to be engaged in. In the final analysis, it may be easier and less socially and economically painful to have to adjust to some element of overshooting than of undershooting in seeking to match the supply of social housing with the need for it.

### **An illustrative increase in supply**

The Council has considered what level of response would be required to achieve a larger share of social housing as a proportion of overall supply, assuming that the overall housing stock continues to expand at projected levels. The timeframe selected is to 2012 (the end of the next NDP plan). The context is of an aggregate growth in households between 2002 and 2012 of approximately 365,000<sup>5</sup>, a figure which, combined with the number of private households counted by the Census in 2002, (April) suggests the total number of households would be some 1,655,000 by end 2012<sup>6</sup>. The primary focus is on new build and acquisitions (including through Part V) by local authorities and the voluntary/co-operative housing sector because these channels of supply can be considered the backbone of the social housing stock.

The Council believes that—notwithstanding the difficulties in estimating the level of demand for social housing and bearing in mind what has been driving the growth in housing waiting lists, and their current high levels—bringing the stock to 200,000 by the end of 2012 would be reasonable and consistent with the Council's view on the need for a high level of ambition. This would bring the social housing stock to some 12 per cent of all private households, compared to 9 per cent at present. The increase of 73,000 units (net of tenant purchase and not including private rental units made available through the Rental Allowance Scheme) over 8 years implies a rate of addition to the stock of social housing of in excess of 9,000 units per annum, a rate that is substantially higher than what has been achieved over the period 2000-2003 (6,600 units in 2003). Box 6.1 sketches the implications of bringing the stock of social housing to this level.

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5. Based on ESRI Medium-Term Review (2003: Table 3.10) excluding replacement dwellings

6. The count of total private households was 1,288,000 in the 2002 census.

### Box 6.1 Towards an adequate level of social rental housing

The stock of social housing (including units owned and managed by both local authorities and the voluntary and co-operative housing sector) is expected to stand at close to 127,000 units, at the end of 2004. An increase of some 60 per cent, or another 73,000 units by 2012, would bring the permanent stock to some 200,000 dwellings<sup>7</sup>, or some 12 per cent of all private households

#### Impact on balance of social and private housing

Assuming overall housing demand would result in the projected supply of some 437,800 new dwellings between 2002-2012, the suggested scale of increase in social housing would lead to an improvement not only in the absolute scale, but also the relative share of social housing as a percentage of the overall stock, as illustrated below.

	Estimated stock - 2012
Total households	1,653,000
Social housing	200,000
Social housing as percentage	12%

#### Impact on overall demand

Assuming average annual vacancies continue at 3,500 dwellings per annum, or 28,000 over the period 2005-2012, first time lettings to social tenants could total some 101,500 lettings in the same period, or an average of some 12,700 lettings per annum. In addition, a significant number of other households would have their needs addressed under the Rental Accommodation Scheme.

Box 6.1 is largely a pedagogic exercise and intended to illustrate the order of scale increases which there should be a willingness to consider. The Council emphasises that the appropriateness of the overall scale of ambition indicated above, and the urgency of the actions required to achieve this, will be clearer after completion of the next statutory assessment of housing need which will be concluded in 2005, and as current trends in housing and rental affordability become clearer.

In framing its approach the Council is mindful of the dynamic nature of the housing market taking both demand and supply factors into account. Over recent years, it is clear that the market has managed to supply a level of output well ahead of the ESRI estimated levels of demand. Looking forward, it is important to allow for the possibility that the market may be coming into balance. In this context, clarity about the overall end position desirable for the

7. It should be noted that the number of units sold under the Tenant Purchase Scheme during this period will reduce the size of stock correspondingly. Annual targets for additional supply will need to reflect the impact of disposals on current stock levels.

social housing stock by 2012 is more valuable than adoption of a particular trajectory for reaching it. The Council considers, therefore, that a rolling and monitored process in stages is appropriate to align and manage planned output towards the overall end position. In keeping with an approach that aligns with market developments and capacity management on an on-going basis, a variety of output trajectories are then possible. Given actual outputs at present, the Council considers that, should the present assumptions relating to demand and supply continue, this process may involve a gradual increase in outputs followed by a ramped-up level in the period beyond 2006.

In raising the output of social housing, an important factor will be how increased quantity is combined with high quality. Ways must be found of integrating a larger overall provision of social housing into the emerging Irish housing system. The Council believes that direct provision of local authority housing, voluntary and co-operative housing and Part V have important roles to play in this matter, given their potential contribution to both adequate provision and achieving socially integrated developments. Chapter 3 highlighted the possibilities arising from a positive cycle between quantity and quality. This can only be achieved by close monitoring of the effectiveness of the various forms of social housing being provided in particular contexts<sup>8</sup>.

The Council is aware that providing for increases in the stock of conventional social housing involves facing and resolving other underlying tensions, in addition to that between the scale of social housing and its quality. These include:

- ◆ A tension between residualisation and social integration. The more residual and deprived the tenants, the less likely that spatial integration alone will prevent inter-generational transmission of deprivation;
- ◆ A tension between social integration and asset values. Home owners and property developers may perceive that the power of local authorities to place socially disadvantaged people as residents or tenants in housing developments reduces the capital value of houses that are adjacent to them;
- ◆ A tension between social mix and social interaction. The physical juxtaposition of households at very different income levels and of different social classes does not, of itself, lead to social interaction or social integration. On both sides of the social divide, people may feel they receive more support from those who are 'like' them than from those who are very different;
- ◆ A tension between scale and unit cost. The unit costs of construction and, as significantly, the unit costs of management and maintenance of social housing may be more difficult to control as the delivery of new stock becomes increasingly dispersed;
- ◆ A tension between the speedy delivery of units on an ambitious scale and the desire to build sustainable communities.

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8. Including, among other things, the balance between social housing, affordable housing for purchase, and, indeed, affordable housing for rental.

The Council firmly believes that these tensions do not prevent the creation of a successful social housing system based on high quality and sufficient quantity. However, in order for them to be resolved, it is necessary that they be acknowledged and discussed, and that implementation takes them into account. On-going review of the various mechanisms being implemented to tackle current waiting lists is likely to provide more definitive knowledge on the qualitative and quantitative contributions of each of the four channels, and inform future strategic decisions. This will require an active process of learning by monitoring. The Council encourages the Housing Forum, which gives stakeholders an opportunity to influence policy based on their own experiences, to help ensure that the required monitoring takes place. The commitment to a strong social housing programme should be maintained and adjusted in the light of the assessment of needs and evolving market conditions

### Cost to the Exchequer

The final cost to the Exchequer will therefore depend on a combination of factors, including the composition of additional supply and the level of tenant purchase. The Council's recommendation (see Section 6.3.6) for an immediate review of the tenant purchase scheme is relevant here. Tenant purchase contributes to the capital receipts of local authorities but by less than it costs to replace the units sold as the sales are at a substantial discount on the market price. Were the level of tenant purchase to continue at 1,500 units per year over the 2005-2012 period, a gross 85,000 units would have to be built or acquired (73,000 + 12,000) in order to have a stock of social housing of 200,000 units by end 2012.

A broad estimate of the capital cost is possible. The DoEHLG has estimated that, in 2004, the average cost of a social housing unit was close to €150,000<sup>9</sup>. Adopting this unit price yields an estimated capital investment per annum over the eight year period in the order of €1.4 billion to achieve the net addition of 73,000 social rented units if tenant purchase continues at its 2004 levels<sup>10</sup>. Given existing annual capital expenditure, this would equate to an additional €500 to €600 million per year. In considering current levels of expenditure on housing (see Table 2.13 in Chapter 2), it is clear that the Council envisages a substantial increase in investment in social housing with significant implications for the public capital programme. However, the Council does not think that maintaining the current levels of investment, which are yielding increases in supply of social housing below the targets envisaged by the NDP (a 12 per cent shortfall between 2000-2004) into the medium term is sufficient to achieve the level of ambition deemed necessary by the Council. Some increase must take place. The Council urges that it be substantial.

9. This is the estimated average unit cost considered broad enough by the DoEHLG to cover output under Part V, new build and second hand acquisitions and the variety of units produced by local authorities and the voluntary and co-operative housing sector

10. It is assumed for the purpose of this illustrative exercise that the average receipt per local authority unit sold, in 2004 terms, would be €100,000, or some two thirds of the cost of constructing a new dwelling. The cumulative receipts from sales of 12,000 units over the 8 years is deducted from the cost of financing the construction of 85,000 new dwellings.

The Council is aware that rising unit costs of social housing since the start of the current NDP have largely been responsible for the inability of the Plan's significantly increased expenditure to deliver a commensurate increase in supply. The steady increase in unit costs of local authority housing since 1998 is illustrated in Table 6.1. Costs increased by almost 70 per cent over 6 years but the growth has tapered off over recent years with a reduction occurring in 2003. There are grounds for some confidence, therefore, that allocations of public funds for the construction and acquisition of social housing going forward will prove more effective in adding to supply than has been the case in the recent past.

**Table 6.1 Unit cost of local authority housing, 1998-2003**

Year	All-In Unit Cost (€)	Percentage change
1998	82,313	-
1999	103,923	26.3%
2000	122,083	17.5%
2001	127,993	4.8%
2002	140,562	9.8%
2003	137,949	-1.9%

Source: DoEHLG, NESG calculations

It should also not be forgotten that a higher investment by the state in social housing can be expected to generate positive externalities and yield savings in other areas. Along with an improvement in its quality, wider access to social housing can be expected to contribute to the reduction of educational disadvantage, health inequalities, non-employment among lone parents, involuntary emigration by the low skilled and social exclusion generally.

### 6.3.2 Tailoring housing supply to meet specific needs

The existence of particular housing disadvantage—such as homelessness and difficulties in accessing appropriate and affordable housing to meet the specific needs of Traveller households, disabled and older persons—continues to be a feature of the Irish housing system (see Paper 6 of the Background Analysis). While this arises in part because of the lack of a sufficient supply of appropriate housing, it also reflects the difficulties in planning the delivery of housing in a way that integrates it with other personal and social services.

Major innovations have taken place on behalf of some disadvantaged groups in recent years. These include the establishment of joint funding mechanisms, the development of strategic plans and attempts to provide a continuum of housing options and supports to meet the particular (and often changing) needs of these groups. However, significant challenges remain, many of which have been acknowledged in the current social partnership agreement, *Sustaining Progress* (2003). The Council endorses every effort being made to ensure a more proactive and integrated approach to tailoring the supply of social housing more to the needs of these vulnerable groups, and supports collaboration among relevant stakeholders at both national and local level. In particular, it endorses the commitments made in the agreement in relation to homelessness and recommends that programmes identified to combat homelessness be maintained at the highest level of priority.

#### Housing for people with disabilities

A particular gap is the lack of a strategic framework to support the provision of tailored housing and housing supports for people with disabilities. The various challenges facing the housing system in meeting the needs of disabled persons, outlined in Box 6.2 below, point to the urgency in developing such a strategy.

## Box 6.2 Housing issues for people with disabilities

Housing issues for disabled persons are increasingly coming to the fore due to the acceptance that supports to disabled persons should be mainstreamed where possible. The location and physical attributes of a disabled person's home are key determinants of the ability of that person to participate in society.

In a recent publication by the Disability Federation of Ireland – Housing: The Vital Element (2004) – the following policy issues were raised:

- ◆ The continued use of long-stay institutional care, particularly for people experiencing mental illness and the Young Chronic Sick due to the lack of suitable alternatives in the community;
- ◆ Challenges in ensuring building design of physical buildings supports access for people with disabilities, and in particular the challenge of monitoring compliance with Part M of the current building regulations;
- ◆ Changes to the Disabled Persons Housing Grant, including the introduction of means testing and the reduction of individual amounts payable) have led to increased vulnerability for disabled persons, often at crisis points, including over-long stays in hospitals and inadequate standards of housing;<sup>11</sup>
- ◆ The limited range of housing options available to people with disabilities:
  - Purpose built accommodation is generally not available in the private rental sector;
  - The reliance of disabled persons on social welfare (some 120,000 disabled persons are currently dependent on social welfare as their primary income) removes the option of home ownership for many.

The significance of current deficits in the housing system in relation to adequate and appropriate provision of accommodation for people with disabilities is even more striking when considering the recent Census estimate that 8.3 per cent of the population identify themselves as having a disability. Over 120,000 people with disabilities are dependent on social welfare payments which are unlikely to be sufficient to either get or service a mortgage, or indeed support tenancies in the private rental sector, given the additional costs faced by a large cohort of this category.

The National Disability Strategy, launched in September, 2004, offers an opportunity to advance significantly the provision of housing for people with disabilities. The Strategy includes a new Disability Bill, incorporating individual assessments of need, and provision for sectoral disability plans. The DoEHLG has already published an outline of its sectoral plan, which provides for an accessibility audit through which local authorities will identify, in consultation with organisations representing people with disabilities, and what action is necessary to make further improvements to services affecting persons with disabilities. The initiatives within the National Disability Strategy should include measures covering accommodation needs and other supports across social rental, private rental and owner-occupied dwellings.

11. The Council notes that this is despite significant increases in both the number of grants paid and the total expenditure incurred under the scheme in the past few years (since 1998, expenditure on the scheme has increased from €13 million for 2,455 grants to €50.4 million for 5,739 grants in 2003).

### 6.3.3 A new approach to measuring need

Paper 6 of the Background Analysis outlines the various arguments which point to both an over- and under-estimation of need in the current system. Aside from issues in relation to the accuracy of assessments, the focus is frequently on a subset of overall need – the demand for local authority housing – and this creates a number of additional difficulties. These include: (1) an emphasis on bricks and mortar as the primary indicator of state investment in social housing; and (2) the creation of artificial demand for conventional social housing.

O’Sullivan (2004) points to the need to move current debate away from the crude quantification of housing need to a more nuanced and constructive debate. It is important, for example, that on-site care and other support services necessary to support independent living for particular categories of household are integral parts of the planning and costing of social housing developments. The Council is aware of an on-going review by the Department of the Environment, Heritage and Local Government of the method of assessment of housing need in advance of the next set of local authority housing strategies. It recommends that:

- ◆ The assessment support the establishment of hierarchies of need, reflecting not only ability to pay, but also the range of housing supports required for particular households (including those necessary to sustain tenancies). The particular facilities and supporting services required by individual households should also be taken into account;
- ◆ A single point of application and initial assessment of social and affordable housing need to be developed so as to support consistent and appropriate consideration of the full range of housing options available for each individual household, but also to remove duplication across individual waiting lists. Developments in the sharing of administrative data between public bodies, including the greater use of Personal Public Service Numbers, should assist in this process;
- ◆ Allocation policies across the range of social and affordable housing measures be aligned to maximize the reduction in aggregate waiting lists, and made consistent with eligibility criteria informing supporting assessment processes.

### 6.3.4 Management of local authority housing

The management of local authority stock has received considerable attention in the past decade, resulting in a number of fundamental reforms. Greater awareness of the importance of good management at local authority level has been reflected in a number of developments at national and local level, including the establishment of the Housing Unit to facilitate the improved management of the public and social housing sectors, and the provision of a dedicated fund to finance best practice, viz., the Housing Management Initiative.

Outstanding issues include the adequacy of funding for housing management, the dependence of reform on the level of commitment within each local authority, access to sufficient skills and resources, and the adequacy of management information systems available at local level. Recent improvements address many of these areas and show the potential of, and capacity for, reform at local

authority level. Greater efficiency, however, should still be sought in relation to expenditure on housing maintenance. The Council supports more efficient approaches to general repair and maintenance of social housing stock, which should be sought through greater use of competitive tendering for maintenance contracts, and the design of incentives to support greater tenant responsibility for maintenance.

### 6.3.5 The use of private rental dwellings to support SWA tenants

The Government announced a significant reform to the SWA rent supplement scheme in July 2004, involving arrangements with the private rental sector to provide long-term accommodation to SWA recipients in receipt of rent supplement for longer than 18 months, through the introduction of the Rental Accommodation Scheme (see Chapter 2 for a summary). The scheme will involve a mix of approaches, including new-build, long-term contracts with existing landlords, and the provision of social housing. The Council welcomes the proposed reform, and the Government's commitment to retain the SWA rent and mortgage supplement scheme to support the housing costs of those experiencing a temporary change in income or other personal circumstances on a short-term basis.

One issue to monitor over the long-term will be whether the continued use of privately owned units provides the requisite value for money, and the same quality of outcome as conventional social housing. In its favour, the following points can be adduced. The new measure will provide more appropriate emergency or transitional housing than current arrangements (e.g. the use of B&B accommodation). The type of dwelling contracted can be selected to support more choice for tenants in relation to location, dwelling size, etc. Local authorities may more easily adjust the total housing stock held to reflect changes in the level or type of demand. Finally, the responsibility for management and maintenance will rest with the private landlord, reducing demands on local authority housing management resources.

However, the use of private accommodation for long-term social rental purposes also raises a number of concerns. Such housing may not provide the same benefits to tenants as a permanent social dwelling over the long term—for example life-long security of tenure, the possibility of tenant purchase etc. The expertise to secure long-term contracts favourable to the state is being required of each local authority. Stigma may attach to tenants if buildings become clearly identified as part of this scheme. A triangular relationship between private landlord, local authority and social tenant may mean that maintenance and repairs are carried out less effectively. Challenges also emerge in liaising with private landlords to support the provision of personal and social services that may be required to sustain individual tenancies. Finally, the subsidisation of privately owned units does not result in any equity stake for the state<sup>12</sup>. These are valid concerns, but innovative measures should not be held back because they are typically attended by new uncertainties. The need is clear, however, for careful monitoring and not to lose sight of the strategic value of maintaining an appropriate balance between the use of privately owned rental units and the construction or acquisition of permanent social dwellings.

12. While this may not be an explicit objective of state investment in the direct provision of housing, the absolute increase in social and affordable housing construction has undoubtedly captured some of the gains arising from the rise in property values for the public good. In addition, past investments have made an important contribution to local authority receipts due to the level of stock sold.

### 6.3.6. Tenant purchase scheme

A long-standing feature of social housing in Ireland is tenant purchase. Over the decades, this has contributed significantly to meeting the aspirations of many low-income households to home ownership. Historically, the policy has played a major role in widening asset ownership in Ireland<sup>13</sup>. It has also contributed to the stability of estates by helping maintain a wider income mix in local areas<sup>14</sup>. The Council considers, however, that the wider Irish housing system is now so different that the policy should be urgently reconsidered.

In the first place, there are alternative routes into home ownership for local authority tenants other than through the purchase of the home in which they are living and its removal from the social sector. Local authority tenants today can avail of the Shared Ownership and various Affordable Housing schemes. Secondly, the difficulties faced by local authorities in meeting housing need in recent years have been exacerbated by disposals of existing stock. While tenant purchase does not restrict new lettings on a pro-rata basis (as some purchasers would remain indefinitely as tenants and not buy elsewhere), the analysis summarised in Chapter 2 points to the major role that tenant purchase played in the late 1980s in the sharp reduction of the social housing stock. Although the current level of disposals has dropped significantly from its highest levels, it still represents a considerable loss of stock on an annual basis (1,567 units in 2003 – or one third of new supply). This adds to the new build/ acquisitions that local authorities must fund just to keep standing still. There is evidence that the reduction of available stock in some areas has led local authorities to repurchase some of their former dwellings in a bid to meet local need.

Thirdly, the level of discount applied is not means tested and this creates the potential for over-generous treatment of individual households and deadweight effects. There are no claw-back provisions in the event of resale – although the authority must give its consent in such an event – and the level of discounts applied fails to cover the replacement costs incurred, resulting in a considerable leakage of equity from the public housing system. Fourthly, while the retention of capital receipts and reduced expenditure on maintenance and management have a beneficial short-term impact on the financial position of local authorities, the loss of rental income (often at the higher end of payments) and of a corresponding maturation effect challenge the cost-effectiveness of the policy in the long-term. Fifthly, disposals may have contributed to the overall residualisation of the local authority stock, as sales tend to be of homes in good condition and in the least problematic areas. In sixth place, going forward, the argument that tenant purchase contributes to widening the income mix will be less evident the more the supply of new social housing comes on stream in mixed tenure developments in the first place (as a result of the introduction of Part V).

<sup>13</sup>. Fahey, 1999

<sup>14</sup>. There is also the recognised impact of owner occupation on the maintenance of individual properties and wider engagement in social networks

Finally, significant equity concerns now attach to tenant purchase. As the social housing stock has got smaller, greater proportions of it are made up of flats and of dwellings suited to older persons and it has been more difficult to extend the right to buy to their tenants. Dublin City Council, for example, is exploring how it might sell some of its 16,000 flats to tenants by assuming the role of a management company in individual complexes. Tenants in the voluntary and co-operative housing sector are also precluded from the right to buy (for reasons specific to that sector, viz., the small size of its stock, and its privileged access to land on condition that units are retained in the social housing sector). The most pressing equity issue arising from tenant purchase, however, remains that a subset of fortunate tenants, having received highly-subsidised housing for many years, benefit a second time from a significant asset transfer, while there are other families with pressing housing needs not yet admitted to social housing in any form.

For all these reasons, the Council recommends that the current tenant purchase scheme immediately be modified to better support wider strategic objectives, principally the provision of a strong, core social housing stock. This should include the application of a level of discount and claw-back provisions which remove windfall gains from the tenant and ensure the true cost of the transaction to the state is captured. The further step—of redirecting tenants who wish to purchase exclusively to the Shared Ownership and Affordable Housing Schemes that do not erode the social housing stock—should be actively examined.

## 6.4 Intermediate Households and more Graduated Housing Support

This section addresses the housing needs of those households with incomes too low to enable them source their accommodation requirements through the market without major financial strain, and too high to entitle them to support from Ireland's currently tightly targeted social housing measures. It argues that, despite valuable innovations in public policy in recent years, a gap still remains, viz., supply-side supports for providing affordable and cost rental accommodation on a more general basis.

### 6.4.1 Intermediate households and an intermediate sector

A recent report from the UK Government's Taskforce on Low Cost Home Ownership (2003) described intermediate households as 'those households who cannot get access to social housing and yet cannot afford to buy or struggle to rent privately' (p. 34). It called for the development of an intermediate sector as an alternative (but not replacement) to the traditional options of social rental accommodation, on the one hand, and rental accommodation or home ownership in the private sector, on the other. The concept of an intermediate

sector incorporates some significant objectives and current strategies: it acknowledges an affordability issue and seeks to address it directly (in a way the private sector does not); it includes cost-renting and the need for non-profit landlords to cover operating costs (in a way social housing does not); it further facilitates tenure mobility, with the opportunity to move from social through intermediate to private rental or, indeed, to home ownership.

It is clear that a number of steps have already been taken to focus policy on intermediate households in Ireland. The Tenant Purchase Scheme operated by the local authorities is a long-standing support for what can be regarded as tenants whose circumstances improve to become intermediate households. The Shared Ownership Scheme and various Affordable Housing schemes are graduated supports on the route to full private ownership. The official method of assessing housing need now incorporates *de facto* recognition of that subset of “intermediate households” who have had to have recourse to the market, viz., households, regardless of tenure, that are spending more than 35 per cent of their disposable income on housing.

However, intermediate options in the private *rental* market have not emerged to date and entitlement to state support (outside of the tax system) is currently limited to social welfare recipients. It is the Council’s view, therefore, that a limited intermediate sector has emerged in the Irish housing system which focuses primarily on supporting home ownership. The following measures have been considered by the Council with a view to creating a stronger intermediate housing sector:

- ◆ Improving the current provision of affordable housing for purchase;
- ◆ The introduction of other graduated options such as partial equity schemes;
- ◆ Investigation of the development of an intermediate or affordable rental sector.

#### 6.4.2 Improving the current provision of affordable housing for purchase

The best estimates of supply under the various schemes to provide Affordable and Shared Ownership housing suggest that they will bring some 4,000 housing units per *annum* on stream to 2006<sup>15</sup>. At the levels of private dwellings being supplied in 2003 and 2004, this suggests that around 5 to 6 per cent of house buyers per annum may expect to secure housing at a discount. It is legitimate to query whether support for affordable housing on this scale should be planned for into the future. For example, owner occupation is already at a high level, by historical standards and in an international context, while interest rates are only likely to rise in the coming years making it less evidently a good thing to encourage households with modest incomes to take out mortgages.

15. 3,500 projected under Sustaining Progress to 2006; or a rough average of 1,500 per annum plus 1,000 per annum under the 1999 LA Scheme, plus 1,000 under Shared Ownership.

However, the Council is more impressed by other arguments which support the need to continue the various Affordable Housing programmes at, at least, their current level. The number of people not entering the housing market at all because of an affordability barrier is unlikely to be captured in full by any administrative counts of affordability thresholds. The number of people eager to purchase a home but unable to do so under market conditions is unlikely to get smaller; for example, any improvement in affordability due to further reductions in the rate of increase in house prices and the catch-up of earnings relative to them is likely to be more than offset by interest rate rises. The schemes operate largely on a cost-recovery basis so they do not impact significantly on Exchequer or General Government finances, save for site or other subsidies. The location of housing provided under the various schemes contributes to social integration, as many are located in mixed developments or in areas with a high proportion of social housing; it is also enabling local authorities to achieve greater in-fill and higher densities. On balance, the Council is led to endorse the continued supply of Affordable Housing at least in line with current targets and to stand ready to improve their effectiveness in the light of experience. As the level of supply required under affordable housing schemes is dependent on the nature of overall supply, both in terms of output and affordability, it may be possible in some locations to examine alternative methods by which supply of affordable housing might increase and to examine in detail the barriers that currently exist to the delivery of affordable housing under Part V.

The Council also considers, however, that the high price of housing and trough in the interest rate cycle that characterise 2004 make it imperative at this point to incorporate some flexibility and degree of protection from a rise in interest rates into policies that continue to support intermediate households in becoming homeowners. The required flexible protection could take such forms as the introduction of saving schemes (see chapter 7), formal arrangements for the reversal of equity purchased under Shared Ownership, the introduction of partial equity schemes (more below) whereby tenants acquire an equity stake which can be sold on but the property remains in public ownership, and the more proactive promotion of local authority housing loans<sup>16</sup>.

### **Operation of Affordable Housing and Shared Ownership Schemes**

There are, in addition, a number of barriers which have been identified as restricting the potential take-up of the current affordable home ownership schemes (principally the negative impact of claw-back provisions and of the first charge of local authorities on site title deeds on the mortgage market's willingness to lend). The Council welcomes on-going efforts to remove these barriers. As house prices vary significantly across the country, it also urges that the use of local house prices to determine affordability criteria be considered across all affordable housing measures.

16. These fell rapidly out of favour as loan limits were not increased to reflect prevailing price levels in the housing market and access to the private mortgage market became easier. The increase in loan limits in 2004 from €130,000 to €165,000 and a return to higher interest rates could awaken greater interest in the Local Authority Housing Loan Scheme once again.

### Simplification of current schemes

Currently, four primary measures assist intermediate households into home ownership – three Affordable Housing schemes<sup>17</sup> and the Shared Ownership Scheme<sup>18</sup>. These programmes differ primarily in relation to (1) the source of supply of housing, and (2) the proportion of equity purchased by the owner-occupier. The existence of four separate schemes has resulted in variations in eligibility and allocation criteria, and in different levels of subsidy to the purchaser. The Council recommends the amalgamation of these schemes into a single First Home scheme under which households could apply either for housing supplied by local authorities (through the contracting of new build or the allocation of units arising from Part V), or for supports to purchase or build their own home. A single scheme would ensure consistency in relation to eligibility and access for all Affordable Housing, simplify administration and marketing of the schemes, and provide greater clarity in relation to output levels. It would incorporate flexibility with regard to the nature of the state subsidy, the level and nature of discount applied, the share of equity retained by the provider, and—as already stated—whether the dwelling was sourced by the purchaser from the market or directly from a local authority.

#### 6.4.3 The development of shared equity schemes in the Voluntary and Co-operative Sector

The Council is aware of current proposals to introduce further options to facilitate modest income households in becoming homeowners on a partial equity or equity-sharing basis. For example, a modified version of the existing Capital Loan and Subsidy Scheme has been used to allow co-operative member-purchasers to take a 50 per cent ownership stake in their dwellings, with no requirement or right to buy the remaining equity. The other equity share is retained by the co-operative housing society for community benefit. The member-purchaser can sell her equity share at any time. Eligibility has initially been confined to single person households with 2.5 times income or dual income households with 2.5 times the principal salary and 1 times the second salary in the preceding tax year not exceeding €80,000. The voluntary and co-operative housing sector is further considering tailoring this scheme for elderly owner-occupiers in order to provide them with an alternative to entering a nursing home or institutional care, a development which could bring large savings to the State.

Such novel equity-sharing arrangements not only assist modest income households who cannot afford full home-ownership in acquiring an equity stake in their home, but retain dwellings within the affordable housing stock in perpetuity. The Council recommends that funding and other arrangements to support the extension of partial equity housing be developed and made available to both the voluntary and co-operative housing sectors.

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<sup>17</sup> The 1999 Local Authority Affordable Housing Scheme, Part V Affordable Housing, and the Sustaining Progress Affordable Housing Initiative

<sup>18</sup> The Local Authority Low-Cost Subsidised Sites Scheme also promotes affordability for owner-occupiers but is not considered here.

#### 6.4.4 Promoting the Supply of Affordable Rental Accommodation

The Council welcomes the reforms introduced by the Residential Tenancies Act 2004 in response to the report of the Commission on the Private Rented Residential Sector published in 2000. They will undoubtedly improve the quality and standards in the sector, and increase its attractiveness as a tenure. In addition, policy continues to encourage investment in the sector through the provision of mortgage interest tax relief and targeted subsidies such as Section 23<sup>19</sup>. However, two particular policy challenges arise from recent developments and the outlook for the private rental market as of 2004: (1) maintaining an adequate supply of private rental accommodation in a situation of diminishing rental yields and lower expectations of capital appreciation; and (2) ensuring a more targeted approach to address particular vulnerabilities in the private rental sector.

These challenges, and the Council's subsequent recommendations, are detailed below.

#### Maintaining an Adequate Supply of Private Rental Housing

A number of indicators in mid-2004 point to the possibility of disinvestment in the private rental market if the expectation of capital appreciation and/or actual rental yields continue to fall. There is evidence of a developing overhang of accommodation, with longer waits between lettings, rent reductions and the withdrawal of some estate agents from the letting market.

Yet unprecedented levels of income support continue to be required to meet the housing costs of private tenants in receipt of SWA, and there is significant outstanding housing need. The immediate priority must be to capitalise on the potential of the changing supply and rents scenario to deliver rental affordability while minimising disinvestment. The contracting by local authorities of accommodation on a long-term basis from private landlords in place of subsidising individuals' rents through the Rental Accommodation Scheme is a welcome innovation in this respect. Some measures proposed by the Commission on the Private Residential Rented Sector (2000) to strengthen the continued supply of high quality accommodation have still not been implemented (for example a change in the basis of landlord taxation to align with treatment of businesses generally). The Council endorses the full implementation of its recommendations.

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19. A number of property tax reliefs including Section 23 are due for review in 2006

### Ensuring a More Targeted Approach to Meet the Needs of Vulnerable Households in the Private Rental Sector

Some of the most severe affordability difficulties are currently being experienced by individuals in the private rental sector. Even in a situation of increased supply of private rental accommodation, a number of households will continue to struggle to meet market rents. These households are headed by people in low-paid employment and, therefore, not entitled to SWA rent supplement or to benefit from the forthcoming new supply of local authority-contracted, private rental accommodation. The Council believes, therefore, that a case can be made for testing a new type of support to landlords who would supply “affordable” rental accommodation to these intermediate households.

The Council has particularly in mind:

- ◆ Economically active households experiencing temporary affordability problems due to the particular stage in their lifecycle, (e.g. households with young families, households with adult members in education) or due to temporary residence in Ireland;
- ◆ Economically active households likely to experience on-going affordability problems because of their limited earnings capacity (e.g. low skilled workers);
- ◆ Essential workers in particularly high rental-cost areas or ‘affordability black-spots’— e.g. nurses or teachers in urban areas;
- ◆ Young workers trying to save a deposit for a house and for whom the allocation of affordable rental accommodation might be linked to participation in a savings scheme.

The concept of affordable rental accommodation can be clarified by comparing it with conventional social rental accommodation, which is done in Table 6.2.

**Table 6.2** Main characteristics of affordable and social rental sectors

Characteristic	Affordable rental sector	Social rental sector
Level/type of subsidy	Costs partially subsidised, through such measures as provision of public lands, tax relief, rent subsidy	Costs almost fully subsidised, primarily through Exchequer funding
Rents	Ranging from cost rents to below-market rents	Differential rents based on percentage of income subject to maximum rent levels
Allocation policies	Allocated to households below set income thresholds or experiencing affordability problems, but with an ability to pay cost-reflective rents	Allocated to households meeting eligibility criteria for conventional social housing
Ownership	Owned and managed by limited profit or not-for-profit entities	Owned by not-for-profit or public entities

Policy to encourage the supply of affordable rental accommodation could take one of two broad forms:

- ◆ The re-targeting of supply subsidies to private landlords in return for agreed approaches to allocation or rents;
- ◆ The development of a cost-rental sector through the subsidisation of not-for-profit or limited profit housing providers.

The extent of state involvement would be the provision of fiscal or other incentives, and a legislative and regulatory framework for the sector.

### A Re Targeting of Supply Subsidies to Private Landlords

The Commission on the Private Rented Sector (2000) advocated the use of Section 23 type relief for the provision of private rental accommodation targeted at groups with priority needs. While the provisions of the current scheme contribute to the overall supply of private rental accommodation, and often in areas otherwise unlikely to generate sufficient private investment in such housing supply, they do not directly contribute to improving affordability. The Council endorses its recommendation that current supply subsidies<sup>20</sup> be targeted more closely towards addressing affordability for the more vulnerable household in the private rental sector. A major challenge in the design of such a new support will be to link provision of the subsidy to allocation criteria and rent levels without distorting the market or creating a poverty trap (disincentive for people to improve their earnings).

Other countries have made moves in the direction the Council is signalling through the use of conditional supply subsidies in return for commitments to keep rents at cost covering levels. Germany, for example, subsidises private investors to provide accommodation outside the market for a fixed period; once subsidies end, the accommodation returns to the private rental market. The US uses a Low-Income Housing Tax Credit scheme to prompt strategic partnerships between private investors and not-for-profit housing providers to provide affordable rental dwellings and has also developed what are called Real Estate Investment Trusts (REITs) (Appendix 6.1).

In summary, success in finding an investment vehicle that would attract more corporate investment into the private rental market would serve to provide an additional option to intermediate households, balancing the current focus on affordable purchase and helping ensure that households are not compelled by high rents to enter home ownership at an earlier point in the family lifecycle than they would otherwise choose. It would also serve to offset the emerging risk of disinvestment in the private rental sector which is likely to impact disproportionately on lower income tenants. The Council recommends that, at a minimum, the retargeting of existing supply subsidies to private landlords be considered to support the provision of accommodation at below-market rents.

### The Development of a Cost-Rental Sector

A specific form of affordable rental accommodation is cost-rental accommodation (its characteristics are described in Paper 2 of the Background Analysis). The development of such accommodation specifically hinges on the emergence of not-for-profit or limited profit landlords.

Its development is also likely to require initial subsidies to reduce initial costs and, therefore, rents. A number of approaches could be considered including the provision of state-owned land, or limited short-term capital subsidy support that tapers off over a set period of time. Either would reduce the initial capital costs for relevant landlords, thereby enabling them to cover costs with below-market rents. The inclusion of the transfer of dwellings for affordable renting to

20. Section 23 type relief is available for Urban Renewal and Student Accommodation, Rural Renewal scheme, Living Over the Shop scheme, Town Renewal Scheme, Park and Ride scheme.

approved, not-for-profit housing bodies from private developers as one of the methods to meet obligations under Part V could also provide another source of such accommodation. Another method of subsidisation might be to tailor the existing Capital Loan and Subsidy Scheme to allow allocation to households with a broader range of incomes (this would also require a review of current rental policies to ensure more cost-reflective rents could be charged for higher income tenants). It would be important, however, that such an adjustment would not detract from the supply of conventional social rental housing.

The Council believes that the potential exists to develop a cost-rental segment in the Irish housing system over the medium to long-term. It recommends that a feasibility study be conducted on a joint basis by the Department of the Environment, Heritage and Local Government and the Department of Finance—involving local authorities, development agencies and other stakeholders, where appropriate—into the provision of cost-rental accommodation. That study should ascertain such matters as the funding, institutional arrangements and other supports (including legislative and regulatory frameworks) necessary to support the emergence of cost-rental or limited profit landlords.

## 6.5 Resourcing social and affordable Housing

### 6.5.1 Capital and Current Funding

#### Capital funding

Expenditure on social and affordable housing now accounts for 18 per cent of total public capital investment (up from 13 per cent in 1997) – €1.884 billion was committed in 2004 alone. Rising unit costs for social providers are largely responsible for the inability of this significantly increased expenditure to deliver a commensurate increase in supply. Budgetary constraints have already been acknowledged as significant in endangering the attainment of existing targets for social and affordable housing (Chapter 2). Given agreement that the scale of existing social housing which is targeted is too low, it becomes all the more urgent to address these constraints to the greatest extent possible. Should output in the long-term be further increased in line with the Council's recommendations, it is clear that additional capital investment will have to be forthcoming to finance the additional output. The relative contributions of the Exchequer, the private sector and housing associations may shift. Significant innovations can still be pursued in how land is secured, funding sourced and spending (capital and current) managed that would reduce the burden on the Exchequer of procuring a higher level of social and affordable housing.

The challenge, also, is not solely one of mobilising more funds for investment in social and affordable housing. Concerns have been expressed about the limited capacity of the economy to absorb higher levels of public investment expenditure (already at twice the EU average at 5 per cent of GNP) without damaging wage or price effects. In increasing public investment in housing without inflationary consequences, policy must be sensitive to the construction cycle and consistent with prudent management of the public finances.

### Development of current funding schemes

Social housing is costly not just to construct but also to maintain. For example, local authority housing currently requires an on-going subsidy to maintain while special needs housing requires complementary housing and social services to be provided to its tenants.

The absence of a defined revenue stream to cover the costs of special needs housing is making its further expansion more difficult and threatening the sustainability of existing projects. The limited funding which is available from Health Boards at present may not be available when a project is completed or from one year to the next. In a recent survey of 79 housing associations providing housing schemes for the elderly (almost 4,000 units of accommodation), over 70 per cent were not in receipt of on-going revenue funding. The Council is concerned at the lack of a defined funding scheme to support associations in providing these services, despite their significant potential to reduce pressures on other public services. Proposals from the sector itself include the provision of a defined, revenue-funding scheme for on-site/care support costs in sheltered housing (ICSH, 2003). The Council recommends that a defined revenue-funding scheme be developed to ensure adequate funding for housing bodies providing on-site or care supports. The potential for the reallocation of funding from other policy areas (e.g. the current subsidisation of long-term accommodation for older persons in private nursing homes) should be considered in this respect.

### 6.5.2 Availability of land for social and affordable housing

Recent experience shows the importance of land availability for local authorities, not only in ensuring a sufficient supply response in terms of social and affordable housing, but also in supporting some of the more innovative policy measures which have emerged in recent years. In particular, access to strategically located land has enabled local authorities to attract private developers to participate in joint ventures, which in turn have led to an increasing number of mixed developments. Currently the main instruments available to local authorities to acquire land are:

- ◆ The purchase of land in the open market (local authorities have powers to compulsorily acquire such land, but these do not appear to be used with any great frequency);
- ◆ The use of state-owned land for the supply of housing (this instrument has been brought to the fore following the commitment in *Sustaining Progress* to develop 10,000 affordable housing units using such land);
- ◆ The transfer of land from private developers as an option to meet obligations under Part V;
- ◆ The use of other planning instruments to encourage the supply of social housing e.g. through the redevelopment of brown field sites.

It is not surprising that recent increases in social and affordable housing output have depleted land banks held by local authorities, particularly given the recent trend of using local authority lands to develop mixed developments. A key

contributor to recent increases in the supply of social housing has been the availability of building sites from local authorities under the Low Cost Subsidised Site Scheme. This scheme was an important source of land for voluntary and co-operative housing associations. The number of sites provided has been in decline – with 112 sites provided in 2003, compared with over 300 in 1999.

The level of acquisition and strategic disposal of lands by local authorities will be a critical factor in supporting any on-going expansion of social and affordable housing provision. Ensuring an adequate and balanced supply of land for social and affordable housing to match this identified need will require a multi-faceted approach.

In framing their local action plans for the provision of social and affordable housing, individual local authorities are required to indicate if there is sufficient supply of land in their ownership for future house building requirements. Where land availability arises as a particular constraint to the supply of social and affordable housing, it is recommended that local authorities, in conjunction with central government, should take a more proactive role in setting targets for the acquisition and / or development of land for social and affordable housing including the development of adequate land banks for future supply (including the possibility of rezoning where appropriate). Where significant shortfalls in supply are projected or arise due to scarcity of land, the use of measures such as compulsory acquisition should be considered (active land management policies are discussed in more detail in Chapter 7).

## 6.6. Issues for further Analysis and Debate

### 6.6.1 Introduction

This final section identifies three issues which the Council considers require more detailed analysis and debate. These are:

- ◆ Public rental policy;
- ◆ The ownership of social housing;
- ◆ The introduction of a personal housing benefit.

On each of these issues there are interesting arguments for change which need to be considered in the Irish context but also reasons to defend existing policy.

### 6.6.2 Public rental policy

It has been noted that the current differential rental scheme for Irish social housing results in a continuing shortfall between rents collected and the costs of maintenance and management. Adjusting rents to tenants' ability to pay has a major social value when, as is the case with Local Authority housing, tenants are concentrated at the lowest end of the income spectrum.

However, the operation of the current differential rental scheme has a number of unintended drawbacks. The most severe drawback is that it constitutes a continuing drain on local authority resources rather than a financial asset. The stock is unable to generate a surplus for further investment (e.g. refurbishment and regeneration is dependent on securing separate funding) and a continuing dependence is created on central funding and decision-making. There are several other drawbacks too. The existence of maximum rent levels reduces the overall progressivity of the scheme, as higher income tenants benefit disproportionately.

Other possible inequities arise from the capping of rent contributions by subsidiary earners in a household, which makes it possible for multi-earner households to pay a much lower proportion of their income in rent than single-earner households (Murray and Norris, 2002). The failure to reflect the quality or demand for particular dwellings in the calculation of rents leads to horizontal inequities; tenants with identical incomes and family circumstances can find themselves paying the same rent but for dwellings whose locations or quality give a wholly different value. Inefficient pricing can arise as the age of houses largely determines maximum rent variations, while age is often poorly correlated with the overall quality of dwellings and the supply of, and demand for, different dwellings and locations. Finally, people in similar circumstances can also be treated very differently because of the county or borough in which they are renting as there is considerable variety in all aspects of rent calculation across local authorities (in the treatment of dependants and subsidiary earners, maximum rent limits, income banding, etc.)<sup>21</sup>.

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21. The development of the integrated housing management computer package offers a particular opportunity to address this issue.

The Council notes that some other public rental policies have arisen outside of local authority housing. For example, minimum contributions are paid by recipients of Rent Supplement under SWA and calculated on income above a set baseline (see Appendix 6.17 – Background Analysis); whereas the provision of emergency B&B accommodation does not incur any rent, even though this has developed into a long-term accommodation solution for many households (the average stay in 2003 was 18 months). It is important, in the interests of both equity and efficiency, that rental policies across the range of long-term accommodation for social tenants are consistent in charging a fair rent, while reflecting the ability to pay. For all these reasons, therefore, the Council recommends that a review of the current differential rents policy be carried out to improve the sustainability and effectiveness of the current scheme.

### 6.6.3 The ownership of public housing

Ireland is unique for the proportion of its social housing which is under direct state control. Most other European countries have a more diverse range of not-for-profit or social landlords involved in managing their social housing stocks. While capital assistance to the voluntary and co-operative housing sectors for new-build has been growing in Ireland, no significant levels of stock transfer have taken place. In the UK, by contrast, a significant transfer of stock has taken place from local authorities (half a million dwellings between 1988 and 2000), usually to newly established Registered Social Landlords. An emerging debate in Ireland is whether an active policy of stock transfer from local authorities should be pursued.

An immediate practical issue is the absence, for historical reasons, of sufficient organisations which could act as alternative social landlords on a significant scale (of the 300 plus not-for-profit housing associations actively managing housing stocks in Ireland, 67 per cent manage less than 10 units). In addition, the transfer of stock where rental revenue has traditionally not covered maintenance and management costs would be likely to require additional state subsidy, weakening one rationale for stock transfer.

The ineffectiveness of state-controlled social housing should, also, not be exaggerated. As the tenant profiles of local authorities became increasingly disadvantaged, their housing departments have become more “social” and shed some of their parallels with construction companies to acquire more of the features of social departments. The diversity of their experiences gives considerable scope for benchmarking best practice and institutionalising systems of peer review. The decentralisation of the management of individual estates to area-based offices in some local authorities illustrates the possibility of achieving some of the benefits associated with changes to management systems *within* the current system of LA ownership, for example greater involvement of tenants in estate management functions and processes. Finally, continued public ownership of the local authority stock has also undoubtedly assisted in the planning and delivery of large-scale regeneration and remedial works.

However, a number of arguments can still be made for supporting a transfer of stock from local authorities:

- ◆ It could counter current stigmatisation and support wider allocation policies;
- ◆ A wider range of providers would be likely to support a more diverse range of management practices, but also to support management of emerging new forms of social housing – in mixed developments etc.;
- ◆ It would reduce the operational pressures on local authority housing units, freeing them up for more strategic activities such as the planning and co-ordination of overall supply (though it is likely some staff transfer to new landlords would occur);
- ◆ It would reduce the scope for unwanted political interference in the strategic management of social housing (e.g. rent levels, investment, allocation policies).

In a recent paper, Mullins (2004) advocates that the following key elements form the basis for any change in the ownership and management of local authority housing: (i) the genuine involvement of residents in appraising options; (ii) robust mechanisms for ensuring that standards improve (regulation, contracts, culture); and (iii) the retention of strategic levers and skills by the municipal authority to meet the future housing needs of its functional area.

In conclusion, the Council recommends that the potential for the transfer of local authority stock should be considered by interested local authorities where an alternative landlord exists, and where it is believed quality of service and value for money would be improved.

#### 6.6.4 The scope for introducing personal housing subsidies

Ireland is one of the few countries in the European Union without a general, income-related, demand-side housing allowance; a partial scheme operates for welfare recipients who source their accommodation needs in the private rental sector (the Supplementary Welfare Rent Allowance).

The case has periodically been made for the introduction of a general form of personal housing subsidy, recently as an alternative to rent supplement under SWA<sup>22</sup>. Its proponents argue that such a move would ensure more equitable treatment across tenures and a greater degree of choice for individual households. It is also presented as a method to integrate housing into the broader welfare system and finally overcome the stigmatisation attaching to social housing. On the other hand, the implementation of personal housing subsidies in other countries has created difficulties—including high levels of fraud, and a reduction in incentives for landlords and tenants to keep rents low. Setting and administering the appropriate withdrawal rate is also problematic. A high withdrawal rate ensures expenditure is targeted and contains costs, but means recipients are faced with a high ‘marginal tax rate’ and its disincentive effects.

22. Browne, Kerrins and Memery (2002) stated that the introduction of a unified housing benefit would address the problems of the employment and poverty traps associated with SWA rent supplement, as well as the anomalies in relation to retention of entitlement. The Commission on Social Welfare (1986) endorsed the introduction of a comprehensive housing benefit in light of the extremely variable cost of housing, and the difficulty in adjusting expenditure in line with changes in income. See also Blackwell (1988).

A low withdrawal rate minimises the employment/poverty traps but raises costs as payments are made to people higher up the income schedule. Finally, a personal housing subsidy scheme entails considerable administration costs to monitor household incomes and accommodation standards.

It has been stated that the high level of dependence and expenditure on housing benefit in Britain is associated with inter-tenure polarisation, labour market polarisation and the lack of generosity of the social security system.<sup>23</sup> This suggests some of the anticipated advantages of a personal housing subsidy require wider welfare and tax reforms addressing general income adequacy if they are to be realised. The Inter-Departmental Committee on the Administration of Rent and Mortgage Assistance, which reported in 1999, considered that a move to a more universal housing benefit would not be a desirable option.

However, in the absence of a universal personal housing benefit, an equity argument remains that some form of targeted assistance to low-income households other than those dependent on welfare merits consideration. While the Supplementary Welfare Scheme provides assistance to welfare dependent households, a proportionate level of assistance is not available for economically active households where the income level is much the same. Possible ways of doing this deserve fuller consideration: for example, the retargeting of existing demand subsidies such as Mortgage Interest Tax Relief and rent relief for private tenants towards lower-income households; the use of housing tax credits to support working poor households (proposed by the Commission for the Private Rented Residential Sector in 2000); or incorporating a housing cost element into a remodelled Family Income Supplement being paid through the tax system (Working Group for Programme for Prosperity and Fairness).

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23. *Stephens et al, 2003*

### Appendix 6.1 – International approaches to supporting private investment in the supply of affordable rental accommodation

A number of models exist in other jurisdictions that support private investment in the supply of rental accommodation at below-market rents, often targeted at defined household categories based on eligibility. The Low Income Housing Tax Credit (LIHTC or Tax Credit) programme in the US was created by the Tax Reform Act of 1986 as an alternate method of funding housing for low- and moderate-income households, and has been in operation since 1987. In 2003, each state received a tax credit of \$1.75 per person that it can allocate towards funding housing that meets programme guidelines. Tax credits are used by developers for new construction, acquisition or rehabilitation. Projects must also ensure that 20 per cent or more of the residential units in the project are both rent restricted and occupied by individuals whose income is 50 per cent or less of area median gross income or 40 per cent or more of the residential units in the project are both rent restricted and occupied by individuals whose income is 60 per cent or less of area median gross income.

Real estate investment trusts (REITs) are a mechanism used to facilitate investment by individuals in large-scale property investment. They can be used both for residential and commercial property. The incentive to invest in property via REITs is that the income distributed to investors is free of corporation tax. It is subject to income tax in the ordinary way when received by the investors. REITs are required to distribute 90 per cent of their taxable income to their shareholders. The potential social benefit of this arrangement is that it facilitates large-scale property investment and associated professional property management. This type of collective investment could be achieved through ordinary corporate structures, but would then be subject to corporation tax.

# 7

## Land, Land Management and Taxation

## 7.1 Introduction

As noted in Chapters 5 and 6, the Council believes that the priorities of Irish housing policy should be the achievement of quality neighbourhoods and towns, the improvement of affordability through strong supply and the achievement of greater social balance through a continued increase in the social housing stock and more graduated supports.

There are a number of taxation and land policy measures that impact on the housing system and that can help or hinder the achievement of these objectives. This chapter considers the taxation and land issues that are most widely discussed in Ireland.

Section 7.2 discusses how the housing system is affected by a range of fiscal measures. The tax treatment of mortgage interest, rental housing, transactions taxes and second homes are discussed. In addition the possibility of new fiscal measures to assist those for whom raising a deposit is the main obstacle to entering owner occupation is discussed.

Section 7.3 considers policy issues concerning land, land management and betterment. It outlines a framework for understanding the role of land in the housing system, drawing on the material in Chapter 2. That framework is one which recognises the degree to which land supply is variable and uncertain and traces the implications of this for the operation of the building industry and the planning system. We draw attention to the way in which the agreed framework differs from the traditional view that the supply of land is absolutely fixed. The section then shows how the framework is confirmed in our examination of the Irish housing system in Chapters 2, 3, 4, 5 and 6. Some commonly heard policy recommendations on land are discussed: zoning more land to remove its scarcity, stronger betterment – sharing instruments, public land management supported by widespread compulsory purchase and a site value tax. While there is some value in discussing the adoption of one of these policy approaches on a national basis, elements of several of them are already in place and are used in various combinations. Further discussion of the approaches is presented in the Background Analysis. The Council concludes that the challenges outlined in Chapter 4 require a combination of four policy approaches:

- ◆ A land-use strategy over a long horizon, including zoning and servicing of land (as outlined Chapter 5);
- ◆ Land for enhanced social and affordable housing programmes (as outlined in Chapter 6);

- ◆ Sufficient active land management to ensure delivery of housing;
- ◆ Betterment sharing measures, designed in a way that does not damage supply.

The chapter closes by outlining ways in which active land management and betterment sharing might operate.

## 7.2 The Tax Treatment of Mortgage Interest, Rental Housing, Transactions, Deposit Savings and Second Homes

### 7.2.1 Mortgage Interest Tax Relief

#### The Evolution of Mortgage Interest Tax Relief

The cost of servicing mortgage debt is the principal ongoing cost for owner occupying households. Traditionally, in Ireland, borrowers have been able to offset a proportion of mortgage interest rate repayments against tax. The real value of this mortgage interest relief fell through the 1990s. At the start of the decade, the total interest payment that could be offset against tax for a single person fell to IR£1,600 (€2,032) from IR£2,000 (€2,540) just a few years previously.<sup>1</sup> This relief could be claimed at the marginal rate, which for a worker on average industrial earnings was 48 per cent. By 2002 the relief was standard rated, limited to €3,175 of interest payment, or a maximum saving before tax of €635<sup>2</sup>. The level of tax relief available in 2002 equated to a reduction of 4.6 per cent in the gross repayments required to service an average mortgage over 20 years such as that in the discussion and affordability in Chapter 2. The number of persons claiming mortgage interest tax relief in 1999/2000 was 376,288 or 23.2 per cent of the total 1,621,536 tax-payers. Mortgage interest relief for owner-occupiers now costs the exchequer around €200 million per annum.

#### The Case against Mortgage Interest Tax Relief

Despite the apparent reduction in interest payments, it has long been the view of housing market economists that the effect of mortgage interest tax relief (MITR) is to a significant extent capitalised into higher house prices through an increased willingness to pay for accommodation. The tax relief is seen as having increased the demand for housing and fuelled asset price growth. For this reason, any policy which seeks to improve affordability for buyers through offering higher and higher levels of relief is unlikely to do so and may only result in higher prices. On this view, the ultimate beneficiaries of the tax relief are landowners who find builders willing to offer higher prices for land.

On this basis, a case can be made for a final phasing out of MITR. Advocates of the abolition of MITR argue that this would have some beneficial effects on the housing market and would allow government allocate €200m more effectively. The effects on the overall housing market are likely to be small. There would be

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1. Throughout the period the amount that could be claimed by married claimants was twice the single rate.

2. A higher limit of €4,000 applies to first time buyers.

some moderation in demand for housing and, consequently, in house prices. Those in private rented accommodation would be likely to see some modest reduction in rents as a result of lower capital values for landlords. To the extent that lower residential property prices fed through to lower development land prices, local authorities would find it easier to acquire land for social and affordable housing.

### **The Case for Retaining a Low Level of Mortgage Interest Tax Relief**

Abolition of mortgage interest tax relief is likely to have a limited effect in moderating house prices or improving affordability. Phasing out mortgage interest relief would impinge most on those who had recently purchased property with a mortgage and who would see their monthly payments rise and the value of their recently acquired property weaken somewhat. On balance, the Council believes that the overall benefit to the housing market is not sufficient to justify abolition. Nevertheless, if an alternative tax support for home ownership, such as a measure that supports saving for a deposit, was decided upon, then there is a case for further review of MITR.

#### **7.2.2 Tax Treatment of Rental Housing**

A number of elements of the tax code impact on the rental sector. The most significant three are:

- ◆ MITR for landlords;
- ◆ Targeted supply subsidies, such as Section 23 and Section 50 tax relief; and
- ◆ Tax relief to tenants on rent payments.

For the reasons outlined below, the Council believes that each of these continues to have a role.

The Council considers that a quality, private rental sector is an important element of the housing system. Recent experience suggests that MITR for landlords is a significant contributor to the functioning of the rental market and, for that reason, the Council believes it should be retained.

There are a number of targeted supply subsidies that support the provision of rental accommodation. Section 23 tax relief was introduced in 1981, allowing investors who build, renovate or convert houses or apartments for rent in designated areas to offset their capital expenditure against their rental income. Tax relief was also introduced for owner-occupiers in these areas. This scheme was subsequently extended and refocused as part of urban renewal policy. Section 50 provides tax relief for investment in student accommodation. The current schemes are due to expire in July 2006. The Council recommends that a review of these schemes be undertaken. If it is decided to continue supporting private rental accommodation in this way, the Council emphasised that this would only be justified if there is a high level of registration of landlords and a high rate of compliance with the provisions of the Private Residential Tenancies Act, 2004.

Some income tax relief on rent paid by tenants was introduced in 1982. Since the level of relief has not been increased in real terms, it now provides a modest level of support. In addition, it is likely that the relief benefits not only tenants, but also landlords, since it tends to increase demand and therefore rents. The Council believes that this modest level of tax relief can be continued, but should be viewed as secondary to the exploration of more graduated supports discussed in Chapter 6.

### 7.2.3 Stamp Duty and Transaction Charges

An important argument of Part II of this report is that, despite the social dimension of all housing, the experience of Irish housing in the past decade can only be fully understood if the role of market forces is recognised. In large measure, both land and housing are governed by the market forces of supply and demand. This explains some of the positive features of Irish experience and some of its problematic aspects. One important implication is that the beneficial aspects of the market mechanism must be allowed to work wherever possible. This should focus attention on any policy that increases the cost of transactions in the housing market. The most important such factor is undoubtedly stamp duty. Stamp duty in Ireland is high by international standards.

#### The Case for Abolition of Stamp Duty

The market perspective on the Irish housing system leads some to advocate abolition of stamp duties on housing transactions. They argue that there is significant lumpiness in the residential property market as a result of transactions costs. These costs include the costs of buying and selling, employing legal representatives, estate agents, surveyors and the costs of arranging finance as well as the costs imposed in the form of transaction-based taxes such as stamp duty. The presence of transactions costs drives a wedge between the price that a buyer pays for a property and the price that the seller receives. These costs reduce the efficiency of the market. For example, it is likely that the high levels of duty payable by the purchaser on the sale of existing houses reduces the willingness to trade down as the price received for the house is less than the buyer is willing to pay. The fact that an individual trading down will themselves most likely have to pay stamp duty on a further house creates an additional degree of 'lock-in'. The wedge that stamp duty drives between the price a seller receives and the price the same seller has to pay for a replacement dwelling reduces labour mobility. One way in which government could reduce transactions costs would be through the reduction or abolition of stamp duties. High levels of stamp duty impose significant tax liability on the would-be purchaser at the very time that they may have stretched themselves and be financially constrained.

Advocates of the abolition of stamp duty admit that the immediate effect would be to strengthen housing demand and, through demand, to increase house prices. However, they argue that would-be purchasers should find themselves no worse off overall. A higher proportion of the entry cost would be the house price, funded by a mortgage, and a lower proportion would be transactions charges. Consequently, house buyers would be able to spread a greater proportion of the capital costs over many years in the form of a mortgage.

### The Case for Retention of Stamp Duty

While reducing transaction costs is desirable in principle, it can be argued that abolition of stamp duty is not, on balance, a good idea in current circumstances. Two main arguments support this view. First, stamp duties on residential property are now a significant source of revenue to the exchequer. These duties yielded some €1,075 million for all property in 2003 and €778 million had been received by the exchequer up to the end of July 2004. Abolition of stamp duty would mean that this revenue would have to be found from another source or public expenditure would have to be curtailed. Second, stamp duty, as a tax on transactions in property, is the main form of property tax in Ireland. There are arguments in favour of property taxes, on both equity and efficiency grounds. The Council believes that it would be unwise to abolish a source of revenue from property as significant as stamp duty.

However, there are a number of possible amendments to the stamp duty regime which could improve the functioning of the housing market:

- ◆ Changes to assist those deterred from trading down by high transactions costs;
- ◆ Creation of a level playing field between new owner-occupied housing (currently exempt from stamp duty) and old housing (currently subject to high rates of stamp duty);
- ◆ Widening of the stamp duty bands, so that more people would pay duty at a lower rate; in earlier decades, purchasers of averagely priced dwellings paid little or no duty; and
- ◆ Levying stamp duty on a marginal basis, like most taxes, in order to eliminate 'blackspots' in the price spectrum.

The Council believes that these changes should be kept under review. The scope for amendments of the stamp duty regime is related to other possible changes in taxation, including introduction of a measure to achieve a greater sharing of the betterment value of land, as discussed in Section 7.3.

The Council strongly welcomes the review of another key transactions charge, the fees paid to estate agents, which has recently commenced and would welcome a review of legal charges on property transactions.

#### 7.2.4 State Assistance for Acquiring Deposits

The analysis in Part II of the report shows that the deterioration of affordability for many home owners and would-be owners has less to do with increased monthly mortgage repayments than with the difficulty of getting into owner occupation. Ninety per cent mortgages have remained the norm in Ireland. This means the prospective buyers must have a deposit of 10 per cent of the purchase price. Dramatically increased prices, especially in Dublin, have given rise to proportionate increases in the deposit required. While falling interest rates have gone a long way to ameliorating the impact of higher house prices on monthly mortgage repayments, they have done nothing to lessen the hurdle of high deposits.

The Council believes that the Government should explore the possible ways of providing support to those who need assistance with a deposit for owner occupied housing. Ideally, such support would be targeted on those not in a position to acquire housing deposits from parental gifts or other sources of wealth. Two main possibilities are evident: tax relief on saving for a deposit and a loan from the state to cover the deposit<sup>3</sup>. There are already a number of public policies designed to support savings. Among these are tax relief on pension contributions and payments to holders of SSIA accounts.

A savings instrument has the advantage of not increasing home owners' level of debt and of linking the acquisition of mortgage finance to a pattern of savings behaviour. A loan instrument has the advantage of creating greater equity between the target group and those who have access to other resources, and enables their access to home ownership within a shorter timeframe.

In considering whether to adopt either of these approaches, attention should be paid to the position of the housing cycle, overall levels of indebtedness and the vulnerability to interest rate movements. Furthermore any such measure must not place an excessive burden on the public finances.

#### 7.2.5 Tax Treatment of Second Homes

The analysis in Part II shows that a strikingly high proportion of new house construction does not provide housing for a new household. This suggests that a significant share of construction consists of second homes. There are at least four reasons why the prevalence of second homes should be a focus of public policy:

- ◆ In the context of a national imbalance between demand and supply, the widely supported goals of housing policy suggest that, where possible, policy should support provision of primary housing;
- ◆ In some rural areas, the prevalence of second homes is a factor in driving up land and housing costs for local people who need to acquire primary homes;
- ◆ There can be a significant difference between the costs paid by those constructing new one-off rural houses and the true costs of connection, services, environmental damage and lost amenity;
- ◆ The implications for tourism of second homes.

In the past, the desire to promote tourism led to the introduction of incentives for holiday cottages (among other incentives). These incentives were not designed to promote second homes *per se* in that it was a condition of such incentives that the accommodation be made available to tourists. However, such holiday cottages could also be used as second homes. These incentives have either ended or are now being phased out (see Box 7.1).

3. One possible form of loan instrument which has been advanced is the Government Underwritten Equity Sharing Transaction (GUEST) scheme. Such a scheme would allow prospective purchasers, subject to certain criteria, to borrow up to 90 per cent of the price of purchase from a financial intermediary and up to 10 per cent of the price of the property from the exchequer. The financial intermediary would be required to make an assessment of the borrower's ability to repay the loan and to lend the 90 per cent of the purchase price solely on that basis. The loan from the government would be required to be repaid within a 10 year period and the redemption value would be the current value of the government's equity stake at the time of redemption in the case of rising prices. However, in the case of falling prices the level of repayment would be the remainder of the market value of the house minus the financial intermediary's stake, but subject to a lower bound of zero. Those who argue against such a scheme believe it would fuel higher levels of indebtedness and be capitalised into higher property prices. It should be noted that such a scheme would be relatively unattractive to those who have access to their own capital resources and would therefore avoid deadweight loss through the provision of support to those outside the target group.

In current circumstances and in view of the wider policy concerns outlined above, there is a strong case for measures that would achieve the following: first, recover from owners of second homes the full costs; and, second, achieve an additional contribution to ameliorate the effects on the housing prospects of local people in need of primary homes. Some local authorities are beginning to use development contributions in a way that may start to recoup a greater proportion of the true costs of new second homes, and this is a welcome development. In addition, the Council believes that consideration should be given to a separate tax on second homes. A decision on whether to introduce such a tax, and the form it might take would depend on how the wider issue of land value intervention and betterment is treated (see Section 7.3).

### Box 7.1 Tax Incentives for Holiday Homes

While considering the tax treatment of second homes, it is of interest to note the current and earlier schemes of tax incentives for holiday homes. First, there is a scheme that offers tax relief for investment in holiday cottages generally. This applies to holiday cottages that are registered as being available for tourists. Under this scheme a tax allowance is provided on capital expenditure on holiday cottages (at ten per cent per annum over ten years). This scheme is being phased out and only applies where planning permission has been granted before 31 December 2004. Second, in the past additional tax relief was provided for investment in designated seaside resort areas. This included additional provision for tax relief for holiday cottages in these areas. Tax relief on holiday cottages in these designated areas was not restricted to the income generated by such cottages but could be claimed against all rental income. Again it only applied to registered tourist accommodation. The designated resort scheme ended in 1999.

## 7.3 Land, Land Management and Betterment

### 7.3.1 A Framework for Understanding the Role of Land in the Housing System

#### Land Supply Is Variable And Uncertain

In Chapter 2 we give an account of the land market, the building industry and the planning system. As well as underlining the importance of demand, that account emphasises the degree to which the supply of land is variable and uncertain. The implications of this variability and uncertainty have only recently been fully articulated, but they are an important part of a framework for understanding the role of land in the housing system (Evans, 2004). That framework provides an insight into past policy initiatives and future policy possibilities.

There are a number of reasons why land supply is both uncertain and variable (Evans, 2004). First, landowners may have motives other than maximising the current income from their land. One possible motivation is that the current

occupier occupying potential development land may have a high attachment to living and working in that area, even if the development of land for housing is more profitable. Second, when development pressures are strong and land prices are expected to rise, land tends to be held by 'investors'. The transition in the ownership of land is from 'users' to 'investors' to 'developers'. Though investors undoubtedly bear risk, they often have information, and sometimes influence, that allows them to hold land until the optimal moment. An alternative to investors is that developers purchase options to buy land at a later stage. Commonly, the developer undertakes to seek zoning and/or planning permission for this land. Third, speculation regarding future increases in land values may lead to land being used in a way that does not maximise current income. Fourth, the land market is characterised by information inefficiencies and uncertainty which can mean that land is not smoothly allocated to its most current profitable use. Since much land is not advertised, developers have to search for sites, a process that can be costly. When sites are found, owners have to be negotiated with; these owners will have different motivations regarding their land and different reservation prices. The willingness of landowners to make land available for development can affect land prices and, to the extent that it affects the supply of housing in a given area, may also affect house prices.

Another significant feature of the land market is the fixed location of each piece of land. This means that the relative location of sites, in particular their contiguity, may be of overriding importance. This has significant implications:

*If the likelihood of a piece of land being put on the market depends solely on the owner's preferences, then the sites which are sold for development are unlikely to consist of sites adjacent to each other at a favourable location. Development is likely to sprawl in a quasi-random way across the landscape, sprawl which was seen in Britain between the wars and which continued to occur in countries like Australia and the United States after the Second World War (Evans, 2004: 181).*

Governments use a variety of policies to avoid such an undesirable pattern of development, and these have a range of impacts on the housing system. Planning is often used to control such development, although the extent of this control depends on the attitude the planning authorities take to dispersed development. The planning system itself becomes an important influence on the supply conditions of land. Planning can control undesirable development, although in doing so it often increases the scarcity value of land and housing. Indeed, planning policy can cause higher land prices even where there appears to be sufficient land available. While planning of the type undertaken in Ireland and the UK can prevent development, it cannot ensure that land allocated for development is actually built upon. In some countries, large scale public land banking is used to combine a smooth supply of land with integrated development, while in other countries, including Ireland, activist land management is used in a more selective way, something we discuss further below.

The uncertainty and variability of land supply is one important factor that shapes the business practice of developers and others in the market. On the one hand, it increases the uncertainty that developers face and, on the other, it gives great market power to particular owners of land. If developers and builders are to

maintain continuity in their operations they need to ensure that they have an ongoing supply of suitably located sites. They cannot rely on the market making land available at the time they require it. To ensure adequate land developers need to invest in land banks. The practice of land banking by developers, in turn, becomes another influence on the supply of land in the market. Because the land that is available for development is limited, developers compete with one another for a scarce supply of sites. This tends to create rising land prices. And it 'encourages developers to buy land ahead of development to make absolutely sure of their own land stocks while, at the same time, making it more difficult for their competitors to find land on which development would be permitted' (Evans, 2004, p. 178). Negative planning systems, such as that in the UK and Ireland, give great market power to particular owners of land. Evans says 'It is illogical to blame the landowners for exercising this power, rather than examining the workings of the system which gives them this power' (Evans, 2004, p. 175).

### **House Prices Influenced By Demand, but Also the Supply Conditions Of Land**

This view of the land market suggests that the price of houses depends on the strength of demand for housing and the supply conditions of land and housing. It implies that the supply conditions of land can vary for two main reasons:

- ◆ Public authorities' decisions on planning and infrastructure; and
- ◆ The decision of land owners to sell or develop their land.

Together these supply conditions of land shape the degree to which a given strength of demand for housing translates into an increase in land prices and house prices.

### **The Framework Highlights A Number Of Possible Problems**

The framework outlined above is based on observation of the uncertainty and variability of land supply, planning, land banking and, of course, the factors that drive the demand for housing. The framework is broad enough to encompass a number of different configurations of housing demand, land supply and planning. It allows us to identify a number of things that can go wrong in the land and housing markets and some associated challenges for public policy.

Things can go wrong if insufficient land is zoned and serviced. The restriction on land availability limits housing supply and pushes up land and house prices. Housing demand can be displaced to other regions. This suggests that one policy challenge is to achieve sufficient zoned and serviced land in areas of greatest need to allow adequate housing supply and prevent high prices.

Similar problems can arise if the owners of land do not want to sell it at a given time or in contiguous parcels. The consequent limitation on supply can drive house prices to a high level. This suggests that a further policy challenge is to achieve an adequate, smooth, supply of land to allow the production of sufficient housing at affordable prices.

Severe problems can arise if the long-term development needs of a city are not strategically identified. Then land across a whole region tends to be zoned in a haphazard way and is made available to builders in the patchy and uncertain

process described above. To avoid these problems, and the others listed above, it is vital to have a long-term vision for the sustainable settlement of each city and region including a smooth supply of contiguous land to builders.

A final problem can arise when, even though most of the available land has been zoned, the strength of demand in a given location means that there remains a very large price premium. This is seen in high property prices, a high share of land costs in house prices and a big gap between the agricultural value of land and the price it sells for. Consequently, a policy challenge is to achieve adequate housing provision in this area, through appropriate densities and social housing provision. In addition, policy must achieve a fair sharing of the large betterment or windfall that accrues to those that happen to own land in particular locations.

### **The Framework Differs from the Traditional Economic View that Land Supply is Fixed**

The agreed framework qualifies two traditional assumptions in the economic analysis of land and housing markets. The first is that the supply of land is absolutely fixed. The second is that the owner of land will smoothly and swiftly allocate it to its most profitable current use. These two assumptions underpinned the dominant ideas on how the price of land was determined by the demand for housing and the effects of taxation of development gains.

On prices, the traditional view is often expressed in the maxim ‘it is not high land prices that cause high house prices, but high house prices that cause high land prices’. This is more or less true at any given moment, when the supply of land is fixed. But the maxim bewilders many who hear it, and they are right to be sceptical. For the maxim takes the price of houses as an unalterable fact, thereby ignoring the degree to which the supply conditions of land also influence their price.

On the taxation of betterment gains, the traditional view implied that the betterment created by public investment could be taxed without any impact on the supply of land. This was the logic of the 100 per cent Betterment Levy imposed in the UK following the Town and Country Planning Act of 1947. This was not a tax on the income from land, but a tax on the change in its capital value. Contrary to the dominant view, the effect was to ‘freeze’ the land market. Land owners saw no reason why they should sell their land if they were to gain absolutely nothing from the sale, and therefore chose not to sell unless they had to. The new view, that land supply is variable and uncertain, and that landowners have a role to play in ensuring that their land is used efficiently, explains why this was so. The taxation of betterment value, by reducing the post-tax price received by landowners, may reduce the supply of land available for development and hence reduce housing supply. This would result in both higher land and house prices.

If the new view suggests more caution about taxes on betterment, it highlights the potential for public policy to improve the quantity and predictability of land supply. Given the variability and uncertainty of the market for land, the acquisition of land by a public authority and the sale of land to builders could have the effect of increasing the supply of land for development. In particular,

some land that would only be released if land prices reached some very high level might now be released without land prices having to reach this level. By increasing the supply of land for development it is possible to increase housing supply and hence reduce prices. If operated successfully, this policy also has the capacity to reduce risk for builders: if the public system can effectively ensure an ongoing supply of land, there is less need for private land banks. This perspective suggests the possibility of increasing housing supply in a particular area, such as in the area around a city.

### 7.3.2. The Agreed Framework is Confirmed in Our Examination of the Irish Housing System

The framework for understanding the role of land in the housing system is confirmed in our review of Irish housing trends in Chapter 2. Indeed, it informs the interpretation of these trends offered in Chapter 3 and the identification of key policy challenges in Chapter 4.

#### The Determination of House Irish House Prices

The framework is, of course, reflected in our interpretation of Irish land and house prices. House prices were determined by the strength of demand for housing and the supply conditions of land and housing.

Since the mid-1990s a number of factors led to a sharp increase in demand for housing. These included strong growth in income and employment, a large increase in the population at household formation stage and a fall in interest rates. The resulting remarkable increase in demand was the most important cause of increased property prices. As we noted in Chapter 3, given the strength of demand, a rise in house prices was to be expected.

The framework suggests that the supply conditions of land do have a major influence on the degree to which such an increase in demand for housing translates into an increase in land prices and house prices. The two major influences on the effective supply of land in Ireland were (i) the willingness of landowners to sell suitable sites and (ii) the planning and public investment system. We say the planning *and public investment system*, because it is not only its willingness to zone land and grant planning permission that is important, but also its efficiency in servicing land, providing integrated infrastructural development and the density guidelines adopted. As noted above, an important aspect of the supply conditions of land in Ireland was planning and infrastructural policies that did not allow a sufficient supply response in and near the major cities, especially Dublin. These supply conditions of land must be seen as one of the factors that explain the particularly high price of both houses and land in Dublin.

The analysis suggests that the prevailing market conditions and market price of houses are not inevitable and unchangeable facts. They reflect both the strength of demand for housing and the supply conditions of land. Both of these can be influenced by public policy.

### The Spatial Pattern of Settlement and the Problem of Sustainability

Recall that in Chapter 2, it was observed that residential development in Ireland has displayed a marked spatial pattern and this is reflected in the spatial pattern of population growth:

1. For much of the period of the housing boom, supply response in Dublin was weaker than in the rest of the country;
2. Within the East region, there is a pronounced doughnut effect, with the most rapid rate of increase in the levels of construction and new settlement in the outer counties;
3. In recent years, the level of housing supply in Dublin has increased considerably, reflecting the response by government, local authorities and the building industry.

In Chapter 3, we argued that in understanding this pattern it is necessary to go beyond the standard withholding versus zoning debate. A number of institutional factors and decisions need to be taken into account:

- ◆ The overall system of planning and building in Ireland makes it necessary for firms to hold land banks to ensure that land is available when they require it, a feature that is well explained in the economic analysis of the land market;
- ◆ In the Irish land market and planning system, local authorities can zone land for residential development but cannot ensure the rate at which it comes available or that comes available in contiguous sites;
- ◆ The zoning of a substantial volume of land for open space in the Dublin metropolitan area, and at its fringe, influenced the quantity and location of housing supply;
- ◆ In seeking to zone land for new residential development, local authorities frequently face resistance from existing residents;
- ◆ The low density at which land was developed undoubtedly reduced the supply response that was achieved from a given amount of land;
- ◆ Even when the policy of higher density became accepted, local authorities were constrained in granting planning permission for suitable densities by lack of infrastructure (for example waste water treatment and transport) which is necessary to support sustainable densities.

Our analysis of Irish housing in recent decades highlights the central importance of policies for planning, transport and infrastructural development. These were not just desirable add-ons to housing policy. They were integral to it. Problems of long-run sustainability and upward pressure on price were exacerbated by the dominance of low-density housing in a context of poor transport infrastructure. The predominance of dispersed, low-density, greenfield development was a consequence of a set of structures and systems which did not accommodate a sufficient supply response in and near the major cities. The creation of adequate transport corridors that would have allowed higher densities, would have required an integrated land use strategy for the Greater Dublin Area supported

by major transport decisions at national government level. This would have required the public authorities to have operated on a similar time horizon to that adopted by the most sophisticated private development companies, i.e. 15 to 20 years.

Indeed, the framework provides a rationale for a number of policy initiatives to do with land and housing supply. A prime example is the Serviced Land Initiative. That important policy initiative underlines the need for a degree of activism and co-ordination to ensure smooth supply of land in appropriate areas.

In a different way, the framework throws light on the Irish policy regarding CGT. The introduction of CGT in 1974 and its increase in 1982 reflected government's awareness of high levels of betterment and the attempt to achieve a sharing through capital gains taxation; the subsequent reductions in the tax rate in 1990, 1992, and 1998 reveals anxiety about the possible negative effect on land supply, consistent with the framework.

### **Social Housing**

The agreed framework is also confirmed in our account of social housing. It was noted in Chapter 2 that the reduction in social housing provision in the 1980s and the sale of public land banks greatly reduced the role of the local authorities in the overall land and housing system. Increasing pressure of access and affordability prompted a revival of social housing provision in the 1990s. But that increase in supply was constrained by the high price of land. In that context, the adoption of Part V can be seen as an attempt to not only capture an element of land value betterment, but also as circumvent the local authority's limited influence over the supply of land. Some of the most important innovations in social housing have occurred where local authorities have used their ownership of land as an instrument to negotiate with private developers the construction of well-designed, integrated, neighbourhoods, incorporating social, affordable and private housing.

Indeed, the new affordable housing initiatives provide an important, indirect, confirmation of the framework outlined above. It is obvious that the affordable housing initiatives demonstrate the wish to provide some housing at a price that does not include the high cost of land. What is less obvious is that the affordable housing initiative under *Sustaining Progress* highlights the critical role of a central policy driver engineering the delivery of land. The framework suggests that, in some contexts, there are advantages to be had from an element of activist land management.

### **7.3.3 Some Commonly Heard Policy Recommendations**

In discussing future policy on land value, land management and betterment it is common to consider alternative national policy approached such as:

- ◆ Zoning more land in order to remove its scarcity;
- ◆ Betterment-sharing instruments, such as higher Capital Gains Tax, Development Levies and, possibly, a new Planning Gain Levy;

- ◆ Public land management supported through widespread compulsory purchase;
- ◆ A general Site Value Tax.

Each of these approaches has advocates who argue that it should be the key policy approach to land value and betterment. In considering the case for adoption of each of these as the main policy approach, two key considerations must be addressed:

- ◆ The impact of the policy approach on the housing market and house prices, including the incidence of the policy;
- ◆ The impact on the quality and sustainability of both new and existing residential neighbourhoods and towns.

The advocates and opponents of each approach have arguments on these impacts, based on various analyses of the land and housing markets and various normative positions on the fair distribution of the betterment value of land<sup>4</sup>. Without judging the balance of these arguments, it should be said that the framework adopted by the Council identifies some important challenges or questions that confronts each of these comprehensive policy positions:

- ◆ Advocates of zoning away the scarcity of land must explain how this could be made consistent with the kind of sustainable development described in Chapter 5;
- ◆ Those who argue that additional betterment capturing measures (such as higher CGT or a new Planning Gain Levy) must address how it would work in those contexts where the supply of land could be reduced;
- ◆ The case for public land management supported by widespread compulsory purchase must explain what agency would be capable of handling this and must consider contexts in which the policy can work with and without price control;
- ◆ The case for a site value tax must clarify a number of features of its design, including how it would apply to those who are asset rich but cash poor.

While there is some value in discussing the adoption of one of these on a national basis and some of the Council's earlier deliberation on the possible effect are included in the Background Analysis, the framework suggests an alternative approach. This is for two main reasons. First, elements of several of these policy approaches are already in place and are used in various combinations. Second, rather than recommending one of the four policy approaches listed above, the Council's framework suggests that a combination of these policies are required in most contexts.

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4. These are identified and compared in Paper 7 of the Background Analysis, available on the NESC website at <http://www.nesc.ie/>

#### 7.3.4. A Combination of Approaches Tailored to Context

The interpretation of the Irish housing system in Chapter 3 and the review of likely future trends in Chapter 4 suggested that the key policy challenges are:

1. To achieve high quality, sustainable, development in both urban and rural areas;
2. To provide an effective range of supports to those households that fall below the affordability threshold;
3. To assist the market to continue to provide a high level of supply;
4. To ensure a tax and subsidy regime that supports these goals.

An effective policy to meet these challenges requires a combination of four policy approaches:

- ◆ A land-use strategy over a long horizon, including zoning and servicing of land (as outlined Chapter 5);
- ◆ Land for enhanced social and affordable housing programmes (as outlined in Chapter 6);
- ◆ Sufficient active land management to ensure delivery of housing;
- ◆ Betterment sharing measures, designed in a way that does not damage supply.

#### A Land Use Strategy Over A Long Time Horizon

While a general case for integrated land-use strategy has been made in Chapter 5, we explain briefly here why it is the critical first element in the approach to land, land management and betterment. First, it would reduce the degree of uncertainty in land supply, uncertainty that is exacerbated by a system of relatively short-term, negative, planning control. Second, it would prevent the allocation of land and other resources for social and affordable housing being an afterthought. Third, while there is a strong case for increased zoning and servicing to reduce the scarcity and betterment value of land, this should only be done in the context of a fully articulated plan for a desirable sequence of development. Otherwise increased zoning is likely to create further unsustainable settlements too far from urban areas and insufficiently served by transport infrastructure, such as railways.

The principles of sustainable development adopted in Irish spatial strategy and guidelines, and discussed in Chapter 5 above, provide the perfect starting point for integrated land use strategies over a sufficient time horizon. In addition, there are numerous procedural changes that could support a transition to an effective planning horizon. Among these is the proposal by APOCC that options should be included in the transactions that are reported to the public system and revealed publicly (APOCC, 2004, p. 87).

### **Land For Enhanced Social And Affordable Housing Programmes**

The case for enhanced social and affordable housing programmes was made in Chapter 6. Here we briefly explain why achievement of adequate social and affordable housing is linked to the policy approach to land, land management and betterment. First, the history of the past three decades shows the extent to which the provision of adequate social and affordable housing is dependent on access to land banks. Second, the history of social housing provision in both Britain and Ireland shows that it can provide an element of ‘positive planning’, since a local authority’s housing department could act in a way which could be coordinated with the goals of its planning department. Third, the recent switch to integration of social and private housing shows that there must be negotiations between local authorities, voluntary and co-operative housing associations and private developers for the creation of mixed neighbourhoods. Recent experience suggest that land in local authority control is an advantageous starting point for such negotiated developments.

In addition, it is recognised that high land prices add significantly to the costs of social housing. Reforms that allowed social housing providers access to land at lower prices would help society in meeting social housing needs. High land prices also add to the costs of infrastructure and the costs of providing public facilities such as schools.

### **Sufficient Active Land Management To Ensure Delivery Of Housing**

A third requirement to address the challenges listed at the end of Chapter 4 is sufficient active land management to ensure the delivery of an adequate quantity of housing to meet the needs of different income and demographic groups. To appreciate this, it is necessary, first, to see how it derives from the agreed framework and, second, that a significant element of activist land management already exists.

One of the two main implications of the paradigm shift in the way the land market is perceived concerns the way land use planning systems operate. The Irish system of planning land use operates primarily through planning control. As Evans makes clear, the received, demand-oriented, theory implies that ‘whatever kind of development is permitted will occur’ (Evans, 2004, p. 248). But the implication of a more balanced framework is that the timely release of land may not occur. ‘For numerous reasons, even though they could sell out at a profit, they will still carry on using it for the same use that they have before’ (Evans, 2004, p. 248). The result is that land prices are higher than they would otherwise have been and the process of development is slower. In this context, a degree of active land management can both prevent urban sprawl and confer economic advantages. ‘Public intervention to ensure that land is available by planning ahead and buying land in anticipation of its development would help keep prices down’ (Evans, 2004, p. 174).

Elements of public land management are evident in a number of aspects of Irish policy. As noted above, the Serviced Land Initiative, affordable housing schemes, public private partnerships and the Critical Infrastructure Bill can all be seen as, in part, instruments through which the public authorities manage the land

supply. While Strategic Development Zones are potentially a major step towards the design of sustainable neighbourhoods, they can also be seen as a way of managing the delivery of land for the construction of integrated new settlements. Likewise, the work of urban development entities, such as Temple Bar Properties and the Dublin Dockland Development Authority, can be seen to include a significant element of land management and site assembly. More recently, central government initiatives to identify land that might be suitable for development in Dublin are clear evidence of the importance of active land management.

The Council acknowledges the role of these elements of active land management in meeting the goals of market supply, sustainable neighbourhoods and the provision of social and affordable housing. It believes that these approaches should be enhanced in appropriate contexts. Six points should be noted. First, it is important to see that the adoption of a longer time horizon for land use planning and urban development would, of itself, constitute a significant degree of land management. Indeed, when the time horizon of the regional and local planners at least matches that of the most sophisticated private developers, public ownership of land may be less necessary. And, where it is deemed necessary, it is likely to be less contentious. Second, in some areas, such as Dublin docklands, natural or historical boundaries define an area of land that is subject to an element of public land management, and this can be used to influence the speed, nature and quality of development. Third, where compulsory purchase is used for urban development it is nowadays normally the basis for a partnership with private developers. Fourth, there is a strong case for local authorities using their compulsory purchase powers to acquire certain lands before they are zoned for residential development. It could then be used for mixed housing, social infrastructure or sold to developers. Fifth, this may require that compulsory purchase legislation be reformed and streamlined, in order to reduce uncertainty and delays. Sixth, there is also a case for active public management of derelict sites, as these can particularly assist housing provision in existing urban areas.

### **Betterment Sharing Measures, Designed In A Way That Does Not Damage Supply**

The fourth component of an overall approach to land is betterment sharing measures designed in a way that does not damage supply. We begin our discussion of this by defining betterment. Some general implications of the framework for understanding land are then identified. Any policy to achieve a sharing of betterment must be equitable, and we define a number of dimensions of equity. Finally, we identify contexts in which a greater sharing of betterment seems warranted and outline a number of ways in which this might be achieved.

*What is Betterment?* The term 'betterment' is widely used in discussion and analysis of land values and planning. It refers to the increase in the value of landed property owing to planning decisions taken by planning authorities. As pointed out in the Kenny Report, the term 'betterment' can be ambiguous, because it is sometimes used to describe the increase in the price caused by works undertaken by a local authority (such as sanitary services and roads) and sometimes to describe the increase in price brought about by all the economic and social forces, including planning decisions and actions (Kenny, 1973, reprinted

in APOCC, 2004). The APOCC report says that the principal reasons for increasing property values are: (a) generally improving economic conditions; (b) the effects of formal land use planning; (c) the provision of infrastructure and general urban improvement; (d) transport policies; and (e) taxes. It observes that ‘identifying the increase that could be securely attributed to planning decisions is more difficult than might be thought’ (APOCC, 2004, p. 89). The All-Party Committee defines betterment as the increase in the value of land that proceeds from three sources: (1) zoning, (2) physical infrastructure and (3) social infrastructure.

*What are the General Implications of the Focus on Land Supply?* The framework for understanding the role of land in the housing system has a number of general implications for how we should think about policies to achieve a sharing of betterment.

As noted above, the first of these is that it questions the traditional assumption that the betterment created by planning and public investment could be taxed without any impact on the supply of land. The new focus on variability and uncertainty of land supply suggests that policy makers should be cautious about increasing certain taxes across the board, such as CGT, lest this prompt some withdrawal of land supply.

But the framework also suggests what type of taxes are unlikely to have a negative effect on land and housing supply. In particular, the view that land supply is variable suggests that an annual site value tax is superior to once-off betterment taxes. A site value tax is a recurring tax on the land or site value of a property. A site value tax on land on which building was permitted would reflect this value and hence may encourage the development of land that would not otherwise be developed or may encourage earlier development of land. While a case can be made for a site value tax, levied not only on new development land but also existing property, this is something that should be explored in a wider review of the Irish tax system.

*Betterment-Sharing and Equity:* Any mechanism to share betterment must be seen to be fair and equitable. We can identify four dimensions of fairness and equity that are relevant:

- ◆ Between the rights of landowners and the rights of society;
- ◆ Between one landowner and another;
- ◆ Between new entrants to the property market and existing home owners; and
- ◆ Between dwellings that are built as part of a new development and those that are self-build or one-off.

These dimensions of equity and fairness must be considered in the context of the need for the significant enhancement of social and affordable housing provision advocated in Chapter 6.

*Why Betterment Sharing is a Component of a Combined Policy Approach:*

The policy approaches discussed above—land use strategies, zoning and land management—will, to some degree, *reduce* the level of land value betterment. Nevertheless, it is not plausible that additional land could be zoned on such a

scale as to drive the price of land close to its agricultural value. Even after appropriate zoning, in certain contexts, there remains a dramatic gap between the agricultural value of land and the price received for it. This is evident in the high level of land value betterment, especially in Dublin, reflected in extremely high land prices and the high share of land value in house prices. It is recognized that such huge windfalls are often the result of public policy decisions on planning, zoning and infrastructural investment. On some land, high betterment values will remain because of their favorable location.

There is a fairly wide sense that all of this windfall betterment should not accrue to those who happen to own land where new economic and social development is occurring. This is evident from the range of existing measures to share betterment, such as Part V of the Planning and Development Act (2000), stamp duty on land and houses, capital gains tax on land and the evolving development contributions.

Indeed, the framework adopted here recognizes that where land has a very high scarcity value, then measures to achieve betterment sharing would not necessarily have a significant effect on the decision to develop. For example, Evans refers to the situation in the South East of England in which development land is worth £1 million per hectare while agricultural land is worth £5,000 per hectare. In situations like this, it is argued by Evans that 'it is evident that while tax rates near to or at 100 per cent would inhibit development, rates of 40 per cent or even 60 or 70 per cent would not' (Evans, 2004: 231). In these situations, the preferences of landowners are more likely to relate to the timing of development than to whether the price is high enough to persuade them to sell and compensate them for moving.

In particular contexts, where a high level of betterment value remains after appropriate zoning and existing betterment sharing measures, the goals of housing policy could be advanced by selective use of additional instruments. One possibility arises where there is an element of active public land management. A related possibility is a supplementary planning gain levy in designated areas.

Where an element of active land management is adopted and a high scarcity value of land remains, an opportunity arises for a negotiated form of betterment sharing. For example, in some areas, such as the docklands, an historical boundary and/or a degree of public control over land allows a negotiated form of betterment value sharing. This arises from the fact that development is usually undertaken in partnership with private developers. The terms on which land is made available can include a fair sharing of betterment value between the private sector and the public interest. Likewise, where compulsory purchase of unzoned land was used to manage the provision of land for social and affordable housing, the power to zone the land and the negotiate its provision to developers allows a fair sharing of betterment. A related approach is a supplementary planning gain levy in designated areas. A similar approach was suggested by Barker in her review of housing supply for the UK government (Barker, 2004, p. 87).

In devising the appropriate combination of policy, it is necessary for local and national authorities to identify what is the main constraint on achieving the goals of housing policy. This task can be assisted by the increased capacity and capability for analysis of spatial development and property markets proposed in Chapter 5.

# 8

## Conclusions and Recommendations

## 8.1 Introduction

This chapter summarises the Council's conclusions and recommendations. The Council is particularly concerned about two issues: the quality of the neighbourhoods, villages, towns and cities being constructed in Ireland, and the provision of social and affordable housing. Two features of the overall argument should be highlighted at the outset.

First, the instruments that can address these concerns are to be found in the areas of planning, urban design, infrastructural investment, land management and public service delivery, rather than in manipulating tax instruments to alter the supply or demand for land or housing.

Second, the Council rejects the idea that a greater quantity of housing must be at the expense of quality development. The Council believes that increased quantity and better quality can be complementary and, indeed, mutually reinforcing. This requires a clear vision of the kind of high-quality, integrated, sustainable neighbourhoods that are worth building.

The magnitude and significance of this challenge needs to be recognized. It bears comparison with two other great challenges that Ireland faced and met in the past half century—the opening of the economy in the early 1960s and the creation of a new economy through partnership in the mid-1980s.

It is similar in three ways. First, it is essential to the social and economic future of Irish society. Second, it requires a widely shared understanding and consistent action by numerous organisations, both public and private. Third, it challenges not only our established behaviour but, more importantly, the self-perception that underpins that behaviour. The opening and modernisation of the economy challenged the self-perception that Ireland was a cohesive society, but one that could not aspire to the levels of material prosperity found elsewhere. The recasting of policies and approaches in the 1980s challenged the self-perception that the Irish are a creative and convivial people, but not capable of high-grade manufacture of sophisticated objects. Achievement of the new principles of urban development and social integration seem to be blocked, more than anything else, by the self-perception that Ireland is so attached to extensive development, and so divided between competing interests, that although we can create a dynamic economy, we cannot make quality, sustainable, socially-cohesive, cities and towns.

Since the earlier self-perceptions were confounded by the emergence of a prosperous society and a world centre of engineering and information technology, there is no reason why we cannot prove ourselves wrong again.

## 8.2 Analysis and Interpretation of the Irish Housing System

### 8.2.1. Issues and Anxieties in Irish Housing: Stability, Inequality and Sustainability

Chapter 1 listed a range of anxieties and perceptions concerning the Irish housing system. These cluster into three general areas: stability, inequality and sustainability. A judgement on stability, inequality and sustainability requires an understanding of the evolution of the Irish housing system.

### 8.2.2 Understanding the Irish Housing Boom

The trends in construction, settlement and affordability summarised in Chapter 2 above allow an interpretation of the Irish housing boom and suggested an orientation for the remainder of the study. This interpretation is summarised in the following propositions:

1. Given the remarkable strength of demand, a significant increase in house prices was inevitable;
2. Although supply response was delayed, Ireland has displayed a very large increase in housing stock by both historical and international standards;
3. There were important regional differences in demand and supply, giving rise to higher prices in Dublin and a spread of development to dormitory settlements;
4. Problems of long-run sustainability and rising prices were exacerbated by the dominance of low-density housing in a context of poor transport infrastructure;
5. The predominance of dispersed, low-density, green-field development, especially in the East region, was a consequence of a set of structures and systems which did not accommodate a sufficient supply response in and near the main cities;
6. In this process, land prices are largely determined by the strength of demand for housing and the supply response in and near the cities;
7. A significant minority of households experience affordability problems while many are insulated from increasing property rises;
8. The sharp contraction of local authority construction in the late 1980s and early 1990s was a significant factor in increasing problems of affordability and access;

9. There is an interaction between the quality and quantity of social housing;
10. Pressure of reduced affordability and increased housing need in the 1990s gave rise to greater take up of rent supplement, prompted a somewhat higher level of social housing provision and the creation of new approaches, such as Affordable Housing Schemes;
11. The need for a resumption of social and affordable housing provision in the past decade was a reflection of the fact, observed in modern liberal democracies, that the market for owner occupied and rental accommodation will not, on its own, meet the housing needs of those on low incomes or with special housing needs;
12. Investment in the provision of increased rental accommodation was significantly dependent on the expectation of increasing asset values.

### 8.2.3. Assessing the Anxieties about the Irish Housing System

#### Stability

Taking the past decade as a whole, most analyses suggest that the huge expansion of output, home ownership and mortgage borrowing has reflected fundamental economic and social realities. Nevertheless, several studies suggest that, at certain times, Irish house prices have risen higher than can be explained by the underlying patterns of incomes, employment, demography and interest rates.

The Central Bank's recent Stability Report finds mixed evidence as to whether or not the current level of house prices can be explained by economic fundamentals. The report points out that, even if property is not overvalued in terms of fundamentals, prices could still fall if there were to be a change in these fundamentals, such as a rise in unemployment or an increase in interest rates.

Regardless of whether house prices are in excess of their fundamental value, there are three reasons why the evolution of the housing industry in the coming years is of great significance. First, house building has become a significant sector of the economy<sup>1</sup>. Avoiding a sharp disruption of output in this sector is an important goal, both from the perspective of meeting housing needs and of contributing to the stability of the wider economy. Second, since the current level of housing output is above the level of long-term private housing demand, output is expected to fall over the coming decade, while still remaining significant compared to previous decades. A key issue is how this decline in output is managed. A hard landing, with a fall in house prices and a sharp fall in housing output could bring housing output below the level of long-term demand. This would be undesirable both in terms of meeting housing needs and could also have significant negative effects on the economy. Third, there continues to be unmet need for social housing.

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1. The Quarterly National Housing Survey (QNHS) shows that employment in construction is over 11 per cent of total employment (First quarter, 2004). Employment in house building is contained within this but is not separately identified.

While the present conjuncture clearly contains some threat of instability, it may contain an opportunity to maintain the role of the industry in the overall economy, manage the transition to lower levels of private housing demand and meet the outstanding need for social and affordable housing. In particular, over time, increased social and affordable housing output may be able to contribute to the goal of stabilising the housing sector and the national economy.

### **Inequality**

The analysis confirms anxieties about inequality in the distribution of opportunities and difficulties across income and social groups. Despite its dynamism, the private market for owner occupied housing has not met the housing needs of many of those on low incomes and a number of other social groups. Likewise, despite falling market rents, the market for private rental accommodation is likely to continue to display rent levels that are not affordable for some households. In addition, a rapidly changing housing market has been an independent source of very significant changes in the distribution of wealth and income in Irish society.

### **Sustainability**

The analysis also confirms concerns about the economic, social and environmental sustainability of the Irish housing system. A strong case can be made that the patterns of settlement, neighbourhood design and density in Irish housing in the past decade are storing up significant social, environmental, budgetary and economic problems in years to come. Furthermore, this seems to be occurring in a context in which there are clear, well-defined, feasible alternatives that are sustainable, as discussed in Section 8.4 below.

#### **8.2.4 A Dynamic but Unbalanced System**

Looking at the three main issues—stability, inequality and sustainability—together, the Council's view is that the Irish housing system has been dynamic, but unbalanced. The dynamic nature of the system is evident not only in the strong increase in supply, but also in the many important policy initiatives since the early 1990s. The unbalanced nature of the system is evident in the following features:

- ◆ Imbalances between demand and supply, especially in Dublin in the early years of the housing boom;
- ◆ A unequal distribution of opportunities and pressures across income groups;
- ◆ An imbalance between the provision of private and social housing;
- ◆ An imbalance between home ownership and rental, with an insufficient rental sector, although this has moderated;
- ◆ A series of imbalances that weaken the economic, social and environmental sustainability of the settlements and neighbourhoods being constructed, as outlined in Chapter 5;
- ◆ A somewhat unbalanced distribution of state supports to different actors in the housing system; and,

- ◆ In the views of some, but not all, an unbalanced distribution, between landowners and wider society, of the increase in land values or ‘betterment’ that arises as a by-product of general economic and social development.

To assess what policy action is necessary to achieve a more balanced system it is necessary to identify the likely future outlook under current policy arrangements and market conditions.

## 8.3 Future Outlook and Policy Challenge

### 8.3.1 Future Outlook for the Housing Market

Based on population projections and forecasts of economic growth, employment and interest rates, a number of estimates of housing demand have been made. Regardless of the precise forecast chosen, the anticipated increase in population and the existing backlog in demand (as reflected in the historically lower ratios of dwellings to population size) mean that a significant level of additional housing output is likely to be required over the next decade. The evidence suggests that annual housing output now exceeds the underlying level of demand, although there remains significant pent up demand within the housing system. With the current high level of output, balance between supply and demand should be achieved in the coming years, although imbalances may persist for a time in certain locations or market segments. What is less certain is the point at which annual housing output will decline.

### 8.3.2 Outlook for Social and Affordable Housing

There are undoubted complexities in estimating the future provision of social and affordable housing and the scale of future housing need—complexities that were discussed in some detail in Chapter 6. Both housing-specific measures and wider social and economic trends suggested that there remains a gap between the projected provision of social and affordable housing and the number of households that will be unable to achieve home ownership on the open market or who will face affordability problems in private rental accommodation. It seems that some of the most important imbalances in the Irish housing system, outlined at the end of Chapter 3, are likely to continue under current policies.

### 8.3.3 The Policy Challenge: Rebalancing the System

The interpretation of the Irish housing system summarised in Chapter 3 and the review of likely future trends in Chapter 4 suggest that the key policy challenges are:

1. To achieve high quality, sustainable, development in both urban and rural areas;
2. To provide an effective range of supports to those households that fall below the affordability threshold;
3. To assist the market to continue to provide a high level of supply;
4. To ensure a tax and subsidy regime that supports these goals.

## 8.4 Sustainable Housing and Integrated Development

### 8.4.1. Ireland's New Principles, Priorities And Procedures

In the past five years there have been very important developments in the principles, strategies and procedures that govern spatial development and residential settlement in Ireland<sup>2</sup>. In addition, a number of policy instruments have been created to enhance the supply of serviced land, strengthen integrated planning and support the creation of infrastructure necessary in new residential areas<sup>3</sup>. The Council believes that this evolution of thinking and procedure is potentially of great significance in assuring both high-quality sustainable residential areas and an adequate supply of housing.

These national policy initiatives identify five principles of sustainable housing and integrated development:

- ◆ Sustainable urban densities;
- ◆ Consolidated urban areas;
- ◆ Compact urban satellites;
- ◆ Rapid communication networks; and
- ◆ Sustainable rural settlement.

In Chapter 5, the Council argued that sustainable neighbourhoods have a number of social, economic and environmental advantages over the patterns of sprawling suburban development common in Ireland over recent decades. Furthermore, in the right institutional environment, such as that emerging in Ireland, quality sustainable development and an adequate quantity of housing can be complementary goals. Contrary to what is sometimes said, sustainable urban density does not necessarily imply high-rise development. Nor does a sustainable neighbourhood necessarily mean city-centre living. Finally, sustainable rural housing need not be in conflict with Irish rural tradition.

### 8.4.2 The Significance and Strengths of Ireland's Evolving Settlement Policy

The approach taken to policy change has been evolutionary and incremental: enshrining new principles for sustainable settlements in the overarching national strategy, creating a hierarchy of plans and guidelines and instigating new procedures in local and regional authorities. This approach was appropriate, given the dispersed nature of decision making in the fields of physical planning, housing, infrastructural investment and transport. The strength of the approach is that it has gradually built a degree of consensus—among local and regional authorities and, hopefully, among developers and builders—on the new principles listed above.

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2. These include the National Spatial Strategy, Regional Planning Guidelines, Local Authority Development Plans and Residential Density Planning Guidelines.

3. These include Strategic Development Zones, the Serviced Land Initiative and the Development Contribution Schemes; (introduced in the Planning and Development Act, 2000).

### 8.4.3 The Risks to Ireland's Evolving Settlement Policy

There is a risk however that the procedures and institutions will not achieve sufficient coordination to ensure rigorous and widespread implementation of the new principles.

#### The Risk to the Overall Spatial Strategy

There is a risk that, in rationing investment between the regions and Dublin, overall policy might achieve neither balanced regional development nor an effective city-region in Dublin. Dublin could continue to grow as before, but, because this was not envisaged in the NSS, it would not be provided with sufficient infrastructure to allow it function as a successful city-region.

This suggests that it is necessary to now identify and prioritise the next generation of major infrastructural investments necessary for a competitive regional and national economy. For Dublin, it is crucial that decisions on the next generation of infrastructural investments are made quickly and given priority. The analysis of past experience, showing the critical role of transport in both housing supply and sustainable neighbourhoods, strongly suggests that further transport infrastructure, probably in rail, is necessary. A narrow cost-benefit approach to public transport investment decisions, which measured current demand and usage, would miss a fundamental aspect of urban development: transport not only connects existing places, it *makes* new places.

These risks to the overall spatial strategy highlight the key role of national government. Most of the large-scale infrastructural investments necessary to secure regional development, in Dublin or the gateways, require central government decision and national funding.

#### Risks Regarding the Links between Settlement and Transport at Regional Level

A related risk is that the strategies and procedures put in place in recent years will not achieve a sufficient degree of integrated land-use planning to link settlement and transport. This is a risk because the procedures might not be informed by sufficient in-depth analysis and spatial planning, linking land-use decisions to transport and other service requirements. It is also a risk because the procedures for co-ordinated implementation at regional level, though much improved, may not prove adequate.

Once again, this risk seems greatest in the Dublin area. One response would be creation of a Greater Dublin Land Use and Transport Authority<sup>4</sup>. There is considerable merit in the idea, since the deficit of long-range strategic planning, co-ordination and implementation which motivated the proposal for a GDA authority is a central finding of the Council's examination of the Irish housing system. However, if broad consensus on the nature and functions of such an

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4. The Programme for Government contained a commitment to introduce legislation to establish this body and the Council supported the idea in its 2003 Strategy report (NESC, 2003)

agency does not exist, then the creation of the agency is likely to become the question rather than the solution. If current institutional arrangements are retained, it is vital that two things are achieved:

- (a) active engagement with the new set of national, regional and local procedures to ensure that Regional Planning Guidelines both align with the NSS and strongly inform county development plans; and
- (b) support for this process by creating enhanced capacity and capability in the provision of spatial information and the conduct of spatial analysis (see below).

To turn the new set of principles and guidelines into reality requires an active process in which the central Department, the regional authorities and the local authorities engage with each other, and with other actors, to scope out a desirable pattern of long-range settlement for each region, city, gateway, hub and, indeed, town.

### **Risks at Local Authority Level**

There are also a number of risks at local authority level. These include, first, the risk that the six year county development plans will not be sufficiently informed by long-range strategic plans for local and regional spatial development, second, the risk that the new principles discussed above will not be sufficiently reflected in the projects proposed by builders and given permission by planning authorities, third, the risk that local authorities will not create and maintain the level of local infrastructure and services necessary for the sustainable neighbourhoods described in Section 5.3 and, fourth, the possibility that the overall planning process will not be fast enough.

It is crucial in designing well planned settlements that regional authorities have a time horizon at least as long as that adopted by the most pro-active developers. It is likely that a longer term development framework, adopting a 10, 15 or 20 year horizon—achieved by an effective combination of national, regional and local strategies, guidelines and plans—would considerably reduce the speculative element in land transactions and could somewhat reduce the level of betterment associated with land rezoning by relieving the scarcity of zoned and serviced land (see Section 8.7, below). In general, a high priority should be given to ensuring that the new planning principles are fully reflected in Regional Planning Guidelines, Local Authority Development Plans and Local Area Action Plans.

The third risk at local level is that authorities will not create and maintain the level of local infrastructure and services necessary for the sustainable neighbourhoods described in Section 5.3. If the vision of sustainable neighbourhoods in effective towns and cities is to be realised, then resources must be allocated to providing quality infrastructure and services.

#### 8.4.4 Enhanced Capacity for Spatial Analysis

The Council believes that the risks can be minimized by ensuring that there is within the public system the capability to support decision makers at all levels, by:

- ◆ Undertaking research on physical development and property markets;
- ◆ Analysing the links between land-use and transport planning;
- ◆ Identifying best practice through comparison of plans and trends;
- ◆ Supporting national government, regional authorities and local authorities in achieving integrated development;
- ◆ Acting as the repository of spatial data.

The provision of this capability can add to recent improvements by assisting those who make and implement policy at several levels. In particular, it could:

- ◆ Assist national government in identifying major infrastructure requirements, especially in the GDA, and making early decisions on investments;
- ◆ Assist regional authorities in the complex task of analysis necessary to frame integrated housing and transport plans across groups of local authorities;
- ◆ Assist local authorities with the in-depth analysis necessary to fully reflect national principles and guidelines in local development plans.

#### 8.4.5 Conclusion

National policy is now committed to sustainable settlement. This has been created by a series of incremental policy developments over the past decade which have begun to have a real influence. However, to date the perceived conflict between quality and quantity has too often been invoked, and the urgent objective of ensuring greater quantity has been at the expense of quality development. The Council believes that increased quantity and better quality can be complementary and, indeed, mutually reinforcing, if the industry is committed to creation of sustainable neighbourhoods and the planning procedures and structures at national, regional and local level are used effectively to pursue these goals.

## 8.5. Social Balance: Meeting the Challenge of Social and Affordable Housing

### 8.5.1 General challenges

The Council's recommendations on policies for social and affordable housing build on a growing consensus that current difficulties can and have to be tackled, and on a widening range of policy instruments that have been developing for doing so.

Its analysis of the current Irish housing system leads the Council to advance several core arguments that ground its recommendations:

1. The market alone – even when it reaches broad equilibrium – cannot be relied upon to eventually erode most of the current need for social and affordable housing supports nor to stem the emergence of new need;
2. The level of social housing provision has fallen too low, and the increases in stock levels in recent years need to be continued for the foreseeable future;
3. In addition to the provision of social housing to those on very low incomes, there is a need for more graduated forms of support to meet the needs of those who are not in poverty but who face continuing housing affordability problems.

The Council's recommendations confirm and strengthen the core elements of the current policy approach, in particular its emphasis on supply-side supports and subsidies and a range of delivery models. It calls for:

- ◆ An expanded and more flexible stock of housing available at a social rent to ensure an adequate safety net for vulnerable households and support more dynamic flows between tenures;
- ◆ A wider range of graduated supports for 'intermediate' households, by strengthening existing affordable housing programmes and actively exploring supply-side measures to create a supply of 'affordable' rental accommodation;
- ◆ Provision of adequate resources for social and affordable housing.

### 8.5.2 The Provision of Social Rental Housing

#### The quantity of provision

The supply of social housing has become more diversified, a diversity set to widen further. In the 1980s, it took the almost exclusive form of dwellings built or acquired by local authorities. This has since been complemented by dwellings built or acquired by voluntary and co-operative housing associations, those acquired from the private sector under Part V and, to come, dwellings subcontracted for social purposes from private landlords under the Rental Accommodation Scheme. The Council does not have a recommendation on the scale of reliance on each particular channel, but insists that a high level of ambition is now appropriate for the aggregate provision of social housing. Integral to this is agreement on the order of increase that should be anticipated

in channels with a longer time lag and not amenable to medium or short-term adjustment, i.e. local authority, voluntary and co-operative housing units. The Council wishes to signal the scale of the response that should be planned for, while believing that the eventual level is better finalised in the wake of the next assessment of housing need in 2005 and as current trends in housing and rental affordability become clearer. The commitment to a strong social housing programme should be maintained and adjusted in the light of the assessment of needs and evolving market conditions.

Given current information, the Council believes that an increase of permanent social housing units, owned and managed by local authorities and voluntary and co-operative housing bodies, in the order of 73,000<sup>5</sup> between 2005 and 2012 is necessary to ensure that the need for social housing is met. The cost to the exchequer of such an increase in social housing provision will depend on a combination of factors, including the composition of the additional supply and the approach to tenant purchase. An initial estimate by the Council suggests that it would cost in the order of €1.4 billion per year in 2004 terms, or an additional €500 to €600 million per year above existing capital expenditure (see Table 2.13 above). It is clear that the Council envisages a substantial increase in investment in social housing with significant implications for the public capital programme. However, the Council does not think that maintaining the current levels of investment into the medium term, which are yielding increases in supply of social housing below the targets envisaged by the NDP (a 12 per cent shortfall between 2000-2004), is sufficient to achieve the level of ambition deemed necessary by the Council. Some increase must take place. The Council urges that it be substantial.

If the strategic objective of increasing the stock of social housing is accepted, then it is necessary to address the issue of disposals, given the very different context in which the long-standing policy of tenant purchase is now operating. The Council recommends that the current tenant purchase scheme immediately be modified to better support wider strategic objectives, principally the provision of a strong, core social housing stock. The further step—of redirecting tenants who wish to purchase exclusively to the Shared Ownership and Affordable Housing Schemes—should be actively considered.

### **The quality of provision**

In raising the output of social housing, an important factor will be how increased quantity is combined with high quality and how some possible tensions between them are overcome. This can only be achieved by close monitoring of the effectiveness of the various forms of social housing being provided in particular contexts. The Council encourages the Housing Forum, which gives stakeholders an opportunity to influence policy based on their own experiences, to help ensure that the required monitoring takes place. Indeed, the provision of social housing will increasingly be tailored to suit specific groups (persons with disabilities, older people living alone, etc.) and integrated with access to personal and social services. The Council endorses steps taken to achieve this and recommends, in

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5. Net of tenant purchase and not including private rental units arising from the Rental Allowance Scheme

the context of the current review of how housing need is assessed, the establishment of hierarchies of need that reflect not only ability to pay but also the facilities and supporting services required for particular households to sustain their tenancy.

Innovations and reforms in how social, particularly local authority, housing is managed have been significant in recent years and the Council supports the intensification of these efforts. It endorses, in particular, the search for more efficient approaches to general repair and maintenance, including through the greater use of competitive tendering for maintenance contracts and the design of incentives to support greater tenant responsibility for maintenance. The Council also welcomes the significant reform to the SWA rent supplement scheme announced in July 2004; through the Rental Accommodation Scheme (RAS) the private rental sector is to be contracted to provide long-term accommodation to people in receipt of SWA rent supplement for longer than 18 months (see Chapter 2 for a summary). The RAS should support a more flexible social housing stock, while adding to the set of social housing options. The Council considers it important, however, to monitor this innovative measure carefully and not to lose sight of the strategic value of maintaining an appropriate balance between this use of privately owned rental units and the construction or acquisition of permanent social dwellings.

### 8.5.3 Intermediate Households and More Graduated Housing Supports

The Council considers it important that policy has acknowledged and begun to develop measures to support 'intermediate households'. Simply described, these are households with incomes too high to entitle them to support from social housing measures and too low to enable them to source their accommodation needs through the market without major financial strain (de facto defined as spending more than 35 per cent of disposable income on housing). Currently, policies to provide Affordable and Shared Ownership housing can be estimated as enabling 5 to 6 per cent of house buyers per annum to secure their housing at a discount. The Council recommends continuing support at, at least, this level for the foreseeable future and standing ready to improve the effectiveness of these policies in the light of experience. In allocating this support, account should be taken of the impact of a potential rise in interest rates. The Council believes more can be done to overcome obstacles already identified and which make it difficult for people to procure loans to purchase affordable housing.

The Council further recommends the amalgamation of the three Affordable Housing schemes<sup>6</sup> and the Shared Ownership Scheme into a single First Home scheme under which households could apply either for housing supplied by local authorities (through the contracting of new build or the allocation of units arising from Part V) or for supports to purchase or build their own home. The Council is aware of innovative proposals in the co-operative housing sector to introduce further options that would facilitate modest income households in becoming homeowners on a partial equity or equity-sharing basis. It recommends the

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6. The 1999 Local Authority Affordable Housing Scheme, Part V Affordable Housing, and the Sustaining Progress Affordable Housing Initiative

development of funding and other arrangements to support the extension of partial-equity housing and that they be made available to both the voluntary and co-operative housing sectors.

The limited intermediate sector that has emerged in the Irish housing system to date is focussed primarily on supporting home ownership. Subsidies to supply affordable rental accommodation have not been developed. The evidence suggests that over the past decade the most severe affordability difficulties were experienced by individuals in the private rental sector. The Council has particularly in mind people in employment experiencing affordability problems due to the particular stage in their lifecycle or because of temporary residence in Ireland, workers likely to experience on-going affordability problems because of their limited earnings capacity, workers in particularly high rental-cost areas or 'affordability black-spots' and young workers trying to save a deposit for a house. The Council believes that the potential exists to develop a cost-rental segment in the Irish housing system over the medium to long-term. It recommends that a feasibility study be conducted on a joint basis by the Department of the Environment, Heritage and Local Government and the Department of Finance—involving local authorities, development agencies and other relevant stakeholders, where appropriate—on the provision of cost-rental accommodation. That study should ascertain such matters as the funding, institutional arrangements and other supports (including legislative and regulatory frameworks) necessary to support the emergence of cost-rental or limited-profit landlords. Success in finding an investment vehicle that would attract more corporate investment into such a programme would also serve to offset the emerging risk of disinvestment in the private rental sector which could impact disproportionately on lower income tenants.

#### 8.5.4 Supporting the Increased Provision of Social and Affordable Housing

The scale and composition of the increase required in social and affordable housing to 2012 has major implications for funding, the allocation of land and the organisational capacity of the public system. Should output in the long-term be further increased in line with the Council's recommendations, it is clear that additional capital investment will be required.

The relative contributions of the exchequer, the private sector and housing associations may shift. Significant innovations can still be pursued in how land is secured, funding sourced and spending (capital and current) managed, that would reduce the burden on the exchequer of procuring a higher level of social and affordable housing.

The challenge is not solely one of mobilising more funds for investment in social and affordable housing. Some concerns have been expressed about the limited capacity of the economy to absorb higher levels of public investment expenditure (already at twice the EU average at 5 per cent of GNP) without damaging wage or price effects. The Council accepts that higher levels of investment in social and affordable housing must be sensitive to both macroeconomic considerations and the capacity of the housing industry. The Council is aware that current funding requirements also arise from the running costs of social housing schemes.

It recommends that a defined revenue-funding scheme be developed to ensure adequate funding for housing bodies providing on-site or care supports. This would replace the current somewhat ad-hoc funding arrangements.

## Land

Recent experience shows the importance of land availability for local authorities, not only in ensuring a sufficient provision of social and affordable housing, but also in supporting some of the more innovative policy measures which have emerged in recent years. The level of acquisition and strategic disposal of lands by local authorities will be a critical factor in supporting any on-going expansion of social and affordable housing provision. Where land availability arises as a particular constraint on the supply of social and affordable housing, the Council recommends that local authorities in conjunction with central government, should take a more proactive role in setting targets for the acquisition and/or development of land, including the development of adequate land banks for future supply (with the possibility of rezoning where appropriate). Where significant shortfalls in supply are projected or arise due to scarcity of land, there is a strong case for use of compulsory purchases powers (see Section 8.7.2 below)

## 8.6 Tax and Resource Issues

### 8.6.1 Main Resource Needs

It is clear that there is a substantial gap between the current situation and the priorities identified by the Council on social and affordable housing and the provision of infrastructure necessary to ensure well-designed and sustainable settlements. The needs identified by the Council have implications for both current and capital expenditure.

If the needs identified are to be met, a higher level of capital spending in these areas will be necessary. This need not exclusively be higher exchequer capital expenditure. For example, the development of an affordable rental accommodation sector could rely substantially on private financing, as there would be a rental income stream that could contribute to debt servicing costs. Nonetheless, it seems likely that there will be a need for higher exchequer capital expenditure. In relation to social housing, in Chapter 6 the Council suggested that the required expansion in the social housing stock could be of the order of 73,000 permanent rental units by 2012. It is estimated that the annual cost of achieving this would be in the order of €1.4 billion in 2004 terms. The Council recognises that this is a very substantial increase in the level of investment in housing and suggests that these priorities should be factored into the next National Development Plan commencing from 2006. Provision of the capital investment necessary to provide an adequate level of social housing and infrastructural amenities for sustainable neighbourhoods must be undertaken in a way that is consistent with other public investment needs and sound public finances.

Since 1986, the Council has been absolutely clear that sound public finances are an indispensable precondition not only for economic performance but also for achievement of Ireland's social goals.

The additional social housing and sustainable neighbourhoods identified by the Council also imply a need for current resources. In identifying these deficits, the Council is not in a position to judge the degree to which they can be met by increased efficiency within existing resources. The Council believes that there is scope to provide some of these needs through the reallocation and more efficient use of existing resources. Increased efficiency should be the first means of providing the required resources. Nevertheless, it is likely that there will still be a need for additional resources. There are a number of possible ways of raising additional current funding. The options include additional local tax raising powers, which could be in the form of property taxation or further user and service charges. Some of these options will be explored in the review of Ireland's taxation system that the Council is planning to undertake, and will also be considered as part of the overall fiscal and economic approach in the next Strategy report of the Council, to be prepared in 2005. The raising and allocation of current revenue must have regard to the potential impact of taxation on the level and pattern of economic activity and employment.

#### **8.6.2 The Tax Treatment of Mortgage Interest, Rental Housing, Transactions, Deposit Savings And Second Homes**

##### **Mortgage Interest Tax Relief**

The case for and against retention of Mortgage Interest Tax Relief (MITR) was reviewed in Chapter 7. On balance, the Council believes that the overall benefit to the housing market from its abolition is not sufficient to justify abolition.

##### **Tax Treatment of Rental Housing**

A number of elements of the tax code impact on the rental sector. The most significant three are:

- ◆ MITR for landlords;
- ◆ Targeted supply subsidies, such as Section 23 and Section 50 tax relief; and
- ◆ Tax relief to tenants on rent payments.

The Council believes that each of these continues to have a role. However, in accordance with the recommendations of the Commission on the Private Rented Sector, favourable tax treatment of landlords should be linked to their compliance with their regulatory obligations, including those under the Private Residential Tenancies Act, 2004.

## Stamp Duty and Transaction Charges

Stamp duty imposes a significant transactions cost. The presence of transactions costs drives a wedge between the price that a buyer pays for a property and the price that the seller receives. These costs reduce the efficiency of the market and hinder mobility. From this perspective, there is a strong case for reduction or abolition of stamp duties.

However, the Council does not believe that abolition of stamp duty is a good idea in current circumstances. Stamp duties on residential property are now a significant source of revenue to the exchequer. These duties yielded over €1 billion from all land and property in 2003 and are likely to exceed this in 2004. Abolition of stamp duty would mean that this revenue would have to be found from another source or public expenditure would have to be curtailed. Indeed, stamp duty, as a tax on transactions in property, is the main form of property tax in Ireland. There are arguments in favour of property taxes, on both equity and efficiency grounds. The Council believes that it would be unwise to abolish a source of revenue from property as significant as stamp duty. However, there are a number of possible amendments to the stamp duty regime which could improve the functioning of the housing market and the Council believes that these should be considered. These are detailed in Chapter 7.

## State Assistance for Acquiring Mortgage Deposits

The analysis in Part II of the report shows that the deterioration of affordability for many home owners and would-be owners has less to do with increased monthly mortgage repayments than with the difficulty of getting into owner occupation. While falling interest rates have gone a long way to ameliorating the impact of higher house prices on monthly mortgage repayments, they have done nothing to lessen the hurdle of high deposits.

There are a number of public policies designed to support savings. Among these are tax relief on pension contributions and payments to holders of SSIA accounts. The Council believes that Government should explore possible ways of providing support to those who need assistance in achieving a deposit for owner occupied housing. Such support should be targeted on those not in a position to acquire housing deposits from parental gifts or other sources of wealth. Two main possibilities are evident:

- ◆ Tax relief on saving for a deposit; and
- ◆ A loan from the state to cover the deposit<sup>7</sup>.

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7. As discussed in Chapter 7, one possible form of loan instrument is the Government Underwritten Equity Sharing Transaction (GUEST) scheme. Such a scheme would allow prospective purchasers, subject to certain criteria, to borrow up to 90 per cent of the price of purchase from a financial intermediary and up to 10 per cent of the price of the property from the exchequer. The loan from the government would be repaid within a 10 year period. Advocates of this approach argue that it has the advantage that it would create greater equity between the target group and those who have access to other resources and would enable their access to home ownership at an earlier time. Those who argue against such a scheme believe it would fuel higher levels of indebtedness and be capitalised into higher property prices.

A savings instrument has the advantage of not increasing home owners' level of debt and of linking the acquisition of mortgage finance to a pattern of savings behaviour. In considering whether to adopt either of these approaches, attention should be paid to the position of the housing cycle, overall levels of indebtedness and the vulnerability to interest rate increases. Furthermore, any such measure must not place an excessive burden on the public finances.

### **Tax Treatment of Second Homes**

As outlined in Section 7.2.5 there are a number of reasons why the prevalence of second homes should be a focus of public policy:

- ◆ Where possible, policy should support provision of primary housing;
- ◆ In some rural areas, the prevalence of second homes is a factor in driving up land and housing costs for local people who need primary homes;
- ◆ There can be a significant difference between the costs paid by those constructing new one-off rural houses and the true costs of connection, services, environmental damage and lost amenity;
- ◆ The implications for tourism of second homes.

In current circumstances, and in view of the wider policy concerns outlined above, there is a strong case for measures that would (i) recover from owners of second homes the full costs and (ii) achieve an additional contribution to ameliorate the effects on the housing prospects of local people in need of primary homes. Some local authorities are beginning to use development contributions in a way that may start to recoup a greater proportion of the true costs of new second homes, and this is a welcome development. In addition, the Council believes that consideration should be given to a separate tax on second homes.

## **8.7 Land, Land Management and Betterment**

### **8.7.1 Agreed Framework for Understanding the Role of Land in the Housing System**

#### **Land Supply Is Variable and Uncertain**

In Chapter 2 we gave an account of the land market, the building industry and the planning system which emphasized the degree to which the supply of land is variable and uncertain. The implications of this variability and uncertainty have only recently been fully articulated, but they are an important part of a framework for understanding the role of land in the housing system (Evans, 2004). That framework provides an insight into past policy initiatives and future policy possibilities.

The variability and uncertainty in land supply means that the land and housing market works very imperfectly. Sites sold for development are unlikely to be adjacent to each other and development tends to sprawl across the landscape. Planning is often an attempt to control such undesirable development—although the extent of this control depends on the attitude that the planning authorities take to dispersed housing development. In controlling undesirable development, planning often increases the scarcity value of land and housing. While planning of the type undertaken in Ireland and the UK can prevent development, it cannot ensure that land allocated for development is actually built upon. In some countries, large scale public land banking is used to combine a smooth supply of land with integrated development, while in other countries, including Ireland, activist land management is used in a more selective way, something we discuss further below.

The uncertainty and variability of land supply, the planning system and the demand for housing shape the business practice of developers and others in the market. On the one hand, they prompt them to invest in land banks to ensure that they have an ongoing supply of suitably located sites. On the other, planning and perceived land scarcity give particular owners of land the power to influence the timing and location of development,

### **The Framework Highlights a Number of Possible Problems**

The framework allows us to identify a number of things that can go wrong in the land and housing markets and some associated challenges for public policy:

- ◆ Things can go wrong if insufficient land is zoned and serviced, hence one policy challenge is to achieve sufficient zoned and serviced land in areas of greatest need to allow adequate housing supply and prevent high prices;
- ◆ Problems can arise if the owners of land do not want to sell, so a further policy challenge is to achieve an adequate, smooth, supply of land;
- ◆ If the long-term development needs of a city are not strategically identified, then land across a whole region tends to be zoned in a haphazard way and made available to builders in a patchy manner;
- ◆ The strength of demand in a given location can create a large price premium, so a policy challenge is to achieve adequate housing provision in this area and a fair sharing of the large betterment or windfall that accrues to those that happen to own land in particular locations.

As explained in Chapter 7, the framework for understanding the role of land in the housing system is confirmed in our examination of the Irish housing system.

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8. In addition, there are a number of procedural changes that could support a transition to an effective planning horizon. Among these is the proposal by APOCC that options should be included in the transactions that are reported to the public system and revealed publicly (APOCC, 2004, p. 87).

### 8.7.2 A Combination of Approaches Tailored to Context

An effective policy approach to land requires a combination of four policy approaches:

- ◆ A land-use strategy over a long horizon, including zoning and servicing of land (as outlined Chapter 5);
- ◆ Land for enhanced social and affordable housing programmes (as outlined in Chapter 6);
- ◆ Sufficient active land management to ensure delivery of housing (as outlined in Chapter 7);
- ◆ Betterment-sharing measures, designed in a way that does not damage supply (also in Chapter 7).

#### A Land Use Strategy Over A Long Time Horizon

An integrated land-use strategy is the critical first element in the approach to land, land management and betterment. It would reduce the degree of uncertainty in land supply and would prevent the allocation of land for social and affordable housing being an afterthought. There is a case for increased zoning and servicing, which has the potential to somewhat reduce the scarcity and betterment value of land, but this should only be done in the context of a fully articulated plan for a desirable sequence of development. The principles of sustainable development adopted in Irish spatial strategy and guidelines, and discussed in Chapter 5 above, provide the perfect starting point for integrated land-use strategies over a sufficient time horizon<sup>8</sup>.

#### Land for Enhanced Social And Affordable Housing Programmes

The history of the past three decades shows the extent to which the provision of adequate social and affordable housing is dependent on access to land banks. Indeed, the earlier history of social housing provision in both Britain and Ireland shows that it can provide an element of ‘positive planning’, since a local authority’s housing department could act in a way which is coordinated with the goals of its planning department. The recent switch to integration of social and private housing means that there must be negotiations between local authorities, voluntary housing associations and private developers for the creation of mixed neighbourhoods. Likewise, Part V, which contributes up to 20 per cent of development land value towards social and affordable housing, involves negotiations over land availability. Some of the most important innovations in social housing have occurred where local authorities have used their ownership of land as an instrument to negotiate with private developers the construction of well-designed, integrated, neighbourhoods, incorporating social, affordable and private housing. Reforms that allowed social housing providers access to land at lower prices would help in meeting social housing needs. As indicated in Chapter 6, where land availability arises as a particular constraint on the supply of social and affordable housing, it is recommended that local authorities, in conjunction with central government, should take a more proactive role in setting targets for the acquisition and/or development of land

including the development of adequate land banks for future supply (with the possibility of rezoning where appropriate).

### **Sufficient Active Land Management to Ensure Delivery Of Housing**

An element of active land management is necessary to ensure the delivery of an adequate quantity of housing to meet the needs of different income and demographic groups. The framework shows that where development is permitted by the planning system it may not occur necessarily. In this context, a degree of active land management can both prevent urban sprawl and confer economic advantages. 'Public intervention to ensure that land is available by planning ahead and buying land in anticipation of its development would help keep prices down' (Evans, 2004, p. 174).

Elements of public land management are evident in a number of aspects of Irish policy: the Serviced Land Initiative, affordable housing schemes, Part V, public private partnerships, the Critical Infrastructure Bill, Strategic Development Zones, and urban development entities, such as Temple Bar Properties and the Dublin Dockland Development Authority. Indeed, the affordable housing initiative under *Sustaining Progress* highlights the critical role of a central policy driver engineering the delivery of land. The Council acknowledges the role of these elements of active land management in meeting the goals of market supply, sustainable neighbourhoods and the provision of social and affordable housing. It believes that these approaches should be enhanced in appropriate contexts.

In this regard it is important to note that:

- ◆ Adoption of a long time horizon for land-use planning and urban development would, of itself, constitute a significant degree of land management;
- ◆ In some areas, such as Dublin docklands, natural or historical boundaries define an area of land that is subject to an element of public land management, and this can be used to influence the speed, nature and quality of development. Indeed, this is one area that could accommodate significantly higher densities;
- ◆ Where land is in public ownership it is now frequently the basis for a partnership with private developers;
- ◆ There is a strong case for local authorities using their compulsory purchase powers to acquire certain lands before they are zoned for residential development<sup>9</sup>. They could then be used for mixed housing, social infrastructure or sold to developers.

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9. There is a case for CPO powers including institutional lands.

### **Betterment-Sharing Measures, Designed In A Way That Does Not Damage Supply**

The fourth component of an overall approach to land is betterment-sharing measures designed in a way that does not damage supply. The framework questions the traditional assumption that the betterment created by planning and public investment could be taxed without any impact on the supply of land. The new focus on the variability and uncertainty of land supply suggests that policy makers should be cautious about increasing certain taxes across the board, such as CGT, lest this prompt some withdrawal of land supply.

The policy approaches discussed above—land use strategies, zoning and land management—will, to some degree, reduce the degree of land value betterment. Nevertheless, it is not plausible that additional land could be zoned on such a scale as to drive the price of land close to its agricultural value. This is evident in the high level of land value betterment, especially in Dublin, reflected in extremely high land prices and the high share of land value in house prices. It is recognised that, in the context of strong demand, such high prices are in part the result of public policy decisions, or lack of public policy decisions, on planning, zoning and infrastructural investment.

There is a fairly wide sense that all of this betterment should not accrue to those who happen to own land where new economic and social development is occurring. This is evident from the range of existing measures to share betterment, such as Part V, stamp duty on land and houses, capital gains tax on land and the evolving development contributions. Indeed, the framework adopted here recognizes that where land has a very high scarcity value, then measures to achieve betterment sharing would not necessarily have a significant effect on the decision to develop. In particular contexts, where a high level of betterment value remains after appropriate zoning and existing betterment-sharing measures, the goals of housing policy could be advanced by selective use of additional betterment-sharing instruments.

Where an element of active public land management exists and a high scarcity value of land remains, an opportunity arises for a negotiated form of betterment sharing. For example, in some areas, such as the docklands, an historical boundary and/or a degree of public control over land allow a negotiated form of betterment value sharing. This arises from the fact that development is increasingly undertaken in partnership with private developers. The terms on which land is made available can include a fair sharing of betterment value between the private sector and the public interest. Likewise, where compulsory purchase of un-zoned land is used to manage the provision of land for social and affordable housing, the power to zone the land and to negotiate its provision to developers allows a fair sharing of betterment.

In devising the appropriate combination of policy, it is necessary for local and national authorities to identify what is the main constraint on achieving the goals of housing policy. This task can be assisted by the increased expertise in spatial development and property markets discussed above.

## 8.8 Conclusion

The Council believes that the analysis in this report provides a unified rationale for a housing policy that addresses the need for social and affordable housing and sustainable neighbourhoods. The provision of social and affordable housing has a long history in Ireland, but has come through a period of retrenchment, and is only now achieving a secure rationale in the economy and society of the 21st Century. The move to sustainable settlements and integrated land-use strategies over a long horizon has been recent and gradual and has yet to be fully achieved. Active land management has developed independently in a number of different contexts, and has yet to be seen as an essential element of overall housing policy. A key to delivering on each of these goals, and linking them successfully, lies in the flexible use of a combination of the policies on land, land management and betterment, described above.

Based on its analysis of past experience and future challenges, the Council urges government, the social partners and others involved in housing to ensure that all three lines of policy are fully developed.

This is a major national challenge which bears comparison with other great challenges that Ireland has faced and met in the past half century. It is essential to the social and economic future of Irish society. It requires a widely shared understanding and consistent action by government and other actors. It challenges many established approaches to housing, social segregation and urban development.

## Summary of Council Recommendations

### The Policy Challenge: Rebalancing the Housing System

1. To achieve high-quality, sustainable, development in both urban and rural areas;
2. To provide an effective range of supports to those households that fall below the affordability threshold;
3. To assist the market to continue to provide a high level of supply;
4. To ensure a tax and subsidy regime that supports these goals.

### Sustainable Housing and Integrated Development

#### To Secure the Overall Spatial Strategy:

Identify and prioritise the next generation of infrastructural investments necessary for sustainable settlements and a competitive economy. For Dublin, it is crucial that the further transport investments are identified soon and given priority.

**To Secure the Links Between Settlement and Transport at Regional Level:**

Ensure an active engagement of the central Department with the regional and local authorities to scope out a desirable pattern of long-term settlement for each region, city, gateway and hub.

Create enhanced capacity and capability to undertake spatial analysis and use this to support planning and decision making at national, regional and local level.

**To Ensure that Development Reflects the Principles of Sustainability:**

1. County development plans must be informed by long-range strategic plans for local and regional spatial development;
2. The principles of sustainable neighbourhoods must be reflected in the projects proposed by builders and given permission by planning authorities;
3. Local authorities must create and maintain quality local infrastructure and services necessary for sustainable neighbourhoods; and,
4. The overall planning process must be efficient and fast.

**Meeting the Challenge of Social and Affordable Housing****A High Level of Ambition is Appropriate for Social and Affordable Housing**

Create an expanded and more flexible stock of social housing—adding in the order of 73,000 permanent social housing units to bring the stock to 200,000 dwellings by 2012—in a manner that is consistent with other public investment needs and sound public finances.

Modify the tenant purchase scheme to better support wider strategic objectives and actively consider directing tenants who wish to purchase solely to the Shared Ownership and Affordable Housing Schemes.

**To Create a Wider Range of Graduated Supports for ‘Intermediate’ Households:**

Continue to supply Affordable Housing at least in line with current targets.

Explore the possibility of retargeting existing supply subsidies in return for agreed approaches to allocation or rents.

Explore ways of developing a cost-rental segment in the Irish housing system.

**To Ensure Adequate Resources for Social and Affordable Housing:**

Factor increased social housing provision into the next National Development Plan.

Create a defined revenue stream for housing bodies providing on-site and care supports.

Adopt a more proactive approach to the acquisition and/or development of land, including land banking, using compulsory purchase powers where necessary.

### Land, Land Management and Betterment

In addition to land-use strategies over a long horizon and land for enhanced social and affordable housing, both listed above, there is a need for:

Sufficient active land management to ensure delivery of housing:

- ◆ Through enhancing existing elements of active land management;
- ◆ Through selective compulsory purchase of land before zoning;

Betterment-sharing measures, designed in a way that does not damage supply;

- ◆ Especially where public land management provides an opportunity for negotiated betterment sharing.

### A Tax and Subsidy Regime to Supports Housing Policy

Ensure a tax and subsidy regime which supports the goals outlined above, assists the housing industry to provide adequate supply, does not exacerbate cyclicity and preserves sound public finances.

- ◆ Retain mortgage interest tax relief (MITR) for owner occupiers, given its importance to recent purchasers;
- ◆ Retain MITR for landlords and tax relief for tenants, subject to compliance with regulatory standards, in order to promote a vibrant market in private rental;
- ◆ Review designated area tax reliefs which are due to expire in 2006;
- ◆ Retain stamp duty, but consider amendments, such as providing incentives to trade down and increased bands or thresholds;
- ◆ Consider a separate tax on second homes to cover the higher costs of infrastructure and to encourage the provision of primary dwellings;
- ◆ Explore a tax or loan instrument to aid acquisition of deposits for owner occupied housing —attention being paid to the position of the housing cycle, overall levels of indebtedness and vulnerability to interest rate increases.

Each of these must be considered in the context of the wider tax and economic policy framework.



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## National Economic and Social Council Publications

Note: The date on the front cover of the report refers to the date the report was submitted to the Government. The date listed here are the dates of publication.

Title	Date
1. Report on the Economy in 1973 and the Prospects for 1974	April 1974
2. Comments on Capital Taxation Proposals	July 1974
3. The Economy in 1974 and Outlook for 1975	Nov 1974
4. Regional Policy in Ireland: A Review	Jan 1975
5. Population and Employment Projections: 1971-86	Feb 1975
6. Comments on the OECD Report on Manpower Policy in Ireland	July 1975
7. Jobs and Living Standards: Projects and Implications	June 1975
8. An Approach to Social Policy	June 1975
9. Report on Inflation	June 1975
10. Causes and Effects of Inflation in Ireland	Oct 1975
11. Income Distribution: A Preliminary Report	Sept 1975
12. Education Expenditure in Ireland	Jan 1976
13. Economy in 1975 and Prospects for 1976	Oct 1975
14. Population Projects 1971-86: The Implications for Social Planning – Dwelling Needs	Feb 1976
15. The Taxation of Farming Profits	Feb 1976
16. Some Aspects of Finance for Owner-Occupied Housing	June 1976
17. Statistics for Social Policy	Sept 1976
18. Population Projections 1971-86: The Implications for Education	July 1976
19. Rural Areas: Social Planning Problems	July 1976
20. The Future of Public Expenditure	July 1976
21. Report on Public Expenditure	July 1976
22. Institutional Arrangements for Regional Economic Development	July 1976
23. Report on Housing Subsidies	Feb 1977

24.	A Comparative Study of Output, Value-Added and Growth in Irish and Dutch Agriculture	Dec 1976
25.	Towards a Social Report	Mar 1977
26.	Prelude to Planning	Oct 1976
27.	New Farms Operators, 1971 to 1975	April 1977
28.	Service-type Employment and Regional Development	July 1977
29.	Some Major Issues in Health Policy	July 1977
30.	Personal Incomes by County in 1973	July 1977
31.	The Potential for Growth in Irish Tax Revenues	Sept 1977
32.	The Work of NESC: 1974-1976	Sept 1977
33.	Comments on Economic and Social Development, 1976-1980	July 1977
34.	Alternative Growth Rates in Irish Agriculture	Oct 1977
35.	Population and Employment Projections 1986: A Reassessment	Oct 1977
36.	University and Selectivity: Strategies in Social Policy	Jan 1978
37.	Integrated Approaches to Personal Income Taxes and Transfers	Mar 1978
38.	University and Selectivity: Social Services in Ireland	June 1978
39.	The Work of the NESC: 1977	June 1978
40.	Policies to Accelerate Agriculture Development	Sept 1978
41.	Rural Areas: Change and Development	Sept 1978
42.	Report on Policies for Agricultural and Rural Development	Sept 1978
43.	Productivity and Management	Feb 1979
44.	Comments on Development: Full Employment	Dec 1978
45.	Urbanisation and Regional Development in Ireland	June 1979
46.	Irish Forestry Policy	Sept 1979
47.	Alternative Strategies for Family Income Support	April 1980
48.	Transport Policy	Mar 1980
49.	Enterprises in the Public Sector	May 1980
50.	Major Issues in Planning Services for Mentally and Physically Handicapped Persons	Oct 1980
51.	Personal Incomes by Region in 1977	

52.	Tourism Policy	Dec 1980
53.	Economic and Social Policy 1980-83: Aims and Recommendations	Nov 1980
54.	The Future of the National Economic and Social Council	Feb 1981
55.	Urbanisation: Problems of Growth and Decay in Dublin	Sept 1981
56.	Industrial Policy and Development: A Survey of Literature from the Early 1960s to the Present	Feb 1981
57.	Industrial Employment and the Regions 1960-82	May 1981
58.	The Socio-Economic Position of Ireland within the European Economic Community	Sept 1981
59.	The Importance of Infrastructure to Industrial Development in Ireland – Roads, Telecommunications and Water Supply	Sept 1981
60.	Minerals Policy	Oct 1981
61.	Irish Social Policy: Priorities for Future Development	Nov 1981
62.	Economic and Social Policy 1981 – Aims and Recommendations	Oct 1981
63.	Population and Labour Force Projections by County and Region, 1979-1991	Oct 1982
64.	A Review of Industrial Policy (A summary of this report is available separately)	Oct 1982
65.	Farm Incomes	Nov 1982
66.	Policies for Industrial Development: Conclusions and Recommendations	Oct 1982
67.	An Analysis of Job Losses in Irish Manufacturing Industry	June 1983
68.	Social Planning in Ireland: Its Purposes and Organisational Requirements	April 1983
69.	Housing Requirements and Population Change, 1981-1991	August 1983
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