

A Review of Housing Policy

NATIONAL ECONOMIC AND SOCIAL COUNCIL

Constitution and Terms of Reference

1. The main task of the National Economic and Social Council shall be to provide a forum for discussion of the principles relating to the efficient development of the national economy and the achievement of social justice, and to advise the Government, through the Taoiseach, on their application. The Council shall have regard, inter alia, to:

- (i) the realisation of the highest possible levels of employment at adequate reward,
- (ii) the attainment of the highest sustainable rate of economic growth,
- (iii) the fair and equitable distribution of the income and wealth of the nation,
- (iv) reasonable price stability and long-term equilibrium in the balance of payments,
- (v) the balanced development of all regions in the country, and
- (vi) the social implications of economic growth, including the need to protect the environment.

2. The Council may consider such matters either on its own initiative or at the request of the Government.

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4. The membership of the Council shall comprise a Chairman appointed by the Government in consultation with the interests represented on the Council, and

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- Five persons nominated by the Irish Congress of Trade Unions,
- Five other persons appointed by the Government, including two from the National Youth Council of Ireland,
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6. The numbers, remuneration and conditions of service of staff are subject to the approval of the Taoiseach.

7. The Council shall regulate its own procedure.

NATIONAL ECONOMIC AND SOCIAL COUNCIL

A Review of Housing Policy by John Blackwell

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PART I

THE COUNCIL'S COMMENTS ON A REVIEW OF HOUSING POLICY

INTRODUCTION — RATIONALE FOR THE STUDY

1. The NESC commissioned a review of housing policy which was undertaken by Mr John Blackwell of the Resources and Environment Policy Centre, University College, Dublin. The review is published as Part II of this report: in this part of the report the Council's views on housing policy are given.* There are three sets of reasons, in the Council's view, for undertaking a re-appraisal of housing policy — the changing context of the housing system, problems in the housing system, and the absence of recent policy reviews.

HOUSING — THE CHANGING CONTEXT

2. There are long term demographic and social developments which have implications for the nature and scale of housing requirements. The most important of these developments are:

- (i) changing population and household formation trends — in particular, increased rates of non-marital births and marital break-up, and young persons departing from the parental home at an earlier age — giving rise to changing housing needs and a wider range of household types;
- (ii) a growing proportion of the elderly population living alone because of improved pension provisions, greater separation of the nuclear family from the extended family and growing divergence between the life expectancies of men and women;
- (iii) increasing emphasis in health care on community based, non-residential care for the elderly, disabled and mentally handicapped.

All of these trends imply an increasing diversity of housing needs, and a need for closer co-ordination of housing policy with health, social security and other policies.

3. Underlying financial conditions in the house mortgage market began to change in the mid 1980s. The divergent status of the major banks and the building societies with respect to mortgage finance has been eroded and the mortgage market has become more competitive. By 1987, the mortgage rate exceeded the inter-bank rate and this in turn created an incentive for banks — and other financial institutions with access to wholesale money — to develop a significant presence in the mortgage finance market. These domestic developments are taking place in the context of the likely eventual integration of Irish financial markets into the European market, posing further competitive challenges to the providers of mortgage finance in Ireland, and possibly widening the range of mortgage products available.

*Following discussions by a Working Group and by the Council of the NESC these comments were drafted by Tony McCashin in the Council's Secretariat.

4. In the labour market, rising unemployment, high levels of long term unemployment, and the decline in real earnings for some years after 1979 have affected aspects of the housing system, — such as the affordability of private housing, the demand for local authority dwellings, the need for rent supplements, and the persistence of homelessness.
5. The housing system has been underpinned by various public expenditure programmes and taxation measures. The need to control public expenditure, and to reform the system of taxation, suggests the need for a re-assessment of state interventions in the housing field, and for a critical examination of incentives and subsidies.

PROBLEMS IN THE HOUSING SYSTEM

6. In recent years there is evidence that the historical housing problems of overall shortages and poor housing conditions have been largely resolved. Therefore, the priority issues on the housing policy agenda have changed somewhat and these issues now include the following:
 - a problem of homelessness despite the significant additions to the housing stock over a considerable period;
 - a degree of inequity in the internal structure of the local authority differential rent system;
 - the existence of horizontal inequities across the various housing allowances with different means tests and different eligibility and other criteria (Supplementary Welfare Rent Allowances, Rent Allowance for Decontrolled Tenancies, Differential Rents);
 - the emergence of a widespread need for financial support with housing costs, as indicated by the growing significance of Supplementary Welfare Rent Allowance Payments;
 - the persistence of a taxation and subsidy regime for owner occupied housing which contains inefficiencies and inequities.*

HOUSING POLICY

7. The objective of housing policy as stated by the Department of the Environment is:

“to ensure that, as far as the resources of the economy permit, every family can obtain for their own occupation a house of good standard at a price or rent they can afford located in an acceptable environment. A secondary aim of housing policy is the encouragement of owner occupation as the widely preferred form of tenure”.

*These issues were raised in: J. Blackwell, *Do Housing Subsidies Show a Redistribution to the Poor? Conference on Poverty 1981*, Council for Social Welfare, Dublin, 1981; NES, *Housing Subsidies*, Report No. 23, 1977; NES, *Economic and Social Policy Assessment*, Report No. 79, 1985; T. J. Baker, L. M. O'Brien, *The Irish Housing System*, ESRI, Broadsheet No. 19, 1979.

8. This statement of objectives is very general: it does not indicate criteria by which housing policy can be evaluated, nor state the means by which these objectives are to be pursued. It appears that one of the instruments of housing policy — the encouragement of owner occupation — has in fact become the predominant end of housing policy.
9. The evolution of State intervention in housing has been shaped, in part, by the generality of policy objectives. State intervention has been characterised by lack of co-ordination, and continual modification and adaption, without sufficient clarity regarding the role of the different housing tenures.
10. A range of subsidies and incentives have been used to encourage owner occupation. The important subsidies to owner occupation are the non taxation of residential property*, the availability of mortgage interest relief against income tax, and the exclusion from capital gains tax of capital gains from the sale of (principal) residential properties. In addition, cash subsidies have been available to first time buyers of new homes, specific incentives and subsidies have been directed at low income persons to become owner occupiers, and further subsidies have been made available to local authority tenants to purchase their tenanted dwellings, or to purchase in the private sector. Grants for the repair and improvement of homes have also been available.
11. For those unable to purchase homes, the State has been directly providing dwellings through the local authorities, allocating them on the basis of need, and charging rents related to the incomes and family circumstances of tenants.
12. Means tested assistance with housing costs has been channelled through the Supplementary Welfare Allowance scheme. This assistance, which has grown in significance in recent years applies, on a discretionary basis, to housing costs in all tenures.
13. Finally, there has been little policy intervention in the private rented sector — although rent control existed until 1982 in a limited segment of this sector and more recently tax incentives have been used to increase investment in this tenure. This reflects the apparent absence of any policy towards this part of the housing system: the official statement of housing policy quoted above, it will be noted, refers to owner occupation but does not refer to private rented housing or local authority housing.

*The Residential Property Tax applies to only a small segment of owner occupied housing.

A FRAMEWORK FOR ANALYSIS

14. The Council accepts the consultant's analysis of the role of Government in relation to housing: there is significant justification for the state to intervene in the housing system.
 - The justification lies firstly in the human and physical importance of housing. Basic shelter for the entire population is universally regarded as a human right and this right is now incorporated in the UN Charter of Human Rights;
 - Secondly, the application of economic principles yields economic arguments (on market failure, merit goods and redistribution criteria) for various forms of State intervention.

However, the Council emphasises that in accepting the principle of State intervention in housing in various forms, housing policies should be subject to regular review to ascertain the extent to which they are achieving their objectives and the impact they are having on the housing system as a whole, the community and the economy.

POLICY ASSESSMENT

15. The Council offers its views on the specific policy issues raised in the consultant's report in the paragraphs below. However, some preliminary aspects of policy assessment are discussed here. In the Council's view, two fundamental points should be borne in mind by policy makers:
 - the housing system is a *system* and interventions directed at parts of the system can have effects on other parts
 - the *actual* incidence of subsidies should be distinguished from the nominal incidence and the beneficiaries should be identified.

Two examples of policy measures illustrate these points clearly.

16. Firstly, in 1977 a £1,000 cash grant for first time buyers of new houses was introduced. The objective of this grant was to assist prospective owner occupiers to acquire their own homes. However, the grant was not targeted in relation to income and one of its effects was to increase the price of new houses, both directly by the partial capturing of the grant in house prices, and indirectly through the stimulus to demand for housing, the supply of which is inelastic in the short term. Rapid growth in population and household formation, increased urbanisation and a growth in real incomes were already stimulating demand and prices. This grant exacerbated the trend of rising house prices. Moreover, the introduction of this grant coincided with the final abolition of rates on domestic property and the combined effect of these two measures was to artificially stimulate demand, leading to an acceleration of price increases

without an immediate increase in the total supply of housing, or an effective redistribution of access to owner occupation*.

17. Secondly, in 1984 a £5,000 "surrender" grant was introduced for local authority tenants who purchased homes in the private sector. The pre-existing schemes for low income mortgagees to purchase in the private sector (HFA and SDA loans) and to purchase their own tenanted local authority dwellings remained in force. (The grant was abolished in 1987). A study of this grant has revealed that this scheme resulted in the further blight and deterioration of municipal housing estates; the take up of the grant was confined to tenants with higher and more secure incomes, and the departure of these tenants greatly weakened the economic and social fabric of specific areas in local authority estates**. The grant contributed to the growth of a stock of vacancies in some local authorities estates. Some of these dwellings rapidly deteriorated, resulting in significant maintenance and security costs. Finally, the incomes of the £5,000 grantees, although higher than the average tenant's income, are in the range below average incomes in the owner occupied sector as a whole, and difficulties may arise in the long term regarding loan repayments and maintenance costs. As a result, a proportion of these marginal owner occupiers may later claim social security payments for mortgage arrears and necessary repairs. The UK experience of local authority tenants and other on low incomes being induced to purchase homes suggests that such difficulties can arise on a considerable scale***.

CRITERIA FOR ASSESSING POLICY

18. The appropriate criteria against which to assess government intervention in markets are those of efficiency and equity. The paragraphs below outline their relevance to housing in particular. These criteria are applied by the consultant and they are also applied by the Council in reaching its conclusions and recommendations.

(i) Equity

19. The consultant has shown (Chapter 5) the relevance of equity to the analysis of housing. One of the implicit aims of housing policy is to redistribute income and housing resources between consumers with different levels of income§. In the system of local authority tenancies, for instance, the rent paid by tenants is progressively related to household

*See T. J. Baker and L. O'Brien; *The Irish Housing System: A Critical Overview*, op. cit; Ian Irvine, *A Study of New House Prices in Ireland in the Seventies*, ESRI Paper No. 118, ESRI, 1984.

**Threshold, *Policy Consequences: A Study of the £5,000 Current Grant*, Dublin, 1987.

***Hugh Dixon, *Repossessions by Building Societies at Record Level*, *Financial Times*, 22 August, 1987.

§The terms *vertical* and *horizontal* redistribution are used in the report to refer to the forms of redistribution outlined in paragraphs 19 and 20 respectively.

income and composition — lower income households pay lower rents than higher income households. Some measure of redistribution between tenants is therefore achieved. However, as the consultant's detailed analysis reveals, a more careful structuring of the differential rent system could improve its redistributive effectiveness.

20. A different aspect of equity can be considered: this refers to the treatment of housing consumers in similar circumstances. For example, the consultant examines the variable treatment of families under the different rent allowance regimes: identical households with identical incomes experience different means tests and allowances under Supplementary Welfare, Decontrolled Rent Allowance, and Differential Rent.
21. Equity can have different, and perhaps conflicting meanings — thus the consultant has listed equality of opportunity, minimum standards for all, progressive redistribution of net housing subsidies, and positive discrimination in favour of particular groups, as dimensions of equity.

(ii) Efficiency

22. Three different sets of considerations arise here:
 - (a) Efficiency in a narrow sense refers to the effectiveness with which housing needs are met. A crude indicator is whether the total supply of housing adequately meets overall housing needs. More important aspects, however, relate to the utilisation of housing and the mismatch, or otherwise, between specific housing provision and housing needs. For example, as the consultant demonstrates in the report, the Irish housing system contains both homelessness and over housing: some persons do not have access to houses while others have houses which are excessive relative to their needs.
 - (b) Efficiency in terms of the wider economy refers to the effects of the housing system on the functioning of the economy — the tax system, savings and capital markets, and labour markets are key considerations here. The tax treatment of housing arguably distorts the structure of taxation by virtually excluding residential property from the tax base. The composition of total savings and investment may be unduly affected by the prevalence of owner occupation, with some displacement of investment and economic activity from sectors other than housing. Allocation procedures in the local authority tenure, or the transaction costs entailed in house purchase, or the limited availability of good quality rental accommodation may impede labour mobility and reinforce labour market problems.
 - (c) Efficiency in terms of tenure neutrality refers to the framework of choice between housing tenures faced by consumers of housing, and to the overall balance of tenures in the housing system.

HOUSING CONDITIONS AND NEEDS — AN OVERVIEW

23. In the paragraphs below basic characteristics of the Irish housing system are outlined. A brief summary is given of the consultant's analysis of future housing requirements and how these will be affected by population trends, and the consultant's overall assessment of the housing system is summarised.

Housing Conditions

24. As the consultant has pointed out, the outstanding feature of the Irish housing system is the prevalence of owner occupation (see Table (i)); 74% of the dwelling stock was owner occupied in 1981, compared with 69% in 1971: this proportion is the highest among EEC countries. In noting Ireland's very high level of owner occupation it should be realised that the relatively generous subsidisation of owner occupation has made owner occupation possible for many groups in the population, including these on average and below average incomes.
25. Other factors which have contributed to the high level of owner occupation are: the historical importance of the struggle for land ownership, the existence of a significant "self build" sector in rural areas, and the role played by building societies in tapping personal and household savings. In addition, high family size relative to other countries, the general preference for semi detached or detached dwellings with gardens, and a relatively abundant supply of land outside major urban areas have all sustained the high level of owner occupation.
26. A second important characteristic is the long run decline of the private rented tenure. As Table (ii) shows, the decline has brought the share of this tenure to 10% of the housing stock in 1981, from 42.6% in 1946. The figures for urban areas only are 73.9% and 14.8%, for 1946 and 1981 respectively. This trend has also taken place in other European countries,

**Table (i):
Households in Ireland, Classified by Tenure, 1981 and 1984**

	1961 %	1971 %	1981 %	1984 %
Owned outright	59.8	68.8	74.4	51.3
Owned with mortgage				31.0
Local Authority Rented	18.4	15.5	12.4	9.7
Private Rented	17.2	13.3	10.1	6.3
Other (and Rent Free)	4.6	2.4	3.1	1.7
Total	100.0	100.0	100.0	100.0

Source: 1981, 1971, 1961 data from *Census of Population*; 1984 data from *Report of the Commission on Social Welfare* (Table 14.3), based on EEC Consumer Survey; the 1984 data are subject to the sampling error (n=2,914).

four scenarios for future household numbers: the total increase over 1986-1996 will lie in the range 119,200 to 79,700, or an average annual increase in the range 0.7% to 1.0%. The results are more sensitive to the migration assumptions underpinning the population projections than they are to headship rates. (Table 4.3) In addition, the consultant proposes a figure of 20,000 new dwellings as replacements for obsolete stock, and at a minimum, a further 10,000 dwellings to meet the accumulated requirements of overcrowding, involuntary sharing and homelessness. Both these figures, it is suggested, would be "worked off" over a period.

33. The overall magnitude of total housing requirements in terms of new completions per annum, based on the figures above, is likely to lie in the range 11,000 to 15,000 over the period 1986-1996*. A figure towards the upper end of that range may be more appropriate, as the consultant's estimate of requirements for overcrowding, involuntary sharing and so on does not take account, as the consultant indicates, of certain accumulated needs which cannot be properly quantified. Further, the migration assumption which is more plausible over the 1986-1996 period is the somewhat lower net migration assumption, implying a higher number of households relative to that which results from the alternative, higher migration assumption. The estimates of requirements are tentative, because of the dependence of the estimates on assumptions about developments in the economy, and also because of the sensitivity of the results to the assumptions about migration. In the short term levels of net migration can alter significantly.
34. The general conclusion offered by the consultant is that there will be some diminution in housing demand by comparison with the 1970s. However, two other implications, not easily quantifiable, are just as significant. Firstly, the projections indicate a continuing fall in average household size, and therefore a relative shift in demand to smaller housing units. Secondly, the shift in the population towards the older age groups may imply an increased demand for house improvement and maintenance.

Overall Assessment of the Housing System

35. The consultant has given an overall assessment of the housing system based on his analysis of past and current housing conditions, and current and future needs. His conclusion is that:
- "for the bulk of households their quality of housing services have improved since the early 1970s." (page 112).

* This assumes that the total requirements, including accumulated and additional needs, are fulfilled by an equal number of annual completions over the ten year period.

This assessment is based on: the considerable net addition to the housing stock; the decline in the number of older dwellings; the increased proportion of dwellings with basic amenities; the increased average size of dwellings, the diminution of overcrowding among households, and improved quality of local authority dwellings.

36. The consultant has suggest that Ireland's housing provision is favourable by international standards. Among countries of roughly similar GNP per capita, Ireland has close to the best overall standard of housing.
37. The Council notes, therefore, that housing policies have contributed to a significant improvement in housing provisions overall. This assessment of housing policy, however, must be seen in the context of the economic costs of these policies and the distortions and inequities to which they have given rise.
38. In the Council's view the key issues in housing policy which must now be addressed are:
- The inefficiencies and inequities inherent in the subsidisation of owner occupation.
 - The role of the private rented tenure in the housing system.
 - The traditional emphasis in local authority housing, (which has changed somewhat recently) on the output of new dwellings, with an insufficient emphasis on the maintenance and management of the housing stock.
 - The undue emphasis in the housing system as a whole on new construction, to the detriment of efficient renewal, maintenance and modernisation policies.
 - The piecemeal development of, and lack of coherence in income supports in respect of housing costs.

POLICIES FOR OWNER OCCUPIED HOUSING

39. The role of the owner occupied sector is central to Irish Housing Policy. Owner occupation provides security of tenure and also provides freedom to occupiers to develop, maintain, refurbish and use their homes. In these respects the tenure is superior to the private rental and local authority rental tenures. These tenures, however, have important roles in the housing system. The Council therefore accepts owner occupation as socially desirable and agrees that it should be encouraged as the main housing tenure. In an unsubsidised housing system it would be difficult for those on low incomes to own their own homes. However, owner occupation can be extended widely throughout the population if appropriate policies are pursued for people with modest incomes.

OVERALL SUBSIDY TREATMENT

40. A list of the more important subsidies and tax reliefs on owner occupied housing is given below. It shows that its treatment in Ireland has been favourable:
- (i) Relief on mortgage interest allowable in respect of borrower's main residence (90% of interest up to £2,000 for single and £4,000 for married persons).
 - (ii) Exemption from local authority rates since 1978.
 - (iii) No capital gains tax charged on the gain arising from the sale of a principle private residence.
 - (iv) A stamp duty exemption for the purchase of most new houses.
 - (v) No taxation charge on the imputed* income arising from the occupation of a house.

In addition, a cash grant in respect of first time buyers of new dwellings has been in force.

41. There are marked inequities and inefficiencies in these arrangements:
- Mortgage interest relief is given at the borrowers' marginal rates of tax, and therefore persons with high incomes and high marginal tax rates benefit more than those with low incomes and low marginal tax rates although restrictions have been imposed on the amount of relief allowable.
 - Horizontal inequity arises between owner occupiers who purchase with a mortgage and renters of identical dwellings paying market rents (and also between owners who purchase outright and owners with mortgages).
 - Exemptions from stamp duty (and cash grants when in force) for new homes distort the true costs of new and secondhand dwellings. The range of direct grants and tax inducements to owner occupation combined with the relative absence of support for the supply of, and demand for, rental accommodation treats those who rent unfavourably by comparison with those who own.
 - The range of subsidisation to owner occupation is inefficient: it has resulted in a misallocation of housing. More individuals are living in family size dwellings than before. At the same time a problem of homelessness persists.
 - Some subsidies to owner occupied housing may become capitalised in the value of the houses, as the subsidies stimulate demand and therefore prices. This may limit to some extent the efficiency of the subsidies in allowing access to owner occupation.

*This concept is explained below under the Tax Treatment of Owner-Occupied Housing.

Housing and the Tax System — General Issues

42. The Council has formulated its views on the taxation of owner occupied housing in the light of its analysis of the tax system, and of the principles which should underpin the reform of the tax system. This analysis was articulated in NESC Report 83, *Strategy for Development**. In that report, the Council considered the principles and proposals outlined in the reports of the Commission on Taxation and discussed the issue of tax reform in the light of these principles and proposals. Aspects of the tax and subsidy treatment of owner occupied housing are directly relevant to the Council's earlier analysis and some of the relevant points are therefore re-iterated here.
43. The Council emphatically expressed the view that reform of the system of taxation should be a key feature of overall economic strategy. Further, the Council noted that a number of central principles provided the basis of the reformed tax structure proposed by the Commission on Taxation. These principles were adopted by the Council. In the paragraphs below the principles which have particular relevance for the taxation of housing (and only those principles) are briefly re-stated, and examples of their implications for housing are noted.
44. Definition of the Income Tax Base: The Council accepted the Commission's basic premise that income, for tax purposes, should be defined comprehensively, to include all accretions of purchasing power such as earned income, social welfare income, fringe benefits and imputed income from durables and property. The imputed income from owner occupied dwellings is at present excluded from the tax base — likewise the capital gains from the sale of principal private residences.
45. Neutrality of the Tax System with Respect to Inflation: Inflation can distort the operation of the tax system and generate arbitrary and inequitable redistributions of the tax burden. The Council endorsed the Commission's view that the tax system as a whole should be adjusted with respect to inflation. In practice this entails neutralising the tax base with respect to inflation for business income, capital gains and investment income. It also requires a general policy of indexation of tax allowances, tax bands and so on. Particular instances of this principle arise in housing. The tax allowance for mortgage interest would be defined in real terms**. Similarly, real capital gains (or losses) — from the sale of homes would be subject to taxation.

*NESC, Report No. 83, *Strategy for Development 1986-1990*, Chapter 10, 1986.

**Real interest rates refer to the ratio of the nominal rate of interest to the rate of increase in the Consumer Price Index.

46. Choices, Incentives and the Tax System: The Commission argued, and were generally supported by the Council in this view, that tax-based incentives are appropriate in only limited circumstances. This principle is of particular importance in regard to general policies for industrial and employment promotion. However, it applies also in the housing domain, as tax based incentives are used to stimulate construction in segments of the housing market.

47. "Needs" and the Tax System: It was the view of the Commission, adopted by the Council, that the tax system should not be the primary mechanism for meeting needs ("needs" here has a 'vertical' and a 'horizontal' dimension, with the former referring to low absolute levels of income and the latter to needs arising from non-financial attributes such as age, physical capacity etc.). Housing provisions presently contain an instance of a tax based instrument of meeting need — the Rent Tax Allowance for persons aged over 55 in private rental accommodation.

*The Taxation of Owner Occupied Housing — Analysis and Proposals**

48. The Commission on Taxation offered the following evaluation of the tax treatment of housing:

"The tax and other advantages attached to owner-occupation have encouraged people to acquire their own houses and have resulted in a very high proportion of owner-occupied houses in Ireland by international standards. We consider that owner-occupation is a desirable social goal which should be encouraged by the provision of incentives. However, the present extremely generous treatment of housing for tax purposes has resulted in an undue proportion of investment in certain types of housing to the detriment of more productive uses. Demand in many cases has been increased above real needs which has bid up the price of existing houses making it more difficult for first-time buyers to acquire their own homes. It has also led to over-investment and trading-up in house property and a waste of scarce resources since the cost of holding on to accommodation in excess of needs is nil!"**

The Commission further argued that any aids to owner occupation should be made "more selective" and targetted specifically at first time buyers.

*The policy conclusions based on this extended discussion of the tax treatment of housing are summarised below in paragraphs 62-66.

**First Report of the Commission on Taxation, *Direct Taxation*, Government Publications, Stationery Office, Dublin, 1982, page 138.

Support for the general thrust of this analysis is offered in other commentaries on the housing system in Ireland*.

49. What does the above imply for the tax and subsidy treatment of housing? There is a close relationship between housing and taxation. Two underlying questions arise here — the definition of income included in the income tax base and the equitable treatment of housing as between renters, owners with mortgages, and owners with outright ownership. On the first issue, as indicated above, the Council in its discussion of taxation in the Strategy for Development Report** adopted the Commission on Taxation's analysis that the definition of income for tax purposes should be comprehensive — it should be based on the taxpayer's command over resources, in whatever form, or ability to attain a particular standard of living***. According to this principle, the income implicit in the ownership of a wide range of durables should be included in the income tax base. To include all such income would be impracticable. The question then arises as to whether the imputed income from housing — an especially valuable resource — should be included in the tax base, or whether the tax system would be fairer and more efficient if it were disregarded.

50. The second issue concerns the equitable treatment as between renters of dwellings, owners of houses with mortgages and those who own outright.§ In theory such equity can be achieved in either of two ways:
(i) Include imputed income in the tax base, allow interest paid on mortgages as a tax allowance, but give no tax allowance for rent paid, or
(ii) Disregard the owner's imputed income, allow mortgage interest relief and also allow rental payments.

The second option achieves neutrality as between owners and renters, but the tax base remains narrower and tax rates higher than under the first option.

The first option allows the cost of acquiring income generating assets, interest payments, to be offset against the income (imputed in this case), but it achieves neutrality as between housing assets and other assets. This first approach, which was favoured by the Commission on Taxation

*See John Blackwell, Do Housing Subsidies show a Redistribution to the Poor? in *Conference on Poverty 1981*, Council for Social Welfare, Dublin, 1981; B. Dillon, L. O'Brien and D. O'Mahony, Poverty and Housing, in Sister S. Kennedy (ed.), *One Million Poor*, Turco Press, 1981. Paul Tansey, The Inequity of Irish Housing Subsidies, *Paper to 'Paying for Housing' Conference*, Dublin, November, 1987.

**NESC Report No. 83, *Strategy for Development, 1986-1990*, Stationery Office, Dublin, 1986, Chapter 10.

***First Report of the Commission on Taxation, *Direct Taxation*, *op. cit.*, pages 115-119, and 129.

§Fourth Report of the Commission on Taxation, *Special Taxation*, Dublin, 1985, page 43.

(except in the case of second houses), and by the Council in its Report on the Financing of Local Authorities,* implies the taxation of imputed income and the retention of mortgage interest relief.

51. Commonly, the mortgage interest tax relief is regarded as the tax subsidy to owner occupation. However, the analysis above suggests that the difference between owner occupiers and renters is, in fact, the non-taxation of the imputed income of owner occupiers**. Equity owners who buy their homes outright can also be compared with the renters, as the former also benefit from the non taxation of imputed income. Neutrality is more fully achieved by the taxation of imputed income rather than the abolition of tax relief on interest.

Two significant points should be noted in this regard:

- (i) taxation of imputed income applies to all owners and not just to those with mortgages. In other words, the taxation of imputed income represents a much greater extension of the tax base than abolition of interest relief;
 - (ii) tax relief on imputed income from a house is related to its current market value, which may therefore appreciate, whereas tax relief on the mortgage interest on a house is related to an initial purchase price and will therefore be constant or decline over time.
52. However, the Council recognises certain arguments against taxation of imputed income. Firstly, a satisfactory valuation base is necessary and would take a number of years to establish unless a self assessment system were introduced***. Secondly, mortgage interest relief, although not an appropriate economic measure of the subsidy to owner occupation relative to renting, is a measure of the subsidy to investment in housing relative to investment in other durables for which there are no borrowers' tax concessions. An additional point to note is that the concept of imputed income would be difficult to explain to the public, and it would therefore be difficult to obtain general assent to this procedure. It is argued below that the tax treatment of mortgage interest relief is logically related to the issue of the taxation of residential property. These issues are discussed below.

*NESC, Report No. 80, *The Financing of Local Authorities*, Government Publications, Stationery Office, Dublin, 1985, and Commission on Taxation, Fourth Report, *Special Taxation*, *op. cit.*, page 43.

**A renter and owner occupier have pre tax incomes Y_r , Y_o respectively, and identical houses with market value P . The owner receives imputed rent of iE , where i is the return on capital, and E his equity in the house. The owner and renter, it is assumed, have equal total money incomes: $Y_r = Y_o + iE$. The renter pays a market rent of iP , t is the tax rate, and $P-E$ the mortgage. The difference between the disposable incomes of the owner and renter is $YDo - YDr$; it can be shown that this equals $t iP$, which is the tax relief on imputed income.

***These arguments were also made by the Commission on Taxation, *First Report*, (pages 137-138).

Property Taxation

53. The Commission on Taxation argued in favour of a general property tax, including residential property. This would entail taxation of houses at current market values. Theoretically, it is not the same as the taxation of imputed income but its practical implications for the tax system and the housing system are the same. It was further proposed by the Commission that this form of taxation of housing was consistent with a tax allowance on mortgage interest debt*. As the Commission pointed out, imputed income is the theoretically appropriate measure of the income/benefit from housing: the difficulties associated with taxing imputed income render a property tax an equitable and effective means of taxing the 'income' from housing. However, a corollary to the taxation of the income from housing is the recognition that mortgage interest is the *cost*** of acquiring the income, and mortgage interest debt should therefore be taken into account in measuring the net flow of income from housing. A tax allowance on total mortgage interest payments, as the Commission proposed, is therefore appropriate when a tax on the value of property is also in place. It should be noted, of course, that the Commission also proposed a single rate of income tax; under such a regime, in contrast to the present regime of varying marginal tax rates, the value of the tax allowance (for any given amount of mortgage interest) would be the same for taxpayers at all levels of income.

54. The NESC in its analysis of this issue*** also recommended a property tax, based on market values. This tax, the Council proposed, should be accompanied by the retention of full tax relief on interest repayments. Further, the Council argued, the imposition of a property tax should not result in an overall increase in the tax burden: an offsetting reduction in total income tax should be implemented. It is as important in the Council's view, that their proposals in relation to the tax treatment of housing should be seen in the light of their views on the tax system as a whole and that there should be no further increase in the tax burden. This necessarily entails that, with the current overall burden of income taxation, the housing taxation proposals should be offset by a corresponding reduction in the total burden of income tax.

At present, housing property is not subject to taxation *and* there is a significant degree of tax relief on mortgage interest repayments. At present the Residential Property Tax applies to a very limited segment of

*Commission on Taxation, Fourth Report, *Special Taxation*, Government Publications, Stationery Office, Dublin 2, 1985.

**Repayment of *principal* on mortgages, although a financial cost to a purchaser, is not an economic cost in that it is reflected in the acquisition of equity.

***NESC, Report No. 80, *The Financing of Local Authorities*, *op. cit.*

owner occupied housing. Finally, in relation to the proposed property tax, the Council recommends that a waiver scheme for those on low incomes should be one of the elements of the property tax arrangements. This proposal was first made by the Council in its report, *The Financing of Local Authorities*.

Mortgage Interest Relief

55. This relief is a significant part of the total package of Government housing measures. In recent years the relief has been changed successively, and these changes are briefly described below. Prior to 1974 all mortgage interest relief was allowable against income tax; in successive Finance Acts the provisions were modified, generally in a restrictive way. A variation in the interest allowable, based on marital status, was introduced in the Finance Act, 1980, so that the interest allowed was to a maximum of £2,400, £4,800 and £3,500 respectively for single, married and widowed persons. In the 1983 and 1987 Finance Acts further modifications were made; in the current tax year, single persons are allowed 90% of interest up to £2,000 — no interest above this figure is allowable. (The corresponding figure for married persons is £4,000).
56. The present situation regarding interest relief is summarised in Table (iv). The Table illustrates the significance of the relief for house purchasers at different income levels who are commencing repayment of a loan in 1988/89 at current interest rates. In the illustrations it is assumed that both parties in the couple are employed, that tax is jointly assessed and that the mortgage amount is based on the criterion applied by building societies — local authorities in the case of the low income couple. It can be seen from the table that for the low income couple (on half average earnings) entering owner occupation in 1988/9, tax deductible interest is £1,575 per annum which is 72% of the total repayment; about a quarter (23.6%) of their disposable income is required to meet the repayment and the tax allowance results in a small proportionate increase in their disposable income (6.3%). The couple at one and a half times average earnings, however, receive a 15.1% increase in their disposable income from their tax allowance, and their mortgage interest allowance is 86% of the total repayment. When the highest income in the illustration is considered, it shows that allowable interest is 71%, the repayment is about 22% of disposable income and the proportionate income increase as a result of the allowance is 9.8%.
57. These figures reveal that across a wide range of the income distribution higher income households benefit more from the tax relief. However, this pattern reverses at an income level of twice average earnings. The restrictions on the tax relief which have been recently enacted have therefore reduced somewhat the inequity inherent in the relief at variable

marginal tax rates. The cost of mortgage interest tax relief is significant: during this decade the current cost (in terms of tax revenue foregone) rose from £24m in 1980 to £160m (estimated) in 1988/9. In real terms (applying a public expenditure deflator) these figures are £24m and £85m. During this decade, therefore, the real cost has grown more than three-fold. The cost stabilised from 1985 to 1986 and declined marginally in 1987, reflecting, in part, the recent restrictions on interest relief. In the current tax year over 300,000 tax payers are claiming the relief.

**Table (iv):
Incomes, House Loans, Mortgage Interest and Tax Relief in First
Year of Loan, 1988/89**

	2x Average	1½x Average	Average	Low
1. Income of				
Main earner (£ per annum)	24,708	18,532	12,354	6,177
Second earner (£ per annum)	14,736	11,052	7,368	3,684
2. Mortgage	49,000	37,000	28,000	18,000
3. Total repayment (£ per annum)	5,061	3,818	2,892	1,972
4. Interest repayment (£ per annum)	4,851	3,663	2,772	1,575
5. Tax allowable interest (£ per annum)	3,600	3,297	2,495	1,418
6. Allowable interest as % of total repayment	71.1	86	86	72
7. Household disposable income before interest tax allowance (£ per annum)	20,932	17,138	13,220	7,840
8. Household disposable income after interest tax allowance (£ per annum)	23,020	19,050	14,359	8,344
9. Total repayment as % of household disposable income	22.0	20.0	20.1	23.6
10. Per cent increase in disposable income from tax allowance	10.0	11.2	8.6	6.3

Notes: Earnings (estimated) are industrial earnings for males and females. It is assumed both persons are employed, and jointly assessed for taxation, without other discretionary tax allowances. Total repayments comprise interest, principal, and mortgage protection premia. The interest rate is 8.25%.

58. Against the background of the existing level of mortgage interest relief, and the analyses of the Commission on Taxation and the NES's local taxation study, the question arises as to the future role of mortgage interest relief. The Council adopts the view that a property tax should be implemented and in that context the Council also recommends the retention of mortgage interest relief: — the rationale for this approach has been outlined above and is stated by the consultant in Chapter 9. A further issue arises however — the existence of variable marginal tax rates.

59. The Commission on Taxation proposed the retention of the relief as a logical corollary of its proposed property tax in a context, further recommended by the Commission, of one single rate of income tax on all incomes. The tax relief in this scenario would not give rise to the inequity inherent in varying marginal rates of tax, as the cash equivalent value of the relief would be identical for any given amount of interest relief, for all tax payers. At present income tax rates are 35%, 48% and 58% and, as the Council documented in Report No. 83, tax payers are distributed across these marginal rates — with an unacceptably high proportion at the highest marginal rate. The introduction of a property tax is under consideration by the Government at present. If it is decided to implement a property tax then, in the Council's view, mortgage interest relief should be allowed at the standard rate of tax. This procedure allows the tax relief to continue, but without the inequity arising from the varying rates of tax. The Council believes that the prime objective in operating mortgage relief should be an equitable and efficient system. It should be one which limits the inequities which arise from high levels of interest relief applied at varying marginal rates of tax, and helps to achieve national housing policy. The Council emphasises the link between interest relief and property taxation. In the absence of a property tax it is difficult to justify tax relief on mortgage interest: conversely, if a property tax is introduced then mortgage interest relief should be fully retained.

Capital Gains Tax

60. At present capital gains from the sale of principal private residences are not subject to income taxation. This aspect of the taxation of housing, combined with interest relief at variable marginal rates of tax, contributes to "trading up" in the housing market and leads to the acquisition of homes which may be larger than purchasers' needs. Thus investment in housing relative to other forms of investment may also result from the non taxation of these capital gains. The Council accepts the analysis of the Commission on Taxation in relation to capital gains tax. The Commission logically included capital gains and losses in its definition of income and therefore recommended that they be subject to tax; capital gains and losses on the sale of residential property, the Commission recommended, should also be subject to tax*.

61. The Council's view that the system of taxation should be neutral with respect to inflation is of particular importance in the case of capital gains and losses. *Real* capital gains (and losses) would be subject to tax in a tax system fully adjusted for inflation. For example, the average gross price of a second hand house in 1978 (all areas, Building Society mortgaged

*The Commission on Taxation proposed that rollover relief should not apply in the context of capital gains tax.

houses only) was £14,390; the comparable figure in 1987 was £39,441*. If a home owner bought and sold at these prices respectively, and if the Consumer Price Index was the basis of indexation, this would result in a modest capital loss. This loss would be offset against income in a tax system adjusted for inflation as the Council — in line with the Commission on Taxation — has proposed.

Taxation of Owner Occupied Housing — An Overview

62. In summary, the Council recommends the following tax treatment of owner occupied housing:
- (i) taxation of all residential property at current market values — the existing Residential Property Tax would be abolished in this context;
 - (ii) taxation of real capital gains on the sale of principle private residences;
 - (iii) tax treatment of interest relief which is consistent with the tax status of housing property; if a property tax is introduced, as the Council has recommended, it would be logical and equitable to have full mortgage interest relief at the standard rate of tax; if the present non taxation of property continues then a very restrictive approach to interest relief should be initiated.
63. The Council stated in its report, *Strategy for Development*, that: "tax reform may now be the most powerful instrument available to Government to promote faster growth in output and employment in the short to medium term"**. It is therefore critical in the Council's view that significant steps should now be taken to reform the system of taxation. Implementation of the Council's proposals in relation to the taxation of housing would constitute an important and necessary element of tax reform.
64. It is now generally accepted that two of the central difficulties with the present taxation system are the disincentives to which the current marginal income tax rates give rise, and the undue reliance on taxation of income as against taxation of capital and property. If, as is also widely proclaimed, a priority of tax reform should be a reduction in the burden of income taxation, then there is a clear and inescapable link between proposals to extend the taxation of property and reduce income taxation. The Council emphasises, therefore, that its proposals derive not only from its views about housing policy, but also from its analysis of the tax system and of the need for tax reform.

*The calculations are illustrative. There is no overall index of house prices (new and second hand) which allows a representative calculation to be made of how prices of particular houses have evolved.

***Strategy for Development, op. cit.* page 228.

65. The Council argued in its *Strategy for Development* report that there can be no further increases in the overall tax burden. Accordingly, implementation of its proposals in relation to the taxation of housing must be accompanied by corresponding reductions in income taxation. The need to avoid an increase in the overall tax burden provides an imperative for simultaneously reducing income taxation and reforming the tax treatment of housing. The Council's proposals, if implemented, offer an opportunity to make significant progress in the area of income tax reform — such as reducing the proportion of taxpayers at higher tax rates, or widening the standard rate band, or actually reducing tax rates.
66. In the Council's view the long term effect of its proposals will be to make the housing system and the taxation system more efficient and more equitable*. The Council acknowledges, however, that in the short term the phasing and implementation of its proposals will require careful consideration in order to avoid undue disruption of the housing market. The precise application of the proposals such as the rate of property tax, the indexation procedure for capital gains, the specific income tax reductions to be effected, requires coherent planning in the light of their effects on the tax system and the housing market.

Cash Grants for Access to Owner Occupation

67. Cash grants are the second major aspect of the tax-grant treatment of owner occupation. In the late 1970s cash grants for owner occupiers were greatly increased and their availability extended — for instance, the £1,000 grant for first time buyers of new homes was introduced in 1977. This was increased to £2,000, and an additional mortgage interest subsidy of £3,000 payable in instalments was later introduced. In 1985 a 'surrender grant' of £5,000 was made available to local authority tenants purchasing in the private sector — this grant has since been abolished — and the mortgage interest subsidy was replaced by a £2,250 grant. This form of intervention is not well targeted, as the grants are not related to income. This is contrary to equity principles. The Council in principle, therefore, does not see a role for universal cash grants for house purchase.
68. It might be argued that these grants provide access to owner occupied housing to persons who would otherwise be excluded. Such an argument

*The CII considers that the imposition of the three measures i.e. property tax, capital gains tax, and reduced mortgage interest relief, even at relatively modest rates, could have a significant negative impact on the housing market. It supports the introduction of a property tax, the receipts from which should be applied primarily to increase bands and reduce marginal personal income tax rates. If this were done it would remove, in large measure, the need for a recommendation to alter the present mortgage interest relief arrangements. The CII would not recommend the introduction of a capital gains tax on housing because of the adverse affect which it considers this would have on the housing market.

might be tenable if the grants were 'means tested'; since they are not it can be argued that they contain an element of 'windfall' gains for some who would have entered this tenure in any event.

Access to Owner Occupation — Discount Sales to Tenants

69. A specific subsidy relating to owner-occupation overlaps with the local authority system; it is the system of loans available to local authority tenants to purchase their tenant home. (pages 173-174 contain the consultant's detailed analysis).

Description of Scheme

Since July 1986 the terms of the scheme are as follows:

- a discount of 3% per year on the price of the dwelling for each year of tenancy, subject to a maximum of 30%;
- a discount of £2,000 in lieu of the first time buyers' grant in the owner occupied sector;
- a rate of interest equal to the Local Loans Fund lending rate, plus ½% for administration;
- the gross price calculated as the original historic cost updated by the CPI.

An additional scheme was established in 1988 as a "one-off" scheme, applying to applications received in 1988 from tenants currently in occupation. The main features are as follows:

- market value to be used in all cases;
- a 40% discount on price;
- an additional discount of 10 per cent for houses first occupied before 1960;
- the discount in lieu of rates prior to 1977 is abolished;
- a convertible repayment option is introduced whereby repayments in the first five years are linked to a percentage of the net price of the house;
- the requirement that housing authorities are obliged to ensure that dwellings being sold to tenants are in good structural condition will not apply.

70. The significance of the scheme for the size of the local authority housing stock can be gleaned from Table (v). Over the period 1976-1987, a total of 71,666 local authority dwellings were built; during the same period 45,107 dwellings were sold. Therefore, a net addition of about 27,000 dwellings was made to the local authority housing stock (less when obsolescence is considered). The volume of these sales is very significant and it is important to critically analyse their impact.

Analysis of Sales Scheme

71. Efficiency Aspects: It is argued that sales lead to a more diversified social mix with, consequently, more stable population and better housing practices. Maintenance costs — it is further argued — are high and these costs can be reduced by sales to tenants who then acquire the maintenance responsibilities. Finally, it is suggested that ownership is the preferred tenure of households and this preference is intrinsic to the culture and values of Irish society.

**Table (v):
Number of Local Authority Dwellings Sold to Sitting Tenants by Comparison with Number of Local Authority Dwellings Built, 1973-1987**

Year	Local authority dwellings built	Dwellings purchased from local authorities
1973	6,072	4,101
1974	6,746	6,309
1975	8,794	11,876
1976	7,263	8,876
1977	6,333	5,663
1978	6,073	2,934
1979	6,214	4,393
1980	5,984	4,949
1981	5,681	4,426
1982	5,686	3,492
1983	6,190	3,492
1984	7,002	2,732
1985	6,523	1,550
1986	5,517	533
1987	3,200	2,000
Cumulative total 1973-1987	93,278	67,326

Source: *Quarterly Bulletin of Housing Statistics*; Department of the Environment.

These arguments are not accepted by the consultant. In regard to the “social mix” argumentation, the consultant suggests that sales have been concentrated in “better” more mature areas rather than “hard to let” areas which would most benefit from a diversified social mix and stable population. Maintenance costs, it is accepted, will transfer to the new owner but there is no evidence that in the long-run, marginal owner occupiers, as the consultant suggests many of these buyers are, can afford to invest significantly in house maintenance. As regards tenure preferences, the high level of owner occupation overall must reflect, in part, the high level of subsidisation to this tenure relative to other tenures. Similarly, the high level of local authority dwelling sales reflects the fact that households choose to buy, when given significant discounts.

72. There are further efficiency arguments against the scheme. Sales of housing stock impair the ability of local authorities to deal with housing

needs. Where sales are concentrated in particular areas and where sales are high relative to stock in an area this difficulty is more pronounced. Sales not only reduce the total stock of local authority dwellings but also limit the choice of those entering the tenure or wishing to transfer within it. Since it is probable that dwellings sold are of higher quality, the authorities are left with the harder-to-maintain dwellings, and thus higher than average maintenance costs.

73. Equity aspects: The central point to be noted here is that the buyers have incomes which are above the average for local authority tenants (see Table 8.3, page 176), and below the average for owner occupiers as a whole. Over a period of time the precise effects of these sales on income and wealth distribution will depend on two factors:
- (i) whether the houses are re-sold and, if sold, whether a capital gain accrues, and
 - (ii) whether rents in the remaining tenancies have to be raised to compensate for the loss of higher income tenants paying rents nearer the maximum rents.
74. The consultant draws this conclusion, in relation to these distributional issues:
- “No matter what assumptions one makes on these matters — the data relating to them are not available — the consequences are that a relatively small group of households receive a markedly high subsidy relative to other households including taxpayers as a whole. Those who elect to purchase are better off while taxpayers are worse off.” (page 179)
75. If a “life cycle” view is adopted, it can be seen that households who buy receive a significant subsidy, comprising the explicit and implicit capital subsidies when purchase is made, plus subsequent tax relief on the loan. Prior to purchase, as renters, they have also benefitted from subsidies, and in a life time context the discount for length of tenancy compounds the degree of subsidisation.
76. Financial Aspects: The financial aspects of the sales have been examined by the consultant: the illustrative calculations which relate to the scheme in force in 1987, are reproduced in Table (vi) below. A number of features of the data should be noted:
- (i) Whether sales at market prices or updated historic costs are used, the discounted prices are significantly lower than replacement costs. Local authorities can apportion 60% of the receipts to the capital accounts, but this figure (about £8,000) clearly is very far short of replacement cost.

- (ii) The net repayment figures are the same as, and slightly higher than, the annual differential rent payable by a worker on average earnings on the ten and five year assumptions respectively. Forty per cent of the capital receipts can be allocated to the authorities' current account and this, in theory, offsets the loss of rental income. But as the example makes clear, the 'gain' of the capital receipt would be eroded after a short period of years (depending exactly on what actual rent the purchaser would have been paying).
- (iii) Tenants on average and above average incomes paying rents at, or close to maximum rent, have a strong incentive to purchase given the net repayments figures relative to rent payments.

**Table (vi):
Illustration of Impact of Local Authority Sales Scheme in 1987**

	<i>Resident of 10 years</i>	<i>Resident of 5 years</i>
<i>Replacement cost at 1987 (£)</i>	32,000	32,000
<i>Sale at Historic Cost updated by Consumer Price Index</i>		
Gross Price (£)	25,770	28,913
Less discounts (£)	9,761	6,337
= net price (£)	16,009	22,576
Annual repayment at 9.5% over 30 years	1,628	2,296
Net repayment after tax in first year (£)	1,149	1,620
<i>Sale at Market Prices</i>		
Gross Price (£)	21,905	24,576
Less discounts (£)	8,602	9,373
= net price (£)	13,303	15,203
Annual repayment at 9.5% over 30 years	1,353	1,546
Net repayment after tax in first year (£)	955	1,091
<i>Memorandum items</i>		
Maximum rent	1,353	1,353
Differential rent		
— for household on average industrial earnings in 1987(a)	1,097	1,097
— for household on 1½ times average industrial earnings in 1987(a)	1,820	1,820

Notes: The July 1986 tenant purchase scheme is used. The average cost of construction of a local authority house in 1987 of £32,000 is used. This is linked back over periods of 10 and 5 years respectively using the building construction cost index, and assuming a 5 per cent rise in that index for 1987. It is assumed that market value in 1987 stands at a discount of 15 per cent on historic costs updated using the Consumer Price Index. The calculations of net repayments assume a worker on average industrial earnings in 1987.

(a) Using Dublin Corporation scheme current at 1987; for married couple with 2 children.

77. The total amount of investment in new housing is not affected by the scheme. Little impact on the scheme of maintenance is likely in the short-run. In the long run, to the extent to which marginal buyers may have

difficulty in keeping up maintenance, if anything the volume of maintenance may be adversely affected by the scheme. The scheme can adversely affect the ability of the local authorities to meet housing needs in particular areas. This is compounded by the fact that, over the longer run, the scheme can diminish the incomes of local authorities. From the point of view of equity, the scheme gives a relatively high subsidy to one particular group of householders. Whether or not social mix is improved as a result of the scheme is unclear. The net adverse impacts of the scheme are magnified by the 1988 "one-off scheme" (page 181).

78. The consultant's recommendation regarding the sales scheme is that:
"The sales scheme should be revamped so that dwellings are sold at replacement cost, without any discount for length of tenancy. There should be an explicit arrangement, whereby loan finance is provided at the point of sale, and building societies should be enabled to provide much or all of the finance at market interest rates." (page 266)
79. The consultant's analysis may not fully appreciate the financial significance of the receipts from sales. This point can be understood if the relationship between the replacement of dwellings sold and the discounted prices is examined in a stylised fashion using the consultant's figures. If it is assumed that a local authority wishes to house an additional family, four possible routes are available, in theory:
- the authority may sell a dwelling at *replacement* cost (say £32,000) to an existing tenant and use the capital receipt to build another dwelling — net capital cost of zero
 - the authority may not sell a dwelling but facilitate a tenant to move an owner occupied dwelling, using private finance, and deploying the vacant dwelling to house the additional family — net capital cost of zero
 - the authority may sell a dwelling at a discounted price — £16,009 in the consultant's case of the 10 year resident with sale prices at updated historic costs — and use the capital receipt towards the cost of replacing the dwelling — net cost £16,000 (32,000-16,000)
 - the final option is to retain the tenant in the dwelling and simply construct an additional dwelling at the current capital cost (£32,000).
80. The second option is already in place as tenants may purchase in the private sector using private mortgage finance. In the consultant's analysis the third option generates net capital deficits, and the consultant recommends the first option of sales at full replacement cost without discounts. However, this practice would be likely to result in nil sales and therefore nil receipts: in turn there would be no receipts with which to fund additional dwellings. It can be argued that if discount terms generate a high level of sales and receipts, these can partially defray the costs of

new houses. In 1987 sales totalled 2,000; if the average discounted price were £9,000 gross receipts would be £18m. Sixty per cent of the latter would be apportioned to the capital account, leaving £10.8m which would about equal the replacement cost of over 330 dwellings.

81. In principle, the analysis above suggests that the discount sales have a significant financial merit. However, in practise the sales are not based on a formal on a formal refinancing of the dwellings. Buyers do not acquire mortgages and then pay the price of the dwelling to the local authority. The buyers' rents are converted into mortgage repayments and the repayments accrue to the local authorities' current and capital accounts. Local authorities in fact do not receive capital receipts, as the vendors of private dwellings would*. A further financial limitation of the schemes is that tenants with higher incomes and consequently higher rents are more likely to purchase. As a result the flow of rental income is diminished because of the lower average incomes among non purchasing tenants. There are no strong financial grounds, therefore, for the discount sales.
82. The important objectives of the scheme relate to the maintenance of a social mix in housing estates, the development of more stable, settled communities and the reduction in local authorities' housing maintenance costs. The Council recommends that changes should be made to the sales scheme which will allow these social objectives to be more fully achieved, and which will also make them more economically efficient.
- The relationship between the terms of the sales and the level of sales should be examined with a view to obtaining a higher level of sales on less discounted terms**.
 - Restrictions on the extent of sales in specific areas should be considered to prevent local shortages of dwellings to let and immobility.
 - Variations in the terms of sales should be attempted so that low demand and high demand dwellings and areas command higher and lower discount terms respectively — this will encourage social mix and community stability in a variety of locations.
 - Dwellings with very high maintenance costs should be identified and their sale should be a particular objective of the schemes.
 - Measures should be devised to ensure that purchases remain in the dwellings for reasonable periods as owners to ensure a stable social mix and to prevent quick capital gains from early re-sale; a clawback of some of these capital gains should be considered.

Such alterations in the sales schemes would enhance their potential to achieve their stated objectives. If these alterations are impracticable, then the Council recommends that the sales schemes be abandoned because of their efficiency, equity and financial consequences. Abandonment of the schemes would not necessarily prevent access to owner occupied housing among local authority tenants: in both public and private sector agencies finance can be acquired to purchase private owner occupied houses.

83. The Council's recommendations regarding the sales schemes are not derived from an opposition in principle to the purchase of their tenanted homes by local authority tenants. They derive a concern with the effects of the specific terms of the schemes on rental income, maintenance costs, availability of dwellings and other important features of the local authority housing system.
84. Finally, in relation to owner occupation and public policy to encourage this form of tenure, the important factors which affect the level of demand for owner occupation should be noted. Demographic variables such as total population and household formation determine overall housing *need*, and general economic trends fundamentally determine *effective demand* for owner occupation. Therefore, if the economy is stagnating and real incomes are static or declining then the effective demand for owner occupation will also be stagnant. Solutions to the problem of a moribund market for private homes lie ultimately in the economy at large and not, in the long-run, in subsidies which artificially stimulate demand.

ACCESS TO OWNER OCCUPATION — LOW INCOMES

85. The Council has stated that it regards the owner occupied sector as the more desirable tenure and that it should be encouraged. In a largely owner occupied housing system, however, there is a danger that those with low incomes will find it difficult to obtain mortgages to purchase houses. Some of the possible approaches to this problem have been criticised by the consultant and by the Council: proposals for changes in the discount sales scheme to tenants, for instance, have been made; similarly cash grants have been criticised as inequitable and inefficient and, in general, the current tax treatment of owner occupied housing has been assessed as overly generous and inefficient. In the Council's view, there are three key mechanisms which can be used to facilitate mortgage lending to low income borrowers; private sector loans to individual borrowers, State provided mortgages for individual borrowers, and public and private sector mortgages to voluntary housing associations and housing co-operatives.

86. Before outlining the specific arrangements in place for low income mortgages, the general argument in support of such arrangements should

* There is the further point that, although in theory receipts can offset the costs of new dwellings, the receipts are not actually used as capital for new dwellings.

** Whether this is possible depends in part on the 'price elasticity of demand' among tenants for the purchase of their homes.

be noted. In the absence of specific measures to ensure access to mortgage capital for persons with modest incomes both equity and efficiency issues arise. The opportunity for those with low incomes to own their homes and to exercise a degree of choice in their housing would be very unequally distributed; the demand for fully State-provided and State-allocated housing will be greater, the more limited is the access to mortgage capital for low income persons.

Private Sector Finance

87. There are no published figures on the extent of mortgage applications and their outcomes, for low income persons across the various sources of finance. It can be seen, however, from the income profile of borrowers from various sources that currently local authority/Housing Finance Agency mortgages go overwhelmingly to less-than-average income mortgages, that building society customers range across the income distribution, and that the banks cater to the upper end of the market. Table (vii) below, for example, reveals that in 1987 about 90% of the HFA/local authority mortgages were for those below the £11,000 per annum figure: the respective figures for building societies and banks are 34% and 21.4%. Close to 50% of bank mortgages are in the highest income category.

Clearly, the State sources of finance are of greater significance to those on low incomes.

Table (vii):
Main Income of Borrowers, by Source of Finance, January-June 1987

	SDA/HFA	B. Soc	Bank	All
less than £7,000	17.9	3.3	2.4	7.6
£7,000 to £9,000	41.1	10.7	7.0	19.2
£9,000 to £11,000	29.2	19.7	12.0	20.6
£11,000 to £13,000	7.1	21.0	15.1	15.2
£13,000 to £15,000	2.6	16.6	15.8	12.1
£15,000 plus	2.1	28.7	47.7	25.4
TOTAL	100	100	100	100

Source: DKM, *The Changing Face of the Irish Mortgage Market*, 1987, Table 3.11

88. In October 1987, the Minister for the Environment announced an arrangement with the building societies and associated banks whereby these institutions will service demand for mortgage finance from low-income borrowers*. An increase of £70m in 1988 on the amount of the mortgage funding available in this segment of the market was specified. The local authorities guarantee the loans to those with incomes below

*Statement by the Department of the Environment, *Funding of Local Authority House Purchase Loans*, October 1987.

£10,000 per annum*. The Council approves of the guarantee arrangement as a step which will facilitate borrowing for house purchase among those on low incomes. There are two further matters which should be considered, however. Firstly, the arrangement is underpinned by legislation and is being implemented now, at a time when it will be necessary to ensure that such arrangements remain in place as market conditions change and, in particular, if supply and demand changes in a manner which might disproportionately affect those on low incomes. Secondly, it will be necessary to analyse statistics on mortgage applications and decisions classified by income and borrowing source, to monitor the effectiveness of the arrangement.

Public Sector Finance

89. For a long period of time the local authorities have operated Small Dwellings Acquisition Act Loans (SDA). These loans were made available, on the basis of a means test, to persons on lower incomes purchasing dwellings in the lower price range. In 1981 the Housing Finance Agency was established and applied new financial instruments for raising mortgage capital as well as developing new types of mortgages. Until 1986 the HFA was providing mortgage finance directly to individual borrowers. The role of the HFA now is to raise capital and to make this available to the local authorities.
90. At present the local authorities offer loans to applicants on the following conditions
- their incomes must be below £10,000 per annum (principal earner's income, previous tax year)
 - they must show evidence of inability to obtain mortgage finance
 - they must indicate a financial capacity to repay a local authority loan.

A range of mortgage types are now available from the local authorities (annuity mortgages, convertible mortgage loans and income-related repayment mortgages); the maximum loan as a percentage of house price is in the range 90-95% and the loan amount would generally not exceed three times the borrower's income.

91. The Council acknowledges the need for publicly provided mortgage capital for lower income purchasers and supports the arrangements in place at present. There are no published statistics on the level of applications for these mortgages and it is difficult to ascertain to what extent the capital provided is adequate to meet existing demand. (It should

*The guarantee allows the lending agency to recover part of the losses suffered on repossession of mortgaged houses. Local authority expenditure on the guarantee is, in turn, recouped from the Exchequer (Section 16, 1988 *Housing Act*).

be noted that the establishment of the arrangement between the Department of the Environment and the lending agencies was accompanied by a reduction in the public capital programme outlay for local authority loans). It is important, the Council believes, that the capital jointly available under the combined local authorities and lending agencies schemes should be sufficient to meet demand and, in particular, that the funds in the local authorities' scheme for those unable to borrow from lending agencies are adequate. If difficulties arise as a result of changes in incomes or house prices then the income and loan criteria should be monitored and updated.

Voluntary and Co-operative Housing

92. The role of this sector is discussed more fully below. At this point it should be recalled that co-operative housing is a particularly suitable mechanism for extending home ownership to the disadvantaged and to those on low incomes. If appropriate policies are pursued, the Council argues below, this sector of housing would increasingly provide additional routes into home ownership for persons in the lower range of the income distribution.

POLICY FOR THE PRIVATE RENTED SECTOR

93. In the context of a largely owner-occupied housing system, the question arises as to what the role of the private rental sector is, and how it is affected by policies directed at other tenures (owner occupation in particular).

A Policy for the Private Rented Tenure

The official statement of housing policy by the Department of the Environment does not refer to this tenure. Furthermore, there is very limited data available about this part of the housing system. The Council regards it as essential that the Department of Environment should formulate and spell out an explicit policy for this tenure. It will be an essential step in policy formulation to undertake basic research on this part of the system, as there is a dearth of data on basic aspects of the tenure:

- the economic and social characteristics of tenants and of owners of rented accommodation,
- the physical quality of the accommodation,
- the rates of return to landlords' investments,
- the factors which determine the housing choices of tenants and the investment/supply choices of investors and landlords.

Role of Private Rented Tenure

94. The private rental tenure can be described as economically weak, in both the supply and demand aspects. The tenure shows little activity in terms

of new construction for rent (except for a very limited market segment) and, on the demand side, a significant proportion of inhabitants tend to have lower than average incomes and poorer quality housing. Two sets of reasons account for these circumstances:

- (a) The long term independent growth in demand for owner occupation due to a cumulative growth in real incomes which lessened the demand for private rented accommodation.
- (b) Public policy in housing has focussed on the demand for, and supply of, owner occupation and this has reinforced the role of this tenure relative to private rental.

95. The Council does not accept that the private rental sector is destined to continual decline and deterioration: other countries such as Germany, Denmark and Sweden, which also subsidise owner occupation as the preferred tenure, have extensive, good quality private rental sectors*. The positive role of this tenure, in the Council's view, is to provide flexible, accessible accommodation for more mobile sectors of the population, and for those unable to afford owner occupation. In Ireland this role is especially important because of the demographic imbalance towards younger age groups, and the concentration of the young population in urban centres. Three sets of policy question must be considered in relation to this tenure.

Demand Aspects

96. The first question is: can demand in this tenure be sustained? A significant proportion of private rented inhabitants are in poor quality accommodation and have low incomes, and the need for financial support with housing costs is being demonstrated by the increasing payment of 'rent supplements' through the SWA scheme (see Table 10.1, Chapter 10). Furthermore, there are a number of channels of support for private rental costs — the SWA rent supplement procedure (see Chapter 10), the social welfare allowance in respect of decontrolled tenancies, and the rent tax allowance for persons aged over 55. It would be fairer and simpler to have a generalised approach to income support in respect of private rental costs. If such an approach were adopted it could also result in public expenditure savings by facilitating tenants to remain in private tenancies and reducing demand for local authority housing. The Council therefore supports the view that the existing mechanisms of income support for housing costs should be rationalised into an overall national means-tested scheme.
97. If a more adequate and uniform approach to housing costs is adopted, as proposed, then the rent tax allowance should be abolished. This allowance

*In these countries the private rental sectors cater for over 20% of housing requirements.

is available only to those over 55 years of age and this is an arbitrary and unfair provision. Further, the allowance is of greater value to those on higher marginal tax rates and contributes therefore to inequity in the tax system. From both a housing policy and a taxation policy standpoint the Council recommends that the allowance be abolished in the context of an overall reform of income supports in respect of housing costs. It should be noted that the rent tax allowance benefits low-earners whose housing costs were affected by the decontrol provisions, and who are not entitled to the Social Welfare Allowance for Decontrolled tenancies. The design of a rationalised scheme should incorporate this segment of the population in the private rental sector.

Supply Aspects

98. The second set of issues concerns the supply aspects of private rental. Long term trends indicate that little is being added to the stock of private rental accommodation. This supply characteristic must arise to some extent from the weak demand in the tenure. The absence of substantial State intervention to induce investment in this tenure must also contribute to this situation. One intervention in the private rental market, first introduced in 1981, is the provision (under the popular designation, "Section 23") whereby investors in private rental accommodation offset the rental income against income tax — subject to a maximum relief of the purchase price less the site cost. The provision has allowed all rental income to be offset (subject to the maximum relief). "Section 23" provisions, and subsequent and amending provisions relating to rental accommodation affect the limited and more expensive segment of the rental market*. The consultant did not make specific proposals in this regard; the Council, however, believes that the supply of rental accommodation can be stabilised in three ways:

- (i) By offering support for demand in this tenure some automatic supply response may follow;
- (ii) By facilitating the development of Voluntary Housing Associations (as argued below) which provide rental accommodation for those with special housing needs (the homeless, students, the handicapped and disabled);
- (iii) By devising a legislative framework for Building Societies and financial institutions to provide private rental housing**.

Regulation of the Private Rented Tenure

99. A number of central points should be noted with regard to the potential role of greater regulation of this tenure.

*In fact the provisions were known as Section 23 relief when first introduced in 1981. The reliefs were abolished for a time and then re-introduced: at present they are contained in Section 27 of the *Finance Act, 1988*.

**That this development is in prospect can be seen from: *Statement by the Minister for the Environment on New Legislative Proposals on Building Societies, 26 November 1987*.

- (i) There is evidence of serious deficiencies in the quality of some accommodation, with a proportion of accommodation lacking basic amenities, and possibly in breach of public health, safety and fire regulations. On equity grounds this would justify some form of compulsory registration, inspection of rental accommodation, and more systematic inspection and enforcement of regulations.
- (ii) Both landlords and tenants lack an accessible, cheap, credible system of resolving disputes; a tribunal or board could effectively meet this need and could also develop and enforce good practice regarding tenants' deposits, property maintenance and repair, use of rent books and similar matters. At present the general situation is that such matters are at the discretion of landlords. If a Tribunal or Board is considered cumbersome, as the consultant suggests, then the drafting of official standard contracts might be considered.
- (iii) Security of tenure is a potentially significant difficulty. The landlords' best interests lie in being able to secure vacant possession at will, while the tenant's interest is one of continued tenure for as long as the tenant wishes. A balanced intervention may be required to reconcile these interests; considerations might be given to legislative provisions which distinguish between long-term and short-term lettings.

The Council is of the view that there are grounds for regulation of private rental accommodation to ensure basic standards and to develop good practice regarding rent books, leases and similar matters. At present, under the 1982 Housing (Private Rented Dwellings) Act the Minister for the Environment has power to make regulations on these matters but regulations have only been drawn up for the former decontrolled tenancies — a very small segment of the rental market. Consideration should be given, in the Council's view, to establishing regulations for the private rental tenure as a whole.

100. A separate aspect of regulation in this tenure is rent regulation. It has been proposed* that rent regulation is necessary, and that a method of rent regulation could be devised which would obviate its inherent difficulties. The Council has considered the issue of the desirability of rent regulation and has concluded that it is not an appropriate policy. There have been long term trends contributing to the contraction of this tenure and the introduction of rent regulation might exacerbate these supply problems. Policies should focus on increasing the supply of private rental accommodation. The experience of rent regulation in other countries — and in Ireland according to the limited evidence of the former rent controlled sector — suggests that rent regulation diminishes incentives for landlords to improve and maintain properties, and to

*Lancelot O'Brien and Brian Dillon, *Private Rented, op. cit.*

maintain or increase the supply of accommodation. This contributes to a cumulative decline in the quantity and quality of private rental accommodation.

LOCAL AUTHORITY HOUSING

101. In this section the overall thrust of policy regarding local authority housing is discussed. The initial paragraphs discuss the general status of the local authority tenure and further sections discuss policies in regard to the rent structure, and other issues.

General Issues

102. The relative position of the local authority tenure in the total housing system is increasingly being shaped by four factors:
- (i) The rise in unemployment in urban areas, especially long term unemployment, and the growing number of social security recipients in local authorities properties as a result. Other factors contributing to a growth in social security dependence are the rise in the number of one parent families, and the increased longevity of pensioners.
 - (ii) The concentrated allocation of social security dependents and socially marginal groups in particular estates, or neighbourhoods within estates — this is attributable in part to housing allocation practices.
 - (iii) Insufficient flexibility and innovation in the maintenance of the local authority housing stock, leading to a poorer quality housing environment.
 - (iv) The lack of integration of wider community and social planning with provision of the physical stock of housing, and the consequent deprivation and poor environment in some local authority estates (attention is now being focussed on the environmental and maintenance aspects of local authority housing — for instance a £10m refurbishment programme is currently underway).
103. These combined features are variously referred to by the consultant and by housing analysts as “residualisation”, “social polarization” or “marginalisation” of local authority housing*. As the consultant has indicated the local authority sales scheme and the £5,000 grant scheme (abolished in 1987) exacerbated these problems. It is recognised that the underlying employment and demographic trends contributing to the current status of local authority housing (growth of unemployment,

increase in one parent families, for example) cannot be addressed solely by housing policy. However, in the Council’s view a different thrust to the management of local authority housing would contribute to the overall improvement of local authority areas:

- (i) changes in the discount sales schemes which will help to achieve greater stability and social mix in local authority estates;
- (ii) development of more participatory policies regarding house maintenance, and the use of incentives and grants to local groups to improve the housing stock and the environment;
- (iii) greater emphasis on the wider social planning issues entailed in large scale local authority housing provision.

104. A general point concerning the role of local authority housing in the housing system as a whole is the degree of social segregation entailed in the pattern of housing provision. Urban areas in Ireland contain separate areas of exclusively public sector housing and owner occupied housing. This pattern of housing reinforces economic differences and contributes to social class and social status distinctions.
105. In the Council’s view, planning and housing arrangements should, in the future, attempt to achieve greater social integration and social diversity. The scale of housing estates, for instance, should be reduced so that entire areas of towns or cities do not exclusively contain ‘public’ or ‘private’ housing; planning arrangements should allow dwellings of different types (public rental and owner occupied) and of different values to be provided in areas and estates; local authorities should purchase, and rent to local authority tenants, owner occupied dwellings in estates of private houses. The Council recognises that the social patterns of housing provision have been formed over a long period of time and that, even with appropriate policy initiatives, change in this aspect of the housing system can only be achieved gradually.

Maintenance

106. The limited evidence available regarding tenants’ perceptions of the quality of their housing suggests that some tenants are greatly dissatisfied with the standard of housing amenities in general — maintenance, environmental quality etc*. The difficulties and expense of housing maintenance in particular are given as part of the rationale for the discount sales. In 1987 total expenditure on maintenance and management of housing was £79 million, of which £36 million is classified as maintenance. No details are available, as the consultant has pointed out, of the precise amounts expended on maintenance, or the variations in expenditure per dwelling by dwelling type, by area, by age

*See John English (ed.) *The Future of Council Housing*, Croom Helm, London 1982, and David Chapman and John English, *Public Housing: Current Trends and Future Developments*, Croom Helm, 1987.

*Threshold, *Policy Consequences: A Study of the £5,000 Surrender Grant*, *op. cit.*

of dwelling or other relevant factors. In the Council's view, a full analysis of maintenance costs should be undertaken by the Department of the Environment. This analysis should provide detailed data on maintenance costs, should examine whether the costs are excessive, and should also consider options for controlling these costs.

107. In addition, the Council supports the consultant's suggestions regarding maintenance of local authority dwellings:
- (i) Local organisations and community bodies should be more involved in maintaining the housing stock, and in maintaining and developing general amenities — the experience of the UK suggests that schemes which encourage tenant participation are valued and successful.
 - (ii) Local estates should have immediate, estate-based managers and maintenance staff with responsibility for dealing directly with tenants and communities, where the scale of the estates warrant a local service.
 - (iii) Consideration should be given to offering tenants full responsibility for repairs and maintenance in return for lower rents.

The Rent Structure

108. A full description and analysis of the rent scheme currently in operation is given by the consultant in Chapter 7, and options regarding the reform of the rent structure are given in Chapter 14. These options are briefly described below.
109. *The Existing System:* At present the system of determining maximum rents is a type of "historic cost" method: the *maximum* rent of a dwelling has been defined as 5¼% of the original all-in cost of providing the dwelling, updated by the Consumer Price Index. *Actual* rents are then calculated on the "differential rent" basis where families pay a rent related to their income (and family size), but the rent payable will not exceed the maximum. The central difficulty with this system is horizontal inequity: tenants with identical incomes and family circumstances and the same overall quality of accommodation might pay different rents based on the ages of their dwellings. A further difficulty is the inefficient "pricing"; the age of houses largely determines maximum rent variations but age is poorly correlated with the overall quality of dwellings and the supply of, and demand for, different dwellings and locations. (For example dwellings in areas of Dublin which are "high demand" areas due to location, amenities, type of dwelling etc. may have *lower* maximum rents — because of their age — than newer dwellings in low demand areas).

110. *A "Pooled" Historic Cost System:* Under a "pooled" system the loan charges and other costs of the dwellings would be allocated over *all* of the dwellings in a local authority area, to derive (by applying a percentage for instance) a basic maximum rent per room or dwelling. Some variation could be allowed for factors such as dwelling size, but the overall effect of the scheme would be to narrow the range between the highest and lowest rent maxima. This system would effectively redistribute from tenants in older dwelling (with lower rents based on historic costs) to tenants in newer dwellings, giving a degree of horizontal equity lacking in the present system.

This system would retain the basic inefficiencies of the existing system, whereby rents are not systematically related to housing quality and further, as with any "historic" method, loan charges for any vintage decline over time independently of the replacement cost. These deficiencies may be regarded as being offset by the improved horizontal redistribution.

111. *Points Comparability System:* This system, which is the one favoured by the consultant, would have a rent structure based on the physical characteristics of dwellings and their amenities. Dwellings would be 'scored' on an item by item basis (size of dwelling, detached/semi-detached/flat or apartment, type of heating, number of bedrooms) and an overall index of the quality of the dwelling (see Chapter 14.1 page 14.15) would then be derived. The maximum rent of dwellings under such a scheme would depend on their quality as measured by this index. In favour of such a scheme is the range of choice offered to tenants: tenants could choose, to an extent, what overall quality of housing they desired, paying higher rent for higher quality dwellings and conversely. The efficiency argument in support and conversely. The efficiency argument in support of this scheme is that rents are related to an objective measure of housing services imparting market-type characteristics to the system.
112. A number of difficulties might arise with this system as outlined by the consultant. Firstly, the measures of housing quality which comprise the index are objective measures (age of house, number of bedrooms, type of heating etc.); the *preferences* of housing consumers which give rise to the pattern of demand, vary for a whole range of reasons perhaps unrelated to such objective indicators. An overall index could hardly reflect a "representative" balance of these preferences. In effect, therefore, this index might not actually measure supply and demand and this may reduce its efficiency. Secondly, it is not clear that such an index could be easily understood by tenants, or easily administered by housing authorities. Thirdly, it might be impossible to combine an element of equity or redistribution with such a system: in the consultant's

description of the scheme it is implied that dwellings high on the index would have higher maximum rents (and vice versa); this could lead to a general situation where lower income tenants are confined to poorer quality housing. An added difficulty is that the index would in some way determine the *maximum* rent of dwellings: since the *actual* rents for tenants are also to vary according to their income (and family size) then the overall rent system could become very cumbersome.

113. In the light of this discussion the Council does not recommend the specific maximum rent system proposed by the consultant. However, the Council acknowledges the difficulties with the present system identified by the consultant and accepts the principle that maximum rents should in some way relate to the quality of housing services and the supply of, and demand for, particular dwellings and areas. The Council therefore recommends that attempts should be made to devise maximum rents which reflect housing quality and supply/demand factors. Possibilities here include: basing the maximum rent on replacement cost which would, at least, reflect house size, type, location, structural features; developing a simple classification system of low demand/high demand areas with correspondingly different maximum rents.

The Differential Rent System

114. The discussion above concerns the system of determining maximum rents. At present the actual rents paid by tenants are calculated on a "differential" formula which relates rent to family income and family size and composition. Until August 1986 the formula for this differentiation was uniform across all local authorities; at this point the scheme was devolved to individual authorities*. The scheme currently in operation in the Dublin Corporation area is almost identical to that which obtained nationally prior to 1986: rents are calculated as a fraction of the assessable income of principal earners — the fraction increases with income (see Table 7.5); assessable income includes social insurance/assistance payments and disposable earnings but does *not* include overtime earnings, bonuses, shift allowances, children allowances or supplementary welfare; a fraction of the income of additional earners is assessed and allowances are given for the principal earner plus adult dependents.
115. The differential rent scheme is largely successful in implementing a progressive rent structure as Table (viii) shows. As disposable income increases the rent paid rises as a fraction of income over a wide range

*Guidelines were issued requiring the authorities to: (i) obtain higher rents on a "progressive" basis — rents higher as a percent of income for higher income tenants (ii) include allowances for dependent children (iii) obtain rent contributions from secondary earners and (iv) allow for payment of less-than-appropriate rents in hardship cases.

of the income distribution*. However, when family income exceeds the average — for example, when a subsidiary earner with half of average earnings is included in the last row of Table (viii), the rent paid declines as a fraction. It is possible, therefore, that the internal structure of the differential rent system could be made more progressive if the elements of the scheme are manipulated (rent fractions, treatment of subsidiary earners, exclusion of certain incomes etc.).

116. One efficiency issue arises in the differential rent system which is illustrated in Table (viii). At low levels of income there is a moderate "poverty trap": a household increasing its income from one half to two thirds of average earnings pays almost 40% of the additional disposable income as additional rent. This is not indicative of a serious problem which could, in itself, diminish labour market incentives. However, if the differential rent system is considered in conjunction with other means tested services — such as Family Income Supplement, Medical cards, and Educational Grants — then poverty traps and the disincentives to which they give rise might exist. The consultant's terms of references did not extend to these latter services.

Table (viii)
Average and "Marginal" Rent Paid for Prototype Households,
Dublin Corporation, 1987

Household	Rent paid as % of disposable income %	Additional rent paid as % of additional disposable income %
	(i)	(ii)
Receiving unemployment assistance	3.5	
On half of average industrial earnings	3.7	5.0
On two thirds of average industrial earnings	10.2	39.9
On average industrial earnings	12.1	17.8
On one and a half times industrial earnings	14.1	20.3
Two earner: one on average industrial earnings, one on half of that	9.5	5.2

Note: The second column considers only moves between the prototype households which are shown in this table.

*This was also the finding in NESC Report No. 85, *Redistribution Through State Social Expenditure in the Republic of Ireland: 1973-1980*, Chapter 5, Dublin, 1988.

117. The Council considers that a full examination of the differential rent system should be undertaken by the Department of the Environment and should be based on actual, aggregate data about tenants' incomes, family circumstances and rent payments. In the light of this examination, consideration should be given to the possible alteration of the scheme to avoid poverty traps and to make the rent structure more progressive. Finally, in relation to differential rents, the Council notes that the scheme has been devolved to local authorities. In the Council's view this may result in inequities — households with identical housing, incomes and family composition paying different rents — and the Council does not agree with this arrangement.

Other Issues

118. The consultant has proposed that local authorities should resort to purchasing houses — new and second hand dwellings — for letting to tenants. This procedure could be a flexible, cost effective and quick way for local authorities to increase and diversify its housing stock without building large blocks or estates of houses.
119. Finally in relation to local authority housing, the Council endorses the consultant's proposals regarding the criteria for allocating dwellings in larger urban authorities. Firstly, less emphasis should be placed on length of residence in an area as this discourages mobility and weighs heavily against the homeless and marginal groups with acute housing needs. Secondly, a broad interpretation should be taken of the medico-social effects of involuntary sharing, or homelessness. Thirdly, single people between the ages of 30 and 60 should be considered part of housing need. Finally, there should be scope for families to choose to transfer to dwellings more appropriate to their stage of the life cycle — for instance to move to a smaller dwelling when the "empty nest" stage has evolved.

HOUSING COSTS AND INCOME SUPPORTS

120. Outside of the local authority tenure there are two schemes — administered as part of the income maintenance services — which offer income support in relation to housing costs. The consultant has described and assessed these schemes — Supplementary Welfare Rent Allowance and Decontrolled Tenants Allowance — in Chapter 10. These schemes must first be considered jointly, from the point of view of horizontal equity.

Horizontal Equity and Housing Costs

121. The combination of these two payment schemes and the differential rent system gives rise to three possible outcomes in terms of disposable income

and "post rent" disposable income. The "post rent" income of the illustrative households varies markedly across the three schemes — in other words the "payment received" differs according to whichever income-rent means test is applied. Differential rent beneficiaries have a more favourable outcome relative to those who receive the direct SWA payment from the Health Board, or the allowances paid by the Department of Social Welfare for tenants in decontrolled tenancies.

122. As separate schemes the two direct payments contain anomalies and difficulties. The SWA payment is discretionary, consequently amounts paid and the categories to whom they are paid vary within the between Health Boards. There is some overlap between SWA and differential rent in that the maximum "post rent" income to which SWA beneficiaries are entitled (the basic SWA rate minus £3) may be greater than the post rent income of some differential rent tenants; a further overlap is that rent arrears to local authorities have been paid by the SWA scheme. SWA rent allowances have increased significantly in recent years — from 1,316 rent supplements in payment in 1980 to 5,939 in 1986; these are largely to support mortgage interest payments for families of the unemployed, and rents in the private rental sector for single persons and single parents.
123. The allowance for tenants in decontrolled tenancies is based on the rent increases which came into force when rent control was removed in 1982 (as a result of a constitutional action). A maximum allowance is the difference between the old "fixed" rent and the new rent, and a means test is applied; the scheme is small in extent, with 1,283 allowances in payment in January 1988; most recipients are pensioners. The key difficulties are that:
- (i) the means test incorporates a sudden withdrawal of the allowance beyond a certain income (see Table 10.4);
 - (ii) no allowance is payable where the new rent was agreed between landlord and tenant;
 - (iii) there may be a degree of the non-take-up of the allowance.
124. Three approaches to these issues are possible:
- (i) Limited "internal" reform of each scheme: this would entail retention of the separate schemes and dealing with specific problems of each as summarised above.
 - (ii) "Total" reform of all income support for housing: this scenario envisages the complete integration of differential rent, SWA rent allowance and Decontrolled Tenants allowances into one unified overall payment with nationally determined means tests and payments.
 - (iii) Partial Reform: under this arrangement SWA and the Decontrolled Allowance are integrated into one means-tested, nationally

uniform payment, leaving a separate Differential Rents scheme, operated by the public housing authorities.

125. It is clear that “internal” reform leaves a major horizontal inequity in place. On the other hand a complete unification of all schemes may not be practical — as the UK experience of implementing Housing Benefit makes clear. The Council suggests, therefore, that the “partial” reform is the appropriate route: this entails a statutory, nationally uniform ‘housing benefit’ payment for private rental tenants and owner occupiers (this recommendation also arose in the discussion above of the private rental sector).

IMPROVEMENT GRANTS

126. The Council accepts, in principle that there may be equity and efficiency grounds for State intervention to improve the housing stock in public and private ownership. Minimum standards should prevail in private as well as public housing. Among the older, owned-outright sub sector of the housing stock and among low-income owner occupiers State assistance may be required. Such assistance can prevent the social costs arising due to dereliction or insanitary accommodation (for example), can substitute for fully State-provided housing, and can retain for future use dwellings which would otherwise be lost to the housing stock.
127. The consultant has documented the various grants and subsidies which have been made available for house improvement (see Chapter 3 and Chapter 11). The following general policy recommendations arise from the analysis:
- (i) The central objective of grants should be the attainment of minimal standards in all of the housing stock, rather than high quality improvement to a limited part of the stock — the latter course widens inequalities in house quality.
 - (ii) Grants are more likely to yield high levels of return in terms of improvement if they are narrowly focussed on particular and acute problems — the consultant refers, for example, to the success of the modestly funded Task Force on House Improvement for the elderly living in old housing.
 - (iii) In urban areas in particular, economies of scale and high social returns can be accrued if area based improvement policies are pursued for specific periods of time.
 - (iv) There is a strong case for a degree of selectivity in relation to income when eligibility for grants is determined; this case is strengthened if it is accepted that capital gains arising from the improvement accrue (untaxed, at present) to the house owner.
 - (v) The case in principle for *loans* rather than grants should be

considered, and the role of private financial institutions in funding house improvement could arguably be extended.

Finally, as the consultant has suggested (Chapter 11 and Chapter 14), there has been an undue emphasis in housing policy on new buildings, to the neglect of renewal and improvement. The Council believes that housing policy would be more efficient if appropriate renewal and improvement strategies were seen as central to overall housing provision.

HOUSING AND URBAN RENEWAL

Introduction

128. The consultant’s remit did not extend to an analysis of urban decline and general policies for urban renewal. However, as the consultant has shown (see Chapter 12), housing has an important connection with the long run decline of inner city areas, and housing policies have a potential role in more general strategies to revitalise the inner city.
129. In Ireland, as in many developed economies, the inner city areas have experienced long run economic decline. This decline is characterised by the contraction of traditional economic sectors in inner urban areas, the flight of population and economic activity to suburban areas, the growth of unemployment in the inner city and the consequential deterioration of the housing, infrastructural and social fabric. Policies to redress this situation must include labour market policies, sectoral policies, and transport and infrastructural arrangements. The OECD analysis of urban renewal, and recent studies of the role of housing policies in urban renewal, emphasise the economic, as well as social aspects of positive housing policies in inner city areas:
- “...the role of a revitalised housing sector in giving a lead to the local economy and in increasing confidence in the area and its future should not be underestimated”*.
130. First, decrepit housing has been a contributory factor in the deterioration of the general infrastructure in inner city areas. In recent years, however, local authorities have implemented housing programmes in inner city areas. Secondly, attempts at economic revival in inner city areas require adequate housing to retain and attract the modern labour force. Thirdly, the private and social costs of transport to centre city employment locations can be minimised by a substantial residential sector in the inner city. Fourthly, it is increasingly recognised that mixed and balanced urban environments, incorporating significant residential

*OECD, *Revitalising Urban Economies*, Paris, 1987; David Donnison and Alan Middleton (eds.), *Regenerating the Inner City: Glasgow’s Experience*, Routledge and Kegan Paul, London, 1987, page 151.

as well as commercial and cultural amenities, contribute to the overall character of cities and greatly enhance their tourist and general economic potential.

131. The Council therefore accepts that improving and expanding the stock of housing in the inner city is an important element, not only of housing policy, but of general strategies to renew inner urban areas.

Overall Housing Policy and Urban Renewal

132. A number of aspects of recent general housing policy have reinforced the underlying problems of inner city housing, and housing policy recommendations suggested by the Council, based on the consultant's report, will to some extent deal with these problems. The Council has accepted, for instance, that there has been an insufficient emphasis in the owner occupied sector on housing improvement and rehabilitation relative to new construction — an emphasis which has arisen in part from the mix of subsidies and incentives. The absence of improvement policies directed at the worst part of housing stock and targeted at those on lower incomes has disproportionately affected inner city areas, because of the presence there on a large scale of older, inadequate housing and the increasing social concentration there of low income households. In the paragraphs above the Council has recommended that policies and grants should in future be focussed on the worst parts of the housing stock to bring it to minimum standards, and should be targeted at households in the lower income groups.
133. A second aspect of housing policy which has had particular ramifications for the inner city concerns the private rental sector. This sector, a considerable portion of which is located in inner city areas, has been in decline over a considerable period of time. Proposals made by the Council will effect some stability and improvement in this area: a more adequate and uniform system of income support for housing costs, specific initiatives to increase the supply of rental accommodation, and improved regulation of the tenure will contribute to stabilising and improving this tenure.
134. Thirdly, more appropriate policies regarding public sector housing will contribute to improved inner city housing. The recommendations offered by the Council in regard to the management, maintenance and allocation of the public sector housing stock will help to develop the overall quality of inner city housing amenities and improve the social mix of public sector housing tenants.

Specific Policies for Inner City Housing

135. The discussion above points to the generality of housing policies and

shows that the thrust of the Council's recommendations will contribute to an improvement in housing provisions in the inner city. However, it is also clear that in the context of efforts to bring about urban renewal specific, additional policies for inner city housing are necessary.

136. Urban renewal policies have a number of inter related objectives:— to create new economic activity in city areas, to conserve and improve the overall physical environment; to enhance and retain the cultural and aesthetic features of historic parts of the city by integrating them with the modern environment. If these objectives are to be properly pursued, then specific housing improvements must be effected, as follows:

Public and private housing must be conserved, and where necessary improved.

The general physical infrastructure must be enhanced.

The supply of accommodation must be diversified and increased to meet the housing needs of a socially mixed population and labour force.

137. The Council supports the general recommendations of the consultant regarding inner city housing. Firstly, as the consultant suggests, if tax incentives are being used to increase the level of housing activity, then the traditional bias in these incentives towards new construction, rather than improvement and refurbishment should be avoided. A significant instrument of policy to increase the supply of accommodation is the "Section 23" provision. The provision allows investors in newly built private rental accommodation to offset the rental income against income tax; rental income from all properties owned by the investors, including the newly acquired property, could be offset. In 1986, the latter provision regarding the offset of all rental income was abolished, and in 1988 it was restored ("Section 23" is now in fact Section 27 of the Finance Act, 1988). This provision is significantly geared towards new construction and may also be questionable from the standpoint of the equity and efficiency of the tax system. The consultant suggested that incentives should be directed at sustaining and improving buildings to arrest the decline of the physical environment.

138. Secondly, housing and environmental improvement should be area — focussed; this will allow economies of scale to be reaped and if pursued consistently will lead to visible, significant improvement in the quality of housing and the environment generally. In public and private sector housing this will require intensive, very localised improvements and maintenance in whole streets, or flats and housing complexes, or communities. Experience in other cities such as Glasgow and Belfast indicates that if local community groups and associations are fully

involved then rapid progress can be made in improving whole neighbourhoods. In these cities, 'campaigns' of housing renewal and improvement have been administered through local, representative organisations*.

139. Thirdly, improvement schemes should be broadly directed at the physical environment as a whole and not simply at dwellings. Evidence from other cities' projects shows that environmental and amenity improvements increase the satisfaction of existing residents with their neighbourhoods as a whole, alter the perception among outsiders of areas, and can stabilise and increase demand for accommodation in these areas.
140. Fourthly, specific measures should be devised to increase private sector housing investment in inner city areas. Among the proposals advanced by the consultant, which the Council believes merit consideration are:
 - site assembly by local authorities on behalf of private investors;
 - provision of zero cost sites (or below market cost) especially where the opportunity cost of a particular sites is low or nil;
 - selective use by local authorities of revolving fund schemes to repair and renew decayed housing in private ownership and then re-sale to create additional funds;
 - acquisition by local authorities of derelict sites suitable for housing in disused industrial areas and in mixed use areas.
141. Finally, the Council recognises the complementary roles of the public and private sectors in renewing the housing and more generally, the economies of inner urban areas. Urban renewal programmes, and their housing sub programmes, will only succeed if planning and investment and renewal activity is initiated by the public sector. As the OECD have pointed out:

"Public sector investment in the residential and social environment is no longer viewed as optional, but increasingly seen as a prerequisite for retaining employment, enhancing the climate for business and stemming urban emigration"**.
142. Successful urban renewal programmes have featured a strong continuous input of public sector intervention. It has proved essential in regenerating urban areas for public authorities to commit themselves to "turning an area around" over a period of time, and to demonstrate that commitment by investing in housing and the environment. The experience clearly indicates that, for example, owner occupiers and

public housing tenants will again seek residences in these areas, financial institutions will loan for purchase and improvements in them, local businesses and their employees will stay in these areas, after the initial, and essential improvements to housing and the environment have been undertaken.

HOMELESSNESS AND SPECIAL HOUSING NEEDS

143. In this section the issues of homelessness and the role of housing associations are briefly discussed. The consultant's brief did not extend to an analysis of the very detailed issues which arise in relation to all of the sub categories of homelessness, and the Council's views relate only to general issues. Detailed consideration has already been given, for example, to the housing and related conditions of Travellers in various reports, and work has been completed on housing for the elderly in the context of the Interdepartmental Committee on Services for the Elderly*.

Nature and Causes of Homelessness

144. In spite of the overall improvement in housing conditions documented in the consultant's report the problem of homelessness persists, and appears to have increased. A number of underlying factors currently contribute to homelessness. Firstly, the policy of deinstitutionalisation in the health services is leading to a growth in the numbers of disabled, ill and handicapped persons living in the community and requiring accommodation. Secondly, general changes in society and the labour market have resulted in increasing numbers of individuals and families becoming vulnerable in the housing system: for example, the extent of persistent unemployment has resulted in migration to urban areas among the unemployed with insufficient incomes to rent (or purchase) accommodation; there is an increasing tendency for young people to seek independent homes at an early age, and there has been a growth in one parent families due to a rising number of non marital births and marital break-up. These trends compounding the more long-standing sources of homelessness: returned, low income emigrants without capital, social networks or family ties; adult men and women discharged from prisons and institutions; alcoholic, nomadic, chronically homeless men and women.
145. These factors inter relate with the operation of the housing system in a number of ways:

*See Duncan MacLennan, "Remaking Glasgow's Older Neighbourhoods", and William McGivern, "A Perspective Upon Housing Renewal Programmes in the Inner City" *Revitalising Dublin: What Works?* ed. John Blackwell and Frank J. Convery, Dublin: Resource and Environmental Policy Centre.

**OECD, *Revitalising Urban Economies*, *op. cit.*, page 43.

*See, for example, David B. Rottman, *et al*, *The Population Structure and Living Circumstances of Irish Travellers, Results from the 1981 Census of Traveller Families*, ESRI Report No. 131, Dublin, 1986, and *The Years Ahead . . . A Policy for the Elderly, Report of the Working Party on Services for The Elderly*, Government Publications, Stationery Office, Dublin, 1988.

- a gradual, long term decline in the availability of low-cost private rental accommodation has diminished the housing opportunities of many on low-incomes;
- housing provision in the local authority sector had been largely standardised, suburban housing for medium and large — sized families inappropriate to the needs of many of the homeless;
- income support in respect of housing costs has not been effective and adequate.

Housing Policy and Homelessness

146. In the Council's view the principle feature of policies to deal with homelessness should be attempts to accommodate and resettle the homeless in mainstream housing*. This strategy, which needs to be complemented by the provision of some hostel-type accommodation, should have a number of elements, as follows:
- (i) In the local authority sector, there should be a diversity of house types away from 'family' type dwellings and towards smaller units more geared to the needs of the homeless.
 - (ii) The allocation system for local authority dwellings should explicitly give single persons and homeless persons the right to apply for housing and to be put on the housing list (due to the supply and demand situation for local authority housing, especially in the Dublin area, some homeless people have begun to be allocated housing; for example, in 1986 in the Dublin Corporation area 14% of first lettings were to single, homeless persons).
 - (iii) An adequate system of 'housing benefits' should be introduced, as homeless persons with adequate income support will then have some opportunity to obtain private rental accommodation. (The issue of housing benefits and income support in respect of housing is discussed separately in paragraphs 96, 97 and 125).
147. A *re-settlement* strategy advocated by the Council as distinct from a *re housing* strategy, requires co-ordinated welfare and social elements. Some homeless persons will require personal support and follow-up, as well as income support and adequate accommodation, after they have been re-housed. In addition, because of the initial 'set up' costs for homeless persons when they are offered accommodation, the scope within the locally administered Supplementary Welfare Allowance scheme, to give lump sum payments to the homeless should be

*Sections 2, 9, 10 and 11 of the 1988 *Housing Act* contain provisions relevant to homelessness. These pertain to the definition of homeless persons, the inclusion of the homeless in official assessments of housing need, the empowerment of local authorities to make financial and other arrangements for accommodating the homeless, and the requirement on local authorities to develop schemes of priorities for letting dwellings.

standardised and made more explicit*. (Lump-sum payments for 'exceptional needs' may be made under the SWA provisions: in some cases these are payable, and this repayable element of the lump sum payment could also be developed).

148. It is clear that a resettlement strategy requires co-ordination of policies spanning housing, income maintenance and health and welfare services. In the view of the Council, it may be difficult at local level to pursue co-ordinated resettlement strategies in the absence of specific local structures to implement this approach. The Council therefore believes that the experience of the Glasgow Council for Single Homeless merits some consideration here: a co-ordinated effort from voluntary organisations and a range of statutory bodies resulted in a significant degree of successful re-settlement, with only 2% of the re-settled returning to hostels**.
149. At present, in Ireland, responsibility for housing, health and welfare services, and income maintenance is divided among Local Authorities, Health Boards and the Department of Social Welfare. The case for local co-ordinating structures seems to be compelling. A specific instance of the need to devise a local structure to deal with resettlement resides in the Health Boards' policies of community-based care. These policies, to be successful, will require health care clients such as the disabled, and ex-psychiatric patients to have accommodation, as well as social support and adequate incomes. This means in turn, that housing for these groups must be planned and provided in an integrated way as a social service.

VOLUNTARY AND CO-OPERATIVE HOUSING

150. Ireland stands in marked contrast to many European countries by its absence of significant voluntary and co-operative housing sectors. Voluntary housing refers to the direct provision of housing, on a non-commercial basis, by voluntary organisations. Usually, such housing is provided for specific, disadvantaged groups such as the elderly or disabled. Although voluntary and co-operative housing are often considered identical, housing co-operatives differ from voluntary housing associations in that they serve their participant members and shareholders and have organisational characteristics based on co-operative principles. (Open/Voluntary Membership, Democratic Control, Return of Surplus to Members and Co-operative Education). Typically, housing co-operatives are formed into federations or central co-operatives for joint use of legal, financial and technical services.

*ESB connection deposits, rents payable in advance, deposits to landlords, purchase costs for very basic household equipment and furniture.

**Glasgow Council for the Single Homeless, *Rehousing Hostel Residents*, Glasgow, 1985.

Forms of Housing Co-operatives

Various forms of housing tenure are adopted by co-operatives, as follows:*

151. *Home-ownership Building Co-operatives:* This type of co-operative arranges the building of houses as group schemes with ownership being eventually taken over by the members themselves with the assistance of mortgage loans and personal savings contributed by the member/purchasers themselves. The building co-operatives may engage the services of an architect, solicitor and contractor to build the houses for the members.
152. *Co-ownership or Multiple-Mortgage Co-operatives:* These provide members with legal titles to their dwellings but the common property and facilities are retained in joint ownership through the co-operative which consists solely of the member/occupies (but may be linked to a central Association for support services, advice etc.).
The co-operative is financed by way of personal savings/shares and mortgage loans, raised by the members plus any grant or subsidies to make up the full cost. The lease title is transferable by sale. They pay a contribution towards maintenance and service costs according to a budget adopted by the co-operative.
153. This type of co-operative can take over existing or new housing, apartments or flats built by a private developer or a statutory housing authority or landlord or, if initial financing is available, can organise the building itself with architects, contractors etc.
154. *Mutual Ownership Co-operatives:* In this arrangement the co-operative retains title to the land, house, property and facilities, having raised the larger part of the capital cost in its own name. Members contribute shares from personal savings to help make up the full cost. As member/tenants they pay occupancy charges to cover capital repayments (less any subsidy entitlements) and maintenance/service costs. The co-operative tenancy is transferable by sale and the member may be entitled to benefit from any increase in the value of the property according to an agreed formula related to the equity of shares he/she has contributed. This type of co-operative has been organised to facilitate "homesteading" whereby members contribute "sweat" equity to carry out new construction or improvements and conversion work on suitable

*This description of co-operative agencies is taken from a paper by Bernard Thompson, Secretary of the National Association of Building Co-operatives, to the Housing Co-operatives, to the Housing Co-operatives and Urban Housing Requirements seminar, Dublin, 1988. The permission of the NABCO to reproduce the material is acknowledged.

old properties acquired by their co-operative from private owners, community or public authorities. Alternatively, the co-operative may initiate new projects with its own architects and contractors or purchase a housing development (e.g. apartments) from a private developer. Linkage with a central association often provides the means by which such new projects are initiated, with the co-operative being legally formed to take over ownership and day-to-day management.

155. *Tenant Rental Co-operatives:* Here the co-operative retains the title to the land, house property and facilities, and lets or rents out the dwellings to its members who are the tenants. The members may contribute a shareholding but cannot benefit from any increase in the value of the co-operative property. If they wish to leave the co-operative only the original value of their shareholding (i.e. the par-value) is returnable; this may be quite nominal. This is a mutual co-operative but there is no distribution of surplus or increased value to the members and the co-operative functions purely for community benefit.
156. *Tenants Management Co-operatives:* These co-operatives do not have any title to the house property or facilities and they are not the original developers, but provide a means whereby tenants can enter an agreement with the landlord (e.g. statutory housing authority or private firm or trust) to take over responsibility for day-to-day aspects of the management of their housing. The terms of the management agreement may vary but can include responsibilities being assigned to the co-operate for rent collection, maintenance and improvement works, caretaking, and a say in re-allocation of vacant tenancies.
157. Each type of co-operative meets specific housing needs or has particular advantages. For instance, home ownership co-operatives are especially suitable for small groups of low-income families with access (on an individual basis) to credit, who wish to provide their own homes. Where statutory bodies provide free/cheap land this type of co-operative provision of owner-occupied housing has been successful. In the public rental sector the tenant management model encourages tenant participation and responsibility in the repair and maintenance of local authority housing. This model has been successful in the UK in improving the maintenance of previously delapidated housing estates and in providing a more responsive, efficient and participatory system of management/maintenance in estates of flats and houses. In general, all of the forms of co-operative housing are well suited to the provision and management of flat/apartments and urban housing with common facilities.

158. In some countries the co-operative sector provides, in particular, for low-income groups and this sector acts, therefore, as an alternative to a large scale public housing sector. As the Table below shows, public sector housing in West Germany is a mere 3% of the housing stock, the non-profit and co-operative sectors, however, account for 16%; in Denmark the respective figures are 4% and 15%. The figures for Ireland stand in marked contrast at a mere 0.5% for the non-profit and co-operative sectors and 11.5% for the public rental sector.

Table (ix)
% Share of Non-profit and Co-operative Housing in Total Housing Stock, Selected Countries

	Public Housing	Private Rented	Non-Profit Co-operative/Voluntary Associations	Private Home Ownership	Other
West Germany	3	40	16	37	4
Italy		36		59	5
Norway	23		17	50	10
Denmark	4	20	15	52	9
Sweden	24	23	14	39	
Switzerland	3	67		30	
Netherlands	9	13	34	44	
Ireland	12	12	0.5	74	3

Source: Bernard Thompson, Paper (no title) to Conference on Housing Co-operatives and Urban Housing Requirements, Dublin, 1988.

Note: The data refer to years in the range 1978-1981.

159. Two factors account for the greater role of the voluntary and co-operative sector in many other countries. Firstly, in some European countries, there has existed historically a deep-rooted tradition of working class collectivist self help. Secondly, and especially in the post-war era, national governments have explicitly recognised and actively encouraged and subsidised the voluntary and co-operative sector. The State has in effect, in these countries, devolved a considerable degree of the active responsibility for housing low income groups to the co-operative sector.

Policies for Voluntary and Co-operative Housing

160. In the Council's view there is scope for a greater role for these sectors in the future in the Irish housing system. The considerable success of co-operative activities in the agricultural sector and in the Credit Union

movement is an indication of the strength of co-operative ideals and expertise. Further, if public policy measures are specifically directed at the development of this sector then its role can develop. (For example, in Canada, in 1973, the National Housing Act was amended and a range of financial measures were introduced to stimulate co-operative provision of housing: this resulted in a marked increase in the number of housing co-operatives and in their housing output.)*

161. The key arguments in favour of a significant voluntary and co-operative sector are:

- co-operative and voluntary housing is often focussed around groups with special housing needs and can provide accommodation which is more suitable in terms of location, type of dwelling and ancillary services (such as special sheltered housing for the elderly, or adapted dwellings for the disabled);
- co-operative housing is an effective means of providing housing — both rental and owner-occupied — to lower income groups;
- tenant rental or tenant management co-operatives are structured so that rentals in the public and private sectors actively improve and maintain their own accommodation;
- voluntary and co-operative housing like public rental and owner occupied housing, requires State financial support — however, expanded voluntary and co-operative sectors will diminish the need in the future for the State to build, allocate, manage and maintain housing;
- voluntary and co-operative housing is particularly suitable in inner urban areas in providing modest owner occupied housing and low cost rental accommodation, and co-operative housing can contribute to successful programmes of urban renewal;

162. The Council suggests, therefore, that public policy should actively facilitate an expanded role for the voluntary and co-operative sectors. Voluntary associations providing housing for elderly and disadvantaged persons were strengthened in 1984 with the introduction of a capital and loan subsidy scheme. New legislation will improve the range of assistance which can be provided to associations catering for various needs and income groups**.

The Council welcomes these improved provisions in the 1988 Housing Act. A number of other developments, in the Council's view, merit consideration in the light of the resources available:

*Co-operative Housing Foundation of Canada, *Federal Co-operative Housing Programs*, Information Leaflet of CHFC, 1987.

**Housing Act, 1988, Section 5.

- more realistic support to maintain a central organisation to advise and co-ordinate individual associations — this issue will become more important as the stock of voluntary and co-operative housing gradually increases from a small base;
- recognition of co-operatives as legal entities for the purpose of receiving State grants, loans and guarantees (at present State agencies are largely geared to providing loans and grants to individuals);
- inclusion of the voluntary and co-operative sectors in the current arrangement between the Department of the Environment and the financial institutions whereby specific amounts of loan finance are made available for housing low income persons;
- provision of finance for the running and current costs, as well as capital costs of voluntary and co-operative projects.

OVERALL APPROACH TO HOUSING POLICY AND HOUSING SUBSIDIES

163. In this section the overall strategy for housing policy proposed by the Council is summarised, and in the next section a full resume of specific recommendations is given. The discussion of overall strategy is related to the data on housing subsidies and housing expenditure.

Housing subsidies of all kinds are administered by various departments and can take different forms (tax reliefs and exemptions, cash grants, subsidised rents for example). In 1987, total subsidies were estimated to be £552 million, or 3.2% of GNP. It is important, therefore, that policy makers adopt a coherent approach to the management of housing subsidies and expenditure and relate the amount and types of subsidies to policy objectives. The Government, in other words, should formulate a "housing policy budget" of which the Department of the Environment's direct expenditure is only a part, and apply the budget to achieve specific housing objectives. The table below illustrates this procedure. In this table a comprehensive list of subsidies is given, and the discussion relates the scale and type of subsidies to the Council's central policy proposals.

Owner Occupation

164. In general the Council's analysis suggests a less generous strategy of subsidising owner occupied housing. This implies that some items in the table of subsidies be re-examined. For example, a more efficient and equitable system of taxation requires that a property tax be introduced. The discount sales scheme to tenants should be reformed, if possible, otherwise the scheme should be abandoned (see Section 2 of the Table). Cash grants for first time purchasers should be targetted in relation to income.

Private Rented Tenure

165. The Council has agreed that this tenure has been relatively neglected. As the table reveals, resources directed here have been meagre — a tax allowance for rental payments for those aged over 55, and income supports for tenants (and owner occupiers) through the SWA scheme (section 5 of the table). A more adequate and uniform system of income supports was proposed which would rationalise a range of individual measures (listed in Sections 5 and 6 of the Table). Interventions to improve the supply and the quality of accommodation in this tenure are necessary. The recommended policies require some resource re-allocation to this sector.

House Improvement

166. The approach to house improvement in the past, the Council has suggested, has been insufficiently targetted. Subsidies and grants (see Section 7 of the subsidies table) need to be focussed on those on low incomes. For example the separate grant aided Task Force (see heading 4) was notably effective because its objectives and clientele were very clearly specified. There should be an increasing role for this form of house improvement. In general, house improvement and maintenance, in both the public and private sectors, should receive greater priority in overall policy relative to new construction.

Local Authority Rent Subsidies

167. This particular subsidy is the largest single subsidy in the housing system; £194.4m in 1987. In the Council's view the rent subsidisation is largely achieving its redistributive objective. However, in the future two aspects of this subsidy should be examined. Firstly, some attempt should be made to vary rent maxima in accordance with the supply and demand for particular housing and with variations in the quality of dwellings. Additionally, the internal structure of the differential rent system should be examined to improve its progressivity and to avoid "poverty traps".

Voluntary and Co-operative Housing

168. Direct subsidies to this sector are minute — they are not listed separately in the table. Arguments were advanced in favour of a greater role for this sector. Some re-allocation of resources to the sector would help to achieve this objective.

SUMMARY OF COUNCIL'S RECOMMENDATIONS

169. The general strategy for housing policy advocated by the Council is based on a more balanced treatment of the various tenures, a greater role for house improvement and maintenance, a restructuring of income support needs, and a stronger social services element in the meeting of

Table x:
Estimates of Flow of Housing Subsidies for 1980, 1986, 1987

	£m, current prices		
	1980	1986	1987
1. <i>Subsidies to Local Authority Tenants</i>			
Rent subsidies	64.1	175.6	194.4
2. <i>Subsidies to local authority tenants or those on waiting list who move to become owner-occupiers</i>			
2.1 Surrender grant of £5,000 to local authority tenants and tenant purchasers	—	16.8	11.9
2.2 Subsidies at point of sale to local authority tenants who purchase	35.1	5.4	20.4
2.3 Subsidies for low-rise mortgage scheme (scheme was terminated before 1986 but these payments relate to commitments which remain)			
— Exchequer	0.3	0.2	0.2
— Local authority contribution to scheme	0.6	0.4	0.4
Total of Section 2	36.0	22.8	32.9
3. <i>Subsidies to owner-occupiers: house purchase</i>			
3.1 Mortgage Interest subsidy to first-time owner occupiers of certain new houses	—	21.6	25.5
3.2 Housing grant to first-time purchasers of new houses (£1,000 in 1980; £2,000 in 1986)	8.5	14.4	17.0
3.3 Subsidies for provision of sites for private housing by local authorities and the Rural Housing Organisation	0.1	0.1	0.3
3.4 Tax expenditure: tax relief on mortgage interest	24.0	150.5	151.0
3.5 Tax expenditure: tax relief on life assurance loans	4	1	1
3.6 Tax expenditure: tax relief on capital gains	4.4	3	3
3.7 Tax expenditure: stamp duty exemption	24.0	22.2	20.5
Total subsidies to owner occupiers (section 3)			
— excluding unknown proportion of section 7 which is ascribed to owner occupiers	65.0	212.8	218.3
4. <i>Special needs</i>			
4.1 Disabled persons' grants	1	1.6	2.3
4.2 Grant-in-aid fund tax task force on special housing aid for the elderly	—	2.5	1.5
5. <i>Private letting tenure</i>			
5.1 Department of Social Welfare rent allowance for former rent-controlled tenants	—	1.0	1.0
5.2 Tax expenditure: tax allowance for persons aged 55 and over who pay rent in private letting tenure	—	5.0	5.0
6. <i>Use of Supplementary Welfare Allowance for</i>			
6.1 Rent supplementation for those in local authority and private letting tenures and rent arrears for those in local authority tenure		7.0	8.0
6.2 Supplementation of mortgage interest payments		2.0	2.0

Table x:
Estimates of Flow of Housing Subsidies for 1980, 1986, 1987 — continued

	£m, current prices		
	1980	1986	1987
7. <i>For House Improvement</i>			
7.1 Grants for Improvements to houses	18.5	25.7	84.2
7.2 Essential repair grants	0.2	0.2	0.4
Total subsidies towards house improvement	18.7	25.9	84.6
8 <i>Subsidies to Provision of Housing for Private Letting ("Section 23")</i>	—	2	2
Total subsidies, all tenures and all types	185.8	484.1	552.0

Notes: Some relatively small amounts are excluded: the subsidies to voluntary housing associations and to non-profit housing organisations. The value of the subsidy to local authority tenants who purchase dwellings includes an allowance for the fact that stamp duty is borne by the local authorities. Expenditure charged to local authority housing capital amounts, but not directly related to housing construction (e.g. non-subsidisable land acquisition such as for schools or community centres), is not included.

In estimating the subsidy for local authority tenants who purchase their dwellings, for 1980 it is arbitrarily assumed that the average discount on the all-in price is 30 per cent, that the average historic cost updated by the Consumer Price Index was £10,800, that this represents a discount of 20 per cent on market price. For 1980, in estimating the tax relief on loans, an average marginal rate of income taxation of 35 per cent is used. In estimating the subsidy due to capital gains exemption, it is assumed that the average annual rate of change of second-hand house prices is 2 per cent (in percentage point terms) greater than in the case of the Consumer Price Index, of 12.6 per cent in the period between April 1974 and calendar year 1980. An average capital gains tax rate of 16.5 per cent is used. It is assumed that all the dwellings which were sold had been owned in April 1974 or earlier.

In calculating subsidies for 1986 and for 1987, an average stamp duty rate of 4.5 per cent is used. In estimating the subsidy due to local authority tenants who purchase in both 1986 and 1987, a market value of £30,000 per dwelling is assumed, and a discount of 30 per cent on market value.

Sources: *Estimates for Public Services 1980*; QBHS; *Comprehensive Public Expenditure Programmes 1986*; *Revised Estimates for Public Services 1987*; Parliamentary Questions 7 April 1987; Department of Social Welfare; Revenue Commissioners; Department of Social Welfare, *Statistical Information on Social Welfare Services, 1987*; own estimates.

special housing needs. Specific recommendations reflecting this strategy are listed below.

Owner Occupation

170. — The tax treatment of housing should be reformed: a property tax should be introduced, with a waiver scheme for those on low incomes, accompanied by full tax relief on all mortgage interest repayments at the standard tax rate, and real capital gains on the

sale of all principal private residences should be subject to income tax.

- It is essential that the overall burden of taxation should not increase as a result of the implementation of the above proposals, and their implementation must be accompanied by corresponding reductions in the overall burden of income taxation.
- The use of universal, non means tested cash grants for house purchase should give way to more targeted schemes.

Access to Owner Occupation

171. — The discount sales schemes for local authority tenants have little financial justification and the schemes should be reformed to ensure that the schemes better meet their social objectives, if reform is not possible then the schemes should be abandoned.
- The general arrangements in place to ensure that those with modest incomes have access to owner occupation are desirable; the 'guarantee' arrangement between the public authorities and the financial institutions should continue, and the provision of mortgage finance directly by local authorities should remain.

Private Rented Sector

172. — A rationalisation of the income support schemes for housing needs (in private rented and other tenures) should be implemented.
- There should be regulation in this tenure affecting minimum accommodation standards, registration, rent books, and similar matters.

Local Authority Housing

173. — The maintenance and management of the housing stock should be more decentralised, and tenants and residents should have some participation in maintenance.
- Local authority housing should be more closely co-ordinated with overall social and environmental planning.
 - The practice of building large social segregated local authority and private housing estates should be discontinued, and local authorities should plan socially mixed communities by purchasing private houses for letting and building houses for letting in private housing estates.
 - A full scale examination of the maintenance and management costs of local authority housing should be undertaken and initiatives to control these costs should be taken.
 - The maximum rents of local authority dwellings should be related to supply/demand characteristics of dwellings and to variations in the quality of dwellings.
 - The differential rent system is broadly successful in achieving its

redistributive aims, but the structure of the scheme should be examined with a view to making the scheme more redistributive at the upper end of the income distribution, and to ensuring that disincentives do not arise.

Housing Costs and Income Supports

174. — The existing arrangements (Rent Tax Allowances, SWA Supplements and the Social Welfare Rent Allowance) should be structured into one overall means tested scheme on a national basis.

Improvement Grants and Urban Renewal

175. — The case for loans for improvements, rather than grants, should be considered.
- Where grants or other State interventions are applied they should be focussed on acute housing needs and targeted in relation to income.
 - Incentives to improve housing in the inner city should not be biased towards new construction and away from reconstruction and renewal.
 - Housing improvement in the inner city should be area-focussed and should also include wider environmental improvement and renewal.
 - A range of measures to increase private sector housing investment in inner city areas should be attempted, such as site assembly by local authorities for investors, provision of zero cost sites where appropriate, use by local authorities of revolving funds to repair, renew and re-sell decayed housing, and acquisition by local authorities of derelict sites for housing in disused industrial areas and mixed use areas.

Homelessness and Special Housing Needs

176. — The recent policy among local authorities of diversifying the housing stock towards smaller units more appropriate for the homeless should be continued.
- An explicit recognition of the housing entitlement of single and homeless persons in the housing lists is recommended.
 - A reformed system of income support in respect of housing costs should be developed.
 - There should be more consistent use of the SWA scheme to overcome initial 'set up' costs for the homeless entering accommodation.
 - In local areas specific structures to co-ordinate the activities of Health Boards, Local Authorities and other voluntary and statutory organisations dealing with homelessness should be established.

Voluntary Housing and Housing Co-operatives

177. — Policy should facilitate these sectors to have an extended role in the housing system in the future, by means of more support to maintain central supporting organisations, recognition of co-operatives as legal entities for the purchase of State grants, loans and guarantees, and inclusion of these organisations in the current arrangements between financial institutions and the Department of the Environment.

PART II

A REVIEW OF HOUSING POLICY

by

John Blackwell

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INTRODUCTION

TERMS OF REFERENCE

The terms of reference of this report are, in broad measure, to review the outcomes of current housing policy, with particular reference to criteria of efficiency, equity and impacts on the Exchequer finances, and to make recommendations on the appropriate directions of policy for the future. In particular, the terms of reference are:

1. To review briefly current features of the housing situation, including: output; unit cost of production; need; sources of finance; range and impact of State aids including tax expenditures; and equity of access to housing; having regard to the overall costs and benefits of present policies.
2. To make recommendations on how the supply of housing can, where necessary, be matched more closely to need, and how the equity of access (including the availability of mortgage finance), can, where necessary, be improved, having regard to the overall costs and benefits of any recommended changes, including costs and benefits to the Exchequer.
3. To examine and draw any relevant lessons from the housing experience in other countries.

NATURE OF HOUSING

From this, it can be seen that housing has many different aspects, apart from the provision of housing services, as follows:

- In a narrow sense, the quantity and quality of housing services is defined in terms of the quality of the structure, the number of rooms and their size and the presence of facilities.
- In a wider sense, housing services include the degree of access to work and facilities. Thus, a spatial dimension occurs because each home is fixed in a location and may be more or less accessible to places of work, open spaces, shopping, leisure and other facilities. A house provides not only a certain quantity and quality of housing services but also brings with it a certain quality of the environment.
- In relation to the national economy, housing investment is a significant part of total investment.
- In relation to the construction industry, housing output has been the largest single component of construction industry output, accounting for some 50 per cent of the output of the industry.
- A substantial portion of the personal net wealth (value of wealth less debt outstanding) of the household sector is in the form of housing.

- In view of the importance of expenditure on housing over the lifetime of households, the burden of housing costs (and the way in which they may be relieved by Government action) have an important bearing on the distribution of income across households.
- The quality of the environment is defined in part in terms of housing provision.
- Housing and labour markets are related, as labour mobility is in part a function of housing provision, and access to jobs will depend in part on housing location.
- Housing and social policy are intertwined in a number of ways: households obtain (largely implicit) cash transfers which are linked to housing consumption and which overlap with social welfare cash and non-cash transfers; moreover, poor housing conditions often go hand-in-hand with poverty and deprivation.
- Housing policy issues and urban renewal issues are transparently related to one another, although the latter embrace a wider set of issues such as non-residential construction and the relationship between land-use policy, economic activity and transport.
- Housing administration covers, in part, central Government and local Government. In addition, the National Building Agency designs and constructs local authority houses, although the role of the Agency is now changing to one which includes the restoration of blighted areas in cities and towns. The Housing Finance Agency obtains funds from life offices and pension funds and thereby provides finance to enable the local authorities to advance house purchase loans. Hence, questions of public administration arise; not only about the relations between central and local government but also about the appropriate relations between the housing authorities and the health and social service departments and agencies.
- There are legal aspects, since property rights define what the rights of house owners are in relation to occupation, maintenance, the use of a dwelling and its subsequent role.
- Building societies and banks are major suppliers of housing finance. Hence, issues about banking and finance policy arise.

In order to achieve a manageable report, it is limited largely to the economic and social aspects of housing provision, which are critical to any appraisal of housing policy. In addition, the study is kept within bounds by concentrating on the general principles which should inform housing policy in the future.

STRUCTURE OF REPORT

The report is in three sections. Section I gives the background to policy choices. It outlines the scope of current housing policies and programmes. It also points up the changing nature of the housing market and of Irish housing conditions in recent years and the recent policy responses. Some account is taken of likely

future trends in the housing market. Section II is concerned with policy analysis. At the beginning of that section, the rationale for State intervention in housing and in the criteria which are used to evaluate housing policies are outlined. Specific chapters in Section II cover the building, allocation and pricing of local authority housing, maintenance and management of local authority housing, the extension of owner occupation through local authority housing, housing subsidies and issues of income maintenance, house improvement, urban renewal and special housing needs.

In Section III, which is comprised of Chapter 14, an extended overview is given of the policy issues, and the analysis and recommendations. This Chapter draws together the policy conclusions.

SECTION I

HOUSING POLICIES AND THE CHANGING NATURE OF THE HOUSING MARKET

HOUSING POLICIES

INTRODUCTION

In this chapter, the main housing programmes of Government are outlined. The role of explicit Government investment in housing is shown. In addition, the broad links between housing and the economy are pointed out: the amount of resources taken up by housing, together with the influence of investment in housing on aggregate fixed investment and gross output. The main ways in which housing provision has implications for the economy, for the Exchequer and for local authority finances, are brought out.

Housing “policy” here is used in its widest sense — that of any deliberate course of action which is designed to affect housing conditions. Thus, such policies need not be effected always through those Departments and agencies which are centrally concerned with housing. The term housing “programme” is reserved for those elements of housing policy which are carried out through the Department of the Environment.

STATED AIMS OF HOUSING POLICY

The stated objective of Irish housing policy is “to ensure that, as far as the resources of the economy permit, every household can obtain a house of good standard at a price or rent they can afford” (Department of Environment, 1987). A secondary aim of policy is the encouragement of owner occupation. Those who can afford to do so are expected to house themselves “if necessary with assistance from central and local authorities”.

EXCHEQUER EXPENDITURE ON HOUSING PROGRAMMES

Table 2.1 summarises the extent of the various types of explicit Exchequer expenditure on housing in 1986 and 1987.

It should be emphasised that this table does not aim to estimate the extent of State housing subsidies — that estimation is done in Chapter 9. From the standpoint of estimating housing subsidies, there would be some double counting in Table 2.1, since on the local authority side, the fixed capital formation of local authority dwellings, together with loan charges attached to the local authority stock, are shown. Moreover, there would be a number of omissions in Table 2.1. Tax expenditures are not shown — that is, tax revenue foregone through special allowances and offsets against taxable income which

Table 2.1
Explicit Public Expenditure on Housing, 1986, 1987

	£m	
	1986	1987
Exchequer Expenditure		
Local Authority housing		
Construction	143.2	77.3
Construction for Travellers	3.0	2.7
Improvement	1.6	7.0
Loan charges	175.6	194.4
Regular maintenance, repair and improvement	37.0	37.5
Improvement works (a)	0.5	1.0
Travelling and homeless people	0.9	1.0
Sub-Total	361.8	320.9
Private Housing		
Loans for purchase	167.5	154.5
Loans for improvement	5.1	7.0
Grants for purchase of new houses	14.4	17.0
Improvement grants	25.7	84.2
Mortgage subsidy	21.6	25.5
Grant to Housing Finance Agency (b)	6.9	9.0
£5,000 surrender grant	16.8	11.9
Other grants and subsidies	6.9	7.5
Sub-Total	264.9	316.6
Total	626.7	637.5
Non-Exchequer Investment of State-Sponsored Bodies		
Housing Finance Agency (b)	98.0	105.0
National Building Agency	0.0	0.2
Total	98.0	105.2

Notes: (a) This is the scheme of improvement works which was brought in in the housing package of 1981.

(b) All of the Housing Finance Agency expenditure, with the exception of that noted under private housing, is financed by borrowing outside the Exchequer borrowing and by internal resources.

Source: Department of the Environment.

are designed to stimulate the consumption of particular products or to encourage saving. The omission of tax expenditures means that Table 2.1 is biased as between expenditure on local authority housing and expenditure on private housing — since all the tax expenditure are attributable to private housing. In 1987 the total expenditure on local authority housing was £320.9m and the expenditure on private housing was £316.6m. Of the expenditure on local authority housing, £194.4m. was on loan charges.

This table indicates some of the ways in which the State's involvement in housing has changed in recent years. There has been a sharp cutback in the

capital expenditure on local authority dwellings: from £193.0m in 1985 to £147.8m. in 1986 and £87.0m in 1987. The Budget provision for 1988 is of a further decrease to £49.0m. In addition, the provisions for house purchase and improvement loans have been reduced from £161.5m in 1987 to £96.0m in 1988. This is related to a shift from public to private financing, outlined below. There has also been a reduction in the allocation for private housing grants together with the mortgage subsidy from £126.7m in 1987 (outturn) to £83.3m in 1988. This reflects the abolition of three schemes within this category in the 1987 Budget — also outlined below.

At the same time as these changes have occurred, there has been a shift of emphasis away from new building towards remedial works for the existing local authority stock. These remedial works are of a structural nature to dwellings whose conditions have deteriorated markedly over time. The 1987 outturn for expenditure under the Remedial Works Scheme was £7.0m, of which £4.4m related to the refurbishment of local authority dwellings which were constructed as "low cost" housing in the late 1960s and early 1970s. The allocation under the Remedial Works Scheme for 1988 is £10.0m.

In 1987, capital expenditure on housing (construction of local authority housing, house purchase and improvement loans, private housing grants, other expenditure) amounted to 23.7 per cent of the Public Capital Programme. The expenditure on housing in the Public Capital Programme was higher in real terms by 2.9 per cent in 1987 than in 1981. The provision for 1988 means a decline in volume terms of 43 per cent on the 1987 outturn.

OVERVIEW OF HOUSING PROGRAMMES

The principal housing programmes comprise the following:

Construction and maintenance of local authority dwellings

Local authorities build and allocate dwellings. The local authorities are required to maintain the dwellings which are let by them in good order and repair. They are required to determine the priorities to be accorded to categories of persons in the letting of dwellings. Their primary objectives have been the elimination of unfit housing and overcrowding and the provision of accommodation for persons in need of it who are unable to provide it from their own resources. Under the *Housing Act* of 1988, housing assessments are specifically to have regard to the needs of homeless persons, among others. That Act gives housing authorities new powers with regard to the accommodation of the homeless, including the powers whereby authorities can make arrangements with voluntary bodies for the provision of accommodation to homeless persons and power to provide financial assistance to homeless persons.

Remedial works scheme for local authority housing

This is outside the "normal" maintenance work of local authority and is designed to cope with defective local authority dwellings. This programme which is referred to above came into operation in January 1985.

Private site subsidy

Some local authorities make sites available for the provision of "modestly priced" private housing for special categories of purchaser such as applicants for local authority housing and members of co-operative housing groups. In such cases the land may be made available at the cost to the local authority of providing and developing the site less a subsidy of up to £1,000 per site from the exchequer.

Joint venture housing

This involves the building of houses for sale on land which is released to builders by the local authorities. Modestly priced houses would be provided for sale to selected purchasers such as existing local authority tenants or applicants on the waiting list for local authority housing. Participants are eligible to benefit from either:

- (i) a grant of up to £1,000 or two-thirds of the site cost (whichever is less) in the case of undeveloped sites, or
- (ii) a grant of up to £1,000 or one-third of the site cost (whichever is less) in the case of developed sites.

Recycling fund

Local authorities were encouraged to engage in the refurbishment of rundown private residential properties by the provision of £1.5 million capital investment to them in December 1982. This capital provision was to be used for the purchase, rehabilitation and resale of suitable residential properties. The proceeds accruing from the sales of rehabilitated properties were to be used for further acquisition and renovations.

Cash grants for purchase of new houses

A cash grant of £2,000 is paid by the Department of the Environment to first time owner occupiers of new houses which fall within floor area limits.

Sale of local authority dwellings to sitting tenants

Between 1986 and February 1988, local authority dwellings have been sold to tenants at *either* market values or the original all-in cost, updated to current prices by using the Consumer Price Index, whichever was the lower. This gives the gross price; the *net* price was got by deducting 3 per cent of the price for each year of tenancy with the maximum deduction being 30 per cent, with a discount of £2,000 in lieu of the £2,000 new house grant payable to first-time owner occupiers of certain new private houses. In addition, no deposit from

the tenant was required, and legal fees and stamp duties were borne by the local authority.

In February 1988 a "one-off" scheme for 1988 was announced, with the aim of encouraging the maximum number of tenants to become owners of the dwellings in which they live. The main features of the scheme are as follows:

- market value is to be used in all cases as the basis for assessing gross sale prices;
- all tenants, irrespective of length of tenancy, receive a 40% basic discount;
- an additional discount of 10% for houses first occupied prior to 1st January, 1960 is introduced;
- the discount in lieu of rates paid prior to 1977 is abolished;
- a convertible repayment option is introduced; under this, repayments in the first five years are linked to the net sale price of the house; in year 1, the repayments will be 8 per cent of the net cost and the amount of the repayment will increase by 5 per cent per annum over a five-year period;
- the requirement that housing authorities are obliged to ensure that dwellings being sold to tenants are in good structural condition will no longer apply.

House purchase loans of local authorities

Local authorities offer three types of house purchase loans: annuity loans, convertible loans and income-related loans. Limits on income and on the size of loan apply. From 1986 the former Housing Finance Agency loans have been administered by the local authorities, called income-related loans. Details on the types of loan being offered are in Table 2.2. The rates of interest on the loans are set at around the building society rates.

House improvement loans

Local authorities also provide house improvement loans: the maximum unsecured loan is £2,000 and the income limit is the same as in the case of local authority annuity loans. The maximum secured improvement loan is £8,000 from November 1987.

Special housing needs

A number of programmes are designed to cater for special housing needs:

- (i) To meet the needs of disabled persons, since 1972 grant assistance has been provided for the adaptation of existing houses to meet the needs of disabled persons: up to the full cost of adapting local authority houses and two-thirds of the cost of adapting private houses. Between that time and the end of 1986, 14,400 grants were paid. In 1987, 1,741 grants were paid.
- (ii) To cater for elderly and disabled persons, between 1972 and 1987, local authorities have provided 12 per cent of their new house completions.

Table 2.2
Characteristics of Local Authority Loans at 1988

Repayment Option	Loan Available	Characteristics	Loan Limits
Annuity Loan	£21,000 (with income limit £10,000 p.a.)	(i) Variable interest rate for duration of loan. (ii) Repayment period fixed at not more than 30 years.	95% of price or value (whichever is lower). 98% of price or value.
Income Related Loan	£25,000 (Special Category) £22,500	(i) 20% (in the case of loans up to 2½ times income) or 22% (in the case of loans from 2½ times — 3 times income) of income in the year preceding the making of the loan. Repayments may never fall below 90% of repayment for previous year. (ii) Borrowers may change to annuity repayments.	90% of price or value.
Convertible Loan	£27,000 (Special Category) £22,500 (with income limit £10,000 p.a.)	(iii) Interest rate is rate of inflation plus a variable margin. (i) Repayment in year one as in the case of income-related loan. That amount increases by a minimum of 5% or inflation until the 5th year when the balance outstanding is repayable by the normal annuity system. The total repayment period will not exceed 30 years. (ii) From year 6 the balance of the loan will be repaid on an annuity basis.	90% of price or value.
	£27,000 (Special Category)		

Note:

Special loans will apply to the following categories of persons.

- (a) A tenant of a local authority house who has resided in the house for a period of six months and who surrenders the house to the local authority.
- (b) A person who was the tenant of a local authority house and who purchased the house from the local authority and who surrenders the house to the local authority.
- (c) A person (subject to conditions) who qualifies for re-housing by reason of the dangerous, unfit or overcrowded conditions of his/her existing dwelling.
- (d) A person who has been allocated tenancy of a new local authority house and who wishes to purchase that house.

The following categories will also qualify for Special Loans in the case of applicants opting for Convertible Loans and Income Related Loans only.

- (e) A one-parent family.
 - (f) Where a bona fide housing co-operative builds houses on sites either by local authorities or by the co-operative directly, all the members of the co-operative can qualify for the special loans, provided that at least 80% of the new householders are otherwise eligible for loans under the scheme.
- The income limit of £10,000 does not apply in cases (a) to (d) above. The income limit does apply in cases (e) and (f).

While many of these units took the form of one-bedroom and occasionally two-bedroom houses, they include a certain amount of demountable dwellings which hardly provide an adequate standard of accommodation for elderly people.

- (iii) Another programme directed at elderly persons dates from 1982: an emergency programme designed to improve the housing conditions of elderly persons living alone in unfit or unsanitary accommodation was put in place. This has been done through the Task Force on Special Housing Aid for the Elderly, with full funding from the Exchequer. From mid-1982 it has been operated at local level by the Health Boards. The work is carried out by FÁS trainees with labour costs being met in full by FÁS: this reduces the Health Board contribution per case. Over 8,000 cases had been dealt with up to the end of 1987.
- (iv) The essential repairs grant scheme applies in rural areas. Its main aim is to aid necessary repairs in order to extend the life of old houses which are in poor condition and which are not capable of being made fully fit for habitation at a reasonable cost. Typically, these grants are given to elderly persons. The grant may be up to 100 per cent of cost, with the Department of the Environment recouping to the local authorities half the amount of the grant (subject to a maximum of £600 per case). The Departmental recoupment was £0.5m in 1987.

Assistance to non-profit and voluntary organisations

In March 1984, a new scheme was introduced whereby the housing authorities may provide loan finance and an annual subsidy towards loan charges for the provisions of accommodation (whether by new building or by adaptation and improvement of existing dwellings) by approved non-profit and voluntary bodies. A housing authority may make a loan to meet 80 per cent of the cost of an eligible project subject to a maximum loan equivalent to £20,000 per unit of accommodation. The loan subsidy covers in full the loan charges on the loan. Loans may be made only if at least 75 per cent of the units to be provided will be rented to:

- (i) elderly persons (60 years or over) who are eligible for local authority housing or institutional care;
- (ii) handicapped persons, homeless persons, deserted or battered wives, single parent families, families on approved waiting lists of local authorities.

From 1988, a special provision for three years was brought in whereby for schemes which cater for the homeless, loans of 95 per cent could be given. In addition, there was a change in the standards which apply, in the sense that allowance was made for the provision of non-self-contained types of accommodation.

Private letting sector

A Supreme Court decision of 1981 declared parts of the *Rent Restrictions Act*,

1960 unconstitutional. This had the effect of removing, from an estimated 30,000 tenants, protection from rent increases and from eviction. Following that decision, an Act of 1982 provided security of tenure for the tenants who were affected. The District Court would fix a "just and proper" rent in cases where landlord and tenant did not agree. This role of the District Court was subsequently taken over by the Rent Tribunal which was established in August 1983.

The January 1988 Budget announced the reintroduction of "Section 23" relief. This permits a special tax relief for a company, individual or other person letting residential accommodation. A deduction is allowed for the construction or conversion expenditure for tax purposes against total rental income, i.e., rental income from all Irish sources and not just the rental income from the particular dwellings or development. Relief, as in the case of other incentives, is not available in respect of site cost.

Rent of local authority dwellings

Up to 1986, maximum rents of local authority dwellings were calculated as a fixed percentage of 5.25 per cent of the original cost updated in accordance with the Consumer Price Index. The minimum rent was £0.50 per week. The actual rent paid was assessed on the income of the principal earner after income tax and pay-related social insurance contributions. In August 1986 the responsibility for setting rents was devolved to local authorities, thus replacing the national differential rents scheme which had existed up to that time. However, the rents were now to be set subject to Departmental guidelines. In most cases (with some exceptions), rent maxima are set as before. There is a degree of variability across local authorities with regard to the operation of differential rents.

Designated areas and urban renewal

Under the *Urban Renewal Act, 1986* as subsequently amended, areas have been designated in 14 towns or cities, with Tallaght added as a further designated area. Qualifying expenditure includes expenditure on the construction of a new building or structure reconstruction, extension or adaptation of an existing building or structure, or improvements of a capital nature to an existing building or structure. The incentive takes the form of taxation breaks and allowable offsets against taxable income. A double-rent allowance is available to traders for ten years on rent arising under new leases of newly constructed or refurbished buildings. In addition, allowances are given to owner-occupiers of private dwellings on expenditure on the construction or refurbishment of such dwellings; 50 per cent of expenditure is available as an allowance spread over 10 years.

The National Building Agency has recently begun to shift its activities towards urban renewal. A revolving fund of £1m was provided by the Exchequer in 1988

to enable the Agency to undertake projects in urban renewal, either on its own or in partnership with the private sector.

Setting of minimum standards

A number of aspects of housing legislation reflect a desire to achieve minimum standards. The obligation on housing authorities to secure the repair, closure or demolition of unfit houses under the *Housing Act, 1966* is supplemental to the powers under the *Local Government (Sanitary Services) Act, 1964*, to deal with dangerous buildings, and the powers under existing bye-laws and section 70 of the 1966 Act to secure repairs to premises. Sections 66 to 70 require a housing authority to deal with a house which in their opinion is unfit for human habitation by way, among other things, of a closing order or a demolition order.

Section 65 of the *Housing Act, 1966* enables a housing authority to serve notices specifying the maximum number of persons who may occupy a house, or any room in the house, without causing overcrowding, and may require the owner to publish the contents, for example in rent books. The principal intention of the section is to deal with cases of gross overcrowding by an owner who permits the use of rooms in a dwelling by separate families in order to extract an exorbitant amount of rent or profit from premises.

Housing authorities operate two codes of standards for private rented housing. Most housing authorities have made bye-laws under the *Housing Act, 1966*. These bye-laws apply only to houses which contain a number of rented dwellings, and prescribe minimum standards.

In December 1984 the Minister for the Environment made regulations which impose minimum standards on the landlords of formerly controlled dwellings from 1 January 1988. The standards laid down in these bye-laws and regulations are minimal. However, even these minimal standards have not been rigorously enforced. In its *Annual Report* for 1986 the Rent Tribunal expressed its disappointment at the level of enforcement by housing authorities of the 1984 regulations.

POLICIES WHICH AFFECT HOUSING BUT ARE ADMINISTERED THROUGH DEPARTMENTS OTHER THAN ENVIRONMENT

A number of policies which affect housing are not administered through the Department of the Environment.

Rent allowance

Under the Department of Social Welfare, a rent allowance is made available on a means tested basis with the aim of assisting tenants whose rents were subject

to rent controls up to 1981 and who otherwise would have suffered as a result of the rise in rents after 1981.

Supplementary Welfare Allowance

Under the Supplementary Welfare Allowance, which is administered by the Health Boards, discretionary aid may be given towards rent payments and also towards the interest components of mortgage payments. Payments may also be made to cover rent deposits and to cover essential furnishings which a tenant may need. Decisions on payments of this allowance are made by Community Welfare Offices.

Tax expenditures

The main tax expenditure is the deductibility of interest payments on mortgage loans from taxable income, subject to ceilings of £4,000 (married couple) and £2,000 (single person). In the Budget of 1987 the interest qualifying for relief was restricted to 90 per cent of the amount which formerly qualified.

In addition, there is tax relief for rent paid to a private landlord by persons aged 55 or over, subject to maxima of £1,500 (married couple) or £750 (single person).

OVERVIEW OF SUBSIDY SCHEMES

Table 2.3 gives an overview of the various housing aids at 1988, shows whether they are available for new housing or for refurbishment and alterations, and also shows the extent to which they are confined to particular tenure groups.

CHANGES IN HOUSING POLICIES AND PROGRAMMES SINCE 1987

It should be noted that a number of changes in policies and programmes have occurred in the period between early 1987 and early 1988. The main changes are as follows:

- The limitation of tax relief on mortgage interest to 90 per cent of what previously was allowable (Budget 1987).
- The abolition of the £2,250 builders' grant for new homes which had, in October 1986, replaced the mortgage subsidy of £3,000 payable over five years to first-time owner occupiers of grant-sized new houses.
- The termination of the Home Improvement Grants Scheme which had come into operation in November 1985.
- The termination of the £5,000 surrender grant for local authority tenants and tenant purchasers who moved to the private sector, which had come into operation in October 1984.
- An arrangement with building societies and banks whereby these bodies would service some of the demand for house loans which had formerly

Table 2.3
Overview of Housing Aids at 1988

	New Housing			Owner occupied (including co-ops)	Refurbishment and major alterations	Maintenance
	Public rented	Non-profit rented	Private rented			
Repayment subsidy (capital and interest)		X				
Capital grant	X			X		
Exemption from stamp duty	X	X	X	X		
Private sites subsidy				X		
Mortgage interest relief				X	X	
Exemption from capital gains tax				X		
Tax relief on rent paid			X			
Tax relief on construction costs			X			
Tax relief on conversion and refurbishment						X
Income related rent payments	X					
Means tested assistance with rent/mortgage interest payments			X			
Means tested assistance through Supplementary Welfare Allowance	X		X	X		

been catered for by local authorities. The building societies and banks would increase their funding of this segment of the market by up to £70m in 1988. The agencies would lend up to 90 per cent of the house value and a limited state guarantee was made available.

- A change in the financial relations between the Exchequer and the local authorities, with the replacement of the scheme whereby a loan and subsidy was in place (with the Exchequer meeting in full the loan charges on local authority dwellings) by a capital grants scheme with effect from January 1988.
- New funding arrangements were put in place for local authority housing, with 100 per cent of the proceeds of sales of dwellings to sitting tenants being retained, 40 per cent for current purposes and 60 per cent for capital purposes. (From 1981, 40 per cent of the proceeds of sales had been retained by the local authorities for current purposes.)
- With effect from December 1987, a variable interest rate would apply to annuity, convertible and improvement loans of local authorities, in place of the fixed interest loans which operated up to that date.

- With the abolition of the Local Loans Fund in 1988, the interest rate on local authority loans was no longer related to the Local Loans Fund rate but rates were set close to building society rates.
- In November 1987, new legislative proposals were announced on building societies, including changes in methods of supervision and the empowering of societies to acquire and hold land for residential and commercial purposes and to engage directly in the provision of housing.
- In January 1987 and in December 1987, regulations were made with regard to building societies. These included the following: permitting societies who fulfil certain requirements to offer unsecured loans for bridging finance and home improvements; prohibiting the charging of redemption fees on existing and new mortgages.
- A special allocation of £3 million over the three years 1988 to 1990 to finance the provision of accommodation for homeless persons by voluntary bodies, with an amount of £1 million being available in 1988 (Budget 1988). The special allocation is being provided as an expansion of the scheme for the provision by non-profit and voluntary organisations of housing accommodation for elderly, homeless and other disadvantaged persons. The Government also agreed to increase the limit for assistance under the above scheme from 80% to 95% of the cost in the case of accommodation provided for homeless persons.
- A change in the rate of stamp duty on dwellings in the price range of £50,000-£60,000 from 6 per cent to 5 per cent (Budget 1988).
- The restoration for a three year period of the tax incentive previously known as the "Section 23" relief. This will provide that expenditure incurred on the construction of residential accommodation for renting will be an allowable deduction against total rental income (Budget 1988). Expenditure incurred on the conversion of a building into two or more flats or houses for renting will be an allowable deduction against rental income from these and all other rented properties. However, refurbishment expenditure of a building now or formerly in two or more flats may be set off only against the rental income from the buildings in question.
- The addition of the area in and around Tallaght Town Centre to the areas which are designated for the urban renewal incentives.
- Introduction of special tenant purchase terms for local authority tenants for the year 1988.

HOUSING AND THE ECONOMY

In 1986, 24 per cent of all fixed investment was in dwellings (including the value of reconstructions and conversions). In volume terms, investment in dwellings reached a peak in 1979. Between 1981 and 1986, fixed investment in dwellings declined by 10 per cent in real terms.

By comparison, investment in residential buildings in EEC countries as a

percentage of total fixed investment is 20 per cent in Belgium (1983), 25 per cent in Denmark (1985), 24 per cent in France (1985), 28 per cent in the Federal Republic of Germany (1985), 25 per cent in Portugal (1980), 26 per cent in Spain (1982) and 21 per cent in the UK (1985) (Economic Commission for Europe, 1986). That is, Ireland is close to the EEC proportions but on the lower side.

These data give a sense of the proportion of resources of the economy which are taken up by housing. The main ways in which housing programmes have implications for the economy as a whole are as follows.

- (i) At the margin, housing investment can displace investment in manufacturing and in other industry. The latter investment may have a greater chance of yielding a flow of marketable output, some of it exported or in the form of substitutes for imports, which would remunerate the investment. While housing investment need not be unproductive in the sense that there can be a flow of housing services as a result of the investment, the funding of the investment requires an income transfer from taxpayers, with consequences for the distribution of income.
- (ii) Construction forms part of overall industrial output.
- (iii) The financing of housing investment via the Exchequer adds to the Exchequer Borrowing Requirement.

THE HOUSING SYSTEM

How would one characterise the Irish housing system, and those parts of the economic system which are closely linked to housing, by contrast with other countries? The following outlines the main characteristics.

1. A significant number of large families by contrast with other countries. However, this distinction between Ireland and other countries has been diminishing over time with the decline in average family size — down from 4.00 in 1971 to 2.3 children in 1987.
2. With the exception of a short-lived period in the 1970s, emigration has drained off a significant share of the household forming age groups — particularly from rural areas and small towns.
3. The ratio between the number of elderly people and the numbers in working ages (15-64) at 18 per cent is in line with the ratios in other European countries and indeed a lower ratio than in a number of European countries. Many of the elderly are well supported by younger kin, but a considerable number are very isolated, both socially and geographically.

4. At least up to recent years, rapid growth of the area comprising a dominant capital city and its suburbs which suck in people and investment of every kind; at the same time, declining population in inner city areas; increasing suburbanisation and urban sprawl in the cities and towns and their surrounding areas; a low density of land use in these areas. Outside the major urban areas, a plentiful supply of land relative to demand and — also reflecting emigration — no pressures for policy innovation arising from this source.
5. Strong preferences among households for owning their own home. This may be due to a long history of hated foreign landlords, peasant farming traditions, and perhaps a related tradition of saving money and investing it in real property. Northern Ireland shares these patterns: credit unions have prospered there too, and the “right to buy” local authority houses by sitting tenants has been more eagerly seized there than in most of Great Britain.
6. Scant concern for landlords or their property, or for the older parts of the urban fabric. For many people the state of inner Boston or inner London will be more important than the state of their own inner cities.
7. A solid and generally respected public service with a strong tradition of poor law and public health administration — very British in the pre-1921 sense. Features of British administration which developed later, such as town planning have not been inherited. A highly centralised administration with little sympathy for the idea of mutual aid or for co-operative ideas. As in the case of Britain, non-private housing provision was seen as occurring through local authority building. The system of loan finance and of financial aids emphasised individual rather than mutual or co-operative provision of housing.
8. A society very unequal in economic terms, although with a still lingering equality about its human relationships characteristic of many ex-colonial countries.
9. A strong “self-build sector”, especially in rural areas, often employing a site which is made available through gift or inheritance. This self-build on individual lines occurs outside the regular lending agencies and contributes towards some 40 per cent of private housing completions which are financed outside the main lending agencies. In this respect, Ireland shares some features of less developed countries with regard to housing provision.
10. Post-colonial traditions of individualism which have had resonances in attitudes to town planning and to co-operatives, with a lack of enthusiasm for co-operative ideals and a reluctance to accept planning for the public good which overrides individual preferences.
11. Preference for semi-detached or detached living with house and garden rather than for living in flats and apartments. In this respect, Ireland is much closer to Britain than to Continental Europe.
12. Historically, an important role played by building societies in tapping the surplus of the household sector and channelling this into loans for

housing: this was stimulated up to recently by tax privileges and non-disclosure on tax.

Taken together, these characteristics help to explain the following outcomes with regard to housing in the widest sense.

1. Owner-occupation, and the suburbs and scattered rural settlements which it has helped to build, are highly valued and politically impregnable.
2. There is a plentiful flow of small savings and of land for this kind of investment — and too few alternative uses for them.
3. The inner parts of towns and the property of private landlords have been neglected and left to rot, until very recently.
4. Public rented housing has been well built from the structural point of view, with some notable exceptions such as the “low cost” housing which was built in the 1960s. It has been reasonably administered but with all the faults of the British system which was its model — centralisation, paternalism, lack of tenant involvement — but has been used very largely to help working people to buy homes of their own. Parts of it have been socially and physically neglected and the priority accorded to ownership has produced “transit camp” areas in which the sense of community withers. The strong tradition of state-sponsored bodies developed for many other purposes in a country lacking strong capitalist enterprises has not been brought effectively to bear in the housing field.
5. Over the past five years, the process has accelerated whereby public rented housing in Ireland has moved towards “welfare housing” on U.S. lines — stigmatised housing for a residualised minority which is seen as comprising special groups at the very bottom end of the income distribution, and for nobody else. This is in contrast to the position on continental Europe where often public housing caters for a healthy mix of household types.
6. A negligible co-operative and voluntary housing sector, by contrast with Britain and Continental European countries.
7. A weak tradition of town and country planning, in a society which lacks a strong tradition of urban loyalties and civic pride, has meant that investment in renewing the older towns has often been inept or outright destructive. At the same time, rural areas are scattered with new houses while many of their villages are struggling for survival.
8. A weak tradition of concern for the environment and either a lack of response or inept responses at official level has meant that structurally sound housing has often been located in a poor or deteriorating environment. Inner city areas have been prime examples of this.
9. Thus, the country has high standards of housing relative to its income level — particularly in relation to space. Indeed, on average, the housing conditions are probably higher than in almost any other country with comparable levels of national income. But at the bottom level there are very bad conditions afflicting inner parts of old settlements, both large and small, the rural poor and rural elderly, privately rented housing, and parts of the public rented stock.

10. The policy needs lie as much in the fields of town and country planning, income maintenance and social service delivery and fiscal policies relevant to housing investment and maintenance, as in housing in the way that it has been traditionally defined.

Figure 2.1 outlines the main features of the Irish housing system. Part A of the Figure shows the links between economic elements including Government incentives, households and the stock of dwellings, together with the change in that stock over time. Part B points up the relationship between the administrative system and the housing system.

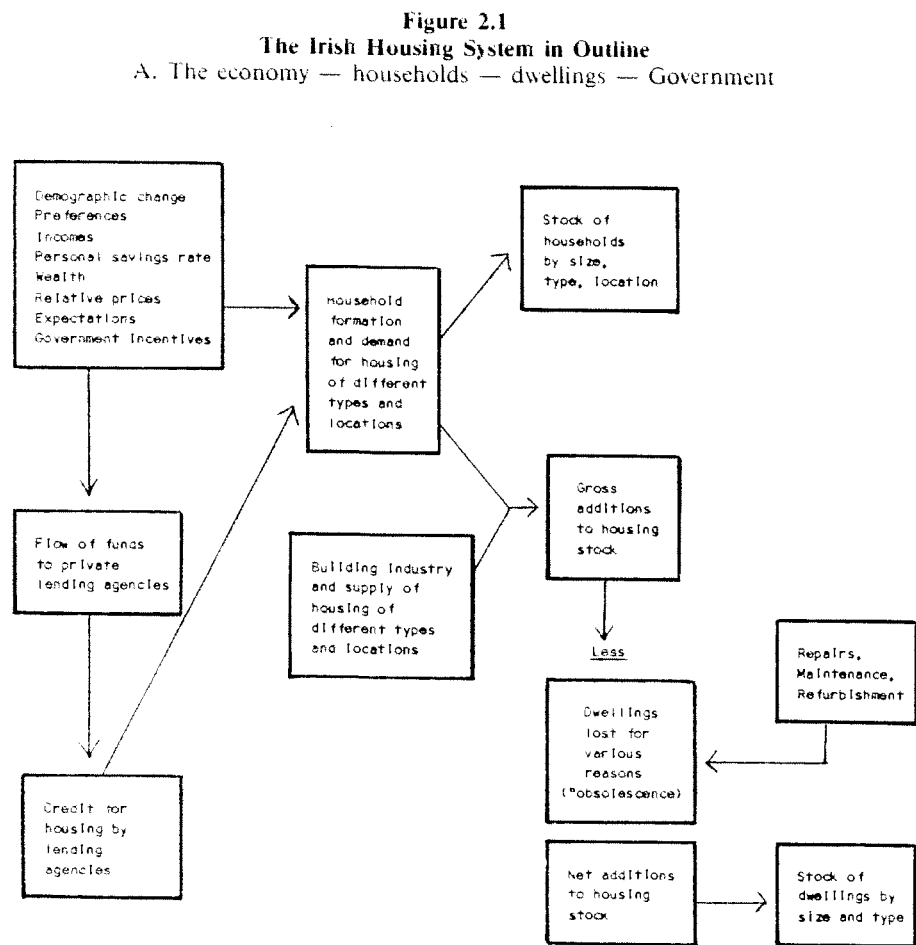
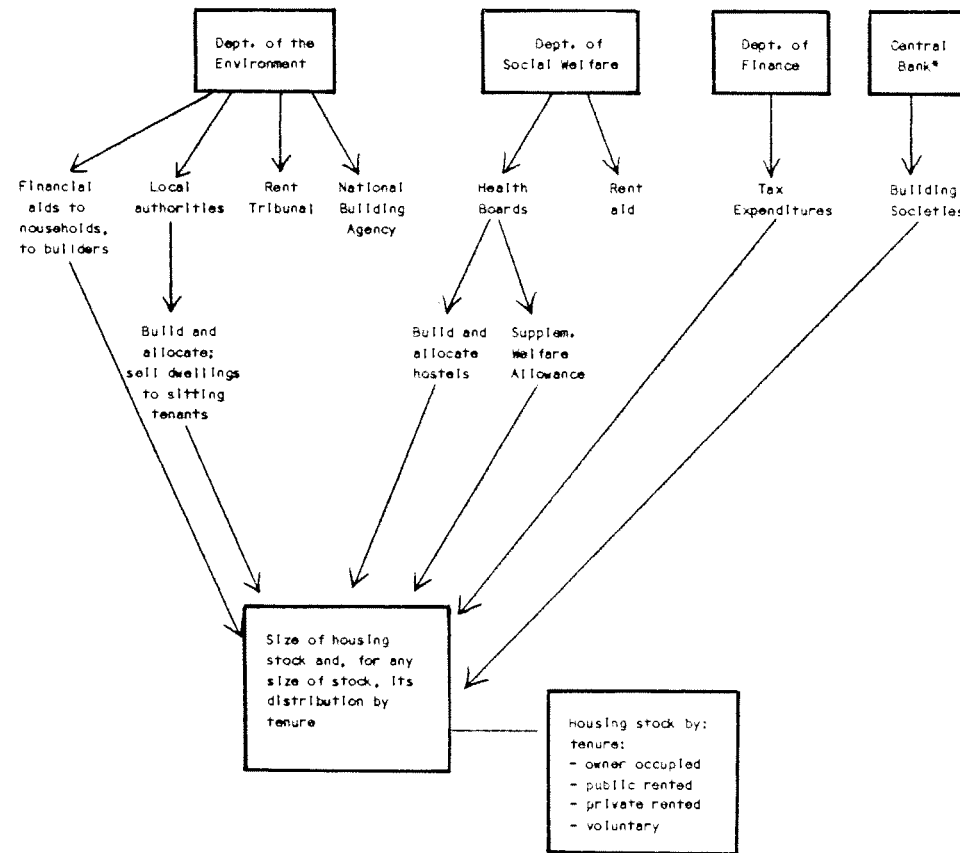


Figure 2.1 — continued
B. The Administrative System and its Impacts



* Proposed

THE CHANGING NATURE OF HOUSING CONDITIONS

INTRODUCTION

This chapter examines housing conditions in Ireland with particular reference to the changes which have taken place in recent years. Outcomes in housing reflect a mix of market forces and the particular ways in which Governments intervene in housing. The relevance of this chapter for the policy analysis in Section II is two-fold: it gives a sense of the success or otherwise of Government policy measures in recent years. And it indicates the changing nature of the housing problem, and raises questions, taken up later, as to whether Government policies are adequate in the face of the changing state of housing.

DWELLING COMPLETIONS

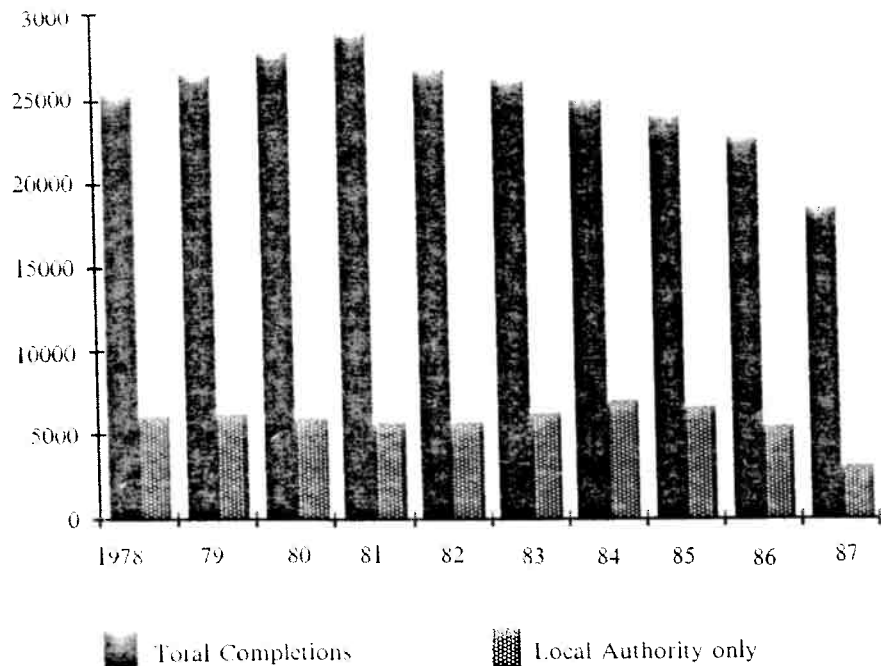
The number of dwelling completions per thousand population was 5.2 in 1987 by contrast with 8.4 in 1981 and 7.5 in 1977. The number of completions has varied since 1975, as shown in Figure 3.1. In 1987, housing completions numbered 18,500 by comparison with an annual average of 23,200 in the five years 1983-1987 inclusive. The contribution of local authority building to these completions in this period has varied from a low of 16.7 per cent of the total in 1987 to a high of 32.7 per cent in 1975. Many of these local authority dwellings are subsequently sold to their sitting tenants and thereby end up as owner-occupied dwellings (as is mentioned below).

The rate of completions per 1,000 population in Ireland is now relatively low by contrast with other European countries: the most recently published rates are for Belgium (3.1), Denmark (8.4), Finland (8.4), France (6.3), Federal Republic of Germany (4.1), Greece (11.0), Italy (3.2), Netherlands (7.0), Norway (6.2), Portugal (4.3), Spain (5.1), Sweden (3.4), Switzerland (7.1) and the United Kingdom (3.8) (Economic Commission for Europe, 1987). Of course, dwelling rates across countries will vary in response to underlying factors such as household formation, a topic which is taken up below.

THE DWELLING STOCK

The number of occupied dwellings (in permanent housing units) increased from 762,400 in 1971 to 897,500 in 1981 and to 964,900 in 1986. This means

Figure 3.1
Housing Completions, 1978-1987



a net addition to the dwelling stock in the decade up to 1981 of 135,100 and a further net addition of 67,400 in the 1981-86 period.

Two other features of the housing stock can be emphasised. One is that the stock of local authority dwellings which are let (119,000 at the end of 1987) was not much greater than in April 1981 which in turn was almost exactly the same as in April 1971 (112,700). This is despite a total of 63,900 local authority completions in this decade. These trends reflect the number of tenants who have purchased local authority dwellings. The number of former tenant households, which were acquiring their dwellings on a mortgage basis from a local authority, was 70,000 in 1981. By the end of 1987, over 180,000 local authority dwellings had been bought by tenants since the beginning of the purchase schemes. The peak years were 1975 (sales of 11,900) and 1976 (sales of 8,900). In 1984, sales were 2,700 and in 1985, sales were 1,600: the latter decline reflects the fact that there was no sales scheme between July 1984 and August 1986 and the impact of the £5,000 grant from 1984.

The other feature is the decline of the private letting sector in both absolute and relative terms. The stock of private lettings declined from 96,900 in 1971

to 89,400 in 1981. It should be noted that this decline over time is less than that which has occurred in other countries including the UK.

STOCK BY TENURE

The three principal tenure groups are as follows (Figure 3.2):

- owner-occupiers: 667,000 or 74.4 per cent of the total in 1981
- households in local authority lettings: 110,700 or 12.4 per cent of the total in 1981
- household in private lettings: 90,300 or 10.1 per cent of the total in 1981.

One of the features of the Irish dwelling stock is the high proportion of owner-occupiers: 79 per cent of all households in 1987 by comparison with 69 per cent in 1971. (1987 data come from the 1987 survey of life-styles and usage of State services of the Economic and Social Research Institute). This is by far the country with the highest proportion of owner-occupiers in the EEC: the next highest ratio of 54 per cent is in Belgium, (United Nations, 1986). Indeed, outside the EEC there are few European countries with such a high proportion: the next highest proportions are in Norway (67 per cent), Finland (63 per cent) and Sweden (55 per cent). There is an even higher proportion of owner-occupiers in rural areas. Thus, to some extent the owner-occupied ratio reflects a tradition of peasant proprietorship rather than tenant farming in Ireland. Of all households in 1987, 47 per cent own their dwellings outright — a remarkably high proportion by European standards. This means that, of all owner-occupiers, 59 per cent own their dwellings outright. These owned outright dwellings constitute a substantial number and amounted to some 454,000 households at 1986.

OBSOLESCENCE

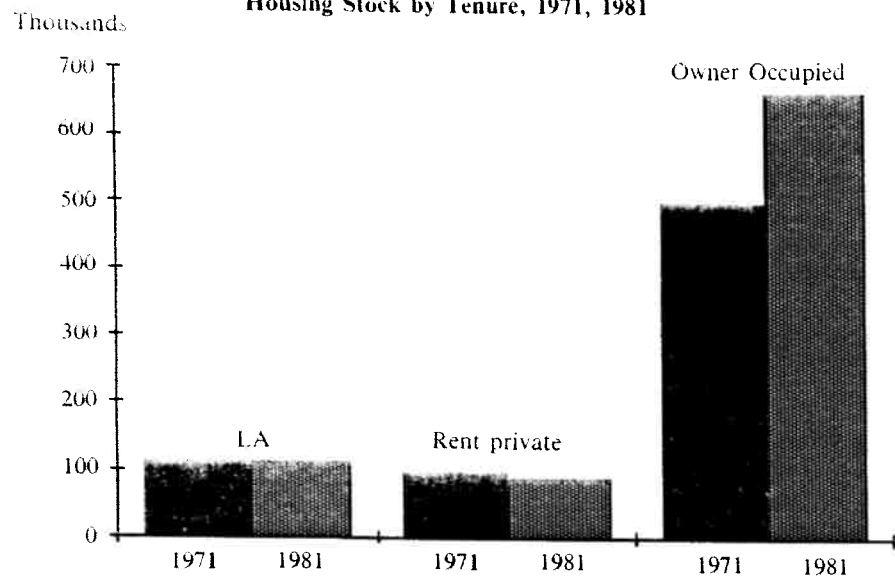
A useful indicator of some of the changes in the housing market comes from the trend of obsolescence — that is, dwellings that are lost from the housing stock. This can tell us something about the efficiency with which the housing stock is maintained and also something about the amount of unfitness which exists.

“Obsolescence” here is a shorthand term which covers losses from the housing stock which can occur for a number of reasons, such as demolition and clearance, changes of use to non-residential purposes, the combination of two units into one, the abandonment of dwellings, the move from a dwelling being occupied to it being vacant, the conversion of units into second homes which are vacant during much of the year.

It is notably difficult to interpret changes in such measured obsolescence. Some

Figure 3.2

Housing Stock by Tenure, 1971, 1981



of the obsolescence in any period can be attributed to the replacement of dwellings which had been unfit at the outset of the period. Part of it reflects the need to replace dwellings which became obsolete during the period. Some of the obsolescence of the 1970s reflected income increases, which brought in their train rises in the level of service which is demanded from houses and which also provided the means to fund replacement. A particular example of this was the "one-off" replacement of dwellings in farm households which occurred in the 1970s, associated with the short-lived rise in agricultural incomes in real terms. This wave of replacement which in many cases involved the demolition of the former dwelling or else its conversion to non-residential use, can be expected to be continuing but at a much lower rate.

Table 3.1 shows the change over time in the rate of obsolescence. In 1971-81 the average annual loss through obsolescence was 7,700. In the period 1981-86 the average obsolescence increased to 12,200. The number of dwellings which were lost to the stock was 31 per cent of gross completions in the 1971-1981 period, and 47 per cent in 1981-1986. The loss of 61,000 dwellings from the dwelling stock over 1981-1986 can be attributed to the clearing off of accumulated requirements at 1981 *plus* meeting the need to replace dwellings which became obsolete between 1981 and 1986 — though, as mentioned above, this begs the question of what one means by being "obsolete". The *rate* of obsolescence (the flow of obsolescence as a proportion of the average stock of dwellings over the period) increased from the 0.95 per cent a year average of the 1971-1981 period

Table 3.1
Changes in the Housing Stock and Obsolescence, 1971-1986

	(1)	(2)	(3)
	Housing stock (in permanent housing units)	Housing completions in period between years	Obsolescence in period between years
1971	726,363		
1981	896,054	246,591	76,900
1986	964,882	129,865	61,037

Note: In col. (2) the data are calculated for inter-Censal periods, e.g., April 1971-March 1981. Sources: *Census of Population 1971*, Vol. VII; *Census of Population 1981*, Vol. 3; *Census 86 Summary Population Report*.

(which in turn was higher than the rate of 0.79 per cent a year over 1961-1971), to 1.3 per cent a year over 1981-86. This is despite the fact that a number of elements should have worked to *reduce* the rate of obsolescence in recent years, as follows:

First, the average age of the dwelling stock has declined markedly over the past ten years. The average "depreciation rate" for dwellings should decline as the age of the housing stock falls. Appendix Tables A.2 and A.3 show the data on the age of the housing stock in 1980 and in 1971. The older houses were a much smaller proportion of the total dwelling stock in 1980 than in 1971. Of course, there need not be an unequivocal relation between age and fitness of dwellings. The 1980 Housing Survey (Blackwell and Brangan, 1984) shows that age alone is not an adequate proxy for unfitness. However, it does show that 65 per cent of the houses unfit and incapable of economic repair were more than 80 years old. Appendix Table A.4 shows the proportion of housing units in 1980 in each group which were declared to be unfit and incapable of economic repair. A much higher proportion of the older dwellings were declared to be unfit and incapable of economic repair than for dwellings as a whole, although there is a puzzling rise in the proportion in the case of housing units which were constructed since 1961.

Second, average real incomes from work declined by some 18 per cent in real terms between 1979 and 1984. In particular, income plays a two-fold role in replacement decisions. A rise in real income makes it possible for households to finance the replacement. And the rise tends to increase the implied standards in the community about what is an adequate dwelling. Dwellings which are structurally sound but have a standard of amenities which is now judged to be inadequate are demolished and replaced. There should have been a greater amount of renewal and improvement in line with changing standards, than was the case in the 1970s.

Third, "one-off" replacement of dwellings in farm households (which in many cases involved the demolition of the former dwelling or else its conversion to non-residential use) occurred in the 1970s, which was associated with the short-lived rise in agricultural incomes in real terms. Much of this "one-off" replacement can be assumed to be complete. Table A.5 shows the rate of obsolescence since 1971 in the three largest boroughs, by contrast with the rest of the country. This shows that the rate of obsolescence was higher outside these urban areas, despite the large-scale slum clearance in parts of Dublin County Borough in recent years. This is consistent at least with replacement of outmoded dwellings by farm households having occurred during the 1970s.

Fourth, the large scale slum clearance in public housing was completed during the 1970s.

There are, by contrast, the following three elements which would work in the opposite direction and can explain to some degree why the rate of obsolescence has increased.

First, the decline in local authority waiting lists since 1985 has led to people moving into local authority housing and, in the process, vacating other dwellings. Moreover, there has been a sharp increase in vacancy rates in local authority housing.

Second, the removal of rent restrictions on private rented stock can have led to some increase in vacant units. A number of the units which were subject to rent restrictions were on upper floors of commercial premises in urban areas and have been left vacant or converted to other use.

Third, and probably most importantly, the rise in the rate of obsolescence in the early 1980s is likely to be related in part to an excess supply of dwellings occurring. In turn, this has reflected two elements. There has been a downturn in housing demand as a result of a decline in real incomes, with the rate of completions continuing at a relatively high rate as a reflection of decisions made earlier — that is, there was some "over-shooting" in supply. Real incomes from work (after direct taxes) peaked in 1979 and declined in each successive year between 1979 and 1984. In addition, the rise in net emigration, including cases where people go on career breaks from the public service, has resulted in dwellings being left vacant for a period. These are cases where owners have been reluctant to let out their dwellings. The turnaround in net emigration can be seen from the fact that net in-migration was 13,600 a year on average in 1971-1979, this changed to net out-migration of 2,500 a year over 1979-1981 and 14,400 a year over 1981-1986.

The three elements above imply that the increase in the obsolescence rate at the end of the 1970s may partly be a reflection of a short-run rise in the vacancy rate, but one which could continue to remain at high levels for some years.

Nevertheless, a rise in annual obsolescence of 58 per cent between the decade of the 1970s and the 1981-86 period is extraordinary. It raises some questions about economic efficiency, implying a notable inefficiency in the use of the housing, in two senses

- the rise in vacancy rates is well above that which is required to achieve a smoothly working housing market
- the rise in obsolescence implies that some dwellings which were unfit but capable of economic repair were lost from the housing stock. These were replaced by dwellings which, in terms of economic resources, cost much more than the resource costs of improving the older dwellings.

MULTI-FAMILY HOUSEHOLDS

The number of households where there is more than one family (for example, where a married couple lives with in-laws) declined from 25,200 in 1971 to 20,200 in 1981 and in 1986 declined markedly to 12,800. The significance of these numbers is that it is usually assumed that those who live involuntarily in multi-family households desire independent accommodation.

It is not known how much of the above sharing is involuntary, nor is it known how many of these households comprise married couples living with their in-laws, although it is likely that many of them are in this category. The Housing Survey of 1980 shows that 9,500 households contained involuntary sharing.

SIZE OF HOUSEHOLDS AND OF DWELLINGS

The average size of households declined from 3.94 in 1971 to 3.66 in 1981 and declined further to 3.54 in 1986. The decline over time in household size has reflected two elements:

- the decline in average family size, with the total fertility rate (which is an approximate measure of the average number of children which a woman would have in her lifetime) having fallen from 4.0 in 1971 to 2.3 in 1987.
- "household fission", associated in particular with two elements: young people setting up independent households whereas formerly they would have lived with an extended family; and elderly people retaining their separate households rather than moving to live with members of their extended family.

Nevertheless, the average size of households is still higher in Ireland than in other European countries, where (Economic Commission for Europe, 1983)

some typical values are 2.1 (Denmark), 2.3 (France) 2.4 (Federal Republic of Germany) and 2.5 (United Kingdom).

At the same time the average number of rooms per dwelling in Ireland has increased notably over time, from 4.6 in 1971 to 6.1 in 1981. Thus, there was a significant reduction in the average number of persons per room in the decade. The average number of rooms per housing unit in Ireland is a lot higher than in other European countries, where typical values are 3.7 (France), 4.4 (Federal Republic of Germany), 3.6 (Norway), 4.4 (Sweden) and 3.8 (Scotland) (United Nations, 1986).

OVERCROWDING

Despite the lowering in the average number of persons per room, a considerable degree of overcrowding remains. In this respect, the housing problem in Ireland differs from that in other European countries. In Ireland a conservative measure of overcrowding, i.e., an average of 2 or more persons per room has tended to be used officially. By this measure the number of overcrowded households was 54,400 in 1971 and had fallen to 26,000 by 1981. As a proportion of all households, the proportion overcrowded fell from 7.5 per cent to 2.9 per cent in this period. Some of these households contain 3 or more persons per room — their number was 3,200 in 1981 compared with 9,100 in 1971: again, a substantial decrease. In 1981, 4.8 per cent of *persons* in private households (in permanent housing units) were living in overcrowded conditions, a significant decrease on the comparable proportion of 14.8 per cent of 1971.

The above criterion is a conservative and imprecise indication of overcrowding, since it does not take account of the nature of the rooms or of the structure of the family. For example, a family of four in a four-roomed dwelling can imply only two bedrooms for these four people. Furthermore, the criterion does not take account of the fact that overcrowding is more intolerable in the small-sized dwellings, where some figure of less than 2 persons per room is likely to be more appropriate as an indicator. It has been argued that overcrowding can be defined as *more than* 1.5 persons per room (Toland, 1979). If this criterion were adopted, then the number of overcrowded households in 1981 would be 52,400 rather than 26,000.

Accepting for working purposes the criterion of “2 or more persons per room”, 13,200 or 61 per cent of all overcrowded households were living in relatively small dwellings, i.e., comprising three rooms or less in 1981. Between 1971 and 1981 there was a distinct fall in the incidence of overcrowding among the larger households, where the latter are taken as households with 8 or more persons. In 1971, more than half of the larger households were overcrowded. By 1981, this incidence had declined to 21 per cent.

As would be expected, there is a relatively high incidence of overcrowding in those households which contain more than one family; almost one-fifth of these multi-family households were overcrowded in 1971.

Other evidence on overcrowding comes from the 1980 Housing Survey which showed 21.8 per cent of housing units in contravention of Section 63 of the *Housing Act, 1966*, most of them due to airspace violations. Of the stock, 2.5 per cent of units contain households where bedroom privacy criteria are violated and about 2-3 per cent of units where not only are privacy standards not met, but there are lower standards of facilities and a higher incidence of unfitness. In 19.2 per cent of units the occupants had inadequate air space.

Since 1981, the proportion of dwellings which are overcrowded should have declined further, in view of the continued decline in average family size, the relatively high rate of building relative to population and the decline in the number of multi-family households. Much of the overcrowding which remains is in the local authority tenure, especially in two-bedroom dwellings which remain in significant numbers in the local authority stock.

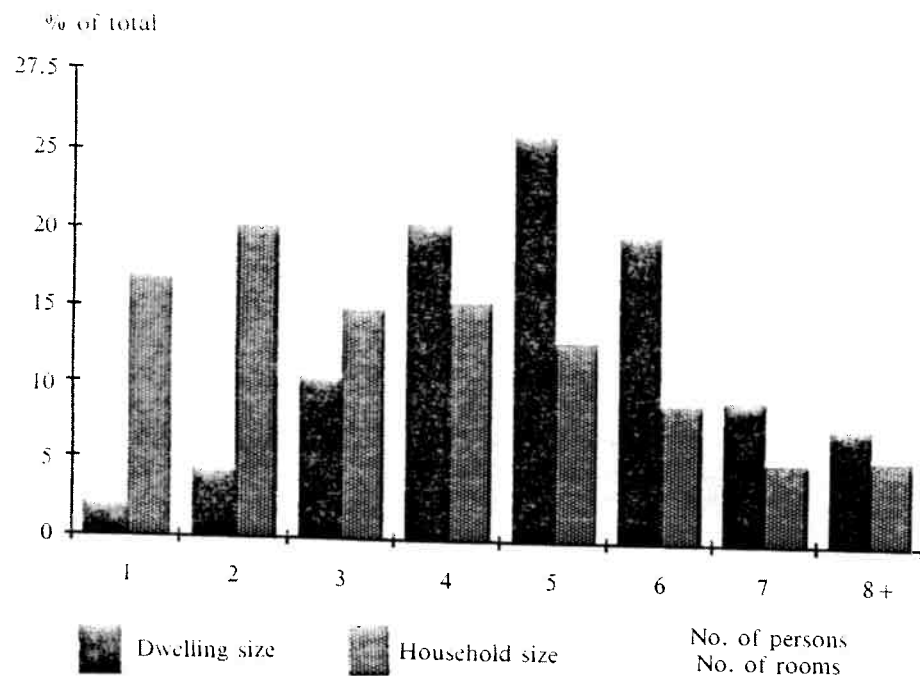
In each year, different households become overcrowded: while the Census gives a static picture of overcrowding, it is in essence dynamic. For example, a family living in the same house over an extended period of time may experience under-utilisation of the accommodation in the early stages, and overcrowding later on. But if a less conservative definition than usual of overcrowding were used as indicated above, there may be little under-utilisation in the early stages. The attribution of the “causes” of overcrowding is not easy. For example, it is questionable whether overcrowding can be said to be “caused” by a prevalence of large families, since some overcrowding might be “caused” by a shortfall in the number of larger dwellings. Indeed, it could be argued that overcrowding is a reflection of a lack of fit between dwelling sizes and household sizes: this mismatch is discussed below.

OCCUPANCY OF DWELLINGS

There is no accepted definition of under-occupation, but it could be defined as two or more rooms per person, and by this measure it occurs primarily in the owner-occupied tenure. The co-existence of overcrowding and under-occupation implies that there is mismatch between dwelling size and household size. This lack of “fit” is shown in Figure 3.3. For example, there are far more one-person households than there are 1-2 roomed dwellings. This mismatch has been accentuated by the fact that building has concentrated on a narrow range of house sizes. Thus, most of the net increase in dwellings in the decade up to 1981 occurred in the 5 to 7 room sizes. This trend is confirmed by the data on dwelling completions. In 1985, 77 per cent of dwellings completed had either 5 or 6 rooms, by comparison with 71 per cent in 1978.

The average occupancy rate is expressed in terms of persons per room. For all household sizes, occupancy rates declined in the decade 1971-1981, i.e., there was an increase in average dwelling space per person.

Figure 3.3
Distribution of Dwelling Size and of Household Size, 1981



TYPE AND SIZE OF DWELLINGS COMPLETED

Private single houses (as distinct from private estate houses which are built as part of a scheme, private apartments and local authority dwellings) are the dominant component of the housing market, outnumbering estate houses and accounted for 36 per cent of completions in 1985. In 1976 the roles had been reversed when there were almost twice as many private estate houses as private single houses. The breakdown of the number of dwellings built in each category in 1985 is given in Table 3.2.

In brackets after each category, there is a broad indication of where these categories of dwelling tend to be built. The inner city and the older urban areas have been short of private investment in dwellings. Indeed, in the inner city of Dublin, there has been no private housing investment at all over the past forty years. The private housing investment has occurred in suburbs and rural areas.

Table 3.2
Distribution of New Dwellings in 1985, by Type of Dwelling

Type of Dwelling	%
Local Authority houses (mainly in urban — including inner city — and suburban areas)	27
Private estate houses (mainly in suburban areas)	32
Private single houses (mainly in rural areas)	36
Private apartments in new blocks (mainly in urban areas outside the inner city and on other fringes of urban areas)	3
Conversions/apartments (locations as in private apartments in new blocks)	2
Total	100

Source: O'Rourke *et al* (1986).

The average floor area of the single houses is nearly 40 per cent higher than that of estate houses, with the average floor areas for single, estate and local authority houses in 1985 being, respectively: 127m², 92m², and 80m². Given that the housing market can adjust to income changes through both quantity change and quality change, there is interest in capturing the change over time in house size.

While this is not an ideal index of quality, it is correlated with house quality. For the 1970s the outcome is as one would expect. In this period, one of significant increase in real incomes, the average size of dwellings constructed increased by 16 per cent. In the period 1979-1984, a period when real incomes from work have fallen markedly (with the decline in real after-tax earnings being 15 per cent for a married person on average industrial earnings and 17 per cent for a single person), the average size of dwellings completed fell by 6 per cent. A further decline in average size (useful floor space) occurred in 1985, from 96.3 to 95.0 square metres (Economic Commission for Europe, 1987). There is, however, a difference in the trends for private single houses and private estate houses, respectively. In the case of the latter, average size declined in each year between 1979 and 1984 and increased slightly in 1985. By contrast, the average size of private single houses increased steadily in the post-1979 period up to 1985 with the exception of slight declines in 1981 and in 1984. This meant that by 1985 the average floor area of single houses was 20 per cent higher than in 1976.

FITNESS OF DWELLINGS

The various indices of housing quality show an improvement since the early 1970s. This could be expected from the younger age structure of the housing stock now by comparison with earlier years. The rate of net additions to the housing stock in the range of 1.5–2 per cent of the stock since the 1971, means that the average age of the stock is now substantially lower than it was in 1970.

In 1971, 45 per cent of permanent housing units¹ had been built before 1919 and 58 per cent of the units in rural areas² had been built before 1919.

An indication of fitness is the presence of water supply and of sanitary facilities. In 1971, there were 154,200 dwellings which had no piped water supply, almost all of which were in rural areas. Indeed, 42 per cent of dwellings in rural areas were without piped water supply. This improvement in the position on water supply can be gleaned in part from the flow of grants for the installation of water and sewerage. The number of dwellings with no piped water supply declined to 57,100 by 1981. In the same year the proportion of dwellings with a fixed bath or shower was 82 per cent, by comparison with 56 per cent in 1971.

Similar trends are evident for sanitary facilities. In 1971 there were 140,200 dwellings which had no toilet or closet. Once again, almost all of these were in rural areas, and 39 per cent of dwellings in rural areas lacked this facility. By 1981 the numbers without toilet or closet had declined to 66,100. Virtually all of these improvements in water supply and in sanitary facilities took place in rural areas, as few dwellings in urban areas were deficient by these criteria in 1971.

These data on fitness suggest that the broad spatial distribution of dwelling completions may have been justified in the 1970s, with the exception that there was unused and underutilised building stock in the inner city and in the outer fringes of the inner city. The big problems were (a) obsolete rural housing, (b) scarcity of dwellings relative to demand in the larger urban areas — which could be most quickly supplied in their suburban fringes.

Other evidence on the improvement in the quality of housing comes from the An Foras Forbartha annual surveys of the physical features of private housebuilding since 1976. There has been a shift to one-off housing, as noted above: most of these have a higher degree of quality and finish than estate houses. Most one-offs are four bedroom houses, almost half of which now have a shower as well as the conventional bath. Within the local authority tenure, the quality of dwellings has improved. Physical standards and design standards have improved; the average number of rooms per dwelling and their average size have increased.

Reinforcing evidence comes from the 1980 survey of the housing stock. This found that 8.3 per cent of housing units in the State were unfit (using the

¹A permanent housing unit is a conventional dwelling house or a structurally separate flat, irrespective of the number of households it contains. Most housing units contain just one household.

²Town areas cover all population clusters of 1,500 or more inhabitants; rural areas are all other areas, including towns of under 1,500 population.

criteria set out in the 1966 *Housing Act*), compared with 11.7 per cent in 1973. Less than 50 per cent of the unfit houses were considered to be capable of being economically repaired to a higher standard that would be habitable, and 25 per cent were considered possibly capable. This left 25 per cent of unfit units which were uneconomic to repair: this comprised 2.5 per cent of all housing units. This is a conservative estimate, as some of those which were "possibly capable" of economic repair would not be so capable.

Power (1980) draws on a 1978 survey of the elderly (65 and over) living alone. Only 30 per cent of the respondents had exclusive use of all the five standard water amenities. The older the dwelling, the smaller the dwelling and the older the occupant, the greater the likelihood that the respondent did not possess the standard amenities. Other evidence on the housing conditions of the elderly is in Whelan and Vaughan (1982) who draw on a sample survey of elderly persons carried out in 1977. The general tendency is for elderly households to have fewer amenities than others, with urban households better provided than rural ones and with single person households having fewer amenities than other types of household. Whelan and Vaughan compile an index of housing quality: housing quality is inferior in single person households.

Since those data of Power and Whelan and Vaughan were compiled, a notable improvement in the average housing fitness of the elderly should have occurred. By early 1988, 8,000 elderly persons had the structural conditions of their dwellings improved through the Task Force on housing for the elderly.

HOUSEHOLD INCOME AND EXPENDITURE ON HOUSING

There are distinct differences in household incomes between the tenure groups. There is a relatively high proportion of low income households in both the private letting tenure and in the local authority tenure. There is a greater proportion of higher income households among those who own with a mortgage than in any other tenure group. For those who own outright there is both a considerable proportion of high income households and of low income households.

Figure 3.4 shows that average disposable income is lowest among households in the local authority rented tenure, with highest incomes among those who own with a mortgage. The second lowest disposable income is among those in the private letting tenure. The significance of this is that it conceals the marked differences in incomes within this tenure, with a significant number of low-income tenants and a good number of high-income tenants.

Some allowance for differences in household size is needed when making comparisons across the tenure groups. The average household size in the

private rental tenure is significantly lower than elsewhere (Appendix A, Table A.6).

The data on average income of the stock of owner-occupiers can be complemented by data on the income of the flow of borrowers. For those borrowing from housing loan agencies, the average income of those borrowing in 1986 was £11,900 compared with average earnings of £10,900 for the same year for males on adult rates in all industries.

Figure 3.4 and Table 3.3 show the considerable differences across tenure and income groups in expenditure on housing relating to income (here using total expenditure as a proxy for income). For all households, expenditure on housing comprised 7.2 per cent of income. This overstates the net expenditure since the effects of loan interest payments on taxable income are not captured. Apart from the owned-outright tenure, the lowest relative expenditure occurs in local authority dwellings. In general, this means that there is redistribution of real income towards those with relatively low incomes, since the average income of local authority tenants is relatively low.

However, *within* the local authority tenure, such a redistribution of income does not occur throughout the income ranges, as can be seen from Table 3.3. As incomes increase from around average incomes in local authority lettings, the proportion of income which goes on rent declines.

The highest burden of expenditure related to income occurs in the private rented tenure, with 12.3 per cent of income going on housing. This is about two and a half times the average proportion for those in local authority housing. However, for those in lower incomes in the private rented tenure an even higher proportion, 14 to 16 per cent of their income goes on housing. As these data are averages, there are many households with far higher proportions of incomes going on housing expenditure.

Table 3.3
Expenditure on Housing as a Percentage of Total Expenditure by Tenure, 1980

Tenure	% Gross household income per week at 1987 prices				
	Less than £115	£115 less than £191	£191 less than £287	£287 +	All incomes
Owned outright	2.8	2.7	2.3	2.6	2.6
Owned with mortgage	9.6	13.1	11.7	9.8	10.6
Rented from local authority	4.5	6.9	5.7	3.6	5.3
Rented private	14.1	16.1	10.7	11.0	12.3

Source: *Household Budget Survey, 1980*.

Figure 3.4
Income and Expenditure on Housing, 1980

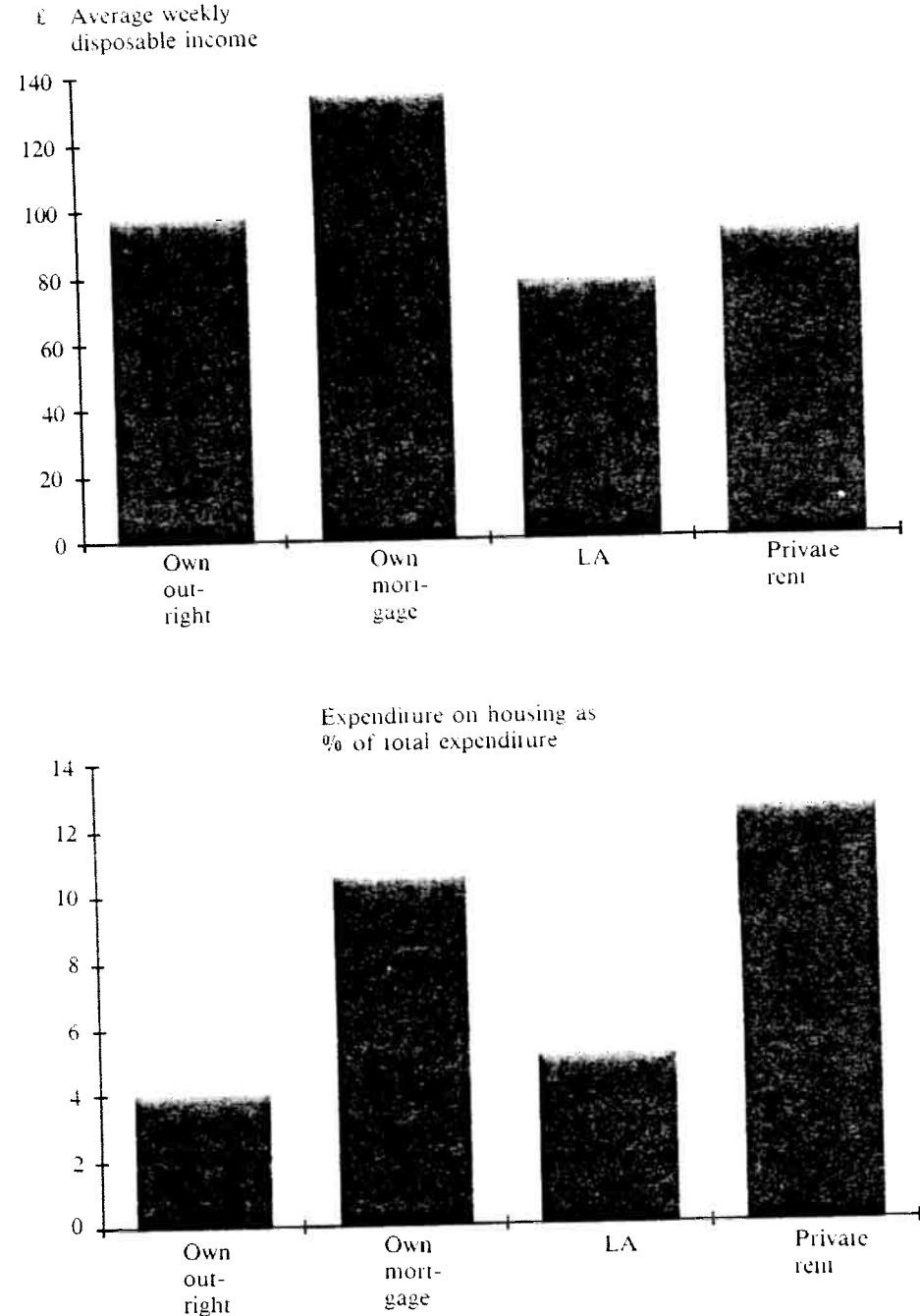


Table 3.4
Average Weekly Housing Costs of Households Classified by Tenure and Household Size, 1984

Tenure	£						All
	Household size						
	1	2	3	4	5	6+	
Owned with mortgage	26.4	25.9	25.8	26.5	24.2	22.2	25.2
Rented local authority	2.8	6.0	7.7	8.2	10.7	5.4	6.4
Rented private	15.6	25.1	30.8	33.9	28.2	29.3	24.6
All	15.2	21.6	24.0	23.5	22.0	18.3	20.1

Notes: Excludes the "other" category. Housing costs refer to rent payments or mortgage repayments and hence are more restrictive than the measure of housing costs used in earlier tables of this chapter.

Source: *Report of Commission on Social Welfare*, 1986, Table 14.2.

The data for 1984 in Table 3.4 (on housing costs by tenure and household size) and Table 3.5 (on housing costs by tenure and household type) confirm the picture of high housing costs in the private letting tenure. This is especially marked by contrast with local authority lettings in the case of small families and young adults.

When making these comparisons across tenure groups, it needs to be borne in mind that local authority tenants do not have to meet outgoings on major repairs and improvements which are the responsibility of the local authority. These tenants engage in interior decorations and minor repairs. Nor do these tenants meet the costs of house insurance. Tables 3.4 and 3.5 exclude everything other than rent and repayment costs, but the earlier tables include costs such as repairs and maintenance which are met by owner-occupiers.

Table 3.5
Average Weekly Housing Costs by Household Type and Tenure, 1984

Type of Household	£				Average Household size
	Owned with mortgage	Local Authority	Rented private	All	
Old	7.9	4.3	11.5	7.3	1.4
Mixed	7.3	5.3	14.3	6.6	3.0
Small families	26.6	9.1	22.5	23.1	4.8
Large families	21.7	9.6	9.1	17.9	7.2
Young adults	40.6	5.6	32.3	35.2	1.9
Other households	13.5	5.7	14.0	11.7	3.2
All	25.2	6.4	24.6	20.1	3.7

Note: Housing costs refer to rent payments and mortgage repayments.

Source: *Report of the Commission on Social Welfare*, Table 14.3.

The burden of initial repayments on a house loan will depend on trends over time in house prices, real interest rates and real incomes. Table 3.6 shows the ratio of new house prices to average net industrial earnings in the period since 1978. In 1987, this ratio was lower than at any time in the past twelve years, and the ratio had fallen in each year since 1981.

Figure 3.5 shows the trends in the mortgage rate in real terms (that is, nominal interest rates deflated by the Consumer Price Index). Since 1977 the real mortgage rate has increased with a marked increase having occurred since 1982. Table 3.7 shows the change over time in repayments for a typical mortgage on a house of average price since 1976: this captures changes in house prices and in mortgage rates. This table shows the net repayments after allowing for tax relief, and also shows the impact of the mortgage interest subsidy which lasted from April 1981 to October 1986. This had a dramatic effect on net repayments, which fell by more than 50 per cent in 1982. These repayments continued to decline in real terms until 1987 when they increased, reflecting the limitation of mortgage interest tax relief in the Budget of that year. Net repayments as a proportion of after-tax income, which had declined from 43.3 per cent in 1981 to 15.3 per cent in 1986, were 17.9 per cent in 1987. However, net repayments both in real terms and as a proportion of net income, increased markedly in 1988, reflecting the abolition of the mortgage interest subsidy.

HOUSE PRICES

Between 1968 and 1980, new house prices outpaced the rate of consumer price inflation, with a real increase in prices of 3.7 per cent per annum. However, between 1980 and 1987, new house prices declined by 27 per cent in real terms (deflating private new house prices by the Consumer Price Index). The price

Table 3.6
Ratio of New House Prices to Average Net Industrial Earnings, 1976-1987 (a)

1976	4.6
1977	4.8
1978	5.2
1979	5.6
1980	5.7
1981	5.8
1982	5.7
1983	5.4
1984	5.1
1985	4.8
1986	4.7
1987	4.4

Notes: (a) House price data refer to new houses for which loans are granted by all agencies. Earnings data are net after income taxes and employee social insurance contributions and are for the following prototype worker: a married worker earning average industrial earnings in transportable goods industries, on PAYE with one spouse earning and with two children.

Figure 3.5: Real Interest Rates on Mortgages, 1975-1987

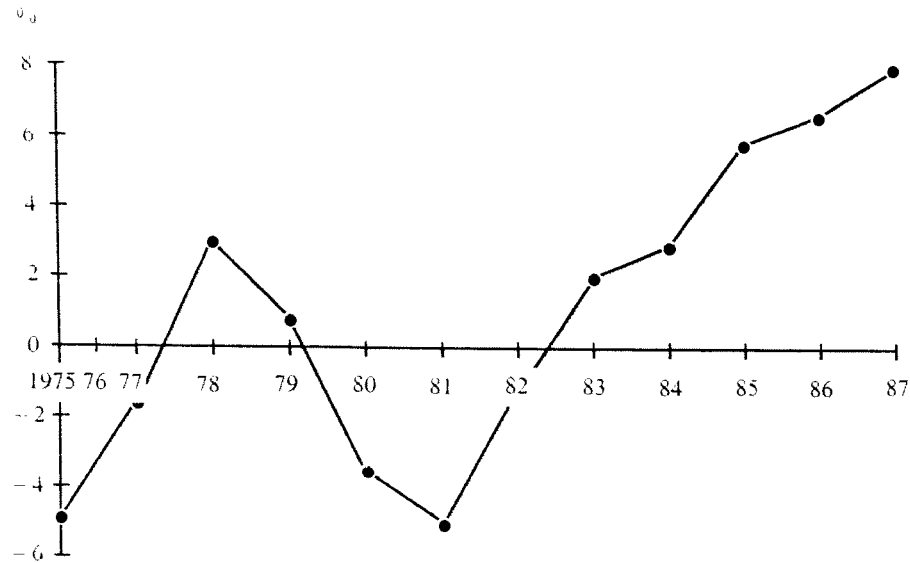


Table 3.7

Repayments Required for Mortgage on Average Priced House, 1976-1987

(1) Year	(2) Gross repayments £	(3) Net repayments in first year £	(4) Net repayments less mortgage subsidy £	(5) Net repayments less mortgage subsidy, deflated by Consumer Price Index 1976 = 100	(6) Net repayments less mortgage subsidy as a ratio of after tax income %
1976	1,178	789	789	100	29.5
1977	1,372	921	921	102.7	29.7
1978	1,643	1,111	1,111	115.1	30.5
1979	2,581	1,711	1,711	156.6	41.2
1980	3,083	2,043	2,043	158.2	42.3
1981	3,572	2,365	2,365	152.0	43.3
1982	4,259	2,807	1,307	71.7	21.4
1983	3,542	2,365	1,365	67.8	21.0
1984	3,399	2,283	1,283	58.7	18.1
1985	3,390	2,281	1,281	55.6	16.9
1986	3,317	2,249	1,249	52.2	15.3
1987	3,666	2,511	1,511	61.2	17.9

Notes. Col. (2): These calculations used the average gross price of houses for which loans were approved by building societies, assume a 75 per cent mortgage and a 25 year term, and use interest rates which are yearly averages of monthly rates.

Col. (4): Mortgage subsidy (in the first year) was £1,500 with effect from April 1981 and was altered to £1,000 in October 1982. However, a lag in payment occurred. Hence, these subsidies are applied to the calendar year 1982 and 1983-87 respectively.

Col. (6): Repayments after tax relief and allowing for mortgage subsidy, as a ratio of after tax income for a married person on average industrial earnings with two children.

index of new houses does not take account of compositional changes in the type of dwelling which is constructed. One way to handle this is to allow for the change in the average size of dwelling which is built. While this is not an ideal adjustment, the fact that larger houses require more fixtures and fittings implies that an increase in house size is likely to be associated with an increase in cost of about the same proportions (Irvine, 1984). Hence, if house size declines, the average price of dwellings sold will fall even though there has been no decline in the price "per unit" of dwellings. An adjusted house price index is the price of dwellings deflated by an index of house size (for all dwellings constructed). This index still shows a notable decline in real house prices over 1979-1985: one of 19 per cent, by comparison with a decline of 25 per cent for the unadjusted price index. Over the period 1979-1985, the ratio of house prices relative to net industrial earnings declined by 6.5 per cent, when an adjustment is made for the decline in house size over the period. Thus, the corrected decline in the house price/earnings is a modest one.

Up to 1980 there was a close relationship between the trend in new house prices and in second-hand house prices. This correlation has been much weaker in recent years, as in the period between 1980 and 1987, second-hand house prices fell by less than in the case of new house prices, declining by 22 per cent in real terms. It is not clear if this is related to an increasing proportion of building society loans going to second-hand dwellings.

SOME URBAN PROBLEMS

Some of the lower income households in privately rented accommodation have consisted of families queuing for a local authority dwelling. Others have consisted of those who, although not eligible for local authority loans, may never be able to raise the deposit for, and repay, a loan from a building society.

The conditions of those in the private letting sector, typified by the conditions in the Dublin sub-region, have given rise to considerable concern and have been well documented by O'Brien and Dillon (1982). There is polarisation in this tenure between high-income households with high quality accommodation at one end, and low-income households spending a relatively high proportion of their income on housing, at the other end. Many of those at the bottom end of the private letting tenure not only spend a high proportion of their incomes on housing but also suffer a relatively poor quality of housing services and a considerable degree of insecurity. Private letting tenants have been squeezed between their own economic weakness and a shrinking supply of adequate accommodation. In turn, the latter has reflected the loss of, first, higher income and in recent years middle income demand to owner-occupation, and the loss of low to moderate income family demand to the public sector. It has also reflected, to some extent, losses of public sector housing due to slum clearance.

CONCLUSIONS ON HOUSING CONDITIONS

It is evident from the above that for the bulk of households their quality of housing services have improved since the early 1970s. In particular, there has been a decline in the number of old dwellings, the proportion of dwellings which lack basic amenities has declined, and the average size of dwellings has increased. With the decline in family size and in the number of larger families and reflecting also the rate of supply of dwellings, the incidence of overcrowding has declined greatly. The level of amenities across the housing stock as a whole has improved. The quality of dwellings in the local authority sector has improved. The number of persons living in temporary housing units, essentially mobile houses, which had increased from 14,800 persons (in 4,200 households) in 1971 to 40,300 persons (in 14,600 households) in 1981, declined subsequently to 29,100 persons (in 11,400 households) in 1986.

Despite the general rise in housing standards, certain groups have benefitted little, or not at all, from the general improvement in housing conditions over the past decade or so. This is indicated by the stagnation, or even deterioration, in housing conditions which has occurred among those with the poorest quality of dwellings or with none at all. There has been an increasing disparity between the quality of housing services enjoyed by most households, and those obtained by those at the bottom end of the housing market. The evidence for this is the following:

- the persistence of unfitness, some of them in urban areas and others being outdated units in rural areas;
- the persistence of overcrowding in a minority of dwellings, many of them in local authority tenure;
- the number of persons living in mobile dwellings;
- the continual flow of people into homelessness;
- the impact of the lack of security of tenure and of relatively high housing costs in relation to income in much of the private letting sector;
- the lack of basic facilities among certain elderly persons who live alone;
- the poor (structural) housing conditions in a part of the local authority tenure, which in part reflects earlier efforts to provide “low-cost” housing;
- the “hard to let” local authority estates in certain urban areas which are characterised by some combination of poor community facilities, lack of accessibility to jobs, shopping and other facilities, poorly maintained fabric and design problems which have led to difficulties with security and vandalism.

Of these various elements, the one which may not always indicate a deterioration in housing conditions relates to the numbers living in mobile homes. For instance, in rural areas, people may abandon their houses and move into a caravan alongside it. Poor though their conditions are, they are presumably preferred.

While it is difficult to make any precise estimates of the relative scale of the different problems, the most serious ones seem to be those of structural fitness and poor maintenance in the older urban stock, part of which is at the bottom end of the private letting tenure; structural fitness in isolated rural areas; structural fitness, maintenance problems, poor design and lack of community facilities in certain local authority estates in urban areas. These are also the problems which have increased most over time. The problems which have been alleviated most in recent years are those of overcrowding and of structural unfitness in rural areas.

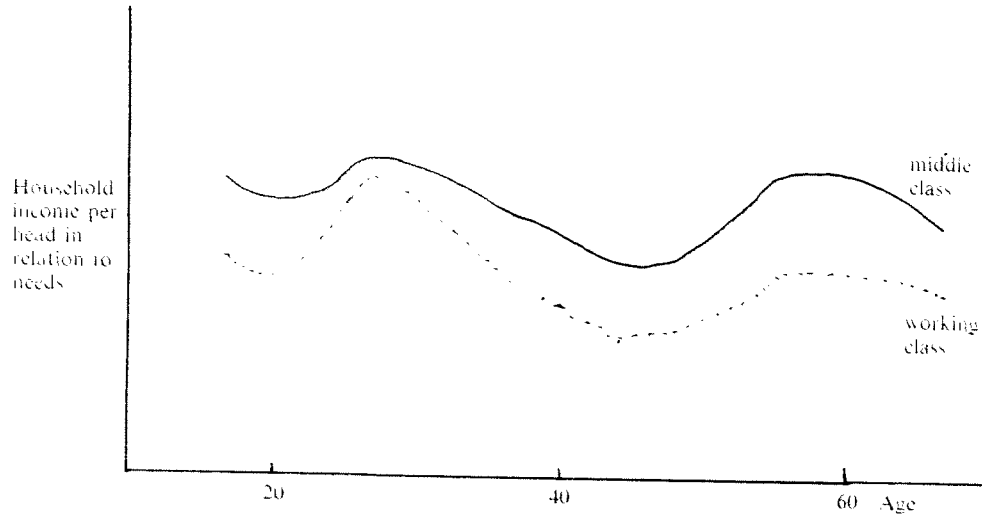
Figure 3.6 tries to capture in a stylised but representative way, the dynamics of the “housing histories” which are typical for most people. A picture of this sort should account for the majority of households — on current patterns which will, of course, change as current young households grow older. A diagram like this helps to focus attention on critical issues for policy such as: who defaults on mortgages? fails to move out of the parental home? gets stuck in poor quality private letting accommodation? Where are the unfit houses, the overcrowded houses? How large are the submerged or excluded groups whose housing histories are not typical of the diagram but who live a marginalised existence? Some of these may move to and from the parental home a number of times, others may make a number of moves between local authority and private letting or within private letting.

The number of housing completions per head of population accelerated during the 1970s and since then has fallen back. Some of these completions served the purpose of replacing dwellings which were unfit and dwellings which became obsolete.

Some of the disparities in housing conditions have been related to difficulties in obtaining access to satisfactory housing. Those families which are unable to finance housing from their own resources are dependent on the local authority sector for accommodation. There have been distinct differences between areas in the ease with which such accommodation can be obtained, especially for young families. Up to recently, until the take-up of the £5,000 “surrender” grants reduced considerably the waiting list for local authority lettings, families could have been driven to show “need” for local authority housing by living in overcrowded or multi-family conditions. Hence, some of the overcrowding and involuntary sharing was a likely reflection of the letting criteria of local authorities. Others have not qualified for local authority lettings, even though they live in poor housing, because they are not eligible, as in the case of many single people aged under 60.

In recent years with the tumbling waiting lists for local authority housing, certain people who formerly would have not obtained local authority housing have been allocated lettings. These people — such as married couples with no

Figure 3.6: Typical "Housing Histories"



children, lone parent families, and single people aged under 60 have, however, been allocated housing in "low demand" areas. This has resulted in these areas having even less of a social and economic mix than was the case heretofore.

An important aspect of housing quality is that of choice — in terms of type of dwelling, location, degree of discretion with regard to management and improvement of the dwelling in the case of tenants, opportunities for mobility. It is evident from the differential take-up of the £5,000 surrender grant across areas, and its concentration in certain areas which are marked by some combination of lack of access to jobs (and facilities and services), design faults, security problems and stigma, that many tenants themselves are dissatisfied with the quality of the housing or of the broader environment.

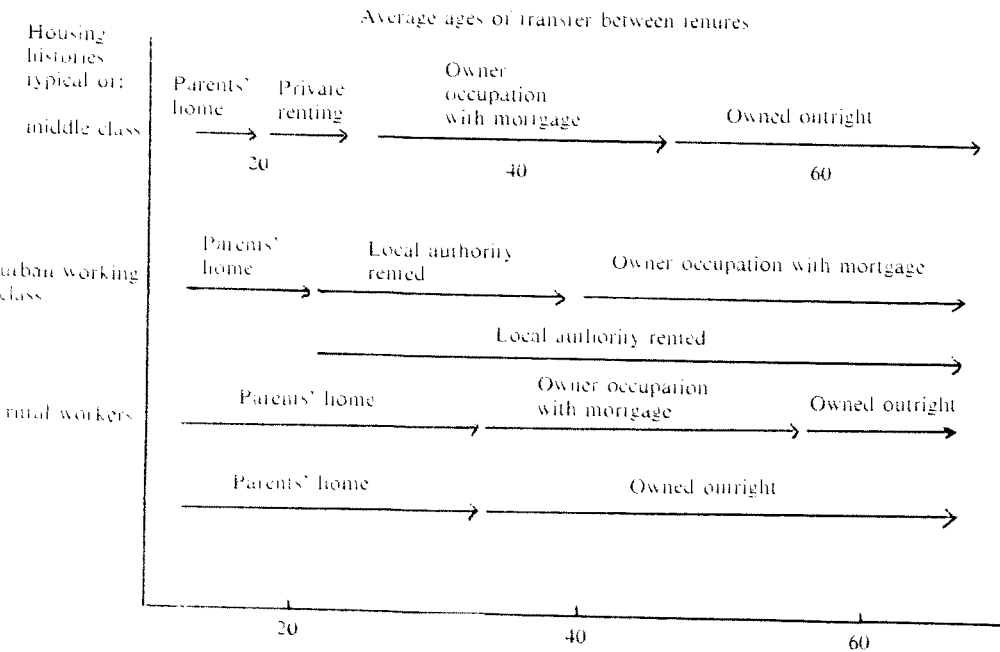
SIGNIFICANCE FOR POLICY OF THE ABOVE TRENDS

These trends in housing conditions have a number of implications for housing policy. First, the significant number of low income households among those who own outright has implications. Many of these are pensioners. These households are likely to have difficulty in maintaining their dwellings in good repair. Such inability to engage in necessary repairs is likely to become more acute as the inhabitants get older.

Second, in the 1970s, a good deal of attention was paid to the problems which faced first time owner occupiers, and some explicit Government measures were brought in to ease the burden of repayments for these people. The problems were a reflection of the fact that, when nominal interest rates rise at a time of high inflation, which was the case in that period, the initial repayments on a mortgage increase markedly. Any difficulties in funding repayments were greatly alleviated over time since the repayments in real terms declined over time. The position now is different from that of the late 1970s. With the decline in real house prices which has occurred in recent years, the initial costs of funding ownership have declined, given the ability to fund a deposit. But with the decline in the rate of price inflation which has occurred, the burden of repayments over time does not fall so sharply.

This implies that a set of problems looms up concerning those marginal buyers who were encouraged to enter owner occupation but have been barely able to fund house purchase and who are now hit by a combination of three elements: the decline in real incomes from work, a rise in real mortgage rates and little or no decline over time in repayments as a ratio of income. In turn, this points up that, while Irish housing policy has been succeeding in getting people into owner occupation, it has not anticipated some of the problems which this very "success" would bring in its wake, which are as follows:

- Increased difficulties in funding repayments which some purchasers have experienced, leading to potential default and repossession.



- An increasing resort to Supplementary Welfare Allowance for mortgage supplementation, adding to the strains in that system which were not anticipated. Between March 1980 and March 1987 the overall number of rent or mortgage supplements paid increased from 1,300 to 8,800. This is likely to underestimate the actual rise as this only covers supplements which are subject to Ministerial sanctions.
- For buyers who have Housing Finance Agency loans, and who become unemployed or suffer a marked drop in income, they are trapped with an increasing debt on the dwelling and an inability to sell the dwelling.
- Some owner occupiers may be unable to engage in necessary repairs and maintenance.
- There has been an increasing residualisation in the local authority rented tenure, in part associated with the “exit” of relatively higher income tenants and tenants in employment in recent years, which has in part been linked to the increasing problems of the low demand or hard to let estates in that sector. The proportion of local authority tenants who are (wholly or mainly) dependent on social welfare payments increased from 51 per cent in 1983 to 57 per cent in 1985 and increased further to 70 per cent in 1987. In particular estates, the proportions would be even higher. This set of problems in turn has led in part to the reluctance of people to move to certain areas, tenant dissatisfaction, high vacancy rate in certain areas and expenditure on security by the local authorities.

Third, policy issues have changed from being about quantity, as was the case (though not exclusively) in the 1970s in the sense that providing for new household formation was paramount, to being concerned with housing quality. This means that issues such as environmental improvement have come to the fore. It also means that spatial differences in housing quality have come to matter more — such as differences within urban areas, and particular problems which are evident in isolated rural areas.

Fourth, as the housing stock has grown and as “new building” is now slowing down in relation to the size of the housing stock, the lack of a coherent policy towards the existing housing stock is thrown into sharp relief.

Fifth, as more households in the local authority tenure are dependent on social welfare payments as a source of income, and as the Supplementary Welfare Allowance is increasingly used for housing, the need for a coherent system of helping people to pay for housing is pointed up.

Sixth, while the average number of rooms per dwelling has increased, this does not say anything about the match between need and supply with regard to dwellings of different types and sizes. A housing system with a conjunction of overcrowding and underoccupation is one with an inefficient use of the housing stock.

Seventh, there is need for attention to those households who have been left out, in the general improvement in housing conditions. It is evident that the focus of housing policy has been in part on the achievement of minimum standards. It is also evident that this aim has not been achieved across all Irish households. In Britain, five main characteristics have distinguished those who live in the worst housing: low income, old age, non-married status, duration of residence in the house, and having been born outside Europe (with age and duration of housing each having a “U-shaped” relationship to housing conditions): the probability of living in bad housing was highest of all among elderly people who had lived a long time in the same house, and next highest among young people who had recently arrived in their houses (Donnison and Ungerson, 1982). Though the deplorably inadequate data on Irish housing conditions make such an attribution difficult, there are indications that low income, old age (especially in the case of the most elderly and the elderly living alone), and non-married plus lone parent status are all associated with those who live in the worst housing.

Eighth, the availability of vacant local authority dwellings in the mid 1980s led to houses and flats being offered to persons who, up to that time, would not have obtained local authority housing: childless couples, lone-parent families and the single homeless. However, this occurred as an *ad hoc* response to the vacant dwellings rather than as a coherent strategy. Moreover, the dwellings which were offered were in “low-demand” areas. The relative supply position is already beginning to tighten as the downturn in completions of local authority dwellings makes itself felt.

THE CHANGING HOUSING MARKET AND ITS IMPLICATIONS

INTRODUCTION

This chapter is concerned with the changing nature of the housing market and its implications for policy, and in particular with projections of the future number of households. Housing policy has concerned itself with helping those households who are unable to house themselves. This role has been seen as being achieved through local authorities building and allocating dwellings — although in fact the authorities have intervened through a range of aids which have affected most households at one time or another. A number of these aids have been “demand-led”: that is, they have been open-ended and depended on the take-up. In turn their take-up by households has reflected the changing rates of household formation and elements such as real incomes and interest rates.

Among the questions which this chapter addresses which are directly related to policy are the following. What are the implications of recent and projected changes in the housing market for policy? Given the recent and projected changes in household formation, and the changes in household numbers by type, what are the implications for the housing authorities? To what extent is the extent and nature of demand by first time buyers in flux?

HOUSEHOLD FORMATION

The net increase in households is the outcome of new households being formed, *less* the dissolution of households which occurs through emigration, death, move from a private household to an institution, and marriage or sharing which involves the “replacement” of two or more households by one. The place to begin is with household formation: the extent to which new households are set up. A noticeable aspect of housing provision in European countries is the extent to which the lack of sharing among members of the extended family and the “splitting off” of young unmarried people from households both act to increase the number of separate households. This has also been evident in Ireland. In the 1970s there was a marked rise in headship rates that is, rates of household formation, or the proportion of persons in specific age-sex groups who are heads of household especially among single persons.

Associated with this has been an increase in the proportion of “one-person” households. The number of one-person households increased from 102,800 (or 14 per cent of the total) in 1971 to 155,700 (or 17 per cent of the total) in 1981 and increased further to 180,800 (or 19 per cent the total) in 1986. (The data for 1971 cover private households in permanent housing units.) However, throughout this chapter, unless otherwise stated, the reference is to private households in permanent housing units. The tendency to form independent households increased especially among single and widowed women in the decade of the 1970s. Some of this increase was undoubtedly a reflection of increases in real income from work and in real pension benefits but in part was undoubtedly a reflection of social change, independent of income.

The impact of headship rate changes on household formation can be seen from the changes since 1971. In the period 1971-81, 40 per cent of the additional households of 169,700 can be attributed to changes in headship rates (by sex, age, marital status) rather than to changes in the size and structure of the population. In the period 1981-86, 40 per cent again of the additional households of 68,818 can be attributed to changes in headship rates.

In percentage point terms, the most marked increases in headship rates over 1971-1986 occurred among single men and women. This was especially the case for single males aged 25-39 and for single women aged 25-49 (Table 4.1). Even in the period since 1981 the rise in headship rates among single persons has continued in the age groups up to 35-39 despite the fall in real income which occurred. At the same time, the average annual rate of increase in headship rates over 1981-86 has been lower than in the 1970s reflecting increased net emigration, falling real incomes and rising mortgage rates, influences which are discussed further below. In the case of the age groups from 40-44 upwards the headship rates for single males declined in the period 1981-86. Once again, in 1981-86 as in the 1970s, increases in the headship rates (that is, changes in percentage points) were greater in the case of single women than in the case of single men in many age groups and there were increases in the case of every age group from 25-29 up to 60-64.

Taking married persons' headship rates, where married male and married female heads are aggregated, in every age group from 20 up to 49 there was a distinct rise in headship of married persons over 1971-1981. Further increases occurred in married persons' headship rates in 1981-86, with rates rising in every age group up to 55-59. But by 1986 these rates were probably approaching saturation.

The increase in headship rates since 1971 must reflect the underlying elements of income, preferences, relative prices and asset demand. Households have dissolved into a number of smaller ones, typically taking the form of single

Table 4.1
Headship Rates by Sex and Marital Status, 1971, 1979, 1981, 1986^(a)
[%]

Age Group	Males										
	Single	Married	Widowed								
15-19	0.5	0.9	1.3	1.3	31.5	30.2	37.4	(b)	0.0	0.0	(b)
20-24	3.5	5.9	6.5	7.1	60.9	70.4	66.8	33.3	85.0	42.4	(b)
25-29	8.4	12.4	15.2	17.0	76.8	83.1	81.8	39.5	53.9	50.8	24.0
30-34	15.1	16.9	23.4	27.2	85.8	88.4	87.8	62.2	66.1	64.1	82.0
35-39	24.1	21.9	30.9	36.6	89.7	91.0	90.5	69.3	71.9	79.9	76.5
40-44	34.5	30.2	39.6	39.2	91.9	92.8	92.1	79.5	85.1	84.1	77.4
45-49	42.4	39.3	47.8	47.5	93.9	93.7	93.5	82.9	85.9	87.4	90.2
50-54	48.9	48.2	55.0	51.2	95.2	94.4	93.9	86.3	88.6	88.3	87.8
55-59	53.8	54.0	57.8	58.7	95.9	95.0	94.6	86.9	89.2	88.6	86.0
60-64	54.5	57.0	58.1	73.4	95.8	95.2	94.6	85.8	86.3	85.0	84.4
65 and over	50.9	53.0	53.7	60.2	89.8	91.5	51.9	65.2	68.6	66.5	69.7

Females

Age Group	Single				Married				Widowed				
	1971	1979	1981	1986	1971	1979	1981	1971	1979	1981	1979	1981	1986
15-19	0.7	1.2	1.8	1.6	0.8	2.9	2.4	100(c)	16.0	70.0	(b)		
20-24	6.2	10.3	10.1	10.1	0.7	2.9	4.1	34.4	68.9	38.8	31.0		
25-29	9.3	17.0	18.8	19.3	0.9	3.7	5.5	56.2	66.9	64.8	70.7		
30-34	10.4	19.8	22.8	29.3	1.3	3.9	5.6	69.7	77.9	80.6	73.9		
35-39	13.1	21.2	24.8	33.8	1.6	4.0	5.4	77.1	85.3	86.6	74.5		
40-44	18.1	23.2	27.5	35.8	2.3	4.1	5.1	83.7	89.3	87.2	76.9		
45-49	22.2	27.6	31.4	39.2	3.0	4.2	4.8	87.7	90.7	89.7	78.3		
50-54	27.0	31.8	35.4	43.5	3.7	4.5	4.8	87.7	90.7	89.5	80.6		
55-59	30.8	34.9	37.3	45.2	4.3	4.7	5.0	85.6	88.7	86.9	84.8		
60-64	34.6	37.6	39.3	44.9	4.8	5.0	5.1	80.4	84.4	80.8	83.2		
65 and over	36.9	39.2	40.6	39.9	5.8	6.4		59.2	66.8	61.0	66.6		

Married Persons (d)

Age Group	1971	1979	1981	1986
15-19	6.6	8.8	9.6	13.0
20-24	21.3	37.4	26.8	28.5
25-29	33.7	39.3	39.6	40.7
30-34	40.6	44.7	45.1	46.1
35-39	43.1	46.8	47.3	47.7
40-44	44.5	47.7	48.1	49.8
45-49	46.4	48.4	48.8	50.3
50-54	49.6	48.6	49.1	51.2
55-59	52.9	50.8	50.2	50.9
60-64	56.7	54.0	53.2	50.5
65 and over	58.0	59.1	57.9	56.8

Notes: (a) Heads of household relate to private households in permanent housing units; population relates to total population, including institutions. For 1971 and 1979, heads aged 15-24 are allocated to age groups 15-19 and 20-24 respectively, according to the 1971 distribution of heads.

(b) No cases occur.

(c) Data are based on only two cases where households heads occur.

(d) Married male heads plus married female heads, as a proportion of married persons.

Source: Central Statistics Office.

persons living away from home. The motive force may not be simply increased real income, but also changes in preferences, with persons living separately from families, at both younger and older ages, especially in urban areas. The latter trends are reflected in the statistics on loans by the four main lending agencies. The proportion of loans which went to borrowers who were single (and not about to marry) was 17.5 per cent in 1978, and subsequently increased to 25.1 per cent in 1981 and increased further to 30.7 per cent in 1986 and 28.4 per cent in 1987.

The continual increase in household formation beyond 1981, especially among single people, is likely to have reflected the following:

- a degree of social momentum which has been reflected in “household fission”;
- the rise in marginal tax rates among single persons, since (for any given value of loan) the higher the marginal tax rates, the greater the tax relief;

Table 4.2 shows the change in the number of households over 1981-86 by size of household and shows the marked rise in the number of one-person households.

Another feature of recent years which has implications for housing policy is the increase in the proportion of lone parent families. In 1986, lone parent families with children (82 per cent which were headed by women) comprised 10.0 per cent of all households, compared with 7.8 per cent in 1981. (This includes cases where single parents with children were in a household with other adults). This understates the total number of lone parent families as there are “hidden” lone parents who live (say) with their parents or with a parent and are not picked up in these numbers. There was an increase of 13 per cent in lone parent households as defined above, over 1981-86, by comparison with an increase of 7 per cent for all households. Conventional family type households consisting of husband, wife and children now account for a minority of Irish households — 44 per cent of the total. (These data cover all private households, not just those in permanent housing units.)

Increasing rates of marital breakdown, a declining proportion of single mothers who give up their babies for adoption, and a decreasing presumption that single parenthood is followed by marriage — these have all resulted in a marked rise in the number of lone parent families. Of course, the above is a series of “snapshot” pictures at points in time, most recently for 1986. There is a flow into and out of lone parenthood, and a number of lone parents will not remain in that state.

In the 1970s there was a marked increase in the proportion of all heads of household which comprised people in the younger age groups (under 30). But since 1981 this trend has come to a halt. The early middle-aged groups are now

Table 4.2
Households Classified by Number of Persons in Household, 1981 and 1986
Thousands

Number of persons in household	1981	1986	% Change 1981-86
1	155.7	180.8	16.1
2	184.1	198.0	7.6
3	136.4	144.8	6.2
4	140.3	156.7	11.7
5	117.2	127.8	9.8
6 and over	177.0	168.1	9.5
Total	910.7	976.3	7.2

Note: Data for 1981 cover households in permanent housing units while data for 1986 cover all households. Sources: *Census of Population, 1981, Vol 3, Part 1, Table 3; Census 86: Summary Population Report.*

increasing as a proportion of all household heads. In addition, the rise in the proportion of household heads who are married — another feature of the 1970s — has come to a halt. Since 1981 there has been an increase in the proportion of household heads who are single women.

Household Formation: The Influences

Household formation is influenced by a twin set of elements: the change over time in the population by age and sex, *and* the rates of household formation or headship rates. Here, we consider the influences which together determine the headship rates. The growth over time in household numbers has consisted partly of non-family households (that is, cases where there are one-person households or where there are members of multi-person households where families are not present).

The growth over time in the number of non-family households has been of three types, broadly speaking:

- (a) young people setting up household, living alone or with unrelated persons;
- (b) surviving elderly spouses retaining an independent household;
- (c) separation of married couples leading to more lone-parent families.

The main underlying forces which influence household formation are the following: preferences (or “tastes”), real income, relative prices of houses by comparison with other commodities and the demand for housing as an asset.

First, income, and specifically real disposable personal income per head, is a critical variable. For instance, higher income makes it possible for young single people to set up home independently. It also makes it possible for older people

to set up independent households. Thus, a rise in real income would mean that a widow or widower could retain an independent household rather than share a dwelling with relatives.

Second, the stock of wealth could be expected to affect the demand for housing, with a rise in the stock of wealth in real terms leading to an increased demand for housing. Third, the more the price of housing increases relative to that of other commodities, the lower will be the predicted demand. Fourth, housing is demanded as an asset, which will yield a flow of income (real or imputed) and will give rise to capital gains. The demand for housing as an asset is likely to increase if the *expected* rate of increase in the price of dwellings rise.

Fifth, changes in preferences play a role. Changes in tastes and better opportunities for women to work have influenced the decline of the lodger (including the student lodger) and the decline in numbers of resident domestic servants — these have combined with an evidently greater desire among people to split off from home to live independently or to share a dwelling with another person — the combined effects being increases in demand for housing.

Sixth, housing subsidies can affect both demand and supply and hence can influence household formation.

Finally, headship rates can be affected by the supply of housing: headship rates can rise when the procedures for allocating and subsidising housing change in favour of widows, students, single people and others whose opportunity of obtaining a separate dwelling were previously restricted. The provision of more housing could lead to an increase in headship rates, with the effect in part working through the relative price of housing. A particular rate of house-building could lead to a decline in the relative (but not necessarily the absolute) price of housing, which would in turn lead to an increase in demand.

House Type and Housing Maintenance

The above influences on household formation are essentially all elements which determine the demand for housing or the volume of (desired) expenditure on housing. It may be that a change in real income will affect the housing market in ways *other than* a change in household formation. The other impacts are of the two types.

- (a) There can be a change in (desired) quality of dwelling, for instance as measured (partially) by house size — hence, a fall in real incomes may be reflected in an increased demand for relatively smaller dwellings.
- (b) A change in expenditure on house maintenance can occur — hence, a fall in real incomes may be reflected in reduced real expenditure on house maintenance with the result that decay, and obsolescence due to lack of modernisation at some future period could be greater than otherwise.

RECENT CHANGES IN THE HOUSING MARKET

Since 1981, household formation has been increasing at a lower rate than in the 1970s. In turn, this has been because of changes in the main underlying elements. These elements are as follows.

- (a) Real income per head, after direct taxes, peaked in 1979, having increased by 3.6 per cent a year on average between 1971 and 1979. Between 1979 and 1984, real income per head declined by 7.0 per cent, but then increased by 6.3 per cent in the period 1984-1987. The decline in real earnings *from employment*, after direct taxes, has been greater than the decline in disposable personal income since 1979. For a married couple with two children, one spouse earning, real after-tax earnings from work declined by 14.6 per cent in the five-year period 1979-1984. Between 1984 and 1987 there has been some recovery in after-tax income from employment, as it increased by 5.1 per cent in this three-year period. By contrast, since 1979, transfer payments in real terms increased. The rise over time in State pensions in real terms with the old age contributory pension increasing by 30 per cent in real terms over 1979-84, should have led to increased headship rates in the older age groups.
- (b) The real mortgage rate has increased since the early 1980s, as shown in Chapter 3.
- (c) Elements other than the mortgage rate affect the cost to owner-occupiers. The capital cost to owner-occupiers declines as the marginal tax rises, due to the tax allowance, and declines as the rate of inflation rises (King and Atkinson, 1983). A substantial increase in marginal tax rates occurred in the 1970s, rising from 26 per cent (for a one-earner family with two children at the average earnings level of production workers) in 1972 to 38.5 per cent in 1976 and to 39.75 per cent in 1981. Since then, further rises in marginal tax rates have occurred, especially for single people, with marginal tax rates being 65.75 per cent in 1987 by comparison with 39.5 per cent in 1980; the comparative rates for a married person are 42.75 per cent in 1987 and 39.5 per cent in 1980. Such a trend is, other things equal, likely to give some boost to the demand for housing. Operating in the opposite directions has been the trend in consumer price inflation. In the period between 1971 and around 1977, there was an increase in the underlying rate of inflation. Since then, despite some fluctuations, the underlying rate of inflation has declined.
- (d) The level of State aids for housing has declined since early 1987 — both in the case of cash grants and tax reliefs in the private sector, and public sector completions.

On balance, many of the elements which contributed to the upsurge in housing demand in the 1970s, and hence to the rise in rates of household formation,

have turned in a negative direction since the late 1970s. These are real income, the underlying rate of population increase, the underlying rate of inflation, and the real mortgage rate. In addition, a further element, the change in age structure of the population, is moving in a direction which is likely to dampen the increase in household formation: this is taken up below.

However two elements remain which can still boost household formation. First, the tax system and specifically the high marginal tax rates, provide an incentive to purchase — especially to single people. Second, the social factors which lie behind “household fission” and which have led to rises in household formation among single people after 1979 in the face of a decline, in incomes, can be presumed to continue to operate.

Moreover, most of the increase in household formation among elderly persons has been due, not to elderly people splitting up or moving away, but to their growing capacity to retain a separate household when widowed. Higher headship rates than formerly among couples earlier in life, together with better pensions, will “build in” a likely further increase of this sort for the future. In other words, as the cohort ages it will “take with it” a relatively high headship rate into the 65 and over age group.

A final influence is that in recent years, policy on health care has put greater emphasis on the caring of people in the community rather than in institutions — especially for psychiatric patients and for elderly people. For instance, after a policy review, a new planning framework for the development of psychiatric services has been adopted (Department of Health, 1984). This includes a strong emphasis on out-patient or day-care and the provision of appropriate housing in the community. If policy results in the moving of certain people from institutions to private dwellings, headship rates would rise marginally. While policy does aim to achieve this shift out of institutions, it is not felt that it would have a perceptible impact on headship rates in the projection period — or at least not enough to justify its allowance as a separate element.

Economic change can lead households to demand dwellings of different size, rather than affect the rate of household formation in all cases. Reductions in real incomes since 1979 have led to some decline in house size - as outlined in Chapter 3 — which has partly reflected the supply response on the part of builders of estate-type houses.

Interactions between Housing Supply and Household Formation

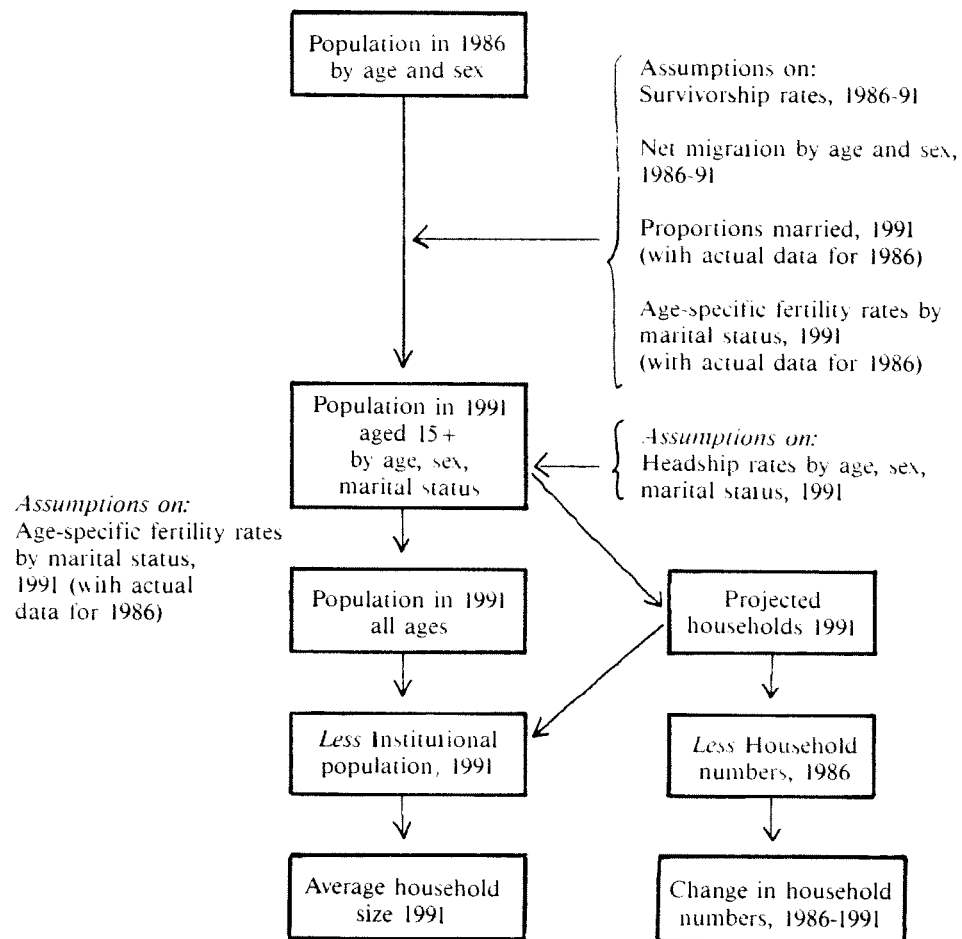
One of the difficulties in making household projections is that household formation itself may rise in response to increases in the supply of housing. For instance, the increase in housing supply in the 1970s and early 1980s may itself have led to increases in headship. One instance of this is the effect of purpose-built housing schemes for the elderly.

One incipient change in housing policy is likely to affect household formation — an increasing tendency for local authorities to cater for small households and even for one-person households. This should lead to some increase in rates of household formation.

METHOD OF HOUSEHOLD PROJECTIONS

The projections are made for private households in permanent housing units. Figure 4.1 encapsulates the steps in going from the population of the initial year to the household numbers in the terminal year.

Figure 4.1
Method of Household Projections



Note: This Figure shows the method for projections over 1986-91. Using 1991 as a new base, the method is replicated for the 1991-96 period.

Assumptions for Population Projections 1986-1996

The household projections are based on the population projections published in 1988 by the Central Statistics Office (CSO, 1988). Those projections made three alternative assumptions on migration and two alternative assumptions on fertility. The key assumptions among those of CSO (1988), for the purpose of household projections, are those on emigration. Two alternative sets are chosen here from the three alternatives given in the CSO report, the "medium emigration" of 25,000 net emigration per annum over 1986-1996, and the "high emigration" of 35,000 a year over 1986-1991 and 30,000 a year over 1991-1996. The former is labelled Assumption 1, the latter is labelled Assumption 2. By comparison with these assumptions, the outcome on migration for the 1981-86 period was net emigration of 14,400 a year, on average.

The assumptions on the proportions of women who are married in each age group, and those on mortality, are the same as those used in the CSO report. In the case of fertility, the lower of the two variants used in the report is used: this would give a total period fertility rate (a rough measure of children born per woman) of 2.04 in 1996 by comparison with 2.4 in 1986. The particular fertility assumptions which are chosen do not affect the projected number of households but they do affect the projected average household size. The assumptions on migration in the CSO report can be seen as reflecting the sharp increase in net emigration in the early 1980s, the existing level of unemployment in Ireland, the depressed demand for labour in Ireland which is likely over the remainder of the 1980s and the early part of the 1990s, together with the decline in labour supply in European countries over the coming decade (especially in the younger age groups).

In the case of the assumption of net emigration of 25,000 a year, the bulk is assumed to occur in the age groups 15-29, with 4.8 thousand a year for those aged 15-19 at the end of the period, 14,000 a year for those aged 20-24 and 4.8 thousand a year for those aged 25-29. The assumptions on the proportion of women in particular age groups who are married can be seen as reflecting a reversal of the trend to earlier marriage which has occurred in recent years. The average age of women at marriage fell more or less steadily to a low point of 24.0 years in 1979 and has increased in each year since then to reach 25.1 in 1983.

Between 1979 and 1984, the proportions of women who are married declined markedly in the age groups between 15 and 29 and the proportion was more or less static in the 30-34 age group. It is based on the sustained period over which the marriage rate has fallen and the trends towards declines in proportions married in other European countries; it is plausible that the trend towards lower marriage rates will continue.

Other Assumptions for the Projections

The main assumptions which underlie the household projections for the period 1986-1996 are as follows:

- a moderate rise in real disposable personal income per person of around 1.5 per cent a year. The central projection for real incomes over the medium term of Bradley *et al* (1987) forecasts a growth in real disposable personal incomes of 1.4 per cent a year on average over the five-year period 1987-1992;
- a decline in the real rate of interest on mortgages to some 2-4 per cent;
- no further rises in marginal tax rates on workers with average earnings of production unless in industry;
- an increase in the ratio of new house prices to average net industrial earnings, after adjusting for house size, towards its level of 1980.

Population Projections

The population projections for the assumptions of 25,000 net emigration per annum, are of a slight decline of 1 per cent in the total population. However, if one focuses on the population aged 15 and over, which is more relevant from the immediate point of view of household formation, the population is projected to increase at a rate of 0.5 per cent per annum over 1986-1991 and 0.5 per cent over 1991-1996.

The change in the *age structure* of the population is of interest. One index of the relative "youthfulness" of the population is the ratio of those aged 30-44 to those aged 15-29. This ratio is projected to increase as shown in Figure 4.2. This amounts to a substantial "middle ageing" of the Irish population over this period.

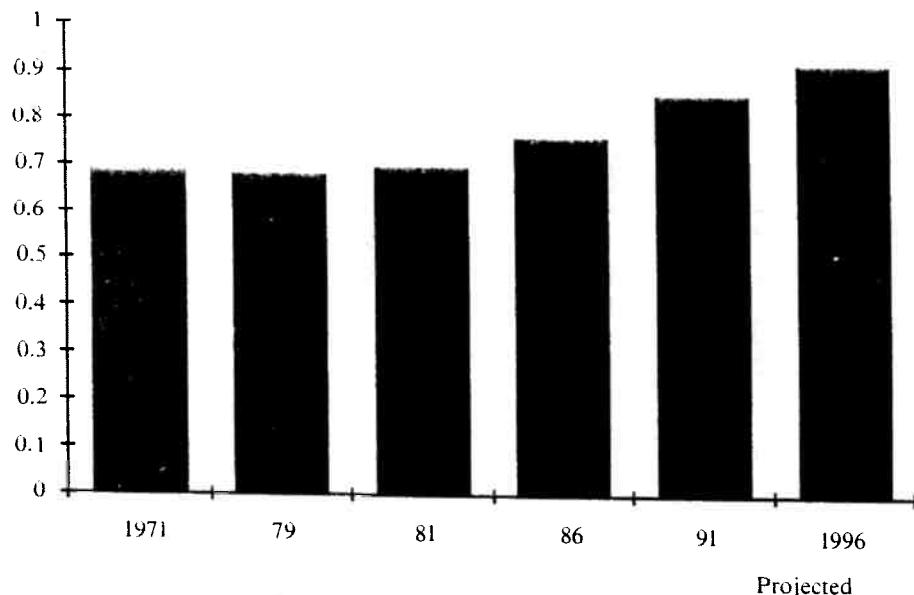
Given that many households are formed by people in their mid to late 20s, with the average age at marriage lying around the middle of the 20s, it is of interest to consider the proportion of the population (aged 15 and over) which is accounted for by those aged 20-29. This proportion is projected to decline from 21.8 per cent in 1981 and 21.7 per cent in 1986 to 18.5 per cent in 1996 under Assumption 1 on migration. These changes in age structure will have an impact on the housing market, they imply some slowing in the aggregate rate of increase in headship rates (across all age groups).

HOUSEHOLD PROJECTIONS

Two alternative assumptions are made about the future course of headship rates.

- I Extrapolated headship rates. Broadly speaking for all age groups except the following, this assumes a continuation of past increases in headship rates but at an increase per annum in line with those of 1981-86. The exceptions are widowed males aged 15-29 and 60 and over, widowed

Figure 4.2
Ratio of those Aged 30-44 to those Aged 15-29, 1971-1996



Sources: *Census of Population*, 1981, Vol. 2; Central Statistics Office (1988).

females aged 15-29, married persons aged 50-54 and 65 and over. In these cases the headship rates are held constant.

II 1986 (constant) headship rates for married persons with extrapolated headship rates as in Option I for other people.

The logic of using assumption II is that beyond a certain point, married persons' headship rates should tend towards a "saturation" level.

Under assumption I on headship and for the assumption of 25,000 a year net emigration, the number of households is projected to increase by 64,100 in the period 1986-91 and by 55,100 in the period 1991-96 (Table 4.3). This is markedly lower than the average increase per five-year period in the 1971-81 decade of 84,900. The rate of growth of household numbers under these assumptions is projected to be 1.3 per cent a year over 1986-91 and 1.0 per cent over 1991-96, by contrast with a growth rate of 1.5 per cent a year over 1981-86 and 2.1 per cent a year in the decade of the 1970s. If the assumption of lower headship rates is made (assumption II), the projected increase in household numbers over 1986-91 is 55,400 with an average annual increase of 1.1 per cent a year.

Taking the assumption of higher net emigration, for assumption I on headship, the increase in household number is 11.6 thousand less over the five year period

Table 4.3
Household Projections, 1986-1996

	Assumptions on headship	
	I	II
Household Numbers: 000		
1981 (actual)	896.1	896.1
1986 (actual)	964.9	964.9
<i>Assumption 1 on emigration</i>		
1991	1,029.0	1,020.3
1996	1,084.1	1,066.7
<i>Assumption 2 on emigration</i>		
1991	1,017.4	1,009.0
1996	1,061.1	1,044.6
Change in household numbers: 000		
1971-81 (actual)	169.7	169.7
1981-86 (actual)	68.8	68.8
<i>Assumption 1 on emigration</i>		
1986-91	64.1	55.4
1991-96	55.1	46.4
<i>Assumption 2 on emigration</i>		
1986-91	52.5	44.1
1991-96	43.7	35.6
% per annum change in household numbers		
1971-81 (actual)	2.1	2.1
1981-86 (actual)	1.5	1.5
<i>Assumption 1 on emigration</i>		
1986-91	1.3	1.1
1991-96	1.0	0.9
<i>Assumption 2 on emigration</i>		
1986-91	1.1	0.9
1991-96	0.8	0.7

Note: These are households in permanent housing units.

by comparison with the above numbers: that is, lower by 2.3 thousand a year. In this case the projected rate of increase in household numbers is 0.9 per cent a year over 1986-91 and 0.7 per cent a year over 1991-96. This means that the projections are more sensitive to the particular assumptions which are chosen on migration than they are to the choice of headship rate — with this comparison being restricted, of course, to the range of assumptions given here.

It is possible to ask the question: of the projected increase in the number of households, how much is due to the projected change in the size and structure of the population, rather than to the assumed (moderate) rise in headship rates? In the ten year period 1986-96, taking assumptions 1 on migration and I on headship, 92,700 or 78 per cent of the projected increase of 119,200 in household numbers reflects the projected change in size and structure of the population. The remainder, 22 per cent, reflects the assumed change in headship rates. This is a much lower contribution from increased headship than

occurred in the 1970s and suggests that these projections are conservative and are likely to be in the nature of “lower bounds”.

In short, the projected rate of increase in household formation over 1986-96 is notably less than that which occurred in the 1970s, with a growth rate of about half of that which occurred in the 1970s. The projected average annual additions to the household stock range from 11,900 (assumptions 1 on migration, 1 on headship) to 8,000 (assumptions 2 on migration, II on headship), by comparison with actual average annual additions of 17,000 in the 1970s. This means that annual additions to the stock are projected to be between 5,100 and 9,000 a year *less* than in the 1970s. This will mean a dampening in housing demand by comparison with the outcome for the 1970s.

Household Size

Figure 4.3 and Table 4.4 show the implications for average household size by comparison with trends since 1971. Average household size which declined from 3.94 in 1971 to 3.68 in 1981 and to 3.47 in 1986 is projected at 3.09 in 1996 for assumptions 1 on migration and 1 on headship. The rate at which household size is projected to decline over 1986-96 is similar to the actual rate of decline over 1981-86. The decline in household size is a reflection of two elements — “household fission” and the decline in average family size.

Figure 4.3
Average Household Size, 1971-1996

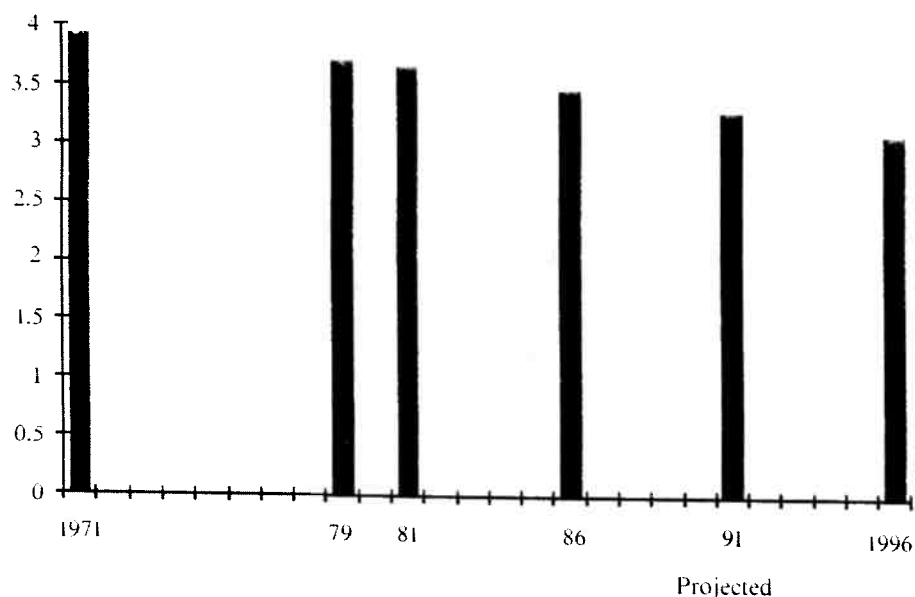


Table 4.4
Population, Household Population and Average Household Size, 1971-1996

Year	(1)	(2)	(3)	Average household size
	Total population	Household population in permanent housing units	Private households in permanent housing units Assumptions 1 on headship, 1 on emigration	
	000	000	000	
1971	2,978.2	2,858.6	726.4	3.94
1979	3,368.2	3,229.7	867.0	3.73
1981	3,443.4	3,294.2	896.1	3.68
1986	3,540.6	3,391.4	978.7	3.47
1991	3,536.3	3,387.1	1,029.0	3.29
1996	3,500.6	3,351.4	1,084.1	3.09

Note: It is assumed that the population which is either in private households in temporary housing units, or else not in private households, is the same as in 1981.

Sources: *Census of Population* 1971, Vol VII;
Census of Population 1979, Vol. III;
Census of Population 1981, Vol. III.
Census of Population 1986, Vol. I.

Other Influences on the Provision of Dwellings

Apart from the rate of household formation, the other main influence on the provision of dwellings is the rate of obsolescence. This is especially difficult to forecast in view of the recent sharp rise in obsolescence which has been discussed in Chapter 3. To the extent to which the rise in obsolescence has reflected mainly a short-run increase in vacancy rates and the rise in emigration, this would not imply that dwelling completions would occur in the coming decade in order to replace the “obsolete” dwellings. In view of the assumed further rise in net emigration over 1986-96 by comparison with 1981-86, measured obsolescence could well remain high in future years without implying that “new building” would have to occur to make up for dwellings lost. Were it not for the assumed rise in net emigration, it would be expected that obsolescence rates would decline in future years. This would be due to the decline in the average age of the housing stock and the completion of much of the clearance in the public sector stock.

IMPLICATIONS FOR THE HOUSING MARKET

The decrease in the rate at which new households are formed, the rising vacancy rates, and the probable decline in the extent to which new dwellings have to be provided to make up for obsolescence — all these mean that the demand for “new-building” in the housing market is likely to decline markedly by contrast with the 1970s and early 1980s. In making such judgements, an allowance is usually needed for a vacancy rate, in order to allow for the flexible working of the housing market, and to help households who must, or who wish

to, move and to permit modernisation. These dwellings would be vacant for a relatively short period. The frictional vacancy rate, concerns the number of dwellings which are empty as a result of the movement of households but are available on the housing market: this includes the newly built dwellings which have not yet been occupied and those which are temporarily held off the market for sale or rent.

Under normal circumstances, an assumed frictional vacancy rate would be applied to the projected change in the housing stock between 1986 and 1996. However, as mentioned in Chapter 3, there is now an "excess" supply of vacant dwellings in the housing stock, related to two elements — an excess stock of housing as a reflection of the recession, and an increased number of local authority dwellings which are vacant. It is also quite possible that in the late 1970s, and early 1980s, a number of dwellings were bought for investment purposes and still stand vacant. Some of the household formation over 1986-91 should be reflected in a filling of these vacant dwellings rather than in new construction.

In particular, by contrast with the period 1981-86 inclusive when average annual completions reached 25,600 and average annual completions in the private sector were 19,500, the future effective demand is for a marked decline in demand completions. This is without making any assumption about policy change in relation to the balance between clearing existing dwellings and retaining existing dwellings in the stock.

Other Elements which have Implications for House Building

There are other elements which can lead to "new building". The main ones are the need to replace unfit dwellings and the need to cater for overcrowding. These obligations fall, in the main, on the housing authorities. What is likely to be the extent of the need to provide new dwellings to cater for these conditions?

The extent of the need to replace *unfit dwellings* depends on the following:

- (a) the condition of the housing stock;
- (b) the ability of households to engage in necessary repairs. Some unfit dwellings which are currently capable of economic repair may well not be repaired in the future. If the household lacks an adequate income, it may be unable to repair the unfit dwelling.

The 1980 Survey of the Housing Stock estimated that 2.5 per cent of the stock was unfit and incapable of economic repair. However, the "true" estimate is likely to be greater than this proportion because of the conservative nature of the 2.5 per cent number. At the same time, some dwelling completions since 1980 will have cleared off part of the unfitness at 1980. Part of this will have

been done through local authority lettings. In the five years 1981-1985 inclusive, the average annual number of lettings by local authorities to families living in unfit houses was 1,500.

Any estimate of the number of unfit dwellings that would need replacement. This would have to be worked off over some future period. There are reasons why one would expect that the number of unfit dwellings would have declined since 1980

- the take-up of the improvement grants schemes, even though these were not notably well-targeted measures
- the paying of essential repairs grants
- the work of the Task Force in housing aid for the elderly.

One could make a rough estimate of the number of dwellings that would need to be replaced due to their *becoming* unfit (that is, part of obsolescence) together with the need to work off the backlog of unfit dwellings. For a housing stock of 1 million, this combined allowance could well be 1 per cent of the total stock or around 10,000 per annum. This could be regarded as an estimate of annual completions which would be needed to meet unfitness and at least part of obsolescence, after a year or two when the "overhang" of vacant dwellings would be expected to be less than now. Such a flow of dwellings needing replacement might be surprising in view of the improved conditions of the housing stock. But it should be remembered that the overall housing stock is far higher than it was fifteen years ago — generating higher replacement demand — and that unfitness problems are likely to persist, both in isolated rural areas and in parts of the urban stock (in part, concentrated in particular locations).

The *overcrowding problem* could be attacked in a number of ways other than by building new dwellings. Dwellings of a greater variety of sizes could be built; existing dwellings could be extended; there could be a better match between dwelling size and household size, either through local authority letting and transfer policy, or through greater mobility by households at different stages in the family life cycle. However, in many cases where the use of local authority transfer policy might be thought to be desirable, the relief of overcrowding would require that the household move to another location, but this would not be desired by the households.

If overcrowded households are transferred to new and larger dwellings, the vacated dwellings should in theory be available for use by smaller households. This is assuming that the vacated dwellings are not unfit. But housing markets or local authority allocation methods might not move so effectively that vacated dwellings are filled. In the period 1981-1985 inclusive, the annual average number of new lettings by local authorities to families which live in overcrowded conditions or involuntarily with other families was 2,700. This

includes lettings of dwellings vacated by existing tenants who transfer to new dwellings.

The only evidence on the overlap between overcrowding and unfitness, from the 1980 Housing Survey, suggests that there is not a great deal of overlap. This survey showed 21.8 per cent of housing units in contravention of Section 63 of the *Housing Act*, 1966, most of them due to airspace violations. Of the stock, 2.5 per cent of units contain households where bedroom privacy criteria are violated, and about 2-3 per cent of units where not only are privacy standards not met, but there are lower standards of facilities and a higher incidence of unfitness.

Among the elements which will determine the incidence of overcrowding are the following:

- trends in family size
- economic trends and specifically real incomes
- the extent to which people demand smaller dwellings at a time when real incomes fall, in other words the trade-off which has been indicated above between household formation and dwelling size.

The need for “new building” to provide for overcrowding is a limited one, for the following reasons.

- (a) not all overcrowding is amenable to solution by building anew.
- (b) when new building occurs and an overcrowded household relocates, the vacated dwelling can be used in some instances.
- (c) some overcrowded households live in unfit dwellings, and the latter have already been allowed for.
- (d) the decline in average household size which has occurred and which is assumed to continue will lead to a lower incidence of overcrowding.

In the case of *involuntary sharing*, an allowance needs to be made for any overlap with unfitness and overcrowding, and also for the possibility of double-counting between the allowance for increased headship on the one hand, and the allowance for involuntary sharing on the other hand. For instance, in cases where the headship rates of young married couples increase this would at the same time imply some reduction in sharing. Past increases in headship rates will reflect, to some extent, the reduction of involuntary sharing.

The *aggregate allowance*, for overcrowding and involuntary sharing could be some 10,000 dwellings, again to be worked off over a period. There are other requirements which fall on housing authorities. First, there are the persons living in mobile homes, which were not counted in the household projections. Second there is the provision of dwelling units for the homeless. However, any estimates here are clouded by the confusion which exists about responsibility for housing homeless people, the difficulty of estimating the numbers of

homeless people, and the fact that “new build” will not always be the appropriate answer to the problem.

It is possible that if real incomes recover sufficiently, there would be a renewed demand for second homes — but these are usually not counted as part of housing “need”.

There is no necessary relation between a programme to build a certain number of dwellings and the alleviation of housing “need”, for a number of reasons.

First, certain types of “need” may require changes in administrative practices rather than building more dwellings. For example, in the case of overcrowding, changes in local authority letting criteria, or in the size distribution of local authority dwellings which are built, could be important. And in the case of the homeless there is equally the need for solutions, other than building more.

Second, dwellings need to be provided of the appropriate types and quality and of the desired tenure, in appropriate locations.

Third, a choice must be made between building anew and improving existing dwellings.

With regard to dwellings by type, it has been indicated that there is likely to be a *relative* increase in demand for smaller type dwellings than was the case in the 1970s. Moreover, the shift in age structure towards the middle ages which is projected to occur should mean a relative increase in demand for house improvements on the part of people in their 30s and 40s, some time after their initial house purchase.

A final point: it is not possible to derive, from the above projections and estimates, an estimate of the amount of housing provision which the local authorities should engage in. This is for the following reasons.

- (a) The housing provision by local authorities is not limited to catering for cases of unfitness and overcrowding. Even within the meeting of needs due to unfitness and overcrowding, the provision will depend on the time scale over which needs are worked off.
- (b) Elements such as a decline in real incomes or a rise in unemployment could lead to more families seeking local authority housing; or supply conditions elsewhere such as a continuation in the decline in supply of moderate-priced rental accommodation, would have implications for local authorities.
- (c) There is the policy issue of the extent to which local authorities should cater for “demand” as well as “need”.

The issue of the likely scale of local authority provision is taken up in the next chapter.