An Chomhairle Náisiúnta Eacnamaíoch agus Shóisialta
National Economic & Social Council

Housing and Urban Development Policy Priorities

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Introduction

In June 2020, the National Economic and Social Council (NESC) Secretariat[1] was asked by the Department of Public Expenditure and Reform (DPER) to undertake research to address the following question:

> What are the policy options available to facilitate the delivery of public and private housing in line with the compact growth targets set out in the National Planning Framework (NPF) and related policies in a new Programme for Government?[2]

The research presented in this Secretariat paper, carried out over six weeks, involved:

- summarising relevant material from NESC's extensive body of related research;
- collating material from external sources, including the Department of Public Expenditure and Reform (DEPR), Department of Housing, Local Government and Heritage , Office of the Planning Regulator (OPR), Land Development Agency (LDA), Housing Supply Coordination Task Force for Dublin, Housing Finance Agency, Home Building Finance Ireland (HBFI), Ireland Strategic Investment Fund (ISIF), Office of Government Procurement (OGP), and relevant others; and
- synthesising and analysing the above to identify and prioritise high-impact policy options.

The NESC Council's system-wide view of housing policy informs the approach taken in the research reported here. This work was undertaken in the context of the new

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[1] The request was to the NESC Secretariat to prepare this analysis. By contrast, NESC reports present the agreed views of the Council. This report does not necessarily represent the views of the Council or the various organisations within it. In this respect, this study differs from a normal NESC report, which presents government with a collective view developed through shared analysis and deliberation. Some of the material in this report was used in a report on housing by the NESC Council*, Housing Policy: Actions to Deliver Change* (NESC, 2020).

[2] 'Compact Growth' is included in the NPF as one of 10 National Strategic Outcomes. It involves targeting a greater proportion (40 per cent) of future housing development to be within and close to the existing 'footprint' of built-up areas. Further, it involves making better use of under-used land and buildings, including 'infill', 'brownfield' and publicly owned sites, and vacant and under-occupied buildings, and—in line with NESC's work on transport-orientated development—higher housing and jobs densities, better serviced by existing facilities and public transport. Achieving these outcomes will be dependent on a significant acceleration of development in Ireland's regional cities.

Programme for Government and proposed review of the National Development Plan (NDP). The work is not intended to provide a comprehensive assessment of the challenges and solutions, but rather to suggest high-impact and deliverable options based on previous work and the most up-to-date guidance from and within government departments, bodies and other experts.

The Council has a long record of analysis in the area of land use, housing, the private rental sector, and urban development policy. For example, it is 16 years since the Council outlined the key role of land supply and land cost in housing and infrastructure (NESC, 2004). More recently, NESC produced research reports on cost rental as an effective and fiscally sustainable model (NESC, 2014a); on the central considerations for homeownership and rental (NESC, 2014b); on policy action to ensure affordable rents (NESC, 2015b) as well as research on more desirable and sustainable forms of urban development (NESC, 2019). Perhaps the most significant piece of work in this area was the Council report *Housing and Infrastructure: Fixing Ireland's Broken Housing System* (NESC, 2018), which was prepared after the Rebuilding Ireland strategy had been in place for some time.

That report's central message is that Ireland must change its system of urban development, land management and housing provision—that the system is dysfunctional and that a suite of actions were and are required to fix it. It points to key aspects of the problem, which inform the options set out in later sections of this report—i.e. the dominant business model applied in the housing sector, the resulting land-price trap, with development normally being close to the margin of viability, and competition occurring at the 'wrong' stage in the housing market (NESC, 2018a).

To summarise, the uncertainty and variability of land supply increases the uncertainty and risk that developers face, on the one hand; on the other, it gives great market power to particular owners of urban development land. If developers and builders are to maintain continuity in their operations, they need to ensure that they have an ongoing supply of suitably located sites. They cannot rely on the market making land available at the time they require it. To ensure adequate land, developers need to invest in land banks. The practice of land-banking by developers, in turn, becomes another influence on the supply of land in the market. Because the land available for development is limited, developers compete with one another for a scarce supply of sites. This tends to create rising land prices, and it encourages developers to buy and hold land.

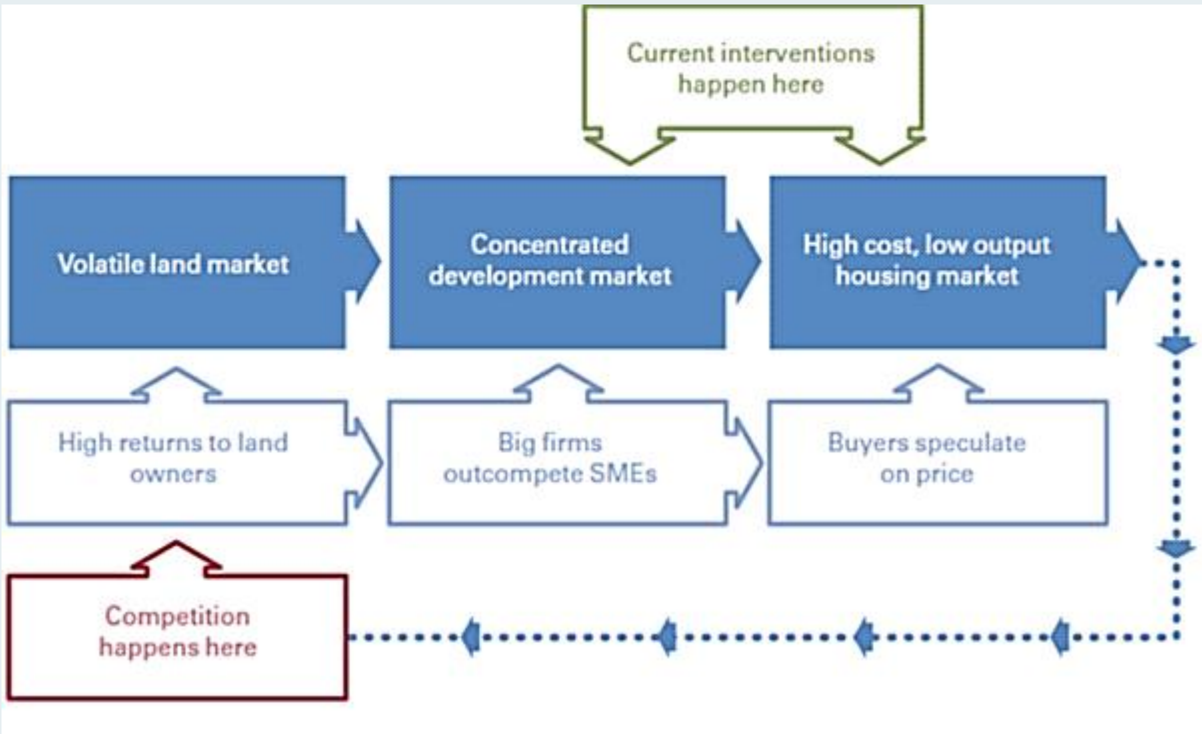
The price developers are willing to pay for development land depends on the price they expect to be able to charge for homes, less the projected costs of producing the homes and a profit margin. A report published by KPMG and Shelter has described the resulting 'land price trap' as follows:

> Whoever bids most optimistically—either betting on higher house prices or lower build costs will win the site. This ratchets up the target price at which builders must sell homes to make their profit margins,

> forces down the quality and size of new build homes, and puts downward pressure on affordable housing obligations (Jefferys *et al*., 2014: 38).

The effect of the dominant business model and the resulting land-price trap, with development normally being close to the margin of viability, is competition occurring at the 'wrong' stage, in the volatile land market rather than in the housing market.

Figure 1: Impact of the Dominant Business Model on the Housing Market



Source: Jefferys *et al*., (2014).

From the outset, it is thus crucial to recognise that the housing system is just that: an interrelated system, where change is complex and takes time. The Council has stated that, without a change in the system, we are condemned to an endless sequence of isolated measures that seek to generate a little more viability, a slight reduction in risk, a marginal increase in supply, a slightly higher share of affordable housing and a minor shift from greenfield to brownfield development. Ireland has been taking such isolated measures for long enough to learn that they are not working. It is axiomatic that viability is directly relevant to output and affordability. This provides the context for the policy options outlined below.

As the Council noted in 2015, the approach frequently involves one aspect—be it the planning process, standards, costs, finance or land hoarding—being described as the problem, and one marginal action being advanced as the solution (NESC, 2015a). Indeed, sometimes one policy initiative cancels out the effect of others. Taking a system-wide approach can also be seen as resulting in 'too many recommendations', meaning that the impact of potentially significant measures that could influence system change is at risk of being diluted. In all cases, deeper consideration of options will be required by the responsible government departments in a collective forum. Besides not working, the focus on a succession of discrete issues both creates and reinforces the game of 'pass the parcel', in which blame is passed between government, local authorities, landholders, developers, builders, and even the homeless. As one expert makes clear, it is illogical to blame various actors for exercising what power they have, 'rather than examining the workings of the system which gives them this power' (Evans, 2004: 175).

Flowing from above, this report suggests a co-ordinative, action-orientated approach rather than isolated actions. The Secretariat believes that such a system-wide approach can address the two gaps highlighted in the request made to it—the supply gap and the affordability gap—in a tangible way, by ensuring development happens and by engineering affordability into that development.

In setting out priority options, the starting point is recognition that direct public-policy influence is needed on housing supply and urban development, particularly to put land in the hands of actors who will develop it (see Figure 2). This necessitates the establishment or presence of public institutions with a strong developmental mandate, political authorisation, and executive capacity. To ensure development happens, these institutions must operate 'in the shadow' of a credible system of compulsory purchase of urban development land.

To ensure that development delivers affordable housing, affordability must be engineered into policies to increase the supply of housing. This suggests, for example, a requirement for affordable housing on private land beyond current Part V, a higher level of social and affordable housing on public land, and a commitment to a national cost-rental strategy at scale. Further, absent a construction sector with the capability and capacity to deliver the required supply, these interventions will count for little. Finally, to reveal the knots which must be unknotted and to demonstrate the commitment and ability of the State to deliver on its objectives, a national development programme should name strategic sites to provide affordable housing at scale.

Figure 2: NESC Secretariat's System-Wide Approach to Increasing Affordable Supply

Adopting this overall approach, the Secretariat's research and policy options are set out as follows:

- Section 1.1: Robust Developmental Institutions
- Section 1.2: Making Sure Development Happens
- Section 1.3: Engineering Affordability Into Supply
- Section 1.4: Adequate, Targeted Financial Mechanisms
- Section 1.5: Embedding System Change
- Section 1.6: National Programme of Flagship Projects
- Section 1.7: Construction Sector Capacity and Productivity

Chapter 2 deals briefly with issues not featured in the original request, but rather arose during the consultation process and which the Secretariat was asked to discuss: prioritisation, targets and implementation. Additional material can be found in the Appendices.

Chapter 1:
Policy Options

1.1 Robust Developmental Institutions

In its 2018 report, the Council argued that achieving the ambitious goals of Project Ireland 2040 would require a fundamentally new approach to relationships between housing, transport, and urban development. In particular, there is a need for public institutions with a strong developmental mandate that have the political authorisation and executive capacity to take action and drive sustainable urban development, including the increased provision of affordable housing.

This recommendation reflected the view that effective land management and sustainable urban development requires authoritative public institutions with the capacity to work collaboratively with relevant public agencies and private and not-for-profit development and housing organisations. In the absence of such authoritative public actors, there will remain a gap between knowledge, plans and insights on the one hand, and, on the other, the authority and capacity to take action that can make a real difference to housing, transport, and urban development.

Achieving tangible progress with regard to housing and active land management will require creative thinking, a multidimensional approach and intensive and ongoing collaborative action between public and private-sector actors. In his study of successful urban developments in European countries, Hall emphasised the central role of authoritative public agencies taking the lead in this process:[3]

> Whether the precise agent is the city planning department (as in Stockholm or Freiburg) or a dedicated public agency (as in Hamburg, Leipzig or the Dutch VINEX developments), the key to success is a well-staffed and well-led planning office with a dedication to the task and the professional competence to draw up master plans and engage in complex arrangements for implementation with the private sector and with community groups. In every successful case, the detailed case studies show that from the start the public agency took the lead: it

3 In its 2015 report, *Housing Supply and Land: Driving Public Action for the Common Good*, the Council recommended that the public system use its authority, capacities and resources to take the lead in the resumption of housing supply (NESC, 2015a).

> drew up a master plan, usually in considerable detail as to the layout of streets and buildings and open spaces—even down to the detailed height and massing of individual blocks—before inviting private or communal agencies to make their proposals for detailed development of individual elements (Hall, 2014: 305).

While this process is led by a public agency, it involves deep and ongoing engagement with both private actors and communities. This collaboration may involve a wide range of contractual, joint-venture, partnership models and financing arrangements. NESC believes that the most critical resource available to the State is land in public ownership. A substantial amount of state-owned land exists in our cities and towns, including large city-centre areas that were former docks or rail depots, other areas in key locations and along new public transport corridors opened up by infrastructure projects or new dedicated bus routes (Government of Ireland, 2018). The Council believes it is vital that the land be put in the hands of actors who will develop it in a timely and appropriate manner, rather than seeking to maximise state revenue by selling it outright. It pointed out that this 'would constitute a change from the approach adopted by many public bodies (NESC, 2018: x).

Drawing on this analysis, the Council strongly endorsed the Government's commitment in the National Planning Framework to establish a new agency that would co-ordinate and secure the best use of public lands to drive urban regeneration, the renewal of strategic areas, and compact and sustainable growth. The Council stipulated that such a public body should promote urban development, through master planning and other measures. Additionally, it should embed permanently affordable housing into its strategic objectives and actions. The Council moreover identified the key characteristics that are likely to make for an effective urban development agency:

- a clearly defined mandate to supply serviced land for permanent affordable housing and public services such as schools;

- an adequate level of capital and ability to raise finance;

- co-ordination with other institutions providing infrastructure, particularly transport infrastructure;

- a sufficient number of highly skilled staff with both public-sector and private-market expertise;

- operational independence and autonomy—including the capacity to establish new development institutions in particular areas—along with effective arrangements for accountability;

- the ability to partner with and advise public bodies to use their power and resources to establish new development institutions to drive development in specific locations (see, for example, Limerick 2030);

- that it starts by leveraging land in public ownership, and, over time, continues its work by acquiring private land where possible; and

- that it works closely with place-based development institutions to deliver major projects.

The decision in the Programme for Government to establish the Land Development Agency (LDA) on a permanent statutory basis as soon as possible is an important policy decision as it provides an opportunity to formally establish a public institution with the mandate, expertise and resources to take, in collaboration with other public and private actors, a lead role in driving sustainable urban development and the increased provision of affordable housing. While highlighting the importance of working in a collaborative manner with government departments, local authorities, state agencies and other relevant stakeholders, the Programme for Government affirms that the LDA will have a pivotal and ongoing role in active land management and housing provision. In particular, it stipulates that:

- The development of sustainable communities will be the core objective of the LDA, delivering sustainable, climate resilient, low-carbon housing.

- The LDA will be tasked with driving strategic land assembly to ensure the sustainable development of new and regenerated communities well served by essential services.

- The LDA will provide homes for affordable purchase, cost rental and social housing.

- The LDA will be mandated to work with local authorities, state agencies and other stakeholders to develop masterplans for strategic sites.

Realising these ambitious but achievable goals will require that this statutory body be afforded the authority, resources and policy tools to enable it to take effective action and drive sustainable urban development and the increased provision of affordable housing, and support compact growth in accordance with the objectives of Project Ireland 2040. Since access to land is one of the constraints on the development of new social housing, particularly for Approved Housing Bodies (AHBs), providing land for social housing should be a significant part of its remit. Indeed, while it will be important for the LDA to deliver short and medium-term policy outcomes, it is also necessary to recognise its potential to contribute to longer-term systemic change in the housing and land markets.

Since its establishment on an interim basis in 2018, the LDA has focused on building its organisational capabilities and competencies, and on developing strategic plans for a number of the sites allocated to it. Recruiting highly qualified staff with considerable knowledge and expertise in development finance, urban development, planning and land management has been an integral part of this capacity-building. It has also sought to develop productive and co-operative relationships with local authorities, state agencies, government departments, development bodies and private developers. For example, the LDA is currently working with Limerick City and County Council, CIÉ and the HSE to develop a mixed-use city-centre neighbourhood on a 50ha site adjacent to Limerick Train Station.

This initiative highlights the LDA's focus on building sustainable communities based on a model of transport-orientated development (NESC, 2019), and it is progressing a similar initiative in Galway city centre. It currently has land for 3-4,000 homes.

The LDA's resources, assets, in-house expertise and the actions it has taken to date certainly suggest that this institution has the potential to effectively undertake the challenging task of delivering housing at significant scale on public land. It is imperative therefore that the legislation to establish the LDA on a permanent statutory basis be enacted as quickly as possible. Equally, it essential that the agency be afforded the appropriate policy instruments to enable it to deliver its ambitious mandate. As noted above, the LDA is to play a lead role in strategic land assembly and development, in conjunction with other stakeholders of masterplans for strategic sites in urban areas. As part of this process, the LDA will undertake a comprehensive audit of state lands, identifying land banks in public ownership that are suitable for housing and other purposes. Importantly, the Programme for Government also indicates that compulsory purchase powers are to be afforded to the LDA to enhance its capacity for land assembly. As discussed below, a credible system of compulsory purchase for urban development land is one of the requirements to make sustainable urban development happen. It is also an integral characteristic of robust and authoritative public development institutions in some other EU states. This reaffirms the importance of reforming the CPO system for designated development sites.

The Programme for Government indicates that any state lands being offered for sale, whether owned by a local authority, government department, commercial or non-commercial semi-state agency or any other agency, would automatically first be offered to the LDA. The acquisition of land by the LDA at no or low cost is desirable, and will be the preferred approach where possible given that it would make an important contribution to securing the goal of affordable housing. However, it should be recognised that there is a cost to the Exchequer as these public lands have value for their owners. In some cases, land-sale revenues are used to help finance public capital projects, as in the case of the Technological University Dublin (TUD), Grangegorman.

While Strategic Development Zones (SDZs) are not solely focused on housing, the status of the LDA as *the* national development agency would be bolstered by a strong, direct role in development in SDZs. This policy initiative is discussed further in Section 1.6. There is also a commitment to using modern methods of construction to support the speedier provision of high-quality sustainable homes at scale.

Finally, the LDA sits alongside local authorities as key players in the supply of affordable housing. Local authorities undertake a vast array of functions to facilitate development, with the associated complex tasks falling on relatively small teams of officials in each local authority. The complexity of the tasks necessitates expertise and time, while familiarity with the problems and regular use of solutions enhances the likelihood of successful outcomes. Access to expertise has a role to play in supporting housing provision and urban development. The process and the development industry are complex, and highly context-specific, making a high level of expertise and direct engagement with the industry essential. Local authorities may benefit from expert specialist advice to provide both social and affordable housing effectively and efficiently to replace skills and experience that have been lost (e.g. on the establishment of Irish Water).

The National Building Agency (NBA) played such a role previously in relation to social housing, having the staff and resources, and skills in key areas such as quantity-surveying, engineering, utilities, architecture, and knowledge of the building industry. However, the NBA was involved in a lot of Ireland's problematic estates, according to the Housing Agency chief executive, as reported by Kelly (2019), and it is important not to repeat its mistakes. At present, the Housing Agency supports local authorities through project feasibility assessments and development of outline project delivery plans; advisory services on Part V delivery, turnkey delivery, and design and build tenders; undertaking financial assessments of Payment and Availability Agreement and Capital Advance Leasing Facility (CALF) applications; and contracts preparation and support. Nevertheless, there are additional critical tasks that local authorities need to undertake, albeit infrequently, to position them as truly robust developmental institutions capable of playing the fullest role in the delivery of affordable public and private housing in line with the compact growth targets set out in the NPF. This suggests that local authorities, in seeking to undertake necessary, complex tasks around procurement, site-unblocking, CPO, master-planning, etc., would benefit considerably from being able to leverage the knowledge and expertise of national specialist development teams. In addition, complex and time-consuming local authority planning and development functions are carried out in the context of low application fees; fees which have not been reviewed for almost twenty years.

Achieving the LDA's goals in relation to strategic land assembly and housing provision will require considerable investment by the State, and it is accepted that the activities of the LDA will be on-balance sheet. Given the demands in other areas of public policy, this ongoing commitment in terms of state expenditure will clearly have to be factored into future policy dialogue. At the same time, the financial expertise in the LDA and other public bodies suggests there is scope to explore how Exchequer funding can be blended with other, alternative sources of finance to potentially expand the pool of capital available for investment in urban development and housing.

Secretariat's suggested priority options

- **Establish LDA on a statutory footing as a matter of urgency, with two primary objectives:**
    - **sustainable urban development and provision of affordable housing;**
    - **sustainable and sufficient supply of affordable land, including land for social housing, for near and longer term.**
- **Equip the LDA with a planning role and tools to assemble land and engage in direct development (including CPO, master-planning, and land-value capture).**
- **Resolve issues around 'book value' transfer of public lands to LDA.**
- **Make the LDA the lead development agency for all SDZs, learning lessons from experiences of the Dublin Docklands Development Agency and the Grangegorman Development Agency.**
- **Ensure the LDA contributes to capacity-building in the construction sector (see Section 1.7).**
- **Fund local authority planning and development functions adequately and ensure development application fees reflect the economic cost to the authority.**
- **Establish national specialist teams available to local authorities to undertake necessary, complex tasks around procurement, site-unblocking, CPO, master-planning, etc. Consider if the LDA is optimal location for these teams.**

Explore the potential to develop blended funding and financing structures as a mechanism for leveraging additional investment in sustainable urban development and housing provision

1.2 Making Sure Development Happens

Credible system of compulsory purchase of urban development land

The Council has stated that, while planning of the kind found in Ireland and Britain can prevent undesired development, it lacks the ability to ensure that development takes place. Land can be zoned for housing, and even serviced, but there is no guarantee that it will be used within a reasonable period. Indeed, the supply conditions of land help to create the speculative development land and housing market. The focal point for competition is land acquisition and land hoarding, rather than quality or value for consumers.

NESC has noted that incentivising productive engagement between the public and private actors depends on framework conditions, in particular the status of the urban development bodies, their planning powers and a credible system of compulsory purchase of urban development land at below full development value, used as a last resort and under judicial supervision.[4]

Even if rarely used, an effective system of compulsory purchase of land can be an important backup to ensure that land is developed in a timely way in accordance with local plans. The 1973 Kenny Report advocated a system of active land management linked to measures to capture the land-value uplift or betterment as a means of capping land prices (NESC, 2004). The Kenny Report proposed that local authorities would have the right to acquire land at existing use value plus 25 per cent in the following circumstances: (i) the land would probably be used during the following ten years for housing, industrial or other development, and (ii) the land either had been or would be increased in market price by works carried out by local authorities.

A core principle of the Kenny Report regarding the capture of the betterment remains as relevant today as it was fifty years ago. The State should update the CPO process and implement a mechanism to capture betterment in order to control land costs and ensure affordable housing for future generations. These enhanced policy instruments would also have the potential to transform areas of major urban

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[4] In Germany, if development is desired but is not taking place, the area concerned may be designated as an 'urban development zone' and made subject to an 'urban development measure'. This allows for the swift acquisition of land (large derelict sites as well as greenfield land) at its existing value. Following the provision of infrastructure, the municipality then sells building plots to buyers. In the Netherlands, compulsory purchase of land is permitted if the owner is not willing and able to develop it in accordance with the plan for the area. The starting point in valuing land for compulsory purchase for development purposes is the average value of the land within the designated plan area plus compensation for disturbance. Two points worth noting are as follows. First, it is the *average* value within the plan area as a whole that is paid, not the value of the individual plot. Thus, land that is to be used for a house or office receives the same value as land to be used as a park. Second, the land value is reduced to take account of the cost of providing infrastructure. In practice, this means that the value of unserviced land to a developer for commercial uses is usually higher than the compulsory purchase price (Needham, 2014).

centres where land is suboptimally used, thus contributing to the NPF goals of more compact and sustainable urban development.

It is commonly argued that the unwillingness to adopt the Kenny Report or similar policy actions is premised on the view that it would be unconstitutional, given the nature of property rights in the Constitution. This question was examined at length in the Kenny Report itself and subsequently re-examined by an All-Party Oireachtas Committee on the Constitution (APOCC) in 2004. While accepting that it was impossible to be definite on this question, the report of the latter body concluded that, 'judged by contemporary case-law, it is nevertheless very difficult to see why the recommendations contained in the Kenny Report would not survive constitutional scrutiny' (APOCC, 2004: 39).

The Law Reform Commission is involved in a project to consolidate, clarify and reform the rules and principles on compulsory acquisition of land. It notes that the current process can be considered unnecessarily complex, lengthy and costly (Law Reform Commission, undated). There is an urgent need to put in place a fair, effective and efficient system. This involves driving long-run reform while maximising appropriate use of the powers already in place in the interim, to provide a 'half-way house' solution on the road to ultimate reform.

One barrier to such reform is a fear among landowners across the country that their land would become subject to compulsory acquisition by the State. One way to minimise such concerns is to pursue effective powers to be applied to specific, designated sites as opposed to being a general, national measure. The purpose of the work here is the increase in supply of affordable housing in locations of high demand. These will largely, if not exclusively, be in urban settings rather than involving large tracts of greenfield land in rural settings. Section 1.6 discusses use of instruments at site level in more detail.

In the interim, there appear to be differences in the CPO regimes applied under planning, housing and roads legislation. There would be value in identifying the most effective and (cost)-efficient regime currently applicable, with a view to seeing more immediate use by state actors to help deliver affordable and/or compact housing in appropriate areas.[5]

There is also scope to make greater use of existing CPO powers to assemble land and promote development. For example, the assembly of land for the redevelopment of Smithfield in Dublin was facilitated by putting in place a CPO for

5 Assessing the efficiency of CPO regimes under various Acts must take cognisance of the cost-effectiveness of the process. For example, it has been estimated (Forfás & The Irish Academy of Engineering, 2011) that land acquisition for the inter-urban motorway system resulted in a huge transfer of wealth from taxpayers and road users, to landowners. Of the €8bn overall cost, €1.46bn, or 18.5 per cent of the total, was spent acquiring 7,800 hectares required for 1,000km of motorway. This is equivalent to €187,000 per hectare or €76,000 per acre.

the area. This enabled a developer to assemble land by making commercial offers to multiple landowners in the area, who accepted such offers in preference to an uncertain price under a potential CPO (Kelly, 2010). This could be more widely applied.

International experience reaffirms the importance of establishing an authoritative public body with a strong development mandate that is equipped with not only necessary capital and land resources but also has recourse to a suite of effective active land management and planning policy tools. It also highlights the need for the broader public policy and institutional landscape at the national, regional and local levels to be equally focused on achieving the high-level goals of the NPF. Making progress towards the Government's stated objectives for more stable, affordable supply and sustainable development would be supported by allowing state actors to operate within a credible system of compulsory purchase of urban development land at below full development value. Such a system should be available to local authorities and the LDA.

The commitment in the Programme for Government to establish the LDA on a statutory basis as a matter of urgency is a welcome development. Aside from enabling the LDA to begin to build houses, it will also serve to reinforce the agency's status and standing within the broader public sector and development industry.

Although the LDA has shown its ability to design, in partnership with other stakeholders, ambitious masterplans for sustainable urban development, it needs now to demonstrate its capacity to actually deliver affordable housing units in a timely manner. Aside from contributing to the goal of compact and sustainable growth, such activity will also establish the LDA as a credible and authoritative player in urban placemaking.

Driving compact and sustainable urban growth, and in particular substantially increasing the supply of affordable housing, will require the LDA to build up a land bank of sufficient scale to have a discernible impact on the land and housing markets. The banking of land by the public authority allows it to moderate the effect of surges in demand on price, by preventing a highly constrained short-run supply and price giving the wrong signal to both house-builders and house-buyers (Saiz, 2014). This will also facilitate longer-term strategic planning and the fostering of more productive and stable relationships with development actors. Developing more accurate data on public land assets, the commitment to give LDA a first option on public land for sale, and the affording of CPO powers to the agency will all help in this regard. As noted above, a key issue will be whether the LDA can secure public land at no or low cost (at least below the full developmental price); otherwise its capacity to provide affordable housing will be severely constrained.

Although enhanced access to public land will provide the LDA with key assets, not all public land will be in the right location for sustainable development. Indeed, most land with the potential for development is in private ownership. An integral aspect of active land management is the capacity to assemble contiguous parcels of land and to make them available to development actors at a price that enables them to provide sustainable and affordable housing. In instances where private land is part of this 'parcel', the LDA will have to have the necessary powers to acquire, or assemble, this land in an efficient and cost-effective manner.

For the initial eight sites that the LDA has worked on for development, arrangements have been reached with other government departments or state bodies, and progress has not required the threat or use of compulsory purchase powers. However, looking ahead, site assembly in some locations will require at least the potential of compulsory purchase. Updating the CPO process and implementing a mechanism to capture betterment has the potential to play a central role in controlling land costs and providing affordable housing. This highlights the importance of the commitment in the Programme for Government to not only give CPO powers to the LDA but to also reform and consolidate this body of legislation, which at present is not fit for purpose. CPO powers must be afforded to the LDA to enable it to fulfil its statutory remit.

Effective Vacant Site Levy

A vacant site levy is in place (7 % from 2019 onwards) to incentivise the development of vacant or underused sites in urban areas. Questions as to whether the rate of the levy is adequate persist, and there are indications that it is not being as effective as hoped. Issues with the levy appear to include exemptions from its application, delays with local area plans, administrative difficulties, inability to demonstrate a viable construction sector or housing need in the area, and problems with interpreting the legislation (Smyth, 2020). The application of the vacant site levy is a matter for individual local authorities, although the Department of Housing, Local Government and Heritage monitors its implementation. A second progress report on implementation of the levy, including information on the number of notices issued, was due to be completed by December 2019. Action can be taken to make this levy more effective in spurring urgently required development. The Planning and Development Act, as amended, provides that a core function of the Office of the Planning Regulator (OPR) is to conduct education and training programmes for members of planning authorities and regional assemblies and for staff of local authorities or regional assemblies in respect of matters that the OPR determines are relevant to its functions, particularly the functions relating to proper planning and sustainable development. Further, in cases where a local authority has a development agreement for a site but work is not progressing, it should have the necessary step-in rights to ensure public policy objectives are delivered.

1.2.1 Compulsory Sales Orders

The idea of compulsory sale orders was suggested in a 2018 NESC report*, Urban Development Land, Housing and Infrastructure: Fixing Ireland's Broken System,* (NESC, 2018). The idea is that local authorities be given new powers that would enable them to require that land that is vacant for an extended period be sold at public auction. The conditions in which this could be triggered would need to be carefully defined so as to balance the rights of owners and the public interest in having urban land developed. If the land were auctioned without a reserve, it is likely that a sale would take place. This policy instrument could be applied to vacant buildings as well as land.

This policy instrument has the advantage that it does not require the local authority to purchase the land (or property). It could be a relatively straightforward measure that would transfer land ownership from passive to active owners. In a situation where there are few land transactions, it would establish the market value of land.

This idea was recommended earlier for vacant and derelict land in the final report of the Scottish Land Reform Review Group (SLRRG, 2014).The Scottish government had committed to introducing legislation on this, but says it is unlikely to be able to do so in the current parliament (Bell, 2019).

Servicing Strategic Sites

The State can play an active role in helping make development happen by providing services (roads, utilities) on important sites. For example, the Serviced Sites Fund is to support local authorities in providing key enabling infrastructure on their (or Housing Agency) land, to get the sites ready for the delivery of affordable housing. Similarly, the Local Infrastructure Housing Activation Fund (LIHAF) is to provide public offsite infrastructure to relieve critical infrastructure blockages, to accelerate delivery of housing on key development sites. Finally, the Urban Regeneration and Development Fund (URDF) was established to support more compact and sustainable development, through the regeneration and rejuvenation of Ireland's five cities and other large towns, in line with the objectives of the NPF. Such funding and activity should be reviewed (and amended if necessary) to ensure it is streamlined, effective, and targeted in such a manner that it results in the maximum number of affordable homes being delivered. Where funds are competitive, competition should be between appropriate entities and projects, and reflect national priorities (e.g. affordable housing projects of scale should not compete with public-realm improvement projects; large urban local authorities should not compete with smaller, rural local authorities).

Further, given that significant delays to the delivery of utilities such as water and energy services and infrastructure can reduce the viability of a development, the State could be more active in assessing and influencing performance in this area.

Site Value Tax

Site value tax (SVT) is a form of land-value capture (see Section 1.4 also). It is an annual property tax based on site values. It would apply to developed land, derelict land, vacant land and zoned sites—but not to agricultural land. In contrast to Ireland's existing local property tax (based on self-assessment of the market value of a property), an SVT tax takes no account of the value of buildings on the land. The site value would include the value added to the land by the services and infrastructural support supplied by government or public utilities (e.g. water supply, public transport, electricity supply, etc.) (NESC, 2018). It represents the purest form of land-value capture in that it applies only to the value added to land. NESC's assessment of a site value tax in 2018 was as follows:

> [Introducing] a site value tax (SVT) on development land would have a number of advantages. First, it would have less distortionary effects than other forms of taxation. Second, it could promote improved land use. Third, it could, arguably, ensure greater fairness as it would play a role in recovering some of the value added to land by public investment and services. However, such an arms-length instrument would not be sufficient to achieve the desired pattern of land use and urban development. This requires the active land management, institutional development and affordable housing policies set out above. While driving these reforms, Ireland should learn more about how countries such as Denmark design and implement a site value tax (NESC, 2018: xii).

Given the advantageous features noted here, the case for an SVT has featured in Irish policy discussion over the decades. The Commission on Taxation (2009) considered that there was a strong economic rationale for the introduction of an SVT. However, it did not recommend its introduction at that time because of its concerns about the operational issues in implementing it, as well as the challenge of communicating its benefits to the public. However, international experience as well as subsequent research in Ireland suggests that operational issues need not be an overriding obstacle (see Box 1). The National Competitiveness Council recommended an SVT on commercial property and land zoned and serviced for development, which would replace commercial rates and the vacant land tax (NCC, 2015). Various economic, social and environmental organisations have also made the case.

Box 1: Adoption and Use of Site Value Taxes

Site or land-value taxes are used in several countries, including Denmark, Australia, some US states, Estonia and New Zealand. Denmark introduced a land tax in 1926, and Estonia in 1993. The legislature in Pennsylvania allows cities to adopt dual-rate property taxation whereby land is taxed at a higher rate than buildings. As of 2006, there were 13 towns and cities plus two school districts with two rate structures in Pennsylvania; of these the most recent adoption was in 2006 (Dye and England, 2010). A survey of the experience of land-value tax around the world reached the following conclusion:

> Land value taxation is more than an intriguing and attractive idea. It is a form of taxation that has actually worked since the nineteenth century at national, state, and local levels of government. Taxation of land values began with its 1849 adoption in New Zealand, and today it is practiced in countries as diverse as Estonia, Fiji, and the United States (Dye and England, 2010: 16).

The question of how a site value tax could be implemented in Ireland was examined in some depth by Lyons (2012) in research commissioned by the Smart Taxes Network. Lyons developed an approach that he proposed could be applied on an interim basis for a site value tax levied on residential property. Using data on house prices from Daft.ie, Lyons developed estimates of the prices of standardised properties (e.g. three-bed semis) and of land values across 4,500 districts in Ireland, which he then organised into 10 bands. The land value of a property could then be computed, given its area and the land-value band. There are five public data sources that could be used to provide more accurate valuation of site values on a permanent basis. These are:

- The Land Registry covers 93 per cent of the area of the State and has details of each property, but not price information.
- The Revenue Commissioners have information on all property transactions, including prices from stamp-duty returns.
- The above information was used to create the Residential Property Price Register. The CSO subsequently linked this with other data sources, such as the Building Energy Rating (BER) data, to combine information on prices and characteristics of a property to generate the Residential Property Price Index.
- The Geodirectory gives every building in Ireland a unique identifier and a verified address.
- Myplan.ie provides information on zonings from statutory development plans and planning application data.

The case for a site value tax is not limited to residential property. A site value tax could be used to replace both the residential property tax and commercial rates as well as the revenue from stamp duty. The data on commercial property is less developed compared to residential property. There is no commercial property price register. The creation of such a register was recommended by the Oireachtas Committee of Inquiry into the Banking Crisis, and this recommendation was subsequently reiterated by the report of a Steering Group on the development of official commercial property statistics.

The Valuation Office produces a valuation based on the annual market rent for every commercial and industrial property at a specified date, redone at five or ten-year intervals. This valuation is used for commercial rates. The Valuation Office uses rental information available through multiple market sources, together with the information provided by the occupiers in relation to their own individual properties. The Valuation Office is supported by an extensive computerised market analysis model in establishing market rental values at the specified valuation date. In addition to information on valuations, details of property type, location, size and features such as car-parking spaces are included in its database.

If commercial rates and the residential property tax were replaced by a land value tax, the current information on valuations would no longer be the primary output required from the Valuation Office. However, its expertise and experience in analysing market information would be highly relevant to produce the related information that would be required for a site value tax. There are well-developed methodologies that have been used elsewhere, and Lyons has suggested the outline of a possible approach for Ireland. While not all of the relevant information is immediately available, there is no reason to believe that information problems would be a major obstacle to the introduction of a site value tax in Ireland.

The 2012 report of the Inter-departmental Group on the Design of a Local Property Tax comprehensively examined the basis of assessment for the LPT, including both the taxable value of the property option and an SVT. The report favoured the use of the market value of residential properties as the basis of assessment, and this recommendation was accepted by the Government. The Design Group concluded at that time that the arguments for SVT were outweighed by the likely difficulties. The operation of the LPT was also reviewed in 2015, and it was concluded that market value was the most appropriate and equitable basis on which to determine LPT liabilities.

Five years on, the new Programme for Government (Government of Ireland, 2020a) states that there is a need to ‘respond decisively to the public’s demand for change in terms of housing’, that ‘Ireland requires a new national social contract between citizens and the State’ and that the ‘ambition of this Government is to provide each citizen with accessible and affordable… housing’. A number of important new questions thus arise:

- Does the scale of the housing challenge today (as opposed to in 2009, 2012 or 2015), coupled with the stated objectives of the new Government, cast the perceived barriers to SVT in a new light?

- Do the above alter the view that the LPT is working well and contributes to solving the housing challenge in a way that a SVT would?

Will barriers such as the need to build acceptance by taxpayers and/or the complexities and uncertainties of valuation efforts continue to be viewed by the policy system as insurmountable?

Most recently, in its 2018 Economic Survey of Ireland, the OECD argued for a site value tax, among a number of other proposed measures on housing (OECD, 2018). The new Programme for Government commits to establishing a Commission on Welfare and Taxation to independently consider how best the tax system can support economic activity. If a site value tax is not to be introduced, it is worth considering extending the existing local property tax to development land.

Secretariat's suggested priority options

- **Urgently begin a two-pronged approach to reform and use compulsory acquisition powers to be applied to specific, designated sites:**
    - **Examine how the State could be supported to acquire land—both zoned and undeveloped and not currently zoned residential—in designated development areas at existing use value plus some premium, as per the Kenny Report and the All-Party Oireachtas Committee.**
    - ***Pending overall reform,* examine differences between the CPO regime under different legislation (planning/housing/roads) and their respective usage, with a view to identifying the most effective and efficient regime. Enable and empower their immediate use by state actors (LDA, local authority)—see text on 'national specialist teams' above.**
- **Assign responsibility for the above reform to a single departmental owner and install reform as a standing agenda item at the appropriate Cabinet Committee.**
- **Urgently review and reform the Vacant Site Levy (VSL).**
- **Request OPR to train and empower local authorities to use VSL more effectively and deal with any conflicts.**
- **Consider assigning VSL collection/enforcement to a different, national body.**
- **Consider the possibility of compulsory sale orders for vacant land and property.**
- **Examine local authority step-in rights where development is not progressing under an development agreement.**

- **Benchmark/set/monitor/enforce time limits on service/infrastructure installation and providers (water, energy) given the impact of delays on the viability and funding model for developers.**
- **Explore the potential to unlock more development on strategic sites by introducing separate Serviced Sites Fund/LIHAF/URDF funding streams focused on high impact, in terms of number of affordable houses provided and clear link to compact growth.**
- **Adjust the URDF application and drawdown system:**
  - **Separate the funding call for investment to increase the supply of affordable housing (combine with Serviced Sites Fund) in line with NPF goals to ensure a steady supply of serviced land.**
  - **Split out 'large local authorities' and 'smaller local authorities' into separate pot/calls to ensure they do not compete with each other.**
  - **Examine the 75 per cent: 25 per cent URDF: local authority own resources 'rule'.**
  - **Provide support for application and drawdown, especially for smaller local authorities.**
- **Introduce a Site Value Tax on developed land, derelict land, vacant land and zoned land (not on agricultural land). Identify and systematically address any barriers to its introduction (e.g. land value register). If a site value tax is not introduced, consider extending the local property tax to development land.**

1.3 Engineering Affordability Into Supply

New National Affordable Housing Policy

The new Programme for Government includes a commitment to a policy to increase the supply of public, social and affordable homes. In advance, firm commitment to support the Central Bank's macro-prudential mortgage policy must be made. Further, a dedicated homelessness strategy should be delivered, with Housing First,[6] increased funding to construct tailored units, and the provision of relevant support services at its centre. Next, the new affordable housing policy needs to have the ambition, scale and detail that shapes market decisions, and give confidence that stated outcomes will be delivered. The policy should consider and enunciate what

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[6] The Housing First approach is based on the provision of immediate, permanent and affordable housing to homeless people and, along with health and other supports, on ensuring people sustain their housing and improve their health and wellbeing. The primary target group are those with a history of sleeping rough and long-term users of emergency accommodation with complex needs (Government of Ireland, 2018).

price level it is targeting as 'affordable' in specific locations, and what income level of workers it is seeking to assist. The plan should be then designed accordingly.

It is important that a greater share of new social housing comes from construction. Social housing construction directly contributes to an increase in housing supply and would be a way of supporting an increase in employment in the post-Covid recovery. Leasing of accommodation gives poor value in areas of high housing demand. A study by the Irish Government and Economic Evaluation Service (Farrell and O'Callaghan, 2020) of new social housing provision across six local authority areas found that the average cost of a directly commissioned local authority new home was €233,000 compared to €270,000 for turnkey purchases of new social housing from developers. However, the situation varied by local authority area. The study found direct commissioning of social housing was more cost-efficient in the Dublin City Council and Fingal areas, but in other local authorities the cost efficiency of turnkey was similar or sometimes better than construction. The authors identified a number of limitations in the data available for the study, including limited output in some of the local authority areas. Dublin City Council has recently published data showing relatively high costs for directly commissioned new-build social housing. The average cost across seven projects at the end of 2020 was almost €430,000 per unit, excluding land.

There are issues that need to be addressed to improve the procurement of social housing. The approval and public procurement processes are complex, and this adds to costs. The approval process should be reviewed, and further condensed and streamlined, as recommended by Norris and Hayden (2018) (see Appendix 2 for an outline of the social housing approval process). Implementation of the commitment in the Programme for Government to allow local authority discretionary funding to increase from €2m to €6m for social housing projects should facilitate increased construction. This is helpful for small social housing developments but not of relevance to larger developments in urban areas.

The practice of public procurement does not support collaborative relationships and trust in the design and building of social housing. According to the Dublin City Council deputy chief executive, 'Every project for Dublin City Council is a new procurement event with no possibility of recurring work, except where we bundle sites that has proved effective but is not always possible' (Kenny, 2020). If social and affordable housing is to be delivered on the scale required in a timely and cost-effective manner, there is a need to find ways of achieving a more collaborative approach to public procurement.

Another reason why construction is an underused delivery mechanism for social housing is access to land for social housing. This applies particularly to Approved Housing Bodies (AHBs). Borrowing money to acquire land for social housing is a risky proposition, as is the case for private development.[7] The availability of land suitable for social housing varies by local authority. Some local authorities have land but are not able to use it for social housing on account of the high debts on the land. A scheme is needed to alleviate local authority land debt that is constraining social housing output. Under the EU fiscal rules, the repayment of debt by government does not count as government expenditure or add to the deficit but is treated as a financial transaction.

Action is required to ensure that there is sufficient land for social housing in appropriate locations. Making land available for social housing should be a substantial part of the work of the Land Development Agency (LDA), while there is also a need for the funding to allow local authorities to acquire land for the development of social housing.

A new national affordable housing policy should investigate options to deliver state-supported house construction which is initially on balance sheet, as a proof of concept (i.e. ultimate commercial return) but which can then be sustained on an off-balance-sheet basis.

Consideration should be given to mechanisms that would allow state actors to avail of tax-efficient funding for affordable housing, having regard to experience in other EU countries (e.g. Austria and France) that use such funding for social housing in order to deliver more affordable homes for sale or rent. Further, consideration should be given to making the use of regulated tax-effective structures by non-state actors conditional on the pass-through of a set portion of related savings to make the housing or rent affordable. There is value in exploring alternative financing options, regularly harnessing the financial expertise in the system early in the policymaking process.

National Cost Rental Programme, At Scale

The Council has produced substantial research on cost rental as an effective and fiscally sustainable housing model (NESC, 2014a). Cost rental uses modest supply-side supports, such as land and finance at favourable rates, to underpin affordability, and it makes this permanent by ensuring that rents cover costs and that the equity that accrues as loans are repaid creates a revolving fund, used in the service of further affordable housing. Cost rental makes rental a realistic and secure long-term option, quite different from the current Irish system.

Cost-rental provision with secure occupancy to a significant share of the population is the best available response to the dynamics of rental systems and housing markets. Cost rental refers to housing in which the rents cover only the incurred

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[7] Banks do not lend money to developers to finance the acquisition of land without planning permission, on account of the risks involved.

costs of a stock of dwellings, rather than the current market value of the property (NESC, 2015b). Where subsidies are provided, cost rents will cover costs net of subsidies.

The full benefits of a cost-rental approach are realised in countries where this sector has been encouraged to expand and compete with private rental in a diverse rental market.

In its 2014 report *Social Housing at the Crossroads*, the Council highlighted the potential of cost-rental housing to meet the housing needs of intermediate households—those that struggle in the private rental sector and the market for home-ownership, but may not be eligible for social housing or, even if they are eligible, are unlikely to be allocated it, given its scarcity (NESC, 2014a).

In recent years, there has been much interest in Ireland in the idea of developing cost-rental accommodation, and in the Vienna model.

The Vienna model of housing involves large-scale provision of affordable housing on a non-market basis. Housing is provided both directly by the City of Vienna and by limited-profit housing associations (LPHAs). The LPHAs are private associations that have benefited from moderate public subsidies, conditional on providing affordable accommodation.

An example of a LPHA apartment development presented by the European Liaison Committee for Social and Housing (CECODHAS) (2013) involved an apartment development in central Vienna in which the rent for a two-bed apartment was €500 per month. The public subsidies provided for this scheme had a net present value of 14 per cent of the value of the project. With this moderate subsidy it was possible to achieve rents that were 50 to 60 per cent of the market rent for comparable properties in the area. While this example dates back to 2012, rents on new developments by LPHAs continue to be moderate.

The activities of the LPHAs are regulated by legislation which requires rents to be set on the basis of costs. Costs include repayment and interest for loans as well as a regulated return on own equity. There are special mark-ups for periodic renovation and maintenance works. Cost rents are calculated at the estate level. There is no rent pooling at the LPHA level. (Box 1 highlights the historical relationship between cost rents and local authority rents in Ireland.)

The housing associations make limited profits; for example, from rents on fully paid-off buildings. But these profits have to be reinvested in the purchase of land, refurbishment or new construction. A tightly limited part of the profit may be divided to the owners or shareholders. Another principle is the 'tie-up of assets': if an association is merged or acquired, the seller will get no more than the originally invested capital rather than the current market value. Another feature of the regulatory framework is that there is an obligation to build: any interruption in building activity requires the explicit permission of the respective regional government (IIBW, 2016).

Box 2: Cost Rents & Local Authority Rents in Ireland

Cost-related rents were a feature of Irish local authority housing in earlier decades. NESC (1977) pointed out that 30 to 40 per cent of local authority tenants were on maximum rents, and these rents in principle were based on costs. Maximum rents at that time were defined as the historically determined debt service costs plus annual maintenance and management costs, defined as 1.5 per cent of the all-inclusive costs. Other methods were used at other times to define maximum rents. Maximum rents defined on the basis of costs were also referred to as economic rents.

In practice, maximum rents often diverged from cost rents, as defined in these ways. One reason was that the setting of maximum rents for new dwellings could be fixed for a number of years even though buildings costs were rising. A second reason arose where maximum rents on existing dwellings would not be adjusted for some years, and thus would not reflect increases in management and maintenance costs.

A number of issues in relation to setting rents on the basis of costs are discussed by NESC (1977) and Blackwell (1989). If rents are based on the historical costs of an individual development, this has the effect that older developments have lower maximum rents. It was noted by NESC (1977) that this does, however, have the advantage of rough-and-ready equity between the local authority tenant and the mortgage-payer, whose costs also reflect historic costs. An alternative is to have rents based on pooled historic costs either in one local authority area or across all local authorities.

The fact that a substantial minority of local authority tenants used to pay rents that, to a degree, were cost-related was part of system in which this sector played a more prominent role than it does today. The local authority housing sector represented a substantial share of new housing output and could accommodate a wider social mix of tenants than today. Local authority housing was an alternative to ownership for many households.

Since Vienna has long pursued a cost-rental approach, it has the advantage of a large stock of cost-rental accommodation available at affordable rents. However, this in itself does not fully explain its ability to achieve relatively low rents on its newly developed cost-rental housing.

Unlike some other countries, in Austria each development is required to cover its own costs, yet it is feasible to achieve moderate rents with limited subsidies. It is worth examining the different factors involved.

The LPHAs in Vienna benefit from the provision of land at reasonable prices by the city’s land agency. In the example referred to above, the land cost per unit was just under €22,000. The Housing Fund agency in Vienna organises an ongoing annual supply of moderately priced land for affordable housing. This is a vital condition underpinning the consistent annual provision of affordable housing on public land in a manner that is not subject to speculative forces.

It is difficult to compare construction costs, but they do appear lower in Vienna. The example from CECODHAS (2013) had construction costs of €132,000. The current Vienna costs would be higher but are still likely to be lower than in Dublin. There is no VAT on construction of rental accommodation in Austria, but VAT of 10 per cent is payable on rents (including by LPHAs). Construction costs vary by project. The example of the Ó Cualann project in Poppintree, Dublin (see Section 4.5) illustrates the possibility of achieving reasonably low construction costs in Ireland; in this project, land was provided at nominal cost and the houses were sold at an average price of €170,000 in the first phase.

Low finance costs are a major factor in the ability of the LPHAs in Vienna to achieve low rents. The total per unit cost in the CECODHAS example was €153,000 per unit, and the monthly finance costs (on which the rent was based) were €395 per month or €4,740 per year. This covers both interest and capital repayments (where they arise) and represents a total initial finance cost of 3.3 per cent.

In this example, 42 per cent of the finance comes from a (tax-subsidised) bank loan and initially it is only on this element that capital repayments are required. The next largest element of the finance is a low-interest government loan (34%). This loan is interest-only until the bank loan is repaid. Another component is equity provided by the LPHA itself (14%) on which it is allowed to charge 3.5 per cent interest, and a (refundable) tenant equity contribution (10%). The fact that capital repayments are initially only required on 42 per cent of the total cost reduces the initial finance cost substantially, and hence the rents that need to be charged to cover costs.

AHBs in Ireland would not likely be a position to provide the equity investment in new developments in the way done by Austria's limited-profit associations (14 per cent of the total investment in the example above came from the funds of the limited-profit association).[8] This implies that cost rental in Ireland will need more government assistance relative to Austria in order to achieve comparable rents. There is, however, the possibility of mobilising equity investment from social impact investors who would be satisfied with a lower than normal conventional return. This could be used by existing AHBs or perhaps new limited-profit organisations.

Another influence on costs and rents is the cost of management and maintenance. The allowable costs for these are regulated in the Austrian limited-profit sector. In the example of a project in Vienna in the CECODHAS report, the provision in rents for management and maintenance was around €50 per month (this rises over time

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[8] The Irish AHBs do have net assets or equity (i.e. assets in excess of liabilities) but for the most part these net assets would not be in the form that would be available to be invested as equity in new projects. If the AHBs were to borrow against their existing assets (housing stock), this still involves taking on new debt.

to allow for increasing costs). There may a difference in the responsibilities of landlords and tenants for maintenance between Ireland and Austria, whereby this cost is reduced in Austria. The low costs for management and maintenance are a significant factor in achieving low-cost rent in Vienna. Scale of provision would help to achieve low average costs of management and maintenance. There is a need to encourage the development in Ireland of large-scale providers capable of achieving cost efficiency in management and maintenance. Scale of provision would also create the possibility of rent pooling whereby there is some sharing of costs across developments.

It is possible for the development of cost-rental and social housing to be complementary on the one site. According to the chief executive of the AHB Respond, 'It is possible to double our output by building the same number of affordable rental homes as social homes, in the same timescale, with the same architect and on the same site' (Dunne, 2020). If one can double output in this way, average costs are reduced as the overhead costs of development cover more homes and faster progress can be made in meeting housing needs.

A number of cost-rental schemes have been initiated in Ireland. The most advanced project is that on Enniskerry Road in Dun Laoghaire-Rathdown, where construction has commenced. The average rent on this project is to be €1,200 per month. The pilot projects are being supported with the provision of free land, and low-cost loans are being made available.

A regulatory framework will be needed for cost rental to expand beyond the Irish pilot projects; the experience of these projects can inform this. There is an existing regulatory framework for approved housing bodies, but additional aspects would be needed for accommodation operating on a cost-rental basis. This would include regulating rents for the cost-rental sector. Previous experience of setting maximum local authority rents related to costs could be drawn upon (see Blackwell, 1989 and Box 2).

Providing public land is an important way of supporting the development of cost-rental accommodation. Cost-rental providers are not in a position to buy land in areas of high housing demand. The cost-rental pilot projects in Ireland to date have been supported with free public land. If public land is provided to a non-government body for cost-rental accommodation, it should be leased to ensure its permanent allocation to cost rental. A system of regulation for cost rental should be established that would include the regulation of rents for this sector.

The cost of finance is a key influence on costs, and hence on the rents that can be charged in cost-rental projects (as shown in the Vienna example, above). The cost of finance depends on the interest rate/return, duration of loans and structure of finance. The interest rate is obviously important, but even a low-interest loan may still have quite high costs depending on the repayment terms. One way to provide low-cost finance for affordable rental housing could be for the State to provide very long-term low-interest loans; for example, 40-year loans at 2 per cent interest. In the case of the first cost-rental project in Dublin (Enniskerry Road), the HFA is providing a 40-year loan (fixed for 30 years) at a low interest rate, which ensures low finance costs. It is difficult to source finance where the rate is fixed beyond 30 years.

It was earlier Irish practice to provide long-term loans at low interest rates to local authorities for social housing through the Local Loans Fund. The 1948 White Paper on housing announced a reduction in the interest rate on loans from this fund from 4.5 to 2.5 per cent, and repayments terms were extended from 35 to 50 years. This was one factor contributing to a substantial increase in social housing output in the 1950s (O'Connell, 2007).

Further reductions could be achieved if some of the finance was on an interest-only basis. Loans that are interest-only would need to be directly provided by government or need a government guarantee. Capital Advanced Leasing Facility (CALF) loans are government loans used to partially finance social housing, and are not repayable until the main loan (e.g. HFA loan) has been repaid. They could be used to support the development of cost-rental accommodation.

Potential providers of cost-rental accommodation are local authorities, AHBs, the Land Development Agency and also possibly new limited-profit bodies that would focus on this type of accommodation. Local authorities and the larger AHBs are classified as within the government sector or on-balance sheet. The statistical classification of the LDA has not yet been determined.

A government loan, provided it is a genuine loan, does not count as government expenditure even if it is at a low interest rate. If the loan were made to a local authority, it would count as government expenditure once the money had been invested in housing (or anything else). Given the current classification of AHBs, this would also apply in their case, although it is possible for this to change. Despite the accounting treatment, this could still be a sensible economic arrangement. If there is effective management of the loans, there would be no underlying net cost to the State provided the loan repayments to it were sufficient to cover its borrowing costs, although in accounting terms expenditure would be higher. It may be possible to create a new type of limited-profit institution off-balance sheet that could avail of low-cost finance provided or guaranteed by the State. In the meantime, cost-rental projects by the LDA, AHBs or local authorities should proceed on an on-balance sheet basis.

While some level of subsidy is required to support the development of a cost-rental sector, international experience suggests the possibility of achieving this at a moderate cost. Total state support for housing in Austria is 1 per cent of GDP, compared to 2 per cent in the US (Förster, 2018). Yet, as noted by NESC (2018), Austria achieves far better housing outcomes, in terms of supply, quality, affordability and social integration:

> This is because in the US much of the expenditure takes the form of tax concessions, which tend to operate on the demand side and also to favour the well-off. By contrast, in Austria the moderate level of the subsidies, and other measures, are concentrated on the supply side. They engineer cost-effectiveness, quality and affordability into the provision of housing, neighbourhoods and infrastructure (NESC, 2018: 29).

It is acknowledged that, to develop cost rental, Ireland would need a greater level of support now compared to Austria. The housing associations in Austria are in a position to finance a modest share of the costs of new development through investing their own equity. In addition, Ireland's strong population growth is a factor that increases the need for government support for affordable housing. At the same time, it is possible for state provision of finance or a state guarantee to contribute substantially to lower costs and lower rents without this necessarily being a large cost to the State, provided it is well managed.

Ultimately, it is important that the State establishes cost rental as part of the affordable housing mix, where homes remain subject to public ownership. This means delivering a national scheme rather than standalone pilots, with responsibility assigned to a single national state department or body.

To summarise, cost rental requires access to land on favourable terms, low-cost finance, a regulatory structure and organisations with the scale and capability to provide it efficiently. Low-cost finance requires low interest rates and a long term (e.g. 40 years). Further reductions could be achieved if some or all of the finance were to be on an interest-only basis. Loans that are interest-only would need to be directly provided by government or need a government guarantee. If a government loan were not ultimately repaid, this would represent an Exchequer cost. However, where some of the finance is interest-only initially and is repaid following the repayment of other loans (as, for example, in Austria), this need not represent an Exchequer cost.

Public Land and Housing Affordability

The experience of the Ó Cualann Cohousing Alliance (CLG) illustrates how the provision of serviced land can greatly enhance housing affordability. In its first development, in Poppintree, Dublin, Ó Cualann received serviced land at nominal cost (€1,000 per site) from Dublin City Council, plus a waiver of development levies. The average price for a three-bedroom house in the first phase was €170,000 and, in the second phase, €219,000.[9] The low costs achieved reflect not only the saving

[9] The increase reflected construction inflation as well as higher costs in the second phase arising from the need to remove a large volume of soil from the site.

on land costs but also the lower risks and hence lower finance costs and a lower margin.

One limitation of this model is that the gain in affordability is not permanent in that houses are resold at the market price. The leasing of public land is a mechanism that can be used to reduce costs and improve affordability in the short term while preserving the value of the subsidy for future buyers and improving long-run stability in the housing market. With this approach, the land could be provided without an upfront charge while the public landowner would retain long-term ownership of the land. Others, in particular owner-occupiers, could own the dwellings on the land. There could be an annual rent charged for using the land. This would recover the land value over time, while the public landowner would benefit from long-term appreciation in land values. Alternatively, there could be no charge for the land value, which would maximise the housing affordability benefit of the land.

NESC (2018) pointed out that the long-term leasing of land could be used to permanently remove or at least reduce speculative pressure on land prices. There are a number of other benefits. First, leasing reduces the upfront cost for purchasers. While this may be offset by ongoing rental payments, a lower upfront payment reduces the initial deposit needed. This would be of benefit to some of those who are paying more in rent than the mortgage payment would be for a similar property, but have difficulty with the deposit.

Second, from a developer perspective, less initial capital is needed, thus reducing risks and costs. This will boost the ability of capital-constrained developers to provide housing.

Third, if the land rent is related to the underlying value of the land, over time the public landowner benefits from the long-term rise in land values. Fourth, if a discount is given in the land price, leasing can be used to ensure that this discount is preserved for future buyers, thereby achieving permanent affordability. Fifth, leasing can be used as a mechanism to achieve a mix of housing. Sixth, in the long term, it can help prevent property becoming derelict by having conditions on this in the lease.

Leasing of land and the separation of the ownership of land and buildings is used by community land trusts. Community land trusts exist to maintain the ownership of land in perpetuity while allowing others to own buildings (not just housing) on the land. This model was first developed in the US, and a number of community land trusts were established in the UK in recent years. There are groups interested in establishing community land trusts in Ireland, and this approach merits support.

Enhanced Part V for Affordability

The Council believes that requirements for affordable housing need to be well designed and part of an effective policy on land and housing. Requirements for social or affordable housing exist in many countries. In Ireland, these requirements are modest, in the form of the Part V 10 per cent social housing requirement. Ireland's Part V was scaled back because of concerns about viability. To enhance affordability on private land, NESC has recommended that consideration be given to a requirement in Ireland for affordable housing on such land beyond the current Part V requirement for 10 per cent social housing in private developments.

The cost of land is a reflection of the potential profits that can be made from developing it for permitted uses. Some housing land is required for social and affordable housing, and profits to be made from social or affordable are limited. A requirement for social and affordable housing means that this will be reflected in land prices. If this is made clear, people buying land will be aware of it and take account of it in what they bid for land. An additional affordable housing requirement would mean that new developments have people with a mix of incomes.

The presence of effective compulsory purchase powers would support requirements for affordable housing on private land (see Section 1.2). The price paid in this context would reflect the affordable housing requirement.

Two examples, from London and Vienna, illustrate the potential of affordable housing requirements.

In England, the provision of affordable/social housing is negotiated with developers through Section 106 agreements. The Greater London Council has adopted a new threshold of 35 per cent affordable homes for any new private-sector planning application in the London area. Applications that meet this minimum threshold are subject to a fast-track route in terms of planning permission, and no viability reviews.[10] Conversely, this same framework imposes potential additional costs in terms of time, uncertainty, planning risk and resources, if the 35 per cent threshold is not met initially. Although this Affordable Housing and Viability Supplementary Planning Guidance is a relatively new initiative, it appears to be having a positive impact in terms of increasing the provision of new affordable housing, fostering more collaborative relationships with developers, reducing the timeframe for securing planning permissions and delivering homes, and potentially reducing the bidding prices for development land (Thomas, 2018). The implementation of this initiative has been underpinned by policy continuity and strong and committed political leadership; it was clear from the outset that London's mayor 'meant

10 In England, negotiations on affordable housing requirements between developers and councils are often subject to protracted discussion as to what level of affordable housing is viable.

business' and that there was not going to be any deviation from the objective of increasing the level of affordable housing provision (Goode, 2017). This gave a clear signal to stakeholders that, rather than holding out for policy changes, it was in their interests to make the new process work.[11]

In Vienna, land for affordable housing is provided by a dedicated public body, the Housing Fund (Wohnfonds Wien). Municipal land was transferred to it on its establishment in 1984 (Lawson, 2009). It operates on a self-funding basis in buying, developing and reselling land. It sells land to affordable housing providers at a price that is sufficient to cover its costs, yet is low enough to underpin housing that is affordable. The fund does not have any special legal rights in buying land. It buys land in designated housing areas. For the most part, it is not in competition with privately financed developers, who mainly buy land in high-prestige areas for upmarket housing (Förster, personal communication).

In recent years, it has become more difficult for this agency to supply land at affordable prices. To help address this, just over a year ago Vienna adopted a new zoning category called 'subsidised housing'. In these zones, two-thirds of all floor space in developments with more than 50 units must be used for subsidised housing. This reduces the market price of this land by excluding competition from other potential buyers of the land.

According to a newsletter produced by housing consultants in Vienna, 'most experts agree that this radical intervention into the land market has proved successful' (PUSH Newsletter, 2020/1). Even before any land has been zoned according to the new classification, limited-profit housing associations say that the land costs have significantly decreased, while the city-owned Housing Fund reports that it has undertaken more land acquisitions in the past year compared to recent years. At the same time, there is a reduction in land purchases by private developers; this is because profits are expected to fall with a higher proportion of subsidised housing in new housing supply (PUSH Newsletter, 2020/1).

Overall, the Part V approach, with enhancements for affordable homes, should be stated government policy, with clarity to the market (developers, financiers) that it is not going to change. Enhancing the regime means amending the Part V legislative parameters to supplement the requirement for 10 per cent social housing with a significant proportion for affordable homes. Given the differentiated nature of the property market across the State, these parameters could be set on a county-by-county basis following housing-need/demand analysis, with increments possible. Where appropriate, a zero requirement should be possible and applied. The requirements should apply to all housing developments. Methods to incentivise

[11] Some developers took a legal case against this planning initiative, and lost (Edgar, 2018).

engagement by developers should be considered (e.g. VAT breaks), including de-risked/shared planning with local authorities.

The public-sector client's view of the construction industry can be poor (e.g. prone to disputes and reliance on litigation; escalating costs and delays; problems with bogus self-employment, etc.). At the same time, industry's perception of the public service as a client can also be less than ideal (e.g. contracts unattractive to bid for; processes protracted and complex; unrealistic expectations; payment issues; risk overly carried by one party—industry, etc.).

Building on the work of the Construction Sector Group (CSG), policymakers—including those at local level—could improve their understanding of the construction process, including the business model. There should be greater emphasis on risk management rather than risk transfers, and on positively changing risk appetite. Public officials need to be facilitated to be more involved in day-to-day engagement in the management of projects. This would include increased emphasis on ensuring minimum standards, the use of Building Information Modelling (BIM), greater collaboration, and high standards of performance.

Such collaborative contracting could be key to an effective and efficient procurement process and improved project delivery. All these benefits can contribute to the delivery of housing/state assets of a higher quality, and greater certainty in public investment projects.

Previous attempts at de-risked/shared planning/collaborative contracting with local authorities have not delivered the progress or savings expected for a variety of complex reasons. This warrants exploration, which could include examining the approach taken by the National Roads Agency (now integrated into Transport Infrastructure Ireland) and its effective, successful design and build model. The building-up of capacity and expertise allows efficient models where state actors can undertake the necessary background work, prepare land, and de-risk aspects of the construction. Where the developer has confidence in this, uncertainty is reduced, while at the same time the developer has to perform and deliver in accordance with a robust contract framework. Where local authorities find it a challenge to engage the market, they should receive support from the specialist teams described in Section 1.1.

Mobilising Vacant and Underused Property

An effective way to increase the effective supply of housing is to mobilise vacant and underused property. There is a Vacant Homes Strategy in place and progress is being made on this (Government of Ireland, 2020b). There is scope for additional measures in this area.

Denmark has a higher residential property tax compared to Ireland, as well a site value tax, both of which would be expected to encourage lower vacancy. It complements these with some regulatory measures on vacant property. If an owner moves and does not wish to sell the property, they must rent it out—or at least try to sell it. If a property is empty for more than six weeks, the owner has to report to the municipal authority, which then seeks to provide tenants, whom the owner has to accept. In addition, people who are not residents of Denmark and have not lived in the country for a total period of five years previously may only acquire property with the permission of the Ministry of Justice (Andersen, 2017). There is a case in Ireland for stronger regulatory measures to reduce vacancy levels.

In addition, there is a commitment in the Programme for Government to:

> Examine ways to ensure that unused or underused building stock in cities and other urban centres can be made available for upgraded and sustainable housing, and further develop 'Live above the Shop' measures (58).

One of the obstacles to conversion of unused commercial space to residential use is the complexity of the multiple regulatory processes required. A group of architects have made proposals for a simplified 'one-stop shop' regulatory process for application to the conversion of smaller buildings to residential use (O'Cofaigh, Hegarty, Reynolds, 2017).

The Rent-a-Room scheme is an incentive to encourage home-owners to make vacant bedrooms available for rent, encouraging better use of existing housing. Rent received under this scheme is free of tax up to €14,000 annually. However, with limited exceptions,[12] this rental income is counted as means for the purpose of social welfare. This means that a home-owner on a means-tested social welfare benefit who avails of this scheme would typically incur a reduction in their social welfare payment that would offset the rental income received, thereby removing the incentive to use this scheme. It would be a relatively simple administrative change to exclude rent-a-room income from means-testing.

July 2020 Stimulus Package

This package for the economy includes three measures to support housing:

- an additional €30m for refurbishment of vacant social housing;
- €100m for retrofitting through the Energy Efficiency National Retrofitting Programme; and
- extension of the Help to Buy scheme.

[12] Rental income is not counted as means for social welfare purposes for those receiving a State Pension (Non-Contributory) or a Widow's/Widower's or Surviving Civil Partner's (Non-Contributory) Pension, **and** who would be living alone unless they rented out a room in their home.

The additional €30m for social housing is designed to accelerate the re-letting of 50 per cent of the social housing stock that becomes vacant every year; 3,600 homes are to be targeted for refurbishment. The €100m additional allocation for retrofitting is to be complemented by investment in a Retrofit Skills Training Initiative.

Up to July 2020, Help to Buy provided a grant (in the form of a tax refund) of a maximum of 5 per cent of the purchase price up to a maximum of €20,000. Until the end of 2021, this has been extended to a maximum of 10 per cent, up to a maximum of €30,000. This means a first-time buyer who is buying a new house with a value of up to €300,000 can now get a grant of €30,000 (if they've paid this much in income tax in the last four years) while buyers of houses worth €300,000 to €500,000 also get €30,000.

The potential impact of this needs to be considered in light of the Central Bank rules. For first-time buyers, Central Bank rules require a deposit of at least 10 per cent. In addition, the maximum mortgage is limited to 3.5 times gross income. Banks are allowed to issue a small share of loans outside these limits.

Outside the metropolitan areas, the median house price for new houses is generally below €300,000. This means that for much of the country the Help to Buy scheme will provide the minimum deposit for a first-time buyer to buy a new house where these are available. In metropolitan areas, the required savings for a deposit is reduced. The loan-to-income limit remains as a significant limit on what one can borrow. Even at an income of €80,000, one's buying options will be limited in Dublin, and a typical first-time buyer would not be in a position to acquire a newly developed apartment.

These changes are likely to reinforce upward pressure on prices and act as an incentive away from compact growth, in that they cover the deposit to buy a newly built house in lower-price areas away from urban centres.

Secretariat's Suggested Priority Options

- **Maintain Central Bank macro-prudential mortgage policy.**
- **Set out a dedicated homelessness strategy (Housing First: increase funding to construct tailored units and provide relevant support services).**
- **Devise, communicate and deliver a new national affordable housing policy:**
    - **Do so at scale, with a target affordable price by location, aimed at middle-income workers, with consideration of essential workers.**
    - **Increase the share of new social housing from construction.**

- **Reduce the complexity of the approval processes for social housing construction and reform procurement to encourage a more collaborative approach.**
- **Set out a strategy for AHBs and local authorities to access land for house construction.**
- **Investigate state-supported building initially on balance sheet (proof of concept), then off.**
- **Consider mechanisms that would allow state actors to avail of tax-efficient funding for affordable housing, having regard to experience in other EU countries (e.g. Austria and France).**
- **Consider making use of tax structures by institutional owners conditional on pass-through to affordable housing/rent.**
- **Consider the use of long term leasing of public land to underpin permanent housing affordability and provide support for community land trusts.**

- **Cost rental (national and at scale):**
  - **Establish cost rental as part of the affordable housing mix, where homes remain subject to public ownership.**
  - **Implement a national scheme (not standalone pilots), and assign responsibility.**
  - **Cost rental requires access to land on favourable terms, low-cost finance, a regulatory structure and organisations to provide it.**
  - **Low-cost finance requires low interest rates and a long term (e.g. 40 years). The State has access to the lowest-cost finance, so government loans would be the lowest-cost way of financing cost rental.**
  - **Further reductions could be achieved if some of the finance were to be on an interest-only basis. Loans that are interest-only would need to be directly provided by government or need a government guarantee.**
  - **Further private rented sector reforms: sustain the ban on evictions, introduced during the pandemic; move towards more indefinite leases (review reasons for vacant possession).**
  - **Adopt a more ambitious and effective approach to Part V. An ambitious Part V approach should be stated government policy, with clarity to the market that it is not going to change.**
  - **Local authorities should be supported by specialist teams.**

- Amend Part V legislative parameters:
  - **Add a requirement for affordable housing beyond the current 10 per cent social housing requirement.**
  - **Set the parameters on a county-by-county basis, following housing-need/demand analysis.**
  - **Set 5 or 10 per cent increments.**
  - **Enable a zero requirement for social and/or affordable housing, where appropriate.**
  - **Apply to all housing units (developments of <10 units).**
  - **Incentivise engagement: VAT breaks; de-risk planning.**

- **Continue with actions to reduce vacancy and underuse of property:**
  - **Consider regulatory measures to reduce vacancy in residential property.**
  - **Examine the scope for regulatory reform to facilitate conversion of underused property to residential use, while maintaining standards.**
  - **Exclude income from Rent a Room as means for social welfare purposes.**

1.4 Adequate, Targeted Financial Mechanisms

Land Value Capture

Servicing land and providing infrastructure to support sustainable housing development is costly. At the same time, there is often a large difference between the value of land in its existing use and the value of serviced building land supported by public investment in core infrastructure. The value of land can also be greatly enhanced by policy decisions in relation to land-use—in particular the designation of land for housing. The concept of land value capture is premised on the view that the public should share in the rise in the value of land and property that is driven by public investments and/or policy decisions.

NESC's 2018 report, *Urban Development Land, Housing and Infrastructure: Fixing Ireland's Broken System,* noted that, across different areas of expertise, different terms are used to describe the process of the public collecting a proportion of additional value generated by public policy actions, including land value capture, betterment value, planning gain, community gain and locational value capture. The Council concluded that the term *locational value* was most appropriate as it encapsulates not just ‘taxes’ or levies on land and property but a broader set of potential policy instruments, including joint development ventures, public leasing of land or commercial space, the sale of development rights, income or payroll taxes, special assessment districts, sales tax levies, transport-focused development fees and user fees.

NESC’s work highlights that locational value-capture mechanisms, when combined with a range of supportive policies, including land-use policies, have the potential not only to pay for some or all of the costs of the servicing of land and infrastructure for housing but also, importantly, can drive the supply of more affordable housing and a more sustainable model of urban development (NESC, 2018). Indeed, international experience suggests that there is scope for public actors not only to harness the potential of locational value-capture instruments, but to proactively engage in (co)creating locational value premised on sustainable urban development.

Importantly, the 2018 study mentioned above noted recent examples of successful European developments in which the infrastructure and preparation of land for development was financed by the uplift in land value, including: new suburbs in the German city of Freiburg, Hafen City in Hamburg, and the former port of Hammarby in Stockholm.

In Hamburg, a city-owned development company is responsible for managing Hafen City, a dockland redevelopment project that is one of the largest urban regeneration initiatives in Europe. The cost of the infrastructure for developing this 157-hectare site was funded by the sale of sites, which the local authority already owned or acquired, while the project also received federal government funding. A feature of this ambitious project is that it has enabled the supply of housing for ownership and rent at affordable prices.

The use of locational value creation and sharing instruments, as well as risk reduction, has also been central to successful urban development in the environmentally friendly city of Freiburg (Hall, 2014). In this instance, two brownfield sites have been developed as urban extensions within a 15-minute tram journey from the city centre. For both sites, the municipality, which owned the land, borrowed the money to pay for infrastructure and planning, and was able to recover this money by selling serviced sites.

At the heart of these and other examples from Austria, Sweden and the Netherlands are three key elements:

i. the lead role of public authorities in urban development and transport planning;

ii. a focus on housing affordability in the planning and supply stage; and

iii. the use of instruments for locational value creation and sharing, which help to fund the cost of infrastructure investment and/or land acquisition and, in some cases, the provision of affordable housing.

These various examples are drawn from states in which there is a long tradition of authoritative public bodies driving active land management and sustainable urban development. However, NESC's 2018 report also highlighted how Transport for London has since 2016 transformed its mandate and operations, in order to use its land assets and capabilities to generate new value in key localities, and to engineer a sharing of value that supports increased provision of affordable housing, economic regeneration and investment in quality public transport, and urban placemaking.

The All-Party Oireachtas Committee on the Constitution (APOCC) (2004) stated that it is appropriate for the State to recover land value not only from physical infrastructure investment but also from the value added to land through zoning. Indeed, the current National Development Plan (NDP) refers to the need to '… enable the capture of gains in land value from the development process, for investment in necessary public infrastructure' (Government of Ireland, 2018: 33).

NESC (2018) concluded that Ireland must now actively explore the use of locational value creation and sharing instruments to support its new ambition for enhanced infrastructure and sustainable urban development, including the provision of affordable housing at scale. This review should embrace a range of potential revenue-raising options, and recognise that both content (the type of project) and context (economic and social characteristics of the location) should guide which locational value-capture instruments are most appropriate to particular urban settings (NESC Secretariat, 2018).

Indeed, international practice highlights that having recourse to a combination of value-capture instruments serves both to enhance revenue-raising capacity and to reduce risk, in particular that associated with the cyclical nature of real-estate development. However, it also highlights the need for the relevant institutions to invest in building their financial management capacity, and to have risk-management strategies in place (Petretta, 2014; Salon, 2014; Schlickman *et al.*, 2016).

NESC's work also reveals that seeking to build affordability into housing supply, in line with the goals of the NPF, necessitates locational value instruments being part of a more ambitious model of active land management and urban development that incorporates:

- an authoritative public body taking a lead role in development;
- the integration of land use and transport policies;
- a sustainable supply of publicly owned land; and

- credible and effective powers of land assembly (including CPO).

Designing and implementing such a co-ordinated suite of policy measures would be challenging. However, development-based land capture financing, predicated on the integration of transport and land-use planning, has the potential to deliver long-term investment in public transport infrastructure and contribute to the achievement of sustainable urban development, affordable housing and inclusive growth (McKinsey Global Institute, 2014; Suzuki *et al.*, 2015). Introducing locational value-capture mechanisms in the absence of a broader strategy of sustainable urban development would still have the potential to generate additional revenue for public authorities. Its capacity to contribute to the delivery of more affordable housing, however, would be severely constrained, as it would be dependent on a private-sector model of speculative development.

The recently negotiated Programme for Government recommends, as part of its actions on Planning and Reform, that a review be undertaken of how community gain can be captured through a review of the development levy process, rezoning system and planning permission conditions.

Additional Financial Mechanisms

An increased policy focus on value-capture mechanisms should also be part of a broader commitment to exploring their potential to complement state expenditure with alternative sources of financing, and more innovative and tailored funding mechanisms. Financing major urban development and/or housing projects is a complex process, requiring a high level of specialist knowledge and expertise. This is particularly the case in seeking to design blended capital structures, incorporating both public and private financing. The pursuit of specific policy goals, such as increased affordability, sustainable urban development and/or the creation of a cost-rental sector, further reinforces the challenges associated with designing effective and appropriate financing mechanisms. This highlights the need to fully harness the considerable financial expertise that exists across a range of publicly supported institutions—the Land Development Agency (LDA), National Treasury Management Agency (NTMA), National Asset Management Agency (NAMA), Housing Finance Agency (HFA), Ireland Strategic Investment Fund (ISIF), Strategic Banking Corporation of Ireland (SBCI) and Home Building Finance Ireland (HBFI)—in seeking to design innovative financial products and mechanisms, that would support the delivery of increased levels of affordable housing and sustainable urban development. However, this financial expertise needs to be more centrally involved from the outset in the policy dialogue and design process.

As noted in the discussion of cost rental, access to a supportive financing structure is critical to unlocking the economics of this form of tenure. This suggests the need for a concerted policy focus on designing bespoke funding mechanisms for affordable housing in Ireland. The example of the SBCI demonstrates that it is possible to create new financial markets—in this case for SMEs—in which patient intelligent capital can be accessed through a broader range of customised financial products, supplied by both bank and non-bank financial institutions. A similar level of policy and institutional innovation may now be required to finance affordable housing at scale.

In seeking to find alternative sources of financing and funding, there would be merit in initiating a review of how best to finance affordable housing. This review could also seek to draw on the lessons from international good practice, such as the Caisse des Dépôts et Consignations conversion of short-term saving deposits (Livret A) into long-term off-market loans to finance the social rental sector in France. Such a review could serve to stimulate debate about the potential to design and combine similar key elements—access to liquid finance, a dedicated expert financial institution and a tailored niche-funding product—in an Irish context.

In the Programme for Government there is a clear commitment to increasing the provision of affordable housing for purchase or rent. The programme moreover clearly identifies the LDA as having a central role in ensuring the provision of homes for affordable purchase and cost rental.

The Classification or Balance Sheet Issue

Although there is considerable political and societal support for the concept of a dynamic and extensive affordable rental or cost-rental sector, there remains a high degree of uncertainty about how to actually develop such a sector at scale. The lack of progress in this area, beyond a number of small-scale pilots, in part reflects the extent to which the policy dialogue has been dominated by whether or not it is possible to create a cost-rental sector outside the general government sector or off-balance sheet. Interestingly, there is now an emerging view that it is not possible to design, build and scale a cost-rental sector that is—from the outset—completely off-balance sheet.

By its nature, a cost-rental provider could be expected to be classified as in the market sector rather than the general government sector. The key criterion for an organisation to be in the market sector is that it charges 'economically significant prices' (see Box 3). Cost-based rents for the pilot projects considered in Ireland appear to be economically significant from the perspectives of both providers and tenants. Cost-rent providers in other EU member states (e.g. Limited Profit Housing Associations in Austria) are off-balance sheet. However, organisations involved in the initial cost-rental projects in Ireland are classified as on-balance sheet.

Box 3: Classification of Organisations in the General Government Sector

The general government sector ‘consists of institutional units which are non-market producers whose output is intended for individual and collective consumption, and are financed by compulsory payments made by units belonging to other sectors, and institutional units principally engaged in the redistribution of national income and wealth’ (Eurostat, 2016: 11).

The key criteria for deciding whether any organisation is within or outside the general government sector is: (i) the degree of government control and (ii) whether the organisation is a market or non-market producer.

An entity under government control is potentially but not necessarily in the government sector. If government control extends beyond policy so that the entity lacks decision-making capacity, it is classified as being in the government sector. If an entity is government-controlled to some degree but has some autonomy in decision-making, its classification depends on whether it is a market or non-market producer.

If an organisation is financed by sales of goods and services at economically significant prices, it is a market producer and outside the government sector. ‘A price is said to be economically significant when it has a substantial influence on the amounts of products the producers are willing to supply and on the amounts of products that the purchasers wish to acquire’ (Eurostat, 18). The quantitative test applied to determine if an institutional unit is a market producer is whether sales revenue covers more than 50 per cent of production costs. Sales include payments by government provided these payments ‘are granted to any kind of producer in this type of activity’ (21).

There is scope for this to change. In particular, as a relatively new organisation there has not yet been a full assessment of the classification of the LDA. Pending this, the LDA is considered on-balance sheet. However, when an assessment of its activities is undertaken it is possible that its cost-rental activity could be deemed off-balance sheet. The LDA suggests that it is possible to design and implement a policy approach that can move off balance sheet while at the same time serving to foster the emergence of a significant cost-rental sector (see Appendix). Based on discussions with national stakeholders and international experts, the LDA’s policy initiative has a number of potential benefits:

- It is focused on gradually building a new and significant sector in the Irish housing system—the affordable rental sector.
- It establishes an institutional mechanism for developing and delivering affordable housing for rent (the LDA).

- It equips this state entity with the resources (public land, long-term financing) and policy instruments (LVC) to drive this policy agenda.
- It will increase the provision of 'state'-owned quality housing assets.
- It is designed to attract institutional investment in affordable housing.
- It will create a revolving fund for investment in urban development/housing.
- It can possibly transition from being initially on balance sheet, to being off it.

A further advantage of such an initiative is that it provides a proof-of-concept, not only to the capital markets but also to the policy system—namely, that is it is possible to create an affordable rental sector that can deliver at scale good-quality, energy-efficient homes for significant sections of the population.

Secretariat's Suggested Priority Options

- **Urgently study, choose, and apply LVC instruments, tailored to specific sites.**
- **Place LVC capability in the hands of institutions that will use existing and new instruments.**
- **Fully harness the expertise of publicly supported institutions—the LDA, NTMA, NAMA, HFA, ISIF, SBCI and HBFI—in seeking to design innovative financial products and mechanisms that would support the delivery of increased levels of affordable housing and sustainable urban development.**
- **Initiate a review of how best to finance affordable housing at low cost.**
- **Explore the potential of a new affordable rental scheme that combines state and capital market investment.**
- **Develop cost rental on an on-balance sheet basis for now. Continue to explore the possibility of off-balance sheet arrangements involving the transition of projects to off-balance sheet status, or new arrangements that could develop new projects off-balance sheet.**

1.5 Embedding System Change

The objectives in the NPF, particularly around compact growth, represent a significant shift in policy direction in Ireland. The framework reflects the understanding that such a shift is necessary, as a business-as-usual scenario would result in uncoordinated development, continued urban sprawl, and negative environmental and quality-of-life impacts. The planning and delivery of housing is often contentious in local areas, and the shift precipitated by the NPF, including the drive for appropriate higher-density living, has introduced added challenges. Society at large recognises the need for more affordable homes, and the desirability of reduced urban sprawl. At the same time, local communities and (as a result) local elected public representatives can find it difficult to support the delivery of new social, affordable, higher-density housing within their communities.

Embedding the change intrinsic to the NPF can thus be difficult, and acceptance and implementation will not be automatic. The system should be proactive in assisting communities and their elected public representatives to take on board the choices, trade-offs and consequences. This can facilitate better decision-making and outcomes. In addition, separate oversight of the 'compact growth' aspects of the NPF could be helpful. For example, it is important that greenfield/brownfield designation be accurate if targets are to be achieved. In the small number of cases where desirable decision-making and outcomes are impossible to progress under standard processes, it may be appropriate to unburden elected public representatives by enabling the local authority executive team to make decisions in very limited circumstances.

Further options that could help progress the NPF's compact growth targets include examination of blockages to desirable building heights, facilitating subdivision of some housing, and very targeted supply-side fiscal incentives.

Secretariat's Suggested Priority Options

- **Request the Office of the Planning Regulator (OPR) to continue and progress programmes of public awareness, training for local authority elected members, and research aimed at building and enhancing community-wide support for delivery of more compact urban development and urban regeneration.**
- **Mandate the OPR to independently monitor the achievement of the compact growth targets and objectives of the NPF through its assessment of local authority statutory development plans and local plans, and in undertaking national monitoring.**
- **Complete an urban brownfield and infill land register for the purposes of monitoring the NPF compact growth targets, drawing from existing spatial datasets, and nationally and consistently applied criteria in support of OPR plans and development trend monitoring.**
- **Consider legislative change to enable the local authority executive team to make decisions on certain land allocation limited to affordable/social housing.**
- **Examine the extent to which desirable building height for specific, appropriate areas faces blockages in the planning process, and implement suitable remedies.**
- **Facilitate subdivision of suburban housing in cities, in accordance with residential space standards generally.**
- **Consider targeted supply-side fiscal supports for certain cohorts (e.g. owner-occupiers of new apartment schemes; housing above a certain density threshold).**

1.6 National Programme of Flagship Projects

A recommendation to take a system-wide approach to change can seem underwhelming in a context where, understandably, urgent action is sought. That said, it is important that a system-wide approach to change can deliver tangible, salient results. Identifying and supporting a number of major projects to provide affordable housing, quality urban development, and strategic infrastructure can help. While a generalised national perspective is useful, and the city and regional focus of the NPF is integral to compact growth, there is real value in examining the potential of specific projects and sites. This approach can reveal the knotty, site-specific challenges to delivering more social, affordable, compact housing; it can reveal the instruments necessary and available to overcome those problems (outlined in preceding sections); and it can demonstrate the seriousness and effectiveness of renewed policy action in this area to policymakers, market actors, and society.

Identifying and supporting these major projects may necessitate a new development framework for specific strategic sites. Based on lessons outlined in earlier sections, such a framework would combine—for each specified site—a bespoke development institution, an effective planning and CPO regime, and a strong implementation framework with the right combination of incentives and penalties available. Lessons should be taken from the experiences of the Dublin Docklands Development Authority (DDDA), Grangegorman Development Agency (GDA), and Limerick 2030.

This new development framework for specific strategic sites would involve designation of the area as an SDZ/affordable housing zone, with a strong developmental institution such as the LDA afforded responsibility for developing the site. It would create a masterplan for the entire site, and make landowners and financiers aware of that masterplan, in a way that all can be confident it will be delivered. This combination of a facilitative planning regime and an associated development institution could also serve to realise the full potential of SDZs that have to date underperformed in terms of housing delivery, due to the lack of a strong implementation framework. Indeed, there could be merit in giving the LDA responsibility for developing these existing sites.

A key advantage of SDZ/affordable housing zone designation is that it would enable the LDA to be proactive in developing more productive relationships with landowners. Affordability (and, if appropriate, transport-orientated development) would be at the heart of the plan. It is understandable that concerns around the production of large social housing estates can hinder such an approach. Care must be taken in this regard. However, it is important that projects can achieve economies of scale and productivity gains—e.g. to get the advantages of modular technology at scale.

The developmental institution would pursue a project approach and effective implementation framework, armed with policy instruments that combine incentives and penalties to encourage productive engagement. Instruments and their use should be customised to the specific context. Credible CPO powers for the site would support the assembly of land and direct development employing a contract builder/developer.

The developmental institution would pursue value capture and creation, retaining ownership of assets and generating a return from affordable rent on units. For example, agreed profit-sharing arrangements with cooperating landowners could generate revenue that would contribute to the funding of necessary infrastructure.

A site such as the Naas Road Industrial Site would be an ideal demonstrator project for a national programme of flagship projects. It is a tract of land in an urban location which can demonstrate potential (it is suitable for social and affordable compact housing and could accommodate up to 70,000 units, with potential for a new urban quarter) and challenges (fragmented ownership/use; potential displacement of employment). However, if the new development framework for specific strategic sites is applied, it can also demonstrate what a system-wide approach can tangibly deliver.

A pipeline of nationally significant house-building projects could also serve as a driver of necessary modernisation, innovation and productivity improvements in the construction sector. Advances in materials, construction methods, ICT and global communications, in conjunction with the adoption of progressive management practices and business models, are transforming the construction sector internationally, and it is essential that the indigenous construction sector embraces and invests in such changes. Greater certainty and less instability in the housing sector would serve as an incentive to greater levels of investment in technology, new organisational practices and staff development.

Interestingly, the Council (2015) proposed that public support for house-building provides an opportunity to develop a more ambitious approach to recasting training and workforce development in the sector. This can be socially inclusive in a double sense: not only laying the foundations for provision of housing that is more affordable for intermediate households, more sustainable and more socially integrated, but also creating a skills base that will make it possible for young people to find employment and an attractive career structure in construction as it returns to its long-run equilibrium level.

Secretariat's Suggested Priority Options

- **Identify a number of major projects to provide affordable housing, quality urban development, and strategic infrastructure, employing a new Development Framework for Specific Strategic Sites.**
- **Consider designating development at the Naas Road Industrial Site as a demonstrator project at scale which can reveal both the specific challenges and solutions to overcome them under a renewed state effort on affordable housing delivery.**

1.7 Construction Sector Capacity and Productivity

The system-wide approach to change proposed by the Secretariat here (or any alternative) will fail to deliver if the construction sector lacks the required capacity. As stated in a recent Construction Sector Group (CSG) report on the sector:

> Government remains committed to investing public capital expenditure into the development of new social, economic and climate infrastructure. Grasping these opportunities in the face of Covid-19 will likely require overcoming challenges around capacity. More than ever, Ireland needs a competitive, dynamic, and sustainable construction sector that can deliver high quality physical infrastructure for all our citizens (Government of Ireland, 2020c: 1).[13]

The State plays an important role in helping to make sure that the industry is fit for purpose, and the construction sector will remain in high demand in the near-term. Examples of supportive action already underway in the area include the provision of the *MyProjectIreland* interactive mapping tool[14], which went live in May 2019 and provides details on over 500 projects across Ireland, and the annual publication of a report that assesses the construction industry's capacity (Government of Ireland, 2020d). This latter report also provides further visibility to the domestic and international construction industry on the sequencing of Ireland's priority infrastructure projects over the coming years.

[13] The Construction Sector Group (CSG), established in 2018 following the launch of Project Ireland 2040, acts as a forum for dialogue between government and stakeholders in the industry.

[14] https://geohive.maps.arcgis.com/apps/webappviewer/index.html?id=26b6e93dcd1044ff8fa2bd1a772a6080

However challenges remain, such as the availability of the right type and quantum of skills, and low productivity.

The CSG highlights three important themes that, if addressed, can help improve profits, wages and output for the industry, and thereby provide value for money in the delivery of Project Ireland 2040. These are:

i. the need for the industry, particularly SMEs and small firms, to increase investment in innovation and technology, in order to spur the next wave of growth based on a foundation of digital adoption, by both clients and contractors;

ii. the need for ongoing regulatory reform of public procurement, environmental, labour and other areas, in order to streamline and assist in achieving competitiveness and sustainability;

iii. the need to increase certainty and visibility of the pipeline of project opportunities, in order to provide the industry with the confidence to invest, and individuals to choose a career, in the built environment.

The detailed action plan set out by the CSG, and flowing from the above, should be progressed with urgency. Any opportunity to supplement those actions with additional supportive steps should be sought and taken.

For example, announcing a solid medium-term commitment to (social/affordable/compact) housing output at scale gives confidence to the sector to invest in capacity. The role and activity of the LDA and a programme of flagship projects (suggested in the preceding sections), with a pipeline of projects of true scale, would allow the LDA/development institutions to become a catalyst for innovation and productivity improvements in the industry. As well as providing a pipeline of development projects, it could take a lead role in delivering/procuring modern modular methods of construction at scale in regions.

More generally, public contracts and programmes should encourage good practice and, for example, set ambitious standards for their building projects to ensure that public housing tenants' energy costs are minimised. The State also has a duty to actively promote better working conditions, a more diverse workforce, and long-term career opportunities in a more stable and sustainable construction sector. All opportunities to create a more progressive industry, invest in skills, and improve the image of the sector should be taken. There are perceptions of the industry (volatility, so-called 'sharp' practices, poor working practices, etc.) which mean it is not as attractive as it should be, as an exciting and rewarding sector. Given that the numbers entering apprenticeships and higher-education courses in the sector remain relatively low compared to the past, consideration could be given to amending the Employer PRSI regime for apprentices.

Secretariat's Suggested Priority Options

- **Implement the actions outlined by the Construction Sector Group in its June 2020 report, *Building Innovation*.**
- **Ensure that the role and activity of the LDA, and a programme of flagship projects, provide a catalyst for innovation and productivity improvements in the industry (pipeline of development projects; deliver modern/modular methods of construction at scale in regions).**
- **Consider zero-rating Employer PRSI for apprentices, tapered over the time of the apprenticeship.**
- **Ensure that public contracts, and programmes more generally, encourage good practice and, for example, set ambitious standards for their building projects.**
- **Use more de-risked/shared planning/collaborative contracting with local authorities (see Section 1.3).**

Chapter 2
Discussion: Prioritisation, Targets and Implementation

[15]The systemic approach proposed here by the Secretariat gives a timely overview of policy options in the context of the new Programme for Government, and of any review of the National Development Plan. It outlines many policy options available to facilitate the delivery of public and private housing in line with the compact-growth targets set out in the NPF.

It is important to recall that these are an input into a wider process, and are prepared over a short timeframe, albeit on the basis of a strong body of research over recent years. Individual government departments and bodies, in a collective forum, are best placed to indicate to government what may be achieved over what timescale, even in indicative terms—i.e. short, medium or long-term. It will be essential to consider these options, in conjunction with research and inputs from elsewhere, to determine which are likely to have the largest and quickest impact on delivering on the policy objectives, and to prioritise accordingly. This consideration could look at both the urgency and importance of the measures, with early attention being given to those measures that are both important and urgent. In this context, there are options in each of the seven areas of this report that, on the face of it, seem worthy of early consideration: establishing the LDA on a statutory footing, with appropriate powers; reforming the compulsory acquisition and vacant-site regimes; establishing a national cost-rental programme; designing new patient, intelligent, and customised funding instruments; installing a Compact Growth Assessment mechanism; designating a development site as a demonstrator project at scale; and publishing a programme of flagship projects as a catalyst for the construction sector.

At the same time, the paper notes the potential for 'half-way house' actions on some of the most challenging issues, such as CPO reform and financing developments in an off-balance sheet manner, while long-run change is pursued.

As stated in Section 1.6, it is important that the system-wide approach to progress, proposed here, delivers tangible salient results. The combination of working through a prioritised suite of options, including the 'half-way house' reforms, and delivering a demonstrator project at scale as part a renewed state effort on affordable housing, could satisfy that need.

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[15] This section deals briefly with issues not featured in the original request, but rather which arose during the consultation process and which the Secretariat were asked to discuss.

The phrase 'at scale' features regularly in this report and, in a few instances, targets are mentioned (e.g. timescales for the delivery of utilities to key sites). While 'scale' is important for solving the considerable challenge and for sending the required signals to the market, the setting of targets brings some risk of unintended consequences. Policy driven by the imperative to meet targets can deliver suboptimal outcomes (Goodhart's Law[16]). For example, setting annual targets for social/affordable housing output could spur a rush to more costly end-of-year acquisitions, over more cost-effective construction. Ultimately, tools such as Social Housing Need Assessments can help ensure that 'need' rather than 'targets' drives the delivery of objectives. Where targets *are* deemed valuable or necessary, they could be set over a long enough timeframe to minimise unintended consequences, or could be set using a 'portfolio approach' where the overall target is to be achieved across a range of policies or sites, in aggregate. This would facilitate a more holistic view of progress.

Further, suggestions for interventions of scale naturally raise concerns over their costs. The resources of the State are not limitless, and there are myriad, valid demands on them. The options outlined in this report are not costed here, though it should be noted that some measures, such as effective land-value capture mechanisms, vacant site levies, and site value taxation could contribute to Exchequer resources. In addition, most of the funding for a national cost-rental programme at scale should come from the rental income rather than the State, and be facilitated by a state guarantee or state lending.

Also, Section 1.2 noted the value in assigning ownership of CPO reform to one government department, and in making the issue a standing item on the agenda of the appropriate Cabinet committee. The issue of policy co-ordination and ownership is central to achieving the system-wide change and approach highlighted in this paper, and arose during the consultation process. Following the economic crash in 2008 and Ireland's resulting decline in international competitiveness, system-wide action was required. Competitiveness is an abstract concept and comprises elements such as the availability of skills, cost/ease of doing business, quality of physical infrastructure, tax and regulatory regime, etc. No single department or agency had or could take responsibility for the action across all of the elements required to improve our competitiveness. Rather, the Cabinet Committee on Economic Recovery provided the policy co-ordination and ownership to deliver system-wide change.

The Cabinet Committee on Housing (collective view), supported by an effective Senior Officials Group (Departmental views) will obviously have an important role to play in ensuring progress across the seven topics and related options suggested

[16] Charles Goodhart, former chief economist of the Bank of England. When a useful measure becomes a target, it often ceases to be a good measure.

here, and progress on this agenda more broadly. In addition, the Programme for Government commits to establishing a Commission on Housing to examine issues in the provision of housing, and this can also play an important role.

The NESC Council will continue to have housing, urban development and land-use on its Work Programme for the foreseeable future. NESC provides a forum for cross-society and interest-group discussion of the challenges and potential solutions to the provision of social and affordable housing, in the context of the NPF's strategic objectives.

Finally, it is critically important that the stated national objective of compact growth, particularly in regional cities, be pursued as part of the strategy to deliver more public and private housing, in line with the new Programme for Government.

Chapter 3
Appendices

Appendix 1: The Social Housing Approval Process

The process of creating a new local authority housing development begins with identifying a site and considering its suitability for social housing. There will be informal discussion with the Department of Housing about the site's suitability. Factors considered will include the extent of other social housing in the area. Next, the local authority will assess the proposed development according to an eight-point checklist, which looks at questions such as: Is there a need for social housing? Is a new development the best way of meeting that need? Approximate costings are developed. If the project is expected to cost more than €30m, a cost-benefit analysis is required. The local authority then submits this initial appraisal to the Department of Housing to seek first-stage approval (approval in principle).

When Stage 1 approval is obtained, the local authority can proceed to tender for a design team for the project. The design team will develop an outline project design. The local authority will use this to prepare a submission, seeking stage two or (pre-planning) approval from the Department. The Department will evaluate this submission against national guidelines on Quality Homes for Sustainable Communities and Best Practice Urban Design, and also in terms of value for money and unit-cost ceilings.

If Stage 2 approval is granted, the local authority then proceeds to seek planning permission following the usual procedures. At this stage (as with any planning procedures) there may be public objections to the project. Assuming planning approval is obtained, a detailed design is prepared and the local authority proceeds to seek Stage 3 (pre-tendering approval) from the Department. The Department will again look at costs; if these are higher than at earlier stages, the Department will seek to determine whether this is justifiable and may seek savings.

Stage 3 approval means that the Department issues approval to proceed to tender. The local authority will then issue a public notice inviting tenders, will review the tenders and submit this review to the Department to obtain Stage 4 approval. The Department will assess the review, including examining whether any cost increases relative to the previous stage are justified. When satisfied, the Department will issue a 'no objection to acceptance of tender' and approve a budget for the project. The local authority will conduct some final checks on the successful tenderer and finally award the contract.

The time taken to successfully negotiate all these stages varies but it may take several years.

Appendix 2: An Affordable Rental Scheme: Between the State and Market

It is suggested that the attempt to devise an off-balance sheet structure up front is constraining progress with regard to creating a viable affordable rental sector. Consequently, under this scheme the State would provide a mandated entity (the LDA) with access to low-cost, long-term funding which would be used to assemble a pool of assets and build houses at scale. Although the full range of potential funding options would need to be fully explored in advance, some form of long-term non-amortising bond structure is likely to be appropriate. The rent for these homes would be set at an affordable or below-market level. Once a pool of sufficient scale is assembled and stabilised, for example 2,000 units, the State would seek to attract sustainable long-term investment in these income-generating assets. Engagement with market actors suggests that this asset base is likely to be attractive to institutional providers of both debt and equity, for the following reasons:

- It is a pool of quality, energy-efficient newly built assets in a central urban location.
- It provides a stable and secure long-term income stream.
- Investors are displaying an increased interest in residential real estate.
- Investment in affordable homes accords with the increasing importance of socially responsible investment, including investment in more sustainable and climate-friendly assets.

Using this model, the initial facility from the State is recycled to assemble/build further pools of affordable housing stock, thus contributing to the expansion of the affordable rental sector. Market experience suggests it is difficult to encourage large-scale institutional investors into unproven concepts or those with development risk. Importantly, this initiative provides them with access to an established and stable asset base and thus operates as a proof-of-concept. It may be that, with regard to the refinancing of the initial tranches, some form of state guarantee will have to be provided. At the same time, it serves to provide affordable rental properties in urban locations that could be targeted at key workers or other groups who would struggle to pay market rents. The example of the German real-estate company Vonovia demonstrates that it is possible to attract institutional investment into affordable housing. Vonovia is a long-term owner and full-scale operator of Europe’s largest listed affordable housing portfolio, with more than 415,000 apartments. Vonovia’s business model draws on a diverse funding mix, with no more than 13 per cent of debt maturing annually. Importantly, the company has developed a financing structure that enables it to combine affordable rents with a sustainable and profitable business model. It is also able to raise finance on an ongoing basis without any government subvention.

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