



An Chomhairle Náisiúnta Eacnamaíoch agus Shóisialta
National Economic & Social Council

Housing Policy: Actions to Deliver Change

No.150 November 2020

National Economic and Social Council

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3. Any reports which the Council may produce shall be submitted to the Government, and shall be laid before each House of the Oireachtas and published.
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Abbreviations

AHBs

Approved Housing Bodies

APOCC

All-Party Oireachtas Committee on the Constitution

BER

Building Energy Rating

CALF

Capital Advance Leasing Facility

CPO

Compulsory Purchase Order

CSG

Construction Sector Group

DDDA

Dublin Docklands Development Authority

DHPLG

Department of Housing Planning and Local Government

DPER

Department of Public Expenditure and Reform

GDA

Grangegorman Development Agency

HBFI

Home Building Finance Ireland

HFA

Housing Finance Agency

ISIF

Ireland Strategic Investment Fund

LA

Local Authority

LDA

Land Development Agency

LIHAF

Local Infrastructure Housing Activation Fund

LPHAs

Limited-profit Housing Associations

LPT

Local Property Tax

LVC

Land Value Capture

NAMA

National Asset Management Agency

NDP

National Development Plan

NPF

National Planning Framework

NTMA

National Treasury Management Agency

OPR

Office of the Planning Regulator

OGP

Office of Government Procurement

SBCI

Strategic Banking Corporation of Ireland

SDZs

Strategic Development Zones

SMEs

Small & Medium Enterprises

SOG

Senior Officials' Group

SVT

Site Value Tax

VSL

Vacant Site Levy

URDF

Urban Regeneration and Development Fund

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It is over two years since the Council set out its analysis of Ireland's system of urban development, land management and housing provision (NESC, 2018a). That research concluded that the system was dysfunctional and that a suite of actions was required to fix it. Despite the intense policy focus on housing and a range of initiatives in the interim, the broken housing system described by the Council in 2018 persists.

Recent developments provide an opportunity to reflect on why this is the case, and to offer renewed policy advice. The Covid-19 pandemic, and the response to it, is creating a new context for housing policy. The Programme for Government has also changed the backdrop to action, stating that securing 'housing for all' is one of the greatest tasks to be faced. Finally, the new review of investment priorities for the National Development Plan (NDP) is to have housing policy and investment as a core focus.

In this context, the Council restates our consistent and long-standing position on housing and land-use policy: Ireland must bring about a fundamental change in its system of urban development, land management and housing provision. It must evolve from a speculative and highly cyclical system to a permanently affordable, stable and more sustainable system of housing.

Pursuing that objective, this report is concerned with two related issues: first, *bridging the supply gap* by actively managing land and locational value for public good; second, *bridging the affordability gap* by engineering-in permanent affordability. This report details the steps necessary to bridge these two gaps by way of institutional adjustments, more effective use of existing policy instruments, and innovation to enhance the policy options available to the State. It lists actions under these headings.

First, it outlines institutional changes which will ensure that key public actors have a strong developmental mandate and the executive capacity to drive sustainable urban development. These actions include:

- establish the Land Development Agency (LDA) on a statutory footing as a matter of urgency, with an enhanced mandate, including to provide land for social housing, and equip it with a planning role and the tools to assemble land and engage in direct development (including CPO, master-planning, and land value capture); and
- create specialist teams, potentially within the LDA, to help local authorities undertake necessary, complex tasks around procurement, site-unblocking, CPO and master-planning.

Second, the report calls for more effective application of existing measures to ensure that more affordable development happens in the near term, including:

- establish a national cost rental programme at scale, with access to land on favourable terms, low-cost finance, and conditions to ensure that homes remain subject to public ownership and the rents are affordable;
- tailor the application of Part V to make it more effective by increasing the proportion which must be ‘affordable’ but tailored on a county-by-county basis following housing-need/demand analysis, allowing 5 or 10 per cent increments, applying it to all housing units, and providing policy incentives for co-operation;
- introduce separate Serviced Sites Fund/Local Infrastructure Housing Activation Fund/Urban Regeneration and Development Fund funding streams focused on high impact, in terms of the number of affordable houses provided, and the achievement of compact growth (i.e., development within and close to existing urban areas and making better use of underutilised land and buildings);
- make the Vacant Site Levy more effective by targeting education and training, by the Office of the Planning Regulator, to members and staff of planning authorities and regional assemblies;
- 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; and
- outline a national programme of flagship projects to demonstrate how a system-wide approach to change can deliver tangible results.

Third, the Council recommends that time be devoted to finding new solutions or ways of working around long-standing challenges. The areas where fresh thinking and innovation are required include:

- tackle the persistent ‘on-off balance sheet’ conundrum by exploring with the LDA, Approved Housing Bodies (AHBs) and others the potential of a new affordable rental scheme that combines state and capital market investment, which can transition from being initially on balance sheet, to being off it;
- 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;
- consider how to increase the share of new social housing from construction, reduce the complexity of the approval processes for social housing construction, and set out a strategy for AHBs and local authorities to access land for house construction;
- review and reform the Vacant Site Levy if it persists in being ineffective (e.g. consider who enforces it);

- consider further actions to reduce vacancy and underuse, including placing requirements on the owners of vacant properties to find tenants, developing a simplified regulatory process for converting smaller buildings to residential use, and disregarding income from rent-a-room relief in social welfare means-testing;
- examine the use of land value capture instruments, tailored to specific sites, that could be used by the LDA and other institutions;
- identify and systematically address any barriers (e.g. land value register) to the development and introduction of a Site Value Tax;
- design new financial products and instruments to deliver affordability/cost rental via patient, intelligent and customised capital;
- implement the Construction Sector Group action plan, in particular the establishment of a National Centre of Excellence, Commercial Skills Academy and promotional careers campaigns, and other steps (e.g. PRSI reform) to encourage more apprenticeships;
- use public contracts to encourage good practice and set ambitious standards to improve energy efficiency, and mandate the LDA to take a lead role in delivering/procuring modern modular methods of construction at scale in regions; and
- develop a new national affordable housing policy with the ambition, scale and detail that shapes market decisions and gives confidence that stated outcomes will be delivered. The policy should consider and announce what price level it is targeting as 'affordable' in specific locations, and identify what income level of workers it is seeking to assist.

Overall, this report builds on the Council's previous work in this critical area, moving from the recognition that direct public-policy influence is needed, to making specific recommendations for bold action to improve housing supply, urban development and affordability. The willingness to intervene displayed in the pandemic response and the urgency afforded to the issue in the Programme for Government should embolden policy-makers to act on these recommendations.

Chapter 1: Introduction

Before the Covid-19 crisis, Ireland faced substantial challenges in the housing sector, including insufficient housing output, acute affordability pressures in the private rental sector and high unmet need for social housing. The pandemic, and the response to it, is creating a new context or backdrop for housing policy. It has revealed greater willingness by policy-makers to intervene in the housing market, as evidenced by the prompt introduction of legislation to temporarily ban evictions and rent increases, and the acquisition of additional accommodation for homeless households. In addition, although the fall in construction employment is most unwelcome, the crisis does create an opportunity for more direct investment in social and affordable housing, including cost rental on public land, and in renovation and energy retrofitting.

The new Programme for Government has also changed the context for action on housing and land—securing ‘housing for all’ as one of the greatest tasks to be faced. The Government has signalled that housing policy and investment will be a key strand in the upcoming review of the National Development Plan.

Against this backdrop, and in response to an initial request to provide an input to the National Development Plan (NDP) review,¹ this report revisits the issue of housing and land and provides a number of recommendations. The Council’s consistent and long-standing position on housing and land-use policy is that Ireland must bring about a fundamental change in its system of urban development, land management and housing provision. It must evolve from a speculative and highly cyclical system to a permanently affordable, stable and more sustainable system of housing.

This report argues that many of the elements required to bring about such a profound shift are now evident: renewed and explicit political commitment; institutions with enhanced executive authority to act, and a growing understanding and experience of the policies and strategies and programmes that can underpin affordability.

There is both an urgent need and the opportunity to ensure that the elements operate in tandem, so that a new vision—centred on affordable, sustainable and socially equitable housing—can be realised.

¹ The NESC Secretariat has concluded work on a joint research request from the Department of Public Expenditure and Reform, Department of the Taoiseach and Department of Housing, Planning and Local Government. This set out policy options to facilitate the delivery of public and private housing in line with the compact growth targets set out in the National Planning Framework and related policies in a new Programme for Government.

Pursuing that ambition, this report is concerned with two related issues:

- bridging the *supply gap* by actively managing land and locational value for public good; and
- bridging the *affordability gap* by engineering-in permanent affordability.

The report details actions necessary to bridge these two gaps in a manner that does not exacerbate either. This action involves institutional adjustments, more effective use of policy instruments currently at the State's disposal, and innovative ideas to enhance the policy options available to the State.

The report argues that these steps can and should interact in a mutually reinforcing way, as empowered institutions use existing instruments more effectively, and are also afforded new ones. For example, closing the supply gap will be supported by empowering the Land Development Agency and local authorities, by targeting funds to prepare strategic sites, and by managing under-used sites more effectively. The affordability gap can be narrowed by scaling up current cost-rental activity into a national programme and adjusting the current Part V requirements, and ensuring that a greater share of new social housing comes from construction.

In addition, identifying and supporting a number of major projects to provide sustainable affordable housing can reveal the site-specific challenges as well as the instruments necessary and available to overcome those problems, and demonstrate the effectiveness of renewed system change to policy-makers, market actors and society.

Overall, the Council's advice addresses key questions of 'what, who and how' in terms of achieving an affordable, sustainable and socially equitable housing system. Bridging the supply and affordability gaps is *what* must be done. Empowered institutions such as the LDA, local authorities, approved housing bodies (AHBs), and the Office of the Planning Regulator (OPR), with central coordination from the Department of Housing, Planning and Local Government (DHPLG), are *who* must act. Actively managing land and locational value for public good and engineering-in permanent affordability is *how* an affordable, sustainable and equitable system can be achieved. The action flowing from such an approach is detailed below.

The report also identifies a number of possible additional areas of work in housing, which could be undertaken by NESCC. These include further focus and work on developing effective and robust institutions, the scope and potential for a site-value tax; the challenge of cost-rental at scale, and, potentially, wider issues such as developments in the rental sector.

Overall, to identify policy action, the report synthesises relevant material from NESC's extensive body of related research, and the results of recent consultation with stakeholders and practitioners. It is structured as follows.

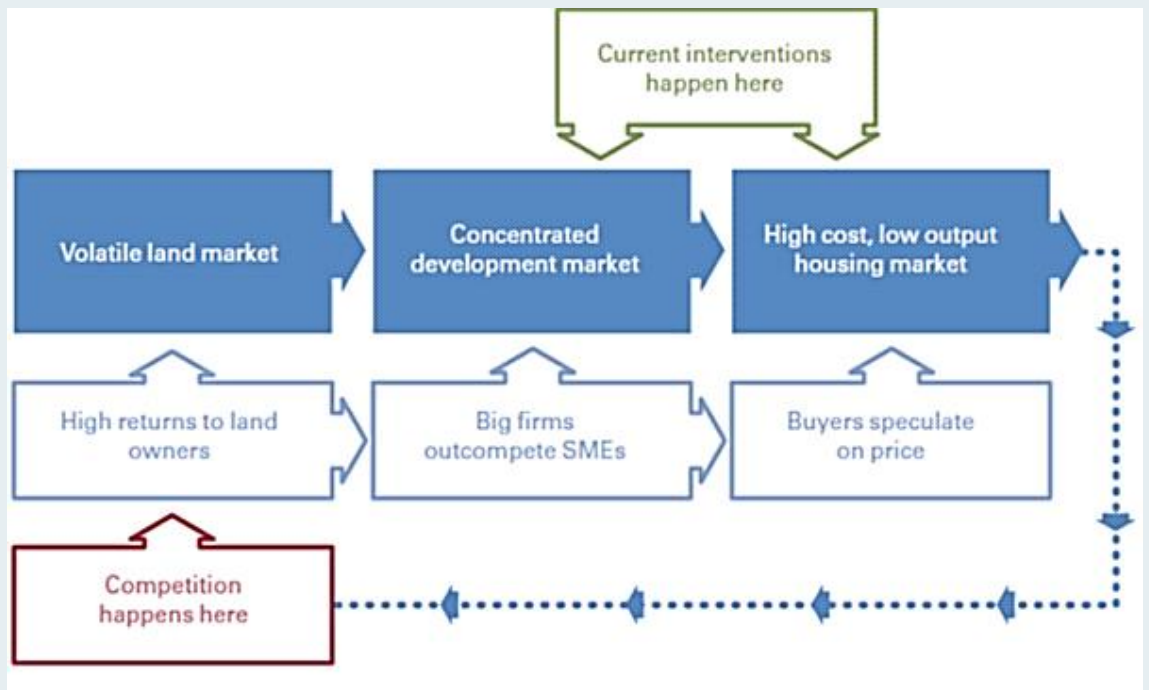
- Chapter 2 begins with a brief restatement of the core features of the Council's systematic approach to housing and its concern with actively managing land supply and engineering affordability into housing.
- Chapter 3 examines institutional means of both enhancing supply and delivering affordable housing.
- Chapter 4 considers how existing policy instruments can deliver more housing supply and improve affordability.
- Chapter 5 focuses on new policy ideas and innovations.
- Chapter 6 concludes.

Chapter 2:
A System of Affordable, Sustainable
and Socially Equitable Housing

The Council has a long record of analysis in the area of land use, housing, the private rental sector, and sustainable urban development. It is 16 years since the Council outlined the key role of land supply and land cost in housing and infrastructure (NESC, 2004).

The Council has consistently highlighted that, on the one hand, the uncertainty and variability of land supply increases the uncertainty and risk that developers face; 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 that is available for development is limited, developers compete with one another for a scarce supply of sites. This tends to lead to rising land prices, and it encourages developers to buy and hold land.



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

The biggest risk undertaken by developers is purchase of land. The price they 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 costs—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.

For this reason the Council has argued, most recently in 2018, 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 is required to fix it (NESC, 2018a).

The Council’s view is that housing must be approached as a system: an interrelated set of connected parts where change is complex and takes time. It has tried to resist a focus on one discrete part and the issues in that area, and a tendency to view that as *the* problem (be it the planning process, standards, costs, finance or land hoarding) and one marginal action being advanced as *the* solution (NESC, 2015a). 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).

The Council has stated that, without a change in the system, Ireland will be 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 supply and affordability. This provides the context for the policy options outlined here.

The Council believes that the starting point in moving towards a new system is recognition that direct public-policy influence is needed on housing supply, urban development and affordability (NESC, 2018a).

It is important to note that the members of the farming pillar entered reservations about some of the policy ideas in that report, particularly around their potential impact on the property rights of citizens, and conveyed these to the rest of the

Council. However, the Council was and is united in recognising the urgency of the housing problem and the need to ensure its supply and affordability.

A supply gap continues to be a feature of the Irish housing system. Despite increased output in recent years, the number of homes being built is less than one-half of the total estimated to be required annually for the next decade to meet demand—13,800 in 2020 vs 34,000 required (Davy, 2020; Conefrey & Staunton, 2019). The Covid-19 pandemic has exacerbated the supply problem; completions are down over 30 per cent compared to the same period last year.

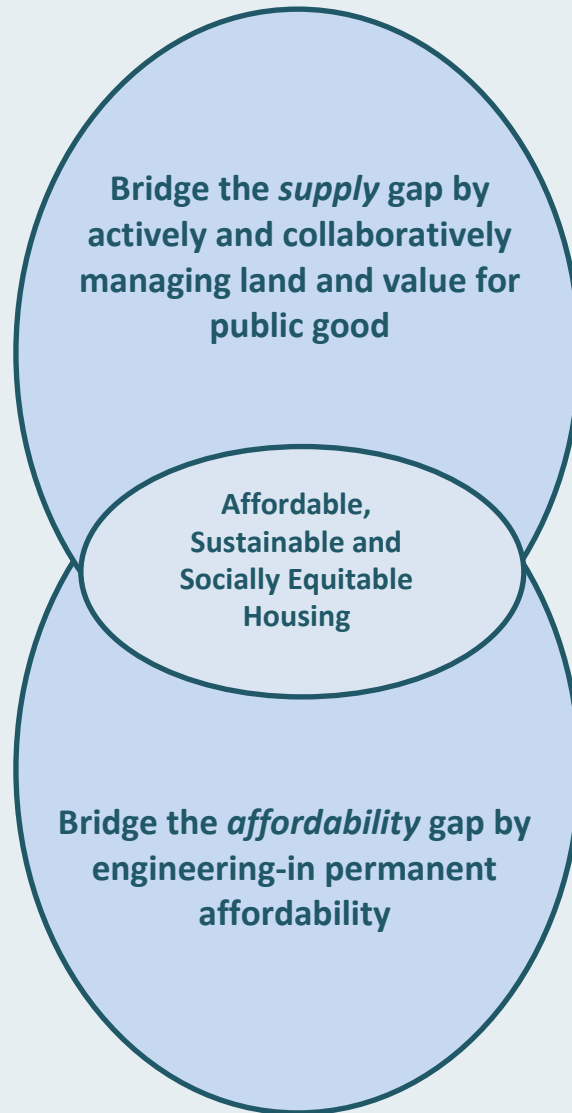
There is also an affordability gap. The average national sale price of a home is now €260,000, where average annual earnings are €42,500. At €379,000, the average sale price in Dublin is higher than it was one year ago (CSO, 2020; Daft.ie, 2020). Recent research has suggested that, in the Greater Dublin area, households on the current average income would be able to access less than 5 per cent of new homes built (Initiative Ireland, 2020). And national standardised rents grew by over 6 per cent to €1,226 last year (RTB, 2020; BPF, 2020).

The critical nature of these interlinked gaps is evident. It is only by bridging them that we will install an affordable, sustainable and socially equitable housing system (Figure 2.1). Further, the intersection of these issues is crucial: policy action to close one gap must not be at the expense of the other. The drive to affordability must not suppress the supply of homes, while supply must not be driven without regard to the ability of individuals and families to own those homes.

With regard to affordability, the Council's view is that the goal should be *permanent* affordability. Social housing is permanently affordable as long as it remains as social housing although with tenant purchase its affordability is no longer assured. With cost-rental housing, it is important to have a mechanism to ensure that the housing continues to be used for this purpose. Affordable purchase is normally only affordable for the first buyer. It could be made permanently affordable if it is built on public land and the State organisation retains the land ownership while selling the house subject to regulation of the future resale prices (see section 4.5 on leasing of public land). The current affordable purchase scheme allows for resale at market price. However, it is based on a repayable equity loan and the repayments are to go into an Affordable Dwellings Fund.

Making sustainable development happen means putting land in the hands of actors who will develop it. This necessitates the presence of public institutions with a strong developmental mandate, political authorisation, appropriate powers and executive capacity. These institutions must operate 'in the shadow' of a credible system of compulsory purchase of specific urban development land at below full development value. Engineering permanent affordability into that sustainable development means, for example, increasing the requirement for affordable housing on private land, a higher level of social and affordable housing on public land, and a commitment to a national cost-rental strategy at scale. These are all elements of a public housing strategy that will provide certainty and direction for all actors.

Figure 2.1: The Supply and Affordability Gaps



Further, without a construction sector with the capability and capacity to deliver the required supply, these interventions will count for little. Finally, to reveal the knots that 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. Taken together, this direct public-policy action can foster and nurture the desired system of affordable, sustainable and socially equitable housing.

The report focuses on the public policy action required to make sustainable development happen and to engineer permanent affordability into that development. The systemic approach proposed puts forward a range of policy options that can facilitate the delivery of public and private housing in line with the

strategic objectives set out in the National Planning Framework (NPF). Individual government departments and bodies, in a collective forum, are best placed to signal to government what may be achieved over what timescale, even in indicative terms i.e. short, medium or long-term. The action and associated recommendations are discussed under three headings:

- institutional change (Chapter 3);
- maximizing the impact of existing policy instruments (Chapter 4); and
- policy innovation to strengthen direct public-policy influence (Chapter 5).

These have the potential to interact in a mutually reinforcing way as empowered institutions use existing instruments more effectively, and are also afforded new ones. The focus of these actions is to bridge the supply gap by actively and collaboratively managing land and locational value for the public good, and bridging the affordability gap by engineering-in permanent affordability.

The Council believes that this approach, if vigorously pursued, would bring about a structural shift in the approach to housing policy and the achievement of what the Council sees as the key goals: affordable, sustainable and socially equitable housing.

Chapter 3: Bolstering the Institutional Framework

3.1 Introduction

Salon (2014) cites institutional culture as being key in explaining the willingness of institutions to develop and effectively use specific policy instruments.² Motivations and competencies are important factors. Developmental institutions can have the most impact if armed with a broad remit and range of powers and assets, working effectively in partnership with public and private actors. They must be mandated to use existing policy instruments more effectively and maximise any new ones, while embracing a developmental perspective. Such an approach (dubbed *urbanisme* by Hall, 2014) differentiates planning and development systems that are effective in preventing undesirable development from those that are also effective in achieving the desired development.

In Ireland, while many important elements are in place, responsibility is distributed across the system, with many institutional actors active in the housing policy and finance space. This chapter examines the role of:

- the Land Development Agency (LDA);
- local authorities;
- Approved Housing Bodies (AHBs); and
- central policy coordination.

3.2 The Land Development Agency

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, and other areas in key locations and along new public transport corridors opened up by infrastructure projects or new dedicated bus routes. The Council has argued that 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, 2018a: x).

² Salon highlighted institutional culture as being a key factor in the willingness of transit authorities to adopt locational value instruments to fund investment in transport infrastructure.

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. Such an approach is implied in the National Planning Framework (NPF) and the National Development Plan (NDP), and many of the elements for achieving it are touched on in these documents. However, system change necessitates not only recognition and articulation of need, but overt articulation of the method to deliver on it. There must be a follow-through from accepted principles to explicit supporting actions. Assessing the NPF and NDP with a ‘developmental lens’ indicates that the need for a fundamentally new approach is well understood: strong public institutions, commitment to compact growth, active land management, transport-orientated development, land value capture, etc., all feature in the explanatory text.

However, the Council has highlighted the need for public institutions with a strong developmental mandate to have the political authorisation and executive capacity to take the necessary 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 require authoritative public actors with the capacity to work collaboratively with relevant public agencies and private and not-for-profit development and housing organisations. This means well-staffed and well-led urban development agencies that are dedicated to the task and have the professional competence to draw up masterplans and engage in complex arrangements for implementation with other public agencies, the private sector and community groups. The forthcoming legislation establishing the LDA on a statutory footing presents an opportunity to ensure it has the required ambition, mandate and power, beginning with the general scheme of the Bill (‘heads of the Bill’).

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 multi-dimensional 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

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).

with community groups. In every successful case, the detailed case studies show that from the start the public agency took the lead: it 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.

Drawing on this analysis, the Council strongly endorsed the Government's commitment in the NPF to establish a new agency that would coordinate 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 also identified the key characteristics that are likely to make for an effective urban development agency:

- a clearly defined mandate to supply serviced land for permanently 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 existing 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 that, over time, it 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 LDA on a permanent statutory basis as soon as possible is an important policy decision. 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; and
- 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, to drive sustainable urban development and the increased provision of affordable housing, and to support compact growth, in accordance with the objectives of Project Ireland 2040.

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 within the housing and land markets. The agency's role in land development/strategic land assembly is crucial to its longer-term impact; this involves bringing land to the stage where it is serviced with infrastructure in place and ready to be built upon. To realise its potential in this respect, the LDA will need to acquire and assemble land beyond its initial portfolio. Since access to land is one of the constraints on the development of new social housing, particularly for AHBs, providing land for social housing should be a significant part of its remit.

Since its establishment on an interim basis in 2018, the LDA has focused on building its organisational capabilities and competencies and 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. Building these organisational competencies in conjunction with fostering a more developmental perspective (*urbanisme*) will be key to the LDA fulfilling its potential as regards affordable housing and sustainable urban development. It has also sought to develop productive and cooperative 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). It is progressing a similar initiative in Galway city centre. Although it currently has land for 3-4,000 homes, the agency has yet to deliver any new homes or even initiate building. This developmental logjam will continue until it is given appropriate statutory powers and a capital budget.

The LDA's resources, assets, in-house expertise and the actions that it has taken to date certainly suggest that this institution has the potential to effectively undertake the challenging task of delivering housing at substantial 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 is 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 the 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 given to the LDA to enhance its capacity for land assembly. As discussed below, a credible system of compulsory purchase for urban development land is key to making 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 this 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 do have a value to the existing owners. In some cases, land-sale revenues are used to help finance public capital projects (e.g. Technological University Dublin 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 of SDZs (section 4.8). There is also a commitment to use modern methods of construction to support the speedier provision of high-quality sustainable homes at scale.

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 place-making.

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 a 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 giving 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 will enable 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 government departments or state bodies; 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 the value added to land from public investment is central to 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 given to the LDA to enable it to fulfil its statutory remit.

CPO powers should be used where it is not possible to reach voluntary agreements with landowners. Land readjustment is a potential mechanism that can be used to assemble land for development in a co-operative manner, while landowners retain the opportunity to develop their land (see section 4.8).

Finally, the Programme for Government clearly identifies the LDA as having a central role in ensuring the provision of homes for affordable purchase and cost rental. Achieving the LDA’s goals in relation to strategic land assembly and housing provision will require considerable investment by the State, while the on-off balance-sheet nature of the activities of the LDA is a matter for statistical authorities. 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. These topics and the related issue of on/off balance-sheet designation are discussed in Sections 5.3 and 5.8.

3.3 Local Authorities

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. The associated complex tasks fall on relatively small teams of officials in each local authority. The complexity of the tasks necessitates expertise and time; familiarity with the problems and experience in solving them enhances the likelihood of successful outcomes. Access to expertise has a role to play in supporting housing provision and urban development. The process and 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 when skills and experience have been lost (e.g. on the establishment of Irish Water). The National Building Agency played such a role previously in relation to social housing, since it had the staff, resources and skills in key areas such as quantity-surveying, engineering, utilities, architecture and knowledge of the building industry.

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 delivering affordable public and private housing. This suggests that local authorities—in seeking to undertake complex tasks around procurement, where necessary using CPOs, site-unblocking and master-planning—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 being carried out in the context of low application fees—fees that have not been reviewed for almost 20 years.

The planning and delivery of housing is often contentious in local areas. 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, incumbent communities and (as a result) local elected public representatives can find it difficult to support the delivery of new social, affordable, higher-density housing.

Embedding the change proposed by Council and which is intrinsic to the NPF can thus be difficult. 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 would be helpful. For example, it is important that greenfield/brownfield designation be accurate if targets are to be achieved (e.g. consider an urban brownfield and infill land register for the purposes of monitoring the NPF compact growth targets). 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. Issues to consider include: the extent to which desirable building height for specific, appropriate areas faces blockages in the planning process, and suitable remedies; whether to facilitate subdivision of suburban housing in cities, in accordance with residential space standards generally; and the pros and cons of targeted supply-side fiscal supports for certain cohorts (e.g. owner-occupiers of new apartment schemes/housing above a certain density threshold; so-called ‘downsizers’).

3.4 Approved Housing Bodies

In recent years AHBs have played an increasingly significant role in housing provision. Last year (2019) they contributed around 40 per cent of new social housing across all delivery channels (new-build, acquisitions and leasing). Total new provision by AHBs has increased from just over 1,300 homes in 2015 to over 4,000 homes in 2019, and the AHBs now have a total of 40,000 homes under management.

An event of concern for the sector was the decision by Eurostat in 2017 to reclassify the larger AHBs into the general government sector (i.e. they were moved on-balance sheet). There is no indication to date that this has affected the strong expansion of this sector and, given the pressing need for social housing, the AHBs’ contribution to expanding social housing remains vital. Nonetheless, the cuts made to government capital expenditure on housing in previous economic recessions suggest that the sector’s concern about being classified on-balance sheet should not be dismissed. However, during the current recession, public capital expenditure is being sustained so the expansion of this sector can be expected to continue.

The AHB sector is also committed to developing cost or affordable rental homes. There are two AHBs involved in Ireland’s first cost-rental development—on Enniskerry Road in Dun Laoghaire-Rathdown.

3.5 Central Policy Co-ordination and Ownership

The issue of policy prioritisation, co-ordination and ownership is central to achieving the system-wide change and approach highlighted in this report. There are lessons here from Ireland's recent past. Following the economic crash in 2008 and Ireland's resulting decline in international competitiveness, system-wide action was required. Competitiveness, an abstract concept, comprises elements such as the availability of skills, cost/ease of doing business, quality of physical infrastructure, tax and regulatory regime, etc. No single government 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 coordination 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 options proposed by the Council 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.

Despite the crucial role played by institutions such as the LDA and local authorities, and the individual roles of government departments, the importance of 'the centre' of government as a key institution must not be lost. It assigns ownership, provides the necessary coordination, and can announce the unified government view.

For example, central government can and should announce a firm commitment to support the Central Bank's macro-prudential mortgage policy. It is important to ensure that the present affordability challenge does not, even inadvertently, create some adverse credit-house price spiral. Even though home ownership is out of reach for many on good incomes, there must be no short-term policy shifts that would inevitably increase the level of house prices and the proportion of highly indebted mortgage borrowers.

Further, a commitment to supply-side action by the centre can help inform policy innovation. The recently announced stimulus package for the economy provides an example. The package includes three measures to support housing:

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

Up to now, 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 up to the end of 2021, this has been extended to a maximum of 10 per cent, up to €30,000. This means a first-time buyer who is buying a new dwelling with a value of up to €300,000 can now get a grant of €30,000 (if they have paid this much in tax in the last four years) while buyers of dwellings worth €300,000 to €500,000 also get €30,000.

The potential impact of this must be considered in light of the Central Bank rules. For first-time buyers, the Central Bank's macro-prudential mortgage 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. Beyond the metropolitan areas, the median price for new dwellings is mostly below €300,000.⁴ 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 home where these are available. In metropolitan areas, the required savings for a deposit are reduced. The loan-to-income limit remains 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 the position to acquire a newly developed apartment. These changes are likely to reinforce upward pressure on prices and act as an incentive for housing development to take place away from major urban centres.

⁴ In July 2020 median new dwelling prices exceeded €300,000 in the following counties: Dublin, Kildare, Wicklow, Cork, Limerick, Westmeath, Roscommon and Clare. Median new dwelling prices were below €300,000 in other counties, marginally so in the cases of Galway and Meath. No data were available for Leitrim, Monaghan and Tipperary.

Chapter 4: Maximising the Impact of Existing Policy Instruments

4.1 Introduction

Making more effective use of the policy instruments currently at our disposal can also contribute to bridging the supply and affordability gaps. Active land and value management for the public good involves helping make development happen. This can be achieved by providing services (roads, utilities) on important sites and installing an effective system of compulsory purchase of land, even if rarely used, as an important backup instrument. Mobilising vacant and underused property is a crucial land management activity to increase affordable housing supply.

Engineering affordability into supply requires a focus on scaling up current cost-rental activity into a national programme and increasing the current Part V requirements. Further, the system-wide approach to change proposed by the Council here (or any alternative) will fail unless steps are taken to assist the construction sector in terms of the required capabilities to deliver. Finally, in terms of existing measures, the Council views a national programme of flagship projects as an important method of demonstrating that a system-wide approach to change can deliver tangible, salient results.

The remainder of this chapter examines:

- preparing strategic sites for more affordable homes;
- making sure that development happens in the near term;
- a national cost-rental programme at scale;
- leasing of public land and housing affordability;
- enhanced Part V for affordability;
- construction-sector capacity and productivity; and
- a national programme of flagship projects.

4.2 Preparing Strategic Sites for More Affordable Homes

The State can play an active role in helping make development happen by providing services (roads, utilities) on important sites. The Serviced Sites Fund supports local authorities in providing key enabling infrastructure on their (or Housing Agency) land, to get the sites ready for the delivery of affordable housing. The Local Infrastructure Housing Activation Fund (LIHAF) provides public offsite infrastructure to relieve critical infrastructure blockages and accelerate delivery of housing on key development sites.

The Urban Regeneration and Development Fund (URDF) was established to support more compact and sustainable development, through regenerating and rejuvenating Ireland's five cities and large towns, in line with the objectives of the National Planning Framework (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; for example, affordable housing projects of scale should not compete with public-realm improvement projects, and large urban local authorities should not compete with smaller, rural local authorities. Further, given that delays in delivering utilities such as water and energy services and infrastructure can damage the viability of a development, the State could be more active in assessing and influencing performance in this area. Co-ordination, as well as timeliness, is important, as utility-delivery systems are not unified. Finally, there have been calls from the construction industry for a major increase in Exchequer funding to Irish Water to support increased housing supply.

4.3 Making Sure Development Happens: Near-Term

Planning of the kind found in Ireland and Britain can prevent undesired development, but lacks the ability to ensure that development takes place. Land can be zoned for housing, and even serviced, but there is no guarantee that it will be used within a reasonable period. 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.

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.

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. In the medium term, reform of the overall system is required (this

is discussed in Section 5.4). In the interim, there appear to be differences in the compulsory purchase order (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

As noted in Chapter 3, international experience reaffirms the importance of establishing an authoritative public body with a strong development mandate that is not only equipped with the necessary capital and land resources but also has recourse to a suite of effective active land management and planning policy tools. International experience 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 means allowing state actors to operate within a credible system of compulsory purchase of urban development land at below full development value. Such a system must be available to local authorities and the Land Development Agency (LDA).

In addition, an effective way to increase the effective supply of housing is to mobilise vacant and underused property. Progress is being made on a Vacant Homes Strategy (Government of Ireland, 2020b). A vacant site levy is in place (7 per cent from 2019 onwards) to incentivise the development of vacant or underused sites in urban areas. Questions persist as to whether the rate of the levy is adequate, and there are indications that it is not 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 viability of construction or housing need in the area, and problems with interpreting the legislation.⁶ The application of the vacant site levy is a matter for individual local authorities, though the Department of Housing, Planning, and Local Government monitors its implementation, and progress reports on implementation of the levy, including information on the number of notices issued, are prepared.

The Council believes that action can be taken to make this levy more effective in spurring urgently required development. For example, 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, in particular the functions relating to proper planning and sustainable development.

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 (Forfas & 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.

⁶ See <https://www.rte.ie/news/investigations-unit/2020/0124/1110500-vacant-sites/> 02/10/20.

The OPR could train and empower local authorities to use the levy more effectively and deal with any conflicts. If issues remain, urgent review and reform should follow, and consideration should be given to assigning collection/enforcement to a different, national body. 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 that public policy objectives are delivered.

4.4 National Cost Rental Programme at Scale

The Council has produced substantial research on cost rental as an effective and fiscally sustainable housing model (NESC, 2014). 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 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 homeownership, but may not be eligible for social housing or, even if they are eligible, are unlikely to be allocated it, given its scarcity (NESC, 2014).

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 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 the equity of the LPHAs. 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.

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 distributed 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 4.1: Cost Rents & Local Authority Rents in Ireland

Cost-related rents were a feature of Irish local authority housing in earlier decades. NESC (1976) 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 (1976) 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 (1976) 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 within 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 CECOHDAs (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 is payable on rents (including by LPHAs)—of 10 per cent. Construction costs vary by project. The example of the O'Cualann project in Poppintree (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 CECOHDAS 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 per cent). This loan is interest-only until the bank loan is repaid. Another component is equity provided by the LPHA itself (14 per cent) on which it is allowed to charge 3.5 per cent interest, and a (refundable) tenant equity contribution (10 per cent). 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).⁷ This implies that cost rental in Ireland will need more

⁷ 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.

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 to allow for increasing costs). There may be 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 4.1).

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 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 the 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 practise 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 to 2 per cent and repayments terms were extended to 50 years. This was one factor contributing to a substantial increase in social housing output in the 1950s.

Further reductions could be achieved if some or all 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. A new scheme of government loans to support the development of cost rental was announced as part of the 2021 budget.

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 is invested in housing (or anything else). Given the current classification of AHBs, this would also apply in their case, although it is possible to change this (see below). 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 NESG (2018a), 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, 2018a: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.

4.5 Leasing Public Land and Housing Affordability

The experience of the O'Cualann Cohousing Alliance illustrates how the provision of serviced land can greatly enhance housing affordability. In its first development in Poppintree, O'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, while the corresponding price in the second phase is €219,000.⁸ The low costs achieved reflect not only the saving on land costs but also the lower risks and hence lower finance costs and a lower margin. This development consisted of houses; there are apartments included in upcoming developments.

⁸ 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.

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 and this would maximize the housing affordability benefit of the land.

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 would boost the ability of capital-constrained developers to provide. Third, if the land rent is related to the underlying value of the land, then over time the public landowner benefits from the long-term rise in land values. Fourth, if there is a discount given in the land price, leasing can be used to ensure that this discount is preserved for future buyers, thereby achieving permanent affordability. Fifth, it 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, which 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 is worth supporting.

4.6 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, the Council recommends 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 would have people with a mix of incomes. The presence of effective compulsory purchase powers would support requirements for affordable housing on private land. 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.⁹

Conversely, this same framework also 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 would appear 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.

The implementation of this initiative has been underpinned by policy continuity and strong and committed political leadership. It was clear from the outset that the London mayor 'meant business' and that there was not going to be any deviation from the objective of increasing the level of affordable housing provision. This gave a clear signal to stakeholders that, rather than holding out for policy changes, it was in their interests to engage with it and make the new process work.¹⁰

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).

⁹ 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.

¹⁰ Some developers took a legal case against this planning initiative, which they lost.

In recent years, it has become more difficult for this agency to supply land at affordable prices. To help address this, 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. This reform was introduced just over a year ago.

Research by housing consultants in Vienna found that ‘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, LPHAs say that the land costs have significantly decreased, while the city-owned Wohnfonds (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. It seems that a lot of energy is put into ‘getting around Part V’, meaning it has never truly fulfilled its potential either in terms of increasing the provision of social housing or achieving tenure mix. 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 engagement by developers should be considered (e.g. VAT breaks) including de-risked/shared planning with local authorities. Consideration of a VAT reduction would have to assess the prospective impact on supply and the potential deadweight cost. Building on the work of the Construction Sector Group (CSG), policy-makers—including those at local level—could improve their understanding of the construction process, including the business model. There should be a 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 managing 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. Altogether, these benefits could all 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, and this warrants exploration. This could include examining the approach taken by the

National Roads Agency (now integrated into Transport Infrastructure Ireland) and its successful and effective 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 Chapter 3.

4.7 Construction-Sector Capability and Productivity

The system-wide approach to change proposed by the Council 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:

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).¹¹

Some industry experts contend, however, that the sector has the requisite capacity, including access to a sufficient supply of skilled labour, to deliver a substantial increase in housing provision, especially given the expected downturn in office-related construction activity (see Nowlan, 2020).

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, which went live in May 2019, and provides details on over 500 projects across Ireland, and the new report, *Prospects*, (Government of Ireland, 2019) which provides further visibility to the domestic and international construction industry on the sequencing of Ireland's priority infrastructure projects over the coming years.

However, challenges remain such as the availability of the right type and quantum of skills and low productivity. Regarding skills supply, Ireland's overall job vacancy rate has fallen, down from 1.1 per cent to 0.7 per cent over the last year; construction is the sector with the lowest job vacancy rate (0.1 per cent) (CSO, 2020).

¹¹ 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.

The CSG highlights three important themes that, if addressed, could 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 with the confidence 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; for example, complete an industry needs assessment; develop a National Centre of Excellence; deliver a Commercial Skills Academy; develop inclusive promotional careers campaigns, etc. 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 would give confidence to the sector to invest in capacity. While the construction industry has the ability to respond flexibly and quickly to market signals, the State can proactively stimulate a repositioning of its organisational resources towards the affordable/social housing sector(s) by providing a clear commitment to a programme of sustained investment in such housing (see Nowlan, 2020). The role and activity of the LDA and a programme of flagship projects suggested in this report, with a pipeline of projects of true scale, would allow LDA/development institutions to become a catalyst for innovation and productivity improvements in the industry. As well as providing a pipeline of development projects, the LDA could take a lead role in delivering/procuring modern modular methods of construction at scale in regions.

Public contracts and programmes more generally should encourage good practice and, for example, set ambitious standards for their building projects to ensure 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 within a more stable and sustainable construction sector. All opportunities to create a more progressive industry, to invest in skills, and improve the image of the sector should be taken. There are perceptions of the industry (volatility, variable 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.

4.8 National Programme of Flagship Projects

A recommendation to take a system-wide approach to change can seem underwhelming in a context where urgent and effective action is, understandably, sought. The scale of the challenge precipitates calls for what might be termed ‘silver bullet’ or ‘magic wand’ solutions, when the reality is that none exist. 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 on this, and other, fronts.

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; and it can demonstrate the seriousness and effectiveness of renewed policy action in this area to policy-makers, market actors, and society.

Identifying and supporting these major projects may necessitate a new development framework for specific strategic sites. 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 DDDA, 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 given responsibility for developing the site. It would masterplan the entire site, and make landowners and financiers aware of that masterplan in a manner that all can be confident it will be delivered.

Designation of the area as an SDZ/affordable housing zone 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 housing developments and poor past experiences can hinder such an approach, so care must be taken. However, it is important that projects 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 co-operating landowners could generate revenue that would contribute the funding of necessary infrastructure.

This combination of a facilitative planning regime and authoritative development institution could also serve to realise the full potential of those SDZs that have to date underperformed in terms of housing delivery due to lack of a strong implementation framework. It is suggested that there would be merit in assigning development responsibility for these specific sites to the LDA. It has the evolving capacity, professional expertise and access to finance that could serve to unlock the potential of those SDZs that have hitherto failed to drive substantial urban development and deliver the expected level of housing units. It would, however, be important for the LDA to foster a productive and co-operative relationship with the relevant local authority in order to ensure that any masterplan drew on local expertise and knowledge. A co-operative relationship would also be key to building societal and political support for any major development project.

Land readjustment is an approach with potential for land assembly in a pilot project. This allows for the assembly of land for development in a cooperative manner and facilitates landowners who wish to participate in the development. It is used in a number of countries, including Germany. The German model of land readjustment works as follows. The process is formally initiated by the municipality, which decides the boundaries of the scheme. It virtually merges all of the land into one area, and a plan is devised for developing the combined land in the scheme. Some land is allocated for public purposes, such as roads, parking lots or playgrounds. The remaining land is then redistributed among the original landowners. According to Davy (2007), most landowners whose properties have been included in land readjustment are happy with the process.

Another possible model of large-scale development on major sites is that of ‘new civic housebuilding’ (Jefferys and Lloyd, 2017). In this model, a development corporation is formed for a major site and interested landowners can invest their land as equity in the corporation. These landowners contribute to the infrastructure costs, and share in the development profits.

A National Programme of Flagship Projects would be ideal, with a site such as the Naas Road Industrial Site nominated as a demonstrator project. It is a major tract of land with the capacity to provide a substantial number of social and affordable compact housing units as part of a major new urban quarter for Dublin. This type of ambitious development, moreover, would be of sufficient scale to make a tangible positive difference to the housing market in Dublin (NESC, 2015a). As well as demonstrating development potential, this site highlights particular challenges such as fragmented ownership, diverse land-use and the potential displacement of employment. The effective application of a new developmental framework can demonstrate how a system-wide approach can address such challenges and realise the full potential of strategic sites with regard to affordable and social housing at scale.

A pipeline of nationally significant house-building projects could also serve as a driver of necessary modernisation, innovation and productivity improvements within 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. It is essential for the indigenous construction sector to embrace and invest in such changes. Greater certainty and less instability in the housing sector would serve as an incentive to greater investment in technology, new organisational practices and staff development.

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 providing 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 within construction as it returns to its long-run equilibrium level.

Chapter 5: Driving Policy Innovation

5.1 Introduction

Bridging the supply and affordability gaps will be progressed by implementing the institutional measures and applying the existing policy instruments, as set out above. However, the State should, in addition, look to use innovative policy and ideas to enhance its ability to manage land and to deliver more affordable homes.

National strategies on homelessness and affordable housing need to be detailed, clearly articulated, and delivered with urgency. Further, policy innovation could help address the thorny issue of on/off balance-sheet activity by actors in this policy area. There is merit in investigating options to deliver state-supported house construction that is initially on balance sheet, as a proof of concept, but which can then be sustained on an off balance-sheet basis.

In addition, alongside the immediate action set out in the previous chapter, the State must empower itself in the medium term to acquire land in designated development areas at existing use value plus some premium. And, as well as working now to make its use more effective, there should be urgent review and reform of the vacant site levy.

Further, the public should share in the rise in the value of land and property that is driven by public investments and/or policy decisions, and this can be employed to improve affordability. There is an urgent need to study, choose, and apply locational value instruments, tailored to specific sites. Work should also commence to identify and systematically address any barriers to the introduction of a site value tax.

Finally, the increased policy focus on value-capture mechanisms should also be part of a broader commitment to explore the potential to complement state expenditure with alternative sources of financing and more innovative and tailored funding mechanisms.

The remainder of this chapter examines:

- developing national policies;
- tackling the ‘balance sheet’ conundrum;
- making sure development happens in the medium term;
- mobilising vacant land and vacant property;
- locational value for the public good;
- site value tax; and
- innovative funding mechanisms.

5.2 Developing National Policies

The new Programme for Government includes a commitment to a policy to increase the supply of public, social and affordable homes and to increase the provision of affordable housing for purchase or rent. In advance, a firm commitment to support the Central Bank's macro-prudential mortgage policy must be made. Further, the strategy to address homelessness should be delivered, with *Housing First*,¹² increased funding to construct tailored units, and the provision of relevant support services at its centre.

Next, national affordable housing policy needs to have the ambition, scale and detail to shape market decisions and give confidence that stated outcomes will be delivered. The policy should consider and announce what price level it is targeting as 'affordable' in specific locations, and consider and announce 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, as construction of new social housing is significantly cheaper than turnkeys, leasing of social housing gives poor value in areas of high demand, and construction would boost Ireland's post Covid-19 recovery. However, an alternative view is that changes to procurement and funding processes for social housing would serve to make turnkeys a more cost-effective option for delivering social housing (see Nowlan, 2020). While it would be beneficial to explore ways in which to reduce the costs associated with turnkeys, the Council is strongly of the view that there is a need to focus on substantially increasing the construction of new social housing units.

The earlier crisis in the public finances led to a collapse in social housing construction. Social housing provision has recovered under Rebuilding Ireland.

One reason why construction is an underused delivery mechanism for social housing is access to land for social housing. This applies particularly to AHBs. Borrowing money to acquire land for social housing is a risky proposition, as is the case for private development.¹³ The availability of land suitable for social housing varies by local authorities. Some local authorities have land but are not able to use it for social housing on account of the high debts on the land. There is a need for a scheme 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.

¹² With *Housing First*, the priority is to support a person who has experienced homelessness into permanent housing as quickly as possible, without any preconditions. Then, continue working intensively with them on any other issues or support needs they may have once they are housed. *Housing First* recognises that a stable home is the first step in addressing homelessness. The State should take responsibility for delivering on a *Housing First* approach, albeit in conjunction with other relevant organisations (Government of Ireland, 2018b).

¹³ Banks do not lend money to developers to finance the acquisition of land without planning permission, on account of the risks involved.

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.

Another obstacle to social housing construction seems to be the complexity of the approval processes, despite some reforms. The process chain should be reviewed and further condensed and streamlined, as recommended by Norris and Hayden (2018). Box 5.1 provides an outline of the social housing approval process.

Box 5.1: The Social Housing Approval Process

The process of creating a new local authority housing development will begin with identification of a site and consideration of its suitability for social housing. There will be informal discussion with the Department of Housing regarding 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 one approval is obtained, the local authority can proceed to tender for a design team for the project. It 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 two approval is granted, the local authority 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, it will seek to determine whether this is justifiable and may seek savings.

Stage three approval means that the Department issues approval to proceed to tender. The local authority will issue a public notice inviting tenders, review the tenders and submit this review to the Department to obtain stage four 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 successfully tenderer and finally award the contract.

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

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. In the case of AHBs and other voluntary housing organisations, access to land is a major barrier to construction of more new social and affordable homes, and this needs to be addressed (see above in this section).

Finally, further private rental sector reforms might include ultimately moving to more indefinite leases. Consideration should also be given to removing some of the reasons for vacant possession under Section 34 of Residential Tenancies Act (e.g. sale, unsuitability, family occupation, refurbishment, change of use).

5.3 Tackling the ‘Balance Sheet’ Conundrum

There is considerable political and societal support for the concept of a dynamic and extensive affordable rental or cost-rental sector, but there is 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 that is outside the general government sector or off-balance sheet. A possible model for the creation of a cost-rental sector on an off-balance-sheet basis has been published by Social Justice Ireland (2018). There is now an emerging view that it may not be possible to design, build and scale a cost-rental sector that is—from the outset—completely off-balance sheet. Box 5.2 provides an overview of how organisations are classified.

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’. 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.

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.

Box 5.2: 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 within 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’ (*ibid*: 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’ (*ibid*: 21).

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 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 possible to create an affordable rental sector that can deliver, at scale, quality, energy-efficient homes for significant sections of the population.

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 then 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 very 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 refinancing the initial tranches, some form of state guarantee will have to be provided. At the same time, this initiative 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.

In addition, work should be undertaken to engage potential investors to the greatest possible extent. In March 2015, the Social Housing Investment Proposals Clearing House Group (or the Clearing House Group) was established. At that time many developers, financiers and others had expressed interest in becoming involved in providing or financing social housing. This group was established to meet with and consider the proposals of these companies and institutions. In considering these proposals, the group had a particular focus on whether proposals

would be off-balance sheet or have a neutral impact on the general government balance.

The group concluded that no new model was presented that would, of itself, be capable of providing and/or financing social housing, on an off balance-sheet basis. However, it also found that aspects of some of the proposals appeared to offer potential in terms of a possible model or models that could be developed on an off balance-sheet basis. It pointed out that ‘affordable rental’ (where most of the revenue came from tenants) had potential to work as an off balance-sheet model.

Following on from the work of the Clearing House, a number of initiatives were taken.

First, the Department of the Environment, Community and Local Government developed a new leasing scheme for social housing (‘enhanced leasing’). This revised scheme was designed to promote larger-scale investment in housing by private investors that would be leased as social housing. It offered a higher level of rent compared to the earlier scheme in exchange for investors accepting greater responsibility for maintenance costs. This model is off-balance sheet. The assets remain in private ownership, which is a feature that reinforces the off-balance-sheet status of this scheme. However, it means that the State is incurring high and rising rental costs over time without any acquisition of an asset, and so does not represent good value for money from a long-term perspective.

Nonetheless, leasing is a substantial component of social housing provision; over 10 per cent (1,161) of new social housing units (excluding HAP) were secured through this channel in 2019. Social housing is also being delivered off-balance sheet through public private partnerships, with a target under Rebuilding Ireland for 1,500 units to be delivered in this manner.

Second, an affordable rental pilot scheme was announced in October 2015. The scheme was to work on the basis of tenants paying most of the rental cost from their own resources and the State providing a subsidy to meet the shortfall. A budgetary allocation of €10m was set aside for 2016 to support this scheme. The provision of a cash subsidy was intended to allow the tenant to pay a reduced rent in the region of 70 per cent of market rent. The NDFA was the adviser on this scheme (and on enhanced leasing). It was intended to be off-balance sheet (i.e. no impact on the general government balance other than the €10m subsidy).¹⁴ However, it was subsequently decided not to proceed with the pilot scheme in this form; it is understood that the Department of Public Expenditure and Reform (DPER) had concerns about the scheme.

One potential investor was interested in participating in this pilot affordable rental project and identified a suitable property nearing completion in Tallaght that could be acquired and used for affordable rental. An AHB was found willing to lease the property from the investor. When the pilot did not go ahead as planned, the investor proceeded with the acquisition, with the Ireland Strategic Investment Fund

¹⁴ <https://www.housing.gov.ie/housing/finance/affordable-housing/investing-social-housing> 02/10/20.

(ISIF) as a major participant (50 per cent). This project includes the standard 10 per cent social housing plus an additional 20 per cent of the units being made affordable through the use of HAP (Nowlan, 2018). The company (Urbeo) is continuing to acquire private rental assets.

A number of pilot projects on cost rental are now under way or planned. With these projects, costs are reduced through the provision of free land and the use of reasonably low-cost finance. The projects are being developed by public bodies or AHBs and hence are on-balance sheet.

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

5.4 Making Sure Development Happens: Medium-Term

As noted, 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. Pending overall reform, NESC suggests there is 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. However, overall reform is a necessary policy innovation to ensure affordable housing development happens.

The 1973 Kenny Report advocated a system of active land management linked to measures to capture the land value uplift, or betterment, arising from economic and social development as a means of capping land prices (NESC, 2004). A core principle of the Kenny Report regarding the capture of the betterment remains as relevant today as it was 50 years ago. The State must update the compulsory purchase 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 centres where land is sub-optimally 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 latter report 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. There is an urgent need to put in place a fair, effective and efficient system (Law Reform Commission, undated). This involves driving long-run reform while maximising appropriate use of the powers already in place in the interim, to provide a ‘half-way’ solution on the road to ultimate reform.

One barrier to such reform is a fear among landowners across the country that their land will 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 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.

5.5 Mobilising Vacant Land and Vacant Property

On the issue of vacant or underused sites, the Office of the Planning Regulator (OPR) could train and empower local authorities to use the current vacant site levy more effectively and deal with any conflicts (see Section 4.3). If issues remain, urgent review and reform should follow, and consideration be given to assigning collection/enforcement to a different, national body. However, there is scope for additional measures in this area, and lessons can be drawn from international experience.

Looking internationally, Denmark has a higher residential property tax compared to Ireland, as well as 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, the owner 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 here.

Further, there is a commitment in the 2020 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 (Government of Ireland, 2020a: 58).

One of the obstacles to converting 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 *et al.*, 2017).

The Rent-a-Room scheme is an incentive to encourage homeowners to make vacant bedrooms available for rent. This helps ensure better use of existing housing. Rent received under this scheme is free of tax up to €14,000 annually. However, with limited exceptions,¹⁵ this rental income is counted as means for the purpose of social welfare. This means that a homeowner on a means-tested social welfare benefit who avails of this scheme would typically incur a reduction in their social welfare payment that would wholly or almost wholly 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.

5.6 Locational Value for the Public Good

Servicing land and providing infrastructure to support sustainable housing development is costly. At the same time, there is often a large difference in 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.

International practice highlights that having recourse to a combination of value-capture instruments¹⁶ serves to both enhance revenue-raising capacity and reduce risk, in particular that associated with the cyclical nature of real-estate development. It also highlights the need for the relevant institutions to invest in building their financial management capacity and to have in place risk-management strategies (Petretta, 2014; Salon, 2014; Schlickman *et al.*, 2016). This supports the arguments made above in relation to the importance and role of institutions, and in particular the LDA.

¹⁵ Rental income is not counted as means for social welfare purpose for those who are getting a State Pension (Non-Contributory) or a Widow’s/Widower’s or Surviving Civil Partner’s (Non-Contributory) Pension *and* would be living alone unless they rented out a room in their home.

¹⁶ 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 favours the term locational value 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.

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 servicing land and infrastructure for housing but also, importantly, can drive the supply of more affordable housing and a more sustainable model of urban development. Indeed, international experience suggests that there is scope for public actors to not only harness the potential of locational value-capture instruments but to also proactively engage in (co)creating locational value premised on sustainable urban development (NESC, 2018b). It is important to note that 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. However, the capacity of value capture mechanisms in isolation to contribute to the delivery of more affordable housing would be severely constrained, as it would be dependent on a private-sector model of speculative development.

The Council's work in 2018 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 (Hall, 2014). To illustrate, Hafen City, a dockland redevelopment project, 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.

In Ireland, 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 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, 2018b: 33).

In 2018, the Council concluded that Ireland must actively explore the use of locational value creation and sharing instruments to support Ireland's ambition for enhanced infrastructure and sustainable urban development, including the provision of affordable housing at scale.

The Council argued that this exploration should consider 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 what locational value-capture instruments are most appropriate to particular urban settings (NESC, 2018b).

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.

5.7 Site Value Tax

Site value tax (SVT) is a form of land-value capture. 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), SVT 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.). It represents the purest form of land-value capture in that it applies only to the value added to land.

A 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.

Given the advantageous features noted here, the case for a SVT has featured in Irish policy discussion over the decades. The Commission on Taxation (2009) considered that there was a strong economic rationale for introducing a SVT. However, it did not recommend its introduction at that time because of its concerns about the operational issues in implementing it. It is likely that obtaining the necessary data would require substantial input from a number of different bodies and agencies in order to calculate the appropriate value of land on an individual property basis, while some additional staff would also be required for its implementation and dealing with appeals.

The Commission on Taxation was also concerned about the fairness and public understanding of a site value tax. In the view of the Commission, ‘Taxpayers would consider it very unfair if the same amount of tax was payable in respect of two properties of different sizes, simply because they were located on identical parcels of land’ (Commission on Taxation, 2009: 172). There are different perceptions of the fairness of taxes. The fairness case in favour of a site value tax is that the tax due reflects the inherent value of the location of a site which is created by economic and social factors, including public investment, rather than the efforts of the landowner in investing in buildings on the site. It would be necessary to devote time to establishing public understanding of the nature of and case for a site value tax prior to its introduction.

The National Competitiveness Council (NCC) recommended a SVT on commercial property and land zoned and serviced for development, which would replace commercial rates and the vacant site levy (NCC, 2015). Various economic, social and environmental organisations have also made the case.

The 2012 report of the Inter-departmental Group on the Design of a Local Property Tax (LPT) comprehensively examined the basis of assessment for the LPT, including

both the taxable value of the property option and a 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 states that there is a need to ‘respond decisively to the public’s demand for change in terms of housing’ (Government of Ireland, 2020a: 12), 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’ (*ibid.*: 74). A question which thus arises is whether the scale of the housing challenge today (as opposed to in 2009, 2012 or 2015), coupled with the stated objectives of the new Government, casts the perceived barriers to SVT in a new light. Do they 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.

International experience as well as subsequent research in Ireland by Lyons (2012) suggests that operational issues need not be an overriding obstacle to the introduction of a site value tax. Appendix 1 provides an overview of how it is used in other countries, and some practical issues associated with implementing it in Ireland. If a site value tax is not introduced, it is worth considering extending the existing LPT to development land.

5.8 Innovative Funding Mechanisms

Finally, the increased policy focus on value-capture mechanisms should also be part of a broader commitment to explore the 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 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. However, this financial and market expertise needs to be more centrally involved from the outset in the policy dialogue and design process.

For 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 cost of finance depends on the interest rate/return, duration of loans, and structure of finance. This suggests the need for access to financial expertise, a specialised institution or vehicle, capable of bringing all of this together to help engineer affordability into development (e.g. the LDA, which would have the added benefit of its own land bank).

The example of the Strategic Banking Corporation of Ireland (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 source 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.

The increased involvement of private financial institutions in the funding of housing provision potentially enables public actors to access not only additional capital but also financial and technical expertise. The downside of this is that the cost of finance will be higher compared to government finance. With the cost-rental model, the costs are mainly paid over time by the tenants. The lower the costs, the lower the level of rents and the lower the level of subsidy needed. The higher cost of private finance may require a higher level of subsidy compared to state finance to achieve affordability for tenants (for example, through HAP). If it allows a higher level of investment to take place than would otherwise be the case, private finance would be helpful—but it must be structured so that the cost is minimised, which is likely to require a state guarantee.

Chapter 6: Conclusions

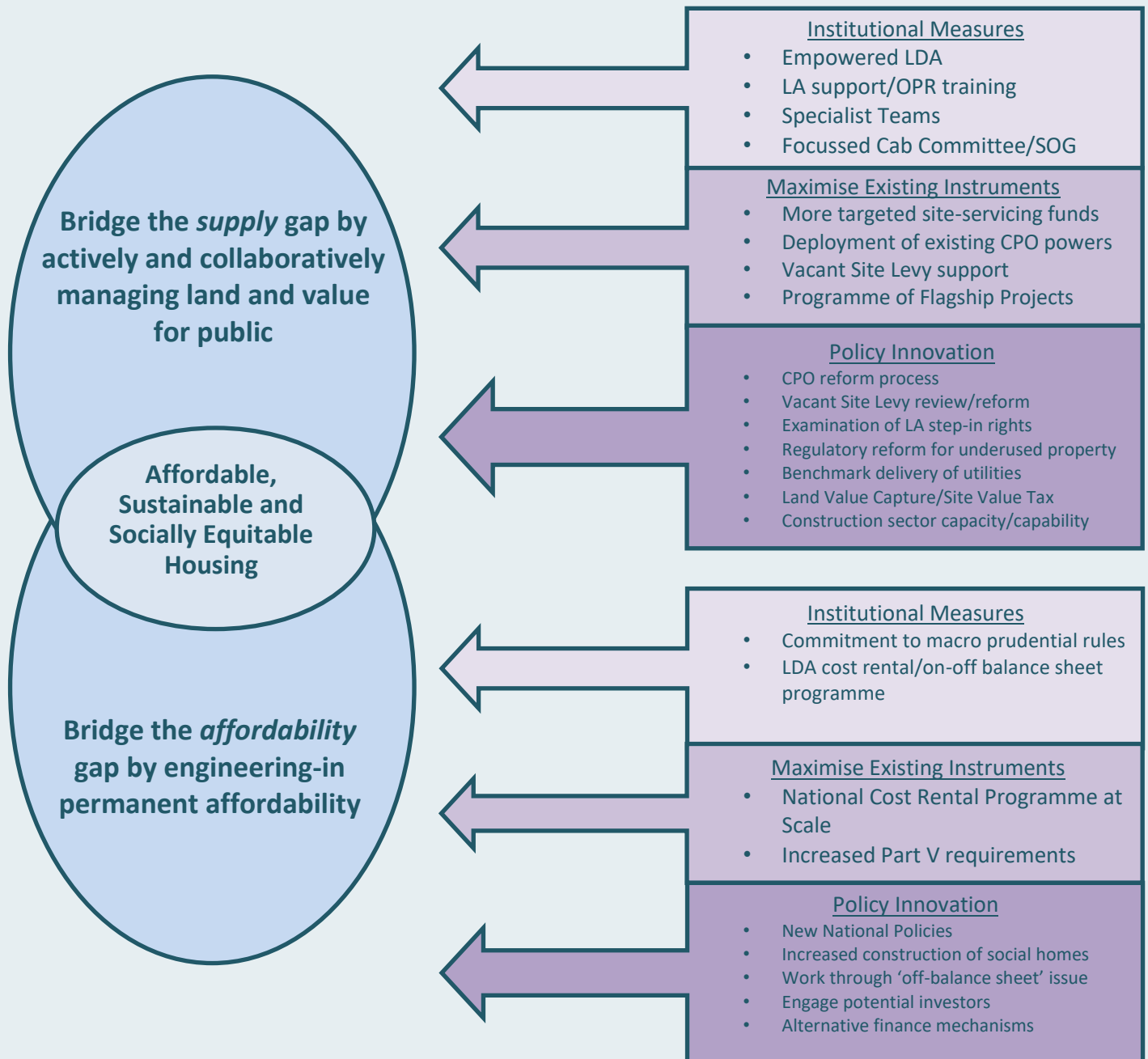
Despite an intense policy focus on housing and a range of initiatives, the dysfunctional housing system, described by the Council in 2018, persists. This reaffirms the importance of systemic change. The Council's core message is that Ireland must bring about a fundamental change from the current speculative and highly cyclical system of urban development, land management and housing provision, to a permanently affordable system. Change means challenging the status quo: more actively and collaboratively managing land, capturing locational value for public good, and effectively engineering-in permanent affordability. Further, the objectives in the NPF, particularly in relation to compact growth, represent a significant shift in policy direction in Ireland. Action today must reflect a national determination to end the business-as-usual scenario of inadequate supply of affordable homes, uncoordinated development, continued urban sprawl, and the negative environmental and quality-of-life impacts.

The Council believes that recent developments create an opportune moment to drive that change and demonstrate determination, by reassessing and reasserting the approach to achieving an affordable, sustainable and socially equitable housing system. The pandemic and the response to it, the new government programme and its emphasis on addressing the housing challenge, and the review of national investment priorities should all reinvigorate policy analysis and action.

This report seizes the opportunity to answer some of the persistent questions in this challenging area: *what*, *who* and *how*. Bridging the supply and affordability gaps is *what* must be done. Empowered institutions such as the Land Development Agency (LDA), local authorities, approved housing bodies (AHBs) and the Office of the Planning Regulator (OPR), with a co-coordinative centre, are *who* must act. Actively managing land and locational value for public good, engineering-in permanent affordability is *how* an affordable, sustainable and equitable system can be achieved.

The Council recommends action on three fronts to bridge these gaps: institutional adjustment, more effective use of existing policy instruments, and policy innovation. These actions will interact in a mutually reinforcing way as empowered institutions use existing instruments more effectively and are also afforded new ones. NESCI also recommends identifying and supporting a number of major projects to demonstrate the effectiveness of this system change.

Figure 6.1: Achieving an Affordable, Sustainable and Socially Equitable Housing



Taking a system-wide approach can 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 responsible government departments in a collective forum. It will be essential to consider these options 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 presented in this report that the Council considers worthy of early examination: the establishment of the LDA on a statutory footing with appropriate mandate and powers; reform of the compulsory acquisition and vacant/underused-site regimes; establishment of a national cost-rental programme; designing new patient, intelligent and customised funding instruments; installation of a 'compact growth assessment' mechanism; designation of a development site as a demonstrator project at scale; and publication of a programme of flagship projects as a catalyst for the construction sector. At the same time, the Council notes the potential for 'half-way house' actions on some of the most challenging issues, such as reform of compulsory purchase and financing developments in an off-balance sheet manner, while long-run change is pursued. It is important that the system-wide approach to progress, proposed here, deliver 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.

The Council is mindful that the resources of the State are not limitless and that the valid demands made of it are myriad. 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.

Finally, the Council will continue to have housing, urban development and land-use on its agenda for the foreseeable future. It provides a forum for cross-society/interest discussion of challenges and solutions in the provision of social and affordable housing, in the context of the NPF's strategic objectives. The next steps proposed include further focus on the development of effective and robust institutions, the scope and potential for a site-value tax, the challenge of cost-rental at scale, and potentially wider issues such as developments in the rental sector.

Site Value Tax: Practical Insights

This appendix provides an overview of how site value tax (SVT) is used in other countries, and provides an initial overview of some of the practical implementation issues that arise in an Irish context. Site or land value taxes are used in several countries including Denmark, Australia, Estonia and New Zealand, and some US states. Denmark introduced a land tax in 1926. Estonia is an example of more recent adoption (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, and 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 applied to 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 ten 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:

- i. The Land Registry covers 93 per cent of the area of the State and has details of each property, but not price information.
- ii. The Revenue Commissioners have information on all property transactions, including prices from stamp-duty returns.
- iii. This information has been 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.

- iv. The Geodirectory gives every building in Ireland a unique identifier and a verified address.
- v. 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. It 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 Joint Committee of Inquiry into the Banking Crisis (2013); this recommendation was subsequently reiterated by the report of a Steering Group on the development of official commercial property statistics (Steering Group, 2017).

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 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.

It includes information on valuations as well as details of property type, location and 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 producing the related information required for a site value tax. Well-developed methodologies 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 the information problems would be a major obstacle to the introduction of a site value tax in Ireland.

International experience as well as the subsequent research in Ireland by Lyons (2012) suggests that operational issues need not be an overriding obstacle, although it is likely that obtaining the necessary data would require a significant input from a number of different bodies and agencies in order to calculate the appropriate value of land on an individual dwelling basis, and some additional staff would also be required for its implementation and dealing with appeals.

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