

## Sunday Business Post Property Summit, 1 December 2015

### A Strategy to Deliver Ireland's Housing Needs - Bill Nowlan

---

I am sure you are all wondering how come Bill Nowlan is on about housing - sure isn't he a commercial investment property man?

A good question with several answers.

Firstly, residential rental property has come back as a mainstream institutional investment asset with large volumes of investment in residential property across the globe – so therefore it is housing that has come to me rather than the other way around. Last year, more than €22 billion was invested in this sector in Europe and more in the USA.

The second reason is that I have been trying to create a REIT-style investment vehicle to invest in social and key worker rental housing – I call it an 'IPUT type' of vehicle to bring together institutional and pension fund equity investment with the voluntary housing movement to create a new type of housing provision in Ireland.

Thirdly, we have a housing crisis on our hands and the State is relying on the property market to fix it. I do not believe that the property market will fix it quickly or satisfactorily without the removal of multiple blockages. The State needs focused coordination in the form of a coherent and overarching plan for the sector, managed by one Minister, with authority to force the more than 12 State Agencies to work together like any other results-focused team.

Housing crises are nothing new. We have them every 20 years or so ...




Housing crises are nothing new ...


**'PRE-FABS' MAY  
BE PROVIDED  
FOR HOMELESS**

Irish Independent, July **1963**

But what characterises every one of them is a severe shortage of adequate housing for the very poorest households.

And we are not alone ...


We don't have to look far for the effects of a linked up strategy in Ireland. Look at the UK:



## We are not alone ...

“Each year we build 100,000 fewer homes than we need, adding to a shortage that has been growing for decades. What’s more our current house building system seems **incapable of delivering growth** on the scale required. Growing demand means that without a step change in supply we will be locked into a **spiral of increasing house prices and rents** – making the current housing crisis worse. In short, the **country needs a serious plan** to transform housing supply. one that faces up to tough choices, but also sets a new tone for political generations to come – and all parties need to sign up to it. Solving this problem will take **leadership and vision** from across the political spectrum at local and national level”. Source: “Building the homes we need.”

KPMG/SHELTER (UK) 2015



This slide shows a quote from a recent submission by KPMG and Shelter on almost identical problems in housing shortages in that country.

You can see the issues – serious shortages – poor delivery – increasing prices and rents – need for a serious plan – need for consensus, leadership and vision.

Both here and in the UK we have a *laissez faire* approach to housing markets. Other more managed economies do not. Both here and In the UK house prices go up and down rapidly often with devastating economic consequences on the welfare of the economy, as we have seen recently. High house prices and rents create upward wage pressures and reduce competitiveness. And the volatility makes the supply an expensive stop-go affair rather than a continuum.

I have a short time available to me today. What I have written on these themes is on my website, [www.wkn.ie](http://www.wkn.ie), so those of you who are interested can find it all there. But it was in researching these topics – institutional investment in rental housing, and a new fund model for low-income housing that I more or less stumbled upon the glaring lacuna in housing strategy In Ireland. True we have a social housing strategy but this deals only with the housing


the poorest 10% of our citizens and effectively ignores the other 90% leaving it to the vagaries of market forces.

So what is the starting point? In my research and examination of housing strategies in other countries, I found that most have such formal strategies which act to coordinate the input both political and administrative to ensure all players are singing off the same hymn-sheet. So for the rest of my time today, I am going to concentrate on the need for a real world-class housing strategy and what the elements of that must be.

If you read my piece in the Business Post, last Sunday week, you'll have the outline of what I'm going to say, but I want to flesh it out and amplify some points here.

The Sunday  
Business Post

Do we have a co-ordinated strategy?



**Everyone is  
paddling  
their own  
canoe ...**

WK NOWLAN  
PROPERTY

At my count, before we get to the Local Authorities or An Bórd Pleanála, there are 12 government agencies or departments that contribute to our housing non-strategy, from the Central Bank who set the lending rules to Irish Water who supplies the pipes. So add these 12 agencies to the 12 factors on the slide, and all multiple private sector interests, and you can see its complex!

We can see this in the very public wrangling between the Department of Finance and the Central Bank about lending criteria and also the similar wrangling between the Dept. of Finance and the Dept. of Environment on rental policy and the general friction around rent supplement levels that are set by the Department of Social Protection. And these are only the very visible incoherences.

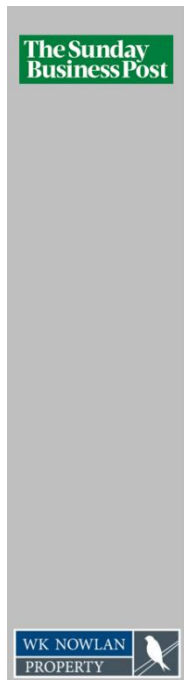
The absence of a common hymn sheet and a single conductor is a core part of the current Irish housing problem. We have multiple hymn sheets and multiple choirmasters contributing to the sought-after 'fix'. The choir needs to sing with one voice!



Coordinating all these inputs into the housing process is a complex task and the failure to carry out this coordination contributes in a large way to our current housing problems. All these 'players' are well intentioned and expert in what they do but few actually understand how the overall housing "system" actually works. Few will admit this.

In theory the Minister for the Environment is the co-ordinator of housing policy, but in reality it is an impossible job, because there is no strategic policy in place. For example, the Minister for the Environment has no control over any other department – in particular the finance departments, where taxation and other policy mechanisms reside. In any modern State, health, education and housing are vital – and expensive – economic and social functions. We seem to have some form of strategy or policy for health and education each of which has a full minister reporting to the cabinet on no other issue, but housing is the ugly sister. It should not be like that.

We need a man-to-the moon approach to this issue.



## How could it be done?



- Man-to-the-Moon approach ...
- Not a “man in the moon” approach
- Put someone in charge
- Special Minister for Housing and Planning

We are at a critical point not just in housing, but also in the political cycle. There will be an election within the next 20 weeks. A good place to start for a new administration is to create a new housing ministry and empower that ministry to deliver a comprehensive housing strategy – a strategy focussed on the provision of affordable housing whether it is to buy or rent. But building a new strategy should not wait till after an election. The problem is urgent, and the crisis gets longer and more intractable with every month where there is no action.

The factors – perhaps an agenda – that needs to be considered in the preparation of a national housing strategy would have the following key issues and are consider in outline in the remainder of this paper. Each topic could take a paper all on its own!

## What are the elements?

- House pricing policy
- Monetary policy
- Housing Standards
- Construction Costs/Viability
- Taxation
- Social Housing
- Planning
- Land Supply/Pricing/Betterment
- Infrastructure
- Money/Risk

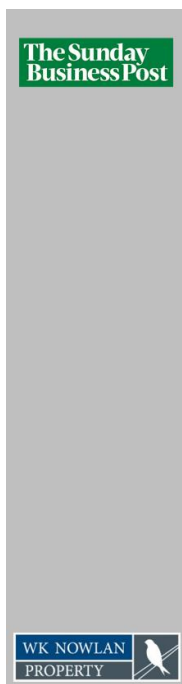


### House Prices

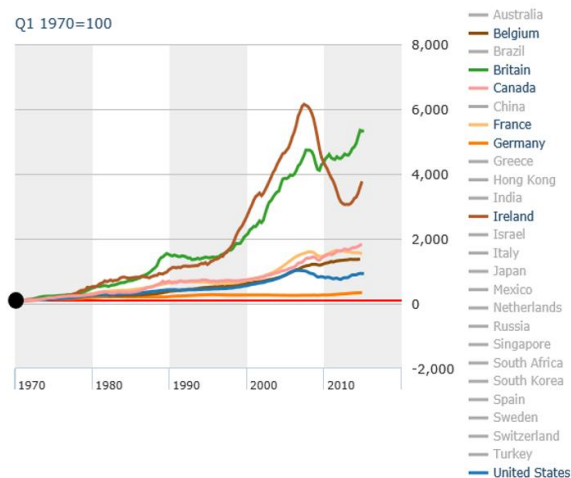
The starting point of most national housing strategies is affordability of housing for the majority of the population. Our plan is mostly for the 10% of our citizens most in need for whom the State has to provide housing; but there are another 20% to 30% of households whose housing costs – be it rent or debt – take up too much of their income.

Look for a moment at this slide of housing markets on a world-wide basis. What strikes you immediately? Who are the odd men out? The UK and Ireland are the two countries on that graph that do not have coherent join-the-dots housing strategies! But the UK is now taking steps in this area with the recent formation of a National Infrastructure Commission.

The starting point has to be affordability – whether for purchase or rent. This needs to be at the centre of the housing equation and to become the driver of Government strategy – for all but the very top level of the market.



## House prices 1970-2014



Source: The Economist

### Land

In Ireland, housing land was traditionally assembled and traded by a small number of specialist operators – land speculators. This land supply industry was annihilated by the economic crash – and nothing has come to replace it yet.

NAMA and the other credit institutions took control of a significant part of the ripe or semi-ripe development land stock and they still control much of it, but their focus is on maximising return, not building new houses – although NAMA has committed to deliver 20,000 units by 2020. Some land is being traded, largely funded by overseas private equity – much of it for holding. Over time the situation will normalise, but time is something we do not have.

I have argued over and over that there is a case for splitting NAMA into two parts. The first would continue its present work; the second would become a medium term land-supply agency until normal market conditions resume - but within new parameters. Put simply, the new entity would 'buy' all the stock of development land from the other half of NAMA, and would have CPO powers to deal with blockages (ransom strips etc.), and make the land to market coordinate with the planning system and recover the cost of infrastructure. It's probably a unique opportunity to kick-start the house building industry, if someone were courageous enough to take the decision.

The recent announcement of the 20,000 NAMA houses is encouraging and it will be very interesting to see how it plays out. One way or another, we need to deal with land supply in a new way to make sure that land is becoming available in a timely way, in locations where it is needed. We need an approach to land supply that is linked to our planning system with land supply and not left to the landowners and traders. I will come back to this when I talk about planning later.

Land supply and planning are coordinated in other jurisdictions and should be in Ireland.




## Central Bank Regulations

In my view, it makes sense for the Central Bank to set rules regarding borrowing limits. And it makes sense that the State's housing policy has to be framed in the context of affordability – but this needs to feed back into other elements of policy. It currently does not.

The Sunday  
Business Post

### Macro-pru rules make sense but ...

| Gross Annual Income | Max Borrowing | Deposit | Max Purchase Price |
|---------------------|---------------|---------|--------------------|
| €50,000             | €175,000      | €17,500 | €192,500           |
| €60,000             | €210,000      | €21,000 | €231,000           |
| €70,000             | €245,000      | €27,000 | €272,000           |
| €80,000             | €280,000      | €34,000 | €314,000           |
| €90,000             | €315,000      | €41,000 | €356,000           |
| €100,000            | €350,000      | €48,000 | €398,000           |



WK NOWLAN  
PROPERTY

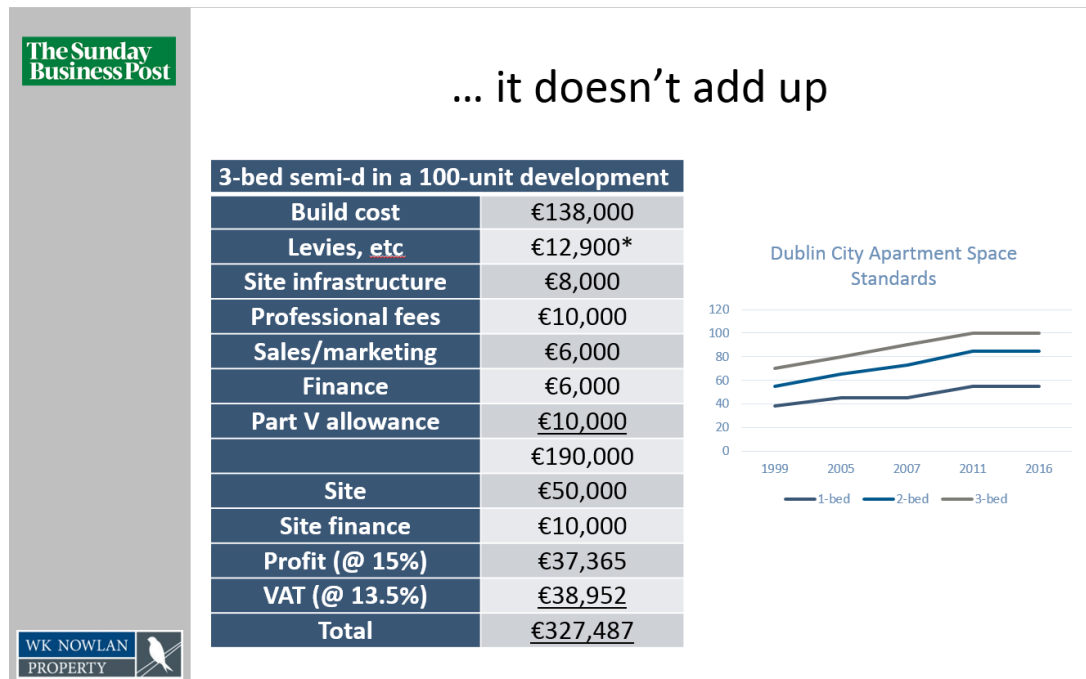
This shows that to be able to pay a purchase price of €314,000, a buyer or joint buyers would have to earn a gross wage of €80,000 per annum as well as having a deposit of €34,000. The number of potential home buyers with single or combined salaries of €80,000 and almost €40,000 in cash are quite limited, so let's look at the more normal scenario of two first-time buyers who earn a gross wage of €60,000 per annum combined. They can borrow €210,000 and need a deposit of €21,000. This means they have a purchase price maximum of €231,000 which will make buying a new house extremely difficult, as the minimum economic price a developer can sell it for is well in excess of that figure.

So the Central Bank controls effectively amount to framing a house pricing policy particularly for the mid- to lower-priced sector of the housing stock, but there are no other co-ordinated elements of this policy.

The Central Bank rules also impact on the rental sector. People have to rent if they can't buy. Forcing households to rent if they cannot afford to become owner occupiers' forces up rents and has a disproportionately negative impact on the social housing sector which is dominated, for new entrants, by some form of rent support/supplement for privately owned houses/apartments.



## Construction Costs



As the slide shows, when all the costs, levies, VAT, are added together, then three-bed semi-detached homes of the type that have formed the mainstay of Irish home-building for generations cannot economically be produced by a developer for under about €325,000 at present – and that is on the basis of land at €50,000 per site (which is probably too low a figure in the present market).

## Regulation

Comparing a 1970s semi-d with a 2015 version is like comparing a 1970s car to its modern equivalent. We have greatly increased both the size and specification for new housing over the past 8 years. But these higher standards cost money and are only partly appreciated and reflected by the market. Developers tell me that the difference in their cost between a 2007 specification for a 3 bed semi versus a 2015 equivalent is € 40,000 and even more for apartments. High standards are good but the market is saying that we can't afford them.

The other factor adding to new housing cost is taxation and I come back to it later. . Direct taxation accounts for about 20% of the cost of a new house. This is apart from taxes on wages and payroll taxes which account for another 6%.

And yes, I know that we need apartments, not semi-ds, I'm showing this for illustration purposes: apartments are likely to be even more expensive at current standards. You can buy a second-hand house in most suburbs of Dublin for less than the price of providing a new house.

In September, I asked Prof. Ronan Lyons to run the Daft.ie database to establish what percentage of the total of 102 Daft.ie micro markets would meet the €325,000 viability threshold and the result was 37%.

So new development is not going to happen at the rate required until either prices rise, or costs fall. Lack of new supply to purchase keeps more people renting for longer, so rents are and there is a shortage of supply of properties in that sector too.

If the Government wants to get new houses provided by private developers, it is going to have to do something to bring down development costs. How can this be done and what is the quid pro quo? Obviously the Department of Finance wants its taxes, and a Mercedes S class is better than an Asian hatch back but maybe you can have one but not both. This is where a real housing strategy reconciles and prioritises inter-governmental conflicts.

I could use all my time on this subject alone but I want to look at other constraints on creating long-term supply of housing particularly in Dublin.

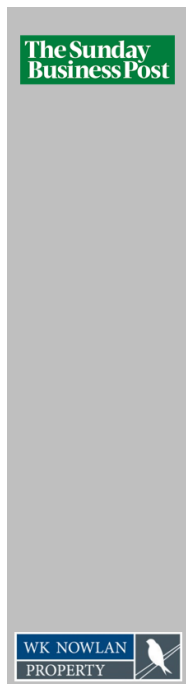
### **Planning, and procedural Constraints**

Many of our planning procedures are focused both politically and practically at mainlining the neighbourhood status quo and are effectively anti-development and time consuming. That's fine for the one-off housing situation in developed communities but quite inhibiting for larger housing schemes and leads to development uncertainty and risk. We need to plan to make development more certain and less risky. One suggestion is to make Local Area Plans into the equivalent of STZs without appeal to An Bord Pleanala one approved by the Minister.

Planning needs to be reformed into a system that supports good development and that can take a more pro-active attitude to ensuring supply is maintained. Zoning land and hoping it comes into development causes serious adverse market effects. There are many personal, family, or business reasons why property owners do not make their land available as soon as it is deemed suitable by planners.

Consequently, serviced and land zoned for development may not come to market in the way the planning system intends. This can, and does, lead to shortages and price competition between developers and which in turn forces up house prices. It also encourages the evolution of land speculation industry. The only winner is the land owner. That is why we need a coordinated land supply/infrastructure supply mechanism as part of an overall housing strategy.

Secondly, planning is expensive, time consuming and full of risks and pitfalls. The slide shows a realistic timescale to deliver housing.



## It takes too long ...

| Land Development Timetable      | Months    |
|---------------------------------|-----------|
| Site search                     | 6         |
| Acquisition                     | 6         |
| Pre-planning research           | 3         |
| Preliminary design              | 3         |
| Planning consultation           | 3         |
| Detailed design                 | 4         |
| Planning application            | 2         |
| Further Information Submissions | 3         |
| Planning Appeal                 | 6         |
| Financing                       | 3         |
| Site works                      | 6         |
| Construction                    | 12        |
| <b>Total</b>                    | <b>57</b> |

This timescale and risk are unacceptable to many financiers and currently few developers have the equity to hold land through the process.

Thirdly, infrastructure: Dublin is deficient in water supply and sewage treatment capacity at arterial and local level. This is difficult to finance. We need to get to grips with this, and in the short term, if you'll excuse the pun, we need to pump prime the system with some upfront State investment.

For example, one site of which I am aware has planning permission for over 100 houses but can't be built upon because it is awaiting an arterial drain (to be installed over several miles) to serve the site. This is not atypical.

### Risk

Housing development is a risky business. Property markets can change very quickly but the construction and land assembly business are very slow and long term. Taking this risk has to be rewarded.

Up to the explosion in credit in about 2002 there was a coherent and well-formed housing development industry with key players producing a regular supply of new housing. Most of these developers were equity financed. Induced by easy bank credit nearly all such players expanded rapidly and were joined by other less skilled operators which led to the rapid expansion in output and some very poor construction standards. The bursting of the bubble in 2009 wiped out nearly all of the equity of the experienced housing developers. This industry is slowly rebuilding. Risk and money are closely intertwined so I am going to pass into the money section of this note before drawing conclusions.


## Money

**The Sunday Business Post**


### Money is needed

A new type of money ...  
... for older Irish developers  
Equity!

Requires returns of 15%



WK NOWLAN  
PROPERTY



To turn to money, Joe O'Reilly told the Banking Inquiry that in his view €9 billion would be needed to provide the 30,000 homes needed in Dublin. That's probably about right.

That money is available, but money only comes on its own terms. Equity capital and loan finance have distinct and different needs, and we have to accept internationally determined norms if we are to secure the funding we need. There are different kinds of money required.

- Money to deal in land is nearly all equity, is high risk – and is very scarce. It is expensive requiring IRRs of 15%+. Few long-term land acquisitions are currently taking place due to the risk and return issues.
- Construction funding is becoming more available as ISIF, venture capitalists and specialist PLCs such as Cairns Homes PLC raise capital from the stock market. A good example of this new paradigm at work is in the Cherrywood 'new town' project in South County Dublin where Hines and Kennedy Wilson plan to build over 3000 dwellings. We may need to revisit the older form of funding small estates which were once to be funded by building merchants and booking deposits.
- Funding for the finished product is probably the easiest to secure. Mortgages are becoming available for home-buyers but of course subject to the Central Bank constraints.
- Funding is also available for rental homes from the REIT and Institutional property investors, but they are hamstrung by the viability gap of rents not being sufficient to pay for new development.

## Social and affordable housing



As confirmed by a recent NESC study, up to one third of households will need some support from the State with their housing costs. In the past Ireland chose to do so by providing Council Housing but this proved too demanding and was cut back in the late 1990s and only partially replaced. Ireland now provides this subsidy by a combination of:

- (1) Council Housing,
- (2) Subsidised capital and supports to voluntary housing bodies (AHBs);
- (3) Paying rent subsidies.

All three methods have failed to provide the required supply. The State needs the private sector to meet demand in this area.

Social housing policy is clearly not working because none of the existing players on the stage has the attitude or the resources to produce the required results. A psychological and ideological gulf exists between those who manage/control social housing and the property market. Social and affordable housing should merely be a normal segment of a properly functioning property market.

A new form of social housing policy, to include market structures suitably modified, should be part of a comprehensive overreaching 'joined-up' housing policy – an affordable housing policy.


I mentioned at the start of this paper that I was trying to set up an IPUT or REIT type of vehicle to fund social and affordable housing. My research and knowledge of the market indicted that the money could be available for investing appropriate housing for leasing to key workers such as young nurses, teachers, Gardai, bus drivers at less than market rents and on long leases if the government were prepared to assist in the process. This model would include an

element of social housing so that the schemes created long term sustainable communities where the properties would appreciate in value and rent would only rise in line with a CSO index.

I put a formal proposal to the Government last March for such a Fund and I still await a response. I am convinced that institutional money is there to replace the mom-and-pop investors who are now deserting this buy-to-let sector at the rate of 1000 per month.


The provision of social housing and affordable housing is an integral part of a real housing strategy and should not be a residual element within a standalone 'command economy'. It may have been a residual element in the 1960s when up to 50% of new housing was in fact 'Council' housing paid for by the State. Nowadays over 95% of housing is market supplied and what happens in a pressurised market situation is that the weaker citizens lose out as stress on supply moves from the top downwards which impacts hardest on the poor and vulnerable. We are seeing that happen on our streets today.

## Betterment



### Land Supply and Betterment

- Who will supply the land?
- And pay for infrastructure?
- Not just the pipes ...
- ... the schools ...
- Split NAMA in two
  1. A land authority
  2. A bad bank



Betterment – the uplift in value that comes from land moving to a higher value use (for example rezoning) needs to be addressed. It would be the height of folly not to learn from our mistakes. We need to provide for the capture of part of the betterment of land values either through levies, targeted taxation or by land passing through a state ownership system to capture betterment. Betterment needs to be addressed, as currently the greatest rewards reside with the landowner and the costs with the State, developer, builder – and ultimately with the owner or tenant.

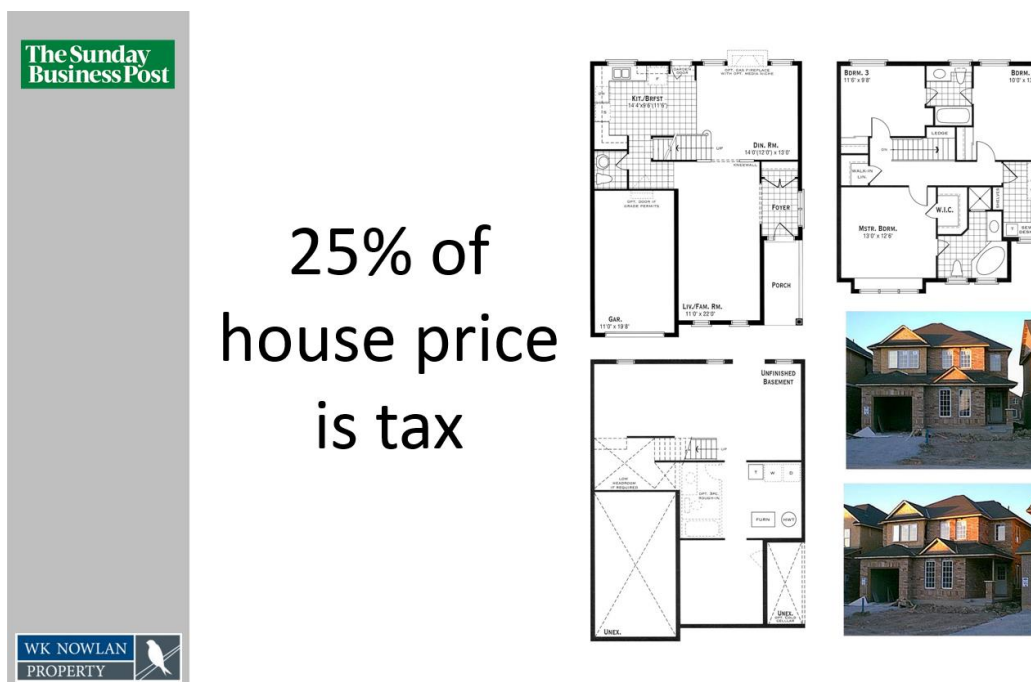
Housing land in non-prime areas of Dublin seems to be trading now in the €750,000 to €1.5m per acre band which equates to €75k to €150k per site depending on density, location and local prices. Theoretically any land price above agricultural value is a surplus and generally excessive land prices reflected the excess profit or surplus above reasonable development costs. Internationally land generally represents about 20% or 25% of the finished value of a house. Back in the 2000s, this figure got to over 50% in Dublin.

However, currently we have a housing taxation policy which is a *de facto* form of “worsenment” in that there is no large surplus after the State takes its cut from building new housing through levies and VAT.

Development levies are effectively a form of betterment taxation, and it seems the government measures to waive the levies for homes under a certain price point makes sense in the short term. Indeed, I would go further and suggest that further tax concessions could be offered – but the quid-pro-quo is that sales prices are controlled so that the forgone tax goes not to the developer but to make new houses affordable.

There is a compelling case for a State development land agency that would have the powers and resources to regulate land supply to avoid the emergence of shortages and blockages – such as the reconstituted NAMA as outlined elsewhere in this paper. Such an agency would deal in land or develop land banks for timely release to the market at prices that reflect reasonable values and infrastructure costs. It would also advise State agencies and local authorities on land supply and development issues, and should probably have some function in planning if it was to do the job properly.

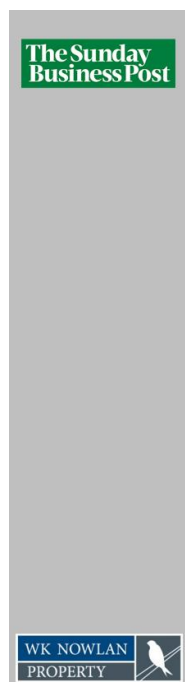
### Tax take from a new dwelling





I don't want to turn this talk into a whinge about tax, but in an exercise I conducted with Goodbody Stockbrokers earlier this year, 25% of the total cost of a new unit went to the Government. Taken with decreased unemployment and additional income tax received, the full-year benefit of increasing output in the residential sector by 10,000 units amounts to €1.14bn for the Exchequer and the addition of at least 20,000 new jobs. In contrast, tax foregone on a reduction in the VAT rate from 13.5% to 9% is €124m. I recognise the Government's issue is to ensure that the benefit of any reduction flows in the direction intended, not simply to increase developers/builders profits.

## Conclusion



## Conclusion

- Challenging but do-able
- Need a world-class housing strategy
- Don't waste the crisis!



To conclude, we need a “man to the moon” approach to solving this problem. We need to set out a goal, and to direct all of our resources to achieving it – an abundant, affordable, housing stock that allows people and families to live in good-quality homes that don't consume most of their income. We need a housing stock that allows the economy to flourish without becoming a drag on it – or a driver of it.

To do this, we start with price. What can a household reasonably afford and how can we deliver it? How many new houses do we need, and where should they be?

Man to the moon: In 10 years, we want a decent affordable home, owned or rented, for every household in the State, and for those who can't afford it, we will support them. That's the goal; and we align all the agencies and actors to achieve that. We get to work and single-mindedly do the job that is asked.

What are the alternatives? We can do nothing, or next to nothing. Or we can wait. Since the foundation of the State, we haven't managed to find a way to house our people in a sustainable way. If we don't do it this time, I can say with confidence that we will have thoroughly wasted this crisis – and definitely set up the next one.

---

*Bill Nowlan is founder and chairman of WK Nowlan Property and a founder-director of Hibernia Reit plc. The views expressed here are a purely personal opinion, and are not those of either organisation.*