Housing Supply in Ireland: Perennial Problems and Sustainable Solutions

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Introduction

Ireland – and Dublin in particular – has had a housing crisis at least once every 20 years for about the past 140 years, so housing crises are nothing new, and almost every one features a chronic shortage of accommodation for the very poorest. We now know that up to one third of citizens in developed economies will not be able to afford to house themselves without some government assistance. Housing and land issues have a particular resonance in Ireland, and from the Land Campaign to the Dublin Lockout, the slum clearances of the 1940s and 1950s up to our most recent woes, housing policy (or lack of it) has left a deep imprint on our history, and of course on our built environment.

Writing on the then housing crisis in 1936, the *Irish Press* could write "In truth, it is not the want of inquiry that can be complained of, but rather want of action, of driving power of the determination to at any cost to abolish an evil."

And that it is true today.

We have had reports and analysis and commentary, and much political and media hand-wringing. We have had special interest pleading, and all kinds of strategies and plans drawn up. More recently, the debate has begun to crystallise, and to focus on the issues. This paper is an attempt to draw together the various strands and to present an analysis of the issues and to present the bones of a solution. But the time is short. Action is needed now.

We have a housing crisis which will have no early solution without drastic and courageous action. Government has it within its power to create solutions which will tackle the crisis and effectively deal with the issue in an acceptable timescale. It requires focus, resources and action. It also requires Government to prioritise its importance. If time were no object, an over-arching ministry would be created with powers to command the resources and make the changes necessary to streamline the process, speed up construction and completion of the vitally necessary increase in our housing stock. But the urgency of the issue requires swift, decisive, and comprehensive action, centrally co-ordinated.

We will fall significantly short of meeting our housing needs for several years to come without strong action by the State. The shortage is most acute in Dublin, and statistics are showing that the bulk of new house-building activity is taking place outside the capital in the form of one-off rural houses.

Construction is the easy bit of property development. There are many would-be builders available, but they can’t get serviced sites, can’t get money to finance land acquisition and construction, and most importantly can’t get their costs down to the level where constructing new homes is affordable to the house buyer. Put simply, in very many locations, costs are greater than the price of second-hand houses.

We have families living in hotels and unsuitable accommodation because there are not enough houses. It is the worst-off households who are the victims of high demand and limited supply, as they are unable to pay market rents or to get sufficient state support to pay increasing market rents.

Our housing supply problem originates in a lack of an integrated housing strategy that joins the dots linking lending rules, land supply, construction regulation, money, infrastructure, the property market and the risk capacity of the market players. Ireland desperately needs a real integrated housing policy if we are to produce the required 25,000 dwellings annually. Such a new policy must include the social and affordable sectors, and it must build integrated communities. It cannot just focus on the private market with the social as a residual – nor can it treat social housing and affordability as discrete problems separate from the wider housing market.

The challenge is complex not just because of the political challenge; there are at least 11semi-autonomous state players, each with their own agenda and priorities as well as the market players.

This paper examines each element of the problem, explains the current blockages and then sets out a blueprint for an integrated National Housing Policy.

It’s complex!

The provision of housing in an urban setting is complex. There are multiple elements, some highly visible, others almost completely invisible. When working well, no one worries about all the financial, technical, or administrative details that go to make the system work. When it breaks down – as now – to fix the housing system requires the skills of a host of technical, political, financial, administrative and construction experts. To operate efficiently, and 'fix' the system those persons need to sing off the same hymn sheet under the baton of the same conductor or choirmaster.

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’. By my count, there are 12 government agencies involved in the housing issue in some form. They are as follows:

1. The Central Bank that sets borrowing parameters.
2. The Department of the Taoiseach that sets the political agenda, e.g. co-ordinating Construction 2020.
3. The Departments of Finance and Public Expenditure and Reform who set the taxation and spending parameters.
4. The Department of Social Protection who set the housing subsidy parameters in the private rental market, via rent supplement.
5. The Department of the Environment, Community and Local Government which administers the planning system and social housing system, sets urban policy and housing standards.
6. The Housing Agency, which advises and develops policy, and which has attempted to be choirmaster but does not have the power to influence the other 10 Agencies.
7. The Local Authorities who are the boots on the ground administering the rules and running the schemes.
8. The Department of Health which has a big say in housing for the disabled and other special needs.
9. The HSE which administers much of the money going into the charity housing sector.
10. An Bord Pleanala.
11. Irish Water which supplies and runs the pipes.
12. The ESB.

You could add several other agencies that have peripheral involvement including the Ombudsman's office, the NRA, the PRTB, etc. And these are only the State players whose activities *may* be coordinated. The other players in the housing industry include the developers and builders, landowners, financiers, investors and multiple other suppliers to the house-building industry who have their own profit-driven agendas.

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.

In other countries, the housing challenges are similar if not greater. Many countries and cities have successful housing systems that we can and should learn from.

The common denominator is a coherent and comprehensive housing policy or strategy that pulls together all the inputs, develops and selects options – and then puts one person in charge of both the development and implementation of that strategy. In many countries, it's a Minister or Mayor – with executive responsibility.

We are at a critical point not just in housing, but also in the political cycle. There will be an election within the six or seven months, and housing will be high on the political agenda. It could be a game changer for parties that take an approach to housing that the electorate believe is satisfactory and achievable. 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 that balances and decides at all the issues. But building a new strategy should not wait till after an election, because if you started this afternoon, it would still take time to get up and running. The problem is urgent, and the crisis gets longer and more intractable with every month 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.

Factor 1: Land

The raw material of house-building is land. As was pointed out by Dermot O'Leary in his recent *Irish Times* article, we have lots of land in Ireland and have the lowest housing density in Europe. But land is not coming forward for development and the reasons for that are complex. For land to qualify as development land, it must have infrastructure and zoning. Development land also has to be in locations where home-owners and occupiers want to live, and it must be available for development at the appropriate time.

More and more people want to live close to centres of employment, and near to schools and amenities – usually in established urban areas. City living is an international trend. Some of the available development land earmarked by the planners in Dublin is not where people want to live.

The government say that there is land available for 46,000 units in Dublin. Key players in the house development industry dispute this figure as either being greatly inflated or they say that the land is in locations that are unsuitable for development. A study by a leading academic is underway to test these views and the results are awaited with interest.

Traditionally, the house-building industry was supplied with 'ripe' land by specialist risk-takers who had put years of work into assembling land holdings, securing services and planning permission, and then trading on this 'shovel-ready' or almost shovel-ready land at a profit. The lead time for this process was/is often as long as 10 years. Builders/developers bought these shovel-ready sites from these specialists and then built houses for the market. Sometimes some of the larger house-builders undertook this risk-taking themselves, but generally they were independent operators.

Ireland is not unique in having land dealers supplying the majority of housing sites. It is exactly the same in the UK where most of the big builders only keep a three-year stock of land, but rely on this supply for their long term output.

This Irish development land supply industry was annihilated by the economic crash, and its equity was eliminated. 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. NAMA is trying to square the circle by facilitating the building of a small number of houses, but the numbers being produced are small relative to the need and the stated targets.

Apart from the NAMA situation, some development land is still emerging on the market and is being acquired by developers and land traders with funding mainly from overseas private equity. Over time as the NAMA and banking situation normalises – and we're talking years not months – then a land supply industry will emerge but until that happens, the construction industry will not recover to the point where it can contribute as normal to the supply.

One course of action that has been advocated by this author is to split NAMA into two parts. The first part would continue its present work; the second would become a medium term – say 5-year – State land-supply business to operate only until the full market supply system resumes. Put simply, the new entity would 'buy' all the development land from the other half of NAMA. It would have CPO powers to deal with blockages (ransom strips etc). It would take time and significant political courage and commitment to implement. But it's probably a unique opportunity to kick-start the house building industry.

The development land supply industry, and high land prices, are to a large degree products of the constraints imposed by planning, infrastructure and other regulatory issues. If there was a free supply of serviced land with planning and regulatory approval, then this industry would pose no blockage to new housing supply. These blockages are discussed in greater detail below.

Factor 2: Central Bank Regulations

Ronan Lyons, in a recent paper, looked at the macroprudential need for the Central Bank to set rules regarding borrowing limits. It is common 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. Under the new Central Bank rules a person can borrow 3.5 times their gross annual income. The deposit required is 10% on the first €220,000 (€22,000) and 20% on the balance.

In the table below, I set out my interpretation of these Central Bank rules, related to borrowers' incomes and their capacity to buy.

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

Note: The figures above are the maximum borrowings based on the Central Bank loan to Income limit of 3.5 times gross annual income, however, lenders do have scope to lend above these limits in certain instances, i.e. where affordability can be demonstrated. The limit should not be exceeded by more than 20 per cent of the euro value of all housing loans for PDH purposes.

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 €38,600. 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.

Factor 3: House Pricing Policy

The controls imposed by the Central Bank effectively amount to framing a house pricing policy particularly for the mid- to lower-priced sector of the housing stock. But they also impact on the rental sector by forcing households to rent if they cannot afford to become owner occupiers.

Ireland is a very open economy and the flow of skilled workers into or out of the state will be heavily influenced by the amount of a person's pay package that has to be spent on housing. Housing has the potential to become a drag on our economic development if housing prices rise to the point where they deter investment, or produce skills shortages in key areas. The proportion of income that seems to be acceptable internationally is about 25% of take-home pay spent on housing. Ireland is at or about this level now but any significant increase in housing costs could jeopardize our international attractiveness and competitiveness. This is too big an issue to fully consider in this short paper but should be one of the cornerstones of a comprehensive national housing strategy

Factor 4: Construction Costs

The cost of building houses and apartments has increased significantly due both to general inflation, but also because of insistence on higher construction standards and larger unit sizes. Comparing a 1970s semi-d with a 2015 version is like comparing a 1970s car to its modern equivalent. But these higher standards cost money and are only part appreciated and reflected by the market. The other factor adding to new housing cost is taxation.

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%.

The approximate price of providing a new 3-bed semi-d to modern standards is as follows:

Semi-detached three-bedroomed house in a scheme of 100 units.	
Build cost	€138,000
Levies, etc	€12,900
Site infrastructure	€8,000
Professional fees	€10,000
Sales/marketing	€6,000
Finance	€6,000
Part V allowance	€10,000
	€190,000
Site	€50,000
Site finance	€10,000
Profit (@ 15%)	€37,365
VAT (@ 13.5%)	€38,952
Total	**€327,487**

These costs have come from experts in the development industry and have been cross-checked.

As will be seen, 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 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). There are some very limited exceptions to this rule. NAMA is working with some of its 'clients' and building new houses at prices of less than this figure. I do not have access to NAMA's cost breakdown but to get to a figure below €325,000, then the land could be put in at their cost price or the developer's profit reduced.

The big variable is land. As land prices go up so does the price of housing. Land at €1 million per acre would move the minimum price to close on €400,000. Land in any of the more desirable locations is trading at between €1 million and €1.5 million making the realistic price for a new house in these locations at between €400k and €450k.

Factor 5: Market Price of Second-hand Houses

The market for second-hand Dublin suburban housing, other than in the prime locations and inner suburban areas is currently functioning at prices below the cost of providing new houses. A search on Daft.ie will find you multiple opportunities to buy three-bed semi-ds for under €325,000 close to Dublin.

For example, a three-bed semi-detached house for sale in Donaghmede, Dublin 13 was recently advertised for €269,950. Common sense will tell you there will be no new houses in Donaghmede or similar locations until second-hand prices rise to at least €325,000 as developers cannot build in that market.

While some housing development is viable in parts of Dublin, I asked Prof. Ronan Lyons to run the Daft.ie database to establish what percentage of the total of 102 micro markets would meet the €325,000 viability threshold and the result was 37%.

The only conclusion is that one of the reasons for the absence of new housing development is that developers cannot afford to develop speculative housing in most outer and mid suburban locations. They are effectively in competition with much cheaper second-hand houses. House prices are unlikely to change quickly because of the sensible and necessary Central Bank credit rules. With many cash buyers competing for a fixed stock, the market will inevitably rise – but leaving many would-be purchasers unable to access properties at a price they can afford. This inability to purchase a home will force people into the rental market. This is already happening with rents rising much faster than house prices. And there is a shortage of supply of properties to rent 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? Before I turn to discussing those questions I want to look at other constraints on creating long-term supply of housing particularly in Dublin.

Factor 6: Regulatory, Infrastructural and procedural Constraints

As pointed out, since the 1960s and the advent of planning controls, housing development can only take place on land that has been designated through the planning process, and which has then received full planning and other regulatory approvals and also has access to infrastructure. There are four key blockages to increasing supply that a modem housing policy needs to focus on.

First, the amount of land zoned for development and provided with services is supposed to be related to the need for housing: this is often not the case. Unfortunately the land supply market does not work harmoniously with the planning system. Planning cannot compel private property owners to sell their land to developers either at all or at a given price.

There are many personal, family, or business reasons why property owners do make not make their land available as soon as it is deemed suitable by planners. Consequently, serviced 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. The only winner is the land owner.

Secondly, procedural delays: the process of securing planning permission can be expensive, time consuming and full of risks and pitfalls. Typically, it will take five years from inception to delivering the first house. Whist in theory, a planning application takes two months to process, the reality is that it takes a lot longer. In addition to the formal planning application process there are many other practical steps that have to be taken by a would-be developer before a planning application is made. In a typical situation the time scale from inception to first occupation for zoned and serviced land looks like the following:

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
Total	**57**

The lay person may look at this time scale with incredulity, but not so an experienced developer. This in the norm, and often it takes longer Shortcuts may be possible, but it is also true that the planning application, the appeal process and the request for infrastructure may result in a refusal of planning or other permissions which will add years and not months to the process. This timescale and risk are unacceptable to many financiers and currently few developers have the equity to hold land through the process. This situation creates the opportunity, and need, for specialised land dealers referred to above.

Thirdly, infrastructure: Dublin is deficient in water supply and sewage treatment capacity at arterial and local level. Even if sites are zoned for development it is often not possible to secure a water supply and effluent connection due to infrastructure incapacity. For example, one site 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.

The reason for the infrastructure deficiency is a failure to invest in local and arterial water and drainage schemes for the past decade or more. Unless this issue is tackled, there will be little or no new housing in volume particularly in Dublin where the deficiency is chronic in many of the locations where people want to live. The cost of providing these services is partly borne by the developer/purchaser via the development levy system.

Such costs were not recovered in the past and this is one of the reasons why they are not liked by the development industry. This is part of the betterment issue which is discussed below. However it may be necessary to 'pump prime' selected parts of the housing industry by the State temporarily waiving these charges, and bearing the cost from general taxation.

Fourthly, construction standards: it is right and proper that there should be minimum construction standards. No one should live in insanitary, overcrowded, or sub-standard housing. Irish standards have risen and risen both in construction, environmental and volume terms to the point that we have the highest housing standards in Europe.[1] However such standards come at a price which has to be paid for by someone – the owner, the tenant, or the state. But these costs are only partly appreciated by the market, where second-hand, older houses may be preferred if the price is keener. Are our standards too high? It is at least fair to say that our approach is uneven, and that we adopt crude measures where a more fine-grained approach makes more sense. For example, our space standards tend to apply a one-size fits all formula. A two-bedroomed apartment in Dublin has the same space requirements whether it has two double bedrooms or a double and a single. The rules on dual aspect are the same whether the unit looks out north on a railway bridge or south-east facing overlooking Dublin Bay. There is at least a need to apply a more careful and nuanced approach to standards, and to bear in mind that standards have a bearing on affordability.

Factor 7: Risk-bearing capacity of industry

The next item on the list of blockages in the housing supply chain is the risk-bearing capacity of the various players in the housing supply industry. Land speculation and housing development are a risky business and involve large sums of money. A risk taker, apart from the potential reward, must always contemplate that risk materialising. He/she must be capable of sustaining that loss. Property markets can change very quickly but the construction and land assembly business are very slow and long term.

- The risks to the land speculator are (1) delay (which costs interest and locks up equity), (2) failure to secure satisfactory planning permission, and (3) change in demand.
- The risks to the builder/developer are mainly that his costs will be greater than projected and/or that house purchasers may not be available at the price projected.
- The risk to the investor is that he does not get his rent or receive his interest payment.

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. However 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.

Factor 8: Money

[1] See Ronan Lyons' paper to the McGill Summer School 2015. http://www.ronanlyons.com

Large amounts of funding are needed for housing development. Property developer Joe O'Reilly estimated that quantity in the context of his attendance in June 2015 at the Banking Enquiry. He told the committee that in his view €9 billion would be needed to provide the 30,000 homes needed in Dublin. This order of magnitude is probably about right.

Money is abundantly available. A high saving ratio is a feature of most advanced societies and Ireland is no exception. But money only comes on special terms. Equity capital and loan finance have distinct and different needs. We need both loan capital and equity capital and will have to accept internationally determined norms if we are to secure that money.

Finance for housing falls into four distinct categories.

1. Risk funding for land assembly and speculation- generally 100% equity;
2. Funding for the construction process requiring a mix of equity and loan capital;
3. Funding of the finished product – loan capital for house purchase and mainly equity for rental property.
4. Funding for arterial infrastructure.

Each of these forms of finance has its own characteristics as regards risk, term and required returns

- Land-dealing money is nearly all equity, is high risk – and is very scarce today. 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 also very scarce but gradually becoming more available as ISIF, venture capitalists and specialist PLCs such as Cairns Homes PLC raise capital from the stock market.
- 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. However the government needs to make sure that it does not kill that potential by introducing crude rent controls.
- There also needs to be mechanisms to enable the institutional investor to provide rental housing at affordable rates for key workers and mid-income households. The author has proposed an integrated business model to government to meet this currently unaddressed need (see appendix).

The funding that is most difficult to secure is for arterial infrastructure, and this is only likely to come from the State or a public sector agency. A recent study by the Dublin Housing Task Force showed that in Dublin alone the state need to invest €240m urgently in such infrastructure for only 20 sites. Early expenditure of this capital is essential.

The concept of development levies is still valid as a means of recovering the cost of infrastructure provision, but in the present environment, and given the depth of the challenge we face, it might be worth considering this in the context of the discussion on betterment below.

Factor 10: The Rental market

Whilst the Central Bank rules do not apply to landlords, there is however a very similar set of forces relating to investors' yield requirement and which are leading to the scarcity of rental accommodation resulting in rising rents, and indirectly to rising homelessness.

The cost of providing a two-bed apartment is very similar to providing a three-bed house at say €325,000. The investor will require a return of about 5% on this to which has to be added the operating cost which amount to about 20%. To justify such a new investment, the investor needs a rent of €19,500 pa or €1,625 per month. This level of rent is being paid in central Dublin but not beyond, so limited or no apartment development is taking place. What can be done to increase supply of rental housing outside the CBD?

If a similar cost-cutting exercise is applied to apartment development by reducing minimum sizes by 10% and by the Government eliminating VAT and levies, then the economic rent required to justify new development would fall to about €1,200 per month which is still unaffordable for a large proportion of households (almost all those earning below the median disposable income in Dublin). This further reinforces the case for a class of affordable rental housing in major urban centres.

Factor 11: 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 modern welfare states, the government subsidises this cohort. Different countries do it in different ways. 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.

It is a money problem and a supply chain problem. The government already pays the rent on about 30% of the private rental market via rent supplement. However this supply is shrinking fast as the rent subsidies are below market levels and landlords are either terminating leases to pursue market rent paying tenants, or exiting the market by selling their properties.

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.

In many countries it is, but in Ireland it is effectively a poorly functioning command economy, often operated on the basis where maintenance costs are not covered by rental income, and accordingly, there is no return on capital employed.

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

Factor 12: Betterment

The one issue that I have not dealt with in this paper is that of land pricing, supply and betterment. Any robust housing policy must not allow the nexus of spiralling land and housing prices to develop into an unhealthy and dangerous risk to the economy. This is what happened in Ireland, and it would be the height of folly not to learn from those mistakes. Such a policy should 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. However at this point in the Dublin housing market, trying to capture betterment would cause more problems than it would solve. 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.

High land prices lead to high housing prices due to scarcity, exercise of monopoly power (by planning authorities and/or land owners) or to land hoarding. Ultimately, the goal of policy should be to smooth the supply curve for land, so that adequate quantities of suitably located development land is coming to market in a timely manner to meet the demand for new housing.

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.

The risks of such a disequilibrium occurring again are somewhat mitigated by the current Central Bank constraints on lending and the linked lack of viability of developing new housing. However, these factors are far from a complete solution.

Land price could become a problem if the industry believes that house prices are going to rise or if costs were to fall significantly. Currently we have a housing taxation policy which is a *de facto* form of “worsement” 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, as they capture part of the increased value of the land, and you can easily argue that the vendors of land at €1.5m an acre can readily absorb a betterment charge. There are no easy answers to our present predicament, but it would make sense in the short term if levy and taxation concessions were available – but only where the land element of the sale price does not exceed 25% of the house. Otherwise, extra VAT and levies apply. This would be an indirect way of controlling land prices by limiting the surplus available for land and developer’s profit. Part V is effectively also a tax on development, as it allocates part of the cost of development to the remainder of the scheme.

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.

Factor 13: Tax take from a new dwelling

About 25% of the cost of a new dwelling goes to the State, directly or indirectly, in the form of taxes and levies. In the UK, house-building is free of VAT and levies charged by the state. This reduces the price of housing. In other countries, the logic is that annual taxation of property and consumption charges pay for the services and amenities that a new development enjoys – charges that have been introduced in Ireland in recent years. If the State wants to stimulate housing development, the issue of the public sector take needs to be examined as part of a comprehensive housing strategy.

From the Irish government's point of view, the consequences of reducing government-controlled costs in the house-building industry are two-fold:

(i) It can be seen as a tax-expenditure, thus there is tax foregone.
(ii) This must be weighed against the expectation of increased supply and the corresponding increase in government revenue and fall in expenditure.

This section aims to address this particular issue.

Government-related costs
A report by Walsh Associates for the Irish Home Builders Association estimated the cost of building a three-bedroomed semi-detached house at €313,000. My own estimate is slightly higher at €325,000, but suffice to say that it is in that area, and if land prices or labour costs rise – as they almost inevitably will, then those prices will rise too.

Direct government take

On the IHBA figures, the government will get c.€60,000, made up of financial contributions, Part V and VAT.

Labour
The overall construction cost of is estimated at €151,000, of which about half will be made up of labour costs. This estimate has been cross-checked with the industry. That separate data suggests that 439 man hours are required to build a three bed semi-detached house. Multiplying this by the average wage in the construction sector of €19.26 (CSO), gives a labour cost of €67,580 per unit. On this, we estimate that the average construction worker would pay total tax, PRSI and Universal Social Charge of €6,956. This implies a tax rate of 19.8%. Adding in employer PRSI, we estimate that the government will receive €19,990 indirectly from the building of an average three-bed semi-detached unit.

Total government take
In total, therefore, we estimate that the government receives €79,645 from the build and sale of a house, accounting for 25% of the total cost of a new unit. An increase in output of 10,000 units over the coming years would thus yield the government an additional €800m in revenue.

Live register savings
An increase in employment in the sector will have the effect of removing significant amount of construction workers from the Live Register. We estimate that there are currently 60,000 former construction workers on the Live Register. The Exchequer cost of those on the Live Register is estimated at €18,254 per person. Thus this must be added to the estimate above on the fiscal benefits of housebuilding. An increase of 10,000 units would require 4.4m man hours, equivalent to 18,905 workers for a full year. This would result in full-year savings of €345m for the Exchequer.

Benefits
In summary, we estimate that 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.

Factor 14: Construction
The most readily influence-able factor in the whole housing equation is that of construction. We have one of the most skilled and reactive construction industries in the world. Getting new houses built will not be a problem if all the other factors can be managed. The industry was set a challenge in the past – gearing up to deliver a substantial increase in housing, and it rose to meet that challenge … but it did not recognise when it should stop.

Conclusion and Recommendations

1. **Policy Coherence**

   Housing policy is too diffused across too many Government Departments and State agencies to be coherent and effective. If the vision is the development of 25,000 new houses yearly, then the management of housing and planning needs to be brought together and co-ordinated centrally with the political muscle and resources available to make it happen. Such is the depth of the crisis from which we have just emerged, and so urgent is the shortage we now face that is time for a Government Department tasked with resolving the short-term issues and with putting a system in place to deal with the longer term.

   Since the foundation of the State, issues of housing have convulsed the country at an alarming frequency. From tenements and slums to the Mahon Tribunal to the recent economic crisis that brought the country to the brink of destruction, our failure to get to grips with providing a decent, adequate and affordable housing supply has cost us dearly social, economically, and environmentally.

2. Land Supply Agency

The decimation of the land speculation market and the existence of Nama with access to development land at low historic costs gives Ireland the unique opportunity to create a land supply agency to help supplement the current market deficiency. It also gives the opportunity to get land supply, urban planning, and investment in infrastructure and recovery of betterment all coordinated together so as to create efficiency in our planning and housing systems. However this agency needs to work in partnership with the private market and not to overwhelm it by red tape. This agency should report to the proposed new Housing and Planning Minister.

Part of the Agency's function would be to ensure adequate land supply, and to regulate that supply through land banking, financing of infrastructure where appropriate, through advice to public authorities on land supply and housing demand – and through betterment measures where required.

3. Infrastructure

There is a serious shortage of infrastructure which may not be an immediate short-term blockage but needs urgent attention and investment if targets are to be met in the medium term.

A failure to invest now will inevitably pave the way for further crises in the future. Managing this requires an appropriate allocation of funding, and central co-ordination under the putative new Department or Land Management Agency.

4. Housing Standards

We have the highest housing space standards in Europe and, as Ronan Lyons says in his paper referred to above, this is not a blessing but a curse. We need to bring our housing standards down to what we can afford. I propose a 10% reduction on DECLG space standards. This is not scientific; it is a realistic and practicable first move in a crisis situation. We need action now – not when a learned working party produces reports in 18 months' time. Those who lose from onerous standards are those on low incomes, those who cannot afford to cover high construction costs.

5. Social Housing Policy

The current social housing policy should become integrated into the proposed overall housing policy. It also needs to be extended to encompass the key worker and affordable housing sector. A weakness in the current policy is that whilst it argues for an integrated approach to community building it is being implemented in a way that does the direct reverse by focusing solely on the welfare tenant. There are market-focused methods of providing social and affordable housing that work in other countries that should be applied in Ireland. A new market-facing and realistic housing policy is required and required urgently.

6. House market and house prices and rent levels

Almost one third of households are now in the rental sector. Rents are rising rapidly driven by normal market conditions, but added to by the deflected demand due to the Central Bank constraints on borrowing. Supply in the rental sector is currently almost fixed in size, and perhaps shrinking as buy-to-lets exit, and with the absence of new development occasioned by high construction costs impacting on viability.

The Dublin *second-hand* housing market now appears to be operating on realistic and acceptable price fundamentals with a volume of houses changing hands in a framework set by the Central Bank using macro-prudential principles. The tone of current price levels from an owner-occupation perspective is good for economic performance. However if it is left to the free market, rising house prices will stimulate a supply response, but not before the shortage of housing gets considerably worse, and with significantly disimproved affordability.

However, my proposal attempts to manage the price of new housing in return for tax concessions. The object is to stimulate the supply of housing at affordable prices and affordable rents. The target market is the mid- and lower end of the market in Dublin, and similar in other cities where affordability and supply issues arise. The concept is to forgive the VAT and levies where new houses and apartments are supplied at affordable prices.

The overall approach would be like the reduction in road tax for fuel-efficient vehicles. Tax the high emitters (high land value percentage) and give concessions to the efficient (lower land price) new houses. What would be the impact of this on the price of a new house? The following table shows the impact. I have also included a 10% reduction in floor space.

3-bed semi-detached house in a scheme of 100 units	
Build cost	€124,200
Levies, etc.	€0
Site infrastructure	€8,000
Professional fees	€10,000
Sales/marketing	€6,000
Finance	€6,000
Part V allowance	€0
	€154,200
Site	€50,000
Site finance	€10,000
Profit (@ 15%)	€32,130
Vat (@ 0%)	€0
Total	**€246,330**

But how to enforce/calculate/police the system of tax exemptions for efficient homes? There are well developed systems for certifying actual construction cost and also the profit thereon. With a certified construction cost, this would leave only four other elements viz professional fees, finance costs, land and developer's profit. We will know the purchase price, and if we have certificates for construction, fees, and finance outlay we are only left with land and profit.

One approach would be to say that for a new residence to be exempt from VAT and levies that certified hard and soft construction costs must be X% of the sale price – say 60% (the difference being 25% for land and 15% for profit). This approach would enable developers to take land profits within construction/development profits.

For houses/apartments built to rent, the concessions should be reflected in the initial rent or other terms. Rents should be not more than say 6% of the cost including land plus reasonable profit for the first five years (maybe the same 60% construction cost qualifier.) If concessions are claimed, then the unit must remain rented for a set period, e.g. 10 years.

Housing was a cash cow for Government in the past, but maintaining that position now risks stifling our nascent economic growth by forcing up rents and prices and causing more hardship through lack of affordable housing.

The cost of providing a new 3-bed semi urban house is about €325,000. However, in Dublin the bulk of the market for a typical 3-bed semi is in the €200,000 to €275,000 bracket which means that new housing is overpriced by about €50,000. This is a core reason for the low level of construction. Reducing development cost by eliminating VAT and levies on selected new housing *in a targeted way* would kick start the industry particularly in Dublin by bringing the market into line with the cost of a new home and still leave significant revenue to the State for each new unit.

Final Remarks

The alternative to my suggestions is to do nothing, or continue doing what we are doing which is close to nothing and in which case house prices will gradually rise to the level of replacement cost due to scarcity. But in that process more and more people will end up on the street as those who can afford to rent or buy outbid those who can't pay. Higher rents and house prices also impact on our international competitiveness and we could well turn off the FDI employers because homes and apartments are where jobs sleep at night.

Bill Nowlan
25 September 2015

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

BIll is a former Investment Director of Irish Life, then the State's largest property developer, and its largest private residential landlord. He served on the Board of Focus Ireland for over ten years where he established and chaired the charity's housing association. A frequent contributor to debates on property-related issues in *The Irish Times,* he is also completing a PhD on the funding of social and affordable housing in advanced economies.

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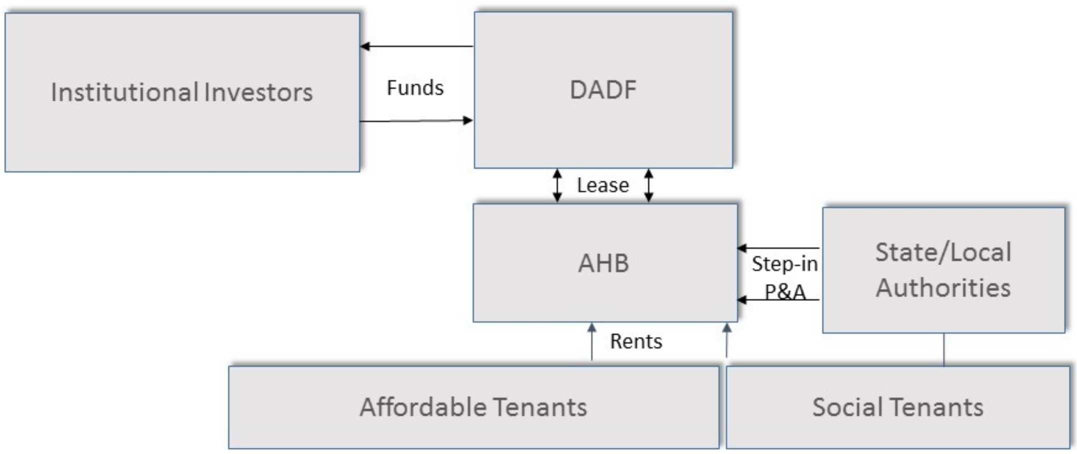
APPENDIX

The Dublin Artisan Dwelling Fund Model

In 2014, Bill Nowlan put forward a model for the supply of social and affordable housing, using institutional funds – the Dublin Artisan Dwelling Fund.

The Concept

The Dublin Artisan Dwelling Fund (DADF, or the Fund) is designed to provide middle- and low-income and social housing on a cost-rental basis. The Fund will provide secure investment income based on residential property, mainly in Dublin. The target clients of the Fund are Approved Housing Bodies (AHBs) that the fund will "wholesale" buildings to on long FRI leases. In turn the AHBs will "retail" the residences on subleases to occupiers. The AHBs will be mandated to build integrated communities of mid-income and supported rental housing – initially in Dublin – and to enhance the investment and quality of life of each community under their management.



The DADF Model

The DADF is unique in a number of ways:

1. The developments are leased on a **cost-rental** basis to the AHB. That is to say, the rent is based on the cost of developing the units, not the market rent.
2. It can deliver quickly and in volume in areas of need.

3. It integrates the various "players" in a seamless package for delivering new homes. Everyone does what they do best – the fund builds and finances the units, the AHB manages, and the government supports.

In essence, the Fund will raise money from institutional funds to develop housing targeted at middle to low-income households, including social housing. The developments will be leased to Approved Housing Bodies on a cost rental basis, i.e. the cost of developing and servicing the debt rather than on the market value. Public subsidy in the form of land and government step-in provisions significantly reduce the rents below market level. A proportion of the tenancies will be for social housing tenants by means of conventional Payment and Availability Agreements. A further, larger portion will be "affordable", that is to say reserved for particular categories of households who will pay below the market rent, but without support. The model thus seeks to bring about affordable renting together with social housing in balanced and sustainable communities.

The proposal was put before the Social Housing Proposals Clearing House, a government body designed to assess and process proposals from the private sector, and is the subject of ongoing discussions.

The inspiration for the concept came from the Dublin Artisan Dwelling Company, a semi-philanthropic company that was the largest supplier of decent working class housing in Dublin in the last quarter of the nineteenth century, but which was a commercial concern that made a return to its shareholders. Using the government supports then available together with investor funds, the company provided thousands of homes in the city. The new DADF will similarly source institutional funds, and use existing support mechanisms to meet housing needs.