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REVISED AFFORDABLE HOUSING STRATEGY

Submission to the Department
of Housing, Local Government
& Heritage



Revised Affordable Housing Strategy (RAHS) - SCSI Submission

Ireland, like many EU countries, faces a severe lack of affordable housing, impacting individuals, families, and communities nationwide. Several obstacles are hindering the development and accessibility of affordable housing in Ireland such as supply constraints, and rising costs of delivery. Urgent action and proactive measures are needed to ensure every citizen has access to safe, secure, and affordable housing options.

There is a notable trend of declining levels of homeownership in Ireland¹. Although the level of homeownership is much higher than in some other EU countries such as Germany and Denmark, the EU average in 2021 was 70% of the population lived in a household owning their home. The highest shares of ownership were observed in Romania (95%) and Slovakia (92%, 2020 data), with Ireland at 66%, down from 68% in 2016. This decline is more in focus in the context of high rents and thus impacts the financial health of citizens. This submission outlines areas that should be prioritised to ensure a greater level of affordable housing is available.

1. Capital Support

Recent trends in Ireland have shown a decline in residential institutional investment², attributed to the surge in financing costs and diminished yields stemming from escalated construction expenses. Given its modest size relative to larger economies such as the United States or the broader European Union, the Irish market is often viewed as less established, carrying a heightened perception of risk among some institutional investors. Furthermore, the limited net returns on investment, coupled with regulatory caps on rent increases, are currently dampening investment appeal in Ireland's housing sector. A long-term strategic approach is essential to address rising rental prices and ensure the affordability and availability of rental stock.

According to European Commission research, a significant increase in rental supply could stabilise rental prices, as changes in rents are primarily determined by the stock of available rental properties relative to demand, and to a lesser extent, by income and employment levels. One of the core challenges in Ireland is the viability of producing new units, particularly apartments, at an affordable sales and rental price point, as illustrated by the SCSI's 'Real Cost of New Apartment Delivery Report 2021'. As average construction soft costs are approximately 48%³ of new unit costs, the State needs to look at supporting viability by reducing soft costs. This can be achieved in several ways as highlighted in the report recommendations.

According to the Department of Housing, Local Government and Heritage, the delivery of affordable housing has more than doubled, with the figures representing an increase of 128% on 2022 activity. However, with the impending revisions of the Housing Needs Demand

¹ CBRE Ireland Real Estate Market Outlook 2024

² CBRE Ireland Real Estate Market Outlook 2024

³ SCSI Real Cost of New Apartment Delivery Report 2021

Assessment, new housing targets must consider the cumulative undersupply of housing to include the undersupply of social and affordable housing. As per Table 1, there was a 6,691 undersupply of social housing in 2022 and 957 undersupply in 2023.

Table 1 details how the delivery of affordable housing compares with Government targets proposed since 2022.

<u>Social Housing Target v Delivery</u>	2022 Target	2022 Output	2023 Target	Q1 - Q4 2023 Output
Build	9,000	7,433	9,100	8,110
Acquisition*	200	951	1,500	1,830
Leasing	2,620	1,870	2,530	1,999
Sub Total	11,820	10,254	13,130	11,939
RAS	800	1,041	800	1,542
HAP	14,000	8,634	8,800	8,292
Subtotal	14,800	9,675	9,600	9,834
Overall Total	26,620	19,929	22730	21773
Result	-6,691		-957	

Source: Department of Housing, Local Government and Heritage

As illustrated by Ronan Lyons in his paper titled “Institutional Investment & the Private Rental Sector in Ireland”, rental property construction has always required considerable support for viability. The Vienna Model, built post-Second World War with US support, initially deemed unviable, has become crucial in delivering both choice and affordable rental accommodation. This stock was not viable at the time of construction but has over the years become essential to delivering both choice and affordable rental accommodation.

There is a delicate balance between citizens' right to comment on proposed developments and the State's responsibility to ensure future housing and related social infrastructure. While the unprecedented level of state funding for new and renovated housing is positive, it may limit the State's ability to invest in other ventures. The State is now the most active participant in the market by far and it is therefore imperative to create an investment-friendly environment to attract sufficient private investment in housing delivery.

Funding from Private Sector

The private sector plays a crucial role in generating capital. In Ireland, private households have nearly €137 billion in bank deposits. Feedback from the SCSI members, which include estate agents and letting agents, indicates a consistent trend of landlords exiting the private rental market, driven by various factors. Nonetheless, the enticement of new smaller investors in this sector requires attention. The government should consider introducing incentive schemes that would allow private citizens to invest in the rental market through a state-backed investment vehicle. To effectively implement such incentives, it would be necessary to thoroughly revise the Residential Tenancies Act, addressing the current market's shortcomings. SCSI Research points out that complex rental regulations and low net returns versus the risks involved in smaller scale residential investment have accelerated the departure of many landlords from the market. Additionally, the Residential Tenancies Board's (RTB) current adjudication process needs to be heavily improved upon, as it is lengthy and inefficient. The responsive nature of the RTB is unsatisfactory, and dispute resolution needs increased prioritisation.

Affordability

While measures like the Affordable Housing Fund, Cost Rental Equity Loan (CREL), Secure Tenancy Affordable Rental Scheme (STAR), First Home Scheme, and Local Authority Home Loan are positive initiatives, there are gaps in addressing the ongoing challenges of affordability for both renters and prospective homebuyers. A detailed evaluation is needed to determine if these measures are sufficient or if additional initiatives or adjustments are required to ensure affordability in the housing market.

Cost Rental:

SCSI suggests revisions to the use of lotteries. The current process is restrictive, and discretion should be permitted to allow operators to allocate appropriate units within the target demographic groups i.e. family size, disability, age etc.

Also, the SCSI suggests that some changes are made in relation to the income criteria of tenants, and this should be assessed within the period of 12 weeks to the expression of interest with some exceptions for those tenants on certain leave such as maternity leave/sick leave.

The upper net income thresholds of €66k should be reviewed and expanded to cover large towns in Dublin commuter counties thus ensuring the Cost Rental Scheme can be further developed into areas of high demand. This review and expansion should also be considered for large urban centres outside of Dublin, where appropriate, such as Cork and Limerick which are currently at €42,000 (Upper Limits of Social Housing) and €59,000) and do not meet the requirements of young professionals.

Currently during the initial rent setting (designation process) the interpretation of costs is referenced in the Affordable Housing Act 2021 and this regulation is based on an individual Cost Rental unit ("dwelling") on stand-alone Cost Rental sites. During the designation process, the assumption is that all the costs are dwelling related. Overall shared service/common area/site costs are not referenced. This assumption works for single tenure Cost Rental only sites, or phases of sites.

However, on larger schemes (200 units plus) which may for planning and viability reasons include, Cost Rental, Social, AFS, Rental and Commercial this approach is challenging the delivery of affordable rents. This is due to the uniform apportionment of shared service/common area/site costs.

Other jurisdictions have supported mixed tenure on sites by enabling cost apportionment weighting based on rent generation capabilities. A similar principle applies in this jurisdiction to Owner Management Companies who will vary the charges paid by unit types. Another approach applicable to a one owner site involves treating the whole site as one cost and income unit. This allows a flexible initial allocation of costs, weighted towards the units whose modelled income generation potential supports more costs while minimising costs on designated Cost Rental units. The impact would be to enable mixed tenure development while supporting lower rents. The current approach works best for a single tenure site.

The proposal is that this regulation be amended to:

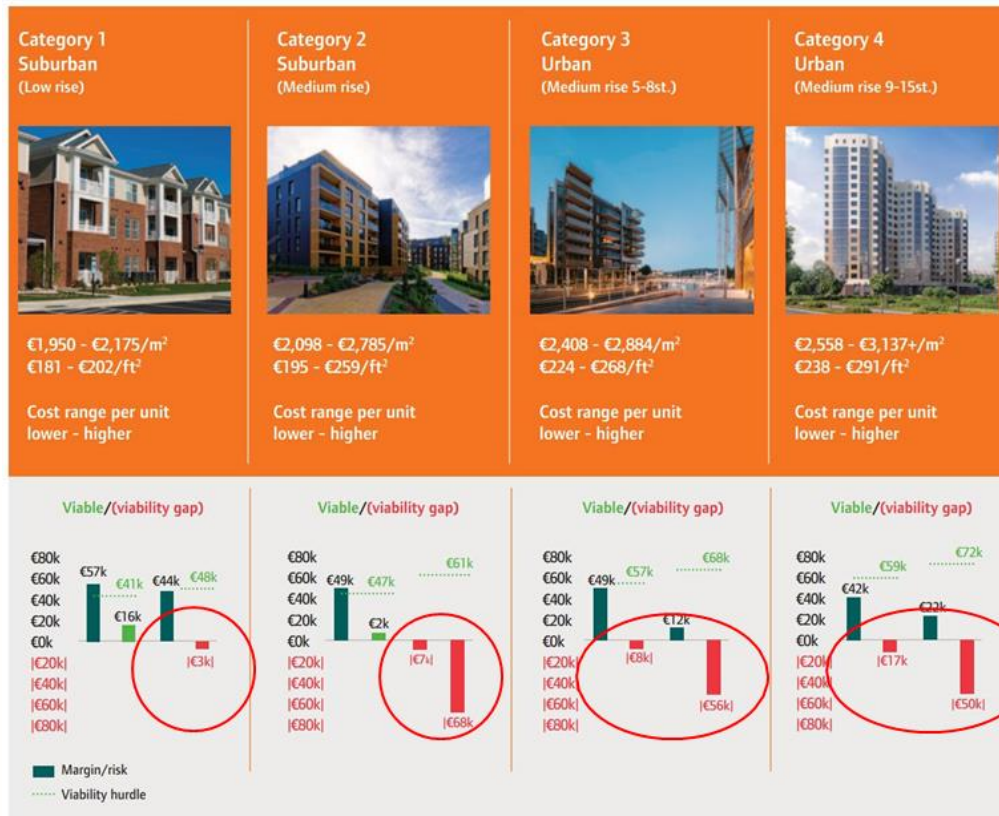
- a. Identify shared service/common area/site costs.
- b. Enable an apportionment of these based on the market rental income of units across the site (excluding cost rental).

Thus, when submitting a statement of proposed initial rent (the “designation application”) an applicant can apportion higher levels of shared service/common area/site costs to non-Cost Rental units in particular Commercial units. However, the designation and STAR support only apply to the Cost Rental units identified in the submission.

Build to Buy apartments:

The introduction of the Croí Cónaithe (cities) is a significant step towards providing more apartment purchasing options to the market. Yet, it represents only one aspect of a comprehensive approach necessary to address the issue. For instance, it is anticipated that the Croí Cónaithe (Cities) scheme will require €450 million to support the delivery of up to 5,000 apartments. The level of home ownership is in decline and this trend is also reflected in the level of owner-occupation in apartments. The SCSI ‘Real Costs of New Apartment Delivery’ Reports (2017 & 2021) highlight the affordability challenge in urban and suburban locations. In 2021, SCSI reported that there were viability challenges for the build-to-sell apartment market apart from two of the lower-cost range apartments, however, for urban-based apartments, no schemes were viable for the build-to-sell market within the study. The viability hurdle ranged from €3,000 to €68,000 across the 4 categories of apartments– urban and suburban locations, as highlighted in Figure 1 in red.

Figure 1 Viability of a 2-bedroom apartment (build to sell) ex Vat total delivery costs (2021).



As per the Housing Agency information document on the scheme, “the level of funding provided will be based on the viability gap for each apartment, which will be calculated and fixed closer to the date of delivery of the apartment. The maximum funding anticipated for each apartment is €120,000 (inclusive of VAT). However, this may need to be exceeded by no more than 20% (€144,000 inclusive of VAT) in certain cases in regional cities where lower market prices mean that the viability gap is larger”. While in theory, the consideration to make 20% of the market value of apartments available to developers (subject to certain criteria) should increase the supply of more build-to-sell apartments; however, it will not necessarily make apartments more affordable to an average income earner.

The SCSI recognises the overall intention of the scheme is to simply support more units to the market for individuals to purchase at levels that may not be achievable by the average first-time buyer. The scheme is well established now and there is an increasing level of interest in the industry to take part in the scheme, however, the non-availability of any forward funding aspect of the scheme can be viewed as short-sighted. The scheme will also benefit from a mixed tenure approach that allows for a variation of the percentage of rental units alongside owner-occupied ones, especially in core cities. The single tenure approach to communities may not be a sustainable option (see additional detail in the Annex).

2. Timeline

The need to rapidly deliver housing supply in response to Ireland's growing population and changing demographics is undeniable. However, the current planning consent process, which is under revision with proposed changes to the Planning & Development Act, is significantly hampering the timely delivery of housing. This is also evidenced with the last remaining Strategic Housing Developments (SHD's) being held up in the appeals process.

The SCSI has long recognised the state's intervention as pivotal in bolstering home ownership levels—an essential measure for a burgeoning population. The government has earmarked an unprecedented amount of state funding for housing, with a record €5.1 billion allocated in the 2024 budget. This includes €2.6 billion from the exchequer, €978 million from the Land Development Agency (LDA), and €1.5 billion from the Housing Finance Agency (HFA). While some may see the expansion of housing as conflicting with efforts to reduce construction-related carbon emissions, there is an opportunity to address both challenges by renovating existing housing stock. This approach offers a more immediate and sustainable solution, within a favourable planning framework.

The SCSI's study published in 2023 accessed 20 case studies of properties across the country that provided valuation and building renovation cost assessments of the buildings. The case studies illustrate the impact of geographic location on viability, with properties in more affluent areas supporting a greater degree of financial viability. Rather than applying for grants on a universal basis, the SCSI is recommending a more tailored approach to renovation projects – including the availability of feasibility grants for prospective purchasers - to take account of the unique nature of each renovation project. The SCSI believes that instead of the current practice of payment on completion of the project, funds should be made available in tranches.

The lending process for those taking on renovation projects needs to be improved. This could be done by lenders establishing a clear set of lending policies and guidance for prospective renovators. The SCSI is also recommending the establishment of a specialist-lender-type initiative whereby funds are directed through lending partner agencies at preferential rates to support renovation projects.

The most sustainable building is the one that is already built. Ireland has a solution to address some of the affordability /accommodation issues, particularly in areas where demand is so acute by activating a much more aggressive renovation strategy to get units above shops back into use.

3. Capacity

The Department of Housing, Local Government and Heritage (DOHLGH) did not spend more than €1.5 billion⁴ of the capital budget between 2020 and 2022, including just over €1 billion intended for social and affordable housing. The consistent level of underspending is problematic and is symptomatic of wider challenges with the delivery of new housing, especially across

⁴ As reported in the Irish Times, April 6th 2023 following a parliamentary Question response <https://www.irishtimes.com/business/2023/04/06/departments-of-housing-failed-to-spend-15bn-over-last-three-years/>

different tenure types such as social housing (direct delivery, Part V etc.) affordable housing and private housing.

The construction sector needs the continued direction of the Government to meet new housing targets. The 'Economic Analysis of Productivity in the Irish Construction Sector'⁵, report identifies critical areas where investment and actions are required to assist the construction industry to mechanise and innovate in the interest of faster builds and more sustainable build efficiencies. The SCSI fears that Ireland will remain with a significant housing demand and supply imbalance for at least another decade if the status quo remains. This is also evidenced in RTB's latest Rent Index Report as the number of newly registered tenancies continues to fall⁶ and this can be attributed to the general housing supply shortage. A tighter supply may result in higher accommodation prices, and this will have a detrimental effect on attracting new FDI into Ireland.

Improvements in efficiency through innovation continue and will remain a feature of this industry for the medium term as a further focus to deliver more for less and deliver more sustainably is a priority for the Government and stakeholders. Advances in technology such as building information modelling (BIM), have enabled the construction industry to improve efficiency in the sector. It is promising to see the Department of Public Expenditure and Reform taking a lead role in fostering an environment within the industry for further innovation to take place through the Construction Sector Forum.

The government has several policy priorities to address the cyclical nature of construction, which affects the delivery of new homes. This includes managing the volatility in demand for both private and public capital works, which impacts the economic viability of firms. Additionally, addressing employment security and the capacity to invest in people and resources is crucial for enhancing productivity. The lack of clarity on the forthcoming public and private sector pipeline of works affects firms' confidence to invest in resources, technology, training, and upskilling. This, in turn, affects firms' appetite for the development of specialised areas such as off-site production. Finally, as noted previously, the complex planning system in Ireland is a significant challenge, and we await the review of the Planning and Development Act to address planning permission blockages and delays.

4. Delivery

Public Procurement

SCSI has previously called for a review of public procurement procedures for social housing to allow more efficiency in preparation for increased activity in social housing delivery. Significant procurement delays are a common feature including additional design and related costs often encountered when delivering public projects.

In relation to procurement and contracting, issues raised by SCSI previously include: the bureaucratic and onerous nature of Ireland's public procurement processes, exclusionary

⁵ KPMG Ireland, Future Analytics Consulting, Murphy, R., & Behan, A. (2020). Economic analysis of productivity in the Irish Construction sector. Technological University Dublin. DOI: 10.21427/WG66-QR57

⁶ RTB Rent Index Q4 2023

qualifying criteria, poorly defined project briefs, unrealistic budgets, a lack of understanding of the complexity of the construction stage on the part of clients, a lack of collaboration with all members of the supply chain, and suboptimal risk transfer mechanisms. The result of this could be that fewer contractors apply for tendering thereby reducing competition in the market and as a result, can reduce value for money for the taxpayer.

The Department of Public Expenditure and Reform's Inflation Cooperation Framework should be reviewed and considered by other agencies tasked with the delivery of public housing. The Framework sets out an inflation burden-sharing arrangement where the contractor and client agree to share the increase in material costs from January 2022.

Although agencies such as the LDA may not fully utilise Public Works Contracts, there may be an opportunity to leverage this new initiative within the delivery of housing projects to ensure housing output of much-needed private and public homes is not stalled.

To ensure value for money, streamlining the procurement process is essential. Consideration should be given to pre-qualification improvements to attract more contractors to affordable housing projects. Local authorities, each with their own procurement processes, could benefit from further streamlining through a collective procurement model.

Establish a Land Register

To deliver more housing, authorities require key information on land costs impacting the overall delivery of housing. The SCSI calculates that land costs can be approximately 8% - 15% of the overall delivery costs⁷. SCSI has long called for the establishment of a centralised land price register. Various reports over the years have recommended that, in the interests of better land management, such a register should be developed. This has yet to be acted upon. SCSI believes that a Land Price Register would:

- Bring much-needed transparency to an opaque section of the property market in Ireland
- Ensure greater, fairer and more competition in the land and other markets
- Allow for the prediction of future expectations for both land use and values/price
- Based on future expectations, act as an early warning system for unwanted uses and allow for targeted state intervention
- Give the State greater certainty in planning for its own infrastructure
- Allow for the development of better land registration details including advancements in mapping and cadastral information
- Help implement policies and interventions that will result in more affordable housing, and
- Improve the ability to track value-for-money in State projects

SCSI recommends that the introduction of a land register would provide factual data to the market to fully understand the cost of land and how it impacts development and costs.

⁷ SCSI Real Cost of New Housing 2023.