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Réadlann Tithíochta
Dublin City Council **Housing Observatory**

Irish *Post-Crisis* Rental Housing Investment and Expenditure: Enhancing or suppressing pathways toward always affordable cost rental housing?

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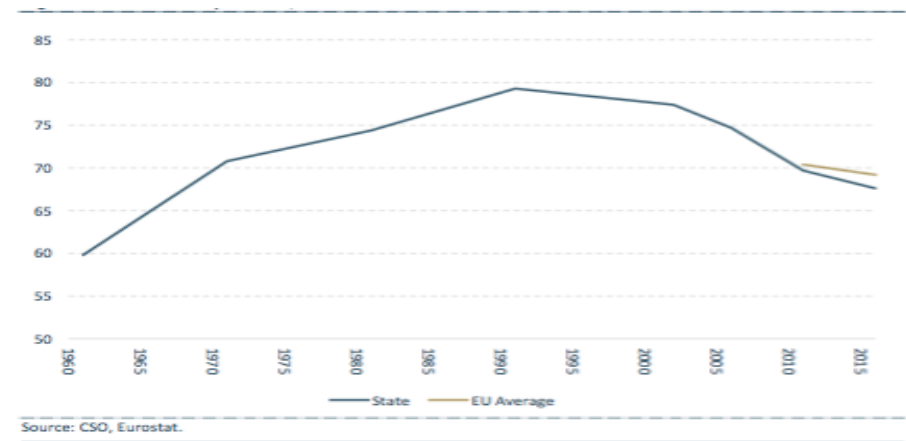
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‘Generation Renters’ in post-Homeownership Irish Society:

Some stylised facts to warm up with:

- Access denied redux? Today’s ‘boomerang’ generation again increasingly reliant on family solidarity (see late 1990s);
- New disruptors i.e. ‘sharing economy’ impacts – ‘co-living’ an adjustment to affordability issues rather than tackling them;
- Households continually pushed towards homeownership (fiscal and social policy instruments alike);
- Options to transfer housing demand to OO reduced due to chronic supply side shortage of new housing, high and rising house prices and macro-prudential rules;
- ‘Meanwhile effects’ of declining housing affordability is a significant ‘pauperisation’ effect on households with negative impacts on Irish aggregate demand and labour markets;
- Marginal ‘consumer protection’ for tenants: Insecurity of tenure drives housing exclusion, incipient and actual homelessness.
- Further normalizing tenants in Ireland as ‘failed consumers’?
- ‘Stigma’ and ‘Bias’ continues to drive sentiment and decision-making

Irish Owner-occupier rate, 1961 - 2016





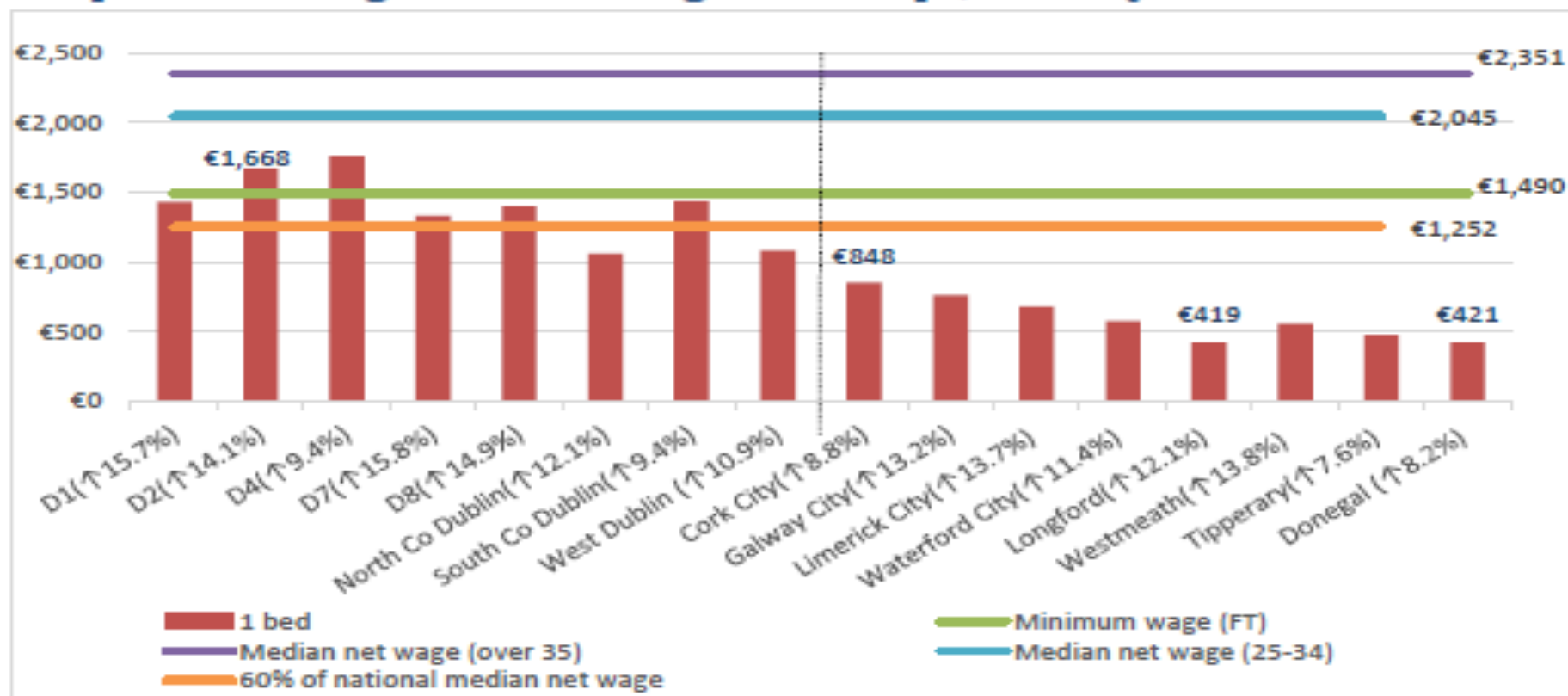
Mr Chumley Warner

“Renters: Know Your Limits!” & “Mind the Gap!”



Grayson

Graph 1: Net wages and renting a 1 bed apt, 2017 Quarter 2



Cost Rental: an alternative rental tenure for Ireland

1. If you're renting socially in Ireland then you're renting from a local authority or housing association and most likely paying an income-based '**differential rent**', which is usually about 15 per cent of your net income.
2. If you're renting from a private landlord, then you're paying a **market rent**, which normally covers the costs of providing the accommodation plus the landlord's profit where rents exceed costs.

a. Neither is a 'cost rent'

3. Cost rental describes a rent that covers the landlord's actual costs of providing the accommodation and doesn't include profit
4. The aim of a cost rental system is to ensure that rent levels are sufficient to cover the costs of providing the housing being let.
 - a. This is done by determining the pooled costs for a specified group of dwellings, which are then distributed between individual dwellings.
 - b. So the rent for a particular dwelling is not determined by the ongoing costs that are specific to that dwelling.
 - c. The cost rental systems refer to an overall rent for a group of dwellings (which could be as big as a nation, and as small as one housing scheme); whilst all the other systems are concerned with a specific dwelling or household.

Two types of Cost Rental

There are two generalised types of cost-rental:

1. Historic cost-rental.

- This means that the rent is based on the management costs, repair costs, cyclical maintenance, and the cost of servicing the loan on the group of dwellings. In this system the rent will reduce in time as the historic debt reduces through maturation.

2 Current cost-rental.

- In this system the rent is based as above on the management costs, repair costs, and cyclical maintenance. But instead of adding the cost of servicing the existing loans, the capital element is based on the cost of replacing the existing dwellings as determined by current value and expected life. In this system the rent will generally increase over time.

Where do we find CR Housing Systems?

Cost rental systems are well-established in other countries such as Denmark, Sweden, Germany, Netherlands and **Austria*** and where typically...

1. Cost rent decreases in real terms over the long term because interest rate increases are less than inflation
2. As the state subsidy is based on cost rent, then the state subsidy also decreases in real terms
3. When a dwelling is debt free the cost rent is very low – affordable for many people on low incomes without any subsidy from the state
4. Cost rents over time will exert a downward pressure on market rents

How can new Irish Programme for Government deliver investment and expenditure in rental create that pathways to cost rental?

This is a knotty problem!

- Understand the extent, scale and nature of our **‘dualist’ of Irish rental system** i.e. it’s not ‘unitary’
 - Recognise how there are at least two distinct elements of the ‘dualist’ system and that segmentation exists within these elements between professional and individual investors and among users (renters/ tenants)
- Note the recent **convergence between public expenditure on the use of private rental housing (HAP) and private investment in exchange and ownership of dwellings** in the rental tenures (i.e. REITS, BTR – or so-called ‘vulture’ and ‘cuckoo’ funds)
 - Strategy must therefore develop the nexus of interest between public expenditure on the use of private dwellings for rental and the possibility of **integrating subsidies (revenue and capital) to divert towards a more unitary rental system** required to produce affordable cost-rental housing and capture the benefits of this model of public housing (think Vienna!)

The 'dualist' system: a tale of two markets?

Market One: has different segments comprising key actors in the Irish private rental sector (a) Professional and institutional (b) the so-called 'Mom & Pop' individual owner

Individual and Company Landlords and Tenancies, September 2018

Number of Tenancies	Total Landlords	Tenancies	Individual Landlords	Company Landlords	% Landlords	% Tenancies
1	121,481	113,534	117,863	3,618	70.26%	36.53%
2	27,823	52,023	26,938	885	16.10%	16.74%
3	9,722	27,257	9,287	435	5.62%	8.77%
4	4,627	17,276	4,370	257	2.67%	5.56%
5	2,573	12,006	2,394	179	1.49%	3.86%
6	1,646	9,229	1,494	152	0.95%	2.97%
7	1,085	7,121	986	99	0.63%	2.29%
8	661	4,907	602	59	0.38%	1.58%
9	561	4,687	495	66	0.32%	1.51%
10-20	1,924	23,583	1,626	298	1.11%	7.59%
20 - 50	618	17,505	410	208	0.36%	5.63%
50 - 100	113	7,329	55	58	0.07%	2.36%
100 - 200	45	5,513	17	28	0.03%	1.77%
200 - 300	8	1,845	1	7	0.01%	0.59%
300 - 400	4	1,272	0	4	0.00%	0.41%
400 - 500	2	767	1	1	0.00%	0.25%
500+	5	4,901	0	5	0.00%	1.58%
Total	172,898	310,754	166,539	6,359	100%	100%

Source: RTB

“Landlord Ires Reit reports surge in profits as average rents rise to €1,600. Additional dividend declared as full-year profits jump from €65.1m to €119.8m”

Irish Times, Fri, Feb 22, 2019

RTB data indicates that company ownership of rental stock is relatively small on the national scale

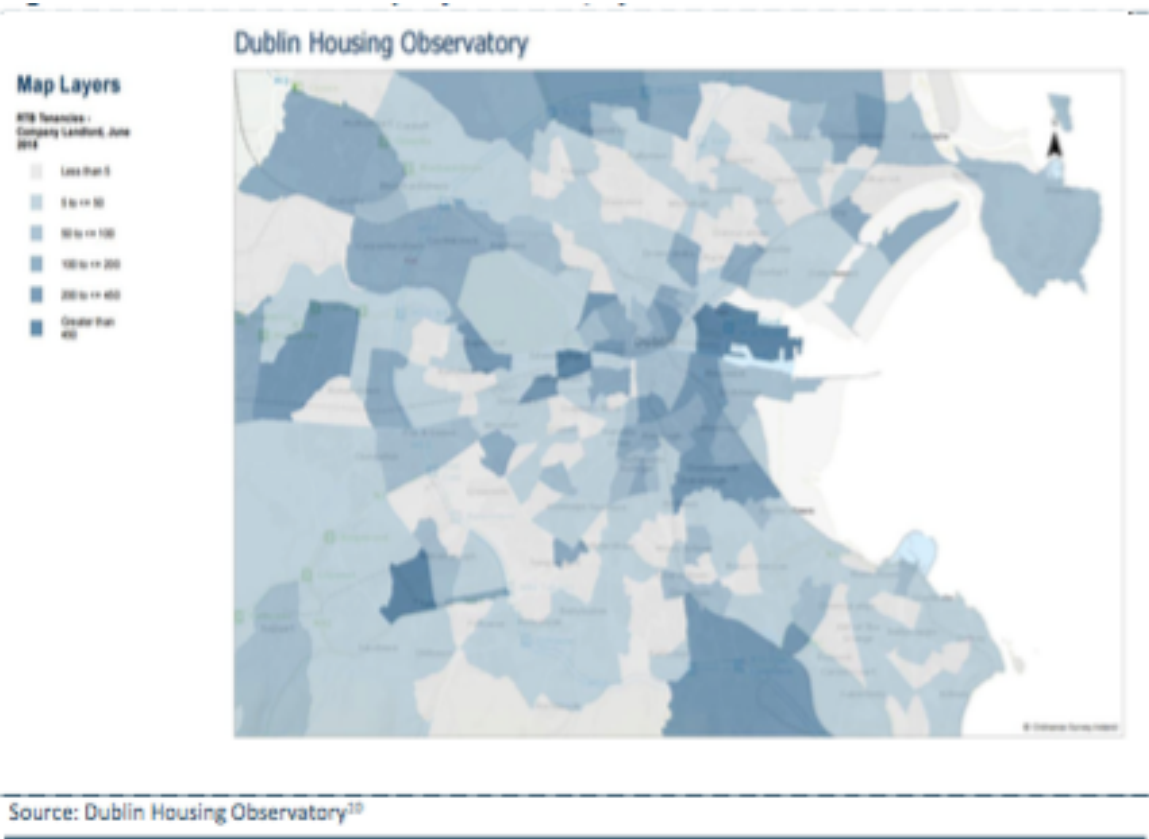
New DHO analysis shows how private firms can have a significantly higher level of ownership at the local level – and especially so for ownership of apartments.

- Ushers A: 605 of total 958 tenancies (63%)
- Stillorgan-Leopardstown: 273 of total 566 tenancies (49%)
- Chapelizod: 427 of 880 tenancies (49%)
- Tallaght-Springfield: 778 of 1,878 tenancies (41%)
- Sandyford: 393 of total 1,212 tenancies (32%)

The bulk of institutional investment in Irish rental market is in apartments (new ones especially) but this is still the minority category of investor.

Nonetheless, companies have disproportionate price setting power locally

RTB Tenancies 2017 – Company Landlords by ED



For more see: <https://airomaps.geohive.ie/dho/>

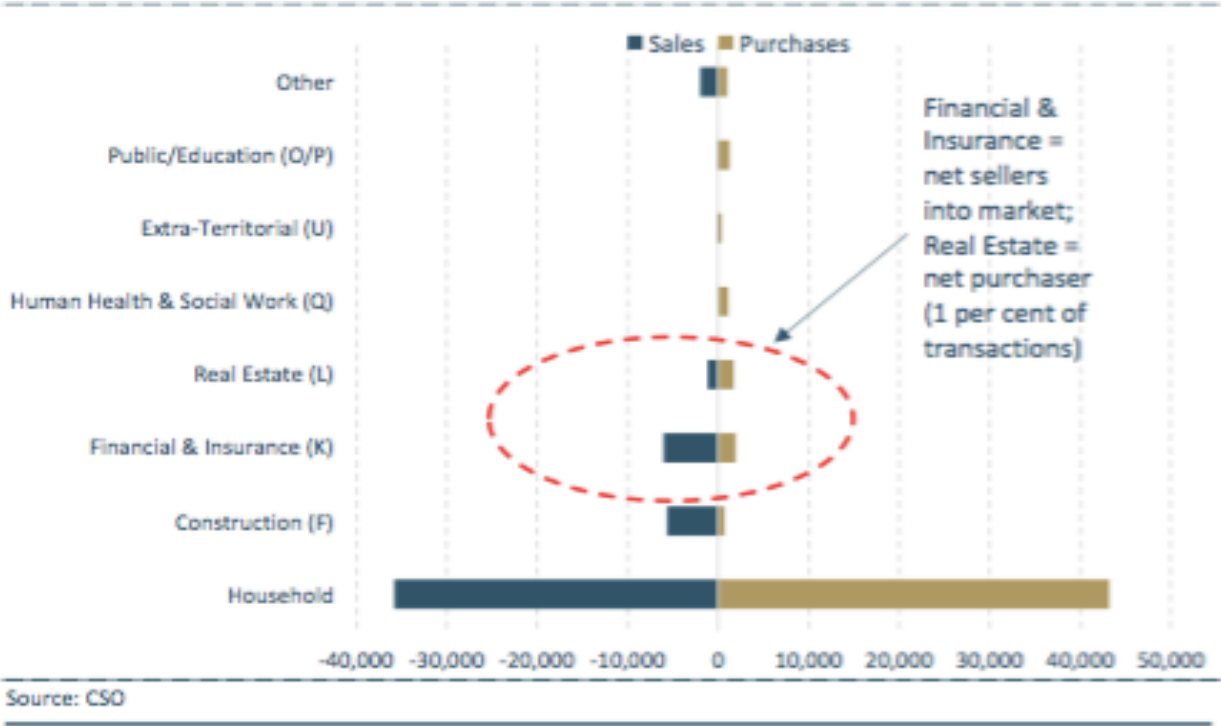
Household and Non-Household Purchase of all dwellings, 2017

New CSO data (July 2018) on the activity of non-households in the residential property market shows that non-households are **net sellers** into the residential market each year since 2010!

In 2017 (51,155 transactions)
‘Financial and Insurance’ and ‘Real Estate’ companies purchased 11.4% of new dwellings and 7% overall
Real Estate sector purchased 7.2% of new dwellings and 3.35 of all dwellings

But...
Public Sector – comprising ‘Public and Education’ and ‘Human Health and Social Work’ purchased more homes than the ‘Real Estate’ sector (7.6% of new dwellings and 4.5% of all dwellings)

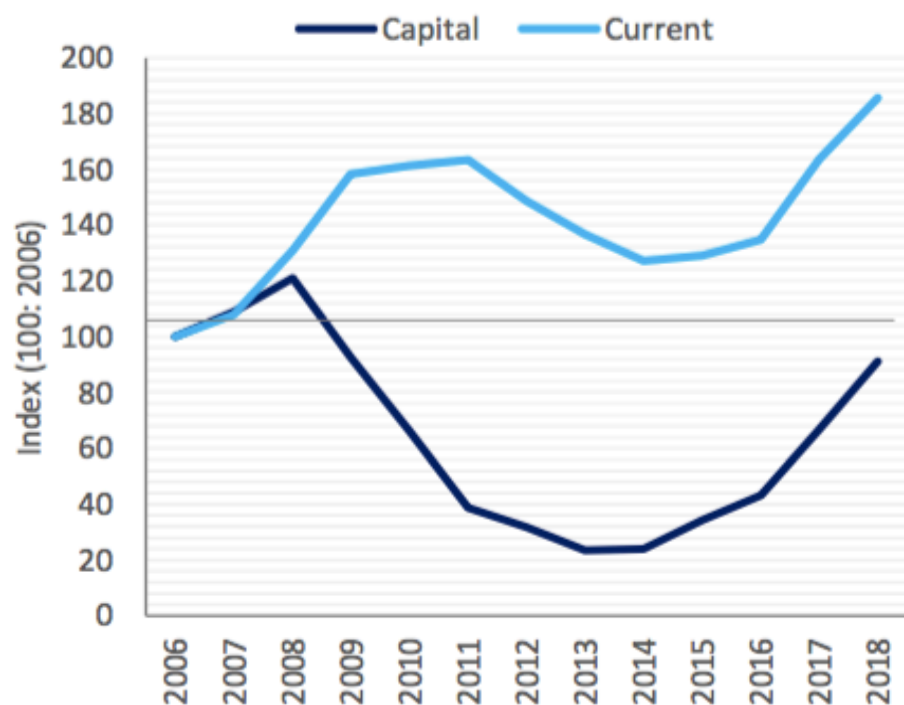
Net (sales less purchases) of all (new and existing) Dwellings, 2017



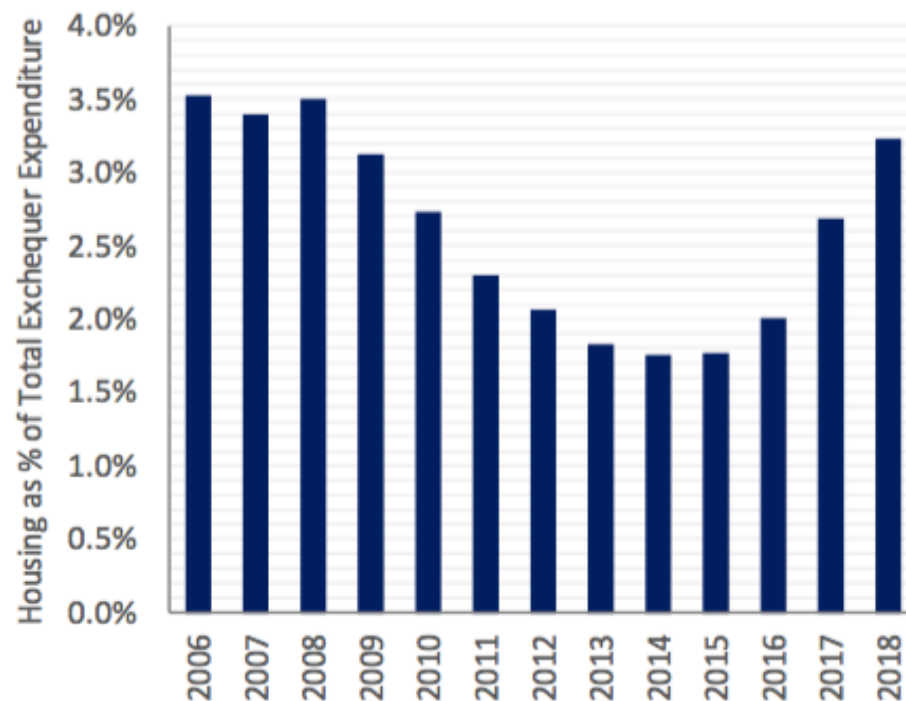
The 'dualist' system: a tale of two markets?

Market Two: comprises public expenditure on housing and investment in housing

(a) Index of Capital/ Current Expenditure, 2006 to 2018 (b) Housing as a % of Total Exchequer Expenditure

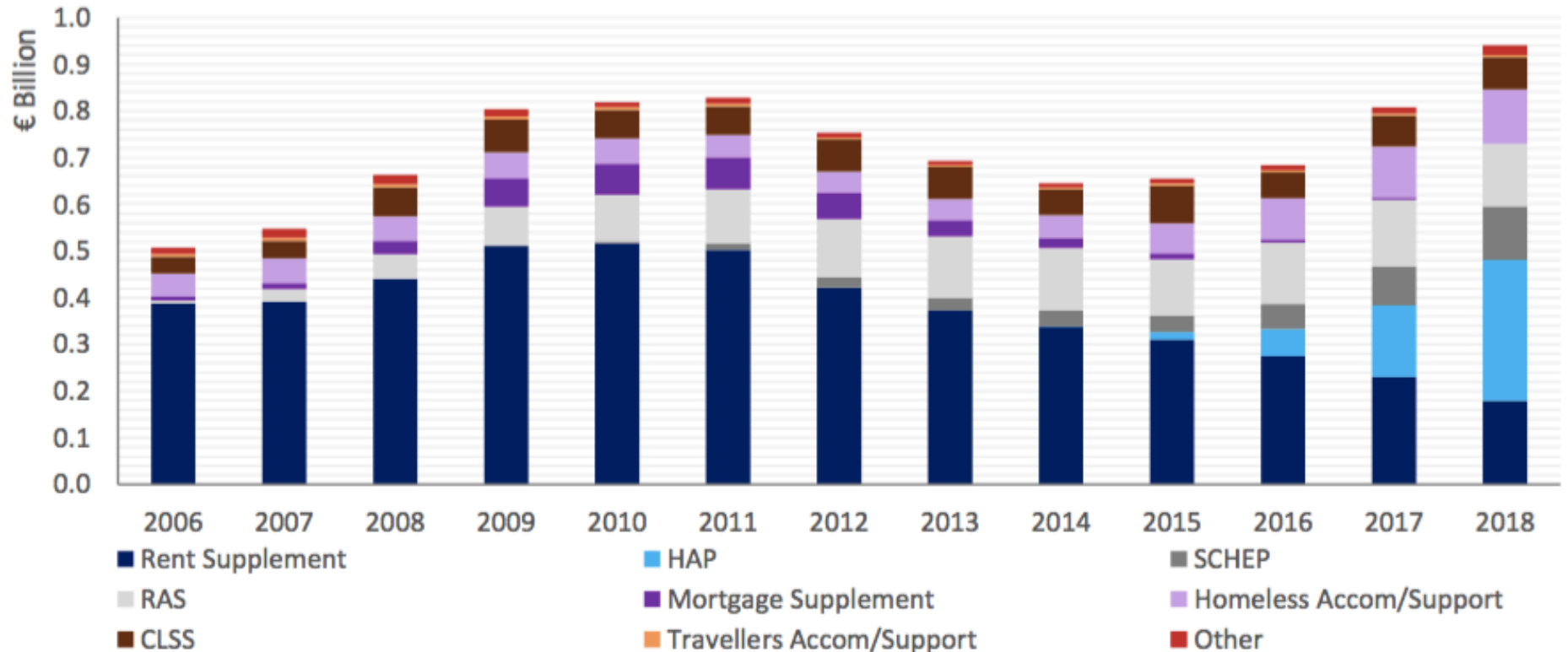


Source: DPER Databank and DHPLG. Note: Expenditure between 2015 and 2018 includes LPT own funding. Current expenditure includes Rent Supplement and Mortgage Supplement through DEASP



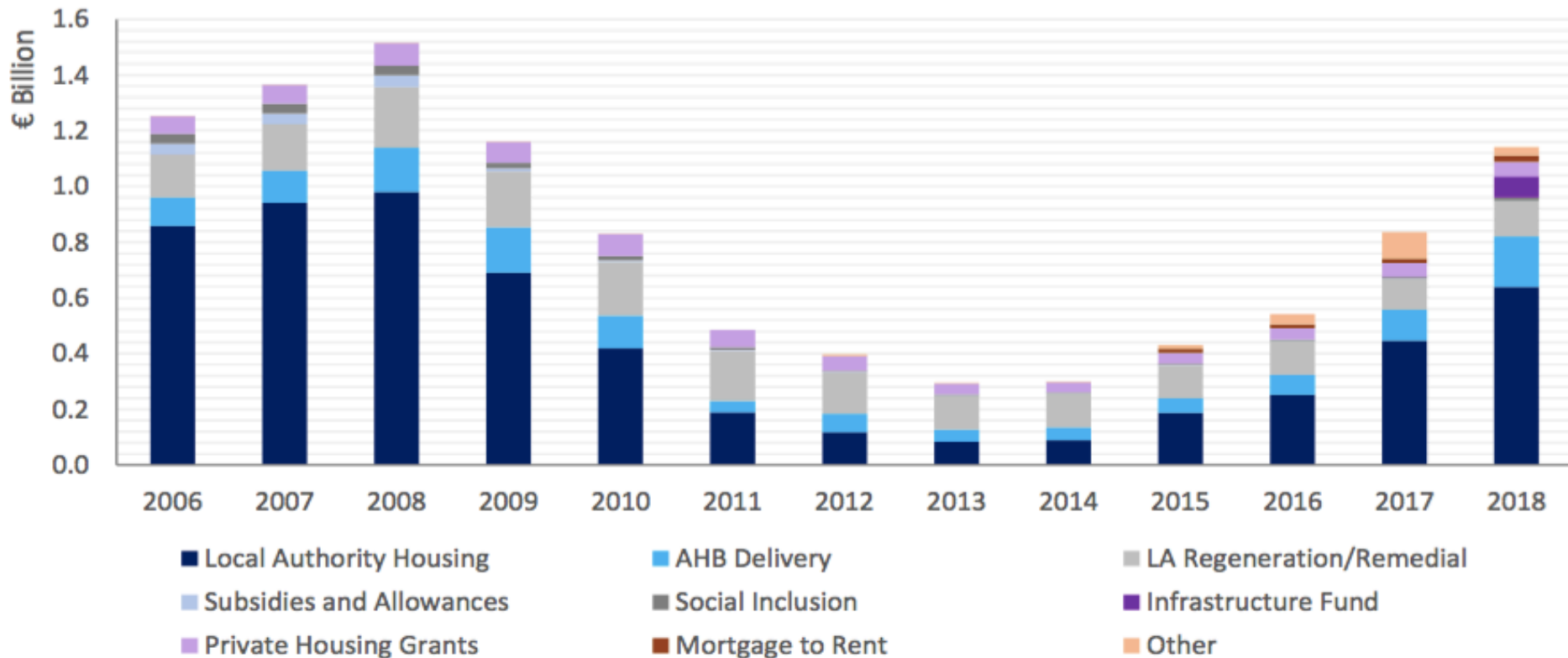
Source: Author Analysis based on DPER data

Current Expenditure on Housing, 2006 - 2018



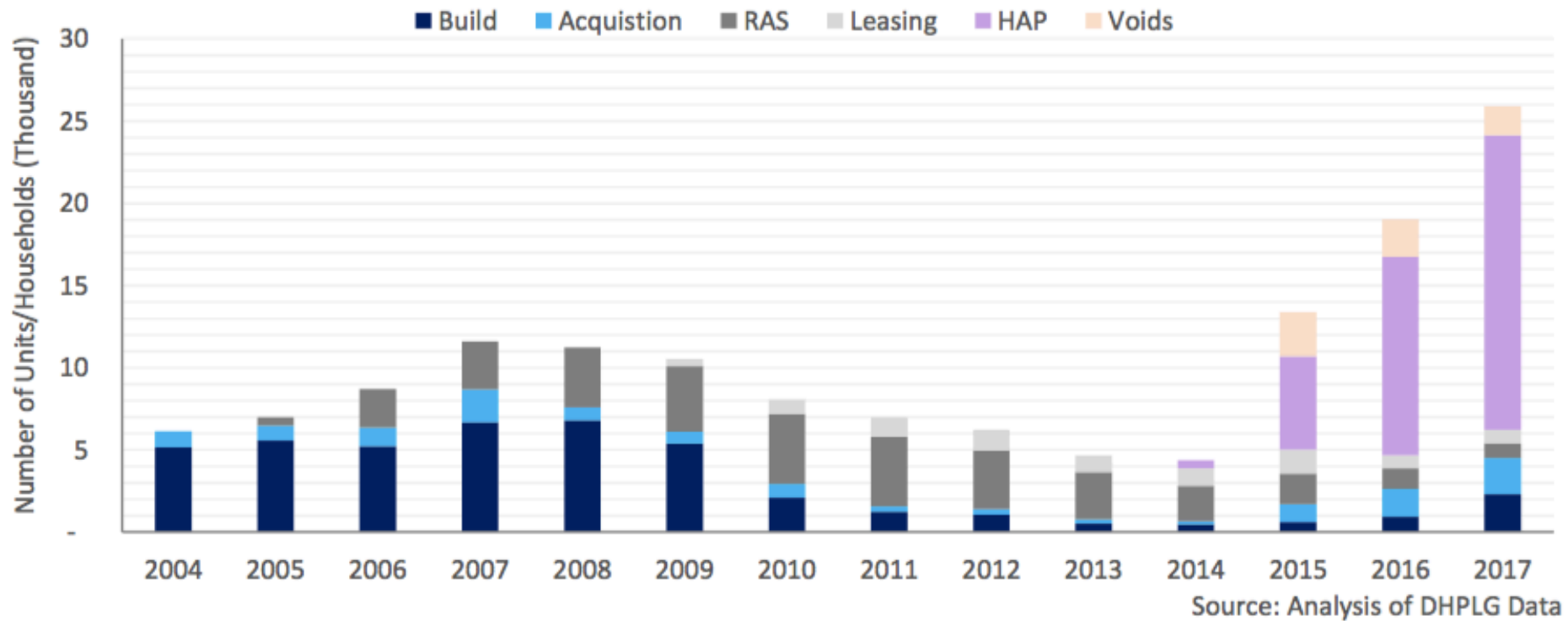
Source: DPER Database and DHPLG. Note: Includes LPT Funding for 2015-2018

Capital Expenditure on Housing, 2006 - 2018



Source: DPER Database and DHPLG. Note: Includes LPT Funding for 2015-2018. Note Mortgage to Rent captured under AHB delivery pre-2015

And the Social Housing output (2004 – 2017) is...



Today the key challenge of moving towards Cost Rental housing is how we 'Bridge the Affordability Gap' and deliver secure, affordable tenancies...

1. Cost (economic) not market rent to landlord – rent certainty; moderation/ stabilisation in OMVs
2. Role of capital subsidy is crucial here in determining overall development costs
3. Subsidy comes in many forms – but no subsidy should be allowed capitalise values instead it **must lower development costs and prices and lower rents.**
4. Separate the land and infrastructure costs from the residential development costs (again think Vienna!)
5. Rent setting mechanism must be related to income and variation accountable to service and quality standards while also indexed to costs/ inflation
6. **Household income and housing allowances** (tax credits/ social transfers) must be **integrated** to ensure social and income mix of tenant households
7. All housing allowances (i.e. RS & HAP) must be payable to non-profit (AHB) statutory (LA) and PRS landlords alike (Unitary Market)

Whither Cost Rental affordability: for Whom and What Likely Demand?

- Assume affordability standard is 35% of net disposable income
 - Too high?
 - How to determine income?
- Working cost rental 'finance model' (example is DLRCC Enniskerry) producing €1,200 pcm for 2 bed Apt
- Implies NET household income is €3,600 pcm = €43,200 pa
- CSO HBS (2015/16) gives €911 net weekly average HH disposable income
- Assume it is €950 in 2018
- Gives annual NET income of €49,400 (€75,000 gross)
- At 35% means €1,440 is CR affordability 'limit'
- €75K gross - who's affordability is this?

Gross income ranges

Number of individuals in each of the given gross income ranges, along with the total gross income of these individuals

Gross income (€)	Number of Individuals	Total Gross Income €m
0 - 10,000	546,133	€2,703
10,000 - 12,000	142,215	€1,560
12,000 - 15,000	206,665	€2,771
15,000 - 17,000	124,485	€1,992
17,000 - 20,000	188,556	€3,487
20,000 - 25,000	294,190	€6,616
25,000 - 27,000	111,378	€2,895
27,000 - 30,000	158,646	€4,522
30,000 - 35,000	249,130	€8,087
35,000 - 40,000	192,318	€7,194
40,000 - 50,000	265,480	€11,839
50,000 - 60,000	165,919	€9,053
60,000 - 70,000	94,061	€6,078
70,000 - 75,000	31,823	€2,303
75,000 - 80,000	24,729	€1,914
80,000 - 90,000	35,765	€3,028
90,000 - 100,000	23,438	€2,219
100,000 - 150,000	49,718	€5,929
150,000 - 200,000	15,368	€2,636
200,000 - 275,000	9,259	€2,141
Over 275,000	10,224	€5,596
Total	2,939,500	€94,565

Half all taxpayers earn less

Effective CR demand?

Limited CR demand?

Ineffective CR demand?

Required CR affordability line – role of subsidy & maturation crucial!

Current CR affordability line?

Table excludes individuals with zero gross income

Created with Datawrapper

Other challenges of moving towards Cost Rental housing

2. Sustainability Challenges

- Indefinite security of tenure is the default starting point
 - (unless/ until modification is agreed based on tenant's options)
- No tenant purchase
 - in order to produce the required mortgage maturation effect for landlord (i.e. surplus revenue)
- Re-investment of surplus revenue –
 - options in housing (repair/ renovation/ renewal/ regeneration/ new development);
 - housing services (estate management); and,
 - housing plus services (from supported housing to training and employment)
- Shared equity options within cost-rental provision that do not interrupt security of tenure (e.g. 'rent and save' model)

Other challenges of moving towards Cost Rental housing

3. Integration and Choice Challenges

- Cost-rental is available on a general needs and demand-led provision
 - everyone who chooses to seek rental has a real choice to do so.
- Public landlords and private landlords operate within a unitary system
 - (governance, regulation, development, subsidy, allowances, investment)
- Choice based on unit price between private and non-profit landlord
 - relative to space standards; location; housing services etc

Redevelopment of lands at former St Michael's Estate, Dublin 8 using **Cost Rental Model as a Pilot Scheme – needs a dedicated development and finance model!**



- Previous estate buildings all cleared c. 4.9ha site with key infrastructure in situ
- Development will comprise 472 dwellings: 330 (70%) cost rental and 142 (30%) social rental
- Phase 1 social rental housing development successful (52 units at Thornton Hall)

- Variety in dwelling types and design to achieve balanced and sustainable community (including dedicated Older Persons housing)
- Commercial, community, recreational, leisure and sports facilities including:
 - A new public library
 - Supermarket and retail units
 - High quality civic building
 - Local neighbourhood park with play facilities
 - A public plaza
- Improved mobility, permeability and connectedness (public transport, cycling, pedestrian)
- High quality, vibrant, mixed-use urban quarter
- Masterplanning and Consultation underway

To conclude:

1. Understand how path dependencies of GFC and Ireland's post-crisis 'adjustment' influences today's housing investment and expenditure and maintains divergence tendencies of Ireland's dualist rental system where current-cost rental approaches are being proposed as 'affordable housing' option
2. Understand how to reduce and arrest divergence and **introduce alternative investment and expenditure pathways towards a unitary rental model** that enhances opportunity for historic cost-rental model that builds in and ensures lifetime affordability in housing

Thank you

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