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Social Justice Ireland welcomes the recent discussion and developments towards the introduction of a cost rental model in Ireland and urge Government to ensure that any pilot scheme is delivered at such scale as to allow for full evaluation of the model, including cost benefit to both the State and prospective tenants.

What is Cost Rental?

Cost Rental moves away from a system of profit-driven market rent to a system that looks to cover the costs of provision of the property - building, financing and maintaining it. As costs are incurred at the front-end of the process, cost-rent would decrease over time.

Why do we need Cost Rental?

There is a housing crisis in Ireland.

- In 2017, there were over 115,667 households in need of sustainable social housing – 85,799 on the social housing list according to the Summary of Housing Needs Assessments 2017 and a further 29,868 households in receipt of the Housing Assistance Payment (HAP) up to Q3 2017. Before the introduction of HAP in 2014, these households would likely have been in receipt of Rent Supplement, which is included in the count for the Housing Needs Assessment, whereas HAP is deemed to have met the housing need of the household concerned.
- 9,104 people accessed emergency accommodation in January 2018, including 1,517 families and 3,267 children. This does not take into account the number of hidden homeless 'couch-surfing' with family and friends.
- Rent inflation is hovering around 10% nationally, with rents increasing across the country for 22 consecutive quarters. The average national rent is €1,227 per month, with some areas exceeding Celtic Tiger levels. The number of households in rented accommodation unable to afford their rent is unknown, but it is clear that the increases are unsustainable.
- There is a persistent long-term private mortgage arrears issue with almost 72,500 households owing in excess of €2.76 billion in arrears alone and short-term funds buying impaired loan books from profitable banks.
- An average of 12% of local authority tenancies are in arrears with rent, owing over €72 million, meanwhile differential rent schemes mean local authorities are not generating enough income to cover the costs of their rental stock.
- 45% of local authority mortgages are in arrears, almost one quarter of all local authority mortgages are in arrears by more than 90 days.

The private rented sector is not the answer, supply of affordable housing is. Sufficient supply of cost rental properties would also have the effect of slowing the pace of inflation of private rent and house purchase.

What would Cost Rental look like for the tenant?

While rents may initially be higher than current differential rent schemes, linking cost-rent to affordability ensures that tenants are only paying what they can afford. Alternatively, cost-rents could be subsidised in the early years when cost-rent is higher, with the subsidy phased out over time as rents decrease. This would be a more effective use of this Government expenditure than linking a Housing Assistance Payment to private market rent fluctuations. Tenants would have security of tenure and long-term sustainability, decoupled from the market. Their rents should decrease over the lifetime of the tenancy, so long-term tenants would not face private rent increases in their old age when they are less likely to be able to absorb the cost.

The cost of supply would be spread out over 25-30 years and would include not only construction, financing and development costs, but management and maintenance to ensure homes are kept in a habitable condition. Social Justice Ireland would also propose that costs associated with quality inspections also be factored in so as to ensure that all cost rental properties are inspected regularly and maintenance work carried out within the earliest timeframe.

What would Cost Rental look like for the State?

Government has both land and money to invest in the provision of this model to provide the economies of scale needed to keep rents affordable. The possibility of off-balance sheet and mixed-finance mechanisms also exist which would broaden the finance base, making it

less susceptible to shocks in any one sector.

A modified differential rent would link cost-rent to affordability, allowing households to take up employment without fear of eviction and allowing the State to re-direct some of its current subsidies to those who can least afford their rent.

At the end of a tenancy, when the tenant dies or moves out, the property could be factored back into the overall stock of the provider and leveraged to raise further finance to increase supply, or, should Ireland reach a point where supply is no longer an issue, could remain at the lower amount, as in other countries in which this model of public housing is working effectively.

Social Justice Ireland would not be in favour of any rent-indexing to markets, even at a proportion of the market rent, as has been suggested elsewhere. This is not a profit-driven model, its intention is to provide sustainable, high-quality, affordable homes.

Addressing Supply

Estimates put the number of newly built homes needed at between 16,000 and 35,000 per year. The National Development Plan has committed to providing just 40,000 homes in the next 4 years. This falls short of even the most conservative estimate.

The National Development Plan also committed to delivering those 40,000 homes at a total cost of €4.2 billion, or just €105,000 each. In July 2017, the Minister for Housing, in response to a Parliamentary Question, indicated a range of construction-only costs from €137,709 for a 1-bed, to €169,682 for a 4-bed, and 'all-in' costs (including land, professional fees, utility connections etc.) from €175,271 to €211,062. This means one of two things:

1. The 'delivery' will include existing housing stock, acquired, leased or provided through HAP and other private market driven schemes, and limited new supply, or
2. The 'delivery' will be part of a Public Private Partnership, where profit margins and shareholders could influence affordability.

Social Justice Ireland urges Government to invest in long term solutions. To increase supply of public housing available at affordable rent and to think beyond profit and the private sector for delivery of this essential need.

Tags:

Housing

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