



SUMMARY

THE IRISH HOUSING SYSTEM

Vision, Values, Reality



The Jesuit Centre for Faith and Justice

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for faith & justice

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Introduction

Since the mid-1990s, there has been a profound transformation of the Irish economy and of Irish society as a whole. Developments in housing encapsulate some of the most striking changes and challenges that have emerged over this period.

Analysis of housing trends and policy suggests that the housing system has been restructured around a set of values and priorities that emphasise economic growth and investment gain ahead of broader social, economic and environmental concerns. This has had some worrisome consequences, in that it has generated considerable inequalities and pressures. The rising cost of housing meant large capital gains for investors and owners, sometimes spectacularly so. For a period, million-euro houses and outlandish site prices became the norm. Irish society seemed to become inured to extraordinary rises in house prices to levels completely divorced from their real value. Investors were able to benefit from tax breaks available for urban renewal and seaside properties, many of which have never been lived in. At the same time, too many people struggled to afford a home to buy or rent, and a significant minority were left out in the cold altogether, surviving on the streets, in shelters, in emergency accommodation, in overcrowded or inappropriate dwellings or in sub-standard private rented units.

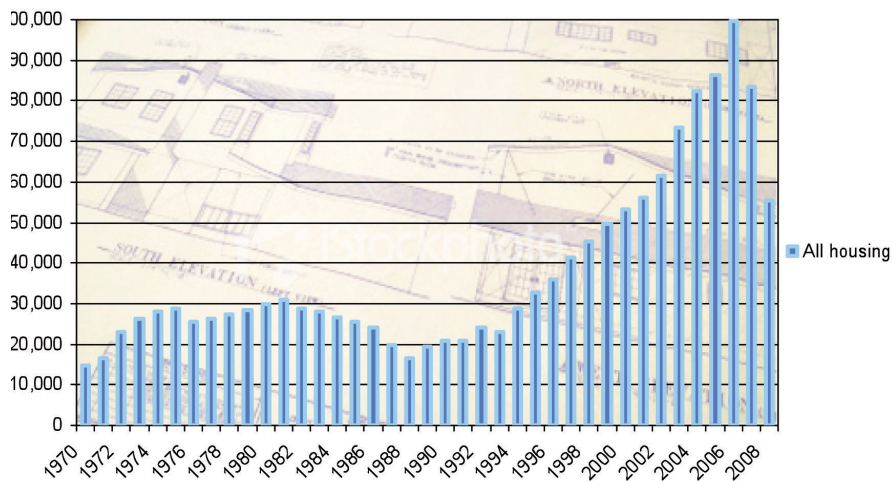
This policy paper summarises the key issues in Irish housing, before setting out some ideas for an alternative set of values and a vision for a housing system that would contribute to authentic human and societal development.

Realities in Irish Housing

Housing Output

Over a twelve-year period from the mid-1990s onwards, Irish housing output reached record levels (among the highest in Europe), investor interest in housing escalated, and the construction sector experienced a prolonged boom, delivering, as a result, record employment growth, development profits and Exchequer returns. Output peaked in 2006 with just over 93,400 units completed, but by late 2007 a marked reduction in activity was evident and this downward trend has continued since then. Completions in 2008 fell to 51,724 – only slightly more than half the number recorded in 2006 (see Figure 1). The decline in output is expected to be much more severe in 2009, with the Central Bank and the ESRI predicting that completions will be below 20,000.

Figure 1: House Completions, 1970–2008



Source: Department of Environment, Heritage and Local Government, 2009

A Market Shift

Behind the frenetic activity of the period of record output, the housing system went through a profound shift towards market domination, such that the relative importance of non-market options was dramatically reduced. In 1975, local authorities constructed 33 per cent of new housing, but over the years of the economic boom (1995–2007) local authority housing averaged only 6 per cent of total output per annum. In fact, the net gain over this period was only

1,790 units per annum due to sales of local authority housing. Besides local authority housing, 'social housing' includes provision by voluntary organisations. Between 1995 and 2007, 14,811 voluntary housing units (1,139 per annum) were completed, representing 2 per cent of total output.

This low level of new social housing provision was contrary to officially-stated policy. Local authority output over the 2000–2006 period reached only 66 per cent of the target set in the *National Development Plan 2000–2006* (Government of Ireland, 2000). This represented a shortfall of 13,645 units. Likewise, voluntary housing output reached only 61 per cent of the *National Development Plan* target (a shortfall of 6,122 units).

Boom and Bust Cycle

Despite the striking increase in overall housing output, the boom period also saw sustained increases in the market price of housing to buy or rent. Average new house prices for the country as a whole increased annually between 1994 and 2007, rising from €72,732 to €322,634 (a 344 per cent increase). Average second-hand prices nationally increased from €69,877 to €377,850 between 1994 and 2007, or 441 per cent. In Dublin, second-hand prices increased from €82,772 to €495,576, or 499 per cent.

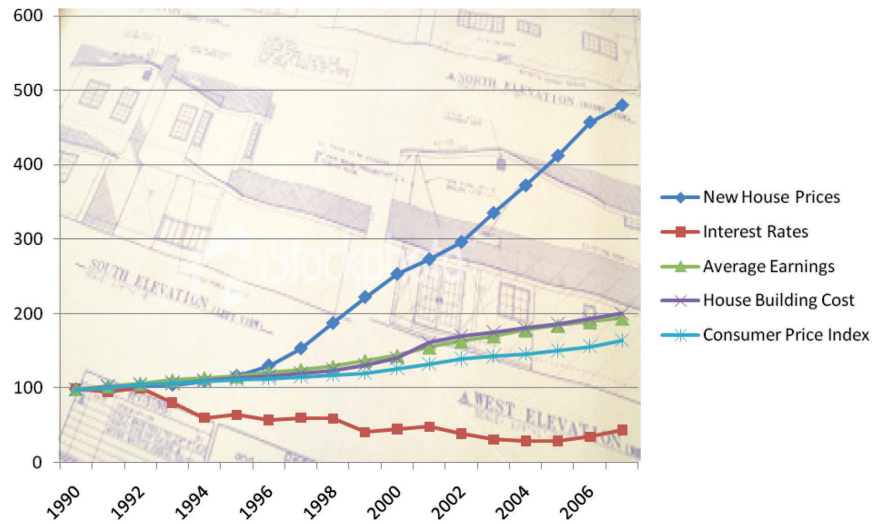
The first signs of a slowdown were evident from mid-2007 and the downward trend has persisted since then. New house prices in 2008 were 5.4 per cent lower than in 2007 – the decline being from €322,634 in 2007 to €305,269 in 2008. Second-hand prices declined by 7.7 per cent, falling from €377,850 in 2007 to €348,804 in 2008. In the first few months of 2009, prices have continued to fall. The *permanent tsb/ESRI House Price Index* showed a drop of over 3 per cent in prices during January to March 2009, with the average house price for the country as a whole being €253,546. Over the twelve-month period from the end of March 2008, national prices on this index fell by 10 per cent.

Factors in the Increase in House Prices

For many years prior to the upward spiralling of house prices – a trend that began to emerge in 1995 – annual increases in both new and second-hand house prices were small. An important, and at first slightly perplexing, point about the escalating cost of housing is that the increase in new house prices bore absolutely no relation to real house-building costs (materials and labour).

Moreover, from 1995 onwards, house prices diverged in a similar manner from trends in average earnings and in the consumer price index (see Figure 2).

Figure 2: New House Prices, Building Costs, Average Earnings, Consumer Price Index, Interest Rates, 1990–2007



Source: Department of the Environment, Heritage and Local Government, 2009

Social and Economic Factors

The transformation of Irish society and economy from the mid-1990s was driven by demographic trends (notably, an increase of 20 per cent in overall population, net in-migration, and a decline in average household size); economic growth and job creation; low interest rates; flexible lending practices; speculative interest. These factors contributed to but do not fully explain the level of price increase in housing. In April 2008, the IMF presented evidence that by the end of the decade 1997–2007 house prices in Ireland were over 30 per cent higher than could be justified by reference to economic fundamentals (affordability, disposable income increase per capita, interest rates, credit growth, changes in equity prices and working-age population).

Some other factors help to account for the divergence between house prices and underlying economic and social trends. A considerable amount of the increase was linked to rising land costs. Some private housing suppliers were able to extract ‘super-normal’ profits from monopoly-type situations that existed in some cases – in effect, exploiting the developmental importance of shelter and the need for increased levels of housing provision arising from economic and

social change. It can be argued also that house prices were simply over-valued and, therefore, will be subject to a painful correction over coming years. The ‘unreal’ pricing of housing also served in turn to drive house price inflation even higher through the boom years, encouraging increased levels of speculative investment, which helped to sustain an over-heated market.

Culture and ideology are also important, if more ineffable, factors. Arguably, the Celtic Tiger era generated a more pervasive climate of consumerism, individualism and materialism. There was an increasing sense that happiness and security rested in the acquisition of possessions and the accumulation of capital. Many looked in particular to property as a means of satisfying both of these desires.

None of this has much to do with housing as a home or with related values such as building community or ecologically sane models of residential development. Indeed the two – a consumerist/materialist conception of housing as a commodity and a developmental conception of housing as a home – deriving as they do from contradictory tendencies come into inevitable tension, a problem elaborated on below.

Policy Factors

The priorities and influences underpinning the evolution of housing policy are essential to understanding the observed trends. Official government statements on housing policy place a laudable emphasis on affordability, universal housing needs, environmental quality and sustainable communities. However, in practice, the evolution of policy suggests an even stronger commitment to the promotion of a private home-owning society and an emphasis on housing as an investment commodity.

Promotion of Home Ownership

A formidable array of policies has been implemented to encourage and reward ownership and investment. For example:

- The abolition of residential rates in 1978, and the abolition of residential property tax in 1997;
- The absence of capital gains tax on the sale of the principal residence and the reduction of capital gains tax on other property sales from 40 to 20 per cent in 1997;
- The long-standing right-to-buy of tenants of local authority houses;
- The creation of four separate affordable housing schemes (i.e., schemes

- to facilitate ownership by making houses available at below-market cost);
- The granting of tax relief on mortgage interest payment: Ireland is alone in the OECD in allowing such relief while failing to tax property values, capital gains or imputed rent;
- The provision of an array of tax incentive schemes in support of property development and investment – Section 23 Relief, Urban Renewal Schemes, Town Renewal Schemes, Rural Renewal Schemes and the Seaside Resort Schemes;
- The increasing trend towards meeting social housing need through public subsidisation of renting in the private rental market (using rent allowance under the Supplementary Welfare Allowance scheme), rather than expanding public investment in social housing;
- The adoption of Public Private Partnership (PPP) approaches to the regeneration of local authority housing on public lands. This aimed to secure the redevelopment of public land and local authority housing estates through the involvement of private sector developers, with the resultant housing provision involving a significant element of privately-owned housing and a consequent reduction in the number of social housing units available.

Social Housing Sector

Social rental options were far less of a priority in public policy during the housing boom years than was ownership and investment – as is evident by the level of output. The situation was worsened by the continued privatisation of the existing stock through the right-to-buy scheme. Historically, such sales have resulted in the privatisation of about two-thirds of all local authority housing units in the country. While individual households gain under this scheme through receiving a heavily subsidised capital asset, it has the negative effect of reducing the flexibility of the rental system. It not only reduces the overall number of social housing units but since houses rather than flats are likely to be sold off it creates an imbalance between the number of houses and the number of flats in the stock. The sale of local authority housing also makes the overall public housing system uneconomic since it is better-off tenants who are most likely to purchase. This has the effect of eroding the rental income stream available to the local authority as the remaining tenant base is more and more made up of a marginalised, low-income population paying relatively low rents (average monthly rent in local authority housing was 30 per cent of the market rent in 2006). Culturally, this also contributes to the stigmatisation of the entire sector, with it becoming increasingly residualised as a ‘safety net’ for those excluded by market prices.

Private Rental Sector

Public policy in relation to the private rental system has also tended to be relatively weak. Regulation is limited and inadequate in its application. Standards remain variable at best – and a significant percentage of rented accommodation at the lower end of the market is seriously inadequate. In 2006 and 2007, about 20 per cent of private rental units inspected nationally did not meet minimum regulatory standards. In Dublin City, 40 per cent of dwellings inspected in 2006, and 42 per cent inspected in 2007, did not meet minimum standards. Tax relief against rent is on much less favourable terms than mortgage relief. The institution of the Private Residential Tenancies Board under the Residential Tenancies Act 2004 was a welcome step forward in terms of registering tenancies, dispute resolution, and offering some security of tenure. However, some of the allowable reasons for eviction, such as refurbishment, sale, or use of the dwelling for a member of the landlord’s family, still leave a window of vulnerability for tenants. The legislation is unlikely to have a direct impact by regulating rental levels since it adopts the premise of ‘market rent’.

The Commodification of Housing

There is nothing wrong in principle with a policy that favours private ownership if it results in a fairer housing system. However, there has been a further and more worrying tendency in policy: this is towards a greater commodification of housing. This concept suggests that housing comes to be seen and treated first and foremost as a commodity rather than a home: in other words, emphasis is placed on its quantitative value as an asset – a source of capital accumulation and investment gain – ahead of its qualitative value as a place to live, a home that is an integral part of a local community. The key question in evaluating the observed tendencies in Irish housing policy and practice is: what have been the impacts in terms of human and societal development more broadly?

3. Housing for Whom? Social Costs and Lived Experiences

There were some clear beneficiaries from the housing boom. The increase in house prices meant large, and sometimes spectacular, capital gains for owners of land, investors and developers, and for home-owners. However, there were also considerable social and environmental costs involved in all this and a clear pattern of inequality emerges when we consider some of the key outcomes.

There is evidence that up to 42 per cent of total completions in the decade to

mid-2006 were not acquired as primary residences (homes for owner-occupiers or renters). The implication is that almost 250,000 housing units completed between 1996 and 2006 were either built to replace obsolescent units (likely to be a very low number) or have remained empty most of the time as vacant properties or second/holiday homes or investment vehicles. In other words, a considerable proportion of house building activity during the boom had nothing to do with meeting immediate housing needs or providing permanent homes. Instead, a significant amount of effective demand in the housing market came from a desire for investment (without intending to let the property).

At the same time, striking inequalities were emerging in terms of access to and affordability of owner-occupation. Despite cheaper financing, it became harder for lower and mid-income households to take on a mortgage and access owner-occupation. Households attempting to purchase for the first time were almost always required to have two earners in order to afford a decent home, a situation that has implications for the nature of family life in particular. The choice of working or remaining at home largely evaporated.

Many people managed to buy a home only by moving to one or other of the expanding commuter towns and suburbs distant from their place of work. The personal, social and environmental costs of this are high. Many took on considerable debts that doubtless appear less and less sustainable in the face of increasing job insecurity and declining levels of disposable incomes. Personal debt was just below 78 per cent of GDP in August 2007, making Ireland the third most indebted country in the OECD. Irish households are now highly indebted by historic and international standards.

There have also been problems with access and affordability in the private rental system. The sector is polarised between working households with mid-high incomes and low-paid workers, including many international migrants, and SWA tenants. As rents increased, it became evident that single-income households on the average industrial wage would not be able to afford a one-bedroom unit in the main private rental markets of Dublin. A household on a single minimum wage would be completely priced out of these markets. Since early 2008, rents have declined but this gain must be set in a context of declining net incomes.

Housing need remained stubbornly high over the course of the boom. Officially assessed need was 105 per cent higher in 2008 than in 1996, and people were condemned to wait for longer and longer periods on housing waiting lists (in 2005, 24 per cent of households had been on waiting lists for more

than three years). There is also a substantial level of 'hidden' need: there are likely to be households on rent supplement, households living in involuntary sharing arrangements and households unable to purchase as home who are not included in the official assessment.

As boom turns to bust, new problems and challenges are emerging. Foreclosures are in the news once again. People are finding themselves in negative equity, having paid too much for over-priced housing. Public Private Partnership deals for the regeneration of local authority estates are collapsing as developers pull out due to rapidly-reducing potential yields. There are uncertainties as to what will happen to the new apartment blocks in inner cities in the long term, particularly where building standards are below the recently introduced environmental regulations.

4. Ways Forward

There is need to take account of the lessons of the boom of a decade or more, while also focusing on emerging problems following on the downturn. We need also to think about policies for housing in the long-term, not just quick-fix solutions to this year's headline crises. And in improving our analysis and in seeking a better future response to the housing needs of all people, we need to reflect on the values that lie behind the shaping of the current Irish housing system.

Towards an Alternative Value System

There is an urgent need for a re-examination of our values – individual and collective – in light especially of the experiences of the past decade and a half. Universal values derived from Scripture and Catholic social teaching and other traditions suggest a vision for a housing system which respects and upholds the dignity of every person and ensures that every person has an effective right to housing. A housing system based on such a vision would contribute to social solidarity and cohesion and reduce or eliminate structural injustices and inequalities. The housing needs of the most vulnerable and marginalised would be given priority. Structures and processes that led to exclusion, discrimination or ecological damage would be removed in line with the principles of social justice and the common good. Housing would contribute in a fundamental way to what could be called an 'authentic development' model.

Sustaining Communities and Homes

We need to make a meaningful commitment to the creation of a housing system geared above all towards sustaining communities and homes. We need to think creatively about housing provision as involving more than simply market supply.

- We need to explore the role of a diverse range of housing providers and different mechanisms for gaining access to suitable housing. As well as traditional market approaches, other kinds of supply by non-profit providers, including the local authorities, housing associations, co-operatives, community organisations and other groups, should be developed much more substantially, generating greater competition and choice.
- We need to continue to construct a more vibrant and varied private-rental system, offering affordable, good-quality housing to tenants and creating sustainable communities, in the process offering a reasonable and stable return for landlords. This requires a more thorough monitoring of standards in order to ensure higher levels of compliance and maintenance throughout the system.
- For tenants in short-term housing need, a housing benefit of some type will always be a necessary support to cover the kind of financial shortfall which the SWA rental supplement was originally intended to meet. However, it is essential that there be regular and realistic assessment of the caps on such rent supplementation, so that they do not fall out of line with prevailing market rents.
- We need to reduce the unplanned dependence on rent supplementation to meet long-term social need and to redirect resources and energies to long-term planning and provision of social housing.
- We need a *new deal for social housing*. Investment in public housing must be long-term, geared towards building up a larger, good quality stock of public housing. This should be undertaken (regardless of the ups and downs of the boom/bust market cycle) with a view to providing housing for a wider tenant base. Such an approach would offer the benefit of rent-pooling across a mature stock. While the real rent on newly-constructed stock is relatively high, it can be much lower, even negligible on older stock on which the debt has been largely repaid. Thus, as the overall public housing stock matures, it becomes increasingly economic to offer accommodation at affordable rents to a large range of households on different incomes. The rental income and capital increments associated with a stock of housing held in non-profit ownership over many years cross-subsides newer construction and the housing of poorer households.

- An expanded system of social housing can become even more viable if the cost and availability of land is strategically controlled in the interests of the community through a public land banking policy. Legislation should be enacted to provide that land required for housing, either for rent or sale, can be purchased by the State at existing use value plus a reasonable addition for disturbance.
- Local authority units sold to tenants must be replaced. In line with the recommendation of the National Economic and Social Council (NESC), the discount levels should reflect the true cost of the transaction to the State, and there needs to be effective claw-back provisions to remove the possibility of substantial windfall gains.

Regenerating Housing and Communities

- Regeneration of city quarters, rural districts or individual housing estates or flats complexes needs to focus on the diverse and inter-related factors (social, economic, cultural and environmental) needed to sustain integrated communities
- The use of Public Private Partnerships should no longer be considered the only option for the regeneration of local authority estates. Alternative models include regeneration through direct public investment (involving an element of affordable housing, private housing, commercial facilities) as well as social housing and community regeneration schemes.
- People need to be empowered to participate in regeneration decisions for their areas. That means providing access to full information at an early stage, the exploration of a range of real options, and support for capacity-building and empowerment. Participation should be conducted in a spirit of integrity and mutual respect, recognising the equal dignity of all affected by any plans for the area.
- Real regeneration would prioritise high standards in estate management and maintenance and social interventions to support community cohesion and development, so that demolition would be considered only as a last resort.

Sustaining Homes for Homeless People

- There is a need to implement effective pathways for people who are homeless to move from emergency and temporary accommodation into permanent homes. Where necessary and appropriate, a system of supports

should be provided (for example, addiction services, mental health services, welfare supports, financial and budgetary advice services).

Planning and Environment

- In order to avoid the ad hoc provision of housing throughout the country and reduce environmental costs of unplanned, market-driven development, there is a need for commitment and resources to implement the principles and promises of the *National Spatial Strategy* and provisions of the Planning and Development Act, 2000 so as to ensure effective urban, regional and rural housing planning. This needs to include real integration of land-use and transport planning with labour market projections and the development of services and amenities.
- Making the most efficient use of the existing housing stock (including empty properties) has an important role to play in addressing environmental and social concerns. Options such as compulsory purchase should be considered where the owners of empty housing in strategic locations fail to bring these units into use.

Taxation

- There is a case to increase capital gains tax for investor properties.
- Tax incentives schemes should be provided only where there is a strong case for them in order to encourage development. Such incentivised development should be tied to clear public gains in the shape of affordable or social rental properties.
- Landowners should not accrue significant unearned gains simply as a result of land re-zoning or changes in planning permissions. One possible corrective is a substantial land tax or capital gains tax on betterment (that is, the price increases consequent on rezoning, the granting of planning permission or substantial infrastructural investment).

Housing and the Economy

- The evident dangers of reliance on housing construction (which is inevitably cyclical in nature and subject to booms and slumps in house prices) highlights the need for a clearly thought-out, principled and strategic policy regarding the role of housing construction in the overall economy.

- The development of a substantial and regular social housing programme can act as a counter-cyclical measure, bringing stability to the construction employment sector.
- In the financial sector, there is a need for economically and socially responsible lending guidelines and financial regulation.

Sustaining Communities and Homes: Realising the Vision

Overall, the contention here is that these various measures provide some practical immediate and long-term steps towards a new vision for housing. Ensuring better access to housing, improving tenure choice, revitalising in imaginative ways the social housing sector, emphasising supported housing for homeless people, exploring community-based regeneration options, reducing the financial incentives for the commodification of housing, planning for regional sustainability, and dealing with the economic role of housing and housing finance in a more even-handed manner, all represent practical steps that can make a lasting contribution. There are therefore many hopeful possibilities for change in the housing system that can begin the journey towards an authentic, people-centred development model. The hoped-for outcome is simply that all people will have access to a home in a sustainable community and living environment.



The Irish Housing System: Vision, Values, Reality, a policy paper from the Jesuit Centre for Faith and Justice, analyses Ireland's decade-long housing boom and its aftermath.

It shows that during the years when record numbers of houses were being built, increasing numbers of people on average earnings found it difficult if not impossible to become a home owner; meanwhile, the waiting list for social housing doubled. In many sections of society, housing came to be valued as a consumer commodity and an investment rather than the means of meeting a fundamental human need.

Now in the context of an economic downturn, the housing boom has given way to a sharp decline. Many are faced with mortgage repayments that are unsustainable, many more find themselves in negative equity and thousands of houses and apartments lie empty while acute housing need remains unmet.

The Irish Housing System: Vision, Values, Reality calls for a new approach to housing policy, with housing recognised as a fundamental human right, priority accorded to those in greatest housing need, and the protection of the common good a core concern. In essence, it calls for a housing system that is socially just and economically and environmentally sustainable.



The Jesuit Centre for Faith and Justice is an agency of the Irish Jesuit Province. The Centre undertakes social analysis and theological reflection in relation to issues of social justice, including housing and homelessness, penal policy, asylum and migration, health policy and international development.