

Opening Statement to Joint Committee on Housing, Planning and Local Government - Thursday July 12th 2018, National Economic and Social Council

We would like to thank the Chairperson and members of the Committee for this invitation to the NESCC, to speak on the 'cost rental housing model'.

NESCC is a government body which advises the Taoiseach on strategic policy issues. The members are appointed by the Taoiseach and represent business and employers, trade unions, agricultural and farming organisations, community and voluntary organisations, and environmental organisations; as well as heads of Government departments and independent experts. Its composition means it plays an important and unique role in bringing different perspectives from civil society together with Government. Noel Cahill and I are members of the Secretariat are attending in that capacity.

Today you have asked us to provide you with an overview of the Council's position on cost rental. We will draw on two published reports and have brought copies of each.

It is important at the outset to note that the Council has argued for a range of measures to help engineer affordability. NESCC's most recent report, *Urban Development Land, Housing and Infrastructure: Fixing Ireland's Broken System* identified land in public ownership as the most critical resource available to the State and recommended its use for permanently affordable housing. It argues that cost rental would represent one good way of using public land. In that report the Council argues that the State could retain ownership of the land and make it available subject to rents being permanently affordable.

International experience suggests that cost rental is the most effective and fiscally sustainable way of achieving permanent affordability. It is also the best way to achieve socially integrated mixed income housing, in contrast to the residual housing of low income families. This is explained in the Council's report in 2014 *Social Housing at the Crossroads: Possibilities for Investment, Provision and Cost Rental*.

The basic idea of cost rental is that a housing provider raises the finance to provide accommodation and charges rents that are sufficient to cover current and capital costs. In these systems those who cannot afford a cost-covering rent generally receive a housing support. Rents in a cost rental situation will generally be lower than market rents. Typically there is some form of subsidy – provision of low cost finance, loan guarantees or preferential access to land.

The lower rent is partly but not solely due to subsidisation. Rents are not based on the maximum that the market will bear but are sufficient to cover costs net of the subsidy. Over time the increase in rents in cost rental accommodation will lag the

increase in market rents. This has some similarity to the situation of someone paying a mortgage. Cost renting may involve pooling the historic costs of individual dwellings across a large housing stock.

Cost rental uses modest supply-side supports to underpin affordability. However, it also makes rent permanently affordable by ensuring that the equity that accrues as loans are repaid is used in the service of further affordable housing.

Austria is a leading international example of how a cost rental housing sector is a critical component of an effective, affordable and stable housing system. It provides extensive, but modest, supply-side subsidies for housing, mainly in the form of low cost finance. New social housing is mainly provided by limited profit housing associations that operate on a cost rental basis. They receive low interest government loans representing around one third of the total housing cost. In Vienna they also benefit from access to land at a moderate cost. They charge rents to cover their costs and these are well below the market level.

In principle all social housing in Ireland could be based on a cost rental model. This is a long term possibility. In the short term, cost rental could be initiated as an addition to the current model. It could be aimed at intermediate households who are struggling in the rental market but are either ineligible for social housing or unlikely to be allocated it. Such housing could also be availed of by lower income tenants using HAP.

Cost rental should be provided by a housing entity that has a mission to permanently provide affordable and socially integrated housing, rather than extract the full market value of its assets, or by an entity that has a legal duty to do so. It could also be provided by a private provider subject to such conditions in return for an element of state subsidy.

In closing, the Council has argued that cost rental accommodation would be an alternative to the private rental sector and in the long term would help to moderate private rents. As cost rental is less heavily subsidised compared to Ireland's current social housing model in which rents are very low it can become a larger sector which can cater for a wider range of people. Cost rental makes rental a realistic and secure long-term option, quite different from the current Irish system.

Cost rental offers a way of making housing affordable, it is more fiscally sustainable and will over time bring much needed stability to the Irish housing system.