

PRE-LEGISLATIVE SCRUTINY- LAND DEVELOPMENT AGENCY BILL 2019

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OPENING STATEMENT

Chairman, Committee Members,

Thank you for the opportunity to attend this session today.

The purpose of today is scrutiny of the Land Development Agency (LDA) Bill¹. I will outline the policy context, then expand on specific objectives of the Bill and whether they are met. There is little detail in the heads of Bill and some of my commentary is based on statements made in this House, in the media and at public events.

Policy context

The fundamental issues here are **housing affordability, sustainable growth** and a **resilient construction industry**. All are critical to competitiveness and economic stability. Mis-steps come at high environmental, social and economic costs. All three are areas of significant past failures where government policy calls for reform.

In 2016, the National Competitiveness Council (NCC) said that *a well-functioning housing and construction sector is critical to the overall health of society and the economy*². It warned that *“The current escalation in residential property costs represents perhaps the greatest threat to Ireland’s competitiveness”*.

That was in 2016 and since then the median price² of a new-build home nationally rose from under €250,000 to €355,000, an increase of 44%. The prohibitive cost of housing is a barrier to urban growth, which is a priority of ‘Ireland 2040’³. Furthermore, if our cities are not affordable to families the direct result is sprawl, which undermines the Climate Action Plan⁴, reduces productivity and limits opportunities for employment and education.

Last year the National Economic and Social Council⁵ identified land management as key but more critically **NESC said that it is not only about land, it is about “fixing Ireland’s broken system”**. Land is one lever for change, but it is the housing system that is broken.

Last week the Economic and Social Research Institute (ESRI) said here that rising house prices can be explained by *“disposable income.. demographics.. jobs being created and the cost of finance.”*⁶ However, unaffordable prices are also a factor of very limited capacity, little competition and high barriers to entering the sector.

Housing supply tied to a speculative market in a boom/bust cycle⁷, results in overpriced housing and uncertain supply.

Solving this problem requires **specific action to support capacity building in the sector, to open markets to competition, to raise standards and to support employment and training.**

In this context the LDA proposal raises a number of specific issues:

Remit: Proposed powers are very wide-ranging and removed from direct government controls. It is unclear whether LDA is bound by current and future government policy. The scope and limitations on activities are unclear, including autonomy for purchase and development of private lands⁸, joint ventures, CPO (compulsory purchase order) etc.

Governance: Commercial property development and construction involve large sums of money over long time periods which expose the state to significant financial and political risks. It is critically important that there are high-levels of specific expertise, robust governance, transparency, external oversight and means of intervention.

Freedom of Information: FOI is essential for ensuring public confidence, transparency and accountability, and there are already adequate legislative exemptions in place for commercially sensitive information, without a blanket exemption.

Lobbying Act: Given that lobbying legislation has specific provisions for Planning (because of the risks of corruption) and the significant sums of money in land transactions and development contracts, the activities of all personnel of the LDA should be included in the statutory Lobbying Register.

Land Registry: The Bill proposes a new registry. Setting up this land registry in another state agency (with relevant expertise) on a statutory basis would reduce administration, mitigate the potential for conflict of interests, and ensure alignment with best practice.

Spatial Planning: The Bill includes lands in urban centres of over 10,000 population; this extends to forty-one towns, in regional centres (e.g. Cavan, Tullamore, Killarney), and in commuter belts (e.g. Ashbourne, Greystones, Cobh). These towns are predominately in Leinster (27 of 41) Munster (9), Connacht (3) and three Ulster counties (2).⁹ This arbitrary classification has implications for transport, infrastructure & regional development.

I will now expand on a number of issues, specifically those not addressed by other witnesses:

Construction Reform

Construction 2020¹⁰ reflects on the *“speculative greed, short-term thinking, poor planning and low standards”* of the boom that resulted in *“unmanageable mortgages, debt overhang, negative equity.. and sub-standard apartments”* and recognizes the *“need to develop an overall strategic approach to housing supply”*.

This proposal for 150,000 homes is a planned investment of more than €50bn¹¹ in the construction industry. It has the potential to be transformative. However, indications are that there is no strategy for construction, other than to outsource development to large entities, as a means to lever social and affordable housing in a package of 60%/30%/10%.

An approach that outsources control of price, delivery speed, housing mix, quality and profit margin is very high risk and it comes at a premium price, as has been seen in other capital projects. Large entities that control local market can also lead to high prices, low quality, and sub-optimal conditions for subcontractors and suppliers.

Speculative development

In the current conditions, it is not sites that are ‘unviable’ it is traditional speculative development. This is what is broken, and it is potentially the Achilles heel of the LDA proposition; an objective of “optimal use” on a “commercial basis¹²” for “individual sites” is the business of traditional speculative development- it seeks to extract the maximum value from land through high market prices¹³ and minimal standards. It is highly vulnerable to market fluctuations, and unlikely to lever reform or stability in output and price.



Central Statistics Office¹⁴ HPMO3 (Jan 2010-August 2019) – Dwelling purchases, median price, all buyers

Relying on speculative markets for delivery is also very uncertain: The Rebuilding Ireland target for 125,000¹⁵ new homes in 5 years lacked the levers to ensure delivery and in the first three years of the plan 47,097 new homes have been built (38% of the target).

Construction Costs

Where land is available, actual construction, de-risked from speculative markets and high cost finance, is affordable. This is confirmed by Department of Housing, Planning & Local Government (DHPLG) figures for competitively tendered local authority housing:¹⁶

	3-bedroom house		2-bedroom apartment	
	Construction	'All in' Cost ¹⁷	Construction	'All in' Cost
Cork City	€204,500	€264,900	€214,100	€280,400
Dublin	€272,600	€348,900	€287,100	€370,500
Dun Laoghaire	€215,600	€277,500	€226,800	€294,700
Fingal	€205,300	€266,100	€213,800	€281,800
South Dublin	€215,600	€277,500	€226,800	€294,700
Galway City	€189,000	€248,300	€196,900	€262,200
Limerick City	€203,800	€265,800	€211,000	€279,900
Waterford City	€184,700	€243,100	€187,600	€250,500

DHPLG (2019) Circular 13.2019

Affordability

Solutions to the supply and affordability challenge are in **design, procurement and finance**. I do not intend to comment on finance other than to say that evidently €1.25bn will not build 150,000 homes¹⁸, it would build fewer than 5,000.

- Housing unlike other capital projects as it can be built incrementally; seed funding can be rolled over by phasing and strategic procurement.
- State-led master-planning and infrastructure ‘de-risks’ development, mitigates delay and reduces costs and finance for SME developers.
- ‘Un-bundling’, (prioritising small lots) for SME design teams and builders opens up new markets, raises standards, drives innovation and competition.
- Public contracts in small lots for SME builders allow them to re-capitalise, re-equip and undertake other private development, which builds capacity.
- Mass procurement of building components, standardised details and investment in research lead to efficiencies, productivity and skills.
- Affordable housing is defined by production cost in Planning & Development Act 2000.¹⁹

These are more resilient and recession-proofed strategies that accord with best practice in procurement, value for money and faster delivery. **These market reforms and efficiencies have the potential to deliver truly affordability housing without state subsidies or reduced quality.** The LDA proposition does not respond to this opportunity. In fact, the recent redefinition of ‘affordable’ housing²⁰ as a discount or subsidy on market prices is regressive, profiting developers rather than improving access to housing for those on middle incomes²¹ or incentivising efficiency.

Sustainability

At the rate homes are being built²² every new home needs to be future-proofed for 100 years. (Only 1% of housing stock is being replaced). A short term objective of “commercial” returns is wholly inappropriate to assess the long-term social, environmental and economic needs and life-cycle costs of new housing communities and infrastructure needs. A €50bn investment in housing has the potential to lever many other policy objectives, including reform of the construction sector; climate adaptation; architecture and place-making; training and skills; infrastructure²³, transportation and spatial planning. A “requirement to obtain a financial return for the state” is not compatible with affordability.

Conclusion

What is important is the long-term viability of cities, not the short-term opportunity of sites; every euro of “value” extracted from public lands isn’t free- it is debt for future households; every plot given away²⁴ is a lost opportunity for ‘permanent affordability’; every deal that stalls due to unforeseeable market fluctuations is a family without housing.

Ireland has the advantage of having land in public ownership, but as NESC have stated *“affordability should be an explicit objective.. supply of housing is not in itself a reliable or sustainable means of making housing affordable. Like other countries, Ireland must engineer affordability into the supply of housing”*²⁵ /END

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- ¹ Houses of the Oireachtas (2019)- Land Development Agency Bill
https://www.housing.gov.ie/sites/default/files/legislations/general_scheme_of_the_land_development_agency_bill_2019.pdf
- ² CSO (2019) HPM03: Market-based Household Purchases of Residential Dwellings by Dwelling Status, Stamp Duty Event, RPPI Region, Type of Buyer, Month and Statistic -January 2010 to July 2019
- ³ DHPLG (2018) National Development Framework 'Ireland 2040' <http://npl.ie/>
- ⁴ Department of Communications, Climate Action & Environment (2019) 'Climate Action Plan'
<https://www.dccae.gov.ie/en-ie/climate-action/publications/Pages/Climate-Action-Plan.aspx>
- ⁵ National Economic & Social Council (NESCC) (2018)- 'Urban Development Land, Housing and Infrastructure: Fixing Ireland's Broken System'
http://files.nesc.ie/nesc_reports/en/145_Urban_Development_Land.pdf
- ⁶ ESRI (2019) -Opening Statement to Joint Oireachtas Housing Committee- 10 October 2019
https://data.oireachtas.ie/ie/oireachtas/committee/dail/32/joint_committee_on_housing_planning_and_local_government/submissions/2019/2019-10-10_opening-statement-prof-kieran-mcquinn-research-professor-and-head-economic-social-research-institute_en.pdf
- ⁷ CSO (2008) -Construction and Housing in Ireland "[building costs] rose by over 17% in the 5-year period from 2002 to 2007 while house prices increased by almost 65% in the same period"
http://www.cso.ie/en/media/csoie/releasespublications/documents/construction/current/const_ructh_ousing.pdf
- ⁸ An Taoiseach, Leo Varadkar T.D. (2018) Dail Debate, 4 July 2018: "The agency may also on occasion buy privately owned land to unlock its development potential"
<https://www.oireachtas.ie/en/debates/question/2018-07-04/11/>
- ⁹ Central Statistics Office (2016) Census 2016
<https://www.cso.ie/en/csolatestnews/pressreleases/2017pressreleases/presstatementcensus2016resultsprofile2-populationdistributionandmovements/>
- ¹⁰ Department of the Taoiseach (2014) Construction 2020- A Strategy for a Renewed Construction Industry <https://www.merrionstreet.ie/en/wp-content/uploads/2014/05/Construction-Strategy-14-May-20141.pdf>
- ¹¹ Basis: approximation of construction cost of 150,000 new homes over 20 years.
- ¹² DHPLG (2019) General Scheme of the Land Development Agency Bill 2019: "to develop land for housing or other related development purposes on relevant public lands and other lands in support of the implementation of the National Planning Framework on a commercial basis" and to "obtain a positive financial return for the State"
- ¹³ Irish Times (2018) Mr. John Coleman: "These are activities – which are traditionally developer-led – that the LDA will perform, positioning it to capture significant value"
<https://www.irishtimes.com/opinion/the-land-development-agency-is-not-a-free-for-all-for-private-developers-1.3654743>
- ¹⁴ CSO (2019) HPM03: Market-based Household Purchases of Residential Dwellings, Median Price (Euro) by Dwelling Status and Month, All Buyer Types, All, Executions (Euro)

¹⁵ Department of Housing, Planning & Local Government (DHPLG) (2016)- ‘Rebuilding Ireland- Build More Homes’ 2016-2020 <https://rebuildingireland.ie/build-more-homes/>

¹⁶ DHPLG (2019) Housing Circular 13.2019- *unit cost ceilings for non-rural social housing units.*

¹⁷ DHPLG (2019) ‘all in’ costs include *“construction cost, site purchase cost, design team fees (incl. uplift in local authority fees), utilities, site investigations, surveys, public art etc.”*

¹⁸ DHPLG (2016) -Rebuilding Ireland <https://rebuildingireland.ie/news/government-launches-e1-25bn-land-development-agency-to-build-150000-new-homes/>

¹⁹ Planning and Development Act, 2000- Section 96

<http://www.irishstatutebook.ie/eli/2000/act/30/section/96/enacted/en/html#sec96>

²⁰ Houses of the Oireachtas (2019) -Dail Debate, Minister Eoghan Murphy T.D.: (O’Devaney development) *“homes which will be sold at prices which are discounted on open market values to make them more affordable”.. “Given the 30% affordability requirement that the Government has agreed must be met on State lands that are to be utilised for housing, including those to be brought forward by the Land Development Agency”*

<https://www.oireachtas.ie/en/debates/question/2019-10-08/508/>

²¹ ESRI (2018)- Exploring affordability in the Irish housing market

<https://www.esri.ie/publications/exploring-affordability-in-the-irish-housing-market>

²² Estimated 20,000 new homes in 2019 is approx. 1% of housing stock (2,003,645 houses and apartments enumerated 2016 Census (CSO))

²³ Grace, J., Hegarty, C., Mannion, A. (2018)- The Local Infrastructure Housing Activation Fund (LIHAF): A Review of its Success to Date and Preparing AECOM and our Clients for Future Funding Allocation.

²⁴ Mr. John Coleman, CEO LDA (2019) – SoA Conference, 14 June 2019: *“How do we make the homes affordable? The obvious place to look is land but we can do it through financing structures as well”.. “If you’re looking for land that’s going to be free or near free to make housing affordable it’s probably going to be from the state in some shape or form”*

²⁵ NESC (2019) -Opening Statement to Joint Oireachtas Committee- 10 October 2019

https://data.oireachtas.ie/ie/oireachtas/committee/dail/32/joint_committee_on_housing_planning_and_local_government/submissions/2019/2019-10-10_opening-statement-dr-larry-o-connell-director-national-economic-social-council_en.pdf