

Opening Statement by
Mr. John Coleman, Chief Executive of the Land Development Agency, to the
Joint Committee on Housing, Local Government and Heritage (the ‘Committee’)

Tuesday 23rd January 2023

Chair, Deputies and Senators,

We are grateful for the opportunity to engage with you today, to provide you with a progress update on the work of the LDA and to outline our plans for the years ahead.

2023 has been a pivotal year for the Agency, and this momentum will continue into 2024 and beyond. To the end of 2023, we delivered over 1,000 new homes. Much more importantly, this represents the beginning of a strong pipeline of delivery which is due to ramp up significantly. In 2024, we will have at least 5,000 additional homes delivered or under construction. This trajectory has positioned us to target the delivery of 14,000 homes by the end of 2028 (including c. 1,000 already delivered to date), with an ongoing run rate of at least 2,000 homes a year from then on.

In order to communicate how this will be achieved, I would like to take some time to explain our delivery mechanisms and to outline how we intend to fund our growing pipeline of affordable and social housing. I would also like to mention some of the continued challenges we face including the current high cost of construction and the impact this has on cost rental rates.

I am also eager to mention that we appreciate your patience in affording us the opportunity to finalise our funding arrangements with the Government prior to attending the Committee today. This has enabled us to prepare a much more certain and detailed account of our expected affordable housing output.

I am joined by three colleagues. Dearbhla Lawson is our Head of Strategic Planning, Enda McGuane is Head of Asset Management and Phelim O'Neill is Head of Property.

LDA Delivery Mechanisms

The LDA's core purpose can perhaps be summarised as ensuring the delivery of affordable and sustainable homes in the right places at the right time.

To achieve this purpose we deploy two primary delivery mechanisms: The first is direct delivery on lands sourced from the State or on lands purchased by the LDA. The second is through the Project Tosaigh initiative, whereby we partner with homebuilders.

This diversified, multi-channel delivery model provides the LDA with the flexibility to produce affordable housing without being reliant on one particular source. Having both delivery channels allows us to deliver faster and at greater volume than would otherwise be possible with only one.

I will now outline the progress made to date in both delivery streams, the future opportunities and the challenges we are working to overcome.

Direct Delivery

Direct delivery by the LDA involves the appointment of construction contractors to build homes on lands that we acquire from the State or market sources. These housing developments are designed by the LDA and put through the planning process by the Agency.

Using this delivery stream, the LDA has made considerable progress. From a standing start with no corporate infrastructure and limited access to a relatively small portfolio of difficult sites, the Agency is now on track to be one of, if not the largest housing producers in Ireland within the timeframe of its 2024-2028 business plan.

At present, our direct delivery pipeline involves over 10,000 homes with developments at various stages from design to nearing completion with more being added as new lands become available or are acquired by us. We have made major progress in bringing schemes through planning and around 6,000 of these homes now have planning permission.

Our housing pipeline will continue to be added to in 2024 and this allows us to project the direct delivery of around 6,000 homes in the years to the end of 2028, representing almost half of our overall delivery in this period. This level of delivery excludes our Project Tosaigh output which I will outline later. To provide a handle on this scale, the direct delivery of the LDA is trending towards matching or exceeding the current scale of the largest Irish housebuilders.

Our first direct delivery homes, as you know, are nearing completion and will be made available in Shanganagh in Dublin later this year. Construction is also underway, to give another example, at the site of the former St Kevin's Hospital in Cork city, where we are building more than 260 homes, and Devoy Barracks in Naas in Kildare, where work has just begun on 219 units.

In total, we estimate we will have around eight directly controlled sites under construction in 2024, and this number will grow as new sites are ready for construction.

The path to expanding direct delivery involves some challenges, which we are determined to overcome.

For instance, the idea that there are vast amounts of State lands in optimal locations ready for housing development is generally not the case. In early 2023, the LDA published the first ever comprehensive Directory of State Land, which involved the analysis of 180,000 separate folios. While this exercise revealed extensive land opportunities that the LDA is pursuing - 83 sites that could potentially yield around 67,000 homes - the reality is that there are significant constraints in releasing, accessing and developing much of this land.

Notwithstanding this, we have made excellent progress on accessing some key sites from the State. For example, I mentioned Devoy Barracks earlier, which was transferred to the LDA by The Housing Agency. Shanganagh, to give another example, involves a partnership with Dun Laoghaire Rathdown County Council. We have multiple local authority partnerships such as Shanganagh in train. We recently published a masterplan to deliver over 600 homes on the HSE-owned St Joseph's Hospital site in Limerick.

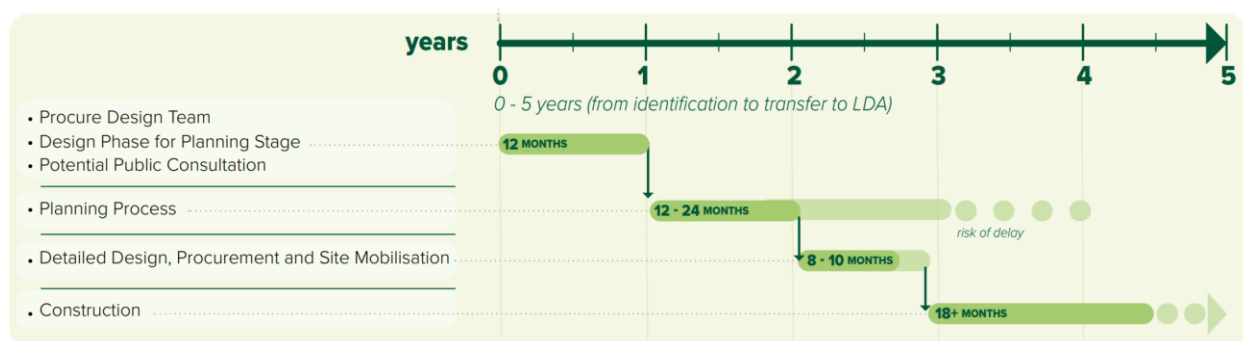
Meanwhile, as we have previously reported to you, advanced design and planning work is underway on 200 homes at a site on the Dyke Road in Galway owned by Galway City Council, 185 on a Teagasc-owned site in Kinsealy in Dublin, and 350 on an ESB site in Wilton in Cork, among many others.

The help of the Government in securing these lands and the co-operation and support of the state bodies involved is critical, as the LDA has no powers to compel a landowning body to provide access to their lands.

As we continue to access State-owned sites, the Agency is also making strategic acquisitions of land on the private market in cases where value can be obtained. At the end of 2023, for example, we acquired a large site from NAMA next to Clongriffin Dart Station in north Dublin that has the potential to deliver about 2,300 homes. We intend commencing construction on this site this year and have already issued a tender for building contractors.

Developing State-owned land for housing is complex and lengthy. It can be difficult to get access to sites due to their existing uses and in cases where access is confirmed, the design, planning and procurement process for large-scale developments can take time.

It is important for the LDA as a state developer to be upfront with our stakeholders, including the Committee, and to provide realistic projections for housing delivery timeframes. From the point at which land access is granted, the delivery of housing typically takes at least five to six years, and this assumes that there are no setbacks along the way. These timeframes are well accepted in the industry and indicatively set out below.



Of course, setbacks are a common occurrence in development, not least when it comes to securing planning permission. While the LDA experiences delays in the planning process just like the rest of the industry, we are encouraged by recent progress in this regard.

Judicial reviews can be initiated and the mechanism can sometimes result in a small number of existing homeowners effectively delaying the delivery of homes for a large number of people.

The LDA is not immune from this. One single individual, for example, has initiated a judicial review challenge against our Dundrum Central scheme at the former site of the Central Mental Hospital, which will unfortunately delay the delivery of 852 affordable homes in an area of extremely high need. This is despite no objections arising from residents' groups due to extensive community consultation we carried out. Such delays significantly add to the cost of projects and we are hopeful that the pending enhancements to the planning laws will help reduce such delays in future.

Notwithstanding such issues, I believe I have outlined how the LDA is well on track to becoming one of the country's leading home builders, with the unique distinction of being exclusively focussed on affordable and public homes.

Our direct delivery stream is complemented by Project Tosaigh, our partnerships mechanism, which I will now outline.

Project Tosaigh – Partnerships Delivery

Project Tosaigh is our second major delivery channel and involves the LDA partnering with housebuilders to ensure the delivery of stalled or unviable housing developments and then making the homes available through cost rental or affordable purchase schemes. This delivery mechanism is critical to keep industry output going at a time when private 'build-to-rent' schemes have fallen away and developers are experiencing difficulties accessing finance.

Without the State intervention here, primarily through the LDA and Approved Housing Bodies (AHBs), the majority of the housing developments in question, particularly apartment developments, would not otherwise be delivered. Project Tosaigh also expedites overall LDA delivery while our direct delivery stream is ramped up.

Through this initiative, we are now targeting the delivery of 8,000 homes over the course of 2024-2028 with a firm pipeline of at least 2,500 already delivered, contracted or in advanced negotiations. About 1,000 of these have been built by the end of 2023 and we were delighted this month to release over 600 cost rental homes onto the market across four new developments in Dublin and in Kildare.

The same day we made this announcement, there were less than 1,200 homes available to rent in Dublin, so this release is excellent news for those struggling to source affordable rental homes and we intend to make further significant releases and announcements through 2024 and beyond.

We are excited to be launching a new phase of Project Tosaigh in April of this year in which we will drive value for money by structuring it as a competitive process, where prospective partners will be selected on the basis of best bids.

When both delivery channels are considered in combination, the delivery outlook for the LDA comprises around 14,000 high-quality and affordable homes delivered by the end of 2028, subject to ongoing funding.

Funding, Delivery Costs and Cost Rents

On the topic of funding, we were pleased with the Government's decision to increase the LDA's equity capital from €1.25 billion to €3.75 billion, in addition to a borrowing permissibility of €1.25 billion. This will enable us to continue to commit to direct delivery and Project Tosaigh schemes for the foreseeable future.

However, construction costs remain high, and the recently confirmed Secure Tenancy Affordable Rental (STAR) scheme is critical to providing cost rents that are affordable.

In the interests of time, we have provided further commentary on this in the appendix to this statement, which Committee members can review at their convenience.

Summary

In summary, the LDA has made major progress since its inception around 5 years ago. From a standing start with no staff, no bank accounts, no sites or no service providers to help bring forward projects, we are broadly following the growth trajectory of Ireland's largest housebuilders on our direct delivery projects and this output will be doubled through our Project Tosaigh partnerships.

This level of delivery makes the LDA's work critical to addressing the country's housing need. The impact of our delivery will be felt beyond the specific homes we produce. Affordable housing delivery at this scale will have a moderating effect on private rents too, while the A-rate and high-quality homes we develop are carefully designed to add to and create new, sustainable and well-serviced communities.

Such a high volume of activity requires considerable resources. Our staff headcount is now around 130, all of whom are dedicated to ramping up delivery. We intend to increase this headcount to over 300 in the next two years. The staff base mainly comprises skilled professionals such as Quantity Surveyors, Engineers, Accountants, Solicitors, Planners, and so on. These skills are in demand, and we compete directly with the private sector for them. However, any visit to our office will confirm that our people have a genuine motivation and resolve to make a positive contribution to Ireland's housing solutions.

We believe in what we are doing.

Looking ahead to 2024, our focus will be on three major themes: advancing more direct build projects to construction stage, expanding Project Tosaigh, and attracting and retaining the talent necessary to continue our upward trajectory.

We value our relationship and engagement with the Committee, and I look forward to our discussions today.

Appendix – Further Information on the LDA's Funding, Construction Costs and Cost Rents

LDA Funding

Delivery at the scale that I have outlined requires major capital expenditure. The LDA has prepared a business plan covering the next 5 years to 2028 and I am delighted to report that the Government is committing an additional €2.5 billion to the Agency in addition to the €1.25 billion already provided. When our ability to borrow a further €1.25 billion is included, the LDA will shortly have total capital available to it of €5 billion.

This commitment to additional funding has come at a critical time. We have already fully allocated our initial €1.25 billion to live housing projects and it is not possible to borrow on reasonable terms from the markets at the moment. The additional capital we have received will facilitate the start of additional direct delivery sites and allow us to commit to the delivery of thousands of homes through Project Tosaigh in 2024 and beyond.

Housing delivery, however, is capital intensive and the LDA intends to hold the majority of its housing delivery as cost rental. This means they will remain in public ownership permanently, which is a positive, but it also means that the Agency will not be in a position to recycle money through the sale of homes.

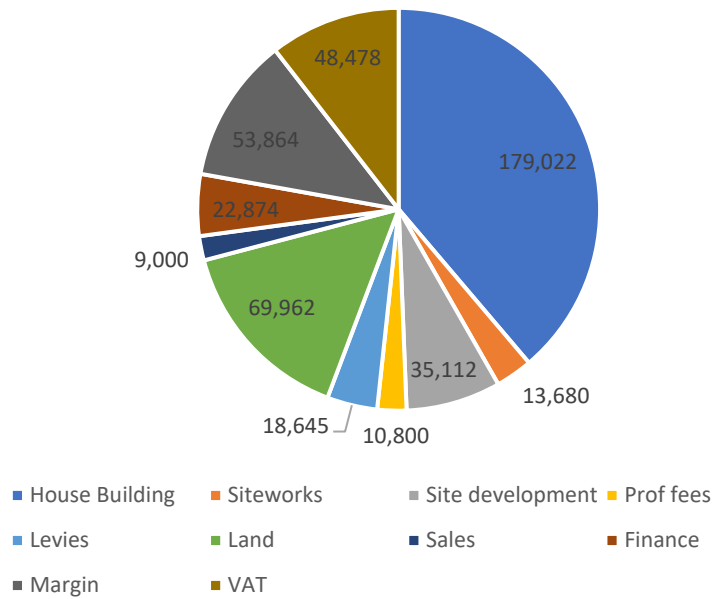
Our capital needs are fundamentally simple to consider. At amounts approaching €500,000 for the average new home (be it through direct delivery or Project Tosaigh), €1.25 billion will secure 2,500 homes, €5 billion will secure 10,000 homes, and so on. That is why we will continue to liaise with our Ministerial stakeholders regarding our expanding funding needs as our delivery rapidly increases, as €3.75 billion will see us through approximately 50-60% of our business plan.

Positively, the Government's recent commitment will provide us with capital certainty for the foreseeable future and allows me to report to the Committee with a greater degree of visibility on the LDA's outlook.

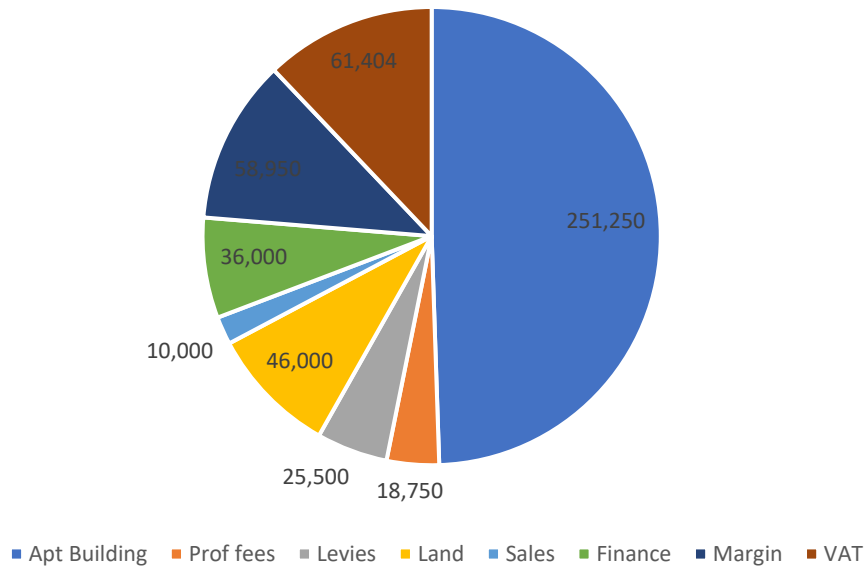
Construction Costs and Rents

While construction inflation has thankfully abated somewhat recently, the reality is that it is expensive to deliver housing in Ireland. We consider the work of the Society of Chartered Surveyors Ireland (SCSI) in this space to be accurate and delivery costs for apartments and houses are set out below:

SCSI Housing Delivery Costs - €461k



SCSI Apartment Delivery Costs (Indexed) - €491k



**Construction and other derived costs indexed by 25% due to allow for the 3 years' inflation since the SCSI report was produced*

These delivery costs allow a component for land and profit margin. Yet, even when applying a 'State developer' lens – removing the profit component and allowing a more modest land value – the expected delivery costs are still high as the LDA has to bear the other cost components as outlined.

In addition, under the current tax regime the LDA must pay 25% corporation tax on its rental activities which adds around €200 euros per month to rents.

As cost rents are based on the cost of delivering and operating homes, it recently became no longer possible to produce affordable rents for those households earning between c. €45,000 and the €66,000 net household income limit (€59,000 outside Dublin). That is why the Government's recently launched Secure Tenancy Affordable Rental (STAR) scheme is critical to the LDA's cost rental programme. The rents we are charging are effectively set by the amount of STAR available, which is limited to result in a c. 30% discount to other 'new to market' rents.

The LDA's cost rental homes seek to fall within the range of 35% of net household income, a generally accepted measure of affordability. We provide a wide range of home types that meet the affordability criteria across the qualifying income range.

Generally, the LDA's cost rents will align with those of the AHBs.