

DÁIL ÉIREANN

AN COMHCHOISTE UM THITHÍOCHT, RIALTAS ÁITIÚIL AGUS OIDHREACHT

JOINT COMMITTEE ON HOUSING, LOCAL GOVERNMENT AND HERITAGE

Dé Máirt, 16 Feabhra 2021

Tuesday, 16 February 2021

Tháinig an Comhchoiste le chéile ag 10 a.m.

The Joint Committee met at 10 a.m.

Comhaltaí a bhí i láthair / Members present:

Teachtaí Dála / Deputies	Seanadóirí / Senators
Francis Noel Duffy,	Victor Boyhan,
Joe Flaherty,	John Cummins,
Thomas Gould,	Mary Fitzpatrick,
Emer Higgins,	Rebecca Moynihan,
Paul McAuliffe,	Mary Seery Kearney.
Cian O'Callaghan,	
Richard O'Donoghue,	
Eoin Ó Broin.	

Teachta / Deputy Steven Matthews sa Chathaoir / in the Chair.

Draft Planning and Development Act 2000 (Exempted Development) Regulations 2021 and Planning and Development Act 2000 (Exempted Development) (No. 2) Regulations 2021: Minister of State at the Department of Housing, Local Government and Heritage

Chairman: The committee is meeting to consider the Planning and Development Act 2000 (Exempted Development) Regulations 2021 relating to school buildings and electric vehicle, EV, charging points. We will then resume pre-legislative scrutiny of the affordable housing Bill after which we will suspend to reconvene in private session.

We are joined remotely by the Minister of State with responsibility for planning and local government, Deputy Burke, who is accompanied by Mr. Eamonn Murtagh, Mr. Terry Sheridan, Mr. Brian Loughlin, Ms Fiona O'Mahony and Mr. Conor Madden. The relevant papers and briefing documents on these exempted developments have been circulated to members.

For witnesses attending remotely there are some limitations on parliamentary privilege and as such they may not benefit from the same level of immunity to legal proceedings as a person who is physically present.

I invite the Minister of State, Deputy Burke, to briefly describe the purpose of these regulations.

Minister of State at the Department of Housing, Local Government and Heritage (Deputy Peter Burke): I thank the Chairman for affording me the opportunity to present to the committee on these two sets of proposed planning and development exempted development regulations.

The two sets of regulations consist of the Planning and Development Act 2000 (Exempted Development) Regulations 2021, which concern planning exemptions for certain school related works and the provision of temporary accommodation for education purposes, and the Planning and Development Act 2000 (Exempted Development) (No. 2) Regulations 2021, which relates to updating the existing planning exemptions for electric vehicle charging points.

Each of the proposed regulations is aimed at amending provisions in the principal Planning and Development Act Regulations 2001 to 2021 concerning development that is exempt from the requirement to obtain planning permission, with each of the proposed regulations dealing with a specific type of development.

Under section 262(4) of the Planning and Development Act 2000, as amended, each House of the Oireachtas is required to approve draft planning regulations relating to exempted development by way of a positive resolution before they can be made and brought into effect by me, as Minister of State at the Department of Housing, Local Government and Heritage. This is a form of checks and balances that was incorporated in the Planning and Development Act 2000 to ensure that any exempted development proposals would be subject to scrutiny and approval by both Houses before they could be signed into law.

The consideration of the draft regulations will facilitate the delivery of electric vehicle charging infrastructure, and they will assist schools in facilitating the continued delivery of education in the context of ongoing Covid-19 measures and pupil number demographic changes.

I thank the Chairman for the opportunity to present both of the regulations to the committee. If both these draft regulations are subsequently approved by positive resolution of both Houses

of the Oireachtas, they will come into force as soon as they are signed by me, as Minister of State at the Department of Housing, Local Government and Heritage. In this regard, it is my intention to sign these regulations into law at the earliest possible date. I thank members for their time and attention.

Chairman: I thank the Minister of State. We have had an opportunity to consider the draft regulations and the explanatory memorandum which were circulated last week. Two members are indicating. I would appreciate it if they could be brief because of the nature of the meeting. I will call Senator Boyhan first and then Deputy Ó'Broin.

Senator Victor Boyhan: I thank the Minister of State for the overview. I want to get some understanding of the mechanism. When we approve these today, with which I do not have a difficulty, will they then go to both Houses of the Oireachtas? My understanding is that they would normally go to them. The motions are usually taken without debate in the Seanad. Could the Minister of State clarify that because it is an important aspect and I would like to understand how it will work?

Chairman: Deputy Ó'Broin might ask his question and then the Minister of State can address both questions.

Deputy Eoin Ó Broin: I thank the Minister of State for the presentation. I have no difficulty whatsoever with the EV regulations. I have one question with regard to the temporary school buildings, however. If I am right, the regulations talk about a period of five years. I am keen to understand why that period of five years is locked into the regulations. Obviously, none of us wants to stand in the way of the provision of much-needed educational facilities. However, we also know that there are long-standing problems with temporary buildings lasting much longer than the temporary emergency they were originally put there for. Perhaps the Minister of State could give us some reassurance that these are indeed temporary structures and explain why the five-year limit is there.

Deputy Peter Burke: A belt and braces approach is taken under the Act in that they must go to the committee. Obviously, there will be motions in both the Houses requiring approval. Once that takes place, I will be able to sign the regulations. It is deemed a temporary measure, which Deputy Ó'Broin will see from the different aspects. I will ask one of my officials, Mr. Sheridan, to elaborate on the five-year limit.

Mr. Terry Sheridan: I thank the Minister of State. We felt the period of time was reasonable in the circumstances, having regard to the fact that when school buildings are being constructed, there can be considerable delays in terms of planning, design, etc. It is a time-limited measure that is specifically limited to five years. There is no intention that these structures would ever become permanent. Basically, we felt five years was reasonable, proportionate and balanced in the circumstances.

Chairman: I thank Mr. Sheridan and the two members for raising those important points. Deputy Higgins is indicating.

Deputy Emer Higgins: I was going to ask about the duration but the question has been asked and answered. I thank the Minister of State, Deputy Burke, and his officials for the regulations. They are really progressive and it is great to see them moving along as they are a significant part of the climate change action programme. I thank them for all they are doing.

Messages to Dáil and Seanad

Chairman: As we have completed our consideration of the draft regulations, the clerk will send a message to that effect to the Clerks of the Dáil and the Seanad in accordance with Standing Orders 101 and 75, respectively. Under to the Dáil Standing Order 100(2) and Seanad Standing Order 77(2), the message is deemed to be the report of the committee. Are members in agreement? Agreed.

General Scheme of the Affordable Housing Bill 2020: Discussion (Resumed)

Senator Victor Boyhan: I wish to advise that Deputy Richard O'Donoghue is taking the first slot for the Independent group.

Deputy Paul McAuliffe: I am first up for Fianna Fáil.

Chairman: Get your spoke in early.

Senator John Cummins: I am first up for Fine Gael.

Chairman: I suggest that people speak in order and move on to discussing No. 2. We are joined remotely by the following witnesses: Mr. John O'Connor, chief executive officer, Mr. Jim Baneham, head of housing delivery, and Ms Gwen Perry, senior executive officer, the Housing Agency; Dr. Conor O'Toole, senior research officer, and Dr. Rachel Slaymaker, research officer, Economic and Social Research Institute; Dr. Larry O'Connell, director, and Mr. Noel Cahill, economist, National Economic and Social Council.

Members have been circulated with the opening statements. I will first ask the witnesses to make their opening statements and then members will be invited to address their questions.

Members attending from their Oireachtas offices are protected by absolute privilege in respect of their participation at this meeting. This means they have an absolute defence against defamation action for anything they say at the meeting. However, they are expected not to abuse this privilege and it is my duty, as Chair, to ensure that this privilege is not abused.

There are some limitations on parliamentary privilege for witnesses attending remotely and as such they may not benefit from the same level of immunity to legal proceedings as a person who is physically present. They are directed that only evidence connected with the subject matter of these proceedings is to be given and asked to respect the parliamentary practice to the effect that, where possible, they should not criticise or make charges against any person, persons or entity by name or in such a way as to make him, her or it identifiable.

Members are reminded of the parliamentary practice to the effect that they should not comment on, criticise or make charges against a person outside the House or an official either by name or in such a way as to make him or her identifiable.

The opening statements submitted to the committee by the three organisations will be published on the committee website after this meeting.

I invite Mr. O'Connor to make his opening statement for the Housing Agency.

Mr. John O'Connor: We are pleased to be here this morning to assist the committee. I am accompanied by my colleagues, Mr. Jim Baneham and Ms Gwen Perry. In the interest of time may we take my statement as read and I will make some summary comments?

Chairman: We appreciate that.

Mr. John O'Connor: First, the Housing Agency welcomes the commitment in the programme for Government in terms of the focus on social housing and affordable housing delivery, and the broad principle of housing for all.

In terms of the Affordable Housing Bill, the provisions for affordable purchase and cost rental are most welcome. Specifically relevant to the Bill, the Housing Agency has established an affordable housing unit to assist and support the Department with the implementation of the affordable purchase and cost rental measures outlined.

In the Bill there are two major measures. One is the range of affordable home purchase measures and, second, there are the measures for cost rental homes. I will take the affordable home purchase measures first. It is very important for us all to understand that the key elements of supporting home ownership, as set out, are the shared equity arrangements. That is fundamental. This supports households to purchase a home in a fair and equitable way. It is an effective way of the State investing in affordable home purchase and that equity investment, when it is repaid, can be used to provide support to future households purchasing an affordable home. It is, essentially, a sustainable measure that will support both current and future generations, which is a very important principle. The measures, as we have seen in the Affordable Housing Bill, that amends the 2009 Act, is the local authority shared equity scheme, and delivery under this scheme can be by local authorities, approved housing bodies, the Land Development Agency and others. There is also provision for a national affordable purchase shared equity scheme using the open market.

In terms of cost rental homes, a key element of achieving affordable housing in many countries is the delivery of a cost rental sector. Over time that sector builds up so it can provide housing that is affordable for a wide range of households. Austria, Denmark and the Netherlands are some of the countries that have built up very effective cost rental sectors.

Cost rental aims to help households with moderate incomes access affordable and secure rental homes. It is a model of delivery where the provider supplies accommodation and charges rent that is sufficient to cover construction and financing costs of the housing, and the ongoing management and maintenance costs. So the costs are based on the cost of provision. That aspect is very important and over time it becomes even more affordable.

Currently, the Housing Agency is assisting the Department with the introduction of a new cost rental equity loan scheme delivered by approved housing bodies. Initially, there are 390 homes to be delivered. This is in addition to 50 cost rental homes that are to be delivered in the next number of months in Stepside on the Enniskerry Road in Dublin. This is along with 105 social rental homes. It is a collaboration between Dún Laoghaire-Rathdown County Council, the Housing Agency, the Respond and Tuath Housing Associations, and the Housing Finance Agency.

To conclude, the overall aim has to be to make housing affordable for everyone of all incomes. We are pleased to support the committee and elaborate on any points raised.

Chairman: I thank Mr. O'Connor and invite Dr. O'Toole to make his opening statement

for the ESRI.

Dr. Conor O'Toole: I thank the Chairman for the invitation to appear before the committee. I am joined by my colleague, Dr. Rachel Slaymaker. We are delighted to have the opportunity to have an input into considerations around the Bill. To do so, we will report our recent research studies that may help the committee's discussions in terms of an evidence base for interventions to address housing affordability.

All of this information must be contextualised by the fast moving economic developments relating to the Covid-19 pandemic and its ability to impact both the demand and supply sides of the affordability equation. Two years ago we presented research to the joint committee on which households faced housing affordability challenges in Ireland. We found that affordability pressures were primary among low to middle income private renters, especially those in urban areas. In an updated study, that was published in 2020, we separated the rental market into two groups, those in receipt of State housing supports such as housing assistance payment, HAP, or local authority tenants, and those private renters without supports. The latter group accounted for approximately 47% of the rental market and was the main focus of our research. We found that even though this group's gross income was higher than the rental sector overall they face significant affordability pressures. Indeed, one in four of these households was paying more than 30% of their net income on rent while almost one in three, or nearly 70,000 households, did not have sufficient income remaining after housing costs to cover a minimum standard of living expenditure before the pandemic. Given that these renters were more likely to be employed in those sectors most impacted by Covid-19, it is likely that the economic fallout from the pandemic will exacerbate existing affordability challenges.

So if renting is so expensive then why have not more renters become homeowners in recent years? Since 2011, the share of homeowners in Ireland has dropped due to many co-determining factors such as tighter credit conditions on the part of banks and the new macro prudential rules, labour market developments, high house prices and a limited housing supply. Of these, the supply channel is likely the most important. The number of housing completions in recent years is well below the estimates of structural demand. Estimates by the ESRI and other commentators put the structural housing demand levels at between 30,000 and 35,000 units per annum, which is well above the current level of housing supply. The disruption of the pandemic will only widen this gap between supply and structural demand.

In evaluating the efficacy of policies that target the demand side, so the borrower purchasing power such as shared equity loans or other instruments, it is critical to understand the extent to which households face credit constraints. In a recent research paper we find the existence of both equity constraints, which is an insufficient deposit, and income constraint, which is insufficient loan size to income, in the Irish market among those renting households who wish to purchase a property. The bulk income and equity constraints are evident and suggest that separate policies covering loan availability and deposit supports can be of merit.

At present, there are already interventions in the market that aim to address equity constraints with the help-to-buy scheme and income constraints through the Rebuilding Ireland home loan. A shared equity loan instrument for lowering the required loan amount would also act to alleviate both income and deposit constraints. Its benefit in theory would be to facilitate credit access for some constrained households. However, the targeting of any credit market intervention is critical. If the credit access supports are provided to those households which would have otherwise been able to finance the transaction, then the economic benefit is lessened. For example, a review of the help-to-buy scheme data suggests that many households

with large deposits have received support under the scheme. It is likely these households were not constrained and would have been able to complete the transaction anyway.

Furthermore, and most important, this static approach does not take into consideration the fact that housing supply is so constrained in Ireland and that increasing purchasing power for households through a loosening of credit constraints will likely lead to higher house prices. Such rises in house prices are likely to exacerbate affordability problems down the line. These dynamics may or may not be observable in actual price data which will be affected by a multitude of other factors, coupled with scale of the intervention, but they are likely to occur.

Our research suggests there will be a considerable number of households in Ireland which will not be able to become homeowners and who will face high rental costs. For these households, as well as those who do not wish to become homeowners, the introduction of non-market priced rental tenure in cost rental is very welcome. Many countries have successfully incorporated longer term rental options into their markets which provide long-term, stable rents for tenants and this has been absent in Ireland on a broad scale. In the context of the current Bill, the definition of cost rental would appear to be set to cover middle income households, a group our research certainly shows face considerable affordability pressures. Indeed, as a supply-side intervention which will lead to the introduction of new units to rent, it cannot come quickly enough. The success of this intervention over the medium term should be gauged by three metrics, namely, the number of units, the pricing and the eligibility criteria. To have a meaningful impact on overall housing supply, the number of units provided would need to expand rapidly over the coming years. On the price side, the initial level may reflect construction costs and ensuring that developments can be provided as efficiently as possible to minimise the subsequent rent levels is important. Regarding ongoing price inflation, maintenance costs for property upkeep can often exceed the broad consumer price inflation. How these costs are passed through to tenants is important to ensure continued investment in upkeep, maintenance and quality, but also to ensure affordability.

Affordability challenges in the housing market are a critical and long-standing issue for Ireland. Addressing these challenges is difficult as increasing housing supply is problematic in the short run. Considerable care must be given to interventions on the demand side given the supply concerns. Credit market supports such as the shared equity scheme and other interventions may lower credit constraints by facilitating home purchase for buyers who otherwise would have been unable to enter the market. However, on balance, with the current supply shortages it is likely these benefits will be outweighed by inflationary pressures. The most successful interventions over the medium to longer term will be those that operate through the supply side not the demand side of the market. Cost rental schemes are a very welcome addition to the market and their expansion over time will help to build a broader rental sector. We thank the committee for its time and look forward to answering any questions.

Chairman: I thank Dr. O'Toole and invite Dr. O'Connell to make the opening statement for NESC.

Dr. Larry O'Connell: I thank the Chairman and members of the committee for the invitation to speak on the National Economic and Social Council's work on affordable housing. Mr. Noel Cahill and I are members of the secretariat of NESC and are attending in that capacity. If it is okay I will take the role of NESC as read as it is in our opening statement. The first part of my statement will focus on NESC's role in housing.

NESC has produced eight reports on housing since 2004. Aspects of housing affordability

have featured in every one of those reports. In our most recent report, *Housing Policy: Actions to Deliver Change*, NESC restated its consistent and long-standing position on housing and land-use policy, namely, that Ireland must bring about a fundamental change in its system of urban development, land management and housing provision. It must evolve from a speculative and highly cyclical system to a permanently affordable, stable and more sustainable system of housing. Pursuing that objective, our most recent report focused on two related issues, the supply gap and the affordability gap. The report detailed the steps NESC considered necessary to bridge the two gaps by way of institutional adjustments, more effective use of existing policy and innovation to enhance the policy options available to the State.

With the Chairman's permission, I will ask Mr. Noel Cahill, who has worked on this area, to walk the committee through the three different aspects of that report and attempt to focus on the emphasis on cost rental in NESC's work.

Mr. Noel Cahill: That recent NESC report on housing outlined the institutional changes which would ensure that key public actors have a strong developmental mandate and the capacity to drive sustainable urban development, including the provision of affordable housing. These actions include establishing the Land Development Agency, LDA, on a statutory footing as a matter of urgency. The second part of the report called for more effective application of existing measures to ensure more affordable housing happens in the near term. These actions include, first, the establishment of a national cost rental programme at scale, with access to land on favourable terms, low cost finance, and conditions to ensure that homes remain subject to public ownership and that the rents are affordable; second, the tailoring of the application of Part V to make it more effective by increasing the proportion which must be affordable, but tailored on a county-by-county basis; third, the introduction, across the various funding streams, such as the serviced sites fund, of separate funding streams focused on developments which are high impact in terms of the number of affordable houses provided and the achievement of compact development; fourth, the examination of differences between the compulsory purchase regimes under different legislation and their respective usage, with a view to identifying the most effective and efficient regime; and, finally, the outlining of a programme of flagship projects to demonstrate how a system-wide approach can deliver tangible results.

In the third part of the report, the council recommended that time be devoted to finding new solutions or ways of working around long-standing challenges. These areas include tackling the off-balance sheet issue for cost rental, examining how the State could acquire land in designated development areas at existing use value plus some premium, review and reform of the vacant site levy if it persists in being ineffective and considering further actions to reduce vacancy and the under use of existing property. On affordability, the council has argued the goal should be permanent affordability. The leasing of public land is a mechanism that can be used to reduce costs and improve affordability in the short term while preserving the value of the subsidy for future buyers and improving long-run stability in the housing market. With this approach, the land could be provided without an upfront charge while the public landowner would retain long-term ownership of the land. Others, including owner occupiers, could then own dwellings on the land.

Of particular relevance to our discussion today is the recommendation by the council to develop a national cost rental programme at scale. The council first highlighted the need for Irish policy to consider cost rental in a 2004 report. The different elements needed include land, low cost finance, a regulatory structure and organisations. The new cost rental equity loan, in conjunction with long-term low interest loans from the Housing Finance Agency, HFA, is a way of

achieving reasonably low cost finance for cost rental. The proposed legislation will be a basis for regulating a cost rental sector. It is our understanding that the loan is initially being used for acquisitions of properties. Over time, if we are to substantially add to the housing stock in a way that is not dependent on the development cycle, it would be desirable to create new cost rental developments on public land. If cost rental, affordable purchase and social housing developments can be combined on large sites, this would facilitate having larger developments than would otherwise be possible.

The focus of the actions proposed by NESC on housing is on bridging the supply gap by actively managing land for the public good and bridging the affordability gap by engineering in permanent affordability.

We are happy to assist the committee in its discussions.

Chairman: I thank Dr. O’Connell and Mr. Cahill. I ask that speakers would identify themselves clearly as this will help the Debates Office to record the meeting, and I ask members to confirm that they are within the confines of Leinster House.

Deputy Paul McAuliffe: I thank the Chairman. I confirm that I am speaking from the confines of Leinster House. As the Vice Chairman of the committee I welcome all guests today. I especially welcome Mr. O’Connor. Some 18 months ago both of us launched a discussion document on the cost rental model in Dublin City Council. It is particularly fitting that we are here now putting a legislative base on a cost rental model.

I believe there is broad agreement among the three submissions and among the committee that the cost rental model is really important. I believe, however, that when we all agree, that is often when we need to be more critical. We still have a long way to go in cost rental units to make sure they do not become middle-class enclaves, there is a social mix, and there is transparency around maintenance, governance and estate management. I will let others raise those concerns later.

I want to focus on the affordability measures and affordable purchase. My first question is to Dr. O’Toole from the ESRI. While I read the institute’s submission, I was not here when Dr. O’Toole spoke about the home ownership and shared equity. Which of the two schemes was Dr. O’Toole referring to with regard to shared equity?

Dr. Conor O’Toole: I can give a very quick response. We were relating to the scheme that is to provide a shared purchase option loan for households to be able to purchase properties, and the State would provide an equity-based loan for households.

Deputy Paul McAuliffe: In reading the Bill there are a number of measures I am very pleased with, principally the resurrection of the 2011 affordable housing measures that were retired by the Government in 2011. I would see one of the key measures of the Bill being a supply side instrument, which is the shared equity, local authority-led affordable housing scheme. I imagine that this is one of the principal areas where supply will be increased. It is also one of the principal focuses of the Bill. It does not, however, seem to feature in the ESRI submission that was provided to the committee. Does Dr. O’Toole have any comment on that?

Dr. Conor O’Toole: In general, and to provide a context for our submission, the ESRI is hoping to be able to provide an overview of our recent research and to try to draw on that research to be able to give some evidence to the committee on the overall targeting and analysis of the various schemes. On the type of work we have done historically, a number of our papers

have looked at credit access for households and at the degree to which households are credit constrained. These would be households that are or are not able to make transactions based on the level of leverage. If a household is credit constrained, it is not able to make that transaction without having more leverage. The balance of our submission was to attempt to provide some understanding from our existing research on the various economic channels that may occur with the development of a scheme, in the context of the broader range of schemes available in the market. Where schemes are supply side in nature, they would not necessarily provide additional borrower purchasing power, which I believe is a key issue from our research. We are very clear that the supply-side constraints in Ireland are the most binding constraints and the most difficult to deal with because it takes a long time for any supply measures to come on line. Certainly, the development of any schemes that would facilitate additional supply would be very welcome from our side. This is just to give a little insight into that.

Deputy Paul McAuliffe: I welcome that. I believe that the local authority-led shared equity scheme is a huge positive. It sometimes gets lost because of the shared equity loan. It would also be the cornerstone to building public housing on public land, which is a significant departure for the new Government. It is a really important measure. There has been some focus on the shared equity scheme, but would Dr. O'Toole accept the Department's argument that regional caps, to limit it to new builds, and it being a short-term measure for one year or two to stimulate the reluctance of the current market could actually act to stimulate it? If it was kept with all of those limits of regional caps, new builds and short-term, could it have a positive impact on the market?

Dr. Conor O'Toole: When one is trying to consider any credit market interventions, a number of aspects are especially important. It is even more complicated when doing credit market interventions in the housing market because a multitude of factors affect house prices, including the labour market channels, credit access, and supply constraints. There are a range of factors that impact the degree to which any particular credit-based measure would pass through to price pressures or to borrower purchasing power. In a sense, the tailoring and calibration of these schemes is very important. Naturally, any inflationary pressures can be reduced if the schemes are tailored to have the minimum need. For example, this would be ensuring that the calibration of the scheme goes to those borrowers who are most in need, such as to the household that is credit constrained and needs that extra credit to be able to make that transaction happen. In the alternative counterfactual scenario that transaction would not happen. The effective use of calibration parameters can be used to mitigate those channels.

Furthermore, the scale of the intervention is critically important, as we said in the opening statement. For example, how much of the intervention happens in what timeframe is very important. The shorter the timeframe and the larger the intervention that is necessary, and when one considers the economic channels behind that, it would add more demand side pressure in a shorter space of time. The longer the timeframe and the degree to which the intervention is spread out over time would limit the inflationary pressures. When we consider these types of instruments we do so in a manner that takes all of the factors that would affect the housing market, which are multitude and co-determining. If we hold all of these other factors constant on an all-new change to credit market access, that is naturally where we talk about the channels that would be happening in the market with regard to demand and supply side.

Deputy Eoin Ó Broin: I confirm to the Chairman that I am in Leinster House. Due to the limited time I will go straight into questions. I have three questions, one for each of our guests.

With respect to Dr. O'Toole's concerns that the shared equity loan for private purchases

would push up house prices, I presume it is his view that the bigger that fund the greater the risk of inflation. We know, for example, that the Government is currently in negotiations with the banks to increase the fund from €75 million to €150 million, with €75 million of banking funding. Is there a concern that the more funds that are available the greater the risk of house price inflation? On Dr. O'Toole's concerns around targeting, I presume that, given the Government is talking about combining the shared equity loan with help-to-buy, there are no income limits on access and the upper limit for house price purchases in Dublin is about €400,000, this would further exacerbate his concerns that there is an inadequate level of targeting.

I have a specific question for Mr. O'Connor on the shared equity loan and the interest that will be charged. The Government has said, obviously, that it wants an entry-level interest rate from year six at 1.5% and then increasing. We hear from some media reports that the Banking and Payments Federation Ireland would like a higher entry-level interest rate. Is there a level of risk to the buyer that if the interest rate calculation is too onerous, the buyer could end up with a far greater level of debt, as was the case with the last shared ownership scheme? The Housing Agency did for a report on this for then Minister of State, Jan O'Sullivan. Will Mr. O'Connor elaborate on that potential risk to the buyer from the interest rate?

My last question is for Dr. Larry O'Connell. Deputy McAuliffe is absolutely right that there are three parts to this Bill and many of us, like the National Economic and Social Council, NESC, have long advocated for cost rental and for affordable, local authority-led delivery. Given that we are only going to get 530 such units this year, confirmed to us by the Department officials last week, 700 such units are only guaranteed for the pipeline next year, and then 1,500, is that at the scale the NESC has consistently recommended and, if not, what is the level of scale? Are we talking about thousands or tens of thousands of such directly delivered units rather than the hundreds the Government has made provision for over the next three years?

Chairman: I ask the Deputy to indicate to whom the first question was directed.

Deputy Eoin Ó Broin: The first question was to Dr. O'Toole, the second to Mr. John O'Connor and the third to Dr. Larry O'Connell.

Chairman: I ask the witnesses to respond in that order.

Dr. Conor O'Toole: There are two components to the Deputy's question, first, the level of the scheme and, second, the targeting and coupling of the scheme with the further supports that are available in the market. It is important to say that the research we have done historically shows that these types of credit-based interventions are with merit. They can get to households that otherwise would not have been able to make the transaction and, therefore, these types of instruments can be very meritocratic in that context. In terms of their impact on the inflationary channel, there are a number of aspects to the intervention that would, for example, exacerbate or lower the degree to which that price inflation may materialise. The larger the intervention, the shorter the timeframe in which that intervention takes place. The number of recipients of that intervention is also important. For example, if it is spread among a large number of users of the scheme and all of those users have more purchasing power, that can have an impact as well as the general level.

In regard to the targeting of the measures, the targeting is important in the context of the constraints households face. For example, is it that they have an insufficient deposit such that they are down payment constrained? In that context, an equity-type scheme is more important. If it is the case that their loan to income ratio is constrained, that would be much more an in-

come constraint, which the Rebuilding Ireland home loan scheme would deal with. The targeting is important in the context of, in particular, the parts of the income distribution that would be impacted by any particular intervention. Work we did previously on the Rebuilding Ireland home loan scheme showed that it was really good at getting to applicants who were at the lower end of the income distribution but underserved by the broader commercial market. That is a case of trying to tailor for a gap in the market. The tailoring of this measure is important. To ensure the maximum economic additionality from the intervention, it is critical that it goes to those households which otherwise would not have been able to make the transaction. That is complicated to get at, but there are a number of ways to do it. For example, there should be a screening of the borrower's attempts to secure credit through the normal channels and an interrogation of the financial circumstances of the borrower. It is important the income and savings picture of the borrower is well known in the context of the scheme to ensure that it goes to those households with the greatest need. That will boost the economic additionality from a scheme like this.

Chairman: There is only one minute remaining for this slot.

Mr. John O'Connor: On the second question, to put it in context, delivery under the shared equity scheme will be by the local authorities and others. In terms of the national scheme, the details of that have not been worked out. In terms of controls and prices, it is important to make the point that the potential purchaser of the house will only pay what he or she considers to be value. That is the first control before price caps. In regard to charges that apply to the equity share that is provided by the State, it is important that it works for the homeowner. It is important that controls are put in place such that there is an appropriate and fair burden on the homeowner, but nothing excessive. The details have not yet been worked out. It is a matter we will feed into in our discussions with the Department to ensure the homeowner is protected.

Chairman: I thank Mr. O'Connor. We might get back to Deputy Ó Broin's entry level interest question later.

Senator John Cummins: I confirm I am in the Leinster House complex. I welcome Mr. O'Connor, Dr. O'Toole, Dr. O'Connell, Mr. Cahill and their colleagues to this meeting. My first question is in regard to Dr. O'Toole's concluding remark in his opening statement that credit market supports such as the shared equity scheme and other interventions may indeed lower credit constraints by facilitating home purchase for buyers who otherwise would have been unable to enter the market. In my book, that is a positive. We all know constituents and other people who are paying exceptionally high rents and whose incomes are such that they cannot get a sufficient mortgage but, if they could, their repayments would be substantially lower than the rents they are paying. These are the people that we are trying to cater for in the affordable housing Bill. It is important to say that.

I put it to Dr. O'Toole that, as mentioned earlier by Deputy McAuliffe, he has ignored a significant part of the Bill, namely, the provision of affordable purchase homes on local authority lands. That is ultimately a large supply measure that will impact the provision of homes. I take it from Dr. O'Toole's thesis that he disagrees fundamentally with the Department's contribution to the committee last week by Mr. Barry Quinlan and Mr. Robert Nicholson that, according to the UK National Audit Office, which is the equivalent of our Office of the Comptroller and Auditor General, the equity-based scheme in the UK had led to a 14.5% increase in supply and a 1% increase on a like-for-like basis in house prices. Dr. O'Toole says that supply is important. I put it to him that this is a supply-based measure.

Dr. Conor O'Toole: I thank the Senator for his questions, to which I will try to give a couple of responses. On the first point, I agree that these types of credit market interventions can be very positive. Where one succeeds in providing credit market interventions to those households which otherwise would have been unable to make that transaction, that is a very positive thing. Where there are critical gaps in the market that can be identified as gaps which these instruments can help to address, it is important to be able to facilitate that. For example, in our review of the Rebuilding Ireland home loan scheme we clearly stated that there was a clear gap in the market that that particular intervention was able to address and that there was a lot of merit in that particular instrument in doing that. I completely agree that the ability to use these interventions to intervene in the market is an important policy lever to have. As I mentioned earlier, in terms of the focus of our submission, we were trying to provide some insight to the committee that was useful by drawing on the research that we had done. The research that we had done crossed over on the two elements of the Bill that I mentioned in the opening statement, first, the general credit market interventions and, second, the cost rental model.

Senator John Cummins: There is a third.

Dr. Conor O'Toole: There is. We have not done much work looking at those supply instruments and so I do not have a research paper from where I could draw on that element. Any supply measure is really good, as supply is the critical issue. It is a welcome development where broad instruments can open up and loosen supply bottlenecks. We are focusing on a small part of this Bill, but it is a broad Bill that has lots of elements to it. The supply side elements are critical to what we need to do.

Senator John Cummins: I am sorry to interrupt, but I am conscious I am running out of time. Could Dr. O'Toole address the supply in the UK and the report by the National Audit Office of a 14.5% increase? As he stated, we cannot just take two elements of the scheme and comment on them, we must take all three of them in the round.

Dr. Conor O'Toole: If it is okay, I will hand over to my colleague, Dr. Slaymaker, to discuss the UK evidence.

Dr. Rachel Slaymaker: On the UK evidence, a study by the London School of Economics found that the UK scheme stimulated housing construction in the wrong areas, so there was an increase in construction but it was not in the areas where the biggest affordability challenges and supply constraints are. From an Irish perspective it is particularly important to take note of that, given the particular supply constraints there are in Ireland. The study also found that in the areas where there was a supply constraint and where there was no discernible increase in construction, they did see an increase of 6% in the price of new builds. It is important to take that into account.

In the audit report, the 1% difference between people who were accessing the scheme and those who were not in terms of a similar property is not an analysis of the broader impact on house prices; it is simply looking at the price people paid whether they accessed the scheme or not. That is not looking at the impact on house prices. It is simply a case of whether there was a premium for people who used the scheme or not.

Senator John Cummins: Does Dr. Slaymaker accept that according to the report there was a 14.5% increase in supply? We say supply is the most important element and we have a measure showing that it has been proven to increase supply by 14.5%.

Dr. Rachel Slaymaker: I can read that it was the findings of the audit report, but what is crucial from the study by the London School of Economics is that the increase in supply was not in the areas where it was needed.

Senator John Cummins: I am sorry.

Chairman: I am sorry, but I must interrupt Senator Cummins. We are out of time on that slot. I will move on to Deputy O'Donoghue.

Deputy Richard O'Donoghue: I verify that I am in Leinster House. I thank the witnesses for attending. I raised a similar point last week because the first point I heard in the statements about numbers related to Dublin. I am interested to learn about the supply in Limerick. There is more to this country than Dublin. The statistics relating to Limerick are the ones I am most interested in. I am in construction myself. I am based in a rural setting. I welcome the cost-rental management system and the shared equity loan scheme. The biggest problem we have in Limerick is supply and demand and we have a major problem with infrastructure. Everyone is entitled to their culture in terms of where they are from and where they are living, and to represent that. In the context of developing Limerick as a whole, industry is based in the city or along the Shannon Estuary and infrastructure is at its lowest in the east of the county. How can we provide housing for people in villages and small towns where there is no industry? People want to return home to live in the area they are from, but there is no infrastructure there. We have forgotten about infrastructure other than in highly populated areas.

People who have been in rental accommodation as council tenants for 20, 30 or 40 years are not allowed to buy their own house once they reach pension age. When those people pass on, they want to leave their house to their family members so they can stay in the area where they grew up. From an infrastructural point of view, Kilfinnane recently got 21 houses, but only 15 of them could go on the main sewerage system. Six houses on a housing estate had to have their own private sewerage system because of a lack of infrastructure. There are 123 people on the housing list for more than ten years and there are no sewage facilities. Those people have all been turned down for planning. Askeaton has been waiting for a sewerage system for 30 years. Raw sewage is going into the Shannon. We can talk about supplying houses everywhere, but we cannot supply them if we do not have the infrastructure in key areas where people want to live. This goes back to the local authorities and their failure to invest in towns and villages. Housing cannot just go to people in highly populated areas.

Infrastructure is not only about sewerage; it is about bus services and connectivity. Once one leaves a highly populated area such as Limerick city, all the infrastructure falls away. Infrastructure only seems to follow industry. All of the county needs to be represented. I was part of the Limerick 2030 group when I was elected as a Deputy. My brother-in-law, John, is on the board. It is doing fantastic work. It started in the city and now it is moving out to the county to try to do exactly what I am talking about. The group is trying to get infrastructure in the places I have spoken about where there is no infrastructure so people can live in the entire county and not just in one section of it.

I would welcome a response first to the question on infrastructure and how to provide housing for people on housing lists where there is no infrastructure. My second question is about people in rental accommodation for many years who cannot purchase their houses once they reach pension age. That needs to be addressed.

Chairman: Does the Deputy wish to direct his question to any witness in particular? Per-

haps NESC could reply on transport.

Deputy Richard O'Donoghue: My questions are open to whoever can answer them.

Chairman: I might ask NESC to comment on transport-orientated development considering it did an excellent report on it recently.

Dr. Larry O'Connell: Deputy O'Donoghue's concerns resonate with NESC. Our view is that housing needs to be approached as a system and we need to look at it in the round. Today's meeting is focused on one particular issue, that is, affordability. By and large, it is a problem confined to large urban areas due to the demand for housing. That is not to say there are not other problems in other aspects of the housing system and I fully agree with the Deputy that we need to look at those other issues.

When we looked at transport-orientated development, what we were really trying to look at is how we use the land and put infrastructure into areas to make them more attractive. That idea could apply equally to the areas mentioned by the Deputy, Kilfinnane and Askeaton, in terms of their connections to major urban cities and we could consider how they can be made more attractive. I do not mean to not answer the question, but it is not what we were trying to focus on coming here today. The Deputy's question resonates with the fact that housing needs to be seen as a system and that while the problems in areas will be different that does not mean they are any less urgent in terms of being solved.

Chairman: Does the Deputy wish to direct his question on purchasing publicly-owned rental accommodation to anyone in particular?

Deputy Richard O'Donoghue: I would welcome if there is someone present who can answer it. There are many people who have worked all their lives and been in the local authority rental system who want to buy the home they have been in for the past 30 or 40 years when they get to a certain age and, for example, they have been paid redundancy. Some of them want to leave their home to their children so that they can get a start in life in the more rural areas, and remain within the town, village or area in which they have lived. Some of the local authority houses are actually not in towns or villages, but are in rural areas. The people in these areas want to buy them. However, the constraints are that when someone is over 65 years of age and is of pensionable age, his or her income is not taken into account and that person must be working to buy the property. That is disgraceful and should be changed.

Chairman: We are out of time. However, the Deputy has raised a most important point. The question of how people stay in a rental market, not just the local authority market, when they reach pensionable age or when their income drops significantly, must be considered. We may have the opportunity to return to that question later.

Deputy Francis Noel Duffy: I thank NESC, the ESRI and the Housing Agency for their continued work in this area. Their insight is invaluable. I have three questions concerning cost rental, stock and permanent affordability.

As I have often mentioned in the Dáil and in this committee, increasing our cost rental stock by developing new units on public land will eventually drive down rent prices going forward. Based on the witnesses' research and expertise, what annual target should the State work towards to deliver enough cost rental units to drive rents down?

On permanent affordability, in the presentation by Dr. O'Toole and Dr. Slaymaker, they

emphasised the importance of permanent affordability. I completely agree with affordable purchase and rent, as it is very much at the centre of Green Party housing policy. Do the provisions set out in this Bill in its entirety, including cost rental equity loan, CREL, putting cost rental on a statutory basis, the affordable purchase of homes provided by the Land Development Agency, LDA, and the affordable purchase schemes, offer permanent affordability in the long term? What amendments or proposals would the witnesses strongly suggest that the Government considers? To summarise, what annual target for cost rental units should the State be delivering to reduce rents? Does the Bill offer permanent affordability? What amendments would the witnesses propose to the Bill?

Mr. John O'Connor: It will be critical to deliver cost rental on scale for the reasons given by the Deputy in respect of providing affordable housing long term for people and helping to moderate and bring down rents in the market overall. It is critically important. On the delivery numbers, a few thousand units per year would be needed. A very significant stock of housing needs to be built up. One thing that is really important in respect of cost rental is seeing it as a long-term measure. When it has been successful in other countries, it has taken decades for that stock of affordable rental and cost rental housing to be built up. It is critical. When it is built up on scale, the rents can be reduced significantly over time, so it is most important.

Another important point is that in most countries, cost rental is seen as being very similar to home ownership. It is a home that is affordable. I will tell the committee a secret that is not often understood. In Vienna, for example, people have the right to buy. Everyone in cost rental housing can actually buy their home, but they choose not to, because it is affordable, and it is seen as a home. In respect of any organisation providing cost rental homes, whether they are approved housing bodies, local authorities or the Land Development Agency, the rent must be based on the cost of provision, so that any surpluses or limited profits that are made are actually used to keep down the rents. We have been working very closely with the Department, and one thing that is most important is to keep the rents down and to make cost rental seem like a long-term home for households. It must be seen that way.

Deputy Francis Noel Duffy: Does NESC or the ESRI have an opinion on the numbers that must be delivered?

Dr. Larry O'Connell: It is difficult to specify a number, but I will give the committee an idea. Some 20% of the housing stock in Denmark is cost rental. If that model is applied, we will get a very high number. The limited profit sector in Austria delivers 23% of all new construction in the residential market. Again, that model will produce a very high number if it is applied. Property Industry Ireland did a piece of research that it showed to us. The figures are worth checking, but they provided an indication. The research looked at the number of people on incomes of more than €50,000 but under €90,000 and produced a figure of 400,000. All of that supports Mr. O'Connor's point. The scale of this is in the thousands, not the hundreds. Going back to Deputy Ó Broin's point, I can see that figures of 400, 500 or 1,500 seem low. However, the issue for Government is first that it has to prove the concept. I can see that. Mr. O'Connor has made the point that we must look at some of the regulations and what it would count in costs. We have to look at how we put limits on returns for investors. There is some work to do. My feeling is, once we have proven the concept, the demand will be there to deliver at a much higher level than our current ambition. I can see the tension between trying to test the concept and roll out the demand. The international evidence suggests it is a very attractive concept.

The other point on cost rental, and I believe the Housing Agency has figures on this, is that

it delivers an immediate impact. In the models we looked at, there could be rents 20% below what the market is at. By the end of 2030, rents could be 40% below what the market is at. Therefore, there is a long-term benefit to cost rental. We will see then how the equity begins to be used to supply more housing. There is also an immediate short-term impact, and that is where we will see the scale of demand for this, if we can do it.

On proving the concept, the current cost rental model is bringing costs down because it has low finance. There are other levers with which to bring the cost down. We need to begin to look at them in respect of using the land, for example. As we use these other levers, we can bring the cost down further again. That, equally, will boost the demand. I hope that answers the Deputy's questions.

Dr. Conor O'Toole: I agree with both of the previous contributors that the scale of this, in the medium term, will be in the thousands. It is a very welcome development to have this tenure in the Irish mix. There are two benefits to the pricing side. One is the initial level, but also over time, if the price change is lower than household income growth, then the affordability will improve over time. That is a critical aspect of this particular tenure that should be highlighted and leveraged.

Something we have not discussed today in too much detail is the impact of the pandemic. In one of the pieces of work that we did, we found that the types of sector in which middle-income renters often work are those that have been disproportionately affected by the labour market shock, whether it is hospitality, retail or similar areas. The income prospects for these households over the next period of time are very uncertain with the pandemic. Therefore, having a tenure like cost rental that is able to come on stream over time and provide these households with an affordable rent, where they may not be able to access a mortgage because of the employment uncertainty, is a very welcome aspect in the Irish market.

Senator Rebecca Moynihan: I am not going to seek to out the economists but I want to return to the auditor's report, because it is important. The Government has used these figures. Perhaps Dr. Slaymaker can comment on the impact that had on the UK market. She stated that the likely impact of the shared equity scheme would be to increase prices, which might offset any benefits it might have. The UK report stated that the payment went to house buyers who did not need assistance in the first place and 60% of the beneficiaries used the scheme to buy a bigger property. Does Dr. Slaymaker consider that the Government has put control measures in the proposed Bill to avoid what happened in the UK, that is, people using the scheme to buy bigger houses or the fact that 20% of people availing of the scheme already had houses? If not, what control measures would she propose that the Government put in place to ensure this is not simply a demand-led scheme and the assistance goes to the people who need it?

Everybody, across the board, has raised the benefits and positive impact of cost rental housing. I want to probe cost rental a little more in terms of affordability. It has been suggested that some of the rents in the scheme will be between €1,000 and €1,300. Will this meet the affordability criteria that our guests have previously examined for middle income households? Is that the group the scheme is targeted towards?

The cost rental scheme seems to exclude people who are on the housing assistance payment, HAP. Dr. O'Toole talked about the people who are in the most insecure of tenancies, that is, those in the private rental sector. Does he think that people who are on HAP should be included in this scheme? It seems crazy to me that people who might be considered to be adequately housed by some local authorities because they are on HAP are left in the private rental sector

while other people are able to avail of the secure system of cost rental.

I have a couple of concerns that the proposals for cost rental tenancies seem to be linked exclusively to costs. What should happen to somebody who takes up a tenancy in a cost rental scheme but loses his or her primary source of income or whose source of income dips? Should an element of the scheme include differential rent? Do our guests have any experience of that?

Mr. Cahill touched on reform of the vacant sites levy. Would he consider a vacant unit levy? The Government seems to be attracting real estate investment trusts, REITs, such as Kennedy Wilson, into our housing system. It is a build-to-rent and investor-led system. My concern is that a couple of those key investors will dominate the housing and rental markets and we will see units being left vacant because those REITs do not want rents to fall and have financial calculations suggesting it is not in their interests for rents to fall.

Dr. Rachel Slaymaker: I will come in on the question about the help-to-buy scheme and the experience of the UK scheme. The auditor's report in the UK is clear that areas with the greatest affordability challenges have experienced lower proportions of sales supported by the scheme. That does not suggest that the scheme has been particularly well directed to the areas with the greatest need. The report also suggested that nearly two-thirds of the buyers who availed of the help-to-buy scheme could have bought without it. Almost one-third could have bought exactly the same property without the scheme. It is important to take from that experience that if there were to be a scheme in Ireland, targeting is really important. It needs to be targeted at people who have an insufficient deposit so that the scheme is beneficial. It should be aimed at those most in need.

Mr. John O'Connor: I thank the Senator for her questions. On her point about the national shared equity scheme, controls are important. The Department is still working on the details and has to finalise them. If a household can afford to buy a house on the market within the macroprudential rules, it cannot avail of the shared equity loan. That is the first point and it is an important control measure. The fact that purchasers will have a secondary shared equity element means they will be careful about what they are buying. The Housing Agency is working with the Department to identify what are the risks, what happened with similar schemes in the UK, including Scotland, and what control measures can be put in place.

Affordability is very important when it comes to cost rental. The rents about which we have been speaking to date have been of the order of €900 per month, up to €1,200 per month. We need, over time, to get those rents down as much as possible. Specific supports can be provided to households whose income changes or falls significantly. People who become eligible for social housing can avail of the HAP and remain in their accommodation. That is specifically provided for in the proposed Bill. It is important that such households in rental housing are protected.

It is important that we control the costs. The management, maintenance and other overhead costs are as significant as the costs of providing cost rental homes. It is important that we push rents down as much as possible. We should be focused on what is affordable for households as opposed to talking about the levels of market rents. We need to make it affordable and give long-term consistency of payments.

Ms Perry may wish to add something on the cost rental side.

Chairman: I am sorry but we are out of time for that slot. I remind members that we only

have seven minutes and if they ask four or five questions, they are unlikely to get four or five answers.

Deputy Cian O’Callaghan: I thank our speakers. I have three questions, the first of which is for Dr. Slaymaker. She referenced a study by the London School of Economics, LSE, and a 6% increase in prices. What is the risk of a similar effect here?

I will ask Dr. O’Toole about the need for targeting measures or controls around any equity loan scheme for purchase of homes from private developers. How problematic is the lack of income limits in the Bill? Is it a problem? Could the lack of income limits have the effect of driving up the costs of homes or is that not an issue?

I will ask the representatives of the National Economic and Social Council about its substantial evidence base and reports it has done over the years about cost rental land management. It has done good work. The goal is that affordable measures will mean permanent affordability. With that in mind, how does the equity loan scheme for purchase of homes from private developers measure up against that goal? Is there an evidence base, either from NESC in terms of shared equity loans for purchase from private developers or an international evidence base of which our guests are aware, that supports those measures at which we should be looking?

Dr. Rachel Slaymaker: I will come in on the question about the help-to-buy scheme and the study by the LSE. It is impossible for me to say what is likely to happen to prices here but the thing that would concern me is that there was an increase in the price of new-build properties in London, which is the most constrained area in terms of housing supply and has the biggest affordability challenges. That would concern me in the Irish context, given the significant supply constraints here. It is impossible to say what the actual impact would be on prices, given that so many factors would come into the determination of prices, but that is the concerning aspect I would take from the LSE study.

Dr. Conor O’Toole: I will come in on the calibration of the income limits in the scheme because there are a couple of issues to consider. There are pros and cons to hard income limits. For example, there is always someone on the far side of the income limit who is likely to be just as needy as someone on the near side. Schemes like this are not without their costs. If we take a step back and examine the research that has been done over the past number of years, we will see that the affordability pressures are greatest at the lower end of the income distribution. It is likely that targeting instruments that help those areas with affordability pressures would be best. The Rebuilding Ireland home loan has a specific loan-to-income limit. When analysed, it clearly takes the part of the market that the commercial banks do not. In that context, we can see the importance of its calibration.

There are pros and cons to the introduction of any scheme and these need to be considered carefully in the context of the broader parameterisation of all other measures.

Mr. John O’Connor: I will ask my colleague, Mr. Baneham, to contribute. He has been doing a great deal of work on this area with the Department.

Mr. Jim Baneham: Regarding the lack of hard income limits, and as stated by the Department last week, eligibility under the scheme will work by being linked to the ability to purchase a property. If someone can buy a property using the current market prudential rules and so on, that person will not be eligible. As incomes change and people purchase at different prices, for example, €350,000, the level of subsidy in terms of the equity share will vary depending on the

income of the household. The same income limit will not be applied to someone on €80,000 as to someone on €70,000. It will vary to match people's needs. This was stated last week, although I do not know whether it was fleshed out. It addresses one of the ESRI's concerns about the scheme's targeting.

Deputy Cian O'Callaghan: My third question was for NESC.

Dr. Larry O'Connell: The Deputy will want us to focus on the question of permanent affordability under the current scheme. Importantly, there are three actions under the Bill that will do much to help with affordability. NESC has always argued that we need to consider the three channels of delivery, those being, the private sector, local authorities and approved housing bodies, AHBs. In this Bill, there is an attempt to engage all three channels in pursuit of affordability.

The Deputy asked how the approach in the private sector lined up with permanent affordability. We would view it as desirable if the approach was one of permanent affordability, but this is an attempt to support permanent affordability in the private sector to a degree. The equity stake held by the State is available to be returned to a revolving fund for reinvestment in housing. That is in line with the idea of permanent affordability. While I am not saying it is the ideal, it is a compromise that will attempt to return funding to support future generations that are seeking to buy houses.

Deputy Cian O'Callaghan: I asked about the evidence base for that of which NESC or any of the other groups was aware.

Dr. Larry O'Connell: We have not examined a scheme like this in the private sector in particular. We have not examined the UK evidence and the reports that were mentioned. That said, I will stray into the debate that is under way. I keep coming back to the point that housing is a complex system and how it is difficult to judge what the impact of a single intervention in one part will be on the wider system. It was interesting to note from the Department's appearance before the committee that, along with the measures that Mr. O'Connor outlined to target the scheme, there seems to be a deep commitment to monitor it as it proceeds. We can then determine its impacts. As Dr. O'Toole stated, though, it will be difficult even then because it will be just one intervention. My view on housing is that we need to act. There is a supply crisis. We will never know what the perfect intervention is, but this one seems useful and some of the equity is returned. The key is to monitor the scheme carefully over its first 12 months.

Deputy Cian O'Callaghan: I thank Dr. O'Connell for those answers.

Senator Mary Fitzpatrick: I am participating in the meeting from Leinster House. I thank the witnesses for their contributions. We all accept that the crisis of supply and affordability in terms of housing is our single most immediate challenge. I appreciate the work the witnesses are doing to help us address that challenge.

I will ask a couple of specific questions, the first of which is meant to clarify something. The ESRI's report identifies the pinch point for people in the rental sector. The State supports 53% of renters financially to secure housing and the ESRI identifies the 47% who are not in any way financially supported by the State as being trapped in unaffordability from a rental perspective and locked out of homeownership. It was concerning to read that the ESRI identifies as potentially inflationary an intervention to help these people to access affordable housing. The ESRI's report states that the loosening of the credit constraints by a shared equity scheme would likely

lead to higher house prices. I believe I heard one of the witnesses from the ESRI say - I would appreciate it if this could be confirmed - that this statement was based on the ESRI's previous studies and did not take into account the supply side measures. Is that correct?

Dr. Conor O'Toole: Let me come in on this. I think-----

Senator Mary Fitzpatrick: Actually, just before Dr. O'Toole does, I want to get to my point because I only have five minutes. Does that mean that the ESRI did not take into account local authorities' shared equity, the AHBs' supply side or the co-operatives? If so, will Dr. O'Toole confirm that the statement does not assume that this will be a time-based measure and will only be available to first-time buyers who are unable to secure a mortgage from the commercial banks and are cut out of home purchasing? Does it not take into account any local price caps that are set for affordability? Am I correct?

Dr. Conor O'Toole: I will make a general comment. When we discuss a scheme like this *ex ante*, we consider what economic channels it may impact on and what side of the market it comes down on, for example, whether it is a borrow-based policy or a supply-based one. A multitude of factors affect the housing market. The Senator mentioned some of them on the supply side. There are a range of developments in terms of the labour market, including households' incomes and employments. All of these factors affect the overall level of house prices and house price inflation. When we consider a policy like this *ex ante*, that is, it has not happened yet, we try to think through the potential risks and the potential channels through which it might operate. Holding all of the factors constant, we ask what the impact would be if we were to add additional purchasing power for buyers. That is the type of assessment we do in an exercise such as this, which is purely a short consideration of a scheme on an *ex ante* basis. Naturally, the economics of the situation would always suggest that taking more purchasing power without a commensurate increase in supply will put pressure on the demand side of the market, which is what we are noting.

Senator Mary Fitzpatrick: Is it then excluding all the supply side measures and all the restrictions to be applied to it?

Dr. Conor O'Toole: As I said in my opening statement, naturally the calibration and the targeting of the schemes really matter, as do the size and the length of the intervention. I am not saying these schemes are not without merit. That is very clearly stated in the opening statement. However, we are trying to look at the pros and cons of an approach like this and to think about the various factors involved. This policy will interact with a number of other supports such as the help-to-buy scheme and the Rebuilding Ireland home loan, which are already in the market. In a sense it is about thinking through the potential channels through which a scheme like this will operate. Of course, the calibration and the parameterisation will matter. Good work on ensuring that the recipients of this are those households most in need of credit will help to limit the concerns.

Senator Mary Fitzpatrick: Does Dr. O'Toole agree that would be achieved if it is limited to people who cannot borrow from commercial banks?

Dr. Conor O'Toole: In theory, we hope there would be sufficient screening for applicants to allow them to demonstrate that they are not able to borrow to make that transaction happen or they had insufficient savings to make that happen. In practice, it is very difficult to ensure that *ex ante*.

Senator Mary Fitzpatrick: Why? I would have thought it is very easy for someone to demonstrate that they went to a bank and were refused. How is it difficult to demonstrate that?

Dr. Conor O'Toole: That is one of the key criteria. That is not necessarily the point I am trying to make. I was trying to say that with schemes such as this there can often be spillover. Households change their preferences for the type of house they would like to buy and that can feed into their loan application and the demand that they would make on a scheme. There are all these combinations. I am not saying that they are the predominant factors affecting the scheme; it is just that these are the balance of the factors that we consider at the outset.

Senator Mary Fitzpatrick: May I just ask-----

Chairman: I am sorry. We have gone over the Senator's seven minutes.

Senator Mary Fitzpatrick: I will come back in.

Deputy Thomas Gould: I represent Cork, where more than 9,000 individuals and families are on the social housing list. Thousands of other families do not qualify to go on the social housing list and are either in receipt of HAP or RAS. Others again are not in receipt of any payment and are paying large rents. Rents increased by 5% in Cork in 2020. For the people I represent, access to affordable house purchase and affordable cost rental is a major issue and needs to be delivered now. All the contributions seems to promise everything in the future. People are looking for hope now. People need us to deliver now. How many units need to be delivered in cost rental and affordable housing to prevent rents increasing and make a difference to the people?

NESC produced a report recommending an examination of the compulsory purchase order legislation. It also stated that the current vacant site levy is insufficient as we all know. What would NESC do to change that? There are 95 vacant sites alone on the Cork City Council vacant and derelict sites list and there are many more throughout Cork city and across all local authorities. What changes would make a difference in this regard?

Chairman: The question on the number of units needed for affordable and cost rental is for the Housing Agency.

Mr. John O'Connor: I thank Deputy Gould for the questions. We need to deliver thousands of units. It needs to be done over the long term. Year-on-year, we need to deliver a few thousand cost-rental homes. The Deputy asked specifically about Cork and giving hope now. Two of the developments that were approved for delivery over the next year under the cost-rental equity loan scheme are in Cork city. Some of the LIHAF developments are in Cork. However, we need it throughout the country to deliver affordable houses for purchase and cost-rental homes. We need to do it on scale to give people more hope and expectation to be able to avail of affordable home purchase or cost-rental homes.

Chairman: Does someone from NESC wish to comment on the vacant site levy?

Mr. Noel Cahill: I will comment on this. We recommended having a review of the levy in the report. There are concerns that it may not be working so well. While we recommend a review, we do not propose what should follow. There would be various options. Compulsory purchase is one option. There has been some use of compulsory purchase for vacant built properties, which have then been used for social housing. We published a report couple of years ago with a suggestion that did not get much attention. We floated the idea of a mechanism of

having vacant sales orders. Where a property had been vacant for a long time, there would be a requirement on the owner to sell it. That would establish the real market demand for property. We think it is something that needs to be reviewed.

Deputy Thomas Gould: I have a further question for Mr O'Connor. What will the rent be for the cost-rental units in Cork? He mentioned the LIHAF. That is for a development in the Old Whitechurch Road, which I proposed for development in 2011. Ten years on, people are saying, "Great news in Cork; 600 units are being developed on the Old Whitechurch Road site." This is ten years after I proposed it. This is my issue with trying to give people hope. Will we be here in ten years talking about announcements, reducing rents and giving people affordable homes? From the frustration I see every day, it is clear that people cannot cope with the rents and the pressure they are under. Could Mr. O'Connor give us a figure relating to the rental for Cork?

Chairman: Could Mr. O'Connor just give us the figure because we have about ten seconds?

Mr. John O'Connor: It would be of the order of €900 to €1,100 per month.

Deputy Emer Higgins: I have two comments and three questions for the witnesses from the ESRI. I welcome Mr. O'Connor's welcome for the local authority-led affordable purchase scheme and the shared equity scheme. In respect of Dr. O'Connell's and Mr. Cahill's presentation and reviews of their eight reports, they recommended everything from the established of the LDA, cost rental, the expansion of Part V, the expansion of the site services fund, CPO powers and a flagship project. I am inclined to agree with everything they said and all of the other research on this. While we might not agree on everything, I am sure Deputy Ó Broin would agree with me when I suggest that Dublin Mid-West be looked as a key location for such a flagship project.

My first question for the ESRI relates to the criticism of the UK scheme. One of the major parts of criticism was that it was open to all earners and that 60% of those who availed of the scheme did not actually need that support. I know that is of concern to the witnesses from the ESRI and Senator Moynihan, who also raised it. Do the witnesses from the ESRI accept that we have learned from the UK experience and that, under this Bill, someone will only be eligible for affordable housing if he or she cannot buy without that support and that as Mr. O'Connor said, this, in itself, is a control mechanism?

My second question concerns the supply constraints. As both Dr. Slaymaker and Dr. O'Toole said, supply is the most critical part and is probably the hardest one to get right. They described it as the most difficult to rectify and something that will take the longest time to materialise. The two shared equity schemes in conjunction with the LDA, and it is quite that they look at it in conjunction with the LDA, which is also going through the Oireachtas, are aimed at becoming a catalyst for supply in the near future. The witnesses from the ESRI outlined how key rectifying supply issues is in terms of delivering affordability. Do they agree that when looked at in conjunction, the two different shared equity schemes and the LDA will together kick-start supply? If those three mechanisms become that catalyst in supply, will that will offset any potential impact on inflation?

Following on from the points raised by Deputy McAuliffe and Senators Cummins and Fitzpatrick regarding not looking at the local authority scheme, I know the witnesses said they do not have much research on this side of things. Can they use this opportunity to acknowledge that their opening statement only deals with two of the three elements of the Bill and, therefore,

could be misleading if it is read as a commentary on the Bill in its entirety? We saw that on the front page of today's edition of the *Irish Independent*. If the witnesses are willing to take this time, could they put on the record of the Oireachtas their views on the full Bill, particularly the full Bill when it is looked at in conjunction with the LDA? Do the witnesses accept that the Bill provides for people who cannot buy without support? Do they agree that, taken in conjunction with the LDA, this will kick-start supply? Does that alleviate any concerns in respect of potential inflation? My third question concerns that holistic view of the Bill. Could the witnesses start with the third one in case we run out of time?

Dr. Conor O'Toole: I thank the Deputy for her comments. As I mentioned earlier, in respect of the evidence we are putting forward today or, certainly, the research we are trying to draw on, we felt we had elements that could help with the Bill where that drew on our existing research. Where there are supply side elements in this, and this is a broad Bill, they are most welcome. Focusing on and understanding those supply side challenges are critically important. As we said on a number of occasions, any measures to increase the supply of housing are what we need so the range of measures in the Bill to do that are very welcome.

In respect of the eligibility criteria, learning from the UK scheme and the impact of any increase in supply on prices, as I mentioned, when we do this type of assessment *ex ante*, it is very difficult to say what exactly will happen to house prices given the range and multitude of factors that affect house prices. It is important at the start to think about the benefits and merits of schemes like this. It is also important to think about the risks. Outlining and considering these are as important as anything else. When a scheme like this takes place or the intervention occurs, one is able to say afterwards what happened if one has sufficient data and a good identification strategy to do that. I mentioned two things in my opening statement. The eligibility criteria, the targeting and the prioritisation are very important. Ensuring these households are unable to get the credit in the market - they have demonstrated that they have attempted to borrow on the market and that has been deemed to be insufficient for the housing purchase they would like to make - is a very important screening criterion for this scheme. That is critical.

In terms of the overall magnitude, naturally the UK is a very different market. The dynamics at play in the UK are very different and the context in Ireland is very different. The level of supply and balances is not the same here. The macroeconomic context and labour market shocks are different here, which matters for understanding how much of the various different pressures will pass through this scheme. It is not to say that what happened in the UK will exactly happen here. That is not the case. However, it involves thinking about what evidence we have in terms of the mechanisms and channels through which these type of interventions operate in terms of understanding the benefits to help facilitate home ownership for households that otherwise would be unable to avail of it-----

Chairman: Sorry, we are just out of time. Senator Boyhan is next.

Deputy Emer Higgins: Am I out of time?

Chairman: Yes, we are over seven minutes.

Senator Victor Boyhan: I am very conscious of time so I will start off by telling Dr. O'Toole that I really welcome him. He has given us a dose of reality. I have listened to the other political groupings and their commentary and I read today's edition of *The Irish Times*. Yes, the heading is "ESRI claims shared equity schemes risk driving up prices" but Dr. O'Toole is right to come in and bring a dose of reality to the situation. I acknowledge his work in this

area and I acknowledge the ESRI as being a very competent, able, fair and transparent organisation. I do not believe Dr. O'Toole set out to upset people but I believe he has given us a dose of reality. The article in *The Irish Times* this morning is a wake-up call for many people in this debate about affordability. Dr. O'Toole is right to talk about analysing and assessing *ex ante* the process relating to risk, merits and benefits. He has done a good job and has done good service to this committee. I acknowledge that because he has made an important contribution that I consider to be a commonsense injection of reality.

I have a few questions about the Housing Agency. I welcome Mr. O'Connor and congratulate him on the 50 cost-rental homes in Stepside and the follow-on 105 social houses in partnership with Dún Laoghaire-Rathdown County Council. This is a welcome development from which we will learn. It was very much a learning curve and we have all learned things about that. I do not want to go into that. I would touch on some things mentioned by Mr. O'Connor in his commentary, such as the serviced sites fund and the land aggregation scheme, which is one of the greatest scandals in this country in terms of how these lands were purchased, the exorbitant prices paid for them and the fact that they were offered back to the Department on a land aggregation scheme basis, the Department rejected many of these and they are still on the books of the Housing Agency and local authorities. There is enormous potential in time and there is more out there in the context of a longer-term focus.

A final issue is the LDA. I ask the witnesses to comment on the serviced sites fund, the land aggregation scheme and the LDA and how that can feed into their plans and vision in terms of affordability.

I have a question for Mr. Cahill. I was interested in his proposal regarding a vacant sale order, something I had not heard about. We do not have time to discuss it today, but if he did more work on this issue, the committee would be interested in it. I would certainly be interested in hearing more about it. Perhaps he could send the committee some details on that. It is an imaginative and progressive scheme with potential. I would like to hear if there is any additional information on that, and he might share it with the committee.

Mr. John O'Connor: The serviced sites fund would be critically important for the delivery by local authorities, approved housing bodies and the LDA of affordable purchase housing and cost rental housing. On the purchase side it is one way of reducing the cost for the purchaser, along with the use of land. That would involve the continued and perhaps more flexible use of the serviced sites fund, which is currently primarily focused on infrastructure. If local authorities are given more flexibility in its use, which the Department and Minister are considering, that will be important. Its use in the future will be very important.

The Senator referred to the LDA. Delivery on State and local authority lands, supported by the LDA, will be very important. It ties into the land aggregation scheme. Lands which were purchased by local authorities are now being fed into the LDA. There are three specific sites that between them will deliver around 1,500 homes.

The price paid by local authorities was the price of land at the time. The important thing now is that we utilise land and start delivering on scale on those lands. The major advantage of the LDA is that it is able to deliver on big developments and can deliver mixed-use developments. A major focus for the LDA will be affordable housing, namely, cost rental and affordable purchase housing.

Chairman: Senator Boyhan raised an interesting concept, namely, the vacant sales option.

I ask for a written response on that, if that would be acceptable to the Senator. It would greatly assist us in terms of time.

Senator Mary Seery Kearney: I would like to explore the wider context and the impact within it. I refer to the ESRI conclusions that, given current supply shortages, it is likely that benefits will be outweighed by inflationary pressures. I read with interest the report on mortgage credit access and State intervention. It concludes by stating that:

[P]ublic policy mechanisms to subsidise rents, such as affordability or cost rental measures, are viewed as tenure end-points for recipient households, however such measures may provide a platform by which recipient households accumulate a deposit and become home-owners. Exploring the dynamics of affordability and tenure choice could provide useful insights for the calibration of housing affordability and related policy interventions.

Coming back to the point made by Deputy Higgins, the wider context needs to be analysed. This includes the LDA, the focus on improving supply, the interventions which focus on improving access to affordable housing and credit and existing schemes. The interplay of all that will assist in easing demand and increasing supply. I am interested in hearing the comments from the ESRI on that. I acknowledge the wider circumstance in the context of the statements today and how they have been represented in the media. I would like Mr. O'Connell to expand on his comments that we need to focus on supply as a solution.

Dr. Conor O'Toole: The wider context is critically important in understanding the economics around these types of interventions. As I have mentioned, the housing market has many co-determining factors, such as the level of credit market access with supported schemes and broader lending activity by the general banking sector and the demand side, labour market and supply channels. Ultimately, the overall impact on inflation would be a combination of all of these factors. They all co-determine the degree to which house prices will move up or down over the coming years.

It is important for us to understand their varying impacts over time. It is very difficult to stand here today *ex ante* and say what the impact of any one scheme would be before it has taken place. In a sense, we need to think about the benefits and risks. As I said in the statement and discussion today, where there are interventions to provide credit constrained households with the finance to make transactions, those policies certainly have merit. There is a role for them where they can be clearly identified to help with the deposit or income channel. Our research is clear on that.

In terms of the risks with these policies, in general with any intervention on the credit market side where there are rises in purchasing power and supply is limited in the short run, the tendency is to have upward pressure on the demand side. That can be offset by changing other components on the supply side, and that may alter the market. It involves a combination of factors that all affect each other. The outcome is the price of inflation in the market.

Senator Mary Seery Kearney: I refer to the point made by Deputy Higgins. I suggest that the opening statement from the ESRI needs to be updated because it confined itself to two factors rather than the wider context, all of which needs to be acknowledged. There may be a very short-term inflationary element, but that can be augmented by all of the other wider context interplay. It is necessary, given today's media coverage, for the ESRI to address the fact that its statement has been taken without the wider context being examined.

Dr. Conor O'Toole: In the statement we balanced and walked through the factors and out-

lined the fact that supply interventions are very important. The Senator can note that we concluded that interventions which help the supply side of the market are what would be important in the medium to long term. That is very clearly outlined. We walk through the various impacts and channels through which measures operate and we contextualise the scheme in terms of the other schemes that are available in the market. All of this is important for understanding the context. Above all else, we start the opening statement by saying that all of these supply and demand factors are significantly affected by the very fast-changing nature of the pandemic's economic effects. The opening statement reflects our research and our thinking around that research's development over the past number of years and speaks to where we feel we can make a comment on the housing market. It walks through the benefits and risks of these types of intervention. In dealing with the bottleneck in market supply, interventions that do not go to borrower purchasing power but to the supply side channels are what will be most important for the overall market. The statement reflects the fact that it is difficult to determine *ex ante* what the impact will be on inflation down the line.

Chairman: I thank Dr. O'Toole for that important point. If he believes that the opening statement covers everything, that is fine. If he feels that he wishes to add more to it based on today's questions and discussion, though, we would accept that. We are trying to feed into the Bill and take all of the expert advice. Adding more advice and information will assist us in that. We would welcome it if the ESRI wished to make another submission or elaborate on its submission today.

We have one or two minutes left for the third Fianna Fáil slot, but I do not know who will take it.

Deputy Paul McAuliffe: Senator Fitzpatrick and I will share it.

Senator Mary Fitzpatrick: I thank Dr. O'Toole. What the Chairman suggested would be useful. Twenty of 23 of the Bill's heads deal with the local authority affordable purchase scheme. We would welcome the ESRI's comments on that element.

Deputy Gould mentioned that he had been proposing affordable housing for ten years. I suggest that, if he voted for Fianna Fáil, he would start to see that being delivered. That aside, can we discuss the time element? We all know that supply is the major issue. Our efforts must be focused on the time involved in planning, funding, getting permission and construction if we are to increase supply and maximise the affordability that can be achieved through the use of public lands to deliver public housing. Will Mr. O'Connor speak to what we can do to accelerate that element? I appreciate that there needs to be proof of concept of the cost-rental approach, but what can we do within the next four years to achieve scale?

Deputy Paul McAuliffe: Regarding my second question, we have been critical of the ESRI in some ways today. Economists can only put forward the views they hold and I accept that the contribution that was made was limited to one area, but it was right for us to consider the broader issues as well.

I would be interested in hearing about scaling up cost rental. It was right to say that the current supply was limited, given that the model is only being legislated for now. How can we scale it up? Will the witnesses also answer the question about social mix? We would not allow any other sort of mono-income or mono-tenure criterion. Therefore, there should at least be a percentage of social housing in every cost-rental block to provide mixed-income developments just as there would be in a private or social housing estate.

Chairman: I ask Mr. O'Connor for a one-minute response, please. I need to finish the meeting now.

Mr. John O'Connor: One intervention would be to develop large local authority or State sites and to focus on delivering mainly public social and affordable housing but also some market housing. Focusing on large sites would have the greatest impact. Many deliveries are on smaller sites, so we need to get larger ones going. Alongside the LDA and the work being done by local authorities, that will make a significant difference.

Chairman: I need to bring the meeting to a close. I am sorry, but we are out of time. I thank the witnesses for their participation. It has been helpful to us and will assist us in our scrutiny of the legislation.

The joint committee adjourned at 12.05 p.m. *sine die*.