DÁIL ÉIREANN

AN COMHCHOISTE UM THITHÍOCHT, PLEANÁIL AGUS RIALTAS ÁITIÚIL

JOINT COMMITTEE ON HOUSING, PLANNING AND LOCAL GOVERNMENT

Déardaoin, 10 Deireadh Fómhair 2019

Thursday, 10 October 2019

The Joint Committee met at 9 a.m.

Comhaltaí a bhí i láthair/Members present:

Mick Barry,	Martin Conway,
Pat Casey,	Colette Kelleher.
Marc MacSharry,*	
Fergus O'Dowd,	
Eoin Ó Broin.	

* In éagmais/In the absence of Deputy Darragh O'Brien.

Teachta/Deputy Noel Rock sa Chathaoir/in the Chair.

Business of Joint Committee

Chairman: Apologies have been received from Senator Murnane O'Connor and Senator Gerry Horkan may substitute for her. Is it agreed that we go into private session? Agreed.

The joint committee went into private session at 9.15 a.m. and resumed in public session at 10.04 a.m.

General Scheme of Land Development Agency Bill 2019: Discussion (Resumed)

Chairman: At the request of the broadcasting and recording services members and visitors in the Public Gallery are asked to ensure that for the duration of the meeting their mobile telephones are turned off or switched to airplane, safe or flight mode, depending on the device. It is not sufficient to put telephones on silent mode as this will maintain the level of interference with the broadcasting system. To assist with pre-legislative scrutiny of the Land Development Agency Bill 2019, I welcome to today's meeting Professor Kieran McQuinn and Dr. Conor O'Toole from the Economic and Social Research Institute. From the National Economic and Social Council, I welcome Dr. Larry O'Connell and Mr. Noel Cahill.

Before we begin, I draw attention to the fact that by virtue of section 17(2)(*l*) of the Defamation Act 2009, witnesses are protected by absolute privilege in respect of their evidence to the joint committee. However, if they are directed by it to cease giving evidence on a particular matter and continue to so do, they are entitled thereafter only to qualified privilege in respect of their evidence. 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 or entity by name or in such a way as to make him, her or it identifiable.

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

Dr. Kieran McQuinn: I thank the committee on behalf of Dr. O'Toole and myself for the opportunity to appear today. The ESRI welcomes the creation of the Land Development Agency and will be happy to provide any information or advice which helps the agency in its mission. I will start by providing some background to the work the ESRI has been conducting in the housing area. To date, most of this work has focused on the demand-side of the housing market by examining the sustainability or otherwise of house price developments at both a national and regional level. Work has recently also focused on the affordability of housing costs in the Irish market generally. In particular, housing costs as a percentage of income has been examined across the distribution of Irish households for different tenure types and over time. Further work on affordability for first-time buyers is under way at present.

What can we conclude on the basis of this work as far as the Land Development Agency is concerned? Overall, since the mid-1990s Irish house price movements have been among the most volatile across OECD countries. The period can be divided into three sub-samples. Between 1995 and 2007, house prices grew in nominal terms by 340%. From 2007 to 2013 they fell by 55% before recovering by 83% between 2013 and today. Developments on the supply side of the market have been equally volatile. In 1995, we estimate that approximately

20,000 new housing units were constructed in the Irish market. This figure escalated to over 62,000 units in 2006 before declining to just over 4,500 units in 2013. The figure for 2019 is likely to be approximately 21,000 units. Such variations both in price and supply levels have had substantial repercussions for the economy, the financial sector and for society as a whole. In short, these significant oscillations in key housing variables are far from optimal and policy should clearly aim, as with most economic variables, to achieve stable house price inflation and rates of housing supply. Such stability enables households on the demand-side and firms on the supply-side of the market to plan more effectively over the medium-term. It also ensures that housing-related developments will not have a disproportionately large and potentially destabilising impact on the wider economy.

Our analysis of recent developments in house prices suggests broadly that price level movements whether nationally or regionally are currently determined by fundamental factors in the economy. By this, we mean that current house price levels can be explained in terms of factors such as disposable income levels in the economy, demographics, the number of jobs being created and the cost of finance in the market. However, this analysis takes certain supply-side issues in the housing market as given or fixed. For example, when we say that we feel that house price levels are explained or determined by fundamental factors in the economy, that is for a given set of supply-side issues such as land costs. Clearly, any change in land costs can influence the long-run equilibrium house price in the market. At present, it is clear that the level of housing supply is persistently below the demand for housing, or structural demand, in the Irish economy. While estimates of this demand vary, the institute's view is that between 30,000 to 35,000 units are required per annum over the medium term to meet this demand. Clearly, the level of actual supply is significantly below this and has been for quite some time. However, our belief in the institute is that between 30,000 and 35,000 units are required per annum over the medium term to meet this demand. Clearly, the level of actual supply is significantly below that and has been for quite some time. As long as this imbalance between supply and demand exists, the cost of housing in the Irish economy looks set to continue to increase. While house price inflation has eased in the Irish market over the past 12 months, rents continue to increase at a significant rate.

In a recent comparison of cross-country house price levels, Bricongne, Turrini and Pontuch confirm that Irish house price levels, when allowing for scale, are among the highest of the 39 countries considered. Therefore, it is clear that if a significant increase in housing supply is required in the Irish market at this time, it can only really be achieved through a reduction in the cost of supplying a property to the market. While official, actual data on development land costs are not available, certain information would suggest that, in an Irish context, land costs are a substantial portion of the overall cost of building a property. Recently in the quarterly economic commentary, QEC, the ESRI has called for a more aggressive stance to be taken by policy makers on this issue. I will briefly explain the rationale for this; if the cost of development land is significantly greater than the agricultural value of land, it suggests that the difference may be due to a speculative component. The speculative component mainly arises because owners of the land have not, until recently, faced any cost in not developing this land for property development. Developers can merely sit back and watch the value of the land increase significantly year on year as the demand for this land increases. Therefore, by accurately pricing a site tax, this speculative component can be tackled as developers will now face a cost if they do not develop their land. This will ultimately lead to a reduction in the price of land, thereby reducing the cost of supplying a house. All things being equal, this would result in an increase in supply at a given price.

Unfortunately, this diagnosis of issues in the Irish housing market is not new; the Kenny report in 1973 identified building land as a major issue with the report recommending that such land should be acquired by local authorities for 25% more than its agricultural value. More generally, from an international perspective, it is well established that markets that have greater control over the provision of land tend to experience much more significant house price inflation than markets such as Germany and Switzerland, where policy ensures that adequate housing is supplied. As Cheshire pointed out in 2014, the greater restriction on the provision of land for housing in the United Kingdom post the Second World War has turned housing and housing land increasingly into investment assets.

Policies to increase housing supply can often operate at a considerable lag between the announcement of the policy and its actual impact. By addressing the provision of land, the Land Development Agency can directly help to deal with the supply issue. Other policies such as the local infrastructure housing activation fund, LIHAF, can also be important in escalating the provision of housing. From an affordability perspective, the specific price for which new units come onto the market is critical and ultimately, the units must be affordable to the typical buyer. Therefore, we in the institute would welcome any policy or development such as the establishment of the Land Development Agency, which increases the provision of land for housing purposes. I thank members for their attention. We look forward to taking questions.

Chairman: I thank Dr. McQuinn and call on Dr. Larry O'Connell to make his opening statement.

Dr. Larry O'Connell: We also thank the Chairman and members of the committee for this invitation to speak on NESC's work on urban development land, housing and infrastructure. Mr. Noel Cahill and I are members of the secretariat in NESC and are attending in that capacity. NESC is a Government body which advises the Taoiseach on strategic policy issues. The members are appointed by the Taoiseach and represent business, employers, trade unions, agricultural and farming organisations, community and voluntary organisations, and environmental organisations; as well as heads of various Departments and independent experts. Its composition means it plays an important and unique role in bringing different perspectives from civil society together with Government.

The NESC report, Urban Development Land, Housing and Infrastructure published in 2018, highlighted that the availability of land for housing in appropriate locations, which is consistent with the provision of affordable housing, remains an unresolved policy issue in Ireland. The supply conditions of land help to create a speculative land and housing market. The supply of land is uncertain, patchy and costly. This tends to make the housing system risky, unstable and unaffordable.

Based on an examination of countries with successful experience of housing, NESC found effective solutions involve a combination of three things. The first is active land management and urban development by highly skilled and respected public authorities. The second is housing policies focused on achieving permanent affordability. The third is a range of mechanisms to use the value added to land by investment to help fund necessary infrastructure.

For those reasons NESC recommended the creation of a public body with a strong developmental mandate, political authorisation and executive capacity to drive sustainable urban development. As such, the council views the establishment of the Land Development Agency as potentially a very significant and important way of addressing critical issues regarding land supply and housing and the related challenge of supporting increased investment in infrastructure. It is a means of putting public land in the hands of actors who will develop it in a timely and appropriate manner, rather than seeking to maximise State revenue by selling it outright, without regard to when and how the land will be developed.

It also an important step in the right direction in terms of creating the conditions and institutions for more active land management and new kinds of relationships between public authorities and private holders of development land. In the remaining part of the opening statement, my colleague, Mr. Noel Cahill, will highlight a number of lessons which we believe are relevant to the committee's deliberations in relation to the legislation governing the LDA.

Mr. Noel Cahill: The first lesson is that affordability should be an explicit objective for a body such as the Land Development Agency. The international cases show that supply of housing is not in itself a reliable or sustainable means of making housing affordable. Like other countries, Ireland must engineer affordability into the supply of housing. It must be a stated objective for the public institution.

Second, we think that cost rental must be a critical strategic priority for the Land Development Agency. It is a key tool which can bring affordability into our housing system. Public land should be used to create permanent housing affordability. The cost-rental model is characterised by modest supply-side support. It uses land and finance at favourable rates, to underpin affordability. Cost rental makes the affordability permanent by ensuring that rents cover costs and that the equity that accrues as loans are repaid creates a revolving fund, which is used to underpin further affordable housing.

The third lesson is that a body like the Land Development Agency needs effective compulsory purchase powers. A key insight from international experience is that working relationships that exist with private developers require that public bodies have available to them effective compulsory purchase powers. These are rarely used. However, the dynamic of the land market changes where there is a credible possibility of public purchase of urban development land at less than its full development value. Effective compulsory order, CPO, powers ensure that all actors take planning seriously.

The fourth lesson is that an additional way of achieving permanent affordability is that the Land Development Agency, rather than selling land outright, would lease it to others who could develop and own buildings on it. In areas where land costs are high, this approach means that the initial purchase price can be much lower than in a conventional purchase. Leasing can also be used to ensure that where land is provided for affordable rental accommodation that it is kept permanently affordable. The fifth lesson is that to enhance affordability on private land, NESC has also recommended that consideration be given to a requirement in Ireland for affordable housing on private land beyond the current Part V requirement for 10% social housing.

The sixth lesson is that one of the objectives of the LDA is to support the implementation of Project Ireland 2040. The search to buy affordable property often leads to dispersed development, notwithstanding the Project Ireland policy goal of compact development. An alternative to dispersal was set out in a recent NESC report on transport-orientated development, TOD, which seeks to maximise the provision of housing, employment, public services and leisure space in close proximity to frequent, high-quality transport services. The LDA could be a significant contributor to the achievement of this form of development. We recognise there is a trade-off between the goals of making housing affordable and achieving a commercial return on land assets. However, a balance can be achieved between these objectives. For example, if land is leased on a long-term basis then the initial affordability is improved while value can be recovered over time. In some examples of high quality development we have looked at, such as in Freiburg in Germany, money is borrowed to invest in infrastructure and land development and then repaid through the sale of developed plots, in some cases to self-building co-operatives. This means the revenue from selling land is helping to expand the supply of development land. The land agency in Vienna is another example of how these objectives have been balanced. This agency was established in 1984 to provide land for subsidised housing. The land owned by the city council was transferred to the agency. Since then, it has operated on a self-funding basis in buying, developing and reselling land. It sells land to affordable housing providers at a price that it is sufficient to cover the costs of the agency in supplying the land but is low enough to underpin housing that is affordable. Typically in this case it is cost rental housing.

We view the Land Development Agency as a potentially positive institutional development. It should prioritise the use of land for housing that is permanently affordable, including cost rental accommodation for middle-income households.

Deputy Eoin Ó Broin: I thank the witnesses for their presentations. I acknowledge the significant body of research NESC and the ESRI have been doing on land and housing. The committee has been paying close attention to it. As a small aside, as new research papers are produced it is always welcome if they are sent directly to the committee secretariat to circulate to us in case we miss some of the publication dates.

I have a list of questions for both organisations and I will go through them quickly. The heads of the land development agency Bill do not include compulsory purchase order, CPO, powers. Particularly with respect to NESC's view in its 2018 report that enhanced CPO powers are very important, I would like to hear the views of the witnesses on the types of CPO powers they believe an effective land management agency would need and how much would it be hampered if it did not have CPO powers.

I also want to raise the issue of the Kenny report because it is something that is spoken about as often as it is ignored. Much of the time when people speak about it they do not seem to have a full appreciation of what it proposed. There is a very good summary of it in NESC's 2018 report. The Kenny report recommended that subject to High Court approval a compulsory purchase order price would be set at the agricultural value of the land plus 25%. The working assumption at that point was that the people who owned the land would have paid agricultural prices for it and, therefore, would get compensated for the money they paid plus extra. The difficulty with applying a similar scheme today is that it is highly unlikely that the people from whom the land would be purchased bought at agricultural prices. Given the constitutional issues not so much about property rights but about fair compensation, which is the real issue, how do the witnesses see a modern-day application of a similar scheme that would get us around the compensation issue? Otherwise we would end up having to buy sites at the value paid for them, which could be very excessive.

I am also interested in the views of NESC on brownfield sites. We used to talk about agricultural sites but much of what the Land Development Agency will be doing will be looking at brownfield or industrial estates.

A big concern for many of us in terms of how the Land Development Agency has been set up is affordability and the huge impact of land prices on affordable rents and purchases. In Poppintree with Ó Cualann, Dublin City Council extracted the land value completely out of the equation. By doing this, we can deliver eminently affordable houses. However, in O'Devaney Gardens it appears private developers are being allowed to extract the market value of the land despite the fact they are not paying for it. How do we ensure that when the private sector is involved there is not land value extraction that pushes up the price of those properties?

Transparency was a big issue of concern for the committee when the Department appeared before us last week, with regard to the Land Development Agency not being subject to freedom of information for most of its dealings. NESC spoke about a highly skilled and respected public agency. The worry many of us have, and this is absolutely no disrespect to any of the people employed at present by the Land Development Agency, is that if it does not have transparency and accountability how can we guarantee it will have that public respect? Are the witnesses concerned there are limitations on the extent of accountability and transparency?

My next question, on house price volatility, is more for the ESRI. Many of the reports that have been produced have looked at demand and supply issues. They have looked at the demand for housing versus the supply of housing and the demand and supply of land. What many people have not focused on is the impact of credit liberalisation and the growing volumes of credit, particularly after the crash, and quantitative easing into land as a secure and stable investment. What are the witnesses' thoughts on this? Do we also need to be thinking about how we constrain not credit supply but speculative credit supply as part of our considerations on this?

The 2018 NESC report included a very interesting chapter on locational value mechanisms. Will the witnesses summarise and give us an idiots guide to this? It is one part of the report I did not fully understand but I believe it is relevant to what we are doing.

There is a discussion on the difference between agricultural and residential prices. Will the witnesses flesh this out a little more? Do they have any observations on where that gap is at present, particularly in high demand and high cost housing areas such as Dublin?

Dr. Larry O'Connell: If I miss some of the questions I ask the Deputy to highlight them for me. I will begin with CPO powers. What we found when we looked internationally is that CPOs comes in at the end and not at the start. What we are really trying to create is a process of engagement, whereby we start with better engagement with local authorities and people who own public land and we work through a process. The committee heard this from the Land Development Agency in its submission and discussion with it. What is clear internationally is that having CPO powers to get people to take the engagement seriously is important. It gets us to a discussion on the value of the land and trying to have the process. The Deputy is raising the spectre of somebody walking onto a piece of land and stating he or she will demand to CPO it and somebody else saying it is his or her view that it should be done at current market value and there is an inflated view about that. Something else that comes to bear in this discussion, as came up in the discussion the committee had with the Land Development Agency, is that affordability on the particular site will determine the actual value. If it is to be 100% affordable then the land will not have a huge market value. The particular figure worked out in the engagement becomes very important. The key for us with regard to CPO powers is that they enable the discussion and negotiation to have a different character.

On the question about agricultural land versus brownfield land, we fully agree and our report is very conscious of it. The focus is not agricultural land, it is brownfield land. It creates the wrong impression if we start to speak about agricultural land. The acute crisis is in built up urban areas where we need to get more development. This is the land we need to speak about.

Deputy Eoin Ó Broin: Is there a similar gap between the market value of brownfield land versus residential land? Does Dr. O'Connell have a concern about the width of the gap and whether it is widening?

Dr. Larry O'Connell: The starting point for the Land Development Agency is taking sites that are very difficult at present, where the gap might not be enormous. This is not the Land Development Agency walking in to take a site in the docklands in Dublin and trying to compete where there is a big difference between what it is at present and what it could be. We will start with the Land Development Agency taking public land. As I made very clear, there are many complexities to be worked out in the land. This is the piece of land we are looking at in the gap. With regard to the wider issue of whether there is a gap I do not really have a view but the key issue is that we are trying to get more land that is not very amenable to development into play. While I run the risk of repeating myself, it is interesting that the LDA seems to be trying to create more of a partnership model with local authorities. I am not in a position to comment on the O'Devaney Gardens model, which predated the LDA. One would hope we would not arrive at that scenario again. In its submission to the committee, it seems that the LDA will engage with the private sector such that it will extract full market value. That is part of what it claims it will try to do.

I will ask Mr. Cahill to speak about locational value mechanisms.

The Deputy asked about the LDA and transparency. While we would be slow to comment, his points about FOI, etc., seem valid and need to be considered. Any respected agency in the public sector should have accountability and governance mechanisms that should be used to ensure its powers cannot be abused. It is a valid issue to raise. The key from our perspective is to put in place an agency with transparency and which has highly skilled individuals whose remit is focused on a public good. That seems to be what has been created.

Mr. Noel Cahill: On the question of acquiring land and the values, the Deputy pointed to the difficulty where a person has paid much more than agricultural value. The Kenny report stated that people paying more than the value would get the higher value from the date that the policy comes in. Likewise, the Part V mechanism also works on that basis.

Deputy Eoin Ó Broin: It is based on existing-use value rather than agricultural value.

Mr. Noel Cahill: Yes. It would be unreasonable to acquire the land at less than the price someone had paid in advance of any new policy coming in.

I do not have figures on the land values, but industrial land is generally less valuable than residential land. There is discussion. If some industrial estates were rezoned, that would also generate a substantial uplift in value.

Dr. Kieran McQuinn: On a brief aside, part of the difficulty we face very often in addressing these issues is trying to get decent information on whether it is agricultural land prices or other land prices, and understandably it is difficult for people to compile them.

The Deputy asked about the impact of increased availability of credit on land as an investment option. It is a very interesting point. It points to the issue of dangers of too much credit to start with. We have very much focused on the implications of credit availability on house prices and all the distress that was caused in the financial downturn.

There are a number of reasons for land being targeted as an investment. If people believe that house prices will continue to rise sharply, land will be an attractive proposition. There is evidence that over the past year that the macroprudential rules have managed to calm the pace of house price inflation, certainly in the Dublin area. The basic principle underpinning the macroprudential rules is that it should anchor house price movements to basically fundamental developments, income levels, etc., in the economy and that we will not have house prices spiralling way beyond income levels as they did before because people are just given even more credit. That is one aspect.

The other aspect is the importance of the site tax. Land is an attractive proposition if there is no cost to the holders. If they can simply sit on it year-on-year there is a major incentive to invest in it. Obviously, a site tax has been introduced with a higher rate applying. If that is effective, it can help to target land so that people will not perceive it as being an attractive investment opportunity as was previously the case. With the phenomenon of low interest rates globally, people are looking for yield. Certainly with the macroprudential limits, house price movements should be more anchored. We should not see the crazy returns and people should not expect the crazy returns that existed previously. If a site tax is to be effective, it should target the speculative return on land.

Dr. Conor O'Toole: I want to pick up on the affordability and the credit liberalisation issue. As the committee will be aware, we have done considerable work on affordability in recent years. While we have a housing supply bottleneck, that supply bottleneck will not be dealt with by lots more units; it will be dealt with by units coming in at the right price that are affordable where those bottlenecks are. The research is very clear on that; it is in lower to middle-income households. When we look back on whether this initiative has been successful, a critical indicator will be the extent to which it has delivered units in that particular area. The extent to which it can be leveraged to ensure affordable prices on the rental side and the purchase side is a critical indicator.

As Dr. McQuinn has mentioned, house price volatility has been a characteristic of the international environment. With the very low interest rates, global speculative investment has looked for yield, and land not just in Ireland but in the UK and more globally has been a very attractive investment asset for many investors. As Dr. McQuinn said, people holding that investment is not necessarily the issue; it is that they can sit on it and they do not have to use it with yield accrued over time. The implication from a societal perspective is that units are not developed on that land.

While the LDA will not be able to deal with this on its own, it needs to come as part of a package of measures, including a site tax and other instruments that can be used to ensure that. The speculative element in land is taken out. Professor Paul Cheshire of the London School of Economics carried out research showing that the UK has the same issues as we do in this area. The key is unlocking supply at affordable rates.

Chairman: I call Deputy Casey, followed by Senator Kelleher and Deputy O'Dowd.

Deputy Pat Casey: I thank representatives from both bodies for their presentations. We keep coming back to how we achieve affordability. Land cost has been identified as a critical part of that. While Project Ireland 2040 is concentrating on stronger urban growth with higher densities and brownfield sites, the LDA can form part of the solution. When we talk about land, even when talking about the agency, we keep referring to the market value of land. As was explained in last week's presentation, it is not necessarily market value but what the site can ultimately deliver. Dr. O'Connell mentioned that a site has a different value if it has 100% affordability. Why is all State land not considered 100% affordable? When we are dealing with State land and local authority land, why is it not just the cost of the land and not what it can deliver or its market value? Even if some State land has no debt on it, why are we not taking advantage of that and leveraging that advantage to deliver affordability? The more we rely on the private sector, the more bottlenecks we will generate. Dr. O'Toole said the bottleneck is not at the high end but in the low- to middle-income bracket. This is because there is more profit for builders to deliver at the high end of the market. There is less profit in the middle sector. That is why the State increasingly has a critical role in controlling the solutions to the housing crisis.

My other concern is that we have lost an incredible number of small building firms and we are relying increasingly on the large construction firms. A factor we are beginning to note that has a critical impact on affordability is the profit margin the builders are now demanding in delivering projects. There is an escalation of the margin.

CPO powers are critical. There is a combination of factors, as all the delegates have said. There is no doubt but that the threat of having good CPO powers is vital. Whether they are ever used is not the point because, as long as they exist, they can be used as leverage in finding solutions. I will be interested in seeing examples as the Bill goes through the House.

How is the vacant site levy working? Is there any indication as to whether it is beginning to deliver solutions? It would be great if the Land Development Agency were in a position to buy greenfield sites that are not zoned but, regrettably, we are in a cycle of development plans that have probably zoned private land holdings for up to nine years. We are dealing with market values because the lands are privately owned. Mr. Cahill gave a couple of examples. I have seen a couple of examples across Europe. I refer to going a bit further in our development plans and planning to a much greater degree. The State would control the development by providing the infrastructure.

The other question is on our development plans. Should they now be going to the next stage, not in respect of zoning but in planning to the point of delivery?

Dr. Larry O'Connell: I will take the Deputy's question on affordability and whether all State land should be made 100% affordable first. Local governments have autonomy and own land, and they have pressures and responsibilities. If central government were to attempt to do what is proposed, it would be very difficult. I am not saying it would be the wrong thing to do necessarily, but it comes back to the process. Let me give an example. Mr. Cahill gave an example from Vienna. Even there, where we see an effective housing market, the authorities are now finding it very difficult to get land to build more affordable housing. They have now reset it and have subsidised housing zones. In particular areas, where there is a development of more than 50 units, two thirds must be subsidised or affordable. A law came in stipulating a reset in all those areas.

If we considered such a rule here, it would have considerable implications for local authorities in every single area where they own land. It would have to be teased through. If we did not do it, we would have to ensure negotiation. This would involve creating an agency in the State with the power and staff to negotiate with individual local authorities. It seems this is what the Land Development Agency was set up to do. It is another question as to whether we are tying the agency's hands a little by deciding only 40% needs to be affordable. Should we change that? The policy at the moment is to have a 30:40 split. While it is tempting to think there could be some sort of central law requiring all State land to be affordable, it would create enormous difficulties and resistance. One would have to figure out how it would work.

The Land Development Agency is an institution that could deal with the profit margin of developers. As it writes contracts and works with the private sector, it is clear that it will try to get the best value for money for the State on public land.

I do not know the answer to the question on how well the vacant site levy is working. I believe, however, there is an important distinction between a vacant site levy and a site value tax. From our perspective, we have been saying for quite some time that a site value tax might yield more benefits than a vacant site levy. This is for many reasons. There are practical difficulties in identifying vacant sites, and there is the matter of what people might do in terms of declassifying sites such that they will no longer be regarded as vacant if certain works take place, etc.

The vacant site levy is on the development land only so, in a sense, it raises the costs around the site. A site value tax generates revenue from the land in an area. In a sense, there would be a wider tax base to bring money in to fund development. We can talk more about our views on this but it is important to make the distinction between a site value tax and a vacant site levy. They are quite different and would have a different impact.

Mr. Cahill might want to say more on planning and what is done in other countries.

Mr. Noel Cahill: Development plans are high-level plans and cover all the areas on which development is envisaged over quite a long period. With regard to the examples mentioned, we have a hierarchy of plans but there is scope in smaller areas for more detailed planning and for arranging to provide the infrastructure. To have large-scale development, it is sometimes desirable for a public body to take over management of the area, do the planning and install the infrastructure. An example of where that was done here involves Dublin Docklands Authority. It had powers and finance and achieved a huge amount. It may be an unfortunate example in some ways. Some of the European examples involve a body operating in selected areas. Possibly the Land Development Agency could in some cases take on a big area of development.

Dr. Kieran McQuinn: The general point is very valid. Going by some of the international literature, the more freely available the land is, the better for a housing market, the less the volatility and the fewer the swings in prices and housing supply. Irrespective of whether the land is held by the State or privately held, the bottom line is that once land is more freely available, housing markets tend to operate more effectively and efficiently. In Ireland, the Land Development Agency is very positive in that it can help to free up State-held land. Equally, it is a question of considering measures such as the vacant site levy as a way of targeting land held on the private side. The key issue is getting land, irrespective of whether it is held up by the State or privately.

On the profit margin issue, the point made was very valid. As we mentioned in our opening statement, it has struck us that from a simple supply-and-demand perspective, people on the construction side may say the margins are not currently available to bring about greater levels of supply. They might want 30,000 or 35,000 units, for example, but may get only 20,000. Although they say profit margins are an issue, house price levels in Ireland are very high by international standards. One cannot expect price levels to continue to rise, which brings us back to the kernel of the issue. If there is not adequate supply, given the high price levels, it means the issue is on the supply side of the market rather than the demand or price side, which is a crucial point.

As for what the cost side is, we have identified land costs as one issue while others have mentioned productivity in the sector. The construction sector is, relatively speaking, a sheltered part of the economy and is not as susceptible to competition in the way other sectors are. There may be issues, therefore, with productivity in the sector. People in the construction sector tell us it is inevitable that some of the changes on the banking and financing side would make life a little more difficult for the smaller-scale producers. Given the changes in the finance and the higher levels of equity now required by developers, there tends to be a bias in favour of the larger-scale developers and operations. That is a by-product of the fallout from the financial crisis. There are certain factors we can consider but that is just the way the market is.

I take Dr. O'Connell's point about the difference between a site value tax and the vacant site levy. It is hard to work out how successful the levy has been, although there is certainly some evidence some sites have come on stream, as has some development. Equally, however, it seems there are certain administrative issues with its implementation, some of which have been documented in the media. One presumes that the sooner they are tightened up and the more efficient the levy is, the more it will help to bring private sector land into the market and affect the speculative component of land prices, which keeps them elevated and is one of the main reasons the cost of building a house is so high relative to other markets.

Chairman: I thank Professor McQuinn and call Dr. O'Toole.

Dr. Conor O'Toole: I do not have a great deal to add. On affordability, I do not have any evidence to suggest that changing the parametrization of the current agency in order that there has to have 100% affordable housing on all the public lands is not a good idea at this stage. I would support a requirement that it would have, as an objective, the delivery of affordable units because it is critical to the issue in Ireland.

On site taxes, in general, as Professor McQuinn highlighted, the international evidence indicates that where markets do not rely on bulk zoning activities and have a freer ability to manage land over the cycle or when it is needed, they do a better job of removing the volatility from the price movements, which a large body of international work has examined. The characteristic, which is shared between the UK and Irish economies, has been pointed to as a bottleneck and difficulty from our point of view.

On the difference between the site value tax and the vacant site levy, as Professor McQuinn indicated, there appear to be administrative challenges with the vacant site levy, the registration process and other administrative aspects. A site value tax is a more direct instrument, given that it identifies some land and its current phase. Using a fiscal instrument to put a cost on keeping it in that phase has much merit. Moving that land through the process and ensuring there is a cost to keeping it at that stage, as opposed to moving it through the cycle, should be strongly considered.

Senator Colette Kelleher: I will first put my questions to the ESRI but there may be some crossover with the NESC. The ESRI stated land costs are a substantial portion of the overall cost of building homes and came down strongly on the site tax. Does the institute believe such a measure needs to sit alongside any legislation relating to the Land Development Agency and that it is a necessary part of the package?

I am greatly concerned we will hand over an enormous public asset. Publicly held lands belong to all of us and we need to be sure that we will get what we need out of the transfer. What we need are social and affordable homes. Mr. Cahill stated that should be an explicit objective of the Land Development Agency. I was concerned when I read in the heads of the Bill that the general scheme makes clear the LDA must also have regard to the policy of the Government on proper planning and sustainable development and contribute to the economic and social development of the State, while at the same time obtaining a positive financial return for the State. That seems to be a difficulty and we need to consider it in the drafting of the Bill as part of public scrutiny. While it is not related to public land, Bessborough, which is held by nuns, is up for sale, as are other similar lands. There is little that anyone can do about the disposal of such an asset.

Deputy Pat Casey took the Chair.

Senator Colette Kelleher: I am also interested in the type and the equation. A total of 10% of social housing seems to be a bad deal, given the large size of the giveaway. There is also the question of what is affordable. A great debate is ongoing about whether €310,000 is affordable but I do not believe that it is for people on an average wage. What are our guests' views on the definition of "affordable"?

If it is not a matter of 10% social, 30% affordable and 60% market, do our guests believe we could move to a higher proportion of social and affordable in that policy? How do we ensure we get the correct mix out of the giveaway of public lands to the LDA? According to the summary of social housing assessments in 2018, 47% of the 72,000 households on local authority waiting lists are single-person households. Of the more than 10,000 people who are homeless, just over 4,000 are single. The national Housing First implementation plan, published last year, requires an additional 750 to 800 one-bedroom properties in order that people can move out of hostels and those places that are not good for anybody. Housing First provides immediate access. How do we ensure that in the transfer of land we all own today, the goals we need are achieved? Should the aim of balancing a return to the State be dropped? Is the only objective achieving the type of housing we need?

On permanent affordability, I like the idea but wonder what law needs to be in place to ensure that is the outcome of the transfer? I am interested in the ownership and the retention of a State interest. In Singapore, where the state built significant amounts of housing, it retained a lease. There was a 99-year lease on any properties bought as a result of subsidised mortgages. Leasing was raised by both ESRI and the NESC. I am interested in the idea, given that the State would not give away everything but rather retain an interest. Perhaps we should consider models such as Vienna and Freiberg. I would imagine that the market portion of the mix in such places would not be 60% and it would need to be adjusted. I would like to hear the witnesses' responses to the questions I have raised.

Dr. Kieran McQuinn: Dr. O'Toole might come in on the affordability issues. The Senator's first point is very well made. As I said to Deputy Casey, we have to look at land overall and ensure that as much land as possible is freely available as far as housing is concerned. That means looking at land that is either held by the State or privately and identifying the measures we can take to ensure land comes from both sources. That is why the Land Development Agency is potentially a very good idea for State lands, in that it can help free up the bottlenecks and ensure land is more freely available. We have also talked about the vacant site levy as a way of ensuring there is no bottleneck for privately-owned land either. Land should be more freely available from both sources. That is why I agree with the assertion that both must go hand in hand in order to address the issue.

I refer to getting the right mix of social and affordable housing versus how much is available at market prices. My preference would be for it to be weighted more in favour of social and affordable housing, given our current circumstances and the nature of the bottlenecks in the market. I do not think we could necessarily identify the parameterisation and precise ratio figures right now, but perhaps Dr. O'Toole could talk about our work on affordability, which would give some insight into that perspective.

Dr. Conor O'Toole: As I said earlier, setting particular parameters, such as 40% or 30%, results in strict cut-offs for what the delivery should or should not be. I do not have any evidence that would push me to give an alternative parameterisation. However, when one looks at the profile of households it is very clear how much they can afford in their housing costs-----

Senator Colette Kelleher: What is needed.

Dr. Conor O'Toole: -----and what is needed to deal with the affordability challenges. Delivering affordable units for those who can purchase or rent them sustainably and social housing for those who do not have sufficient incomes for those alternative tenures is how we will get the most societal return for this investment. Meeting those needs is a key objective of agencies such as the Land Development Agency.

Senator Colette Kelleher: Should that aspect be strengthened in the Bill?

Dr. Conor O'Toole: A key objective of the organisation should be to deliver affordable homes, particularly where it is using State lands. The key issue is taking the speculative element out of the land price and ensuring it is passed down to the household at the end. That has to be a critical issue for an organisation such as this. It may also get involved more broadly in public private partnerships and so on as a secondary objective. In that context it is important that it should make a return to the State. That would ensure that when it gets involved with a private development that might need some support or funding to move over the line, the State will get the most out of it. The organisation should have the flexibility to do that but should also maximise the returns. Having a broad remit is a good thing, as long as affordability is its core objective.

Dr. Kieran McQuinn: We have been doing some work using the survey on income and living conditions, SILC. The Senator had a very specific question about what is affordable and the work we are doing on the SILC might give her a good idea of that.

Senator Colette Kelleher: That is something for the committee to take note of.

Dr. Larry O'Connell: Mr. Cahill will discuss permanent affordability in more detail. At a general level, everyone on this side of the room believes that affordability needs to be one of the agency's objectives. In the LDA's submission to this committee, Mr. John Coleman referred to how the agency would work out affordability rates. He outlined a very detailed assessment wherein it would look at the income deciles in a particular area and work back from that to find the price of the land. That is the model for how it should be worked out. That sets the parameters-----

Senator Colette Kelleher: That is reassuring.

Dr. Larry O'Connell: What the LDA said was really important. We have to be careful about the words we use. There is a vacant site levy and a site value tax, which are very different things. A vacant site levy will increase the cost of a site rather than decrease it. It puts a cost on the development from a developer's perspective. The reason it is useful, as Professor McQuinn said, is that it provokes supply if someone is sitting on land. There are administrative difficulties around it, as we have noted. A site value tax is a very different thing, about which we are happy to provide more details. It would replace the property tax, in that it would be a tax levied on every site in an area. The value of the sites would be worked out irrespective of the buildings on them. That is very different and would be a profound change. We cannot mix those two things up.

Senator Colette Kelleher: I understand.

Dr. Larry O'Connell: It would be a tax placed on all sites. If someone holds land in a particular area of Dublin, in which a site value tax has been set, they will pay a tax on that land as they sit on it. However, everyone is paying that tax, so if Dublin City Council invests in infrastructure that improves the value of all sites in that area, all values should in theory work up. If the site value tax is to be considered, quite a bit of work needs to be done on it. It is way beyond the Land Development Agency's scope. It is a big question for the committee.

Senator Colette Kelleher: It is outside the legislation, but perhaps it needs to sit alongside it.

Dr. Larry O'Connell: Exactly. The NESC is very interested in scoping out what the site value tax might involve, if the committee supports that work. Irish society could do with us having a much more detailed look at that model, because it would change the dynamic of how land is held quite significantly.

Senator Colette Kelleher: I refer to the types of housing in question. We have had trouble in the past with ghost estates, which were built in places where nobody wanted to live. How do we make sure that not only is housing affordable, with security of tenure and a stable price over time, but also that we build the right type of housing in the right place? Do the witnesses have any comments on that?

Dr. Larry O'Connell: It has long been the NESC's view that the goal of housing policy is to provide affordable housing in the right place, where it is needed. It is clearly part of the LDA's remit to build the right type of housing, particularly given that it is focusing on urban areas. I am not sure I have a short answer to the Senator's question, but-----

Senator Colette Kelleher: What should be included in the legislation to ensure that outcome, as we are doing detailed scrutiny?

Dr. Kieran McQuinn: The Department of Housing, Planning and Local Government is conducting a housing needs assessment, and we are doing some work for it on that basis in estimating demand. Many people have examined overall national structural demands, but we are trying to estimate those demands at a county or even local authority level, which will feed into the Department's work. It is always fraught with detail when one gets down to a granular level, but that will provide a framework for what is needed in different parts of the country instead of giving rise to ghost estates or building huge amounts of housing in an area where there is no need for it.

Dr. Larry O'Connell: Mr. Cahill will talk about permanent affordability. The Senator asked an important question about whether the legislation should drop the return to the State clause. One of the key aims of the LDA as it is conceived is to ensure that our investment in housing will be countercyclical. One way to do that is for it to be off-balance sheet, and that will require classification of the commercial basis.

Senator Colette Kelleher: The balance.

Dr. Larry O'Connell: It is a balance, so removing that will undermine the LDA's ability to be off-balance sheet, which has other knock-on effects. The key is to find a way to make both goals compatible. I refer to commercial return. I am not suggesting that it should be included in the legislation but the level of that return is key. What types of returns are expected?

Senator Colette Kelleher: Enough homes for us in Ireland would be a fantastic social return, would it not?

Dr. Larry O'Connell: Yes, but in terms of the level of commercial return, are we talking about 4% or 8%? That is important. Mr. Cahill might speak on the specifics of permanent affordability.

Mr. Noel Cahill: There are various ways permanent affordability can be achieved. Social housing is permanently affordable at least up to the point of tenant purchase. Some forms of social housing, for example housing associations, do not do tenant purchase so that is permanently affordable. The idea we had on cost rental accommodation is that rents were pitched to suit middle income households. That should also be permanently affordable. While owner occupation is not a common model elsewhere, permanent affordability would mean having a mechanism in place to regulate the resale price for houses developed on that basis. One would regulate the resale price and the extent of appreciation so that it is affordable for the next purchaser as well. Leasing the land is a mechanism that would make this possible. If the public body continued to own the lease, it could regulate the retail price. In Singapore, the state plays a substantial role in supplying houses to the housing system. It retains the land and has leases, as was said. Closer to home, Amsterdam city council going way back adopted a policy of leasing the land rather than selling it. Not all the housing was affordable but it did reduce speculation. The city owns something like 80% of the land but it has moved now towards selling land. It is a useful mechanism.

Deputy Eoin Ó Broin: To pick up on the issue of 40% social and affordable versus 60% open market, one of the concerning things for many of us is that social and affordable housing is not even mentioned in the heads of the Bill. While the heads of the Bill say that the LDA must have regard to Government policy, it has no statutory requirement to deliver social and affordable housing. Because it is being set up as an independent commercial entity, there is clear potential for a real conflict between having regard for Government policy, whatever that is, and the types of commercial decisions that an independent designated activities company will have to make. This is one of the reasons some of us have raised the issue of NAMA and the publicly acknowledged conflict between its social remit and its commercial remit.

We also need to be really clear about the 40% target. It is exactly as Dr. O'Connell indicates. It is about facilitating the off-balance sheet nature of this. It is one of the components of trying to ensure that it gets off-balance sheet. In my interpretation, that jars directly with the repeated calls of both the NESC and the ESRI for a significant output, not just of social housing but particularly of affordable and cost rental accommodation. Let us look at the figures. The LDA is to have a remit to facilitate the delivery of 150,000 homes over 20 years. At 10% social, that means 15,000 houses and at 30% affordable that makes 35,000 houses, and then there are 60% open market price houses, which is 90,000. They sound like big numbers but on an annual basis, that means 750 social houses, 2,250 affordable houses, which could be 50:50 cost rental and whatever, and 4,500 open market price houses. This is in the context of the national development plan target of 30,000 total house completions on an annual basis over the life cycle of that plan. Some people think it needs to be 35,000 or whatever but let us take the figure of 30,000. The LDA will be responsible for 10% of that, which is hardly the game changer the

Government keeps talking about.

The big concern of this committee is that we want housing need met, in particular for those whose needs currently are not met by the market. We are creating a mechanism that will be predominantly market in nature, to keep it off-balance sheet. As a result, we are dramatically reducing the ability of the LDA to meet the social and affordable housing need, which the ESRI and NESC have been highlighting for quite some time. In the case of NESC, as far back as 2005 it has been calling for affordable cost rental. Without putting words in the witnesses' mouths, clearly what we are hearing from them is that housing need should be paramount and, while they are not getting into saying the figure of 40% should be at a higher or lower level, they are not disagreeing with the committee when we are saying it would be better if it was higher. I do not think we need to stipulate the percentage in the legislation because different schemes can work in different ways. If the legislation had provided that it should be the priority of the Land Development Agency to facilitate the delivery of social and affordable housing, that would have given it a different context. I am interested in the witnesses' views on that. I am also interested in their views on the potential conflict between the independent, commercial nature of a market operator to meet EUROSTAT's off-balance sheet rules and the non-market nature of social and affordable housing. The whole point of social and affordable housing is that we are pulling out elements of the market from its delivery, such as land speculation and all the rest of it.

I want to go back to the issue of land value extraction although it is a little bit esoteric. Part of the difficulty with O'Devaney Gardens, for example, is that Dublin City Council is at the mercy of a private consortium because it bid in a competitive tendering process. Even though O'Devaney Gardens, strictly speaking, has no value in the sense that it is not up on the market for sale, if three, four or five large corporations are all bidding for it and if they all decide to put in an element of land value extraction over and above the profit margins, then Dublin City Council has no option but to select the best of those. That appears to be what happened in O'Devaney Gardens with the Bartra Capital deal. While I am not asking the witnesses to comment on that deal, given the fact that competitive tendering and competitive dialogue is actually going to set the final price, how do we ensure that in those competitive tendering processes, private interests are not allowed incorporate market value of the land for which they are not actually paying?

This leads to my other big concern with the LDA. I really like the idea of active land management. If this Bill created a strong, powerful, well resourced State agency to push other State agencies around and to acquire land because it was not being used in the most strategic way and to then engage with local authorities or the IDA about the best use of that land, it would be brilliant. My big worry is that we are giving the LDA two jobs, namely, active land management and then the primary role in residential development. We have lots of highly expert people in local authorities who, if only given the capacity and the resources, could be much better at that. From the witnesses' experience of other jurisdictions, are the roles of land management and residential development always combined, are they separate or how does it work?

On credit, for Professor McQuinn and Dr. O'Toole, my big concern is less to do with credit being invested directly in land which is then hoarded, although that is a problem. It is more about what is happening with investment decisions as a result of the macroprudential rules beginning to constrain house prices. What we see happening, particularly in Dublin, is not that everybody is sitting on the land and keeping it vacant but that different types of investment decisions are being made, in particular build to rent, co-living, high-end student accommodation and hotels. One reason they are doing that is they can extract more value; there are fewer constraints on what people pay in those cases than there are on household mortgage lending. Should we be concerned about that? What changes could be made to allow the LDA protect against that in the big urban centres? Let us take Dublin 8 as an example. Someone recently did an interesting 3D mapping exercise of what is being built there in those four categories: student, co-living, hotels and build-to-rent. They are squeezing out standard residential development, let alone affordable accommodation. I would like the witnesses from NESC to address the locational value mechanism mentioned in the 2018 report and enlighten the committee in that regard. It is an interesting section that has not been touched on yet.

Dr. Kieran McQuinn: It is not possible to specify exactly what the targets should be regarding the mix of housing and how much should be social and affordable. In broad terms, however, we echo the view that the emphasis should be more on social and affordable housing. Our research clearly identifies where the bottlenecks are in respect of affordability in the market and demand that is not being met at the moment. In that sense, it is evident there is a need for greater emphasis on the social element.

We are then getting into the old issues of the structure, being off-balance sheet and meeting EUROSTAT regulations and requirements. We have not examined in any great detail the specifics of how the vehicle would be set up and funded. I reiterate, however, that our research shows a greater need for affordable housing in the market. We have been articulating that for the past four or five years. One of the first things that struck me when I moved to the institute and started researching the housing area was the great fall-off in the provision of social and affordable housing from 2008 onwards. In broad terms, therefore, I agree with that assessment.

I may have misunderstood the Deputy initially on the credit issue. I have grasped it now regarding the relative attractiveness of residential accommodation versus other uses for the property such as student, co-living or commercial. That question has arisen frequently during our interactions with people. I refer to the issue of greater activity concerning the provision of commercial property as opposed to residential. It may be being redressed a little now, but I am not certain.

It is hard to see what can be done from a credit perspective. Fiscal instruments could be used to make the provision of residential property more attractive than other types of construction activity. I am not stating that is what the Deputy is suggesting, but those kinds of fiscal instruments have been used in the past but they come with serious health warnings. Much work has been done to examine their impacts retrospectively and the role they may have played in the property bubble. It is a difficult area and involves almost moving into the realm of micro-managing the market and trying to tilt construction activity in one direction more so than in another. That is difficult to effect. Residential prices are so high and we are having difficulty in meeting demand. That goes back to issues on the supply side of the market, the high cost of providing property and what can be done to address that. There may also be a connection with the changing nature of finance, as far as property development is concerned. I refer to the knock-on implications that has had for the market.

Returning to the Deputy's basic question, I share the view that we need significant emphasis on the provision of social and affordable housing in whatever way that can be achieved. Regarding the weighting we might give that in respect of the need for a commercial return, which is evident given the structure and nature of the vehicle proposed, we favour a greater weighting being given to the social and affordable side of that equation.

Deputy Noel Rock resumed the Chair.

Dr. Larry O'Connell: I will make a more general point. It is clear that affordability will drive the value of land. It is an instrument, so in a sense that is why Mr. Cahill made his reference. This would require a wider decision, but if the part V requirement was increased, that would set the parameters. I refer to a requirement to provide 20% social housing and that being strictly enforced. People would have to take that into account if they were considering bidding on land, but that is a wider policy issue. I am not sidestepping the Deputy's question on the 60:40 split, but it is worth noting that principle in housing policy.

The market-non-market distinction might not be quite so black and white. The cost rental model in Austria has what is called a "limited profit". It is not, therefore, the case that the 60% has to be completely market-based and extract full value, while a profit does not have to be made in the social and affordable area. The Austrian example allows for a regulated return of approximately 3%. Most of that is reinvested, but some of it can be taken out by the people putting in the equity. There can, therefore, be a market element in that kind of model.

It would be hoped, however, that the 60% side would not involve unfettered market exploitation to get the full value of the land. Having listened to the dialogue with the LDA earlier, my sense it that will be part of what it will try to do. I acknowledge O'Devaney Gardens is a poor example, but it should be ensured in future developments that the idea is that the private sector does not run riot. How can that be done? An agency can be created with people in it able to go toe to toe with the private sector. That is what Transport for London, TfL, did. It got people in the room who were expert at negotiating non-deals and at buying and selling real estate. It was then able to negotiate, understand construction costs and ensure that it was getting good value for money. The market-non-market polarisation, therefore, needs to be slightly nuanced and that needs to be reflected in how things work in future. That should be done instead of a critique that takes 60% as negating the whole function and preventing delivery of what we need.

The Deputy also asked about the locational value mechanism. Mr. Cahill is the expert on that area.

Mr. Noel Cahill: The issue here concerns making a major public investment, such as a new metro. That public investment adds a great deal to the values of the properties located along the line. It is desirable to try to recover some of that value and we outlined some possible mechanisms in the report. If we are dealing with public land, selling or leasing it is a way of getting some value and balancing affordability. We already make some use of levies, but they are not always an ideal instrument. A site value tax is another instrument that could be employed. I refer to an annual recurring tax on the value of land that recovers value from both the existing property and the new properties.

Regarding the tension between an individual commercial entity and trying to promote non-market housing, the LDA and the Vienna model are interesting. I am not 100% sure how that agency is classified by EUROSTAT. It is owned by the city but seems to operate quite independently. It is able to pay its own way and supplies land for subsidised housing. The context is that it is able to charge a reasonable price for the land. There is a very well-developed system of limited-profit associations so the agency is in a position to pay a reasonable price. It is able to combine independence with contributing to this affordable housing system.

Deputy Eoin Ó Broin: Is the combination of active land management and residential development the norm? Is there a mixed picture internationally? Do our guests have views on the location of both of those things in the same agency?

Mr. Noel Cahill: I do not know how it is done everywhere. In some situations at which I have looked, they may usually be separate. The Netherlands has a well-established system of land management. It still has substantial social housing but it used to be a very large share of its housing output. The Dutch system contained well-established non-profit housing companies that would have developed social housing and housing for middle income people. I do not know how they are combined everywhere.

Chairman: Does that answer the Deputy's question?

Deputy Eoin Ó Broin: Yes.

Deputy Pat Casey: I think we ended up roaming into the area of discussing affordability as opposed to the specifics of the LDA. I will return to the issue of affordability later on but with regard to the transparency of the Agency, as outlined in the general scheme of the Bill, I think criteria such as freedom of information are listed in the second part of head 9. In the context of our engagement last year with the Department, we will only have access to parliamentary questions on policy. It raises certain issues for me because at the moment, we can get access to a significant amount of information about social and affordable housing, local authorities and AHBs such as how things are progressing. With the establishment of this agency and this agency then being open to working with local authorities, that information will no longer be available to us. I question the Minister's statement when we tried to get the cap for local authorities raised to €6 million. He questioned the ability of local authorities to do that yet he is handing €1.25 billion to a land development agency with relatively no oversight. What are the witnesses' comments on the oversight of the LDA? One sees that the agency will be allowed to set up joint ventures and partnerships - all these separate bodies. What access or oversight will we have?

Regarding head 9, we mentioned commercial return, which is emphasised significantly. Even under this head, one will see a reference to pursuing joint ventures and profit-sharing arrangements to create investment vehicles. Much of this seems to be geared towards profit and trying to get a commercial return as opposed to delivering social and affordable housing, which is our main objective.

Professor McQuinn mentioned freely available land as a critical point in delivering housing in general and affordability. Land, including zoned land, is available. We probably have zoned land of up to nine years. I do not think it is a problem with land. I think the problem is the lack of infrastructure on that land. If our zoned land had the infrastructure, we might be able to look at vacant site levies being the critical thing to get that delivered. At the moment, we are looking at a lot of zoned land that has no infrastructure to deliver housing. What impact is the lack of infrastructure having on delivering affordability in the long term?

If this vehicle ends up being on balance sheet, it will have failed. It will not be able to deliver what it set out to deliver. It is a fundamental question with which we must grapple. I do not know whether enough is being done at European level to emphasise the importance of social housing and that it should be looked at in an off-balance sheet situation and should not form part of that fiscal space because it is the single biggest social issue we face. Europe needs to look at how it handles capital investment in social and affordable housing.

Dr. Larry O'Connell: It is very difficult for us to answer the question about transparency. It is a key issue but I find it difficult to comment on the specifics about whether there will be oversight. I share the Deputy's concern. With any body like this, there needs to be oversight. The fact that affordability is part of its core function helps protect against some of the potential excesses involving profits and joint ventures about which the Deputy is concerned. If they are in the service of affordability, there are fewer concerns.

NESC would have looked at the issue of infrastructure because it is often a key bottleneck. Going back to the point made by Mr. Cahill, getting funding for some of the infrastructure and creating the means to put the infrastructure in place are critical. The LDA's ability to bring together some of the providers into the discussion about particular sites is an important step forward in that it will have that capacity to convene actors on the State side.

Regarding being on or off-balance sheet, for a long time we have been struck by the fact that Europe's position on investment in housing and its treatment in the fiscal space needs to be addressed, particularly as this has been a critical issue for a country like Ireland. As we came out of the crisis, it was even more of a binding constraint in terms of our ability to invest so it is clearly a broader issue. I agree with the Deputy that it is something that constrains our ability to invest in housing. Having that binding constraint is unfortunate.

Deputy Eoin Ó Broin: Do our guests have any idea as to how it could be addressed?

Dr. Larry O'Connell: We were looking it in terms of the fiscal rules and whether there was space to see housing treated as an investment rather than expenditure and whether there is some dialogue at European level on that matter. Professor McQuinn may know more about it.

Dr. Kieran McQuinn: I take the point about land that is freely available. When I said that land should be freely available subject to infrastructure being available, the basic point is that we need land to be available for housing. In countries where land is more freely available, by which I mean that it is ready for housing to be built on it, there is less fluctuation in prices. Infrastructure is a key issue. Some people have talked about the vacant site levy. Different rates could apply depending on the different levels of infrastructure available for the properties concerned.

A couple of years ago I wrote about how European fiscal policy had been so poorly managed as far as the financial crisis was concerned. I compared the response of the European authorities to what was done in, for example, the United States, which had a fiscal stimulus. Some people may criticise the fiscal stimulus as not being sufficient but it compares well to European economic performance, which is certainly quite sluggish at present. In the past ten years, Europe has been far slower in coming out of the financial downturn than the United States was. Initially, even the UK came out of it more quickly. There is a plausible case to be made for substantial fiscal stimulus, and housing would have been a logical component of that. That should be considered going forward. Monetary policy, as governed by the European Central Bank, is doing all that it can and more, especially under Mr. Draghi, to keep the European economy going with its accommodative monetary policy. Its statements are clear that fiscal policy needs to start to support and promote economic activity. Unfortunately, European fiscal policy has not responded in that fashion. One could argue about the mechanisms, ways and means by which one could achieve that. A Europe-wide fiscal response may require more co-ordination across member states with regard to taxation issues, which gives rise to certain issues here. Nonetheless, I think there is a strong case to be made for a far more expansionary role of a Europe-wide fiscal stance. The provision of social and affordable housing would be a logical component of that.

Deputy Pat Casey: We would not need the commercial strength and profitability in the LDA if this fiscal space was not hanging over us, with this on-off balance sheet matter. I would be much happier to support the LDA because then it could go for entirely social and affordable housing whereas this fiscal space and on-off balance sheet matter is bringing commercial viability and profitability back into the equation. Europe needs to look at it.

Senator Colette Kelleher: The market has failed to provide homes for our population. There are 10,000 homeless people, including 3,700 children. We signed off on a report this morning on family and child homelessness, which shows the impact on those children today and for their futures. The LDA proposal is a response to that failure. It is a significant transfer and giveaway, as a Deputy said, of €1.2 billion of public assets. It is off balance sheet and, because of that, there is an interface with the market. There are significant incentives for profits in housing. While the witnesses may not have them today, it would be helpful to have specific proposals for this proposed Bill to mitigate the potential market failure affecting the LDA. How can we move more towards a model such as Vienna's instead of one where the market fails again but now with State assets having been handed over? How do we retain the public interest in the lands that we are transferring? If our guests do not have specific proposals today, I would like to hear them later.

Dr. Larry O'Connell: We all agree that having affordability as an explicit objective would be quite useful. I am not sure if legislation is the right place for it to feature but we think that the cost rental project needs to be a strategic priority. The potential scale of development would make a significant difference.

Dr. Kieran McQuinn: I agree with Dr. O'Connell, with greater emphasis on the social side. Given the nature of what is being proposed, it is a balancing act, waiting to see where the balance falls, which can possibly be achieved by having a greater emphasis on the social side.

Dr. Conor O'Toole: A number of comments come back to the same theme of trying to make sure that this agency maximises the amount that it contributes to affordability in Ireland. There is uniformity across our group that that is the issue. When we look back and measure the performance of the agency, it will be by the extent to which it has helped to solve the crisis. The complexity of the vehicle structure, whether it is on or off-balance sheet, is not something we have considered. There should be an effort to ensure that there is an appropriate mechanism for social and affordable housing to be delivered, which is where the benefit comes from. The structure should be aligned with achieving that goal.

Chairman: Is Senator Kelleher satisfied with that?

Senator Colette Kelleher: Yes.

Chairman: I thank our guests for attending and for engaging with the committee. If there is anything further that they would like to add, they are more than welcome to write to us with any supplementary information. We would appreciate that. I thank them for sharing their time and expertise. It is an important topic that I imagine we will return to. We all want to see affordable housing provided and we want the legislation to succeed, so scrutiny is necessary.

The joint committee went into private session at 11.48 a.m. and adjourned at 12.15 p.m. until 11 a.m. on Tuesday, 15 October 2019.