

Land, Finance and the Costs of Social Housing Delivery



Presentation to the Dublin Economic Workshop session
'How can we provide affordable housing for all?'


07/09/2020

By Professor Michelle Norris

School of Social Policy, Social Work and Social Justice

University College Dublin





Title of this session asks -
how can we provide
affordable housing for all?

To answer this question this
paper draws on the
experience of two other
similarly sized European
countries:

- Denmark
- Austria.

Identifies lessons Ireland can
learn from these countries'
larger, cheaper and more
robust social housing sectors

Conclusions:

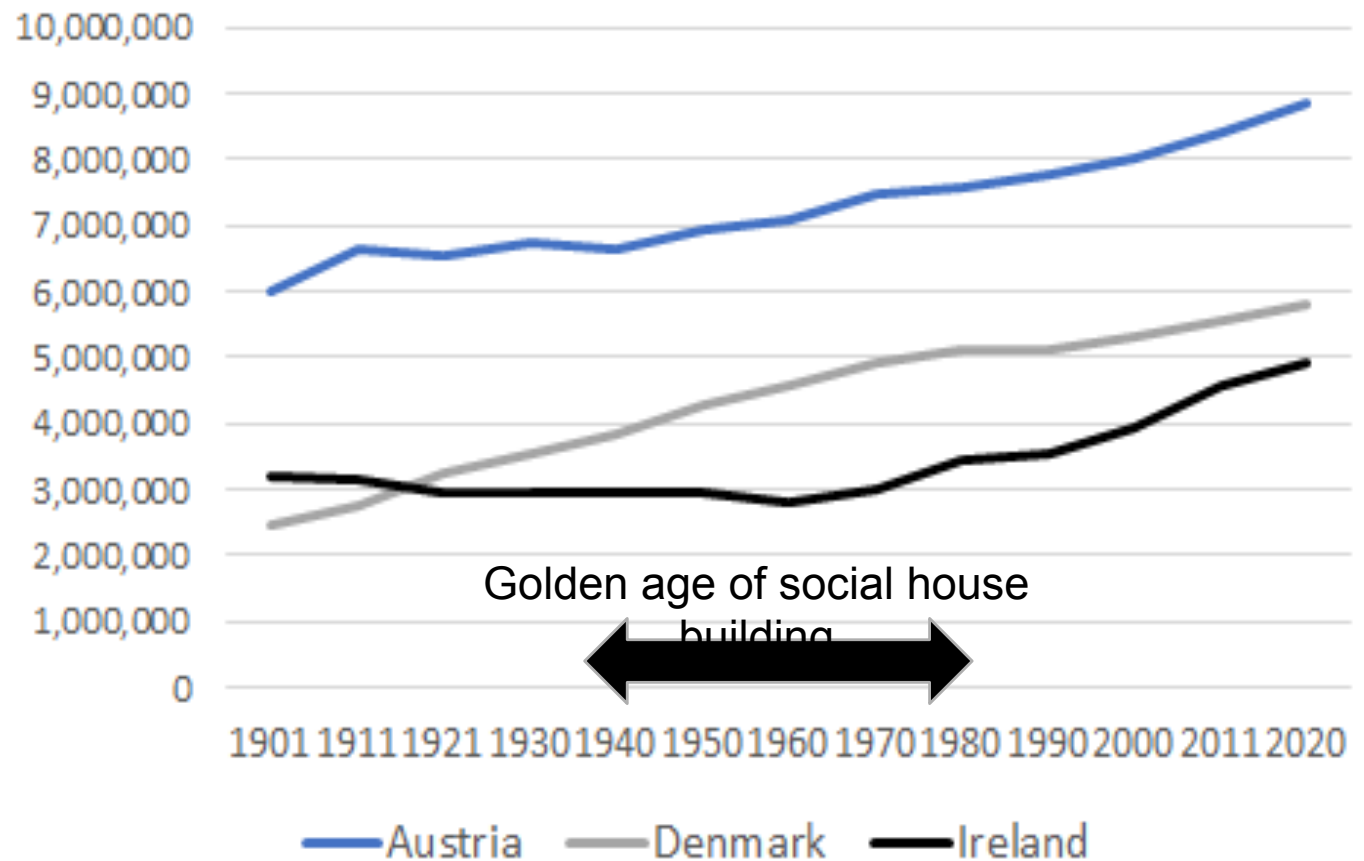
- Higher levels of social housing provision are key to addressing housing unaffordability and supply problems.
- This will require additional public investment
- But also measures to reduce delivery costs, barriers to efficient management and maintenance and new building
- Key problems in Irish social housing sector are:
 - costs are decoupled from rents and subsidies,
 - the value of historic public subsidies are not retained in the system, and
 - land acquisition is costly and risky

How can we provide affordable housing for all?

European history demonstrates that:

- in the context of strong population growth and
- market failure to provide affordable housing

social housing must be a key part of the solution

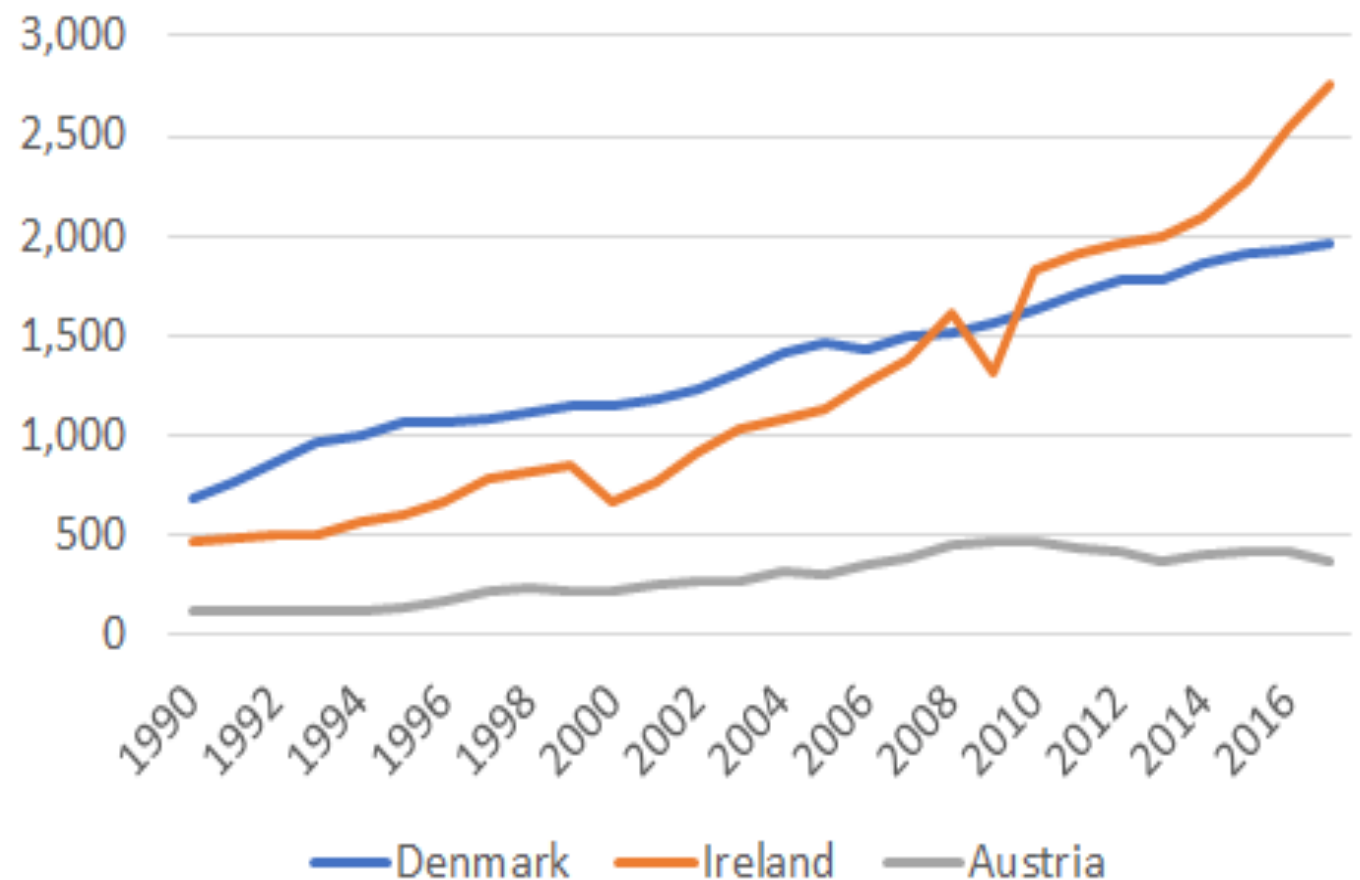


Population Trends in Austria, Denmark and Ireland since 1901 (source Eurostat)

Additional social housing provision will require additional public investment.

But social housing provision in Ireland is already comparatively expensive*.

*NB: robust cross-country cost comparison is challenging



Public Spending on Social Housing and Housing Allowances in Austria, Denmark and Ireland 1990-2018 (€ millions) (source: Eurostat)

Why is Irish social housing more expensive than its Austrian and Danish counterpart?



Because of its unusual funding model
+
the failure to retain and recycle the value of historic public subsidies.

Funding of Council and AHB Supported Housing =

80-100% government capital
grant

+

Income related rent (avg €52
pw)

+

Modest flat rate rent supplement
(for AHBs)

Funding of AHB General Needs Housing =

30% government bullet loan

+

70% annuity loan

Income related rent (avg €52
pw)

+

— Up to 92% of market rent via
government PAA

Still don't get it. Can you spell it out?

- All capital spending on Austrian social housing and most capital spending on Danish social housing is off balance sheet.
- All capital spending on social housing provision in Ireland is on the government balance sheet.
 - ◆ Benefits of bringing AHBs off balance sheet in terms of the financial resilience of the sector.
 - ◆ Difficult to change without radical changes to funding model
 - ◆ Doing so may not be attractive to policy makers.

Spelling it out x 2

- In Austria and Denmark both government subsidies and tenants' rents are linked to costs which promotes cost control.
- In Ireland costs are decoupled from rents and subsidies:
 - ◆ In ABH sector revenue subsidies reflect market rents - expensive funding model with weak incentives to control costs in 'surplus generating' schemes. But also makes development unviable where costs are high and rents are low.
 - ◆ In city councils rents don't cover management and maintenance costs but these hidden costs materialise in higher refurbishment spending in the end.

Last bit of spelling it out...

- In Austria and Denmark sales/ privatisation of social housing is rare so dwellings paid for in the 1950s and the associated public subsidies are still providing social housing in 2020.
- Whereas in Ireland:
 - ◆ 2/3rds of all the council houses ever built have been sold to tenants. Currently sold at 40-60% discount from market value. 500 dwellings sold in 2018.
 - ◆ When development loans on AHB housing are repaid these can be let at market rents. Loan finance was introduced in 1991 so increasing numbers of AHB dwellings will move into this category in the near future.

And finally..... the issue of land

Denmark and Austria both actively manage land supply for social housing and associated costs.

- Eg. Wohnfonds in Vienna, buys land for social housing long in advance of development. Limits on sale price.

Irish social landlords must buy land at open market value

- Drives up costs and risks
- Councils and AHBs borrow for land acquisition but can't be sure they'll get DHPLG funding to build on this land
- Key reason for over-reliance on 'turn key' developments
- Most serious impact - difficult to supply supported housing and small units.