



Rebalancing the Irish Housing Market

A POLICY PARADIGM



**Cork
CHAMBER**
IN BUSINESS FOR BUSINESS

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1. Executive Summary

This paper has been developed by Cork Chamber based on work undertaken by its Housing Policy Working Group. The views presented in this paper reflect those of Cork Chamber and not the individual organisations or companies represented by members of the Working Group.

Ireland's future housing market must be built around three mutually important pillars:

- 1. Social housing**
- 2. Houses for sale**
- 3. Large scale and long-term urban rental**

Each of these pillars need separate strategies to work effectively. At the same time, the three pillars must complement each other in order for Ireland to achieve a 'Balanced Housing Market'.

The 'Balanced Housing Model' seeks to treat the entire housing sector as a single unified system. The objective is to bring a long term equilibrium to the housing sector and hence avoid the stresses and diseconomies associated with a 'boom-bust' sector that is exhibiting severe characteristics of imbalance and disequilibrium.

Notwithstanding the importance of the need for more social housing and affordable first time buyer properties, the rental sector has been, and remains, the most neglected sector in the housing market – both from a policy/strategy and investment perspective. As long as this neglect remains unaddressed, it will not be possible to establish equilibrium in the housing market.

The rental market is the safety valve of any well-functioning housing market. Social housing applicants will rely on the private rental sector until they can access state provided housing. Prospective house buyers will also rent until they can afford a home to purchase. At the moment, this safety feature is missing in Ireland due to the rental market not being recognised formally as an integrated and critical part of our housing system.

The urban need for an effective rental sector made up of large scale and long-term block rental properties is immediate and will continue to expand in the future. With an increasingly mobile labour market, changing demographics and social trends, and evolving accommodation preferences, the urban market has a strong demand for high-quality and professionally managed apartments located in the city centre (not suburbia) with ease of access to public transport options within walking distance to employment and cultural hubs. Importantly, these apartments must also be affordable for the average rental consumer.

This demand is not currently being met by the market or by policy makers. As a result, 90% of large employers in Cork now perceive the rental sector as the biggest concern to their business.¹

Hence, there is a need for a radical cultural change in policy making towards developing a sustainable, affordable, large scale and effective rental model.

¹ See Appendix A.



In this paper, Cork Chamber proposes Government to undertake a complete technical and practical review of Ireland's rental market. This review must be all-encompassing, targeting both the stimulation of new large scale and long-term rental block developments in urban areas, the viability of constructing build-to-rent apartment blocks while also making renting an attractive alternative to homeownership.² In achieving this, Government must also address any infrastructure gaps hindering inner-city development in already zoned land.

By doing so, Ireland will be one step closer to achieving balance in the housing market. For after decades of boom-bust housing cycles, rebalancing the market is what is needed if we are finally to get our housing policies right.

1.1 Cork Chamber's Key Recommendations

We recognise that a complete reform of the rental and housing sector as called for above will take time to deliver. However, immediate steps must be taken to ensure that our housing policies support the delivery of sustainable, affordable and attractive rental properties in our urban centres. With this in mind, we make a number of key policy recommendations that should be considered in the context of Government's 100 day Housing Action Plan.

- Government must develop and implement a Housing Action Plan that addresses material new supply in order to establish equilibrium in the housing market, particularly in our larger cities. This plan must address short term remedial measures while also outlining a long term strategy.
- The rental sector is the most neglected sector in the market, both from a policy perspective and from an investment perspective. There is a need for Government to formally recognise the rental sector as an essential and permanent feature of Ireland's housing market by developing a strategy for a new rental model.
- The Housing Action Plan must address separate and comprehensive strategies for material new supply of:
 - > New social housing
 - > New housing for sale (emphasis on 'First Time Buyer' properties)
 - > New private rental accommodation of scale (suitable and affordable for the average rental consumer)
- Against an overall objective of encouraging a new urban long term rental model, Government's policy response should:
 - a. Encourage long-term professional landlords of scale that are major suppliers of quality accommodation as a business
 - b. Incentivise quality managed rental accommodation that has a market appeal for long term occupancy by the average rental consumer.

² As part hereof, measures must be taken to improve tenant rights and rent certainty.

- Obstacles to recommending construction must be addressed, including:
 - > The supply of zoned and serviced land
 - > Taxation costs associated with construction
 - > Costs and regulations preventing the change of use of centrally located 'over the shop' premises
 - > Infrastructural deficits
 - > The length and uncertainty of the planning process
 - > The availability of financing for development
- Valuation analysis confirms that if land cost exceeds 10% of gross development value, both for 'First Time Buyer' product and 'Affordable Rental' provision, viability will be in doubt. The cost of land must consequently be considered in the context of any policy measures aimed at stimulating new supply for the average consumer.
- Access to and the cost of finance for developers to fund new projects may need to be addressed for any Action Plan to be successful.
- A targeted portion of the €200 million Local Infrastructure Fund announced by Government in June should be allocated towards stimulating new city centre rental accommodation.



2. Introduction

The boom-bust cycle of the Irish housing market in recent years demands well-considered action. In the decade between 2006 and 2016, Irish residential house prices reached a credit-fuelled all-time high, then dropped to 50% of their former value, before increasing to reach 33% of the 2007 high by April 2016.³

As the housing market recovers, market pressures have reappeared resulting in house price increases, rising rents, and a growing number of families and individuals facing uncertain futures as regards their living situation.

Key statistics illustrate the extent of the problem:

- > According to Focus Ireland, 5,811 people were officially homeless in February 2016. This represents an increase of 48% within a one year period.⁴
- > In the year to March, average national rents have increased by 9.3%.⁵
- > Between Q1 2015 and Q1 2016 Cork City has seen an average annual 16% rent increase whereas Cork County rents on average have increased by 9.74%.
- > By Q1 2016 the average monthly cost of a mortgage for a 3 bedroom house in Cork City centre stood at €859, whereas the average cost of renting the same property was €1,047 per month, i.e. 22% more.⁶
- > In a ten year period between 2006 and 2016, the average age of first time buyers has increased by five years from 29 and now stands at 34, reflecting how the combination of rising rents and difficulties accessing mortgages is making it harder for young people to save and drawdown a mortgage.⁷

Consequently, Government and other key actors, including the Central Bank, have come under pressure to 'fix' issues in the housing market.

In response, the Central Bank in January 2015 announced the introduction of new macro prudential mortgage rules governing loan-to-value and loan-to-income lending restrictions. These rules were introduced as a means of strengthening the resilience of the financial sector and preventing another credit-fuelled housing boom.

At political level, Government increased capital spending for social housing by almost €145m in Budget 2016, which also allocated €70m to meet increasing demand for homeless services. Combined, Budget 2016 saw the overall housing spend increase 18% year-on-year.

The Programme for Partnership Government equally prioritises action on housing. In addition to appointing a Cabinet Minister for Housing, the new Government has committed to developing an action plan for housing within the first 100 days of being in office. One of the first announcements made by Government was moreover the establishment of a €200 million local infrastructure fund to provide public off-site infrastructure in urban areas with a high demand for private sector housing.⁸

³ <http://cso.ie/en/releasesandpublications/er/rppi/residentialpropertypriceindexapril2016/>

⁴ <http://www.focusireland.ie/resource-hub/about-homelessness/>

⁵ <http://www.daft.ie/report/q1-2016-daft-rental-report.pdf>

⁶ *Ibid.*

⁷ <https://www.realestatealliance.ie/press>

⁸ <http://www.environ.ie/housing/ministers-donohoe-and-coveney-announce-eu200m-local-infrastructure-fund-increase-supply>

In the context of policy responses intended to alleviate our housing challenges, it is important to recognise that the housing market in Ireland consists of three equally important sectors: Rental, social housing and homes for purchase. To date Government action has, nevertheless, mainly focused on the latter two, i.e. social housing and boosting the supply of (primarily) first time buyer properties. Meanwhile, little attention has been given to the rental market. Admittedly, the Programme for Government refers to the need to “introduce a new model of affordable rental [...] to develop a “cost rental” option for low-income families”⁹ but fails to address the need for developing a viable rental model which meets the needs of all social classes, not purely those on low income.

This paper aims to address this policy gap by setting out recommendations to stimulate more long term rental in line with market demands. It should be stressed that measures to improve and professionalise our rental sector should not be introduced at the expense of additional social housing or indeed new housing developments for sale. On the contrary, the market needs parallel strategies to stimulate each of all three.

*Taken together, this paper should therefore be read as a national guide for Ireland to achieve a **balanced housing market**.*

⁹ http://www.taoiseach.gov.ie/eng/Work_Of_The_Department/Programme_for_Government/A_Programme_for_a_Partnership_Government.pdf p. 23



3. Culture, Perception & Behavioural issues

The banking collapse and the lack of construction of housing in recent years have created deep psychological fears in relation to the supply of housing in Ireland. A level of uncertainty and distrust has developed in the relationships between many actors in the housing market – lenders, home owners, developers, renters, landlords and the government.

There is a need for clear government policy on housing to overcome this uncertainty and create a housing market which has a balance of secure options available to all who need housing.

The current situation as regards household tenure in Ireland is outlined below in an extract from the NESC Report: *Home Ownership or Rental - What Road is Ireland on?*¹⁰

“Ireland’s rate of homeownership peaked, at 80 per cent of households, in 1991, with private rental accounting for 8 per cent and social renting for 10 per cent. By 2011, owner-occupation had fallen to 71 per cent, while 19 per cent of households rented from a private landlord, and 9 per cent rented from a local authority or voluntary association (known as Approved Housing Bodies—AHBs). In urban areas almost one third of households now rent their dwelling (including social rental). These changes can be related to changes in household formation, immigration, incomes, house prices and access to credit, as well as the decline in local-authority provision. Irish homeownership rates are now close to the EU averages (67 per cent for the EU-15 and 71 per cent for the EU-28). However, in many EU countries ownership rates are rising, while in Ireland they are falling.

Tenure varies significantly across social groups. Mortgage-holding is declining most among young people in the unskilled, semi-skilled and skilled manual classes, particularly the former. The proportion of single-person and lone-parent households that rent has increased significantly over the past 20 years. Owner-occupation is much higher among households headed by Irish nationals (77 per cent) compared to non-Irish nationals (34 per cent). Having fallen during the economic boom, the age at which people get a first mortgage is increasing.”

3.1 Owner Occupation

The falling share of ownership reflects gradual removal of subsidies since the 1980s, and changing economic and social conditions. Despite these recent changes, owner occupancy continues to be the preferred option of most people.

The historic high level of owner occupation was partly a result of policies which supported tenant purchase of local authority houses in urban areas from the 1960s. By 1999, 25% of owner occupied houses were former local authority houses which had been purchased by tenants. Tenant purchase schemes meant that home ownership, until recently, could be aspired to across most social classes in the country.

In summary, home ownership in Ireland is seen as providing security of tenure and in particular, security in old age, as well as providing the possibility of capital appreciation over a person’s lifetime. It is seen by many as a potential asset to pass on to the next generation. There is also a certain social status attached to home ownership vis-a-vis renting.

¹⁰ http://files.nesc.ie/nesc_reports/en/140_Homeownership_and_Rental.pdf

3.2 Renting

Private renting has the advantage of flexibility, no investment risk, relatively low entry costs, and no major maintenance costs. It's seen as an acceptable choice for younger transient workers, students but also increasingly young families, particularly those residing in urban areas. Unlike much of continental Europe, in Ireland there are, however, a number of perceived disadvantages of private rental accommodation:

- > Lack of security of tenure
- > Lack of security of rental levels
- > Perceived lower status of some private rental (particularly the lower end of the rental market)
- > Potential landlord and tenant conflict

Renting from a local authority or Approved Housing Body (AHB) has advantages in terms of cost and security of tenure, however there has been very limited provision of new social housing in recent decades. Social renting has increasingly moved from local authority rented to private rented, paid for by rent supplement, with reduced security of tenure.

A European study concluded that *"in the English speaking countries and the countries of Southern Europe, homeownership is actually essential to acquire a degree of personal security and to offset individual risk."*¹¹

By contrast it concluded that: *"In Germany, Austria and Switzerland there really is no necessity to enter into home ownership for the purpose of acquiring basic security and social acceptance. The decision to do so is entirely a matter of personal choice and can be made purely in the interests of satisfying individual housing preferences."*¹²

3.3 Future Trends

The strong cultural preference in Ireland for home ownership and the perception that it is the safest option is perhaps understandable due to the relatively limited supports that have been provided to promote private renting in Ireland to date.

Home ownership is likely to continue to be the preferred option for many, however it may not be a realistic option for large sectors of society in the future.

With current trends in availability, affordability, incomes and declining household size it is likely that private renting may be the only viable option for many of those on lower and even middle incomes, particularly for single adult households, where one income is insufficient to fund a mortgage.

Social trends, including urbanisation and the increasing mobility of the labour market, and change in family sizes (not least the growth of single person households) will also contribute to create more demand for rental accommodation.

Changes in issues such as security of tenure and longer leases may be needed if renting is to be accepted as a preferred long term option in Ireland.

¹¹ Elsinga & Hoekstra, 2005, p. 105

¹² Ibid.



4. The Importance of an Effective Housing Policy for Business & Economic Growth

Access to affordable, suitable, secure and desirable accommodation is a strategic requirement for businesses, communities and employees alike. Best practice guidelines suggest that no more than 33% of disposable income should be spent on accommodation. In order to comply with these guidelines there must be a balanced supply of housing solutions that reflect the varying needs of different social groups.

In areas where high demand or a lack of supply cause an inflation in market prices, people face one of three realities:

1. Being pushed out of the private market adding pressures to the social housing sector;
2. Being pushed further out into commuter areas with lower prices;
3. Absorbing price increases, often triggering a corresponding increase in wage expectations or a corresponding reduction in disposable income.

4.1 A Social, Environmental and Competitiveness Issue

Against a recovering economy and steady employment and population growth, the availability of housing has now emerged as a critical issue for the successful and sustainable economic development of Cork.

In a Q1 2016 economic survey of Cork Chamber's membership, the shortage of housing supply was listed by 43% of respondents as having an impact on their businesses in terms of new hires finding suitable accommodation. Of these, 40% responded that residential accommodation for rent was the biggest concern, while 10% referred to residential properties for sale as the major worry. Equally, housing was listed by Cork Chamber's membership as a top five business issue ahead of the 2016 General Election.

As accommodation becomes more unaffordable and inaccessible, businesses in Ireland are suffering from increased wage pressures which negatively affects businesses' competitiveness, their ability to expand at a desired rate, their hiring processes and their relocation costs. To limit such negative effects, the National Competitiveness Council in its recently published '*Cost of Doing Business in Ireland 2016*' recommended Government to address the need for social housing, address pressures in the rental market, as well as tackle factors impacting on housing supply.

Further to being a competitiveness issue, a lack of supply of suitable and affordable housing in employment hubs is also driving employees further away from their place of work, which in turn adds to traffic congestion and prolongs commuting times with negative impacts on the environment and work/life balance. This trend is evident in the latest rent figures, which show that rents in the commuter belts of Meath and Louth for the second quarter in a row are the fastest growing in Leinster.¹³

It is also clear that failing to address the market failures which are impacting negatively on the availability of affordable housing triggers social issues and homelessness, which likely will have long term social costs for local communities as well as the State.

¹³ <http://www.daft.ie/report/q1-2016-daft-rental-report.pdf>

In summary, the issue of housing, in conjunction with a number of other impacts, has the very real potential to adversely affect the region of Cork's ability to attract inward investment into the future, grow the economy, and incentivise employers to expand or locate in the region due to the difficulties experienced with housing employees.

All three consequences above can be prevented if we get our housing policy right. In April 2016, Cork Chamber therefore established a Housing Policy Working Group¹⁴ bringing together strategic expertise from key stakeholders and market players, who were tasked with developing an effective housing policy aimed at achieving a balance in the housing market.



¹⁴ For members of the working group see Appendix C.



5. Survey of Employers' Perception of Availability and Cost of Accommodation

In the first two weeks of May 2016, Cork Chamber circulated a survey to its Corporate Partners¹⁵ and selected large employers in the region. This survey assessed respondents' views of the cost and availability of accommodation in Cork from a business perspective.¹⁶

5.1 Analysis of Responses

From the feedback received, it emerged that 72% of respondents perceived the availability of residential accommodation as a challenge within their business. Of these, 90% considered the rental market to be the sector of biggest concern. The challenges of the business community are thus largely consistent with overall market trends as seen in Daft's Q1 2016 rental report which showed an annual average increase in national rents of 9.3% in the year to March 2016. Notably, Cork City witnessed the largest national annual average rent increase of 16%.¹⁷

When asked about which demographics face the biggest accommodation challenges, respondents believed that staff arriving from overseas, staff under the age of 30 and staff relocating from outside Cork were equally badly affected, with these three groups each representing 30% of responses. Another 10% of respondents considered staff with growing families to face the biggest challenges.

Assessing the impact of the rising cost of accommodation on day-to-day business operations, 72% of respondents concluded that the cost of accommodation is creating upward wage pressures in their business. Consequently, as also argued by the National Competitive Council in its latest report, it is important from an economic perspective to tackle current housing challenges in order to prevent our businesses becoming less competitive.

Reassuringly, the survey did confirm that accommodation costs have yet to reach a point where they significantly impact on the ability of businesses to acquire new talent. When asked about whether any prospective staff had turned down a position due to a lack of suitable or affordable accommodation, 82% had not felt an impact on hiring practices. At the same time, however, 9% of respondents have witnessed staff turn down a position due to a lack of suitable accommodation while another 9% have experienced staff turn down a position due to a lack of affordable accommodation. 30% of businesses similarly reported that they have experienced staff being required to live in temporary housing solutions such as hotels and hostels due to an inability to find secure accommodation. Of significance, 60% of responding businesses conclusively predict that accommodation needs will become an issue under future expansions, again highlighting the importance of achieving a balanced housing market in order to underpin sustainable economic growth.

These figures suggest that our housing crisis has a real risk of limiting businesses' ability to attract the right people unless more suitable and affordable accommodation becomes available in the market place and in this way enable the expansion of industry and sustainable economic growth in the region.

To limit potential business disruption, 18% of responding businesses have adopted initiatives to alleviate the accommodation challenges for employees. Another 9% of respondents are currently considering introducing such measures. One responding business, for example, explained how they are reaching out to existing employees with 3 bedroom houses who may consider taking in a tenant whom could help with their monthly mortgage repayments.

¹⁵ An overview of Cork Chamber's Corporate Partners can be found in Appendix D.

¹⁶ A list of questions posed and answered received can be found in Appendix A.

¹⁷ <http://www.daft.ie/report/q1-2016-daft-rental-report.pdf>

6. A Balanced Housing Model

The 'Balanced Housing Model' seeks to treat the entire housing sector as a single unified system. The objective is to bring a long term equilibrium to the housing sector and hence avoid the stresses and diseconomies, associated with a boom-bust sector that is exhibiting severe characteristics of imbalance and disequilibrium.

The current housing model encourages 'low value' housing in outer suburbia with high commute costs and journey times. Equally, the current model frustrates the renewal of inner urban housing areas. Hence, we need balance to the overall City region.

6.1 The Ideal

If the intent is to deliver equilibrium to the housing sector, the first priority is to understand the ideal housing provision – and the ideal balance of tenure uses – across the entire housing system. It can be acknowledged that we may never achieve the ideal, but for housing policy management purposes it is critical to understand the target housing ideal that will deliver the required balance – and equilibrium, across all housing sectors. We need to aspire to move housing towards the 'Ideal'.

Secondly, there is a priority to measure – and understand – the housing reality at 2016, in Ireland. In order to do so, analysis must be made of:

- > Existing housing stock and its location
- > Breakdown of tenure uses and trends
- > New supply breakdown for 2015 and 2016
- > Current market dynamics.

The following chapters provide an analysis of each of these elements, thereby providing a baseline for a new housing policy.

Housing Policy Theory suggests that you mould an integrated housing policy, across all sectors, to move your housing system from the 2016 reality towards the ideal.



6.2 Achieving Balance

There is well established process for dealing with crisis situations. In the Programme for Government it is clear that Government has already established that the country is facing a housing crisis. Consequently, the next step for Government is to develop and implement an action plan whereby the housing market can revert to “normal” practice. In executing its plan, there is a need for Government to address short-term remedial needs as well as outlining a long-term strategy.

The primary measure of the effectiveness of the response to a crisis is the speed of recovery from the crisis and the time taken to re-establish a “normal” situation or market. Many factors influence the provision of housing in Cork and nationally and there are large amounts of data on these factors and their interaction. There already exists a considerable body of knowledge on the supply and demand side of the housing market, the impact of monetary policy and a good understanding of human desires and behaviour.

It is therefore clear that it is not a lack of information that is hampering progress but it is the implementation of clear policy objectives in a consistent manner which can deliver short term gains while stabilising the situation and ensuring that the long term equilibrium of the market is re-established as soon as possible.

6.3 Legal Issues

Any attempt to direct Government policy towards measures to solve the housing crisis will always be hampered by the concern that such measures will have adverse Constitutional implications in that they constitute an attack on the right to private property.

However, a legal analysis of the Constitution makes it clear that legislation designed to alleviate the housing crisis will not offend the Constitution so long as it observes the principles of proportionality.¹⁸

¹⁸ See Appendix B for an analysis of the constitution, private property and the housing crisis.

7. Rental: The Policy Void

Private rentals are the safety valve of any well-functioning housing system. In the absence of adequate social housing affected families will rely on the private rental sector. Equally, if potential buyers either delay, or cease for affordable reasons their quest for purchase, they will be reliant on the private rental market for their housing needs in the medium term. It is not possible to bring balance to a housing system with an inadequate private rental sector. Presently, the greatest social distress is on our private rental sector.

Regardless of the genuine needs for social housing and 'First Time Buyer Housing', and notwithstanding the media and market efforts seeking this style of housing, a new private rental provision that guarantees a long term supply of quality rental accommodation, that has broad market appeal for both short and medium term occupancy, is the most important requirement of the housing crisis.

Substantially, private rentals are the most troubled sector of our housing system with unique cultural/relationship issues coupled with bureaucratic indifference to our most important housing sector.

7.1 Objective: The Long Term Model

The overall objective of any central policy response to the rental sector should be to simulate new, high-quality and long-term rental accommodation of scale. Our future rental model should be built around the following four features:

1. That new rental housing remains, long term, in the rental sector.
2. That long term 'professional' landlords, of scale, become the major suppliers of quality accommodation as a business.
3. That tenants are offered quality managed rental accommodation that has market appeal for longer term occupancy.
4. That new rental accommodation is priced at a level affordable to the average rental consumer.

In order to achieve this objective, a number of matters arise. Firstly, there is a material viability gap, based on current cost/value variables, for the provision of new 'rental' accommodation of scale which will need to be addressed. Chapter 10 of this paper provides further analysis on this issue and illustrates the extent of this viability gap.

Secondly, viability needs to be measured against average rentals and affordability, not market rentals. Chapter 9 comments on affordability issues and shows that a large proportion of society will not be able to afford market rents.

Thirdly, quality, single ownership coupled with long term estate management is critical for the rental sector to successfully become a viable alternative to purchasing a house. In order to professionalise the sector, the market must, however, first become viable to build. Conclusively, the new private rental model is a low value use which should not be exposed to competition from the ownership market. Quality accommodation with continuity of rental is essential, though rental is probably fixed, or with regulated increases, during the term of a normal tenancy (2-3 years).

We must address balance to the Irish housing system by targeting the rental policy void. This should be the key priority of any Government-led action plan for solving our housing crisis.



8. Housing Model Reality

Before looking at potential measures to stimulate new rental supply, it is important to understand the reality in which developers operate; in particular the obstacles which are inhibiting the supply of new residential accommodation.

This chapter provides an overview of demographic developments in Cork, the number of housing completions since 2008, new market trends, and barriers to new development.

8.1 Demographics

- > Between 1996 and 2011 the population of Cork City & County increased by 100,000 people. Most of that population increase has been experienced in the area surrounding Cork City. The area governed by Cork City Council has seen a population decline in the same period, indicating an aging population profile within the Cork City Council area and a younger demographic in the suburban and outlining urban areas.
- > The structure of population growth in Cork however has changed from the census periods 2002-2006 and 2006-2011. The latter period showing a distinct move towards population growth within existing urban areas.
- > By 2031, the population of the South-West region is forecasted to increase by another 71,000 people or 0.5% over 2011.¹⁹

8.2 Housing Supply

As can be seen from the tables below housing supply and completions in Cork City & County have been largely dominated by typical three and four bedroomed semi-detached houses largely in existing suburban locations and outlining urban areas of Cork City.

Table 1: Housing Completions – By Type Cork City

Year	Individual	Housing Schemes	Apts.	Total
2015	70	109	53	232
2014	60	61	34	155
2013	92	105	41	238
2012	58	88	102	248
2011	42	57	28	127
2010	45	163	34	242
2009	53	223	390	666
2008	75	380	546	1,001

¹⁹ <http://www.cso.ie/en/releasesandpublications/er/rpp/regionalpopulationprojections2016-2031/>

Table 2: Housing Completions – By Type Cork County

Year	Individual	Housing Schemes	Apts.	Total
2015	702	448	50	1,200
2014	604	353	41	998
2013	504	326	33	863
2012	639	294	32	965
2011	867	390	75	1,332
2010	975	641	82	1,698
2009	1,268	1,212	160	2,640
2008	1,913	2,662	516	5,091

Notably, the number of apartment completions in Cork City is notable between 2008 and 2015 because of the low figures.

8.3 Economic Activity Underpinning the New Housing Model

Traditionally Cork has been the centre of Ireland's pharmaceutical, biotechnology and heavy industries. These industries by their very nature have been located on the outskirts of the City and in the harbour area with workers traditionally commuting by road to their facilities. Other cities have large scale employers located in the city centre with workers travelling by public transport to their places of work.

In recent years investments in Cork have changed and we have seen a number of inward investments in the City Centre which require large scale office type accommodation. Furthermore, many of the large I.T. services companies are employing a large number of multi-lingual workers, mainly from abroad. These type of workers prefer living in City Centre locations where they can walk, cycle or take public transport to work. Therefore, there is a significant requirement in Cork for multi-unit residential apartment and duplex type schemes located in the City Centre.

It could be argued that this is a significant change in the Cork housing model. It is therefore clear that two markets have emerged in Cork for residential accommodation, one being the traditional three and four bed semi-detached housing model in existing suburban locations and the other is the inner city apartment type scheme for rental. But, as illustrated by the figures above, the second of these two markets has not been met by developers for a number of reasons, as outlined below.

¹¹ *Elsinga & Hoekstra, 2005, p. 105*

¹² *Ibid.*



8.4 Difficulties in Recommencing Residential Construction Activity

Many commentators have remarked on the current housing supply crisis and it is now clear that there are a number of obstacles to recommencing multi-unit residential construction in the numbers required.

It is estimated by the ESRI (rather modestly) that Ireland requires 25,000 new housing premises per annum. Given the backlog that has been created over the last number of years this figure has probably climbed to closer to 30,000 per annum.

In Cork, which traditionally accounts for 12% of housing construction, there is a requirement for at least 3,000 units to be constructed per annum. A number of blockages to recommencing residential construction nonetheless exist. Any Government policy aiming to stimulate more supply across either social housing, rental blocks or homes for purchase must hence recognise and address these barriers.

Among the barriers needing consideration are:

- > Supply of zoned and serviced land to the residential construction sector. Incentives to bring centrally located brownfield land into use for residential purposes, including vacant buildings and upper floors in urban centres. More zoned and serviced green field land is also needed to ensure supply is not constrained.
- > Taxation charges such as VAT, development contribution scheme charges, special contributions, Part V and other levies. These must be considered in the context of overall development costs and the viability of new construction.
- > Infrastructural deficits which may result in planning applications being refused. Fast tracking infrastructure such as Dunkettle Interchange and the Docklands' Bridges using funds available from ISIF must be achieved.
- > Length of the planning process. On average it takes three years from purchasing zoned residential land until the first units commence construction.
- > Streamline the planning process for major developments, which currently requires input from Irish Water, Transport Infrastructure Ireland and Local Authorities. Multi-agency issues must be addressed at zoning stage to ensure certainty for developers.
- > Financing models for residential developments, particularly the ability to secure funding for schemes outside the capital. Existing models such as Activate Capital should be extended and made more competitive
- > Central Bank Rules – while the merits of the new mortgage lending rules are many, restrictions on loan-to-value and loan-to-income have resulted in difficulty for many securing mortgages and saving for a deposit.
- > Attracting new professional landlords into the rental market. A key ingredient in any housing model is a supply of rental accommodation. In recent years, economic losses, taxation measures, new accommodation standards, and other changes has resulted in a reduction in investors and new market entrants into the rental sector.

9. Affordability

Household income, in many respects, determines each family tenure choice for its housing solution. Low income families will rent, or depend on social housing. High income families will tend to purchase a house.

However, an objective measure of household income, and the approach adopted by the Central Bank, strongly suggests that the following outcome for urban housing needs:

- > 7% of households are inherently poor with scant ability to pay a market rental (mainly reliant on social housing)
- > 18% of households are low income working families, though many are reliant on 'Rental Allowances towards the payment of a market rental
- > 25% of households are defined as sub-prime, working families
 - Most, from an income point of view, should be long term renters
 - Most will aspire towards ownership, or, are forced to progress ownership even though strictly they may lack adequate resources to do so
- > 50% of households are defined as high income and have the funds to purchase their own home

A breakdown of this 'real' market and the affordability across its sectors is illustrated below. It suggests that up to 50% of urban affordable housing should be in the rental market.

Table 3: Long Term Affordable Urban Balanced Housing Model

Non-Prime Market 50%			Prime Market 50%
Poor	Low Income	Sub-Prime	High Income
7%	18%	25%	50%
Nominal Rental	Rental – Supported by Rental Allowance	Market Rental	Purchaser
Renter <ul style="list-style-type: none"> > Single > Elderly > Unemployed > Social issues 	Renter <ul style="list-style-type: none"> > Working adult or couple > Unskilled > Minimum Wage 	Renters Mainly <ul style="list-style-type: none"> > Early career > Both partners working 	Purchaser <ul style="list-style-type: none"> > Educated/skilled > Working career > High income

As seen from the above table, the housing sector should not be considered a market as up to approximately 30% of households may not have the income resources to pay a market rental. Equally if we allow households, in large numbers, to make a choice, or force them towards a choice, above their affordable range, it creates an outcome not consistent with a normal or balanced market.

Within the housing sector, the house sales market is defined as a high value use – and it can normally outbid, for the purchase of land, to the extent that other 'housing' uses are unable to secure, or compete, for scarce land resources. Town planning must thus acknowledge and protect the low value uses and their ability to acquire land.

Carefully thought out town planning is therefore needed to contribute to the balance outcome across all housing sectors.



10. Tipping Point for Housing Viability in Ireland

As set out in previous chapters, a gap between the demand and number of completed housing schemes and apartments exists. Given that the housing market requires the construction of some 25,000 units per annum country wide and with obvious demand, there is an expectation that the supply line would start to come on stream.

Equally in a market where there is limited supply, it is natural to expect prices to rise considerably in response to this.

While prices have fluctuated significantly from peak to trough and back there is a ceiling in the market place now imposed by the lending rules introduced by the Central Bank, which are restricting price growth and ultimately impacting on supply. While the rules themselves are not the issue, it is clear that their introduction have had an impact on housing market, prompting difficulties.

It is therefore necessary to look at the viability of the cost of construction independent of site cost initially and then looking at what the impact is of a site cost and where the tipping point is with regard to this in the market.

10.1 Tipping Point: First Time Buyer Style Housing

In assessing the construction of a typical three bedroom semi-detached property of 1,200 sq. ft., the following are the elements that contribute to the cost:

Item	*Cost
Foundations & Floor Slab	
Masonry Works including budget for features to front elevation	
Carpentry materials and labour including stairs, doors, stud partitions, skirting boards etc.	
Roof truss, roof finishes, rainwater goods	
Windows & external doors	
Plaster work and painting and budget for tiling	
Heating and water services	
Electrical installation (including security alarm)	
Kitchens, wardrobes and fire places	
Insulation upgrade to part L, BER , air tightness membrane, test, supervision of air tightness	
Renewable energy requirements (solar panels)	
Site indirect costs including scaffolding, site supervision, health and safety, site accommodation, site security, insurance, homebond insurance	
Sub Total House Cost	1,200 x €112 psf €134,400

Item	*Cost	
Drainage, services around house		
Boundary walls and fences		
Footpaths and paving around house		
Top soils and seeding to garden		
Total External works	1,200 x €5.63psf	€6,756
Site clearance, top soil removal, adjusting site levels		
Site enclosures, site boundaries, entrance peer sub stations		
Roads, footpath, play areas, allowance for road widening at entrance		
Foul and surface water main drainage including local authority fees / Irish Water		
Site services including power, phone PV providers, public lighting, gas supply		
Landscaping of public area etc.		
Total site development works	1,200sq.ft @ €14.50psf	€17,400
Site indirect costs including scaffolding, site supervision, health and safety, site accommodation, site security, insurance, homebond insurance		
Building contingency		€5,000
Overall construction total		
Financial contribution and local authority bonds		€12,000
Part V contribution to local authority		€10,000
Marketing / Sales fees		€2,500
Design Fees		€2,000
Assigned certifier as required under Building Control (amendment) 01 March 2014		€2,000
Sub-total		€196,056
**Finance Cost say 6%		€11,763
Profit Margin 15% on cost.		€29,408
Overall house cost excluding land		€237,227
VAT on house cost excluding land		€32,025
Overall house cost with VAT excluding land	€265,252 say €265,000 / €270,000	

*Costs provided by Michael Barrett, Michael Barrett Partnership Quantity Surveyors and Cost Consultants based on Cork figures.

** The finance cost for development is actually much higher than this over a project life with debt being provided by both senior debt and private equity. The blended cost could be at 9%. In addition where a site does not have planning permission cost of funds could be up towards 13%. This range in rate has a significant impact on cost of delivering the end product.

Having taken all the component parts above you have a core value of the property which is independent of the actual site cost.

While acknowledging that there are variables in all of the above, nevertheless you get to a point where the cost of delivering the actual end product is €270,000 before site cost.



10.2 Land: The Critical Resource

For the common good, we should not treat lands as a 'separate' resource. The enhanced value attributable to the lands arises solely because of the housing zoning. The maximum value of land should be its viable economic cost to sustain new housing investment, without any contribution to price inflation.

Land, unfortunately, tends to be a scarce zoned resource – and hence there is a risk that market value creates a ransom cost above its viable measure of value. This results in price inflation and is counterproductive towards a balanced housing model, at reasonable cost. Taking the figures above, you now have to look at the site cost. If you take it that you have 10% of the actual cost of delivery (excluding VAT) then a site value of €27,000 would equate to 10 units per acre (€270,000 per acre.)

This would allow for the delivery of the end use product; however it not probable to acquire a residential development site in an urban location at this price point.

We set out below a number of scenarios where the land cost is different:

	Scenario 1	Scenario 2	Scenario 3
Cost of Construction excl. land cost including profit margin	€270,000	€270,000	€270,000
Cost of Site	€54,000	€40,500	€27,000
Total Selling Price	€324,000	€310,500	€297,000

It is evident from the variable site cost where the tipping point is to produce a three bedroom semi-detached house at a price point that allows for the first time buyer to be in a position to acquire the property while operating within the rules of the Central Bank mortgage guidelines, sees site cost being 10% of the cost of house construction.

With the current Central Bank regulations capping mortgages at 3.5 times gross annual income, and the 10% deposit requirement to €220,000 and 20% on the excess over €220,000, the general consensus is that the average first time buyer has the ability to fund purchase from €230,000 - €280,000. From the figures above the maximum site value is 10% of gross development value to fund a viable residential scheme.

10.3 Tipping Point: New Model Rental Supply

If we adopt the same style approach for new apartment style developments, preliminary data suggests that viability can be sustained at rentals in excess of €1,300 per month (2 Bed Apartment).

Consequently, unless the cost of development is reduced or the price of land lowered, a rent of €1,300 per month would have to be charged for any new 2 bed apartment development complexes. Notably, this figure is out of line with the average rent in the Cork market, which currently stands at around €1,000 per month. Equally, a monthly rent of €1,300 is well above what a person earning the average industrial wage can afford if abiding by best practice guideline of no more than 33% of one's disposable income being spent on accommodation.

11. Conclusion & Key Recommendations

Across businesses, Government and community groups it is recognised that the Irish housing market is in crisis. The Irish housing crisis is both a product of lack of supply, but more importantly a reflection of disinterest in a balanced housing outcome. It arises because:

- > New Social Housing substantially ceased in 1990
- > There was a policy void in respect of rental – and in new rental provision of scale
- > There was a continuing policy preference towards ownership without limit
- > The ‘Banking’ crisis, since 2009, has substantially stalled all urban scheme housing.

In this paper, Cork Chamber proposes Government to develop and implement an action plan to achieve a balanced housing model. Notwithstanding the importance of the need for more social housing and affordable first time buyer properties, the rental sector is the most neglected sector in the housing market. As long as this neglect remains unaddressed, it will not be possible to establish equilibrium in the housing market. With this in mind we recommend Government to formally recognise the rental sector as an integrated and critical part of our housing system by developing a targeted strategy to stimulate more long term, affordable and professionally managed city centre apartments for rent.

Accordingly, Government must address:

- 1) New supply across all sectors (social housing, rental, and homes for purchase)
- 2) New policy to protect low value residential uses
- 3) New policy to ensure land is an equitable ‘partner’ in the residential dividend
- 4) Proactive policy to treat rental provision of scale as a priority item

To achieve this, Cork Chamber outlines below recommendations to be considered in the context of Government’s 100 day housing action plan.

- Government must develop and implement a Housing Action Plan that addresses material new supply in order to establish equilibrium in the housing market, particularly in our larger cities. This plan must address short term remedial measures while also outlining a long term strategy.
- The rental sector is the most neglected sector in the market, both from a policy perspective and from an investment perspective. There is a need for Government to formally recognise the rental sector as an essential and permanent feature of Ireland’s housing market by developing a strategy for a new rental model.
- The Housing Action Plan must address separate and comprehensive strategies for material new supply of:
 - > New social housing
 - > New housing for sale (emphasis on ‘First Time Buyer’ properties)
 - > New private rental accommodation of scale (suitable and affordable for the average rental consumer)



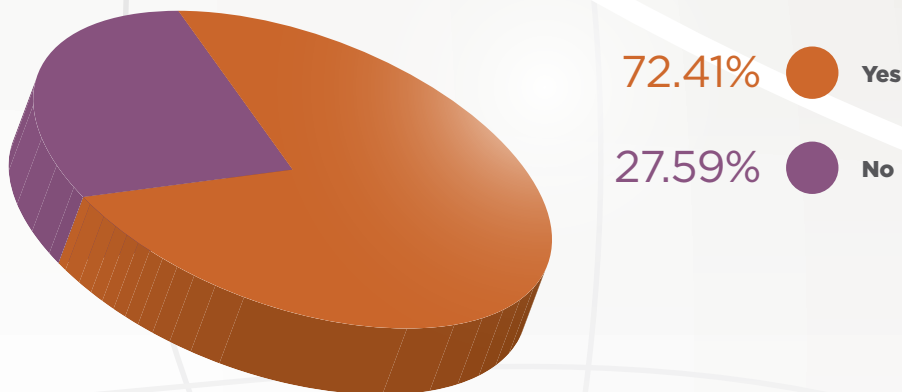
- Against an overall objective of encouraging a new urban 'long term' rental model, Government's policy response should:
 - a. Encourage long-term professional landlords of scale that are major suppliers of quality accommodation as a business
 - b. Incentivise quality managed rental accommodation that has a market appeal for long term occupancy by the average rental consumer.
- Obstacles to recommencing construction must be addressed, including:
 - > The supply of zoned and serviced land
 - > Taxation costs associated with construction
 - > Costs and regulations preventing the change of use of centrally located 'over the shop' premises
 - > Infrastructural deficits
 - > The length and uncertainty of the planning process
 - > The availability of financing for development
- Valuation analysis confirms that if land cost exceeds 10% of gross development value, both for 'First Time Buyer' product and 'Affordable Rental' provision, viability will be in doubt. The cost of land must consequently be considered in the context of any policy measures aimed at stimulating new supply.
- Access to and the cost of finance for constructors to fund new developments may need to be addressed at Government level.
- A targeted portion of the €200 million local infrastructure fund announced by Government in June should be allocated towards stimulating new city centre rental accommodation.

Appendix A.

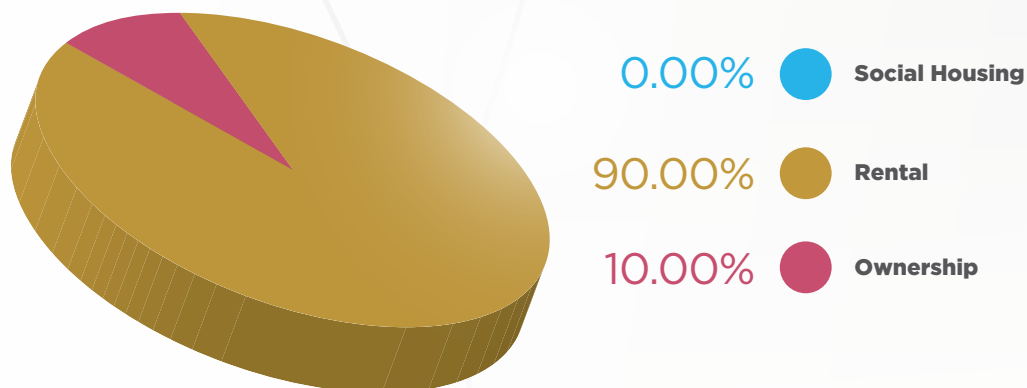
Survey Results: Housing Needs in Cork

In the first two weeks of May 2016, Cork Chamber circulated a survey to its Corporate Partners and selected large employers in the region. This survey assessed respondents' views of the cost and availability of accommodation in Cork from a business perspective.

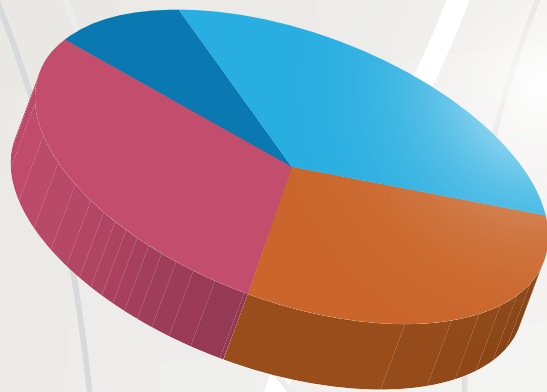
Q1: Has the availability/cost of residential accommodation been raised by staff/management as a challenge in your business?



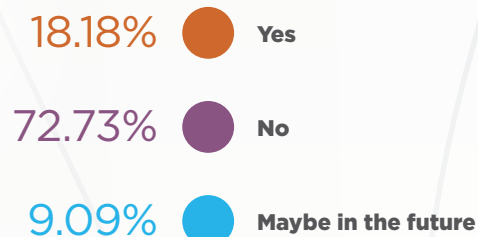
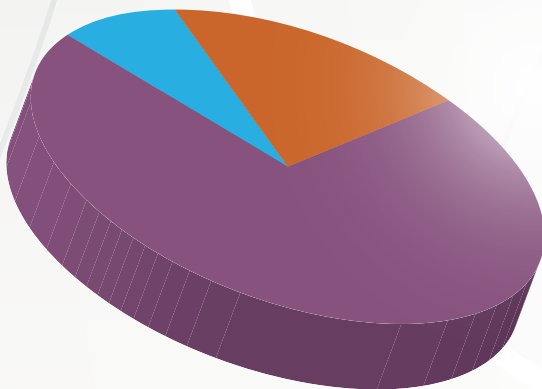
Q1: Which of the following accommodation sectors is of biggest concern to your business?



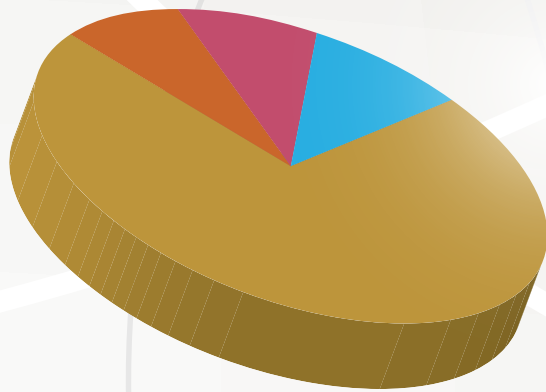
Q3: Which of the following demographics face the biggest accommodation challenges within your business?



Q4: Has/is your business considering initiatives to help alleviate the current accommodation crisis for your employees? (For example sublet-a-room schemes)



Q5: Have you had any prospective staff turn down a position due to a lack of suitable or affordable accommodation?



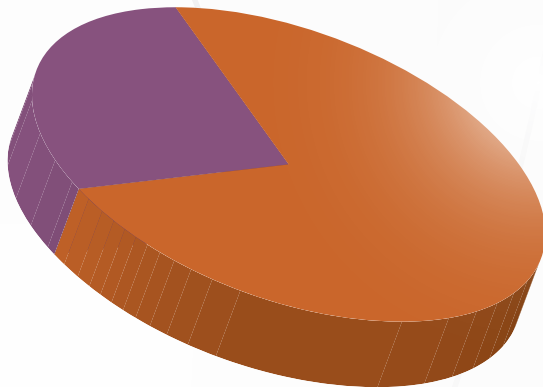
9.09% ● Yes - Suitable Accommodation

9.09% ● Yes - Affordable Accommodation

72.73% ● No

9.09% ● N/A Have not hired recently

Q6: Is the cost of accommodation creating upward wage pressures in your business?

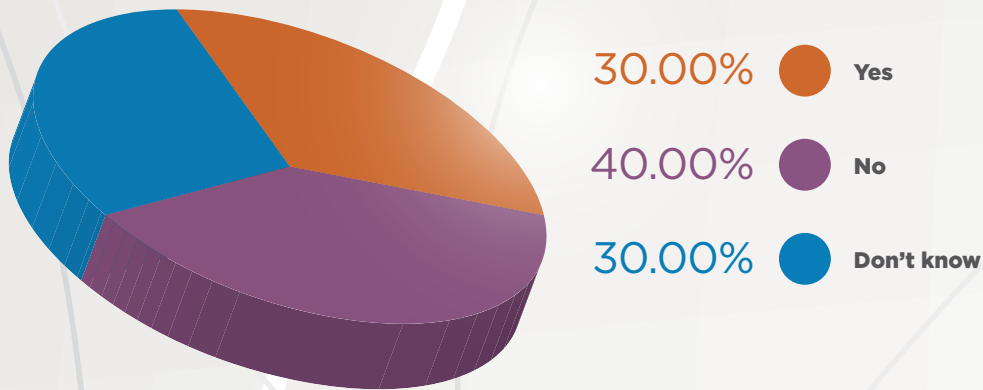


72.73% ● Yes

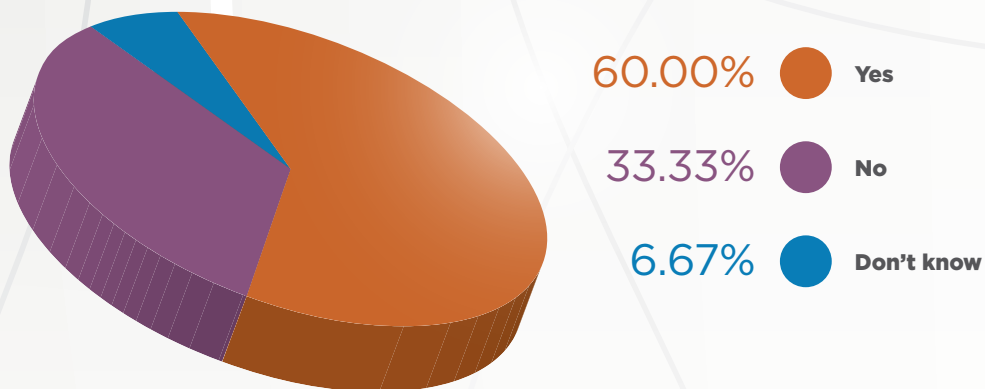
27.27% ● No



Q7: Have any of your staff/colleagues been necessitated to live in hotels/hostels/other temporary housing solutions due to an inability to find secure accommodation?



Q8: Does your business foresee future expansions under which suitable accommodation may become an issue?



Open Comments

In an open question asking respondents for solutions that could be put in place to alleviate current accommodation challenges, the most frequently highlighted issues were:

- > Implementing a programme to help ex-pats with visa applications, housing solutions and creating social gatherings with local communities to assist families integrate
- > Capping the cost of rental and reducing the construction cost of new builds
- > Incentives for the construction industry to build and repair ghost estates/derelict sites
- > Encourage more development in the city centre and integrating planning models with demographic developments
- > Ensure access to capital for developers
- > Incentivise elderly people living alone in houses to sublet spare rooms
- > Extending Cork city's boundaries to open the city to more commercial and state investment and widen the local council tax base
- > More investment in public transport to open up wider areas for commuting
- > Commence construction of residential housing in the Tivoli Dock Area and expedite the port move to Ringaskiddy

Lastly, respondents were asked to comment on why the availability/cost of accommodation is concern to their business. The following reasons were outlined:

- > Businesses are increasingly hiring young people from outside the region who need access to rental accommodation
- > The current situation is negatively impacting the positive lifestyle image of the region
- > The lack of affordable accommodation is challenging businesses negotiations with head offices in respect of brining more 'value add' functions to Cork. This respondent listed accommodation as being as big a concern as Ireland's tax rate in terms of encouraging more employees to transfer to the region.
- > A lack of supply and increasing costs are creating wage pressures, which is posing a real threat to the region's competitiveness and ability to attract talent.
- > The lack of professionalisation within the rental market is making it difficult for employers to attract expats home.



Appendix B. The Constitution, Private Property and the Housing Crisis

The Right to Private Property

The Constitution protects the right of the individual to the private ownership of external goods. That right has been stoutly defended by the Courts since the foundation of the State. However the Constitution itself provides that the protection is subject to a number of important qualifications. In particular it recognises that the exercise of rights to property must be regulated by “the principles of social justice” and that the State may as occasion requires delimit by law the exercise of those rights so as to reconcile them with “the exigencies of the common good”.

The Proportionality Test

The right of the Oireachtas to impose restrictions on the right to property in the public interest is by now well established. The subjectivity of the constitutional terminology quoted above has been tempered by the evolution of the proportionality doctrine as set out by Judge Costello in *Heaney -v- Ireland*.

Proportionality requires that provisions restricting private property rights must:

- a) be rationally connected to the objective and not be arbitrary or unfair.
- b) impair the right as little as possible and
- c) be such that its effect on the rights must be proportional to the objective being achieved.

Part V and Housing Policy in the 21st Century

The judgement of the Supreme Court following the reference to it of Part V the Planning and Development Bill 1999 to test its constitutionality is particularly important in the context of housing policy and of social engineering generally.

That Bill was of historic importance in establishing ground breaking rules for housing policy in the 21st Century.

Chief Justice Ronan Keane set the balance to be struck between the protection of property rights and the common good in regulating them when he confirmed that the provision of affordable housing and housing for persons in special categories and of integrated housing was rationally connected “to an objective of sufficient importance to warrant interference with the constitutionally protected right”.

The use of Planning Legislation for Social Objectives

The Court went on to confirm that Planning Legislation could be used for purely social objectives:

“It is accepted on behalf of the State that the use of planning legislation, which has traditionally been concerned with the orderly and beneficial planning and development of the physical environment, for a purely social objective of this nature is novel and even radical. The Court is satisfied, however, that it is an objective which it was entirely within the competence of the Oireachtas to decide to attain, as best it could, by the use of planning machinery.”

The Court also pointed out that where the property of the citizen is compulsorily acquired by the State or one of its agencies for what are deemed by the legislature to be important social objectives, it has in general been recognised that he or she is entitled to at least the market value of the property as constituting fair compensation for the invasion of his property rights. However the Court went on to confirm that this right is not absolute.

Constitutional Discrimination

Finally the Court noted that it had been argued before it that the general scheme of Part V discriminated invidiously and unfairly between the affected landowners and the persons benefiting from the scheme and that the result was to require some people to bear a disproportionate share of what should be the responsibility of society as a whole.

The court was satisfied that these arguments were not well founded. “The fact that a particular planning scheme may result in the conferring of benefits on some categories of persons seen by the Oireachtas as being in particular need of assistance and that this is done at the expense of landowners who are benefiting financially from related planning decisions can be said to be a form of unequal treatment. However, Article 40 does not preclude the Oireachtas from enacting legislation based on any form of discrimination: as has often been pointed out, far from promoting equality, such an approach would simply result in greater inequality in our society...where classifications are made by the Oireachtas for a legitimate legislative purpose, are relevant to that purpose and treat each class fairly, they are not constitutionally invalid.”



Appendix C. Housing Policy Working Group & Consultation

Frank Ryan (Chair), Director, DTZ

Isobel O'Regan, Director Commercial, Savills

Conor O'Connell, Regional Director, CIF

Con Nagle, Director, Global Properties

Ann Bogan, Senior Planner, Cork City Council

Elaine O'Driscoll, Partner, PJ O'Driscoll

Andrew Hind, Senior Planner, Cork County Council

Mark Poland, Building & Estates Office, UCC

Sarah Thatt-Foley, Policy and Research Executive, Cork Chamber

Conor Healy, CEO, Cork Chamber

Key property developers and auctioneers in the region were also canvassed for their views.

Appendix D.

Cork Chamber's Corporate Partners

 This is Service		 a Novartis company	 AVIVA	
 BARRY GROUP 1955-2015		 CARBERY	 clearstream DEUTSCHE BÖRSE GROUP	
 DANONE NUTRICIA Early Life Nutrition				
	 Answers That Matter.			 Energy for generations
 Building a better working world				 cutting through complexity
		 Be well		
				 THE SPIRIT OF SAFETY
		 rdj.ie		 Part of Capita plc
				
 Your Vision. Our Focus.				

Notes

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Lined area for writing notes, consisting of 20 horizontal blue lines.





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