

## 12. Is cost rental the new weapon in the fight to increase housing supply?

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**Few would dispute that more homes must be built in Ireland, but the more pertinent question is how we build the right type of homes, to meet the long-term diverse needs of Irish society.**

Inherently, the housing market in Ireland will only ever supply housing that can be adequately financed, but this has meant that historically there have been inevitable winners and losers in the Irish housing market. The latest figures from the Economic and Social Research Institute (ESRI), in a study conducted with the Department of Housing, Local Heritage and Government, suggest Ireland needs to build at least 28,000 new houses each year, over the next two decades. What raw statistics such as this do not illuminate, however, is where the demand is coming from, or give insight into the type of person that is driving the significant demand for new housing. It is not an easy question to answer and it is therefore natural that the varied stakeholders in the housing sector have justifiably been stating their specific cases to Government, to address their particular angle on the broad objective of increasing supply of housing to the market.

### EXISTING MODELS OF HOUSING DELIVERY

How to increase the housing supply is complex because the system and market is complex, logically meaning that any strategy needs to be sufficiently diverse and flexible itself over the long-term, to adapt to the shifting market demand and supply. For instance, there has been a recent trend for the "turnkey" model, whereby the financial risk through development and construction is shared across stakeholders and lies with the most appropriate stakeholder at each stage. Crucially, funding (or at a minimum a planned exit strategy) for the development is secured in advance with a local authority, an Approved Housing Body (AHB) or an investor agreeing to contractually buy the properties, but only paying upon delivery of the completed units.

This model has been successful in Ireland, as well as the UK and continent, in providing high volumes of housing but, in itself, this is not and will not deliver enough of a long-term solution to increase our housing stock.

There has also been merit in the use of the "forward-funding" model, whereby investors and certain AHBs agree to acquire a completed development at the beginning or early on in the development process, providing the financial security and removing the financial risk for the developer, thus stimulating supply on a larger scale. This model has particular advantages in bridging the financing gap when bank lending is harder to come by or the loan-to-value rate is less economically viable to a developer, and although the financial risk is abated with forward funding, appropriately, the development risk lies with the developer. As such, this forward funding model was particularly beneficial when bank lending dried up following the financial crash and recession in Ireland and continues to be attractive where the cost of such lending remains a challenge to even seasoned developers.

### LONG-TERM ENHANCED LEASE

Another recent option introduced in 2018, to help solve the issue of funding for development projects, is that of the long-term enhanced lease, as part of the Government's "Rebuilding Ireland: An Action Plan for Housing and Homelessness". This scheme sees local authorities lease properties directly from institutional and private developers on 25-year leases. The local authority then becomes the landlord to the tenant and collects the rent from the tenant. The local authority, in turn, pays a rent to the lessor that is up to

95% of the current market value rent, reviewed every three years. Importantly, only properties newly built or due to be built, that have not been leased or rented within the previous 12 months are eligible for the enhanced leasing model, to ensure that the scheme stimulates the supply of new housing, which is the ultimate goal.

The other important element of the long-term enhanced lease is that the property owner remains responsible for the ongoing management and maintenance of the property, thereby lowering such costs to the local authority as well as reducing its risk. Long-term leases will continue to be beneficial in adding new homes, due to the eligibility requirement for investors to hold a minimum of 20 houses or apartments. Whereas both the enhanced and standard long-term lease models offer more immediate housing solutions and are beneficial in adding to delivery of social housing units as they open the sector up to investors at home and abroad, these leasing models are not designed to tackle the need for lower rents. Further, many commentators and stakeholders object to the significant investment of public funds (through guaranteed state backed rents) into schemes which will do nothing to add to the permanent stock of public housing.

### COST RENTAL EQUITY LOAN (CREL) SCHEME

If models such as those referred to above have not, so far, been able to provide an adequate supply of housing that meets the needs of all sections of Irish society, new solutions are needed. Across the housing sector, debates have been held as to what else can and should be done to increase and diversify our housing supply to meet the demands of all. One area that has, until now, arguably been under-represented is that of the affordable housing sector. How do we meet the needs of those that are in work and have an income, do not qualify for social support, but are likely to never be able to afford to buy their own home? Now, at last it seems the voice of the affordable housing sector has been heard within Government.

It is extremely welcome news that the Government has now issued 'Calls for Proposals' to the new Cost Rental Equity Loan (CREL) scheme, as was originally announced in Budget 2021, and also contained in the Programme for Government (PfG).

The PfG included an ambitious commitment to increase social housing stock by 50,000 units, led by local authorities with the assistance of AHBs – who supplied over 40% of social housing in 2019 – at the same time as aiming to move AHBs off balance sheet, with the objective of speeding up the procurement of new homes and enabling access to alternative funding. What was clear at the time of the PfG was that, it was imperative that Ireland's stock of public housing is maintained, and is best achieved through a suitable cost rental model to meet the affordable housing needs of those who would otherwise have few long term housing options. While the notion of land ownership, and home ownership, is an important life goal for many in Irish society, and could be said to be a distinct element of Irish culture in a way that it is not for much of the continent, for whatever reason, there are many in our society who will not reach this goal. They should nevertheless be afforded the same long-term housing security as those able to afford to buy their own homes.



Bord Gáis Energy Theatre, Grand Canal Square, Dublin

## Is cost rental the new weapon in the fight to increase housing supply? by Fidelma McManus (continued)

### THE COST RENTAL MODEL

The CREL scheme is no doubt an important step forward in providing this housing security. In essence, the principal of a cost rental model is that a state body, such as a local authority or AHB, provides rental accommodation to those who are above the threshold for social housing but unable to afford to buy their own property or rent on the open market, at cost. This means the low rent charged is calculated to only cover the cost of delivering, managing and maintaining the home. With the costs spread over the long-term and not subject to open market rent fluctuations, this should provide a long-term sustainable housing solution. The "Vienna Model" is a popular and proven example of a cost rental scheme that has delivered sustainable and high-quality affordable housing in the Austrian capital and a model that we should inevitably look to replicate here.

For any cost rental model to succeed, low-cost, long-term and stable finance is required. This is why the Government's CREL scheme is a big step forward for the cost rental model. The €35 million made available by the Government will be in the form of long-term loans on "favourable terms" – meaning low interest rates. This is intended to cover up to 30% of the development or acquisition cost to AHBs for new cost rental homes with a further €100 million of long-term commercial loans due to be made available by the Housing Finance Agency, to fill the remaining development cost gap for AHBs. The Government has announced that this fund will support AHBs to deliver approximately 350 cost rental homes next year prior to delivery of further homes by the Land Development Agency and forms part of a larger allocation of €468 million for all housing affordability measures.

It is important to note that cost rental is intended to complement social housing adding to the public housing stock by leveraging the proven expertise and capacity of the AHB sector, demonstrated in their development and management of social housing units. It is envisaged these homes will be made available to applicants who meet defined eligibility criteria which will be set in advance of the completion

of the first projects. All of this will be underpinned by a new affordable housing Bill, that will define and regulate this new sector. The detail of this Bill will be important and something Beauchamps will be monitoring closely for our clients.

### SUCCESSFUL PILOT SCHEME

This commitment from Government is important validation for our AHB clients, who have been championing the cost rental cause for some time. For example, Beauchamps are extremely proud to have worked closely with Respond, in conjunction with Tuath Housing, on the Enniskerry Road Cost Rental Project. This is a successful pilot scheme for the cost rental model that has demonstrated to Government that this type of cost rental scheme works in providing a solution to a significant gap in the market.

The project comprises 155 homes in the south Dublin area of Stepaside, with 105 social homes and 50 cost rental homes which will be the first cost rental homes to be delivered in Ireland. The scheme is managed and operated by Respond and Túath Housing as the site owners, with the Department of Housing, Planning and Local Government providing initial funding and the Housing Finance Agency providing the important long-term financing that makes this model viable. Support from Dún Laoghaire Rathdown County Council, as the responsible local authority for the area, has been crucial, as has the involvement from the Housing Agency in providing the land. With the land provided by the state, the conditions of the land transfer included provision that the land must be used for social and affordable housing for at least 70 years, a key facet of the long-term nature of the project that makes long-term funding possible.

With the land provided by the state, it brought down the monthly rental cost figure by €150 (all figures approximate and per month). The serviced site funding brought the figure down by a further €250 and the long-term low-cost finance from the Housing Finance Agency brought the cost down again by €300. A further €100 was saved through reduced margins and other economies made.



Jim Larkin Statue, O'Connell Street, Dublin 1



TU Dublin Grangegorman, Dublin 7



Central Bank of Ireland, Dublin 1



Christ Church Cathedral, Dublin 8

### COST RENTAL MODEL IS VIABLE

These figures are all important and illustrate how and why a cost rental model is viable, with the support and joined up work of the right people and organisations, complimenting existing social housing models. It is testament to all those involved in this pilot scheme that the evidence provided has resulted in the Government now green-lighting an expansion of the cost rental model through the announcement of the CREL and a specific funding model tailored for cost rental. It is a significant show of faith from the Government, with such options greatly opening up the sector to new investment that is sorely needed. This greater plurality of housing models is the only way forward in tackling the diverse housing requirements in Ireland.

Beauchamps will continue to support our partners in delivering new homes for all sections of society and look forward with optimism to further improved housing provision in Ireland.

### FIDELMA MCMANUS

*Fidelma McManus is a Commercial Property Partner who heads up Beauchamps' specialist housing team. She is an acknowledged market leader in the acquisition and management of social housing projects and her practice extends to the acquisition, structuring, financing, disposal and leasing of all types of property, including distressed and partially complete residential developments, shopping centres, retail parks and offices. She also advises on all aspects of landlord and tenant law. Working with clients ranging from Approved Housing Bodies and public bodies to receivers, developers, institutional and private investors, Fidelma has unique insights into all issues relating to the provision of affordable and social housing.*