

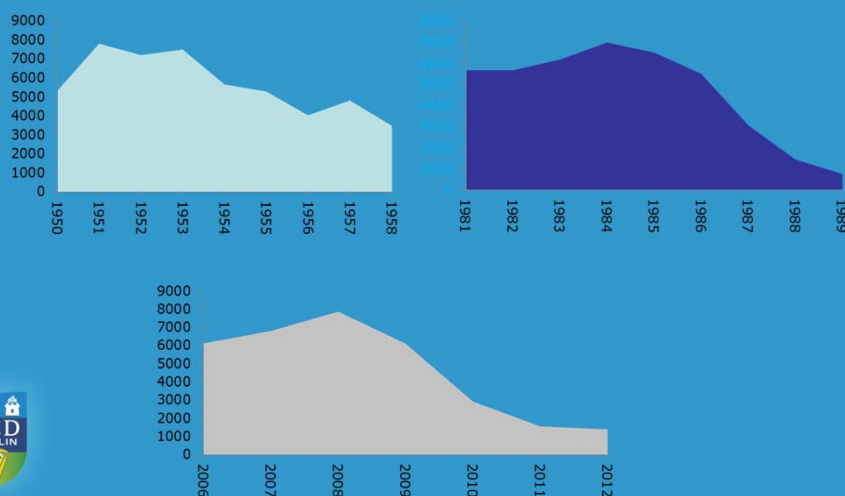
# Social and affordable housing and the recovery

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## Lessons from History

Compare social housing output during Ireland's three worst economic crises



## Lessons from History

Delivering social housing during economic crises is:

1. desirable:

- Stimulus
- Meets rising need
- Evens out supply peaks/troughs

2. Possible (with the right funding model):

- 1950s – borrowing repaid using central government interest subsidies + rates:
  - Social housing waiting lists were largely cleared by the end of the decade
  - Building programme was a useful economic stimulus
  - Concerns about local authorities' borrowing capacity were addressed by establishing a central borrowing vehicle (the local loans Fund).



## Lessons from History

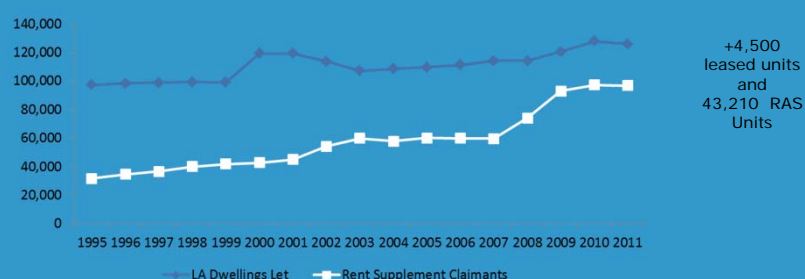
3. More difficult with the wrong funding model:

- Post 1987 - capital grants replaced loans:
  - Affordable in booms, but:
    - pro cyclical investment
    - and poor value for money
  - Unaffordable in busts so output falls radically
  - Failed to deliver sufficient supply:
    - Accumulation of housing need (long waiting lists)



## Lessons from History

4. Current funding model has necessitated growing dependence on the private rented sector:



- Extent of this dependence particularly on supplement holds risks:
  - Expenditure rises as unemployment rises
  - Government is exposed to fluctuations in market supply and rents
  - Distorts market – acts as a 'floor' under rents
  - Poor value for money especially for family and special needs housing.



## The Current Picture

- DoE Housing capital and current expenditure fell from €1.7 bn in 2008 to €647m in 2013.
- Rent supplement spending rose from €391m in 2008 to €503m in 2011 before falling to €372m in 2013
- Private landlord subsidies now account for 45% of State housing spending
- Investment in new social house building is low. In 2013:
  - 546 new local authority dwellings and 204 new housing association dwellings were built/bought
  - 6,634 new RAS/ leased units were provided.



## Implications For Policy in 2014

- Need to deliver more 'mainstream' social housing – ideally new build.
- Requires return to borrowing based finance:
  - Alternative is unaffordable and unsustainable
  - More bang for buck – loans deliver 5+ houses for every one the same level of grants would finance
- But some new challenges must be resolved:
  - Financing challenges:
    - raise the capital finance 'off balance sheet'
    - spend the finance off balance sheet too
    - repay the loans
  - Delivery challenges:
    - Local authority spending is on balance sheet and staff numbers reduced
    - Housing associations' spending is off balance sheet but their capacity to deliver is limited



## Steps to Sustainable Financing of Social Housing

### Step One: Raising the Capital

- European Investment Bank lending
  - Cheap money (3-4% fixed) but on balance sheet
  - Move it off balance sheet by establishing a special purpose vehicle (SPV) to hold the loans or use the State investment bank
- Real Estate Investment Trusts (REITS)
  - Similar annual financing costs to borrowing
  - But the social landlord never owns the dwellings
- Bank finance (off balance sheet but rarely provided at the moment)
- Bonds issued by an aggregator



### Step Two: Building and Manage the dwellings

- Challenge the providers
- Focus investment on large housing associations which can build, manage and own dwellings and loans
- Encourage amalgamations/co-operatives of small housing association
- Local authorities:
  - build houses and then transfer management and ownership to housing associations.
  - establish an SPV or housing associations to build and own the dwellings.
- National Housing Agency (NESC proposal)
- Subsidies put out to tender



### Step Three: service the loans

- **NB: provide multi-annual subsidies**
- Reform subsidy design:
- Revise income related rents
- Enable higher income households to access social housing

### Step Four: implement other necessary reforms

- Establish an independent regulator with 'step in' powers
  - protect public money and tenants' rights
  - convince lenders of creditworthiness
- Eliminate sales to tenants at below market value.

