

RENTAL SYSTEMS IN IRELAND

THE CASE FOR CHANGE

EDITED BY
SIMON BROOKE AND
DÁITHÍ DOWNEY



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FOCUS
IRELAND

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FOREWORD

In pursuing our vision that everyone has a right to a place they can call home, Focus Ireland directly provides housing to those in need and works to vindicate the right of each person to live in a place which is safe, secure, affordable and appropriate to their needs.

This is the second report published by Focus Ireland in relation to Irish housing policy. The first examined the implementation of Part V of the Planning and Development Act and was published in July 2006. The present report turns attention to another aspect of housing policy: that of rental systems and their impact on access to and management of housing.

One in five households live in rented housing in Ireland. For some, such as young professionals, students and migrant workers, renting provides the flexibility which meets the needs of their transitory lifestyle. For others renting is a long-term option where home ownership is beyond reach. Most of the people Focus Ireland work with fall into this latter category and require assistance in meeting the costs of rental housing provision.

Focus Ireland experiences the difficulties within the rental housing system both as an advocate for those at risk of or experiencing homelessness and as a social landlord providing housing. The reality is that our rental system is not working optimally for tenants, landlords or the exchequer. Tenants are having great difficulty securing local authority or private rented accommodation and often top up rent allowance payments from their own resources. Further, social landlords are struggling to manage property – in many instances rent payments barely cover apartment management charges leaving little income to support essential ongoing management and maintenance. In this context it is understandable that housing output in the voluntary sector has stagnated in recent years. Local authorities too face challenges where rental income is far below that required to sustain housing.

To criticise the current rental system is not to suggest that positive changes have not been made. Reforms of standards in the private rented sector and the introduction of the Rental Accommodation Scheme in recent years are strong

positive moves but the impact is limited in the absence of a coherent vision for the rented sector in Ireland. The challenge of creating a rental system which works effectively is immense, involving complex interplays between the economy, the individual and housing. Yet the potential for positive change clearly exists.

This publication is based on papers presented as part of a series of policy workshops organised by Focus Ireland in collaboration with the Centre for Urban and Regional Studies in Trinity College Dublin. The focus of that work was consideration of reform of the rental system in Ireland. The energy and commitment of the statutory, voluntary and academic sectors to improve access to housing is evident in the challenging and insightful contributions to these workshops.

The papers include a number of suggestions for change including the potential role of a tenure neutral housing allowance system and piloting of a cost rental project. However, if we are to consider how alternative rental models might work in an Irish context then we must be in a position to cost such developments and to consider their impact on the overall functioning of the housing system. The absence of any comprehensive study on housing finance in Ireland is a critical barrier to progressing this work. Undertaking such a study is beyond the means of an NGO such as Focus Ireland, however it is hoped that this report will act as a stimulus to its development.

I would like to thank all those who participated in the workshops which form the basis for this publication. In particular I would like to acknowledge the support of the Centre for Urban and Regional Studies in Trinity College and in particular Dr Andrew MacLaran as well as the work of Dáithí Downey and Simon Brooke who led the process for Focus Ireland and whose tenacity and commitment ensured that the contributions and collaborations during the workshops were recorded and documented for a wider audience.

Declan Jones
Chief Executive

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PREFACE

In spring and summer of 2006, Focus Ireland, in partnership with the Centre for Urban and Regional Studies at Trinity College Dublin, hosted a series of three full-day policy workshops on the theme of the reform of rental systems in residential housing in Ireland. A particular focus was on developing a better understanding of how a unitary rental model could be developed in Ireland.

This publication is based on the proceedings of these workshops. It includes an abridged version of our initial discussion paper circulated in advance of the first workshop. Papers based on the formal responses to our discussion paper and delivered at the workshops by Professor Christine Whitehead and Dr Rory O'Donnell follow. A paper from Christine Dibelius (which was the primary source for the workshop presentation by Brian O'Gorman) and a précis of the main points of discussion at the workshops are also included. Lastly we include a paper which pulls together some of the issues raised by other contributors and makes a

specific recommendation that aims to assist in taking the process of rental reform in Ireland forward.

We would like to acknowledge the enthusiasm and application of workshop participants in their deliberations on the challenging problem of rental reform. They helped deliver a greater understanding of the barriers to and the opportunities for change of the Irish residential rental sector and helped us forge a clearer understanding of the steps required to deliver reform. We hope this publication stimulates further debate among public policy decision-makers, social partners, media and government on this important issue, which up until now has not received the attention it deserves.

Simon Brooke and Dáithí Downey

June 2007

CONTRIBUTORS

Simon Brooke is a Housing and Social Policy consultant in Ireland. He worked in the areas of social housing and homelessness for many years in London and Dublin, and has extensive experience of research and evaluations in these fields. He is chair of the board of Clúid Housing Association, and lectures part-time at the Department of Social Studies, Trinity College Dublin.

Christine Dibelius is Director of Services at Clúid Housing Association. She is a social studies graduate from Trinity College, where she also completed a Masters in Ethnic and Racial Studies. Following employment with the European Foundation for the Improvement of Living and Working Conditions she joined Clann Housing Association, promoting long term housing for refugees. In 2003 she joined Clúid Housing Association in as Policy & Development Officer. During a year in Victoria, Australia, she assisted with the implementation of a new regulatory system for the community housing sector. Since August 2007 she has been working as Clúid's Services Director.

Dáithí Downey is Deputy Director and Head of Policy and Service Delivery with the Homeless Agency Partnership in Dublin. Prior to taking up his current post Dáithí worked as policy analyst with Focus Ireland. He has published work on urban policy, access to housing, housing affordability, homelessness, housing systems and the economy.

Dr Rory O'Donnell is Director of the National Economic and Social Council (NESC) and Chief Officer of the newly-established National Economic and Social Development Office (NESDO). In his work as Economist and later Director at NESC he has prepared analysis that underpins Ireland's social partnership approach to economic and social policy and has written extensively on partnership. He was Jean Monnet Professor of Business at the Smurfit Business School, University College Dublin where he edited a review of Ireland's first 25 years in the EU, *Europe – the Irish Experience* (Institute of European Affairs, 2000) and co-authored *Europe's Experimental Union: Rethinking Integration* (Routledge, 2000).

Professor Christine Whitehead is Professor in Housing in the Department of Economics, London School of Economics and Director of the Cambridge Centre for Housing and Planning Research, University of Cambridge. Her work in the housing field has ranged from an econometric model of the UK housing system through acting as a member of the UK government's housing policy review research team. Lately her research has concentrated on aspects of housing finance and social housing provision as well as on privatisation and the relationship between affordable housing and land use planning. She is widely published. Her latest publications include *Restructuring Housing Systems* (York Publishing, 2000) which she co-edited with Sarah Monk. She is advisor to the House of Commons Select Committee on Transport, Local Government and Regional Affairs and was awarded the OBE for services to housing.

ABSTRACTS

WORKSHOP DISCUSSION PAPER: TOWARDS A UNITARY RENTAL SYSTEM IN IRELAND

Simon Brooke and Dáithí Downey

This is an abridged version of the discussion paper circulated in advance of the workshops which set out to introduce the main characteristics of a unitary rental system. It considers some of the implications of the introduction of a unitary rental system in Ireland and identifies key questions to be addressed in adopting the principles of a unitary rental system.

KEY ISSUES IN A SUSTAINABLE HOUSING POLICY IN IRELAND: A VIEW FROM THE UK

Christine M. E. Whitehead

Very rapid house price growth in Ireland has resulted in people finding it more and more difficult to enter owner occupation. However there are relatively limited rental options available in Ireland. Those unable to compete in the owner-occupied market do not have the range of alternatives available in many other countries with similar concerns. This paper addresses these issues by first clarifying the nature of the Irish housing market in relation to other mainly European countries before secondly examining the rationale for developing a better operating rental market. Lastly, it looks to the UK to see whether there are lessons that can be drawn from a country with similar legal and administrative systems but some rather different approaches to addressing the issue of ensuring 'a decent home for everyone at a price within their means'.

RESPONDING TO THE CALL FOR RENTAL REFORM: A TRANSITION STRATEGY

Rory O'Donnell

A number of similarities are noted between the motivation for this project and the concerns of NESC. This paper summarises NESC's thinking on some of the key issues, in particular why the council pulled back from the idea of a unitary rental system as a possible central recommendation, and outlines NESC's thinking on some of the sub-components of a unitary rental system. Kemeny's core ideas are addressed, distinguishing between his diagnostic analysis of different housing systems, on the one hand, and the strategy for transition to a unitary system, on the other. This leads to a discussion of the difficulties faced in framing a transition strategy in the Irish context, which concludes that Kemeny's unmet demand for cost renting becomes in effect a queue for home ownership. Creating the motivation for the reform may actually be a greater task than addressing the questions set out in the discussion paper. The author suggests that a major challenge is to frame an argument that motivates people to continue policy development. An important next step might be to develop a cost-rental demonstration project.

RENTS AND RENTAL SUBSIDIES IN THE HOUSING ASSOCIATION SECTOR

Christine Dibelius

The housing association sector is playing an increasingly important role in the provision of social rented housing. The two funding schemes for housing association provision are the Capital Loan and Subsidy Scheme (LSS) and the Capital Assistance Scheme (CAS). They are described together with their distinct rent systems. The paper sets out a number of principles for rent setting from the perspective of both landlord and tenant, and after examination of the housing association rent schemes concludes that the schemes score high on social criteria and welfare considerations for the benefit of tenants, but perform rather poorly in terms of providing sufficient financial backing for the landlord's management and maintenance obligations. A number of alternatives are explored and the paper concludes by advocating the replacement of the differential rent scheme with a single, transparent and easily understood economic rent system.

WORKSHOP DISCUSSION

At the three workshops, held in April, May and June 2006, presentations were followed by debate among the participants. Key points from these discussions are presented in this chapter. In addition the key comments of John O'Connor (Director of the Affordable Homes Partnership) and Rosalind Carroll (Dublin City Council Rental Accommodation Scheme Programme Manager), both of whom made presentations, are included.

RENTAL SYSTEMS IN IRELAND: LOOKING AHEAD

Simon Brooke and Dáithí Downey

This paper begins with a brief description of the two main rented tenures in Ireland and sets them in an international context. It then describes the role of the rented sector, and the rental systems currently operating in each tenure, and identifies weaknesses in these systems before briefly outlining a range of alternative rental systems. The paper concludes by arguing that existing rental systems in Ireland inhibit the effective functioning of the rental sector, and contends that a detailed analysis of alternative rental systems is required. This, in turn, it is maintained, requires a baseline study of the operation of housing finance in Ireland.

WORKSHOP DISCUSSION PAPER: TOWARDS A UNITARY RENTAL SYSTEM IN IRELAND¹

SIMON BROOKE AND DÁITHÍ DOWNEY

1. Introduction

This brief discussion paper sets out to introduce the main characteristics of a unitary rental system. It then considers some of the implications of the introduction of a unitary rental system in Ireland and identifies some questions we feel need to be addressed in the formation of a policy framework capable of delivering positive and long-lasting change to the Irish rental sector by adopting the principles of a unitary rental system and moving towards its realisation in the near future.

1.1 A unitary rental system

Professor Jim Kemeny (1994, 1995) began his comparative analysis of European rental markets in the early 1990s. His investigation led him to develop a typology that classified rental markets in Europe as either unitary rental systems or dualist rental systems.

The basic characteristic of a unitary rental system is that the same rental system operates in social rented housing and private rented housing, and there are no regulatory barriers to competition between profit and non-profit providers. This means that rents in both the private and social rented sectors are based on the true costs of providing rented housing.

In a dualist rental system, the social rented sector and the private rented sector are kept separate from one another, with the social rented sector operating as a safety net for

households unable to afford market rents or mortgage payments.

Before examining the characteristics of a unitary rental system, we feel it is necessary to outline two key underlying concepts to Kemeny's theorisation, namely the role and function of the social market and the process of maturation of rental housing stock.

1.2 The social market

The conceptual approach underpinning a unitary rental system is that of the social market. Developed in the 1930s as an alternative to classical liberalism and command economy, in a social market the state intervenes in an effort to ensure that social and economic goals are attained. Social markets need to be constructed so that they provide adequate welfare for the most disadvantaged thereby removing the requirement for a safety net that can stigmatise and generate a culture of patronage and dependency among providers and users. An ideally constructed social market encourages and allows non-profit social service providers to compete with for-profit social service providers in a free and open market. This provides users with greater choice between providers.

Realistically, there is scant evidence of a free and open market for social service and welfare provision operating according to this ideal type. Even the most ardent free market advocate will acknowledge that in market economies some form of safety net is necessary to ensure that levels of poverty and suffering are kept to a level that is politically

1. This is an abridged version of the discussion paper distributed in advance of the workshops as a stimulus to discussion. The paper tentatively identified 10 key questions to be addressed in the formulation of a policy framework that adopts the principles of a unitary rental system. Workshop discussion on this paper moved quickly away from an assessment of the viability of the concept of a unitary rental system to a broader discussion of rental systems in general. Nevertheless, we take the view that the 10 questions posed remain pertinent to the consideration of any rental systems, whether unitary rental or some other model, and so we have retained the questions in their original format.

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acceptable. However, such a safety net potentially undermines and undercuts the free market system, so where it is in place it has traditionally been kept separate from the for-profit sector and confined to a residualised state sector.

1.3 Maturation of rental housing

Maturation refers to the growing gap between the costs of servicing a debt on a house built some years ago and a house built today. This is due to inflation of building costs, asset prices and land prices. One consequence is that a non-profit making organisation, that seeks only to cover the costs of renting a property, can rent out a ten-year old house at a substantially lower rent than a similar newly built house.

According to Kemeny, this process of maturation allows a non-profit making landlord to charge rents that are below the rents charged by profit making landlords. This is a critical element of a unitary rental market – without the process of maturation non-profit making landlords would not be able to undercut the rents charged by profit making landlords to the same extent.

In most cases non-profit making landlords do not base their rents on the historic cost of the dwelling in question but will operate a rent pooling system so that total rents from all properties will meet the total costs of debt servicing, housing management, repairs and maintenance, and cyclical repairs.

1.4 Characteristics of a unitary rental system

As stated above, the basic concept of a unitary rental system is that the same rental system operates in social rented housing and private rented housing and that rents are based on true costs. Thus, housing for people on low incomes is integrated into the broader housing system rather than being kept separate from it. This, according to Kemeny, will lead to dampening rents, raising housing standards and increasing security of tenure. Countries, whose rental systems have been described as unitary, include the Netherlands, Denmark, Austria, and Sweden.

In a dualist rental system, the social rented sector and the private rented sector are kept separate from one another, with the social rented sector operating as a safety net for households unable to afford market rents or mortgage payments. This differentiation, which is necessary to prevent the non-profit making landlord obtaining the full benefits from the maturation of its portfolio and undercutting the rents of profit making landlords, is maintained by a number of measures. These include restricting social rented housing to low income households, and maintaining stigma. Countries whose rental systems have been described as dualist include the United Kingdom, Ireland, and Belgium. The principle characteristics of the two systems are contrasted in Table 1.1 below. As can be seen, the theoretical fit between Ireland and a dualist rental system is arguably

Table 1. Unitary rental systems and dualist rental systems compared

	Dualist rental system	Unitary rental system
1. Share of owner-occupancy sector	Relatively large	Relatively small
2. Distribution of dwelling types and dwelling sizes	Social rental and private rental dwellings are not necessarily present in the same segments of the housing market	Social rental and private rental dwellings are present in the same segments of the housing market
3. Level of housing quality	Relatively large housing quality differences between the owner occupancy and the rental sector	Relatively small housing quality differences between the owner occupancy and the rental sector
4. Income distribution of tenants	Relatively strong residualisation in both rental sectors	Relatively limited residualisation in both rental sectors
5. Rent levels corrected for housing quality	Large differences between social rental and private rental dwellings	Small differences between social rental and private rental dwellings
Countries	United Kingdom, Ireland, Belgium	The Netherlands, Denmark, Austria

Source: Hoekstra (2005)

extremely close for each of the five characteristics listed.

Despite the fact that Kemeny's analysis received considerable subsequent attention there has been comparatively little empirical evaluation of his thesis. However Hoekstra (2005), using data from the European Community Household Panel (ECHP), attempted to assess the evidence for Kemeny's distinction between unitary and dualist rental systems. He concluded that four of the five hypotheses outlined in Table 1.1 are supported by empirical data. The area of non-agreement was concerned with residualisation. Hoekstra's (2005) analysis found that the degree of residualisation did not differ much between presumed dualist rental systems and presumed unitary rental systems.

2. Implications of adopting a unitary rental system in Ireland

The adoption of a unitary rental system in Ireland would have a significant impact on the housing system as a whole. In particular it would involve:

- Replacing the differential rent system with a cost-based rental system
- Establishing a tenure-neutral housing benefit system
- Major reform of the finance of social rented housing.

These issues are covered further below.

In general, the advantages of a unitary rental system accrue with time, as growing maturation allows non-profit making landlords to benefit from the reducing debt burden on older properties, which in turn enables them to steadily reduce rents.

2.1 Residualisation

According to Kemeny, there should be less residualisation in social housing in unitary rental systems than in dualist rental systems. This is because, in unitary rental systems, non-profit renting should expand beyond the provision of housing for people on low incomes to include people on higher incomes who cannot afford to buy a property of equivalent quality, and people who may be making a choice not to purchase.

However, Hoekstra's (2005) analysis indicates that in practice, residualisation continues to be a feature of social rented housing in those countries where a unitary rental system exists. If Hoekstra's analysis is correct, it would be dangerous to solely rely on the establishment of a unitary rental system to tackle residualisation in social rented housing in Ireland. This issue would benefit from further examination.

2.2 Financial consequences

A full assessment of the fiscal impact of establishing a unitary rental system will require a detailed financial analysis which is beyond the scope of this paper. Nonetheless, below we set out the broad parameters of likely costs and savings.

LIKELY SAVINGS

- Moving to a cost rental system in local authority and housing association housing will mean that average rents will increase, thus increasing income to local authorities and housing associations. Some of this will of course be offset by housing benefit payments (see below).
- Administration costs associated with a cost rental system can be less than those associated with a differential rental system.
- In the long term private rented sector rents should be lower in a unitary rental system than in a dualist rental system. This will mean that housing benefit payments will be less for households which if there were no change would otherwise be receiving rent supplement.

LIKELY COSTS

- A unitary rental system will require the introduction of a tenure-neutral housing benefit scheme. This will mean that some tenants with low incomes in the private rented sector who are currently not eligible for rent supplement will be eligible for housing benefit.

However the extent of net costs (or savings) arising from the introduction of a housing benefit scheme will be strongly influenced by the level at which social housing rents net of housing benefit are set. Norris and Winston (2003) estimate that in 1999-2000 local authority tenants spent 7.4 per cent of their total household expenditure on rent, which is far lower than other tenures (except of course owner occupiers who have paid off their mortgage). Of course the extent to which net social housing rents could or should be increased would be a political as well as a social policy issue.

- A housing benefit scheme will have with it associated administration costs. These will depend on the nature of the scheme and the body that will be administering it.

2.3 Potential advantages for the Irish rental sector

- Since in a unitary rental scheme rents will be based on true costs, local authorities will move in the direction of financial self-sufficiency. This will enable them to establish sinking funds to pay for cyclical maintenance rather than rely on the Remedial Works Scheme, which has many serious weaknesses. In turn, this will mean that

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the quality of social rented housing should improve. In addition, local authorities will have an incentive to be more efficient in their use of funds for cyclical maintenance. It will also be easier to monitor local authorities' performance in this area.

- There will be an opportunity for a beneficial change in the relationship between central and local government. As local authorities move towards financial self-sufficiency in social housing the current system of grants will assume ever-decreasing importance. As a consequence, central government will be able to assume a primarily regulatory role rather than both a funding and regulatory role. This should be an opportunity for better use of existing national resources, and for giving local authorities greater control over their own destinies, subject to national planning instruments such as local housing strategies and social and affordable housing action plans.
- The current funding schemes for housing associations do not allow them to make adequate provision for cyclical maintenance. This is not a problem at present because most housing association stock is relatively new, but it may become a very serious problem in the future. If a unitary rental system were established, housing associations would be able to establish sinking funds to pay for cyclical maintenance, and ensure continued high quality provision.
- The private rented sector will, by virtue of having to compete with the non-profit sector, have to maintain high quality housing and keep rents affordable.
- If rents in part reflect quality differences between dwellings, tenants will be able to make a choice to rent a cheaper dwelling over a more expensive dwelling. Furthermore tenants will be able to see a clearer link between the rent they pay and the home they live in.
- Another consequence of rents reflecting quality will be an incentive to local authorities to improve the quality of their housing stock and the quality of housing management services to their tenants.

2.4 Potential disadvantages for the Irish rental sector

- As stated above, it will be necessary to introduce a tenure-neutral housing benefit scheme to ensure that neither social rented nor private rented tenants suffer affordability problems arising from the introduction of a cost rental system. This is widely feared by some policy makers and others who foresee a scheme that will be expensive to administrate and represent a large and

growing burden on the Irish Exchequer. These are real issues, and must be addressed, but it is important to acknowledge that the net costs of a housing benefit scheme will be directly related to its design. Furthermore, these net costs must be set against benefits arising from improved quality of housing with consequent improvements in health and quality of life.

- The differential rent scheme that currently operates in Ireland has one overwhelming advantage over all other rental systems. Since rents are determined exclusively by reference to household income and are low, there are few housing affordability problems. The National Survey on Housing Quality (Watson and Williams, 2003) confirms this, showing that only one per cent of local authority tenants were paying more than one third of their income on rent. It is important that any alternative system does not 'throw the baby out with the bathwater', which means that a housing benefit scheme must be designed to ensure maximum take-up and avoid creating poverty traps.
- Tenant purchase will continue to undermine the unitary rental system since the benefits of maturation are lost when an older dwelling is sold to a sitting tenant, especially if the dwelling is sold at a discount on the market price. If social housing were sold to tenants at market value or with a clawback that is equal to the discount, and the capital receipts and income generated used by local authorities and housing associations for purchase of replacement housing, then the impact would be much less.

3. Building a Policy Framework for a Unitary Rental System in Ireland

This paper raises more questions than provides answers. Yet we feel these are questions relevant to the future development of Irish housing policy within the context of continued urbanisation and counter-urbanisation in Ireland – processes themselves that result from consistent positive economic growth and rising demand for access to housing across all tenures, but especially for the rental tenures where issues of choice, security, quality and affordability are problematic.

We have therefore attempted to distil 10 key questions we feel provide a basis for building a policy framework capable of delivering positive and long-lasting change to the Irish rental sector through the adoption of the principles of a unitary rental system and moving towards its realisation in the near future.

We do not believe that we have all the questions identified and admit to being at the beginning of our understanding

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and analysis of what is required to meet the objective of positive reform that improves access to housing for those who choose not to seek owner occupation – for whatever reason. However, we feel these questions offer a good starting point for further enquiry, consideration and discussion and offer them on that basis.

The 10 questions are set out below in no particular order of priority and indeed some can be collapsed into one another.

- I How can improved consumer choice within a unitary rental market be achieved by involving competition between state, non-profit and for-profit accommodation providers?
- II How can economic rents based on the value of the property in relation to quality, size, location, etc., be used to deliver a cost-rental supply of housing based on state and institutional capital investment?
- III How will a housing benefit scheme to assist poorer households meet economic rents work?
- IV How can rent-pooling across a mature stock make non-profit provision more viable and secure access to housing for low income households?
- V How can a policy-managed approach to rental housing markets ensure housing supply to meet the actual profile of housing need?
- VI How does Ireland generate the considerable social housing stock required for a unitary rental model and where do we begin to build first?
- VII What happens to the differential rent system operated by local authorities and what will the impact of a unitary model be on local government?
- VIII How will a unitary rental system be financed?
- IX How will a unitary rental system be governed and regulated?
- X How will a unitary rental system succeed in preventing homelessness and reducing housing need while also ensuring greater tenure choice and best value for money?

Conclusion

The introduction of a unitary rental scheme in Ireland could have many significant advantages to existing and future tenants, and could also be a driver for significant improvement in the quality of the country's social housing stock, which is and will continue to be a major state asset. The implications of moving from a dualist rental system to a unitary rental system are many and this paper has only touched on some of the main issues.

There has been remarkably little debate about rental systems in Ireland and it is hoped that this paper will act as a stimulus to the planned workshop discussions on this important issue which could have far-reaching consequences for housing in Ireland in the future.

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RESPONDING TO THE CALL FOR RENTAL REFORM: A TRANSITION STRATEGY

RORY O'DONNELL

I very much welcome this initiative. I see a number of similarities between the motivation for this project and the concerns of the National Economic and Social Council as reflected in the report, *Housing in Ireland: Policy and Performance* (NESC, 2004). Here I summarise the Council's thinking on some of the key issues, in particular why NESC pulled back from the idea of a unitary rental system as a possible central recommendation, and I outline the Council's thinking on some of the sub-components of a unitary rental system. I look briefly at Kemeny's core ideas, distinguishing between his diagnostic analysis of differential housing systems, on the one hand, and the strategy for transition to a unitary system, on the other. That will bring me to some observations about framing a transition strategy in the Irish context and to comment on some of the questions raised by Simon Brooke and Dáithí Downey in their workshop discussion paper.

I think the authors of the workshop discussion paper are perhaps being somewhat hard on themselves. Their paper poses a number of quite technical questions about the financial mechanisms for a unitary housing system, concerning cost recovery and housing subsidies. These are difficult questions. I believe that creating the motivation for the reform may actually be the greater task. It seems to me that a major challenge is to frame an argument that motivates people to continue policy development. When that is achieved a lot of minds come to focus on the issue, working out what the details might be.

1. Shared Motivation for Rental Reform

The motivation behind the workshop discussion paper is similar in many ways to that of the Council's. First and foremost, given our residual social housing system, we need a better range of supports for intermediate households. These are households higher up the income spectrum than those covered by local authority housing or rent supplement under SWA. That is a major motivation common to both the workshop discussion paper and NESC's housing report.

Secondly, this paper reflects another anxiety that the Council would share. NESC – with its membership drawn from the employers, unions, farm organisations, community and voluntary pillar, key government departments and independent experts – was worried about housing supports, which effectively depend on the recipients being on welfare. This is a problem in a vibrant labour market and in a wider policy approach that puts a high priority on removing barriers to participation and progress.

Thirdly, NESC expressed concern about aspects of public rental policy. The differential rent system does not cover the costs of maintenance sufficiently, leaves local authorities struggling to find resources for maintenance, and contains significant inequities.

Fourthly, there is an anxiety about the limitations of local authority ownership and management of the social housing stock. For reasons discussed below, I do not want to exaggerate this; yet we know from Ireland and elsewhere that the local authority is not always the ideal manager of public housing.

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Finally, to some extent, the Council shared an anxiety about tenant purchase – particularly the fact that massive sales in the 1980s reduced the size of the local authority stock of both housing and land, in a way that affected the ability of the system to respond to the surge in housing demand in 1990s. Although, as I discuss below, there are intricate arguments about tenant purchase.

Overall, then, there is a significant similarity between the motivation of the authors of the workshop discussion paper and some of the concerns that NESC has articulated.

2. Summary of NESC Thinking on Dualist and Unitary Rental Systems

The NESC devoted considerable time to deliberation on Kemeny's analysis of dualist and unitary rental systems. Here I outline the thinking of the Council on this important set of ideas.

First, there is little doubt that Kemeny offers an uncannily accurate account of the way a dualist housing system works. The analysis picks out the key dynamics of a dualist system. It looks at how the large-scale construction of public housing met real needs in the middle of the last century, and was subsequently combined with very active attempts to sell, and with quite enormous subsidisation of home ownership. It also shows how subsidisation of private home ownership was subsequently reined in, given the cost of subsidizing a large segment of the population, and how the system becomes more targeted, aiming subsidies at 'marginal households'.

Other aspects of Kemeny's analysis should also be noted. He describes very well the remarkable command economy of local authority housing. He provides a striking account of the way in which rental accommodation in dualist systems tends to be dominated or hegemonised by owner occupation. The resale value of the rental property seems to throw a bigger shadow over the rental activity than it does in unitary systems, where resale price (for reasons I do not fully understand) does not seem to dominate rental quite so much. He draws attention to the fact that in dualist systems there is limited commercial rental by professional organisations or large-scale landlords. In the private rental market 'petty landlordism' prevails – and all that goes with it, including the intrusion into private life. Kemeny also draws our attention to the fact that maturation keeps recurring, giving rise to what he calls a 'differential rent crisis', which creates a need to further reinforce a dualist system or provides an historical conjuncture in which government can adopt a switching strategy. However, towards the end of my contribution, I argue that the 'rent differential crisis' gets

constructed in a different way in Ireland and this makes it difficult to apply some of Kemeny's ideas.

Secondly, Kemeny's analysis suggests that we see housing as a system, with its pieces connected to each other. Up to a point, it makes sense to look at each housing 'sector' – owner occupation, local authority, and voluntary and co-operative housing – in their own right. But there is a real sense in which they are connected and depend on each other.

Having said all of that, I have to admit that the shared view of the social partners and others on the NESC was the transition to a unitary system was not feasible in current Irish circumstances.

The main factor motivating that caution was, I suppose, the very features of the dualist system and of the wider economic and social system. In particular, NESC was struck by the degree to which the occupants of local authority housing in Ireland have such consistently low socio-economic status and the difficulty that poses for moving toward a cost-covering rent system, especially where we do not have a large-rent pooling opportunity. Similar considerations have arisen when Kemeny's analysis has been brought to bear on the UK. The high degree of income inequality, in both Ireland and Britain, combined with a number of other features, make it hard to confidently set out on a transition to a unitary rental system.

One might say that this is a catch 22 situation. The features that the dualist rental system reinforces – inequality, residualisation, housing supports, which can contain traps – are the very things that prevent an escape from it. There is some truth in that observation. Within the constraints of its cautious response to Kemeny's ideas, the Council does argue that we should explore strongly the extension of affordable rental in the Irish system. NESC suggested that we should think about retargeting supply subsidies away from local regeneration, which has been their focus over the last two decades, towards supply subsidies conditional on agreed approaches to letting and renting. And it had in mind the provision of affordable rental opportunities to households that face difficulties meeting the costs of market-determined private rents or full home ownership.

Indeed, in this regard, I believe that we can now identify some important requirements for effective use of supply subsidies, such as tax breaks. In reading the American literature on the use of supply subsidies to support social housing or urban regeneration, a critical role seems to be played by intermediary, non-profit, entities. In contrast to some Irish practice, public authorities in the US do not generally create a direct channel through which private

developers receive public resources (through tax breaks, for example) in order to provide low-cost housing or to regenerate an inner city. These schemes generally operate through an intermediary non-profit entity with a mission, which is either racial integration (given the US context) or urban regeneration or housing provision. This seems critical. By contrast, in Ireland we seem often to have granted tax breaks more directly and more passively. Indeed, our experience in attempting to get better planning suggests that if we do not have that entity in the middle – with a mission based on good planning, social provision and integration – it is hard to ensure that supply subsidies to private providers yield the results we seek. Another possibility is to insert not-for-profit providers through the provision of land on favourable terms or other supports. Consequently, the Council suggests that there should be a real attempt to explore the development of a cost rental segment in the Irish system.

3. NESC's 'Issues for Further Analysis and Debate'

Several of the arguments which the discussion paper invokes are important in thinking about a move to a unitary system. At the end of chapter six of the NESC report on housing we identify 'issues for further analysis and debate'. These are issues on which the Council did not feel able to make a definite recommendation. Some of them are, it turns out, critical building blocks of a unitary rental system. Let me outline some of the Council's thinking on these issues.

The first is rental policy. We know there are several limitations to differential rent schemes. They can be a drain on local resources, in the sense that they leave local authorities continuously struggling for resources for maintenance and, therefore, dependent on central government. In distributional terms, they have both progressive and regressive elements. In one sense they are highly progressive. But maximum rents mean that many families pay less rent than they could or, perhaps, should. There is limited reflection of demand and quality factors. In a very active economy, where locality is critical for many economic and social functions, it seems problematic not to reflect demand factors and quality factors at all. These are well-known problems and are enough to motivate serious discussions about rental policy.

The second issue is ownership of local authority stock or stock transfer. As evidenced by Britain and other countries, there are good reasons to think about transfer of local authority stock to other social landlords. Kemeny is a very strong advocate of removing social rental housing from the

command economy of local authorities, and from political control. At the same time we know that in Ireland, perhaps in contrast to the UK, there are few if any large scale associations that are candidates for management of significant stocks. In that context, there is no easy argument for stock transfer. We know also that the very problems in the rent system, mentioned above – especially the fact that rents do not cover maintenance costs sufficiently – qualifies the case for stock transfer.

Indeed, the ineffectiveness of local authority housing management should not be exaggerated. Many of the past difficulties in local authority estates are, in my view, connected to a much wider social and economic crisis in Ireland. The quality of local authority estates and the quality of life in them declined largely because of the wider economic crisis of unemployment. We know also that, once the economy and public revenues recovered, there were significant improvements and much innovation in the local authorities' practices. Therefore, it can be argued that the benefits of stock transfer can be achieved in a reformed local authority approach.

The third piece of the building block that NESC suggested warranted further discussion was personal housing benefit. There is an analytical case for such a benefit. This is especially so in a context where economic analysis of the housing market and the labour market suggests there will be, more or less permanently, a significant fraction of the population who struggle in the market for home ownership or private rental. The Irish economy is one in which there has been significant growth in low-skilled employment. That is an important part of spreading the benefits of the Celtic Tiger economy, making it a social change project also. It provides economic and earning opportunities for a wide spectrum of people, from those with high-end skills to those with lower levels of educational attainment. In that context there is, in the view of the NESC and successive governments, a case for income support and taxation instruments which lessen the inequality in market earnings. These can take many forms, including child benefit and other transfers. Clearly, housing benefit could be one such instrument. And there are housing-specific arguments (such as tenure neutrality), which could be invoked in support of this approach.

At the same time, we know that housing benefit has given rise to significant problems in the UK and elsewhere, where fraud has been a factor. In addition, within the Council there was a fear of adding a demand-side subsidy to an already heated housing system. But there remain arguments that need to be kept in mind: in particular how to design housing supports that do not trap households that are not

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economically active, on the one hand, and how to support households that are economically active with child rearing, housing and other needs. Indeed, a new dimension in these discussions is migration and, in particular, which social transfers are available to people (or their dependents) not resident in Ireland.

Finally, NESC suggested that we need further discussion of tenant purchase. On this subject, the NESC report might have laid out the contending arguments somewhat differently. We identified two broad positions. The first was the status quo and the historical view of the role of tenant purchase in Irish housing development. The second was the critical view, which almost all non-government housing analysts seem to share. We might, perhaps, have identified a third view: the more radical argument for widespread tenant purchase, articulated by some in Dublin City Council.

The argument between these three positions could give rise to a fascinating debate involving intricate and difficult arguments. The equality argument is relatively straightforward: it seems downright inequitable to grant a heavily subsidised asset transfer to some families and not to others in fairly similar circumstances. The more tricky arguments, I think, are the ones about residualisation and local regeneration. The argument advanced in favour of the traditional policy is that tenant purchase stabilises local authority areas by keeping hard-working upwardly mobile families in them. This is not an argument that we can dismiss lightly. But we need to look at an alternative view, that tenant purchase might also deepen residualisation. It could do this by reducing local authority tenancies to a smaller and smaller share in the population and, therefore, to more and more residualised economic and social groups.

There are some really tricky issues tied up in the debate between these arguments. The conventional argument for the beneficial effects of tenant purchase seems to be based on a particular view of why it was that local authority estates got so bad in the 1970s and 1980s. I am concerned here with the relative significance of lack of ownership, on the one hand, and wider problems, on the other. If these are conflated it is possible to attribute too much significance to ownership and to assume that the move from rental to ownership causes a big change in attitudes and behaviour. The standard argument is that when a family transfers from a tenancy to ownership its members become better citizens, more concerned with local issues, good policing, keeping drugs out etc. There is clearly something in this view, and it is stated by people with deep knowledge and experience of local authority housing. Yet it might exaggerate the ownership effect by somewhat misdiagnosing what went wrong in the 1970s and 1980s. Surely some of the problems reflected not

lack of ownership so much as very poorly designed facilities without auxiliary services, combined with a crisis of unemployment. Is it possible that the kind of mixed, well-designed, estates that we hope to build now will, in an economy with low unemployment, not be prey to that kind of degradation, even without people availing of tenant purchase? Clearly these are complex issues, but ones worth debating.

4. Kemeny's Theory: Systemic Analysis versus Reform Programme

In considering a unitary rental system, I would distinguish Kemeny's systemic analysis and his reform programme. Let me say a bit about the systemic analysis, which is well summarised in the discussion paper. The key concept is 'maturation', which tends to make cost rental more affordable than profit rental. That produces a crisis, which demands some response. The strategic response shapes the evolution of the rental system, pushing it towards a unitary or dual system as the paper summarises. The paper also draws attention to Kemeny's view that the not-for-profit sector has two important, but distinct, effects. One arises from the provision of affordable rental outside the command economy of local authorities and safe from local party political conflict. The second is the benign effect that it can have on commercial renting – creating competition that disciplines profit rental. These two are worth distinguishing because, in the Irish context, we are well short of getting the kind of competition with profit renting which could dampen profit rents.

Kemeny makes the interesting point that, even if a country took the dualist road, various crises keep reoccurring that make it possible to reconsider the long term strategy. Every now and then a 'rent differential crisis' emerges—a big gap between the level of cost rents and profit rents, which creates a queue for cost renting, with long waiting lists etc. That, he says, is another opportunity to consider transition. Below, I suggest that, in the Irish context, such a crisis takes a slightly different form, which makes it harder to devise a transition strategy.

Kemeny identifies some of the critical steps in a transition strategy. He says that it is of utmost importance that local authorities transfer public rental accommodation to non-political entities. It is critical to stop the sale of local authorities' properties, so as to prevent depleting the stock and undermining maturation. He proposes a move towards demand-based rents and average rents which, when pooled, cover cost. A lot depends on the cumulative effects of all these steps together, which makes it harder to think of what a

reforms' sequence might be in Ireland. Clearly each of these measures supports the other. It seems to me that the discussion paper is also struggling with this fragility: the difficulty of reaping the benefits of cost rental on a small scale, since much of the benefits are systemic.

Let me mention what seems to me to be the challenges for a transition strategy in the Irish context.

It would seem that several of the key steps would be hard to sell on their own. The case for ending of tenant purchase has not fared well, partly for political reasons, and partly because there are good arguments on both sides. Likewise, the notion of moving to a cost-covering rental policy is hard to frame and sell on its own and yet, without it, there is continuous pressure on any kind of cost rental or local authorities' housing. Nor is a housing benefit easy to sell. Such a proposal has to be considered in the context of significant increases in child benefit and the introduction of the new child support payment. Indeed, in the light of the NESC report, *The Developmental Welfare State*, and the partnership agreement, *Towards 2016*, there is an interest in thinking about many of the dimensions of our welfare support system in new ways. The idea of stock transfer does not provoke great hostility but, as noted above, it is debatable whether it is necessary and achievable.

My first point, and the one which I hinted at above, concerns the dynamic of maturation and capital gains in the current Irish context. I suspect that maturation in the social rental sector might now be fairly low, because of depletion of the local authority stock through tenant purchase, on the one hand, and the fact that much of the stock has been added recently. If this is correct, we may have a relatively high-cost stock, rather than low average historic cost, which is not a strong base for extending the cost rental system.

The second point is to ask whether, in Ireland, the 'differential rent crisis' (driven by rising asset and building prices) takes the form that Kemeny describes – a large perceived gap between private rents and social rents. I suspect that it takes the form of a perceived gap between the long-term cost of private rental and home ownership. Surely that is where much of the heat develops in the Irish system. The upward movement of private rents and house prices actually increases the desire to buy. Tenants know their landlord is getting the maturation; they want to share in maturation as soon as possible. They want obstacles, such as a ceiling on mortgages etc., taken out of their way, or additional subsidies (to mortgages' acquisition) put in place.

The strength of capital gains in the Irish housing system means that, if there had been a large stock of social rental

housing 10 or 15 years ago, its historical cost would have shrunk dramatically, given its rising value and high building costs. But since that is not what happened, these trends create a focus on home ownership. The 'rent differential crisis' takes this form partly because of the extent of residualisation of local authority provision and the limited scale of other social provision. Consequently, in this crisis, turning in the direction of cost rental does not emerge as the most obvious option, at an individual or collective level. In a sense, the unmet demand for cost renting that Kemeny would cite as major evidence of a rent differential crisis does not really develop in the Irish context (at least not to the extent we might expect, given the rise in house prices and private rents). Instead, it becomes the queue of unmet demand for home ownership. That dynamic of capital gains needs to be factored in to this argument.

That brings me to my final observation, and a restatement of my opening remarks. The authors pose a list of technical questions about a possible cost rental system: how it might be financed on the supply side, and how it might pay for itself, on the demand side. Maybe the bigger obstacle, which may not be insurmountable in the right institutional context, is the rhetorical framing of the debate, motivating people to think about the options in new ways. Furthermore, I think we have learned that people are persuaded to think in new ways less by comprehensive theoretical arguments than by experiencing practical problems and by seeing new possibilities disclosed in practice. Consequently, it seems to me that an important next step might be to develop a cost-rental demonstration project.

The Affordable Homes Partnership, in combination with other (public or private) entities, might be in a position to do this. Such a project needs to show not just that a long-run supply or funding mechanism can be created, but also that the long-term demand exists. Furthermore, it seems possible that this could be linked to other important initiatives, such as the Rental Accommodation Scheme (RAS). Over time, it may be possible to show the connection between the elements of these initiatives and reforms in ways which open up new possibilities.

From these responses, I hope it is clear that I strongly welcome this paper and believe it should start an important discussion.

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KEY ISSUES IN A SUSTAINABLE HOUSING POLICY IN IRELAND: A VIEW FROM THE UK

CHRISTINE WHITEHEAD

1. Introduction – the problem

The housing market in Ireland is characterised by a number of particular features as well as by more general pressures observable across most of Europe. For many years now Ireland has been experiencing very rapid house price growth even though it has one of the largest private housing development programmes in the advanced world. Increasing house prices far outstrip the growth in incomes so new entrants to the market are finding it more and more difficult to enter owner occupation. As a result there is significant political pressure to develop policies which can help younger and lower income households to achieve adequate affordable housing.

One reason why this scenario (replicated in general terms across much of the advanced world) is of particular concern in Ireland is that there are relatively limited rental options available. Not only is the social sector very small but there are few resources available to enable it to expand. Equally in part because owner occupation has been so successful, private renting is not seen as a good option by those with sufficient income to pay rents high enough to provide a reasonable return to investors. Expansion of the private rented sector therefore depends heavily on increasing the availability of demand side subsidies to assist those on low incomes to afford adequate accommodation. Moreover, the Irish housing finance market, while world class in general terms, has not as yet developed new instruments, such as shared equity mortgages, which could help those who are finding traditional mortgages unaffordable. Thus, those unable to

compete in the owner-occupied market do not have the range of alternatives that are available in many other countries with similar concerns.

This paper addresses some of these issues by first clarifying the nature of the Irish housing market in relation to other mainly European countries; second by examining the rationale for developing a better operating rental market; and finally by looking to the UK to see whether there are lessons that can be drawn from a country with similar legal and administrative systems but some rather different approaches to addressing the issue of ensuring ‘a decent home for everyone at a price within their means’.²

2. Understanding the Current Housing Situation in Ireland

Increasing demand and house prices

There are a number of factors about the Irish economy which imply that the demand for housing is likely to be rising more rapidly than in other comparable countries. The most fundamental issues relate to the balance between the number of additional homes required and the capacity to increase investment to provide that accommodation. On the demand side, population growth has been second only to Luxembourg in the EU since 1980 and is projected to increase by a further 10% by 2020. Household growth has been even more rapid; indeed, at 58% between 1980 and 2002, it has been the highest in the EU and is set to

2. Department of the Environment ‘Fair Deal for Housing’, Cmnd 4728, HMSO, 1971

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Table 3.1: The Economist's House Price Indices (Selected countries)

	1997-2005	On a year earlier	
		Q1 2004	Q1 2005
Ireland	192	13.2	6.5
Britain	154	16.9	6.5
New Zealand	66	23.3	12.5
Denmark	58	6.0	11.3
Italy	69	10.8	9.7
Belgium	71	8.8	9.4
United States	73	8.4	12.5
Netherlands	76	5.5	1.9
Sweden	84	7.7	10.0
France	87	14.7	15.0
Australia	114	17.9	0.4
Spain	145	17.2	15.5
Switzerland	12	3.4	1.0
Germany	-0.2	-0.8	-1.3

Source: The Economist: <http://www.economist.com/index.html>

maintain that position. Even so, average household size is still also among the biggest in Europe.

Reasons for this include the fact that Ireland has a relatively young age structure so that there are more young families. However, it is also associated with the return of people who emigrated in earlier decades and by an influx of new migrants, often from the AC12 European countries.³ Indeed, the latest evidence suggests that the projections may well be underestimates of future growth – but also that the make up of the immigrant population may be shifting even more towards single younger people who may be particularly mobile – coming and going between countries more rapidly than in the past. These variations in the pattern of demographic change in turn have implications for levels of demand for housing – notably because immigrants demand housing immediately, while indigenous growth leads to demand for additional units only after a couple of decades. It also impacts on the type of housing best suited to that increased demand – which may well emphasise rented housing and even housing in multiple-occupation. Issues relating to housing older people, which are starting to dominate in many other more demographically mature economies, are hardly yet on the horizon.

The supply side in comparative terms is also very healthy. Investment in housing at 8.4% of GDP in 2002 is running between 25 and 50% higher than the European average and is heavily concentrated on new development, while in other countries there is greater emphasis on renovation. As a result completion rates in Ireland are running at nearly 15 per 1,000 population (2003 figures) as against about 5 in much of Northern Europe and 10 in Spain and Portugal, the other countries with particularly high output levels.

This very rapid growth in housing completions might have been expected to generate relatively slow house price increases. In fact the opposite has been the case with Ireland at the top of the Economist house price index for the period 1997 – 2005, during which time house prices in Ireland went up by nearly 200% when compared, at the other extreme, to Germany's zero (Table 3.1). Over the last couple of years this rate of increase has declined – but house prices are still rising significantly faster than incomes.

There is a range of reasons why house prices have risen so rapidly in addition to the national demographic pressures discussed above. The most important is almost certainly the strength of the

3. Accession Countries to European Union since May 1st 2004

Table 3.2: Sensitivity of fundamental price-to-rent ratios to a change in the housing user cost (selected countries)

		Estimated over-valuation in 2004		
Ireland		15.4	-0.4	3.5
Netherlands		20.4	-1.9	5.1
Denmark		13.1	-3.1	5.2
Australia		51.8	-2.6	7.1
United Kingdom		32.8	-2.8	6.1
Germany		-25.8	3.3	5.7
Spain		14.0	-0.6	3.6
France		9.3	-0.8	5.0

Source: Girouard et al., 2006

Irish economy which has been growing consistently at up to 5% per annum. Assuming an income elasticity of one would imply that demand for housing has also been rising by around 5% per annum – and only continuing rises in house prices can contain that demand to available supply. A second important factor is the large decline in interest rates, particularly during the 1990s. Lower interest rates must, other things being equal, increase house prices. This has of course been true for all advanced countries. However, mortgage interest rates in Ireland are lower than in most other industrialised countries (Table 3.2) so the impact may have been greater.

A rather different issue relates to investment demand for housing. Inward investment in general is of particular importance to the Irish economy and housing is seen as being a relatively low risk investment and one that makes sense to expatriates and returned migrants as well as to new migrants. The lack of suitable alternative investments, especially in the face of global stock market uncertainties, is

also relevant. The extent of such investment is not known but has almost certainly increased over the last few years.

In addition the very growth in house prices may itself generate additional demand in the expectation of further capital gains. This would suggest that house prices might be overshooting their underlying trend based on fundamental variables – but OECD evidence suggests that the over-valuation, while significant, at around 15% is less than in some other countries facing rapid increases in house prices.

Tenure structure

Ireland, at 78%, has one of the higher owner-occupation rates in Europe but this has been true for many decades and is not so much a function of deregulation of housing markets as in many other countries in Europe. Indeed the rate of growth of owner-occupation over the last couple of decades has been well below average (Table 3.3).

Table 3.3: Housing Tenure

	Owner-occupied		Rented		Social Rented			
	1980	2000	1980	2000	% Total		% Rented	
					1980	2000	1980	2000
Ireland	76	78	24	16	12	9	53	49
Spain	73	84	21	10	—	—	—	—
Finland	61	58	29	31	—	39	16	52
UK	58	69	42	31	31	21	78	69
Netherlands	42	53	58	47	34	36	58	75
Sweden	42	46	42	39	20	19	48	48

Source: Scanlon K & Whitehead C, 2004

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Table 3.4: Mortgage Debt

	% of household disposable income		
	1992	2000	2003
Ireland	31.6	60.2	92.3
Netherlands	77.6	156.9	207.7
Denmark	118.6	171.2	188.4
Australia	52.8	83.2	119.5
United Kingdom	79.4	83.1	104.6
Germany	59.3	84.4	83.0
Spain	22.8	47.8	67.4
France	28.5	35.0	39.5

Source: Council of Mortgage Lenders

Owner-occupation has dominated the Irish housing system in part because of its traditional rural economy, which enabled self-build or purchase often without the aid of formal finance. There has also been a clear legal framework in place which clarifies individual rights and responsibilities. Purchase and sale have therefore been more the norm than in many other continental countries.

In part because of the core role of owner-occupation, government taxation and policy has tended to favour owner occupation and there has been relatively little direct investment in social housing. Social renting makes up less than 10% of the total stock and is of comparable importance to private renting. Government investment in social housing has been very limited and there have been significant sales to tenants – to the point where it is extremely difficult to accommodate those in particular housing need.

There has been relatively little formal private investment in rented housing – in the main because demand is restricted to those who cannot readily afford adequate housing and because tax arrangements still favour owner-occupation. What is available is generally provided by private individuals often for relatively short periods of time. There is almost no institutional investment in the private rented market.

In an economy which is now basically urban as well as being heavily concentrated in the capital, there must be questions about whether the current tenure structure is appropriate. In particular can it provide the flexibility necessary to ensure that the housing system supports labour market competitiveness at the same time as addressing both short- and long-term housing need?

Affordability

There are growing concerns about the extent of indebtedness among owner-occupiers and the impact that this might have on the stability of the housing market and indeed the economy in the face of global pressures either on inflation or employment. Table 3.4 shows that mortgage debt in Ireland has increased as a proportion of disposable income from less than a third to over 90%. However this is still low as compared to the UK and particularly the Netherlands and Denmark where refinancing and interest only mortgages have become important elements in the overall housing finance market over the last few years. More fundamentally, as we have already noted, Ireland's owner-occupied sector is more mature than in most other countries and has been growing more slowly than much of the rest of Europe. Taken together with the evidence that house prices are perhaps not that much over-valued, Ireland's mortgage position looks relatively strong.

Secondly, average affordability rates when measured by interest costs as a proportion of household disposable income are particularly favourable in Ireland. Again this reflects the maturity of the owner-occupied sector and the relative lack of indebtedness of most owner-occupiers. The only concern, on average, is the extent to which the Irish mortgage market is based on variable interest rates. This would put pressure on repayments were interest rates or inflation to rise further, on top of recent increases.

It is obvious therefore that in affordability terms Ireland's housing market is working well for the vast majority of households – and that increasing housing wealth benefits not just the well-off but also those quite far down the income scale.

Thus affordability problems are concentrated among those at the bottom end of the scale, those who have additional needs, and those who are trying to enter owner-occupation for the first time – given how far out of line with incomes house prices have now become. Among this third group however are many who might, at least in principle, be helped by their owner-occupier parents who have large equity on their own homes.

3. Why a Larger and Better Operating Rented Sector?

The rented sector plays a number of distinct roles in ensuring an effectively operating housing system in terms of providing flexibility and easy access accommodation on the one hand and secure and affordable housing for those at the lower end of the income scale on the other. In addition rented housing has a role to play in investment portfolios and in providing a range of landlord types suitable for different groups of tenant demand.

The scale of rented housing required depends on how the overall market is operating. Ireland has particularly well operating housing and housing finance markets so it would be expected that above average levels of owner-occupation would be efficient. The reasons for questioning whether it may be too large, or, at the least that increases in the housing stock should be disproportionately concentrated in rented housing, relate to a number of issues including the increasing importance of flexibility and particularly in migration in the national labour force; the growing difficulties of entering owner-occupation early in people's housing careers; and increasing evidence of inadequate housing among those unable to pay the market price.

By ensuring, at the least, that rental housing is not disadvantaged in taxation terms, marginal owner-occupiers could have a more appropriate choice of housing available. These might be short term choices until their household situation is more stable. Equally, on the investment side, housing is potentially an important part of institutional and individual portfolios, which could provide a better range of options, reducing risks and the cost of overall housing provision. At the present time rented housing does not provide an adequate return except in relation to capital gains. The same capital gains are also available to owner-occupiers. Consequentially, certain types of rental options are unattractive with the result that private renting tends to be on the margin of the formally traded sector.

The position with respect to the provision of social rented housing is more problematic. By definition, households in

this category cannot afford to pay the market rate so the government must provide funding as well as a positive environment for the development of appropriate housing – including accommodation to meet special physical and household needs. Whether this must be in the form of social rented housing is less obvious. It could instead be in the form of demand side subsidies to assist households to find market accommodation. In a system where there is a wide range of different styles of rental providers – from charities through specialist landlord companies as well as individual landlords – it may well be that the demand side subsidies can achieve what is required relatively efficiently. However, even then it would need a much more comprehensive system than that currently available in Ireland. In particular it would imply allowing rents to be determined by the market, including the available subsidy. The current differential rent system in Irish social housing is highly regulated and ties rents to household circumstances in a way which distorts the market and would therefore be unsuitable to such an approach.

As importantly, the Irish rental market does not provide the range of suppliers necessary to meet all types of demand and need. The current private rented sector is highly concentrated in Dublin, poorly developed and potentially unstable. Expanding the social sector may therefore be a necessary prerequisite for meeting housing goals.

The provision of social housing in principle aims to overcome market failures – notably of relative power between landlords and tenants. It also has the potential for lower cost provision because risks can be lower and economies of scale realised. It can be a politically more acceptable way of providing subsidy through land allocation. This can also have social benefits in terms of more mixed communities. Social housing can also be allocated in such a way as directly to ensure that households achieve the quality and services that government thinks desirable and more generally can act as an effective way of redistributing resources to the least well off. Finally social landlordism can at least in principle be an effective form of housing governance not only for the provision to individual households but of neighbourhoods and regeneration and redevelopment – areas where market failures are particularly prevalent.

Most of the evidence available suggests that at the least Ireland requires a better operating rented system in both the private and social sectors. This does not inherently mean that they should be larger although some fundamental trends suggest that they should. Notably demographics and the increasing need for flexibility in the labour market suggest that it might be desirable for the private sector both to become more mainstream and to expand to provide a better range of opportunities to the younger more mobile population.

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There are however other possibilities – notably with respect to improving access to owner-occupation for those for whom this is likely to be the most suitable tenure. Low-cost home ownership schemes include shared equity mortgages, shared ownership with part purchase and part social rental, and the development of cross-subsidy schemes between landowners and developers to reduce the price of accommodation for particular groups. All of these options are currently under discussion and some mechanisms are already in place although so far with very little impact.

The case for expanding the social rented sector depends heavily on whether such landlords can provide better, more affordable and more effectively targeted housing for those in need. This in turn depends in part on how the housing allowance system develops – the more comprehensive the system the greater the possibility of using market housing to meet social needs. In the absence of this development in Ireland there will be a continuing need for greater investment in social rented housing, almost certainly in partnership with private developers and including significant subsidy from land owners.

4. The UK – a Useful Example?

In many ways the UK provides the most relevant comparator to the Irish experience even though there are significant differences notably with respect to tenure structure and demand side subsidies. The UK and Ireland have very similar legal systems and their mortgage markets have developed in parallel with one another. House prices in England have been rising nearly as fast as in Ireland – and are currently rising more rapidly. Migration is an increasingly important element in the growing demand for additional housing as is the growing interest in investing in private renting.

Major identified problems relate to increasing mortgage debt and asset overvaluation in the market – both to a greater extent to that observed in Ireland in part because owner-occupation rates rose rapidly in the 1980s and 1990s. First-time buyers are seen as being increasingly excluded from owner-occupation because of growing differential between prices and incomes. As a result there is massive political interest in how to help younger households enter the market. At the bottom end of the market there are many signs of strain in terms of homelessness, the use of temporary accommodation and overcrowding.

England differs from Ireland in terms of supply. First, new building has been running at historically low levels and even with significant government intervention is only just starting

to rise towards levels necessary to meet expanding demographic requirements. Second, traditionally the UK has had a relatively large social sector, which has been massively restructured over the last two decades at the same time as the private rented sector has been deregulated. Finally, the UK has been at the forefront of developments in the provision of low-cost home ownership programmes as well as in ensuring land and financial contributions from developers and landowners.

On the demand side the UK has had a well developed, although heavily flawed, housing allowance system, which has separated households' circumstances from dwelling rents since the early 1970s. However, the system works differentially between private and social sectors and is not available to owner-occupiers on low incomes. In this context it is probably the new initiatives to move towards a more coherent and market oriented system are most relevant to the Irish experience.

The role of the private rented sector

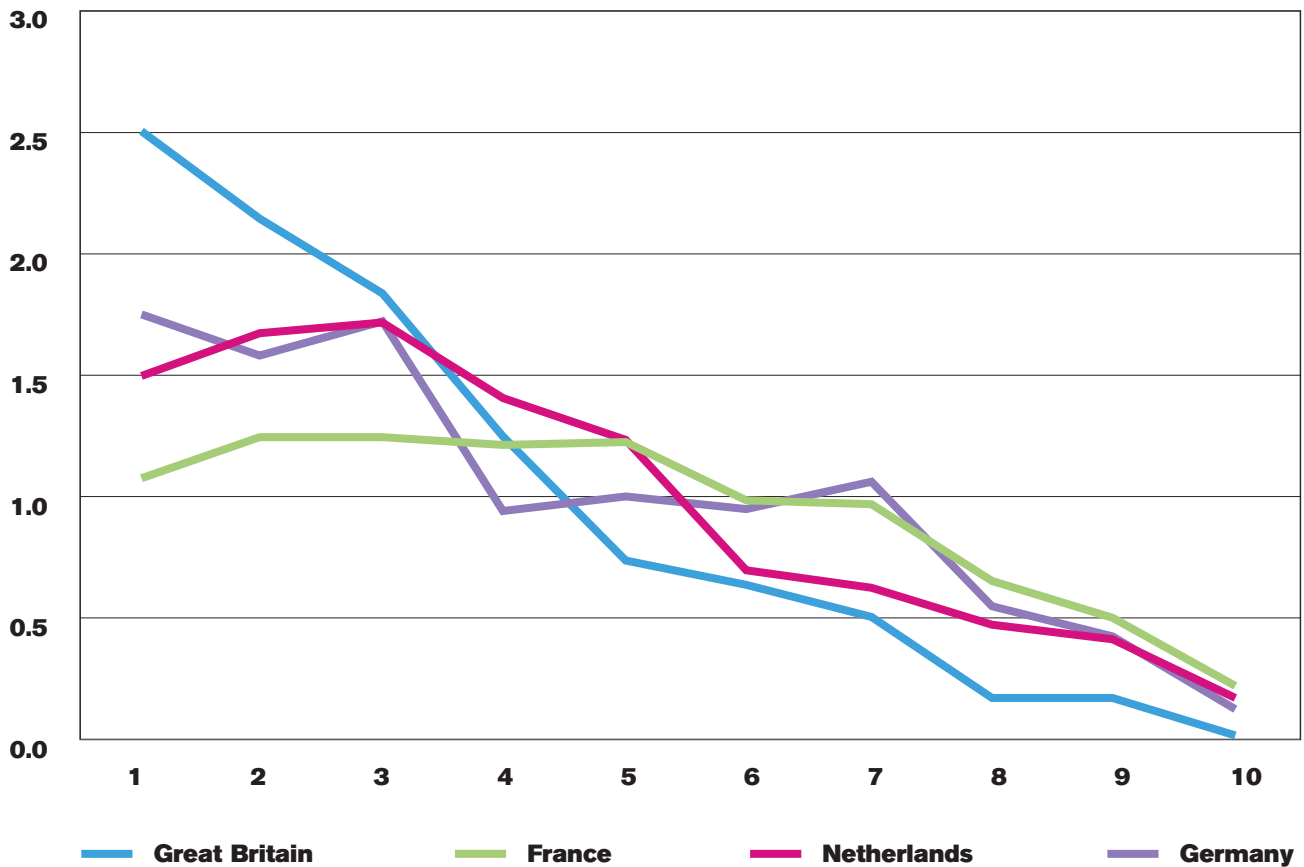
From 1914 to 1988 the vast majority of the private rented sector in the UK was subject to rent regulation. By 1988 it had become a residualised sector accounting for less than 9% of the stock, housing mainly older households with long term security of tenure in the controlled stock, households who lived rent free by virtue of employment and a small number of mobile and generally poorer households in the unregulated part of the sector.

Since 1988 all new lettings have been made at market rents with contractual security. The result has been an initially slow but then an increasingly rapid expansion in the size of the sector by at least 50%. Alongside this is a shift to accommodating larger numbers of younger more mobile households; but also providing for the bottom end of the market with the assistance of housing benefit. The safety net of housing benefit⁴ has helped to provide security for tenant and landlord alike by keeping tenants out of housing poverty and ensuring an adequate rental return.

Over the last few years there has been a massive increase in finance for private landlords, through Buy to Let mortgages. To some extent this substitutes for existing financing but in addition it has brought in a new range of landlords looking for both capital gains and a relatively secure stream of income. In addition there is evidence of company and private investment often aimed at broadening international portfolios to manage risk. The extent of this element is more a matter of anecdote than quantitative evidence. Buy to Let in particular has changed the ownership structure of the

4. Housing benefit is a means-tested benefit that assists low-income private rented tenants and social rented tenants to meet their rent payments.

Figure 3.1: Income Deciles and Probability of being in social housing as compared to the average



Source: Stephens M, Burns N & L Mackay (2003)

sector. The long-term stability of this type of investment has not yet been tested because house prices have continued to rise but in the meantime it is undoubtedly helping to ensure reasonable availability of a wider range of easy access accommodation across the country and particularly in London.

The process of revitalisation of the private rented sector has been slow and the result still only accounts for some one in eight dwellings. But the market certainly operates far better than it used to under the regulatory regime. Moreover, at least in the last few years rents appear to have risen more slowly than house prices. However, the consumer costs of private renting are still considerably higher than in owner occupation for those who are looking for longer term more secure accommodation and the tax system still differentially benefits owner-occupiers, although not as much as in the past. Moreover the government is now looking to expand owner-occupation to around 75% of the overall housing stock. While the general housing tax and benefits system remains unchanged it is unlikely that the private rented sector will grow much more except at the expense of the social rented sector.

The changing structure of the social rented sector

In 1980s the social rented sector in the UK accounted for almost one in three of all dwellings. This provided a major asset available for recycling through increasing debt finance to restructure the housing system, particularly because both the lack of building and the rapid inflation of the 1970s meant that many of the assets were in all but name unencumbered by debt. This type of legacy was not available to the Irish system to anything like the same extent – and this is one reason why it is more difficult to support additional investment in rental housing.

The best known policy was that of the Right to Buy by which nearly two million households were able to purchase their own homes. But the restructuring of social ownership, away from local authorities to independent housing associations able to borrow on the private finance market, has been equally important in terms of ensuring the availability of long-term secure accommodation for lower income households and those with special housing needs. In the

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main the funds made available have been used to invest in the existing ex-local authority stock to bring it up to a decent homes standard. It has not been used significantly to increase availability of social housing – although there are new policies being introduced which may make it easier for local authorities and ALMOs (arms length management organisations) to take a more active part using publicly owned land.

Of particular importance has been the increasing emphasis in the 1980s and 1990s on housing the neediest households. This together with expanding opportunities among better off tenants to buy their own homes means that, even though the social sector accounts for almost one in five of all dwellings, compared to most other countries with relatively large social sectors, tenants are heavily concentrated among the lowest income groups. This has been made possible by the availability of Housing Benefit which means the rent stream, while regulated, is guaranteed and private finance can be raised at low risk rates.

Figure 3.1 provides some evidence on the extent of that concentration. In France for instance, someone in the fourth income decile – i.e. not much below average income, has almost the same chance of being a social tenant than a household in the lowest income group; in Britain the poorest households have 2.5 times the average chance of being social tenants. Figure 3.2 further illustrates that social tenants have even lower incomes than private tenants, which is not the case in the majority of other countries included in that study.

At one level this evidence shows how effective the provision of social housing in Britain has been in concentrating assistance on those in most need. On the other it raises issues about the extent of social exclusion faced by social tenants especially on large estates where there has been little Right to Buy to maintain the social mix.

It is in this context that the government has brought in planning and housing policies which emphasise the need for new developments to ensure mixed income communities. This implies the inclusion of not only social rented but also low income owner-occupation in all larger developments together with subsidies through the allocation of planning gain (Section 106) to make these dwellings affordable.

The Importance of Housing Benefit

As we have already noted housing benefit has helped both the private and social rented sectors to provide for lower income households. As a result a relatively small proportion of households suffer directly from housing poverty – those who fall through the safety net, those where the private rent is not fully covered by the benefit, and a proportion of those (mainly single people) whose incomes are just above the

threshold for assistance.

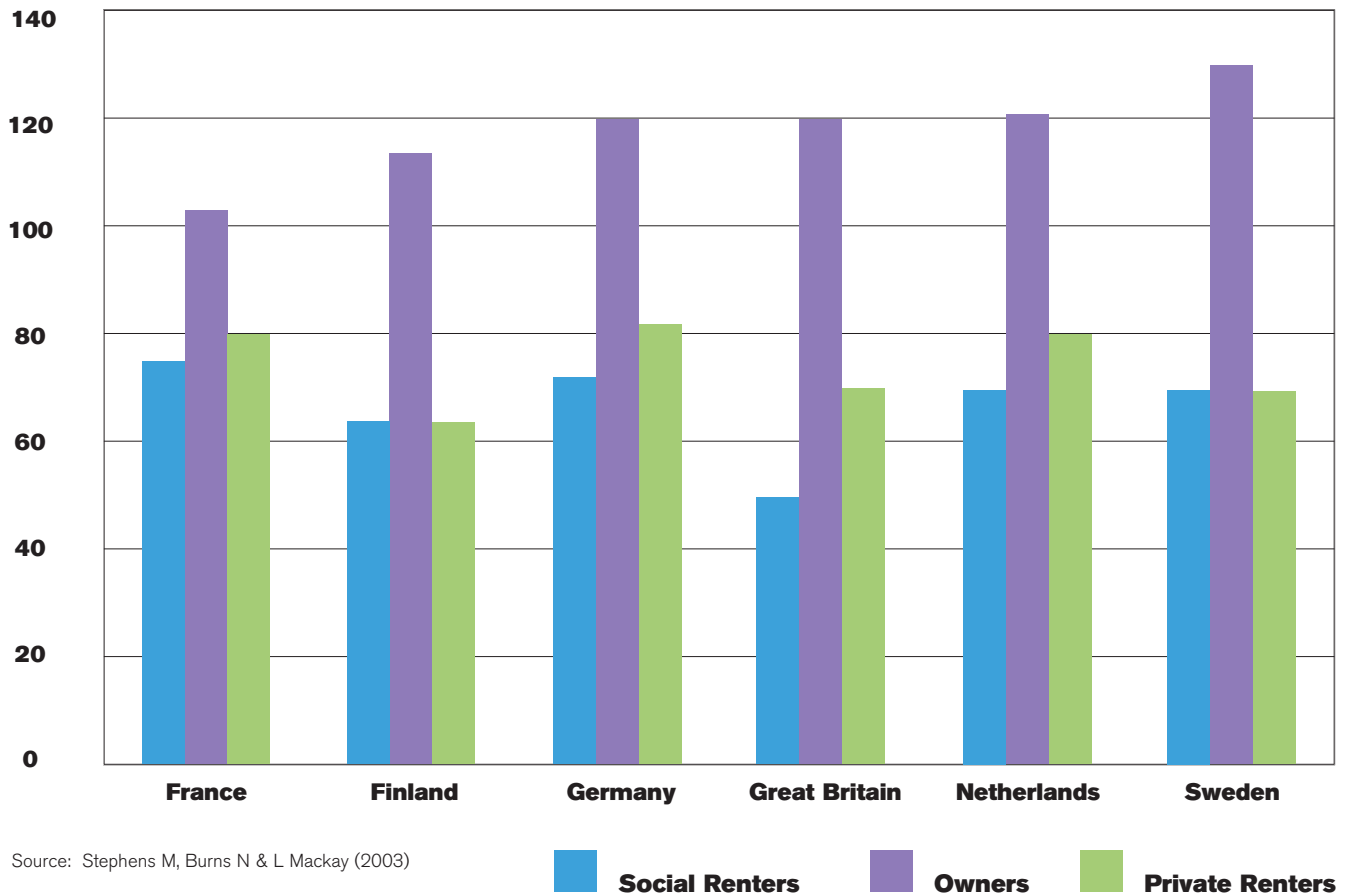
However the system is costly because the incentives to both tenants and landlords can be undesirable and the administrative costs and the potential for fraud high. Notably, tenants on full housing benefit who are paying no rent have no incentive to look for lower cost housing or to negotiate a better rate from their landlord. Landlords and indeed tenants also have the incentive to generate shadow tenancies. As a result the system is heavily regulated at the individual property and household level and monitoring and enforcement costs are high. Equally tenants on housing benefit often gain very little from working more hours or looking for better paid employment. As a result both the housing and labour markets are distorted. Even so, especially when one remembers what a large proportion of households are likely anyway to be outside the labour force, the overall costs of the system are relatively low as compared for instance to increasing social security. Moreover the subsidy is relatively well targeted at those in need of assistance to pay for adequate housing.

The government is now piloting a new system of Local Housing Allowances which they expect to roll out to the private rented sector across the country within the next year. This will be based on average costs of suitable accommodation in the local area and tenants will be able either to top up to buy something better or to keep the money if they are able to find a lower rent. This provides incentives for tenants to negotiate lower rents and may increase competition in that part of the private rented sector. It is not however intended to extend this system to the social sector, which continues to be based on regulated sub-market rents.

The most obvious messages to draw from the UK are, firstly, that private renting does have a role to play both in providing for mobile employed households particularly in the capital, and with demand side assistance meeting the needs of lower income households. Secondly, there is a continuing need for social housing to provide particularly for those likely to require subsidy into the longer term and those who benefit from a rather different, not profit oriented, landlord-tenant relationship. However success in both contexts is likely to depend on the introduction of a more comprehensive housing allowance system, taking on board some of the lessons from the Local Housing Allowance pilot in England.

Increasing difficulties in accessing owner-occupation is an important issue, which is rising on the political agenda in both the UK and in Ireland. Given the traditional emphasis on owner-occupation in Ireland there are almost certainly benefits to be derived from examining some of the initiatives towards low-cost home ownership which have been

Figure 3.2: Incomes by tenure as a percentage of average income



introduced in England – including both subsidy arrangements and new financing instruments. In this context Ireland may have greater potential simply because such a high proportion of households have parents who are owner-occupiers. Policy should therefore concentrate on helping those who are doubly disadvantaged by low income and low family wealth.

5. Looking to the Future

The trends across Europe are very similar. Ireland is in many ways at the forefront of these trends and, equally in many ways except with respect to the rented sector, is in a relatively good position to deal with emerging problems.

In the future we can expect to see housing assets increasingly used to pay for other expenditures – not just the children’s first homes but also for holidays, pensions and health provision – both public and private.

As a result we are likely to see increasing debt ratios both

among younger households, who may make greater use of interest only mortgages and refinancing, and older households looking to realise housing equity.

Furthermore, globally, residential investment is likely to take a larger role in portfolios – both individual and company. Depending on the extent to which this occurs, the link between house prices and local incomes may not return to traditional levels. Together with the increasing differentials in income and wealth this is likely to increase the problems for households at the margin of owning and of entry into adequate housing of any sort.

These trends tend to point to the importance of developing shallow subsidy mechanisms which can help people overcome entry barriers but which also enable them to pay for their own housing into the longer term. This is one reason for stressing low-cost home ownership options. It may also point to the relative benefits of short-term demand side subsidies related to individual circumstances that assist entry into owner-occupation over rent subsidy assistance provided into the longer term.

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Given the development of the housing system in Ireland it is important that policy plays to its strengths, which mainly lie in the maturity of the owner-occupied sector. There are however clear costs to a poorly operating rental market and these are likely to increase in the face of demographic and economic change.

The case for ensuring that lower income households are able to achieve adequate affordable housing is also overwhelming. Whether or not this should be done by traditional municipal provision is less clear. It is almost certainly likely to be more effective to develop additional accommodation in partnership with the private sector, probably using planning gain approaches and non-profit but independent social landlords, such as housing associations.

Many problems that present as housing are actually problems associated with poverty and the misdistribution of income, wealth and opportunity. Housing cannot be expected to solve these more fundamental problems, although it can help alleviate some of the consequences.

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RENTS AND RENTAL SUBSIDIES IN THE HOUSING ASSOCIATION SECTOR

CHRISTINE DIBELIUS

1. Introduction

The housing association sector is playing an increasingly important role in the provision of social rented housing. From approximately 75 housing associations in the early 1980s the sector has now quadrupled to comprise around 330 active housing associations. New housing units by housing associations currently account for up to 25% of all social rented housing completions and this proportion continues to rise (DoEHLG 2001, DoEHLG 2007). Ambitious targets were set for the sector under the social partnership agreement, Towards 2016. For the period 2007-2009 it is envisaged that output by the housing association sector will be 6,000 units.

Housing associations rely primarily on rental income to manage and maintain the properties they own. While they can derive income from other sources, all these income sources are uncertain. It is on the basis of their rental income that housing associations must plan their maintenance and management services. It is therefore crucial for the financial sustainability of housing associations, and consequently the sustainability of viable long-term tenancies, that rental income is sufficient to cover the ongoing costs of housing management, administration, maintenance and repairs. It is the rental income which protects the state-funded property assets.

2. Current rent schemes in the housing association sector

Housing associations use two distinct funding schemes to

develop social rental housing. Each scheme results in a different rent system.

2.1 Capital Loan and Rental Subsidy Scheme

The Capital Loan and Subsidy Scheme (LSS) was introduced in 1991 in A Plan for Social Housing with the intention of promoting the provision of 'general needs' family housing (DoE, 1991). Under the LSS scheme housing associations are required to charge an income-related or 'differential' rent. Each household's income is assessed on an annual basis and a transparent formula is applied to arrive at a rent that is deemed to be affordable. This would typically represent approximately 10% of income excluding child benefit and other child maintenance payments.

The differential rent system is considered to be appropriate by the State for the following reasons:

- The capital costs of providing the dwelling and related costs are subsidised 100% by the State and housing associations are therefore not required to service any loan repayments.
- Housing associations receive an annual management and maintenance allowance with respect to each dwelling which is deemed to bridge the shortfall between the income from the differential rent and the actual costs of managing and maintaining the dwelling.

As the rents are income related and affordable, tenants are not entitled to rent supplement from any other statutory source.

2.2 Capital Assistance Scheme

The Capital Assistance Scheme (CAS), introduced in 1984, has been predominantly used to provide 'special needs' accommodation for the elderly, homeless persons and people with disabilities. Under this scheme 95% of capital costs are funded by the state, with the housing association contributing the remaining 5%.

Tenants are eligible for rent supplement under the Supplementary Welfare Allowance Scheme (SWA), subject to the usual means test. The Health Service Executive, which administers the scheme, sets a cap on the maximum rent that will be subsidised, with much lower ceilings operating for CAS dwellings than for accommodation in the private rented sector. While the maximum rent levels are higher than the average rent obtained under the LSS scheme, the CAS rents do not fully meet the costs of management and maintenance of the units either.

In theory this level of rent is calculated with reference to the housing management and maintenance costs and is deemed to be 'economic'. Consequently no management and maintenance allowance is available under this scheme.

3. Principles of rent setting: An analysis of the current system

There are a number of different principles for rent setting. Below are listed some of the main requirements of both landlord and tenant.

3.1 Rent should reflect the value of the asset

As LSS rents are calculated with reference to household income, they do not in any way reflect the value of the asset. Current annual rents payable by housing association tenants can be as low as 0.4% of the replacement value of the buildings and on average would not exceed 0.9-1.3% of the replacement value.

Compared to the private rented market where annual rents easily amount to over 5% of the replacement value, and notwithstanding the charitable status of housing associations, this rental revenue is excessively low. Private sector landlords provide little in the way of tenancy management, which further widens the gap since their housing management outgoings are significantly lower than those of the housing association.

3.2 Rent should cover the current costs of providing and managing the dwelling

Again, as LSS rents are calculated only with reference to the income of the tenants, the costs of managing and maintaining the dwellings are not factored into the calculation and actual rent revenue falls far short of the costs incurred in terms of insurance, tenancy management and support, repairs, voids etc.

The maximum rent levels for CAS schemes used to be set at an appropriate rate of 5.25% of approved unit cost up to the early 1990s, but have since fallen significantly in percentage terms and now typically represent 1.5% of actual unit cost. This means that rents do not reflect the costs of managing and maintaining property. As a result of this some housing associations are under pressure to levy service charges on schemes with high management costs, most commonly apartment developments. However, there is significant concern among housing providers and tenants about the impact of service charges on affordability for low income households.

3.3 Rent should cover provision for future maintenance

It is the landlord's responsibility to be prepared for the inevitable maintenance and repairs that are required on buildings at various intervals. Referred to as planned or cyclical maintenance, this usually relates to items such as painting the outside of buildings, replacing boilers or more major structural refurbishment. A standard estimate for appropriate contributions to a 'sinking fund' for planned maintenance and unforeseen repairs amounts to 1% -2% of the replacement value of buildings. This was confirmed by the Department of the Environment in a Circular issued to local authorities in 1980, recommending that rent calculations should include 1.5% of the original 'all in cost' of buildings for sinking fund provision and a further 1.75% for management and maintenance (Circular H14/80 quoted in ICSH,1995). While housing associations aim to reserve part of their rental income for a sinking fund, it is often not possible to set aside more than 0.3-0.4% of replacement costs. This is insufficient and unsustainable in the long-term.

3.4 Rent should relate to the amount and quality of housing consumed

While the income related rent system is fair from the point of view of affordability, it entails some inequity between tenants in terms of the type of accommodation enjoyed. For example, a household benefiting from a semi-detached house with front and back garden could pay the same amount of

rent (or less) than a similar household renting an apartment with no balcony and limited external amenity space. CAS rents only differentiate between 1 person dwellings and 2 person dwellings. This is very different from the private rented sector where rents clearly reflect the number of bedrooms, the size and quality of accommodation, its location etc.

3.5 Households should be left with adequate disposable income after rent

This principle is clearly embedded in the income related rent system, as housing associations adopt a rent calculation that will result in affordable rents for all tenants.

3.6 Rent should be transparent, fair and equitable

It is standard practice for the rent calculation to be included in a written rent policy and for the details of the rent calculation to be made available to all tenants prior to their acceptance of an offer of housing. The rent calculation is applied equally to all tenants and is therefore transparent and fair.

However, the problem of non-disclosure of incomes by certain households can create unfair comparisons to neighbouring tenants who pay higher rents by virtue of being honest in their income declarations. Rents in the CAS units are largely determined by the maximum subsidy payable under the SWA scheme and are applied to all units irrespective of income.

3.7 Rent should not produce a disincentive to employment

The income related rent system by definition applies a higher rent to persons on higher incomes. However, the increase tends to be gradual and is also often capped by a maximum rent ceiling. In contrast to a private rented tenancy where there is a tapered claw-back of SWA rent allowance when re-entering formal employment the disincentive to taking up employment is therefore less serious.

The above comments show that the rent schemes in place for housing associations score high on social criteria and welfare considerations for the benefit of tenants, but perform rather poorly in terms of providing sufficient financial backing for the landlord's management and maintenance obligations.

Additional difficulties with differential rent systems

There are a number of other anomalies inherent in the differential rent systems, which are listed below.

3.8.1 Inadequacies of the management and maintenance allowance

The Management and Maintenance Allowances were set at 1% of the approved construction costs in the mid-1990s and adjustable according to the consumer price index (Government of Ireland, 1995). This is no longer the case. Management and Maintenance Allowances are paid on a uniform basis, differentiated only by region (i.e. higher rates for larger conurbations and designated islands). This does not take into account differential costs related to unit size or unit type, e.g. the higher costs incurred on apartment schemes.

3.8.2 Income verification and non-compliance

The income related rent system requires housing associations to assess household income annually. While associations can seek independent confirmation from statutory agencies on the incomes received by tenants, housing associations are not a statutory agency and have no powers to check the information given. Most associations have limited resources to even verify the number of declared earners in a given household and must largely take on trust the declarations made by the tenants.

Where any resident is in a position to under-disclose income, there is an incentive to do so in order to avoid an increase in rent. Tenants who are aware of other tenants not declaring partners or incomes may feel penalised for being honest and the system can therefore have a negative impact both on landlord tenant relations and on relationships between tenants. There is also a perverse incentive in the current system for social landlords to house higher income tenants to help meet costs.

3.8.3 Confusion of housing and income support roles

The income related rent system places on housing providers an income support role in addition to their housing responsibilities. This dual role is less than ideal, as it confuses two different aims: providing housing and maintaining adequate means for low income households. These roles should be kept separate in order to ensure that the property assets are adequately managed and maintained. The housing aspect (i.e. planning and costing housing management and maintenance) corresponds fully to the expertise of housing associations. Carrying the onus of income support and defining "affordability" is, however, much less appropriate for housing providers. There is a wide range of opinion on appropriate "affordability" definitions, stretching from various percentages of income to a "basic minimum income" approach, which operates under the SWA scheme. Given this complexity, housing providers may be ill equipped to carry

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out the welfare role that is inherent in the differential rent scheme, and the responsibility for income support would be better placed with welfare agencies that have greater expertise in this area.

3.8.4 Inefficiency and resource implications

Under the current system most tenants have to undergo a number of different assessments and means tests by the social welfare agencies, the local authorities and lastly the housing associations. This duplication is inefficient, as substantial resources have to be devoted by housing associations to annual income assessments and verification of income declarations. These resources are not readily available to housing associations, while the organisational structures for income assessment among the statutory services are well established. Duplication of assessments also creates an unnecessary burden on tenants.

3.8.5 Tenant awareness of economic costs

Under the current rent schemes tenants are insulated from the real costs of housing. Rents paid by them bear no relation to the actual economic costs of managing and maintaining the properties. This can have an impact on tenants' expectations for repairs and other services provided as well as on the value placed by tenants on their properties and their upkeep of the dwellings.

4. The case for change

A number of different options could be pursued by housing associations to seek to increase rental income to an adequate level and to meet the key principles outlined above.

One possibility would be to remove the cap on rent levels under the LSS scheme. Many housing associations have an upper ceiling for rent, which is at their discretion to retain or change. However, the removal of maximum rent ceilings could encourage high earners to move on and thereby impact negatively on the mixed economic profile of the tenants. Such a narrowing in the economic profile of tenants and over-concentration of low income households is undesirable in its own right. The loss of higher income earners, however, also has a direct impact on rental revenue and maximum rent levels should remain in place to ensure that housing associations remain an attractive option for those households whose circumstances have improved financially.

A second option would be to consciously seek to increase the proportion of higher income tenants on new schemes. This proposal is at variance with the aims and objectives of most housing associations. Moreover housing associations are

bound to house persons from the local authority housing waiting lists, eligibility for which is means-tested.

A third option entails improvements to the management and maintenance allowance payable on LSS funded units, i.e. an increase in the level of allowance payable and the linking of the allowance to the type of housing projects that are to be managed.

All three options above, while in some way addressing the shortfall in funding currently experienced by housing associations, would not remove any of the other anomalies but would further perpetuate the confusion of different rent systems.

The fourth and this author's preferred option for change would be to abandon the income related rent scheme in favour of a single, transparent and easily understood economic rent system. Tenants who could not afford to pay the rent calculated by the housing association would have access to a rent subsidy in much the same way as operates in the private rental sector. This would mean that housing associations would set rents based on the actual costs of managing and maintaining the housing stock, differentiated only by dwelling category. Tenants on low incomes would receive a subsidy on a similar basis to the existing rent supplement scheme for tenants in the private rented sector.

There would be significant benefits to this approach:

- Tenants would perceive the real costs of providing accommodation.
- Significant resources would be freed up by housing associations not having to engage in income assessments.
- An economic rent system would introduce a realistic measure of property management costs and encourage real cost analysis throughout the sector.
- It would reduce incentives for tenants to conceal incomes thereby positively impacting on landlord/tenant relations and community development.

However, a move to a SWA-type rent system cannot be advocated without a number of important caveats. Rent supplement in the private rented sector operates far from perfectly and an extension in its current guise throughout the housing association sector could be to the detriment of tenants. The scheme has inherent unemployment and poverty traps that would stand in direct contradiction to the aim of housing associations to create sustainable and economically active communities. The eligibility criteria and terms of the SWA scheme would therefore have to be negotiated carefully.

The housing associations would have to be able to justify the 'reasonable rents' required; one way of doing this would be through a control mechanism for rent increases, probably linked to an inflation index.

This is certainly not a new idea, as it has been realised for many years that the current role of SWA in relation to housing is negatively affected by the separation of functions between three Government departments and the Health Services Executive. This led to the stated commitments that "all forms of social housing assistance will be administered by the local authority" (Government of Ireland, 1994) and that "the major issues involved in transferring the administration of rent and mortgage supplementation to the local authorities will, therefore, be examined by the Departments of the Environment, Social Welfare, Finance and Health" (DoE, 1995).

Again, in 1999 it was highlighted that "rent assistance, where it is appropriate to meet housing need, should be provided by the local authorities as part of, and integrated into, housing policy" (DoE, 1999:3). In the context of this policy shift, the signs are not good for any proposal to extend the subsidy system to tenants of LSS funded schemes or indeed for proposals to achieve proper tenure neutrality by integrating all housing subsidies.

Subsidising economic rents in the housing association sector through SWA type subsidies might appear to be more costly to the Exchequer than the current system. However, saving money on rental subsidies while jeopardising the financial viability and management capacity of housing associations in the long term is a short-sighted approach that will reduce housing options in the long run for people in need. To continue to ignore this issue is to create a financial time bomb.

Cost arguments aside, the fundamental point to be understood about housing for people on low incomes is that housing is an expensive good that will always necessitate some subsidies for people who cannot afford its full price. Housing subsidies cannot be ignored, except at the expense of tenants. An integrated tenure neutral subsidy that applies equally to all tenants in the housing association sector, in local authority housing and in private rented accommodation, would be of considerable benefit to tenants and the various housing providers involved.

Indeed it has been highlighted over a number of years that "the current arrangements for the subsidisation of the rents of low or limited income tenants have evolved as an adjunct of both social (public) housing and, in the broad sense, social welfare policies and appear to have confused the purposes of both. These arrangements have emerged in an uncoordinated

way; funded and operated by different agencies at national and local levels, with no attempt to date to ensure that anomalies do not occur in the treatment of tenants with similar low incomes and/or household circumstances" (ICSH, 1995).

Efforts to better integrate the numerous housing subsidies currently in place should be undertaken with renewed vigour, placing a high priority not only on affordability for tenants and reduced financial burdens for the state, but also on professionalism and efficiency. At a time when housing associations are producing a significant and growing proportion of new social rented housing and are embracing new challenges, such as the provision of housing under Part V of the Planning and Development Act 2000, it is becoming more and more important that rental income will be based on a realistic economic approach, allowing housing associations to provide a professional service to tenants and to keep a high quality stock of rental housing.

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WORKSHOP DISCUSSION

Three policy workshops were held in April, May and June 2006, hosted jointly by Focus Ireland and the Centre for Urban and Regional Studies at Trinity College Dublin. The workshops were very well attended by people representing a wide range of interests (see Appendix A).

The workshop format was for detailed presentations to be followed by debate among the participants. Debate was facilitated through a chair and was encouraged to be open and extensive. As such debate and discussion extended far beyond that of the concept of a unitary rental system and covered a number of key aspects of housing policy in Ireland. Many important insights were garnered from these observations and comments, which we feel deserve further attention and are presented here.

In particular, the comments below include the main points made by Mr John O'Connor, Director of the Affordable Homes Partnership, and MS Rosalind Carroll, Rental Accommodation Scheme Programme Manager at Dublin City Council, both of whom made formal presentations at one of the workshops.

1. John O'Connor:

Director of the Affordable Homes Partnership

Advantages of renting

It is important to remember that rental housing has significant advantages for some people over owner occupation:

- Mobility
- No need for large down payment
- Lower cost of entry and exit
- Credit accessibility
- Flexibility of accommodation size.

There is a strong case to be made for an expansion of the rental sector, in particular to meet the housing needs of those whose income is too high to be eligible for social housing, and too low to purchase housing on the open market.

The housing association sector

The development of a cost rental sector would allow housing associations to rent to households with a wider income range and thus reduce residualisation.

Rather than attempt to introduce a unitary rental system in Ireland, it may be more productive to look at ways in which the existing system of provision by local authorities and housing associations could be modified to provide more affordable rental housing. One possible way of achieving this would be for responsibility for the provision of rental housing to move from local authorities to housing associations. This would require as a minimum the development of the housing association sector to a state where it would have the capacity to effect this transfer. There would of course be political considerations to this decision.

Currently central government provides capital subsidies to both local authorities and housing associations. An alternative mechanism would involve the government providing soft loans to housing associations for the provision of 'intermediate' rented housing. These loans would be at below market interest rates, which would enable housing associations to operate a cost rental scheme for a target group. They could be conditional on the tenants being from a defined target group and rent levels being within a prescribed range.

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It has been stated that establishing a unitary rental system would require the establishment of a tenure-neutral housing benefit system. However, I believe that at present there is no political will for this and no appetite for such an initiative within the civil service, so it may not be sensible to aim for this.

Tax credit systems

Another model that may well be worth examining is a tax credit system such as the Low Income Housing Tax Credit (LIHTC) programme that is in wide use in the USA. Each state receives a tax credit per person that it can allocate towards funding housing that meets programme guidelines. A tax credit means that the recipient's federal tax liability is reduced by the amount of the credit. The tax credits are used to leverage private capital into new construction or acquisition and rehabilitation of affordable housing. Projects must also meet the following requirements:

- 20 per cent or more of the residential units in the project must be both rent restricted and occupied by individuals whose income is 50 per cent or less of area median gross income or 40 per cent or more of the residential units in the project must be both rent restricted and occupied by individuals whose income is 60 per cent or less of area median gross income.
- Properties receiving tax credits are required to stay eligible for 30 years.

The majority of recipients are for-profit businesses, but about 30% are not-for-profit organisations. The LIHTC gives states the equivalent of nearly \$5 billion in annual budget authority to issue tax credits for the acquisition, rehabilitation, or new construction of rental housing targeted to lower-income households.

The importance of political support

The policy case means looking at what is needed; determining the attributes of the system that is required; and considering how it can be achieved. The political case means assessing the extent to which a proposal will receive political support. A good policy proposal that receives no political support is of no value, so the objective must be to balance the optimum policy with the optimum likelihood of political support. In other words the objective should be to achieve the 'best result possible' as opposed to the 'best possible result'.

2. Rosalind Carroll:

RAS Programme Manager, Dublin City Council

A unitary rental system has a number of potential advantages:

- Financial self-sufficiency for local authorities and housing associations
- Improved standards in both social and private rental sectors
- The rent payable is related to the cost of housing
- Maturation may lead to competition and consequent dampening of costs
- Residualisation may be reduced.

However, it would involve major change and it is questionable whether the political will is there to abolish the existing rental systems. Furthermore, it is questionable whether it would address problems that are already inherent in our existing rent supplement system, such as poverty traps, work disincentives, tenants facing shortfalls in rent etc. It may be preferable to consider some alternatives, which might be more politically realistic:

- Give local authorities and housing associations the financial freedom to operate for-profit business. For example student accommodation, key worker housing, market renting.
- The differential rent system has the overwhelming advantage that it is affordable and does not incorporate poverty traps. So perhaps rather than replacing the differential rent scheme with a unitary rental system, it might be better to reform the differential rent scheme by:
 - Removing maximum rents
 - Establishing a new taper when the rent is over the affordable income threshold with the capacity for a tenant to pay the full economic rent.

The Rental Accommodation Scheme (RAS) addresses some of the problems with existing rental systems: the landlord gets a market rent, and the tenant pays a differential rent to the local authority, so that poverty traps that are associated with rent supplement and housing benefit in the UK are eliminated. It also has the capacity to improve standards, provide better value for money, help create a better social mix and make renting more acceptable. It can be seen as a new social housing tenure option because it bridges the gap between social rented housing and the private rented sector. RAS can be seen as a building block that is part of the response to the problems of existing rental systems. Affordable rental may be another. The challenge is not just to change the mindset of tenants but to change the mindset of politicians.

3. Selected comments relevant to rentals systems made by other participants:

- The impetus for a change in the rental system could be a crisis in the owner-occupied sector – which may not be far off.
- The current rates of return in the residential rented sector in Dublin are only about 4% so you could say we already have a cost-rental system in operation as this return is at the current rate of consumer price inflation.
- Much of the housing association housing stock is relatively new, so the benefits of maturation may be some time off.
- There doesn't seem to be much political interest in rental systems or in affordable renting.
- Even if rental systems were changed, the private rented sector still would not be allocated by housing need and would continue to have a different function from social rented housing.
- The transfer of local authority stock to housing associations could have great advantages but the housing association sector will need to develop considerably to make this a realistic option.
- In general there is a lack of understanding of housing subsidies. People are aware that social housing is subsidised but forget that owner-occupiers are subsidised too, and also forget that the rent supplement benefits landlords as well as tenants.
- What role can rental systems have in the creation and maintenance of mixed communities?

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RENTAL SYSTEMS IN IRELAND: LOOKING AHEAD

SIMON BROOKE AND DÁITHÍ DOWNEY

1. Introduction

Owner-occupation has been the dominant housing tenure in Ireland for many years; it overtook private rented housing as the largest housing tenure during the first half of the 20th century. Until the expansion of the EU in 2004 the level of owner-occupation in Ireland was higher than all other EU member states except Spain whose growth in owner occupation had followed a similar pattern to Ireland.

Whilst the promotion of owner-occupation over other housing tenures has been a consistent theme of Irish housing policy since the founding of the State, this does not mean that the rented sector is unimportant. Indeed, a properly functioning rented sector is an essential component of an effective housing system.

The rented sector in Ireland comprises two distinct tenures: private rented and social rented. A recently established scheme, the Rental Accommodation Scheme, falls somewhere between the two.

This paper first describes the two main rented tenures, and the Rental Accommodation Scheme before briefly setting these tenures in an international context. It then describes the role of the rented sector, and the rental systems currently operating in each tenure, and examines weaknesses in these rental systems. It then briefly outlines a range of alternative rental systems.

The paper concludes by arguing that existing rental systems in Ireland inhibit the effective functioning of the rental

sector, and contends that a detailed analysis of alternative rental systems is required. This in turn, it is maintained, requires a baseline study of the operation of housing finance in Ireland.

2. The private rented sector

2.1 Development of private renting

As stated above, private rented housing was the largest housing tenure until the middle of the 20th century, when it was left behind by the growth of owner-occupation. During the 1914-18 war, rent control was established in Ireland (as it was in many other European countries at about the same time). This was a substantial instrument of government intervention that made the rented sector more affordable for tenants by limiting the extent to which landlords could increase rents. It continued to be a feature of the sector until it was declared unconstitutional by the Supreme Court in 1982. The continued existence of controlled rents may have been a contributory factor in the private rented sector's demise, as private renting became a less attractive investment for landlords. However, aside from the establishment of rent control, there was little in the way of other government intervention in the private rented sector until the last decade of the century. According to Gilligan (2005), '...no financial measures were taken to increase the supply of private rented accommodation for most of the twentieth century.'

As recently as 1991 government thinking was strongly against intervention in the sector as this excerpt from A Plan for Social Housing shows.

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An important consideration when carrying out the review was the need to ensure that any measures being considered would not adversely affect the supply of private rented accommodation or act as a disincentive to new investment. The supply of private rented accommodation depends on investment decisions made by private enterprise. An inappropriate level of regulation could deter new investment and, in the case of existing accommodation, lead to higher rents, withdrawal from the market and deterioration of the accommodation – none of which would ultimately be in the interests of tenants. (DoE, 1991)

However, following a recommendation from Peter Bacon in his second report on house prices (Bacon and Associates 1999), a Commission on the Private Rented Sector was established in 1999, which reported in 2000 (Department of the Environment and Local Government, 2000). This led directly to a number of initiatives that overall increased regulation of the sector through the Residential Tenancies Act 2004 and increased security of tenure of private tenants.

And so, from the late 1990s onwards, the sector attracted increasing attention from policy makers who envisaged it playing a significantly greater role in the housing system as a whole. Despite the increase in regulation, the private rented sector has increased in recent years, both in absolute size and as a percentage of the total housing stock. It currently accounts for approximately 10% of all housing, representing some 145,000 dwellings (Central Statistics Office 2007).

2.2 The private rented sector today

Rents in the private rented sector are generally market rents; that is, the rent of a property is set by agreement between the landlord and tenant. In general rents are not regulated. However under the Residential Tenancies Act 2004 landlords must not set a rent higher than the appropriate market rent or review it more than once a year unless this is justified by a substantial change in the accommodation.

An income supplement for people unable to afford open market rent is limited to people who are receiving a social welfare or health board payment. Anyone who works full-time is excluded. The amount of rent supplement paid generally ensures that the claimant's income does not drop below a minimum level once housing costs are met. One of the consequences of the exclusion of people who are working full-time, no matter how low their income, is that the most pressing affordability problems in the Irish housing system are found in the private rented sector (Fahey et al. 2004).

The quality of housing in the private rented sector varies greatly. Legal minimum standards are enforced by local authorities, however in general their performance in this area is poor.

Under the Residential Tenancies Act 2004, security of tenure in the private rented sector increased significantly. The landlord can terminate the tenancy without reason during the initial six months but, once the tenancy has lasted six months, the landlord can only end it on specific grounds for a period of a further three and a half years.

There is no tenant purchase scheme for private rented tenants.

3. Social rented housing

3.1 Development of social rented housing

The first subsidies for the provision of housing in Ireland were introduced in the Labouring Classes (Lodging Houses and Dwellings) Act 1866 and its successor, the Artisans and Labourers Dwellings Improvement Act 1875. Low-cost loans were provided to a range of bodies for the building of rented housing. At that time most social housing was provided not by local authorities themselves but by philanthropic bodies (such as the Guinness Trust – still in operation as the Iveagh Trust); semi-philanthropic organisations that paid a modest 4% or 5% dividends (the origin of '5% philanthropy'); and industrialists who built homes for their workers.

However, following passage of the Housing of the Working Classes Act 1890 and the Housing Act 1908, local authorities took over from non-statutory bodies as the primary provider of social rented housing. Interestingly, by 1914 Irish local authorities had built approximately 45,000 dwellings, mainly in rural areas, whereas in the same period only 24,000 dwellings were completed in Britain and almost all of these were in urban areas.

A strong programme of local authority house building continued after the founding of the state, although the focus of housing policy was already shifting in the direction of private housing. Rural local authority tenants were first able to purchase their homes in the 1930s (Norris, 2005); the scheme was an immediate success and the right to purchase was extended to all local authority houses by the 1960s. The scheme will be extended to include local authority apartments and flat complexes in Dublin City Council's area in the near future.

From 1961 to 2006, the percentage of social rented housing fell from 18.4% to approximately 8.6%. Norris (2005) argues that the level of residualisation of local authority housing (that is the extent to which the tenant population is dominated by people on low incomes) has worsened considerably during the last two decades.

Both of these developments were a consequence of the private house building programme increasing faster than the social rented house building programme, and increased sales of social rented housing to tenants.

The publication of A Plan for Social Housing (Department of the Environment) in 1991 marked a new direction for social housing policy. Firstly, local authorities were encouraged to take on a more strategic role that would include provision of social rented housing but go beyond that and include acting as a conduit for other solutions to households' housing problems. Secondly the housing association sector (also called the voluntary housing sector) was encouraged to develop further through the introduction of a new capital funding scheme. Until this time most housing association activity had been in the area of 'special needs' housing, that is, housing provided for people with a particular need in addition to a housing need. This includes such groups as elderly people, people with disabilities, and homeless people. However the new funding scheme encouraged housing associations to develop 'general needs' housing - housing for people with no relevant need other than a housing need.

The housing association sector has continued to grow and is playing an ever greater role in the provision of social rented housing in Ireland. From 2003 to 2006 very nearly a quarter of all new social rented housing was built by housing associations.

3.2 Social rented housing today

Rents in social rented housing provided by local authorities and in most social rented housing provided by housing associations are set according to a scheme known as the differential rent system. Rent levels are determined for each household and are based exclusively on the household's income. The rent payable is not related at all to any characteristics of the housing that is being occupied.

Under this scheme, rents are low: the median monthly rent paid by local authority tenants in Ireland in 2002 was ?107, whereas by comparison the median monthly rent paid in the private rented sector was ?609 (Watson and Williams, 2003).

Because rents are based on household income and are low, there is no scheme for providing financial assistance to households in social rented housing who pay a differential rent. However a small number of households who are in housing provided by housing associations under the Capital Assistance Scheme do not pay a differential rent and may be eligible for some financial assistance towards their rent in the form of rent supplement.

Housing quality in local authority housing is worse than in any other tenure. For example, compared with every other housing tenure, local authority tenants are more likely to have problems such as water ingress, dampness/mould, problems with doors/windows, problems involving noise or heating – three times as many as owner-occupiers and twice as many as private rented tenants (Watson and Williams, 2003).

In addition, local authority tenants are significantly more disadvantaged than people in any other housing tenure (Fahey 1999, Watson and Williams 2003). Recent research on the measurement of deprivation and consistent poverty in Ireland utilised both the Living in Ireland Survey (LIIS) measure and the new European Union- Survey on Income and Living Conditions (EU-SILC) measure of consistent poverty. It found that in comparison to non-poor households (at the 70 per cent line of median income) households in consistent poverty are almost twice as likely to be economically inactive, over twice as likely to have no educational qualifications, five times more likely to be in households that receive more than three-quarters of its income from social transfers and eight times more likely to be local authority tenants (authors' emphasis) (Maitre, Nolan and Whelan, 2006).

Social rented tenants have no legal security of tenure. However in practice their security of tenure is very high and local authorities and housing associations do not arbitrarily evict their tenants.

Tenant purchase is a well-established feature of the Irish housing system. Local authority tenants of houses may be eligible for a discount of up to 30 per cent on the market value of the property depending on the length of their tenancy. During the last four years the number of tenant purchases has removed between a third and a half of all local authority housing output from the social rental tenure (Department of the Environment, Heritage and Local Government, various years). Overall, about two thirds of all local authority housing built since local authorities' foundation in 1898 has been purchased by tenants (Fahey 1999).

This has in turn contributed to Ireland's high rate of owner occupation but arguably at a cost to the social rental tenure as the most desirable properties in terms of size, quality and location are transferred to owner occupation through tenant purchase. For many neighbourhoods and locales the net effect is a process of residualisation that creates, and (as some commentators argue) maintains a concentration of poverty and disadvantage in a decreased social rented sector.

Local authority tenants living in apartments are not included

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in the tenant purchase scheme, but it is planned to include them from 2007. Tenants of housing associations are not included in the tenant purchase scheme.

4. Rental Accommodation Scheme

Tenants who are assessed as being in long term housing need – mostly tenants who have received rent supplement for more than 18 months – qualify for the Rental Accommodation Scheme (RAS), which at the time of writing is in the early stages of being established. Under this scheme tenants pay a rent based on the differential rent system (see above) to their local authority, and the local authority will in turn pay the private landlord a rent based on a market rent. In some circumstances, particularly if the accommodation is sub-standard, the local authority will find the tenant alternative private rented accommodation, where the RAS system will apply. The scheme is currently being piloted in selected local authority areas.

5. International comparisons

International comparisons of housing tenure are fraught with difficulties. Whilst the distinction between ownership and renting is generally reasonably easy to delineate, the same cannot be said for the distinction between private renting and social renting. Notwithstanding these problems, there are some important observations that can be made.

The first of these is that at 18% Ireland has one of the smallest rental sectors (social and private) in Europe. Out of 30 countries, only five (Spain, Hungary, Slovenia, Bulgaria and Romania) have a smaller rental sector, and ten countries (Sweden, The Netherlands, Denmark, Germany, France, Austria, Czech Republic, Switzerland, Cyprus and Latvia) have rented sectors that are more than twice the proportion of Ireland's rented sector. The UK's rental sector accounts for 30% of all housing, over 1½ times the proportion in Ireland. One consequence of this is that there is a higher level of residualisation in rented housing in Ireland than in other European countries. This issue is discussed further by Whitehead elsewhere in this publication.

The second observation is that most social housing in Ireland is provided directly by the state (via local authorities), in contrast to nearly all other European countries, where most social housing is provided by independent not-for-profit organisations (although in some countries such as Sweden and Finland these organisations are closely tied to local authorities). The main exception is the UK where social rented housing is still provided mainly by local authorities, although much of the stock has been transferred to not-for-

profit bodies and almost all newly built social rented housing is built by housing associations. In Ireland approximately 90% of social rented housing is owned by local authorities, with the other 10% owned by housing associations; however, as stated above, housing associations are currently producing very nearly a quarter of all social rented housing output. One of the consequences of the domination of social housing by local authorities is that there is currently little competition between different providers of social rented housing.

The third contrasting feature is that the rental system used for social housing in Ireland – the differential rent system – is, as far as is known, unique in Europe, although similar systems operate in Canada, New Zealand and Australia. Some of the implications of this are discussed below.

6. The role of the rented sector

As Whitehead says in her paper elsewhere in this publication, the rented sector (including both social rented and private rented) plays a number of distinctive roles in ensuring an effectively operating housing system as a whole. These include providing, 'flexibility and easy access accommodation on the one hand, and secure and affordable housing for those at the lower end of the income scale on the other'. John O'Connor, Director of the Affordable Homes Partnership, in his presentation to one of the workshops, similarly identified a number of significant advantages that renting has, for some people, over owner-occupation. These include mobility; relatively low cost of entry and exit; credit accessibility; and flexibility of accommodation size.

Both Whitehead and O'Connor argue for an expansion of the rented sector in Ireland. O'Donnell, elsewhere in this publication, states that NESCC 'does argue that we should explore strongly the extension of affordable rental in the Irish system'.

It is a presumption of this paper that a properly functioning rented sector is an essential component of an effective housing system. Indeed it is a corollary of the overall aim of Irish housing policy:

To enable every household to have available an affordable dwelling of good quality, suited to its needs, in a good environment and, as far as possible, at the tenure of its choice. (Department of the Environment, Heritage and Local Government 2007)

It follows directly from this that a rented sector is essential if this aim is to be achieved, if only for the provision of housing for those who cannot afford to purchase their own home. However, in addition to meeting the needs of those

who cannot afford to buy their own home, a housing system must also cater for the housing needs of those who, for a variety of reasons, do not wish to buy their own home. So a properly functioning rented sector may be defined as one that provides affordable good quality housing for people who cannot afford to purchase their own home or do not wish to do so. This includes the following groups:

- People on low incomes who do not expect to be in a position to buy their own home;
- People on higher incomes who currently cannot afford to purchase and do not know whether they will be able to in the future;
- People who expect to purchase their home sometime in the future but cannot afford to do so at present;
- People who for a range of reasons choose not to purchase;
- People who have a temporary need for housing in a particular location, perhaps because of work;
- Students;
- Young people who are moving away from their parental home and may have no fixed medium- or long-term plans.

It can be seen that the above includes some groups with a long-term need for rented housing, and others with a short-term need. In addition there are those whose need is indeterminate because it is dependent on future events such as house price changes, or income changes, or other events.

Whilst there is some overlap between the social rented sector and the private rented sector, the characteristics of the tenants of each are in general very different. Data from the Irish National Survey of Housing Quality (Watson and Williams, 2003) showed that:

- The private rented sector housed far more single people and couples without children than the social rented sector. Conversely, the social rented sector housed far more families with children.
- Tenants' incomes in the private rented sector were generally much higher than in the social rented sector.
- Tenants stayed for much longer in the social rented sector than in the private rented sector.
- Private rented tenants were much more likely to be at

work than social rented tenants.

- Most private rented tenants were aged under 40 whereas social rented tenants display a much more even age distribution.

7. Rental systems in Ireland

Rental systems have a crucial role to play in the functioning of a rental sector. McNelis (2006), in his extensive discussion of social housing rental systems in Australia and elsewhere, underscored the importance of rental policy, and highlighted the extent to which rental policy is integral to the achievement of a range of different goals. He outlined a number of impacts of a rental system in social housing:

- It has to aim to achieve the goal of affordability for tenants;
- It may affect social housing providers' financial viability;
- It may create poverty traps and deter employment opportunities;
- It can alleviate housing-related poverty but also create inequities between tenants when some pay more for their housing than others or when tenants pay the same for their housing regardless of its quality, location and appropriateness to their circumstances;
- It can provide housing stability and security for tenants and thereby contribute to community sustainability, but can impact on how stock is utilised: whether it is wanted by tenants, whether it is under-occupied or over-occupied, and whether it is hard-to-let and vacant;
- It may create an administrative burden for housing workers and confusion for tenants.

Although he was writing about social rented housing many of his observations apply equally to the private rented sector, especially from the perspective of a policy maker.

Elsewhere in this publication our introductory paper outlines the two rental systems currently in operation in the Irish housing system (there are in fact three if you include the Rental Accommodation Scheme, which is an amalgam of the other two).

These, in brief are as follows:

Differential rent system

Rents in social rented housing provided by local authorities

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and in most social rented housing provided by housing associations are set according to a scheme known as the differential rent system. Rent levels are determined for each household and are based exclusively on the household's income. The rent payable is not related at all to the housing that is being occupied.

Because rents are based on household income and are low, there is no scheme for providing financial assistance to households in social rented housing who pay a differential rent.

Market rent system

Rents in the private rented sector are generally market rents: that is, the rent of a property is set by agreement between the landlord and tenant. In general rents are not regulated. However, under the Residential Tenancies Act 2004, landlords must not set a rent higher than the appropriate market rent or review it more than once a year unless this is justified by a substantial change in the accommodation.

An income supplement for people unable to afford open market rent is limited to people who are receiving a social welfare or health board payment. Anyone who works full-time is excluded. The amount of rent supplement paid generally ensures that the claimant's income does not drop below a minimum level.

Rental Accommodation Scheme

Tenants who are assessed as being in long-term housing need – mostly tenants who have received rent supplement for more than 18 months – qualify for the Rental Accommodation Scheme (RAS). Under this scheme tenants pay a rent based on the differential rent system (see above) to their local authority and the local authority pays the private landlord a rent agreed between the two.

The rent level agreed between the local authority and the landlord is based on a long-term arrangement that is expected to be mutually beneficial to both.

8. Weaknesses of current rental systems

Debilius, elsewhere in this publication, sets out the characteristics of an effective rental system. These are:

- Rent should reflect the value of the asset.
- Rent should cover the current costs of providing/managing the dwelling.
- Rent should cover provision for future maintenance.
- Rent should relate to the amount and quality of housing consumed.

- Households should be left with adequate disposable income after rent.
- Rent should be transparent, fair and equitable.
- Rent should not produce a disincentive to employment.

A number of aspects of rental systems as currently structured inhibit the effective functioning of this sector. These problems, which may be usefully compared with the characteristics of an effective rental system outlined above, are described below.

8.1 Differential rent system

The differential rent system, by virtue of its direct relationship with household income, has one very significant advantage over all other rental systems. It is, in its nature, affordable. Its structure ensures that no household should pay more than a defined percentage of income on rent. However, this advantage, whilst important, is not the whole story; the differential rent system also has significant inherent weaknesses. It is important to flag here that the weaknesses described below are systemic and may not be perceived as weaknesses by tenants or potential tenants; indeed tenants are most unlikely to complain about perceived iniquities of the differential rent scheme.

- The differential rent does not bear any relation to the location of the dwelling, its condition, whether it has a garden etc., i.e. the qualities that tenants may value in a dwelling. Therefore potential tenants are not in a position to trade off one quality that may be important for them, for another. So the structure of the differential rent scheme inhibits the exercise of choice by prospective tenants or by tenants seeking to move to another rented dwelling.
- The scheme is complex and expensive to administer because it requires the landlord to assess each household's income on an annual basis and adjust the rent accordingly. This assessment, which is time-consuming, may well duplicate assessments made by other organisations in relation to other means tested benefits or allowances.
- The income from rent is unpredictable. It is not possible for landlords to know the incomes of future tenants, and so it is not possible for landlords to predict future aggregate rental income. This in turn makes effective financial planning extremely hard.
- Rental income from differential rent schemes is not sufficient to provide for current costs of management, repairs etc. as well as contributing to a 'sinking fund'

that will pay for future cyclical maintenance. This is the case even though local authorities and housing associations do not have to pay for the capital costs of the housing. This means that there is no incentive on local authorities to manage their housing stock efficiently since cyclical maintenance is funded by an entirely separate national scheme, called the Remedial Works Scheme. Housing associations, whose housing stock is generally young, have not yet had to incur significant expenditure on cyclical maintenance, but when the need for this arises, it will place housing associations in an extremely difficult financial situation.

Dibelius, applying a similar analysis, argues elsewhere in this publication that differential rent schemes ‘... score high on social criteria and welfare considerations for the benefit of tenants, but perform rather poorly in terms of providing sufficient financial backing for the landlord’s management and maintenance obligations.’

8.2 Market rent system supported by rent supplement

Assistance with rent is limited to households eligible for Social Welfare Allowance. This means that any household in full employment regardless of the households’ income is not eligible for any assistance with rent. This creates a significant poverty trap and acts as a disincentive for people in private rented accommodation to take up work opportunities. One of the consequences of the exclusion of people who are working full time, no matter how low their income, is that the most pressing affordability problems in the Irish housing system are found in the private rented sector (Fahey et al. 2004).

8.3 Rental Accommodation Scheme

The Rental Accommodation Scheme offers a considerable advantage over ‘normal’ private renting to working tenants since, instead of paying a market rent, tenants pay a differential rent. There are benefits to the landlord too, since she/he receives a market rent, which is agreed with the local authority. This means that two of the weaknesses described above – the unpredictability of rental income, and the fact that a differential rent is insufficient to meet the entire landlord’s costs – do not apply in this case.

However, as with social rented housing, the fact that the rent paid by the tenant does not bear any relation to the dwelling being rented remains a major weakness, as does the fact that it is complex and expensive to administer.

8.4 Private renting vs social renting

A full comparative analysis of the private rented and social rented sectors would need to take account of a number of factors other than finance. These would include security of tenure; the quality of the accommodation; and other tenure-specific benefits or disadvantages. This analysis is beyond the scope of this paper, but it is important to draw attention to some of the more important issues that might influence a potential tenant’s choice between the two rented sectors.

One important tenure-specific benefit that must not be overlooked is the tenant purchase scheme under which tenants who rent from a local authority are able to purchase their homes at a very significant discount on the market cost. This is a very considerable financial benefit that is not available to those renting privately and is a factor pulling potential tenants in the direction of social rented housing provided by local authorities. (It is interesting to note that, whilst tenants of housing associations do not currently benefit from this, housing associations do not in general have any difficulty letting their housing stock. This may be because potential tenants make a calculated assessment that tenant purchase will in the future include housing association tenants; it may also be that potential tenants choose housing associations over local authorities because the stigma is perceived to be less or because the quality of housing management is perceived to be superior. This is an area that would benefit from research in order to further understand the relationship between the different rental sectors.)

Other factors may push in the opposite direction. For example, some people may prefer to rent privately because they perceive social rented housing as socially inferior to private renting. Others may wish to avoid the additional attention that is a feature of social rented housing management.

The existence of factors other than finance does not invalidate an assessment that focuses exclusively on rental systems, as long as it is understood that a properly functioning rental system will require that these additional factors are also addressed.

9. Rental systems: The alternatives

It is acknowledged that there is no simple solution to this issue; no one rental system can satisfy all the requirements set out above. However, we do believe that the development of a properly functioning rented sector in Ireland will require an evaluation of alternative rental systems.

There is another compelling reason for evaluating other

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models of housing finance: that is, ensuring the greatest value for money that is consistent with the principles set out above. As housing finance involves increasingly large sums this becomes ever more important.

Most alternative rental systems require a housing allowance to assist households on low incomes that would go considerably beyond the rent supplement system that is currently operating in Ireland. However, many commentators and policy makers rule out consideration of a wider housing allowance system, casting their eyes nervously across the Irish Sea to the UK where the housing benefit system is perceived by many as expensive, wasteful, and vulnerable to fraud. However, as Whitehead points out elsewhere in this publication, a housing benefit system may have significant advantages. There are many models of housing allowances that could and should be considered and, as we point out in the workshop discussion paper elsewhere in this publication, a well-designed system should be able to avoid the pitfalls of the British system.

It may be helpful to sketch very briefly here some alternative rental systems. They are listed here without assessment, simply to demonstrate the range of different systems that might be considered.

9.1 Cost rental systems

The aim of a cost rental system is to ensure that rent levels are sufficient to cover the costs of providing the housing being let. This is done by determining the pooled costs for a specified group of dwellings, which are then distributed between individual dwellings. So the rent for a particular dwelling is not determined by the ongoing costs that are specific to that dwelling.

There is a crucial distinction between cost-rental systems and the other systems described below: the cost rental systems refer to an overall rent for a group of dwellings (which could be as big as a nation, and as small as one housing scheme); whilst all the other systems below are concerned with a specific dwelling or household.

This means that having determined the overall rent for the group of dwellings, it will then be necessary to determine how the rent should be allocated between different dwellings, using one of the other systems described below.

There are two types of cost-rental systems:

Historic cost-rental. This means that the rent is based on the management costs, repair costs, cyclical maintenance, and the cost of servicing the loan on the group of dwellings. In this system the rent will reduce in time as the historic debt

reduces through maturation. This is a key feature of Kemeny's unitary rental system (see Brooke and Downey elsewhere in this publication).

Current cost-rental. In this system the rent is based as above on the management costs, repair costs, and cyclical maintenance. But instead of adding the cost of servicing the existing loans, the capital element is based on the cost of replacing the existing dwellings as determined by current value and expected life. In this system the rent will generally increase over time.

9.2 Discount on market rent

A market rent is the actual price that a landlord and tenant agree where the allocation of housing is through an open market system. Obviously a market rent for social housing does not make sense since social housing is not allocated by market mechanisms (although choice-based lettings' systems have some characteristics of an open market system). However rents for social housing can be related to the open market rents for similar dwellings in the locality.

9.3 Income-based rent

The differential rent system as described above is an example of this.

9.4 Points' systems

Dwellings are ascribed a number of points which are directly proportional to the rent payable. Typically more bedrooms and newer dwellings get extra points and therefore attract higher rents. Other factors could include a garage, garden, state of repair etc.

9.5 Property values

In this system, rents are related to the open market value of the dwelling being rented.

9.6 Property values and incomes

Rents are set using a combination of regional earnings and property values. This provides a method of taking account of property values, whilst at the same time having regard to affordability.

10. The next steps

It has been argued that the rental systems currently operating in Ireland inhibit effective functioning of the rental sector, that is to say, a rented sector that provides affordable good

quality housing for people who cannot afford to purchase their own home or do not wish to do so. This is partly because each system has significant specific weaknesses as set out above; and because the existence of different rental systems in the private sector and the social rented sector militates against movement between these two tenures.

In light of this we believe that there is a substantial case to be made for an examination of alternative rental systems with the aim of addressing these difficulties, and promoting effective functioning of the rental sector rather than holding it back.

There is however a major obstacle to this. An analysis of alternative rental systems must include an assessment of their financial impact on stakeholders such as tenants, landlords (public, NGO and private), and the exchequer. Furthermore it will be necessary to evaluate the impact of alternative systems on the owner-occupied sector since all elements of the housing system are interlinked. These all require a thorough understanding of the operation of the housing finance system in relation to all housing tenures. Yet, there have been few comprehensive studies into different aspects of housing finance in Ireland and only a limited and somewhat outdated understanding is available from the literature that does exist. In fact, we are unable to locate any comprehensive and detailed study of the Irish housing finance system today.

This severely restricts the level of analysis of alternative rental systems that is possible. It follows that evidence-based development of financial aspects of housing policy is not feasible within current levels of knowledge. A prerequisite, therefore, of the analysis this paper argues for, which is essential for the development of a more effective and efficient housing system in Ireland, is a baseline study of housing finance systems in Ireland that has two objectives:

- To investigate and describe in detail the fiscal treatment of all housing tenures in Ireland and the operation of the Irish housing finance system in relation to the development, supply, procurement, consumption, management and maintenance of all dwellings and accommodation in the major housing tenures in Ireland.
- To consider the overall effectiveness and efficiency of the current fiscal treatment of housing and how the Irish housing finance system operates to ensure the delivery of the central aim of Irish housing policy, namely: to enable every household to have available an affordable dwelling of good quality, suited to its needs, in a good environment and, as far as possible, at the tenure of choice.

O'Donnell, writing elsewhere in this publication, suggests that the major obstacle to reform is not tackling technical questions but 'creating a motivation for the reform'. It is our contention that creating this motivation requires first and foremost the development of a solid financial case.

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Appendix A: Policy Workshop Participants

Name	Title	Organisation
Ahern, Jo	Deputy Director	Homeless Agency
Buchanan, Lillian	Researcher/Project Administrator	Threshold
Brooke, Simon	Housing and Social Policy Consultant	Independent Consultant
Burke, David	Development Manager	Focus Ireland
Carroll, Rosalind	RAS Programme Manager	Dublin City Council
Clayton, Gene	Chief Executive	Iveagh Trust
Dibelius, Christine	Director of Services	Clúid Housing Association
Donoghue, Frank	Assistant Principal Officer Housing Policy and Supply	Department of Environment, Heritage and Local Government
Downey, Dáithí	Policy Analyst	Focus Ireland
Drudy, PJ	Professor of Economics	Trinity College Dublin
Dunne, Tom	Head of School of Real Estate and Construction Economics	Dublin Institute of Technology
Fahey, Tony, Dr.	Research Professor	Economic and Social Research Institute
Graham, Patrick J	Researcher	Affordable Homes Partnership
Hanlon, Evelyn	Senior Executive Officer, Private Housing Unit	Dublin City Council
Healy, Jonathon, Dr.	Research and Policy Analyst	Combat Poverty Agency
Hayden, Aideen	Chair of Board	Threshold
Higgins, Mary	Social Policy and Management Consultant	Independent Consultant
Howley, Derval, Dr.	Director	Homeless Agency
Jones, Declan	Chief Executive	Focus Ireland
Lacey, Adele	Researcher	Affordable Homes Partnership
Lewis, Eddie	Principle Officer, Social Housing, Procurement and Construction	Department of Environment, Heritage and Local Government
MacLaran, Andrew, Dr.	Senior Lecturer, Dept of Geography and Director, CURS	Trinity College Dublin
McGrath, Caroline	Director of Advocacy	Focus Ireland
Murphy, Karen	Director of Services	Irish Council for Social Housing
Murray, Ruth	Assistant Principle Officer	Department of Environment, Heritage and Local Government
Murray, Pdraig	Associate Director	Anglo Irish Bank
O'Brien, Justin	Chief Executive	Circle Housing Association
O'Connor, John	Director	Affordable Homes Partnership
O'Donnell, Rory, Dr.	Director	National Economic and Social Council
O'Gorman, Brian	Chief Executive	Clúid Housing Association
O'Sullivan, Eoin	Lecturer, Dept of Social Studies	Trinity College Dublin
Rhodes, Mary Lee	Lecturer, IIS	Trinity College Dublin
Silke, David	Director	Centre for Housing Research
Whitehead, Christine, Prof.	Professor in Housing	London School of Economics and Political Science

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