Department of Housing, Local Government & Heritage

Affordable Housing Division

7 Ely Place

Dublin

30th April 2024

Dear Sir/Madam,

RE: National Affordable Housing Strategy Review

The Irish Home Builders Association (IHBA), a constituent association of the Construction Industry Federation (CIF), would like to thank the Department for the opportunity to contribute to the review of the National Affordable Housing Strategy. We would also like to commend the Department and other State Agencies for the significant number of schemes that have been introduced to increase housing supply.

The last number of years has seen very significant cost inflation and disruption to supply chains internationally and domestically for well documented reasons. Cost stability is a vital part of increasing housing supply as well as the ongoing collaboration between the private and public sector. The increase in housing supply in Ireland is in stark contrast to the situation in Europe where housing supply is decreasing (please find attached analysis from Build Europe).

Last January, the IHBA in conjunction with other industry bodies, conducted a survey of members to assess the additionality of housing supply due to the impact of Government schemes (please find attached). It is clear from the survey results that we shared with both the DHLGH and the Department of Finance that we simply would not have seen this level of housing commencements without the development contributions scheme waiver and water connection rebate. A critical factor in the increase in housing commencements was the ability of housebuilders to commence with confidence, knowing that for apartment schemes in particular, there was going to be an end purchaser. In many cases these end purchasers were for cost rental schemes operated by Approved Housing Bodies (AHBs) or the Land Development Agency (LDA).

Other measures, such as the Help to Buy scheme and First Home Scheme, have been critical to ensure affordability for the consumer and first-time buyer. Many people would not be able to afford to purchase a home without them, and in most cases the homes could not have been purchased otherwise. There is also a considerable benefit to the State in facilitating home purchasing through the continuation of these schemes, as it is more efficient than someone requiring ongoing housing support through public housing provision or the ongoing housing maintenance costs for public housing providers. There is also well documented pension provision issued previously assessed by the ESRI, as well as broader societal and economic benefits for a country to maintain and increase home ownership rates. Of course, we also need to expand public housing provision, particularly cost rental.

We must stress that the current collaboration and cooperation between the state and the private sector, following a period of exceptional input cost increases, has stabilized and increased additionality to housing supply, acted as a countercyclical measure and given confidence to investors and housebuilders. It is now critical that we attract back international investment in our housing industry to increase supply and reduce the level of intervention required by the state in the longer term.

Finally, whilst these measures are welcome and help offer a partial solution to improving housing delivery, it is essential that the planning process is reformed to ensure that these houses can actually be built. This reform requires adequate resourcing within the planning system (at An Bord Pleanála, at Local Authority level and through recruiting and training more planners), as well as reducing the time taken to issue planning decisions. Certainty is also required regarding the introduction of the proposed Planning and Development Bill and of course the backlog of planning applications are dealt with in the Courts and at An Bord Pleanála.

It is with this in mind that we make the following submission to the strategy and, if you have any queries on any aspect of the document, please do not hesitate to contact us.

Yours faithfully,

Conor O'Connell
Director - Housing, Planning & Development Services

Capital Support

Are the current and on-going measures in place sufficient to address the on-going challenges of affordability for those renting and those seeking to buy a home?

- The IHBA welcome the introduction of various measures by the Government, including Croí Cónaithe, Project Tosaigh, AHB Cost Rental and STAR (amongst others) to address affordability and viability challenges with new home delivery. The recognition by the Government that significant supports are required to address the challenges of development of cost rental apartments at scale is also welcome. Whilst there has been a mixed level of take-up of these schemes, further work is required to revise them so that they are attractive to all stakeholders involved.
- Whilst it is acknowledged that a range of housing tenure types should be constructed to meet all of the populations' needs, the ratio of affordable, social and private tenure must be carefully considered in order to offer balanced options to all. It is vital that private homes are also built (in tandem with social and affordable units) to offer people the opportunity to purchase their own home, an aspiration which we should continue to encourage.
- The Secure Tenancy Affordable Rental (STAR) investment scheme that was introduced in 2023 offered the potential to bridge the viability gap in constructing apartments. The scheme, however, requires further review, given the proportionally low interest in it. Whilst we made an initial submission that called for a range of changes to the original scheme proposed (some of these changes were made), we believe the below tweaks would offer improvement and increased uptake of the scheme:
  - The core issue with the STAR scheme relates to the issue with funders. The 50 year cost rental term that is attributed to any scheme using STAR is too onerous to attract investors who are vital to getting a scheme "off the ground". We would propose a 25-30 year interest in the scheme. Attracting large scale investors, who have left the market, is vital to guarantee the success of housing provision in Ireland. The clawback provision should also diminish after 25 years, or an alternative option would be to introduce a sliding scale mechanism.
  - Income caps must be reviewed again. Whilst the scheme was amended to provide a greater cap for Dublin (€66,000) and a blanket €59,000 for the wider country, the income caps should be tweaked to reflect the number of bedrooms for each unit. This is because larger family units are unlikely to fit within the cost rental regime. These should be indexed annually in line with HCPI to avoid issues for potential eligible tenants. It is believed that extending the caps in this manner would align cost rental and lower rents to a high proportion of the population, supporting the de-stigmatisation of Government supported housing, similar to the much-talked about Vienna Model.

- Another option in relation to the income measure is to change it from per household to multi-occupancy. This would give greater flexibility to the tenancy options and would allow for those on middle incomes to share for instance a two bedroom apartment without breeching the income threshold per household/unit.
    - The extent of the State's investment remains recoverable only in certain circumstances where this is the case to bridge the cost rental gap and not to the extent that it seeks to bridge the core viability gap.
- Croí Cónaithe has been another support measure designed to activate increased housing provision. There are some suggested amendments to this which are set out as follows:
    - The date of payment for the CC subsidy is only made upon completion of the sale of the unit. From a bank perspective, this is too late and carries major risk. It is recommended that the subsidy is paid during the construction period on a phased basis, with the final balance paid upon completion (e.g. 70% paid during construction phase and 30% on sale completion). This solution would also address viability concerns for projects and make the scheme more appealing to lenders.
    - The scheme requires all units to be sold within 12 months of completion. This is only achievable on small scale sites and is a barrier to uptake of the scheme again because of the perceived risks by lenders. It is recommended that this time period is extended. This also poses issues with large-sized schemes where you may have 200 units to sell; these will take time to be absorbed by the market and it is unrealistic to expect them all to be sold within 12 months. As such, the scheme only works for large-scale builders with sizeable balance sheets. Alternatively, we suggest that the sale period reflects the number of units within a scheme, with a set number being required to have sold within a set period (i.e. incremental sales). This would ease absorption into the market.
    - Similarly, it would be appreciated if a backstop position could be considered in the event that these units don't sell, that they will be absorbed as social/affordable housing units.
    - Education and stakeholder engagement is critical to the success of this scheme (and others). For example, purchasers will need to be educated on the clawback arrangement on the uplift in value if they sell the apartment. Similarly, further engagement with the Law Society and Conveyancing professionals is required, as well as with BPFI and mortgage providers (the current scheme sees a burden on the property held by the Housing Agency until the 10 year clawback period expires).
- Further consideration to the clawback period is required, and additional points relating to amendments to these schemes are outlined in response to other questions.
- The industry has experienced major challenges associated with inflationary costs of construction, along with other viability issues, in recent years. Contracts should have a mechanism built into them allowing for cost increases (or changes) that couldn't have been

forecast at the contract signing stage. This would provide greater certainty for project funding and reflects the challenging market that the industry operates within.

- The measures that have been introduced by Government reflect the challenging environment that the industry has been operating in, as mentioned. To ensure they suitably reflect ongoing challenges associated with viability, we recommend that the schemes are reviewed regularly to ensure they are fit for purpose and offer robust support.

What are the key capital supports required to assist those specific areas of need and typologies of development required (such as brownfield city/town areas) where affordability challenges are most acute?

- Croí Cónaithe excludes smaller schemes (min. is 40 units). These could offer dense housing in infill sites if we reduced the threshold and facilitate construction in regional locations with smaller demand.
- The role of brownfield and infill sites in solving the housing crisis is acknowledged, however, these sites are costly to develop and pose major viability challenges to developers. Brownfield and greenfield development sites can solve housing provision issues, and with brownfield sites, a more flexible approach should be taken. For example, tweaking bedroom numbers for units, rather than stipulating unit requirements, is necessary. Substantial cost measures, including a reduced VAT rate on the delivery of brownfield sites, would help kickstart these projects or some other taxation measures aimed at facilitating the remediation caused by previous uses or to manage other ground/site enabling works to brownfield sites. This could include demolition and waste management unique to certain locations.
- Additional viability supports are needed to unlock housing development.
- The subsidy for Croí Cónaithe is max €140,000 whereas the subsidy for the STAR scheme is €200,000; the cost of building apartments is broadly the same regardless of whether the apartments are build to rent (BTR) or build to sell (BTS). These two subsidies must therefore be aligned to be the same amount (€200,000/unit)
- Croí Cónaithe does not reduce the overall delivery cost of apartments, whereas bringing money in line with equity and debt would save on funding costs (these are very high given the recent interest rate rises).
- Public Private Partnership (PPPs) programmes involve substantial costs when contractors bid on these schemes. There are instances where suitable tenderers have been prohibited from participating in this process due to costs. A cost alleviation scheme should therefore be introduced for unsuccessful tenderers.
- Modular homes and MMC are discussed in further detail below, however, a key barrier to their widescale implementation is the associated cost. Advance payment for materials to enable the industry to bulk buy materials to produce modular housing would help address this challenge.

- Infrastructure funding should be considered to unlock brownfield development sites. In most other European countries, public authorities deliver infrastructure, however, in Ireland, there is a more collaborative approach, with private developers assisting. The challenges associated with brownfield site delivery could, in part, be addressed by dedicated infrastructure funding, and we acknowledge the URDF funding package for several locations, but consideration should be considered for a revised LIHAF model nationwide.
- Members have raised concerns regarding the resourced deployed to certify building methods (NSAI approval for new methods of construction) which have no guarantee of being adopted by the industry due to outdated technical regulations. Capital assistance to support this would be appreciated.
- The current process for funding affordable housing projects including AHB Costs Rental Schemes does not consider the individual nature and differences of each site. For example, unit delivery price varies on a site specific basis and is impacted by different factors, including underground car parking (and the subsequent sprinkler systems required, pilling etc); these can add approx.. €5,000 increases to a site, but the current process sees cheaper unit price delivery benchmarked, resulting in more expensive projects missing out on funding. This needs to be addressed and a cost assessment should be used on each site for apartment delivery to consider the variations. This variation in costs was highlighted by the recent SCSI report “The Real Cost of New Housing Delivery 2023”, which reported the cost of delivering a new 3 bedroom semi-detached house in Ireland ranges from €345,000 to €461,000 across regions. The report also highlighted that siteworks (within a site) make up 41% of the delivery cost of a new home. Given that this contributes to such a big proportion of the delivery cost of a house, the individual differences for various sites must be accounted for in policy. Our members are experiencing barriers to approval of their schemes when applying to deliver affordable housing projects because the Department and local authorities deem their cost per unit too high. There seems to be a resistance to funding for these projects, but a more considered approach on a site-by-site basis would be appreciated.

Timeline

In the context of the range/scale of projects currently supporting affordable housing delivery, can size and method of delivery be better utilised to achieve a more efficient and consistent timeline for completion?

- Timelines for Croí Cónaithe are constrained due to the construction of the scheme being delayed until the agreement is completed. This adds unnecessary time to projects, meaning they are vulnerable to inflation and other cost variants, which impacts project viability before commencement. This also poses an issue where project tender prices (a requirement of the scheme) have effectively expired, resulting in a second tender process which again adds unnecessary time and costs. This process should be reviewed to enable smoother commencements; for example, both the Housing Agency and developer could have a QS represent them for the initial cost plan, with a full tender then completed and subsidy calculated prior to signing.

- Timelines for sign-off of Cost Rental Schemes for approved housing bodies also seem to be lengthy with a significant number of steps in the process. These schemes offer a new model for delivering affordable rental properties and offer the opportunity to deliver this type of housing at scale. While it is appreciated that this is a new mechanism, a streamlined model needs to be considered. It should be noted that many of the previous points raised in relation to income thresholds also apply to AHB cost rental schemes.
- Fast tracking of major infrastructure projects that will help unlock housing delivery will ensure we offer plan-led housing development.
- Open to all methods of construction – this would enable the market to open up and fast track alternative methods of construction where scarce labour trades and materials are an issue.
- Incentives should be used to result in faster delivery without compromising on quality.

Capacity

Noting the extent of investment in social and affordable housing under Housing for All, and the range of schemes/mechanisms currently being supported by the Department, are there specific or on-going capacity constraints impacting on affordability or boosting supply, and if so, what are these constraints and how can they best be addressed?

- There are a range of constraints associated with housing delivery which, if addressed holistically, will help overcome supply issues. These include the planning system, adequate zoned land, infrastructure to unlock and support housing delivery and labour resourcing.
- Delays to planning decisions are preventing housing delivery. They are also adding to the cost of new homes; a recent ESRI report commented that JR cases can add between €10,000 – €20,000 to the cost of an individual home. This is totally unnecessary and is contributing to the affordability crises.
- Adequate zoned land is essential; minimum requirements for zoning that are currently used should be reviewed, with these being increased and an additional 100% headroom introduced for increases in requirement to ensure that there is adequate land zoned for planning and development purposes. This will cater for instances where land is constrained due to infrastructure issues, ownership and ecological issues.
- Local authority resourcing is vital to dealing with the number of planning applications that need to be reviewed (this includes training enough new planners at local authority and at An Bord Pleanála). Similarly, an online planning portal to process planning applications (as used elsewhere) may speed this up.

- The more significant capacity constraints associated with housing delivery relate to the supply of zoned and serviced land with planning permission and appropriate funding. The cost of funding and the availability and cost of equity remain very challenging.
- Labour capacity is not a concern for housebuilders; there is a shift taking place from the commercial construction sector to the residential construction sector. Metrics or statistics can be hard to assess in this area due to the cross over of building activities and construction enterprises. However, there is an obvious decline in commercial and office type construction activities, particularly in the Dublin region.
- It should be noted that employment in the industry increased by over 20,000 people in the two-years post Covid. This illustrates to us that the increased focus on construction skills by a number of different means, including various state initiatives, is yielding results.

Are there immediate or short-term barriers to improving capacity within the wider affordable housing sector, and if so, what are they and how can they be addressed?

- Modular housing delivery, along with existing 'traditional' housing delivery, can offer increased units in the immediate to short term. To unlock this, sizeable schemes of modular housing units should be considered. This approach will also ease the labour pressures on the industry, with units constructed in a manufacturing environment, more skilled labour will be available for on-site builds. We have seen the success of the housing units that have been delivered at speed to accommodate refugees in Ireland; a similar approach can be taken provided adequate investment is made.
- As mentioned above, the existing schemes do offer a partial solution to affordable housing delivery, however, we also need to ensure these are robust and fit for purpose (with the proposed amendments outlined in this submission).
- Efficiency in delivering affordable housing needs to be improved. Our members have first-hand experience of unnecessary delays to delivery when working with Affordable Housing Bodies and Local Authorities. An efficient process which is streamlined to promote fast housing delivery is required. Clear timelines for decision making are imperative to reduce costs and delays.

Delivery

Given the wide variety of delivery mechanisms currently being deployed by the state, are there further or additional approaches worthy of consideration which would expand the current delivery pipeline?

- One of the primary issues restricting the delivery of housing is serviced zoned lands. The State should consider the role of private developers as a pathway to unlocking these sites. A mechanism should be developed whereby private landowners of unzoned serviced lands can propose a Material Alteration to a local authority development plan to have their lands zoned as mixed tenure, or affordable residential.

- Uncertainty associated with the planning system, and impending legislation (the Planning and Development Bill), poses a major issue to housing unit delivery. Our members are struggling to obtain funding from investors due to the uncertainty associated with the potential implementation of this new legislation and in particular the Extension of Duration provisions are causing concern. We are addressing this issue in a separate document to the DHLGH. This is important given that many schemes are in judicial review with potentially a very limited time left to activate their permission.
- Improved infrastructure delivery will help unlock zoned lands. Several developments are currently considered unviable due to the lack of services.
- The adoption of MMC and a revision of the building regulations is required to adopt these new methods. The current regulations do not adequately address modern methods and materials which will provide better quality homes.
- Uncertainty and confusion over new schemes will result in further delays; as such, revising existing schemes, rather than creating new ones, will have better results.