Trading places: TASC report on land and housing

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Acknowledgements

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List of acronyms

CPO	Compulsory Purchase Order
CSO	Compulsory Sales Order
FTB	First Time Buyer
GDA	Greater Dublin Area
HAP	Housing Assistant Payment
IPAV	Institute of Professional Auctioneers and Valuers
JALPS	Journal Agricultural Land Price Survey
LRD	Large-scale Residential Developments
LTI	Loan-to-income
NDP	National Development Plan
NSS	National Spatial Strategy
RAS	Rent Assistance Scheme
SDZ	Strategic Development Zone
SHCEP	Social Housing Current Expenditure Programme
SHD	Strategic Housing Development

1 Introduction

1 Introduction

- Land speculation after NAMA disposals negatively affected private supply
- Land speculation continues today but in different forms
- Viability, especially apartment construction, is now the main supply impediment
- Viability is multifaceted and includes planning uncertainty
- Lack of suitable land among factors discouraging direct build of public housing
- Bureaucratic building process and market conditions have also led to local authority acquisitions and turnkey development
- Fragmented land ownership acts as barrier to urban redevelopment
- Active land management including expanded use of compulsory purchase orders recommended

The Irish property and land markets have undergone much turbulence for much of their history. For almost half a century, stability has been the exception to the rule, not the norm. From land speculation of the 70s, to the housing bubble that began in the 90s and peaked in 2000s, to the affordability crisis of the mid and late-2010s and which continues today, it is reasonable to say that housing, property, and land policy represents one of the major failures in Irish policymaking.

The implications of these failures are far-reaching. In the recent past, the collapse of the housing bubble devastated the economy. It led to mass unemployment in construction and elsewhere, an erosion of living standards, an increase in poverty, and mass emigration. The most recent and ongoing episode has created an affordability crisis in urban areas leading to, among other things, a rise in homelessness. It is also bad for the economy as upward pressure on the cost of renting and buying puts a drag on the country's competitiveness.

Indeed, the major economic and political challenge over the last number of years has been how to provide sufficient and quality accommodation for Ireland's population. For almost a decade now, property prices have been rising, and look set to continue to rise in the near future at least. It appears that Ireland's housing system, at least in its current form, is incapable of meeting the needs of its population. The onset of Covid-19 and the global inflation that has emerged in its wake has set back the slowly recovering housing market.

The construction of housing requires a number of working parts for it to function properly. The development supply chain includes zoning land for residential and other uses by planners, site acquisition by developers, furnishing of infrastructure so that the site is fit to build on, application for planning permission to build on the land, sourcing and securing finance, contracting builders to build, and finally selling the end product. Many more intermediate steps could be listed, and it only takes one link to be severed for the system to be broken.

This report investigates to what extent problems in the land system are a source of Ireland's housing woes. Consideration is given to the issue of land speculation and land trading, how this has changed over time, and whether and to what extent it has been a problem more recently. Relatedly, it asks whether supply of developable land has been sufficient, and if that has been the missing link in the supply chain. Casting the net more widely, it also asks, if not land, then what? The report explores some of the other factors that explain why Ireland has been unable to meet its housing needs, and how land relates to these factors.

It finds that a lack of developable land during the recovery period was, along with financial and viability problems, an impediment to supply of for-profit housing as Ireland recovered after the financial crisis. The post-NAMA disposals resulted in speculation that removed land from the hands of those who develop it, the construction sector. Land speculation still occurs today, but in different forms. Much of it adds value, though at least some of it delays development and pushes up prices.

Within the public housing system, the extent of housing supply is largely dependent on the state's willingness to provide funding for housing. Land considerations are one among several factors that tilted the balance towards reliance on acquisitions and turnkey developments versus building on public land, which should in principle be more cost effective. Local authorities do always have land in areas of social housing need. Other factors include the bureaucratic nature of building on public land and market dynamics post-crash which made construction relatively expensive.

The most important factor in holding back private supply today is a lack of financial viability in construction, particularly the construction of apartments. Viability is a complex problem with many components, of which uncertainty in the planning system is one. Though the Irish state has a significant amount of land, for some local authorities access to appropriately located land will be a constraint to increasing direct building. Moreover, the disjoint and dispersed nature of land ownership acts as a barrier to development in urban areas, for both public and private housing.

Active management of land offers a way to alleviate these problems. In that case, the state takes a greater role of acquiring land, furnishing it with infrastructure, and either uses it or sells it back to the private sector. This should be implemented primarily by a national organisation such as the LDA, which has the scale and capacity to undertake the risk associated with land acquisition. The state should also expand it land management tools, especially its ability to compulsorily acquire land.

There are eight sections to this report excluding this introduction. Aside from a discussion of planning, the first half of the report deals with issues of housing supply, and the second half of the report examines land. Concretely, Section 2 looks at the Irish planning system in current, historical, and comparative terms. It notes how recent planning guidelines have provided for the de-zoning of land and also a relaxation of building standards. This has implications for both the housing and the land market. Section 3 examines recent developments in the for-profit Irish housing market. It includes discussion on explanations that have been given for why Ireland's housing market is misfiring. Section 4 provides empirical evidence by presenting the results of a series of in-depth interviews with the construction sector. It looks at barriers to housing supply other than land speculation, which comes later. It finds that access to finance and especially the financial viability of construction to be the main impediments. The latter is driven by price and cost considerations, including inefficiencies in the planning system. Section 5 looks at recent developments in the supply of public housing. It provides context for the following section, which is a series of in-depth interviews with policymakers on public and non-profit housing supply. Section 6 finds that acquisitions of social housing in the initial recovery have been favoured for a variety of reasons, including land access, whereas turnkey developments have been favoured over direct build for several reasons, including land access.

The second half of the report focuses on land. Section 7 looks at price and other developments in the Irish land market, historically and currently. Ireland experienced two speculative bubbles in its land market in the past half a century. Moreover, post-crisis land disposals took a long-time to return to the construction sector, which elevated land prices. Section 8 looks at land trading and land speculation.

Based on interviewees with the construction sector, it confirms that land speculation is less prominent today, and happens in somewhat different forms. In particular, the NAMA and post-crisis disposals resulted in speculative land transactions which lengthened and slowed the development supply chain, contributing to Ireland's housing supply problems. Section 9 uses interviews of local authority and other officials to examine what land reforms can improve the supply of public and private housing. It looks at the potential use of active land management and other tools. Section 10, the final section, concludes and puts forth a series of policy recommendations.

2 Background: cyclicality and affordability in Ireland's housing market

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This section provides background and context. In addition to a brief historical overview, it looks at the spatial structure of Ireland's housing problems. It establishes that it is urban areas and in particular Dublin that has experienced most pressures on its housing system. It links this to the land question and sets the scene for the remainder of the report.

Boom, bust, and supply-demand imbalances

The Irish housing market has gone through a number of phases. The 1990s marked the beginning of the end of relative peace. Changes in international banking regulation in the early part of the decade incentivised banks to expand mortgage lending across most of the developed world. This was coupled with weak or 'light touch' regulation domestically, such as weak oversight of risk management within financial institutions and tax incentives to invest in property. A mortgage and credit-fuelled housing bubble ensued. After the bubble burst in 2008, it was clear there had been much overbuilding in general, and in inappropriate and non-urban locales in particular (Norris and Shields, 2007).

As the economy began to rebound from 2012 onwards, so did the demand for accommodation. A combination of returning emigrants, new and affluent immigrants, population and income growth has placed demands on the housing system for more accommodation, especially in urban areas. The supply of housing, however, has not been forthcoming in meeting that demand. Household formation has consistently outstripped the construction of new dwellings since the recovery, aside from the last year or two (Kennedy and Myers, 2019; McCartney, 2021). The shortfall of demand relative to supply has generated affordability problems, a problem turned crisis for many renters in urban areas.

Affordability and its spatial structure

Despite the general rise in house prices, cost pressures have been felt differently across society depending on age, income, tenure status, and region. Some measures of affordability indicate Ireland is doing quite well in comparative terms. For instance, when one looks at housing costs as a percentage of disposable income, Irish renters spend only around a fifth of their income on housing. This makes Ireland the ninth most affordable place in the EU to rent. Mortgage holders spend a similar share of their income on servicing their debt as mortgage repayments as a share of income are only somewhat greater than the EU average in Ireland. In addition, much of the high cost of servicing mortgages can be attributed to the high cost of lending in Ireland than the price of housing (OECD, 2020: 2).

A snapshot in time emphasising monthly housing costs gives a rather incomplete view of housing affordability as it says little about trends over time. Unfortunately, a long-dated series stretching back to the 90s does not exist. Despite much change in the intervening years, the series was relatively stable between 2006 and 2016 (Corrigan et al., 2019). Since 2014, though, monthly housing expenses have increased more quickly for private renters than for any other group. Affordability pressures have been most acute for renters in Dublin and the Mid-East of the country. Around two fifths of households in the private rental sector face housing cost-to-income levels in excess of 30%, the standard threshold for affordability (ibid.). Moreover, since rents have continued to increase since 2016, affordability has likely deteriorated since then.

For first-time buyers, the best indicator of affordability is average prices to average incomes. This is because the price-to-income ratio is independent of the length and cost of the mortgage. Policy effectiveness can be flattered using monthly housing cost indicators if households borrow over a long period of time or if borrowing costs happen to be low, neither of which are directly under the control of the government. It could therefore be the case that a country has very expensive housing but monthly repayments relative to monthly income are not so high because households are repaying the loan over many decades and/or the central bank happened to lower interest rates. There is no up-to-date cross-country comparison of house affordability using this metric, so it is difficult to confirm whether housing affordability is indeed around the EU average as suggested above. Within Ireland, house prices are over five times the average wage. In the early 90s, the ratio was around four, pointing to a significant deterioration in affordability for aspiring homeowners (Sweeney, 2021). This deterioration in affordability, moreover, became more pronounced in Dublin (Turnbull, 2021).

The picture of deteriorating affordability in the capital is borne out when one compares house price developments in the major cities of Ireland. Figure 1 below looks at the ratio of the average price of a new home in the five major cities as a percentage of the nationwide average price of a new home. We see that up until the 90s there was relatively little difference in the price of a new home when the major cities are compared, to each other and to country-wide prices. Then, in the 90s, house prices in the capital began to diverge from the rest of the country, whereas this trend was not observed outside the capital, aside from Waterford which fell further behind. At the peak of the bubble, the price of a new home was 33% higher in Dublin.[1] The onset of the crisis returned prices in the capital to the prices throughout the country, but since the recovery the capital has again become much more expensive.

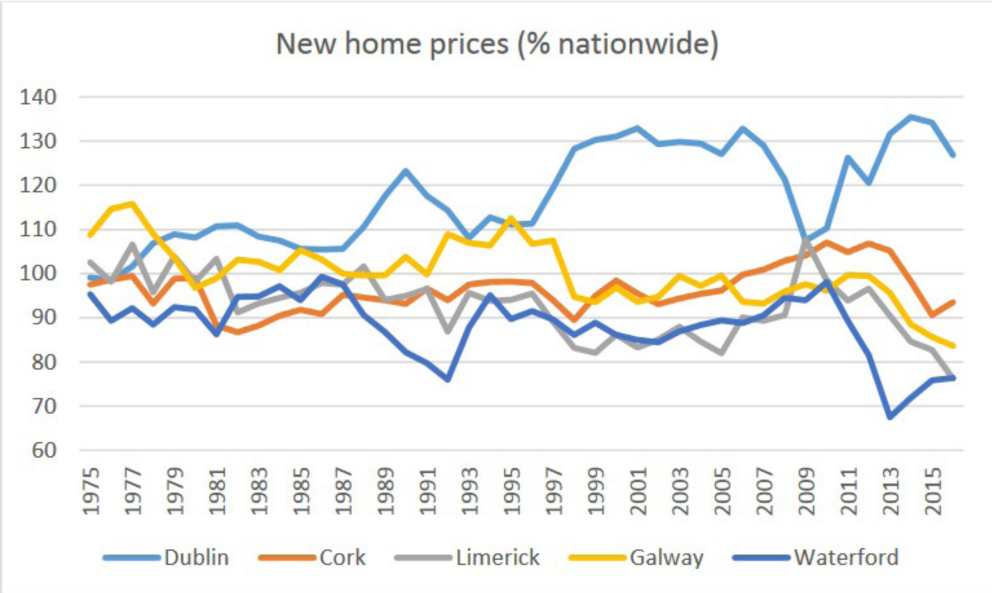

Figure 1: New home prices in Ireland's cities.

Source: Housing agency.

Note: The trend for used homes is largely the same as for new homes.

1 This is relative to the nationwide average and so incorporates Dublin prices. If the price of a new home in Dublin was compared to the rest of the country – the nation excluding Dublin – the difference would be even more pronounced.

The spatial structure of Ireland's property market – higher prices and lower affordability in the capital – suggest that land use and land markets have played an important role in Ireland's housing problems. The explosion of mortgage lending in the 90s and beyond constituted an effective increase in the demand for housing. Relaxed credit standards enabled more households to buy and enabled some to buy multiple homes. That this increase in demand led to higher prices in the capital, a price structure which persists today, indicates the difficulty with which Dublin has had in expanding supply in response to housing needs. As discussed, during the bubble years there was not only an oversupply but that oversupply was located outside urban areas where demand was limited. Indeed, the spatial disconnect between the supply of and demand for housing was evidence of a bubble. Building was aimed at selling for capital gain rather than fulfilling need, so that supply could be directed to those places where it was simply most convenient to build, not where it was needed.

As to why that challenge persists today in the absence of a bubble, supply is more challenging in urban areas for a number of reasons. This includes the greater complexity of brownfield over greenfield development, such as the need for site decontamination and construction density, and the surrounding of willing and able residents to object (see Norris, 2016: 206-220). Particularly relevant for this report is that the supply of developable land is scarcer and hence more expensive in urban areas and where, moreover, land ownership may be dispersed, including ownership by speculative players.

The land question and this report

Land reform has loomed large in the political and economic history of Ireland. Aside from the recent speculative bubble, land reform has been a staple of Irish policy from at least the 19th century. Back then, it was the agitation of tenant farmers that led to a series of reforms that continued into the 20th century, enabling farmers to purchase and own the land upon which they farmed. In addition to being an attempt to redistribute and modernise Irish agriculture, they extended and laid the basis for the state's ability to compulsorily purchase land (Norris, 2016).

Concerns about achievement of scale in agriculture gradually gave way to concerns about the price of land, and the existence of speculative pressures. That context of rapidly rising land prices gave rise to the well-known Kenny Report of 1973. A key recommendation was to create designated areas near the urban fringe where land could be subject to compulsory purchase orders (CPOs) by the state at agricultural values plus 25%. In so doing, the state would not have to pay the higher value it would normally have to if that land had been zoned for residential purposes. There would not only be significant savings to the state, but the removal of potential windfall gains arising from rezoning would also curb speculative pressures.

This report is informed by those insights and concerns. It asks to what extent are problems in Ireland's land market a cause of Ireland's recent housing woes. A key question is whether land speculation or other dysfunctions in the land market have been pushing up the price of housing in recent years, particularly since house prices began to recover around 2012. If the problem is not the land market, what is holding back the supply of public and private housing? A second question is if speculation is indeed a problem, what can be done about it? Are the reforms outlined in the Kenny Report, for instance, still relevant today?

As the land market is notoriously opaque, this question is difficult to answer using available data. To address the research questions, this report conducted a series of in-depth interviews with stakeholders in the land market. Over the course of 2021 and some follow on in 2022, we conducted 22 in-depth interviews with stakeholders in the private market. These were predominantly individuals who were working in or had worked in the construction sector, with land development being a key skillset. It also included some policymakers, most of whom had worked in the sector previously. In 2022, a further 18 interviews were conducted, mostly with policymakers. The majority of them were working for local authorities either as senior/directors of planners or as senior/directors of housing in urban and surrounding areas. A total of 40 interviews were conducted for this report.

The report finds that land speculation has been a contributory factor to Ireland's housing problems in recent years. The residential land market was very speculative post-NAMA disposals. This pushed up the price of land and, in particular, lengthened the construction the supply chain. Since then, the land market is less speculative and the nature of speculation has shifted somewhat. Land today is much more likely to be in the hands of those who desire to build. Moreover, local authorities do have difficulty in accessing sites in urban areas, either as a result of speculation, dispersed ownership, and landowners' unrealistic valuations of a site's worth. This acts as an impediment to building public housing.

This being said, the major problem for private construction is that much development is on the margins of financial viability. Apartment development in particular suffers from this problem. The financial crisis led to a collapse in house prices, but without a commensurate fall in costs. This is magnified by uncertainties in the planning system. For public housing delivery, the problem was the cutback in capital investment which led to a reliance on current spending supports. The slow, bureaucratic process through which public housing gets build is another problem.

In terms of what can be done, we contend that the state should take a more active role in the management of land and also expand its toolset. This includes legislating for CPOs at below market costs, such as use value plus a reasonable rate of return. This is likely to result in some savings for the state, but because most development now needs to take place within the urban boundary, it is unlikely to result in the level of savings as envisaged in the Kenny Report. Another reform would be to legislate for the use of compulsory selling orders, whereby the state can compel landowners to sell, in which the state is one among several bidders. This is potentially less cumbersome than CPOs. While some Approved Housing Bodies should be given the power to increase their holdings of land, similarly larger local authorities should be enabled to acquire land banks, the Land Development Agency is the most appropriate vehicle for land management.

Before substantiating our findings with regard to the land market, we first examine housing delivery in Ireland. The next four sections look at the background to private and public housing in Ireland, and also stakeholders' views on the issues facing housing delivery in those two markets. The next four sections look at the land and more in detail, including a policy section. First, though, we take a look at planning in Ireland.

3 The Irish planning system: past, present, and in comparative perspective

3 The Irish planning system: past, present, and in comparative perspective

This section examines contemporary developments in land use regulation and situates the Irish planning system among other high-income European countries. The move toward a system of hierarchical plans brought Ireland closer to the continent, but there is still a high level of administrative discretion. Moreover, the legacy of over-zoning, sprawled, and scattered development persists today, and though the most recent plan provides for greater density, it also allows for a relaxation of building standards. This has important implications for the land market.

Irish planning: the recent past and today

The Irish planning system follows a hierarchical structure of plans (OPR, 2021). At the highest level, are national plans such as the National Spatial Strategy (NSS). Published in 2002, it provided the overarching planning framework between 2002 and 2020. Its successor, the National Planning Framework (NPF), was published in 2018 and provides for national planning up to 2040. Regional plans facilitate national plans and under the NPF, Ireland currently has three regions; the Eastern and Midland Region, the Southern Region, and the Northern and Western Region. Then come city and county development plans, which are informed by national and regional plans. Development plans are crafted by local authorities and set out, in detail, land use objectives for a six-year period. Importantly, they include maps showing various zoning designations within the county or city over the period. This includes land zoned for residential purposes, land designated for neighbourhood centres, and many more (see, for example, DCC, 2021). Finally, the local area plan sets out in greater detail planning policies in an area where significant development and change is anticipated. A local area plan is required for any designated town or an area with a population in excess of 5000.

Aside from marginal modifications to existing buildings, development projects generally require planning permission to be granted by the relevant local authority. The proposed development must first be advertised, and a sign erected at the site, after which the application is made. Once an application is submitted, the local authority assesses it, checking its consistency with the guidelines outlined in the development or local plan. Planning decisions may be appealed to An Bord Pleanála by both developers and members of the public. An exception is where the government deems an area to be of strategic importance and designates it a Strategic Development Zone (SDZ). SDZs form part of the development plan and set out how a site should be developed (DHLGH, 2020). Appeals may be lodged to An Bord Pleanála at the draft or public consultation phase, but once an area has been designated an SDZ, appeals cannot be lodged once planning permission is granted. The legality of a planning process can, however, be challenged through a judicial review.

Another expedition of the planning process was introduced in 2016 where applications for planning permission for developments in excess of 100 residential units or 200 student accommodation units can be made directly to An Bord Pleanála. Such Strategic Housing Developments (SHDs) could contravene guidelines in development and local plans and decisions cannot be appealed (DHPLG, 2019). The large number of judicial reviews has led to them being phased out in 2022 and SHDs have now been replaced by Large-scale Residential Developments (LRDs). LRDs restores the two-stage planning process where the initial decision on the planning application is with the LA, and appeals can be made to An Bord Pleanála. Elements of the SHD system have been retained, such as a decision by the LA within 8 weeks of the application and 16 weeks by An Bord Pleanála. The definition of large development under the LRD system is largely the same as that used in SHDs (DHLGH, 2021).

With regard to social and public housing, planning permission takes place through the so-called Part 8 process. As with conventional planning, the proposed development must be advertised, and a sign erected at the site. This is followed by consultation which allows for potential objections and observations. A report by the CEO with recommendations is then presented to elected members of the LA. They then vote on the development, and may include amendments. The decision can be appealed to An Bord Pleanála.

As to overall strategy, the NSS constituted a modernisation of Ireland's system of regional development and attempted to achieve a better balance of social, economic, and environmental goals across areas. This included an intensification of brownfield development in Dublin. Though an improvement on previous planning initiatives, where regional development was subordinated to industrial development, the NSS has been criticised for facilitating scattered spatial development (Lennon et al., 2018). In particular, it promoted an unrealistic number of growth centres outside of Dublin and the cities of Cork, Limerick, Galway, and Waterford. Moreover, the implementation mechanisms were weak, and it was undermined by published guidelines on rural housing which facilitated housing development in exurban areas. Much of the building in Ireland from the 1990s and into the 2000s was scattered development including detached, one-off housing in the countryside (Gkartzios and Scott, 2009).

The NPF has addressed some of the flaws in the NSS and policy mistakes of the previous era. There is a recognition that housing development had been scattered, often speculative, and did not respond to actual demand. Crucially, it recognises that local authorities had over-zoned land in response to local pressures. As it lays out, "by the end of the 2000s… there was enough land zoned for a population of 10 million people in Ireland, but not located where required. We cannot continue with such a lack of focus" (DHLGH, 2018: 21).[2] The NPF further highlights that area or local plans may include zoned land for development, but which does not have the necessary infrastructure for development to proceed. If the land cannot be 'serviced' within the lifespan of the local plan, then it should not be zoned (DHLGH, 2018: Objective 72c). The NPF therefore facilitates land being de-zoned. It also calls on planning and local authorities to furnish the necessary infrastructure for zoned land to be developable, including the use of compulsory purchase powers (DHLGH, 2018: Objectives 73b-c).

Another component of the NPF is that existing land is to be used more intensively. It includes a target of 40% of all new housing to be developed in existing built-up areas of cities and towns. The remainder is to be on the edge of settlements and in rural areas. There is also a greater focus on the four cities outside of Dublin compared to the NSS, probably to an unrealistic extent (Hughes, 2018). These changes will require "a significant and sustained increase in urban housing output and apartment-type developments" (DHLGH, 2018: 93). The move toward higher density and greater urban living is not, however, underpinned by higher apartment standards to incentivise more apartment living. As discussed by Lennon et al. (2018) the NPF moves away from 'universal' housing standards. Though the details are vague, the NPF allows for a greater deal of discretion as standards are to be "flexibly applied in response to well-designed development proposals" (DHLGH, 2018: 67).

2 See Taisce (2012) for a discussion of over-zoning.

Irish planning in comparative terms

In comparative terms, Ireland's approach to planning has been characterised as belonging to the 'land use management' tradition (EU Commission, 1997). Like the UK, regulation has been concerned with ensuring that development and growth are sustainable, and local authorities have undertaken much, if not most of the planning work. Plans do not precisely determine what gets built and there is a high degree of administrative discretion once planning applications are made. The major distinction between Ireland and the UK is that the UK does not have a zoning system and any citizen in Ireland can appeal planning permission granted by an LA. Nevertheless, the Barker review into housing supply in the UK characterised the Irish planning system as "more permissive" than the British system in the 2000s (Barker, 2006: 27). Indeed, the Irish agricultural land market is perhaps the least regulated in Europe (Swinnen et al., 2016), and Ireland has pursued a more sprawling, scattered development than other the EU countries (Ahrens and Lyons, 2019).

The UK and Irish approaches can be distinguished from the 'regional approach' of France and Portugal where there is a strong emphasis on the reduction of regional disparities. It is also distinct from 'urbanism', characteristic of the Mediterranean, which attaches importance to urban design. Ireland is, however, moving closer to the 'comprehensive integrated' approach of Denmark, the Netherlands, Germany, and Austria. A characteristic of these systems is the hierarchy of plans from the national to the local level (ibid). In such systems, there is less administrative discretion as zoning plans determine what does, and does not get built to a much greater extent than in Ireland and the UK. The Netherlands has a strong tradition in detailed masterplans where, as in Germany, planning decisions are frontloaded into the initial plan. Zoning decisions therefore have a larger effect in comprehensive integrated systems, whereas in the land use management systems, it is not until the planning application is decided, that land values become fully crystallised (Crook, 2018).

One feature that continues to pull Ireland closer to the UK is the role of the private sector in the development supply chain. Large builders in the UK and in Ireland are involved not only in the construction phase but also in the acquisition, assembly and servicing of land. In the Netherlands and Germany, municipal and local authorities are key players in the supply of land for house-building. Though the system has evolved and now has more private land development, historically, municipalities supplied, sold or leased land to private developers which was ready for development – land that has planning permission and the necessary infrastructure. Germany also has a significant not-for-profit building sector (NESC, 2018a). Land prices are less subject to market forces and, as a result, forecasts and speculation about future land prices feature less prominently in housing output decisions (Golland and Boelhouwer, 2002). The widespread use of land leasing in urban areas enables local authorities to influence the type of development that takes place, and counters land speculation (NESC, 2018a: 12).

Discussion

Ireland's approach to planning is therefore a mixture of the UK approach, where planning is high level and authorities have high levels of discretion, and the hierarchical approach of continental Europe with a laissez-faire twist. The discretionary nature of the planning system in Ireland upholds local democracy but creates uncertainty. Despite its shortcomings, the move toward compact living under the NPF is desirable from an environmental and quality of life standpoint. While the NSS also attempted to address the problem of sprawl, implementation was clearly weak as too much land was zoned. Given that the NPF provides for de-zoning, implementation is likely to be much stronger than its predecessor.

Later sections tease out how uncertainty in the planning system has implications for housing supply, while the de-zoning of land has been consequential for land trading and speculation. We first provide an overview of Ireland's for-profit housing market.

4 Private housing system

4 Private housing system

A variety of views exist on what the causes of Ireland's housing problems are, and specifically, the difficulties the construction sector has had in generating the supply of housing necessary to meet demand. This section discusses some of literature on the post-financial crisis affordability and supply problems as it relates to the for-profit system of housing delivery. It should be borne in mind that few analysts identify a single cause, and that many of the issues discussed are not mutually exclusive.

Trends in housing output

The supply of housing in Ireland has been subject to large peaks and troughs over the last three decades. A stable pipeline of market and non-market housing sufficient to satisfy the needs of the Irish population has, unfortunately, not been the norm. As discussed, and as can be seen in the figure below, housing expanded rapidly in the 2000s, most of which was private housing. The bursting of the bubble led to a dramatic scale back in construction. Since the rebound in the economy, housing output has been slow to recover to its historic levels.

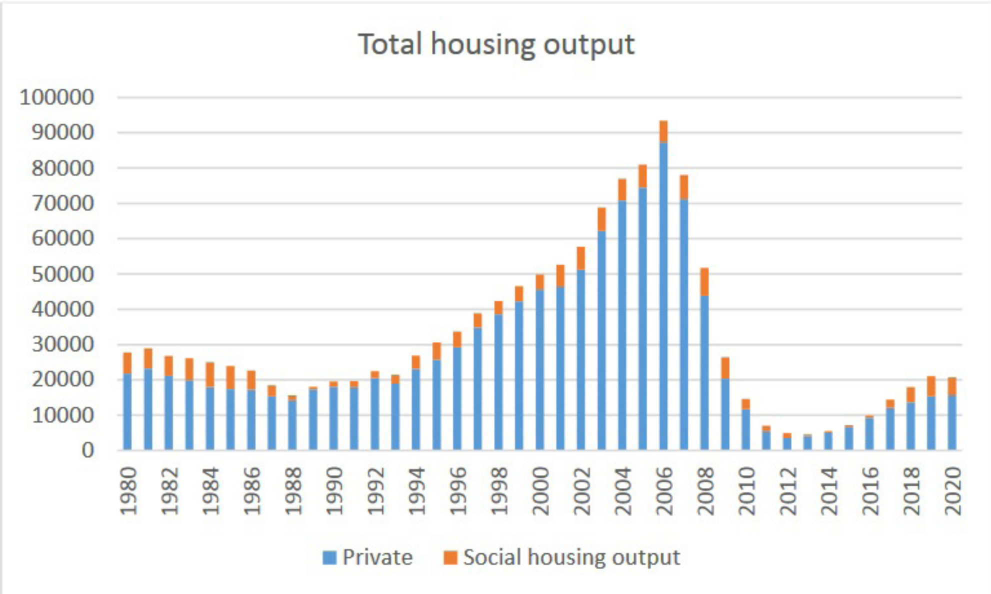

Figure 2: Housing output in Ireland.

Sources: CSO (ESB connection and New Dwelling Series). Social housing output based on Housing Agency and DHLGH.

Private housing output has constituted on average three quarters of total output since 2018, a period when housing output began to recover and approach non-bubble historical levels of output. This compares to an average of 86% between both 1980 to 2017 and 1980 to 1994, after which construction output spiraled to its unprecedented levels during the bubble years. As such, not only has the overall supply of housing been low relative to need, the share of private housing is also low by historical standards. It is clear, especially given the escalating costs of accommodation in recent years, that the system of private housing has been unable to meet Ireland's housing needs.

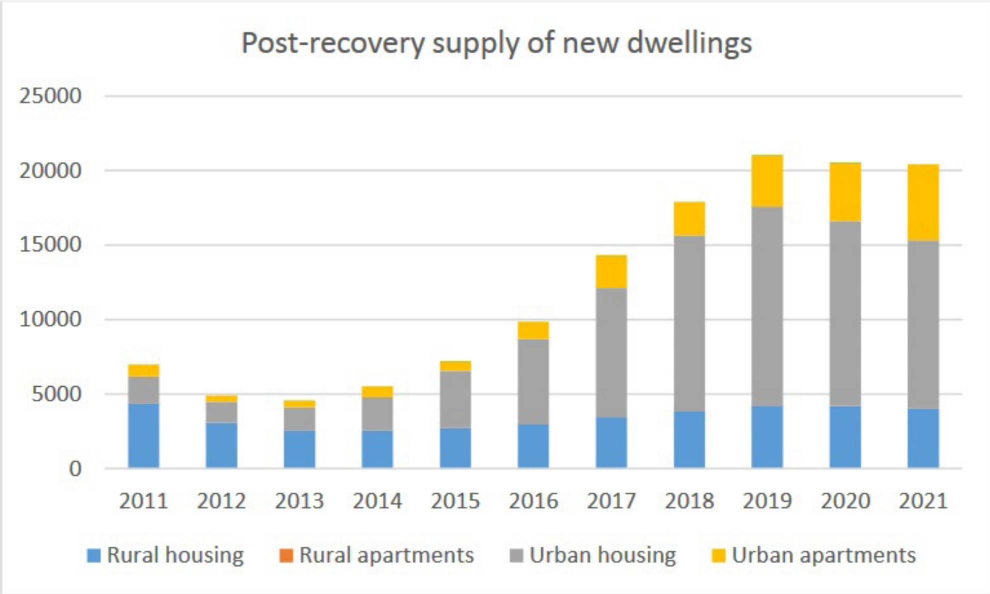

Figure 3: Post-recovery supply of new dwellings

Source: CSO.

The type of accommodation that Ireland has been building has also been changing. Ireland has been moving toward more compact living, with a greater reliance on apartments to house its population, overwhelmingly in urban areas. The share of apartments in total new builds has been steadily rising since the recovery – from 12% in 2011 to 25% in 2021. Similarly, among housing developments, the share of single housing builds versus housing schemes has also fallen – 88% in 2011 to 69% in 2021 (CSO, 2022). As will be discussed, apartment and urban development is more complicated than Ireland's traditional rural housing development model. Aside from this, several other reasons have been put forward to explain Ireland's misfiring housing market.

Too much finance

Several researchers see the financialisation of Ireland's housing system as a root cause of the affordability problems today (Hearne, 2017; 2020; Byrne 2016a; 2016b; O'Callaghan and McGuirk, 2020). In one rendering, the post-crisis disposals of assets and loans by NAMA is part of the broader process in which financial actors and process have been able to exert undue influence on the Irish housing market, much to its detriment. Hearne and Byrne take particular issue with the NAMA sales. Much of the loan sales, which include completed developments but also land, were purchased by large private equity funds, individuals, and other entities. Private equity funds require high returns so that purchased assets are sold quickly at a higher price. Hearne points out that just 5% of the land bought from NAMA had been developed by 2016, and Byrne argues that speculative purchases by private equity funds contributed to increasing land prices (Hearne, 2020: 131-147; Byrne, 2016b: 10). Lyons (2017) is also critical that land sales by NAMA did not oblige the purchaser to develop the land. Land speculation post-NAMA will be developed in a later section.

A related strand of the research sees institutional investment in the Irish property market through the lens of financialisation (Hearne, 2020; O'Callaghan and McGuirk, 2020). In this view, affordability is exacerbated by institutional investors purchasing large apartment blocks. By snapping up blocks of apartments, deep-pocketed investors can displace ordinary and first time buyers and raise rents higher than what would otherwise have been the case. Institutional investors such as Real Estate Investment Trusts have been encouraged to enter the Irish market through a variety of tax incentives. Institutional Investment went from just six percent of purchases of Dublin rental properties in 2016 to 44% in 2019. They typically purchase the final block of apartments once built, and less commonly finance the developer to build and then purchase the block. Despite contributing to increased supply, many believe institutional investment raises costs overall. Institutional investment forces renters to rent at the premium end of the market and so, despite contributing to greater supply, rents are actually dragged upwards (Hearne, 2020: 131-167).

Economic viability of construction

The Irish housing bubble of the 2000s was perhaps the largest housing bubble among many bubbles at the time, which makes it one of the largest in economic history (Lyons, 2022). The crash in property prices was not accompanied by a commensurate fall in construction costs, which tend to be slower to change. This, it is argued, made housing development financially unviable, especially in the early years of the recovery (Lyons, 2016).

Aside from the general market correction, a number of other developments have contributed negatively to construction viability. As part of the global effort to tackle climate change, the EU has implemented a series of directives to make buildings more energy efficient, including in Ireland. As one of these directives was implemented in 2012, this may have added to the cost of housing, and was not merely a pre-existing regulatory cost (Stanley et al., 2016). Other regulations said to be onerous for developers included the requirement that each apartment have a car park space, Ireland's high minimum unit size, limits on building height, and inefficiencies in the planning system (Lyons, 2014; 2017).

Aside from regulation, changes in taxation have also worsened the financial viability of development. Specifically, Section 23 reliefs were in operation between 1998 and 2008, which allowed developers to reduce their tax bill through expenditure on purchases, construction, and refurbishment of property (Lyons, 2014: 143-144; Lyons and Gunnewig-Monert, 2021). The removal of said reliefs therefore added to construction costs, at a time when property prices had collapsed.

It should be noted that policy changes in 2015 and 2018 deregulated apartment standards. The minimum floor space for new apartments was lowered and there has also been a relaxation on car parking space, lower dual aspect ratios[3], and more (DHPLG, 2015; 2018). Industry research, though, shows that Dublin apartments still have among the highest minimum floor space among major European cities (IIP, 2020).

Too little finance

Another problem has been the lack of construction finance available to developers. Surveys of the industry repeatedly show that difficulties in raising finance has been one of the major concerns of the construction sector in the pre-Covid period (CIF-RSM, 2017; PWC-SCSI, 2018). Almost two thirds of construction firms, especially SMEs, reported difficulty in accessing finance in 2017 (CIF-RSM, 2017). Banks have been much more reluctant to lend post financial crisis and much less willing to lend to purchase land without planning permission (Deloitte, 2017). Deloitte notes that banks are willing to

3 Dual aspect means that there are openable windows on two or more walls, in more than one direction. The dual aspect requirement for centrally-located schemes was reduced from 50% of units to 33% (see, for critique, Redmond and Yang).

provide only around 50% of the funds for site acquisition and 70% of the funds for construction. Pre-sales are sometimes necessary to secure finance, especially when the development is located outside of prime urban locations (ibid.). The limited access to finance and the high levels of equity needed has curtailed developers' ability to scale up their businesses.

A flavour of the scope of non-bank lending can be seen in the level of international versus domestic lending. The former, which is likely to be non-banks, were responsible for around 78% of development finance between 2017 and 2019 (IIP, 2021a). Among domestic investors, a significant share comes from the public sector. The withdrawal of the banking system can also be seen in the share and value of outstanding loans to the real estate sector (Lyons et al., 2019).

In the wake of the financial crisis, a number of financial reforms have also been introduced on the household side. In 2015, the central bank introduced limits on mortgage lending covering both owner-occupied and buy-to-let homes, with some small adjustments over the years. Currently, both first time buyers (FTBs) and subsequent buyers who are owner occupiers can borrow up to 3.5 times gross household income, in general. FTBs generally require a deposit of 10% of the value of the house, while second and subsequent buyers require a deposit of 20%. The buy-to-let market, purchases to subsequently rent out, is exempt from a loan-to-income (LTI) cap but requires a deposit of 30% of the property value, in general.[4]

As well as encouraging sprawl, as fewer households can afford to purchase near urban centres, stringent borrowing rules limit the amount that households can pay to purchase housing. This is said to exacerbate the financial viability of development as the prices that households can afford to pay are insufficient to entice developers to build, at least at the level required to meeting Ireland's housing needs (Lyons, 2016). Regarding apartments, Lyons (2021) argues that only one sixth of households in the Greater Dublin Area can afford rent in an apartment costing €400,000 to build, a typical build cost. Similar viability problems for apartment development have been identified in Cork whereas analysis by Cluid and IIP suggests that one-bedroom apartments are viable in Dublin (IHBA, 2020; Cluid-IIP, 2021).

Discussion

Private housing in Ireland has therefore not fully recovered since the crash and continues to build at rates insufficient to meet the country's need. Before assessing the merits of the viewpoints offered in the academic and policy analyses, we first look at the views of various professionals working within the construction sector.

4 Exceptions do apply. 20% of FTB mortgages can exceed the LTI cap of 3.5 and 5% of mortgages can have a deposit lower than 10%. For second and subsequent buyers 10% of mortgages can exceed the LTI cap of 3.5, while 20% of mortgages can have a deposit of less than 20%. 10% of buy-to-let mortgage can have a deposit of less than 10%. These exceptions apply on the value mortgages, not the number of mortgages.

5 Private housing delivery stakeholder views

5 Private housing delivery stakeholder views

This section surveys the views of construction and land professionals in understanding the impediments to for-profit housing supply in Ireland since the recovery. An important caveat is that we exclude land speculation, which is examined later. It confirms that access to finance and viability have been central in holding back supply.

Access to finance

Interviews with stakeholders within the construction sector echoed some but not all of the academic literature and existing policy reports. Regarding too much finance, there was little support for the view that institutional investor purchases of property were pushing up the prices of housing. Rather, the view was that the Irish construction sector had underwent a structural change, wherein the former tradesman-turned-developer was being replaced by a more professionalised and organised system. New financing arrangements were part and parcel of that process.

Banks are much less willing to provide finance for construction development and many developers and land agents cited an inability to access finance as a problem around 2015 and 2016. This was not so much due to any regulatory change but the legacy of the crisis. It was perceived by some financial actors that the withdrawal of banks from construction lending was appropriate given the riskiness of the lending. The interviews confirmed that banks are willing to lend only around 50% of the funds for site acquisition and 70% of the funds for construction, and pre-sales are sometimes necessary to secure funding. However, banks have less appetite to fund site acquisition and the debt usually comes from a debt fund, except for the largest developers. Banks are more likely to fund construction than site acquisition. For both site acquisition and construction, the remaining non-debt or equity portion comes mostly from private equity, and a smaller share of the equity comes from the developer (5-10%).This is different to the bubble years when banks were willing to lend around 90% all-in funding. That is, when considering the total costs of site acquisition and construction, the developer only had to come up with 10%. Rising land values after site acquisition provided banks with collateral to lend for the construction phase.Developers may prefer to have a number of small exposures and partnerships to accumulate funds as opposed to taking a larger equity stake in a single development. That banks, if they do lend, often require pre-sales, speaks to the importance of longer-term institutional investors such as pension funds to smoothen and de-risk development. Thus, institutional investment in the form of private equity and debt funds provide site and construction finance, while long-term institutional investor purchases of apartment blocks de-risks development and helps developers secure access to said finance. As one construction finance professional put it:

“banks are going to be very reluctant to fund if a developer comes in the door and says I want to build a block of apartments and I want to sell them to the private sector, we won't fund out because we know households cannot afford to buy apartments. However, if they say and they've come in, and we've got a forward sale to an institutional fund, the pension fund, or local authorities and stuff like that, we will fund out” (Interviewee, 19).

The situation is different for housing developments. Housing development does not have the same type of funding requirements as apartment development. This is because individual houses in a development of many can be sold before the entire development is completed. The money generated from these sales can then be used to fund the rest of the development. Moreover, there is a long tradition of house living in Ireland so young families are more willing to pay for long-term house living than apartment living. There is therefore less of a need for sourcing an end purchaser prior to accessing finance.

Viability

The most often cited problem was that it was unviable to build, especially apartments. Several policy areas were identified as problematic such as the previous but now relaxed restrictions on density, high energy standards in Irish accommodation, government levies, VAT, and other standards such as the now relaxed standards on car parking space.

However, the two most commonly cited impediments to construction viability were the central bank limits on lending for households and the planning system. The limits of household purchasing power encouraged the growth of the private rental apartments which, however, also suffer from their own viability problems.

Complaints about the planning system included the time it takes to get planning permission, the uncertainty surrounding planning decisions, and the sometimes spurious reasons upon which applications were refused - for instance on density grounds in commuter belt and non-urban locations. It was remarked by some respondents that the uplift in land value in getting planning permission in Ireland is 10-20%, which is significantly higher than the UK. A lack of infrastructure on sites was cited a number of times as reason for why existing planning permissions do get activated.

The diversity of answers given to the viability question suggests that there is no single policy area that can be pinpointed as holding back the supply. Rather, there is an endemic problem in that since the crisis, house and apartment building has failed to generate rates of return necessary to entice for-profit developers to build, given the risks inherent in development. The legacy of the crisis was picked up by one of the more astute interviewees:

“this is a worldwide phenomenon, when you get a recession, you get the market value of houses slipping below the viable level for recurrent rebuilding…there was a stock of housing available at a price below the viability level for new housing. And that is why the housing production stopped.” (Interviewee 1).

Viability problems are more keenly felt in apartment building over house building due to the greater complexity and costs of building apartments. This includes the need for lifts, underground parking, the need to reinforce taller buildings, and a lack of appetite for apartment living among the Irish population. Viability problems are evidenced, it was argued, from the geography of apartment building. Most are located on transport nodes but outside the city centres. On transport nodes ease of access to the city is comparable to central locations in terms of the price one can charge. At the same time, apartment regulations such as car parking are relaxed because they are on the Luas line. Building outside the city centre on the Luas line therefore represented a sweet spot for developers. Bulk purchases of apartments by institutional investors, it was agreed, alleviate the viability problem. Indeed, forward commitments to purchase – that is, purchases before building has started – have comprised 58% of bulk purchases of in Dublin since 2016 (McCartney, 2022).

Discussion

The inability of Ireland's construction sector to meet the country's housing needs through for-profit delivery raises a number of questions. If institutional investors are displacing first time buyers and other households, this would suggest that the role of institutional investors needs to be curtailed. Institutional investor purchases of housing, however, comprise a relatively small share of new housing purchases – just 3% in 2015 and 11% in 2021 (Hooke and MacDonald, 2022). Although, some investors may have gained monopoly power in certain areas (DoF, 2019), neither the timing of their arrival nor the trajectory of house prices sits well with implicating them as the main culprits in the affordability crisis. High price growth was already in full swing in 2015, when their share of purchases was small. It is not only apartment prices and rents that have been growing but house prices as well, where the institutional share of purchases is negligible.

That banks are much less willing to lend to developers and only lend to them under strict conditions points to the fact that institutional investment is now very much embedded in Ireland's system of construction finance. This is not only through block purchases of the finished product, but in directly financing development itself. That the scarcity of finance acted as impediment to supply early in the recovery shows that this funding cannot easily be removed without doing significant damage to the housing system.

With regard to construction viability, it is clearly in the interests of the sector to claim that higher rates of return are needed to entice the industry to build. Indeed, the Constructions Cost Index have been rising more slowly than house prices since 2012 so that by 2018 viability appeared to have reverted to its level in the 2000s, excluding costs associated with the removal of tax breaks (Sweeney, 2022). Once those unknown fiscal costs are accounted for, however, it is plausible that viability may not have fully returned, as so many respondents claim. It must then follow that central bank lending limits add to the viability problem as they limit households' purchasing power. This is not to say that there are not sound reasons for their continuation, of course.

We are skeptical that the planning system should shoulder as much blame as some respondents contend. There is currently a large and growing excess of planning permissions granted relative to units built. The volume of planning permissions is therefore not the culprit as many permissions are not acted upon (Breen and Reidy, 2021: 23-25). Nevertheless, complaints about the planning system, including the length and uncertainty of the process, were so consistent that they should not be dismissed. Improvement in planning and land management would therefore plausibly improve supply. We return to this in a later section, but next we look at delivery and supply of public housing.

6 Public and non-profit housing system

6 Public and non-profit housing system

Ireland operates a number of schemes to provide social and public housing. A variety of actors are involved, whose roles differ depending on the scheme. This section reviews some of the mechanisms through which social housing is delivered, outlining where relevant, some of the issues raised in the academic literature.

Current spending

Public expenditure on housing can be divided on the basis of whether it is capital expenditure or current expenditure. Unlike capital expenditure, current expenditure typically does not result in ownership of a unit, or improvement of an existing unit. In Ireland and, indeed, most advanced countries, current expenditure historically played a secondary role as countries preferred to build and invest in the housing stock. In recent years, current expenditure has played a much more prominent role in housing policy as cash supports to purchase housing in the market have grown in popularity.

The historical origins in an Irish context lie with the change in how social housing was financed. The move from funding social housing with long-term loans to capital grants in the 80s resulted in high and onerous upfront costs for LAs, and ultimately the state. It incentivised the growth of schemes such as Rent Supplement that enabled social tenants to purchase housing in the private rental market using cash transfers. In so doing, the immediate costs to the state are minimised (Norris, 2016: 233-240).

The criticism is that significant amounts of public monies are spent without the state owning an asset and without directly increasing the size of the housing stock. Benefit spending therefore does little to allay price pressures, a point made repeatedly in recent years. Such schemes have proliferated in recent years with the growth of Rent Assistance Scheme (RAS), the Social Housing Current Expenditure Programme (SHCEP), and the Housing Assistant Payment (HAP). The HAP is now the main scheme and was introduced in 2014 as an arrangement in which the tenant enters into a contract with the landlord, with the LA making the payment. Like RAS and SHCEP, the tenant's contribution is income related (see Norris and Hayden, 2018: 20-24).[5]

Despite the strong growth in housing benefits since the 90s, current spending still accounted for only 29% of total public spending on housing in 2005 (Malone, 2020: 2). However, this had risen to 69% of total spending by 2014 as capital spending contracted post crisis. In 2021, current spending comprised around 41% of total spending and, despite its falling share, has continued to grow in euro terms (Breen and Reidy, 2021: 3).[6] In 2019, HAP constituted some 36% of current spending, Rent Supplement, RAS, and SCHEP each contributing 13% of current spending. Spending on homeless accommodation and other schemes made up the remainder (Malone, 2020: 3).

Capital investment

Broadly speaking, investment which results in public or non-profit ownership of housing used for social housing purposes can be divided into new builds, acquisitions, and voids. New building, particularly new building on public land, is perceived by many to be the most desirable type of housing investment

5 Rent supplement is a flat payment.

6 There is a small inconsistency between Malone (2020) and Breen and Reidy (2021) in the respective shares of current and capital spending. Total spending is higher for Malone and in 2018, for instance, current spending was 41% of total compared to 37% for Breen and Reidy.

as it adds to the existing housing stock. It therefore results in an increase in the supply of housing. Acquisitions are perceived to be less desirable as they result from LAs and Approved Housing Bodies purchasing housing units that have already been built, and so add to housing demand. Voids bring into use vacant social housing in need of substantial refurbishment. Void investment neither adds to demand as acquisitions do, nor creates new supply in the same sense that new building does.[7]

Figure 4 below shows the pattern of social housing output between these three delivery mechanisms. As can be seen, new build social housing was the dominant delivery mechanism for most of the 2000s. There were almost 7000 new builds at the peak of construction in 2008. Social housing output plunged after 2009 and then remained at very low levels for six years. When output finally recovered from 2016 onwards, acquisitions and voids comprised a much larger share of output. The Housing For All strategy envisions a much a greater reliance on new builds over the next decade.

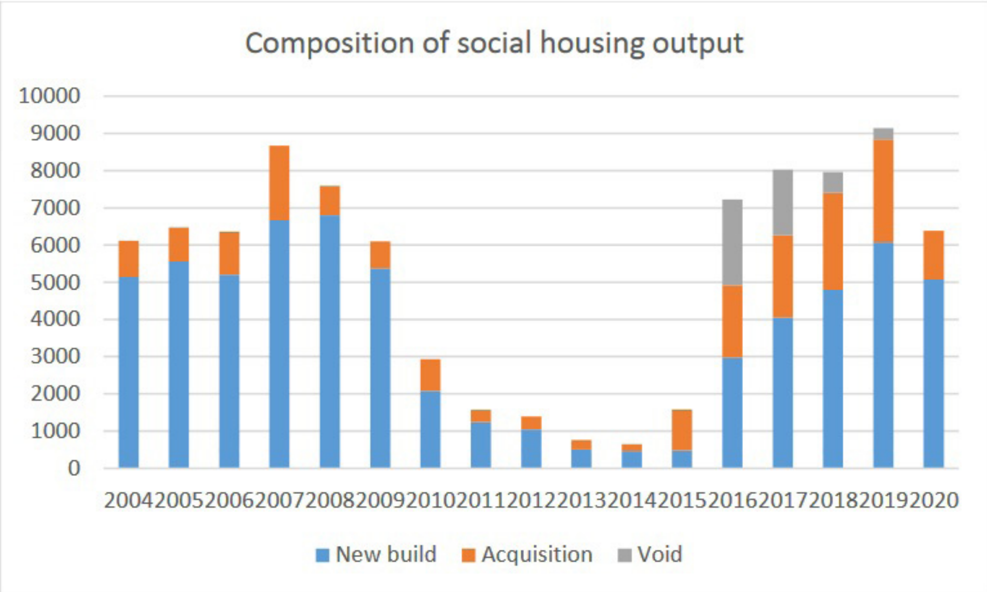

Figure 4: Composition of housing output.

Source: DHLGH.

Note: void data only available after 2015. AHB acquisition and new build data separated only after 2015 so build data before contains some acquisitions.

In choosing the type of delivery mechanism, LAs and AHBs have cost guidelines that need to be adhered to. It may therefore not make economic sense to focus on new builds from the perspective of, say, the LA which has social housing targets and immediate needs to address. From a society-wide perspective, however, new builds will dampen prices across the economy more than acquisitions. As well as speed of delivery and construction cost considerations, availability of land and, for AHBs, planning permission issues act as incentives to favour acquisitions (Farrell and O'Callaghan, 2019; O'Callaghan and Kilkenny, 2018).

7 There appears to be some controversy about how out of use and in need of refurbishment some of the vacant stock was, and whether this was truly an addition to the social housing stock (Oireachtas, 2017).

New builds

Just as there is several avenues through which social housing units are created, of which building new units is but one, so it is the case that there are several avenues through which the state can build new social housing. Here we discuss four broad headings: LA direct build, AHB direct build, Turnkey, and Part V. Direct building refers to the process whereby developers and builders are contracted by local authorities to build social and public housing on public land. This is the delivery method favoured by many housing activists as it is assumed to produce socially optimal outcomes at a low cost to the state. AHBs also directly build units on either private or local authority, where public land has in the past been acquired on favourable terms (Oireachtas, 2018).

Contracting developers to build on private land is known as turnkey development. Some Turnkeys are from the 'ground up', where the LA or AHB seeks an expression of interest from the developer, so the development would not have taken place were it not for the LA or AHB. Other turnkeys are 'opportunistic' where the developer will already be in the process of construction but agrees with, say, the LA to sell part of the development to the LA. The respective shares of 'ground up' and 'opportunistic' turnkeys are unknown, though the Department of Housing, Local Government and Heritage (henceforth the Department) state that ground up builds represent the majority (Farrell and O'Callaghan, 2020: 5). Concerns have been voiced that turnkey may contribute to price inflation, at least insofar as opportunistic builds are prevalent.

Part V developments were introduced as part of the Planning and Development Act of 2000. It legislated that as a condition for granting planning permission to private developers, up to 20% of the site or 20% of the completed units be sold to the local authority for the purposes of social and affordable housing. This was changed to 10% in 2015, but the 20% rule was reinstated in 2021. Units, or land, is sold at below market rates reflecting the 'use value' of land, the value of land assuming its current use does not change.[8] In the case of units sold, a profit margin is added based on if the LA had directly contracted the builder to build as opposed to having undertaken the full risk of development. Most of the units have been transferred to, and managed by AHBs. Part V developments have on occasion been criticised as being expensive, for allowing developers to provide sites away from development, and for reliance on the private market as opposed to public building for delivering housing (Hearne, 2021: 122-124).

Figure 5 below shows the composition of new builds in recent years. Since building has recovered, Turnkey builds have been the most common mode of construction, comprising some 46% of all new builds between 2016 and 2019. Among turnkey construction, around 60% have been built by AHBs with the remainder being LA builds (Farrell and O'Callaghan, 2020: iv). As units are bought from private developers based on private sector design and standards, development risk lies with the developer and the process is administratively light.

8 In the case of land in agricultural use, this is the value of land as if it will only ever be used for agricultural purposes (see Redmond et al., 2021; SCSI, 2021). In the case of unused industrial land, the concept of current use is less 'clear and an assessment will need to be made in the given case. For instance, if the land is clearly derelict, then the value of the land in its current use is likely to be low. If it is merely unoccupied but, say, it contains industrial buildings that are usable, then the use value of the land is likely to be considerably higher.

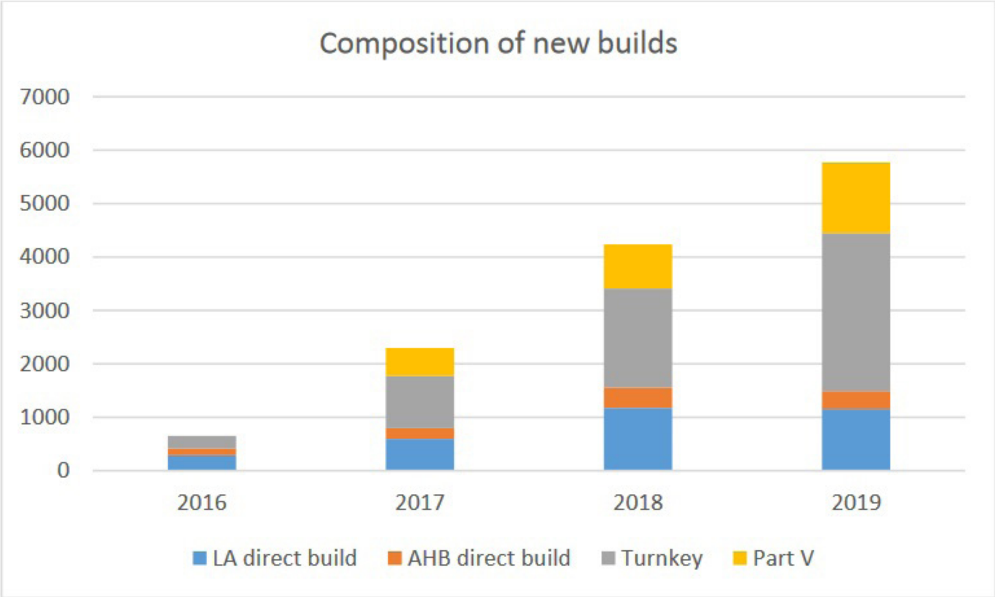

Figure 5: Composition of new builds.

Source: Farrell and O'Callaghan (2020).

Direct build comprised around a quarter of all new building in the period, though its importance appears has been in decline. As suggested above, its decline in popularity is partly a result of the slow delivery process and high upfront costs to the state as it is primarily financed by capital grants from the central government. LAs borrow from the HFA and other sources to purchase land, which is repaid from the capital grants from central government once land is developed. After the financial crisis, there was a sharp reduction in capital funding from central to local government, which combined with a sharp decline in property values, and hence land values. This resulted in local authorities experiencing difficulties in servicing the loans, and some of the loans were subsequently transferred to the Housing Agency (Norris and Hayden, 2018: 38-39). The advantage of direct build is that the LA authority has control over the design and standards (Farrell and O'Callaghan, 2020: 7).

AHB engagement in direct building has been limited to date but is expected to grow in the future. Most AHB new builds are financed through the CALF facility, which is a combination of LA capital grant and borrowing, most from the Housing Finance Agency (Breen and Reidy, 2021: 36). The upfront costs to local authorities are therefore comparatively low and this mode of delivery is expected to grow in the future. Aside from the obvious advantage of acquiring land at a discount, the advantage of Part V builds is that they provide mixed-tenure developments. Part V developments therefore avoid concentration of social housing in specific areas, and its attendant social problems (O'Callaghan and Kilkenny, 2018: 20).

Discussion

It is widely recognised that construction of new social housing units fell too much during the early years of the financial crisis. This was largely a consequence of the funding problems experienced by the state and the spike in borrowing costs. It is also a consequence of the longer-term reorientation in how social housing is financed. As discussed and also argued by, among others, Norris and Byrne (2018), because social housing in Ireland has been funded by capital grants since the 80s instead of long-term borrowing, the large, upfront costs to the state discouraged capital spending in favour of current spending.

The reliance on acquisitions in the first instance and, when building, on turnkey development on private land in the second, has also drawn public attention and criticism. Specifically, the reticence of local authorities to build on public land and to instead source land and housing from the private market has been similarly labelled a poor use of public funds. A number of spending reviews indicate, however, that this is not necessarily the case. Analysis from O'Callaghan and Kilkenny (2018) suggests that construction may sometimes be more cost effective than acquisitions, for some LAs this has not been the case. Similarly, while it appears that direct build has been more cost effective than turnkey build overall, for some local authorities, turnkey has been cheaper (Farrell and O'Callaghan, 2020). Industry group Institutional Investment Ireland contests the finding that direct build is cheaper (IIP, 2021). The following section explores more deeply stakeholder views of different public housing delivery mechanisms.

7 Public and non-profit housing delivery stakeholder views

7 Public and non-profit housing delivery stakeholder views

This section surveys stakeholder views on public housing delivery in Ireland. 17 in-depth interviews of policymakers were undertaken, mostly with directors of housing and planning in LAs. The interviews addressed what improvements can be made to improve the supply of social housing, particularly on the build side. It finds that access to land by LAs has been a factor in favouring construction methods which are potentially more costly, but land access is only one among several factors.

Acquisitions

Many local authorities felt that they had significant amounts of land upon which social housing could be built when the economy began to recover and when the social housing need was growing. To service that land with the necessary infrastructure would have required major investment, at a time when public funding was scarce. Along with current expenditure, acquisitions were a means to quickly satisfy social housing need given the limited capacity for building. The Department of Housing, Local Government and Heritage had immediate targets, and there was a loss of professional and technical knowledge, which discouraged building.

Acquisitions were also used when HAP or RAS tenants had been served eviction notices, as LAs have an obligation to rehouse. Although acquisitions sometimes enabled social housing to be directed in areas where LAs did not have land, the incentive to engage in acquisitions was generally not due to insufficient land, or was not seen as a land banking issue.

In terms of price and value effects, some interviewees pointed out that acquisitions made economic sense, especially in the aftermath of the financial crisis as the price of housing had collapsed, whereas construction costs had not fallen commensurately. So relative to building new units, acquisition was deemed economically sensible from the perspective of individual local authorities:

"there was a lot of houses still for sale, there was still a mess from the financial crisis… at the time we'll say the construction cost was 200-250,000 a unit. If anything but around the cities, the local authorities are buying for 170 or 180… you're buying a house, that would take you three years to build. And you were buying it for less than the price of the construction. How you can view that as a bad idea… I would say that that was very, very good idea" (Interviewee, 27).

Local authorities attempted to minimise the price impact, such as acquiring unwanted and vacant units. Nevertheless, there was recognition that acquisitions were overused with stalled construction activity during the lockdown also playing a factor. There was an acknowledgement that acquisitions ultimately contributed to price inflation.

Turnkeys and Part V builds

There were a number of incentives which led to LAs engaging in turnkey builds, some of which were similar to acquisitions. One is that there is pressure from the Department to meet social housing targets. Another is that the LA may not have access to land in areas of high social housing need. Finally, and most importantly, is the speed with which turnkey units can be built compared to direct building on public land. The developer will have permission and the LA authority does not have to assemble a design team and procure:

"There's no procurement for turnkey. You advertise for expressions of interest for turnkey properties. In general, the Department of Housing have a much smoother approval process for turnkey properties… So it'd be a no brainer. In general terms. If there was lots and lots of building going on in counties, you would just be taking turnkeys everywhere" (Interviewee, 29).

It was mostly rejected that turnkeys displace private development. On the contrary, when private developers have secured a LA as purchaser of part of the development, it adds to the viability of the project. It helps secure finance, or the sale of turnkey unit is itself a source of finance whereby proceeds can be used to complete the rest of the development. Turnkey development was seen as helping the construction sector stay afloat during difficult times. One interviewee did caution that when the LA purchases the whole development, that this can displace buyers and renters in the private market. Other disadvantages of turnkey was the lack of control the LA exerts over the design and standards, with some developers attempting to cut corners on the basis that only social tenants are the end users.

As Part V builds are an obligation on the developer, they grow organically with private development. The decision to favour it over other type of building does not arise. It was viewed as a progressive planning policy as the public housing is built at a level where the land is purchased at use value, not market value. One interviewee felt that Part V does not go far enough as it does not capture the uplift in land value due to infrastructure – it only captures uplift due to potential rezoning. The potential to acquire land instead of completed units under Part V development, such as for land banking purposes, was not viewed as favourable. This is because building on land acquired from a Part V deal would not yield the economies of scale that are present when the units are acquired as part of a larger development.

A major advantage of Part V is tenure mixing wherein social and non-social housing users mix. As with turnkey development, the existence of a guaranteed buyer can add to the viability of a project. Another similarity and disadvantage is that Part V results in much arguing and back and forth negotiation with the developer (see Redmond et al., 2021). The lack of standardisation was also seen as a problem.

Direct building on public land

A major advantage of direct building, or building on public land, was the degree of control that the LA could exert over the design. It was pointed out that two thirds of people on the social housing waiting list are one or two person households, but yet 85% of social output is three bedroom houses. Some tenants may have disabilities so that turnkey, for instance, would not be appropriate. Building from scratch enables a better match between the needs of tenants and the actual social and public housing units that are built.

As discussed already, build, including direct build, was not relied upon early into the crisis as funding had been cut. When social housing lists had grown, direct build is a much slower way to clear them. Among the different options for build, there are development challenges associated with direct build. Direct build is a four-stage process – pre-application and capital appraisal, pre-planning approval, pre-tender, and tender – though the Department has enabled it to be streamlined into a single-stage process (see DHLGH, 2022). If the LA does not own land, it has to go out and buy it, which pushes up the cost of direct build and they compete with private developers for land. Preliminary design is done by the LA, after which it may go out to procure a design team for detailed design. There will also be a public consultation and planning process and the LA also procures a builder to build. And there will be considerable back and forth between the LA and the department about the design and standards. One interviewee questioned the system whereby LAs do preliminary costing, which are then examined by the Department, after which the contract is then put out to tender:

"four stages, each with an A, B, and a C. [The Department] then say to you, you know, move that toilet six inches to the left etc. You then come up with an estimated cost which is above their cost ceilings, which bare no relationship to the actual cost of the market… you then go out to tender as you're required to do and the tender price comes back at your estimated cost plus 20%. So the previous process has been entirely pointless, because the tender price is the price" (Interviewee, 33).

As a result, a number of interviewees felt that direct build was a more expensive form of building. It was pointed out that in principal direct build should be cheaper than, say, turnkey if the LA owns the land. This is because there are monthly payments going from the LA to the builder, whereas with turnkey there is a single payment at the end once the units are completed. The funder of a turnkey project, such as a bank or investment fund, will then require a higher profit margin due to the development risk. Similarly, some LAs may be reluctant to use a single-stage process for direct build because if there are overruns, then the LA would be liable. Under the four stage process this was less of a problem.

Turnkey projects are also subject to development levies whereas direct build are not and turnkey development is subject to higher VAT than direct build. This pushes up prices for the LA, but the state receives money so in net terms higher taxation or levies should not push up costs for the state. Some interviewees felt that the costs associated with direct build could be addressed by having an audit system instead of a four stage process between the Department and the LA.

One LA had direct build as the primary delivery mechanism. Part of the reason was that it vested control over the unit design in the builder, rather than doing it within the local authority. Moreover, AHBs were unambiguously in favour of direct build, and felt it was cheaper over the longer term.

Discussion

The reliance on acquisitions and turnkey development has been driven by an array of factors. At the depth of the recession, acquisitions were often better value for money than building given the almost complete collapse in prices and the less than complete collapse in building costs. It was also unclear at the time that a housing supply crisis was pending, so acquisitions were not unreasonable. It is now recognised that acquisitions have been overused and that new supply needs to be generated.

Part V development will continue to be used as private units are built. Lack of access to suitably-located land and the cost of acquiring it are among the reasons why LAs have used turnkey development instead of direct build. The slowness of delivery and the bureaucratic process of direct build also pushes up the cost for LAs compared to turnkey, despite it being potentially more cost effective to build on public land. Direct build is likely to become more important in the future under Housing for All, which will require significant state ownership of land. The remainder of this report deals with land in more detail, including public sector involvement.

8 The Irish land market: blowing bubbles and trading places

8 The Irish land market: blowing bubbles and trading places

The preceding sections examined various forms of housing delivery in Ireland and also the planning system. We now turn to the land market, examining whether and to what extent land hoarding and speculation exists, and has contributed to Ireland's housing problems. This section examines available data to look at historic and recent trends. The Irish land market has been subject to a number of speculative episodes, and the post-crisis disposals were accompanied by a disruption of the development supply chain and land shortages. Though large construction firms trade land when required and opportunistically, there is limited evidence to support the view that they are major speculative players.

Bubbles in the agricultural land market

As with property and housing markets, the first port of call for those wishing to understand the land market is to look at the evolution of prices over time. This is not straightforward for a number of reasons. For one, there are many different land markets. For instance, there is un-zoned land used mostly for agricultural purposes, residentially zoned land, residentially zoned land with planning permission, and many more. Moreover, land markets are opaque and so consistent data on the land market does not exist. This is partly a result of the fact that each parcel of land is unique, so it difficult to construct a standardised price index. This makes the analysis of land prices, and hence land markets difficult.

The Institute of Professional Auctioneers and Valuers (IPAV) brings together a variety of sources to create a series on agricultural land prices. It is shown in Figure 6 below. The sources upon which it is based are themselves drawn from a variety of series, often based on different geographical regions (see, for discussion, Roche and McQuinn, 2001). This creates a consistency problem in analysing trends over time. For instance, much of the series up to the 80s is based on trends in Limerick. In the decade up to 2006 the series is based on the CSO, while the entry for 2006 was based on the Journal Agricultural Land Price Survey (JALPS), a 15-county survey. After 2006, JALPS continues to be used but is based on 26 counties. This leads to an implausibly large increase in prices between 2005 and 2006. To address this, we replaced the 2006 data point with 2005 times the average growth in prices in the preceding three years.[9] The series is then presented as an index with 1945 as the base year and is adjusted for inflation. Though regional trends should reflect the wider economy, caution is recommended in making national-level inferences.

9 Data for 2007 onwards is based on the percentage growth rate of the original series but using the modified data point of 2006. In other words, the entry for 2006 has been changed, but the growth rate between 2006 and 2007, 2007 and 2008, and so on is the same as in the original series.

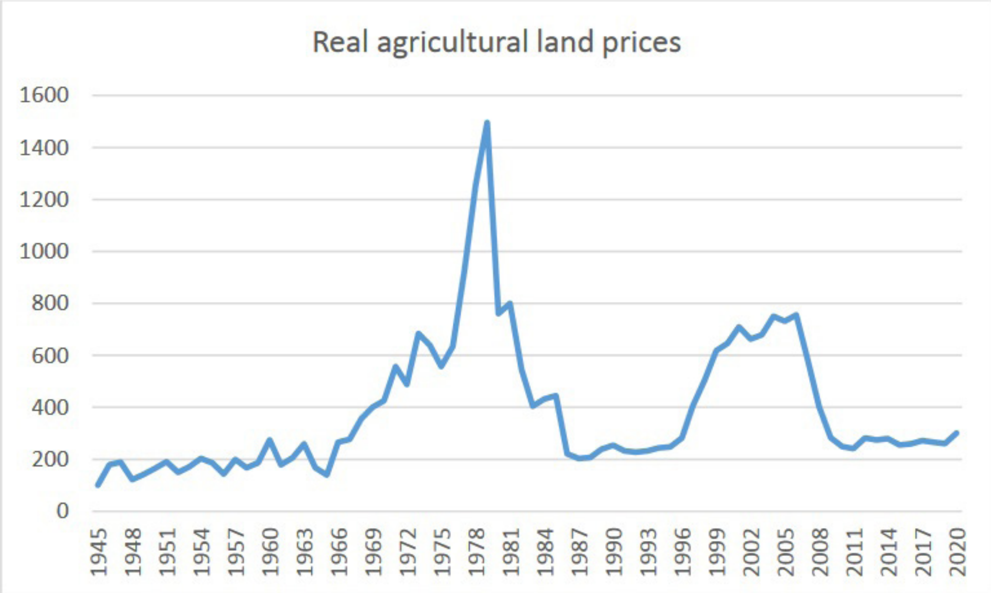

Figure 6: Inflation-adjusted agricultural land prices in Ireland.

Sources: Land price data based on IPAV, CPI data based on CSO and Macro-financial Lab, exchange rate data based on Eurostat.

Notes: Land prices from 2001 onwards were in euros and were converted to pounds based on the euro-pound exchange rate.

As can be seen, the two decades after 1945 witnessed a comparatively modest increase in land price of only 40%. Then beginning in 1965, land prices began a pronounced and sustained ascent. This peaked in 1979 when land had increased 15-fold since 1945. By the 1980s, prices had returned to the level they were at 40 years previously. Then, beginning in the mid-90s, prices began to take off again. As with house prices, the peak value for agricultural land prices was 2006. By 2011 the market had bottomed out and inflation-adjusted price changes have since been stable by historical standards.

The sharp increase in prices in the 60s and especially the 70s is what spurred the establishment of a Committee by the Minister for Local Government, which ultimately led to the Kenny Report on land (CPBL, 1973). The abnormal price developments in this period suggest either a rapid increase in agricultural income such that agricultural land became highly prized, a speculative bubble in the land market, or a combination of the two. As described by Roche and McQuinn (2001), the application and subsequent ascension of Ireland to the European Economic Community led to very large income gains from farming in Ireland. Large price increases for agricultural goods did generate significant agricultural investment, despite a global oil crisis in 1973 and a major decline in cattle prices in 1974. However, the growth in land prices far outstripped agricultural income (Nunan, 1987: 55). The growth in prices during this period is therefore mostly explained by speculation in the land market, but which seems to have been precipitated by income gains for farmers (Roche and McQuinn, 2001).

The growth in agricultural land prices between the 90s and 2000s appears less impressive alongside the speculative wave of the 70s. But land prices still increased three-fold in the space of a decade, after allowing for general inflation. This mirrors broader developments in the housing market. As we saw, house price growth in this period was both rapid and followed the increase in mortgage credit. That land prices grew rapidly should not come as a surprise as rising house prices, all else equal, increase the profits from developing land and, ultimately, the demand for that land. That this results in higher prices of agricultural land no doubt reflects the excess zoning of land in this period. For instance, Drudy (2006) describes how the Dublin residential land market was controlled by 25 or so major developers in the 2000s. Such actors and other landowners could exert influence on local authorities to re-zone agricultural land for residential purposes, wherein the price of land could increase a hundred-fold. With the potential for such windfall profits to be made, the price of agricultural land around urban and town fringes rises.[10]

The lack of increase in agricultural land prices in recent years despite the rebound in property prices may reflect the over-zoning of land in the 2000s. Even though house prices have once again increased rapidly, it is now much less likely that agricultural land will be zoned residential. There is a preference for building on and developing vacant sites within existing settlements (Mooney, 2020). Unlike in the 2000s, the value of agricultural land has not shared the uplift in property prices. Residentially zoned land will, though, have shared in that uplift, and has played an important role in our current housing impasse.

Zoned residential market since the crash

To understand how the land market has affected recent developments in the property market, one needs to move away from the agricultural land market and toward the zoned residential market. A good starting point is to look at the construction sector and NAMA. When the property bubble burst, the construction sector was decimated. The majority of developers, especially larger developers, were insolvent. The banks that had lent to them had little-to-no prospect of being repaid in full as loans were coming due. Most of the loans NAMA acquired were from Anglo Irish Bank and AIB, with Bank of Ireland, INBS and EBS making up the remainder (CAG, 2018). Ulster Bank, the other major lender into the property market in the 2000s, did not participate in the NAMA process.

Established in late 2009, NAMA acquired loans with an original par value of €74.2 billion for which it paid €31.8 billion (Baudino et al., 2020: 25). In terms of value of the collateral, land and development constituted 29.3%, about two thirds of which was land (Oireachtas, 2016: 318). 37% of the land acquired was in the Dublin area, while 27% was land in Ireland but outside the capital. Most of the remaining land originated from loans by developers into the London market. Because of over-zoning, much of the land that was purchased may have been designated as fit for residential development, but in reality may not have been, or may only have been with significant further investment (Taisce, 2012).

It is unclear what proportion of residential zoned land NAMA controls or controlled at its peak. As we elaborate later, two interviewees independently put the figure at approximately 70% for the Greater Dublin Area (GDA) at its peak. Architect Mel Reynolds estimates that in June 2018 NAMA and local authorities owned 17% of residential zoned land nationwide, of which NAMA owned 60%. He further estimates that NAMA and the four Dublin local authorities owned almost half of residential zoned land in the area, and three quarters for Dublin City Council (Reynolds, 2018). The other major holder of residential zoned land post-crisis appears to have been Ulster Bank, which reportedly held 17% of residential zoned housing land in Dublin in 2015 (Melia and Flanagan, 2015).

In terms of the disposals, the bulk of NAMA's Irish sales took place from 2013 onwards (CAG, 2018). 62% of the buyers were individuals or developers, and the remaining 38% were investment funds, such as

10 It would be interesting to observe developments in the residential land market in this period, but unfortunately no data is available in this period.

private equity (Oireachtas, 2017). Sites purchased by funds were typically acquired as part of a broader loan portfolio whereby the fund then becomes the creditor and owner of the collateral, which included land. As of mid-2017, NAMA had disposed of land with the capacity for 50,000 housing units, more than half of which was commercially viable to build on. 10,000 of the potential units had planning permission on them, but only 3,700 had been built on or were under construction as of July 2017 (ibid.).

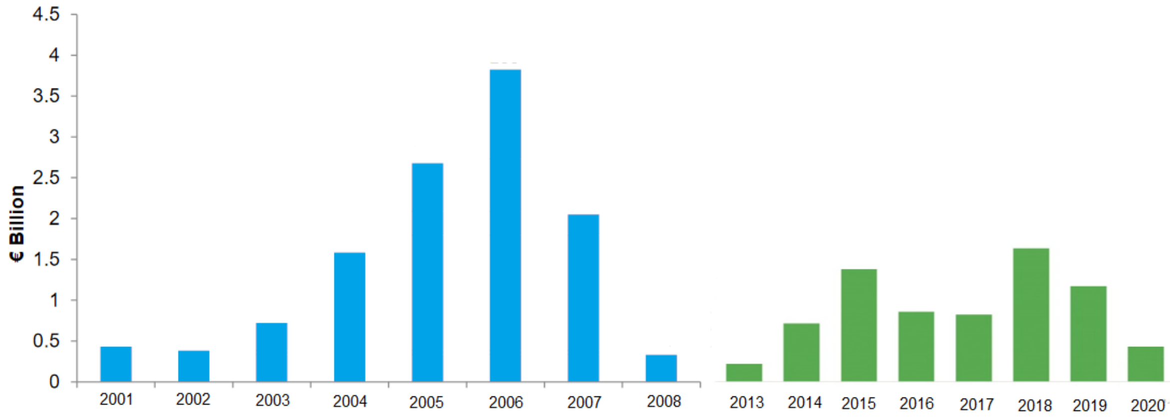

Figure 7. Transactions in the development land market.

Sources: Based on CBRE analysis. First series based on Hunt (2015), second series based on Richardson (2020). 2020 data based on RTE (2021).

Notes: Data points were not available. First series is in original form. Second series axis differed to first and was scaled to a fit first based on visual inspection. Similarly 2020 data taken from media report and inserted into second series.

A number of industry reports estimate the value of land transactions. Figure 7 above is based on estimates from the real estate group and consultancy CBRE. They are transactions in development land, or non-agricultural land. This is land that can be used for residential purposes, though also includes land that can be developed for non-residential and commercial purposes. Most development land transactions in Ireland, however, relate to residential development (Cushman and Wakefield, 2022).

As can be seen in the figure, the value of land transactions peaked in 2006 and thereafter the market appears to have been depressed for a number of years, though there is no data for the worst years of the crisis. The high value of transactions in the mid-2000s reflects a high volume of transactions and the over-valued property market, and hence land market in this period. The market was beginning to recover from 2013 on, and thereafter the NAMA disposals appear to reveal themselves. From the beginning of the crisis in 2008 to 2014/15, it took a long time for the market to recover. The process of land acquisition, building, and selling – the development supply chain – was stalled for several years. Recent years, 2018 and 2019, have also witnessed a high value of transactions. NAMA disposals for these years were more modest so the high value likely reflects a combination of high prices and perhaps the subsequent recycling of previous NAMA sales (NAMA, 2018: 2).

Market reports indicate that in 2017, demand for sites for the build-to-rent sector have been strong, especially in Dublin. For larger sites, the main purchasers are private equity firms, often in partnership with domestic developers. Smaller sites have been bought by domestic developers. The small domestic developers are more likely to buy infill sites, sites that located near town or urban centres (Lisney, 2017a). As we will discuss shortly, the corporate builders Cairns and Glenveagh have also been major purchasers of land (Lisney, 2017b). Land with planning permission commands the best prices as this reduces development and funding risks (BNP, 2021). However, speculative purchases on long-term land and land without planning have taken place and continue to take place today (Lisney, 2019; Cushman and Wakefield, 2020).

As to the importance of these trends, high land costs contributed to high construction costs in part due to a lack of supply of land with the necessary infrastructure (ibid; Hooke and MacDonald quoted in Reynolds, 2019). A survey by the Society of Chartered Surveyors of Ireland noted that 'the sale of land portfolios to single asset fund buyers has meant fewer transactions and opportunities for local developers to participate in the market' (SCSI, 2016a: 6). A 2018 report listed a lack of suitable sites as the main barrier holding back supply. As viability had reportedly returned, market access to land was listed as a more important supply constraint than construction costs, finance, and planning issues (Knight Frank, 2018). By 2019, it seemed that land prices had stabilised. By then, much land had transacted in the previous years so that developers were then focusing on getting planning permission and completing developments (Lisney, 2019).

This is borne out when one looks at land price inflation in the Dublin market in recent years. Following Doval-Tedin and Faubert (2020), Figure 8 constructs a series on residential land value inflation based on reports by the Society of Chartered Surveyors of Ireland and compares this to data of residential property price inflation from the CSO. Estimates of the share of land in total housing costs vary to as much as between 17-30% (Doval-Tedin and Faubert, 2020) to 7-17% (Kennedy and Myers, 2019) to 16% for houses and 8-14% for apartments due to higher density (Breen and Reidy, 2021). For all years between 2015 and 2019, land price growth outstripped residential property price growth. This is broadly consistent with the theoretical prediction that land values track property prices but are also more volatile (see Reynolds, 2022).

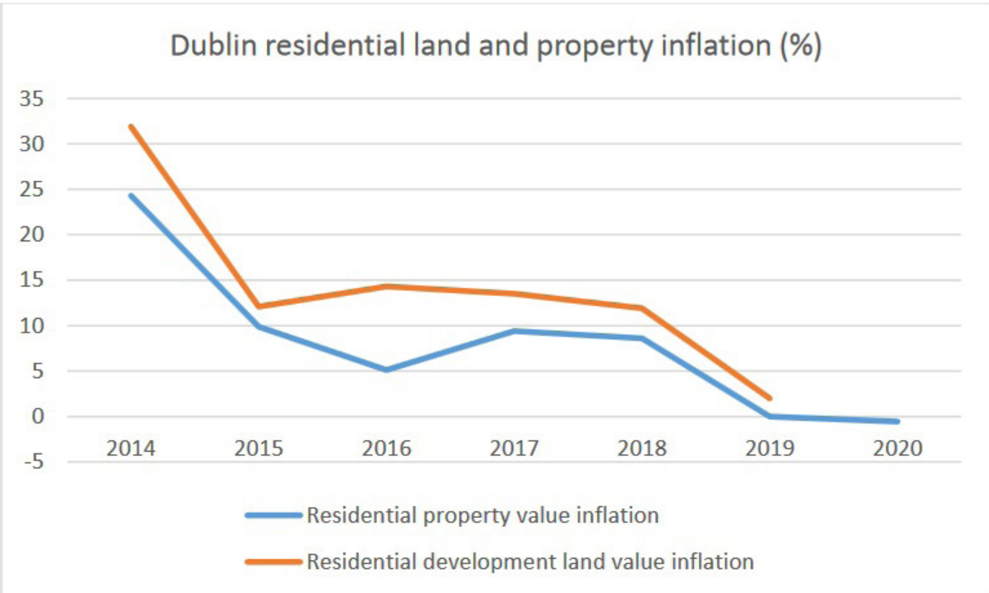

Figure 8: Land and housing inflation in Dublin.

Sources: CSO Residential Property Price Index and SCSI reports.

The difference in land and property price inflation is most pronounced in 2016, and is also marked in 2014. Generally, land prices increase or decrease when the profitability of developing the land increases or decreases. Land price inflation in 2016 could occur due to an increase in developers' profit margins, which makes land more attractive despite the comparatively modest increase in property prices in 2016. Evidence to support the claim of increasing profit margins, however, is not forthcoming as labour and construction costs remained relatively constant in this period (Doval-Tedin and Faubert, 2020). This suggests that land prices rose due to factors other than the profitability of development, such as a shortage of land. This is despite the fact that a considerable amount of land was transacted in this period as NAMA upped its disposals. It suggests concentration in the land market and that at least some of the purchasers of land were not bringing it forward for development.

Construction firms and the land market

As with the land market in general, data and evidence on construction firms' activities in land is incomplete and patchy. The one official source is a CSO survey on business and construction firm activities which, in its Eurostat form, contains information on land investment by construction companies. As with Figure 7, it suggests that firms acquired much land during the bubble, after which the land market froze. From 2014 onwards, there is some small signs of recovery but less than what is implied by Figure 7 (Sweeney, 2022). Being a voluntary survey, there is no obligation to respond and the largest firms in particular do not fill out that section.[11]

We therefore turn to the financial statements of Ireland's publicly listed companies, Cairns and Glenveagh. Both companies were established as the property market began to recover with investment from US-based investment funds. Both focus on starter homes in GDA. In 2019, together they built over 2000 units, which constitutes around ten percent of nationwide houses. Both focused on the Dublin region, they account for a significantly larger share of housing output in GDA.

Founded in 2015, Cairns focuses on house building in Dublin and its commuter belt. For its first couple of years it focused on land acquisition, 91% of which was located in GDA. It boasts the largest land bank in Ireland and it controls significantly more land in GDA than its share of building. It acquired three quarters of the land under the Ulster Bank sale Project Clear in what was 'the most significant residential land bank to ever come to the Irish market' (Cairns, 2015: 17). Project Clear reportedly constituted 17% of the residential zoned land in GDA. Cairns acquired three quarters of this, and the private equity fund Lone Star received one quarter (Barker, 2015). That would translate into 13% of the land in GDA from that acquisition alone. Cairns foreclosed on the collateral backing the loans from Project Clear, the land, in 2016, a full eight years after the crash. It grew its land portfolio by a further 41% between 2016 and 2017.[12]

With a landbank for 15,400 units in 2019, it clearly has enough land to meet many years of supply at its current output (Cairns, 2019: 17). It aims to reduce this to 9500 units by 2022 with a long-term goal of a land bank for 4-6 years of supply (ibid.: 6). Around two thirds of its land bank has planning and most of the remainder is zoned residential (Cairns, 2017: 25). Despite its opportune acquisition of land in its initial years, it has listed high land costs as an impediment to increasing supply (Cairns, 2018: 25; Cairns, 2019: 19). The speed with which it develops out its land 'takes account of sales absorption rates across each site' (Cairns, 2019: 38), meaning the company does not wish to build faster than its customer base will buy. The pace of construction can also be reduced to manage any 'unforeseen stretch in liquidity' (Cairns, 2019: 38).

Glenveagh went public two years after Cairns in 2017. Most of its land was acquired within the first two

11 Based on correspondence with a CSO official.

12 Land held for development was €559m in 2016 and €789m in 2017 as per the company's financial statements (Cairns, 2016; 2017).

years of its floatation and, with capacity for 12,000 units. Its land bank is comparable but somewhat smaller than Cairns (Glenveagh, 2018: 4), 91% of which is in GDA (Glenveagh, 2020: 8). Despite coming to the market somewhat later, its inaugural financial statement notes 'Buying land remains attractive today, but that has the capacity to change as the residential cycle turns' (Glenveagh, 2017: 8). Subsequent statements describe how competition for land is most prevalent in urban areas with apartments catering to the private rental sector. Competitive pressures are less acute in suburban areas with a mixture of housing and apartments (Glenveagh, 2020: 34).

The vast majority (98%) of its land is zoned residential and a third of it has planning permission, though it has also committed to buying unzoned land in the event that it becomes zoned (Glenveagh, 2018: 153). Most of its land has been financed through its cash balances. On the basis of its current output, its land bank exceeds a decade of supply. Once fully scaled, its target output is 2000 homes per year and it aims for a land bank of five years (Glenveagh, 2020: 8). The main reason for holding such a land bank is to 'avoid long-term exposure' in a volatile property market (Glenveagh, 2020: 44). It manages its land portfolio to ensure a balance between its build-to-rent and private rental sector (Glenveagh, 2018: 5). It looks to sell 'non-core' smaller land when opportunities to realise value arise (Glenveagh, 2018: 6).

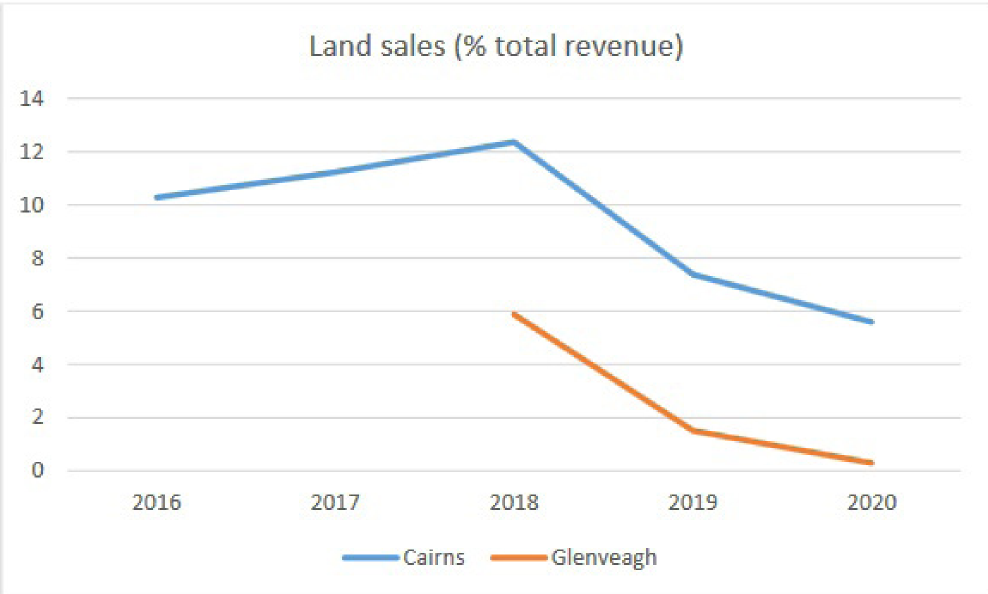

Figure 9: Land sales among publicly list firms.

Sources: Financial statements of Glenveagh and Cairns.

Figure 9 looks at land sales as percentage of total revenue for the two companies. Ideally we would have information on profits on land sales as a share of total profits. This may well be larger than revenue shares given the potential for land to appreciate in value without having to spend much resources. Nevertheless, we can see that land sales have been a more important components of Cairns' revenue than Glenveagh, where land sales have been relatively unimportant. As can be seen, land sales were just over 12% of Cairns' total revenue in 2018, which has since declined to under 6%. This may have been a result of the opportunity to buy cheap around 2015. The company may be now disposing of its surplus and managing its portfolio in line with its long-term land banking goals.

Discussion

There is evidence that land market problems have been impeding the supply of housing in Ireland. Though recent land price movements have not been of the magnitude of previous speculative episodes, from the bursting of the housing bubble to the NAMA and Ulster bank disposals, land was out of the hands of the construction sector for many years. Market and professional reports indicate a shortage of land fit for development, which is consistent with the fact that land price inflation outstripped the general growth in property prices. In recent years, speculative entities have been responsible for some of the transactions, though the larger building firms appear to now be the major players, for whom land sales are a small part of the revenue base. The following section delves deeper into recent speculation in the Irish land market.

9 Private stakeholder views on land trading and speculation in Ireland

9 Private stakeholder views on land trading and speculation in Ireland

This section interrogates land trading in Ireland in greater detail. Based on the same in-depth interviews in Section 4, it looks at the key players in the market, and how trading and speculation have developed over the past couple of decades. This is then related to Ireland's recent housing problems. The traditional speculative purchase of un-zoned land is much less common today than in the past, and risk-based trading is now more likely to occur on zoned land. Moreover, the post-crisis disposals of land did not ensure land was returned to those who wished to develop it. This helps explain the disruption to the supply chain and the shortage of developable land discussed in the previous section.

Land trading and land speculation

Buying and selling of land in Ireland is organised in a number of ways, and these are consistent with textbook descriptions of land transactions (see Wilkinson and Reed, 2008: 32-82). With land that is openly marketed, the three main methods are tender, private treaty, and auction. Land sold by tender has a set date for tenders to be submitted. Once submitted, the vendor then chooses a buyer to sell to.[13] In a private treaty, there is no set date and the interested party makes an offer to the vendor after it is put on the market. In a public auction, land is sold to the highest bidder and is more likely to take place when the market is buoyant.

Land may be also bought and sold without it being openly marketed. Such an 'off market' transaction could arise if a developer initiates contact with a landowner whether the landowner was intent on selling or not. Developers may also enter into an agreement with a landowner where land is bought subject to planning, and this may include agreement to pay the landowner a percentage of the sales price of built units. The advantage of this is that the developer does not have to finance land acquisition and if planning permission is refused the developer is not left with a site with a negative planning history, which reduces its value. As subject to planning purchases are bespoke, they are unsuitable for auction and most suitably done off market. Less commonly, a buyer will buy an option to purchase the land, which may or may not be exercised. Using options to buy land is not common in Ireland as unlike an agreement in which land is bought subject to planning permission, the purchaser can still refuse to exercise the option even if the site has planning. Land agents are likely to have a database of contacts such as developers, farmers, and other landowners and may intermediate such types of transactions.

Classic land speculation in Ireland took the form of buying land, often un-zoned, outside the perimeter of the urban or town boundary. This may be an entity with surplus funds, such as an individual or a group of wealthy individuals. After buying the land they may try to influence the local government in getting it zoned or otherwise increasing its value:

"along comes this group, they put up the capital, probably most of it is equity. And they will try maneuvering and making submissions to the local authority, trying to get influenced the way where the pipes are, where the drains as far as zoning, and so on. And they're professional at it. This is a sub strata of land speculators" (Interviewee 1).

13 The vendor may not always sell at the highest price offered. One reason is that s/he may be not want certain types of development taking place if the land being sold adjoins other land the s/he still owns and plans to keep.

The uplift from getting un-zoned land zoned can be significant, potentially increasing the value by ten or twentyfold. However, there was unanimity that such land speculation is much less common today than it had been previously for a number of reasons. Local authorities are now de-zoning much land, so that buying land in anticipation of it being zoned makes less sense today. Moreover, banks in general and particularly in recent years are unlikely to fund outright land speculation. As the above quote indicates, debt is difficult to source for that type of land speculation.

Transacting in un-zoned land is not the only form of land trading that happens and which has a speculative component. Some entities purchase zoned land for later sale at a higher price. They often try to add value to the land either through the provision of infrastructure or getting planning permission on it, or both. This can then be sold to developers, who do not need to incur planning risk or financing risk associated with long-term holding. By removing risk for the developer, it was argued that such land trading plays a useful role in the construction-development supply chain.

A number of interviewees remarked that this practice was less common in Ireland than in the UK. This may be a result of the greater uncertainties in the Irish planning system. Consequently, the supply of land is lumpier and less continuous, and so Irish construction firms may be more inclined to hold large land banks. Ultimately land banks arose to manage the uncertainties in the supply of land so that firms can produce a smooth stream of output. One developer commented on the lack of value-generating land traders:

“It’s not common enough …in the UK there’s guys who just do that and they can go with a reasonable cost of funds, buy a site with a fair degree of certainty that within a year or a year and a half, they will have a viable planning out. And it’s their skill set to get that viable planning out. In Ireland, if you do that, you don’t know if you’re getting the viable planning in a year or two years or three years. So there’s not that many land traders there. And if they were there, soaking up that risk and trading the land again, the likes of Glenveagh and Cairns wouldn’t need to have big, long land banks, because the product would be there for them to come in and buy.” (Interviewee 18).

Private equity and other types of funds are unlikely to engage in pure speculation whereby land is purchased without a clear exit strategy. They do purchase zoned land which has a strong possibility of getting planning permission and will have an estimate of the number of units that can be built on the site. They may source a buyer of the land during the development cycle, such as during the planning application. There is therefore overlap between private equity firms who look and find investment opportunities, and land trading firms who specialise in buying, selling, and adding value to the land. An outright speculator such as an individual or group who buys without an exit strategy in mind may be disadvantaged vis a vis a fund given the difficulty of obtaining finance for purely speculative purchases.

Individuals and groups of individuals may have been more inclined to engage in long-term, riskier or speculative developments historically, and both individuals and funds may be considered speculative but value-adding players today. Indeed, the distinction between individuals and funds today is not always so clear cut. The money from the today’s speculative buyers may have originated from a private individual or family, but may flow through funds that have been set up in low-tax jurisdictions. These may be led or managed by former land agents who have local expertise and knowledge:

“you have a lot of money from London and private families… you know, a number of entities there, which ultimately are private which is private money. So a lot of that might flow through funds that are set up in Holland or Belgium, or, and there’s an Irish person, you know, fronting that up, right. So, and, and they are more speculators” (Interviewee 15).

Developers are less likely to be speculative buyers in the sense of buying land they do not intend to develop. Developers may engage in land trading and earn profits on that trading opportunistically. For instance, after building regulations were relaxed, some developers benefited from the uplift in land values. By putting planning permission on the land, it could then be sold at a higher value. Indeed, aside from viability and a lack of infrastructure, putting new, higher density planning permissions was cited a reason for the divergence between planning permissions granted and commencements. The deregulation of restrictions on apartment density provided an incentive to do so.

However, developers' business model is to generate profit from development. Non-developers may be more likely to have surplus cash to fund speculative purchases, whereas developers are more likely to finance themselves via debt, and so would have difficultly sourcing finance for speculative land acquisition if they were inclined to do so.

Several interviewees were critical of the popular view that speculative purchasers such as vulture funds have come into the market buying up and hoarding land, disrupting the land-supply system and holding back development. One reason is that there is an opportunity cost to tying up funds in undeveloped land. Another reason is that as a type of land trading, speculative trading, outsources part of the risk that somebody needs to take. When the question was posed about whether land speculation pushes up the cost of development one response was:

"I don't think so. No. Because even if, let's call it a speculator goes and buys it and gets permission, and wants to flip it's going to be flipped to someone who can develop it. And then use it. So it's going to end up in the system. It's just got, let's call it a two-step approach, instead of a single step." (Interviewee 5).

This may also hold for purchases which are highly speculative such as when a speculator buys un-zoned land. That is to say, holding onto land until it is zoned cannot be assumed to make development more expensive. This is because if a developer had to purchase un-zoned land and wait a number of years for it to be zoned, the uplift in the land value may not exceed what the developer could have earned if those funds had been deployed in comparably risky investments elsewhere.[14]

Such a benign view of land trading and land speculation was by not shared by all. While most if not all agreed that land traders can play a functional role through adding value, as many interviewees felt that much speculative land trading disrupts development. As we discuss more fully below, this was particularly the case with the post-crisis disposals, whether by NAMA or by one of the non-Irish banks.

Moreover, dysfunctional land trading could not only be blamed on the market conditions prevailing around the time of NAMA. There has been an increase in speculative purchases pre-Covid, in part driven by low returns elsewhere, which may disrupt the supply chain and push up costs. Not all developers may need land traders as some are more willing and capable than others to take on the various risks involved with site acquisition. Adding an additional layer in the form of land traders and speculators may postpone development or raises costs for developers:

"speculators need to get in and get out… if that was ultimately sold to originally to a builder, it may happen quicker" (Interviewee 15).

14 For instance, suppose a developer buys un-zoned land for 10 and after a decade it is zoned and worth 100. If instead of buying land the developer invested that 10 in an asset with a similar risk profile to land and after a decade it is worth 110. In that case the developer is better off not buying un-zoned land if s/he can buy it for less than 110.

It was felt the ability of land taxation to increase the supply of land will be limited, such as taxing land to activate planning permissions. This is because developers generally do not just sit on land. If they are trying to get planning on it they either want to sell it on quickly, for either opportunistic sales or inventory management, or they are getting planning on it to develop it. Planning permissions may not be activated because of viability considerations. One example discussed would be apartment developments in commuter belts, where the demand is not there from buyers. Activation may also be delayed because the area or site does not have suitable infrastructure.

Land taxation may increase the supply of land where the site is in individual or family ownership, as opposed to professional or developer ownership. This is because the former are sitting on the land as opposed to waiting to develop it. Some interviewees argued that reducing capital gains tax would be more effective in increasing land supply. Other interviews working within the industry argued that it would be desirable for the state to engage in land management by buying land, furnishing it with infrastructure, and then selling it on or contracting a builder to build. We discuss active land management in more detail later.

Land trading post-crisis and the development supply chain

As to the broader NAMA process and its effect on the development supply chain, NAMA had a number of strategies to deal with its debtors. Debtors were required to submit a business plan and NAMA attempted to support developers to trade their way out of the debts. NAMA could then restructure the debt, essentially offering debt relief, engage in a sale of the loan with the consent of the debtor whereby the purchaser of the loan would be entitled to pursue the developer for the collateral, or engage in enforcement whereby NAMA would attempt to take control of the collateral tied to the loan it had bought potentially through legal action with uncooperative developers (CAG, 2018: 38). Some developers were able to repay their debts and get out of NAMA themselves, but most of NAMA's income came from disposals.[15]

NAMA invested and added value to its portfolio through, for instance, the provision of water and infrastructure to the land it held. Nevertheless, the NAMA process resulted in a degree of stasis in the supply chain as little building took place in those years, which was also a result of the oversupply of housing during the bubble years. This was the case even for cooperative developers. Developers may have been inclined to hold out as from 2012 property prices had begun to recover. This meant that land prices were increasing even more rapidly so that some developers were incentivised to wait until land prices had recovered sufficiently to clear some or all of their debts with NAMA rather than crystallise losses by consenting to disposals. Other developers may have held out because they believed that there would be assistance in the form of political intervention. Most interviewees believed that NAMA process inevitably postponed development.

We have already discussed the fact that some or much of the NAMA disposals of distressed assets put land into the hands of those who did not necessarily want to use it for development. Land that was acquired may have been broken up and sold, or held onto. Many of the loans that were sold, were purchased by funds and the fund may have employed the developer for a salary to then develop out the land. However, they may not always have been incentivised to do so. As with developers who were in NAMA, some of the purchasers of the loans were incentivised to wait for land values to appreciate as opposed to develop out that land:

15 For smaller loans, NAMA allowed the original banks to manage the loan.

“there’s no money in development, it’s in land. So, you could get the kind of the volatility and the shift in the value of land is exponential [sic]… in many situations, you have funds and others that don’t necessarily want to take that risk (of development) and will prefer to just secure as much as they can from an exit, although I have to say that that situation is probably altered a little bit.” (Interviewee 16).

When the land was subsequently sold, value was not always added. Some private equity funds and other entities that purchased land merely flipped the land – that is, they bought the land and then sold it on without putting in planning permission. Moreover, the land was not necessarily returned to the market quickly. As one interviewee described:

“what people did was, they bought a collection of sites, and then broke them up and sold them off separately. We certainly acted for plenty of people who bought portfolios or bought a loan or whatever. And then that loan got broken up. And we sold it off in bits. And they made a lot of money out of it. And some of them are still sitting on sites that they bought, and have done nothing with them.” (Interviewee 21).

Some interviewees were critical of how private equity funds were singled out criticism in the NAMA disposals. It was sometimes pointed out that there was little else that could be done in that period. Indeed, NAMA’s mandate was, at least in its initial years, to maximise returns for the state. Any strings attached to the sale in terms of what the buyer could do with the asset would have lowered its value. Private equity funds, moreover, have stricter investment mandates than an individual buyer. They are risk-driven and desire to earn high rates of return. The quicker they return the asset or land to the market, the higher the return they generate for a given increase in value – the longer the land is held onto, the lower the rate of return. By being incentivised to return land to the market quickly, disruptions to the development supply chain were minimised:

‘if I hold it for five years, and I make 30%, that’s a nice little thing for me. Maybe I’ve made 30% on my money for five years. If I’m a private equity buyer and hold it for five years, and I made 30%, that’s 6% per annum. Yeah, no go for them …They’ve gotten a roasting from New York on that one.” (Interviewee, 13).

In line with the market reports discussed in the previous section, a scarcity of land, especially serviced land which can be readily built on, was cited as a problem. This was more the case in the mid-2010s than in recent years. Only a portion of residentially zoned is developable as it lacks the necessary infrastructure. One interviewee cited an industry study which estimated that only 48% of residentially zoned land in GDA can actually be built upon. Many of the post-crisis disposals resulted in the larger developers accumulating land banks. If the NAMA and British bank disposals had been more dispersed, land may have been developed out more quickly and the land market would have been less ‘abnormal’ (Interviewee, 8).

Discussion

To summarise, land trading in Ireland takes a variety of forms. The traditional speculative transaction whereby un-zoned land is bought outside the urban or town fringe is much less common today. Many of the post-crisis buyers in particular were speculative and added little value to the land as land price volatility created perverse incentives in terms of developing it. Today, speculative transactions are more likely to take place on zoned land, where the risk is whether and when the site can get planning permission. This being the case, uncertainties in the planning system are likely to create opportunities for speculative purchases. Different types of entities may undertake such transactions including dedicated land traders and private equity funds who desire to allocate capital to the real estate space.

Our view is that the benign view that land speculation does not push up costs outlined by some interviewees is unlikely to hold. If a developer postpones purchasing the land, whenever the purchase does take place market conditions may have changed. Land, being an opaque and imperfect market, is difficult to forecast. Postponing purchase may therefore be more expensive even if the developer had invested elsewhere and then liquidated that investment to fund a land purchase. Moreover, developers, especially smaller ones, may have limited access to alternative investments and imperfect access to finance. As a result, if the price of land has risen, then it can impose costs as the developer may not have been able to invest money elsewhere to compensate for a potential, subsequent higher price of land.

The following section examines local authority and policymakers views on land reform, trading, and land speculation. It addresses, among other things, whether the state should take a greater role in buying and adding value to land, for its own purposes and the private sector.

10 Local authority and policymakers views on land reform

10 Local authority and policymakers views on land reform

This section surveys the views of policymakers on land reform based on the same interviews used in Section 7. Topics covered include access to land, land management, and other planning and land-related issues. Access to certain types of land remains difficult for public agencies, mostly as a result of fragmented land ownership. A more active land management strategy would be appropriate.

Access to land

There was general but not unanimous agreement that the state has sufficient land to meet Ireland's housing needs in the coming years. Most were of the view that though the state had significant amounts of land, that land was not necessarily located in areas that would be suitable for development, or had the necessary infrastructure to be ready to develop. Inappropriately located land may have been purchased at the height of the boom outside central locations. As the trend is now towards compact living and brownfield development, it may not be sensible to develop those sites. It is also the case that when an entity, public or private, wishes to acquire land, the desired sites may be part of a larger parcel which the purchaser may or may not want.

All LA members were of the view that there were sites that they wanted to access, but that they were unable to access, mostly in towns and urban centres. For instance, a number of interviewees spoke of urban regenerations were unable to proceed because land ownership was fragmented. One in particular had been in the pipeline for 20 years. A variety of factors had led to desirable sites not being activated. This included speculation, hoarding, and disputes over title, though the dispersed and disjointed nature of land ownership was most important. The distinction between speculation and hoarding was not always teased out but there was sometimes a wait and see process where the landowner may develop it, may sell it, or may try to piece together adjoining land, depending on the market conditions. This is different to some of the speculative transactions discussed in the previous section.

Despite being sympathetic of the Kenny Report, several interviewees were keen to dispel the idea that the state could just acquire land at use or agricultural value and bring large savings to the state. Though there may be some instances where this could be of use, the move toward compact growth and the efforts to contain sprawl in Ireland rendered this policy less relevant today. There was also some hesitation about the ability of LAs to create new settlements in the future, once the capacity for development on existing settlements had been exhausted. Ireland had a poor track record in this regard, such as the social problems associated with single-tenure or social housing-dominated towns of Blanchardstown, Ballymun, Tallaght, and so on. More importantly, was the need to make any new settlement consistent with the overarching spatial plan, which had not been done in the past:

"if we were going to, if it like, facilitate a mechanism whereby local authorities could compulsorily acquire land before it was ever zoned. Is that not going to possibly put us in conflict with the achievement of other public policy objectives around compact growth and so on? You know, now, that's not to say it might have some utility in relation to purchase of lands that maybe are zoned for another purpose… there are limitations in this idea or ideal that there are very eminently developable tracts of land out there that aren't zoned, that if we just, you know, allow the local authorities to purchase rezone, we could deliver high quality housing. We'll be doing that in a Dublin context in the deepest of South

Meath, in North Kildare, west of Tallaght, or west of Fortune's town, and Sagart and Rathkeale and Rathcoole where we don't have infrastructure. So there's just an important reality check that needs to be applied to, I suppose the utility of a tool" (Interviewee 24 & 40).

Purchasing land significantly outside the existing settlements may merely service to inflate land prices in the surrounding area, in anticipation of significant development in the area. Another problem that could arise is leapfrogging, whereby there is significant unoccupied land between the city and the new development.

There was some but limited scope for new towns and settlements within Dublin, such as the new town of Cherrywood. As one national planner put it, "Arguably, maybe there are some pockets that are just not zoned. Fingal county council, for example, is looking at the area on the Tolka Valley" (Interviewee 24 & 40). However, most of Dublin had been exhausted and the need is to build on existing areas, including on land that is currently zoned for industrial use.

One LA we spoke with were running out of land and so needed to acquire more of it. For this LA, it was appropriate to acquire land just outside the urban fringe. One of the major landowners in the area was a farmer who was simply not interested in selling. The perimeter of some towns may also not be a smooth shape such as a perfect circle, but instead contain gaps or wedges which are not zoned:

"the satellite or the key towns of Maynooth in County Kildare, Bray in Wicklow and Swords… if you look at each of those towns, there are wedges, you know, that have been undeveloped… the zoning might have wedges in it" (Interviewee, 35).

Acquisition of un-zoned land in this context may therefore be appropriate.

CPOs and active land management tools

There was widespread enthusiasm for active land management policies. That is, the state ought to be in the business of acquiring land, furnishing that land with infrastructure, and then either using that land itself or selling it back on to the construction sector.

There were two basic views on land management tools. One was that existing tools were sufficient but needed to be used more. CPOs were discussed in this context. One LA had used CPOs quite extensively and quite effectively, but mostly to purchase vacant and derelict buildings for conversion for social housing purposes. Originally, this arose due to difficulties in tracking down the owners, and it was later ramped up to purchase properties where the owner had defaulted on a mortgage and abandoned the property, which had not been repossessed. It was argued that CPOs should be used to acquire land, though it was recognised that this would be more difficult. Landowners may be well-resourced entities, and so be in a better position to challenge.

It was also highlighted that the state should be acquiring land in a downturn, not at the top of the cycle as it is currently doing. The difficulties that some LAs may be experiencing in terms of not having appropriate land to build, and now having to compete with developers in an expensive market to acquire it, is a result of abstaining from land management in the past. As one interviewee who was enthusiastic about using CPOs to acquire land put it:

“So you’re coming to the table in a bull market, you’re trying to buy at the height of the market assets that are going to certainly not help drive affordability… what we should have been doing… [was buy] strategically assets in the city centre out of NAMA directly in the last crisis, the time to buy it, if you looked at any property development company, the time to buy is when everyone else is selling… at the moment, there’s just there’s too much demand, it’s driving prices. And local authorities should be positioned so that they can take the peak and trough much more effectively, as opposed to reacting to it as we are now and talking about using issues of CPO” (Interviewee 25).

It was also pointed out that even if CPOs are used to acquire land for land banking or development purposes, the savings to the state would not be as high as some commentators believe. This is the case even if the land is compulsorily purchased before it receives a residential zoning. Much of the land that the state may need to access is located within the fringe of existing development and much of that land is already zoned and used, such as zoned and used for industrial purposes. The difference between the value in the existing zoning and residential zoning is not particularly high:

“we’ve done sort of preliminaries [to] look here at the land value of uplift from rezoning from Z6 (Employment and Entreprise Zoning) to see Z14 (Strategic Development and Regeneration Areas – i.e. residential and employment), which is a mixed-use thing. If it’s a highly desirable industrial area… or if it’s a highly desirable office square area… uplift could only be 10, 15, 20%.” (Interviewee 32).

In the case of land that is deemed to be in industrial use, then, purchasing at use value assumes it will remain in existing, industrial, use so the price will not incorporate the hope or expectation that it will be zoned residential or mixed use, for instance. Purchasing at use value may therefore save only a maximum of 20%, which would apply in the case where there was certainty that its zoning would be enhanced, such as from industrial to mixed use as above. In reality, there will not be certainty about the future zoning, so that the hope value of the land is unlikely to be the full difference between its existing zoning and the future zoning. Assuming no transactions costs, the savings from use value and market value will likely be considerably less than 20%, at least in many of the urban areas where land is most prized.

The other view on land management was that the toolkit needs to be expanded. This is because CPOs are time-consuming and may require legal and other resources to pursue. Though technically the land can be acquired at market value, the cost to the local authority is, in practice, higher. As well as incurring overheads, the LA may end up paying a premium to entice an unwilling seller to part with land. The cost to the local authority may end up being 20-30% over the market value.

Many LAs were keen to introduce tools that would incentivise or compel landowners to sell. A number of respondents raised the potential to legislate for compulsory selling orders. As implied, the landowner could be required to sell land so the state would be one among a number of bidders. This could avoid the difficulties of going through the CPO process.

The recent proposals by the Department were widely welcomed (DHLGH, 2021). The proposed Residential Zoned Land Tax would see all land zoned for residential development, starting with land zoned before January 2022, liable for a tax of 3%. It will become operational from on 1st February 2024 and replace the current Vacant Site Levy. The fact that this would be administered by the Revenue was seen as a major improvement of the Vacant Site Levy, which is administered by LAs. The proposal to compel applicants to pay 20% of the uplift in land values from its value in current use to its value after planning permission is granted was also viewed favourably.

Active land management division of responsibility

Given the consensus that the state should take a more active role in the management of land, there was some discussion on which state entity or entities should do so. Most of the debate centered on the division of responsibility between the LDA and local authorities.

The majority of interviewees working in the local authority space welcomed the emergence of the LDA in principle. The ability of the LDA to acquire land from LAs without the consent of elected members was, in general, not seen as a threat to LAs. A number of housing and planning directors had voiced concerns that the delivery of housing, especially public housing, had been held up by elected members. Sometimes this was a result of residents not wanting social housing in their area. Other developments had been blocked on the basis that the share of public housing on those developments was insufficient. Respondents from LAs were universally opposed to this as it went against the drive towards mixed tenure housing, which was attempting to avoid the ghettoisation of developments in the past:

"the political belief system is that all public land should be used for public housing… what is wrong is that if a good plan is made and it involves what I describe as the mixed-use philosophy, which includes mixed tenure and that is not approved by elected members, well, then that is not only frustrating but reduces confidence in the plan" (Interviewee 32).

A number of respondents expressed some concern that the LDA could usurp local democracy, or that there may be a replication of responsibilities. But when concern was voiced, it was more along the lines that one has to wait and see how it evolves.

All LAs in the interviews were reluctant to expand their land banks given how they had been burned during the previous crisis. Some of the land they had acquired at the height of the bubble had been purchased by the Housing Agency. This had relieved them of the debts outstanding on the loans, but much of the land that was left was of lower quality. As much of it was still yet to be developed, the debts were still outstanding, resulting in significant interest costs. It is only once the land is developed that the Department refunds the capital costs of land acquisition. While this has been slowly happening as LAs were ramping up the supply of social housing, the legacy of the crash had left LAs reluctant or incapable of expanding their land banks.

One respondent was unequivocal that it is the job of the LDA to engage in active land management. The vast majority of LAs were small and had little capacity to incur development risk. Indeed, one LA that had a high share of direct builds in its social housing builds, deemed the idea of LAs buying land and furnishing it with infrastructure excessively risky. It was pointed out that the LDA would not ride roughshod over LAs and acquire land without consultation, and that if a LA authority had lands not being developed, it was appropriate that the LDA purchase it.

A national agency may also be better positioned and be a more effective vehicle when it came to assembling state lands as a well-resourced single agency. In relation to the above discussion on creating new settlements in and around urban areas, some LAs would not be equipped to do so as the most sensible iteration of urban growth from the perspective one LA may lie inside another authority, where they cannot acquire land or provide infrastructure.

Other interviewees, particularly those who expressed some trepidation about the LDA, felt that LAs could provide infrastructure, perhaps in partnership with the LDA. It was emphasised that local land markets are different to the Dublin or national land markets, and LAs would have knowledge and experience of site history, and so on.

AHBs were concerned that the ability of the LDA to purchase state land without the consent of elected representatives did constitute an attack on local democracy. They argued that the LDA was acting more as a housing delivery agency, and less as land development agency. The ability of the LDA to acquire private land, it was argued, was limited. The LDA's mandate also restricts it to interacting with towns with populations in excess of 10,000, so engagement of LAs was inevitable. AHBs were also keen to have the ability to acquire land for their planning purposes.

Other planning issues

A number of other planning-related issues came up, aside from the ones already discussed in this section. The process of judicial reviews was seen as problematic and as impeding the supply of both public and private housing. Most judicial reviews have arisen as a result of SHD developments, where the planning application was made directly to An Bord Pleanála as opposed to the LA. As discussed, the system of direct application to An Bord Pleanála for large residential developments has been replaced by the two-stage planning process of direct application to the LA under LRDs.

It was recognised that planning in Ireland had become a more complicated and specialised discipline, and that there was now a greater concern for environmental and biodiversity issues. It was noted that the number of planners employed by local authorities had not kept pace with the number of applications, so that there was a capacity issue. Indeed, this has elsewhere been argued as a major blockage in the Irish planning system (An Taisce, 2022). One interviewee argued that it tends to be poorly prepared applications that get refused.

Some interviewees drew attention to how planning in other European countries is much more infrastructure-led. It is only once the infrastructure is in place that an area receives its designated zoning. Historically in Ireland, many zonings have been designated well in advance of the infrastructure. It was also argued that a planning system in which objections and appeals are made primarily at the stage of the local plan would be desirable. As is, appeals and objections are mostly made during the planning application. Moving to such a system may require more detail in the plan including details on building type and density, and a clear communication to residents and stakeholders that objections are to be made at the plan stage, not the application.

This could be achieved through greater use of master planning, which has so far been limited in Ireland. Master plans are non-binding '3-D' plans that supplement county, city, or local area plans with greater detail on the type of development, including building type and density. Master plans are mostly used in city council LAs but could be used more widely outside the major urban areas such as key locations in towns. It was argued that master planning minimises planning uncertainty and improves viability in private development, while also smoothing the construction of public housing. Greater detail in plans would require significant resources in terms of architectural, quantity surveying, and planning knowledge, which most LAs do not have. It was pointed out the planning fees had been frozen for almost two decades and that. for every €1 of planning work done by LAs, less than 20% is recouped from the developer in fees, on average. Greater attention to planning therefore leaves less money for other LA functions so that LAs are not inclined to do so.

Discussion

This section has looked at several policy issues in relation to land access and land management, and the potential expansion of CPOs. It has also looked at related planning issues. The following and final section will discuss the policy implications of the report, including the issues raised in this section.

Discussion and policy implications

Discussion and policy implications

Discussion

This report has provided a wide and long-view analysis of Ireland's housing problems and the role played by land. It has examined some of the issues surrounding the supply of public and private housing and has sought to lift the veil on land trading and land speculation. A recurrent theme has been how the question of housing on the one hand, and land on the other, are connected.

Problems in the private housing market are to a significant degree a function of both a dysfunctional land market and a more responsible approach to land use. In terms of the former, speculation in the land market post-NAMA led to considerable disruption of the construction supply chain wherein land was taken out of the hands of those who wished to develop it. As to the latter, the efforts to contain urban sprawl has necessitated greater density which, in turn, means more apartment living. Because of the greater complexity in construction, apartment development is more likely to be financially unviable than housing development. Delays and costs of planning system were also frequently charged with exacerbating viability. These changes have taken place in tandem with structural changes in the construction sector, including how construction is financed.

The land question also looms large within the system of public and non-profit housing. The reliance on acquisitions and turnkeys is certainly multifaceted, including market conditions and procurement processes, but a lack of usable land is among the reasons why LAs have been reluctant to engage in direct build. Under Housing for All direct build is set to increase, not least because it offers a better match between the needs of those on waiting lists and the type of unit that can be constructed. The supply of cost rental housing is also set to rise, which heretofore has been limited, and as a result we have not examined in depth. Both direct build and cost rental will require the use of existing public land, or the acquisition of additional land by the state.

The traditional model of land speculation involved purchasing un-zoned land outside the urban boundary. The purchaser may then have tried to influence the planning system and, if the land was zoned, a large windfall would then accrue to that landowner. That model is much less applicable today as the National Development Plan provides for the de-zoning of land. Land trading takes different forms today, and such trading has a speculative component. Land trading firms and private equity firms may buy zoned land with an end user in mind and sell it after planning permission is granted. As above, this was less the case with the post-crisis disposals as some land was flipped without any value being added. Private money, which may flow through funds, still engages in speculative purchases, including long-term speculation without an end user.

Some land trading plays a useful role for developers as it outsources a risky undertaking, planning. Some of the interviewees argued that speculative land trading neither raises costs nor delays/lengthens the supply chain. This, recall, was due to the opportunity cost of holding land such that the returns to alternative investments may compensate developers for the high price they pay when purchasing land from speculators. The supply chain is not lengthened as somebody must add value to the land, so it makes little difference whether this is done by a trader/speculator as intermediary or in-house by a developer.

Such a benign view of landing trading was at odds with some within the construction industry and conflicts with the difficulties many LAs experience in accessing sites in urban locations. In addition to speculation and hoarding, the fragmented nature of land ownership is a major impediment to urban and semi-urban development. Accessing such land will be important in the coming years, and there is considerable debate over what tools should be used and what agency should do it.

Policy Recommendations

Enable the state to compulsorily purchase land at use value plus 25%

As discussed in the previous section, the extent to which CPOs can be used to assemble land at low cost to the state is more limited than sometimes believed. This is the case with land located in urban areas that is being used for commercial purposes. For urban land that is derelict, however, its current use value is likely to be low so that there are potential savings. For this and for general acquisition purposes, CPOs have the potential to be a useful tool in the arsenal of policymakers. CPO is currently allowed under Irish law for land designated for development where the landowner has little interest in development, but is rarely enacted as it is slow and cumbersome.

Under current CPO arrangements, the landholder is compensated on the basis of the market value of the land, which can make it expensive. This report endorses the proposed Acquisition of Development Land Bill 2021, which aims to modernise the central recommendation of the Kenny Report as it proposes that LAs should be enabled to compulsorily acquire land (Oireachtas, 2021a). For land that is purchased after the bill is enacted, the compensation should be no greater than 125% the current use value of the land. For land that is acquired before the bill is enacted, compensation is 125% use value or, if higher, based on the cost of the land to the landowner, plus costs incurred in improving the land, plus an annual rate of return which is 2% above the 10-year Irish government bond.

For land acquired after the bill, the upper limit of 125% would enable the state to acquire agricultural land, for instance, which is no more than 25% above its value in agricultural use. Therefore, if there were a strong expectation that that land would become zoned, such that its market value exceeded 25% of the value of the land in its current agricultural use, there would be savings to the state. There would also be savings in purchasing zoned land such as industrial land, insofar as the market value of the land exceeded its current use value plus 25%. As discussed, this may not result in significant savings for land in prime locations. For lands acquired before the enactment of any legislative change, savings would arise if land had significantly appreciated.

It should be noted that the intention is not for CPOs to be used extensively, but that the credible threat of CPOs be sufficient to entice landowners to part with their land in a more timely and cost effective fashion. Such a reform has the potential to dampen house prices, improve the cost effectiveness of public and non-profit supply, and the financial viability of private supply.

Legislate for the compulsory sale of land

As is, CPOs are time and resource intensive. Reforms of the CPO system as proposed in this report is likely to deepen the tension between CPOs as vehicle to acquire land for the common good on the one hand, and private property rights on the other. It cannot be assumed that such reforms would expedite the procedural aspects of CPOs. Moreover, in our discussion with LAs many policymakers were reluctant to use CPO because of the risks involved, including the cost of CPOs and the general risks associated with land acquisition.

In cases where the LA wishes to see a site or building being activated but does not have a strong opinion on what use it should be put to, CPOs may not be the most appropriate tool. Similarly, in cases where the LA may not have the capacity to put a site or building to use, or have the ability to incur the risks associated with compulsory acquisition, CPOs would not be the most appropriate tool. In such instances, including in authorities where the LDA does not have jurisdiction to operate, Compulsory Sales Orders (CSOs) may be more appropriate. CSOs may also be useful if a LA wishes to acquire land but deems the CPO procedure too cumbersome.

Another impediment to site activation, which came through in the discussions with LAs and other policymakers, is that landowners can take an unrealistic view on the value of a site. A CSO uses an auction process, which then corrects for this market failure. As with CPOs, CSOs are not intended to be used extensively. They would be part of a broader consultation process with the landowner such that their use would be last resort (see Scottish Land Commission, 2018).

Extend the ability of the LDA to purchase private land including CPO of private land

The has been considerable debate about what the appropriate vehicle is for engaging in active land management, and this came through with the policymaker interviews. The argument against the LDA is that LAs are well capable of buying land, furnishing it with infrastructure, and then using or selling it. LAs, moreover, have knowledge of the local land market and accumulated years of expertise such that they would be better positioned to do so than a national agency. The ability of the LDA to acquire LA land without the consent of elected representatives has also been criticised.

Over the course of the interviews with LAs and other policymakers, we became satisfied that a national agency is indeed the most appropriate vehicle through which land can be actively managed in Ireland. Many LAs are small and have limited capacity to undertake development risk, including land acquisition and furnishing land with infrastructure. This is not to say that they, nor for that matter AHBs, should not be enabled to acquire land, but the LDA should be the driving force. It is and will be an important agency to drive land development and facilitate the supply of housing, public and private.

The remit of the LDA, however, is too narrow as it is focused on the acquisition and development of public lands. The Land Development Agency Act 2021 does provide for acquiring private land "that is identified as suitable for the strategic and timely delivery of housing" and land that is "contiguous to relevant public land or land owned by the agency" (Oireachtas, 2021b: 9 & 14). And that land can then be provided with infrastructure. To what extent it will acquire private land that is not contiguous to public land for the purposes strategic land banking is unclear.

In regards to its ability to compulsory purchase land in the private market, a number of conditions must be met. The land must be situated in an area of housing need, which is reasonable. More importantly, CPOs are to be used to "provide access to relevant public land or land owned by the agency or to facilitate the provision of roads, water or other services or utilities required by housing on relevant public land" (ibid: 45). CPOs therefore facilitate public land access and the LDA cannot CPO private land for the purpose of land banking.

For the LDA to be a true land management agency, its ability to acquire private land should be on an equal or comparable footing to its ability to acquire public land. Similarly, it should have the capacity to CPO land in the private market, especially given the reluctance or incapacity of LAs to do so. This may entail changing the status of the agency from a commercial agency to a non-commercial public agency to abide by EU state aid rules.

Though the state may have considerable amount of land in aggregate, and an amount of land to meet its near-term public housing needs, there are tracts of land that would better be in public ownership. Over the longer-term, strategic acquisition of land would enable better planning and a more functional housing system.

Raise planning levies and make greater use of master planning

In 2006 Ireland was able to construct over 90,000 with largely the same planning system it has today, albeit implementation was weak and housing was built in inappropriately-located areas outside urban and town centres and fringes. Despite the public attention given to the process of judicial reviews, only 3% of planning cases decided by An Bord Pleanála have been subject to review (Taisce, 2022).

Despite these caveats, members of the construction sector independently remarked that the uplift in land value upon a successful planning application is significantly higher in Ireland than the UK. This suggests that the Irish planning system is subject to considerable uncertainty and that the construction sector is subject to undue planning risk. There is some debate over to precise causes, but inconsistent application of national policy in planning decisions is frequently cited. This includes environmental law and density policy (ibid.; Oireachtas, 2021c).

Active land management whereby the state services land with the necessary infrastructure can be expected to reduce uncertainties in the planning system. With much of the water, drainage, and utility infrastructure in place, planning would not be refused on such grounds. Moreover, adequate resourcing LAs and An Bord Pleanála so that they have the relevant environmental and other expertise so that planning decisions are consistent with national policy, would further mitigate planning uncertainty. It would also help curb speculation.

We therefore recommend raising planning fees so that planning should not be loss making for LAs. Currently planning permission fees depend on the type of development, number of units, and floor space. For instance, the fee for applying for planning for a house is €65. The Planning Regulator reports that planning fees represent less than 30% of the cost of running the LA planning and development function (OPR, 2021: 10). We therefore recommend that planning fees increase by between three to four times on average, and that this be ring-fenced for planning functions within the relevant planning authority. Though this might lower viability in the short-run, over the longer term it would provide for better planning decisions. It would also facilitate greater use of master planning as is best practice in other countries. Rather than merely designating land as suitable for one type of use or the other, plans would contain greater detail in terms of density and type of structure allowed in a given locale.

Replace Vacant Site Levy and Local Property Tax with site value tax of 5%

It is important that policymakers be equipped with tools to ensure that vacant and underused land is mobilised. Since 2019, the Vacant Site Levy places a levy of 7% of the market value of a site if it is deemed vacant or underused and developable. It is planned to replace the Vacant Site Levy with a Residential Zoned Tax of 3% to bring forth sites with planning permission. Aside from the rate, another difference between it and the Vacant Site Levy is that it will be administered by the Revenue. The effectiveness of the Vacant Site Levy has been modest, in part due to administrative problems and difficulties in ascertaining which sites are suitable for development. Increased resources allocated to identifying sites will likely help in that regard.

Our view is that such a tax will have limited effect in activating sites. It is likely the case that when the Vacant Site Levy has been successful it has been in sites in individual or family ownership. Though hoarding has occurred, including through multiple planning permissions on the same site, planning permission which is not being activated is more likely to be unviable or lacking in infrastructure.

A better policy is to introduce a site value tax. A site value tax levies a tax on the value of zoned land, whether developed or not. It differs from a conventional property tax, which Ireland already has, which levies a tax on the total value of the property, namely the edifice and the land. It avoids the problems of identifying vacant sites, as per the vacant site levy, as it also applies to developments. Take, for example, two adjacent sites where the land is worth 100 in both cases, but one site has a block of apartments worth 400 and the other site is empty. A property tax of 1% levies a tax on the occupied site worth 5 (1% of 500). Assuming it applies to land as well (which it does not in Ireland), it levies a tax on the unoccupied site worth 1 (1% of 100). By taxing the occupied site more, it discourages development relative to leaving a site vacant. A tax levied on the value of the land would not, and could encourage development if the tax were reduced according to the value of the property built on it (see Lyons, 2012). A site value tax also reduces the value of land as a liability is acquired (NESC, 2018b). Lyons (2016) suggests a tax of 5%, which could replace the current property tax. Note that a site value tax could be combined with other forms of taxation, including capital taxation, to maintain similar revenue and distributional outcomes as the Local Property Tax if necessary.

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Land reform has a long and contentious place in the political and economic history of Ireland. This report examines past, recent, and current land trading. It looks at the nature of land speculation in Ireland and whether and how this impacts the supply of public and private housing.

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