Abstract: This paper presents the key findings from a 2004 NESC study on the Irish housing system, Housing in Ireland: Performance and Policy. The paper begins by identifying the anxieties and concerns people have about housing. These cluster into three broad concerns: the stability of the housing market, the degree of inequality in housing opportunities experienced during the housing boom and the sustainability of settlement patterns and neighbourhoods developed in the past decade. An interpretation of the housing boom is developed to assess these concerns. It is argued that a large increase in house prices was inevitable given economic and demographic trends. The supply response was very dynamic but was considerably weaker in and near Dublin and other cities. The weaker supply response in Dublin and other cities was a product of systems of both planning and infrastructure. There was insufficient investment in infrastructure to support high-quality, high-density development. The analysis confirms anxieties about inequalities in the distribution of housing opportunities and also confirms concerns about the sustainability of new settlement patterns and neighbourhoods. The core policy challenges identified are the need to achieve high-quality, sustainable neighbourhoods and to provide a more effective range of supports to those households that fall below the affordability threshold. The paper examines the dynamics of the land market and recommends long-term land use strategies and sufficient active land management to ensure delivery of both private and social housing.

1. INTRODUCTION

The National Economic and Social Council (NESC) published its analysis of Ireland’s housing system along with its policy recommendations in November 2004*. The NESC Council has representatives of employers, trade unions, farmers, government departments and a range of civil society interests. Given this membership, it is not surprising that there was a range of different perspectives on the nature of the housing problem and the required response. An important part of the NESC housing study was the development of a coherent, shared understanding of the housing situation.

In this paper we will outline the key findings from the NESC analysis of Ireland’s housing system. We begin by setting out the principal anxieties and concerns that have been expressed by citizens, the social partners and commentators in recent years (Section 2). In order to provide a basis for

* The preparation of this report benefited from the advice of an expert working group consisting of academics and other experts. The report is available on the NESC website along with seven accompanying background papers.
assessing these anxieties and concerns, Section 3 sets out key features and developments in housing while Section 4 sets out the understanding of the Irish housing boom developed in the NESC study. The assessment by NESC of these anxieties and concerns is then presented in Section 5.

The rest of the paper is concerned with the future outlook (Section 6) and policy challenges. The future challenges have been identified by NESC as follows:
1. To achieve high-quality, sustainable, development in both urban and rural areas;
2. To provide an effective range of supports to households that fall below the affordability threshold;
3. To assist the market to continue to provide a high level of supply;
4. To ensure a tax and subsidy regime that supports these goals.

The challenge of sustainability is addressed in Section 7 while affordability is addressed in Section 8. In meeting these challenges of sustainability and affordability as well as the challenge of sustaining an adequate level of private housing output, a number of resource, taxation and land issues arise. We outline NESC’s perspective on taxation and resource issues in Section 9 and on land and land management in Section 10. Final thoughts are presented in Section 11.

2. ISSUES AND ANXETIES IN IRISH HOUSING

The dramatic change in Irish housing in the past decade and a half has created many anxieties. These cluster into three broad concerns: the stability of the housing market, the degree of inequality in the opportunities and difficulties experienced during the housing boom and the sustainability of the settlement patterns and neighbourhoods developed in recent decades.

Consider first the issue of stability. Some observers consider that the Irish housing market displays instability and irrationality, amounting to a bubble that could burst. More optimistic observers do not fear for the stability and believe that the market will adjust reasonably smoothly over time to changes in demand.

The second concern is inequality in the distribution of opportunities and difficulties across different income groups. Some point to major problems of affordability faced by low income households, the limited supply of social and affordable housing, the acute problems faced by those with special housing needs and the uneven distribution of the increased value of property and land. Others argue that these pressures will take care of themselves as the overall supply of housing comes into balance with the greatly increased demand experienced over the past decade.

The third general issue concerns the economic, social and environmental sustainability of the Irish housing system. Some view the low density, dispersed pattern of development as reflecting peoples’ preferences and also view this pattern as the inevitable result of the large increase in housing supply. An alternative perspective is that the patterns of settlement, neighbourhood design and density in Irish housing in the past decade are storing up huge social, environmental, budgetary and economic problems in the years to come.

We will present the NESC’s views on the accuracy and validity of these concerns in Section 5 below.
3. HOUSING TRENDS

This section outlines how demand and supply of housing have evolved and I show some key regional variations in these variables. An overview of social housing developments is also presented.

Demand and Supply

The strong demand for housing in Ireland over the past decade has been driven by three principal factors: economic and employment growth, demography and the cost of finance.

Figure 1 illustrates the level of dwelling completions since 1993, distinguishing private and non-private provision. Three times as many units were completed in 2003 as in 1994. Recent additions to the local authority stock have also been greater, following over a decade of marginal additional contribution and a sustained sell-off of local authority property at the end of the 1980s.

This increase in the level of construction is unprecedented and is also exceptional when compared to other European countries. This is the case both when new construction is expressed as a percentage addition to the current stock of dwellings and also when the number of new dwellings is assessed relative to the size of the population.

The Spatial Pattern of Construction, Settlement and Population

Residential development in Ireland has displayed a marked spatial pattern and this is reflected in the spatial pattern of population growth. The NESC analysis of this pattern suggests three main findings: For much of the period of housing boom, supply response in Dublin was weaker than in the rest of the country; Within the East region, there is a pronounced doughnut effect, with the greatest levels of construction and new settlement in the outer counties; In recent years, the level of housing supply in Dublin has increased considerably, reflecting response by government, local...
authorities and the building industry. The reasons for these patterns of supply response are complex, but some possible explanations can be identified.

The increase in housing output in Dublin and the Greater Dublin Area (GDA)† has been significantly slower than the national average. While national housing output grew by 156.2 per cent over the period 1994 to 2003, it increased by just 82.4 per cent in Dublin City and County and by 112.4 per cent in the GDA. The housing output share of Dublin City and County has fallen from 29.4 per cent of national completions in 1994, to around 21 per cent in 2003, while the share of the GDA fell from over 40 per cent in 1994 to just over 33 per cent in 2003. These figures somewhat understate the relative supply response in the Dublin area insofar as primary residences are concerned in that they include second homes, the output of which is lower in the Dublin area.

It was estimated by Bacon, MacCabe and Murphy (1998) that the responsiveness of housing output to increased prices in Dublin (city and county) was significantly lower than the national average. The long run supply elasticity for the country as a whole was estimated at 3 (indicating that a 1 per cent increase in prices led to an eventual increase in housing output of 3 per cent) while the corresponding figure for Dublin was 1.8.

The weaker supply response in Dublin has some major consequences, including higher prices and a spread of development across the counties of Leinster. Consequently, there is considerable interest and much debate on the reasons for the weaker supply response. A number of different interpretations have been offered‡. I outline NESC’s interpretation in Section 4 below.

The Role of Social Housing
An important part of the analysis of the Irish housing system is the changing role of social housing.

The Irish system contains three broad types of support to those unable to acquire adequate housing from their own resources: The provision of rental accommodation by local authorities and the voluntary and co-operative sector – termed social housing; Various supports to marginal households to become home owners – termed Affordable Housing§; Other supports in lieu of social housing – the largest being rent supplement to welfare recipients in private rental accommodation under the Supplementary Social Welfare (SWA) scheme. Table 1 provides an overview of the main schemes in place in 2004.

† The GDA consists of the counties of Dublin, Meath, Kildare and Wicklow.
‡ Further analysis of the pattern of housing demand in Dublin and Leinster is provided by McCarthy (2004).
§ It is important to note that the term ‘affordable’ housing is used in two ways in current Irish housing policy – referring firstly to the policy objective of ensuring general affordability across all tenures (targeting those households that are expending more than 35 per cent of disposable income on housing – either mortgages or rent), and secondly to Affordable Housing programmes – which refer specifically to the provision of discounted houses for sale to eligible households.
Table 1: Main Social and affordable housing schemes as at 2004

<table>
<thead>
<tr>
<th>Schemes providing social rental housing</th>
<th>Other supports in lieu of social housing</th>
<th>Schemes supporting ‘affordable’ home ownership</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>General needs housing</strong></td>
<td>Assistance with housing costs in private housing market</td>
<td><strong>Subsidised home ownership</strong></td>
</tr>
<tr>
<td>• Construction and maintenance of local authority rental housing stock</td>
<td>• Rent supplement under Supplementary Welfare Scheme</td>
<td>• Tenant purchase scheme</td>
</tr>
<tr>
<td>• Construction and maintenance of voluntary and co-operative rental housing (funded under the Capital Loan and Subsidy Scheme)</td>
<td>• Grant assistance for adaptation of private homes of disabled persons</td>
<td>• Local Authority Affordable Housing Scheme</td>
</tr>
<tr>
<td><strong>Specific needs housing</strong></td>
<td>• Improvement Works in Lieu of social housing</td>
<td>• Affordable Housing through Part V provision</td>
</tr>
<tr>
<td>• Construction and maintenance of voluntary and co-operative rental housing for specific needs (funded under the Capital Assistance Scheme)</td>
<td>• Special improvement works and general housing aid for elderly persons</td>
<td>• Affordable Housing Initiative (Sustaining Progress)</td>
</tr>
<tr>
<td>• Provision of Traveller accommodation and support</td>
<td>Supports to existing local authority tenants</td>
<td>• Shared Ownership Scheme</td>
</tr>
<tr>
<td>• Homeless accommodation</td>
<td>• Grant assistance for adaptation of homes of disabled local authority tenants</td>
<td>• Mortgage Allowance for local authority tenants</td>
</tr>
<tr>
<td>Arrangements with private rental sector for long term accommodation at a social rent (in planning)</td>
<td>• Remedial works</td>
<td>• Low cost subsidised sites scheme</td>
</tr>
<tr>
<td></td>
<td>• Extensions to local authority dwellings</td>
<td>• Access to finance</td>
</tr>
<tr>
<td></td>
<td>Emergency or temporary accommodation</td>
<td>• Local authority home purchase loan</td>
</tr>
<tr>
<td></td>
<td>• B &amp; B accommodation</td>
<td></td>
</tr>
</tbody>
</table>

Source: Central Bank Quarterly Bulletin, Various Issues
Note: Local authority output does not include second-hand houses acquired by local authorities but does include newly-constructed units acquired under Part V, Planning and Development Act

Table 2: Break Down of Total Housing Stock by tenure 1946-2000

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Owner occupied</td>
<td>52.6%</td>
<td>59.8%</td>
<td>68.8%</td>
<td>74.4%</td>
<td>79.3%</td>
<td>77.4%</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Rural</td>
<td>69.3%</td>
<td>77.4%</td>
<td>85.5%</td>
<td>85.6%</td>
<td>87.8%</td>
<td>n/a</td>
</tr>
<tr>
<td>Urban</td>
<td>23.2%</td>
<td>38.0%</td>
<td>52.5%</td>
<td>65.6%</td>
<td>73.1%</td>
<td>n/a</td>
</tr>
<tr>
<td>Social housing</td>
<td>42.7%</td>
<td>18.4%</td>
<td>15.5%</td>
<td>12.5%</td>
<td>9.7%</td>
<td>7.9%</td>
</tr>
<tr>
<td>Private rental</td>
<td></td>
<td>17.2%</td>
<td>13.3%</td>
<td>10.1%</td>
<td>8.0%</td>
<td>11.0%</td>
</tr>
<tr>
<td></td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
</tr>
<tr>
<td>Total no. of dwellings (000s)</td>
<td>662.6</td>
<td>676.4</td>
<td>726.4</td>
<td>896.1</td>
<td>1019.7</td>
<td>1279.6</td>
</tr>
</tbody>
</table>

4. UNDERSTANDING THE IRISH HOUSING BOOM

Given the trends in construction, settlement, prices and affordability in the past decade the NESC study developed an interpretation of the Irish housing boom, summarised in the following narrative:

1. Given the remarkable strength of demand, a significant increase in house prices was inevitable.
2. Although supply response was delayed, Ireland has displayed a very large increase in housing stock by international standards.
3. There were important regional differences in demand and supply, giving rise to higher prices in Dublin and a spread of development to dormitory settlements.
4. Problems of long-run sustainability and rising prices were exacerbated by the dominance of low-density housing in a context of poor transport infrastructure.
5. The predominance of dispersed, low-density, greenfield development, especially in the East region, was a consequence of a set of structures and systems which did not accommodate a sufficient supply response in and near the main cities.
6. In this process, land prices are largely determined by the strength of demand for housing and the supply response in and near the cities.
7. A significant minority of household experience affordability problems while many are insulated from increasing property rises.
8. The sharp contraction of local authority construction in the late 1980s and early 1990s was a significant factor in increasing problems of affordability and access.
9. The need for a resumption of social and affordable housing provision in the past decade was a reflection of the fact, observed in modern liberal democracies, that the market for owner-occupied and rental accommodation will not, on its own, meet the housing needs of those on low incomes or with special housing needs.

We will now explain each of the elements in this narrative.

*Inevitable Increase in House Prices*

The most important development in the past decade was the enormous increase in demand for housing, fuelled by the demographic and economic factors. Given the strength of demand, some of the trends observed were more or less inevitable. In particular, a significant increase in price was inevitable as was a significant spread of housing development beyond existing urban areas.

*Supply Response*

Over the past decade there was a very significant supply response in Ireland. The number of dwellings constructed in 2003 was three times the number completed in 1994. The vast majority of this increase has been provision of private dwellings. The quantity constructed has not only reached an historic high in Ireland, but has also exceeded construction in any other part of Europe as a percentage of the current dwelling stock.
Regional Differences in demand and supply

There were important regional differences in demand and supply and these led to higher prices in Dublin and a spread of development to dormitory settlements. Both construction figures and prices show that the Dublin housing market experienced greatest pressure. The increase in the price premium for Dublin over the period of buoyant growth arose from both demand and supply factors, but a smaller supply response was the major cause.

In discussion of the weaker supply response in Dublin, especially in the early years of the housing boom, two opposing arguments are often advanced: one sees it as a result of deliberate hoarding of land in order to maximise land and house prices; the second says that local authorities have zoned insufficient land. The NESC Council considered that the withholding versus zoning debate is an unproductive one, since neither polar position is sufficient to describe what was a complex process.

In that debate, reference is made to a number of indicators: the rate of utilisation of zoned land in a given time period, the pattern of ownership of land and the number of years of output that could be supported by the stock of zoned and serviced land. While these indicators are important, they do not allow us to advance either withholding or insufficient zoning as an adequate explanation. This is because the rate of utilisation, the pattern of ownership and the effective stock of zoned and serviced land are each dependent on a range of other features of the overall system.

In seeking to understand the smaller supply response in Dublin, especially in the early years of the housing boom, note should be taken of the following:

- The overall system of planning and building in Ireland, and the UK, is one in which it is necessary for firms to hold land banks to ensure that land is available when they require it, a feature that is well explained in the economic analysis of the land market (Evans, 2004).
- In the Irish land market and planning system, local authorities can zone land for residential development but cannot ensure the rate at which it comes available or that comes available in contiguous sites.
- The zoning of a substantial volume of land for open space in the Dublin metropolitan area and at its fringe influenced the quantity and location of housing supply (Williams and Shiels, 2001).
- In seeking to zone land for new residential development, local authorities frequently face resistance from existing residents.
- The low density at which land was developed (reflecting both ‘industry norms’ on the part of developers and the density at which permissions were granted by local authorities) undoubtedly reduced the supply response that was achieved from a given amount of land.
- Even when the policy of higher density became accepted, local authorities were constrained in granting planning permission for suitable densities by lack of infrastructure (for example waste water treatment and transport) which is necessary to support sustainable densities.
- The creation of adequate transport corridors that would have allowed higher densities would have required an integrated land use strategy for the GDA supported by major transport decisions at national government level.
- New developments on brownfield sites in urban areas are more complex than greenfield developments and, consequently, they tend not to occur unless both planners and the building industry focus on solving the inherent problems.
Overall, the lower supply response and greater market pressure in Dublin, especially during the early years of the Irish housing boom, seems to have been a product of the structures, systems and processes for both planning and infrastructural development.

Problems of Long-Run Sustainability and Rising Prices Exacerbated by Development Patterns

The dominance of low-density suburban development seems likely to have increased upward pressure on prices and problems of affordability. It does this by its extensive use of the scarce factor, land. In addition, many of the settlement patterns, neighbourhood designs and densities in evidence in the past decade, and before, are not economically, socially or environmentally sustainable. The Council’s systemic interpretation of the relationship between sustainability and price is the opposite of that often adopted in partial or casual observation. An individual household seeking accommodation, or an individual builder providing it, might be excused for thinking that there is a negative relationship between price and sustainability. It can seem that one of the only ways to achieve an affordable price is to go far from cities and towns and to build simple suburban estates of the traditional kind, even if the result is low-density, unsustainable, development. But if we analyse the system as a whole, the relationship between sustainability and cost is more likely to be the opposite: unsustainable development drives up cost both to individual households—through higher land and house prices, greater transport costs, longer commuting times and, in the long run, higher taxes—and to society, through higher infrastructural costs, increased service costs and environmental damage.

Reasons for Predominance of dispersed, low-density, car-dependent, greenfield development

Given the strength of demand, some spread of development on greenfield sites was inevitable. It is important to be clear what this does and does not imply. Casual observation of trends in recent decades might suggest the following interpretation: extensive new development of traditional suburban estates in greenfield sites has been an important component of the increased supply of housing that was necessary to meet the greatly increased demand. Consequently, urban sprawl and distant settlement are unavoidable features of the strong supply response necessary to address the overall housing problem. This might be seen as a reflection of an underlying fact that quantity and sustainability are conflicting objectives. This negative relationship between quantity and quality sustainability is illustrated in Figure 2.
While this interpretation has an obvious plausibility, it is undermined by more careful long term and comparative analysis. Williams, Sheils and Hughes (2003) show that the heavy reliance on distant greenfield development in Ireland, and especially around Dublin, is largely a consequence of a set of structures and systems which did not accommodate a supply response in and near the city. The absence of a clear strategy for dealing with housing shortages in Ireland’s growing cities, combined with systems that failed to create transportation and utility infrastructure, has effectively ‘exported’ housing demand from cities to the surrounding counties. Only in this context are supply response and sustainability conflicting objectives. Indeed, in an altered policy and institutional context, the goals of housing provision, sustainability and social integration can be complementary.

Some of these problems—and the negative, but contingent, relationship between quantity and quality/sustainability—can be traced to the absence of an integrated housing, land use and transport strategy for the GDA. A more desirable pattern of new development—would have required the public authorities to have operated on a similar time horizon to that adopted by the most sophisticated private development companies, i.e. 15 to 20 years.

**Determination of Land Prices**

It was noted in Section 2 above that one of the anxieties about the Irish housing system is that high land prices are a key factor contributing to the high level of house prices. Both analytically and empirically, it is not adequate to say that land prices are the cause of high house prices. Modern economic analysis views the prices of products as being determined by the interaction of ‘supply and demand’. The demand for factors of production—such as land, labour or capital—is described as a ‘derived demand’, derived from the demand for the final products and services that they

---

**Figure 2**

The Potential for Opposition between Quantity and Quality/Sustainability: The Oppositional Cycle

<table>
<thead>
<tr>
<th>Quantity</th>
<th>Quality/Sustainability</th>
</tr>
</thead>
<tbody>
<tr>
<td>• poor services</td>
<td>• urban sprawl</td>
</tr>
<tr>
<td>• restrictive planning within urban areas</td>
<td>• lack of integrated housing/transport</td>
</tr>
<tr>
<td>• pressure for extensive development</td>
<td>• non-sustainable density</td>
</tr>
<tr>
<td>• low density</td>
<td>• lack of development contributions</td>
</tr>
<tr>
<td>• land scarcity</td>
<td>• poor services</td>
</tr>
<tr>
<td>• urban sprawl</td>
<td></td>
</tr>
</tbody>
</table>

---

112
produce**.

This would suggest that the demand for land is derived from the demand for houses. In expectation of a given price of houses, builders compete for land. Depending on how much land is available, their competition will tend to drive up the price of land. It is the intensity of demand for houses, relative to the supply, that generates an increasing transfer of value to landowners.

Within this approach, the supply conditions of land do have a major influence on the degree to which a given demand for housing translates into an increase in land prices and house prices (Evans, 2004). At one extreme, if enough land were available, even a dramatic increase in housing demand, such as that experienced in Ireland in the past decade, could be met without driving up land prices and house prices very much. At the other extreme, if land supply were highly restricted, a strong demand for housing would feed through to a very strong increase in land values. The two major influences on the effective supply of land are (i) the willingness of landowners to sell suitable sites; and (ii) the planning and public investment system. We say the planning and public investment system, because it is not only its willingness to zone land and grant planning permission that is important, but also its efficiency in servicing land, providing integrated infrastructural development and the density guidelines adopted. As noted above, an important aspect of the supply conditions of land in Ireland was planning and infrastructural policies that did not allow a sufficient supply response in and near the major cities, especially Dublin. These supply conditions of land must be seen as one of the factors that explain the price of both houses and land in Dublin.

** A more detailed discussion of the land market can be found in one accompanying background paper to the NESC Housing study (Background Paper 7, available at www.nesc.ie).
reduction in interest rates.

**The Earlier Contraction of Local Authority Construction**

In understanding the limited extent of, and exact nature of, the affordability problem described above a major factor is a change in the way public policy impacted on the Irish housing system. Starting in the mid 1980s, there was a sharp reduction in local authority house construction, an increase in the sale of local authority houses and, most importantly, a significant reduction in the share of social housing in the overall housing stock. Pressure of reduced affordability and increased housing need in the 1990s gave rise to greater take up of rent supplement, prompted a somewhat higher level of social housing provision and the creation of new approaches, such as Affordable Housing schemes. Nevertheless, the contraction in local authority social housing, meant that at the very time when housing need and demand was rising to its greatest ever level, there was a reduction in public housing provision.

**Private Housing Market Unlikely to Meet All Needs**

In a period of unprecedented economic growth, prosperity, employment creation and unemployment reduction, those on low incomes and with special needs faced increased, rather than decreased, difficulty in the markets for home ownership and rental accommodation. This combination of overall economic prosperity and increased housing need underlines the fact, observed in modern liberal democracies, that the market for owner-occupied and rental accommodation is unlikely, on its own, to meet the housing needs of those on low incomes or with special housing needs. This derives from four general features of liberal market economies—the pattern of income distribution, the core features of housing markets, the scale of social need and the persistence of social need disadvantage. This central proposition is based on both empirical observation and economic analysis††.

Consequently, the NESC housing report concluded that a significant level of public policy support for housing should be seen as an ongoing feature of Irish social and economic policy. The nature of this ongoing support is discussed in more detail in Section 8 below.

### 5. JUDGING STABILITY, INEQUALITY AND SUSTAINABILITY

Based on the understanding presented above, I now return to the three anxieties identified in Section 2 above (stability, inequality and sustainability) and present the judgment reached on these issues in the NESC study.

Taking the past decade as a whole, most analyses suggest that the huge expansion of output, home ownership and mortgage borrowing has reflected fundamental economic and social realities. Nevertheless, several studies suggest that, at certain times, Irish house prices have risen higher than can be explained by the underlying patterns of incomes, employment, demography and interest rates. Regardless of whether house prices are now in excess of their fundamental value, there are a number of reasons why the evolution of the housing industry in the coming years is of

---

†† Observation shows that most liberal democracies have extensive systems of housing support and/or housing provision not only for marginalized households, but also for a significant share of those in employment. Those with less extensive housing policy or provision, such as the US or Brazil, have housing outcomes among those on low incomes that should not be accepted in Ireland. The extensive use of housing support and housing provision in liberal market democracies can be understood by reference to numerous features of the labour market, the land market and the housing market that are widely cited in both economic and social analysis. In the Irish context, some of the relevant features of land and housing markets are summarized by Dunne, in his evidence to the All Party Oireachtas Committee on the Constitution. Among these is the cyclicality of property markets. Dunne says ‘Inevitably, when prices are high those at the bottom end of the market will be priced out. When prices are low, supplying those at the bottom end of the market will not be profitable’ (Dunne, 2003).
great significance. Among these; the fact that house building has become a significant sector of the economy, the current level of housing output is above the level of long-term private housing demand and there continues to be unmet need for social housing.

The analysis confirms anxieties about inequality in the distribution of opportunities and difficulties. Despite its dynamism, the private market for owner-occupied housing has not met the housing needs of many and the market for private rental accommodation has displayed rent levels that are not affordable for some households. In addition, rapidly rising property prices have been an independent source of significant change in the distribution of wealth and income in Irish society.

The analysis also confirms concerns about the sustainability of the housing system. A strong case can be made that the patterns of settlement, neighbourhood design and density in the past decade are storing up significant social, environmental, budgetary and economic problems in years to come. Furthermore, this has been occurring in a context in which there are clear, well-defined, feasible alternatives that are sustainable. In NESC’s view the Irish housing system has been dynamic, but unbalanced. Dynamism is evident not only in the strong increase in supply, but also in the many policy initiatives since the early 1990s. The unbalanced nature of the system is evident in the gap between demand and supply, especially in Dublin in the early years of the housing boom, in the inequality of opportunities and pressures across income groups and in the imbalance between the provision of private and social housing. There has also been an imbalance between home ownership and rental, although this has moderated. A series of imbalances undermine the economic, social and environmental sustainability of the settlements and neighbourhoods being constructed. Finally, in the views of some, but not all, there has been an unbalanced distribution, between landowners and wider society, of the increase in land values or ‘betterment’ that arises as a by product of general economic and social development.

6. FUTURE OUTLOOK AND POLICY CHALLENGES

Estimates of future market demand suggest that a significant level of additional housing output will be required over the next decade. With the current high level of output, balance between supply and demand should be achieved in the coming years, although imbalances may persist for a time in certain locations or market segments. It is not clear when annual housing market output will begin to decline.

While we confront a number of difficulties in estimating the future provision of social and affordable housing and the scale of future housing need, the overall balance is clear. Both housing-specific measures (such as local authority waiting lists, estimates of affordability problems and take-up of SWA rent supplement) and wider social and economic trends (in benefit dependency, disability, low earnings and single earning households) suggest that there remains a gap between the projected provision of social and affordable housing and the number of households that will be unable to achieve home ownership on the open market or who will face affordability problems in private rental accommodation.

Reflecting NESC’s analysis of Ireland’s experience in the past decade and its estimate of future demand and need, the key policy challenges are:

- To achieve high-quality, sustainable, development in both urban and rural areas;
- To provide an effective range of supports to households that fall below
the affordability threshold;

• To assist the market to continue to provide a high level of supply;
• To ensure a tax and subsidy regime that supports these goals.

**A Changing Perspective on Housing Policy**

Two general orientations inform NESC’s recommendations. First, the instruments that can address these challenges are to be found more in the areas of planning, urban design, infrastructural investment, land management and public service delivery, than in manipulating tax instruments to alter the supply or demand for land or housing. Second, the NESC Council rejected the idea that a greater quantity of housing must be at the expense of quality development. Increased housing quantity and better quality neighbourhoods can be complementary and, indeed, mutually reinforcing. This requires a clear vision of the kind of high-quality, integrated, sustainable neighbourhoods that are worth building.

**7. SUSTAINABLE NEIGHBOURHOODS AND INTEGRATED DEVELOPMENT**

In the past five years there have been important developments in the principles, strategies and procedures that govern spatial development and residential settlement. These include the National Spatial Strategy (NSS), Regional Planning Guidelines, Local Authority Development Plans and Residential Density Planning Guidelines. These initiatives contain five clear principles:

• Sustainable urban densities;
• Consolidated urban areas;
• Compact urban satellites;
• Rapid communication networks; and
• Sustainable rural settlement.

**Sustainable Neighbourhoods**

This evolution of thinking and procedure is potentially of great significance. The characteristics of sustainable neighbourhoods are now clear and easily understood. Sustainable neighborhoods have six characteristics that distinguish them from sprawl:

• The centre: each neighborhood has a clear centre focused on common activities such as commerce, culture and public governance;
• The five minute walk: residence are rarely more than five minutes walk from the ordinary means of daily life;
• The street network: the street pattern takes the form of a continuous web or grid;
• High amenity green spaces;
• Mixed use, including, residential, commercial and other activities; and
• Narrow versatile streets.

Such neighbourhoods have a number of social, economic and environmental advantages over the patterns of sprawling suburban development common in Ireland over recent decades. These include lower levels of car dependence, greater inter-generational and social integration, combined with greater independence for old and young people, easier access to social, community and sporting organisations and higher levels of social and commercial services.

Contrary to what is sometimes believed, sustainable urban density does not necessarily imply high-rise development. It is possible to achieve sustainable densities using a variety of housing
types —houses, apartments, maisonettes— and a mix of densities (see NESC, 2004, Chapter 5). Nor does a sustainable neighbourhood necessarily mean city-centre living. Sustainable rural housing need not be in conflict with the Irish rural tradition.

In making the case for sustainable development it is necessary to deal with an important possible objection concerning the interaction between the quantity and quality of development. Casual observation of trends in recent decades might suggest the following interpretation: extensive new development on distant greenfield sites has been an important component of the increased supply of housing, necessary to meet the greatly increased demand. It is argued by some that quantity and quality development are inherently in opposition and that urban sprawl and extensive low density settlement are an unavoidable feature of the strong supply response necessary to meet Ireland’s housing needs. Consequently, placing a limitation on extensive development is likely to reduce the supply response and worsen the overall housing problem.

While this interpretation has an obvious plausibility, it is undermined by more careful long term and comparative analyses. Heavy reliance on distant greenfield low-density development in Ireland is largely the result of a set of structures and systems which did not accommodate a supply response in and near urban areas. The Council believes that in an altered institutional context, such as that emerging in Ireland, the goals of housing provision, sustainability and social integration can be complementary. This positive relationship between quantity and sustainability quality is illustrated in Figure 3. Well-designed neighbourhoods will have sustainable densities, good educational, recreational and retail services accessible with limited car usage, and good transport links to other urban and rural areas. These environmentally sustainable features will be supportive of social sustainability: a rich associational life, inter-generational integration, employment opportunities, balanced work/life arrangements and crime prevention. The elements of this approach are now well known and the principles are part of Irish policy. The complementarity of quality and quantity will be achieved if the projects proposed by the industry embody the new principles and the new procedures for setting guidelines and planning are operated effectively by central government, regional authorities and local government.
Higher density and better planned neighbourhoods can contribute to a compact urban environment, efficient use of the scarce land close to the urban core, effective and viable provision of services, a critical mass necessary to provide a frequent interconnected public transport system, and increased opportunities to walk and cycle to work, school and shops. When combined with high amenity areas—such as playgrounds and well-maintained green spaces in the form of urban squares and public parks—an area of good environment and high amenity will command a price premium. The strong preference for integrated neighbourhoods is demonstrated by the very high price paid for property, even quite small houses and apartments, in such areas‡‡.

Strengths and Risks of the Policy Approach

The policy approach has been evolutionary and incremental: enshrining the new principles in the overarching national strategy, creating a hierarchy of plans and guidelines and instigating new procedures in local and regional authorities. This was appropriate, given the dispersed nature of

‡‡ An example would be the area of Drumcondra in Dublin. While the high price of property in such an area might, in part, reflect its central location, this is by no means the main explanation. This can be seen by noting that equally high prices are paid for quite small houses and apartments in well laid out neighbourhoods that are located many miles from the city centre, so long as they are served by public transport, such as rail.
decision making in the fields of physical planning, housing, infrastructural investment and transport. The strength of the approach is that it has gradually built a degree of consensus—among local and regional authorities and, hopefully, among developers and builders—on the new principles listed above.

There is a risk, however, that the procedures and institutions will not achieve sufficient coordination to ensure rigorous and widespread implementation of the new principles.

First, there is a risk to the overall spatial strategy. In rationing investment between the regions and Dublin, policy might achieve neither balanced regional development nor an effective city-region in Dublin. Dublin could continue to grow as before, but because this was not envisaged in the NSS, it would not be provided with sufficient infrastructure to allow it function as a successful city-region. It is necessary now to identify and prioritise the next generation of major infrastructural investments necessary for a competitive regional and national economy. The analysis of past experience, showing the critical role of transport in both housing supply and sustainable neighbourhoods, strongly suggests that further transport infrastructure, probably in rail, is necessary.

A second risk is that the strategies and procedures put in place in recent years will not achieve sufficient integrated land-use planning to ensure sustainable urban settlements linked by regional transport. To turn the new principles and guidelines into reality requires an active process in which the central Department, the regional authorities and the local authorities engage with each other, and with other actors, to scope out a desirable pattern of long-term settlement for each region, city, gateway, hub and, indeed, town.

There are also a number of risks at local authority level. These include, first, the risk that the six-year county development plans will not be sufficiently informed by a longer-term strategic vision of local and regional development; second, the risk that the new principles will not be sufficiently reflected in the projects proposed by builders and given permission by planning authorities; third, the risk that local authorities will not create and maintain the level of local infrastructure and services necessary for sustainable neighbourhoods and; fourth, the possibility that the overall planning process will not be fast enough.

To minimise these risks it is necessary to ensure that there is, within the public system, enhanced capacity and capability for analysis of spatial policy problems. There is a need for better research on physical development and property markets, more analysis of the links between land-use and transport planning, identification of best practice through comparison of plans and trends and a sophisticated repository of spatial data. The purpose of this enhanced capacity would be to support national government, regional authorities and local authorities in the complex task of achieving integrated development.

8. SOCIAL BALANCE: SOCIAL AND AFFORDABLE HOUSING

Before outlining NESC’s preferred strategic direction on housing it may be useful to first articulate approaches that were not accepted by the Council.

The NESC Council did not believe that the market alone – even when it reaches broad equilibrium – could be relied upon eventually to erode most of the current need for social and affordable housing supports. This view was supported by the examination of the likely future composition of
housing needs which it is prudent to plan for in the light of likely developments in the pattern of income distribution, demographic changes affecting the scale of social need, the persistence of social disadvantage, and core features of housing markets. The study concluded that a significant level of housing support, including a significant share of socially owned housing, must be seen as constitutive elements of the Irish housing system for the foreseeable future.

The Council also considered the arguments for transition to a ‘unitary’ rental system. The contrast between ‘unitary’ and ‘dualist’ systems has been outlined by Kemeny (1995). In a unitary system, a large social rental sector competes effectively with private renting and owner occupation, hence the term unitary. Germany and Sweden are examples of unitary rental systems. By contrast in a dualist rental system, of which Ireland is an example, there is a strong distinction between the social and private rental sectors. The Council was of the opinion, that the continuing existence of a non-active cohort of the population with long-term welfare dependency strengthens the rationale for continuing state provision of a core housing stock, and that the extent and impact of income inequality within Irish society would make it difficult to overcome the dualist nature of the current housing system.

Given the future market outlook and the gap between existing social housing provision and likely future housing need, the NESC Council recommended:

- An expanded and more flexible stock of housing available at a social rent to ensure an adequate safety net for vulnerable households;
- A wider range of graduated supports for ‘intermediate’ households by strengthening the measures which make housing affordable for purchase and by actively exploring supply-side measures to create a supply of ‘affordable’ rental accommodation; and
- Provision of adequate resources for social and affordable housing.

A high level of ambition is now appropriate in the provision of social housing. The NESC wished to signal the scale of the response that should be planned for, while believing that the eventual level would be better finalised in the wake of the assessment housing need in 2005 which was not available when the NESC study was being finalised. Given available information, the NESC believed that an increase of permanent social housing units, owned and managed by local authorities and voluntary and co-operative housing bodies, in the order of 73,000 (net of tenant purchase) between 2005 and 2012, is necessary to meet the need for social housing. The cost to the Exchequer of such an increase will depend on a combination of factors, including the composition of the additional supply and the approach to tenant purchase. An initial estimate by the NESC suggested that it would cost in the order of €1.4 billion per year in 2004 terms, or an additional €500 to €600 million per year above existing capital expenditure. It is clear that the Council envisaged a substantial increase in investment in social housing with significant implications for the public capital programme.

In raising the output of social housing, an important factor will be how increased quantity is combined with high quality. This can only be achieved by close monitoring of the effectiveness of the various forms of social housing provided in particular contexts.

The NESC study welcomed the reform of the SWA rent supplement scheme announced in July 2004; through the Rental Accommodation Scheme (RAS) the private rental sector is to be contracted to provide long-term accommodation to people in receipt of SWA rent supplement for longer than 18 months. The RAS should support a more flexible social housing stock, while adding to the set of social housing options. It is important, however, to monitor this innovative measure and not to lose sight of the strategic value of maintaining an appropriate balance between the use of privately owned rental units and the construction or acquisition of permanent social
dwellings.

NESC advocated a wider range of graduated supports for ‘intermediate’ households. Currently, policies to provide Affordable and Shared Ownership housing enable 5 to 6 per cent of home buyers to secure their housing at a discount. NESC recommended continuing support at, at least, this level for the foreseeable future.

To date, the limited intermediate sector is focused on supporting home ownership. Subsidies to support supply of affordable rental accommodation have not been developed. The evidence suggests that, over the past decade, the most severe affordability difficulties were experienced by tenants in the private rental sector. NESC believed that the potential exists to develop a cost-rental segment in the Irish housing system over the medium to long-term. It recommended that a feasibility study be conducted on a joint basis by the Department of the Environment, Heritage and Local Government and the Department of Finance—involving local authorities, development agencies and other relevant stakeholders, where appropriate—on the funding, institutional arrangements and other supports that could support affordable rental accommodation on a cost-rental or limited-profit basis.

The NESC study identified four other significant social housing issues that require more detailed analysis and debate, but on which the Council was not in position to make firm recommendations. These are:

- **Public rental policy**: The current differential rental scheme for Irish social housing results in a continuing shortfall between rents collected and the costs of maintenance and management. This makes housing affordable to low income tenants but has a number of drawbacks. NESC recommended a review of the differential rents policy be carried out to improve sustainability and effectiveness.

- **The ownership of public housing**: Ireland is unique for the proportion of its social housing that is under direct state control and NESC recommended that the potential for the transfer of local authority stock should be considered by interested local authorities where an alternative landlord exists, and where it is believed quality of service and value for money would be improved.

- **Personal housing subsidies**: Ireland is one of the few countries in the European Union without a general, income-related, demand-side housing allowance. There are advantages and disadvantages to such subsidies§§.

- **The tenant purchase scheme**: In view of NESC’s recommendation to increase the stock of social housing, it was proposed that consideration be given to modifying the tenant purchase scheme to support this objective.

### 9. TAX AND RESOURCE ISSUES

There is a substantial gap between the current situation and the priorities identified by NESC: increased provision of social and affordable housing and of infrastructure necessary for well-designed, sustainable, settlements. The needs identified by the NESC Council have implications for both current and capital expenditure. If the needs identified are to be met, a higher level of capital spending in these areas will be necessary. While this need not exclusively be Exchequer financed, it seems likely that there will be a need for higher Exchequer capital expenditure. The

---

NESC recognized that its proposals imply a very substantial increase in the level of investment in housing and suggests that these priorities should be factored into the next National Development Plan. Provision of the capital investment necessary to provide an adequate level of social housing and infrastructural amenities for sustainable neighbourhoods must be undertaken in a way that is consistent with other public investment needs and sound public finances.

Additional social housing and more sustainable neighbourhoods also imply a need for current resources. While there is scope to provide some of these needs through the reallocation and more efficient use of existing resources, it is likely that there will still be a need for additional resources. The raising and allocation of current revenue must have regard to the potential impact of taxation on the level and pattern of economic activity and employment.

As noted above, the NESC’s analysis of the housing system did not suggest that the current policy challenges can be adequately addressed through using tax instruments to alter the supply or demand for housing or land. Mortgage Interest Tax Relief (MITR) should be retained in its current restricted form. Likewise MITR for landlords and tax relief to tenants on rent payments continue to have a role.

While stamp duty imposes a significant transactions cost, the NESC did not believe that abolition of stamp duty is a good idea in current circumstances. Stamp duties on residential property are now a significant source of revenue. Indeed, stamp duty, as a tax on transactions in property, is the main form of property tax in Ireland. There are arguments in favour of property taxes, on both equity and efficiency grounds. The NESC believed that it would be unwise to abolish a source of revenue from property as significant as stamp duty. However, there are a number of possible amendments to stamp duty that should be considered.

The NESC study also recommended that Government should explore possible ways of providing support to those who need assistance in achieving a deposit for owner-occupied housing. Such support could take the form of tax relief on saving for a deposit or a loan from the state to cover the deposit. In considering whether to adopt either of these approaches, attention should be paid to the position of the housing cycle, overall levels of indebtedness and the vulnerability to interest rate increases. Furthermore, any such measure must not place an excessive burden on the public finances.

There are a number of reasons why the prevalence of second homes should be a focus of public policy. Second homes can drive up land and housing costs for people seeking primary homes and frequently do not cover the true costs of connection, services, environmental damage and lost amenity. Some local authorities use development contributions in a way that recoups a greater proportion of the true costs, and this is a welcome development. In addition, the Council believed that consideration should be given to a separate tax on second homes.

**10. LAND, LAND MANAGEMENT AND BETTERMENT**

NESC’s interpretation of the land market emphasises the extent to which the supply of land is variable and uncertain. The implications of this variability and uncertainty have only recently been fully articulated, but they are an important part of a framework for understanding the role of land in the housing system (Evans, 2004). That framework provides an insight into past policy initiatives and future policy possibilities.

This variability and uncertainty means that the land and housing markets work very imperfectly.
Sites sold for development are unlikely to be adjacent to each other and development tends to sprawl across the landscape. Planning often attempts to control such development, but in doing so can increase the scarcity value of land and housing. Planning of the type undertaken in Ireland cannot ensure that land allocated for development is actually built upon. In some countries, large scale public land banking is used to combine a smooth supply of land with integrated development, while in other countries, including Ireland, activist land management is used in a more selective way. The uncertainty and variability of land supply and the planning system shape the business practice of developers and others in the market. They prompt them to invest in land-banks to ensure that they have an ongoing supply of suitably located sites. Planning and perceived land scarcity give particular land owners the power to influence the timing and location of development.

This perspective qualifies two traditional assumptions in the economic analysis of land and housing markets. The first is that the supply of land is more or less fixed. The second is that the owner of land will smoothly and swiftly allocate it to its most profitable current use. These two assumptions underpinned the dominant ideas on how the price of land was determined by the demand for housing and the effects of taxation of development gains.

On prices, the traditional view is often expressed in the maxim ‘it is not high land prices that cause high house prices, but high house prices that cause high land prices’. This is more or less true when the supply of land is fixed. But the maxim bewilders many who hear it, and they are right to be sceptical. For the maxim takes the price of houses as an unalterable fact, thereby ignoring the degree to which the supply conditions of land also influence whether it is high or low.

On the taxation of betterment gains, the traditional view implied that the betterment created by public investment could be taxed without any impact on the supply of land. The new view, that land supply is variable and uncertain and that landowners have a role to play in ensuring that their land is used efficiently, implies that the taxation of betterment can cause problems. The taxation of betterment value, by reducing the post-tax price received by landowners, may reduce the supply of land available for development and hence reduce housing supply. This would result in both higher land and house prices.

This analytical framework draws attention to a number of things that can go wrong in the land and housing markets and some associated challenges for public policy:

- Things can go wrong if insufficient land is zoned and serviced, hence one policy challenge is to achieve sufficient zoned and serviced land in areas of greatest need.
- Problems can arise if the owners of land do not want to sell, so a further policy challenge is to achieve an adequate and smooth supply of land.
- If the long-term development needs of a city are not strategically identified then land across a whole region tends to be zoned in a haphazard way and made available to builders in a patchy manner.
- The strength of demand in a given location can create a large price premium.

The NESC Council believed that an effective policy on land requires a combination of four approaches:

- A land-use strategy over a long horizon, including zoning and servicing of land;
- Land for enhanced social and affordable housing programmes;
- Sufficient active land management to ensure delivery of housing; and
Betterment-sharing measures, designed in a way that does not damage supply.

The first two policy approaches are central to the Council’s recommendations for sustainable neighbourhoods and increased provision of social and affordable housing, summarised above. They should be seen as part of an overall policy approach which entails sufficient active land management to ensure the delivery of housing to meet the needs of different income and demographic groups.

Elements of public land management are evident in a number of aspects of Irish policy: the Serviced Land Initiative, affordable housing schemes, Part V, public private partnerships for neighbourhood design and housing provision, the Critical Infrastructure Bill, Strategic Development Zones, and urban development entities, such as the Dublin Dockland Development Authority. Indeed, the affordable housing initiative under Sustaining Progress highlights the critical role of a central policy driver engineering the delivery of land.

The Council acknowledges the role of these elements of active land management in meeting the goals of market supply, sustainable neighbourhoods and the provision of social and affordable housing. It believes that these approaches should be enhanced in appropriate contexts. Six points should be noted. First, it is important to see that the adoption of a longer time horizon for land use planning and urban development would, of itself, constitute a significant degree of land management. Indeed, when the time horizon of the regional and local planners at least matches that of the most sophisticated private developers, public ownership of land may be less necessary. And, where it is deemed necessary, it is likely to be less contentious. Second, in some areas, such as Dublin docklands, natural or historical boundaries define an area of land that is subject to an element of public land management, and this can be used to influence the speed, nature and quality of development. Third, where compulsory purchase is used for urban development it is nowadays normally the basis for a partnership with private developers. Fourth, there is a strong case for local authorities using their compulsory purchase powers to acquire certain lands before they are zoned for residential development. It could then be used for mixed housing, social infrastructure or sold to developers. Fifth, this may require that compulsory purchase legislation be reformed and streamlined, in order to reduce uncertainty and delays. Sixth, there is also a case for active public management of derelict sites, as these can particularly assist housing provision in existing urban areas.

The fourth component of an overall approach to land is betterment-sharing measures designed in a way that does not damage supply. Recognition of the variability and uncertainty of land supply calls into question the traditional assumption that betterment value could be taxed without any impact on the supply of land. Other elements of land policy—land-use strategies, zoning and active land management—will, to some degree, reduce the degree of land value betterment. Nevertheless, there can remain a high level of land value betterment, reflected in extremely high land prices and the high share of land value in house prices, as has been seen in Dublin and other places.

In particular contexts, where a high level of betterment-value remains after appropriate zoning and existing betterment-sharing measures, the goals of housing policy could be advanced by selective use of additional betterment sharing instruments. Where an element of active public land management exists and a high scarcity value of land remains, an opportunity arises for a negotiated form of betterment sharing. Indeed, development is increasingly undertaken in partnership with private developers. The terms on which land is made available can include a fair sharing of betterment value between the private sector and the public interest. Likewise, were compulsory purchase of un-zoned land to be used to manage the provision of land for social and
affordable housing, the power to zone the land and to negotiate its provision to developers would allow a sharing of betterment.

11. CONCLUSIONS

The analysis in this paper provides a unified rationale for a housing policy that addresses the need for social and affordable housing and sustainable neighbourhoods. The provision of social and affordable housing has a long history in Ireland, but has come through a period of retrenchment, and is only now achieving a secure rationale in the economy and society of the 21st Century. The move to sustainable settlements and integrated land-use strategies with a longer horizon has been recent and gradual and has yet to be fully achieved. Active land management has developed independently in a number of different contexts, and has yet to be seen as an essential element of overall housing policy. A key to deliver on each of these goals, and linking them successfully, lies in the flexible use of a combination of the policies on land, land management and betterment, described above.

The scale of the challenge involved in addressing effectively Ireland’s housing challenged is compared by NESC to other great challenges that Ireland has faced and met in the past half century: the opening of the economy in the early 1960s and the creation of a new economy through partnership in the mid-1980s.

It is similar in three ways. First, it is essential to the social and economic future of Irish society. Second, it requires a widely shared understanding and consistent action by numerous organizations, both public and private. Third, it challenges not only our traditional behaviour but, more importantly, the self perception that underpins that behaviour. The opening and modernisation of the economy challenged the self-perception that Ireland was a cohesive society, but one that could not aspire to the levels of material prosperity found elsewhere. The recasting of policies and approaches in the 1980s challenged the self-perception that the Irish are a creative and convivial people, but not capable of high-grade manufacture of sophisticated objects. Achievement of the new principles of urban development and social integration seem to be blocked, more than anything else, by the self-perception that Ireland is so attached to extensive development, and so divided between competing interests, that although we can create a dynamic economy, we cannot make quality, sustainable, socially-cohesive, cities and towns. Since the earlier self-perceptions were confounded by the emergence of a prosperous society and a world centre of engineering and information technology, there is no reason why we cannot prove ourselves wrong again.
References


