

[The Cost Rental Approach: What is it and what does it mean for Ireland?](#)

Introduction

‘A crisis in housing is characterised by an acute and enduring shortage of appropriate housing given current and emerging patterns of demand for accommodation in the Republic of Ireland’.¹ The immediate impact of the crisis is seen and felt by families and individuals who struggle with space, with household budgets, with repairs, with saving, planning for the future and with health and well-being.

The Government has identified a significant gap in affordable housing provision for people who are earning incomes but cannot afford to rent or buy a property that is suitable for their needs and their location.² The Economic and Social Research Institute (ESRI) found that 16% of households spend more than 30% of their net income on housing, with this figure rising to 70% for the lowest quartile of the income distribution.³ The lack of affordable housing, whether renting or buying, impacts those living in poverty the hardest.

Increasing housing supply is therefore necessary to support the thousands of families currently in precarious private rented and temporary emergency homeless accommodation. This requires direct public policy influence on supply as around one-quarter to one-third of the population will not find satisfactory housing through the market alone.⁴

Both NESC and NERI have previously proposed a European cost rental system to enable the increased supply of homes for households on low to middle incomes.⁵ A NESC publication in 2014 stated, ‘cost-rental provision with secure occupancy to a significant share of the population is the best available response to the dynamics of rental systems and housing markets. A movement in this direction will require complementary adaptation of housing assistance payments on two fronts: limiting the state’s current exposure to rising rents in the private-rental sector and ensuring affordability for tenants currently paying a differential rent’.⁶

¹ http://files.nesc.ie/nesc_reports/en/141_Irelands_Rental_Sector_MainReport.pdf

² Department of Housing, Planning and Local Government, Statement by Minister Eoghan Murphy TD on Affordable Homes Initiative (2019). Available online at: <https://www.housing.gov.ie/housing/rebuilding-ireland/affordable-housing/statement-minister-eoghan-murphy-td-affordable-homes>

³ ESRI (2018) “Exploring Affordability in the Irish Housing Market. Available online at: <https://www.esri.ie/publications/exploring-affordability-in-the-irish-housing-market/> p.6

⁴ http://files.nesc.ie/nesc_reports/en/138_Social_Housing.pdf

⁵ <https://www.socialjustice.ie/sites/default/files/attach/policy-issue-article/5329/2018-06-01costingcostrental.pdf>

⁶ http://files.nesc.ie/nesc_reports/en/138_Social_Housing.pdf

This policy paper briefly introduces cost rent as a concept. It then goes on to outline the various models of cost rental provision in a number of comparable European jurisdictions.

It also introduces some recommendations that could be implemented in the case of Ireland to enable the cost rental approach to be delivered on a much greater scale than is currently the case.

What is Cost Rental?

Cost Renting is defined by Kemeny as ‘all rental housing, irrespective of ownership, the rents of which cover only actual incurred costs of a stock of dwellings (1992:34).⁷ The basic idea of cost rental is that a social-housing provider raises the finance to provide accommodation and charge rents that are sufficient to cover current and capital costs. Because of maturation, these costs tend to fall in real terms over time, allowing cost-based rents to fall also. Low-income tenants for whom the cost rents would be too high would use a housing benefit payment to help pay the rent. A key feature of this model is the development of a much stronger rental sector available to a mix of household types and incomes.

Cost-Rent is not a new concept in Ireland, there are a couple of projects at development stage, but it needs to be scaled up if it is to have a positive impact on the housing and homeless landscape. The first cost rental project is taking place on the Eniskerry Road, Stepside, Dublin with the delivery of 50 cost rental homes in 2021. Tenants will pay €1,200 per month to live in a 2 Bedroom home.⁸ While the rental payment is considerably lower than a comparable property in Dublin at market prices, a housing subsidy payment or a reduction in rent would need to be considered for low income households.

In a press statement by the previous Minister for Housing on the development of cost rental homes in Inchicore, he envisaged that the cost rental scheme should be able to deliver rents of between 15% to 25% below the market rate. The scheme will be aimed at households earning low to moderate incomes of maximum €50,000 (single income) to €75,000 (dual income).⁹ In both cost rental projects the European Investment Bank financially supported the projects in cooperation with

⁷ Kemeny J. (1992), *Housing and Social Theory*, London: Routledge

⁸ <https://www.tuathhousing.ie/minister-turns-the-sod-on-irelands-first-ever-cost-rental-homes/>

⁹ <https://www.housing.gov.ie/housing/private-rented-housing/minister-murphy-welcomes-redevelopment-proposals-council-lands-emmet>

the Housing Finance Agency.¹⁰ For future cost rental projects, the European Investment Bank will be an important source of finance for the state to utilise while borrowing money as well as the Ireland Strategic Investment fund and credit unions. State borrowing is achievable also as interest rates are low currently.

The following is a breakdown of the four main levers used to make up the €1200.00 rental payment:

Input	Description	Saving per month (approx.)
Land	No site costs	€150
Service Site Funding	Enabling Infrastructure	€250
Finance	Low cost, long term	€300
Reduced margins, other savings	Reduced operating margins, sundry small savings	€100

Source: <https://www.housingagency.ie/sites/default/files/Affordability%20-%20Cost%20Rental%20Model%20-%20Daragh%20McCarthy%20and%20Jim%20Baneham%2C%20Ho using%20Agency.pdf>

A feature of the context of social housing in other European countries, is that the major social housing providers are not classified as within the general government sector, as defined by Eurostat, and applied in EU fiscal policy rules. This means that their borrowing does not add to the general government deficit or debt. This is a significant difference to the situation here: Ireland's largest providers of social housing are classified in the general government sector so that borrowing for local authority housing adds to the deficit and debt. In current economic circumstances- as in those that prevailed in much of the 1980s and 1990s and again after the 2008 recession- Ireland's high government debt levels sets severe limits on borrowing to fund public-housing provision.

In relation to the EU rules on state aid for services of general economic interest, Padraic Kenna (2019) has outlined that housing is an area of national competence, and that investing in an expanded form of social housing is permissible under EU rules once the criteria of eligibility for social housing such as cost rental are clear and justified.¹¹

¹⁰ <https://www.housing.gov.ie/housing/private-rented-housing/minister-murphy-welcomes-redevelopment-proposals-council-lands-emmet>

¹¹ Cited in Hearne R. (2020) Housing Shock The Irish Housing Crisis and How To Solve It Published By Policy Press: UK

Ireland's traditional model of 100-per-cent capital grants for social housing is not used now by any of the countries covered in a study by the European Social Housing Observatory (CECODHAS, 2013).¹²

There is one advantage to the provision of 100-per-cent capital grants. Typically, the State is in a position to borrow at the lowest costs so that funds raised by the state and provided as grants to social-housing providers will usually represent the lowest cost finance that can be raised for social housing.

According to NESC research publication on cost rent, if social housing within the public system is to be reclassified as outside the general government sector, it would need to be organised as either a public corporation or a quasi-corporation. This could take the form of a new public institutional entity or entities for the provision of social housing. An advantage of this is that if social housing is within a dedicated organisation, with a clear focus on the provision of housing, it could also promote improved management performance on various dimensions.

If social-housing providers were to charge cost-based rents that were sufficient to support new provision, a problem that would arise is that the resulting rents would be too high for typical social-housing tenants. In other European countries, lower income tenants in both the social and private rental sectors can avail of housing benefits and hence are in a position to pay higher rents than the differential rents paid by social-housing tenants in Ireland.¹³

Social Housing in Selected European Countries

The larger part of the finance for social housing in European countries is from lending at the initial stage. In Austria, Denmark, France, and Finland rents are derived from the costs of provision. Cost rental also applies to social housing provided by independent housing associations within Northern Ireland. Rent covers credit costs, management fees, taxes as well as costs associated with the maintenance and continued viability of projects. In all of these cases, rents are also subject to legislation.¹⁴

¹² CECODHAS (2013), Study on Financing of Social Housing in Six European Countries, Final Report, July, Brussels: CECODHAS European Social Housing Observatory.

¹³ http://files.nesc.ie/nesc_reports/en/138_Social_Housing.pdf

¹⁴ CECODHAS (2013), Study on Financing of Social Housing in Six European Countries, Final Report, July, Brussels: CECODHAS European Social Housing Observatory.

Classification of Social Housing Actors in various European Countries

Country	Primary Agency	Sectoral Classification
France	HLM	Private & Public corporations
Germany	Non-profit companies	Private & Public corporations
Netherlands	Housing Associations	Private corporations
Sweden	Local Housing Companies	Public corporations
United Kingdom	Council Housing & ALMOs Housing Associations	Public corporations Private corporations
Ireland	Council Housing Housing Associations	Local Government Private corporations

Financing of Social Housing in six European countries

Country	Capital Grants	Public Loans	Public Loan Subsidies	Tax advantages	Loan Guarantees
Republic of Ireland	X	X			
Northern Ireland	X	X		X	X
Netherlands					X
Finland	X		X	X	X
Austria		X	X	X	X
Denmark	X	X	X	X	X
England	X			X	X
France	X		X	X	X

Sources: Study on Financing of Social Housing in 6 European countries (CECODHAS, 2013), Social Housing Provision in Copenhagen (Tsenkova and Vestergaard, 2011).

Sweden

Over half of rental housing in Sweden is provided by municipal housing companies (MHCs). In most cases, the municipality owns all of the shares. These companies are classified in the public corporate sector rather than the general government sector so that their borrowing does not add to the government deficit, the borrowing of these companies is sometimes supported by municipal guarantees. In the past these companies received subsidies, but this is no longer the case. Investment is financed from income generated from rents. There are no income limits governing eligibility for municipal housing.¹⁵

Denmark

In a Dutch case on state aid to housing associations, the Dutch Government and the EU agreed that this aid could be paid, providing that the housing associations rent only to a target group of disadvantaged households. The European Commission has given member states a wide margin in deciding the size of the disadvantaged target group for social housing. In the Dutch case, the target group was set at those with an annual income of €33,000 or less, which covers 43 per cent of the Dutch population. This is a much wider group than the current Irish equivalent, where the lowest-income quartile make up 52 per cent of local-authority housing tenants.¹⁶

Austria

Austria is a leading international example of how a cost rental housing sector is a critical component of an affordable and stable housing system. Two-thirds of the city's inhabitants live in public housing.¹⁷ Six hundred euro is an average rent for a two-bedroom apartment. Qualification depends on a means test- an income of €3,300 a month or less for a single person -but it is also needs based.

They fund the sector through loans as do every other social housing sector in Western Europe. They get money from 'Bausparkasse' which are savings banks. As a result, they have a much lower reliance on government funding.¹⁸

¹⁵ http://files.nesc.ie/nesc_reports/en/138_Social_Housing.pdf

¹⁶ *ibid*

¹⁷ <https://www.irishtimes.com/life-and-style/homes-and-property/dublin-turns-to-vienna-for-affordable-housing-solution-1.3852436>

¹⁸ The Vienna Model: Housing for the 21st Century: How do we create affordable Housing? Podcast 2 <https://soundcloud.com/athena-media/the-vienna-model-2>

Recommendations

- The decision taken by Eurostat in 2018 – (that assets and liabilities of AHBs are to be considered as part of the general government balance sheet). Subsequently any borrowing by AHBs for the purposes of providing social housing are counted towards the government deficit. This decision needs to be appealed if cost rental is to be scaled up.
- Ensure that policy and appropriate financial measures are in place to create for the provision of an additional 20,000 affordable cost rental homes over the next five years.

Conclusion

By undertaking the cost rental approach at scale, provided by Local Authorities and AHBs, it would make good economic and social sense. Cost rental is intended to deliver stable rents that are affordable for a broad range of people on moderate incomes and to deliver secure tenancies. And over time as that sector of the rental market builds up it is also intended to have a moderating influence on the overall rental sector. To do this, housing policy and finance infrastructure need to be unified. In this way, cost rental could provide secure homes and a long-term investment in affordable homes.