

Is the Affordable Housing Bill 2020 the solution Ireland has been waiting for?

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Background

It is not surprising that house prices are on the rise at a time when people are spending more time at home than ever before. The growing issue, however, is that here in Ireland, we were already amid a housing crisis even before the pandemic hit. There is a considerable shortage of houses available on the market, even at a time when we are building more than in the previous decade. This lack of supply is having the effect of driving up house prices resulting in more and more potential first-time buyers being locked out of the market.

The Affordable Housing Bill 2020

The Affordable Housing Bill 2020 (the "Bill") was published by the Minister for Housing, Local Government and Heritage, Darragh O'Brien on 20 January 2021 with the aim of putting "affordability at the heart of the housing system and prioritising the increased supply of affordable homes".

The Bill provides for three schemes designed to achieve this aim: -

Direct State-led construction

This method involves the delivery of affordable housing by local authorities on publicly owned lands for the first time in over a decade.

Under the Bill, Local Authorities will be given powers to enter into arrangements with the Land Development Agency ("LDA") for the provision of affordable housing. It is envisaged that the LDA would develop and sell homes to purchasers nominated by the local authorities by way of a direct sales agreement.

Once the Land Development Agency Bill 2020 is signed into law, the LDA will be charged with

delivering 150,000 new homes over the next 20 years, of which 10% will be designated for social housing and 30% for affordable housing.

An Affordable Purchase Shared Equity Scheme

The Affordable Purchase Shared Equity Scheme (the “Scheme”) is intended to work in conjunction with the Help to Buy scheme in supporting households seeking to purchase homes in the private market but unable to secure the full mortgage to do so. The Scheme would see the State take up to a 30% equity share in qualifying properties and is designed to bridge the gap between the maximum mortgage available to a household under current Central Bank rules and the actual cost of purchasing a new home.

Full details of how the Scheme will work are yet to be published however it is proposed that the Scheme will apply to first time buyers purchasing new homes who are unable to secure a mortgage under Central Bank rules. The Minister has confirmed that certain regional caps will apply to the scheme, the details of which will be published separately in accompanying regulations.

There has been much debate in the media about the Scheme including commentary that it will have the effect of driving up house prices. This criticism has been rebuked by the Head of the Housing Agency, John O’Connor who believes that, when compared to the “inflationary” Help to Buy scheme, this is a more sustainable model of funding.

The UK has a similar shared equity scheme, and it has been reported that the UK scheme led to a 14% increase in supply and less than 1% increase in house price inflation. These statistics however relate to the UK as a whole and can be contrasted with the figures for London, where it is reported that the shared equity scheme drove up house prices by 6%.

Cost Rental Tenancy

The Bill seeks to put this new form of long-term tenancy on a statutory footing. Cost rental tenancies envisage a situation where bodies such as local authorities or Approved Housing Bodies provide low cost rental accommodation, with rents charged solely to cover the cost of delivering, managing and maintaining the property over a set term (e.g. 30 years). The cost rent is not linked to market rent and therefore should be more affordable for renters.

The cost rental landlord charges a rent based on the cost of providing accommodation rather than providing accommodation for profit. The costs of providing accommodation include (but are not limited to) finance costs, management fees, insurance and taxes. The Bill provides that the rent can be increased on an annual basis in line with the Consumer Price Index or “as otherwise prescribed by the Minister in regulations”. By linking the rent to inflation, the rent will coincide with the Landlord’s costs of any increases or decreases in providing accommodation.

The Government has allocated €35 million to cover up to 30% of the development or acquisition cost of new cost rental homes. This funding has been allocated to secure the delivery of approximately 250 homes with an average loan of €100,000 each. The remaining costs would likely be funded through low cost loans available from the Housing Finance Agency.

The cost rental model is aimed at households earning low to moderate incomes of maximum €50k (single) to €75k (dual). The aim is to deliver rents at 15%-25% below the market rent. Austria, Denmark, France and Finland all have similar systems in place whereby rents are derived from the costs of provision. This model is also applied by housing associations delivering rental accommodation in Northern Ireland.

Conclusion

There are still a lot of clarifications required in relation to the implementation of the Bill once enacted, however it does seem to be a step in the right direction towards tackling the housing crisis. It is important for Government to recognise that no one measure on its own will solve the housing crisis and that there is a need for a range of targeted measures in order to stimulate supply to meet the increasing demand.

For further advice or information on the Affordable Housing Bill 2020, please contact Aoife by emailing aoife.o'dea@ogier.com.

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