10. A Right to Housing? The case for a Universal Housing Subsidy

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Introduction

The close juxtaposition of economic recession and rising accommodation costs in Ireland in the decade from 2006 to 2016 has led many to call for a right to housing to be included in the Irish constitution. For example, writing in the Irish Times in August 2015, Maeve Regan of the Mercy Law Resource Centre says: "The right to housing in our Constitution would put in place a basic protection in recognition that a home is central to the dignity of each and every person and a foundation of every person's life." Those who call for such a right often cite other countries or the Universal Declaration of Human Rights and the Council of Europe's European Social Charter, both of which include a right to adequate housing.

While the inclusion of a right to housing in the Irish Constitution might bring about a meaningful right in practice, it is likely that this would only be so after a lengthy landmark court case, which would wind its way through various levels of the Courts and through numerous appeals. How that right would be made effective, in general to the populace at large and not just the plaintiffs of that particular case, would still need to be worked out.

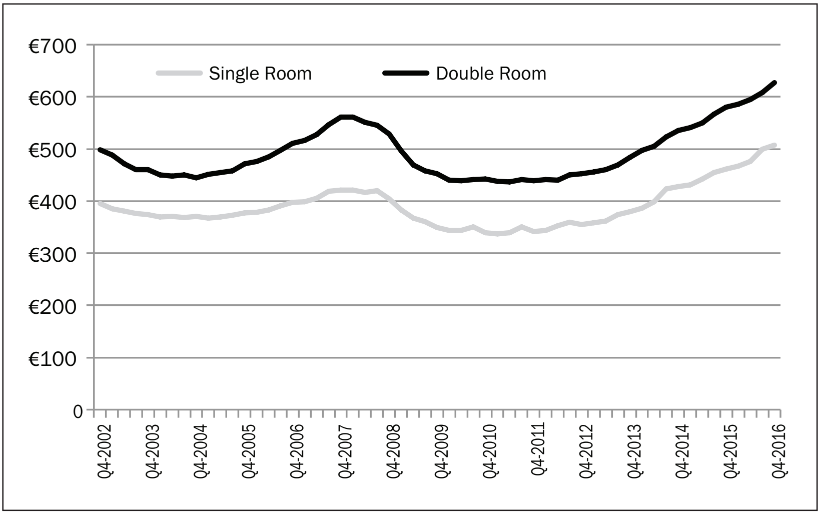
This paper aims to outline how a right to housing can be made meaningful in the Irish context. The core proposal is a Universal Housing Subsidy, a variant of the idea of a universal basic income. In particular, it argues that by using a taxonomy of housing and care needs, together with household-specific data on disposable income, a right to housing can be made effective and that this right need not distort outcomes, including the incentive to work.

The Irish Context

The two figures below provide the context for understanding the importance of an effective right to housing in Ireland. Figure 1 shows the average monthly rent in Dublin for single and double rooms, for almost 15 years from late 2002 to late 2016. At the peak of the Celtic Tiger, a single room cost roughly €420 a month, or €5,000 per year. By late 2010, this had fallen to €4,000 per year. However, from 2012 on, rents for single and double rooms started to rise dramatically and by mid-2014, they already passed their Celtic Tiger peak. By late 2016, the average rent for a single room was over €500 per month, or €6,000 per year.

A similar trend emerges for double room rents. With the general cost of living largely unchanged in Ireland since the end of the Celtic Tiger, it is important to note that in this particular market, costs are up to 20% higher now than ten years ago. This segment of the rental market is perhaps the most heavily relied upon by lower-income households, but it is one that receives little attention.[60]

Figure 1. Average monthly room rents in Dublin, by room type, 2002-2016



Source: Author's analysis of Daft.ie archives

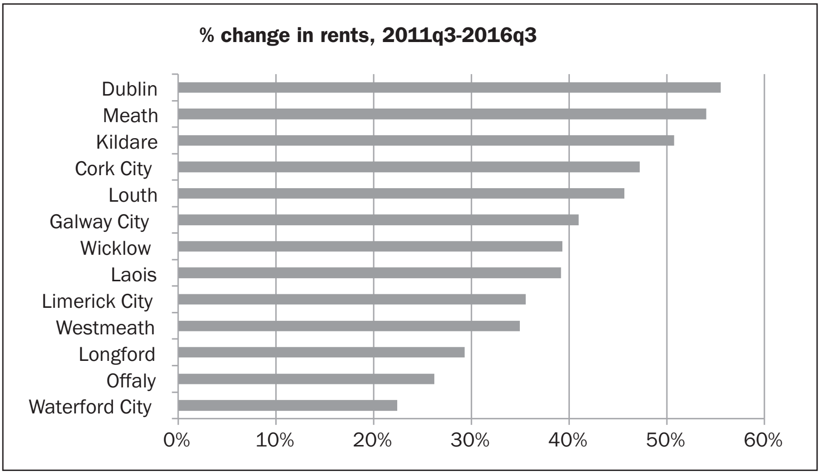
[60] The figures here come from an analysis of the Daft.ie archives; the author thanks Daft.ie for permission to use these figures.

The increase seen in room rents is not in any way unique to that particular segment of the market for accommodation. Many parts of the housing market have seen dramatic increases in accommodation costs in the five years to 2016. Figure 2 presents the change in average rents, in selected markets, between the third quarter of 2011 and the same period in 2016. The markets include Ireland's main cities, as well as counties close to Dublin.

Whereas the increase in rents has been most pronounced in Dublin, and in two neighbouring counties (Meath and Kildare), even in markets such as Offaly and Waterford city, there has been a substantial increase in rents over the past five years. In most of these markets, the increase has been since 2014, with only Dublin, Cork and Galway seeing rents bottom out as early as 2011.

The evidence is clear, therefore, that, as of late 2016, accommodation costs are rising rapidly in Ireland. This is at a time of stagnant consumer prices generally and also a time with limited income growth, particularly for those in the bottom half of the income distribution. In many segments, accommodation costs are significantly above their previous peaks, reached during the Celtic Tiger.

Figure 2. Change in average rents, selected markets, 2011 and 2016



Source: Author's analysis of Daft.ie archives

Housing as a System

If the cost of accommodation rises dramatically, this can be viewed as a "bad" in its own right. Those who call for rent controls are implicitly subscribing to this point of view. An alternative perspective is that rising accommodation costs are a signal – and a dramatic rise in costs, an emergency siren – that new supply is required. In this perspective, banning rents from rising is similar to hiding symptoms of an illness: the underlying issue remains unaddressed.

Perhaps the single most important barometer of the health of a housing system is what economists term the price elasticity of supply, or how responsive housing supply is. In practice, this means that a housing system can be deemed healthy if a 10% increase in demand is met with a 10% increase in supply. In addition, the more rapidly this new demand is accommodated, the fewer transitory costs of adjustment there will be.

This description of housing as a *system* is deliberately agnostic with respect to market or non-market provision. In aggregate terms, all that matters if demand for housing in Ireland increases is that supply increases. But by this metric, Ireland's housing system has failed completely.

To take the example of the Greater Dublin Area, a comparison of the 2011 and 2016 Censuses shows that the five counties in the Greater Dublin Area (Dublin, Kildare, Louth, Meath and Wicklow) added 106,000 people in five years. Based on prevailing demographics, this translates into approximately 40,000 new households. These new households require 40,000 new dwellings, or in monthly terms, the Greater Dublin Area required 650 new dwellings each month between April 2011 and April 2016.

However, completions data for the eight local authorities in the Greater Dublin Area indicate that in not one of those 60 months did completions reach this target of 650 new dwellings. Indeed, for most of the first 30 months, completions were less than one third of this rate. Compared to 40,000 new households, the total number of completions in the eight local authorities of the Greater Dublin Area was just 18,000.

While this is inadequate, there are three further compounding factors. The first is that the completions data are, strictly speaking, connections to the national electricity grid. Many of the completions registered in 2011, 2012 and later may be Celtic Tiger-era projects only connected to the grid much later. Secondly, this figure represents the gross completion rate and does not take account of depreciation and obsolescence. At a national level, 52,000 gross completions translated into just 19,000 new units. This reflects both delayed connections to the electricity network and the obsolescence of perhaps 1 in 150 properties each year. Factoring in both of these supply-related factors means that the actual addition to housing supply in the Greater Dublin Area between 2011 and 2016 was not 18,000 but closer to 6,000.

There is one last factor here and it relates to demand, rather than supply. Household formation is a complex social process but one of its determinants is the availability and affordability of accommodation. For example, students and young professionals may stay at home with their parents longer, if they do not perceive that they will be able to afford to start a household of their own. Thus, the lack of housing itself may be hiding the true shortfall in new accommodation in the Greater Dublin Area in recent years. It is likely that no more than 20% - and perhaps as little as 10% - of new demand for accommodation was met with new supply.

An obvious question is why supply has been so weak. At first glance, it may seem a case of market failure. However, new supply will only come on stream if price is greater than cost. To take round numbers, in 1995 the average value of a dwelling was €120,000 and, if this represented some sort of equilibrium, the cost of constructing that home must have been around €100,000. By 2007, the average value of property in Ireland was €360,000, and in this context, an increase in the cost of building a home to €200,000 would not have been problematic for new supply. However, the collapse in property prices has meant the average value of a home in Ireland now is currently around €180,000. Without any significant reduction in costs, this means that building is not viable in large parts the country currently.

There are two solutions to such a situation. Firstly, prices (both sale and rental) can rise to such a point that construction is viable again. However, particularly in a context of high unemployment and largely static wages, this is a dangerous policy, as it threatens both international competitiveness and social cohesion.

The second solution is for construction costs to fall. To see the importance of this, it is worth drawing a parallel between the mortgage regulations and construction costs. Once mortgages are capped, as is now likely to be the case into the future, house prices have effectively been capped, relative to the real economy. In this policy environment, it is incumbent on government to also cap construction costs relative to the real economy. (This is particularly relevant when it comes to the provision of housing for those on lower incomes, as discussed in the following section.)

My research related to the housing policy discussion in Ireland over the past two years suggests that the cost of building a two-bedroom apartment in Ireland currently is roughly €280,000. This figure excludes any land costs but does include a range of other soft costs, including VAT, local authority levies and a 12.5% profit margin. Assuming that the ultimate landlord would like a rental income of 5% a year, this up-front cost of €280,000 converts into a monthly rent of €1,400. Bearing in mind that this excludes land, a realistic actual monthly rent for a newly built two-bedroom apartment is probably closer to €1,800. The average rent for a two-bedroom apartment in Dublin currently is €1,300 and in only two parts of the city – Dublin 2 and Dublin 4 – is it above €1,600. Unsurprisingly, any apartment building that is taking place currently is concentrated in these areas.

Construction costs do not vary significantly around the country, so the problem is significantly worse when considering Ireland's other urban markets. Rents for two-bedroom apartments in Cork currently average €850 while in Waterford they are less than €600. Even in the extreme case, where profits were banned, land free and VAT scrapped fully, we should still not expect to see apartments being built in areas that currently demand significant numbers of new homes, including apartments.

The maths are less onerous for building houses, rather than apartments, but the overall challenge is still there for most parts of the country outside Dublin. And a focus on apartments is not arbitrary: recent reports by the Housing Agency, analysing census figures, suggest that the vast majority of new households being created in Ireland comprise one or two persons. This reflects greater longevity, increasing rates of separation, but also smaller families and greater fraction is people choosing to not have children.

A sensible policy objective, therefore, is to lower construction costs to a reasonable multiple of household incomes. However, it is not clear at this stage that there is any unanimity on the causes of the higher construction costs. Therefore, the first priority must be to establish an evidence base, similar to the methodology underpinning the World Bank Doing Business report, where an overall score can be broken down into its constituent parts and, where necessary, challenged. Such a transparent analysis of construction costs in Ireland now, compared to Ireland 10, 20 or 30 years ago and perhaps more importantly compared to our economic peers, would provide the evidence base necessary to take further policy action. In summary, assuming accommodation costs do not claim an ever greater share of static or slowly rising incomes, Ireland needs construction costs to be capped also so that there are no barriers to building all the new homes that Ireland needs each year.

An Income-based Housing Subsidy

This is relevant for making effective a universal right to housing, when the income distribution is taken into account. The current system of Central Bank rules in relation to mortgages, plus significant reform of construction costs as discussed above, would have the following combined effect: mortgage caps mean that house prices do not go so high relative to average incomes that the sector becomes a danger to the Irish economy, while sensible construction costs mean that those on average incomes can afford a new home. But this still leaves to be answered the question of how to provide housing for those on below-average incomes.

To take a concrete if stylised example, a family that earns €45,000 a year has monthly disposable income of about €3,000. The golden rule of housing affordability is that a household shouldn't spend more than roughly one third of its disposable income on accommodation, so this family shouldn't be spending more than €1,000 a month on housing. In other words, if they are to afford the property that costs €280,000 to build (the two-bedroom apartment described above), they will require a monthly subsidy of €400 from the rest of society to bridge the gap between the €1,000 they can afford and the €1,400 in break-even rent.

Hopefully, this example shows just how closely related build costs and social housing are. The more expensive it is to build a home, the more of a top-up those on lower incomes are going to need to find somewhere to live. And just as important, the more expensive it is to build a home, the greater a fraction of society is going to require a subsidy.

A family earning €45,000 year is actually above the median income, while as noted above, €280,000 is roughly the cost of building a two-bedroom apartment excluding land costs in Ireland currently. So Ireland in 2016 is in the worrying situation were a family in the top half of the income distribution is not able to afford even a two-bedroom apartment, let alone something larger. This is a reminder that it will not be possible to fix the social housing crisis in Ireland until the very high level of construction costs is addressed.

To take a second example, and perhaps one more familiar to those involved in social housing, a single person earning €18,000 a year can afford to spend no more than €500 a month on accommodation – one third of their monthly disposable income. However, the maths of construction in Ireland currently means that a 50-square-metre one-bedroom apartment costs roughly €160,000 to build – a monthly break-even rent of €800. This €300 gap between what they can afford and what is needed to see a home for them built is currently an insurmountable obstacle. It is easy to see why both for-profit and not-for-profit housing developers are currently not prepared to build one-bedroom apartments, at a loss of €300 a month per unit.

Reform of housing policy, in particular housing subsidies, means that this challenge need not be insurmountable. The principal change required is how social housing is funded, in particular to reflect the gap between what someone with a low income can afford to spend on rent and what the cost of their accommodation is. In the example above, a person on €18,000 has €500 a month to spend on rent but their newly built one-bedroom apartment costs €800 a month. The clear and obvious answer is that this person needs a subsidy of €300 a month.

Note that under this system, the lower a household's income is, the bigger its subsidy. Those in most need get most help. This is a distinction between this scheme and a pure Universal Basic Income, which would apply to all households equally. In this sense, the proposal in this paper is more akin to a negative income tax than a universal basic income. This gives it an element of progressivity that a universal income lacks, although it should be noted that both preserve the incentive to work and are universal in their availability.

Thus, under this proposed scheme, if a household's income goes up, that household requires less of a subsidy and if its income continues to rise, there is a point at which the household transitions – without any huge change in its circumstances – from receiving a housing subsidy to not receiving one. This has the important positive side-effect that the housing of those on lowest incomes does not turn into a ghetto system, where those on below-average incomes live apart from the rest of society.

Another important aspect is the role that this would give Approved Housing Bodies. Such a simple income-based housing subsidy would provide AHBs with the collateral they need to expand the production of social housing, when a recession hits. That is to say, the provision of social housing would be decoupled from the provision of market housing. This is the opposite of the case currently, where Part V provisions tie the production of social and affordable housing to the market. AHBs will confirm that international capital is very interested in becoming involved in the funding of social housing in Ireland, but the current constraint is a lack of connection between housing subsidies and the cost of providing homes.

Three further points are worth making here. The first is that an income-based housing subsidy renders largely irrelevant the debate about who provides the homes, public or private. Every household now has sufficient income to cover the cost of their accommodation, and AHBs have a slight advantage over their for-profit counterparts, in that they do not have a 12.5% profit margin, nor do they face local authority levies. These two differences probably account for €100 per month difference in the break-even rent. Where local authorities grant AHBs land for free, this further tips the scales in favour of nonprofit housing bodies in providing housing at scale.

Secondly, the cost of meeting households' accommodation needs clearly depends on the nature of each household. The needs of older persons will vary from those of students and those households starting a family. And within the older persons demographic, there are a number of different levels of care and housing need, from completely independent living to round-the-clock residential care. Therefore, to implement a subsidy of this nature properly, a full taxonomy of housing and care needs and the life-cycle of housing is required. This does not prevent universal design features, where relevant.

A final point on the subsidy is its flexibility in relation to renting versus owning, particularly for those with incomes close to the average. As mentioned above, when those in receipt of a subsidy receive an increase in their household income, above the level that would justify subsidy, they stay in their accommodation and merely pay the market rent. Alternatively, for a premium similar to the profit margin that would be enjoyed by a for-profit developer, the household can pay a slightly higher rent that would give them an equity share in the house.

What we have currently is a social housing system very far removed from the goal of topping up inadequate incomes in order to cover accommodation costs. For example, rent supplement is what might be termed a zero-one subsidy. The household either gets the whole thing, or you get nothing. This creates a barrier to taking up employment as well as being inherently unfair, as it gives those just below the threshold far more than those just above the threshold – and the same as those who have no income at all of their own.

A housing subsidy that varies with income is completely different. Those who need the most help get the biggest top-up, while those who are very close to being able to afford their own place to live are not treated much differently to those whose incomes are just above that cut-off. This subsidy would need to be based on official earnings, both private (Revenue Commissioners) and public (Social Welfare).

The policy implications are clear. Ireland needs to replace its mishmash of legacy systems and short-term measures that have become mainstays of social housing. Rent supplement merely pits so-called “welfare tenants” and working tenants against each other. A more farcical example is the tragic situation of families living in hotels for more than the cost of their previous rent. Included in systems that are not fit for purpose is Part V, which as noted above bizarrely links the production of social housing to the production of market housing.

There is a clear link between this objective and the last one. To guarantee a right to housing for all, we need minimum standards that reflect average incomes and subsidies for those who cannot afford the socially agreed 'minimum acceptable home'. The starting point should be the question: "What fraction of income distribution do we believe we should support in providing their housing needs?" If we decide that one third of the income distribution should receive help from the rest of society, what the household one third of the way up the income distribution can sustainably spend on accommodation must be the benchmark for the minimum acceptable home, in terms of size, features, etc.

Implications and Further Issues

What is outlined above is meant to be an introduction to a system that will make effective a right to housing in Ireland. That right would be meaningful for all residents and would take account of the individual circumstances of that household. Those circumstances include income – with lowest-income households receiving the biggest assistance and above-average-income households receiving none.

But circumstances also include care needs. Care needs are particularly important when thinking about housing Ireland's older persons, but also many other residents with special care needs. Existing benefits given to those with particular conditions or disabilities can be seen as extensions, or early manifestations, of a housing-and-care subsidy based on income and needs.

Some authors have expressed a concern about the link between a Universal Basic Income and migration (see, for example, Tyler Cowen, "My Second Thoughts About Universal Basic Income", Bloomberg, October 2016). Clearly, any implementation of a universal scheme, even an income-contingent one, requires careful consideration about eligibility, on the basis of citizenship, residency or some combination of the two. One potential solution would be to grant resident citizens full entitlement but resident non-citizens a partial entitlement based on years of residency, with full entitlement only after a certain number of years (e.g. 10). Regardless of the exact nature of the solution, it is unlikely that this would be enough to render the scheme unworkable.

A more serious concern is about the cost. Half of all households in 2014 earned less than €27,000. If average income in this half of the population is just €15,000, this means their maximum sustainable monthly budget for accommodation is just €400. This means that, without assistance, these households could not afford a property worth more than €80,000, whereas newly built one-bedroom apartments (excluding land) cost twice that. A subsidy of €400 per month for one million households translates into an annual exposure of almost €5bn.

This is not insurmountable but grossly exceeds the current Exchequer budget for housing. As outlined above, the first step to implementing this scheme is to ascertain why construction costs are as high as they are. Only then can a right to housing for all, appropriate to their circumstances and regardless of their means, be made effective.