

Senior Officials Group Meeting 20th October 2016**Agenda Item 3.1: Proposed Affordable Rental Scheme****Summary Paper****Background**

Introducing Cost Rental and Affordable Rental Schemes were central actions identified in the *Programme for Partnership Government* (Commitments 2.2.3 & 2.2.14 refer) as proposed means to better facilitate private investment into social housing. The introduction of Cost Rental and Affordable Rental Schemes are also key actions for delivery under the *Rebuilding Ireland: Action Plan for Housing and Homelessness* which was approved by Government on 19th July 2016 [S180/20/10/0366A]. There are similarities between both concepts. One of the main objectives of the Affordable Rental Scheme is to enhance the capacity of the private rented sector to provide quality and affordable accommodation for households currently paying a disproportionate amount of disposable income on rent. Cost Rental has similar objectives but is much broader in scope, with the model based on rents that reflect the cost of delivery of a unit, rather than the market rent. The piloting of the Affordable Rental scheme, therefore, provides an opportunity to prove some of the key concepts underpinning cost rental more broadly, constituting a vital step in the longer term objective of developing a cost rental option for the wider rental sector.

On 2nd February 2016 the Government agreed on a proposed approach to two measures to facilitate private investment in housing supply, one of which was a pilot of an Affordable Rental Scheme, including the high level principles that would underpin that Scheme. Since the Government decision, the development of the detailed terms of the Affordable Rental Scheme has been progressed under the oversight of a Technical Working Group chaired by the Department of Housing, Planning, Community and Local Government (DHPCLG) and comprising the Department of Public Expenditure and Reform, the Housing Agency, the Residential Tenancies Board and the Housing Finance Agency. The National Development Finance Agency has been engaged by DHPCLG as financial advisor in respect of this work.

Objectives and Key Features of the Affordable Rental Scheme

While there are a variety of flexible supports available for households with social housing need, there is little support currently available for low to moderate income households (many in low paid employment) for whom homeownership is not an option, and for whom residence in the private rented market without some support is becoming more difficult.

Rising rents have made accommodation more and more expensive for many families and individuals. This is particularly so for those who are on low to moderate incomes and do not qualify for social housing but who need some level of support to meet their housing costs. It is to bring about some

much needed relief to this cohort, but more especially to address the acute shortage of supply of rental units at affordable rates, that the Affordable Rental Scheme is proposed.

The core objectives of the Affordable Rental Scheme are to –

- provide long-term affordable residential accommodation for low to moderate income households in urban areas of high demand, in a mixed tenure context, promoting stability in the sector while also reducing pressures on social housing lists; and
- provide an economic incentive to facilitate an increased supply in the housing rental market by large-scale and long-term professional providers.

An added objective, from a broader housing policy perspective, is to ensure, through the Scheme, that housing supports are adequately refined to respond proportionately to the broad spectrum of accommodation support needs that currently exist.

To further underpin the objectives, the following key principles have now been established:

- the Scheme and subsidy will apply only to residential units which are new to the rental market;
- the residential units will remain in the Scheme for 20 years, providing a long-term increase in the supply of rental accommodation and enhanced security of tenure for tenants;
- while the Scheme would be open to those on housing lists or entitled to apply for social housing who can afford a discounted market rent, it would be targeted at a wider group of households on low to moderate incomes;
- the Scheme would cover a portion of the rental cost, payable directly to the provider, while an eligible tenant household is in occupation; and
- the subsidy provided needs to be capable of bridging an affordability gap by bringing the proportion of a household income expended on rent to an affordable level.

The Scheme will cover a portion of the rental cost, payable directly to the provider, while a tenant is in occupation, and therefore will take the form of a long-term annuity paid to property providers which is conditional on the provision of affordable tenancies to eligible households. Such a subsidy would be paid to the unit provider and would, in effect, be a tenancy based demand-side support, coupled with a supply-side incentive. A benefit would accrue to the provider in the form of reduced risk on income, therefore reducing financing costs of delivery, with tenants benefiting from an agreed rent payment lower than the prevailing market rent.

In designing the detailed terms of the proposed Scheme, three key areas were considered –

- provider and unit eligibility requirements;
- tenant eligibility requirements ; and
- scheme management and administration.

A key underlying consideration in the development of the Scheme, which influences all three areas identified above, is that the terms of the Scheme must be designed in such a way as to attract interest from providers, while at the same achieving the objective of ensuring rents applied to tenants of such schemes are affordable to those households. There is a fine margin between these two objectives.

Viability of the Scheme and Recommended Provider Incentives

The success of the Scheme is contingent on its ability to attract interest from property providers. At a basic level, units have to be capable of being developed and remunerated through a combination of

- a) the rent paid by the tenant, and
- b) the State subsidy (comprising some 30% of the market rent).

In order to assess this issue, an assessment was carried out of the potential for an investment to be remunerated under present market conditions for different unit types in areas where market rents can potentially justify private investment. The key conclusions from the analysis are that under present market conditions, units developed under the "30%" affordable rental model would generate a yield which is around, and in some instances below, what could be achieved currently in the private rented sector. While the most effective way of testing the scheme will be offer its terms through the planned pilot, analysis suggests, that the attractiveness of the Scheme from the provider's point of view would be marginal.

There are a number of implications that arise from this analysis. In particular, the analysis suggests that the Scheme would be more attractive if the cost of delivering units was reduced. While this is clearly an issue that is wider than the terms of an Affordable Rental Scheme could deal with, *Rebuilding Ireland : Action Plan for Housing and Homelessness* proposes a range of actions to tackle some of the public costs associated with the delivery of housing, which, when implemented, have the potential to positively impact on the overall viability of the Affordable Rental Scheme.

Having considered the available options and the impacts/implication of operationalising these it is intended that an administration fee be incorporated to cover provider overheads. In respect of the administration fee, this is being proposed in acknowledgement of the fact that there are administrative overheads attaching to the Scheme, over and above what would be attached to providing purely private rented properties into the market, which will require to be met. The administration fee, set at 5% of the value of the subsidy, will have the benefit of providing an additional incentive to participate in the Scheme, without contributing to rental inflation or giving rise to increased payments on the part of the tenant.

Provider and Unit Eligibility

Following on from the requirement for the Scheme to be able to attract interest from providers, there are a number of other key principles that must be applied in assessing whether applicant

properties meet other key objectives of the Scheme. In particular, provider and unit eligibility requirements must ensure that new supply to the market will be encouraged while making rents more affordable for the target group of renters. In particular, therefore, the following key principles will apply in respect of selecting properties appropriate to the Scheme:

- the Scheme will be reserved for newly available units within medium to large schemes of units (i.e. newly built units, or units newly available to the private rented market);
- units will have to comply with relevant statutes in respect of their planning, design and construction standards, as well as complying with the private rented accommodation standards;

Ideally developments in socio-economically mixed areas would be preferable which would ensure that affordable rental units can be sustainably mixed with other tenure forms (private rent/ownership, social housing). The pilot scheme would be most appropriately targeted at the Dublin region in the first instance, focused on the four Dublin local authorities.

Tenant Eligibility

A key aim of the Scheme is to bridge the gap between what a prospective tenant can afford and the market rent in a given area by means of a 30% subsidy. As such, the Scheme requires that an applicant household has to be able to meet the cost of 70% of the market rent in an area. The effect of the subsidy should be to bring the proportion of a household income expended on rent to around or below 30%; therefore, this ratio of rent to income is a reference point around which eligibility is to be assessed. In addition, the subsidy should work for people within a range of incomes, and not just at the maximum threshold. Consequently, an income band, rather than a fixed cut-off point is a more appropriate way to assess eligibility.

Following a series of modelling exercises, the proposed qualifying thresholds determined for eligibility to participate in the pilot Affordable Rental Scheme are set out in the table hereunder.

Net income	1 bed apartment	2 bed apartment	3 bed unit
Minimum	€34,913	€35,575	€38,238
Maximum	€42,000	€46,000	€50,000

While the analysis of income and rent data indicates that some households above these figures would also face affordability issues, such incomes could not be considered to fall within the description of 'low to moderate' particularly when the objectives of the scheme and the intended target group are taken into account. It is intended that eligible applicants would have to meet two income-related criteria:

- Firstly, the net household income would have to be between the bands set out in the table;
- Secondly, the rent for the unit would have to represent more than 30% of this net income, before the subsidy is applied.

Estimate of potentially eligibility

Using the preliminary population figures across the four Dublin regions from Census 2016 and applying the known proportion of households renting in the private market in each area, it can be generally estimated that a figured of between 66,000 and 89,000 individuals could potentially qualify for the scheme, based on the proposed income bands. This takes account of the position that wages in the Dublin region are roughly 10-12% higher than the average across the State. These figures represent general estimates of potential eligibility, rather than actual demand. Depending on the terms of the scheme, actual eligibility could be higher or lower. However, as outlined below, there will be no generic application process for the scheme – separate expressions of interest will be required for each specific development.

Scheme Management and Administration

It is intended that the Housing Agency will take on primary responsibility for the ongoing administration of the Affordable Rental Scheme with the support of a Shared Service Payment hub and Contract Management hub. In that context, a business process modelling exercise has been undertaken between the Housing Agency and the Department to set out the main administrative elements and principles informing the structure of the Scheme's operation. Some of the key elements of that process will include, *inter alia*:

- Expressions of interest will be sought and assessed by the State from property providers. A two-part assessment process will apply, with pass/fail criteria initially applied, followed by a competitive assessment against agreed criteria. Pass/fail criteria would include proposers having a proven ability to deliver units, and proposals including a minimum number of units per block, development or street. Competitive assessment criteria including cost, speed of delivery and mix of unit types will be applied.
- Applications from tenants, through an online registration process put in place by the Housing Agency, will not be sought until units are available in specific locations. After the assessment process for the provision of units has been completed, prospective tenants will be able to register their interest for these specific units. There would not be, therefore, a general open-ended 'waiting list' type registration for an affordable rental scheme.
- As is the normal course for a private tenancy, landlords will select their own tenants, drawing from the list of eligible applicants who have expressed an interest in the units concerned.
- A lease (tenancy agreement) is signed between the tenant and landlord, which is subject to the provisions of the Residential Tenancies Act 2004. Rent reviews for tenants in situ will be subject to the requirements of the Residential Tenancies Act 2004 and will be linked to market rents.
- Compliance with the Scheme is monitored by the Housing Agency generally, with local authorities taking responsibility for property standards enforcement.

Cost

The estimated cost of operation, based on 2017 being a full year, is €8.34m, with the average annual cost of the subsidy per unit would be €4,171. The estimated cost is based on the delivery of 2,000 units of mixed sizes within different areas of Dublin, through the payment of a 30% subsidy, based on current market rents. The total cost is forecasted to be some €235.2m for the lifetime of the Scheme.

The administration cost is estimated at an average of €208 per unit per annum, based on 5% of the average subsidy of €4,171. For 2,000 units the cost is estimated at €0.417m per annum. Over the lifetime of the scheme the estimated cost is some €11.76m, based on the same formula applied (above) in calculating the total scheme costs.

Next Steps

Government consideration of the principles and main features of the Scheme, as set out in this Memorandum and attached Business Case	Early November 2016
Consideration of the terms of the proposed Scheme by the Central Statistics Office in the context of Eurostat statistical treatment requirements for remaining off Government balance sheet	During November 2016
Market testing by the National Development Finance Agency	By end November 2016
Finalisation of the pilot Scheme to be offered to the market	By end December 2016

Housing Funding Models Section

DPHCLG

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