Comparative Financial Appraisal of the Projected Long-Term Costs of Social Housing Delivery Mechanisms

Housing Agency

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GLOSSARY

AHB	APPROVED HOUSING BODY
CAS	CAPITAL ASSISTANCE SCHEME
CLSS	CAPITAL LOAN AND SUBSIDY SCHEME
DEHLG	DEPARTMENT OF THE ENVIRONMENT HERITAGE AND LOCAL GOVERNMENT
HSE	HEALTH SERVICE EXECUTIVE
NPC	NET PRESENT COST
NDFA	NATIONAL DEVELOPMENT FINANCE AGENCY
NESC	NATIONAL ECONOMIC AND SOCIAL COUNCIL
RAS	RENTAL ACCOMMODATION SCHEME
SHIP	SOCIAL HOUSING INVESTMENT PROGRAMME
SHLI	SOCIAL HOUSING LEASING INITIATIVE
TDR	TEST DISCOUNT RATE
VFM	VALUE FOR MONEY

PART ONE

EXECUTIVE SUMMARY

EXECUTIVE SUMMARY

Background

In response to the need to develop a system of flexible and graduated housing supports, the Department of Environment, Community and Local Government has introduced a series of schemes based upon the leasing of social housing from the private sector including the Rental Accommodation Scheme and the Social Housing Leasing Initiative.

The Department – in conjunction with the Steering Committee overseeing the Value for Money Review of the Rental Accommodation Scheme – asked the Housing Agency to prepare an Interim Report addressing a number of VFM issues relating to both the Rental Accommodation Scheme and the Social Housing Leasing Initiative.

Terms of Reference

The Terms of Reference for this report are to examine:

- Value for Money of the social housing leasing models compared to Rent Supplement.
- Value for Money of the social housing leasing models compared to the traditional social housing programme (i.e. construction and acquisition).
- An assessment of the opportunity costs of the social housing leasing models compared to construction and acquisition.
- An assessment of the extent to which negotiated rents (and rent reviews) reflect market trends.

Methodology

For the purposes of undertaking a comparative appraisal of projected long-term costs, we constructed a series of financial models reflecting the cost and revenue flows associated with four scenarios over time, as follows:

- Rent Supplement
- Rental Accommodation Scheme
- Social Housing Leasing Scheme
- Construction and acquisition

This analysis was based upon data provided to the authors by the Department. This included data relating to average rents (and leasing costs) payable under the RAS and the SHLI in addition to data on Rent Supplement costs.

Moreover, we also undertook primary research using four case study local authorities; Dublin City Council, Waterford City Council, Wexford County Council and Donegal County Council. These local authorities were selected in order to provide an appropriate mix between urban and rural areas and between different types of rental markets[1]. The purpose of this survey exercise was to enable the authors to collate data on a range of metrics, as follows:

- Average cost of two-bed units (constructed and/or acquired) in 2008
- Average cost of three-bed units (constructed and/or acquired) in 2008
- Administration costs
- Management and maintenance costs
- Incidence of voids and vacancies (and the duration of same)

The financial models developed for this report are underpinned by a series of general assumptions regarding the appraisal timeframe, income and expenditure indexation and long-term rent/house price trends; these assumptions are detailed at Section 1.3. A series of further scenario-specific assumptions are also used; these are outlined throughout the report.

Social Housing Leasing and Rent Supplement

The first question to be addressed in this report relates to an examination of whether the emergent social housing leasing models (including the Rental Accommodation Scheme and the Social Housing Leasing Initiative) offer better VFM when compared to the Rent Supplement scheme.

For the purposes of this analysis, the authors developed a series of financial models in order to estimate the Net Present Cost – the cost, in today's terms, of monies spent and revenues raised at various stages over a selected period – of providing two-bed and three-bed units under the following schemes: the Rent Supplement Scheme, the Social Housing Leasing Initiative and the Rental Accommodation

[1] Three of these local authorities (Dublin, Waterford and Donegal) were also used as case studies in '*Interim Value for Money and Policy Review of the Rental Accommodation Scheme'* (October 2009)

Scheme. These models reflect the costs and revenues arising under each of the respective schemes including rents (or leasing costs) payable, rents receivable, administration and refurbishment.

In the case of the SHLI, this new initiative was costed using the average nationwide costs. However, the reader should note that as this initiative commenced in 2009 only a relatively small number of units have been procured to date and this may have given rise to a number of potentially anomalous findings. For instance, the average nationwide monthly leasing cost for a two-bed unit is higher than the equivalent cost for a three-bed unit. This may be due to supply-side factors (i.e. there are relatively more three-bed units than two-bed units available) and/or locational factors (i.e. where units have been procured to date). To this end, it will be necessary to keep these costs under review as the number of units under the SHLI increases.

This analysis indicates that the SHLI is the most cost-effective option with regard to three-bed properties in Dublin, Waterford and Wexford. Indeed, it is up to 42 per cent less expensive than the Rent Supplement in Dublin. By contrast, the Rent Supplement is generally the most cost-effective option with regard to two-bed properties and is approximately 36 per cent less expensive than the SHLI in Donegal. However, when this analysis is refined using estimated rental costs on a county-by-county basis (and assuming a 20 per cent discount is attained) the SHLI is the most cost-effective mechanism for procuring both two-bed and three-bed units nationwide.

With regard to the RAS, the analysis indicates that the leasing of two-bed units under this scheme is, generally speaking, a more cost-effective delivery mechanism than the long-term reliance upon Rent Supplement for the same units. For instance, we have estimated that such units could be up to 15 per cent less expensive in Donegal and up to 40 per cent less expensive in the case of Wexford under the RAS. In the case of three-beds, the analysis indicates that the RAS is once again the most cost-effective option in three of the four local authorities.

Although the analysis does indicate that the various social housing leasing models are generally likely to be more cost-effective than the Rent Supplement scheme, it is important to bear in mind that cost-effectiveness (or lowest cost) is not the sole criterion for judging Value for Money. Rather, there are a number of broader effectiveness considerations.

For instance, the social housing leasing models can be expected to remove the series of poverty traps that are inherent to the Rent Supplement scheme and provide greater incentives for tenants to return to work. Moreover, the leasing models can be expected to provide tenants with a higher standard of accommodation and to aid in the reduction of the significant potential loss in tax revenue from non-declaration of rental income by non-compliant landlords under the Rent Supplement scheme.

The detailed analysis is presented in Section 3 of this report.

Social Housing Leasing and the Construction Programme

The second question to be addressed in this report relates to an examination of whether the emergent social housing leasing models offer better VFM when compared to the traditional social housing programme.

For the purposes of this analysis, the authors once again developed a series of financial models in order to estimate the Net Present Cost of providing two-bed and three-bed units under the Social Housing Leasing Initiative, the Rental Accommodation Scheme and the traditional construction (or acquisition) approach. With regard to the latter, the authors also included estimated costs for administration and remediation and developed two scenarios to reflect estimated Residual Values (in those cases where the unit was retained by the local authority.

The analysis indicates that the SHLI is the most cost-effective option with regard to two-bed and three-bed properties. For instance, we have estimated that the Net Present Cost of leasing a two-bed unit compares very favourably with the equivalent cost of constructing and maintaining a similar unit with a saving of between €23,000 (or 19 per cent) in Donegal and €158,000 (or 62 per cent) in Dublin, respectively, when compared with a scenario where the unit is retained in State ownership. In the case of three-bed units, we have again estimated that leasing is more cost-effective with a saving of between €20,000 (or 17 per cent) in Wexford and €109,000 (or 52 per cent) in Waterford, respectively.

With regard to the RAS, the analysis indicates that the leasing of two-bed and three-bed units under this scheme is a more cost-effective delivery mechanism. For instance, we have estimated that two-bed units could be up to 35 per cent less expensive in Donegal and up to 66 per cent less expensive in the case of Wexford under the RAS. In the case of three-beds, the analysis indicates that the RAS is once again the most cost-effective option in each local authority.

The detailed analysis is presented in Section 4 of this report.

Opportunity Costs

The third question to be addressed in this report relates to an examination of the opportunity costs associated with both capital expenditure (i.e. the traditional construction programme) and current expenditure (i.e. the social housing leasing models). Specifically, the authors have sought to determine the level of capacity that can be purchased by the State under the various social housing delivery mechanisms.

The traditional construction programme involves significant year-on-year capital expenditure and there is an opportunity cost associated with this expenditure. In other words, reliance upon the traditional construction and acquisition model will necessarily lead to potential additional housing capacity being foregone. For the purposes of this analysis, we have assumed that an investment of €25m is available in a given year with the objective of quantifying the variance in the housing capacity that can be purchased by the State.

The analysis indicates that the State could purchase 128 units in a given year (at today's house prices[2]) using a budget of €25m. By contrast, the State could lease (for one year) almost 2,800 units under the RAS or more than 3,700 units under the SHLI (based on full-year costs under each scheme). However, this analysis does not present a clear like-for-like comparison. For instance, the units that are purchased can be held in State ownership for decades whilst those that are leased will require a further €25m in the next year in order to retain that level of capacity (i.e. the leasing costs will roll-over year-on-year).

[2] Daft House Price Report, Q3 2010 (€195,000)

In Net Present Cost terms, the State could lease and maintain 249 two-bed units or 253 three-bed units over a 20-year period under the SHLI. This compares very favourably with the equivalent capacity under the traditional model (or 91 three-bed units). Under the RAS, the State could retain 248 three-bed units or 244 three-bed units.

The detailed analysis is presented in Section 5 of this report.

Rents Trends

The fourth and final question to be addressed in this report relates to a review of trends in the private marketplace and, in particular, to assess the extent to which negotiated rents and rent reviews reflect market rent trends.

The Daft National Rental Index Indicates that the cost of private renting has fallen by just over 21 per cent between 2007 and 2009; over the 12-month period ending-December 2009, the national average rent fell by almost 14 per cent.

In 2008, the average RAS rent nationwide (€742) was more than 16 per cent lower than the national average private rent. However, the average RAS rent fell at a comparatively slower rate (i.e. 6 per cent) than the average private rent between 2008 and 2009.Consequently, the average RAS (€696) was 9 per cent lower than the prevailing market rent (€765) in 2009; this discount is still higher than the targeted 8 per cent. It is important to note that RAS units are retained on multi-year contracts and as such, each RAS agreement is not reviewed annually. This, in turn, will also mean that RAS rental costs will increase at a relatively slower rate during periods of rising rents.

In the case of the SHLI, the available data indicates that the requisite discounts (i.e. 20 per cent plus) are being achieved in many cases although there is a need for more data before a definitive judgment can be arrived at. Interestingly, the most up-to-date data made available by the Department indicates that approximately 47 per cent of all properties (n=68) transferring into the SHLI had a discount of 20 per cent or more. A further 72 properties transferring into this initiative had a discount of between 10 per cent and 20 per cent.

The detailed analysis is presented in Section 6 of this report.

Conclusions and Policy Recommendations

Section 7 of the paper draws conclusions and makes some policy recommendations arising from the analysis. Based on the available data, and acknowledging that this is still early days, revenue based options (such as RAS and leasing) were found to be more cost effective at this point in time. Nonetheless, a range of housing options are necessary to ensure a supply of accommodation to meet different types of housing need. The implications of the economic costs of maintenance and management of properties are highlighted as are weaknesses in the data. It is recommended that the analysis be repeated as more and better data becomes available and as wider housing market conditions evolve (for example, a significant rise in rents without a corresponding increase in house prices or construction costs would be likely to weight the conclusions, in terms of value for money, more towards construction / acquisition) It is also recommended that the research be broadened as necessary to include emerging funding models.

PART TWO

BACKGROUND, METHODOLOGY AND FINDINGS

1. Introduction and Background

1.1 Introduction

The State currently provides housing support to more than 150,000 households through a variety of housing mechanisms; these include 120,000 social housing units provided by the local authority sector in addition to 25,000 units through the voluntary and co-operative housing sector and 10,000 units through the Rental Accommodation Scheme (or RAS). Moreover, almost 95,000 households are currently in receipt of Rent Supplement under the Supplementary Welfare Allowance whilst a further 17,000 households are in receipt of Mortgage Interest Supplement[3].

In recent years, a number of policy reports have noted the need for the development of a system of flexible and graduated housing supports[4]. For instance, the *Developmental Welfare State* (NESC, 2005) called for State-provided services to be delivered '*in ways that are equitable but tailored to people's circumstances (including their ability to pay) rather than uniform'* and noted that such services are capable of gradation and adjustment.

Similarly, the Government's housing policy statement – *Delivering Homes: Sustaining Communities* – called for more flexible and effective social housing delivery mechanisms with a move away from an over-reliance on construction (or acquisition) in order to better meet the diverse range of social housing needs that exist.

Following on from these reports, the Department of the Environment, Heritage and Local Government (hereafter: the Department) introduced a series of schemes based upon the leasing of social housing from the private sector. These include the aforementioned RAS and the Social Housing Leasing Initiative (or SHLI) which was introduced as a continuation of the process commenced with RAS. The objective of

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[3] *Review of the Mortgage Interest Supplement* (Department of Social Protection, 2010)

[4] Including *Housing in Ireland: Performance and Policy* (NESC, 2004) and *Delivering Homes: Sustaining Communities* (2007)

such schemes was to continue the restructuring of the social housing investment programme, as signalled in the Government's housing policy statement.

The housing policy statement also emphasized the importance of delivering a graduated system of supports that was capable of being tailored to take specific account of the particular needs of households at whatever point they are in the lifecycle. The lifecycle concept allows the degree of support provided to be adapted according to the changing needs of a particular household over time.

As part of the Towards 2016 agreement (2006), the Social Partners endorsed the principles set out in the Housing Policy Framework – *Building Sustainable Communities* – and noted that in framing responses '*account should be taken of individual and family circumstances and each person's position in the lifecycle*'[5].

As part of the current Value for Money and Policy Review cycle, the Department is preparing a Value for Money Review of the Rental Accommodation Scheme. This review is due to be completed in 2011.

Objectives of this Report

The Department – in conjunction with the Steering Committee overseeing the Value for Money Review of the Rental Accommodation Scheme – asked the Housing Agency to prepare an Interim Report addressing a number of VFM issues relating to both the Rental Accommodation Scheme and the Social Housing Leasing Initiative[6].

Specifically, this report is intended to provide an appraisal of the projected long-term costs of the leasing models (i.e. RAS and SHLI) compared to Rent Supplement and the Social Housing Investment Programme (or the traditional social housing programme). This is to be achieved through an examination of the comparative Net Present Cost (or cost in today's money) of the various schemes over a 20-year period.

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[5] Towards 2016 Ten-Year Framework Social Partnership Agreement 2006-2016

[6] This report will also be an important input to the preparation of the Value for Money Review of the Rental Accommodation Scheme cited above

The Net Present Cost is used throughout this report in order to draw robust comparisons by ensuring that the authors are comparing *like with like* at all times. This method provides the cost, in today's terms, of monies spent and revenues raised at various stages over a selected period.

1.2 Terms of Reference

The Terms of Reference for this report are to examine:

- Value for Money of the social housing leasing models compared to Rent Supplement.
- Value for Money of the social housing leasing models compared to the traditional social housing programme (i.e. construction and acquisition).
- An assessment of the opportunity costs of the social housing leasing models compared to construction and acquisition.
- An assessment of the extent to which negotiated rents (and rent reviews) reflect market trends.

1.3 Methodological Approach

For the purposes of undertaking a comparative appraisal of projected long-term costs, we constructed a series of financial models reflecting the cost and revenue flows associated with four scenarios over time, as follows:

- Rent Supplement
- Rental Accommodation Scheme
- Social Housing Leasing Initiative
- Construction and acquisition

This analysis was based upon data provided to the authors by the Department. This included data relating to average rents (and leasing costs) payable under the RAS and the SHLI in addition to data on Rent Supplement costs.

Moreover, we also undertook primary research using four case study local authorities; Dublin City Council, Waterford City Council, Wexford County Council and Donegal County Council. The purpose of this survey exercise was to enable the authors to collate data on a range of metrics, as follows:

- Average cost of two-bed units (constructed and/or acquired) in 2008[7]
- Average cost of three-bed units (constructed and/or acquired) in 2008
- Administration costs
- Management and maintenance costs
- Incidence of voids and vacancies (and the duration of same)

General Working Assumptions

The financial models developed for this Interim Report are underpinned by a series of general assumptions. These are outlined below.

- All comparisons are based on a 20-year timeline ending 2028 and all costs and revenues are projected over this period; the Base Year for this study is 2008[8].
- The steep fall in house prices over recent years has made the forecasting of future house prices very tenuous. However, recent projections by the ESRI[9] indicate that house prices will rise by 0.2 per cent per annum between 2010 and 2015 and by two per cent per annum thereafter; we have assumed that both house values and rents (and leases) payable by the Exchequer will increase in line with these projections.
- We have assumed that house prices fell between 2008 and 2010[10].
- All additional costs and revenues[11] are indexed in line with the Public Sector Benchmark (two per cent).
- It is assumed that a two-bed unit refers to an apartment (for the purposes of Tenant Purchase).

In addition to these general working assumptions, the authors have made a series of scenario-specific assumptions. These are outlined in Sections 3 and 4.

Discounting

Throughout this report, the authors present the Net Present Cost of units over a 20-year timeframe under each of the social housing delivery mechanisms. This cost is

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[7] Including land costs, site development, planning, construction and external works

[8] We have assumed that units are constructed/acquired in 2008 (under the traditional model) and that each cost and revenue flow will commence in 2009 (under all scenarios)

[9] Data supplied by the Department: *'Interim Assessment of the Long-term Cost of the Social Housing Delivery Mechanisms (Preliminary Findings, June 2010)'*

[10] Permanent tsb/ESRI House Price Index indicates that Dublin house prices fell by 20.6% in 2009 and by a further 13.5% in the first half of 2010; the equivalent figures for the Rest of the Country were 15.2% and 4.3%. We have assumed that Dublin and Rest of the Country prices will fall by 20% and 6%, respectively, over the full-year 2010.

[11] Includes administration costs, management and maintenance costs, tenant contributions, assessable Differential Rents, etc

calculated by discounting all cost and revenue streams using the Test Discount Rate[12] (TDR) of 4 per cent where the TDR is set by the National Development Finance Agency (NDFA).

1.4 Structure of this report

The structure of this report is as follows:

- Context and Policy Developments
- Social Housing Leasing and Rent Supplement
- Social Housing Leasing and the Construction Programme
- Opportunity Costs of Current and Capital Expenditure
- Assessment of Rental Prices, Trends and Discounts Attained
- Conclusions and Policy Recommendations

[12] This is the discount rate used in project appraisal in the public sector where public funds are to be expended for investments or policy programmes with future outcomes

2. Context and Policy Developments

2.1 Introduction

This report is intended to provide an appraisal of the projected long-term costs of the leasing models (i.e. RAS; SHLI) compared to Rent Supplement and the Social Housing Investment Programme (or the traditional social housing programme).

Prior to outlining the cost structure underlying each scheme – and the associated assumptions used to provide a framework for the calculations – this Section provides a brief overview of each of the delivery mechanisms.

2.2 Construction and Acquisition

Since the foundation of the State, direct construction (or latterly, or acquisition) by local authorities of housing for those unable to provide for themselves has been the mainstay of social housing policy and provision.

The traditional construction programme (or the direct provision by the local authority) has traditionally been the predominant supply mechanism for social housing in Ireland alongside supports for the voluntary sector including CAS and CLSS.

The acquisition of units – through the purchase of new or previously occupied single or multiple dwellings – is a relatively new phenomenon in social housing delivery in Ireland. However, it rapidly acquired a prominent position due to the absence of a prolonged lead-in time and the immediate integration dividend. In recent years, purchases accounting for up to one third of total completions on the main social housing programme.

Due to the rapid and severe deterioration in the public finances since 2007, the capital budget for constructing (or acquiring) units has been reduced from €980m in 2008 to €740m in 2009 and €367m in 2010.

2.3 Rent Supplement

Rent Supplement was introduced in 1977. Under the Supplementary Welfare Allowance Scheme, persons in private rented accommodation unable to provide for their accommodation costs from their own resources, and who do not have alternative accommodation available to them, are entitled to a supplement for the rent of their residence.

The level of Rent Supplement payable in respect of an individual household is determined by the local Community Welfare Officer taking into account family circumstances, location of the residence and maximum rent levels established by the Minister for Social Protection.

The past three years have seen an unprecedented jump in the numbers claiming Rent Supplement, increasing by 56 per cent from end-2007 to end-2009, with the number of claimants now standing in excess of 94,000.

This dramatic increase in the take-up of Rent Supplement has resulted in a significant increase in the level of expenditure by the Department of Social Protection (see Table 2.1 below).

Table 2.1: Rent Supplement Expenditure

Year	Recipients (N)	Cost (€'000)
2005	60,176	368,705
2006	59,861	388,339
2007	59,726	391,466
2008	74,038	440,784
2009	93,030	510,677

2.4 Social Housing Leasing Models

The Department has introduced a series of schemes based upon the leasing of social housing from the private sector. The Rental Accommodation Scheme was introduced in 2004 as part of the process of developing a more flexible and graduated system of housing supports.

The Social Housing Leasing Initiative was introduced in 2009. This initiative is a continuation of the process commenced with the introduction of the Rental Accommodation Scheme whereby housing policy sought to increase the sources of supply and delivery mechanisms for providing social housing accommodation for those assessed as being in need of housing.

Different Types of Lease Model

RAS is a homogeneous scheme whereby individual private landlords enter into agreements with the local authority sector. Approved Housing Bodies (AHBs) can also have RAS properties but these are funded on a different basis related to a reduced Rent Supplement amount that is available for properties that have been capital funded by the State through the Capital Assistance Scheme (CAS).

By contrast, the SHLI has a number of different forms. These variously involved units leased from a private landlord, units acquired or built by an AHB, unsold affordable units owned by the local authority sector, enhanced schemes to meet special needs (i.e. the movement of homeless persons from temporary accommodation) and hybrid schemes involving a combination of current and capital monies. The different models are summarised in Table 2.2 below.

Table 2.2: Overview of RAS and SHLI Leasing Models

Model	Duration	Landlord	Owner
RAS Private Lease	4-10 years	Private	Private
RAS Voluntary Lease	Indefinite	AHB	AHB
Long-Term Lease	10-20 years	Local Authority	Private
Voluntary Lease 1	10-20 years	AHB	Private
Voluntary Lease 2	>25 years	AHB	AHB
Unsold Affordable Housing	5-10 years	AHB	Local Authority
Enhanced Leasing	>25 years	AHB	AHB

For the purposes of this report, the authors have concentrated on long-term leases with a private landlord.

Overview of Leasing Models

Leasing private properties under SHLI and entering into arrangements with private landlords under RAS are essentially two sides of the same coin. The similarities between the two approaches are as follows:

- Both are based on using market rents as the means for determining the payment to the property owner. In both cases the payment is a discounted market rent, which takes into account the transfer of risk for voids, and the potential transfer of risk for management and maintenance under leasing;
- Both are revenue based approaches to the supply of social housing; and
- Both make use of the private rental market to source housing.

The main benefit of RAS is that it generally provides better standards of accommodation and greater security for tenants than rent supplement. It is also an attractive option for landlords who wish to retain an active involvement in the letting of their properties, do not want to commit to long-term arrangements and may seek an easier route to exit the rented market if housing conditions change.

The functional distinctions between the two approaches are as follows:

- Social leasing is generally of a longer term duration than RAS, thus providing greater security of tenure for tenants;
- Social leasing involves the local authority or approved housing body taking on the role of landlord, thus providing greater opportunity for increased supply, while also strengthening the position of the local authority to deal with tenancy issues including anti-social behaviour;
- Under social leasing, the property is made available for a minimum period of 10 years without the option of a break-clause. Under RAS, the landlord can normally sell the property under the provisions of the Residential Tenancy Act 2004; and
- Under social leasing, the property may be used for anyone with a long term housing need whilst RAS is restricted to transfers from rent supplement.

Rental Accommodation Scheme

The Rental Accommodation Scheme (RAS) was agreed by Government in July 2004 and commenced in September 2005. The introduction of the Scheme saw local authorities assume responsibility for accommodating households in receipt of rent supplement continuously for a period of eighteen months or more and who had an identified long-term housing need.

The two key objectives of the Scheme were as follows:

- The elimination of dependence on rent supplement by persons assessed as needing housing assistance on a long-term basis, and
- The enhancement of the position of local authorities to respond to long-term housing need.

Accommodation is sourced from the private rented sector, with a rental agreement typically lasting between one and 10 years. Since the first transfers in September 2005, over 27,000 cases have been dealt with, while total expenditure on the Scheme up to December 2009 amounted to almost €171m.

The total budget for RAS in 2010 is €125m, which represents a 38% increase on the budget provision for 2009 (€90.5m). The budget increases year-on-year in order to cover the cost of extant agreements alongside the cost of new agreements entered into.

This allocation is intended to achieve the following:

- To support the costs of all existing rent supplement households transferred to the scheme previous to 2010 (24,813 transfers by year end, of which, 14,400 are direct transfers with a carry-over commitment); and
- To fund the costs of rents of additional new transfers to the scheme (new supply) during the year (estimated at 8,000, of which 6,750 will be direct RAS transfers)

By end-2009, there were just over 9,250 privately owned housing units[13] in use under RAS.

[13] Both schemes envisaged a range of options for using accommodation under ‘lease type ‘arrangements, this report will focus on the value for money obtained from using privately owned properties for social housing purposes.

Social Housing Leasing Initiative

The Social Housing Leasing Initiative (SHLI) was announced in February 2009. The objective of the Initiative was to continue the restructuring of the social housing investment programme, as signalled in the Government's housing policy statement, *Delivering Homes: Sustaining Communities.*

It was envisaged from the outset that leasing would complement existing forms of social housing delivery. Properties are again leased from the private sector for a longer period of 10 to 20 years.

To date, 1,781 lease contracts have reached Operational or Funding Approved stage.

2.5 Overview of Exchequer Costs under the Social Housing Leasing Models

Prior to making VFM comparisons with other approaches to social housing support and other delivery mechanisms, it is important to get a clear picture of the full costs associated with RAS and SHLI.

The cost to the Exchequer is based upon the Department recouping the expenditure incurred by housing authorities (and indirectly by approved housing bodies) in securing accommodation through leasing arrangements (including the RAS). These costs include the following:

- Regular payments to the property owner
- Transaction costs (including fees and expenses)
- Administrative costs
- Re-instatement costs[14]
- Damage costs[15]
- Management and Maintenance costs[16]

Public funding is used to meet the costs of all of the above albeit that there are a number of differences between the RAS and the SHLI models. For instance, the

[14] SHLI only

[15] RAS only

[16] SHLI only

routine repair and maintenance costs are met by the landlord as provided for in the standard tenancy agreement under the RAS.

By contrast, the local authority (or an approved housing body) takes on the role of landlord, and they are expected to meet the repair and maintenance costs out of the rental income received from the tenant (or the differential rent) in the case of leasing.

Regular Payments to the Property Owner

Under the current arrangements for recouping expenditure for the RAS and the SHLI, the rent amount payable is determined in the first instance by the market rent for similar properties in the area discounted to reflect the apportionment of risk and responsibility assumed by the local authority (or an approved housing body).

The benchmark discount applied – subject to individual negotiation – is approximately 8 per cent for the State taking on responsibility for voids (i.e. the state guarantees payment to the landlord provided that the unit is available for letting, nomination rights rest with the State) with an additional 12 per cent where the State also takes responsibility for the management and maintenance of a unit.

In the case of RAS, the benchmark discount is generally 8 per cent as the landlord takes on the cost of repairs. Where the landlord takes on these costs, the 12 per cent additional discount does not apply. This is the case with all RAS properties and some leasing (i.e. where the voluntary body owns the property and leases it to the State but retains repair risks or where the private landlord retains responsibility for maintenance and repair). In all cases, the owner of the property retains responsibility for structural repairs or improvements.

In the case of the SHLI, the general benchmark is a 20 per cent discount on the applicable market rent[17]. However, these are general benchmarks around which housing authorities seek to negotiate prices. Where authorities take on multiple units from a single property owner they may be able to apply a higher discount but this is not assumed here. The local authority must submit a valuation to the Department as

[17] 8 per cent (voids) plus 12 per cent (management and maintenance)

part of the approval process, confirming the current market rent for the proposed lease properties and stating the discount below market value that is being achieved.

Lease payments are usually fixed for a period of time (in some cases for quite long periods) and then subject to rent review. The rent review is usually based on a combination of referral to the private rented market index in the CPI and local market knowledge and information, and may result in lease costs rising or falling (i.e. upward only rent reviews are not allowed). Provision for rent reviews, included in the contract between the local authority and the landlord, must also be submitted to the Department as part of the approval process.

Where approved housing bodies are using private finance to take on units via acquisition or construction, a different risk assessment with a wider range of discounts may apply (from 92 per cent to 95 per cent and from 80 per cent to 85 per cent).

Transaction Costs

The one-off costs that may be incurred by a local authority and approved housing body undertaking a leasing transaction, are met by the State. The costs include surveys and inspections, legal expenses and professional fees. In order to minimise legal costs for authorities, the Department has provided a template lease for use by authorities.

The Department will pay a once-off payment to the authority based either on vouched expenditure on each leasing project or on 5 per cent of the annual lease cost, whichever is the lesser.

Administrative Costs

There are two main types of administrative cost. In the first instance, this includes system development and maintenance costs associated with providing IT systems, legal template documents, the production of guidance documents and national advertisements. There are also some ongoing costs for publicity for the schemes, the maintenance of IT systems (including hosting of websites) and the provision of support services (regional programme managers and the Housing Agency).

The second type of administrative cost pertains to RAS only, and is based on the number of households transferred by housing authorities from rent supplement to RAS in any given year. Since 2010, an Administration Cost of €300 is payable in Year 1; this falls to €200 p.a. thereafter.

Re-instatement Costs

Under the SHLI, the authority will be required to return the property to the owner in the same condition as at the commencement of the lease (less wear and tear) at the end of the lease period.

Where such a requirement exists and costs are incurred, the Department will fund up to 50 per cent of the reasonable cost of reinstatement at the end of the lease period, based on the conditions survey agreed at the start of the lease and a detailed schedule of cost of works.

Damage Costs

Under the RAS, a damage guarantee is provided for within the contract. The guarantee stipulates that where a tenant damages a property the local authority will pay up to one month's rent in damages to the landlord.

This payment for damages can only be claimed once in respect of each tenancy.

Management and Maintenance Costs

Under the SHLI, the various housing authorities will have to meet the costs of maintenance and management of units. Income received through the differential rent scheme should be used to meet these costs.

There are no management and maintenance costs under RAS.

2.6 Concluding Comments

This section of the report presented a brief overview of each of the social housing delivery mechanisms currently in use for the purposes of contextualising the analysis that follows.

In the following section, we will consider whether the emergent social housing leasing models (including the Rental Accommodation Scheme) offer better VFM when compared to the Rent Supplement scheme (Section 3) and the traditional social housing programme (Section 4).

3. Social Housing Leasing and the Rent Supplement Scheme

3.1 Introduction

The objective of this section is to consider whether the emergent social housing leasing models (including the Rental Accommodation Scheme) offer better VFM when compared to the Rent Supplement scheme.

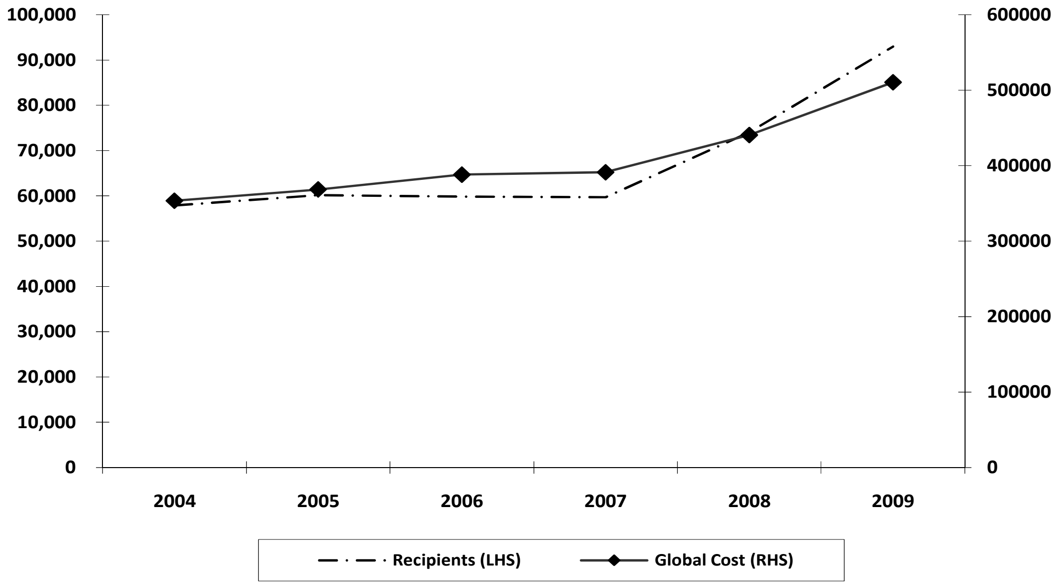
We will endeavour to do so by means of an examination of the long-term cost-effectiveness of each option alongside a consideration of a series of broader effectiveness issues.

3.2 Annual Cost of Rent Supplement

The cost of accommodating households under the Rent Supplement scheme had risen to approximately €441m by 2008[18]. This represents a 24.5 per cent increase compared to the equivalent cost in 2004. Over the same period, the average cost per Rent Supplement claim fell by almost 3 per cent (from €6,113 p.a. in 2004 to €5,953 p.a. in 2008).

[18] Department of Social Protection (*Annual Statistical Report, 2008*)

Figure 3.1 Rent Supplement Cost and Take-up Trends, 2004-2009



However, the value of the data presented above is limited for a number of reasons. In the first instance, these simple averages do not differentiate between two-bed and three-bed units or by local authority operational areas; such data is required in order to prepare a robust assessment of comparative cost-effectiveness.

Secondly, previous research has indicated that the maximum Rent Supplement limits set by the Department of Social Protection (and the HSE) can effectively act as a floor for the rent payable by households supported under the scheme. For instance, Coates and Feely (2007) found that '*landlords segment the market and discriminate amongst prospective tenants...certain property types tend to be priced in line with these limits*'.

Indeed, the latter report found that up to 100 per cent of all one-bed units (in selected areas)[19] were priced at (or close to) the applicable limits in 2006. In the case of three-bed units, the equivalent figure was 81 per cent[20].

[19] Dublin City (97 per cent), Cork City (99 per cent), Wicklow (100 per cent) and Kerry (100 per cent)

[20] Kildare (81 per cent), Wicklow (60 per cent) and Fingal (57 per cent)

Maximum Rent Limits

The maximum rent levels payable to a landlord under the Rent Supplement are set by the Department of Social Protection (see Table 3.1). These rates are set with regard to household compositions (not property type or size) and were revised in mid-2010[21].

It is important to note that these rates do not reflect the actual cost to the Exchequer as each tenant is required to make a weekly Tenant Contribution; this is set at a minimum of €24 and rises where a person returns to work (or has additional income).

Table 3.1: Monthly Rent Maxima under Rent Supplement

Local Area	Category	
	Couple with 1 child*	**Couple with 2 children****
Dublin (excl Fingal)	€930	€1,050
Waterford	€550	€650
Donegal	€500	€550
Wexford	€600	€650

*Or Single parent with 1 child
**Or Single parent with 2 children
Note: Rates are effective as of 16th June 2010

Table 3.2 below sets out the annual cost to the Exchequer where a tenant lets a two-bed or a three-bed property[22] under the Rent Supplement scheme. In the case of Dublin, the annual cost is €9,912 and €11,312 for a two-bed and a three-bed, respectively, when the required Tenant Contribution is netted out[23].

The equivalent figures for Wexford are €5,952 and €6,552 reflecting the substantial differential in the maximum rent levels payable.

[21] These are the rates set by the Department of Social Protection; however, the HSE may set lower rates for areas in any county

[22] These workings equate a couple with 1 child to a 2-bed property and a couple with 2 children to a 3-bed property

[23] This assumes that the contribution is set at the minimum weekly rate of €24 (or €1,248 p.a.)

However, the reader should be aware that the data presented at Figure 3.2 will under-estimate the true annual cost to the Exchequer as these are exclusive of the cost of administering the scheme[24].

Table 3.2: Annual Cost to the Exchequer (Rent Supplement)

Local Area	Category	
	Couple with 1 child* (2 bed)	**Couple with 2 children** (3 bed)**
Dublin (excl Fingal)	**€**	**€**
Annual Cost	11,160	12,600
Excl Tenant Contribution	**9,912**	**11,352**
Waterford		
Annual Cost	6,600	7,800
Excl Tenant Contribution	**5,352**	**6,552**
Donegal		
Annual Cost	6,000	6,600
Excl Tenant Contribution	**4,752**	**5,352**
Wexford		
Annual Cost	7,200	7,800
Excl Tenant Contribution	**5,952**	**6,552**

*Or Single parent with 1 child
**Or Single parent with 2 children

3.3 Net Present Cost of Rent Supplement

Scenario-specific Assumptions

A series of general working assumptions (i.e. temporal scope, cost indexation, etc) were outlined in Section 1. We have also made a number of assumptions that are specific to this scenario. These are outlined below.

- The costings presented below refer to the Net Present Cost of units under this scheme over a 20-year period (see Section 1.3 for details).

[24] **The cost of administering the overall Supplementary Welfare Allowance in 2008 was €63.1m**

- We have assumed that the rent payable to a landlord[25] is set in accordance with the maximum limits established by the Department of Social Protection (and the HSE). For instance, we have taken a cost of €11,160 in the case of a two-bed unit in Dublin.
- We have assumed that the Tenant Contribution is payable at the minimum rate (i.e. €24 per week); this equates to €1,248 p.a. in Year 1.
- We have assumed that the cost to the Exchequer is the rent payable less the Tenant Contribution.
- We have assumed that the rent payable to a landlord is up-rated annually.
- We have apportioned administrative costs to Rent Supplement from the broader SWA budget; we have estimated the cost at €340 per case p.a.[26]
- We have assumed that there are no additional costs payable (i.e. damage costs, etc).
- We have assumed that a couple with one child will equate to a two-bed unit whilst a couple with two children will equate to a three-bed unit; however, Rent Supplement rates are not set with regard to property types or sizes and it is important to note that the type of units available to individual Rent Supplement claimants will depend upon specific circumstances.

Results

The models developed for the purposes of this study indicate that the Net Present Cost of a two-bed unit rented under the rent supplement scheme over a 20-year period will range between €74,000 in Donegal and €150,000 in Dublin (see Table 3.3a below).

Table 3.3a: Estimated Long-term Cost of Rent Supplement (2-bed)

	Net Present Cost €			
	Dublin	**Waterford**	**Donegal**	**Wexford**
Costs				
Rent	164,714	97,412	88,556	106,267
Administration	5,461	5,461	5,461	5,461
Revenues				
Tenant Contribution	20,046	20,046	20,046	20,046
Total Cost	**150,129**	**82,827**	**73,971**	**91,682**

[25] Rent Supplement plus Tenant Contribution

[26] Rent Supplement accounted for 51.2% of the non-administration portion of Gross Expenditure on the Supplementary Welfare Allowance in 2008. We have apportioned 51.2% of the total Administration Costs (€63.1m) to the Rent Supplement scheme. On the basis of 95,000 cases, this equates to €340.11 per case

With regard to three-bed properties, Table 3.3b shows that the respective cost ranges from €83,000 in Donegal and €171,000 in Dublin.

Table 3.3b: Estimated Long-term Cost of Rent Supplement (3-bed)				
	Net Present Cost €			
	Dublin	Waterford	Donegal	Wexford
Costs				
Rent	185,967	115,123	97,412	115,123
Administration	5,461	5,461	5,461	5,461
Revenues				
Tenant Contribution	20,046	20,046	20,046	20,046
Total Cost	**171,382**	**100,538**	**82,827**	**100,538**

3.4 Annual Cost of the Social Housing Leasing Initiative

This initiative commenced in 2009 and €25m has been allocated to leasing for 2010 with a target of acquiring 2,000 to 2,500 additional units for social housing purposes. At the time of writing, approximately 2,000 have been acquired (or are in the process of being acquired) although leases with private landlords account for a minority of this cohort. However, it is important to note that the local authority sector has concentrated on its own vacant stock throughout the year.

As part of the process of collating up-to-date figures on the progress of the SHLI – and the associated costs of leasing by Q3 2010 – the authors requested access to the Department's files[27]. These files contained 173 records; these include 24 leases that are currently Operational and a further 36 leasing arrangements that were classified as Funding Approved (i.e. legal agreements are being finalised) at the time of writing[28].

These 60 leases equate to almost 2,000 properties. However, two-thirds of these leases relate to unsold Affordable Housing stock. The balance relate to leases entered into with private landlords (via a local authority) or Approved Housing Bodies

[27] Filename: Leasing V5HSCA, Extracted: 17th August 2010 (Source: DEHLG)

[28] The balance of the records relate to applications that are being processed, have been withdrawn/lapsed or were refused

(i.e. the voluntary housing sector) and these leases equate to 338 properties. In terms of these 20 leases, eight are currently Operational[29] and 12 are Funding Approved[30].

Table 3.4 below presents a breakdown of these 338 properties. One-bed units are the largest single category of property within this cohort (43 per cent) followed by two-beds (32 per cent) and three-beds (25 per cent).

Table 3.4: Approved Units (August 2010)				
Leasing Type	**Leases (number)**	**Units (number)**		
		1 bed	**2 bed**	**3 bed +**
Operational (a)				
Local Authority	6	18	2	17
AHB	2	-	30	15
Funding Approved (b)				
Local Authority	8	59	46	48
AHB	4	68	31	4
Totals (a+b)	**20**	**145**	**109**	**84**
Excludes Unsold Affordable Units				

Average Annual Leasing Cases

In the case of these 338 properties, the average leasing costs attained over the period Q3 2009 and Q3 2010 are set out in Table 3.5 below. This indicates that the average monthly leasing cost for a one-bed property is approximately €680 and falls to €557 for a three-bed property. It is the view of the authors that these variations are not due to the size of these units but that these may reflect differences between the relevant locations (and rental markets).

[29] Late-2009 (3) and 2010 (5)

[30] Late-2009 (3) and 2010 (9)

The lease cost figures presented here suggest that the SHLI is a more cost-effective option than Rent Supplement in terms of providing accommodation to those living in Dublin. For instance, the cost of leasing a two-bed unit (€7,125 p.a see Table 3.5) is 28.1 per cent less expensive than under Rent Supplement[31] (€9,912 p.a in Dublin see Table 3.2). In the case of three-bed units, this variance rises to 41.1 per cent.

However, this does not apply in Waterford, Donegal or Wexford. Indeed, any direct comparison between these annualised costs is imperfect as they compare national and local figures.

Table 3.5: National Average Lease Cost for Approved Units (August 2010)			
	Units		
Leasing Type	**1 bed €**	**2 bed €**	**3 bed + €**
Operational			
Average Cost per Month	390.00	668.91	539.53
Funding Approved			
Average Cost per Month	720.55	562.62	567.56
National Average p.m.	**679.51**	**593.83**	**556.88**
National Average p.a.	**8,154**	**7,125**	**6,683**
Excludes Unsold Affordable Units			

Moreover, a simple comparison between annualised costs is rendered further unreliable by the fact that the rent (or lease) payable is not the only cost that must be considered. Indeed, both the Rent Supplement and the SHLI carry a stream of additional costs and revenues that must be taken into account.

Consequently, the appropriate like-for-like comparison is between the Net Present Costs for each option over a 20-year period. The results of this exercise are presented below.

[31] Assumes that the Rent Supplement is paid at the applicable rent maxima (see Figure 3.3)

3.5 Net Present Cost of the Social Housing Leasing Initiative

Scenario-specific Assumptions

We have made a number of assumptions that are specific to this scenario. These are outlined below.

- The costings presented below refer to the Net Present Cost of units under this scheme over a 20-year period (see Section 1.3 for details).
- We have assumed that the monthly lease costs are in line with the national averages presented at Table 3.5 above.
- We have assumed that a rent review is conducted on a 5-year cycle (i.e. rents are set for a 5-year period) and that the revised rent payable reflects the change in market rents over that period.
- We have assumed that the Differential Rent payable is equivalent to the average rent paid in Dublin City in 2008 (and indexed over time).
- Given that the SHLI is another social housing delivery mechanism (and will be managed by a local authority as such), we have assumed that a stream of costs will be payable will regard to management, voids and vacancies; we have used the same figures for voids and vacancies as apply under the traditional construction programme in Dublin City[32].
- In the case of maintenance costs, we have assumed that the cost will be 40 per cent of the figure which applies under the traditional construction programme in Dublin City. Although a local authority will act as the landlord over the long-term, they will not have responsibility for structural matters. Also, the available data indicates that the full 20 per cent discount has only been achieved in approximately 50 per cent of cases and consequently, it is inappropriate to assume that a 100 per cent transfer of risk to the local authority (i.e. cost) will occur.
- We have included a cost of €628 p.a. per unit in lieu of Administration Costs; this is the same figure that applies under the traditional construction programme.
- We have assumed that a Transaction Cost is payable in Year 1; this equates to five per cent of the rent payable in that year.
- We have assumed that a Re-instatement Cost is payable in Year 20 and that equates to 50 per cent of the Remediation Cost payable under the traditional construction programme (see Section 4). We have also assumed that this is payable in the case of one in every 20 units; this is averaged across all units in order to reflect the true economic cost[33].

[32] See Section 4

[33] 5 per cent of the Remediation Cost of a single unit is attributable to each unit (bearing in mind that the Department will only pay for half of the cost)

Results

The models developed for the purposes of this study indicate that two-bed units leased under the SHLI scheme over a 20-year period will cost approximately €100,000. This falls to approximately €99,000 in the case of three-bed units (see Table 3.6 below).

However, given that the SHLI is a relatively new initiative – and the associated relatively small number of leases in operation at the time of writing – it is inappropriate to rely solely on any comparison based solely on the national average monthly lease under the SHLI. However, the authors do note that an inherent strength of this approach is that the analysis is based upon actual achieved leasing costs.

Consequently, we have developed a further iteration of this analysis using the average market rents payable for a two and three-bed property in each of our case study local authorities *and assuming that the full 20 per cent discount has been attained*[34]. In order to do so, we have used the average market rents in each local authority as presented in the latest Daft Rental Report[35]. However, it is important for the reader to bear in mind that these rents are the asking prices and not the rent achieved by a landlord. It should also be noted that the full 20 per cent discount is not attained in all cases.

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[34] Of the 20 standard and voluntary leases classified as Operational or Funding Approved (i.e. excluding Unsold Affordable Housing) by August 2010, just 5 leases contained a discount of 20 per cent plus

[35] Q3 2010 (www.daft.ie); Dublin refers to D1 and private comparators for Donegal and Waterford/Wexford are derived from Ulster and South East Leinster, respectively

Table 3.6: Estimated Long-term Cost of the SHLI over 20 years – National Average			
		€	
		2-bed	**3-bed**
Costs			
Leasing		102,649	97,016
Administration		10,295	10,295
Transaction Fee		343	321
Maintenance		17,532	21,529
Re-instatement		880	880
Vacancies	Rent Foregone	740	740
	Rent Supplement	2,720	2,720
Voids	Rent Foregone	562	562
	Rent Supplement	2,066	2,066
	Refurbishment	6,775	6,775
Total Costs		**144,562**	**142,904**
Revenues			
Differential Rent		44,155	44,155
Average National Cost		**100,406**	**98,749**

Estimates using Daft.ie Average Rents

This next iteration of the analysis indicates that the cost of a two-bed in Dublin is actually closer to €147,000. The cost for an equivalent property falls to €64,000 in Donegal. By comparison, a three-bed in Dublin will cost approximately €200,000 whilst a three-bed in Wexford will cost €73,000 (see Tables 3.7a and 3.7b below).

Table 3.7a: Estimated Long-term Cost of the SHLI (2-bed)					
		€			
		Dublin	**Waterford**	**Wexford**	**Donegal**
Costs					
Leasing		149,488	78,270	78,962	69,005
Administration		10,295	10,295	10,295	10,295
Transaction Fee		499	261	264	230
Maintenance		17,532	4,588	11,010	8,228
Re-instatement		880	880	880	880
Vacancies	Rent Foregone	740	537	838	549
	Rent Supplement	2,720	1,469	1,633	1,304
Voids	Rent Foregone	562	95	684	618
	Rent Supplement	2,066	260	1,333	1,467
	Refurbishment	6,775	6,321	7,869	3,400
Revenues					
Differential Rent		44,155	32,088	50,046	32,789
Total		**147,402**	**70,889**	**63,723**	**63,188**

Table 3.7b: Estimated Long-term Cost of the SHLI (3-bed)					
		€			
		Dublin	**Waterford**	**Wexford**	**Donegal**
Costs					
Leasing		198,027	95,280	90,716	80,898
Administration		10,295	10,295	10,295	10,295
Transaction Fee		661	318	303	270
Maintenance		21,529	11,272	8,539	10,299
Re-instatement		880	880	880	880
Vacancies	Rent Foregone	740	537	838	549
	Rent Supplement	2,720	1,469	1,633	1,304
Voids	Rent Foregone	562	95	684	618
	Rent Supplement	2,066	260	1,333	1,467
	Refurbishment	6,775	6,321	7,869	3,400
Revenues					
Differential Rent		44,155	32,088	50,046	32,789
Total		**200,099**	**94,639**	**73,045**	**77,191**

3.6 Annual Cost of the Rental Accommodation Scheme

The amount of rent paid to private landlords through RAS is a matter for individual authorities, having regard to guidance issued by the Department (August 2009) and the need to obtain value for money.

The guidance stipulates that authorities should take account of the prevailing market conditions and the level of risk being transferred to the authority when agreeing rental prices and advises that in general a reduction on the prevailing market rents should be sought. Dependent on the contract type and the level of risk transferred (i.e. is the local authority taking responsibility for vacancies), a discount of at least eight per cent below market rent is recommended.

Each local authority is required to submit frequent returns to the Department's own RAS Unit; these returns provide statistical data with regard to case processing and the average rents agreed (by property type). Based on data provided by the local authorities, the Department has calculated both the average RAS rent payable and the national average.

Table 3.8 indicates that the national average monthly rent paid to private landlords in 2009 was €696; this equates to an annual average rent of €8,352. In the case of Dublin, the average rent under RAS is €12,024 p.a. and €12,972 p.a. for a two-bed and three-bed property, respectively. This falls to €5,604 p.a. and €6,528 p.a. in Donegal.

Table 3.8: Estimated Average Rents under RAS (2009)

	Monthly Rent €		Annual Rent €	
Local Authority	**2-bed**	**3-bed**	**2-bed**	**3-bed**
Dublin City	1,002	1,081	12,024	12,972
Waterford City	595	719	7,140	8,628
Co Donegal	467	544	5,604	6,528
Co Wexford	521	652	6,252	7,824
National	**739**	**749**	**8,868**	**8,988**
	696		**8,352**	

Source: Department of the Environment, Heritage and Local Government

Note: National figure refers to a weighted average

These figures suggest that the rents payable under the RAS are slightly more expensive than the cost to the Exchequer under the Rent Supplement (see Table 3.2). For instance, the annual cost of a two-bed and three-bed property in Dublin under the RAS is almost 8 per and 3 per cent more expensive, respectively, than under the Rent Supplement.

However, this is not the full picture as previous research has indicated that additional under-the-counter payments by tenants to landlords were prevalent under the Rent Supplement scheme. It is also likely that the RAS will provide more appropriate accommodation as previous research has shown that Rent Supplement claimants can often reside in overcrowded accommodation. Once again, a simple comparison between annualised costs is not a sufficient comparator as the rent payable is not the only cost that must be considered. Consequently, the appropriate like-for-like comparison is between the Net Present Costs for each option over a 20-year period. The results of this exercise are presented below.

3.7 Net Present Cost of the Rental Accommodation Scheme

Scenario-specific Assumptions

We have made a number of assumptions that are specific to this scenario. These are outlined below.

- The costings presented below refer to the Net Present Cost of units under this scheme over a 20-year period (see Section 1.3 for details).
- We have assumed that the monthly rental costs are in line with the averages presented at Figure 3.9 above.
- We have assumed that a series of five consecutive four-year agreements will take place over the 20-year period covered by this review; at the start of each agreement, the rent is agreed with regard to the prevailing market rent.
- We have assumed that the Differential Rent payable is equivalent to the average rent payable in each local authority in 2008 (and is indexed over time).
- Given that the RAS is another social housing delivery mechanism (and will be managed by a local authority as such), we have assumed that a stream of costs will be payable with regard to voids and vacancies; we have used the same figures as apply under each local authority for the purposes of the traditional construction programme[36].
- We have included a cost of €628 p.a. per unit in lieu of Administration Costs; this is the same figure that applies under the traditional construction programme (and the SHLI; see above)[37].
- We have assumed that a Damage Cost is payable at the end of each four-year cycle and that this is payable in the case of 1 in every 20 units; this is set at the equivalent of one month's rent in each period and is averaged across all units in order to reflect the true economic cost[38].

Results

The models developed for the purposes of this study indicate that the average national cost of a two-bed unit rented under this scheme over a 20-year period will

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[36] See Section 4. Refurbishment costs are excluded for the purposes of the RAS

[37] An Administration Cost of €300 is payable in Year 1; this falls to €200 p.a. thereafter However, our consultations indicate that this is unlikely to reflect the true administrative and management-related cost per unit

[38] 5 per cent of the Damage Cost for a single unit is attributable to each unit

come to €101,000. The cost increases to almost €103,000 in the case of a three-bed unit (see Table 3.9 below).

Beyond these national average costs, it is possible to disaggregate the projected Net Present Cost by county. In the case of two-bed units rented under this scheme over a 20-year period, the cost ranges €55,000 in Wexford and €147,000 in Dublin (see Table 3.10a below). With regard to three-bed properties, the cost ranges from €76,000 in Donegal and €160,000 in Dublin (Table 3.10b).

Table 3.9: Estimated Long-term Cost of the RAS – National Average

		2-bed	3-bed
Costs		**€**	
Rents		128,549	130,227
Administration		10,295	10,295
Damage Fee		125	127
Vacancies	Rent Foregone	740	740
	Rent Supplement	2,720	2,720
Voids	Rent Foregone	562	562
	Rent Supplement	2,066	2,066
	Refurbishment	-	-
Revenues			
Differential Rent		44,155	44,155
National		**100,902**	**102,582**

Table 3.10a: Estimated Long-term Cost of RAS (2-bed)					
		Net Present Cost €			
		Dublin	**Waterford**	**Donegal**	**Wexford**
Costs					
Rents		174,325	103,517	81,247	90,642
Administration		10,295	10,295	10,295	10,295
Damage Fee		170	101	79	88
Vacancies	Rent Foregone	740	537	549	838
	Rent Supplement	2,720	1,469	1,304	1,633
Voids	Rent Foregone	562	95	618	684
	Rent Supplement	2,066	260	1,467	1,333
	Refurbishment	-	-	-	-
Revenues					
Differential Rent		44,155	32,088	32,789	50,046
Total Cost		**146,723**	**84,186**	**62,771**	**55,469**

Table 3.10b: Estimated Long-term Cost of RAS (3-bed)					
		Net Present Cost €			
		Dublin	Waterford	Donegal	Wexford
Costs					
Rents		188,070	125,090	94,644	113,433
Administration		10,295	10,295	10,295	10,295
Damage Fee		183	122	92	111
Vacancies	Rent Foregone	740	537	549	838
	Rent Supplement	2,720	1,469	1,304	1,633
Voids	Rent Foregone	562	95	618	684
	Rent Supplement	2,066	260	1,467	1,333
	Refurbishment	-	-	-	-
Revenues					
Differential Rent		44,155	32,088	32,789	50,046
Total Cost		**160,481**	**105,781**	**76,180**	**78,282**

3.8 Long-term Cost Effectiveness Comparator: SHLI

On the basis of the Net Present Cost of both Rent Supplement and RAS presented above, it is possible to consider the comparative cost effectiveness of these two options. In other words, we can compare the cost of renting a single unit of social housing over a 20-year period via a demand-led income support with the equivalent cost under a supply-led social housing support.

Table 3.11a indicates that the leasing of two-bed units under the SHLI is a more cost-effective delivery mechanism in Dublin only with a reduction of approximately 33 per cent. By contrast, Rent Supplement is the least expensive option in each of the other three local authorities. For instance, providing a two-bed unit under the Rent Supplement in Wexford and Donegal is approximately €9,000 and €26,000 less expensive than the equivalent cost under the SHLI (albeit that the latter refers to a national average cost).

Table 3.11a: Cost Variance between SHLI units and Rent Supplement units (2-bed)

	SHLI €	**Vs. Rent Supplement**		
		Cost €	**Diff €**	**Diff %**
National	**100,406**			-
Dublin City	-	150,129	49,723	**33.1**
Waterford City	-	82,827	17,579	**-21.2**
Co Donegal	-	73,971	26,435	**-35.7**
Co Wexford	-	91,682	8,724	**-9.5**

Note: Under Diff (%) – a negative symbol denotes that the Rent Supplement is less expensive than the SHLI

Table 3.11b also indicates that the leasing of three-bed units under the SHLI is a more cost-effective delivery mechanism in Dublin, Waterford and Wexford. In the case of Dublin, leasing these units under the SHLI is almost €73,000 (or 42 per cent) less expensive than the equivalent cost under the Rent Supplement. Similarly, leasing these units in Waterford and Wexford is almost €2,000 (or two per cent) less expensive than the equivalent cost under the Rent Supplement.

Table3.11b: Cost Variance between SHLI units and Rent Supplement units (3-bed)				
	SHLI €	**Vs. Rent Supplement**		
		Cost €	**Diff €**	**Diff %**
National	**98,749**			-
Dublin City	-	171,382	72,633	**42.4**
Waterford City	-	100,538	1,789	**1.8**
Co Donegal	-	82,827	15,922	**-19.2**
Co Wexford	-	100,538	1,789	**1.8**
Note: Under Diff (%) – a negative symbol denotes that the Rent Supplement is less expensive than the SHLI				

The authors do accept that the above comparison is of limited value. However, it is not possible to undertake a robust county-by-county comparison at the time of writing (i.e. on the basis of 20 leases nationwide).

Estimates using Daft.ie Average Rents

Similar to Table 3.7, we have developed a further iteration of this analysis using the average rents payable for a two and three-bed property in each of our case study local authorities and assuming that the full 20 per cent discount has been attained.

The analysis presented below suggests that Rent Supplement is unlikely to be more cost effective (based upon the data available at the time of writing). Table 3.12a indicates that the leasing of two-bed units under the SHLI is a more cost-effective delivery mechanism in each of the four case study local authorities examined here. For instance, leasing these units under the SHLI in Dublin and Wexford is €3,000 (or two per cent) and €28,000 (or 31 per cent), respectively, less expensive than the equivalent cost under the Rent Supplement scheme.

Table3.12a: Cost Variance between SHLI units and Rent Supplement units (2-bed)				
	SHLI €	Vs. Rent Supplement		
		Cost €	Diff €	Diff %
Dublin City	147,402	150,129	2,727	1.8
Waterford City	70,889	82,827	11,938	14.4
Co Donegal	63,188	73,971	10,783	14.6
Co Wexford	63,723	91,682	27,959	30.5
Note: Under Diff (%) – a negative symbol denotes that the Rent Supplement is less expensive than the SHLI				

Table 3.12b indicates that the leasing of three-bed units under the SHLI in Dublin is the least cost-effective delivery mechanism as units under the Rent Supplement are actually €29,000 (or 17 per cent) less expensive than the equivalent cost under the SHLI. However, in each of the other three case study local authorities the provision of these units under the SHLI is the more cost-effective option. For instance, leasing these units under the SHLI in Waterford and Wexford is €6,000 (or six per cent) and €27,000 (or 27 per cent), respectively, less expensive than the equivalent cost under the Rent Supplement scheme.

Table 3.12b: Cost Variance between SHLI units and Rent Supplement units (3-bed)				
	SHLI €	Vs. Rent Supplement		
		Cost €	Diff €	Diff %
Dublin City	200,099	171,382	-28,717	-16.8
Waterford City	94,639	100,538	5,899	5.9
Co Donegal	77,191	82,827	5,636	6.8
Co Wexford	73,045	100,538	27,493	27.3
Note: Under Diff (%) – a negative symbol denotes that the Rent Supplement is less expensive than the SHLI				

3.9 Long-term Cost Effectiveness Comparator: RAS

Similar to the analysis above, it is possible to consider the comparative cost effectiveness of Rent Supplement and the RAS. Table 3.13a indicates that the leasing of two-bed units under the RAS is, generally speaking, a more cost-effective delivery mechanism than the long-term reliance upon Rent Supplement for the same units. For instance, we have estimated that such units could be more than €11,000 less expensive (or 15 per cent) in Donegal and up to €36,000 less expensive (or 40 per cent) in Wexford under the RAS.

Table 3.13a: Cost Variance between RAS units and Rent Supplement units (2-bed)

	RAS €	**Vs. Rent Supplement**		
		Cost €	**Diff €**	**Diff %**
Dublin City	146,723	150,129	3,406	**2.3**
Waterford City	84,186	82,827	-1,359	**-1.6**
Co Donegal	62,771	73,971	11,200	**15.1**
Co Wexford	55,469	91,682	36,213	**39.5**

Note: Under Diff (%) – a negative symbol denotes that the Rent Supplement is less expensive than the RAS

Table 3.13b also indicates that the leasing of three-bed units under the RAS is, generally speaking, the more cost-effective delivery mechanism than the long-term reliance upon Rent Supplement for the same units. For instance, we have estimated that such units could be up to €11,000 less expensive (or six per cent) in Dublin and more than €22,000 less expensive (or 22 per cent) in Wexford under the RAS.

Table 3.13b: Cost Variance between RAS units and Rent Supplement units (3-bed)				
	RAS **€**	**Vs. Rent Supplement**		
		Cost **€**	**Diff** **€**	**Diff** **%**
Dublin City	160,481	171,382	10,901	**6.4**
Waterford City	105,781	100,538	-5,243	**-5.2**
Co Donegal	76,180	82,827	6,647	**8.0**
Co Wexford	78,282	100,538	22,256	**22.1**
Note: Under Diff (%) – a negative symbol denotes that the Rent Supplement is less expensive than the RAS				

3.10 Broader Effectiveness Considerations

Although the foregoing analysis has clearly indicated that the various social housing leasing models are generally likely to be more cost-effective than the Rent Supplement scheme, it is important to bear in mind that cost-effectiveness (or lowest cost) is not the sole criterion for judging Value for Money. Rather, there are a number of broader effectiveness considerations.

In the first instance, transferring tenants from Rent Supplement into either of the social housing leasing models implies that these tenants will move from a demand-led income support model into a supply-based social housing system and that the housing needs of these tenants will be met from within the broader suite of social housing delivery mechanisms going forward. This, in turn, can be expected to yield a number of important benefits for both the tenants and the State, as follows:

- Improved security of tenure for tenant;
- Stronger powers to address issues of anti-social behaviour and other tenancy issues;
- Better facilitates meeting sustainable communities objectives; and
- Better access for tenants to other social housing supports.

Secondly, the social housing leasing models can be expected to remove the series of poverty traps that are inherent to the Rent Supplement scheme and provide greater incentives for tenants to return to work. To date, a range of studies have noted that the latter scheme does not encourage the take-up of paid employment. For instance, Coates and Norris (2006) found that '*the rate of withdrawal is quite steep*' with '*negative implications for work take-up'*. By contrast, tenants assessed on a Differential Rent system under the social housing leasing models will not incur the same penalty as Rent Supplement recipients where they return to work.

Thirdly, the social housing leasing models can be expected to provide tenants with a higher standard of accommodation as accommodation under the RAS and the SHLI will be inspected by the local authorities in advance of the signing of the contract to ensure that it meets specified standards. This is not always in the case of properties provided under the Rent Supplement scheme.

Fourthly, it is expected that the social housing leasing models will provide a more secure regulatory environment for tenants. In addition to the provision of better quality accommodation, it will provide greater clarity for tenants viz the amount of rent payable by them.

For instance, both tenants and local authority officials interviewed as part of the Interim Value for Money and Policy Review of the Rental Accommodation Scheme – conducted by the Department in 2007 – advised of the prevalence of additional under-the-counter payments by tenants to landlords who were being paid under Rent Supplement.

Finally, the authors believe that the revised regulatory framework accompanying the social housing leasing models will deliver greater tax compliance; any landlords letting their property under the RAS or the SHLI must demonstrate that they are tax compliant and be registered with the Private Residential Tenancies Board in advance of the contract being signed. In addition, at the end of each year, the Department will send a full report to the Revenue Commissioners detailing the PPS numbers of all landlords in the schemes.

3.11 Concluding Comments

This section of the report considered whether the emergent social housing leasing models (including the Rental Accommodation Scheme) offer better VFM when compared to the Rent Supplement scheme. The analysis has indicated that the former are indeed more cost-effective and that they also yield a series of indirect benefits.

In the following section, we will consider whether the social housing leasing model offers better VFM when compared to the traditional social housing programme.

4. Social Housing Leasing and the Construction Programme

4.1 Introduction

The objective of this section is to consider whether the emergent social housing leasing models (including the Rental Accommodation Scheme) offer better VFM when compared to the traditional social housing programme.

We will endeavour to do so by means of an examination of the long-term cost-effectiveness of each option alongside a consideration of a series of broader effectiveness issues.

4.2 Construction and Acquisition

The cost of delivering social housing units under the traditional construction and acquisition model is not adequately captured by the up-front capital expenditure as each unit will carry a stream of ongoing costs over the long-term including management, maintenance and remediation. Consequently, any analyses of cost-effectiveness based solely on this measure will significantly under-estimate the true cost to the Exchequer of each unit delivered and will bias any scheme-by-scheme comparison.

To this end, the authors sought to develop a Whole Lifecycle Cost estimate which reflects the all-in cost of each unit. For the purposes of developing this estimate of the Whole Lifecycle Cost of units delivered under this approach, the authors collected data on the average cost of developing (or acquiring) both two-bed and three-bed units[39]. We also collected data on a range of associated costs and on the incidence of vacancies and voids. On the basis of this data, we then sought to determine the Net Present Cost of delivering each unit of social housing under the traditional model over a 20-year period (i.e. in today's terms).

As part of our empirical work, we also sought to estimate the cost per unit of cyclical, planned and response-based maintenance programmes. However, the data

[39] Construction cost plus costs relating to planning, land and site development

collected showed a high degree of variability[40] and the Steering Group for this study directed the authors to formulate a new approach to the quantification of these specific costs.

Consequently, we have estimated the annual cost of maintaining a unit at the equivalent of one per cent of the initial construction (or acquisition) cost of that unit[41]. The rationale for this assumption is as follows:

- A recent report by the Irish Council for Social Housing (HAPM, *Results 2009*) indicates that the voluntary sector spends an average of €2,500 per unit on maintenance and repairs; this equates to approximately one per cent of the national average asking price for housing[42];
- The BCIS in the UK estimated that the Net Present Value of maintenance costs at 80 per cent of the capital cost over 60 years; this equates to just over one per cent per annum; and
- Recent research in the US (Harding, Rosenthal and Sirmans, 2006) has found that regular maintenance serves to compensate for depreciation as a unit ages; the authors state that the annual cost of such maintenance is between one per cent and three per cent of the initial purchase price.

Scenario-specific Assumptions

We have also made a number of assumptions that are specific to this scenario. These are outlined below.

- The costings presented below refer to the Net Present Cost of units under this scheme over a 20-year period (see Section 1.3 for details).
- We have assumed that the cost of administration per unit is a weighted average of the relevant data supplied by each of the four local authorities; we have included a cost of €628 per annum.
- We have assumed that each unit is the subject of substantial remedial or improvement work in Year 20. The Revised Estimates over a five-year period (2005-2009) indicate that a cumulative €1.49bn was expended on Remedial Works and Regeneration (including Internal Capital Receipts); this equates to approximately €2,596 per unit per annum. Assuming that 5 per cent of units are remediated in a given year and that all units will be remediated over a period of 20 years, this implies a cost per unit of €52,000[43].

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[40] A recent report by the Local Government Audit Service noted a similar lack of standardisation in the reported maintenance costs

[41] Indexed in line with the Public Sector Benchmark over time

[42] Or €224,000 (Daft.ie House Price Report, 2010 Q2)

[43] In current terms; this is indexed up to Year 20

- We have assumed that the Differential Rent payable in each case is equivalent to the average rent paid in that local authority area in 2008 (and indexed over time).
- Based upon data returned by the local authorities on the incidence of voids (and the associated elapsed period prior to re-letting), we have calculated the cumulative duration for which social housing units are not let due to voids[44]. This, in turn, was averaged across the entire stock in each local authority area (in order to reflect the true economic cost on a per letting basis) and was financially quantified using the Differential Rent foregone[45], the Rent Supplement payable for that period[46] and the cost of refurbishment[47].
- Based upon statistical data published by the Department, we have estimated that approximately 6.7 per cent of each local authority's housing stock is vacant and re-let in a given year[48]; assuming that each unit is vacant for 13 weeks prior to being re-let, we have calculated the cumulative duration for which social housing units are not let due to vacancies. Once again, this was averaged across the entire stock in each local authority area and was financially quantified using the Differential Rent foregone and the Rent Supplement payable.
- We have assumed that where Tenant Purchase applies, the unit is purchased in Year 20 and that the purchaser receives a discount of 50 per cent on the market value[49]; this in line with the findings of a study commissioned by the Department in 2004.

Quantifying Residual Values

In those cases where a unit is not sold to the occupant but is retained by the local authority, it is necessary to consider the Residual Value that can be attributed to that unit and to determine what value (if any) should be incorporated into the models developed here to reflect the fact that the local authority continues to hold an asset at that point in time. As part of the earlier iterations of this report, the authors developed – but ultimately rejected – two potential approaches to this challenge, as follows:

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[44] This is a function of the number of voids in a given year and the reported average period prior to re-letting (i.e. 24 weeks in the case of Dublin City)

[45] Differential Rent foregone was derived using the average rent payable per unit in each local authority in 2008

[46] Rent Supplement payable was derived on the basis of a Single Parent with 1 child (2-bed) and a Couple on Jobseekers Allowance with 1 child (3-bed); the attributable costs were verified by a Senior CWO

[47] This was derived using the refurbishment costs as reported by each local authority

[48] Based upon reported First Time Lettings and Casual Vacancies in 2006

[49] For the purposes of this analysis, the market value of a unit at the end of the appraisal period is based upon the initial construction/acquisition value in 2008; the latter value is indexed over time in line with the observed changes in the ESRI/Permanent tsb House Price Index (for 2009 and 2010) and projected house price changes between 2011 and 2018 (see Section 1). All values are discounted in line with the T.D.R.

- *Residual Value of 0%* – We initially assumed that where the unit is retained by the local authority, the residual value is zero; this assumes that the unit has no net realisable value to the Exchequer at the end of the timeframe used due to the potential inter-generational transfer of tenancies. However, it was decided not to opt for this approach in the Final Report as it is counter-intuitive to conclude that a unit which has been constructed/acquired, managed, maintained and re-mediated by the Exchequer would have no value after 20 years.
- *Residual Value of 100%* – We also developed an alternative model which assumed that where the unit is retained by the local authority, the residual value is equivalent to the market value of the unit (i.e. the cost of construction/acquisition in Year 0 uprated in line with the indexation set out in Section 1); this approach was compliant with the requirement to value assets on a historical cost basis and to re-value assets where the value has changed materially[50]. However, the authors opted not to include this approach in the Final Report as it is clear that social housing stock does not retain its value over time (or increase in value to the same extent as owner-occupied stock) due to a range of factors including the geographic concentration of low-income households. The results for this approach are provided in Annex 1 of this report.

Consequently, it is the view of the authors that neither of these solutions is optimal and to this end, we have opted to develop a 'high' and 'low' scenario. In the case of the former, we have set the residual value at 66.6 per cent of the market value of each unit at the end of the 20-year period and in the case of the latter, the residual has been set at 33.3 per cent.

Obsolescence

The authors do recognise that some proportion of the units constructed (or acquired) by the State are taken out of the stock over time – due to demolition or other unplanned reasons (i.e. fire, etc.) – and that the incidence of obsolete stock does present a further cost that should be incorporated into the models described above. However, although the authors did endeavour to quantify the incidence of obsolescence (and the associated cost) there was insufficient evidence to develop a robust estimate. Consequently, no such cost is included here.

[50] Guidelines on Valuation of Historical Assets (2003) and Circular Fin 24/2003: Identification and Valuation of Historical Assets (2003) require that all assets purchased as from the 1/1/2001 will be valued on a historical cost basis and that all assets whose construction was completed after the 1/1/2003 will be valued on a historical cost basis. The Accounting Code of Practice requires that assets should be revalued at intervals of not more than five years and the revised amount should be included in the balance sheet.

Results

In the case of the 'low' scenario (i.e. Residual Value of 33.3 per cent) cited above, the models developed for the purposes of this study indicate that two-bed units constructed by the State range in cost from €143,000 in Donegal to €293,000 in Dublin. In the case of two-bed units acquired by the State, the cost ranges from €147,000 in Donegal to €180,000 in Wexford (see Table 4.1a).

In the case of 3-bed properties, this cost range was similarly broad. In the case of units purchased by the tenant in Year 20, the cost ranged between €129,000 in Wexford and €376,000 in Dublin. In the case of units retained by the local authority, the cost ranged between €140,000 in Wexford and €400,000 in Dublin (see Table 4.1b below).

Table 4.1a: Estimated Lifecycle Cost per Unit (2-Bed)

Residual Value – 33.3% of Indexed Market Value				
	New Build €		Acquisition €	
	Tenant Purchase	LA Retention	Tenant Purchase	LA Retention
Dublin City	-	292,761	-	n/a
Waterford City	-	n/a	-	n/a
Co Donegal	-	142,942	-	147,134
Co Wexford	-	n/a	-	179,535

In the case of Tenant Purchase, this option was not available to those renting two-bed properties in 2008.

Table 4.1b: Estimated Lifecycle Cost per Unit (3-Bed)

Residual Value – 33.3% of Indexed Market Value				
	New Build €		Acquisition €	
	Tenant Purchase	LA Retention	Tenant Purchase	LA Retention
Dublin City	-	n/a	375,525	399,876
Waterford City	224,893	242,488	182,097	195,968
Co Donegal	172,671	185,900	166,729	179,448
Co Wexford	129,167	139,674	205,061	222,298

Alternatively, in the 'high' scenario (i.e. Residual Value of 66.7 per cent) we have set the residual value attributable to each unit (where that unit is retained by the local authority in Year 20) at 66.7 per cent of the market value of the unit at that point in time. The models developed for the purposes of this study indicate that two-bed units constructed by the State range in cost from €123,000 in Donegal to €258,000 in Dublin (see Table 4.2a below).

In the case of three-bed properties, this cost range was similarly broad and ranged between €119,000 in Wexford and €225,000 in Waterford (see Table 4.2b below).

Table 4.2a: Estimated Lifecycle Cost per Unit (2-Bed)

Residual Value – 66.7% of Indexed Market Value				
	New Build €		**Acquisition €**	
	Tenant Purchase	**LA Retention**	**Tenant Purchase**	**LA Retention**
Dublin City	-	258,338	-	n/a
Waterford City	-	n/a	-	n/a
Co Donegal	-	123,364	-	107,231
Co Wexford	-	n/a	-	152,080

In the case of Tenant Purchase, this option was not available to those renting two-bed properties in 2008.

Table 4.2b: Estimated Lifecycle Cost per Unit (3-Bed)

Residual Value – 66.7% of Indexed Market Value				
	New Build €		**Acquisition €**	
	Tenant Purchase	**LA Retention**	**Tenant Purchase**	**LA Retention**
Dublin City	-	n/a	375,525	351,173
Waterford City	224,893	207,298	182,097	168,227
Co Donegal	172,671	159,443	166,729	154,009
Co Wexford	129,167	118,660	205,061	187,825

Based upon the foregoing analyses, it is possible to arrive at an indicative estimate of the national average cost – in Net Present Value terms – of delivering a three-bed unit under the traditional construction programme[51].

Table 4.3c below presents the results of such an analysis which puts this national average cost of approximately €275,000. This estimate is derived using the costs set out above[52] and taking account of the distribution of units (both new build and acquired) across the four case study local authorities[53].

Table 4.3c: Estimated National Composite Cost (3-Bed)

	By Local Authority			National Composite	
	# Units*	Net Present Cost	Weighted Average	% Output*	€
Dublin City					
New Build	-	-			
Acquisitions	-	375,525	**€375,525**	11.5%	
Waterford City					
New Build	232	224,893			
Acquisitions	3	182,097	**€224,347**	3.3%	
Co Donegal					
New Build	175	172,671			
Acquisitions	49	166,729	**€171,371**	4.7%	
Co Wexford					
New Build	216	129,167			
Acquisitions	56	205,061	**€146,723**	4.0%	
					€274,520
*Refers to 2008					

[51] This estimate is based upon a composite average of the cost under the four case study local authorities used by the authors
[52] Based upon the cost under the Tenant Purchase scenario
[53] These local authorities accounted for 23.5 per cent (or n=1,780) of Total Social Housing Output in 2008 (n=7,588) including both local authority and voluntary sector output

4.3 Long-term Cost Effectiveness Comparator: RAS

On the basis of the Whole Lifecycle Costs of RAS (see Section 3), it is possible to consider the comparative cost effectiveness of both the RAS and construction and acquisition by means of examining the variance between the Net Present Cost of each option. In other words, we can compare the cost of building and maintaining a single unit of social housing over a 20-year period with the equivalent cost of leasing a similar unit over the same period under the terms of the Rental Accommodation Scheme[54].

Table 4.4a indicates that the leasing of two-bed units under the RAS is a substantially more cost-effective delivery mechanism than the construction (or acquisition) of said units (under the ‘low scenario’ cited above). We have estimated that the Net Present Cost of leasing a two-bed unit ranges from €55,000 in Wexford to €147,000 in Dublin over 20 years. This compares very favourably with the equivalent cost of constructing and maintaining a similar unit. For instance, the RAS is €146,000 (or 50 per cent) and €80,000 (or 56 per cent) less expensive than the traditional construction programme in Dublin and Donegal, respectively, when compared with a scenario where the unit is retained in State ownership.

[54] As per Section 3, this assumes five consecutive leases of a four-year duration

Table 4.4a: Cost Variance between RAS units and 'traditional' units (2-Bed)							
	RAS €	**New Build**					
		Tenant Purchase			**LA Retained Stock (Residual Value – 33.3%)**		
		Cost €	**Diff €**	**Diff %**	**Cost €**	**Diff €**	**Diff %**
Dublin City	146,723	n/a	-	-	292,761	146,038	**49.9**
Waterford City	84,186	n/a	-	-	n/a	-	-
Co Donegal	62,771	n/a	-	-	142,942	80,171	**56.1**
Co Wexford	55,469	n/a	-	-	n/a	-	-
	RAS €	**Acquisition**					
		Tenant Purchase			**LA Retained Stock (Residual Value – 33.3%)**		
		Cost €	**Diff €**	**Diff %**	**Cost €**	**Diff €**	**Diff %**
Dublin City	146,723	n/a	-	-	n/a	-	-
Waterford City	84,186	n/a	-	-	n/a	-	-
Co Donegal	62,771	n/a	-	-	147,134	84,363	**57.3**
Co Wexford	55,469	n/a	-	-	179,535	124,066	**69.1**
n/a: No units in 2008. In the case of Tenant Purchase, this option was not available to those renting two-bed units in 2008.							

Similarly, Table 4.4b indicates that the RAS is once again the more cost-effective option and has the potential to yield significant savings when compared with the construction and acquisition of two-bed units (under the 'high scenario' cited above). For instance, we have estimated that the Net Present Cost of leasing a two-bed unit ranges compares very favourably with the equivalent cost of constructing and maintaining a similar unit with a saving of between €112,000 (or 43 per cent) in Dublin and €61,000 (or 49 per cent) in Donegal, respectively, when compared with a scenario where the unit is retained in State ownership.

In the case of acquired units, we have estimated a saving of between €44,000 (or 42 per cent) in Donegal and €97,000 (or 64 per cent) in Donegal, respectively, when compared with a scenario where the unit is retained in State ownership.

Table 4.4b: Cost Variance between RAS units and 'traditional' units (2-Bed)

	RAS €	New Build					
		Tenant Purchase			LA Retained Stock (Residual Value – 66.7%)		
		Cost €	Diff €	Diff %	Cost €	Diff €	Diff %
Dublin City	146,723	n/a	-	-	258,338	111,615	**43.2**
Waterford City	84,186	n/a	-	-	n/a	-	-
Co Donegal	62,771	n/a	-	-	123,364	60,593	**49.1**
Co Wexford	55,469	n/a	-	-	n/a	-	-
	RAS €	**Acquisition**					
		Tenant Purchase			**LA Retained Stock (Residual Value – 66.7%)**		
		Cost €	**Diff €**	**Diff %**	**Cost €**	**Diff €**	**Diff %**
Dublin City	146,723	n/a	-	-	n/a	-	-
Waterford City	84,186	n/a	-	-	n/a	-	-
Co Donegal	62,771	n/a	-	-	107,231	44,460	**41.5**
Co Wexford	55,469	n/a	-	-	152,080	96,611	**63.5**

n/a: No units in 2008. In the case of Tenant Purchase, this option was not available to those renting two-bed units in 2008.

Table 4.5a indicates that the leasing of three-bed units under the RAS is a substantially more cost-effective delivery mechanism than the construction (or acquisition) of said units (under the 'low scenario' cited above). For instance, we have estimated that the Net Present Cost of leasing a three-bed unit ranges from €76,000 in Donegal to €160,000 in Dublin over 20 years. This compares very favourably with the equivalent cost of constructing and maintaining a similar unit and indicates a saving of between €61,000 (or 44 per cent) in Wexford and €137,000 (or 56 per cent) in Waterford, respectively, when compared with a scenario where the unit is retained in State ownership.

This saving falls slightly when RAS is compared to a scenario where the tenant purchases his/her unit; we have estimated the saving here at €51,000 (or 39 per cent) in Wexford and €119,000 (or 53 per cent) in Waterford. In the case of acquired units, we have estimated a saving of between €240,000 (or 60 per cent) in Dublin and €144,000 (or 65 per cent) in Donegal, respectively, when compared with a scenario where the unit is retained in State ownership.

Table 4.5a: Cost Variance between RAS units and 'traditional' units (3-Bed)

	RAS €	New Build					
		Tenant Purchase			LA Retained Stock (Residual Value – 33.3%)		
		Cost €	Diff €	Diff %	Cost €	Diff €	Diff %
Dublin City	160,481	n/a	-	**-**	n/a	-	**-**
Waterford City	105,781	224,893	119,112	**52.9**	242,488	136,707	**56.4**
Co Donegal	76,180	172,671	96,491	**55.9**	185,900	109,720	**59.0**
Co Wexford	78,282	129,167	50,885	**39.4**	139,674	61,392	**43.9**
	RAS €	**Acquisition**					
		Tenant Purchase			**LA Retained Stock (Residual Value – 33.3%)**		
		Cost €	**Diff €**	**Diff %**	**Cost €**	**Diff €**	**Diff %**
Dublin City	160,481	375,525	215,044	**57.3**	399,876	239,395	**59.9**
Waterford City	105,781	182,097	76,316	**41.9**	195,968	90,187	**46.0**
Co Donegal	76,180	166,729	90,549	**54.3**	179,448	103,268	**57.5**
Co Wexford	78,282	205,061	126,779	**61.8**	222,298	144,016	**64.8**
n/a: There were no 'New Build' three-bed units in Dublin City in 2008							

Table 4.5b indicates that the leasing of three-bed units under the RAS is once again the more cost-effective option and has the potential to yield significant savings when compared with the construction and acquisition of three-bed units (under the 'high scenario' cited above). For instance, we have estimated that the Net Present Cost of leasing a three-bed unit ranges compares very favourably with the equivalent cost of constructing and maintaining a similar unit with a saving of between €40,000 (or 34 per cent) in Wexford and €102,000 (or 49 per cent) in Waterford, respectively, when compared with a scenario where the unit is retained in State ownership.

This saving rises slightly when RAS is compared to a scenario where the tenant purchases his/her unit; we have estimated the saving here at €51,000 (or 39 per cent) in Wexford and €119,000 (or 53 per cent) in Waterford. In the case of acquired units, we have estimated a saving of between €62,000 (or 37 per cent) in Waterford and €109,000 (or 58 per cent) in Donegal, respectively, when compared with a scenario where the unit is retained in State ownership.

Table 4.5b: Cost Variance between RAS units and 'traditional' units (3-Bed)							
	RAS €	**New Build**					
		Tenant Purchase			**LA Retained Stock (Residual Value – 66.7%)**		
		Cost €	**Diff €**	**Diff %**	**Cost €**	**Diff €**	**Diff %**
Dublin City	160,481	n/a	-	**-**	n/a	-	**-**
Waterford City	105,781	224,893	119,112	**52.9**	207,298	101,517	**48.9**
Co Donegal	76,180	172,671	96,491	**55.9**	159,443	83,263	**52.2**
Co Wexford	78,282	129,167	50,885	**39.4**	118,660	40,378	**34.0**
	RAS €	**Acquisition**					
		Tenant Purchase			**LA Retained Stock (Residual Value – 66.7%)**		
		Cost €	**Diff €**	**Diff %**	**Cost €**	**Diff €**	**Diff %**
Dublin City	160,481	375,525	215,044	**57.3**	351,173	190,692	**54.3**
Waterford City	105,781	182,097	76,316	**41.9**	168,227	62,446	**37.1**
Co Donegal	76,180	166,729	90,549	**54.3**	154,009	77,829	**50.5**
Co Wexford	78,282	205,061	126,779	**61.8**	187,825	109,543	**58.3**
n/a: There were no 'New Build' three-bed units in Dublin City in 2008							

4.4 Long-term Cost Effectiveness Comparator: SHLI

Similarly, we have also undertaken this analysis using the Net Present Cost of the construction and acquisition approach and the SHLI although, once again, this could not be done on a county-by-county basis at the time of writing. This iteration of the analysis compares the cost of delivering units under the construction and acquisition approach with the cost of leasing such units where the latter option is costed on the basis of the national average annual lease.

Table 4.6a indicates that the SHLI is the more cost-effective option and has the potential to yield significant savings when compared with the construction and acquisition of two-bed units (under the ‘low scenario’ cited above). For instance, we have estimated that the Net Present Cost of leasing a two-bed unit is just over €100,000 and this compares very favourably with the equivalent cost of constructing and maintaining a similar unit with a saving of between €43,000 (or 30 per cent) in Donegal and €192,000 (or 66 per cent) in Dublin, respectively, when compared with a scenario where the unit is retained in State ownership.

In the case of acquired units, we have estimated a saving of between €47,000 (or 32 per cent) in Donegal and €79,000 (or 44 per cent) in Wexford, respectively, when compared with a scenario where the unit is retained in State ownership.

Table 4.6a: Cost Variance between SHLI units and 'traditional' units (2-Bed)

	SHLI €	New Build					
		Tenant Purchase			LA Retained Stock (Residual Value – 33.3%)		
		Cost €	Diff €	Diff %	Cost €	Diff €	Diff %
National	**100,406**						
Dublin City	-	n/a	-	-	292,761	192,355	**65.7**
Waterford City	-	n/a	-	-	n/a	-	-
Co Donegal	-	n/a	-	-	142,942	42,536	**29.8**
Co Wexford	-	n/a	-	-	n/a	-	-
	SHLI €	**Acquisition**					
		Tenant Purchase			**LA Retained Stock (Residual Value – 33.3%)**		
		Cost €	**Diff €**	**Diff %**	**Cost €**	**Diff €**	**Diff %**
National	**100,406**						
Dublin City	-	n/a	-	-	n/a	-	-
Waterford City	-	n/a	-	-	n/a	-	-
Co Donegal	-	n/a	-	-	147,134	46,728	**31.8**
Co Wexford	-	n/a	-	-	179,535	79,129	**44.1**
n/a: No units in 2008							

Similarly, Table 4.6b indicates that the SHLI is once again the more cost-effective option and has the potential to yield significant savings when compared with the construction and acquisition of two-bed units (under the 'high scenario' cited above). For instance, we have estimated that the Net Present Cost of leasing a two-bed unit ranges compares very favourably with the equivalent cost of constructing and maintaining a similar unit with a saving of between €23,000 (or 19 per cent) in

Donegal and €158,000 (or 62 per cent) in Dublin, respectively, when compared with a scenario where the unit is retained in State ownership.

In the case of acquired units, we have estimated a saving of between €7,000 (or 6 per cent) in Donegal and €52,000 (or 34 per cent) in Wexford, respectively, when compared with a scenario where the unit is retained in State ownership.

Table 4.6b: Cost Variance between SHLI units and 'traditional' units (2-Bed)							
	SHLI €	**New Build**					
		Tenant Purchase			**LA Retained Stock (Residual Value – 66.7%)**		
		Cost €	**Diff €**	**Diff %**	**Cost €**	**Diff €**	**Diff %**
National	**100,406**						
Dublin City	-	n/a	-	-	258,338	157,932	**61.1**
Waterford City	-	n/a	-	-	n/a	-	-
Co Donegal	-	n/a	-	-	123,364	22,958	**18.6**
Co Wexford	-	n/a	-	-	n/a	-	-
	SHLI €	**Acquisition**					
		Tenant Purchase			**LA Retained Stock (Residual Value – 66.7%)**		
		Cost €	**Diff €**	**Diff %**	**Cost €**	**Diff €**	**Diff %**
National	**100,406**						
Dublin City	-	n/a	-	-	n/a	-	-
Waterford City	-	n/a	-	-	n/a	-	-
Co Donegal	-	n/a	-	-	107,231	6,825	**6.4**
Co Wexford	-	n/a	-	-	152,080	51,674	**33.9**
n/a: No units in 2008							

Table 4.7a indicates that the leasing of three-bed units under the SHLI is a substantially more cost-effective delivery mechanism than the construction (or acquisition) of said units (under the 'low scenario' cited above). We have estimated that the Net Present Cost of leasing a three-bed unit at €99,000. This compares very favourably with the equivalent cost of constructing and maintaining a similar unit. For instance, the SHLI is €41,000 (or 29 per cent) and €144,000 (or 59 per cent) less expensive than the traditional construction programme in Wexford and Waterford, respectively, when compared with a scenario where the unit is retained in State ownership.

This saving falls slightly when SHLI is compared to a scenario where the tenant purchases his/her unit; we have estimated the saving here at €30,000 (or 24 per cent) in Wexford and €126,000 (or 56 per cent) in Waterford. In the case of acquired units, we have estimated a saving of between €81,000 (or 45 per cent) in Donegal and €301,000 (or 75 per cent) in Dublin, respectively, when compared with a scenario where the unit is retained in State ownership.

Table 4.7a: Cost Variance between SHLI units and 'traditional' units (3-Bed)							
	SHLI €	**New Build**					
		Tenant Purchase			**LA Retained Stock (Residual Value – 33.3%)**		
		Cost €	**Diff €**	**Diff %**	**Cost €**	**Diff €**	**Diff %**
National	**98,749**						
Dublin City	-	n/a	-	**-**	n/a	-	**-**
Waterford City	-	224,893	126,144	**56.1**	242,488	143,739	**59.3**
Co Donegal	-	172,671	73,922	**42.8**	185,900	87,151	**46.9**
Co Wexford	-	129,167	30,418	**23.5**	139,674	40,925	**29.3**
	SHLI €	**Acquisition**					
		Tenant Purchase			**LA Retained Stock (Residual Value – 33.3%)**		
		Cost €	**Diff €**	**Diff %**	**Cost €**	**Diff €**	**Diff %**
National	**98,749**						
Dublin City	-	375,525	276,776	**73.7**	399,876	301,127	**75.3**
Waterford City	-	182,097	83,348	**45.8**	195,968	97,219	**49.6**
Co Donegal	-	166,729	67,980	**40.7**	179,448	80,699	**44.9**
Co Wexford	-	205,061	106,312	**51.8**	222,298	123,549	**55.6**
n/a: There were no 'New Build' three-bed units in Dublin City in 2008							

Table 4.7b indicates that the leasing of three-bed units under the SHLI is once again the more cost-effective option and has the potential to yield significant savings when compared with the construction and acquisition of three-bed units (under the 'high scenario' cited above). For instance, we have estimated that the Net Present Cost of leasing a three-bed unit ranges compares very favourably with the equivalent cost of constructing and maintaining a similar unit with a saving of between €20,000 (or 17

per cent) in Wexford and €109,000 (or 52 per cent) in Waterford, respectively, when compared with a scenario where the unit is retained in State ownership.

This saving rises slightly when RAS is compared to a scenario where the tenant purchases his/her unit; we have estimated the saving here at €30,000 (or 24 per cent) in Wexford and €126,000 (or 56 per cent) in Waterford. In the case of acquired units, we have estimated a saving of between €55,000 (or 36 per cent) in Donegal and €252,000 (or 72 per cent) in Dublin, respectively, when compared with a scenario where the unit is retained in State ownership.

Table 4.7b: Cost Variance between SHLI units and 'traditional' units (3-Bed)

	SHLI €	New Build					
		Tenant Purchase			LA Retained Stock (Residual Value – 66.7%)		
		Cost €	Diff €	Diff %	Cost €	Diff €	Diff %
National	**98,749**						
Dublin City	-	n/a	-	**-**	n/a	-	**-**
Waterford City	-	224,893	126,144	**56.1**	207,298	108,549	**52.4**
Co Donegal	-	172,671	73,922	**42.8**	159,443	60,694	**38.1**
Co Wexford	-	129,167	30,418	**23.5**	118,660	19,911	**16.8**
	SHLI €	**Acquisition**					
		Tenant Purchase			**LA Retained Stock (Residual Value – 66.7%)**		
		Cost €	**Diff €**	**Diff %**	**Cost €**	**Diff €**	**Diff %**
National	**98,749**						
Dublin City	-	375,525	276,776	**73.7**	351,173	252,424	**71.9**
Waterford City	-	182,097	83,348	**45.8**	168,227	69,478	**41.3**
Co Donegal	-	166,729	67,980	**40.7**	154,009	55,260	**35.9**
Co Wexford	-	205,061	106,312	**51.8**	187,825	89,076	**47.4**

n/a: There were no 'New Build' three-bed units in Dublin City in 2008

4.5 Broader Effectiveness Considerations

The foregoing analysis has clearly indicated that the various social housing leasing models are likely to be more cost-effective than the traditional construction programme. However, once again, it should be borne in mind that there are a number of broader effectiveness considerations.

In the first instance, the move towards the integration of the social housing leasing models into the general housing delivery mechanisms will allows for greater flexibility in terms of responding to the needs to clients and represents the development of a system of graduated supports.

In this regard, the social housing leasing models are grounded in the Statement on Housing Policy – *Delivering Home, Sustaining Communities* (2007) – which stated that the key objectives of housing policy were to broaden the range of programmes, diversify delivery methods and to deliver a graduated system of flexible supports that was capable of being tailored to take specific account of the particular needs of households at whatever point they are in the life-cycle.

Secondly, the traditional construction programme involves significant year-on-year capital expenditure. However, there is an opportunity cost associated with this expenditure. In other words, reliance upon the traditional construction and acquisition model will necessarily lead to potential additional housing capacity being foregone. This is dealt with in the following section.

4.6 Concluding Comments

This section of the report considered whether the emergent social housing leasing models (including the Rental Accommodation Scheme) offer better VFM when compared to the traditional social housing programme and indicated that the latter are both more cost-effective and more flexible than the traditional construction programme.

In the following section, we will examine the opportunity costs associated with both capital expenditure (i.e. the traditional construction programme) and current expenditure (i.e. the social housing leasing models).

5. Opportunity Costs of Current and Capital Expenditure

5.1 Introduction

The objective of this section is to examine the opportunity costs associated with both capital expenditure (i.e. the traditional construction programme) and current expenditure (i.e. the social housing leasing models).

We will endeavour to do so by means of an examination of the purchasing power of the State under each of these three scenarios and in particular, the level of housing capacity that can be purchased in a given year.

5.2 Single Year Comparison

For illustrative purposes, we are assuming that an investment of €25m is available in a given year with the objective of quantifying the variance in the housing capacity that can be purchased by the State.

Table 5.1 below indicates that the State could purchase 128 units[55] in a given year (at today's house prices) using the budget set out above. By contrast, the State could lease almost 2,800 units under the RAS or more than 3,700 units under the SHLI. This implies that there is scope to attain a substantial increase in the capacity that is purchased by placing a greater emphasis on the use of the various social housing leasing models.

[55] Daft.ie House Price Report, 2010 Q3

Table 5.1: Capacity Comparison for Annual Leasing Costs and Acquisition Costs				
	Expenditure Type		Capacity	
	Current (p.a.)	Capital	Current (p.a.)	Capital
Construction programme		€195,000		128 units
RAS*	€8,988		2,781 units	
SHLI**	€6,683		3,741 units	
*Based upon national average monthly rent of €749 (3-bed; 2009) **Based upon a national average monthly lease of €557 (3-bed; August 2010)				

However, this analysis does not present a clear like-for-like comparison. For instance, the units that are purchased can be held in State ownership for decades whilst those that are leased will require a further €25m in the next year in order to retain that level of capacity (i.e. the leasing costs will roll-over year-on-year).

Consequently, it is more instructive to conduct this analysis using the Net Present Cost figures set out in Sections 3 and 4 as this will allow us to determine the level of capacity that can be purchased over the next 20 years with an investment of €25m to be made today.

5.3 Net Present Cost Comparison

For the next step in this analysis, we will examine the housing capacity that can be purchased by the State based upon the Net Present Cost of two-bed and three-bed units constructed (or acquired) and maintained over a 20-year period under the terms of the traditional construction programme.

Traditional Construction Programme

For the next step in this analysis, we will examine the housing capacity that can be purchased by the State based upon the Net Present Cost of two-bed and three-bed units constructed (or acquired) and maintained over a 20-year period under the terms of the traditional construction programme.

Table 5.2a below indicates that the traditional programme could be used to provide between 97 two-bed units (in Dublin) and 233 two-bed units (in Donegal) over a 20-year period – and assuming that each unit will be retained by the local authority – when the available budget is used for capital purposes[56].

With regard to three-bed units, Table 5.2b indicates that the traditional programme could be used to provide between 67 units (in Dublin) and 194 units (in Donegal) over a 20-year period – and assuming that Tenant Purchase occurs – when the available budget is used for capital purposes. When we assume that each unit will be retained by the local authority, the number of units provided increases to between 71 units (in Dublin) and 211 units (in Wexford).

Interestingly, when the national average Net Present Cost[57] is used (see Section 4 above), this analysis indicates that 91 three-bed units could be provided over a 20-year period under the traditional construction programme.

[56] This is based upon a Residual Value of 67 per cent (or the 'high scenario' referred to in Section 4); if a lower Residual Value is used the number of units will be reduced

[57] Approximately €275,000

Table 5.2a: Estimated Capacity under the Traditional Construction Programme (2-beds)			
Tenant Purchase			
	Expenditure Type		**Capacity**
	Current	**Capital**	
Dublin City			
New Build	-	nav	nav
Acquisition	-	nav	nav
Waterford City			
New Build	-	nav	nav
Acquisition	-	nav	nav
Co Donegal			
New Build	-	nav	nav
Acquisition	-	nav	nav
Co Wexford			
New Build	-	nav	nav
Acquisition	-	nav	nav
LA Retention (Residual Value – 66.7% of Indexed Market Value)			
Dublin City			
New Build	-	258,338	**97 units**
Acquisition	-	-	**-**
Waterford City			
New Build	-	-	**-**
Acquisition	-	-	**-**
Co Donegal			
New Build	-	123,364	**203 units**
Acquisition	-	107,231	**233 units**
Co Wexford			
New Build	-	-	**-**
Acquisition	-	152,080	**164 units**
Note: In the case of Tenant Purchase, this option was not available to those renting two-bed units in 2008.			

Table 5.2b: Estimated Capacity under the Traditional Construction Programme (3-beds)			
Tenant Purchase			
	Expenditure Type		**Capacity**
	Current	**Capital**	
Dublin City			
New Build	-	-	-
Acquisition	-	375,525	**67 units**
Waterford City			
New Build	-	224,893	**111 units**
Acquisition	-	182,097	**137 units**
Co Donegal			
New Build	-	172,671	**145 units**
Acquisition	-	166,729	**150 units**
Co Wexford			
New Build	-	129,167	**194 units**
Acquisition	-	205,061	**122 units**
LA Retention (Residual Value – 66.7% of Indexed Market Value)			
Dublin City			
New Build	-	-	-
Acquisition	-	351,173	**71 units**
Waterford City			
New Build	-	207,298	**121 units**
Acquisition	-	168,227	**149 units**
Co Donegal			
New Build	-	159,443	**157 units**
Acquisition	-	154,009	**162 units**
Co Wexford			
New Build	-	118,660	**211 units**
Acquisition	-	187,825	**133 units**
National Average		**274,520**	**91 units**

Social Housing Leasing Models

For the next step in this analysis, we will examine the housing capacity that can be purchased by the State based upon the Net Present Cost of two-bed and three-bed units leased and maintained over a 20-year period under the terms of the social housing leasing model.

As outlined in Table 5.3 below, the analysis indicates that the State could lease 249 two-bed units or 253 three-bed units on the basis of the €25m budget outlined earlier (and based upon the national average leasing cost; see Section 3). This compares very favourably with the equivalent capacity under the traditional model.

Table 5.3: Estimated Capacity under the SHLI

	Expenditure Type		Capacity
	Current	Capital	
2-bed	100,406	-	**249 units**
3-bed	98,749	-	**253 units**

Secondly, the analysis indicates that the application of these funds for current purposes under the RAS could be used to provide between 170 two-bed units (in Dublin) to 451 two-bed units (in Wexford). Using the national average RAS rent, this equates to 248 units (see Table 5.4a).

As outlined in Table 5.4b, in the case of three-bed units, the equivalent range is 156 units (in Dublin) and 328 units (in Donegal) whilst the national average RAS rent yields 244 units. Once again, the analysis suggests that a significant capacity gain is attainable when compared to the results under the traditional model.

Table 5.4a: Estimated Capacity under the RAS (2-bed)			
	Expenditure Type		Capacity
	Current	Capital	
Dublin City	146,723	-	**170 units**
Waterford City	84,186	-	**297 units**
Co Donegal	62,771	-	**398 units**
Co Wexford	55,469	-	**451 units**
National Average	**100,902**	-	**248 units**

Figure 5.4b: Estimated Capacity under the RAS (3-bed)			
	Expenditure Type		Capacity
	Current	Capital	
Dublin City	160,481	-	**156 units**
Waterford City	105,781	-	**236 units**
Co Donegal	76,180	-	**328 units**
Co Wexford	78,282	-	**319 units**
National Average	**102,582**	-	**244 units**

Comparative Overview

Finally, Table 5.5 below indicates that each of the social housing leasing models has the potential to enable the State achieve substantial capacity gains as both the SHLI and the RAS deliver more units than the traditional construction programme within the budget parameters detailed earlier.

For instance, the RAS will provide an additional 120 per cent in Dublin when compared with the traditional model whilst the equivalent figure for Waterford is 95 per cent. However, the reader should note that the county-by-county comparators for the SHLI are not presented here as these are based on an average national leasing cost only.

Interestingly, when the national average cost of units built and maintained under the traditional programme (i.e. the composite cost of €275,000) is taken as the benchmark, the additional capacity achievable under the SHLI is 178 per cent. In other words, the SHLI can potentially deliver 253 units compared to 91 units under the traditional model.

Table 5.5: Comparison of Estimated Capacity (3-bed)

	Construction	SHLI*		RAS	
	N	**N**	**% Gain**	**N**	**% Gain**
Dublin City	71 units	n/a	-	**156 units**	**120%**
Waterford City	121 units	n/a	-	**236 units**	**95%**
Co Donegal	162 units	n/a	-	**328 units**	**103%**
Co Wexford	211 units	n/a	-	**319 units**	**51%**
National Average	**91 units**	**253 units**	**178%**	**244 units**	**168%**

*See Figure 5.3

5.4 Concluding Comments

This section of the report considered the opportunity costs associated with both capital expenditure (i.e. the traditional construction programme) and current expenditure (i.e. the social housing leasing models) by means of an examination of the purchasing power of the State under three scenarios.

In the following section, we will undertake an assessment of recent trends in the private marketplace and the extent to which negotiated rents and rent reviews reflect market rent trends.

6. Assessment of Rental Prices, Trends and Discounts Attained

6.1 Introduction

The objective of this section is to review trends in the private marketplace and, in particular, to assess the extent to which negotiated rents and rent reviews reflect market rent trends.

We will endeavour to do so by means of data provided to us by the Department alongside data accessed from the CSO and www.daft.ie.

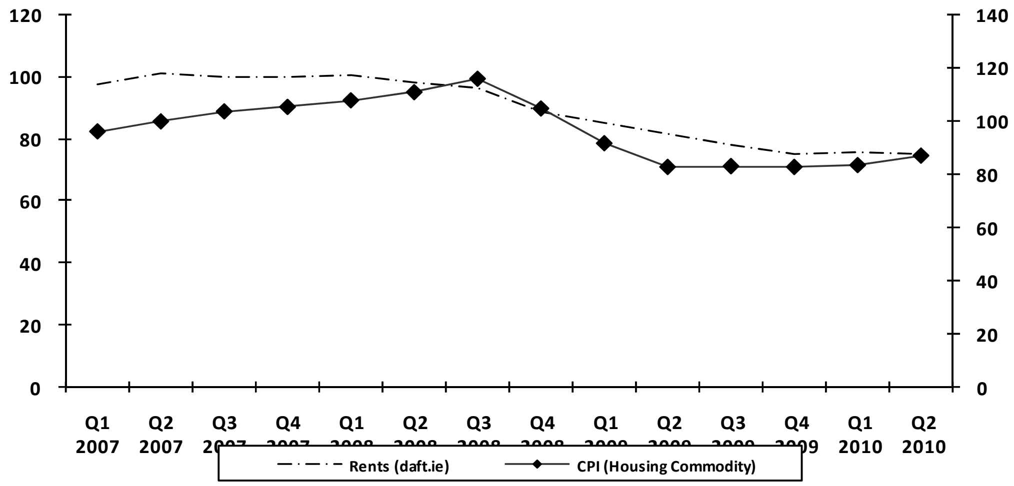
6.2 Private Sector Rent Trends

The Daft National Rental Index[58] Indicates that the cost of private renting has fallen by just over 21 per cent between 2007 and 2009. This medium-term decline is more pronounced than the general deflation witnessed in Ireland's economy and is not reflective of the overall stability of general prices which had not fallen by a similar proportion over the same period (albeit that general prices did rise throughout 2007 before falling significantly between 2008 and 2009).

Interestingly, the available data indicates that the pace of this decline in rents quickened over time; between 2007 and 2008, the index fell by 7 per cent before falling by a further 15 per cent over the 12-months ending December 2009.

[58] This index is based on asking prices only and is not a definitive guide to actual rents agreed (Base Year 2007=100)

Figure 6.1: Private Rent Trends, 2007-2009



The Housing Commodity Group[59] within the Consumer Price Index followed a similar downward trend between 2007 and 2009 (see Figure 6.1 above). This measure fell by 13 over these three years; however, it did continue to increase until mid-2008 before falling by just over 21 per cent by end-2009.

Table 6.1 indicates that private rents in Dublin are estimated to have fallen by between 17 per cent and 21 per cent between 2008 and 2009. Over the same period, rents also fell substantially throughout the country although these did vary by region (i.e. from 11 per cent in Donegal to 16 per cent in Waterford City). The national average rent fell by almost 14 per cent over this period.

[59] Housing, Water, Electricity, Gas and Other Fuels

Table 6.1: Average Private Rent Trends, 2008-2009						
		2008		**2009**		
		Rent €	**Year-on-Year %**	**Rent €**	**Year-on-Year %**	
Dublin	City Centre	1,144	-	909	-20.5%	
	North City	1,192	-	994	-16.6%	
	South City	1,100	-	899	-18.3%	
Waterford City		726	-	613	-15.6%	
Co Donegal		598	-	534	-10.7%	
Co Wexford		715	-	624	-12.7%	
National		**885**	**-**	**765**	**-13.6%**	
All data relates to Q4						
Note: Analysis is limited due to a paucity of detailed data prior to mid-2008						

Finally, Table 6.2 below presents a summary of these rent trends by property size. This indicates that the cost of renting a three-bed in Dublin fell substantially between 2008 and 2009 and that the scale of this reduction was greater than that which applied to either one-bed or two-bed units. For instance, rents for three-beds in Dublin (North City) fell by 22 per cent in this period compared to 18 per cent and 21 per cent for one-beds and two-beds, respectively.

However, one-bed units generally recorded the fastest rate of reducing rents outside of the Dublin (i.e. Waterford, Wexford and Donegal). For instance, rents for one-beds in Donegal fell by 15 per cent in this period compared to 9 per cent and 4 per cent for two-beds and three-beds, respectively.

Moreover, the data presented below also indicates that rents were generally falling at a faster rate between 2008 and 2009 than had been the case between 2007 and 2008, regardless of property size.

Table 6.2: Average Private Rent Trends (by Property Type), 2007-2009							
		One-bed % change		Two-bed % change		Three-bed % change	
		2007-2008	2008-2009	2007-2008	2008-2009	2007-2008	2008-2009
Dublin	North City	-11.7%	-17.6%	-15.1%	-20.6%	-20.1%	-21.8%
	South City	-10.3%	-17.6%	-15.5%	-18.2%	-8.7%	-26.0%
Waterford City		2.8%	-12.1%	-9.7%	-16.1%	-5.7%	-12.3%
Co Donegal*		-14.7%	-14.8%	-14.3%	-8.9%	-10.4%	-4.4%
Co Wexford**		-3.0%	-14.4%	-7.0%	-13.5%	-7.5%	-11.5%
All data relates to Q4 *Figures for Ulster **Figures for South Leinster							

6.3 Negotiated Rents

Rental Accommodation Scheme

The amount of rent paid to private landlords through RAS is a matter for individual authorities. However, the guidance issued by the Department (August 2009) advises that a discount of at least eight per cent below market rent is recommended[60].

For the purposes of this scheme, each local authority is required to submit frequent returns to the Department's own RAS Unit; these returns provide statistical data with regard to case processing and the average rents agreed (by property type). Using this data, it is possible to determine the average discounts achieved by means of a comparison of the average rent payable by each local authority with the prevailing market rent at that time.

In 2008, the average RAS rent nationwide (€742) was more than 16 per cent lower than the national average private rent. The majority of property types[61] let by each of

[60] Taking account of the prevailing market conditions and the level of risk being transferred to the authority

[61] Refers to one-bed, two-bed and three-bed units in each of the four case study local authorities selected

the four case study local authorities was subject to a discount on the prevailing market rent. In many cases, these discounts substantially exceeded the eight per cent threshold recommended by the Department. For instance, Dublin City Council achieved discounts of between 15 per cent and 29 per cent on its one-bed; two-bed and three-bed lettings (see Table 6.3).

The overall incidence of discounts achieved appears to have contracted by 2009 as discounts on the market rent were identifiable in only two out of every three cases examined (or eight cases[62] compared to eleven cases in 2008). Indeed, the average RAS rent payable was actually greater than the estimated average market rent in several cases. However, the data presented below requires careful interpretation for a number of reasons; for instance, there is anecdotal evidence to suggest that rural local authorities are more likely to enter into 'current tenant only' agreements where the level of discount attainable is lower. Moreover, the relative scarcity of one-bed properties outside the main urban centres means that it will be more difficult to attain discounts on these properties.

The number of cases where average RAS rent was more than eight per cent lower than the average market rent had also fallen. Moreover, the large discounts achieved in Dublin in 2008 had also narrowed substantially; the almost 15 per cent discount for one-bed properties had been eliminated just 12 months later. Nevertheless, it is important to note that the average RAS rent in 2009 (€696) was still nine per cent lower than the prevailing market rent (€765).

[62] Refers to eight property types across the four case study local authorities

Table 6.3: Average RAS Rent and Discounts Attained, 2008 and 2009							
		Rent €	**Discount on Market Rent %**	**Rent €**	**Discount on Market Rent %**	**Rent €**	**Discount on Market Rent %**
2008	**Overall €**	**One-bed**		**Two-bed**		**Three-bed**	
Dublin	**1,004**	874	**-14.5%**	1,073	**-20.5%**	1,211	**-29.3%**
Waterford City	**637**	623	**+7.2%**	602	**-14.2%**	692	**-12.2%**
Co Donegal	**440**	410	**-8.3%**	467	**-0.6%**	544	**-7.4%**
Co Wexford	**683**	563	**-2.4%**	650	**-4.6%**	737	**-1.3%**
National Average	**742**	**618**	**-**	**838**	**-**	**828**	**-**
2009	**Overall €**	**One-bed**		**Two-bed**		**Three-bed**	
Dublin	**952**	841	**-0.1%**	1,002	**-6.4%**	1,081	**-18.4%**
Waterford City	**591**	474	**-6.7%**	595	**+1.0%**	719	**+4.1%**
Co Donegal	**464**	430	**+12.9%**	467	**+2.7%**	544	**-8.3%**
Co Wexford	**551**	478	**-3.2%**	521	**-11.5%**	652	**-1.4%**
National Average	**696**	**588**	**-**	**739**	**-**	**749**	**-**
All data relates to Q4 Dublin refers to D1 Private comparators for Donegal and Wexford are derived from Ulster and South East Leinster, respectively Note: + indicates that no discount on the average market rent was attained Note: The Daft.ie Rental Report does not publish a national average rent by property size (i.e. one-bed, etc.)							

One potential driver of this phenomenon (i.e. the fall-off in the discounts achieved under the RAS) would be a divergence between the rate at which RAS rents have fallen between 2008 and 2009 and the rate of reduction observed for market rents;

put simply, have the average rents on the private market fell at a faster rate than the average RAS rents?

In order to answer this question, it is necessary to consider the trends in these average RAS rents between 2008 and 2009 and to assess these trends relative to comparable trends in the broader marketplace. Interestingly, the average RAS rent nationwide fell by just over 6 per cent compared to an almost 14 per cent reduction in all private rents; the almost 45 per cent fall in the average discount achieved in 2008 and 2009 is a direct result of this substantial divergence in the rates of reduction for RAS rents and all private rents between 2008 and 2009.

Consequently, it is clear that the rate of reduction of the average RAS rents significantly lags the equivalent reduction of the private market rents in a number of cases. Table 6.4 below indicates that the average RAS rent for a three-bed in Dublin fell by almost 11 per cent between 2008 and 2009. By contrast, the average market rent fell by between 22 per cent and 26 per cent.

The average RAS rent payable for a three-bed fell by between five per cent and 12 per cent in Donegal and Wexford, respectively. Indeed, the average RAS rent payable actually increased by four per cent in Waterford[63] at a time when private rents were falling.

[63] From €692 p.m. (2008) to €719 p.m. (2009)

Table 6.4: RAS Rent Trends by Property Type, 2008-2009						
	One-bed % change		Two-bed % change		Three-bed % change	
	2009 Rent €	Year-on-Year %	2009 Rent €	Year-on-Year %	2009 Rent €	Year-on-Year %
Dublin	841	-3.8%	1,002	-6.6%	1,081	-10.7%
Waterford City	474	-23.9%	595	-1.2%	719	3.9%
Co Donegal	430	4.9%	467	-11.9%	544	-5.2%
Co Wexford	478	-15.1%	521	-19.8%	652	-11.5%
National Average	**588**	**-**	**739**	**-**	**749**	**-**
All data relates to Q4						

In the case of one-bed units, the average RAS rent payable fell by between four per cent in Dublin and 24 per cent in Waterford whilst the average rent payable in Donegal actually rose by five per cent[64].

In the case of two-bed properties, average RAS rents in Dublin fell by almost 7 per cent; this compares unfavourably with the private market where rents fell by between 18 per cent and 20 per cent. The average RAS rent in Waterford fell by one per cent at a time when market rents were falling by 16 per cent.

However, it is important to note a degree of caution is required when interpreting these results as the two variables presented here are not directly comparable for the following reasons:

- The average RAS rents refer to rents that have actually been agreed between the landlord and the local authority; the average market rent figures relate solely to a landlord's asking price.
- The average RAS rent refers to the average monthly cost of all RAS agreements in effect (regardless of the year that each agreement was entered into); this compilation of multi-year agreements will likely over-state the average cost[65].

[64] From €410 p.m. (2008) to €430 p.m. (2009)

[65] Some agreements will have been made in a different economic environment where rents were high and still rising

With regard to the first caveat, there is little scope for the authors to take any remedial action as the Daft Rental Report is the principal source of data on rents and market movements at the time of writing although it is to be hoped that the relevant PRTB data will be made available in the future.

With regard to the second caveat, it is possible to examine data on new RAS contracts entered into in recent years as these figures will provide better insights into discounts being achieved and the trends therein[66].

Table 6.5 indicates that the level of reduction for new contracts year-on-year was generally more in line with the marketplace (albeit with a number of exceptions). For

Table 6.5: Average RAS Rent and Discounts Attained – Analysis using New RAS Contracts, 2009

	One-bed		**Two-bed**		**Three-bed**	
RAS Rent Trends						
	€	**Change %**	**€**	**Change %**	**€**	**Change %**
Dublin*	Nav	-	Nav	-	Nav	-
Waterford City	475.50	-8.2%	536.96	-13.4%	661.23	-8.0%
Co Donegal	428.00	4.4%	466.00	-12.1%	542.00	-5.6%
Co Wexford	519.77	-14.3%	584.13	-1.5%	668.12	-4.5%
Discount Attained						
	€	**Discount %**	**€**	**Discount %**	**€**	**Discount %**
Dublin*	Nav	-	Nav	-	Nav	-
Waterford City	475.50	**-6.4%**	536.96	**-8.8%**	661.23	**-4.3%**
Co Donegal	428.00	**+12.3%**	466.00	**-2.9%**	542.00	**-8.6%**
Co Wexford	519.77	**+5.2%**	584.13	**-0.1%**	668.12	**+1.1%**

*No return was submitted for 2009

All comparisons with private rents based on data relating to Q4 (as per Daft Rental Report)

Private comparators for Donegal and Wexford are derived from Ulster and South East Leinster, respectively

66 Source: Survey of the four case study local authorities undertaken by the Department (Q2 2010)

instance, the average RAS rent for a three-bed property was reduced by eight per cent (compared to the four per cent rise referred to above).

Similarly, the average RAS rent for a two-bed in Waterford fell by just over 13 per cent; this compares favourably with the one per cent reduction cited at Table 6.4.

However, it is again necessary to be cautious when interpreting these figures. In the case of Wexford and Donegal, the comparators[67] used are ‘South East Leinster’ and ‘Ulster’; the authors recognise that this is a crude comparison which will not fully take account of underlying regional variations.

Social Housing Leasing Initiative

By Q3 2010, the Department had entered into 20 leases with private landlords (via a local authority) or Approved Housing Bodies (i.e. the voluntary housing sector) and these leases equate to 338 properties. In terms of these 20 leases, eight are currently Operational[68] and 12 are Funding Approved[69].

Table 6.6 below indicates that the average monthly lease payment under the SHLI was €594 and €557 for one-bed and two-bed properties, respectively. Although we do not have sufficient information (i.e. sufficient leases in each county) to undertake a robust like-for-like comparison with private rents nationally, we can compare these leasing costs with the cost of renting in each county.

The current national average leasing costs for two-bed and three-bed properties are significantly lower than the market rent in Dublin in 2010. In the case of three-bed properties, the national average leasing cost is also lower than the market rent in Waterford, Donegal and Wexford.

[67] These are the categories used in the Daft Rental Report

[68] Late-2009 (3) and 2010 (5)

[69] Late-2009 (3) and 2010 (9)

Table 6.6: SHLI National Average Leasing Costs, 2010					
		Two-bed % change		Three-bed % change	
SHLI Average Rents		**593.83**		**556.88**	
		Private Rent	**Variance %**	**Private Rent**	**Variance %**
Dublin	North City	1,082.00	-45.1%	1,340.00	-58.4%
	South City	1,235.00	-51.9%	1,723.00	-67.7%
Waterford City		586.00	+1.4%	684.00	-18.6%
Co Donegal		469.00	+26.7%	596.00	-6.5%
Co Wexford		576.00	+3.1%	655.00	-15.0%
All private rents data relates to Q1 2010 (as per Daft Rental Report) Private comparators for Donegal and Wexford are derived from Ulster and South East Leinster, respectively					

Although the SHLI is still at a very early stage, the authors do consider that it may be instructive to compare the cost of leases with private landlords entered into to date with the cost of private renting in Q1 2010 (albeit that only 14 such leases are currently in place[70]). Table 6.7 below indicates that South Dublin County Council has achieved very steep discounts (i.e. 40 per cent plus) on the private rent in the case of one-bed, two-bed and three-bed properties.

Discounts in excess of 20 per cent were also achieved in Donegal, Longford and Wexford although there are a small number of incidences whereby local authorities appear to be paying above the market rent albeit that the earlier caveats regarding the scarcity of one-bed properties outside the main urban centres should be borne in mind.

[70] Excluding leases with the voluntary sector

Table 6.7: Analysis of Leasing Costs on Standard Leases						
	Rent €	**Variance %**	**Rent €**	**Variance %**	**Rent €**	**Variance %**
Operational	**One-bed**		**Two-bed**		**Three-bed**	
Wexford County Council	-	**-**	485.00	**-15.8%**	500.00	**-23.7%**
Buncrana Town Council	-	**-**	-	**-**	506.00	**-15.1%**
Letterkenny Town Council	390.00	**+1.0%**	-	**-**	-	**-**
Longford County Council	-	**-**	-	**-**	450.00	**-25.7%**
South Dublin County Council	-	**-**	-	**-**	785.00	**-48.2%**
Westmeath County Council	-	**-**	400.00	**-22.2%**	-	**-**
Funding Approved	**One-bed**		**Two-bed**		**Three-bed**	
South Dublin County Council	569.50	**-36.7%**	722.50	**-36.9%**	850.00	**-43.9%**
Templemore Town Council	-	**-**	500.00	**-13.2%**	600.00	**-8.4%**
Cork City Council	640.00	**+2.2%**	-	**-**	-	**-**
Buncrana Town Council	-	**-**	455.00	**-3.0%**	-	**-**
Drogheda Borough Council	-	**-**	580.00	**-19.0%**	-	**-**
Donegal County Council	-	**-**	416.00	**-11.3%**	475.00	**-20.3%**
Donegal County Council	-	**-**	-	**-**	442.00	**-25.8%**
Mayo County Council	-	**-**	722.50	**+35.8%**	850.00	**+33.6%**

Note: All comparisons are made using private renting data for Q1 2010 but some leases will have been entered into by late-2009

South Dublin County Council is compared with South County Dublin figures (as per Daft Rental Report, Q1 2010)

Private comparators for Donegal/Letterkenny/Buncrana and Wexford /Templemore are derived from Ulster and South East Leinster, respectively

Private comparators for Westmeath/Longford and Mayo are derived from West Leinster and Connaught, respectively

Private comparator for Drogheda is derived from Dublin Commuter Counties

Given the relatively short timeframe since the introduction of the SHLI, there is insufficient data to develop robust conclusions with regard to any trends in the year-on-year cost of the leases entered into.

The data examined did contain information on the scale of discounts attained in each of the 20 leases. It is important to note that level of discount varies dependent on the level of risk transferred. Indeed, this is an important consideration as the target discount of 20 per cent is predicated upon the local authority taking full responsibility for property maintenance and the management of the tenancy; in other words, the discount attained is directly related to the level of risk transferring to the local authority. However, the evidence reviewed by the authors indicates that the full risk is not transferring to the local authority in many cases – whereby landlords are retaining the responsibility (and therefore risk) for many aspects of the tenancy such as service charges and shared spaces – and that in some cases property owners are retaining full responsibility for management and maintenance.

Table 6.8 below indicates that no discount was noted on the file for four cases (or 20 per cent); however, these were RAS-type arrangements under delegated sanction and follow-up investigation revealed that discounts of between eighth per cent and 23 per cent were attained.

A 20 per cent discount was attained in 5 cases (or 25 per cent). In the remaining cases, the files state that the owner has retained certain responsibilities (i.e. payment of service charges, maintenance of communal areas and shared services, etc.).

Table 6.8: Discounts Attained under the SHLI, 2010*

	Operational	Funding Approved	Totals	
Leases	**8**	**12**	**20**	**100.0%**
Discounts				
Not Stated	2	2	**4**	**20.0%**
Less than 5%	0	0	**0**	**0.0%**
5% to 9%	0	1	**1**	**5.0%**
10% to 14%	1	0	**1**	**5.0%**
15% to 19%	4	5	**9**	**45.0%**
20% +	1	4	**5**	**25.0%**

*Refers to data noted on the files reviewed

Interestingly, the most up-to-date data made available by the Department indicates that almost 50 per cent of all properties transferring into the SHLI have a discount of 20 per cent or more.[71] This data indicates that discounts range from eight per cent – for those units where the property owner has retained full responsibility for management and maintenance – to 33 per cent. Table 6.9 below sets out the distribution of the discounts attained and indicates that half of all transferring units had a discount of between 10 per cent and 20 per cent.

Table 6.9: Discounts Attained in respect of operational private leases		
Discounts	**# Units**	**%**
8-10%	**4**	**2.8**
10-20%	**72**	**50.0**
20% +	**68**	**47.2**
Total	**144**	**100.0**
Refers to end-September 2010		

6.4 Conclusions

This section of the report considered trends in the private marketplace and assessed the extent to which negotiated rents and rent reviews reflect market rent trends.

The analysis has indicated that private rents fell steeply over the period 2007 to 2009 and that RAS rents broadly mirrored this reduction (albeit with a number of exceptions). By 2009, the average discount on private rents nationwide (at nine per cent) exceeded the target of eight per cent.

In the case of the SHLI, the available data indicates that a discounts of 20 per cent plus is being achieved in many cases although there is a need for more data before a definitive judgment can be arrived at.

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[71] Source: Parliamentary Question (October 2010)

7. Conclusions and Policy Recommendations

7.1 Conclusions and Policy Recommendations

This paper has provided a financial appraisal of the projected long-term costs of different social housing delivery mechanisms. In this final section, concluding comments and policy recommendations are made.

7.2 Conclusions and Policy Recommendations

This report shows that, at this point in time, revenue costed options such as RAS and social leasing are likely to be more cost effective than traditional forms of housing construction or capital investment over a 20 year period. But, financial appraisals of this nature are only as solid as the data on which they are based and the sets of assumptions used to predict the most likely future scenarios. This exercise has drawn on available Departmental data supplemented by primary data collected from four local authorities. The assumptions used have been clearly outlined and wherever possible draw on Department of Finance and ESRI sources.

That said, in places the data is not as comprehensive as would be liked. For example, the low number of social leasing arrangements in place at the time this paper was produced meant that only national averages could be used for comparative purposes, supplemented by daft.ie data. More detailed data will develop over time as the number of leasing units increase, and additional primary data should be collected to reduce any possible bias. This analysis should then be repeated.

A second reason why this analysis should be repeated in the future is that long-standing assumptions, for example in relation to connects between trends in house prices and rent levels may need to be revised going forward. In the past, house prices and rent levels often followed a similar trajectory, but this may not hold going forward. At present, rents are stabilising while house prices are continuing to fall in many areas. The analysis also found a considerable gap between the cost of leasing and of building social housing. Overtime it is likely that this gap will narrow, but it is likely that leasing will remain more cost-efficient. This cannot be assumed, however, and should be kept under regular review and hydrid models involving a mix of capital and revenue funding should be examined in more detail. .

The analysis presented above has found RAS to be financially most cost-effective as a social housing delivery mechanism. The key point to stress here is that the distinctive feature of RAS [other than the requirement that persons transfer from rent supplement which is not relevant here] is that private landlords are responsible for the maintenance and management of the properties. This would suggest that there is an economic cost involved in local authorities taking on such responsibilities, either for leasing or social housing generally.

This is purely a financial appraisal and does not take account of supply issues or the social costs if supply cannot be provided (i.e. subject based subsidies such as RAS and leasing have generally been found to have a limited impact on supply. Conversely, traditional approaches such as construction and acquisition have immediate impacts on the supply of new and, generally speaking, permanent new social housing). The importance of having a range of social housing delivery mechanisms in place should, therefore, be stressed to ensure housing options are available to meet different types of housing need and to ensure there is a sufficient supply of housing. The leasing initiative at present encompasses a number of different rental options (including RAS type arrangements) which will require on-going appraisal.

ANNEX ONE

Table A1: Estimated Lifecycle Cost per Unit (2-Bed)				
Residual Value – 100% of Indexed Market Value				
	New Build €		**Acquisition €**	
	Tenant Purchase	**LA Retention**	**Tenant Purchase**	**LA Retention**
Dublin City	275,549	224,928	-	-
Waterford City	-	-	-	-
Co Donegal	133,153	104,362	137,010	107,231
Co Wexford	-	-	165,807	125,432

Table A2: Estimated Lifecycle Cost per Unit (3-Bed)				
Residual Value – 100% of Indexed Market Value				
	New Build €		Acquisition €	
	Tenant Purchase	LA Retention	Tenant Purchase	LA Retention
Dublin City	-	-	375,525	303,902
Waterford City	224,893	173,144	182,097	141,302
Co Donegal	172,671	133,765	166,729	129,319
Co Wexford	129,167	98,263	205,061	154,366

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promoting sustainable communities