Rialtas na hÉireann
Government of Ireland

Secure Tenancy Affordable Rental Investment Scheme

01 August 2023

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Secure Tenancy Affordable Rental Investment Scheme

Section 1: Objectives & Scope of the Scheme

1.1 Housing for All: A New Housing Plan for Ireland, the Government's housing plan to 2030, targets that an average of 2,000 new Cost Rental homes are required every year up to 2030, with rents targeted at least 25% below market level. 18,000 Cost Rental homes are to be delivered by 2030, of which 10,000 Cost Rental homes are due to be delivered by 2026.

1.2 The Secure Tenancy Affordable Rental investment scheme (STAR) is intended to bring forward Cost Rental units, with the aim of assisting eligible households in the private rental sector, who due to solvency constraints are unable to obtain housing at market conditions and are experiencing acute affordability pressures in the private rental sector, particularly in urban centres where prevailing rents are especially high.

1.3 It is intended that units made available under the Scheme will be designated as Cost Rental units under Cost Rental legislation as set out in Part 3 of the Affordable Housing Act 2021 (AHA 2021) and that units activated under the Scheme will be more affordable to the tenant than current market rents, being at least 25% below market rents in a given area.

1.4 Tenants for the accommodation provided under this Scheme may only be selected per the eligibility parameters for Cost Rental homes set out in Part 3 of the AHA 2021 (as amended) and associated Cost Rental Letting and Eligibility Regulations set out under S.I. 755/2021 (as amended) and in accordance with any guidance set out by the Minister in relation to Cost Rental homes.

1.5 To address challenges in the housing sector, hit by the combined effects of construction inflation, increased financing costs, and interest rate induced softening of yields, and given the high level of extant un-activated planning permissions, the Government is making this scheme available to market operators who will make available residential units for Cost Rental tenure.

1.6 This Scheme, together with the designation under AHA 2021 & the Cost Rental Investment & Equity Participation Agreement, will operate to confer a public service obligation on successful proposers in conformance with Decision 2012/21/EU[1]. Further details will be set out in the Cost Rental Investment & Equity Participation Agreement.

[1] COMMISSION DECISION of 20 December 2011 on the application of Article 106(2) of the Treaty on the Functioning of the European Union to State aid in the form of public service compensation granted to certain undertakings entrusted with the operation of services of general economic interest (notified under document C(2011) 9380) (2012/21/EU)

1.7 The Scheme will be managed by the Housing Agency on behalf of the Department of Housing, Local Government and Heritage (DHLGH) and will be operated on an evidence based, open book basis, to ensure that the investment provided feeds through in reduced cost rents, in accordance with the requirements set out in the AHA 2021.

1.8 The Scheme shall be time bound and will operate from 1 August 2023 until 31 December 2027.

1.9 An open call for Expressions of Interest (EOI) under the Scheme will be made by the Housing Agency and submissions will be considered until such time as all of the capital funding made available to it to invest under the Scheme has been fully committed and/or the Department of Housing, Local Government and Heritage publically announces the closure of the Scheme. The Housing Agency reserves the right to alter the EOI. Any changes to the Scheme will be notified via public announcement on the Housing Agency website.

1.10 Any queries relating to the Scheme and the EOI can be directed to the Housing Agency at staris@housingagency.ie.

Section 2: Principles of the Scheme

2.1 In principle, the State will make an equity investment of the amount, as determined under Section 7, available to Qualified Proposers where:

(a) the Qualified Proposer commits to having the proposed units designated under Part 3 of AHA 2021 for a minimum period of 50 years[2];

(b) the rents are set at the levels set out in Section 4, which shall be a minimum of 25% below market rent, and rents may only increase in line with the relevant provisions of the Regulations under AHA 2021[3]; and

(c) the Qualified Proposer meets the criteria for the Scheme set out below and has signed the relevant Agreement containing such terms and conditions as outlined below and such other ancillary terms and conditions as may be specified.

2.2 The Housing Agency reserves the right to refuse to enter into an Agreement under the Scheme for any reason.

[2] Proposers will be required to designate units for a minimum of 50 years. This means the rents will be set initially and can only be raised in accordance with the relevant Regulations for the duration. This matches the length for current AHB cost rents.
[3] Cost Rental Rent Setting Regulations 2021

Section 3: Designation under the Affordable Housing Act 2021

3.1 Cost Rental is a new form of rental tenure in Ireland, legislated for in Part 3 of the Affordable Housing Act 2021.

3.2 Cost Rental was prescribed for the first time in AHA 2021, Part 3 of which sets out the policy framework for how the Cost Rental sector operates in Ireland. Since the passing of AHA 2021, the Minister for Housing, Local Government & Heritage ("the Minister") has passed three sets of Regulations concerning the operation of the Cost Rental sector:

- Cost Rental Designation Regulations 2021: https://www.irishstatutebook.ie/eli/2021/si/425/made/en/print;

- Cost Rental Letting and Eligibility Regulations 2021: https://www.irishstatutebook.ie/eli/2021/si/755/made/en/print;

- Cost Rental Rent Setting Regulations 2021: https://www.irishstatutebook.ie/eli/2021/si/756/made/en/print.

The landlord of a Cost Rental dwelling must comply with these and any subsequent Regulations made by the Minister for Housing, Local Government and Heritage (The Minister).

3.3 In accordance with AHA 2021 and Decision 2012/21/EU, Qualified Proposers will be entrusted with a public service obligation to provide Cost Rental dwellings. Under Cost Rental legislation, rents are charged only to cover the cost of delivering, financing, managing and maintaining the properties.

3.4 A Proposer under the Scheme must apply to designate the proposed units as Cost Rental dwellings per the provisions of AHA 2021. The process of designation by the Minister is set out in Sections 29 and 30 of AHA 2021 and S.I. 425/2021. Designation is undertaken on an opt-in basis, whereby any owner of a property (public or private) can apply to the Minister to formally designate their property as a 'Cost Rental dwelling' for a minimum designation period of at least 40 years. It is a condition of this Scheme, however, that properties must be designated for a minimum period of 50 years.

3.5 The designation process involves an open book assessment of the costs of acquiring, developing (where the owner of the property is also the developer) and otherwise making available and letting the accommodation under Cost Rental tenancies, in which the starting rent is calculated as a result of modelling these costs over a 'cost calculation period', which must be at least as long as the 'Cost Rental designation period.' This process formally commits the property to the sector, with all its associated terms and conditions, for at least that length of time. For the avoidance of doubt, the assessment of costs completed under this Scheme by the Housing Agency will also constitute the open book assessment for the designation process under the AHA 2021.

3.6 Under the AHA 2021, ‘Cost Rental tenancies’ are specified as being tenancies as per the provisions of the Residential Tenancies Act (RTA) but with specific conditions attached. Section 32 of AHA 2021 provides for a carve-out from elements of the RTA for Cost Rental tenancies, such as the provisions for ending a tenancy in order to provide greater security of tenure, as well as detail concerning subletting of properties.

3.7 Section 30(5) of AHA 2021 sets out that a Cost Rental designation shall be registrable in the Registry of Deeds as an act of the owner affecting the Cost Rental dwelling and, as the case may be, in the Land Registry as a burden on any folio in which the Cost Rental dwelling, or any part thereof is registered and where the Minister seals a Cost Rental designation under subsection (2), the Minister shall, as soon as practicable thereafter, cause it to be so registered in the Registry of Deeds or the Land Registry, or both, as appropriate.

3.8 Section 31 of AHA 2021 sets out how tenancies under Cost Rental must be advertised to tenants. This is expanded upon in S.I. 755/2021, which prescribes how landlords of Cost Rental dwellings should advertise vacancies in such properties and how interested parties can express an interest in leasing these homes. It also details how Cost Rental tenants should be allocated properties suited to their accommodation needs while also taking the need for efficiency into account.

3.9 The Regulations also set out the main eligibility condition for leasing a Cost Rental dwelling, which is that a household’s annual income, less income tax, PRSI, USC and superannuation contributions, must not be greater than the limits set out in regulations.

3.10 Initial rents proposed must be at least 25% below market. Subsequent rent increases must be calculated in accordance with the Cost Rental Rent Setting Regulations referenced at 3.2 above and Section 4 below.

3.11 Proposers must familiarise themselves with all of the relevant provisions of Part 3 of the 2021 Act and the associated regulations and should note that they will be bound under same and with the further conditions relevant to this Scheme as set out below.

3.12 The Cost Rental Investment & Equity Participation Agreement, together with the associated designation under the AHA 2021, will be the basis for the entrustment of a public service obligation to supply Cost Rental units to eligible tenants under the Cost Rental regulations, at affordable rents, for a minimum period of 50 years.

Section 4: Target Rents

4.1 To ensure affordability of units, rents must be proposed at a minimum of 25% below the comparable open market rates as determined on the date when the formal application is made, with the valuation to be verified by the Housing Agency. Final setting of the applicable first rent will be finalised during Stage 3 of the application process.

4.2 The requirement for rents to be a minimum 25% below market rate applies to the initial rents set. Following setting of initial rents, rent may only be increased in line with the AHA 2021 and associated regulations. Section 33 of AHA 2021 and S.I. 756/2021 provide for a bespoke means of undertaking rent reviews for Cost Rental tenancies, in order to ensure that rents are only raised a maximum of once per annum on a set date, and that this increase is tied to the rate of inflation in the HICP. Proposers must familiarise themselves with the provisions of AHA 2021 and all associated legislation and agree to be bound by same.

4.3 The final determination of whether the rent proposed is at least 25% below market rates is a matter solely for the Housing Agency to decide, having regard to the valuations provided and analysis of data by the Housing Agency's professional advisors.

Section 5: Eligible Tenants

5.1 The Proposer must agree to let units under this Scheme to eligible Cost Rental applicants under AHA 2021 and associated Regulations.

5.2 The Minister has the power, under Section 31(3)(b) of AHA 2021, to prescribe "*eligibility requirements in respect of tenants, including maximum … income levels for tenants and the households of tenants*". This power may be exercised as deemed necessary by the Minister.

5.3 The main eligibility condition for prospective Cost Rental tenants comprises meeting an annual net income limit at the outset of a tenancy. These limits are set periodically by the Minister, to ensure that the units provided under this Scheme will be targeted at those who, due to solvency constraints, are unable to obtain housing at market conditions and are experiencing acute affordability challenges in the private rental sector. Proposers should review the relevant legislation for up to date eligibility criteria for Cost Rental tenants <u>at the time of application</u> as may be prescribed under the AHA 2021 and the associated Cost Rental Letting and Eligibility Regulations 2021, as amended.[4]

[4] per S.I. 755/2021 Cost Rental Letting and Eligibility Regulations 2021 (10)

5.4 At the time of commencement of this Scheme on 1 August 2023, an income level of €66,000 net applies for Dublin and €59,000 net applies for the rest of the country. The application of these limits is determined by the location of the property to be rented. The income limits apply at the time of the initial letting only. Thereafter, the rents are set per Section 4 above and as per the relevant Cost Rental Rent Setting Regulations, S.I. 755/2021 Cost Rental Letting and Eligibility Regulations 2021.

5.5 At the time of commencement of this Scheme on 1 August 2023, tenants[5] must be selected on an open application basis after public advertising of the Cost Rental units and, where demand exceeds supply, a lottery must be used to select applicants for consideration, removing any advantage from applying early within an application window. Regard must be had by any Proposer under the Scheme to any guidelines or guidance put in place by the Minister for Housing, Local Government & Heritage in relation to Cost Rental housing at the time of designation under the AHA 2021.The landlord retains ultimate discretion as to whether to offer a tenancy to any particular applicant.

Section 6: Qualified Proposers

6.1 Any potential providers of Cost Rental accommodation per the meaning in AHA 2021, the Cost Rental Letting and Eligibility Regulations 2021 and as defined in Appendix C of this Scheme, may apply.

6.2 For avoidance of doubt, it will be permissible for consortiums to apply, e.g. a developer may apply by agreement with the intended holder of the Cost Rental units, but the consortium must be led by the long-term owner, operator and manager of the units.

6.3 If the Proposer does not own or have a legal interest in the proposed units at the time of submission, the Proposer must provide evidence that they have an exclusive agreement with the owner of the units (or the site upon which the units are to be constructed) that will allow them to deliver the proposed units if they are successful in obtaining STAR investment.

6.4 Proposers should be able to demonstrate that the proposing entity itself or a parent company has a proven track record in delivery of residential developments and management of rental accommodation. They must also outline a clear programme management timeline/approach alongside the appropriate resource support for the proposal.

[5] per S.I. 755/2021 Cost Rental Letting and Eligibility Regulations 2021 (5)

Section 7: Level of Investment Available

7.1 The investment under the Scheme is designed to provide Proposers with compensation for the service of general economic interest described in this Scheme, namely the public service obligation of providing Cost Rental housing in accordance with the parameters set out in this Scheme (including the minimum duration of 50 years, the target rent reduction of 25% and the eligibility criteria for tenants). The Scheme acknowledges that a market operator would not usually accept these conditions if it were considering only its own economic interests.

7.2 The investment under this Scheme is to be calculated in accordance with Decision 2012/21/EU. Any reference to "investment" or any other form of payment to Proposers under this Scheme is to be understood as a reference to compensation calculated according to this Section 7. No payment shall be made to Proposers under this Scheme except in accordance with this Section 7.

7.3 In accordance with Article 5(3) and Article 5(4) of Decision 2012/21/EU, the investment payable shall not exceed the costs incurred by Proposers (calculated in accordance with paragraph 7.6 and 7.7), less the revenues obtained by Proposers, (calculated in accordance with paragraph 7.8), while permitting Proposers to generate a reasonable profit calculated in accordance with paragraph 7.9. The payment will be subject to the ceilings in paragraphs 7.10 and 7.11. An additional payment will be available to Proposers who meet the sustainability criteria in paragraphs 7.12 and 7.13.

7.4 The amount of investment will take account of variables specific to each Proposer's Cost Rental model. Accordingly, the exact amount of compensation for each proposal may vary and will be specific to the cost and revenue characteristics of each proposal.

7.5 The calculation of the investment in each case will be carried out by the Housing Agency in accordance with paragraphs 7.14-7.23.

Costs

7.6 Costs will be calculated on the basis of generally accepted cost accounting principles. The costs to be taken into consideration shall comprise all costs incurred in delivering the public service obligation, namely:

(i) Capital cost of the dwellings (the total cost of acquiring or constructing the dwellings including fit-out costs to make them ready for letting);

(ii) The Proposer's management (staff and overheads attributable to the dwellings, insurance, LPT etc.), letting costs (letting agents costs, re-letting costs) and maintenance costs (response maintenance, cyclical maintenance and life cycle maintenance costs) for the proposed dwellings;

(iii) Funding costs, including cost servicing and repaying debt;

(iv) Details of financial model assumptions regarding vacancy levels (periods where units will not generate rental income), cost inflation and rental income inflation figures used over the period and any other variables included by the Proposer in their financial model; and

(v) Any tax payable by the Proposer arising from renting the proposed dwellings.

7.7 Only costs related to the provision of the public service obligation will be considered. Where the Proposer is also carrying out activities outside the scope of the proposal under this Scheme, only directly related costs will be considered and an appropriate contribution to costs common to both the proposal under this Scheme and other activities may be considered[6].

Revenue

7.8 All revenue derived from the operation of the proposed Cost Rental units will be taken into consideration.

Profit

7.9 The Proposer will be entitled to a "reasonable profit" within the meaning of Article 5(5) of Decision 2012/21, namely the rate of return on capital that would be required by a typical undertaking considering whether or not to provide the service of general economic interest for the whole period of entrustment, taking into account the level of risk. The level of return on equity or other profits sought by Proposers will be benchmarked by the Housing Agency against return levels in Cost Rental arrangements across Europe and domestic commercial returns in the Irish market for residential and commercial property.

Ceiling on Investment

7.10 The maximum investment generally available nationally will be €150,000 per unit, with an additional investment of €25,000 available, subject to meeting the sustainability criteria set out at paragraphs 7.12-7.13.

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[6] For example, where part of a development is brought under the Scheme but the remainder is rented privately outside the Scheme. A proportionate share of head office overheads or a proportionate share of staff who are not exclusively dedicated to the STARS proposal.

7.11 In recognition of the viability challenges in the specific areas of Dublin the maximum investment available will be higher in Dublin at €175,000, with an additional investment of €25,000 similarly available subject to meeting the sustainability criteria set out at paragraphs 7.12-7.13.

Table 7.1: Maximum investments per unit under STAR

Area	Maximum STAR Investment per unit in €	Maximum STAR Sustainability Investment per unit in €	Maximum Total STAR Investment Available per unit in €
Dublin	175,000	25,000	200,000
Rest of country	150,000	25,000	175,000

Criteria for additional €25,000 Sustainability Investment

7.12 In order to meet the EU's climate and energy targets for 2030 and reach the objectives of the European Green Deal including those actions in the National Climate Action Plan, it is vital that the Scheme invests in sustainable projects during both the construction and operational phases.

7.13 Based in part on the EU taxonomy classification system, which has established a list of environmentally sustainable activities by defining technical screening criteria for each environmental objective, the Scheme will make available and invest a further €25,000 per individual unit that can demonstrate alignment with the EU taxonomy, including the following specific requirements as outlined below:

(i) In line with the EU Taxonomy Regulation, and in reference to the Primary Energy Demand (PED), that is defining the energy performance of the building resulting from the construction, is at least 10 % lower than the threshold set for the nearly zero-energy building (NZEB) requirements; (A Primary Energy Demand at least 10% lower than the threshold set for the NZEB requirement would correspond to an MPEPC of 0.270 and MPCPC of 0.315 when calculated in DEAP);

(ii) Demonstrate that the Scheme has taken account of the Environmental Protection Agency (EPA) Best Practice Guidelines for the preparation of resource & waste management plans for construction & demolition projects, primarily with a focus on material circularity of developments and waste prevention, alongside a requirement for a resource and waste management plan to be produced at the initial scheme design stages;

Or alternatively to (i) and (ii)

(iii) Demonstrate that the Scheme proposed includes Modern Methods of Construction (MMC)[7] in accordance with the MMC Definition Framework. Further information is available via the following link: Modern Methods of Construction Introductory Guide

Procedure for calculating the Investment

7.14 The Investment will be calculated via an objective and transparent open book assessment of Proposers' costs and revenues, which will be conducted by the Housing Agency.

7.15 The application process will comprise of three stages:

- Firstly, an Expressions of Interest submission stage, whereby providers will submit proposal(s) to the Housing Agency to be assessed in accordance with the high-level criteria set out in Section 13 (see below).

[7] Note: Ernst and Young's Detailed Description of Needs for the Irish Construction/Built Environment Sector identified that MMC can reduce energy consumption by 67% and reduce waste onsite by 70 – 90%, in addition to reductions in deliveries to site of 90%. The prefabrication of building components also provides an opportunity through which materials can be re-used and recycled, thus reducing wastage.

- Successful applications will then progress to a more detailed second stage due diligence assessment process managed by the Housing Agency, involving a full assessment of costs.

- Suitable proposals identified under Stage 2 will progress to the final stage, where a Cost Rental Investment and Equity Participation Agreement may be entered into with qualifying proposers, subject to availability of resourcing, completion of legal due diligence and the approval of the Minister for Housing, Local Government and Heritage.

7.16 The amount of investment will be determined by the Housing Agency during Stage 2 of the application process and reviewed at Stage 3 based upon actual costs and revenues to ensure no overpayment occurs.

7.17 As part of the Housing Agency's Stage 2 due diligence procedures, an open book assessment of all of the Proposer's revenues and costs will occur in order to determine the level of investment required.

7.18 Prior to the awarding of the investment and entering into a Cost Rental Investment and Equity Participation Agreement, the Housing Agency will require Proposers to submit details of the costs that they will incur in providing, managing, letting and maintaining the proposed dwellings which will include:

(i) Capital cost of the dwellings (the total cost of acquiring or constructing the dwellings including fit-out costs to make them ready for letting);

(ii) Details of the Proposer's management (staff and overheads attributable to the dwellings, insurance, LPT etc.), letting costs (letting agents costs, re-letting costs) and maintenance costs (response maintenance, cyclical maintenance and life cycle maintenance costs) for the proposed dwellings;

(iii) Details of funding costs, including cost servicing and repaying debt as required in the proposal;

(iv) Details of any tax payable by the Proposer arising from renting the proposed dwellings;

(v) Details of financial model assumptions regarding vacancy levels (periods where units will not generate rental income), cost inflation and rental income inflation figures used over the period and any other variables included by the Proposer in their financial model; and

(vi) Details of the level of return on equity and any other returns or profits being sought by the Proposer.

7.19 The Housing Agency will review submitted material and seek independent advice from professional advisors, as required.

7.20 Where the initial investment amount agreed at Stage 2 is less than the maximum available under the Scheme, it may be increased in line with verified cost increases if they are reasonably incurred by the Proposer and are eligible under paragraphs 7.6-7.7. Any such cost increase is subject to verification through an open book examination by independent advisors to the Housing Agency and prior to the designation of the units under the AHA 2021. At all times the relevant Scheme cap under paragraphs 7.10-7.11 will apply and cannot be exceeded.

7.21 Where the final costs are lower than projected at the time of the Stage 2 agreement, the investment amount will be reduced commensurately, again through an open book examination by independent advisors to the Housing Agency.

7.22 The final agreement will incorporate anti-overcompensation mechanisms to ensure no overpayment occurs. It will also incorporate clawback mechanisms to ensure that (should any overpayment occur) the Proposer will refund the amount so overpaid.

7.23 For the avoidance of doubt, the provision of a preliminary estimate of an investment amount to a Proposer will not oblige the Housing Agency to enter into a contractual agreement with a Proposer. In particular, the Housing Agency reserves the right to refuse to enter into an agreement where the return sought exceeds a reasonable profit determined in accordance with paragraph 7.9.

Section 8: Investment Structure – Cost Rental Investment & Equity Participation Agreement

8.1 The investment will be made in the form of a Cost Rental Investment & Equity Participation Agreement with the Qualifying Proposer, subject to the limits set out in Section 7, in the amount required to enable the Proposer to achieve the target rents as set out above at Section 4.

8.2 The Agreement, together with the associated designation under the AHA 2021, will be the basis for the entrustment of the public service obligation in the final agreement referred to at Section 1.6, and will regulate the provision of the units for Cost Rental purposes and the provision of the investment.

8.3 This Agreement will have the following principal characteristics:

8.3.1 The State will make an investment of equity into the properties which are to be designated as Cost Rental dwellings. The terms of the investment will be governed by the terms of the legal agreement, which Proposers will be required to sign with the Housing Agency.

8.3.2 All units will be designated as Cost Rental dwellings under Part 3 of AHA 2021 and rented to eligible tenants.

8.3.3 Ownership of the properties will remain with the Qualified Proposer but a charge (subordinated to senior debt as required) will secure the State's investment (see indicative diagram in Appendix A).

8.3.4 There will be no interest or return payable to the Housing Agency during the term of the Agreement unless there is a breach of the Agreement by the property owner.

8.3.5 The term of the Agreement is the same as the Cost Rental designation for the qualifying property, i.e. 50 years.

8.3.6 At the end of the term of the Agreement (50 years) there will be three options:

(i) Extend the Agreement for an agreed period (with the dwellings remaining in Cost Rental usage);

(ii) Make a repayment to the Housing Agency and exit Cost Rental designation (see Section 8.4 below);

(iii) The Housing Agency may exercise an option to purchase the dwellings from the owner for market value, taking account of the State's investment in the properties.

8.4 The Agreement will include a right for the Housing Agency to receive a prescribed amount (Property Realisation Equity Share) by reference to the occurrence of the following events (trigger events):

(i) When the Cost Rental status of the property expires at the end of the 50-year period, provided always that the Property Realisation Equity Share is not payable if the property owner commits to continue to provide the Cost Rental unit on the same basis for a further period, and the designation over the property and the security (as described below) is renewed/refreshed accordingly.

(ii) If the property ceases to be available for Cost Rental, for whatever reason, whether due to enforcement action being taken (over the property or over the Qualifying Proposer), change in law, breach/default by the owner, or extrinsic events (e.g. fire or other damage to the property);

(iii) If, in respect of the property for which the State has invested an Equity Share, the property owner fails to comply with AHA 2021, or any regulations made thereunder.

8.5 The Property Realisation Equity Share amount is calculated as a percentage of the overall property value, by reference to the aggregate of the Equity Share contributed to the purchase by the Qualifying Proposer and the investment amount (i.e. the Principal). Such a percentage shall be applied to the market value of the property, as determined by reference to the date on which the relevant trigger event occurs. See Appendix B for an example of how this will operate in practice.

8.6 As security for the repayment of the Property Realisation Equity Share, the Housing Agency will take a fixed charge over the qualifying property.

8.7 If there is any commercial lender providing property acquisition finance/property development finance to the Qualifying Proposer to assist it in developing, buying or refinancing the purchase of the property, the Housing Agency will permit that lender to have a first ranking charge instead and the Housing Agency will take a second ranking charge, subject to the lender agreeing with the Housing Agency certain intercreditor arrangements in the event of enforcement action being taken by such a lender, or by the Housing Agency. The terms of such intercreditor arrangements will be agreed between the Housing Agency and the Proposer's lender.

Section 9: Further conditions of the Scheme

9.1 The owner of the property will be able to assign their interest to a third party provided the property continues to be operated as Cost Rental accommodation in accordance with the agreed Scheme terms. In the event there is a change of ownership, they will be required to put replacement security in place and a new Cost Rental Investment & Equity Participation Investment Agreement or accession to the existing Agreement by the new owner. The Qualified Proposer shall ensure that the rights and obligations under the Cost Rental Investment & Equity Participation Agreement and the Cost Rental Designation are fully assigned to any prospective purchaser. The Qualified Proposer must notify the Housing Agency in advance of any such sale.

9.2 The Agreement will also provide for light controls on the project as a menu of reserved matters including a:

- Requirement to designate the proposed units as Cost Rental dwellings;
- Right to information and updates on the project; and
- Requirement for consent to increases in senior debt beyond initial agreed capped amount.

9.3 Refinancing will be permissible subject to a new intercreditor agreement being entered into and the Property Realisation Equity Share is recalculated as appropriate.

9.4 Where the total amount of investment received by a Qualified Proposers is equal to or greater than €15 million, details of the amount received and the associated Cost Rental units will be published on the Housing Agency website on an annual basis. The Proposer must agree to this condition within the contract to be signed with the Housing Agency.

Section 10: Timing of Investment

10.1 Subject to Section 10.2, the investment will be made available when:

(i) the units are complete and ready to let and;
(ii) evidence of good and marketable title for the property is held by the Qualifying Proposer, and;
(iii) the relevant Investment Agreements and Cost Rental Designation has been concluded.

10.2 If a Proposer is in a joint venture or other such agreement with a developer (or the developer is the Proposer) and the investment may be used to reduce the finance costs during construction of the qualifying unit with subsequent demonstrable benefits in respect of reduction in the level of investment required, the investment or a proportion thereof may be advanced during construction at the absolute discretion of the Housing Agency and subject to appropriate governance framework arrangements being in place.

10.3 Any payment of the investment during construction of the proposed units will be subject to suitable security arrangements being put in place to protect the investment.

Section 11: End of the Investment

11.1 The investment will represent a specific share of the asset as detailed at Section 8 above. The end of the investment period will constitute a Trigger event as set out in that section.

11.2 At the expiration of the designation period, the holder of the property may apply to terminate the designation under AHA 2021, in which case Section 8 above will apply and it will constitute a Trigger Event, requiring the owner of the property to repay the value of the Property Realisation Equity Share at that point in time to the Housing Agency, save where the holder of the property may apply to extend the designation under the legislation and Section 8.3.6(i) will apply in respect of the Property Realisation Equity Share and no payment will be required.

11.3 Where the holder of the property proposes to dispose of the property by way of sale at the end of the designation period, the Housing Agency or its nominee will have the option to buy the property from the owner at market value minus an amount equal to the value of the Property Realisation Equity Share.

Section 12: Eligible dwelling units for designation under the Scheme

12.1 The units proposed may be in any location of recognised demand for rental stock. Priority will be given to proposals in respect of units located in urban centres at Stage 2 per the criteria set out in Section 13.

12.2 The minimum amount of units that may be proposed is 10.

12.3 The units proposed must be newly constructed units which have not previously been occupied and which are available for designation under the AHA 2021.

12.4 Subject to an overall balanced approach in meeting the Scheme's objectives, proposals involving adaptive re-use of non-residential buildings[8] for re-use as residential units will also be considered, provided they were not previously used for residential purposes.

12.5 Where the units proposed are not commenced, the units proposed must have commenced construction by a date agreed between the Housing Agency and the Proposer and completed by a date specified in the agreement, with said date generally to be no later 2 years after the commencement date (unless otherwise agreed with the Housing Agency) or by the 31 December 2027, whichever is the shorter.

12.6 Preference will be given to proposals that can deliver new units in the quickest timeframe, subject to a balanced overall approach between commenced and uncommenced units in line with the objectives of the Scheme.

[8] Note: These buildings should not have been previously in residential use, but may be adapted for use within the substantive structure/envelope of the building, into residential units in compliance with planning and building standards regulatory requirements.

Section 13: Stages of assessment

13.1 The approval process for the Secure Tenancy Affordable Rental investment scheme will be comprised of three pre-contract stages:

Stage 1:	Expression of Interest (EOI)
Stage 2:	Detailed due diligence process leading to eligibility
Stage 3:	Completion of Cost Rental Investment & Equity Participation Agreement

13.2 The Housing Agency may discuss proposals with the Proposers throughout Stages 1 to 3 and can be contacted at staris@housingagency.ie

Stage 1: Expression of Interest	
The **Secure Tenancy Affordable Rental investment scheme** EOI Application Form can be accessed through the Housing Agency's website at www.housingagency.ie The minimum criteria for the EOI proposal are as follows:	
(a)	Proposals must be made on the basis that proposed units which receive Cost Rental investment will be designated as Cost Rental units under Part 3 of AHA 2021 (as amended) for a minimum period of 50 years.
(b)	Proposals must deliver new units which: • have not commenced construction; or • are under construction; or • are recently completed but have never been previously rented. Proposals involving adaptive re-use of non-residential buildings are also eligible. Examples could be existing buildings such as office developments

	(no longer in use or redundant in terms of current viability), institutional buildings or industrial complexes, including single use buildings no longer fit for purpose or use as originally intended.
(c)	Proposals must provide details of when the units will be available for designation as Cost Rental units. Where the units proposed have not commenced construction, the units proposed must have commenced construction by a date agreed between the Proposer and the Housing Agency but no later than the 31 March 2025 and the units must be completed by a date agreed with the Housing Agency but no later than the 31 December 2027.
(d)	Proposals must consist of a minimum of 10 dwellings.
(e)	Proposals must consist of at least 2 types of dwelling (1 bed, 2 bed etc.) and must include 2 bed dwellings.
(f)	Proposals must deliver rents that are a minimum of 25% below the relevant open market rents for similar properties in the area with the benefit of the investment and which are affordable to the target cohort under Cost Rental legislation as it stands at the time of the proposal.

Criteria for Progression to Stage 2	
Suitable proposals may progress to Stage 2 based on the criteria outlined below:	
(a)	***Urban location & density:*** Preference will be given to higher density proposals in urban locations
(b)	***Number of units:*** The aim of the Scheme is to bring forward Cost Rental units at scale. Preference will be given to proposals with a higher volume of units.
(c)	***Dwelling type:*** Preference will be given to high density residential developments which have a diverse range/mix of dwelling types and are designed to a qualitative standard.
(d)	***Connectivity:*** Preference will be given to proposals located within close proximity (walking distance 1,250m) of high capacity urban public transport stops (such as DART or Luas), or from reasonably frequent (i.e. at least 20 minutes peak hour frequency) urban bus services, or where such services can be provided prior to the stated delivery date of the development.
(e)	***Timeline for completion of units:*** The Scheme is time-bound and preference will be given, subject to available resources, to proposals which can deliver additional Cost Rental units in the quickest timeframe.

13.3 The Housing Agency will formally notify Proposers that their proposal (and/or their proposed structure) is considered suitable to move to Stage 2, which consists of a full due diligence assessment of a proposal.

13.4 The Housing Agency may issue letters of intent to potential Proposers, subject to contract and full due diligence. As the level of knowledge/certainty of delivery and operational costs will be unknown, it will not be possible to set out the actual level of investment to the Proposer at this stage but a preliminary, non-binding figure may be set out where sufficient information is available to the Housing Agency in Stage 1.

13.5 All Proposers who submitted proposals at Stage 1 assessment which are not being progressed immediately will also be contacted in writing by the Housing Agency and may be considered further.

Stage 2: Detailed due diligence leading to eligibility	
Stage 2 assessment will require additional information, including submission of a detailed financial model for each proposal. Each model must have a minimum term of 50 years and must include delivery costs, operational costs, finance costs, equity returns, inflation assumptions, cost and rental income, void and re-letting costs in order to clearly demonstrate how cost rents are calculated. The model should clearly set out the level of investment that is being sought at the point of submission. A valuation for the proposed dwellings on the basis that they are available for occupation at the time of submission (irrespective of actual development status) will be required.	
(a)	***Operational Plan:*** Proposers must provide a clear business plan for the long-term operation, maintenance and management of the proposal. The business plan must clearly set out the proposed costs associated with managing the Cost Rental dwellings, tenancy management costs, and long-term maintenance of the dwellings (response maintenance, cyclical maintenance, long-term life cycle maintenance).
(b)	***Proven Track Record:*** Proposers should be able to demonstrate that the proposing entity itself or a partner/parent company has a proven track record in delivery management and maintenance of rental accommodation. They must also outline a clear delivery methodology for the proposed apartments and the appropriate resource support.
(c)	***Project Financing:*** Proposed sources of funding and any security arrangements anticipated will need to be set out at the time of submission. It will be necessary to detail how the delivery phase of each proposal will be funded and also how the long-term ownership, management and maintenance phase will be funded. Assumptions in terms of cost of debt finance and return on equity must be clearly set out. A supporting letter from any proposed loan finance provider or equity investor must be provided at the time of submission.

Assessment under Stage 2	
The assessment under Stage 2 will involve the following:	
(a)	Assessment of delivery costs (capital acquisition costs) as proposed by the Proposer supported by appropriate documentation.[9] In the event that a forward funding arrangement is being considered by the Housing Agency, construction costs will be assessed.
(b)	Assessment of Proposer's management, operational and maintenance costs for the proposal.
(c)	Assessment of the Proposer's funding package (debt and equity requirements, cost of debt and return on equity).
(d)	Assessment of appropriateness of financial assumptions regarding void and vacancy risk, cost inflation and rental income inflation and any other variables.
(e)	Subject to the preceding points, agreeing the level of investment to be provided and the cost rents that will be made available with the benefit of the investment on completion of the dwellings.
(f)	In parallel with the preceding steps, the Housing Agency will carry out legal due diligence on the Proposer and the proposal, with a view to entering into a Cost Rental Investment and Equity Participation Agreement.
(g)	Proposer(s) must be able to produce evidence of their tax compliance as part of the due diligence process (this is not required for the initial submission).

[9] Including, inter alia, plans, elevations and specifications of the dwellings proposed. Schedules of accommodations and floor areas. Programme for delivery and cash flow as appropriate. Quantity surveyor's reports on the capital costs of the properties. Other such reasonable details and reports that may be requested by the Housing Agency and its advisors.

(h)	Details of rental stock currently under management should be provided with the Proposer's submission confirming location of units, numbers of units, ownership of units, length of time under ownership/management.
(i)	The Proposer must set out the intended source of funding of the proposed units. Details of available equity funding and debt funding must be provided along with a letter(s) from any proposed funders confirming that they are prepared, subject to lender's terms and conditions, to support the proposal.
The Housing Agency will review proposals and progress those deemed suitable according to criteria above to Stage 3, holding any proposals that do not progress at Stage 2 and reverting to assess those at a later date, where sufficient capital funding remains available.	

Stage 3: Completion of Cost Rental Investment Equity Participation Agreement
Subject to the preceding stages being completed successfully and with approval of the Housing Agency Board and DHLGH, the Housing Agency will seek to enter into a Cost Rental Investment & Equity Participation Agreement with the Qualified Proposer. Details of the template Agreement will be made available to Proposers.

Section 14: Additional Scheme Requirements

14.1 Proposers should take note that this Scheme and any request for EOI does not constitute an offer or commitment to enter into a Cost Rental Investment and Equity Participation Agreement and the Housing Agency and DHLGH reserves the right not to enter into any Cost Rental Investment Equity Participation Agreement in respect of proposals received pursuant to this Scheme or EOI, hereafter referred to as the "Agreement".

14.2 Proposers shall bear all costs associated with the preparation, submission and clarification of their proposal. The DHLGH and The Housing Agency will not be responsible and/or liable for any costs, expenses or losses which may be incurred by a Proposer in the preparation, submission or clarification of its proposal, regardless of the conduct or outcome of the process.

14.3 No contractual rights will exist unless and until a formal written agreement has been executed by the Housing Agency with a Proposer. DHLGH and the Housing Agency are not responsible for any costs incurred by Proposers in preparing a response to this document. Following the completion of Stage 3 and subject to the satisfaction of the DHLGH, the successful Proposer will be required to accept the terms and conditions of the agreement. The proposal will be incorporated by reference into the Agreement between the Housing Agency and the successful Proposer.

14.4 The Housing Agency reserves the right to share information submitted by an Interested Party in response to this Scheme with other State entities and bodies involved in the delivery of housing. These bodies include, but are not limited to, Local Authorities, the DHLGH, and the NDFA. In such instances, the sensitivity of commercially sensitive data will be respected and such data anonymised where appropriate.

14.5 In accordance with Section 36 of AHA 2021, for the purpose of monitoring compliance and the compilation of statistical data, the Minister intends to bring forward regulations requiring Proposers to provide information on the operation of the Cost Rental units. It is intended that such information will be collated at intervals of not less than 3 years during the period of entrustment and at the end of that period. Proposers are recommended to familiarise themselves with the requirements of Section 36.

14.6 The Housing Agency will retain and keep available information pertaining to the Scheme for at least 10 years from the end of the entrustment period. Such data may be used for research and reporting purposes. The sensitivity of commercially sensitive data will be respected and such data anonymised where appropriate.

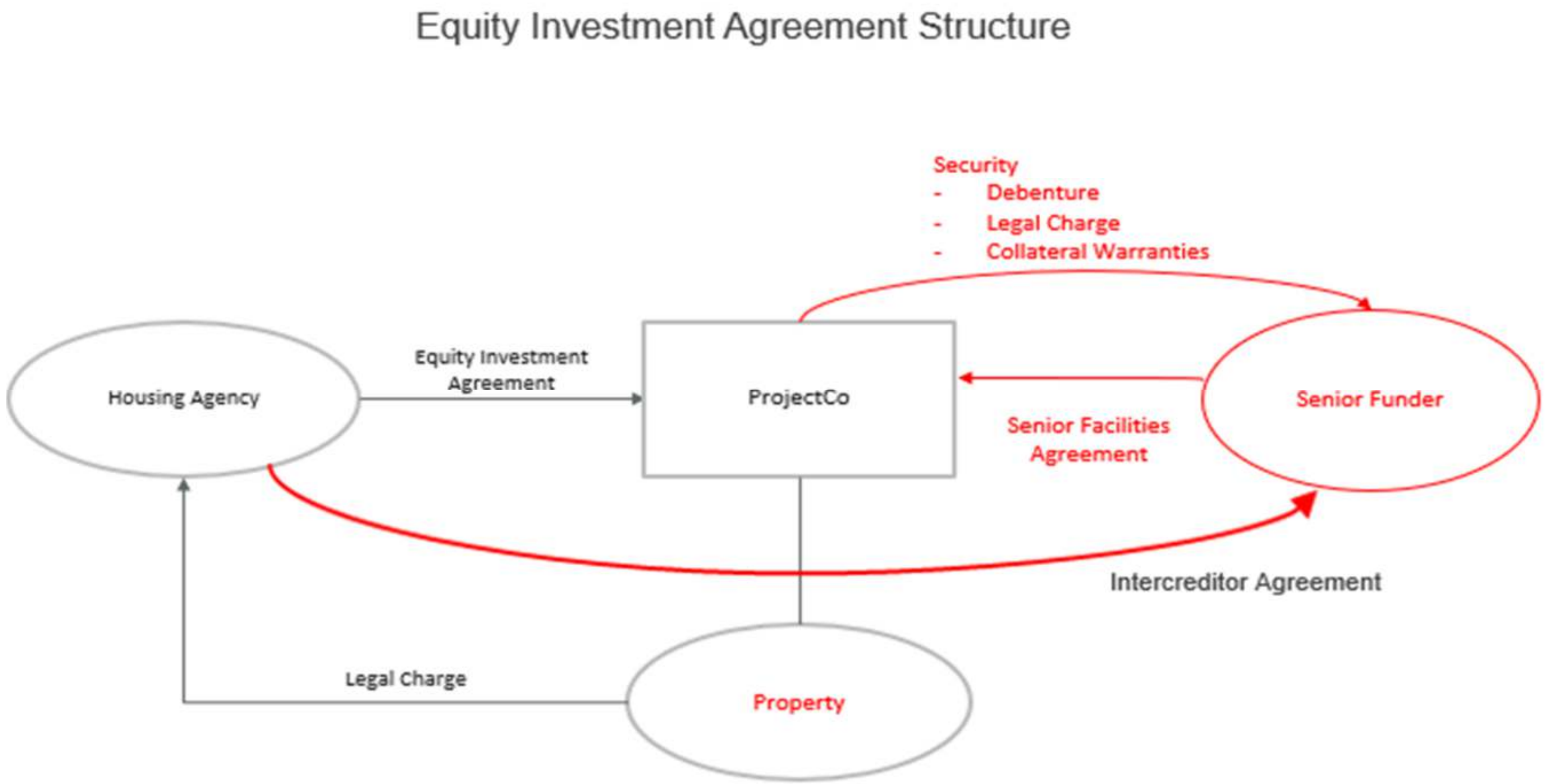
14.7 Proposers must undertake to provide any information held by them which is reasonably necessary for the Department (and/or other State bodies) to respond to enquiries or complaints.

14.8 Please note that a Proposer’s response to this Scheme, EOI and any subsequent discussions with the Housing Agency will be treated in the strictest confidence, but may be subject to disclosure under the Freedom of Information Act. Accordingly, Proposers should indicate clearly in their responses any information contained therein that should be considered as commercially sensitive and must specify the reasons for its confidentiality or commercial sensitivity. The Housing Agency will, where possible, consult with applicants about confidential or commercially sensitive information so identified before making a decision on a request received. Please note that a blanket statement stating all information is commercially sensitive is not sufficient.

Section 15: Withdrawal of Investment Offer

15.1 An offer to invest under this Scheme may be withdrawn by the Housing Agency at any time for any reason, including failure to observe timelines agreed for completion of stages of assessment or delivery of units.

Appendix A: Investment Diagram



Appendix B: Model Property Realisation Equity Share

The investment will be made in the form of a Cost Rental Investment & Equity Participation Agreement with the Qualifying Proposer. This Agreement will include a right for the Housing Agency to receive a prescribed amount (Property Realisation Equity Share) by reference to the occurrence of the following events (trigger events):

(i) When the Cost Rental status of the property expires at the end of the 50-year period, provided always that the Property Realisation Equity Share is not payable if the property owner commits to continue to provide the Cost Rental unit on the same basis for a further period, and the designation over the property and the security (as described below) is renewed/refreshed accordingly.

(ii) If the property ceases to be available for Cost Rental, for whatever reason, whether due to enforcement action being taken (over the property or over the Qualifying Proposer), change in law, breach/default by the owner, or extrinsic events (e.g. fire or other damage to the property);

(iii) If, in respect of the property for which the State has invested an Equity Share, the property owner fails to comply with AHA 2021, or any regulations made thereunder.

The Property Realisation Equity Share amount is calculated as a percentage of overall property value, by reference to the aggregate of the Equity Share contributed to the purchase by the Qualifying Proposer and the investment amount (i.e. the Principal). Such a percentage shall be applied to the market value of the property, as determined by reference to the date on which the relevant trigger event occurs. The following is an example of how the Property Realisation Equity Share applies at the end of the 50-year period, were the Proposer has decided not to renew the Cost Rental status of the property.

The return to the Housing Agency consist of two elements – repayment of the original equity and a percentage of any uplift in value. Interest is not charged on the Housing Agency's Equity Investment, instead a Property Realisation Equity Share formula is applied in the event of a trigger event to apportion any change in value.

Example Calculation of Property Realisation Equity Share:

Percentage uplift in value Formula: (C/(C+D)) x (B-A)

A = Initial property capital cost, e.g. €50 million

B = Open market value on the date realisation, e.g. €60 million

C = State Equity Investment, e.g. €10 million

D = Equity investment by Proposer, e.g. €15 million (balance of cost is senior debt)

Property Realisation Equity Share in this example: (10/(10+15)) x (10) = €4m

In this example, the Property Realisation Equity Share (€4m) would be paid to the State in addition to the return of its original investment (€10m).

In the event of a zero balance (i.e. where A and B have same value), the formula returns a zero value so the return to the Housing Agency would be just the original equity element.

In the event of a negative return, the loss would be written off with apportionment on the same basis as the formula. The Housing Agency would suffer a proportional loss on its original equity element.

Appendix C: Definitions

AHA 2021:	The Affordable Housing Act 2021
DHLGH:	Department of Housing, Local Government and Heritage
Eligible Tenant:	Tenants eligible for Cost Rental accommodation under the AHA 2021 which provides that that the household's annual income, less income tax, PRSI, universal social charge and superannuation contributions, must not exceed a net income limit as prescribed by the Minister, as set out in the Cost Rental Letting and Eligibility Regulations S.I. 755/2021
EOI:	Expression of Interest
Cost Rental Designation:	designation of a dwelling as a Cost Rental dwelling under the seal of the Minister in accordance with Section 30 of the Affordable Housing Act 2021
Cost calculation period:	has the meaning given to it by Section 29(3)(d) of the Affordable Housing Act 2021
Cost Rental dwelling:	means a dwelling specified in a Cost Rental designation
Cost Rental rent:	has the meaning given to it by Section 33(4) of the Affordable Housing Act 2021
Cost Rental tenancy:	means a residential tenancy of a Cost Rental dwelling
Decision 2012/21/EU:	Commission Decision of 20 December 2011 on the application of Article 106(2) of the Treaty on the Functioning of the European Union to State aid in the form of public service compensation granted to certain undertakings entrusted with the operation of services of general economic interest
Initial maximum rent:	in relation to a Cost Rental dwelling, means the initial maximum rent specified in the Cost Rental designation
Minister:	The Minister for Housing, Local Government & Heritage
Qualified Proposer:	Any applicant who meets the criteria for the Scheme and as defined in Section 6 in this Scheme

STAR:	Secure Tenancy Affordable Rental investment scheme
The Scheme:	Secure Tenancy Affordable Rental investment scheme
The Agreement:	Cost Rental Investment & Equity Participation Agreement