



An Chomhairle Náisiúnta Eacnamaíoch agus Shóisialta
National Economic & Social Council

Housing Supply and Land: Driving Public Action for the Common Good

No. 142 July 2015

National Economic and Social Council

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Abbreviations

AHBs

Approved Housing
Bodies

BIM

Building Information
Modelling

DECLG

Department of the
Environment,
Community & Local
Government

GIS

Geographic
Information System

HCA

Homes &
Communities Agency
(UK)

NAMA

National Asset
Management Agency

NESC

National Economic &
Social Council

SCSI

Society of Chartered
Surveyors Ireland

SDZ

Sustainable
Development Zone

SHS

Social Housing
Strategy

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The Council retains all responsibility for the information and views presented in this report.

The level of housing development and output is low, despite evidence of strong current need and demand and likely future requirements.

Many factors are suggested as have a bearing—costs and returns, finance, planning, regulation, infrastructure including water, standards and the capacity of the construction sector. There are also long-standing issues—Ireland’s system of land allocation and housing supply and level of density and infrastructural connectivity—and a sense that important reforms of the past 15–20 years, such as Strategic Development Zones, remain incomplete.

Under *Construction 2020*, Government introduced a range of processes and measures. To address the lack of activity and new housing supply, these need to be taken further. It is necessary to create an integrated approach in which action on costs and prices is embedded within more concerted public action and comprehensive reform, which can ensure that the planning and housing system works more effectively.

It is important and urgent that there is more authoritative public action on land and housing supply; the goal must be progress from a price floor on land to active land management that puts a ceiling on the degree to which land scarcity and costs feed into the price of housing. The clear goals of Government housing policy—affordability, sustainability and inclusion—define the agenda.

Three actions are proposed:

- a) The public system should use its authority, capacities and resources to take the lead on the resumption of housing supply. This requires a high-level Government decision to enable some of the key capabilities and resources in NAMA, local authorities and other agencies, to be used.
- b) Sustained in-depth exploration and action on the reasons why the costs of housing provision and construction in Ireland make it so difficult to provide affordable housing of the right kind in the right locations.
- c) Drawing on the learning from these actions to address remaining institutional or organisational gaps in the areas of housing, planning and infrastructure.

The actions proposed are an effort to take early and critical steps toward developing an active and innovative approach to housing and land supply management. The depth, duration and inclusiveness of Ireland’s recovery from the vast setback of recent years depends on the success of this approach.

Chapter 1

Introduction

Despite the strengthening economic recovery and stabilisation of the banking system in Ireland, there has been very limited resumption of housing construction and supply. This is damaging Ireland's competitiveness and employment creation, and poses a real risk to economic recovery and social inclusion. This report argues that it is now necessary to take the next steps in creating a more effective system of housing supply and management in Ireland. This must be rooted in action that helps address the complex current conjuncture of construction and land. Doing so can bring to the surface institutional reforms that are necessary for the medium term. Once identified, these should be rapidly pursued and institutionalised with clarity and conviction.

This paper, focusing specifically on the issue of managing land and housing supply argues for three interrelated actions:

- i. The public system should use its authority, capacities and resources to take the lead in the resumption of housing supply;
- ii. Sustained in-depth exploration and action on the reasons why the costs of housing provision and construction in Ireland make it so difficult to provide affordable housing of the right kind in the right locations; and
- iii. Drawing on the learning from these actions to address any remaining institutional fracture or organisational gaps in the areas of housing, planning and infrastructure development.

The first two targeted actions are designed to have very real and immediate impact but will also help to identify and support what is needed in institutional and organisational terms for Ireland to move towards a more active management of land and housing supply.

Chapter 2 identifies three key recent advances in Government policy on housing and a number of commitments to further policy development. The first important policy advance is clear recognition of the scale and nature of the housing challenge—that one-quarter to one-third of the population will find it increasingly difficult to achieve homeownership. The second is clarity that the goals of housing policy are affordability, sustainability and equality. A third critical development is the *Social Housing Strategy* itself, published in November 2014. Chapter 2 also describes the Government's *Construction 2020* strategy, which seeks to identify and address the factors inhibit the resumption of construction and housing supply. These developments define the context for this NESC report, and the Council's own work has long underlined the need for a more effective system of land management

to ensure a healthy housing supply in and near the main cities and centres of employment (NESC, 2004, 2014a, 2014b).

Chapter 3 discusses the complex current conjuncture of housing and land supply and set of issues and bottlenecks that have been identified in the *Construction 2020* strategy. It identifies two approaches evident within current attempts to understand and address the lack of construction activity and new housing supply. One is an instrumental approach based on cost calculation and adjustment of incentives in a way that might make it more profitable to resume property development and housing construction. The second is coordinative, based on information and coordination of a range of actors. The chapter argues that, while both approaches are relevant, it is necessary to create an integrated approach in which action on costs and prices is embedded within more concerted public action and comprehensive reform to ensure that the planning and housing system works more effectively. This is necessary because there is a real risk that the resumption of housing supply will be further delayed and, related to this, when it does occur it could mean a return to earlier patterns of construction and urban development. But current problems in housing supply also reflect long-standing weaknesses in Ireland's system of planning, land management and construction. We underline the importance and urgency of more authoritative public action on land and housing supply; the goal must be progress from a price floor on land to active land management that puts a ceiling on the degree to which land scarcity and land costs feed into the price of housing. The clear goals of housing policy—affordability, sustainability and inclusion—define the agenda.

Drawing on this analysis, Chapter 4 proposes three key policy actions and directions. The capacities and resources now spread across the public system are critical, not only to the resumption of housing supply, but also in determining whether post-crash house construction and urban development is different from what went before. NESC is proposing that a high-level Government decision be taken to enable some of the key capabilities and resources in NAMA, combined with the resources and capabilities in the relevant local authorities and other agencies, to be used to lead the resumption of housing supply and urban development. Some of NAMA's key sites offer an opportunity to initiate a creative and innovative joint venture for provision of affordable, sustainable and socially integrated housing. This would put an end to the slow bicycle race that seems to prevail in the Dublin housing and construction sector and should, in turn, be combined with sustained in-depth exploration and action on the reasons why the costs of housing provision and construction make it so difficult to provide affordable housing of the right kind in the right locations. Finally, the lessons from these actions should help address any remaining institutional fractures or organisational gaps in the areas of housing, planning and infrastructure development.

Chapter 2
Housing Policy:
Three Major Advances

2.1 Introduction

There have been three major policy advances in relation to housing in recent months. These concern:

- a) The scale and nature of the housing policy challenge;
- b) The goals of housing policy; and
- c) The *Social Housing Strategy* (SHS) and the resumption of social housing provision.

Although the content and direction of housing policy remains unsettled, these three steps provide more clarity about the purpose of housing policy than has existed since the 1970s or maybe earlier.

In addition, Government launched a major strategy, *Construction 2020*, in 2014. As discussed in Chapter 3, this has been important in identifying the complex set of issues facing the sector, and in beginning the work of creating a more sustainable and modern sector.

2.1.1 The Scale and Nature of the Housing Policy Challenge

Government has recently clarified its understanding of the nature and scale of the housing policy challenge. ‘Trends in Ireland’s tenure mix, affordability, demography and economy suggest that one-quarter to one-third of the population will find it increasingly difficult to achieve homeownership and that, in the absence of an effective new social housing strategy, there will be increased polarisation in housing options and conditions’ (DECLG, 2014: 17). This places policies for any segment of housing—social provision, owner-occupation, social rental and private rental—firmly within the context of the overall housing system; that, in turn, reflects not only the functioning of land and housing markets, but also the income distribution generated by the labour market and the persistence of social disadvantage.

2.1.2 The Goals of Housing Policy

Government has also made clear that, in this context, the goals of housing policy will be:

- Affordability;
- Sustainability (economic, social and environmental); and
- Inclusion.

It is hard to exaggerate the significance of these clear and reasonable goals: they contrast with past policies, largely implicit, of maximising homeownership by any means and the avowal in 2011 of ‘tenure neutrality’. Government adds that, in setting out to achieve these goals, ‘A precondition for success is an adequate supply of the right kind of housing at a reasonable cost’ (*ibid.*: 17). With this clarity about goals, it is possible to ask of any policy idea, resource or entity (public or private): how does it contribute to the achievement of affordability, sustainability and inclusion?

The definition of affordable housing varies internationally. In many countries, affordability is defined as housing costs that consume no more than 30 to 40 per cent of household income (McKinsey Global Institute, 2014). In Ireland, the Planning and Development Act (2000) defines affordable housing as housing or building land provided for those who need accommodation and who otherwise would have to pay over 35 per cent of their net annual income on mortgage payments for the purchase of a suitable dwelling. This Irish legislative definition was formulated in the context of affordable housing for purchase but could be extended to a more general definition of affordable housing as that in which housing costs absorb no more than 35 per cent of net household income, while also meeting a minimum acceptable standard.

2.1.3 The Social Housing Strategy: One Piece of Housing Policy is in Place

The third major policy advance is the *Social Housing Strategy* itself. Its three pillars address increased provision of social housing supply, provision of housing supports through the private rental sector, and reform to create a more flexible and responsive set of social housing supports. In a context in which overall housing policy remains profoundly unsettled, and housing supply is inadequate in both scale and composition, the SHS is the one clear stake in the ground, the one coherent strategy around which housing-sector actors can mobilise.

We could add that a fourth significant recent policy advance is the Central Bank’s adoption of a new set of rules concerning mortgage lending and borrowing. While opinions might differ about the best technical design of rules on mortgages, it is clear that goals and ideas concerning sustainability/stability and affordability underpin the Central Bank’s approach.

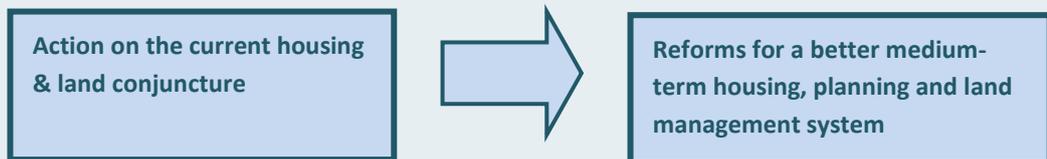
These developments create the policy environment in which to consider the salience of adopting a more active approach to land and housing supply management; in particular, the articulation of the clear and reasonable goals of affordability, sustainability and inclusion sets a tangible performance metric with which to judge both the adequacy of existing policy approaches on land and housing and the potential of any proposed new ways of doing business. A strong political and societal commitment to the overall goal of housing policy—namely the development of a more affordable, sustainable and equitable housing system—should serve to fundamentally reframe and restructure future interactions between the various public and private sector organisations and actors involved in housing and land development. It certainly has the inherent potential to render prevailing policy approaches and business models increasingly inadequate, thus driving the need for more innovative and active approaches to land and housing supply management, and a fundamental transformation of the construction sector.

Chapter 3

Housing Supply and Land: the Case for Ambitious Action

3.1 Introduction

Current policy has introduced a range of processes and measures to address the limited resumption of construction and housing supply. This chapter discusses and analyses these and suggests that they need to be built upon and taken further. Put another way, it considers whether the current logjam in construction and supply, and existing approaches to address it, suggest medium-term reforms that would underpin a more affordable, sustainable and equitable housing system in the coming decade and beyond. This approach is summarised in the figure below.



In responding to the current situation and dealing with the issues and blockages to supply, wider questions must be kept in view, such as:

- What are the key reforms suggested by current action?
- Does current experience qualify our understanding of how and why past planning guidelines and approaches led to disappointing outcomes?
- What policy decisions and institutional reforms are necessary to achieve an effective system of land management, planning and housing provision?

This approach reflects the Council's belief that it would be a mistake to see current initiatives and actions as restoring the housing, property development and construction system to the way they were before. (Indeed, for reasons discussed

below, this is absolutely not the case.) Within the current conjuncture a number of issues arise (some emanating from the crisis and some long-standing) that require additional public action and medium-term policy and institutional change.

Furthermore, a central part of the current conjuncture is the challenge of social housing provision, and the actions set out in the *Social Housing Strategy*. This needs to be put alongside other measures in the *Construction 2020* strategy and the activities of NAMA. In that context, we need to consider whether current efforts to revive social housing provision and create a new model, and the challenges faced in doing this, reveal the need for further policy and institutional reforms aimed at changing the overall land and housing system, given the interdependencies between different tenures, particularly in urban settings (NESC, 2014b).

3.2 The Complex Current Conjuncture

This section begins by noting the current conjuncture of housing supply and land, and the complex set of issues and bottlenecks that have been identified in the *Construction 2020* strategy. The main elements of *Construction 2020* are summarised in Box 3.1.

Box 3.1: Construction 2020

In May 2014, the Government launched *Construction 2020* to support the renewal of the construction sector. This is a cross-cutting strategy that incorporates a broad range of policy issues including housing, planning, infrastructure, financing, building standards and regulation, technology and innovation, training and energy efficiency and sustainability. It has 75 actions, with a timeline and responsible body or bodies identified for each. A number of the key policy initiatives that Government has introduced to address challenges in housing supply originated as action points in this strategy, in particular:

- The development of a new Social Housing Strategy;
- The publication of a General Scheme of the Planning No. 1 Bill, including changes to Part V, a vacant site levy, reduced development contributions for planning permissions yet to be activated and modification of duration of planning permissions in certain circumstances; and
- NAMA focusing on projects that address particular supply shortages, including a new development role to the Docklands SDZ.

The implementation of the actions requires both a whole of Government approach and ongoing cooperation with a range of stakeholders. Commitment to the delivery of this strategy has been reinforced by the appointment of a Minister of State with responsibility for Housing, Planning and *Construction 2020*, and the establishment of a dedicated Cabinet Committee to ensure that focus is maintained at this level of Government. Additionally, a Construction Sector Group, chaired by the Secretary General of the Department of the Taoiseach, supports the delivery of the strategy and engages with industry in relation to specific developmental issues for the sector.

The Council does not aspire to provide a definitive analysis of the complex empirical, policy and practical issues at play in the current situation. On the contrary: our engagement with many of the actors involved, and the analysis set out below, show that only with innovative policy actions and new institutional arrangements is there any chance of breaking down and resolving these issues in the short term in a manner that can assist in creating a more effective land management and housing system for the medium to long term. This will require creative thinking, a multi-dimensional approach and intensive and ongoing collaborative action between public and private sector actors. The scale of the crisis in Irish construction and housing is such that nothing short of a complete remaking of the sector seems likely to succeed. This highlights the importance of Chapter 9 in the government's *Construction 2020 Strategy*, entitled 'Improving Education and Skills', an aspect that has received surprisingly little attention to date.

In Box 3.2, we list many of the land and housing supply issues and factors being analysed and addressed under *Construction 2020*, plus some that may not be sufficiently in focus. For the reasons given above, we do not intend to discuss each of these in detail. The underlying question prompting policy actors to examine them is, of course, why the level of housing development and output remains so low despite evidence of strong current need and demand, and likely future requirements.

In the current policy approach taken to understanding and acting on this set of issues, two somewhat different tendencies are evident:

- *Instrumental—based on cost calculation and incentives*: the logic of this approach is that if there is evidence of strong demand but little or no supply response, despite the apparent availability of zoned land, then the relation between total cost of development and the expected price of sale must be prohibitive. If, as is claimed, the return on development and construction is not yet adequate, then it is necessary to adjust the relation between cost and revenue. The main short-term version of this approach is to suggest an immediate reduction in some elements of cost, such as development levies, Part V or VAT.
- *Coordinative—based on information*: the logic of this approach is that it is difficult to make general statements about the profitability of development, in part because there are a range of other factors potentially inhibiting activity (as listed in Box 3.2). It is necessary to create the capacity to know each of the main potential sites for development, engage directly with the relevant actors, tailor solutions to circumstances, and closely monitor progress, diagnostically identifying and addressing constraints.

It is important to consider the scope and effectiveness of both types of action.

Box 3.2: Issues and Factors Impacting Land and Housing Supply

- Estimates of current & future housing need;
- Land with planning permissions;
- Land with inhibiting complexities: title, banking and other;
- Appropriateness of permissions;
- Profitability of building;
- Finance for development: debt (around 50 per cent) or equity (around 40 per cent);
- Development Contributions;
- VAT;
- Incentives to hoard land;
- Mortgage finance;
- New regulatory & prudential requirements;
- Developers capability to deliver on a large scale;
- Skills suited to the enhanced building standards, prudential requirements & new technologies;
- Terms on which developers resume activity;
- Potential of builders to act as developers;
- Potential of receivers to drive development;
- Emergence of a new generation of developers;
- Role of SDZs: complexities of their timing & coordination;
- Social Housing;
- Local authorities, lack of funds to take Part V properties in the developments that are resuming;
- Approved Housing Bodies (AHB) difficulties; and
- Possible investment role for state entities.

3.2.1 The Incentive-Based Approach

The first approach has a definite appeal and has been promoted as a sufficient solution by some actors in the sector and by observers and analysts. However, the Council takes the view that, for a number of reasons, it would be unsafe and unwise to rely on it alone. The set of factors currently shaping the profitability and feasibility of development are complex and it is hard to determine the relative significance of each in any general way. In scientific terms, the current lack of

building is ‘over-determined’ by the explanatory factors in play—there are more than enough sufficient causes to explain lack of construction activity and housing supply. Indeed, it is only by ignoring most of these that some interests and analysts are able to so confidently assert that a reduction of specific cost-creating factors (such as development levies or Part V or VAT on house sales) would be sufficient to unleash development and supply.

Although there are certainly issues about cost and return, there are also major legal, organisational, regulatory, prudential and skill hurdles that, on their own, might be sufficient to explain why a resumption of housing output has not yet occurred and might take several years. For example, a recent survey of SCSI (Society of Chartered Surveyors of Ireland) members highlighted that among the key challenges for residential construction in the next two years were; skill shortages; availability of finance; and serviced sites at regional level, particularly in Dublin (SCSI, 2015). The same survey also highlighted the issues of oversupply and the poor quality of stock added during the boom as constraining supply in regions outside of Dublin and these are analysed in other research (Kitchen *et al.*, 2014).

In any case, as noted below, there is more than one way of understanding the relation between cost and price and the current reluctance to undertake development. In view of these considerations, to immediately, comprehensively and unconditionally reduce certain costs—such as development levies, Part V or VAT—might (a) not have the desired effect on output and (b) undermine necessary sources of public revenue and public value. Likewise, comprehensively relaxing certain planning requirements related to quality neighbourhoods, might yield limited short-term benefits and large long-term costs. Most of all, any approach that decoupled the resumption of overall house building from the need for immediate major new investment in social housing, as the first step in the *Social Housing Strategy*, would be a strategic policy mistake of major proportion. In large part, this is what was done in coming out of the 1980s crisis; as well as having severely negative social effects, it helped sow the seeds of the housing boom and subsequent bust. The new goals of housing policy—affordability, sustainability and inclusion—and a vigorous implementation of the *Social Housing Strategy* make it less likely that this mistake will be repeated, provided the right approach to private construction and housing supply is adopted.

While it would not be right to rely on the instrumental approach—based on cost calculations and incentives—elements of this approach are probably relevant when embedded within the coordinative approach discussed below. Indeed, some adjustment of cost-creating elements, such as development levies, is part of the conjunctural response of Government, local authorities and NAMA. In addition, the instrumental and incentive-based perspective has some important implications for the medium and long term, one of which we now discuss.

Perhaps the most far-reaching implication of the incentive-based perspective is the argument for a land tax that shifts the incentives of landholders towards development. There is a strong case for this as a key element of a more effective planning and housing system. When we are seeking to identify medium-term policy reforms suggested by the current conjuncture and the crisis, the need for a

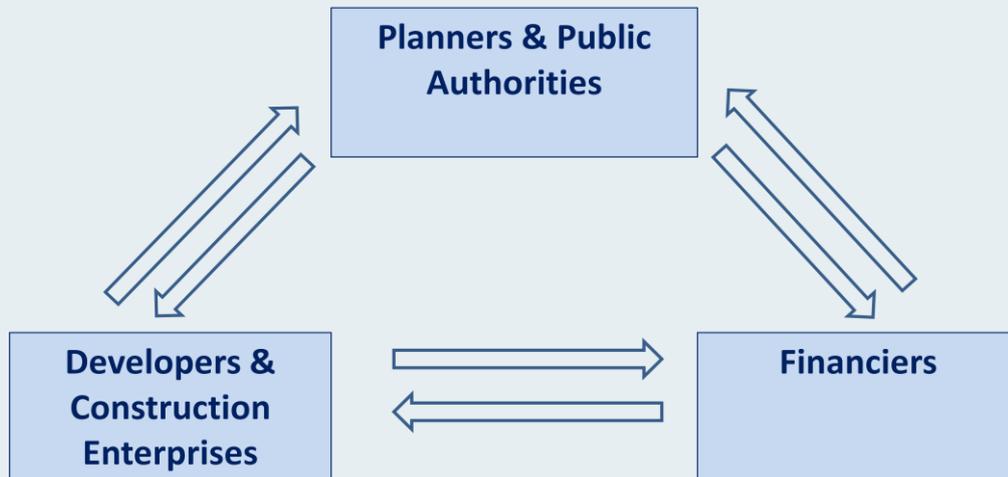
permanent form of development land taxation is among the more obvious. As discussed elsewhere, it is supported by almost all analysts of the housing and planning system in Ireland, and by many actors in these systems. But while some, with a strongly incentive-based perspective, envisage a tax that reduces the incentive to hoard land, which would be *sufficient* to address the land problem, the Council shares the view of those who argue that it would need to be combined with other policy and coordinative institutional reforms to the planning and housing system. In addition, the cost-based and incentive-oriented approach could have further, more radical, reform implications if current efforts to prompt a significant resumption of construction and housing supply do not succeed.

3.2.2 The Coordinative Approach

The second approach to understanding and acting on the set of issues listed in Box 3.2 might be described as coordinative, based on the centrality and visibility of information. Starting with the current conjuncture, it embraces its complexity by recognising how hard it is to make general statements about the profitability of development and the role of particular cost elements in this. As noted above, and summarised in Box 3.2, there are a range of other factors beyond cost (organisational, regulatory, prudential and other) potentially inhibiting activity. The relative significance of the various factors may not even be a given; it might be altered depending on how the set of problems is framed and addressed. Hence there may be no determinate end to a search for ‘the’ explanation of why housing output is so low; accurate and usable knowledge may not be obtainable by observation, but only be generated within a process of engagement and action. In taking this view, it is necessary to create the capacity to know each of the main potential sites for development, engage directly with the relevant actors, tailor solutions to circumstances and closely monitor progress, diagnostically identifying and addressing constraints. This coordinative approach is evident in the work of NAMA, the Dublin Housing Supply Task Force and the Dublin Social Housing Delivery Task Force.

These initiatives point towards new triangular relationships between planners, and other public actors, potential developers and those who can finance housing development. Closer dialogue and coordination between these three groups is necessary to address the immediate bottlenecks to development and construction, and there is evidence of this type of activity taking place between government departments, local authorities, housing supply task forces and other agencies. In the first instance, these actions reflect conjunctural aspects of the situation, including the role of networks in land acquisition, the conditions attaching to both debt and equity finance and the complexity of designing and sequencing the development of Sustainable Development Zones (SDZ).

Figure 3.1: Emerging Triangular Interactions between Planners, Developers and Financiers



There is evidence that only when this three-way engagement is created and structured appropriately can many of the immediate bottlenecks be dealt with.

3.3 Doing More: An Integrated Approach Supporting State Action and Ambition

Although the policy action and innovation outlined earlier represents real progress, we believe that these approaches need to be specifically combined and taken further. The one-off immediate measures should now be folded into more concerted public action and comprehensive reform to ensure that the planning and housing system works more effectively in the medium term. This is necessary for a number of reasons. The most important and immediate reason, discussed below, is that without taking these approaches to another level there is a serious risk that the resumption of housing supply will be further delayed and, related to this, when it does occur it will be a return to earlier patterns of construction and urban development.

But other reasons for more concerted action and reform relate to the fact that Ireland's system of housing and land management has long been dysfunctional, and that earlier important reforms remain incomplete.

This section looks at each of these arguments in turn.

3.3.1 Embed Action on Incentives Within Coordinated Public Action and Reform

Although the need to address current constraints in housing supply has stimulated considerable debate and analysis about potential policy solutions, it is our view that it will not be possible, *ex ante*, to design a set of incentives (based on changes in taxes, levies, subsidies, etc.) that will identify precisely the binding constraint and have no unintended consequences. Rather, the main approach needs to be coordinative and action-oriented, leading to further institutional change where necessary. This would facilitate exploration and dialogue on relative cost calculations and the incentives facing construction and property-sector actors being embedded in a broader coordinative approach, as opposed to representing a parallel stream.

While an incentive-oriented approach has to be part of the policy process, given its practical significance and resonance with key private-sector stakeholders, it should be embedded in, and influenced by, a broader, more intensive process of public action to lead the resumption of housing supply and a process of policy-led deliberation based on market intelligence, quality data, up-to-date information and new policy action. Most importantly, we need to recognise that only the public-policy actors, using their authority and capacity to actively manage housing supply and land use, can put the goals of housing policy—affordability, sustainability and inclusion—centre-stage.

The ongoing work of the Dublin Housing Supply Task Force continues to generate informed insights into key constraints in the Dublin market. In particular, its current work highlights three main barriers. The first is the ongoing challenge of accessing development finance with a suitable return horizon, particularly for investment in the kind of public infrastructure that is necessary for housing development. Second, there are ongoing complexities in the planning regime and, associated with this, a view that regulatory costs remain burdensome. Third, while there is sufficient land available in the Dublin region for housing development, a considerable proportion of this stock is highly fragmented into small lots that would require some form of aggregation to facilitate increased housing supply.

However, despite its innovations, the current approach creates a tendency for different actors in the public system and beyond to conduct a two-and-fro debate about the relative significance of specific constraints. Some emphasise that potential developers and construction firms have difficulty acquiring finance; others emphasise that there are complexities and costs arising from planning and regulation. There is a tendency for these and other perspectives to cancel each other out with no clear means of moving to a resolution. Something more is needed to break the logjam and to create a holistic, system-based response in which the information generated by recent innovations is used as the basis for action and further learning.

Indeed, it is important to recognise that some of the prevailing ‘problems’, which might appear as features of the unusually complex current conjuncture, in fact reflect new, but *permanent*, features of the construction and housing landscape.

Examples include the new building standards, the enhanced prudential and monitoring requirements of equity and other financiers, and the increased role of technological innovation in building, driven by the need for both energy efficiency and cost management. Consequently, we argue in Chapter 4 that these implications need to be explored in a sustained process of inquiry and action.

In setting out our proposals for policy action, we argue that an effective and robust coordinative approach should incorporate the type of metrics and data that are central to a more instrumental approach based on cost calculation and incentives—embedding this within a coordinative approach.

In its 2004 report on housing, and again in its 2014 report on social housing, the Council argued that the nature of the *organisations* active in construction and housing business—landowners, builders, developers, funders, planners, estate agents—matter (NESC, 2004; NESC, 2014a: 25). Incentives designed without attention to the nature of the organisations that will respond are likely to yield disappointing results.

3.3.2 Current Problems Also Reflect Long-Standing Weaknesses

The recognition that some of the current problems in our housing system are in fact long-standing features which were not adequately reflected in planning and housing policy in earlier decades, provides further impetus for going beyond current initiatives.

As shown by the Council in 2004, Ireland has long struggled to facilitate a stable, sufficient and suitable supply of housing in and near the main cities (NESC, 2004). This is not because Ireland has an overly restrictive, anti-development planning system of the kind that exists in the UK.

Well before the crisis and current logjam, Ireland’s system of land allocation and housing supply was dysfunctional. Casey argued that the market for building-land worked poorly in Dublin despite an apparently adequate supply, and suggests three reasons for this (Casey, 2007). First, local authorities withdrew from intervention in the land market. In the 1970s, they owned around 30 per cent of zoned building land and sold land during upturns and bought it during downturns. But in June 2006, only 9 per cent of zoned residential land was owned by local authorities. Second, land developers filled the gap left by local authorities, and this shifted market power from builders to developers. Third, ownership of large amounts of building land in some areas was very concentrated, and these landowners cooperated rather than competed, contributing to poor land market performance.

The Council’s 2004 report on housing included in-depth analysis of the role of land in housing supply and the relationship between land prices and house prices (NESC, 2004). Drawing on the work of Evans and others, it questioned the traditional assumptions that the supply of land is fixed and that the owners of land will smoothly and swiftly allocate it to the most profitable uses (NESC, 2004: 22–5 & 185–90). In fact, land supply is highly uncertain and variable (Evans, 2004: 181).

Landowners will not necessarily allocate land to its most profitable use. Each piece of land has a fixed location so sites that are sold are unlikely to consist of sites adjacent to each other. This has important implications for key aspects of the housing system: the business practice of developers in land banking, the relationship between land prices and house prices, and the best ways of taxing the windfall or ‘betterment’ gains that accrue to landowners.

Most of all, and contrary to the textbook view, the 2004 report shows that the conditions of land supply are a key influence on the housing market. Consequently, the Council argued strongly that the supply conditions of land in and near our major cities were a key influence on Irish land prices and both the supply and price of housing. The common maxim—that ‘high land prices are the result, not the cause, of high house prices’—is not quite true. That maxim takes the price of housing as an unalterable fact, thereby ignoring the degree to which the supply conditions of land also influence housing prices. This revised view suggests more caution about blunt taxes on betterment, since these can damage land supply; by the same token, it highlights the potential for public policy to improve the quantity and predictability of land supply (NESC, 2004: 188). This analytical understanding of land and its role in shaping housing supply and price is increasingly reflected in international housing research. McKinsey (McKinsey Global Institute, 2014), analysing the global challenge of affordable housing supply, emphasises that urban land markets do not respond well to supply and demand forces. Other research explores the role of networks, rather than markets, in land acquisition and assembly (Needham & de Kam, 2004; Adams *et al.*, 2012).

The 1973 *Kenny Report* advocated a system of active land management linked to measures to capture the land value uplift, or betterment, arising from economic and social development (NESC, 2004). To some degree, we are facing the same issues and challenges within the housing market over forty years later.

In addition, it has proved difficult to achieve sufficient density and infrastructural connectivity in Irish housing development over many decades. Irish planning and urban development policy contains an established set of precepts and principles about medium-term development, reflected in the hierarchy of national regulation and local guidelines and plans, and among critical observers there has long been a number of preferred policy reforms, most notably on taxation of development land. But there is a widespread sense that these principles have never had sufficient traction in the actual process of housing and urban development.

Additionally, while some local authorities are burdened with debt as a result of land acquisition during the boom, this was a result of their intervening in a highly speculative, developer-driven market, in the absence of a clearly articulated national commitment to an active land management approach that curbs such speculative activity and facilitates sustainable development.

3.3.3 The Reforms of the Past Fifteen Years Remain Incomplete

A further reason to use current initiatives as a step to more concerted action and wider reform is that a number of important reforms of the past 15–20 years remain incomplete. In 2004, NESC strongly endorsed the approach to land use and housing development embodied in SDZ. A forthcoming NESC research paper studies Irish efforts to create sustainable, socially integrated urban communities, such as Adamstown, Fatima/Herberton and the Dublin Docklands (Lawton, 2015). Among its interesting findings is the degree to which the success of those projects depended on the wider housing policy and land supply context. While the Adamstown SDZ was heralded for its plan-led approach, its ultimate frailty, evident in remaining partially delivered, arose from the developer-led land and housing system. Ultimately, the delivery of Adamstown was dependent on a fully functional housing and land market, which it was thought would enable the leveraging of key service provisions. This experience underlines the need to find new ways of funding necessary urban infrastructure and seeking to capture betterment. The prevailing model—which turned out to require sustained and rapid asset appreciation, and which imposes infrastructure costs on new development—is neither sustainable nor equitable and runs counter to the goal of affordability.

3.4 The Importance and Urgency of State Action and Reform: from a Price Floor to a Price Ceiling

The importance and urgency of moving to a more authoritative public management of land and housing supply is underlined, if we note the distance between the current conjuncture and a more desirable system, involving active land management, land taxation and other betterment-capturing measures. Indeed, in terms of analytical approaches to land value and land management, the current situation is, in many respects, almost the exact opposite of the system we wish to create.

This is highlighted in the story of the boom, bust and bank rescue that has occurred in recent years.¹ The over-extended, credit-driven demand for housing led to a huge increase in the demand for, and price of, land. With the collapse of the economy and housing market, the demand for housing collapsed, resulting in a very large price reduction. The Government's approach to the bank rescue, national debt increase and construction sector involved NAMA buying the bad land loans off the banks at a discount of around 50 per cent; the development companies owning the associated land were kept in existence and owe NAMA the full amount of the loans. The effect of this approach was to set a floor under the fall in the value of land. This floor is the value at which NAMA acquired the land loans and must be met if NAMA

¹ In advancing this argument, it is not implied that the supply-demand framework is sufficient for understanding the way land is transacted and priced, since networks and institutions play an important role.

is to break even. Therefore, this seems to be an input cost that determines the extent of housing supply at any given price—a level of supply that is probably lower than would apply if the price of land had fallen to its ‘equilibrium level’.² The fact that house prices are now high enough to cover these input costs, or are about to reach that level, is relevant in accounting terms, but does not imply that housing will be affordable generally and does not show that it could not be more affordable. Hence the gap between this regime and the kind of active land management needed in the medium term.

There may, however, be a second, potentially higher and more problematic, price floor related to rising land prices, which in turn could serve to drive up house prices. This might arise as a side effect of the land remaining formally in the ownership of the developers whose loans have been purchased by NAMA. A proportion of these would have purchased land at or near the height of the housing and land price bubble. Were some of these to hold off use of this land, in the hope or expectation that its price might rise towards their original purchase price, this could create a higher price floor. This would further limit housing supply at any given price. The possible desire of existing landowners to wait for the market to validate their original purchase prices could dovetail with factors that now seem to be driving new investors to buy land at increasingly high and speculative prices. Both reflect a view that the future price of houses and rents are destined to rise considerably.

The kind of coordinative work done by NAMA and other public bodies, which we described above is a critical factor in determining which of these supply curves and associated housing costs applies. Much depends on its success. But, as noted below, both of them differ enormously from the kind of land regime that ensures the affordable and stable housing system that Ireland needs.

To understand this, consider, in the same analytical terms, what is involved in a system of active land management with measures to capture the land value uplift, or betterment, arising from economic and social development. The Kenny proposals of 1973 were largely of this type. Land is identified as necessary for urban development over the coming decades and is acquired at near agricultural value. The active land management involves assembling contiguous parcels and making them available to developers at a reasonable price, if they undertake the kind of development set out by planners in what we would now call SDZs. The banking of land by the public authority allows it to moderate the effect of surges in demand on price, by preventing a highly constrained short-run supply and price giving the wrong signal to both house builders and house buyers (Saiz, 2014). In such a system, policy sets a *ceiling* on the degree to which land scarcity can feed into house prices; in the current conjuncture, policy is more likely to set a price *floor*. In the desired system, society’s acquisition of the betterment value complements the

² This is not to imply that a ‘fire-sale’ of land, driving the price down, would have been advisable. Ireland’s experience of the Encumbered Estates Act of 1849 shows that the effect depends critically on how and to whom encumbered land assets are transferred.

supply of housing and the production of high-quality neighbourhoods and infrastructure; in the current conjuncture, the cost of infrastructure is, apparently, an inhibitor of new housing supply, such that there is something of a trade-off between the two. It looks like we now have to choose between housing supply and quality public infrastructure.³

³ See discussion on development levies and infrastructure provision: <http://www.independent.ie/irish-news/future-proof/new-use-it-or-lose-it-rule-to-speed-up-home-building-31032808.html>. Accessed 07/05/15.

Chapter 4
Policy and Institutional Capacity:
Three Actions

4.1 Introduction: Translating Knowledge into Action

The Government's response to the housing crisis to date has been characterised by an increased level of urgency and activity including the development of new strategies for the renewal of both the construction and social housing sectors, the formulation of new planning legislation, and a range of other associated policy initiatives and actions. While this constitutes considerable progress, there is still a sense that something is missing in the scope and scale of the current response so far—namely stronger policy and executive capacity to undertake a more active and ambitious approach to housing and land supply management.

Some of the coordinative action undertaken within the policy system in recent times has been transformative. The DELG has significantly improved its use of data with state-of-the-art geographic information system (GIS) technology, while the work of NAMA and the two Housing Task Forces has greatly enhanced the detailed information on, and monitoring of, the disparate land parcels that could be made available for housing development. These and other policy initiatives, including those initiated as part of the Government's *Social Housing Strategy*, have increased the capacity of various public actors to better identify and flag policy issues and formulate potential solutions. While these are positive and necessary developments, the political authorisation and associated executive capacity to translate enhanced knowledge and insights into practical action and strategy development is absent. This reflects the fact that policy actors as currently configured have limited authority and capacity to implement creative and effective actions that will unblock the current logjam in housing supply.

To date the Dublin Housing Supply Taskforce has made considerable progress in collating rich data and generating a deeper understanding of the dynamics of the housing market in the city. Its ability to translate this knowledge into innovative policy measures that would not only deliver tangible progress but also elicit further insights into what needs to be done to improve the policy approach to housing and land supply not just in Dublin but in other localities, is constrained by the fact that it does not have sufficient political authorisation and executive capacity to take such action.

In seeking to address the gap in political authorisation and associated executive capacity, this report argues for three interrelated actions to move Ireland towards a more active approach to land and housing supply management. In particular, the

initial targeted actions are designed to identify and support what is needed in institutional and organisational terms to support the development of active land and housing supply. The three actions are:

- i. The public system should use its authority, capacities and resources to take the lead in the resumption of housing supply.
- ii. Sustained in-depth exploration and action on why the costs of housing provision and construction in Ireland make it so difficult to provide affordable housing of the right kind in the right locations.
- iii. Drawing on the learning from these actions to address any remaining institutional fracture or organisational gaps in the areas of housing, planning and infrastructure development.

It is now necessary to take the next steps to create a more effective system of land and housing supply management in Ireland. This must be rooted in action that helps address the current conjuncture. Doing so will highlight institutional reforms that are necessary for the medium term, which need to be identified, pursued and institutionalised with speed, clarity and conviction. They could easily be blocked or made to sound counterintuitive, given the complexity of the current bottlenecks. In that process of reform and institution-building, Ireland can learn from other countries that have already created more affordable, stable and inclusive housing systems, and also from our own policy experiences (Appendix 1 provides some examples).

4.2 Action 1: Lead the Resumption of Housing Supply

There is a strong case for the use of public authority, capacities and assets to lead the resumption of housing provision and urban development. As described in Appendix 1, other countries are more active in assembling and/or providing land for development. Such active land management is key to addressing land fragmentation,⁴ curbing speculative activity and improving the supply of affordable housing (Saiz, 2014), and in helping the private sector to function more effectively (Golland, 1996).

The capacities and resources now spread across the public system are critical not only to the resumption of housing supply, but in determining whether post-crash house construction and urban development will be different from what went before. NESC proposes that a high-level government decision be taken to enable

⁴ Irish Planning Institute (2015) Opening Statement to Joint Committee on Environment, Culture and Gaeltacht, on the Planning and Development (No.1) Bill, 20 January 2015, available at http://ipi.ie/sites/default/files/150113_final_opening_statement_to_oireachtas_committee_on_bill_january_2014_1.pdf. Accessed 04/05/15.

some of the key capabilities and resources in NAMA, combined with the resources and capabilities in the relevant local authorities and other agencies, to be used in leading the resumption of housing supply and urban development. Some of NAMA's key sites offer an opportunity to initiate a creative and innovative joint venture. This could deliver much-needed additional housing units by building on and enhancing the integrated approach begun in the SDZs and the Dublin Docklands Development Corporation. Initial estimations suggest that such a pilot could provide at least 2,000 additional affordable quality houses for private renting.

Our discussions with industry actors confirm that some also believe that it is now necessary to use the public influence on land, acquired through the creation of NAMA and the local authorities, to make land available to actors capable of supplying affordable homes. Some identify the supply of shovel-ready land at a price that ensures affordable rents as the most obvious blockage to increased supply of new institutional rental accommodation. Such land could be made available by NAMA at a reasonable price and could be linked to conditions on the rent. There is clear willingness to accept conditionality, but the precise terms need examination with reference to the overarching goals and criteria mentioned above.

The initiative envisaged by the Council would involve the relevant public bodies formulating a clear master plan for the delivery of sustainable mixed-income housing for renting at affordable levels. The public authorities, as the drivers of such a development, would contract high-quality house-building enterprises with international reputations for quality and use of advanced building-information modelling (BIM) processes. Other options could include a joint venture with a private company or the use of ground-lease arrangements.

A key to this proposal is that public action is needed to reduce the price of land for development and/or remove it from the initial considerations. Thus, rather than seeking to maximise a return on the land at this juncture, by selling it to the highest bidder, the State would instead seek to accept a return on the land value of the housing asset at a predetermined point in the future. Seeking a fair and appropriate return on the land, when combined with the beneficial impacts of actually improving housing supply in Dublin, would represent a better return for the State and Irish society than focusing purely on a one-off financial return—which may serve to constrain the supply of affordable quality housing in the city.

If action were taken to reduce the potential cost of the land, there is clear opportunity to facilitate public policy putting a ceiling on rental levels for these specific developments, thus improving access to affordable housing. This ceiling would be set at a price point at which there is strong demand for private rental accommodation meaning a greater incentive to build out the site as an overall project.

It is clear that Government action to reduce the cost of land as an input to potential housing development would represent a considerable supply-side subsidy. The role of supply-side supports in achieving affordable housing is discussed in the NESC report, *Ireland's Rental Sector: Pathways to Secure Occupancy and Affordable Supply* (NESC, 2015). In designing such supports, Government must strike a balance between desirable conditionality (concerning rents, tenure, allocation, management

and the layout of housing developments), on the one hand, and achieving new investment and delivery, on the other. The Council suggests that the guiding framework should be movement towards a unitary rental system with permanent, affordable, cost-based, mixed-income rental accommodation. This involves creating policies that will ensure provision of affordable housing for intermediate households. Indeed, we believe that such a focus on intermediate households is virtually implicit within existing social housing policy (*ibid*: 72).

It is important to note that in some instances State land that could potentially be utilised for this type of innovative initiative are currently encumbered by an outstanding loan that in turn would have a significant impact on the respective local authorities' balance sheet. Consequently this issue will need to be actively considered as part of any initiative whereby the State takes a lead role in the resumption of housing supply and if such encumbered sites are to be utilised to stimulate the supply of housing units a pragmatic solution, that is amenable to all relevant parties, will have to be developed.

While moderating the input cost of land is key to the overall economics of this type of project, delivering the additional housing units quickly and with greater cost certainty will also necessitate enhanced levels of policy cooperation across the public system in order to address issues such as planning regulations and infrastructure provision. Similarly, such a pilot project is also premised on a partnership approach with the private sector. As was discussed in Chapter 3, ongoing debate on the blockages to new housing supply has identified a broad range of factors that are seen, by one or other actor or analyst, as being key to unlocking the process. These include planning regulations, development levies, skill shortages, access to finance, the price of labour, land costs, infrastructure provision and VAT, to name but a few. Significant work is underway including the Housing Agency's modelling of an affordable rental scheme, the Clearing House Process under SHS 2020, the Expressions of Interest process in Dublin City Council, in conjunction with the ongoing dialogue with the construction sector and financiers as part of *Construction 2020*.

A key aspect of our proposed pilot project is that it can both draw on and also enhance these initiatives by enabling the relevant actors to actually engage in a process that is designed to resolve these perceived problems in an integrated, action-oriented manner.

This proposal has a number of inherent benefits:

- i. It would help put an end to the slow bicycle race that seems to prevail in the Dublin housing and construction sector. The project is premised on taking action and delivering additional affordable homes quickly, and at sufficient scale, to make a tangible difference to the housing market in Dublin.
- ii. It would provide a strong demonstration that it is economically viable to build affordable private housing for rent in the city in a manner that delivers for all the stakeholders—the State, the construction industry, financial investors and consumers/citizens.

- iii. It will facilitate public policy putting a ceiling on rental levels for these specific developments, thus increasing access to good-quality affordable housing.
- iv. Government action of this type would certainly have positive effects on competitiveness and also facilitate increased labour mobility. This is important due to the growing problems that housing costs and availability are creating for firms considering investment in Dublin and other Irish cities and towns.
- v. As already indicated, this type of active management of the assembly and provision of land for housing accords with good practice in other jurisdictions with more stable housing markets.
- vi. Although this would represent a new policy approach in Ireland, it effectively replicates and extends the types of policy experiments that are already underway in the social housing sphere (such as Dublin City Council providing sites for development), while also building on earlier initiatives to facilitate planned development, such as the SDZs.
- vii. Equally, this project is a practical measure for translating the increased knowledge and understanding generated by various policy initiatives, including those commenced under *Construction 2020*, into tangible policy action.
- viii. This new delivery platform also represents a framework for exploring how to increase and improve collaboration between the key institutions that have a central role in improving housing supply, not only in Dublin but across the country.
- ix. Action-orientated collaboration between public and private actors in the context of this pilot initiative will also increase insights into addressing some of the apparently intractable problems—for example, how to finance the provision of key infrastructure—that currently constrain housing supply in the city.
- x. Finally, the overall objective of this pilot initiative accords with NAMA's mandate to make a broader contribution to the social and economic life of the country.

It is suggested that this innovative project represents the type of *disruptive reform* the Government has championed in its Action Plan for Jobs; it is seeking to create a new a 'delivery platform' for affordable housing that challenges traditional policy approaches and prevailing business models. The alternative is to engage in a traditional market-based disposal of land that is currently within the public realm. It is our view that this latter approach would not serve to significantly improve the supply of affordable housing units but could actually undermine progress by reinforcing the slow pace of development in the city, fostering rising rents and undermining competitiveness. As the McKinsey Global Institute notes, standard

approaches to the delivery of affordable housing will produce only standard—and inadequate—outcomes (McKinsey Global Institute, 2014).

Strong action on the provision of housing that would be affordable to a range of households would be the best possible signal that Government recognises the economic recovery as an inclusive project that turns its back on the negative housing, land and property behaviours of the past. It would also acknowledge that the crisis, and its focused response, is the start of a transformation, rather than merely a stabilisation. Without a clear signal that, after all the sacrifices suffered in the crisis, Ireland’s housing system will be different—more affordable and sustainable than previously—it will be difficult to allay fears that we are regressing, slowly but surely, to the speculative unsustainable patterns of past decades.

4.3 Action 2: Work Through the Cost and Supply Issues in an Integrated Way

A complex set of factors currently limits housing construction and urban development in Ireland. Among these are a number of factors that, on the face of it, have the effect of maintaining high costs and thereby making the cost-price calculus unfavourable to housing construction and supply.

Current action by Government and other public bodies combines incentive-based efforts to adjust the relation of costs and prices with more coordinative approaches based on gathering information to align a range of actors. For example the DELG’s investment in state of the art GIS technology in conjunction with the quality of information and analysis emanating from the work of both the Dublin Housing Supply Taskforce and NAMA have contributed to the evolution of more robust data architecture for land, something that was previously lacking in the public system. Extensive land data is now available on public sites such as local authorities and OPW and the Housing Agency is currently collating and mapping this information.

What continues to constrain the current approach, however, is the tendency for the system to identify and address various cost-creating factors—such as development levies, Part V, regulations, VAT on construction, and possibly the cost of land as an input—in a fragmented and ad hoc manner. While this can have some marginal effect, it does not get very far. Different understanding and interests, each emphasising real and valid considerations, tend to cancel each other out.

A good example is development levies. While it can be argued that in the wake of the boom and crash these inhibit development, they cannot be comprehensively addressed without considering how necessary infrastructure, the public realm that underpins housing and urban development, will be funded and delivered in future. Approaching such an issue in a siloed manner can generate a less than optimum policy trade-off. For example, the Government’s proposal to reduce development levies in instances where planning permission exists, but where construction has not taken place, as a means of incentivising increased supply, has been questioned

by the Dublin Task Force, which is concerned that it could result in the State footing the bill for key pieces of infrastructure.⁵

In any case, current problems in infrastructure funding cannot be entirely separated from larger issues concerning finance for housing and urban development. Regarding these, we are in the early stages of a transition to a quite different model of finance. It is not clear that ad hoc reductions in development levies, or indeed taxation,⁶ would unleash the kind of construction and housing supply that is needed.

Consequently, the second element of our proposal on active housing supply and land management is the creation of a comprehensive process to explore and act on the many factors that make housing provision costly in Ireland and unaffordable for many households. An inclusive, comprehensive, rigorous and action-oriented approach to the cost issue is important for a number of reasons. All the various costs are legitimate issues for examination and discussion, but when a partial, self-interested case is advanced for addressing some and not others, it tends, naturally, to meet resistance and close down inquiry.

Furthermore, the Council is firmly of the view that among the factors to be explored are the technologies, management systems, business models and skills used in Irish house building. Advances in materials, construction methods, ICT and global communications, in conjunction with the adoption of progressive management practices and business models, are transforming the construction sector internationally. *Construction 2020* envisages the development of a more competitive construction industry based on best practice, and a number of actions in the strategy are designed to support transformation of the industry. For example, Enterprise Ireland's support for the sector includes Management4Growth, Business Accelerator and LeanStart programmes. *Construction 2020* also notes that BIM has become a powerful tool in driving efficiencies and increased productivity in construction, and is rapidly becoming a standard requirement internationally (see Box 4.1).

⁵ See <http://www.independent.ie/irish-news/future-proof/new-use-it-or-lose-it-rule-to-speed-up-home-building-31032808.html>. Accessed 04/05/15.

⁶ The Department of Finance has initiated a public consultation to assess the extent to which the taxation system (through corrective measures) can be utilised to encourage the development of zoned and serviced land to assist in reducing the shortage of residential properties in certain areas (Department of Finance, 2015).

Box 4.1: Impact of Building Information Modelling

In the UK, the adoption of Building Information Modelling (BIM) is having a significant impact on the construction industry. In 2011, the UK Government Construction Strategy mandated the use of BIM on all public sector projects by 2016. This led to Government and the construction industry working together to develop the industry's skills and reduce the cost of infrastructure. BIM has been identified as a significant contributor to the saving of £804m in construction costs in 2013/14 recently announced by the Cabinet Office. At a project level, for example, the Ministry of Justice has identified BIM as having enabled £800,000 of savings in the development of the Cookham Wood Young Offenders Institution

Source: Digital Built Britain (2015).

Enterprise Ireland has recently commenced a BIM Start programme. This is the first stage of a three-part programme to support companies to develop a strategic road map with the aim of successfully integrating their products and services into the information needs of designers and contractors. The adoption of new technologies, modern methods of construction and delivery processes, and advanced logistical planning will be crucial for sustainable competitive construction enterprises.

Commenting on the construction industry's failure to modernise in many countries, the McKinsey Global Institute highlights the scope to reduce construction costs for affordable housing by improving capital productivity via lean production, adopting value engineering approaches, improving procurement practices and learning from industrial construction techniques. The same report also indicates that improving energy efficiency and reducing the costs of repairing and maintaining buildings can serve to reduce operating expenses and sustain asset values, thus increasing the economic attractiveness of investing in affordable housing provision. In this context, it is worth noting that in the UK *Construction 2025* outlines the Government's and industry's agreed ambitions for the construction sector. These include a 33 per cent reduction in the initial cost of construction and the whole life cost of assets (HM Government, 2013).

The Council proposes that the housing and house-building agenda should include an ambitious approach to recasting training for the sector. The agenda can be socially inclusive in a double sense—not only laying the foundations for provision of housing that is more affordable for intermediate households, more sustainable and more socially integrated, but also creating a skill base to make it possible for young Irish people to find employment within construction as it returns to its long-run equilibrium scale.

As is evident from *Construction 2020*, the range of factors that need to be addressed in stimulating housing supply is considerable. Part of the challenge that the system has faced to date is how to approach these issues in a robust and integrated manner. Action to lead the resumption of housing supply in Dublin, along the lines suggested here, would generate key insights and information that

would enhance exploration of providing affordable housing, including further analysis on how best to approach the transformation of the building industry.

4.4 Action 3: Further Develop the Institutional Capacity to Actively Manage Land and Housing Supply

The actions outlined above involve greater and more purposeful use of existing public authority and capacity to lead the resumption of housing supply and urban development, and to lay the foundations for stronger and affordable housing supply.

Even if the first two targeted actions are undertaken there will remain a complex public institutional landscape relevant to housing and urban development; it includes several key government departments, NAMA, the local authorities, the Housing Agency, Irish Water, the National Roads Authority, the National Transport Authority and others. Indeed, given the close relationship between employment and business development, and the need for housing supply, the relevant actors include the agencies with responsibility for enterprise and regional development. Housing can be seen as an *input* into a functioning economy and city, rather than an output; indeed, the same can be said of urban and infrastructure policy, particularly if we are looking to achieve sustainable long-term economic growth and well-planned, good-quality urban and rural development.

International experience underlines the role of public land management authorities and State infrastructure agencies, and the need for ongoing and intensive collaboration between them and private actors in seeking to improve housing supply and facilitate sustainable urban expansion.

While it is not possible at this stage to say exactly what institutional arrangements are necessary to ensure a more affordable, sustainable and equitable housing system, it is evident that an intensive policy dialogue must be initiated. This can be informed by data and ongoing action, and should focus on how existing institutional resources could be combined/recombined, allocated/reallocated and coordinated to address institutional fracture. The aim must be to create what the McKinsey Global Institute calls ‘smoothly functioning delivery platforms’ for affordable and sustainable housing. It is suggested that a number of key principles should inform this robust, action-focused policy deliberation:

- i. There should be a strong focus on strengthening competencies and capabilities within the housing, planning and land management systems. This would include consideration of how to support the emergence of ‘centres of excellence’ within the policy system.

- ii. There is a need to develop coherent and integrated strategies for housing, land management, urban development, planning and infrastructure provision, and access to development finance.
- iii. Improving the delivery of affordable and sustainable housing necessitates intensified and enhanced levels of collaboration between the relevant institutions in the public and private sectors. This could include consideration of what agency or institution would be best placed to lead the collaborative process or how smaller specialist advisory bodies could work with local actors in improving, for example, the financing and/or delivery of key infrastructure at local level.
- iv. It will be critical that the development of ambitious new strategies, targets and policy innovations, and the necessary increased emphasis on collaboration, are matched by appropriate enhancement of executive authority and capability. Otherwise a gap will remain between knowledge, plans and insights, and the authority and capacity to take action that can make a real difference to housing and land supply.

There is much that can be learned in this process from other recent government policy innovations, including NAMA and the Strategic Banking Corporation of Ireland.

4.5 Conclusion: Housing and Land Supply—The Time for Action

This paper focuses on a key decision: how to manage land and housing supply in a manner that meets the stated goals of housing policy—the development of an affordable, sustainable and inclusive housing system.

Although housing policy has been characterised by the clarification of these important new goals and increased activity and innovation, the policy system has still to fully embrace a more ambitious and activist approach to land and housing supply management.

Shared goals and ambitious strategy are critical. But comparative public policy research suggests that an agreed strategy in a specific area is best seen as only the start of a recursive process of policy adaptation and change. Even the most thorough and inclusive designs for change are likely to be incomplete or faulty; this is revealed in the successes and failures experienced by the front-line actors that seek to implement the strategy. Consequently, success depends on institutionalising a process for adjusting strategy and policy to unforeseen circumstances, while holding decision makers accountable. Acceptance of this yields a ‘recursive model’, which seeks to combine learning, adaptation and innovation with routines designed to embed accountability, discipline and momentum (Sabel & Jordan, 2015).

The actions proposed here are an effort to take early and critical steps in developing an active and innovative approach to housing and land supply management. The depth, duration and inclusiveness of Ireland's recovery from the vast set back of recent years depends on the success of this approach.

Appendix 1:
Active Land and Housing Supply
Management—International
Experience

Introduction

This Appendix provides an overview of the different and evolving policy approaches to land management and development that have been undertaken in France, the UK, the Netherlands and Germany.

Public Land Development in the Netherlands

Active land management has long been a key policy in the Netherlands. Up until the early 1990s, municipalities established land-development companies to undertake the role of land development. This involved purchasing land from its original owners, subdividing it for different purposes, servicing it and providing infrastructure. Finally, serviced land would be sold to developers, housing associations (for social housing) and owner-occupiers. This process enabled municipalities to ensure that their land development plans were realised. A second reason for undertaking this approach is that municipalities could use it to recover the costs involved in the necessary public investments through sale of the serviced land plots.

For several decades, this approach met the needs of all stakeholders (van der Krabben & Jacobs, 2012). Private developers could acquire land on good quality locations, and earned profits from the building of homes rather than land development (Golland, 1996).⁷ The situation changed in the early 1990s. There was a strong increase in demand for owner-occupied housing and a national policy on spatial planning emphasised the importance of concentrating housing development in designated locations close to major cities. The view was taken that there was no shortage of housing so a restrictive approach was taken to designating the areas for planned housing development. The areas concerned were clearly identified and

⁷ In the Netherlands, government intervention in the land market meant that land was treated more as an input cost rather than a source of profit by housing developers, so they were more responsive to changes in the profitability of building.

commercial developers took advantage of this opportunity and began acquiring land.

A number of new models have subsequently emerged. One model involves the commercial developers voluntarily selling the land to the municipality at a price similar to the original purchase price. As before, the municipality then develops the land but commits to reselling the serviced land back to the developer who also gains the right to build a fixed number of houses on it. Alternatively, the municipality and the commercial developers use public private partnerships to develop the land. Land development is also now carried out by the private sector.

Conditions in the land market have changed markedly. Municipalities continue to be engaged in active land management but their bargaining power is weaker. The cost of acquiring agricultural land has increased reducing the resources available for municipalities to invest in the quality of local area plans (van der Krabben & Jacobs, 2012).

Considerable debate continues in the Netherlands as regards how to address these problems. It is argued by Priemus and Luow (2003) that there will be little competition in the building market as long as landownership is directly linked to building rights. Another proposal is to change the law to allow compulsory purchase of land on the basis of existing use value rather than market value. In the past, municipalities were able to acquire land at existing use value due to market circumstances, but this is no longer the case.

Van der Krabben and Needham (2008) have called for the introduction of 'land readjustment' to address the issues of fragmentation of land ownership and also as a means of financing infrastructure from increases in land and property value. There are risks for municipalities from engaging in land development, and van der Krabben and Jacobs point out that the economic crisis led to considerable losses on land development for the larger Dutch cities.

Under 2008 legislation, municipalities were given a legal basis to recover costs even in a situation in which they do not own the land. It also gives municipalities authority to require private developers to include affordable housing in their development plans. However, notwithstanding these changes, most municipalities continue to use a public land development strategy, 'mainly because they want to achieve strong control over developments' (van der Krabben and Jacobs, 2013: 780).

Land Readjustment in Germany

A distinctive feature of the land market in Germany for several decades has been the use of 'land readjustment' or pooling of fragmented land holdings. This instrument was initially used for rural land adjustment but was extended in 1940 to built-up land. This can be done on a voluntary basis but there is provision for the use of compulsory measures if voluntary agreement cannot be reached. According

to Monk *et al.* (2013), land readjustment is one of the main instruments of local planning used in Germany today.

Connellan (2002) identified a spectrum of approaches to land pooling used in Germany, France and Japan and Connellan concluded that assisted land pooling could be equally effective in Britain ‘by encouraging development, redevelopment, and rehabilitation in accordance with planning hopes and expectations’. (*ibid.*: 29).

In Germany, the concept of ‘circular land use management’ has been adopted, and while this approach accepts the use of greenfield land in specific circumstances, it ‘primarily and systematically seeks to exploit the potential to develop existing sites and reuse derelict land’ (Preuss & Ferber, 2008: 3). The achievement of circular land-use management depends on the cooperation of the federal government and a wide range of stakeholders. Public policy has also sought to encourage the redevelopment of land within urban areas by allowing simplified planning procedures to apply to developments, to make such developments quicker and more economically viable.

Land Assembly in France

Municipalities in France have also used large-scale land assembly to encourage development, though in this instance it operates on a voluntary basis. Large sites are assembled and a plan is developed to create infrastructure ahead of time. This reduces risk and creates greater cost certainty for the developer.

Another distinctive feature of development in France is the infrastructure tax. This is a hypothecated tax for public transport. It is levied on wages at a rate of 0.55 per cent to 2.5 per cent. The rationale for the tax is that public transport benefits employers and employees by providing access to a larger labour market and by raising productivity through agglomeration economies in cities. There are also a number of development taxes that are used to finance infrastructure.

Use of State Land in the UK

The UK currently has, a scheme to accelerate the release of surplus public-sector land (Department for Communities & Local Government, 2012). Under this, all government departments are asked to identify surplus/unused public land and release it for housing and other economic uses. In at least some cases, the department releasing the land gains the planning permission, and sets the conditions on the number of affordable houses, before the land is released for sale. The planning is carried out in partnership with the local community, to encourage community buy-in. From 2015–16, the UK Homes & Communities Agency (HCA) will oversee disposal of all identified land, so that there is one organisation with one voice dealing with developers. The HCA has established a Delivery Partner Panel of

companies that want to develop houses on this land, with applications to join this panel from time to time.

What is important for the purposes of this paper is not so much what policy instruments from other jurisdictions would have the most potential in an Irish context—though this should undoubtedly inform subsequent policy deliberations—but rather what is evident is that in all the aforementioned examples, the State and local authorities, in particular, play a more active role in land and housing supply management and that this has, in most instances, contributed to a more stable and secure housing system elsewhere.

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