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Renting Trouble: Current Government Policy of Relying on the Private Rented Sector to Deliver Social Housing is Unlikely to Succeed

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A review of the history of housing in Ireland shows that owner occupancy and social housing were policy choices by successive governments. Owner occupancy was heavily supported through a system of grants and tax breaks and social housing was directly provided through local authorities at subsidised rents. In recent years policy has changed and tenure neutrality is now guiding the government's attitude to housing. This is a significant change which has not been sufficiently discussed and has consequences which are not appreciated. Relying on the market to provide rental housing for people on low incomes and who may be in in precarious employment is very unlikely to be successful and housing will become a significant issue for future governments. If the government is not going to subsidise owner occupancy nor directly provide sufficient houses for the growing numbers on low incomes investment in rental housing has to come from somewhere other than non-professional landlords who dominate the current rental housing offering in Ireland. A greater understanding of underlying historical trends in housing is needed.

A normal economy needs a functioning property market and a resurgent residential market should therefore be welcome. Nevertheless for many a dread of returning to a previous discredited market structure of boom, bubble and bust bodes an avoidable catastrophe heralded by difficulties acquiring family homes, repossessions, a shortage in the private rented sector, a crisis in social housing and homelessness. Certainly, the housing sector has serious problems which ironically may get worse as the economy improves.

In times of relative hardship housing choices are always more difficult. Given the need to cut costs and reduce deficits, incomes are likely to be lower and this has an effect on housing decisions. For those on very low incomes housing costs can be prohibitive and they require more support either in the form of money to pay rent or the direct provision of suitable accommodation. For many with reasonable incomes buying an affordable dwelling can be a challenge and compromises will be forced with regard to size, tenure and location. The basic problem for many is one of income being too low to pay for a suitable dwelling and live a reasonable life. For those on low or middle incomes this basic problem was recognized by governments in the 20th century and was reflected in extensive support for home ownership and social housing.

In the 21s century governments have reduced all these supports and this is changing the housing sector profoundly but is a way that is little understood. For example the 2011 census revealed an increase in the number of households in the rented sector and a proportionate decline in owner occupancy. This was a noteworthy change which does not look temporary. Such changes in tenure patterns have happened in the past and a look back into history is revealing.

Having experienced decades of increasing home ownership it is often forgotten that up to WW1, in Ireland as elsewhere, the private rented sector dominated. Most households were renters with only the very wealthy owning their homes. Few enough were lucky to rent from socially motivated landlords and living in a slum was a common experience even for those with incomes sufficient to cover daily needs but not much else.

In the late 19th century decent housing began to be seen as a vaccine against ill health and this led local authorities to establish building standards and provide sewers, piped water and urban parks. Also some philanthropic employers, realising that healthy workers with security of tenure are more productive, provided accommodation for their employees and provided an example to more socially enlightened governments.

By the early 20th century it was appreciated that good secure housing can make a significant contribution to reducing the cost of a decent health system, an example of joined up government policy which facilitated the development of the welfare state. Accordingly housing became a responsibility of the state and was subsidised or provided by local government in the form of social housing

While building regulation and infrastructure led to physical improvements, tenants in the private sector had problems related to rental security and security of tenure even if they could afford to pay rent. For households whose income and employment status were vulnerable or where retirement or disability reduced the capacity to make an income this could be particularly difficult. Moving home involuntarily is neither conducive to good health nor good for a child's education and a lack of tenure security was clearly undesirable then as now.

In the 19th century conservative opposition to interfering with private property rights severely limited the capacity to give rights to tenants. During WW1, however, rent restrictions and security of tenure were introduced as an emergency measure in response to social unrest arising from rising rents which was not helping the war effort. After the war slum clearance and the widespread provision of social housing on affordable, non-market, rents with security of tenure, became an accepted responsibility of local government.

Later after WW2, with assistance from local authorities in the form of grants, property tax relief and loans on favourable terms, the lower middle and middle classes who could afford to pay for their accommodation were assisted into home ownership. Central government helped through tax breaks such as mortgage interest relief. Also supportive was the growth of building societies which were assisted by government tax breaks for savers thereby generating the necessary capital base to be lent as mortgages. Overall there was very significant and costly government support for home ownership funded by the taxpayer.

From a borrowers perspective the ability to take on an onerous long term financial commitment was eased in the 20th century by the widening availability of employment with security of tenure, defined career paths and an expectation that incomes would keep pace with the cost of living. It also helped that the rate of inflation, which as high up until the late eighties, eroded mortgage debt.

Furthermore, as rent restriction laws, reinforced during WW2 and continued thereafter, led to a severe reduction in people willing to become landlords, buying rather than renting became necessary to provide a family with a home.

For those on lower incomes the high level of assistance for home owners was balanced by an increase in the provision of social housing with long term security of tenure and on rents related to income rather than the market. Notably such tenants, if their resources allowed it, were given rights to buy their accommodation and become owner occupiers on very favorable terms. Social housing, directly provided by the state, delivered affordability, security and hope to those on lower incomes but it must be said it was concentrated and badly managed leading to some unsatisfactory housing.

Nevertheless settled housing policy saw the state assisting as many as could afford it into home ownership while providing council housing for those who could not. The people were content that given time and opportunity all households could obtain good housing with security of tenure on an affordable basis either by owner occupation or social renting. The neglected private rented sector was allowed to decline and was confined to those in transition to either owner occupation or social housing or for those needing temporary accommodation like students or migrants.

Not surprisingly the 20th century saw the owner occupied sector growing and by the 1980s it became the dominant housing tenure and was facilitated by a combination of government support, macroeconomic policy and employment patterns. Things have changed, however, and there is a need to understand what is happening to housing.

From the 1990s macroeconomic monetary policy squeezed inflation out of the system reducing its effect of shrinking large mortgage debt quickly. This made sustaining high levels of borrowing less affordable and more risky. Along with this, for many the nature of employment changed offering fewer career long jobs and an increase in contingent employment with more precarious income patterns. Moreover, the government and opposition, intent on reducing taxation, have no intention of subsidising owner occupancy through the reintroduction of grants and tax breaks. This is a fundamental change in public policy which has emerged unheralded and without discussion or debate.

All this means that for those on lower incomes the real risks of taking out a big mortgage have grown substantially, particularly for those on lower incomes. For the Celtic tiger period the consequences of all the changes were unseen as credit was freely available and property prices rose, giving borrowers a get out of debt card if needed. But in time this turned out badly as price rises were largely propelled by financial institutions using lower prudential criteria to lend more and more money, an approach which resulted in a devious and occulted upward spiral with an inevitable but unforeseen, or perhaps more likely disregarded, date with destiny.

It certainly looks as if home ownership will not be as affordable for as many as was the case in the latter years of the 20th century.

Inevitably, some with lower or more volatile and less secure incomes will never be able to attain homeownership and will rent all their lives, probably a much greater proportion of households than in the past when grants and subsidies were available to support them into home ownership. Certainly many will take greater time to establish careers and will prefer to rent while they do so and consequently will have to rent for more of their lives than the generation that preceded them.

Rather than be provided with a home those in need of social housing now have their private sector rent subsidised rather than be provided directly with housing by the state.

Everything points to an increased number of people living in the private rented sector and the government now needs to focus on this sector.

Traditionally private rented accommodation was supplied by part time non-professional, accidental or amateur landlords with limited capital who owned only one or two properties and who had limited capacity to manage property expertly. This is not because landlords are ineffectual or grasping although undoubtedly some are. Rather it is simply because they are undercapitalised, often having borrowed heavily, and have limited experience or resources to deal with the inevitable and costly problems arising from renting.

Managing property is risky, expensive and demanding and in other countries is often done by corporates or institutional investors and at the lower end directly by state bodies or not for profit organizations with a specialized expertise and scale to allow them to handle the vicissitudes of landlordism.

We are seeing the arrival of some professional landlords from abroad who are taking advantage of the sell-off of property by NAMA. Maybe one good outcome of the banking crisis will be a greater number of professional and well capitalised landlords which can only be good for the rental sector. The state needs to foster and support the development of Irish professional landlords. Relying on non-professional landlords or foreign investment, surely an echo of our industrial economic policy of relying on foreign multinational companies for jobs, is not likely to produce a viable rental sector which will be of growing in importance in housing.

In the long run rents and incomes grow at roughly the same pace though at particular times and for short runs rents can rise very quickly in response to short term demand pressures. For this reason rents are a very good source of pension income and consequently in other countries pension funds invest in housing. We need to find a way whereby Irish pension funds will invest housing through professional landlords.

Social housing requires a different but related solution as by definition those in need of such housing have not got sufficient income to pay market rents. Here the government needs to support the funding of voluntary not for profit housing bodies but these too could be funded by pension funds.

One thing that could be done would giving particular tax relief to pension contributions that end up invested in residential property. Right now pension funds invest much of their money abroad in stock and bond markets. This money could be much more useful funding rental housing in Ireland. In the long run rents keep place with incomes and would seem to be a much better source of pension income than what is available from more volatile financial markets. If this could be done then maybe renting with rental security and security of tenure could become the new norm. If the government is not going to subsidise owner occupancy nor directly provide sufficient houses for the growing numbers on low incomes the money to invest in rental housing has to come from somewhere other than non-professional landlords.

Looking back through the 20th century suggests that long term housing need was heavily subsidised whether it was owner occupied or provided by the state. In the early years of the 21st century housing supports have been eroded and it is very likely that problems will grow if the government relies on the private rental sector to provide long term housing solutions. Housing issues are likely to grow in political importance oer the coming decade.

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