Comhairle Cathrach
Bhaile Átha Cliath
Dublin City Council

Report to Housing SPC

Date: Wednesday 12th May 2021

Item No. 4iv

Report on Long Term Leasing Schemes

Background:

In 2009, the Government introduced the Long Term Leasing Initiative, whereby local authorities could enter into long-term leases of private dwellings as a means of meeting social housing needs. The objective of the new initiative was to develop the capacity of local authorities to respond to housing needs and to ensure that there is a wide and flexible range of housing delivery options available. Under this new initiative, the Local Authority could lease new and existing vacant properties in good condition, which included houses and apartments, single or multiple units. This new delivery model was a welcome addition to the other delivery options already in existence e.g.

- Direct build by Local Authority and Approved Housing Bodies.
- Acquisitions by Local Authority and Approved Bodies.
- Part V acquisitions.

The main features of the long term leasing scheme were as follows:

- Leases for periods of between 10-20 years
- Rent negotiated at 80% of market rent
- Where a Management Company existed, 85% of market rent applied
- Rent reviews linked to Consumer Price Index
- Local Authority responsible for day-to- day property maintenance, allocations, rent assessment and collection, estate management, tenancy support etc.
- Property owner is responsible for structural repairs, structural insurance, payment of management company service charges and Local Property Tax.
- Full compliance with Housing (Standards for rented houses) Regulations

The Scheme was reviewed by Government 2017 and as a result, the Long Term Leasing Scheme was updated and broadened in order to further facilitate Housing Authorities in meeting their targets under the Rebuilding Ireland Strategy and to make the existing Leasing scheme more attractive for take up by owners/landlords. (Up to that stage there was no significant take-up of the scheme). The existing Leasing Scheme remained in place but a second scheme called the Enhanced Long Term Leasing Scheme was introduced with the following features:

- 95% market rent, but including management and maintenance obligations
- 25 year term
- Index linked rent reviews every 3 years
- Local authority is the landlord to the tenant and collects differential rent
- Standard Long Term Leasing to align with new scheme other i.e. maximum lease term 25 years; rent indexed every 3 years based on the Harmonised Index of Consumer Prices (HICP)

All the relevant disciplines within Dublin City Council are involved in the negotiation process for the formulation of long term leases e.g. Legals, Valuers, Architects, and Quantity Surveyors all led by senior management in the **Housing Department-Dave Dinnigan, Director of Housing Delivery**. All rental agreements on leases are approved by the Chief Valuer and his professional staff in DCC. The National Housing Agency are involved in the initial engagement with interested developers and the Department of Housing Heritage and Local Government provide the necessary approvals and funding over the full term of the lease.

Leasing as a delivery model – benefits:

Leasing represents an excellent opportunity to deliver units at scale and in the short term. It can offer high quality units in mixed tenure developments that provide a good social mix. The different types of leasing arrangements currently available is flexible to suit all potential proposers. Leasing is funded through the Social Housing Current Expenditure Programme and requires no capital investment. It gives housing authorities the ability to target newly built homes, homes at planning stage or vacant stock.

Main benefits:

- Important and necessary response to Housing needs in the city.
- Speedy and flexible delivery.
- Planning risk rests with the Developer.
- Certainty of delivery.
- Opportunities for volume delivery.
- Lessening our liability and cost on maintenance and upgrading.
- Particularly suitable for de-tenanting arrangements under our extensive regeneration programmes- tenants returning following refurbishment of their original homes.
- Good for the pursuance of a better social mix-better integration between private and social housing.
- Full recoupment of leasing cost from the Department of Housing.
- The development of sites in the city where otherwise the development may not happen at all.

Current data on Leasing:

Since the introduction of Leasing as a delivery method, Dublin City Council has secured 494-leased homes, with 12 of those coming from Part V negotiations.

The **table below** sets out current proposals across the leasing options (including delivery dates-year) where discussions/negotiations are currently underway. Based on this table there is potential to achieve in the region of 1,600 new leases over 2021, 2022, and 2023. While this figure is very welcome, we would need much more in order to make a real dent on the current social housing waiting lists in Dublin City. While some of these proposals may not ultimately be agreed, we are, hopeful that other opportunities will arise in view of the changed Housing Market since the onset of the Covid-19 Pandemic. In our view, it is essential in the context of the social housing crisis that we grasp these opportunities. The option of taking leases instead of acquisitions in Part V negotiations was provided for in the 2015 Legislation but our preference in that situation is for acquisition.

	Total Units	**Non Part V**	**Part V**
Standard Lease	**1037**	936	101
Enhanced Lease	**598**	504	94
Standard Lease			
2021	**265**	253	12
2022	**201**	167	34
2023	**571**	516	55
Enhanced Lease			
2021	**23**	23	0
2022	**153**	139	14
2023	**422**	342	80

The Social Housing Leasing Scheme/Initiative has three broad objectives. The first is to broaden the channels of delivery for social housing. The second is to secure additional dwellings for social housing from individuals who own more than one property but do not want to commit to being an active landlord. The third aim is to spread the funding cost and move away from reliance on large annual capital outlays that tended to be volatile and pro-cyclical.

The basic model underlying the Leasing Initiative was that the state through either local authorities or Approved Housing Bodies would take on the role of social landlord of privately owned property on a medium to long-term lease for a minimum of 10 but more normally for 20/25 years. At the end of the lease period, the property

would be returned to the owner in good condition. At the same time, a new social tenancy would be provided for the tenant.
The property would be leased by the state at a price point that was less than market rents [80% - 85% range], and later 95% under the enhanced scheme reflecting the long term nature of the lease, the guaranteed income and the taking over of responsibility for management and maintenance of the property during the lease period. As it stands, the property reverts to the owner after expiry of the lease but it may well be possible when that time comes around, agreement could be reached to roll over onto a further lease period, or for DCC to acquire the property.

Negotiations or initial discussions for the ultimate lease of a property can begin at various stages in the development e.g. prior to Planning, Post Planning, during Construction and just prior to completion and while we are obviously more interested in residential schemes that are completed or close to completion these kind of opportunities tend to be limited. Many of the projects currently being negotiated have not commenced yet but full planning has been achieved. The changed housing market over the last year (during Covid-19) has resulted in a significant increase in interest from developers to do business with DCC for leasing opportunities.

Value for Money

Since the beginning of the century, it has been government policy to increase the sources of supply for social housing. This was mainly to reduce the vulnerability of the main construction programme to delays arising from funding limits or capacity constraints. In terms of value for money, it implies that at any one time, there will be a range of outcomes but for reasons of maintaining the overall resilience of the programme, some additional costs are justified.
While the state will not gain an asset through the leasing scheme there are a number of other factors which mean that leasing is still good value in the long term for the state. The cost of delivering social housing units under the traditional construction and acquisition model is not totally captured by the up-front capital expenditure, as each unit will carry a stream of ongoing costs over the long term including management, maintenance and remediation.
During the term of the lease, the responsibility for structural matters remains with the owner and not the Local Authority. At the end of the lease term, the unit can require

major renovation or upgrading of property resulting in a substantial capital cost, which under leasing is not borne by the Local Authority but by the owner.

Another factor that must be considered is that while under the traditional supply mechanisms the state does gain an asset, the economic value of this asset to the state is limited to the extent that such properties may be purchased by tenants at subsidised rates. Leasing also means that Local Authorities can focus their efforts and resources on developing their own pipeline of construction activity, thereby increasing the overall capacity of the state to meet housing need. Schemes such as leasing and acquisition that draw on existing properties including those with full Planning Permission in the private market provide a level of speed, flexibility and effectiveness in addressing housing need.
It should also be noted that other considerations, in particular of a policy nature, might have an impact on the long-term value for money of the different delivery options. These include the approach to tenant purchase, changing demand for housing in particular areas and of types of housing, the amount spent on management and maintenance by local authorities, rental policy, urban renewal programmes and the approach to refurbishment and the Green Agenda. All of these factors will impact on the whole life cost of providing social housing using different funding models.

While Dublin City Council has a strong pipeline of construction, over the coming years, this model of delivery is very slow and complex and it is therefore essential that all the other delivery methods such as leasing be maximised while that pipeline is being progressed. It is important to recognise that in the years ahead the amount of Council owned (residential) land available will be very limited and therefore we will need to be open to a range of delivery models outside of the traditional model of direct construction if we are to respond adequately to social housing need in the city.

The relative cost of a particular delivery model is not fixed and it is accordingly important to maintain a flexible system that can respond quickly to changing market [financial and housing] and construction sector conditions. There are also several other factors to be taken into account including speed of delivery, standards and quality of service, impact on the wider housing market and available funding options at the time.

In conclusion, the Long Term Leasing is a very important and welcome addition to the range of social housing delivery methods, it has made a reasonable contribution towards our significant waiting lists so far and while the leasing scheme exists it is incumbent on us the maximise the opportunities that it presents.

Brendan Kenny
Deputy Chief Executive
12th May 2021