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# Social Housing's Role in the Irish Property Boom and Bust

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## **Introduction**

For most of the 20<sup>th</sup> century, social housing provision in the Republic of Ireland played a key role in achieving both social and economic policy objectives. This tenure, which was provided primarily by local authorities until the 1980s and by a combination of local authorities and no profit housing sector housing associations since then, accounted for between 52 and 65.2% of total Irish housing output in the 1930s, 1940s and 1950s and 18.4% of the Irish population was accommodated in this sector in 1961 (Norris and Fahey, 2011). Social housing was a central part of overall housing supply during periods of economic growth as well as through several recessions. It also played an important role as an economic stimulus and a source of employment when labour was in oversupply as well as providing a vital source of accommodation for lower income households which was affordable because social housing rents in Ireland are linked to incomes (O'Connell, 2007).

This paper argues, however, that the economic role of social housing has been fundamentally transformed over recent decades. The nature of this transformation plays an important part in understanding Ireland's property boom and bust, and in understanding the nature of the current crisis in the social housing sector. As elsewhere, the crisis commenced following the bursting of a property bubble in 2007, but worsened considerably with the global financial crisis the following year and resulted in the Irish government nationalising almost the entire banking system in 2009 and negotiating an emergency loan from the European Union and the IMF to fund public spending and the bank bailout in 2010 (Norris and Coates, 2014). Government funding for new social housing provision fell by 88.4% between 2008 and 2014 and, as a result, output of dwellings in this tenure declined by 91.5% concurrently (Department of Public Expenditure and Reform, various years; Department of Housing, Planning and

Local Government, various years). The demise of social housing provision in Ireland has occurred at the same time as the collapse of the private housing market. House prices fell by a remarkable 50% from their peak in 2006 to trough in 2012, and private sector house building declined from a high of 88,211 dwellings in 2006 to just 10,501 units in 2014 (Department of Housing, Planning and Local Government, various years). A chronic housing shortage has emerged as a result of the rapid decline of both private and social housing supply.

Thus, in contrast to the historical experience in Ireland, social housing has not acted as a potential counterbalance to the market. On the contrary, social housing has mirrored and reinforced the boom/bust dynamics of the private housing system. The obvious interpretation of this problem and the dominant one among Irish policy commentators is that it is rooted in Ireland's latest economic crisis – the scale of the bust Ireland experienced during the global financial crisis, coupled with the requirements of the EU/IMF emergency loan and the impact of neoliberal ideology impeded the potential for government spending on social housing and led to a collapse in supply. This paper contradicts this consensus and suggests that the roots of Ireland's dual public/private housing crisis are both older and more complex. The argument presented here is that the crisis must be situated within an analysis of the changing nature of the interaction between public and private housing over the last three decades. During this period, a series of policy reforms were initiated which amounted to a profound transformation of the relationship between the two sectors. As a result of these measures, the traditional counter-cyclical role of social housing was replaced by a new set of dynamics in which this tenure became strongly pro-cyclical and enhanced rather than alleviated the private housing market bubble and accentuated rather than mitigated the social effects of the crash that followed the bursting of that bubble.

Thus, this analysis of the shifting relationship between the Irish public and private housing systems sheds light on an aspect of the global financial crisis and the associated housing market booms and busts which has been neglected in the literature. Analysis of the housing market bubbles that emerged in the 1990s and early 2000s in Spain, the USA and the UK, among other countries, has focused overwhelmingly on the role of mortgage markets and home ownership in driving house price increases and property and credit bubbles. What remains unexamined is the role of social housing in these developments and, particularly, how social housing systems and private housing markets interact at a systemic level. Approaching the Irish property boom and bust in terms of the interaction of these two systems provides important insights into the structural role played by the interaction of different sectors of the housing system, as well as enabling us to understand the nature of the current crisis in social housing provision.

### **Housing Policy and the Global Financial Crisis**

There is a strong consensus in the literature that housing policy and government intervention more broadly have played a central role in driving and shaping property bubbles and the process of financialisation (Beswick et al., 2016; Aalbers, 2009). Analysis of these issues has focused strongly on owner occupied tenure and the government's role in promoting the growth of this tenure by facilitating increased lending for home purchase (Aalbers, 2009; Immergluck, 2015; Crouch, 2009; McCabe, 2011; López and Rodríguez, 2011). This thesis is supported by Rolnik's (2013) global review of the drivers of financialisation and is evident in analyses of the impact of the

global financial crisis on countries including the USA (Immergluck, 2015; Brenner, 2006), Spain (López and Rodríguez, 2011; Fernández de Lis and García Herrero, 2008) and the UK (Crouch, 2009; Whitehead and Williams, 2011). In the United States, the expansion of home ownership and the mortgage market is most commonly attributed to financial innovations, particularly the securitisation of mortgage loans and subprime loans and the 'originate and distribute' model these developments gave rise to. These developments have been linked to government efforts to increase the supply of capital for mortgage lending through the establishment of federal mortgage securitisation agencies such as Fannie Mae and Freddie Mac (Immergluck, 2015; Aalbers, 2009). Financial deregulation and the creation of a wide variety of new mortgage products certainly played a role in driving credit bubbles in European countries and was tied to the deregulation of capital markets, the reduction of currency risk, and the decline in interest rates associated with European Economic and Monetary Union (EMU); i.e. the process of removing barriers to free movement of commercial finance between EU members which culminated in the establishment of the Euro in 1999 (European Central Bank, 2009). These developments enabled increased lending by easing cross-border flows of the capital required to fund these loans and reducing borrowers' loan servicing costs, thereby enabling greater indebtedness. The emergence of strongly 'pro-growth' planning policies and the wider shift towards entrepreneurial urbanism also contributed to a house building bubble which emerged in tandem with the credit bubble in some countries such as Spain where housing supply increased dramatically in the late 1990s and early 2000s (López and Rodríguez, 2011). Of course, these asset-price bubbles were linked to credit bubbles and the general proliferation of risk throughout the global financial system, ultimately leading to the credit crunch and chaos of 2008 and subsequent years.

In addition to contributing to the property and financial bubbles, many scholars argue that the expansion of mortgage-backed home ownership played a wider political economic role at numerous levels. Most importantly, home ownership and the expansion of credit related to home ownership subsidised aggregate demand, which played a vital role in supporting economic growth in the absence of wage growth and in the context of deindustrialisation, in a process that Robert Brenner (2006) calls 'asset-price Keynesianism' (his analysis focuses on the US, but López and Rodríguez (2011) and Downey (2014) offer similar analyses of Spain and Ireland respectively, see also Byrne, 2016a). As Watson's (2010) analysis of the UK suggests, as well as supporting consumer demand, this approach had a social function – it was intended to support the acquisition of assets such as dwellings that could be liquidated if required to meet costs such as eldercare and therefore would in part replace the mainstream welfare state. Home ownership has also played a role as a form of 'asset-based welfare' in many other countries (Doling and Roland, 2010).

In European countries, the funding and, in many cases, provision of social housing was traditionally one of the primary ways in which the state played a role in the housing system and in urban development more widely. Although social housing has received limited attention from scholars of the global financial crisis (Rolnik (2013) is an exception), there is some evidence that the transformation of this tenure was an important factor in the expansion of home ownership and therefore in asset price bubbles. Rolnik (2013) argues that the reduction in the social housing stock due to privatisation and reduced government subsidies for new building and the consequent residualisation of the sector (which has become increasingly dominated by benefit-dependant households) have played important roles in pushing low-income households into home ownership and therefore laying the foundation for the financialisation of

housing. This analysis is supported by research on a wide variety of countries. For example, Rodríguez and López (2011, p. 47) report that in Spain ‘from 1993 cut backs in the construction of social housing added to the already dramatic decrease in the construction of social housing which had taken place between 1984 and 1989’, and this shortage of supply was augmented by the Boyer Decree (1985), which sanctioned the privatisation of the social housing stock (López and Rodríguez, 2011). Similarly, in the UK, the shift towards a ‘home ownership’ society is widely associated with the introduction of the ‘Right to Buy scheme’ for social housing tenants in the 1980s and the subsequent privatisation of large portions of this stock (Forrest and Murie, 1988). Furthermore, mass privatisation of the former state-owned dwellings that housed the majority of Central and Eastern European households during the communist period has forced young people to rely on the market for accommodation or, in the absence of a developed market, on family support (Stephens, Lux and Sunega, 2015). More subtle transformations of social housing finance and provision arrangements have also been identified as drivers of financialisation. The use of private finance to fund social housing regeneration in the UK, for example, has been conceptualised as a mechanism to open up social housing provision to finance capital and to embed marketisation pressures (Hodkinson, 2011; for a similar analysis in the Irish context see Hearne, 2011; Bisset, 2008). Regeneration of social housing or former social housing projects has been part of a wider urban entrepreneurial agenda in many countries, thus feeding into the overheating housing markets (Byrne, 2016b).



## **Irish Housing Policy and the Property Bubble**

Researchers have shown that many of the factors that played a role in inflating property markets in other developed countries were also drivers of Ireland's property and financial bubble. Financial markets in this country were deregulated from the 1980s, as part of which restrictions on credit growth were abolished; banks' reserve requirement ratios were lowered; capital controls were dismantled; and restrictions on interest rates were withdrawn (Kelly, 2014). The similarities between regulatory changes in Ireland and other developed countries reflect the fact that the Irish reforms were inspired by similar reforms in other Anglophone countries and also by the requirements of EMU (European Central Bank, 2009; McCabe, 2011). However, financial deregulation in Ireland was inspired by local concerns too. These included practical concerns such as reducing the very high proportion of mortgages provided by government (which accounted for 25% of all loans drawn down in the early 1980s), which were classified as part of a national debt considered unsustainably high by the 1980s (Norris, 2015). Although Irish politicians rarely cite explicitly ideological rationales for their actions and no large-scale neoliberal political movement emerged in Ireland during the 1980s of a similar scale to Thatcherism or Reaganism (Kitchin et al., 2012), there is no doubt that liberalising instincts motivated policy reforms in some fields and banking policy is one of them (Murphy, 2016; Kelly, 2014).

In contrast to most other Western European countries, Ireland has always had a liberal pro-development planning system. For most of the 20<sup>th</sup> century, a shortage of development finance and mortgage credit constrained construction, but the credit boom changed this situation and new building was further incentivised by a series of tax breaks which were introduced from the mid-1980s and which promoted investment in the provision and refurbishment of dwellings in selected run-down urban

neighbourhoods and later in tourist and private healthcare facilities (Norris, Gkartzios and Coates, 2013).

In the context of a growing economy and increases in credit and population, these policies produced a property bubble of unprecedented proportions. The intensity of the Irish housing boom far surpassed all of the country's European neighbours, with the exception of Spain which experienced a similar set of dynamics both in terms of the scale of the boom and its unusual dual character whereby a credit boom was accompanied by a building boom (Norris & Byrne, 2015; Conefrey & Fitz Gerald, 2010). From 1996 until the peak of the boom in 2006, Irish house prices increased by 292% in nominal terms. Rapidly increasing prices were accompanied by soaring housing output, which grew by 87.5% between 2000 and 2006 (Norris & Coates, 2014). To give a sense of perspective, in 2006, the UK built just over twice the number of dwellings Ireland did (209,000 units) for a population 15 times greater (Norris & Byrne, 2015). While initially stimulated by growing employment, population and wages in the mid-1990s, during its later stages the boom was fuelled primarily by the rapid expansion of mortgage credit, with outstanding residential loans rising by 281% (from 31.6 to 69.8% of GDP) between 2000 and 2006 (Ó Riain, 2014). Although, like in other countries, commentary on the Irish credit boom has focused on the increased size of loans taken out by homeowners who were desperate to climb onto the property ladder, more careful analysis indicates that increased lending to private landlords was the primary driver of the Irish credit boom. The proportion of outstanding mortgages held by residential landlords increased from 18.8 to 26.9% between 2004 and 2008, while the proportion held by homeowners fell from 80.0 to 71.9% concurrently (Norris and Coates, 2014). This development was a direct result of the banking and housing policy reforms outlined above because, prior to its deregulation, mortgage lending was dominated by local government and building

societies (savings and loans institutions). These were mandated to lend for home purchase and therefore credit was not easily available to buy-to-let landlords.

Furthermore, the tax breaks for residential property development and refurbishment referred to above were much more lucrative for landlords and they encouraged expansion of the private rented sector (Norris, Gkartzios and Coates, 2013).

Rather than just a sectoral phenomenon, the bubble ultimately became of systemic importance to the Irish economy as a whole. In the decade 1996 to 2006, construction as a percentage of GDP rose from 5.5% to 10.3%. By 2006, the sector also accounted directly for over 12% of employment as well as another 5% in terms of indirect employment in allied services such as home furnishings (Norris & Byrne, 2015).

Property prices also boosted aggregate demand in the domestic economy (Byrne, 2016a). Between 2005 and 2007, the peak boom years, more than one-third of all loans were housing equity withdrawals, amounting to €5.5 billion per year (Downey, 2014).

The systemic importance of the private property market to Irish society and the economy is further evidenced by fiscal dependence on property-related taxes. Receipts from residential property market related taxes (stamp duties on house purchases, consumption tax on the construction of new houses, tax on the profits from house sales and property taxes) rose from €2.75 billion in 2002 to a peak of €8.1 billion in 2006.

During this period, this windfall revenue facilitated a marked increase in public spending and also cuts in income taxes, which in turn further increased exchequer reliance on property-related taxes (Addison-Smyth & McQuinn, 2009). Property-related taxes accounted for 8% of total tax revenue in Ireland in 2002, but this had grown to over 15% by 2006 (Norris & Coates, 2014).

The Irish property market began to stall in 2006 and the international credit crunch that commenced in 2008 hastened its decline. By 2012, house prices had declined by

41.6% and house building had declined by 90.9% (Norris & Byrne, 2015). The banking sector entered into a period of free fall as deposits contracted, mortgage lending collapsed, bad loans increased and banks faced rising difficulties in borrowing on international markets. In response to this unprecedented collapse of the banking system, the government guaranteed the deposits and liabilities of all major Irish headquartered banks in September 2008 and incrementally nationalised virtually the entire banking system over the course of the following year. This interlinking of sovereign and banking debt, coupled with collapsing tax revenue as unemployment rose and property-related tax revenues declined, undermined the creditworthiness of the Irish state. By 2010, the government found itself unable to borrow and due to this fiscal and sovereign debt crisis was forced to seek an emergency loan from the EU and the IMF to fund the state and bank recapitalisations (Norris & Coates, 2014).

Apart from its disastrous consequences for Irish society and the macroeconomy, the property bust obviously created severe problems across the housing system. 14% of homeowner mortgages were in arrears in March 2015 and arrears on private landlords' buy-to-let mortgages for the same year were even higher at 24% (Central Bank, various years). As mentioned above, lending for mortgages and also for property development has declined radically since 2008 and, together with widespread bankruptcies among construction firms, this has precipitated a marked decline in new house building from 71,356 units in 2007 to 10,501 in 2014 (Department of Housing, Planning and Local Government, various years). This has created serious housing shortages in cities, particularly Dublin, where the economic recovery is most pronounced and the population is growing. These strains are most clearly evident in rising homelessness – the number of homeless adults in the city increased from 2,306 to 3,777 between the start of 2014 and the start of 2016, and the number of homeless children increased from

970 to 1,847 concurrently (Department of Housing, Planning and Local Government, various years).

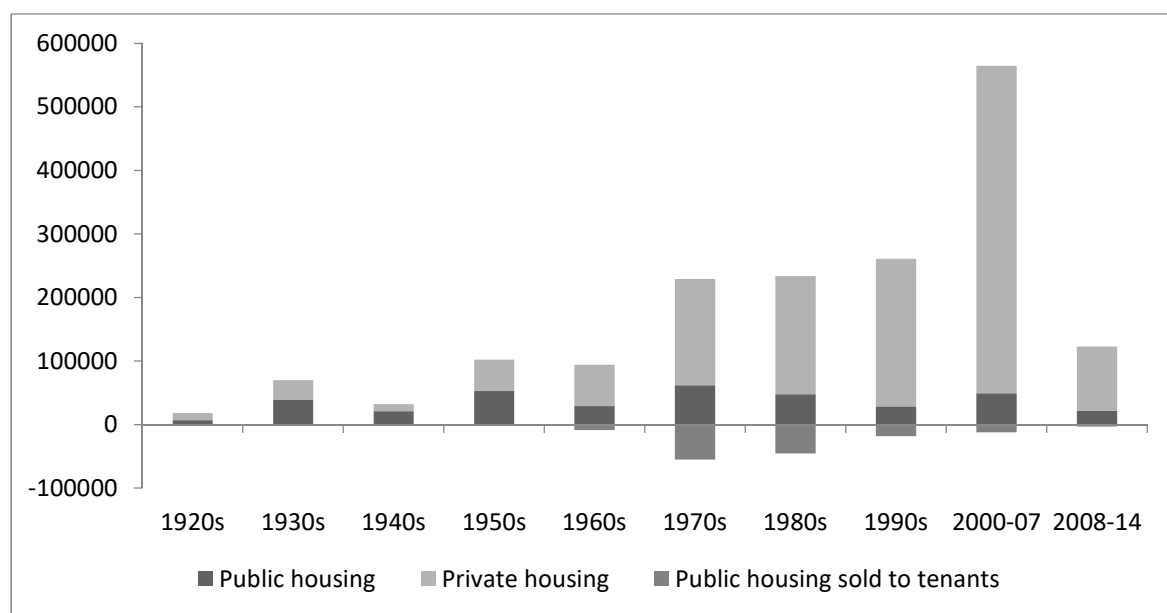
## **Social housing Transformation and the Irish Property Market**

### ***Counter-cyclical Social housing***

Between the foundation of the independent Irish state in 1922 and the late 1950s, the social housing sector provided the majority of new dwellings constructed. As a result, by 1961, 18.4% of Irish households were social housing tenants. Rates of new public house building remained high until the 1980s (see Figures 1 and 2). Although the post-1960 period saw significant rates of sales to tenants under the terms of a ‘tenant purchase scheme’ which effectively privatised many social housing dwellings (along the lines of Thatcher’s Right to Buy), the sector operated as a key pillar of the housing system for most of the 20<sup>th</sup> century.

From its emergence in the 1880s until the 1970s, social housing acted as an effective counterweight to the market in a number of fundamental respects. As revealed by Figure 1, the social housing sector was effective in providing additional housing during periods of market undersupply. Its role in this regard was particularly important in the aftermath of World Wars I and II. Crucially, until the 1970s, almost all social housing was *additional* to that provided by the market because it was built from scratch directly by local government and by tradespeople who were in many cases direct public sector employees (O’Connell,

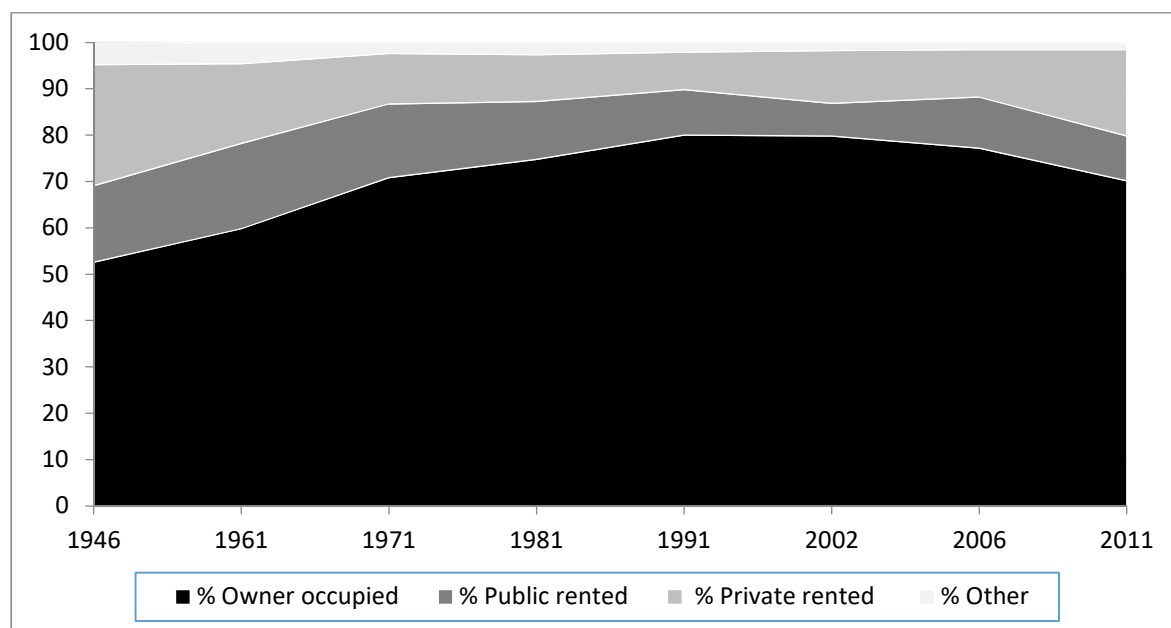
**Figure 1** *Public and Private Sector Housing Output in Ireland and Public Housing Sold to Tenants, 1920s-2014.*



Note: The 1920s refer to 1923–1929 only; private sector building figures from the 1920s to the 1950s only include dwellings built with state aid, but the available evidence indicates that this includes the vast majority of all private sector dwellings built. Annual data on sales of public housing to tenants between the 1930s and 1960s are not available, but as the available evidence indicates that the vast majority of these sales took place after 1951, these figures are included in the data for the 1960s.

Source: Minister for Local Government (1964); Department of Local Government (various years); Department of Housing, Planning and Local Government

**Figure 2** *% of Households Living in Owner Occupied, Private Rented and Public Rented Housing in Ireland, 1946-2011.*



Note: the figures are adjusted to exclude “not available”.

Source: Central Statistics Office (various years).

2007).

Social housing's role in providing good quality, affordable rental housing was particularly important because of the failure of the private rented sector to do so (the latter contracted by half between the 1940s and the 1970s (Threshold, 1981)). High rates of public house building during periods of low market supply also provided an economic stimulus and a source of employment, which was important in a country that suffered weak economic growth and chronic unemployment for most of the 20<sup>th</sup> century (O'Connell, 2007). For this reason, government increased investment in public house building during the particularly severe recession and fiscal crisis Ireland suffered during the 1950s to 2.5 times the rate of output achieved during the preceding decade (Daly, 1997) (see Figure 1).

As well as counterbalancing the market, therefore, for much of the 20<sup>th</sup> century the social housing sector proved effective at withstanding the regular fiscal crises generated by Ireland's sustained record of economic underperformance (Kennedy, Giblin and McHugh, 1988).<sup>1</sup> The ability of social housing to thrive in this inhospitable fiscal environment was linked to the way the sector was organised, particularly in terms of funding. Until the 1960s, it was funded by bank loans raised by small local authorities and municipal bonds issued by their larger counterparts. These were repaid by tenants' rents which reflected the cost of housing provision and also by the proceeds of local property and business taxes called rates. This decentralised and partially financialised funding model placed social housing outside the direct control of the senior civil servants who were at this time strongly ideologically wedded to a deflationist economic model and fiscal rectitude (Fanning, 1978). It also meant that high spending on social

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<sup>1</sup> Notably, the other elements of the Irish welfare state did not display similar resilience, as evidenced by the fact that this country did not enjoy the 'golden age' of welfare state expansion that occurred in other Western European countries in the three decades after World War II, and Irish health and social services in particular remained very underdeveloped by the standards of neighbouring countries until the 1970s.

housing was not a major concern for conservative politicians and civil servants since, prior to the standardisation of national accounting systems in the late 20<sup>th</sup> century, local government borrowings were not formally defined as part of the national debt and the social housing system could largely fund itself through the proceeds of rents and rates with minimal recourse to central government funds.<sup>2</sup>

### ***Transforming the Relationship between Social housing and the Housing Market***

During the second half of the 20<sup>th</sup> century, social housing financing came under growing strain which resulted in a slow process of centralisation and also nationalisation of funding for this service as central government took over from local government as the primary borrower of finance for social housing development in the late 1950s and central government subsidies towards the repayment of these loans until they covered all the interest costs by the 1960s (Daly, 1997). These arrangements proved increasingly difficult to sustain as the tenants rents' which originally reflected the cost of housing provision were linked to incomes in all local authorities from the late 1960s and consequently were often insufficient to service debt. In addition sales of social housing to tenants at significantly below market value often yielded revenue which was insufficient to cover the loan taken out to build the dwellings.

These problems came to a head in the context of a severe economic down turn and associated fiscal crisis in the late 1970s and 1980s and particularly following the abolition of domestic rates (local property taxes) in 1978 because local authorities relied heavily on this revenue to meet the capital repayments in social housing

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<sup>2</sup> Although this should not be taken to imply that these arrangements were always unproblematic and Daly's (1997) history of Irish central-local government relations reveals regular conflict between the housing ministry and the municipality responsible for Dublin (Ireland's largest city where slum housing was most widespread) over borrowing for house building, which reached such high rates that the municipality's solvency was at times open to question and it regularly failed to attract buyers for its bond issues.



development loans. By 1987, the government announced that the system of borrowing to fund social house building would be abolished and in the future the sector would be funded by central grants (Norris, 2014). As mentioned above, the deregulation of the Irish banking sector was driven by neoliberalising instincts. Social housing, however, did not suffer a strong ideological backlash, certainly in comparison with that led by Margaret Thatcher's governments in the UK at this time. Indeed, it retained at least the ostensible support of politicians. Rather than the specific targeting of social housing, reforms were driven by a consensus among most Irish political parties that public spending needed to be cut due to what was perceived as unsustainable borrowing coupled with a growing faith that the 'market would provide' (Honohan, 1992).

Two other concurrent changes in the regulation and funding of private rented housing introduced at this time would have a strong impact on the future of social housing in Ireland. The first was the introduction of a public subsidy towards the rents of unemployed private tenants in 1978. Called Rent Supplement, this was introduced as part of a wider programme for modernising the social security system rather than any considered attempt to reform supports for private rented tenure. Eligibility was limited to benefit-dependant private renting households and take-up was initially very low. Also, in 1982, the longstanding private rent controls were abolished, again not as part of a planned series of housing policy reforms but rather as the result of a court judgement that found rent control incompatible with the private property protections in the Irish constitution (Kenna, 2011).

### ***Pro-cyclical Social housing***

The reforms to social housing finance and supply arrangements initiated in the late 1980s effected a profound change in the relationship between social housing and the private housing market. Rather than providing a counterweight to market trends, from then on social housing operated in a pro-cyclical fashion. The primary reason for the pro-cyclicality of the social housing system relates to the replacement of local government loan finance with central government capital grants which covered the full costs of social housing provision (Norris, 2014). Housing is of course a 'lumpy' good that requires large-scale, upfront investment (Weber, 2002). Loan finance spreads the costs of housing over an extended period and thereby renders it more affordable for the exchequer, which is why in almost every country that has a social housing system the sector is funded using loan finance (Whitehead, 2014a). In contrast, using capital grant funding for social housing concentrated almost all of the substantial costs of social housing provision in the procurement phase. This reform also centralised and nationalised finance for social housing, which rendered the sector much more exposed to fluctuations in the strength of central government finances and also to changes in central policymakers' spending priorities than was the case when the sector was financed by both central government and a multitude of local authorities and by a mix of central and local tax revenues, private finance and tenants' rents.

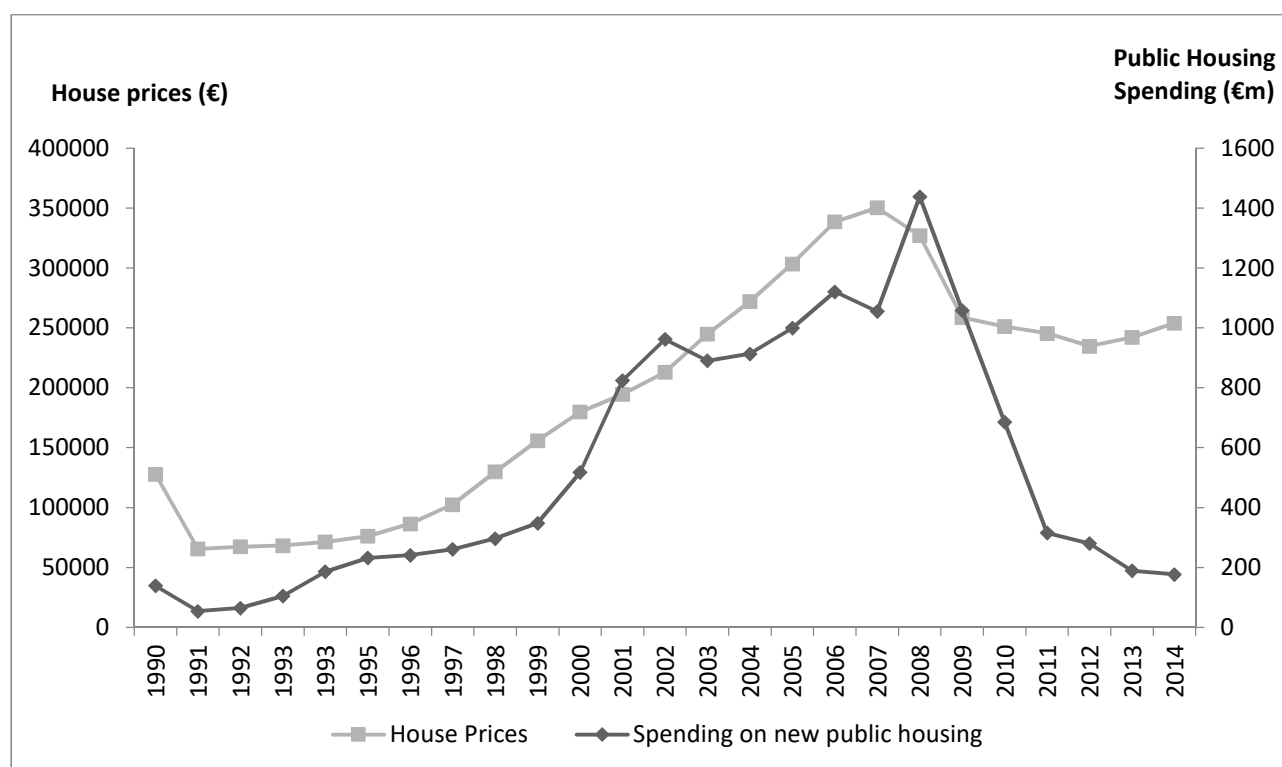
These developments meant that public house building was very low in the years immediately following the reforms to financing methods. Just 768 additional public rented dwellings were built in 1989, whereas 7,002 dwellings were provided in 1984, immediately before the reforms were introduced. Social housing output did rise again in absolute terms during the late 1990s (4,853 additional public rented dwellings were provided in 1995) and increased further in the early 2000s (to 6,477 dwellings in 2005)

(see Figure 1). This development was driven by a significant increase in public spending in this area, which rose from €232 million in 1995 to just below €1 billion in 2005 and was enabled in part by the additional tax revenue generated by the property boom (see Figure 3). However, the coincidence between increased social housing expenditure and the property boom helped to further stimulate a construction sector that was arguably already overstimulated. In addition, investing in social housing when land and house prices were at historic highs was unlikely to provide value for money.

Furthermore, due in part to the lumpiness of capital grant finance and in part to the peaks and troughs in investment reflecting fluctuations in the health of public finances, public sector output failed to keep pace with private building (the former accounted for 29% of all housing output during the 1970s but just 10.9% in the 1990s) and population growth (which increased by 20% between 1991 and 2006) (Central Statistics Office, various years) (see Figure 4). Therefore, in relative terms, the social housing sector contracted during the 1990s and early 2000s – it accommodated 12.7% of households in 1981 but just 6.9% in 2002 (Central Statistics Office, various years). The reduction in the availability of social housing was further compounded by sales of social housing to tenants (see Figure 1).

This contraction and residualisation of social housing further amplified pro-cyclical effects because it forced more low-income households into the overheated property market to secure housing (McCabe, 2011). Despite the marked growth in house price inflation, if these households were in employment, many succeeded in purchasing a home with the help of the ever larger mortgages being provided by the banks at this time, coupled with weakening

Figure 3 House Prices and Public Spending on New Public Housing Provision, 1990-2014.

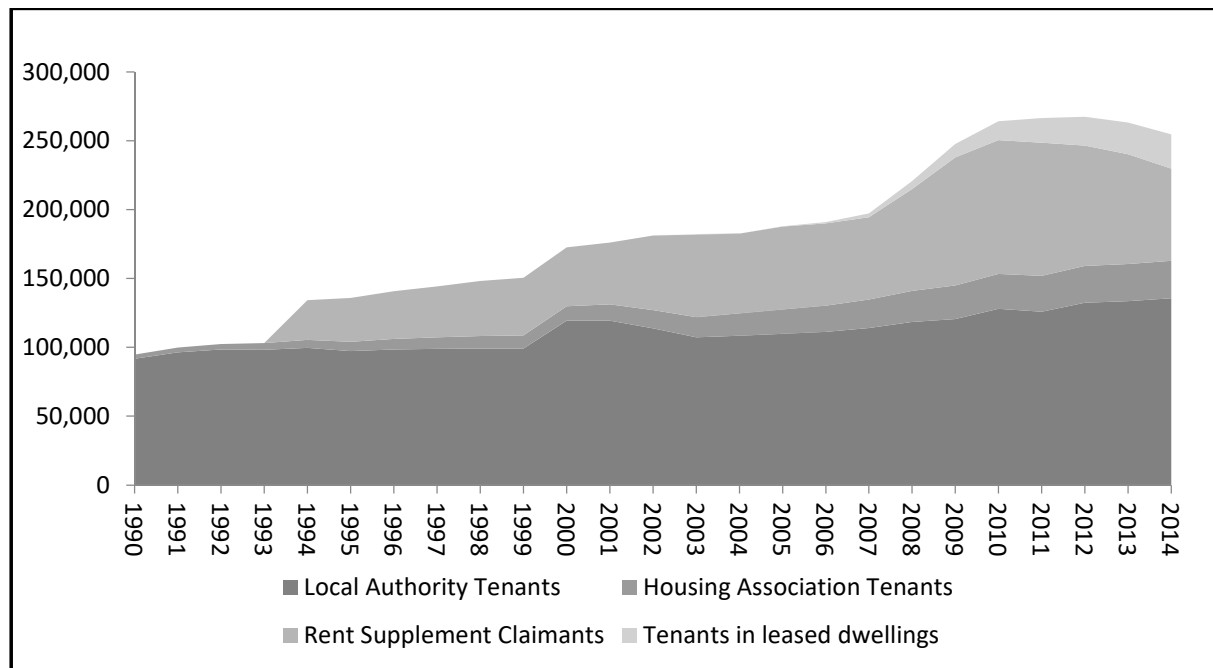


Source: Department of Public Expenditure and Reform (various years) and Department of the Housing, Planning and Local Government (various years).

lending standards as highlighted above. However, a large proportion of low-income households could not afford to buy during the property boom as evidenced by the fact that the proportion of Irish households living in private rented accommodation increased during the property boom (for the first time since records began) from 8.1% in 1991 to 11.4% in 2002 (see Figure 2).

In addition, increasing numbers of private renters were supported by government subsidies in the form of Rent Supplement. In the decade from 1994 to 2004, Rent Supplement claimant numbers increased by 101%, whereas the number of mainstream social housing tenants increased by just 15.2% (see Figure 4). The growth in Rent Supplement claimants also made an important contribution to the increase in buy-to-let

Figure 4 Households in Social Housing and in Receipt of Housing Allowances for Private Rented Housing, 1990-2014



Note: social housing includes local authority and housing association tenants. Housing allowances includes rent supplement and tenants in leased dwellings.  
 Source: authors' own calculations of data from the Department of Housing, Planning, Community and Local Government (various years) and the Department of Social Protection (various years).

investors. Particularly in cities, the state, via Rent Supplement, was by far the largest procurer of private rented housing (33.9% of private rented tenancies in Dublin were financed in this way in 2002), thus maintaining the rental market and rent levels (Department of Social Protection, various years; Central Statistics Office, various years). By the time of the peak of the property bubble in 2006, the number of households living in government subsidised private rented housing had reached half the number living in mainstream social housing (60,694 compared to 130,300) (Department of Housing, Planning and Local Government, various years; Department of Social Protection, various years). As noted above, the growth in the private rental sector, and buy-to-let investment in particular, was a significant driver of house price increases at the peak of

the bubble and thus represents an important avenue through which the marketisation of social housing fed into the property boom.

The pro-cyclical role of social housing was further amplified by a number of changes made to arrangements for procuring these dwellings which were initiated during the 1990s and early 2000s. The first of these relates to the increasingly widespread purchase of existing dwellings for inclusion in the public sector stock, as opposed to building dwellings especially for this purpose. As mentioned above, prior to the late 1980s, virtually all of the public sector housing stock was purpose built, but from the end of this decade social housing landlords began to rely increasingly on purchasing existing dwellings, to the extent that 31.3% of all new social housing stock was procured in this way in 2000 (Department of Housing, Planning and Local Government, various years). This policy shift was partially inspired by concerns about socio-spatial segregation generated by large mono-tenure social housing estates and these concerns also partially motivated the introduction of 'inclusionary zoning' by the Planning and Development Act 2000. This legislation enabled local government to require that up to approximately 20% of land zoned for housing could be employed to meet social housing needs or for sale at cost price to low-income home buyers. The 2000 legislation delivered 13% of all new social housing units provided between 2002 and 2011 (DMK and Brady Shipman Martin, 2012). Finally, in the mid-2000s, proposals were formulated to transfer ownership of parts of seven large social housing neighbourhoods in Dublin to private developers in return for which they would rebuild or refurbish the remaining social housing stock. Although only some of these public-private partnership (PPP) regeneration schemes ultimately came to fruition, these programmes and the 2000 Planning Act tied social housing output directly to private housing output and also to rising housing and land prices (because these were key to ensuring the commercial

viability of private housing developments). Thus, these two policy measures further contributed to the marketisation and pro-cyclicality of social housing delivery. The growing reliance on the purchase rather than the construction of social housing reinforced this trend while undermining social housing's traditional economic role of providing additional housing to counterbalance market undersupply.

### ***The Property Crash and the Social housing Crisis***

As mentioned above, the aftermath of the global financial crisis witnessed significant cutbacks in most aspects of public spending in Ireland and a prolonged period of austerity (Mercille and Murphy, 2015). Because social housing was 100% dependent on upfront capital funding from central government, it was extremely vulnerable to austerity. Moreover, its reliance on market mechanisms for delivery meant that social housing was also impacted by the dramatic collapse in housing output from 2009. The pro-cyclical nature of social housing thus meant that just as the sector had fed into the housing boom of the 1990s and early 2000s, it would now be brought down in tandem with the housing crash. In this section, we analyse the two key 'transmission mechanisms' through which the crisis in the private housing system became a crisis of the social housing system.

#### ***1. Fiscal Transmission Mechanisms***

As noted above, the bubble in the Irish property and financial sector in the 1990s and 2000s combined with an enormous increase in construction, particularly house building, to become the driving force of the Irish economy. Consequently, following the property market bust, tax revenue fell dramatically in 2007 and 2008. Falling revenue from residential property market related taxes accounted directly for some 35% of this

decline, but in view of the central contribution that falling construction employment made to the collapse in income tax revenue, the real contribution of the property market bust to the fiscal crisis was certainly higher (Norris and Coates, 2014; see also National Economic and Social Council, 2014). The property bust also contributed indirectly to Ireland's fiscal crisis by undermining the solvency of the banking sector, which was almost completely nationalised in 2009 at enormous cost (estimated at 40% of GDP) (McCarthy, 2012). As explained above, these developments had very significant and well-documented adverse implications for the fiscal position of the Irish state and its capacity to borrow, and resulted ultimately in the state's entry into an EU and IMF emergency stabilisation programme in 2010 (Government of Ireland, 2010).

The deterioration of the state finances, the EU/IMF agreement, and the more general constraints placed on borrowing and deficit levels by EU institutions have all led to significant retrenchment of public spending. Of all the sectors, central government capital spending has been subject to the most significant reductions. As detailed in Figure 3, exchequer capital grants (which provide almost all funding for new social housing units) fell by 88% between 2008 and 2014 (from €1.4 billion to €167 million). Indeed, the Department of Environment – the ministry with responsibility for housing – suffered the second highest proportionate budget reductions of any ministry between 2008 and 2012 and these reductions consisted mainly of cuts to capital spending (Hardiman & MacCarthaigh, 2013). Thus, like their predecessors during the 1980s fiscal crisis, policymakers chose to focus their retrenchment efforts on capital rather than current spending. This reflects the political and practical difficulties of reducing the latter – deferring capital investment is likely to be more politically palatable than laying off nurses, for instance, and while social security spending is obviously difficult to reduce when unemployment is rising, capital spending plans can be shelved or reduced



at the stroke of a pen (Honohan, 1992). Thus, the centralisation and nationalisation of social housing finance in the 1980s rendered the sector more vulnerable to the effects of a fiscal crisis than it had been in previous decades. Figure 1 demonstrates that these reductions in capital spending on social housing had a very significant impact on output. Total new public output fell from 7,588 units in 2008 to just 642 units in 2014.

## *2. Direct Property Market Transmission Mechanisms*

The precipitous decline in private house building and housing and land prices from 2007 also helped to depress social housing output since, as explained above, the latter was heavily dependent on the former. 4,518 social housing units were acquired under the auspices of the 2000 Planning Act in 2008, for instance, but due to the fall in private house building this mechanism facilitated the acquisition of just 67 social housing units in 2014 (Department of the Environment, Community and Local Government, various years; DKM and Brady Shipman and Martin, 2012). In 2008, all but one of the seven PPP projects for the regeneration of social housing complexes collapsed amid considerable controversy when the developer pulled out claiming the projects were no longer commercially viable and subsequently declared bankruptcy (Hearne, 2011).

Moreover, as new housing output in the public and private sector contracted radically from 2009, significant pressure was placed on the private rented sector, particularly because the economy started to recover from 2012 but housing output failed to recover concurrently. As noted above, subsidised private rented housing became a crucial substitute for social housing in the 1990s and 2000s. In the context of the marked decline in social housing finance, output and building during the economic crisis, reliance on private rented 'quasi social housing' increased even further. Total claimants of these supports increased from 79,960 at the start of the crisis in 2008 to a

peak of 132,287 in 2011 (Department of Social Protection, various years; Department of Housing, Planning and Local Government, various years). Claimant numbers fell back slightly after the latter date as the economy improved, but rising employment generated increased housing demand and as private sector housing output did not increase to reflect this, rents began to inflate rapidly. Private rents fell sharply during the economic crisis – by 25% nationally between 2007 and 2012 – but between the latter date and 2015, average rents in Dublin had regained almost all of this decline and were just 2.3% below peak (Private Residential Tenancies Board, 2015). Soaring rents are one of the main causes of the marked increase in homelessness referred to earlier in this paper (Threshold, 2016; Sirr, 2014).

## **Conclusions**

As noted at the outset, like its international counterparts, Ireland's property bubble has primarily been examined through the lens of home ownership, mortgage markets and the related commercial credit bubble. To the extent that social housing has featured in attempts to understand the Irish crisis, the focus has been on its contraction and the role this has played in forcing households to look to the market for accommodation. The decline of social housing and the expansion of owner occupancy are no doubt crucial phenomena in understanding the boom and the bust. However, a broader transformation occurred in the nature of the social housing system and in its relationship with the private housing market. At the heart of this transformation is the shift towards a social housing system that is pro-cyclical, operating in important respects through the market in terms of meeting housing need. Importantly, this meant that social housing provision fed into demand for private housing in terms of the

acquisition of housing from private developers, the subsidisation of rent levels, the rolling out of public-private partnerships and so on. This shift in the *nature* of the social housing system meant that the provision of social housing no longer acted as a balance to the dynamics of the market. It did not provide an alternative form of housing to the vast majority of households nor did it ensure a form of housing supply that dampened the private market. On the contrary, the delivery of social housing through market mechanisms and the state subsidisation of the private rental sector added further fuel to the property market furnace.

The pro-cyclical nature of social housing in the 1990s and 2000s also rendered it vulnerable to any downturn in the private housing system. ‘Transmission mechanisms’ were built in terms of the financing of social housing and in terms of the acquisition of social housing through market mechanisms, ensuring that when private output contracted and then collapsed the provision of social housing evaporated almost immediately. Far from providing a ‘buffer’ to the inequalities and volatility of the private housing market, social housing acted as an ‘echo chamber’ that reproduced and intensified the crisis tendencies of the housing market. This has meant that the crisis in the private housing system has become a crisis of the social housing sector as well, and thus of the housing system as a whole.

The tendency in many societies of the global north has been to move away from strong, supply-side provision of social housing and instead to seek market-based mechanisms and demand-side solutions (such as subsidising home ownership and private landlords). However, the analysis presented here suggests that pro-cyclical social housing systems may intensify volatility in the private housing market and may be vulnerable to crises in the latter. As such, maintaining a social housing system that enables the supply of affordable housing in a manner that is insulated from the

dynamics of the private housing market can be considered an important lesson from Ireland's housing and financial crisis. Mechanisms of *funding* and *acquisition* are particularly important here. To the extent that these are linked to the private housing system, their instability and vulnerability will be increased across the housing system as a whole. This can be addressed through the development of a financing regime that is more diversified, is not exclusively reliant on capital funding and hence is more resilient. It should also reduce reliance on the market for provision of housing by reducing the role of rent supplements and the private rented sector and the role of acquisitions and other mechanisms through which social housing stimulates demand for private housing development. The social housing system must guarantee an alternative supply pipeline of affordable housing if it is not to become dominated by the cyclicity of the market and thus lose its role as a counterbalance and as an alternative.

The analysis of the transformation of social housing systems suggests the importance of examining the interaction between different components of housing systems in understanding the global financial crisis and its aftermath. In relation to social housing, the issue is not just its size and availability as a form of affordable housing, but also the mechanisms through which it is provided and thus its relationship to and impact on the private housing market, housing demand, and so forth. The nature of this interaction raises important political questions for housing systems. Critical geographers (O'Callaghan et al., 2015; Kelly and MacLaran, 2014; Kitchin et al., 2012) and others have argued that urban development in general and the housing boom in particular can be conceptualised as part of the Irish experience of neoliberalism. The developments described here with regard to the transformation of the social housing system can be conceptualised as part of the wider process of neoliberalisation in two senses. First of all, housing policy increasingly operated to deliver housing by stimulating and shaping

the private market. Second of all, greater reliance on the market was used to reduce government spending. Given the way the transformation of social housing fed into the property bubble, the neoliberalisation of Irish social housing policy can be understood as working in tandem with the property and financial crisis and the wider question of the 'financialisation of housing' (Downey, 2014). The Irish social housing system thus underwent a similar set of transformations to those evident in England over a similar period (Whitehead, 2014b). Our analysis echoes concerns around the residualisation and marketisation of social housing, but also adds to the literature by examining how these interact with the private housing system in a manner that reinforces the latter's volatile, crisis-prone nature and also renders social housing vulnerable to those crises.

Examining the interaction of social housing systems and the private housing market thus represents an important task for analysing how the neoliberalisation of housing policy and the process of financialisation have interacted to shape the financial crisis, as well as for understanding the origins and nature of the current crisis of social housing in Ireland and perhaps elsewhere.

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