Social Democrats

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# The 'Homes for Ireland' Savings Account

## A new way to finance home building


“This government claims to be focused on delivering affordable homes.

In reality, it is prioritisesing the interests of global investor funds. We need new ways to fund housing, if we are to avoid turning young Irish adults into a generation locked out of homeownership and denied affordable rental homes”

Rory Hearne TD -
Social Democrats’
Housing spokesperson

# Contents

# Key Points

The Social Democrats are calling on government to:

- Commit to increasing delivery of affordable housing to 10,000 affordable purchase homes and 5,000 Cost Rental homes per year.
- Utilise the full potential of local authorities, Approved Housing Bodies and SME builders to deliver on these targets.
- Establish a Homes for Ireland Savings Account (HISA), to offer incentives for Irish savers and open up a new source of domestic financing for home building in Ireland, with a renewed focus on affordable purchase housing and Cost Rental.
- Channel funds raised by this savings scheme through Home Building Finance Ireland (HBFI) and the Housing Finance Agency (HFA) to reach not-for-profit developers, and to do so in a manner that keeps this financing off-balance sheet for the State.
- Explore the possibility for the HBFI and HFA to take equity stakes in home-building projects alongside AHBs and SME builders to unlock further housing development finance by ‘crowding in’ private investment from banks and non-bank lenders.
- Use a preferential interest rate and a Deposit Interest Retention Tax (DIRT) exemption to attract savers to the HISA, in order to utilise the high levels of private savings rates in Ireland to deliver additional ‘private’ capital for key investment.
- Work to future-proof the funding available for affordable housing construction in Ireland, reducing reliance on budgetary surpluses to fund this area of capital investment.
- Investigate and pursue other methods in addition to our proposal to reduce the reliance on institutional investment in house building.

# Introduction

The Social Democrats believe that everybody should be able to live in a high quality, secure and affordable home.

Successive Governments have driven us deeper into the current housing disaster by taking an approach to housing that is too hands-off, with an over-reliance on institutional property investors and international finance.

The Social Democrats want to see the State and the not-for-profit sector at the heart of affordable housing delivery. We need Approved Housing Bodies (AHBs) and local authorities to directly build tens of thousands of social and affordable homes – in addition to current levels of supply – if we are to have any hope of meeting demand.

Delivery of affordable purchase housing on the scale necessary will require new sources of sustainable finance.

Eurostat is the statistical office of the European Union (EU). Their designation of the debt of Ireland's AHB sector as being 'on the public books'[1] acts as a headwind to increased public investment in housing, as any additional spending counts towards public debt under the EU's Fiscal Rules[2]. Raising finance can also be an issue for local authorities building housing since they depend on central government to finance their capital budgets.

Access to early-stage development finance is a particular challenge for SME builders contracted to deliver housing for AHBs and local authorities, as they often rely on securing private financing on a project-by-project basis.

Currently, the Housing Finance Agency (HFA) provides competitively-priced long-term financing to AHBs and local authorities while Home Building Finance Ireland (HBFI) is playing a growing role providing finance to smaller homebuilders during the early development stage of social and affordable housing projects. To achieve housing delivery at sufficient scale it will be

[1] Therefore, when the government provides loan financing to an AHB to develop housing, it is adding to its own debt and potentially (depending on debt and deficit levels) necessitating spending cuts or debt reduction measures elsewhere.

[2] EU Fiscal Rules require member states to keep their national debt-to-GDP ratio below 60 per cent, and ensure that annual budget deficits do not exceed 3 per cent of GDP. If these obligations are not respected, corrective measures must be taken. These rules have the potential to have a chilling effect on necessary public investment.

essential to diversify the sources of funding that can be channelled through these agencies.

Government is courting international institutional investors to fund expensive 'for-profit' housing, without fully utilising other potential sources and delivery mechanisms.

There are a number of potentially significant European Union (EU) funding streams which could be used to support the development of additional homes in Ireland, via innovative approaches to newbuilds, the rehabilitation of existing housing, the conversion of non-residential buildings into homes, or the training of the next generation of construction workers (e.g., Invest EU, ESF+, ERDF, Horizon Europe).

To date, Ireland has not sufficiently accessed these funds, nor has it allocated them to supporting the development of the national housing stock.

Ignoring these has contributed to Ireland's reliance on private financing, and seen the country lag behind several peers in the adoption of Modern Methods of Construction (MMC), which could help to boost supply and bring down construction costs.

At present Ireland's domestic banks have the balance sheet capacity, but neither the willingness nor the correct incentives to lend at sufficient scale to fund the level of home building the country needs. The banking sector has record amounts of household deposits, much of which sit in accounts bearing little or no interest.

Similarly, while the credit unions are moving into mortgage lending, they still have significant members' funds on deposit that they cannot lend. Together, these represent sources of domestic private finance that could help fund affordable purchase housing while offering households better returns on their savings.

There already exists, in our nearest EU neighbour, a model that has been successfully providing financing for home building and other public infrastructure projects in this manner for more than a century. By following the 'Livret A' model used in France, we can create a win-win scenario for savers and those who want to buy or rent an affordable home.

We first called for such a scheme in our *Alternative Budget 2022*, in October 2021 (and most recently in our 2024 General Election Manifesto). Since then, Government has taken no action.

Yet there is scope to bridge some of the financing gap that exists between funds needed and those available to build affordable homes. This can be done in a way which can bring benefits to ordinary Irish households, while providing vital capital for not-for-profit actors at more favourable terms than what can be delivered through the current international investor fund approach, which prioritises profits over people.

Recommendation #20 of the *Report of the Housing Commission*, released in 2024, asserted that:

*"The State should explore the option of setting up a specific private savings fund that can be used to assist in the funding of housing".*

The report also recommended that:

- Government conduct a feasibility assessment to examine the need, demand and structure for a private savings fund that would be used to help fund home building in Ireland.
- Such a study should be informed by good international practice in the application of these types of savings instruments.

The Social Democrats, therefore, are calling on government to:

- Establish a Homes for Ireland Savings Account (HISA), to offer incentives for Irish savers and open up a new source of domestic financing for home building in Ireland, with a renewed focus on affordable purchase housing and Cost Rental.
- Channel funds raised by this scheme through Home Building Finance Ireland (HBFI) and the Housing Finance Agency (HFA) to reach not-for-profit developers, and to do so in a manner that keeps this financing off-balance sheet for the State.
- Explore the possibility for the HBFI and HFA to take equity stakes in home-building projects alongside AHBs and SME builders to unlock further housing development finance by 'crowding in' private investment from banks and non-bank lenders.

# Context

Reliable estimates suggest that approximately 35,000 homes will be built in Ireland in 2025, leaving a large gap (probably around 15,000-20,000) compared to the minimum annual number required to begin to satisfy underlying demand.

To fund these additional homes, new streams of finance are required, in addition to direct government spending and other private investment. The current government is keen that a significant part of this financing should come from investor funds, who in turn would prefer to construct Build to Rent homes; these are not the kinds of homes most people want or need.

While there is a need for affordable rental homes, as well as social housing construction to reduce waiting lists, we know that most people in Ireland wish to buy their own home.

This Government's primary answer to questions around financing is to further entice and subsidise institutional investor funds to fill the gap, and they appear to be lining up new tax breaks and preparing to remove rent caps to do it[3].

This model of housing delivery has proven unreliable and unstable, illustrated most clearly in the fall-off in building and planning permissions for apartments in the last year. Investor funds are primarily interested in profit; if interest rates rise (and so profit margins tighten), investment in housing falls. We cannot continue to rely on this funding model to the degree that we have been.

The current model also fails to deliver the kinds of homes most people want; homes they can buy at an affordable price.

We need a new model of financing for housing that provides genuinely affordable homes, and we need to ween ourselves off the kind of unreliable footloose international financing on which this Government seems willing to stake the success or failure of so much of its housing policy.

There is a role for increased State funding, as well as for several EU funding streams which could be used to support the delivery of additional homes in Ireland (including Invest EU, ESF+, ERDF, and Horizon Europe) that, to date, have either not yet been utilised, or have not met their full potential.

[3] There is a risk that such tax breaks may end up becoming a permanent and costly feature of Irish housing policy for decades to come. At the same time, looser controls on rent prices could see the State on the hook for increased current expenditure via programmes like the Housing Assistance Payment (HAP).

On top of this, we are proposing a solution through a different kind of private financing.

While international financing can be best described as 'active' – meaning investors actively monitor investments and look for the best returns – we want to champion a more socially-minded 'passive' kind of investor.

The delivery of thousands of extra affordable homes will require many policy levers to be actioned, including directly building on publicly owned land, using CPO powers to acquire additional land, implementing the principle recommendations of the Kenny Report, implementing a special zoning for affordable housing, and significant investment in water and other infrastructure all over the country.

And it will also require new ways of financing:

By learning from the principles of the French 'Livret A' scheme, Ireland can provide billions of additional euros in capital funding to assist the delivery of additional affordable housing.

The current model of so-called 'affordable housing' delivery is not working. Delivery numbers are pathetic and – with some notable exceptions (delivered via not-for-profit developers) – those homes that have been delivered have met no one's definition of "affordable".

Relying on investor funds has not delivered affordable homes for those who wish to buy them, and there is no reason to believe the current model will work when increased emphasis is put on it; the focus by international investors on Build to Rent means that more than 95 per cent of new apartments built never actually make it to market in Ireland, and so people never get a chance to even bid on them.

Rather than continually chasing these funds with more subsidies[4], reduced regulation, and the bait of ever higher rents in the hope that they will build more apartments, government should be looking for other options to plug the financing gap.

Our proposed Homes for Ireland Savings Account – or 'Leabhrán A' account, to put an Irish slant on a successful French model of financing – can help address this gap, and reduce reliance on unstable sources of investment.

[4] The Croí Cónaithe scheme already offers up to €120,000 *per apartment* to make them 'viable'.

# Why This Is Needed

Though affordable and social housing in Ireland is provided via a mix of Approved Housing Bodies (AHBs) and local authorities, both are almost entirely reliant on government funding.

The AHB sector relies on loans from the Department of Housing, Local Government and Heritage, and the Housing Finance Agency (HFA) – which is largely capitalised by the European Investment Bank – for its capital funding. Local authority housing is funded entirely by central government grants and local government capital contributions.

This is very different from most of our EU counterparts, particularly those where public housing provision represents a higher portion of the overall housing stock.

It is not just France where systems exist to channel money from private sources to support capital investment in affordable forms of housing. Austria, Denmark, Finland, and the Netherlands are among the other countries where a wider variety of sources exists to fund affordable homes, and where direct pro-cyclical reliance on the State for funding is either significantly reduced or even eliminated entirely.

Not enough financing is being made available for affordable purchase home building, or for Cost Rental homes, and the management of current funding systems by central government, including the approval of grants for constructing housing on council-owned land, is slow and bureaucratic.

## International Comparisons

According to the *Report of the Housing Commission*, released last year, Ireland's total public spending on housing is among the highest in Europe.

Despite this, Ireland's social housing output was 0.86 per 1,000 inhabitants in 2019 compared to 2.25 in Austria and 1.5 in the Netherlands – countries with a notably lower public spend on housing – while the Irish government has repeatedly missed its affordable housing delivery numbers by wide margins.

It is notable that the Dutch government has not directly funded any social housing since the mid-1990s, as the capital required to fund a typical new social housing development comes from private sources and from the reinvestment of surpluses generated by the country's independent housing associations (roughly equivalent to Ireland's AHBs).

In contrast, Ireland's output of affordable housing and Cost Rental has been so small in some recent years as to be almost negligible.

As noted by the *Report of the Housing Commission,* Ireland's lower housing output per capita is likely to be at least in part due to the lack of more varied funding sources compared to other countries.

As noted already, while government-provided loans to help an AHB finance affordable housing development add to the national debt, the equivalents of AHBs in countries like Austria, Denmark and the Netherlands are not considered part of the public debt, and so the same government dilemma where public spending on housing may necessitate lower levels of public investment in other priority areas, or vice versa, does not exist.

## We Need to Address These Inefficiencies

Relying solely on government funding that is based on a grant, rather than loan funding, has a number of problems associated with it:

- Almost all capital spending on housing is "on balance sheet" for government, under the EU Fiscal Rules.
- Funding is often pro-cyclical, and therefore dependent on the economic cycle and prone to shocks.
- Local authorities, state agencies, Approved Housing Bodies and SME builders find getting funding more difficult than is necessary, and so are not being used to their potential.

The Social Democrats agree with the *Report of the Housing Commission* that using a variety of funding sources is a more sustainable long-term finance model for public housing.

The experience of many countries in Western Europe is that mixed funding models have been more cost-effective and efficient, as well as less prone to funding shocks during periods of fiscal crisis.

Indeed, the boom in counter-cyclical French public housing construction – financed by the Livret A model – in the aftermath of the global financial crisis is testament to this.

Our proposed Homes for Ireland Savings Account – or 'Leabhrán A' account – would create an additional financing option. We first called for such a scheme in October 2021, in our Alternative Budget.

Depending on structure, there may also be an opportunity to keep much of the funding from the HISA off-balance sheet. This could include by creating separate 'arms' within AHBs to focus on different forms of housing delivery, including an arm focused on the delivery of affordable purchase homes funded via Leabhrán A loans.

This should be examined when creating the scheme, but is not something that should inhibit the creation of a system that could make significant amounts of additional funding available for affordable home building.

# How It Will Work

There is potential to offer savers a new option, and provide a better return than the negligible interest paid on their savings.

We know that Irish savers have around €160 billion on deposit with banks. While a number of types of savings accounts are marketed by the three largest retail banks in Ireland with interest rates of up to 3 per cent, there are terms and conditions attached to access, and most of that €160 billion is in accounts that pay little or no interest, or where funds cannot easily be transferred to one's current account; at least not without foregoing some of the interest benefits.

By using the French 'Livret A' account as a model, the Irish Government should bring forward legislation to support the creation of a new type of advantageous savings account; the Homes for Ireland Savings Account, or 'Leabhrán A'.

These accounts would be available from any financial institution licensed to provide them, and could include ordinary retail banks, life assurance offices, and credit unions.

Savers would be incentivised to choose a Leabhrán A over ordinary savings accounts by an interest rate that exceeds that prevailing on most accounts. The interest rate could, as an example, be set every six months by an independent committee, and coordinated by the Central Bank of Ireland. The rate, as determined by the committee, would be based on the inflation rate over the previous six months, and the prevailing inter-bank short-term interest rate[5].

In all cases, returns would be exempt from Deposit Interest Retention Tax; a significant enough incentive in itself, as DIRT is currently levied at 33 per cent in Ireland. There would be a maximum amount of money that could be held in each Leabhrán A account (for example €25,000)[6] and they would be limited to one per individual.

A large portion of the savings in Leabhrán A accounts would then be funnelled to infrastructure projects linked to the delivery of affordable homes of different tenure types. There would be an emphasis on affordable purchase housing, and where possible these new funding streams would be managed in a way where they would remain off-balance sheet.

[5] Using a similar approach, the current Livret A interest rate in France is 2.4 per cent.

[6] However, in order to avoid administrative issues, it would still be possible to save money in the Leabhrán A above the limit, but only savings up to the limit would benefit from the special interest rate.

In France, the funds are managed by a public bank founded in 1816 called the 'Caisse des dépôts et consignations' (CDC) or, in English, the 'Deposit and Consignment Office'. In Ireland, this could be managed through Home Building Finance Ireland (HBFI) and the Housing Finance Agency (HFA), two already existing entities with experience of funding home building.

The loans provided by HBFI and the HFA would be offered to AHBs, and SME builders[7] at preferential rates. The HFA currently loans money at rates between 3.25 per cent and 3.75 per cent depending on circumstances, and there should be scope to lower this rate under our proposal.

As an example, the lending of the funds generated from our proposal could be offered at a variable rate of interest, equivalent to the current Leabhrán A rate plus 30 basis points. So if the Leabhrán A rate were 2.4 per cent, then the loan would be offered at 2.7 per cent. This rate would move up or down, based on market lending conditions, and inflation dynamics.

Of course, the risk is that in times of higher interest rates, the cost of repaying loans to the public bank may become difficult to support. In order to prevent this, the State should establish an interest subsidy mechanism to keep effective interest rates below an acceptable threshold. In this regard, Ireland could look to countries like Denmark and Finland which currently have in place mechanisms to subsidise the interest payments of non-profit housing providers in times of higher interest rates, whilst keeping this subsidy off-balance sheet.

In France, the Livret A has been around for so long, it is something of a cultural institution; a majority of people in France have either a Livret A or Livret de Développement Durable et Solidaire (LDDS), literally a 'Sustainable and Solidarity Development Booklet' state-backed savings account.

While it would take time for the Leabhrán A to achieve such status in Ireland, there is no reason it shouldn't be a popular innovation, especially if offering favourable savings rates.

[7] Loans offered at preferential rates to builders of any size should be accompanied by stringent conditions around the final output and the price at which homes are sold, or at which rental units are let. This may limit to the appeal of the funding to certain kinds of builders, but we still expect plenty of take-up, given current issues with access to finance.

# What Can This Deliver?

With €160 billion on deposit from Irish savers, there is huge potential to free up money for investment.

In France, loans offered by the 'Caisse des dépôts et consignations' or CDC account for roughly 75 per cent of the capital needed to develop a typical new social housing project, with the rest coming from a number of sources including regional and local grants, and the housing providers' own resources[8].

In 2021 the CDC and its affiliates provided €19 billion in funding for new social and affordable housing in France. This helped to provide 80,000 new housing units, in addition to 14,000 other homes for targeted sections of the population (e.g., young workers, students, and those in need of emergency accommodation).

A similar system in Ireland will take time to build up, but on this basis, Irish AHBs, and SME builders, might expect (once up and running) access to around €1.5-2 billion per year from this fund, capable of funding in the region of 6,000 to 7,000 units, in combination with other sources of finance and subsidisation.

Such numbers would be a game-changer in the current housing delivery context.

In 2024, the CDC managed €582 billion in savings, with the social housing sector being its largest individual beneficiary. Based on population, it should be possible to get around €40 billion in savings into equivalent Irish accounts in the long-term; money which could be made available to Approved Housing Bodies to build Cost Rental and affordable purchase housing.

In the short-to-medium term, and based on the French model of using around 60 per cent of savings, we estimate that we would require around 600,000 accounts to be created in the initial phase, with an average of €5,000 deposited in each account, to reach around €1.8 billion in funding.

A focus on building affordable purchase housing should see money recycled through the system much more quickly than if the loans are longer term.

[8] Social housing in France is based on a hybrid of cost-rental and income-based rents. As such, providers aim to generate small surpluses each year, which they are legally required to reinvest in the sector; including in supporting new construction.

# Advantages of Our Proposal

The Fianna Fáil/Fine Gael government of the 33rd Dáil missed its affordable housing targets by wide margins. Meanwhile, finance for not-for-profit homebuilders, including Approved Housing Bodies and local authorities around the country, is not as accessible as it needs to be. Our proposal is to provide a new attractive savings option to Irish households, and in so doing, channel additional funds towards achieving important social goals around delivering affordable housing.

## Problems with the Current System

- A lack of diversity in funding to build affordable housing.
- A funding structure that can be prone to shocks based on the economic cycle.
- A government loan system for AHBs that adds to the public debt.
- Not-for-profit developers struggling to get financing.
- Local authorities, state agencies and partners, such as AHBs, not being utilised to their full potential.

## Advantages of the Homes for Ireland Savings Account model

- Given the high levels of private savings rates in Ireland, this would be an innovative means of delivering additional 'private' capital for investment.
- A significant element of the funding for housing construction would be future-proofed, with reduced reliance on budgetary surpluses to fund capital investment.
- The current pro-cyclical funding mechanism for home building would be more balanced under our proposal.
- Reduced reliance on institutional investment in house building.
- Opportunity to achieve this, if managed in a certain way, with no impact on public debt levels.

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