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# Shared Equity Loans do not make homes more affordable

DECEMBER 2020

## Shared Equity Loans

Shared Equity Loans are not a new feature of Government housing policy. In Budget 2018 Fine Gael introduced the Serviced Sites Fund (SSF) as part of a package of affordable housing measures.

The SSF provided Local Authorities with funding to cover the cost of land and the servicing of the site. Construction finance would be provided by an Approved Housing Body or private contractor.

Where the property in question was part of an affordable purchase scheme it would be sold to qualifying first time buyers who would buy the home at an agreed price. That price would not include the SSF. Instead the Local Authority would hold an equity stake in the property equivalent to the amount of SSF used.

The buyer would pay this loan back to the Local Authority either alongside their main mortgage at low interest or in a lump sum on sale of the house.

Significantly the amount owed was not the cash value of the SSF at purchase, but rather the percentage of the market value of the home that the SSF represented at the time of purchase.

In plain English, as the value of the property increases the buyer would owe the state more. But if property prices fall below the original sale price of the house the taxpayer would lose out.

The SSF was initially set at €40,000 per home, then raised to €50,000. In one cost rental development currently under construction in Dún Laoghaire Rathdown County Council the SSF per apartment is €80,000.

Earlier this month Sinn Féin published a detailed report on the SSF, Fine Gael's Affordable Housing Failure.<sup>i</sup>

## Property Industry Lobbies for a Shared Equity Loan

At the start of 2020 two important lobby groups for the property industry published proposals for a Government backed Shared Equity Loan scheme.

Irish Institutional Property, who represent 14 of the biggest players in the property industry including Cairn, Hines, Glenveagh, Kennedy Wilson and a number of REITs, published a shared equity loan proposal in February of this year.<sup>ii</sup>

Led by former Fianna Fáil General Secretary, Senator and CEO of the Irish Banking Federation, Pat Farrell, IIPs scheme proposed a 30% secondary loan, with repayment commencing in year 6 at 1.75% interest.

<sup>i</sup> [https://www.sinnfein.ie/files/2020/Fine\\_Gaels\\_Affordable\\_Housing\\_Failure1.pdf](https://www.sinnfein.ie/files/2020/Fine_Gaels_Affordable_Housing_Failure1.pdf)

<sup>ii</sup> <https://irp-cdn.multiscreensite.com/4065c16c/files/uploaded/Proposal%20to%20increase%20affordability%20for%20First%20Time%20Buyers%20-%20IIP%20Feb%202020%20%281%29.pdf>

Ibec's property wing, Property Industry Ireland, published a similar proposal in a discussion document called The Irish Equity Loan in May 2020.<sup>iii</sup>

Their loan was for between 25% and 30% of the market value of the property, with loan repayments kicking in at year 6 at 1.1%.

Both groups met with TDs and Ministers to push their proposals in advance of Budget 2021.

## **The UK Help to Buy – Shared Equity Loan**

Both schemes are based on the Help to Buy-Shared Equity Loan scheme that has been in operation in the UK since 2013.

From its introduction through to the end of 2018 £11.7 billion was invested in shared equity loans for some 211,000 households.

The Department of Housing, Communities and Local Government evaluations of the scheme indicate that it has increased housing supply by 14%. However there have been widespread criticisms of the scheme.

The House of Commons Committee of Public Accounts published a report in September 2019.<sup>iv</sup> It concluded that the shared equity loan did not make homes more affordable, that 60% of those who availed of the loan did not need it and as the loans were unregulated they put borrowers at significant risk.

The report also said that 'the large sums of money tied up could have been spent in different ways to address a wider set of housing priorities and focus more on those most in need'.

Independent research published in 2015 by the UK housing charity Shelter, found that the shared equity loan scheme led to increased house prices, adding around £8,250 to the average price of a home.<sup>v</sup>

Their report concluded that 'while the scheme has helped a small number of people to buy [this is] at the expense of worsening the overall affordability crisis for everyone else'.

## **Darragh O'Brien's Shared Equity Loan**

On his appointment as Minister for Housing, Heritage and Local Government at the end of July 2020 Darragh O'Brien promised to publish an affordable housing scheme with targets and legislation in September.

There was significant surprise when this deadline was missed. However, in his public commentary in the run up to the Budget it was clear that the new Fianna Fáil Minister was not intending to expand Fine Gael's Serviced Sites Fund to

iii <https://smex-ctp.trendmicro.com:443/wis/clicktime/v1/query?url=https%3a%2f%2fwww.propertyindustry.ie%2fSectors%2fPPI%2fPPI>.

iv <https://publications.parliament.uk/pa/cm201719/cmselect/cmpubacc/2046/2046.pdf>

v [https://england.shelter.org.uk/\\_data/assets/pdf\\_file/0010/1188073/2015\\_09\\_how\\_much\\_help\\_is\\_Help\\_to\\_Buy.pdf](https://england.shelter.org.uk/_data/assets/pdf_file/0010/1188073/2015_09_how_much_help_is_Help_to_Buy.pdf)

assist Local Authorities and Approved Housing Bodies to deliver affordable purchase homes.

Instead the Minister was speaking about a policy that bore a remarkable resemblance to the detailed proposals published by Irish Institutional Property and Property Industry Ireland, earlier in the year.

In October, €75 million was allocated in Budget 2021 for a shared equity loan scheme the details of which was to follow. Minister O'Brien indicated that up to 2,000 people would benefit from the scheme.

On Friday December 18th Minister O'Brien was quoted in the Irish Independent and Irish Times as stating that his affordable housing policy was now complete and would be presented to Cabinet on December 22.

The proposal is almost identical to the industry proposals from Irish Institutional Property and Property Industry Ireland.

First time buyers and those who lost a property due to relationship breakdown will be eligible for a secondary loan from a new state agency. The loan will cover up to 30% of the value of the home to a maximum of €100,000 on a property sold for up to €400,000.

The buyer will also be able to avail of the existing Help to Buy tax relief from Revenue, though not to the full €30,000.

Borrowers will start paying the secondary loan after 5 years at an interest rate of 1.5%.

The States equity share will represent a percentage of the market value of the home. Where the property value increases so too does the size of the secondary loan.

The newspaper reports suggested that up to 40,000 households could ultimately benefit from the scheme. That would see Government holding an equity stake of more than €1.5 billion in private residential property. This would represent a significant risk to the taxpayer in any future property crash.

## **Do Shared Equity Loans make homes affordable?**

Writing in the Irish Times on December 19th Cliff Taylor expressed concern about Minister O'Brien's new policy. He said, "with housing supply still running well short of what is required, adding more demand in this way risks having one main result: higher prices."<sup>vi</sup>

Professor of Economics at University College Dublin Karl Whelan commented on Minister O'Brien's shared equity loan proposal on Twitter on December 18th saying, 'This seems like a really bad policy. Doesn't create any supply. Just drives prices up and gets the state into lots of complicated legal issues. Has all the hallmarks of a purely ministerial initiative – can only imagine the civil service briefings on it.'

Writing in the Business Post on November 29th Killian Woods reported FOI correspondence between Robert Watt, secretary general at the Department of Public Expenditure and Reform and Michael Stanley, chief executive of Cairn Homes. Watt

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<sup>vi</sup> <https://www.irishtimes.com/opinion/cliff-taylor-affordable-housing-scheme-will-push-up-prices-1.4440751>

agreed with the objective to create more affordable housing options however, cutting the cost of housing should be the main focus, as opposed to using taxpayers' money to reduce the price or rent charged for a home.

He also stated that, "We are increasingly against measures which are viewed as demand measures and we believe that the focus should be on cost reduction and supply."

In their November 2020 housing report the National Economic and Social Council warned of the risks inherent in such demand-side policy interventions. The report said that recent changes to the Help to Buy tax relief 'are likely to reinforce upward pressure on prices'.<sup>vii</sup>

These views correspond with those of the House of Commons Committee of Public Accounts report and the independent research by Shelter on the UK scheme.

Shared Equity Loans do not make homes more affordable. They simply increase the level of debt held by working families. At best they lock in what would otherwise be unsustainably high house prices. At worst they inflate those prices even further.

## **Working people need cheaper homes not more debt**

On the same day as Minister O'Brien announced the details of his scheme, Daft.ie published their property price report for Q3 2020. Prices have increased by 7.4% on last year. The average price of a home across the state is €269,000 while in Dublin is is €391,000.

House prices are simply too high. Increasing first time buyers' access to credit is not the solution. That is the kind of developer led housing policy which caused the property crash and recession in 2008. It seems that Fianna Fáil have learnt nothing from their own past.

Minister O'Brien's shared equity loan scheme is nothing more than an early Christmas present to big property developers. It is a reckless use of taxpayer's money that will push home ownership further beyond the reach of many working people.

Government housing policy should be focused on bring down the price of homes through the direct delivery of affordable houses and apartments on public land. Sinn Féin has published detailed proposals outlining how this can be done in both the affordable rental and purchase sectors. Our affordable housing policy, Delivering Genuinely Affordable Homes for Working People, sets out an ambitious plan for the delivery of public homes on public land to meet social, affordable cost rental and affordable leasehold purchase homes for working people.<sup>viii</sup>

Instead of listening to the experts and constructive proposals from the opposition, Minister O'Brien is introducing a property industry inspired proposal that will not deliver affordable homes but will saddle working people with even greater debt while lining the pockets of big developers. The more things change the more they stay the same.

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vii [http://files.nesc.ie/nesc\\_reports/en/150\\_Housing\\_Policy.pdf](http://files.nesc.ie/nesc_reports/en/150_Housing_Policy.pdf)

viii [https://www.sinnfein.ie/files/2020/Delivering\\_Affordable\\_Homes.pdf](https://www.sinnfein.ie/files/2020/Delivering_Affordable_Homes.pdf)

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