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Affordability in the Housing Market of the Republic of Ireland for different groups of workers

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SUMMARY

The housing market in the Republic of Ireland is dysfunctional. While new dwelling completions have risen (CSO, 2018), the country continues to face an affordability crisis.

The cost of housing has risen much faster than incomes. This is particularly true for certain categories of worker. This inbrief compares trends in worker pay to housing costs in the private rent and house sale sectors. While all three occupational groups show signs of growing inaffordability, these problems are particularly acute for workers in the two lower paid occupational groups. Workers in these categories: Group 2: *Clerical, Sales and Service workers* and Group 3: *Production, Transport workers, Craft & Tradespersons and other Manual workers*, have experienced wage gains that are far lower than increases in asked rents between 2010 and 2018. The average worker in these categories could not afford a mortgage for the median house sold in Dublin and other major urban areas according to the latest available data.

KEY POINTS

- Growth in the cost of private rent has significantly exceeded average wage growth in nominal and real terms for three major occupational categories for which the CSO provide data. Standardised national rents now exceed 45 per cent of gross earnings for the two lower paid categories and nearly three quarters of average gross income in Dublin for *Clerical, Sales and Service workers*.
- Under Central Bank rules, an average single worker in the top earning category could afford a mortgage in only three of the top six most active urban markets as a first time buyer. Four of the top six are affordable for that group if former owner-occupiers. An average single earner in the two lower paid categories could not afford a house in any of these markets. In most cases, two average earners in these categories would face difficulties.
- The data suggest a substantial failure in private delivery, particularly in the rental sector. The state should take a more active role and lead in this crisis.

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Research for new economic policies

Introduction

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The cost of housing has risen much faster than incomes. This is particularly true for certain categories of worker. This inbrief compares trends in worker pay to housing costs in the private rent and house sale sectors. While all three occupational groups show signs of growing inaffordability, these problems are particularly acute for workers in the two lower paid occupational groups. Workers in these categories: Group 2: *Clerical, Sales and Service workers* and Group 3: *Production, Transport workers, Craft & Tradespersons and other Manual workers*, have experienced wage gains that are far lower than increases in asked rents between 2010 and 2018. The average worker in these categories could not afford a mortgage for the median house sold in Dublin and other major urban areas according to the latest available data.

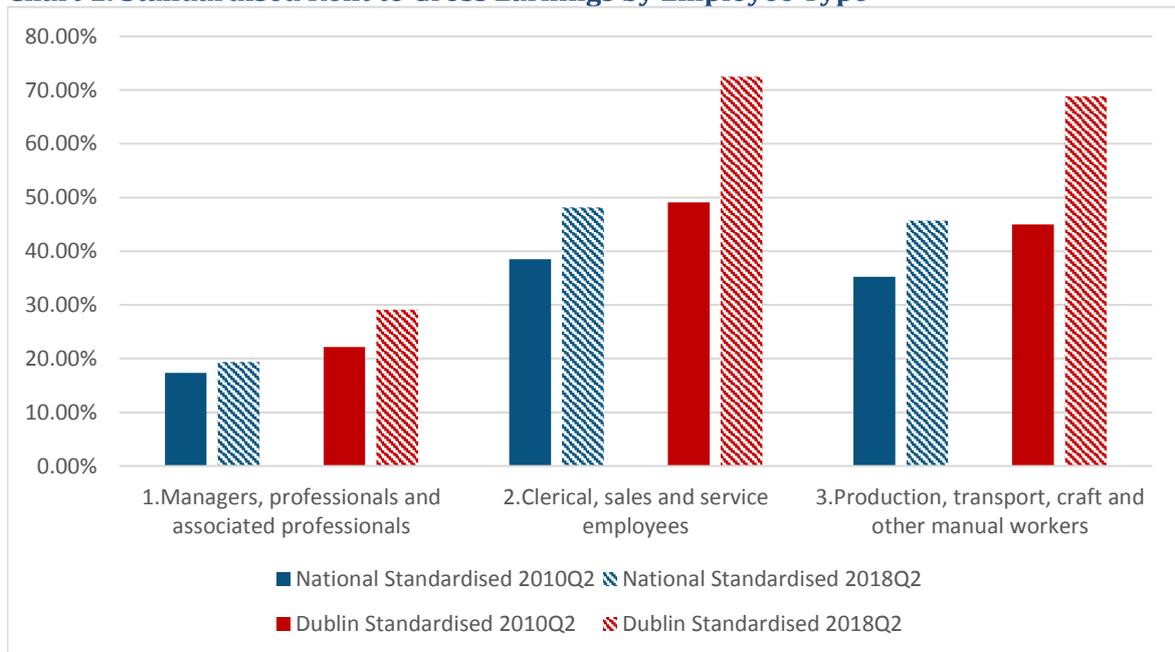
Rental Trends vs Employee Earnings

Since the height of the economic crisis in 2012 when housing prices were at their lowest, private rents have risen steadily every quarter. The latest available rental data indicates that average asked rents have reached record levels, with national rents 11.3 per cent higher in the third quarter of 2018 than a year previously (Lyons, 2018).

Over the same period, earnings growth has been far more modest. Before taking account of inflation, rents have risen by nearly 43 per cent nationally and by over 58 per cent in Dublin between Q3 2012 and Q3 2018. Average weekly wages only increased by about 7.7 per cent over the same period, which falls to just over six per cent when adjusted for inflation.

These modest increases do not reflect the experience of all workers. The Central Statistics Office publish earnings data for employees in three broad occupational groups 1.*Managers, Administrators, Professionals and Associate Professionals*, 2.*Clerical, Sales and Service workers* and 3.*Production, Transport workers, Craft & Tradespersons and other Manual workers*.

Chart 1: Standardised Rent to Gross Earnings by Employee Type



Note: Monthly data = annual estimated earnings divided by 12. Annual estimated earnings= weekly data multiplied by 52. Standardised Rents attempt to adjust for changes in the mix of rental properties from period to period as shifts to typically more expensive properties; larger units for example, can effect averages.

Group 1, who are the highest paid category on average, experienced nominal wage growth in excess of 21 per cent or 14.8 per cent in real terms, between the second quarter of 2010 and the same quarter in 2018. Groups 2 and 3 experienced far less earnings growth. In real terms, group 3 actually experienced a *decline* in earnings of 1.3 per cent.

Private rent growth exceeded wage growth for all employee categories over the eight years to 2018. Chart 1 displays the ratio of average standardised rents to average gross earnings by employee type. In Dublin and the country as whole, standardised rents have grown relative to wages for all categories between the second quarter of 2010 to the same quarter in 2018.

For the highest paid group, the ratio of average national rent to income increased from 17.4 per cent to 19.3 per cent. The increase was steeper in the Dublin area, rising from 22.1 per cent to 29.1 per cent. Rent exceeded a third of gross wages in all other cases, and relative increases in the ratio of rent to earnings were more substantial. The ratio of average national rent to earnings increased from 35.2 and 45 percent for Group 3. The corresponding

values for that group in Dublin rose from 45.7 to 68.8 per cent. National rents went from 38.5 to 48.1 per cent of average Group 2 gross earnings. This group experienced a rise in the ratio of Dublin rents to earnings from 49.1 to 72.5 per cent between the second quarters of 2010 and 2018.

Housing Affordability Trends

Given the high and rising costs of rental accommodation, purchasing a house may be attractive as a housing option. However, Table 1 shows that housing in the most active housing markets in the country is likely out of reach for most single earners.

The Central Bank rules set conditions for permitted mortgages for different categories of buyers. First time buyers are able to obtain a mortgage for maximum 90 per cent of a house's value, while other buyers may obtain up to 80 per cent of the value in a loan. Homebuyers must pay the remaining value through a deposit. This loan may not exceed 3.5 times annual earnings in most cases. Green indicates affordability in table 1, where buyers can attain a mortgage sufficient to buy the median priced house.

Table 1: Ratio of Area Median House Price to Average Gross Earnings by Employment Type

House Location	Household Buyer - First-Time Buyer Owner-Occupier @ 90% LTV			Household Buyer - Former Owner-Occupier @ 80% LTV		
	1.Managers, professionals and associated professionals	2.Clerical, sales and service employees	3.Production, transport, craft and other manual workers	1.Managers, professionals and associated professionals	2.Clerical, sales and service employees	3.Production, transport, craft and other manual workers
All Counties	3.58	8.91	8.46	3.23	8.03	7.62
Cork	3.42	8.52	8.09	2.92	7.27	6.90
Dublin	4.52	11.25	10.68	5.30	13.19	12.53
Galway	2.98	7.41	7.04	2.98	7.42	7.05
Kildare	4.01	9.97	9.47	3.93	9.78	9.29
Limerick	3.17	7.90	7.50	2.78	6.92	6.57
Meath	3.77	9.37	8.90	3.35	8.33	7.91

Note: Ratios are based on typical loan to value requirements for different types of buyer. First time buyers are able to mortgage up to 90 per cent of the house value, while the Central Bank permits former owner-occupiers to borrow up to 80 per cent of the house value. These mortgages, in turn, can be up to 3.5 times annual earnings. Ratios use Q2 2018 weekly gross earnings and November 2018 stamp duty execution data by county.

An average single earner in the *Managers, professionals and associated professionals* could obtain a loan for the median house sold (half of houses sold are cheaper and half are more expensive) given the minimum permitted deposit in three of the busiest markets: Cork, Galway and Limerick. All of the areas surrounding the Dublin area included here: Dublin, Kildare and Meath, are unaffordable unless buyers have more than 10 per cent of the home value in savings. Second time buyers in this category can afford housing in most markets save Dublin and Kildare. However, they would need at least €45,700 in savings for a deposit.

Housing is unaffordable however, under the minimum conditions, in all markets shown for Groups 2 and 3 for both first time buyers and Former owner-occupiers. In nearly all cases, two workers on the average occupational category income would not meet the minimum requirements to buy housing in these markets. A single first time buyer in the two lowest paid categories would need a deposit of over €230,000 in Dublin given the maximum 3.5 times income loan to earnings ratio.

Conclusion

Significant sectors of the Irish population face considerable difficulty affording accommodation, particularly in and around Dublin. This is especially visible in the growth in measured homelessness, which nearly trebled between July 2014 and December 2018 (Focus Ireland, 2019).

These difficulties point to a substantial failure in private housing provision, particularly in the private rental sector. Despite the recent worsening situation, Corrigan et al. (2018) suggest that this is potentially a long-standing *structural* issue in the Irish housing market for low-income households. Alongside Departmental research that indicates that private rental subsidies are significantly worse value for money than new builds, this suggests that

the state should intervene in this crisis (O'Callaghan & Kilkenny, 2018).

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