Rialtas na hÉireann
Government of Ireland

An Overview of the Irish Housing Market and Policy

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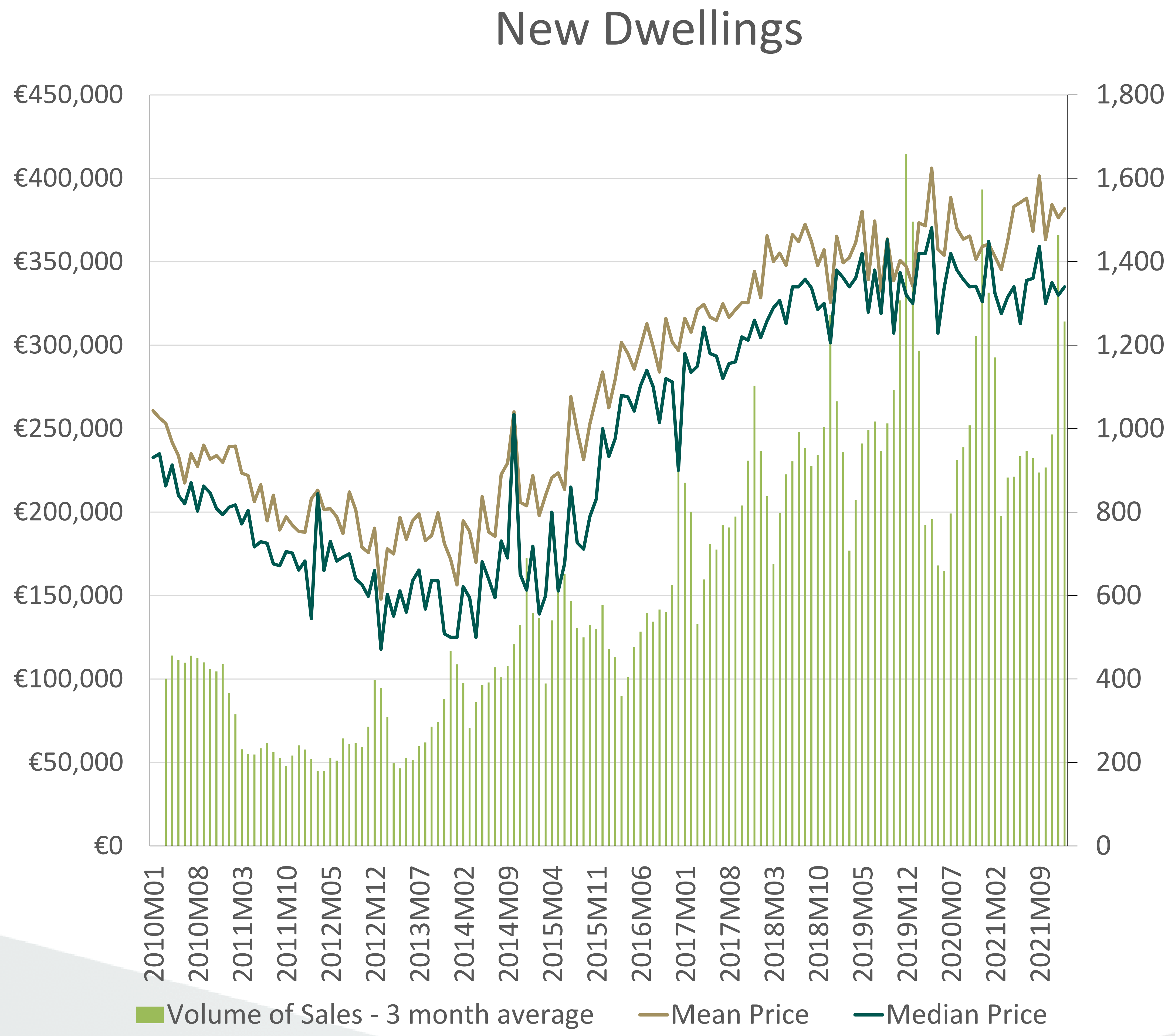
Conclusions

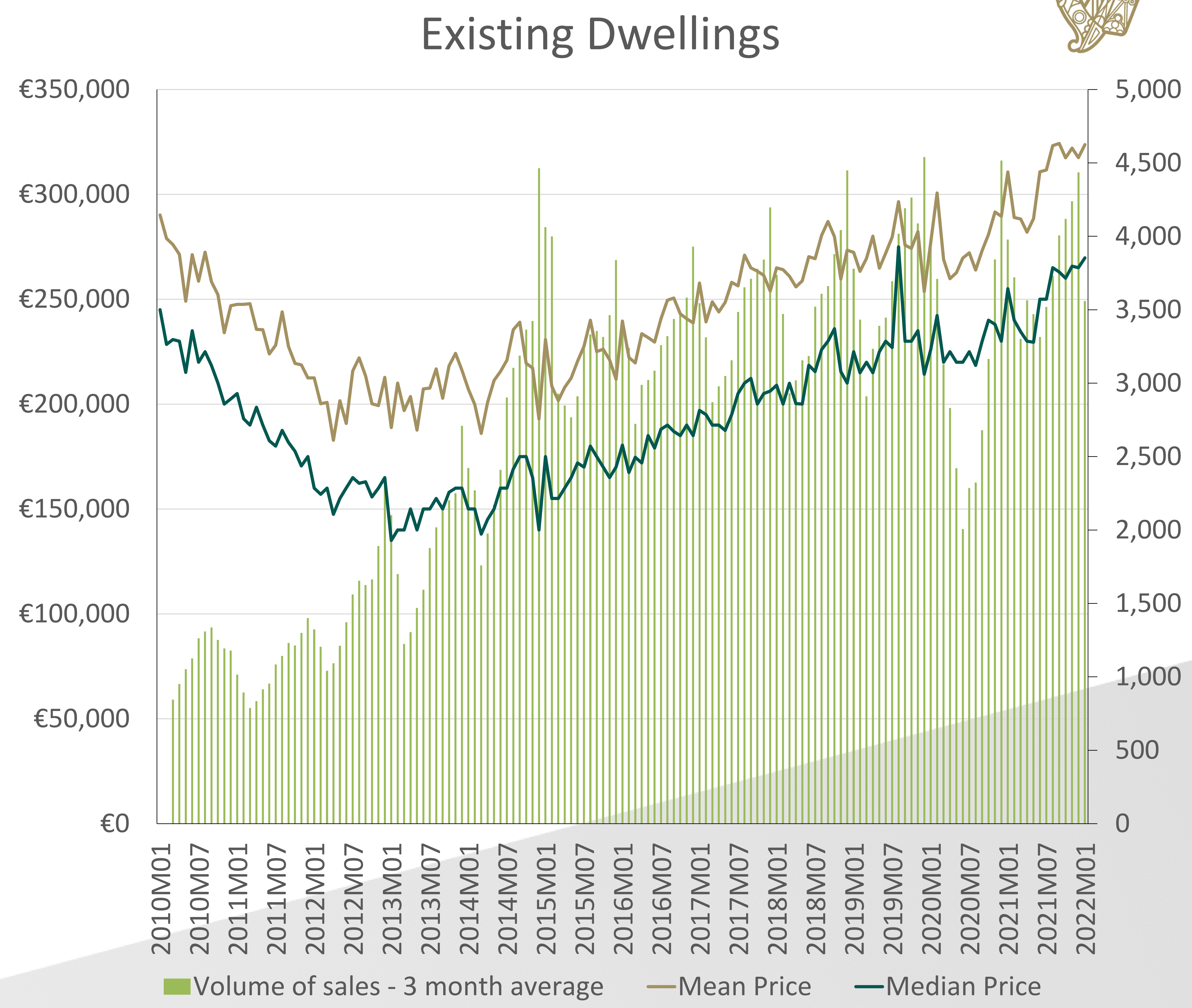
- Affordability essential for supply (viability), not necessarily the other way around.

- Effective land management policies are key to delivering affordable housing.

- Mechanisms of social and public housing delivery that are resilient to fluctuations in the economic cycle are vital for long run stability.

Market Transactions and Prices



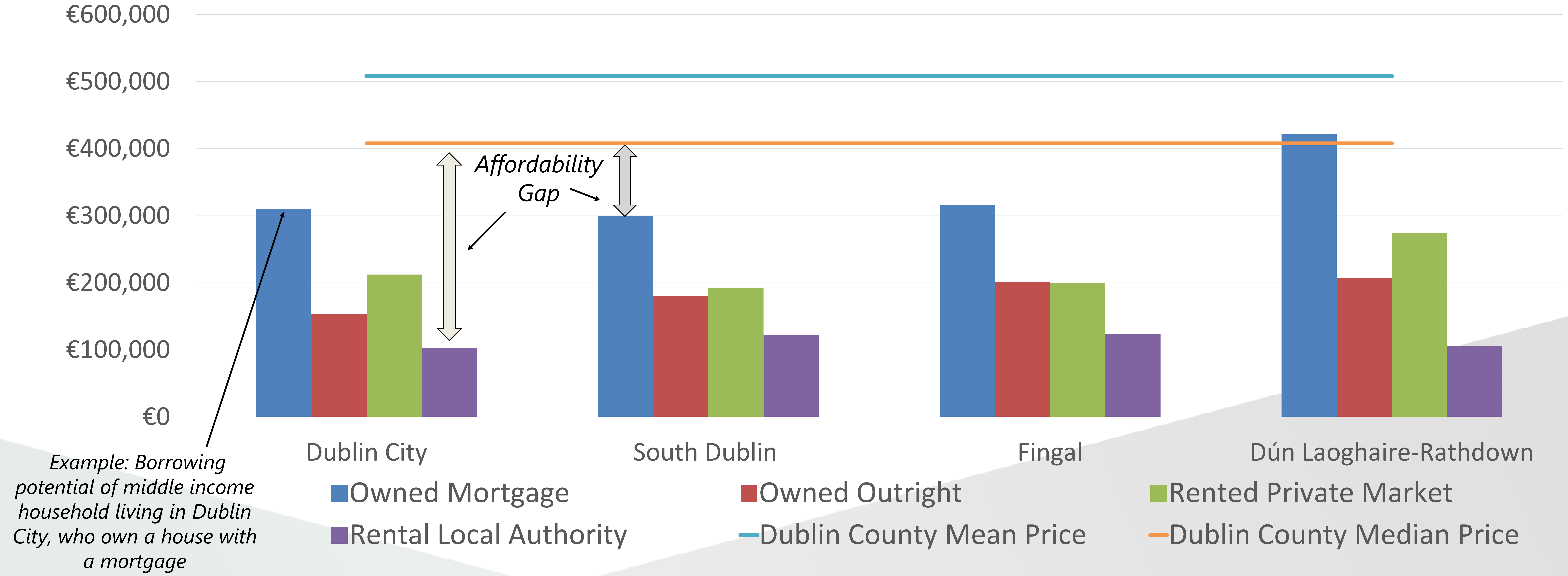


**Prices (Left Hand Axes)*
**Volume of Sales (Right Hand Axes)*

Source: CSO

Purchasing Affordability: What can Middle Income Households Afford? (Dublin, 2021)

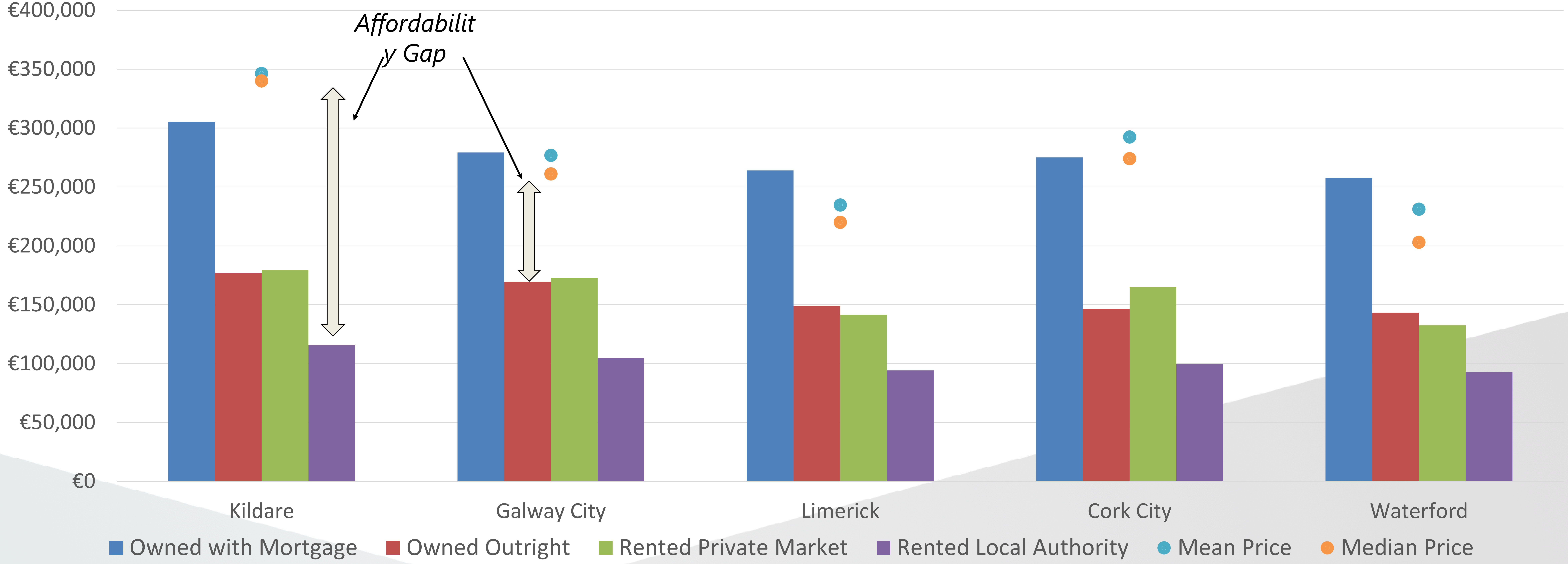
- Bars show the median mortgage potential (i.e., Gross Income of households at 50th percentile of income distribution x3.5 to reflect lending rules) for households living in various tenure types and Local Authorities. The horizontal lines display the median and mean price for dwellings in county Dublin.
- The distance between the various bars and horizontal lines indicates the affordability gap for middle income households.



Source: author calculation of CSO data

Purchasing Affordability: What can Middle Income Households Afford? (Other Urban Centres, 2021)

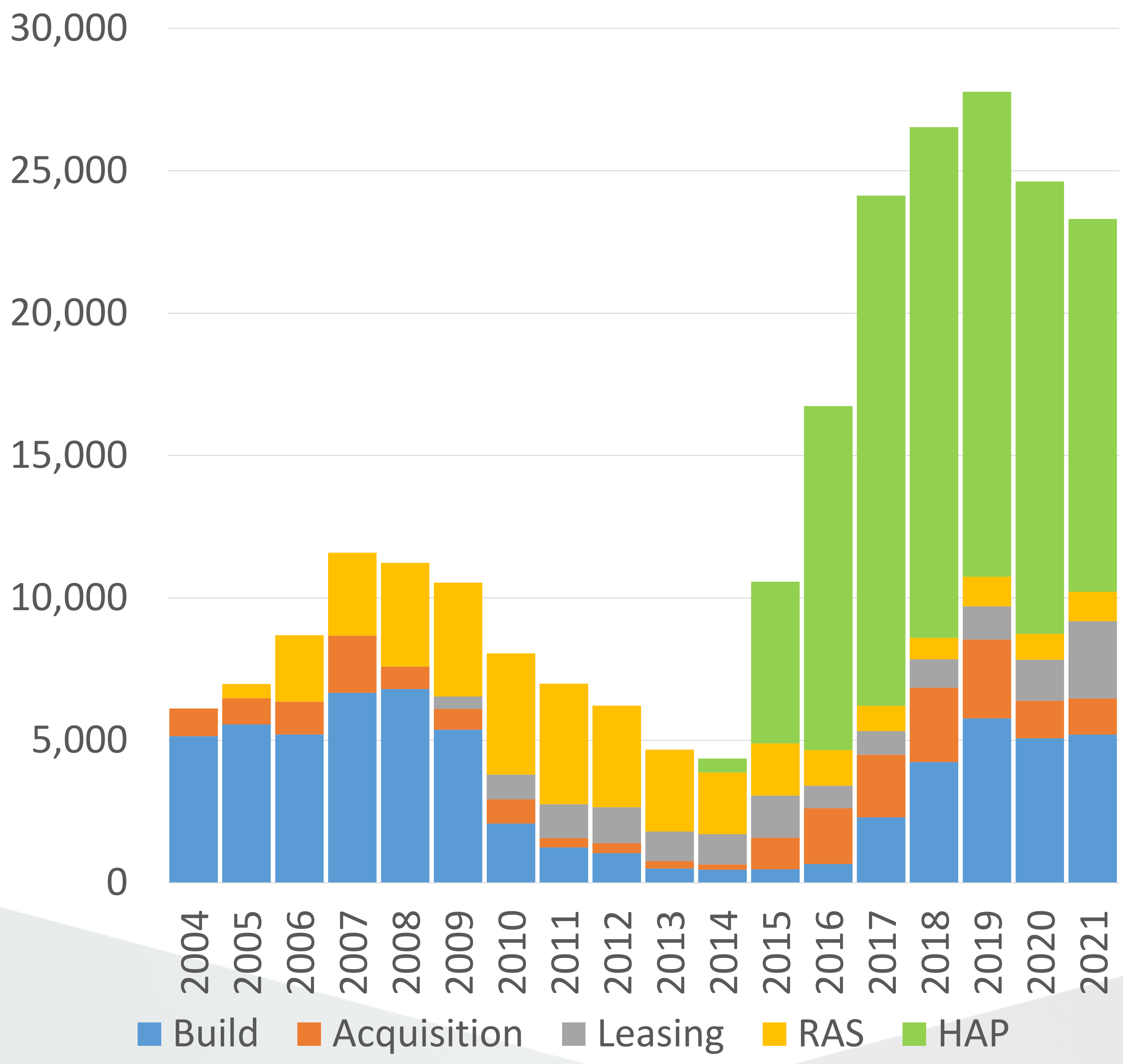
- Bars show the median mortgage potential (i.e., Gross Income of households at 50th percentile of income distribution x3.5 to reflect lending rules) for households living in various tenure types and Local Authorities. The dots represent the median and mean dwelling price for respective LAs.



Source: author calculation of CSO data

Social Housing Delivery

Social Housing Output



- Capital expenditure fell post 2008, coinciding with near cessation of social housing building. Recent years have seen building return to near pre-2008 levels.

- Greater reliance on current expenditure to meet housing need (HAP vs Rent Supplement), though longer term need for greater social housing stock remains.

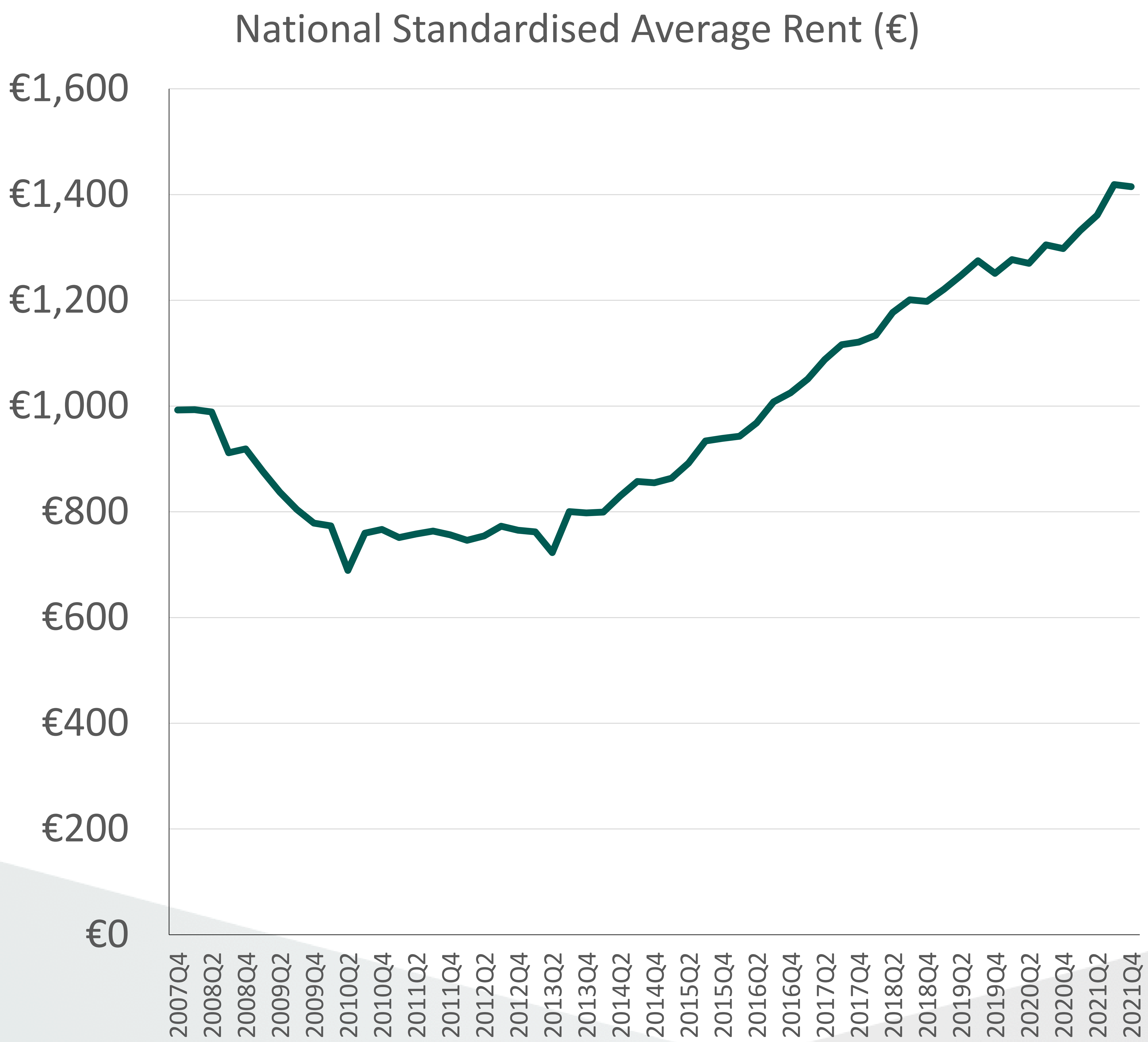
Irish Housing Policy and Expenditure

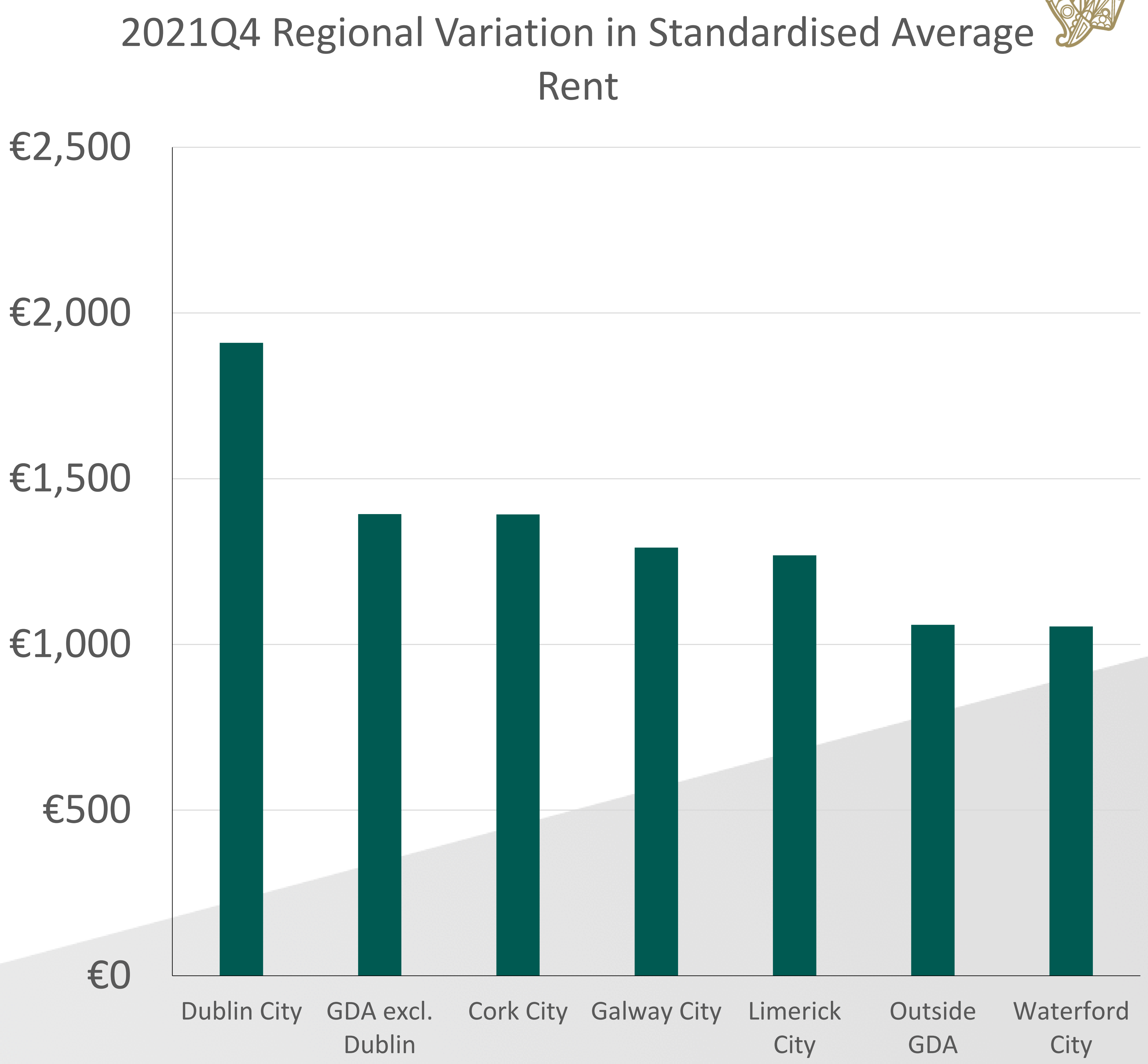
Housing Related Expenditure and Output: 2016 – 2021

	2016	2017	2018	2019	2020	2021
Total Expenditure (€m)	**942**	**1,408**	**2,061**	**2,439**	**2,632**	**3,093**
% Capital	57%	59%	65%	62%	56%	59%
% Current	43%	41%	37%	38%	44%	41%
Unmet Social Housing Need	91,600	85,799	71,858	68,693	61,800	59,247
Social Housing Units Delivered	**19,044**	**25,901**	**27,086**	**28,072**	**24,622**	**23,312**

The Private Rental Sector

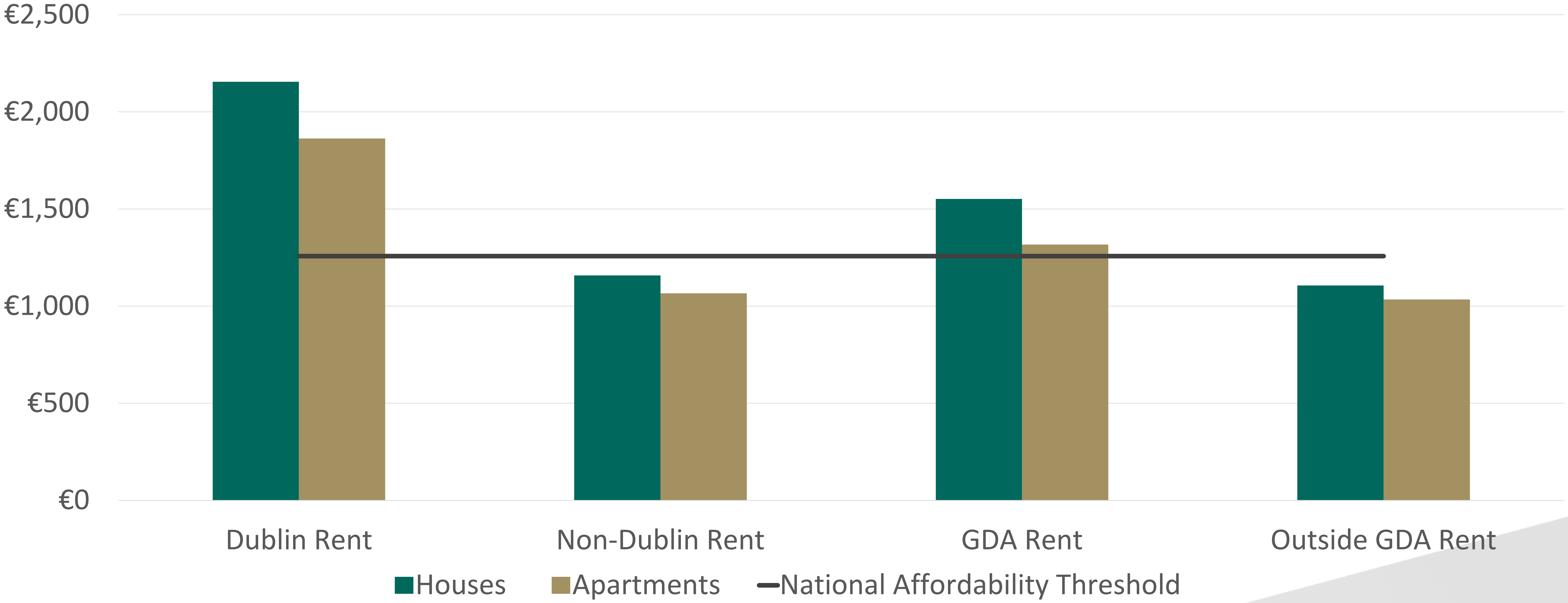
RTB Standardised Rent Metrics





Source: RTB

Affordability – Rental Market



- Bars show the 2021Q3 Standardised National Rent Metric for renting both houses and apartments in various areas.
- Horizontal lines represent the affordability threshold (i.e., 35% of monthly disposable household income) nationally, and for households whose tenure status is renting and rent free (i.e., private market rental and social housing supports)
- Income Data: 2020 Survey of Income and Living Standards

Source: CSO

Cyclicality and Affordability in the Rental Market

Private rental sector exhibits elements of counter cyclicality

- Initial high returns available to institutional property investors were partially contingent on distressed asset prices followed by increasing market rents (Beswick et al., 2016)
- A decline in economic activity also reduces the attainability of homeownership, intensifying demand in rental sector
- Low rental stock, rising rents, demographic factors (smaller household size), continue to make PRS attractive

Viability challenges in PRS supply due to rising input costs. Implications for long run sustainability of supply?

- Medium rise urban apartments from 5 to 15 stories cost between €378,600 and €479,000 (SCSI, 2021) and can run as high as €615,000 for a city centre apartment (IIP, 2020).
- Lyons, 2021***: <u>Only one-sixth of renter households in the greater Dublin area</u>*** could afford the €1,640 monthly rent that investors require to break even on an apartment with a €400,000 build cost at prevailing yields.

Summary of Supply (2018 – 2021)

	TYPE OF DWELLING	2018	2019	2020	2021	2022 SO FAR
UNITS WITH PERMISSION	*Apartments*	8,975	18,898	24,662	26,272	*NA*
	Multi-unit Housing	14,483	13,941	12,417	9,220	*NA*
	One-off Housing	5,481	5,622	5,292	7,499	*NA*
	Total Permitted Units	***28,939***	***38,461***	***42,371***	***42,991***	
COMMENCEMENTS	*Single builds*	5,078	5,089	4,415	5,301	1,641
	*Multi-Unit Development**	17,389	21,148	17,271	25,423	7,702
	Total Commencements	***22,467***	***26,237***	***21,686***	***30,724***	***9,343 (Apr 2022)***
COMPLETIONS	*One-off housing*	4,676	5,062	4,942	4,682	1,106
	Multi-unit housing	10,969	12,509	11,664	10,644	2,821
	Apartments	2,258	3,478	3,920	5,107	1,742
	Total Completions	***17,903***	***21,049***	***20,526***	***20,433***	***5,669 (Q1 2022)***
NEW DWELLING TRANSACTIONS	*All Dwelling Types*	11,341	13,123	11,871	12,355	1,979 ***(Q1 2022)***

*Apartments and Multi-Unit Housing

Source: CSO

Land

Land Speculation and Competition

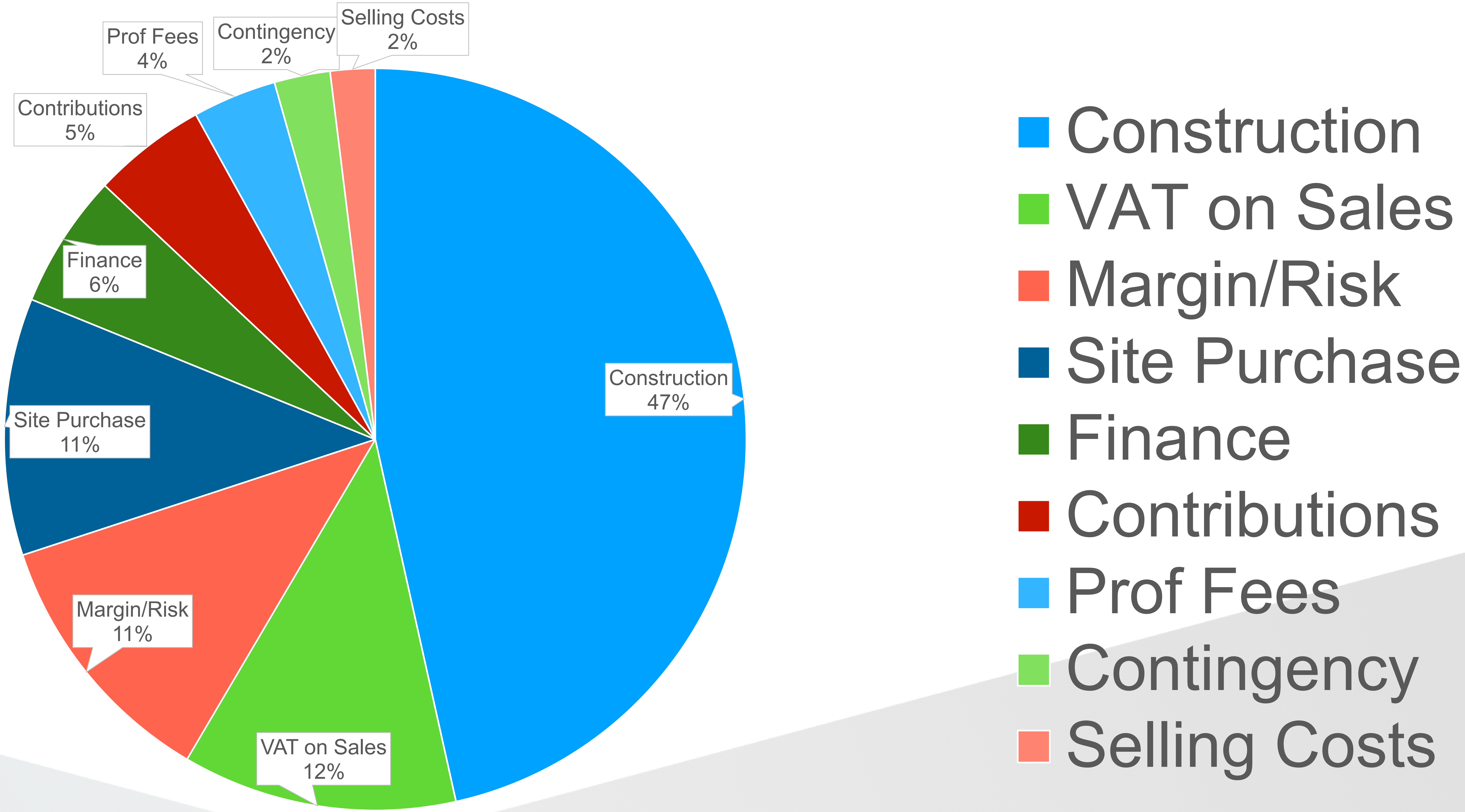
Irregular Supply of Suitable Sites

- Land has option value: current use and potential future value.
- Speculation of future land values disrupts supply of suitable development land, and increases development cost

Competition at the land bidding stage locks in high costs.

- Bidding at the land acquisition stage means sites are acquired by actors who foresee highest house prices/rents, or lowest build costs.
- Locking in higher prices: development occurs at margin of viability

Breakdown of Apartment Delivery Cost: 2 bed, medium rise suburban – €411,000



Source: The Real Cost of Apartment Delivery, SCSI, 2021

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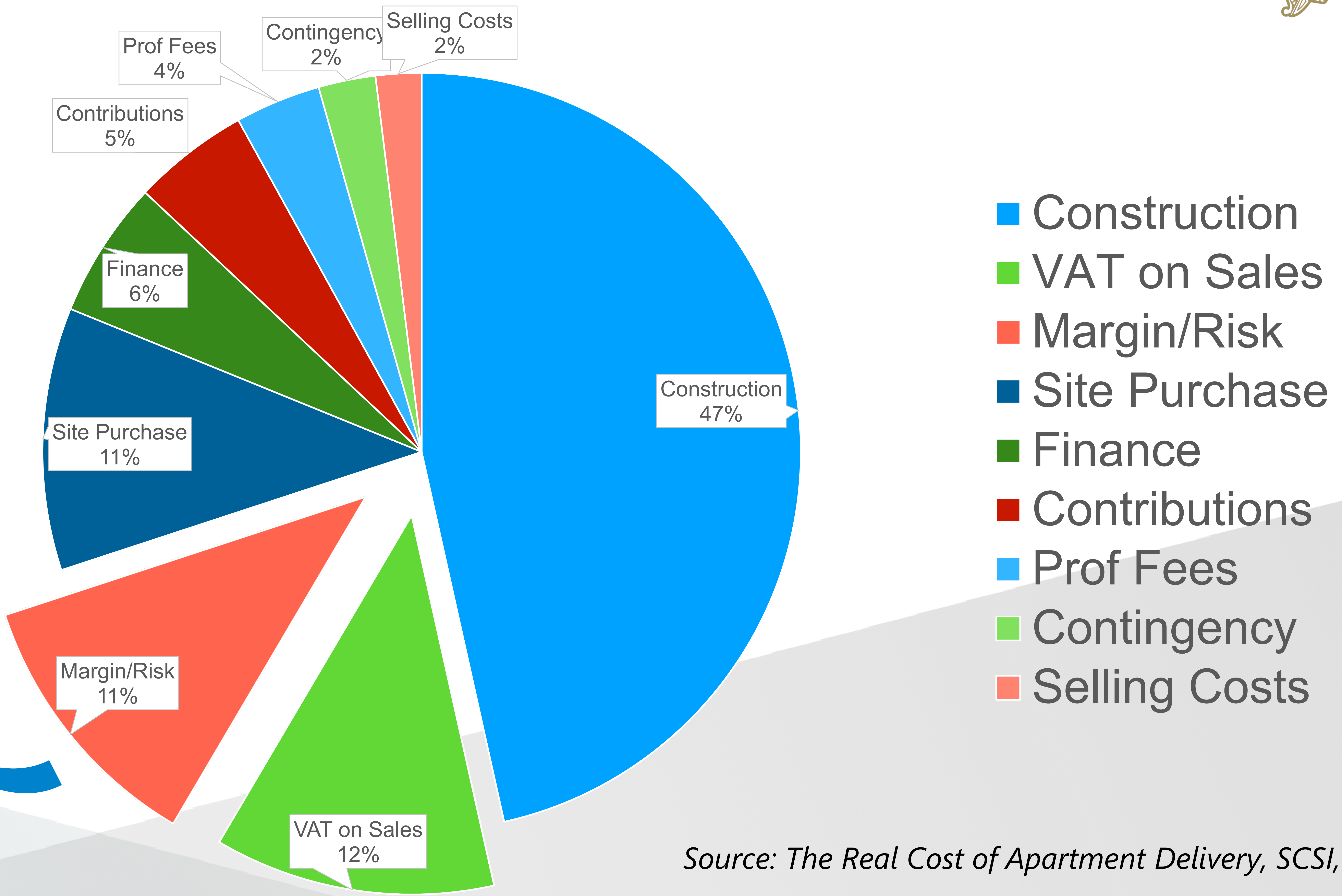

Competition in Land Bidding Stage

Source: The Real Cost of Apartment Delivery, SCSI, 2021

Cost Rental

Cost Rental and International Models of Public Housing

Alternative forms of public housing supply, such as cost rental, may have the potential to avoid the pro-cyclicality and viability issues described.

Cornerstones of Austrian Cost Rental Model:

- **Self-Financing Model:** Cost rents cover construction, debt and maintenance.
- Revenue generated from matured stock (long term outcome).
- Financing arrangements more **Off-Government Balance Sheet**
- **Diverse sources of finance** (public loans, commercial loans, equity of developers, tenant equity)
- **Public housing open to broader range of income cohorts** (helps to achieve self financing development and service debt used to finance development).
- Large stock of public housing that is retained by municipalities and non-profit sector
- Less reliance on demand side assistance
- **Cost rental sector competes with private rental sector which drives down optimistic bids on land** (reducing input costs) as developers are “price takers” of the going market rents

Conclusions

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- Effective land management policies are key to delivering affordable housing.
- Mechanisms of social and public housing delivery that are resilient to fluctuations in the economic cycle are vital for long run stability.