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Wage Sufficiency in the context of Ireland's Housing Emergency

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SUMMARY

Median disposable wages have increased by almost 8% since 2012 whilst the most recent reports by daft.ie show an almost 60% rise in average rents across the country and a 40% rise in asking prices for residential properties in the same period. The biggest rises have been in Dublin, followed by Cork and Galway.

This growth in housing costs has a strong intergenerational component as well as implications for the demand for other goods aside from housing; thus such price rises have distributional implications, benefitting some sections of society and sectors of the economy at the expense of others.

While a baseline for wage increases based on inflation and productivity is projected at somewhere in the region of 3% in Ireland annually over the next few years (McDonnell 2016), in the context of the current housing crisis upward pressure on wages is likely to materialize. This is particularly the case in certain geographical areas to prevent a deterioration in the current living standard of Irish workers.

KEY POINTS

- Low headline inflation rates over the past number of years have masked important price rises that have affected the spending power and standard of living of many workers. This is particularly the case in the housing market and these changes have stark distributional implications.
- The rise in the cost of housing, particularly in rental accommodation has been highest in the Dublin area (though urban areas generally have seen similar movements) and is particularly prohibitive for younger workers.
- This paper shows that the cost of renting a one-bedroom apartment in the Dublin area is unaffordable for any individual minimum wage worker and at least 50% of Irish employees. It costs a full-time minimum wage worker 45-50% of their take home pay to rent a double-room in shared accommodation in the Dublin.
- The paper also shows that the cost of buying an average 3 or 4-bedroom house in the Dublin area is too high for two workers earning the median wage in Q3 2017, given the Central bank's rules on lending criteria.

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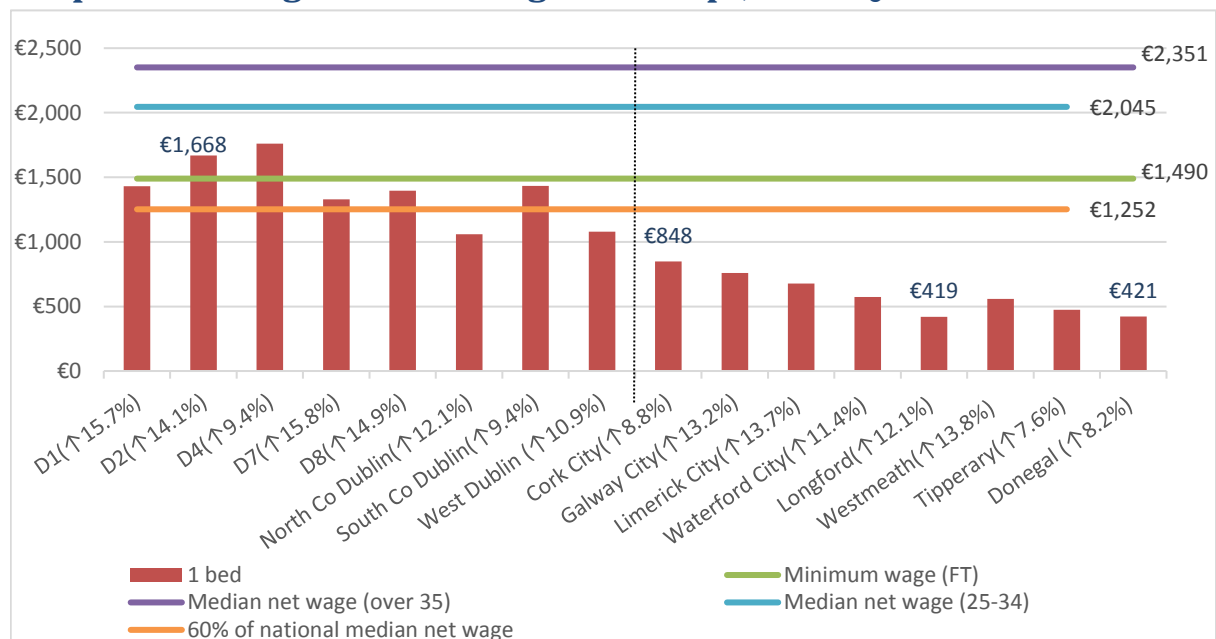
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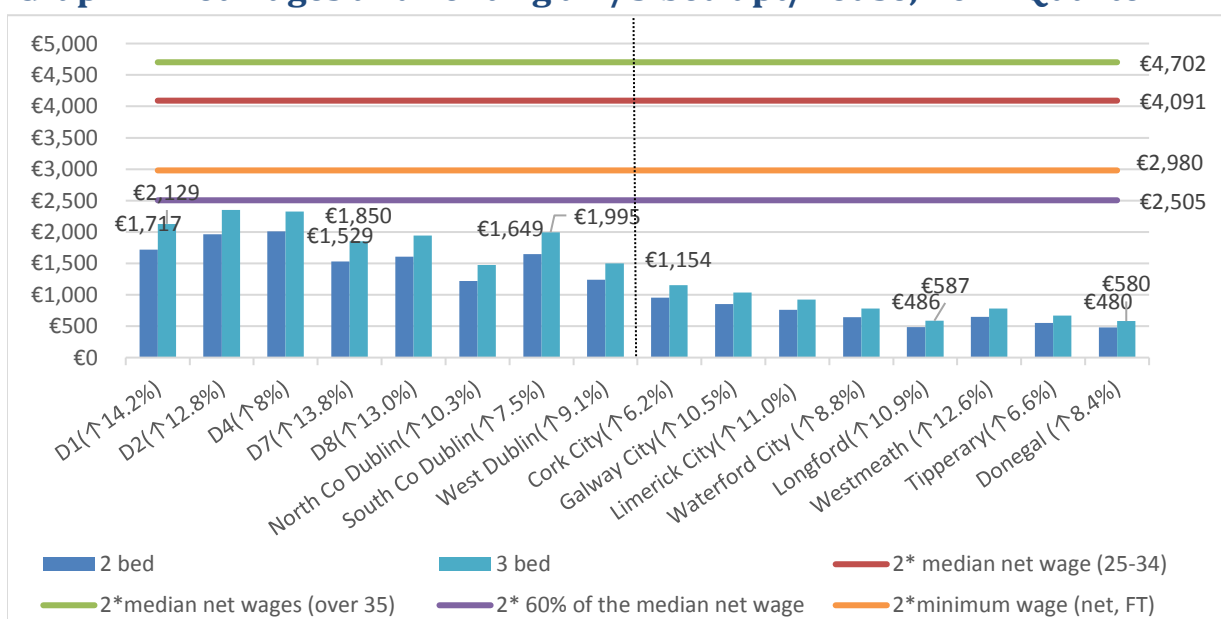
Research for new economic policies

Graph 1: Net wages and renting a 1 bed apt, 2017 Quarter 2**Average rents and median net wages**

This inBrief will assess housing affordability for single and dual wage earners in both the rental market and for those considering buying. Net, disposable, after-tax or take home pay (gross employee wages minus taxes on those wages) of young workers (24-35) and older workers (over 35) will be considered against average rent prices and average asking prices in a selection of

geographical areas across the country and in relation to different properties that meet minimum acceptable requirements for particular household types.

It is clear from the data that the burden of housing costs for renters as well as those hoping to become first time buyers, in Dublin in particular but also in Cork and Galway, is prohibitive for a majority of Irish employees.

Graph 2: Net wages and renting a 2/3 bed apt/house, 2017 Quarter 2

note: Net wages are monthly and for two employees at various levels of the wage distribution. Rent rises reported are for the year up to Q2 2017

The cost of renting a one-bed apartment in Dublin 2 (€1,668) is over 70% of the median net take home pay of an Irish worker. The proportion going to rent in Dublin 1, 7 and 8 and South Co Dublin is broadly similar. In practical terms, 50% of Irish employees would have €170 or less a week left after rent to pay for food, transport, utilities, clothing, health and a pension should they rent a one-bed apartment. Renting a similar apartment in North Co. Dublin would take up over 50% of the take home pay of the median Irish 25-34 year old employee (€2,045). In Cork, though rental prices are not as high, a full-time minimum-wage worker would still have to spend 56% of his/her after tax wages on rent, leaving just over €150 a week to live on. With little movement in the housing market these prices are likely to rise further over the coming years.

As a rule of thumb, economists and financial experts recommend that housing should not take up more than 30% of an individuals or households net income. Judging by this metric, rent in most areas in Dublin is unaffordable for two workers earning the median wage and particularly so for younger workers. There is nowhere in the Dublin area where two full-time minimum-wage workers could hope to raise a family without state intervention. In Dublin 8 the average 2-

bed apt/house costs over 50% of the net pay of two minimum wage workers and over 60% for a 3-bed in Dublin 7.

Asking prices and median net wages Rules from the Central Bank of Ireland put a cap on mortgage lending at 3.5 times gross annual salary. In addition, a 10% deposit is required for first time buyers (though the help-to-buy scheme brings this down to 5% in certain cases). This can range from €28,000 for a one-bed apartment in Dublin 2 or €16,000 for a three-bed in Limerick. The ratios of asking prices to median take-home pay for employees are given in table 1 and 2. A ratio of above four (as this is disposable rather than gross salary) are shown in red and are considered unaffordable here. This is by no means a golden rule however and likely overstates affordability, as successfully applying for a mortgage will also depend on employment contract, among other things, making it particularly difficult for many younger employees who are less likely to have open-ended contracts (Nugent 2017). As is clearly shown, the price of one-bedroom apartments is prohibitive for workers on the median Irish wage in both age groups in Dublin.

Table 2: Net wages and buying a 1 bed apartment, 2017 Quarter 3

Affordability of a one-bed apartment for a single adult, 2017 Q3	1 bed (average)	Minimum wage (FT)	Net wages to house price ratio	Median net wage (25-34)	Net wages to house price ratio	Median net wage (over 35)	Net wages to house price ratio
D1(↑14.8%)	€207,000	€17,880	11.6	€24,545	8.4	€28,212	7.3
D2(↑20.3%)	€286,000	€17,880	16.0	€24,545	11.7	€28,212	10.1
D4(↑3.1%)	€305,000	€17,880	17.1	€24,545	12.4	€28,212	10.8
D7(↑11.8%)	€186,000	€17,880	10.4	€24,545	7.6	€28,212	6.6
D8(↑10.4%)	€189,000	€17,880	10.6	€24,545	7.7	€28,212	6.7
North Co Dublin(↑2.6%)	€139,000	€17,880	7.8	€24,545	5.7	€28,212	4.9
South Co Dublin(↓0.8%)	€248,000	€17,880	13.9	€24,545	10.1	€28,212	8.8
West Dublin(↑1.2%)	€134,000	€17,880	7.5	€24,545	5.5	€28,212	4.7
Cork City(↓0.7%)	€100,000	€17,880	5.6	€24,545	4.1	€28,212	3.5
Galway City(↑3.0%)	€97,000	€17,880	5.4	€24,545	4.0	€28,212	3.4
Limerick City(↑2.0%)	€71,000	€17,880	4.0	€24,545	2.9	€28,212	2.5
Waterford City (↑2.4%)	€61,000	€17,880	3.4	€24,545	2.5	€28,212	2.2
Longford(↑17.3%)	€44,000	€17,880	2.5	€24,545	1.8	€28,212	1.6
Westmeath (↑5.0%)	€66,000	€17,880	3.7	€24,545	2.7	€28,212	2.3
Tipperary(↑10.3%)	€58,000	€17,880	3.2	€24,545	2.4	€28,212	2.1
Donegal (↑0.5%)	€46,000	€17,880	2.6	€24,545	1.9	€28,212	1.6

Note: Net wages are annual for individual employees. Rises in house prices reported are for the year up to 2017 Q3

Table 2: Net wages and buying a 2/3 bed apt/house, 2017 Quarter 3

Affordability of a three bed apt/house, 2017 Q3		2* median net wage (25-34)	Income to house price ratio	2*median net wage (over 35)	Income to house price ratio
D1(↑12.7%)	€415,000	€49,091	8.45	€56,424	7.35
D2(↑16.7%)	€546,000	€49,091	11.12	€56,424	9.68
D4(↑5.6%)	€650,000	€49,091	13.24	€56,424	11.52
D7(↑19.3%)	€396,000	€49,091	8.07	€56,424	7.02
D8(↑17.8%)	€403,000	€49,091	8.21	€56,424	7.14
North Co Dublin(↑9.4%)	€296,000	€49,091	6.03	€56,424	5.25
South Co Dublin(↑5.8%)	€527,000	€49,091	10.74	€56,424	9.34
West Dublin(↑8.0%)	€286,000	€49,091	5.83	€56,424	5.07
Cork City(↑4.6%)	€229,000	€49,091	4.66	€56,424	4.06
Galway City(↑8.6%)	€222,000	€49,091	4.52	€56,424	3.93
Limerick City(↑7.5%)	€162,000	€49,091	3.30	€56,424	2.87
Waterford City (↑7.9%)	€140,000	€49,091	2.85	€56,424	2.48
Longford(↑26%)	€91,000	€49,091	1.85	€56,424	1.61
Westmeath (↑12.8%)	€136,000	€49,091	2.77	€56,424	2.41
Tipperary(↑12.8%)	€113,000	€49,091	2.30	€56,424	2.00
Donegal (↑6.4%)	€91,000	€49,091	1.85	€56,424	1.61

Note: Net wages are annual for two employees. Rises in house prices reported are for the year up to 2017 Q3

At least 50% of workers over the age of 35 would be unable to afford to buy in Cork City on their current salary. Prices in Galway are not far behind. The cost of a one-bed apartment in Dublin 7 is almost 8 times the median wage for a worker under the age of 35. A full-time minimum wage worker, with an open-ended contract might be on the approval threshold for a one-bed in Limerick and in rural areas.

When examining two income households and considering those employees who would like to buy a home appropriate to raising children we see a similar picture. Two median earners would find it very difficult to get a mortgage for a three-bedroom semi-detached house anywhere in Dublin, Cork City or Galway City. For two median earners over 35 the situation is not much different. Without another source of income, there are very few places in Ireland two full-time minimum-wage earners could afford to buy a house. The average three-bedroom house in West Dublin is almost 6 times the net annual salary of two young workers in the middle of the earnings distribution, over 8 times in Dublin 7 and 8 and almost 5 in Cork City and Galway City.

These developments have implications for the living standards of workers as well as implications for equity along both

geographical and generational lines. According to Census (2016) over 460,000 adult children live at home, twice the number as in 2006 as the average age for buying a house continues to increase. As more and more of disposable income is spent on housing, less is left for other goods impacting on the standard of living of employees and likely putting upward pressure on wages to avoid a further deterioration in living standards. This added cost also means that demand for goods produced and sold in other sectors in Ireland will suffer at the expense of a relatively small section of property owners.

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*technical note: Net employee wages are calculated from SILC 2015 and estimated for 2017 with recorded movements in earnings reported in EHECS for 2016, 2017.

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