Changes in housing affordability in Ireland in recent decades

- by Dara Turnbull, Research Coordinator at Housing Europe

It is a hotly contested question around many dinner tables up and down the country. Parents will talk about how they had to scrimp and save to get their first mortgage, and that while clearly and issue, their adult children are not the first generation to struggle when it comes to housing. Their children will probably hit back with some incredulity or another, and the whole discussion will end in an ill-tempered stalemate.

So, is housing really less affordable now than in the past?

Well, there are data to support the view that both 'millennials' (those born 1981-1996) and their parents have faced challenges when it comes to housing affordability. However, underlying changes in Irish society over time have arguably make a perfect like-for-like comparison between different generations difficult.

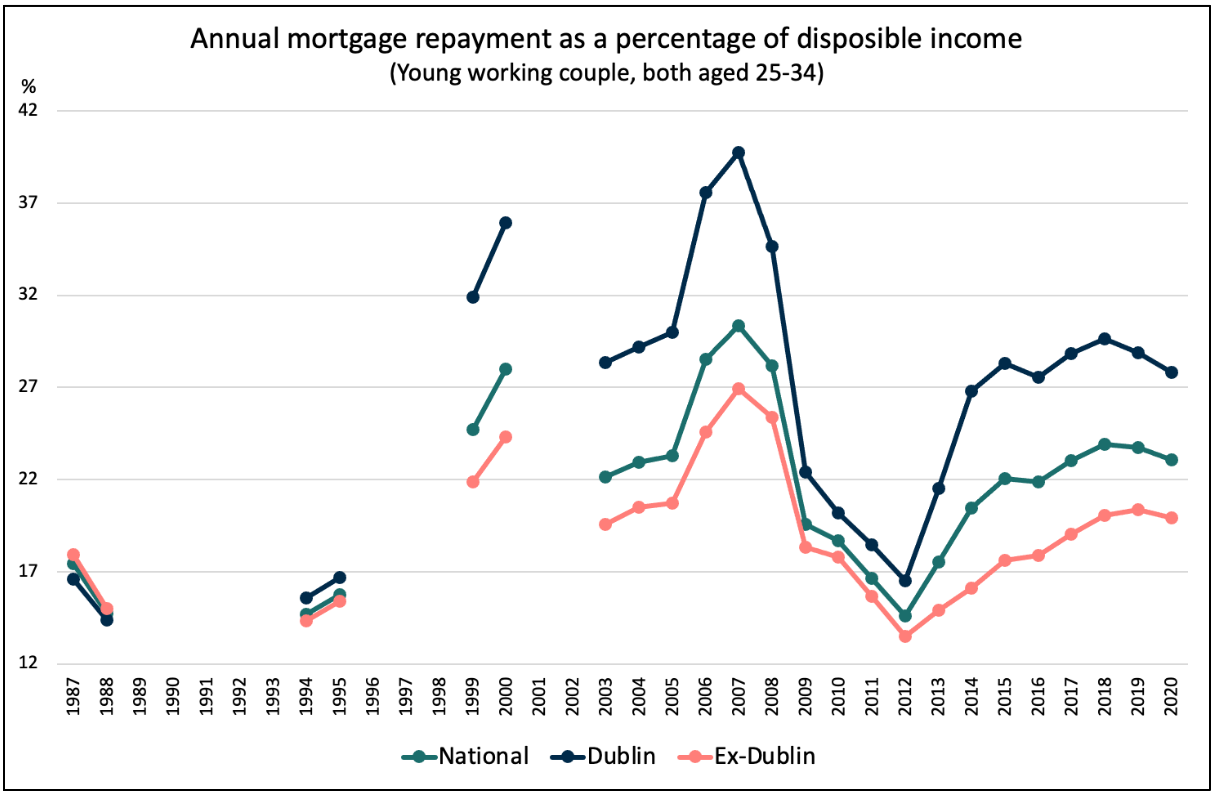
For example, according to the results of the 1986 Census, from an essentially equal number of men and women aged 20-34 in the country (roughly 390,000 of each), 73 per cent of men stated that their primary economic activity was "At work", compared to only 51 per cent of women from the same age cohort. The main reason for this significant difference between the genders was that 37 per cent of young women listed "Home duties" as their main activity, e.g., looking after children or other dependents, or keeping up their home. The situation has thankfully evolved quite a bit since then, with the most recent Census in 2016 showing 64 per cent of women aged 20-34 "At work" versus 68 per cent of men of the same age group. From a housing point of view, it means that there are significantly fewer single-earner households looking to buy their first home than in the past.

The point to be kept in mind here is that an inter-generational comparison of housing affordability is never perfect, as there are too many variables to be taken into account; both in terms of obvious factors like incomes and property prices, but also less obvious socioeconomic issues that must also be considered. However, that does not mean that a useful analysis is impossible. Indeed, far from it.

With the above caveats on this article out of the way, it is time to get down to business. Or almost. First we must consider what we mean when we use a word like 'affordable', as it relates to housing, and how we can measure it. As noted by esteemed housing researchers Geoffrey Meen and Christine Whitehead in their recent book 'Understanding Affordability', "despite the fact that the concept of affordability has a long history, there is still little agreement over the most appropriate way of measuring it". The researchers conclude that while none of the affordability measures that are commonly used are "ideal", they can still be "useful in practice". At the very least, measures of affordability can help to make real the housing struggles of parts of our population.

One commonly used measure of affordability is the percentage of a given household's disposable income (i.e. income after taxes and social transfers) that they must dedicate to repaying a hypothetical mortgage. This is based on not only their disposable income, but also interest rates, repayment periods, available tax credits/incentives, and indeed, the price of purchasing a home.

CHART ONE



Building on [previous research](#) carried out for the Nevin Economic Research Institute, and using updated data on earnings from the CSO, we can estimate the mortgage repayment for the average young (both aged 25-34) working couple in Ireland since the late 1980s. In 2020, the average young couple could have expected to allocate 23 per cent of their disposable income to repaying the mortgage on their newly acquired home. This compares to around 15 per cent at the end of the 1980s. However, things are still better than at the pre-crash peak in prices in 2007, when 30 per cent of disposable income would have been required.

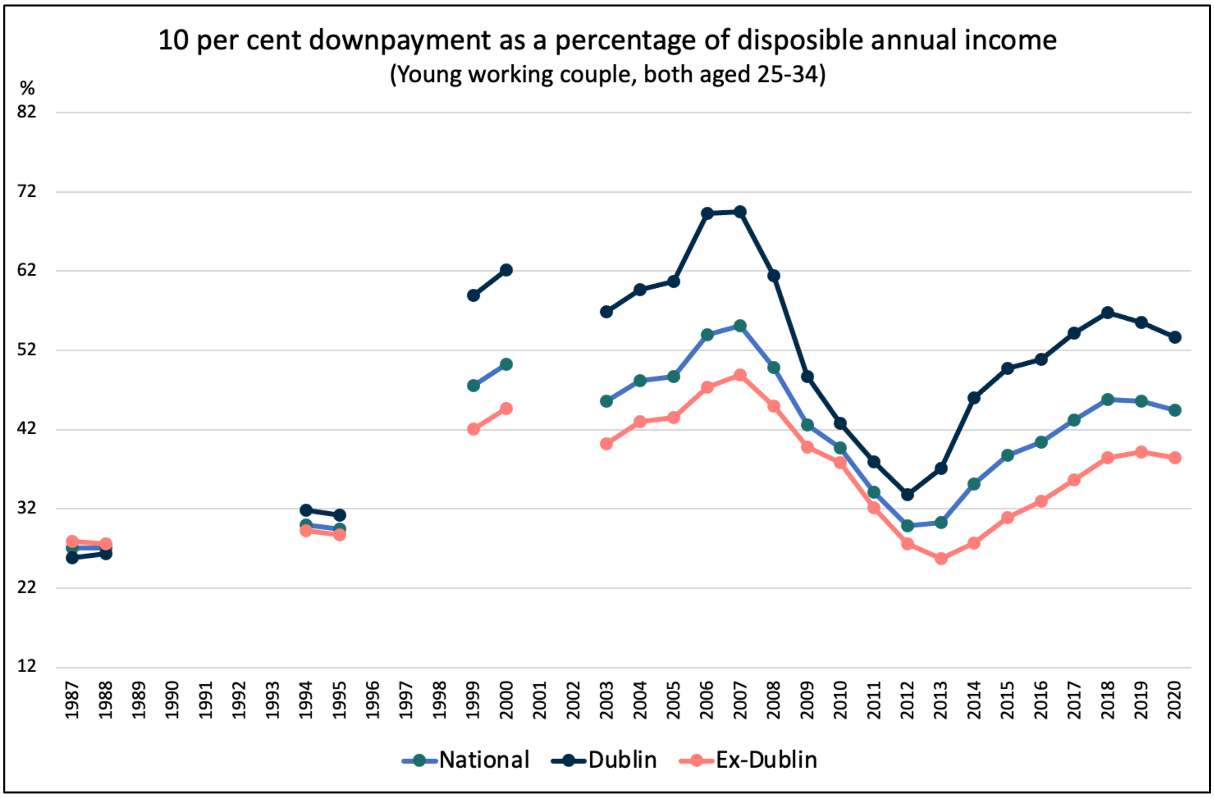
However, there are a number of very important caveats that we need to take into account when interpreting the above figures. Firstly, the word that has come to dominate so much of our lives in recent times; COVID. The pandemic had a significant impact on employment in 2020. Some sectors were more impacted than others, with those involved in sectors not suited to working from home particularly impacted, e.g. restaurants, retail, the arts, and construction. These are sectors which tend to have a disproportionate number of young workers. Sectors like IT and communications, which are also home to a large number of young workers, and in which salaries are significantly above the national average, were less impacted.

As a result, while [the figures presented by the CSO](#) would appear to show that earnings for the average young couple increased quite strongly in 2020 (+6.5 per cent), we know that this is not representative of the lived experience of many households. Indeed, additional analysis shows that the earnings of those in receipt of PUP (i.e. those who lost their jobs as a result of the pandemic) fell by around 4 per cent in year-on-year terms during the final three quarters of 2020. Therefore, while the figures for housing affordability in 2020 presented above are 'accurate', at least in as much as they accurately represent the affordability position of a couple lucky enough to have maintained their employment during 2020, they clearly don't tell the whole story when it comes to the impact of the pandemic on housing affordability. In 2019, the average young couple could have expected to allocate a higher 24 per cent of their disposable income to repaying the mortgage on their newly acquired home.

Moving off the pandemic and back onto the long-term analysis of housing affordability, an issue of significant interest is the divergence in housing affordability between Dublin and the rest of the country in recent decades. In the late 1980s housing in Dublin was essentially as affordable as it was outside of Dublin. While the average home in the Capital cost close to €50,000 towards the end of the decade, the average cost of a house outside of Dublin was not far behind, at closer to €45,000. If we accept that wages in Dublin were above the national average at the time, then mortgage affordability was essentially the same in both locations. Of course, this does not say anything about the 'size' or the 'quality' of the homes being bought or sold, or indeed the amount of land that might have been attached to the sale. In 2020, we can estimate that the average property in Dublin would cost roughly €350,000, versus around €225,000 in the rest of the country (i.e. 'ex-Dublin')

Of course, lumping everywhere that is not Dublin in together as 'the rest of the country' is not ideal. A typical home in Wicklow, for example, simply does not cost anything like the same as a typical home in Leitrim. However, we are somewhat constrained in our analysis by the available historical and present day data on residential property prices in Ireland.

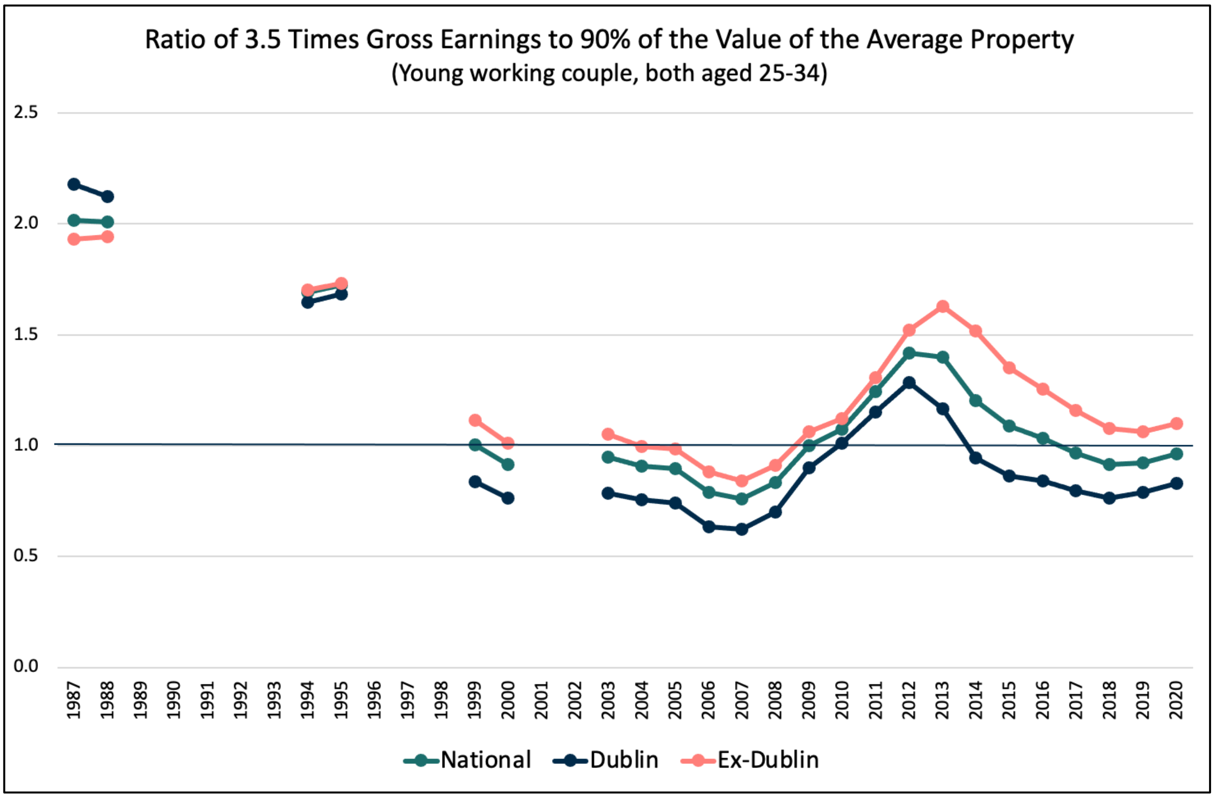
CHART TWO



Of course, paying a mortgage is one thing, actually being in a position to take out a mortgage in the first place is quite another. There is the obvious elephant in the room that housing supply constraints today are significant, in a way that was not the case in the past. Indeed, my colleagues and I at Housing Europe recently noted that between 2011 and 2019, there was a shortfall in new construction versus demographically driven demand of the order of a staggering 150,000 units. A further shortfall in 2020 and 2021 has served to compound this problem further.

Sticking with the example of our two-income young couple, they would need to set aside the equivalent of 45 per cent of their annual disposable income in recent years to afford a 10 per cent downpayment on a home, versus 27 per cent in the late 1980s. In Dublin, this rises to 55 per cent, more than double the 26 per cent that would have been needed in the late 1980s. Of course, while having a downpayment 'might' have been a sensible approach in the past, it was not necessarily compulsory for all borrowers. In today's climate, the Central Bank's macroprudential rules mean that, outside a lucky few, a minimum 10 per cent downpayment has become compulsory for those buying their first home. The other main macroprudential measure is of course the 3.5 time gross income to borrowing limit.

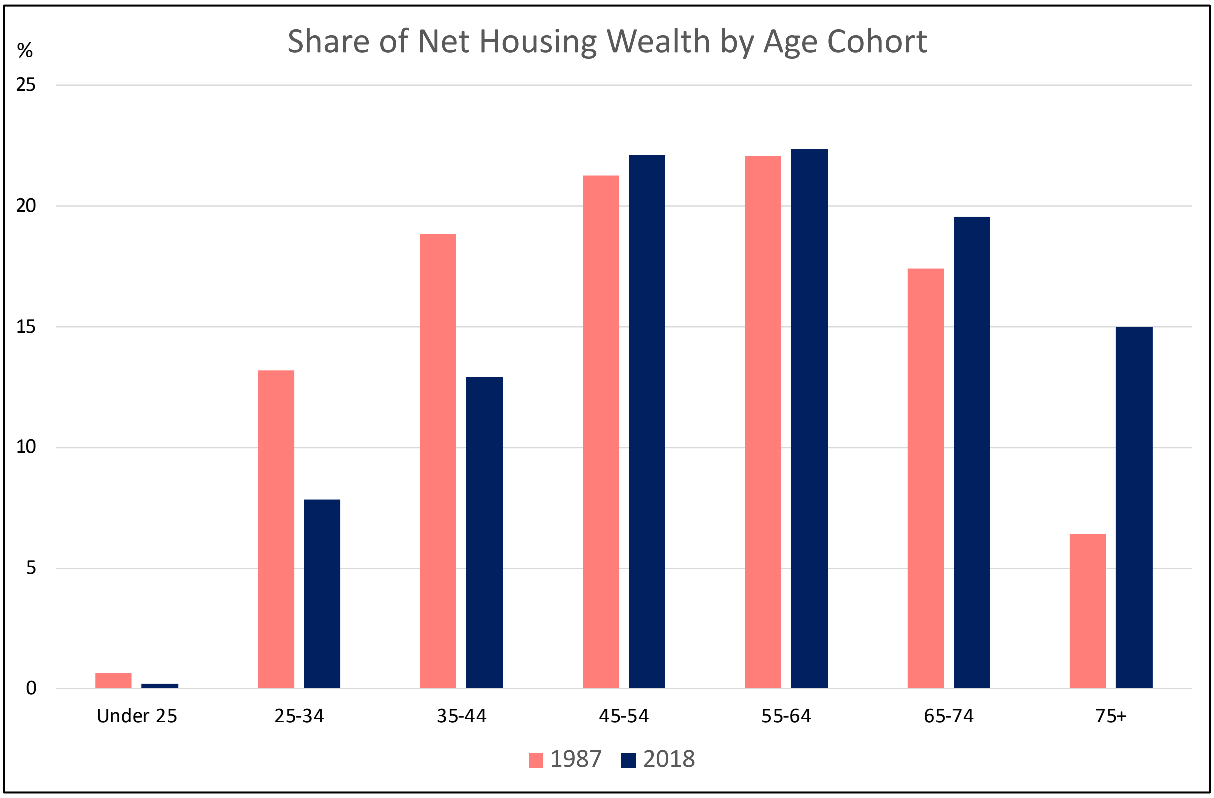
CHART THREE



If such a 3.5 times income borrowing limit had existed in the past, would it have potentially acted as an obstacle to borrowing; or rather becoming a homeowner? Quite simply, 'No'. A similar loan-to-income requirement in the past would have had absolutely zero impact on the average young buyers in the late 1980s. In fact, it would have had so little impact that our young couple could have purchased two houses under such a requirement, while still respecting the rules! By contrast, the earnings of the average couple today in fact means that they would need a larger than 10 per cent deposit to buy a house, especially in Dublin where a 15 per cent deposit would be required in order to comply with the loan-to-income requirements, equating to about 79 per cent of the young couple's annual disposable income! Of course, this should not be seen as a critique of the Central Bank rules, which most experts agree have been necessary to avoid potentially unsustainable lending, and which it is accepted have actually helped to contain house prices in recent years. Thus, it is not the lending rules that are at fault, it is broader issues in our housing sector.

We know that owning a home is the case for fewer and fewer people in Ireland today, especially younger people and those on lower incomes. According to analysis by the CSO: "The age at which home ownership became the majority tenure category was 35 years in 2016. Prior to that age, more householders were renting rather than owning their home. In comparison to previous censuses dating back to 1991, the ages which marked the changeover between renting and home ownership were 32 years (2011), 28 years (2006), 27 years (2002) and 26 years (1991)".

CHART FOUR



Step back and let that sink in for a moment. The age at which a majority of Irish households owned their own home was just 25 at the start of the 1990s. By 2016, it has risen by a full decade to 35. Even more shocking, the CSO data show that in 1991 the age at which two-thirds of Irish households were homeowners was just 26, versus 41 today – a 15 year difference! As a result, the share of net housing wealth held by younger people in Ireland has seen a marked decline in recent decades.

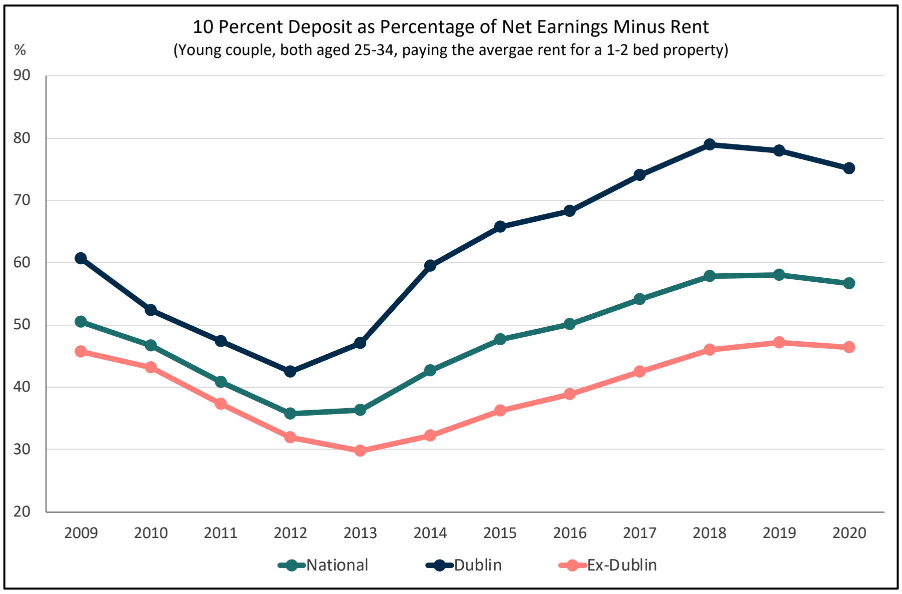
Some might argue that this reflects not an inability to buy housing, but rather those socioeconomic factors that I mentioned earlier; and there is undoubtedly a grain of truth to this. For example, the average age of a first time mother in Ireland in 2020 was 31.4 years, compared to around 26 years in the late 1980s. The average age at marriage for women has also been rising, from 25.8 in 1987, to 35.7 in 2020.

However, there is a chicken and egg situation at play here. Does housing impact on decisions to have children and get married, or is it the other way around? In this regard, there is a rich literature. For example, research has shown that rising house prices lead to lower fertility rates for young renters, as they put off starting a family until they can afford permanent accommodation. It can also be shown that high house prices have a negative impact on young peoples' ability to start and maintain relationships, which likely explains the trend towards getting married at a later age, when income tends to be higher and accommodation more affordable. There is also a demonstrated link between greater access to housing and the level of family household formation, and moving out of one's parental home.

In any case, more and more young people in Ireland are turning to the private rental market to meet their housing needs. Indeed, while just 15 per cent of households in which the head of household was aged 25-34 were in private rental accommodation in 1991, the 2016 Census showed that this had risen to 51 per cent; a staggering 36 percentage point rise! Therefore, while we regrettably do not have reliable data on private rental prices from a generation ago, the fact that private rental was such a minority housing tenure at the time means that this gap in our knowledge is perhaps not such a significant issue in regard to the current analysis.

Building on previous research, and updated figures from the Residential Tenancies Board (RTB), we can estimate the cost of renting the average 1-to-2 bed property in Ireland since 2008. The average 1-to-2 bed property would have cost €13,115 to rent in 2020. That is equivalent to paying the mortgage on a home that cost €253,000. In Dublin, the annual rent would have been €18,500 a year, or the same as a mortgage on a €357,000 home.

CHART FIVE



If we take a step back for a second, we might enquire as to how renting a home now might impact on the ability to buy a home later on; assuming of course that is a transition in tenure that someone would like to make. As mentioned earlier, a 10 per cent downpayment equated to 45 per cent of the annual disposable income of a young couple in 2020. If we assume that this same couple is paying €13,115 a year in rent, then that downpayment now equates to 56 per cent of their post-rent disposable income. In Dublin, excluding considerations of rent, the 10 per cent downpayment equates to 53 per cent of annual disposable income. However, when we include rent, it rises to over 73 per cent, while the aforementioned required 15 per cent downpayment in the Capital equates to 110 per cent of post-rent disposable income!

Of course, if we were to include the costs of other essentials such as food, clothing, transport, and electricity and heating, then the money left over each month to set aside for that all-important deposit is really not much. With house prices continuing to rise (over 7 per cent year-on-year growth in the first 10 months of 2021), it can seem for many prospective young buyers that their goal is getting further away from them all the time.

Is it any wonder then that while 83 per cent of those in the private rental sector in Ireland or living with their parents would like to buy a home, 48 per cent of them think that doing so will never be within their grasp? 88 per cent of the 'living with mum and dad' cohort would prefer to be living independently, but the current cost of housing means they are unable to do so.

For those working full-time, but living with their parents, in 84 per cent of cases this reflects their financial situation, to a greater or lesser extent. In other words, their full-time job does not pay them enough to afford to leave home. Figures from Eurostat suggest that in recent years there have been close to 200,000 young adults (aged 18-34) in Ireland, working full-time, but still living with their parents. The Eurostat data also show that the estimated average age at which an Irish person now manages to leave their family home has risen to 28! This is a long long way from the early 90s, when two-thirds of people in Ireland were homeowners by the age of 26.

So, to come back to the original question posed at the start of this article: "Is housing really less affordable now than in the past?". It is fair to say that caveats aside, based on what has been shown above, the simple answer is 'Yes'.

That is not to say that some of those parents arguing with their children across the dinner table did not truly struggle with housing costs when they were younger, or indeed that they do not continue to struggle with housing costs today! Rather we can conclude that on balance, housing affordability is more likely to be an issue for young people today than in the past. This brings with it a number of related socioeconomic changes in Irish society, especially when it comes to the delayed independence of young people.

The question then must become, if we can accept the simple fact that housing affordability is an issue, "what are we going to do about it?".

This is the question that my colleagues and I at Housing Europe have been trying to address in recent times, in cooperation with collaborators at the United Nations and a number of academics. The result of this cooperation is the #Housing2030 initiative. The recently published report of which, and online policy toolkit, outlines tried and tested housing policies that have been shown to be effective in tackling housing affordability issues. This is based along four main axis – governance, finance, access to land, and environmental sustainability. These are all areas in which Ireland must try to find better ways of doing housing policy.

To provide a few examples of successful policies highlighted in the report. In France, around three-quarters of the finance for the development of new social housing comes from the Caisse des Dépôts, the French national public investment bank. It channels private savings into investment in public goods, such as social and affordable housing. Most importantly, it does this without adding to France's public debt. This model could allow a country like Ireland to provide more homes for low- and middle-income households, without having to deal with the infamous straightjacket of the EU fiscal rules. At a time when the need for additional social and affordable housing in Ireland is likely to be at least 80,000 units, though this is a conservative estimate, this could be a game-changer for those suffering the worst impacts of the ongoing housing affordability crisis.

There is also a clear need for housing renovations in Ireland, with just 12 per cent of the housing stock currently holding an A or B energy rating. An A rated home omits 1.1 tonnes of CO_2 per year, versus 10.8 tonnes for F or G rated homes. However, if we are to reach meaningful rates of renovations, we need to start renovating our homes *en masse*. The successful Energiesprong model, which is being rolled out across Europe, including in social housing, makes renovations cheaper and quicker, with energy savings in homes helping to pay for the initial investment costs of the scheme. Lower energy bills will help to make housing more affordable for many low-income households in Ireland.

Finally, all of the funding in the world to develop new housing means nothing if you don't have the actual land to build it on. Public land banks, like the Wohnfonds in Vienna, can play an important role in guaranteeing that the right type of housing is built in the right place and at the right time. Wohnfonds purchases land and then releases it to both non-profit and for-profit developers, who must strictly adhere to the City's urban development strategy. In this way, scarce land resources are used to build the housing that Vienna needs, not the housing that developers would choose to develop if left to their own devices. This includes the development of affordable housing, including cost-rental housing, which makes up 43 per cent of the housing stock in Vienna. This provides secure, affordable homes for a broad section of the population. This is one of the main reasons why Vienna has consistently been named as the most liveable city in the world in recent years.

To summarise, housing affordability is clearly an issue that impacts on a meaningful part of the Irish population today, with young people and private renters on lower incomes particularly impacted. While we may want to nit-pick on the figures, it is safe to say that the current generation is struggling to an extent that was not the case for their parents, the majority of whom were able to become homeowners in their mid-20s. Having accepted and owned up to the reality of the current situation, the question must change from 'Is housing unaffordable?' to, 'What are we going to do about it?'.

The government's new *Housing for All* strategy represents progress on many fronts, especially in relation to the scale of its financial commitment on the development of social and affordable housing, as well as housing regeneration projects. However, it seems to suffer from some of the same flaws as the Rebuilding Ireland strategy that preceded it, in as much as its overall success (or not) will rely heavily on the output of the private sector. This is despite the fact that the State does not possess the means to compel private actors to develop new homes at the required scale or of the needed size. Therefore, there seems to be an urgent need for a greater role to be played by the state, its local authorities and Approved Housing Bodies (AHBs), as well as public agencies (e.g., Land Development Agency) in developing housing; both for sale and for rent. As noted above, #Housing2030 presents a wealth of proven policy options that could be used to further this ambition, and to make sure that 'Housing for All' lives up to the ambition of its title.

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