Opening Statement – Oireachtas Joint Committee on Housing, Planning and Local Government

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Introduction

Let me begin by thanking the Chair for the invitation to the ESRI to appear before the Committee. I am Dr. Conor O'Toole, and I am joined by my colleague Dr. Barra Roantree. We are delighted to have the opportunity to share with the committee the findings of our empirical research in the area of housing affordability. In our evidence today, we will focus on the findings of two recent studies on the Irish housing market: 1) an exploration of trends in housing affordability and 2) an assessment of how Housing Assistance Payment affects work incentives. Both of these studies are publically available on the ESRI website.

At the outset, I would like to acknowledge the study on affordability has been conducted in conjunction with economists at the Department of Housing, Planning and Local Government under the ongoing research collaboration on housing economics between the ESRI and the Department. This initiative is an excellent opportunity to link research evidence and policy across the range of housing topics considered.

Findings of Research on Housing Affordability

Last June, the ESRI and the Department released our research paper on Trends in Housing Affordability in Ireland. Using detailed household data from the CSO SILC, the objectives of this research were threefold: first, to document housing affordability trends across Irish households split by age, region, household structure and their position in the income distribution; second, to look at international definitions of high housing costs and evaluate the suitability of these thresholds in an Irish context. Third, provide evidence to inform policy in terms of targeting specific groups with affordability challenges. All this research is built on measuring housing affordability in terms of the share of net monthly incomes households spend on their housing payment be it rent or mortgage repayments.

A number of clear findings emerge from the research. On average, households were paying approximately one fifth of their income on housing costs in 2016, only a very slight increase from 2005. However, for specific sub-groups significant affordability challenges are evident. In particular, households in the private rental sector, those living in urban centres (particularly Dublin) and those on low incomes face the greatest challenges. Indeed, households in the lowest 25 per cent of the income distribution were paying nearly two-fifths of their income on housing payments. This does not include the cost of other housing services or utilities.

Looking at mortgage holders in more detail, we found a sharp increase in housing repayment burdens for low income mortgaged households between 2008 and 2015. Many of these households received relatively high levels of mortgage credit with poor underwriting during the boom and this reinforces the importance of strong macroprudential rules on credit access for potential borrowers. We find that over the period 2005 – 2016 low income renters have consistently faced high housing costs to income ratios. While rental price inflation has been high in the very recent period, the persistent high rent to income ratios suggests affordability challenges are structural rather than cyclical in nature i.e. have persisted over time.

Using simple thresholds, such as the share of households spending over 30 per cent of their income on housing costs, would indicate about one-in-six households had high housing costs, but this figure was one-in-three for private renters and seven-in-ten for households in the lowest quarter of the income distribution.

Finally, the paper explored how much income households' had left after they made their housing payment (the so called residual income approach) and tested whether this would be sufficient to purchase a minimum standard of living in terms of goods and services. We find many low and middle households would have insufficient resources after housing costs to do so. We also find that for many low income households, even if their housing cost is low, they have few resources left after making their monthly rent or mortgage payment.

The policy implications of the research are twofold. First, the pockets of high housing cost identified suggest that an increase in the long term provision of state supported housing, and the development of alternative rental models which limit cost pressures, are required to provide low income households with sufficient financial buffers to withstand economic shocks and market fluctuations. The research suggest that there would be considerable benefit from a policy perspective in adopting an affordable housing definition based on international norms that could be used in monitoring and as an evidence based anchor in terms of eligibility for schemes. For example, eligibility for social housing, which is also based on strict income limits could also be linked to a common evidence-based definition of high housing cost. However, this research did not consider any specific scheme in detail.

Research on Housing Assistance Payment and Income Related Housing Supports

One specific policy which the ESRI has recently conducted research on is the Housing Assistance Payment (HAP), which the government plans will eventually replace the Rental Accommodation

Scheme (RAS) and Rent Supplement for long-term claimants. These three payments in 2016 covered around a quarter of the private rental market, with this proportion likely to grow in the coming years if the government's targets set out in Rebuilding Ireland are met.

New research, as part of the ESRI's Tax, Welfare and Pensions research programme, finds that in addition to providing support to low-income families for housing costs, HAP should improve financial work incentives for most households who would otherwise claim Rent Supplement. This is primarily because HAP does not require claimants to work less than 30 hours per week to remain eligible for the payment and is means-tested against other income at a slower rate than Rent Supplement. These differences will also result in more working households qualifying for HAP than would have for Rent Supplement.

However, this research assessed the impact of introducing HAP with tenants' rent contributions assessed through a unified national Differential Rent scheme that was being considered by the Housing Agency and Department of Housing in 2014. Under the version of HAP rolled out nationally, tenants' rental contributions are instead determined by their county or city council's Differential Rent scheme, also used to calculate the contributions of local authority tenants. While – like the unified national Differential Rent scheme – these place no restrictions on working more than 30 hours per week and so should strengthen work incentives relative to Rent Supplement, the detail of these schemes differs significantly on a regional basis which means that the level of support provided to HAP claimants with identical circumstances can vary substantially across local authorities.

Consider a one-earner couple with two children and earnings before tax of €35,000 who find a 2-bed property to rent for €1,275 per month. If renting this in the area covered by South Dublin County Council, they will pay €267.90 on a monthly basis. However, under the exact same circumstances the rent is €350 a month if renting in the Dublin City Council area and almost €450 in Bray or Greystones. It is difficult to justify such differences in levels of support for a national scheme when they arise not because of differences in the quality of accommodation or the desirability of these areas (the market rent for the property is the same), but because of historic choices made by local authorities.

The anticipated growth of HAP means that issues surrounding the design of Differential Rent schemes are likely to be of increasing importance for both central and local government policymakers. Key among these are the limits on the rent that can be paid for a property by someone receiving HAP or Rent Supplement, The limits themselves were last revised in March 2017. Since then, the rental index compiled by the ESRI for the RTB suggests average rents have risen by 13%, even more in Dublin. Given the rate of rental inflation, there is a clear need for more regular review of these limits, analogous to the typically annual increases made to maximum rates of payment for social welfare benefits.

However, it is important for policymakers to be aware of the potential impacts on the wider rental market. International evidence on the ultimate economic incidence of rental subsidies is mixed: for example, a recent study suggested 90% of the burden of cuts to the UK's main income-related support for rental costs in 2011/12 fell on tenants, whereas a study of an earlier cut to this benefit suggested it was closer to one-third.

Concluding remarks

To conclude, the evidence clearly indicates an increased requirement for social and supported housing in Ireland in the coming years. In this context, long-term investment in, and expansion of, the public housing stock for rent, is key. Policies to provide low cost rental options for households such as cost rental or housing cooperatives can form part of the new rental landscape. Other policies such as rental price controls or subsidisation can be effective in providing a short-term alleviation of price pressures. However, such responses may have limitations or possible unintended consequences.

Understanding the structural rather than cyclical nature of persistent affordability challenges for many low-income households and urban renters is critical to deciphering the appropriate policy response. The research suggests state intervention is required to provide appropriately priced accommodation for these households through the economic cycle. As our economy attempts to navigate the many uncertainties such as Brexit and a potential global economic slowdown, we must ensure a steady provision of such units continues regardless.