



Exploring Affordability in the Irish Housing Market

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WORKING PAPER VERSION

Background and Context

- Housing costs of considerable importance from an economic and social perspective
- Recent rent rises and house price increases have brought to the fore concerns regarding housing affordability
- Some studies in recent years have documented this issue
 - Housing Agency – National Statement on Housing Supply and Demand
 - Indecon (2016) report for National Competitiveness Council
 - Demographia (2017) study
- However these studies only narrowly focused on new entrants to the market
- Broad based study across all households complements the existing research

What We Do

- A number of key contributions:
 - Document housing affordability trends for Irish households split by age, region, household structure and their position in the income distribution
 - Explore the share and composition of Irish households captured by international definitions of high housing costs and evaluate the suitability of these thresholds in an Irish context
 - Provide evidence to inform policy in terms of targeting specific groups with affordability challenges

Research Programme Context

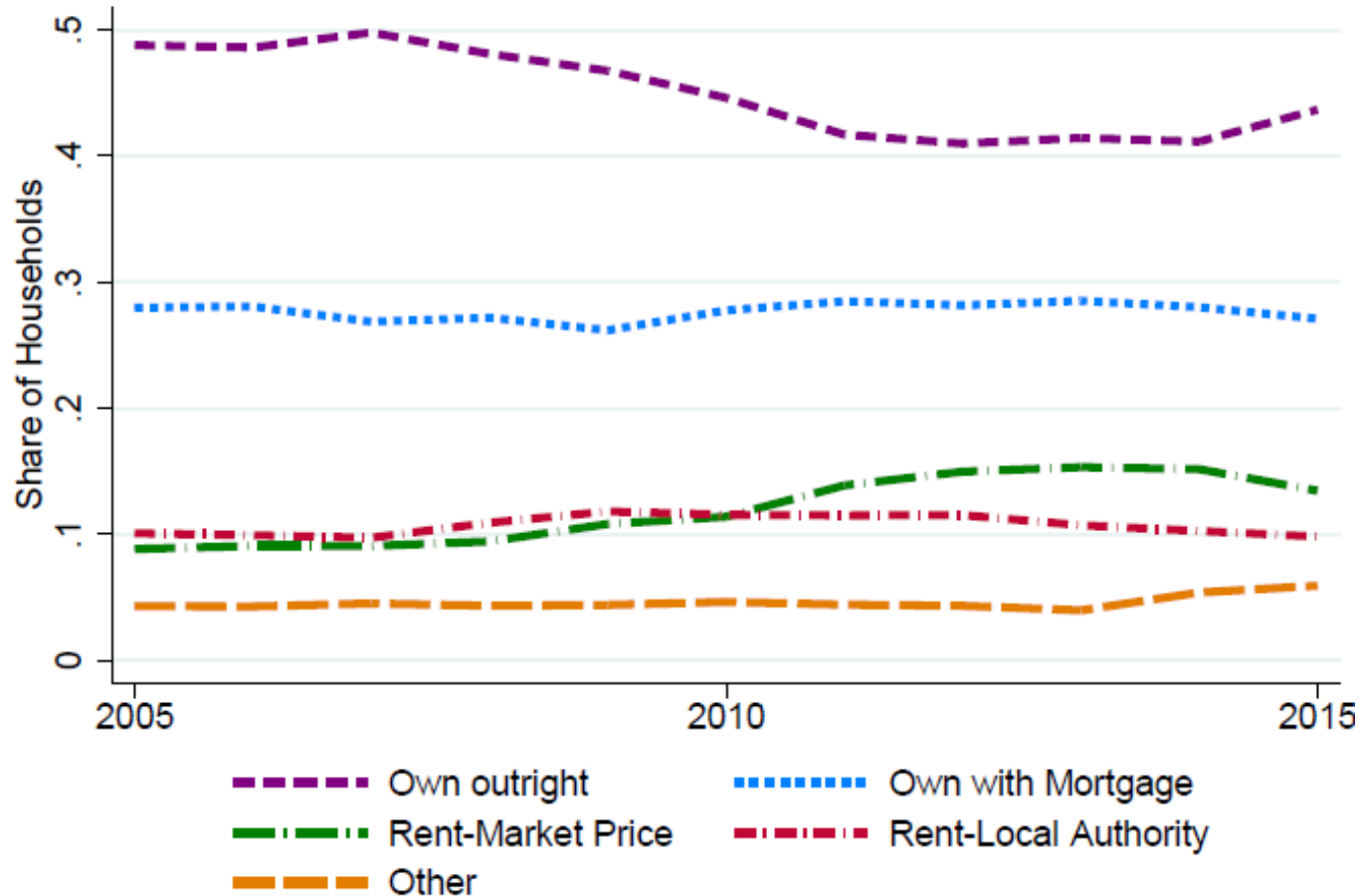
- Research part of a ongoing body of work on housing affordability as part of research programme between DHPLG and ESRI
 - Current paper focused on housing costs across all households which make housing payments (mainly focused on existing mortgage holders and those in private rental sector)
 - Future work will look at new market entrants, provide a regional perspective and explore consequences of affordability challenges

Dataset: Survey on Income and Living Conditions (SILC)

- Comprehensive micro-level dataset surveying income and living conditions across different types of households
- Approximately 4500-5500 households surveyed each year
- Primary focus is to collect information used to derive indicators of poverty, deprivation and social exclusion
- Survey contains information on home ownership, details of mortgage debt, monthly mortgage instalments, monthly rental payments and income

SILC: Housing Tenure

Figure: Housing Tenure of Irish Households 2005-2015



Measures of Housing Affordability

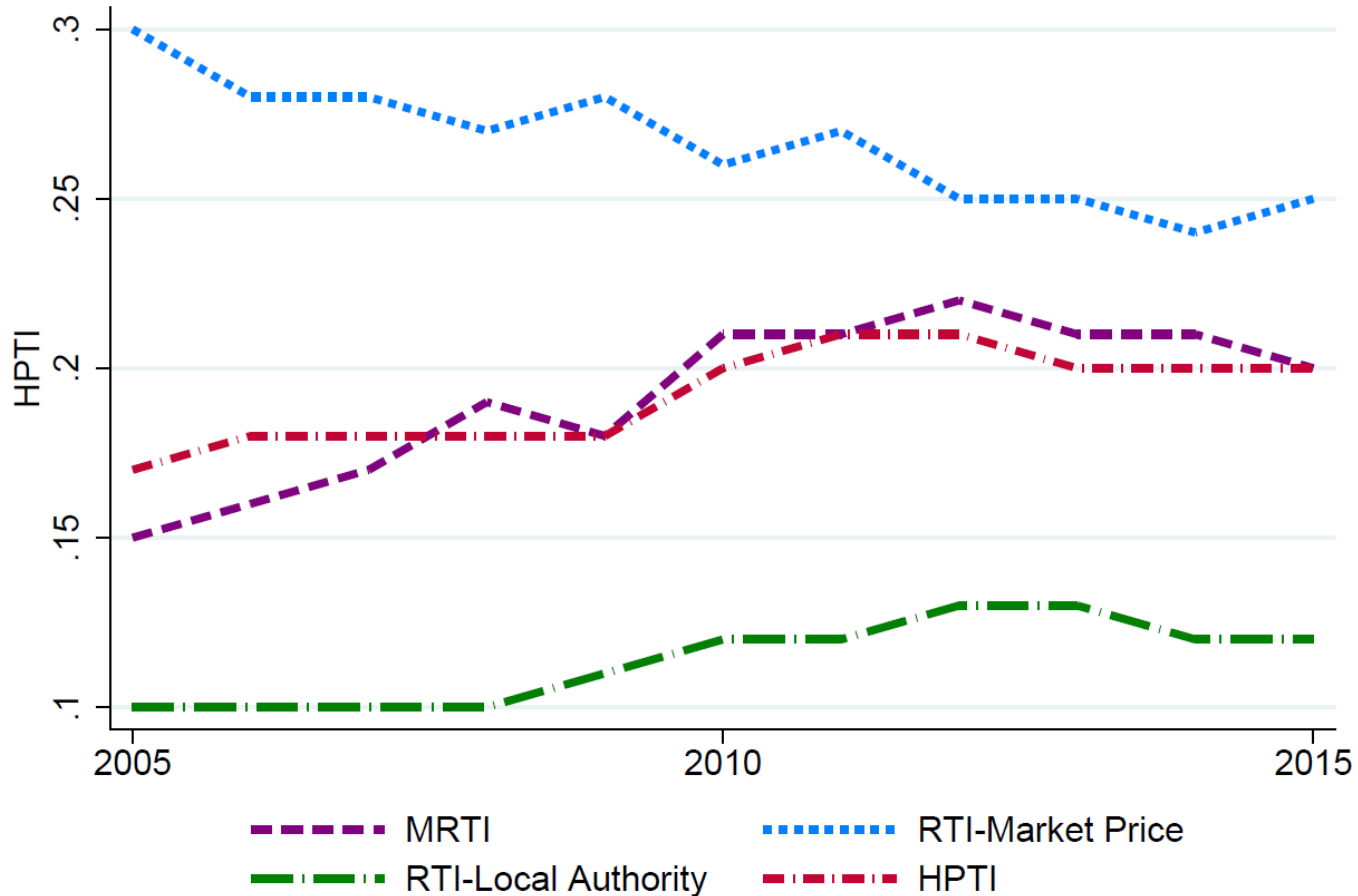
$$HPTI = \frac{\textit{Housing Payment}}{\textit{Net Income}}$$

$$MRTI = \frac{\textit{Mortgage Payment}}{\textit{Net Income}}$$

$$RTI = \frac{\textit{Rent Payment}}{\textit{Net Income}}$$

Average Housing Payments to Income

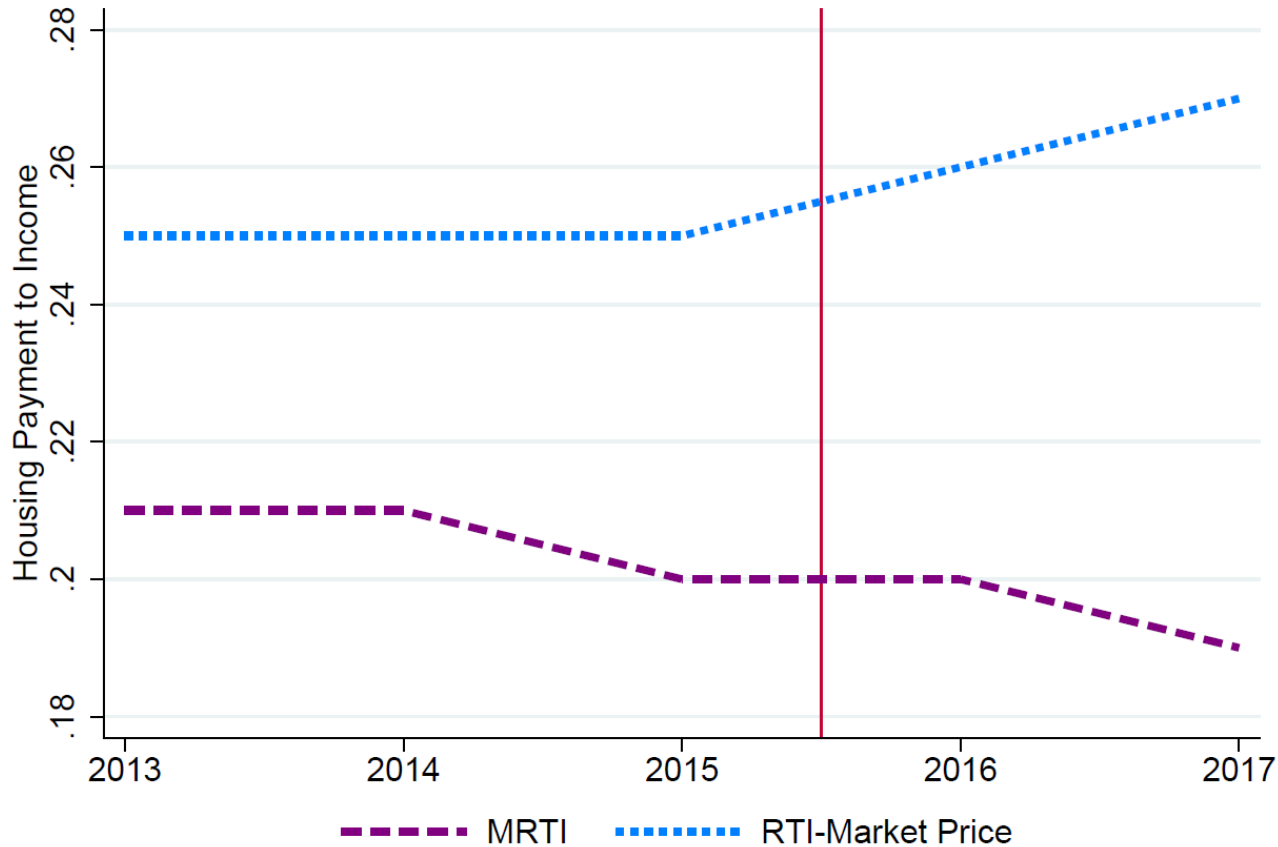
Figure: Housing Payment to Income Ratios by Tenure



Source: ESRI Analysis of EU SILC data (weighted).

Nowcast to 2017...

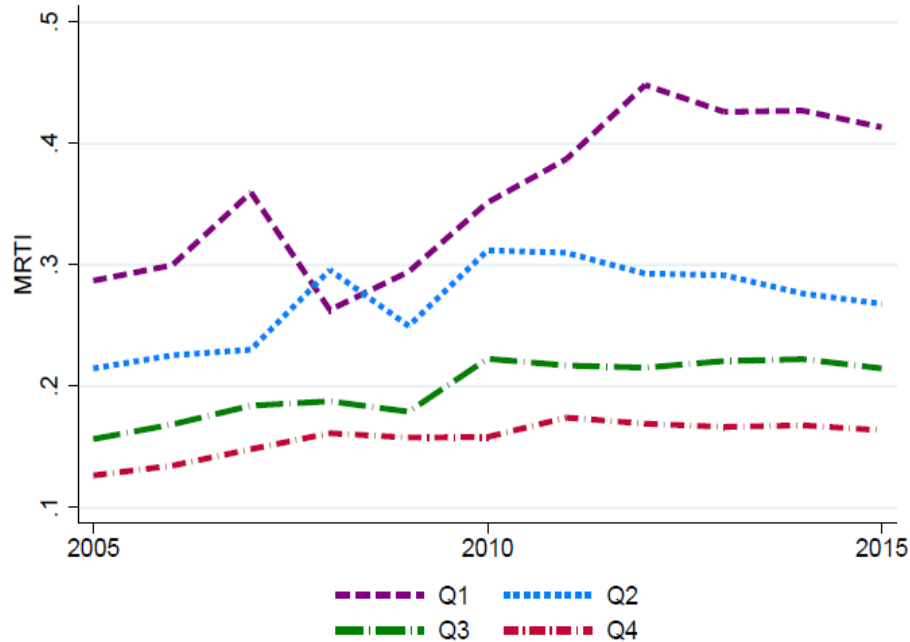
Figure: Housing Payment to Income Ratios by Tenure



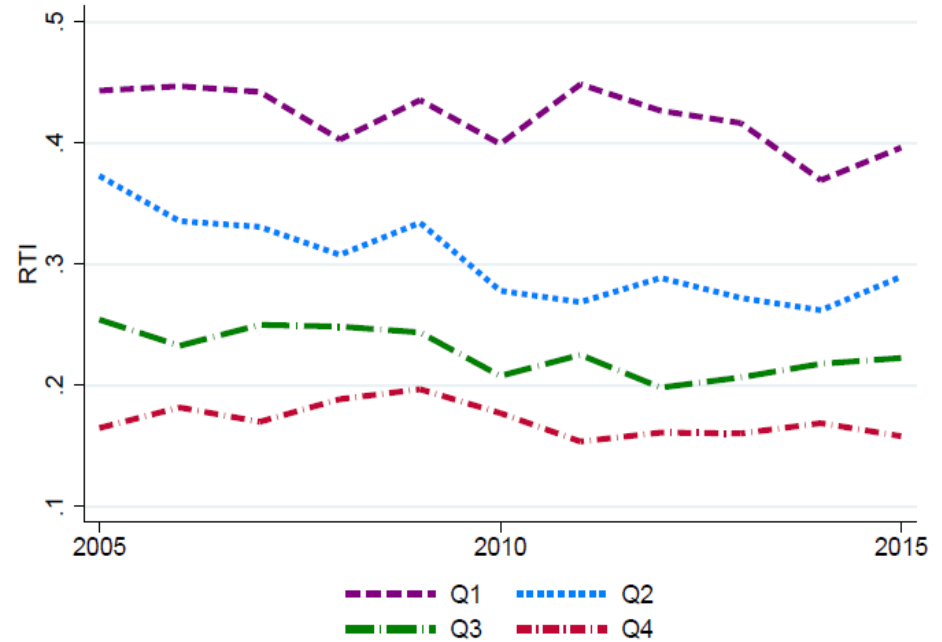
Source: ESRI Analysis of EU SILC data (weighted).

Housing Payment Costs by Income Quartile

Figure: Housing Payment to Income Ratios by Income Quartile



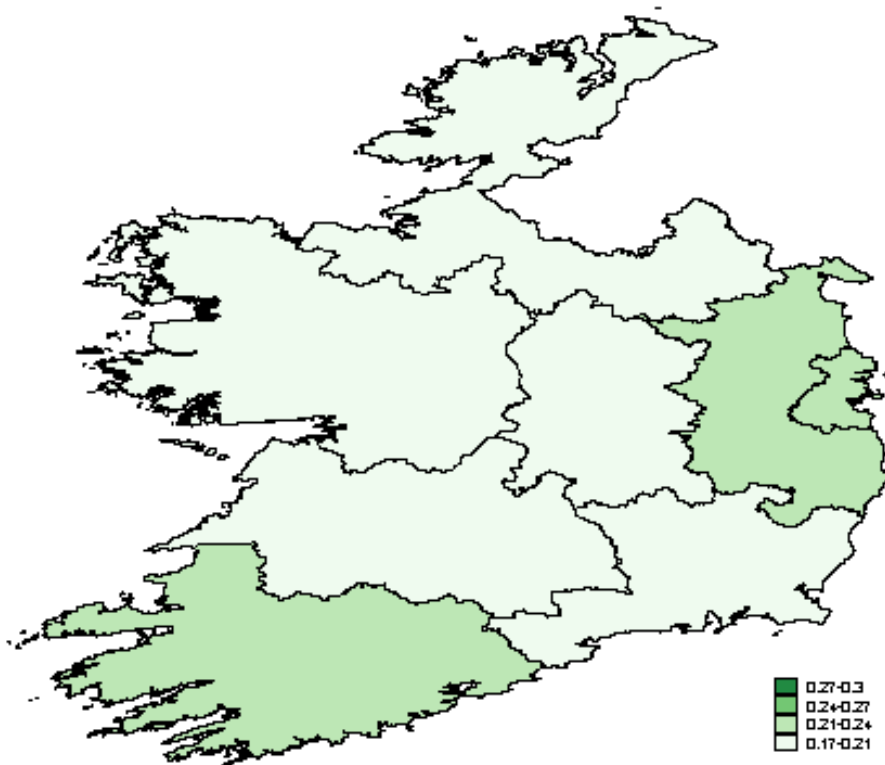
a) Mortgaged Households



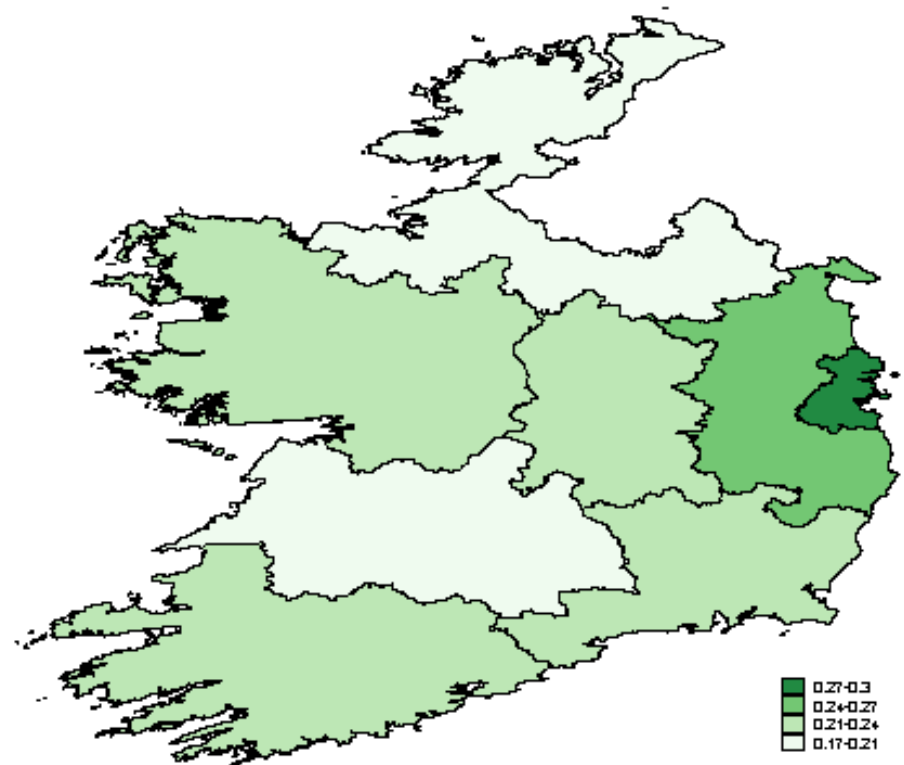
b) Private Renter Households

Housing Costs by Region

Figure: Housing Payment to Income Ratios by Region 2014-2015



a) Mortgaged Households



b) Private Renter Households

Other Heterogeneity in Housing Costs

- Age Groups
 - Initially higher MRTI for 18-35, but convergence of other age groups over time. Little variation in RTI by age group
- Household Composition
 - Both MRTI and RTI consistently higher for 1 adult households than for 2+ adult households

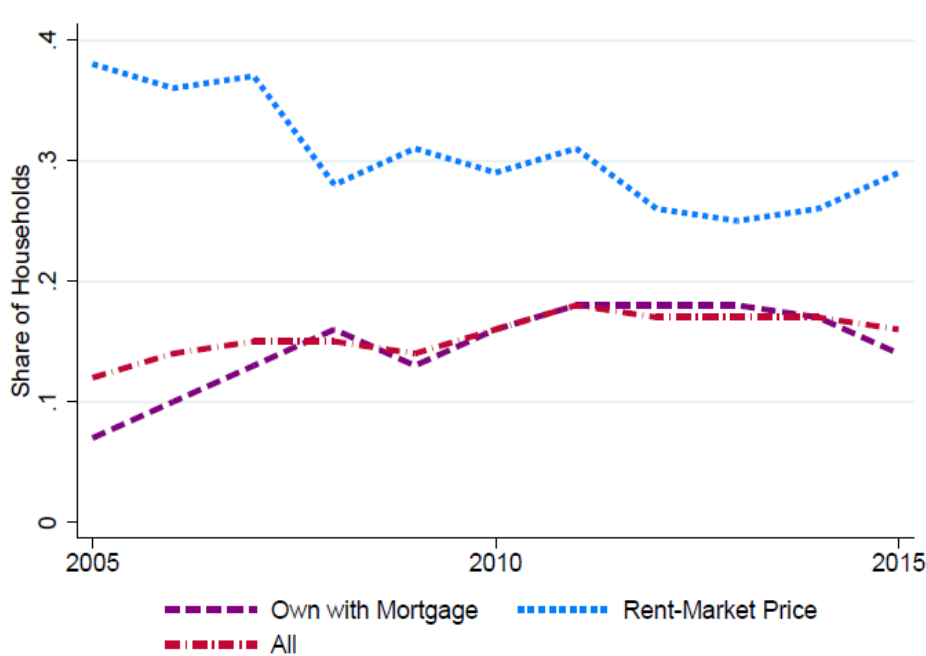
- Benchmark proportion of income spent on housing costs - 30% widely used benchmark (Quigley & Raphael, 2004)
- 30/40 measure to account for position in income distribution (Wood & Ong (2011); Baker et al. (2015); Borrowman et al. (2017))
- Residual income approach - whether remaining income after housing costs allows the household some minimum level of consumption

High Housing Costs

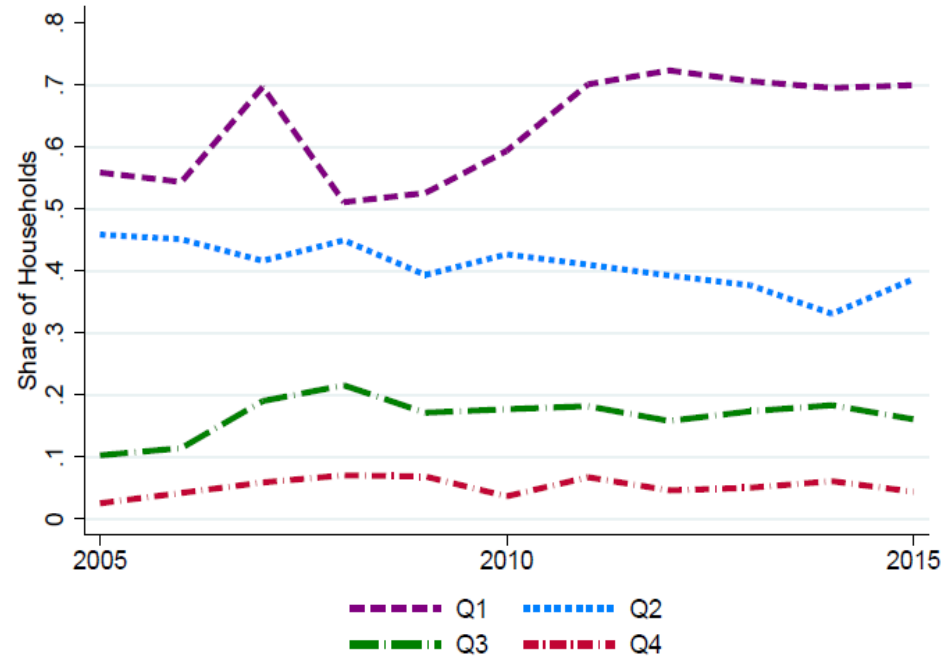
- How do we define housing affordability for Ireland?
- Income adequacy threshold in P&D Act but no scheme wide affordability definition so we draw on international evidence
 - Benchmark proportion of income spent on housing costs - 30% widely used benchmark (Quigley & Raphael, 2004)
 - 30/40 measure to account for position in income distribution (Wood & Ong (2011); Baker et al. (2015); Borrowman et al. (2017))
 - Residual income approach - whether remaining income after housing costs allows the household some minimum level of consumption
- We take 2 definitions used in international literature and apply them to Ireland:
 - 30% of income benchmark
 - 30/40 - 30% of income plus in lowest 40% of income distribution
- Aim is to identify the share, and composition, of households who would be defined as “high housing cost” by these measures
- Examine whether these 30% and 40% thresholds make sense for Ireland
- Look at residual income issues

High Housing Costs - 30% Benchmark

Figure: Share of Mortgage Holders and Private Renters Above 30% Benchmark



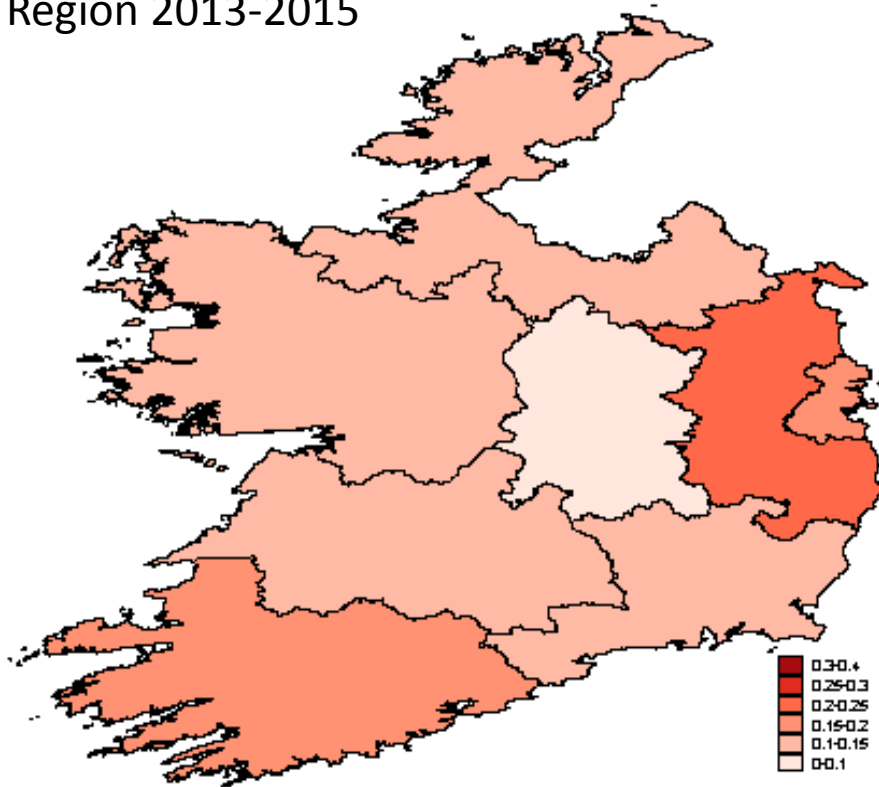
a) By Tenure



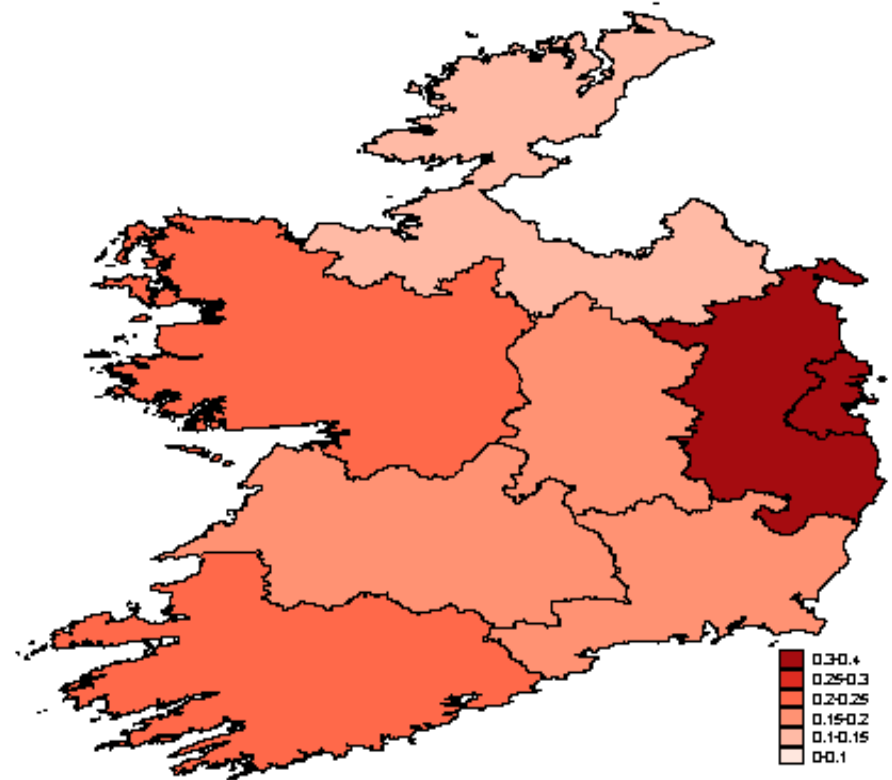
b) By Income Quartile

High Housing Costs by Region

Figure: Share of Mortgage Holders and Private Renters with High Housing Costs (>30%) by Region 2013-2015



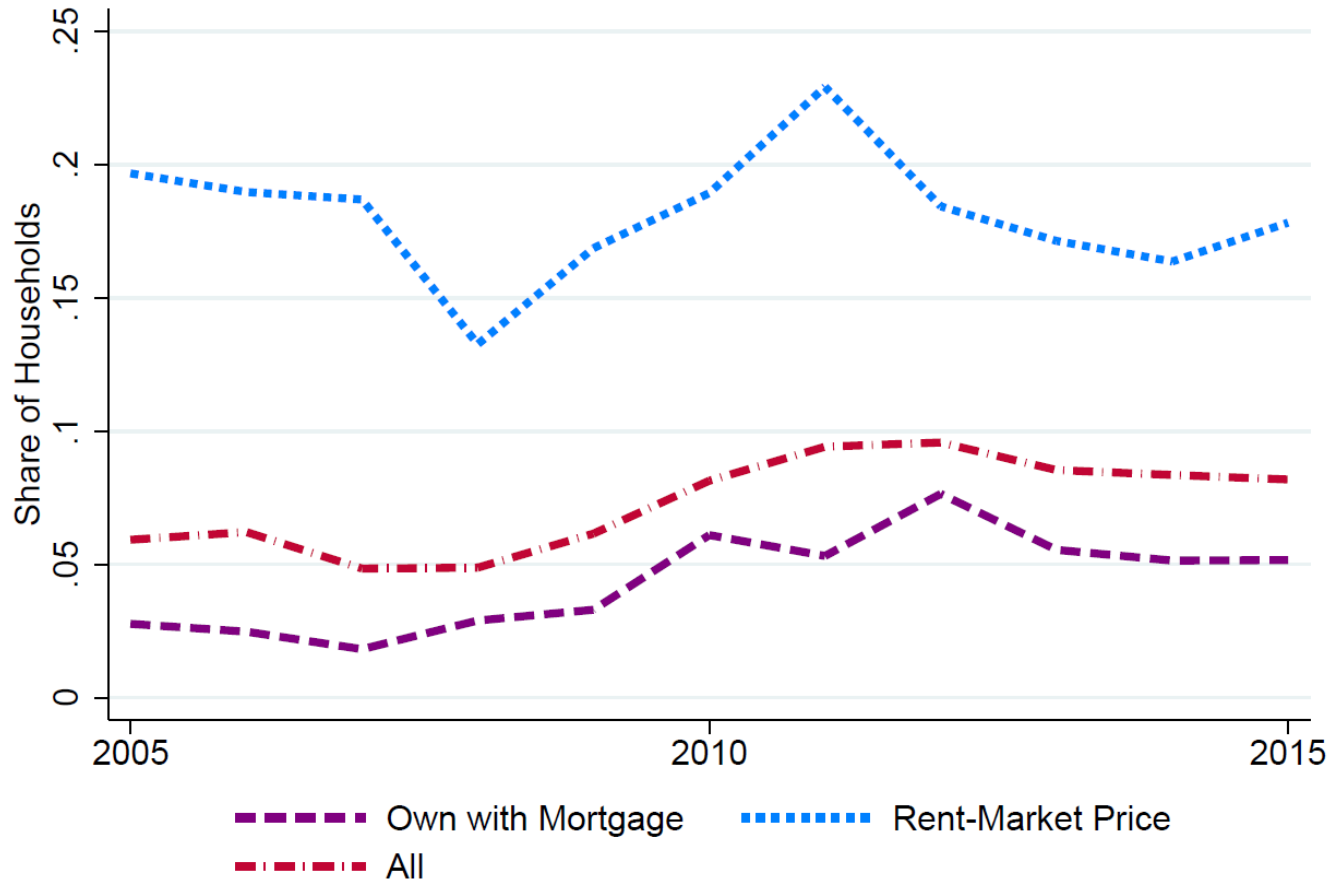
a) Mortgaged Households



b) Private Renter Households

High Housing Costs – 30/40 Measure

Figure: Share of Mortgage Holders and Private Renters in 30/40 Group by Tenure

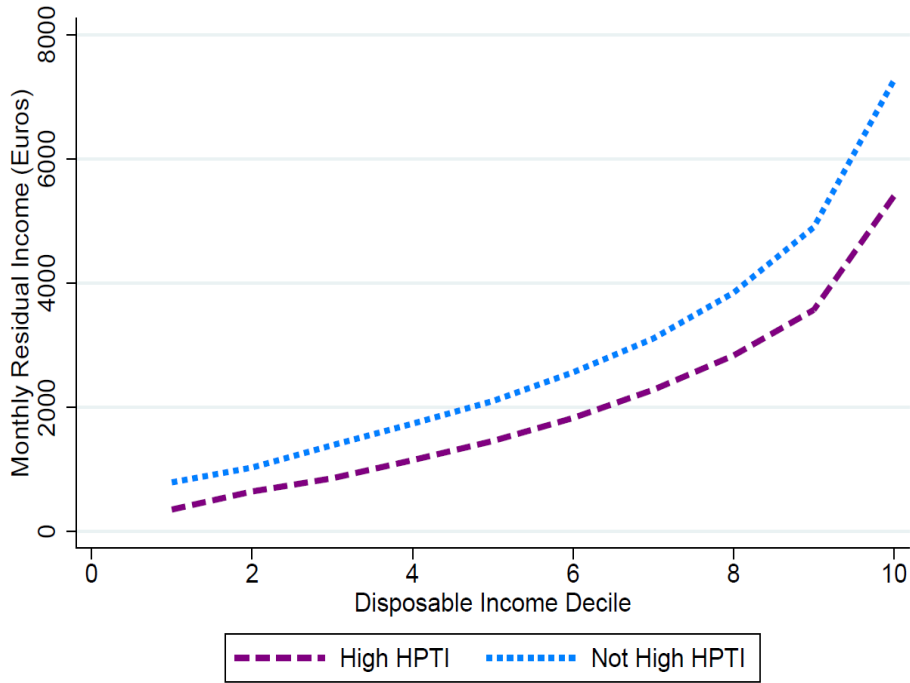


Residual income

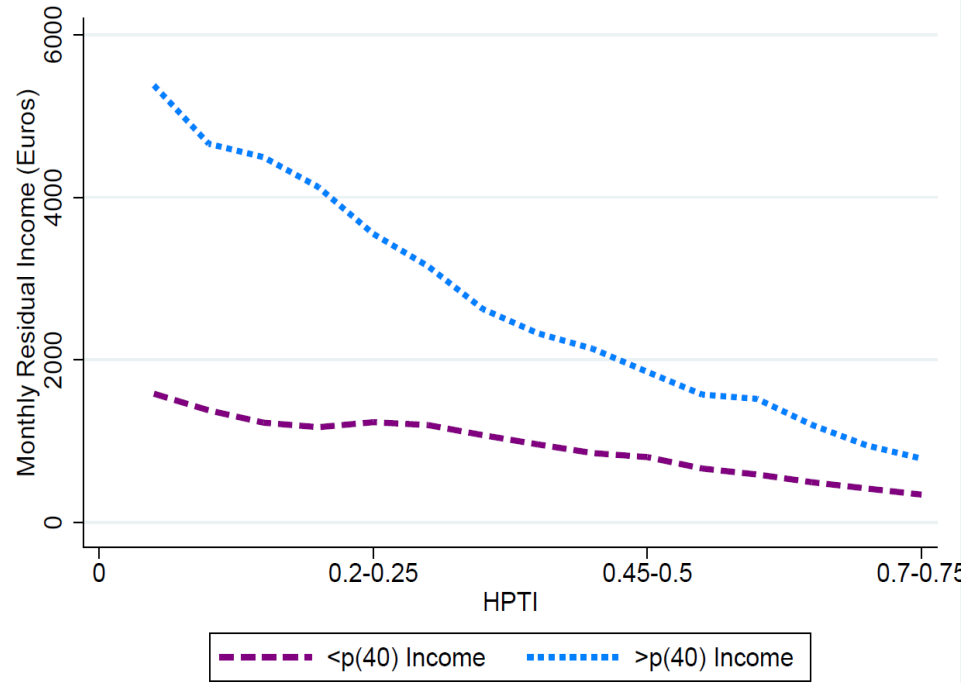
- Issue receives attention in international literature
- Focus on level of resources available after housing payments are made
- Illustrative example uses minimum standard of income data for Ireland and looks across households at level of income available after housing payments are met
- Cross the 30 per cent housing cost rule with income distribution

Does the 30/40 threshold make sense for Ireland?

Figure: Residual Incomes, HPTI and the Income Distribution



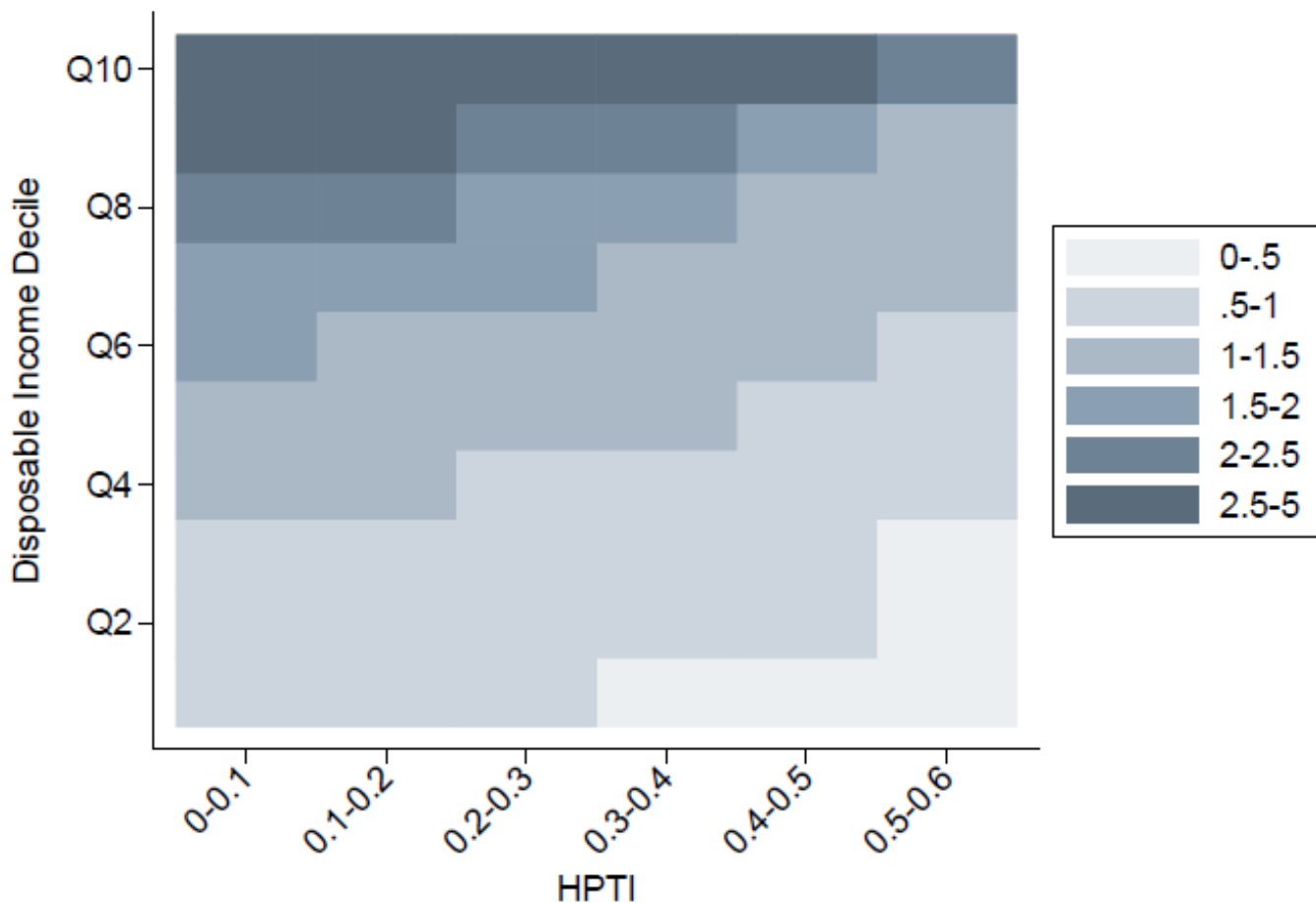
a) High Housing Costs



b) Low Income

Does the 30/40 threshold make sense for Ireland?

Figure: Ratio of Residual Income to Vincentian Income by Income Decile and HPTI



Key Findings

- While housing affordability challenges are not universal, certain groups face acute affordability challenges:
 - Households in the private rental sector, those living in Dublin (and the surrounding commuter regions) and those on low incomes
 - Private renter and mortgaged households with lowest 25% of the incomes pay on average 2/5 of net income on housing costs.
- Repayment to income ratio increased considerably for low income mortgaged households between 2008 and 2015 whereas low income private renters faced high housing payments through 2004-2015 (structural rather than cyclical)
- Using international definitions, in 2014-2015:
 - 16% of households had high housing costs, 32% for private renters and 70% for private renter and mortgaged households in the lowest quarter of the income distribution.
- The 30/40 rule does capture households with affordability challenges. However, for Ireland, a more tailored rule would be preferable which balances housing cost and the income remaining after its payment.

Implications for Policy

- Certain categories of households have faced persistent affordability challenges and low income mortgage holders have seen a rise in burdens
- On mortgage side continued operation of a strong macroprudential framework limiting the credit conditions for new mortgage lending is critical
- Several policy responses could potentially assist low income households who are unsuitable for mortgage finance and facing high costs in the private rental sector.
 - Long-term investment in, and expansion of, local government housing stock for rent to shield many lower income households from market pricing.
 - Policies to provide low cost rental options for households such as cost rental or housing cooperatives can form part of the new rental landscape.
 - Policies such as rental price controls or subsidisation can provide a short term alleviation of price pressures. However may be unintended consequences.
 - Policy measures which are in place are aimed at improving affordability and can help address the current challenges (investment in the social housing stock under Rebuilding Ireland and the review of the eligibility rules for social housing).

Policy implications (ctd)

- Towards a definition of housing affordability for Irish policy
- While planning legislation does include a definition of income adequacy, research suggests drawing on international definitions to implement comprehensive definition.
- Benefits include:
 - Facilitate constant monitoring of the sector relative to this threshold with scope for annual exercise which benchmarks developments in affordability;
 - Benchmark can be used to test the sensitivity of households to shocks;
 - Could be used to help ensure that extant and potential new housing supports perform well in terms of tackling housing affordability (criterion could apply both for initial eligibility and for continued access over time).
- The evidence suggests an amended version of the 30/40 benchmark, which is cognisant of the potential for a sliding scale income limit which reduces the impact of strict cut offs.