

# A County Level Perspective on Housing Affordability in Ireland

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## Context

- Recent rent rises and house price increases have brought to the fore concerns regarding housing affordability
- Corrigan et al. (2019), completed in the first year of the programme, provides a detailed evaluation of the trends in housing affordability across existing renter and mortgage holder households in Ireland using the EU SILC household dataset
  - Only able to focus on broader NUTS3 regional breakdown
  - Doesn't focus specifically on new entrants

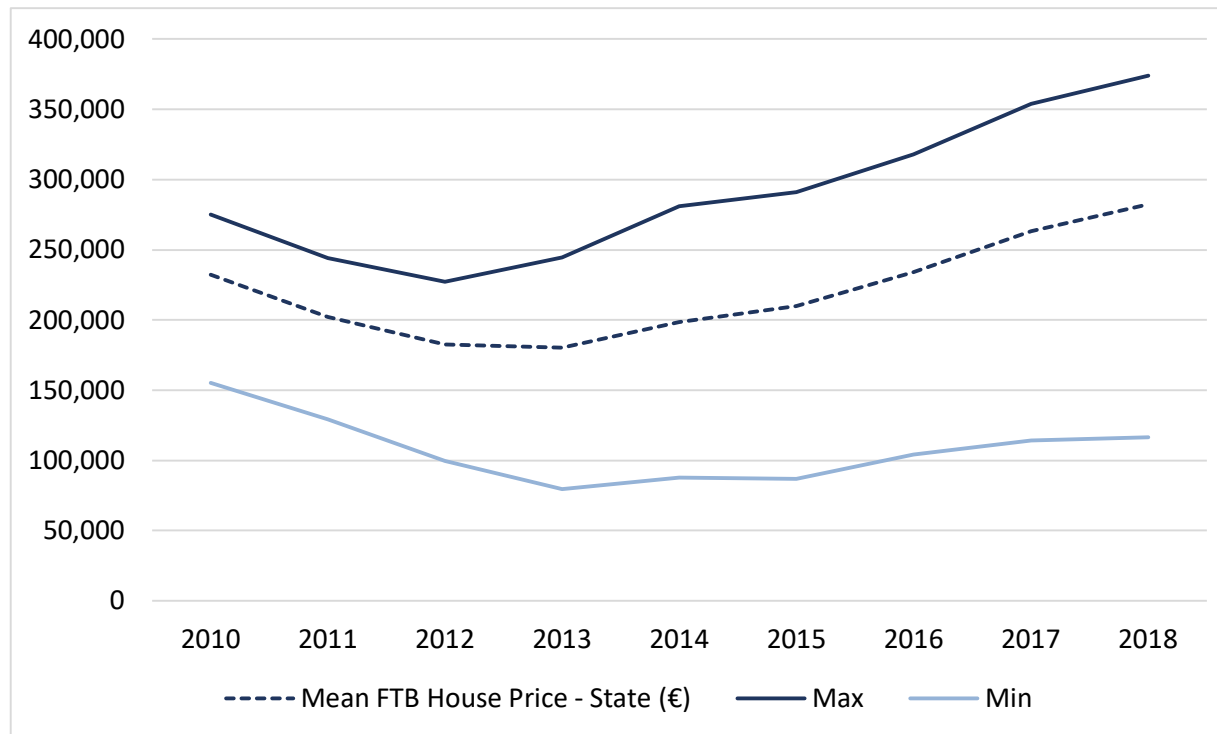
# What We Do

We provide a county level assessment of housing affordability for potential first time buyers (FTB) by :

- Documenting trends in FTB house prices and estimating incomes for an average potential FTB
- Calculating the mortgage repayment to income ratio (MRTI) they would face if they purchased the mean FTB priced property
- Exploring whether these households would have sufficient residual income after making mortgage repayments
- Providing a focus on urban centres by using a more granular breakdown of areas within Dublin, Cork and Galway counties

# Data: House Prices

- CSO residential dwelling property transactions data by county and type of buyer
  - This gives us the mean price paid by first time buyers (FTBs) in each county on an annual basis



# Data: Incomes

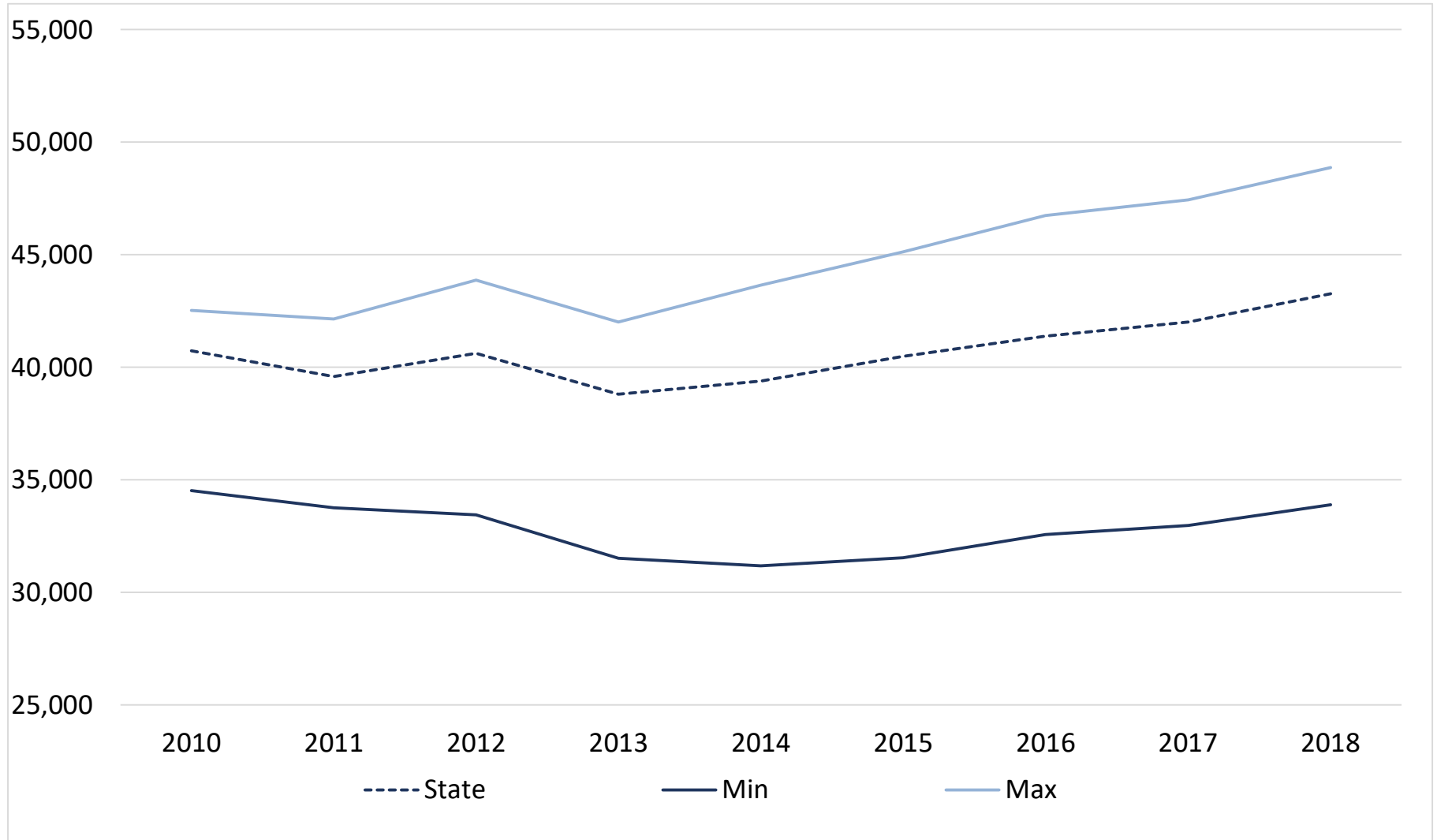
## Datasets:

- CSO per person disposable income excluding rent
- Survey of Income and Living Conditions (SILC)

## Method:

1. Use regionally adjusted growth rates to update CSO per person disposable incomes for 2016-2018
2. Transform per person figures into couple household (x2)
3. Use SILC to obtain a ratio of mean income for all aged households to those aged under 40 (proxy for FTB)
4. Apply this ratio to couple household income to obtain an estimate of FTB couple mean disposable household income

# First time buyer couple mean disposable income distribution 2010-2018



# How do our income figures compare to other sources?

## Gross:

- Mean gross income of FTBs in 2018 was €73,536 (CBI New Mortgage Lending Data 2018)
- Our estimated potential FTB mean gross income was €56,825 in 2018

## Disposable 2015 estimates:

- Our estimated potential FTB mean disposable income: €41,038
- Household Budget Survey figure for 2 adult household: €44,148
- Household Budget Survey approx. median figure: €41,340

# Measuring Housing Affordability

- We calculate what the monthly instalment would be if a couple earning the mean FTB income were to purchase the mean FTB priced house in each county
- We assume they face a 90% LTV, the average new business rate for household loans ( $r$ ) a 30 year term ( $\tau$ ):

$$Payment_{it} = LTV_{it} * HP_{it} * \left( \frac{r(1+r)^{\tau}}{\left( (1+r)^{\tau} \right) - 1} \right)$$

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



# Average Payments and MRTIs

MEAN FIRST TIME BUYER MONTHLY MORTGAGE PAYMENT AND MORTGAGE REPAYMENT TO INCOME RATIOS BY COUNTY 2018

County	Payment (€)	MRTI	County	Payment (€)	MRTI
<b>Carlow</b>	696	0.20	<b>Longford</b>	443	0.14
<b>Cavan</b>	579	0.18	<b>Louth</b>	810	0.25
<b>Clare</b>	713	0.22	<b>Mayo</b>	570	0.18
<b>Cork</b>	973	0.27	<b>Meath</b>	1048	0.31
<b>Donegal</b>	511	0.18	<b>Monaghan</b>	641	0.20
<b>Dublin</b>	1423	0.35	<b>Offaly</b>	613	0.20
<b>Galway</b>	863	0.28	<b>Roscommon</b>	508	0.17
<b>Kerry</b>	685	0.21	<b>Sligo</b>	590	0.17
<b>Kildare</b>	1129	0.32	<b>Tipperary</b>	607	0.17
<b>Kilkenny</b>	728	0.22	<b>Waterford</b>	713	0.22
<b>Laois</b>	695	0.22	<b>Westmeath</b>	680	0.21
<b>Leitrim</b>	455	0.13	<b>Wexford</b>	694	0.21
<b>Limerick</b>	811	0.23	<b>Wicklow</b>	1217	0.36

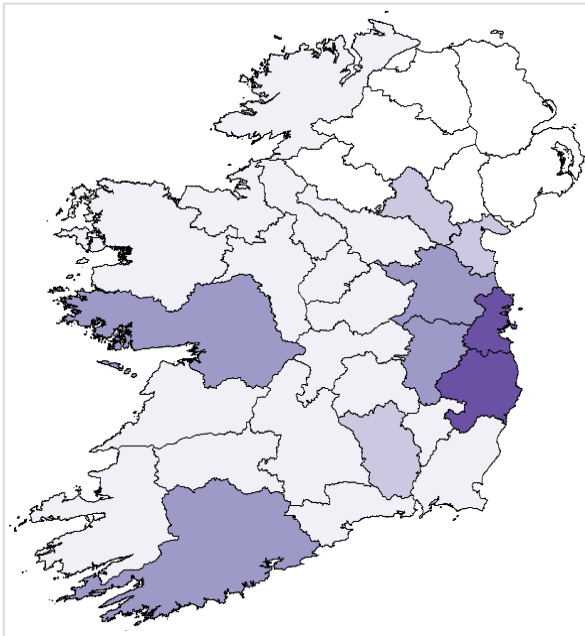
# Average Payments and MRTIs

MEAN FIRST TIME BUYER MONTHLY MORTGAGE PAYMENT AND MORTGAGE REPAYMENT TO INCOME RATIOS BY COUNTY 2018

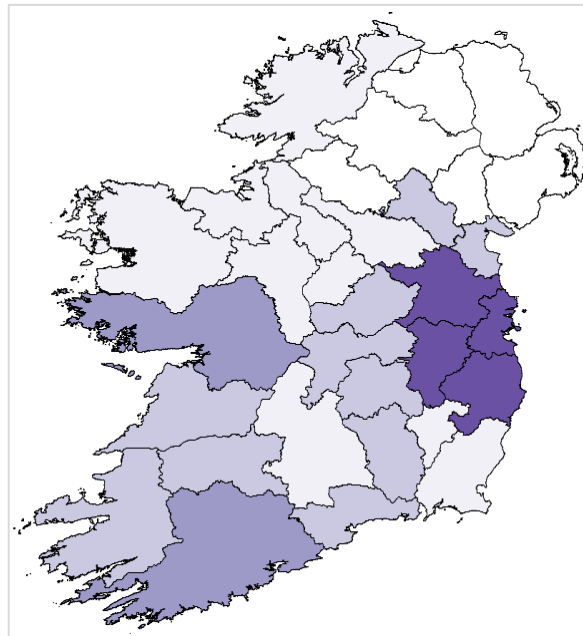
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# First time buyer mean mortgage repayment to income ratios 2016-2018

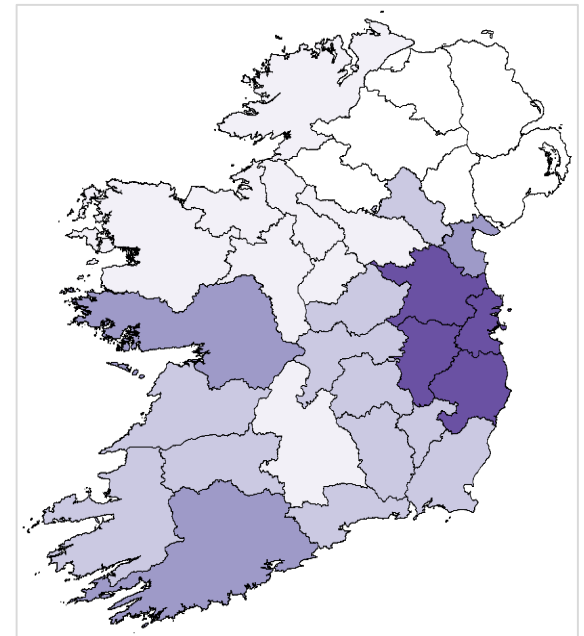
(a) 2016



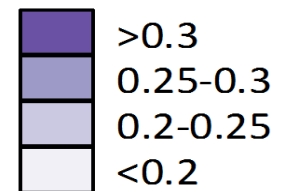
(b) 2017



(c) 2018



**MRTI**



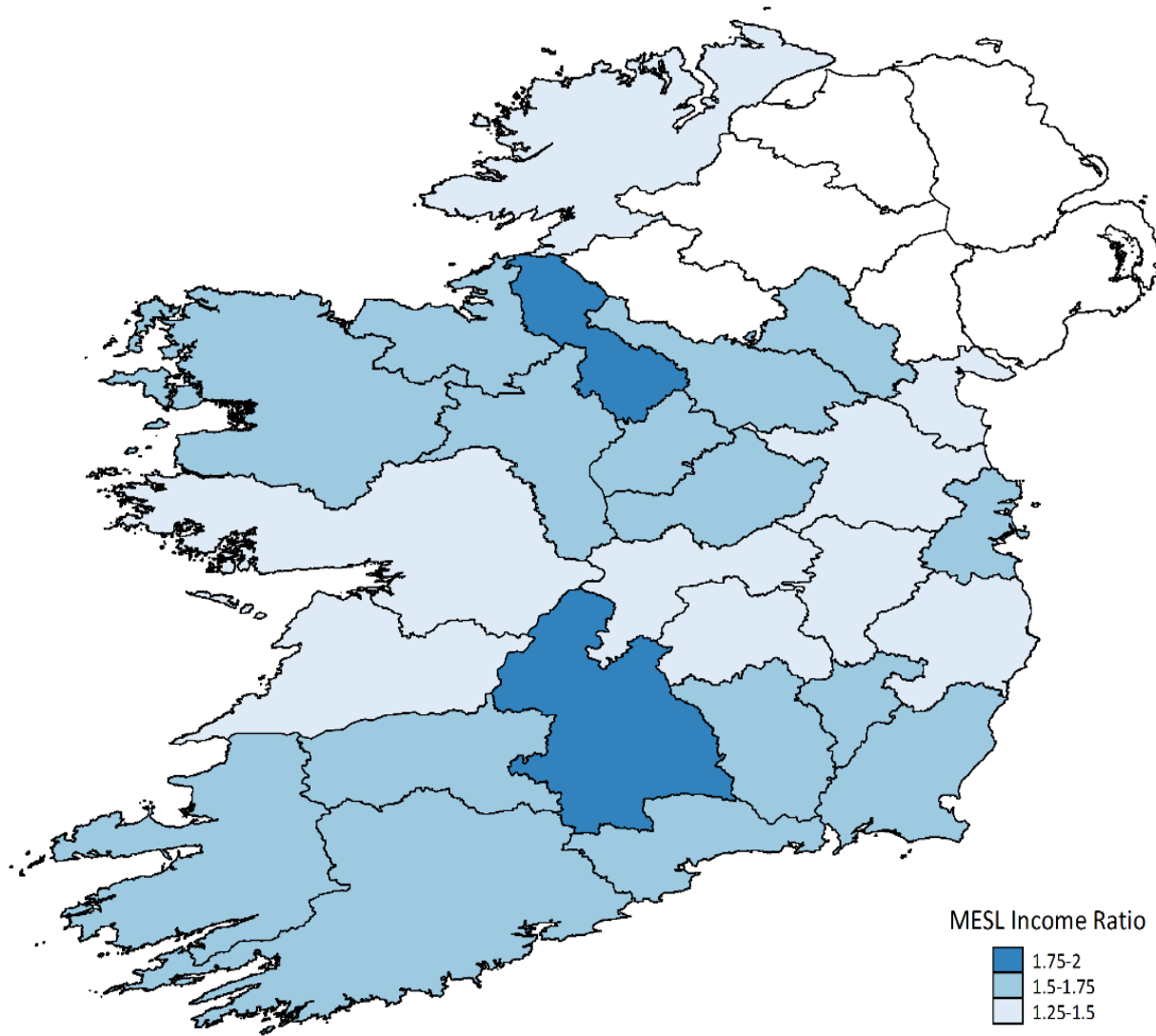
# Exploring Residual Incomes

- Corrigan et al. (2019) even at low housing costs as a per cent of income, many households struggle to have sufficient income left to afford basic standard of living
- To consider this issue we:
  - Take minimum standard of living expenditure data from Vincentian Partnership for 2 adult couple (no children)
  - Take housing cost as estimated from hypothetical payments
  - Calculate residual income as

Residual income = Net income after housing cost/MESL expenditure

- If residual income > 1 – can afford minimum level
- If residual income < 1 – cannot afford minimum level

# Residual Income and Minimum Essential Standard of Living



# A Focus on the Urban Centres

Area	Payment (€)	MRTI	MESL Income Ratio
Dublin City	1,454	0.40	1.38
South Dublin	1,291	0.33	1.61
Fingal	1,258	0.28	2.00
Dún Laoghaire-Rathdown	1,977	0.42	1.70
Cork County	962	0.26	1.64
Cork Borough	1,020	0.33	1.32
Galway County	794	0.28	1.20
Galway Borough	999	0.26	1.76

# Summary of Findings

- Mortgage repayment to income ratios for potential FTBs increased between 2016-2018
- In 2018, potential first time buyers would have faced a mortgage repayment to income ratio of more than 30% in Dublin, Wicklow, Kildare and Meath, while in 11 of the 26 counties this ratio remained at or below 20%
- Some significant variation in MRTIs within areas in Dublin, Cork and Galway counties
- In terms of residual income, FTBs in all counties would have sufficient income left after paying mortgage instalments in order to attain a minimum level of consumption. However, MESL ratios are not high, particularly around Galway and the GDA

# Further Thoughts and Policy Implications

- We do not explore the feasibility of obtaining a mortgage. Borrowing constraints are likely to be binding in many areas with highest MRTIs. Understanding credit gaps and lending activity is objective of future research
- Addressing these affordability challenges requires supply side solutions to reduce purchase prices. Limited, demand-side interventions to provide deposit supports and public mortgages can be part of the solution with strict targeting
- Our analysis only looks at a couple who earn the mean first time buyer income attempting to buy the mean first time buyer priced house in each county.
  1. Affordability challenges for potential first time buyers at the lower end of the income distribution, and those of single earner households will be even greater.
  2. We match average house prices with average incomes – in reality this mapping may be too simplistic i.e. the average potential FTB income may not be purchasing the average FTB house.
- Residual incomes could receive more refinement to take into consideration rural/urban divides or other area specificities in terms of expenditure patterns.
- Recent more granular income data from CSO can inform a more detailed analysis going forward