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Contrasting housing supply in Ireland, Northern Ireland and the rest of the United Kingdom

EVENT
Launch of Shared island report

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Overview

Aim of report

- Critically appraise housing supply across Ireland, Northern Ireland, and the UK housing markets.

- Achieve this with the following structure:
  1. Review actual housing supply and demand (structural).
  2. Soft costs – tax regimes, regulations, planning, etc.
  3. Hard costs – materials, earnings, etc.
  4. Quantitative analysis - responsiveness of supply and prices to shocks.

Two crucial issues across the different markets

- **Economic Performance:**
  - Economic performance key driver of housing market developments
  - For example: Housing demand = f(Household income, unemployment, interest rates)
  - Key differences - Ireland's exceptional growth over the period 1995 - 2022
  - Important in evaluating current supply
    - Housing supply in Ireland is comparable to NI and other UK countries, demand for housing is higher in Ireland.
- **Effects of global financial crisis (GFC):**
  - Adverse impact on all housing markets
  - The scale of Ireland's housing credit bubble meant these impacts were particularly pronounced
  - Adverse implications for Irish financial and construction sectors
  - Changes in financial regulation has led to tighter credit conditions
  - More severe in Ireland due to high presence of impaired loans on balance sheets

Housing market context

- Decline of construction activity from the private sector post-2008 and
- Decline in public investment for housing
- Gives rise to excess levels of demand
- Private sector unable to access the funding required to build requisite level of housing?
- Realisation of need for greater State involvement
- Observed in a variety of housing policy plans and the calculation of housing targets

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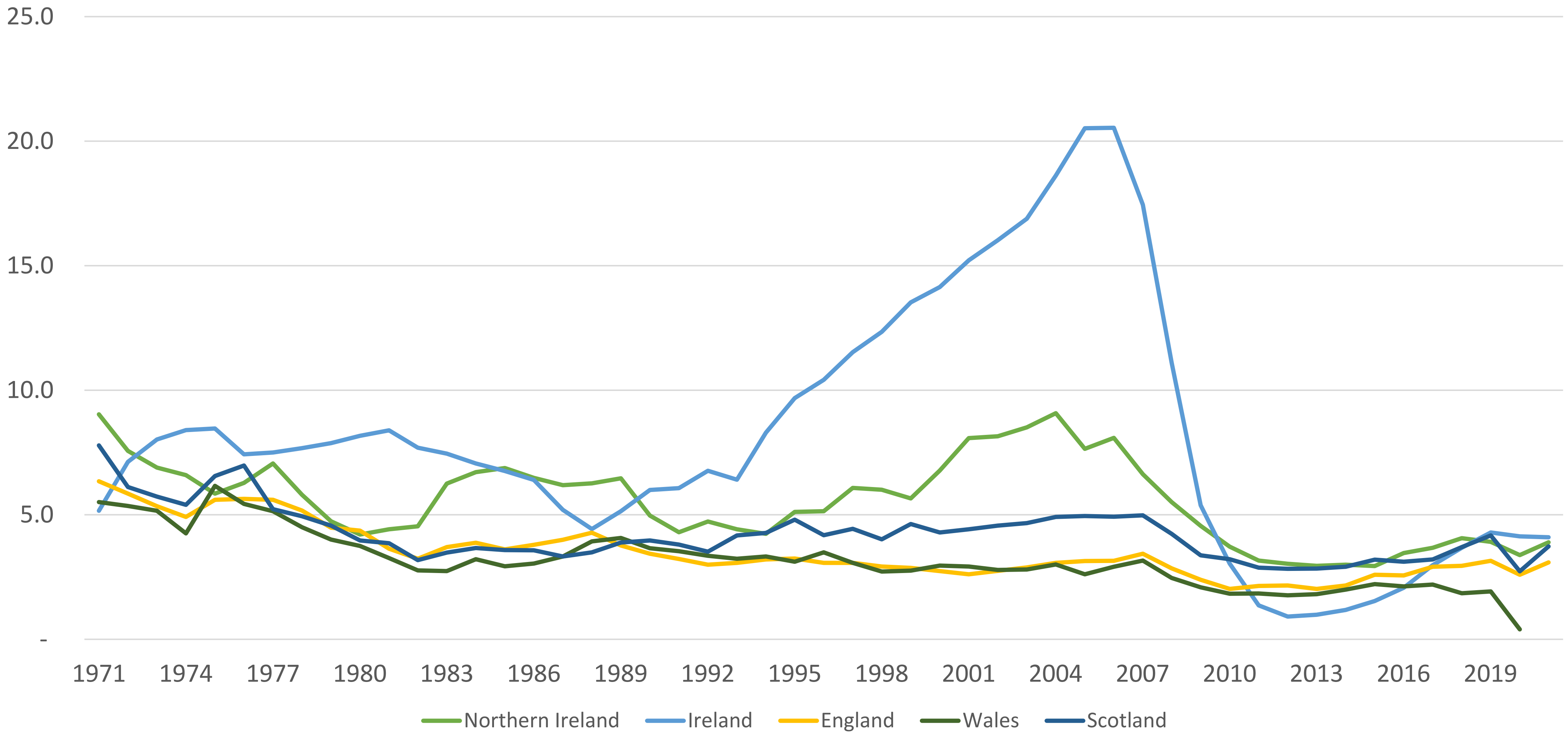
Reviewing supply

- **Housing markets in Ireland and across the UK - similar developments over 40 years**

1. Declining public housing stock since 1970s
    - Governments gradually withdrew from the provision of social and affordable housing
    - Gradual depletion of public housing stock over time
2. Heavy deregulation of banking sector throughout the 1980s and 1990s
    - Much wider availability of credit to households to buy a house, and to firms to build houses
    - Large increases in private housing construction accompanied by rapid price increases
    - Rising speculative behaviour leading to the financial crash in 2008
3. Post Global Financial Crisis (GFC)
    - As interest rates and house prices dropped
    - Large institutional investors bought large amounts of housing and distressed mortgages
    - Stricter regulation and recent resource constraints have hampered the private sector

Total housing supply per capita: 1971 – 2021

(per 1000 head of population)



Source: Office of National Statistics and the Central Statistics Office.

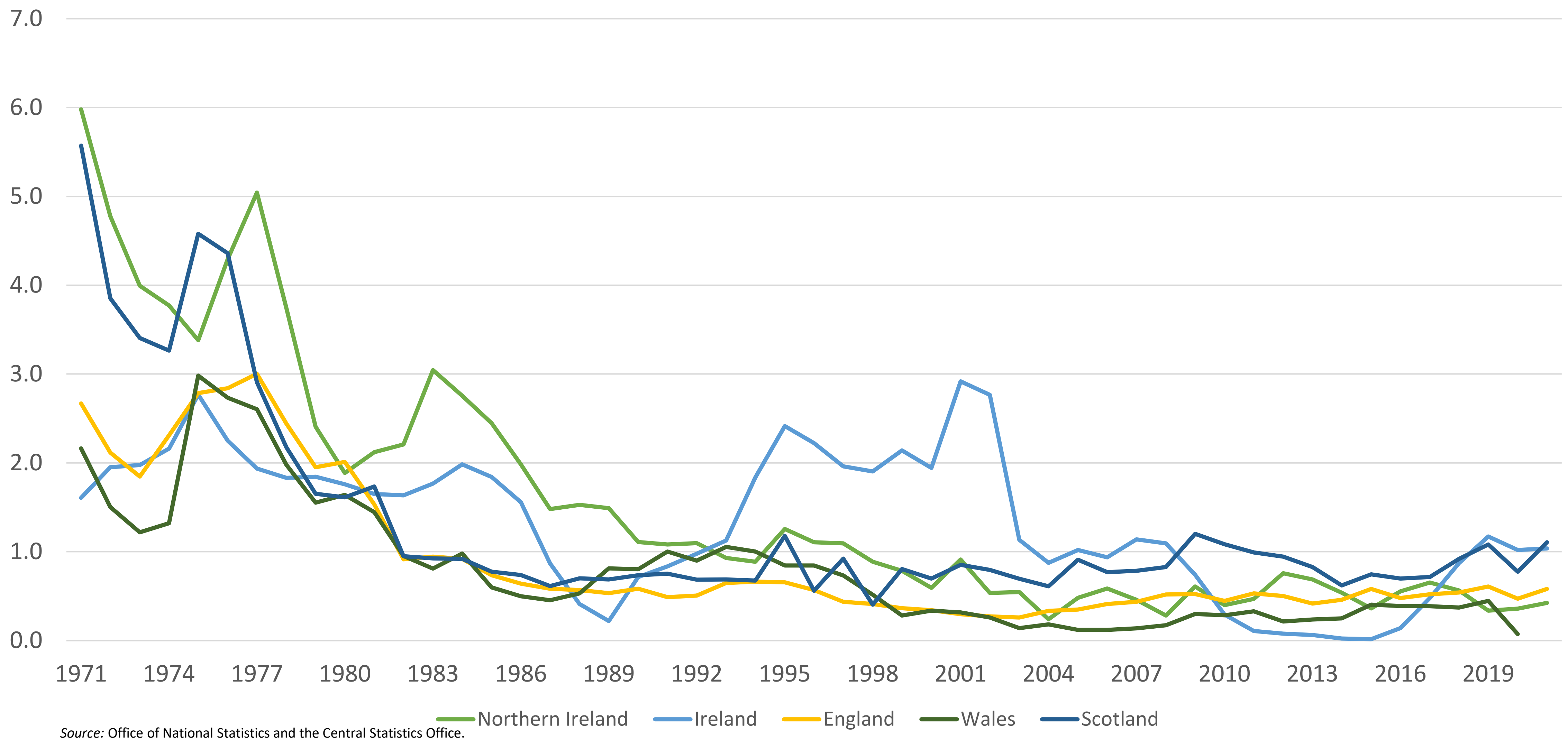
Housing supply per capita (continued)

Overtime: similar pattern but

- Irish market experiences the greatest volatility
- Of UK regions NI is the most volatile movements
- Across all markets
  - Supply has declined since the 1970s,
  - Exception Ireland between 1998-2008.
- Housing output not back to adequate levels since the financial crash

Total public provided housing supply per capita: 1971 – 2021

(per 1000 head of population)



Source: Office of National Statistics and the Central Statistics Office.

Public housing supply per capita (continued)

Across all markets:

- Public housing has been declining since the 1970s,
- Construction activity shifted to private sector, owner-occupied housing.
- Post-2008:
    - Reduced affordability of houses across all jurisdictions
    - Saw growth of rental markets
- Lower levels of public housing stocks exacerbated this
    - Many of those on lower incomes entered the private rental market
- Caused rents to increase substantially - particularly apparent in Ireland
- Policies (rent subsidies and equity schemes) introduced in response to this

Estimation of structural demand

- In Ireland, Bergin & Garcia-Rodriguez (2020) define structural demand as
  - Amount of housing needed consistent with population growth and
  - State of broad underlying economic conditions in that market
  - 33,000 for Ireland, 8,000 for Northern Ireland
- Other authors such as Bramwell (2018) and Dunning et al. (2020) identify “backlog”
  - To be added to new arising housing need
  - Backlog refers to households inadequately housed or homeless.
  - A household is deemed inadequately housed if there is overcrowding,
    - If the house is below a recognised standard
- New arising housing need similar concept to the structural demand
- Based on new household formation
  - the number of net additional households forecast
  - given demographic, economic, and immigration trends, as well levels of homelessness.
- With backlog in England demand goes from 275,000 units annually to 340,000
- More recently this has been estimated at 442,000 units

Soft costs and regulatory environment I

- ***As well as physical inputs, construction of housing relies on***
  - Developers must
    - obtain substantial financial resources,
    - acquire a site,
    - receive planning permission to build and
    - ensure the site is fit for construction.
  - Planners and other regulators must determine
    - how to treat land (in terms of taxes and zoning) and
    - agree on building regulations, both at the unit and city level
- ***Land use:***
  - LAs in Ireland deem land zones as residential, commercial, agricultural, etc.
  - Land is then developed accordingly - needs to be rezoned as residential to increase housing supply
  - Price of land in Ireland has been historically volatile and speculative (McSweeney, 2022)
  - UK has a land-use planning system,
    - Housing projections made at national level require LAs to identify land used to deliver on these projections
    - Land supply found to be typically unresponsive to demand and price in the UK market?

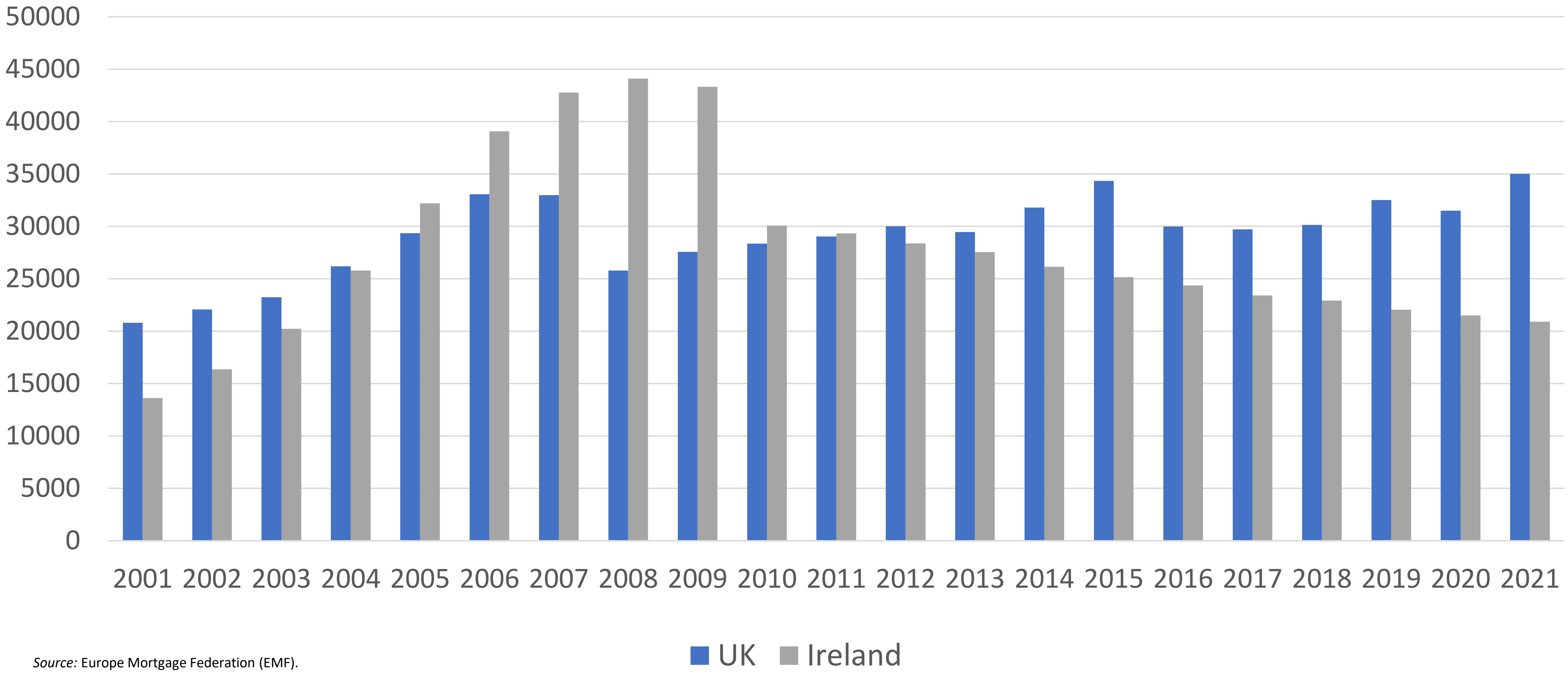
Soft costs and regulatory environment II

- ***Taxes:***
  - Transfer taxes are common across all countries,
    - Tax on the transfer/sale of land/property.
  - UK - there is a council tax charged to households (both owner-occupiers and renters)
    - Similar to rates that businesses pay for commercial properties.
  - Council taxes have been criticised for being regressive,
    - As the tax rate declines when moving from lower to higher value bands.
  - Ireland introduced a property tax in 2013 on market value of residential property.
    - And recently introduced a tax on vacant housing.
  - England, Scotland, and Wales
    - Charge a ‘premium’ on top of council tax for homes vacant for over two years.

Soft costs and regulatory environment III

- ***Planning regulations:***
  - Before development or construction begins, planning permission must be acquired.
  - Similar process in Ireland and the UK, as LAs are tasked with these decisions.
  - LAs seek engagement with stakeholders and communities.
  - Judicial reviews have caused delays in Ireland
    - Add €10,000 - €20,000 to the cost of a development
- ***Building regulations:***
  - Building regulations are stricter in Ireland than NI and the UK.
  - Noted as a reason for higher costs in Ireland
  - However, more likely that NI and the UK catch up to Irish standards
  - As opposed to Ireland's standards regressing.

Access to Finance: Total amount of outstanding residential loans per capita for the Irish and UK markets (€): 2001 – 2021

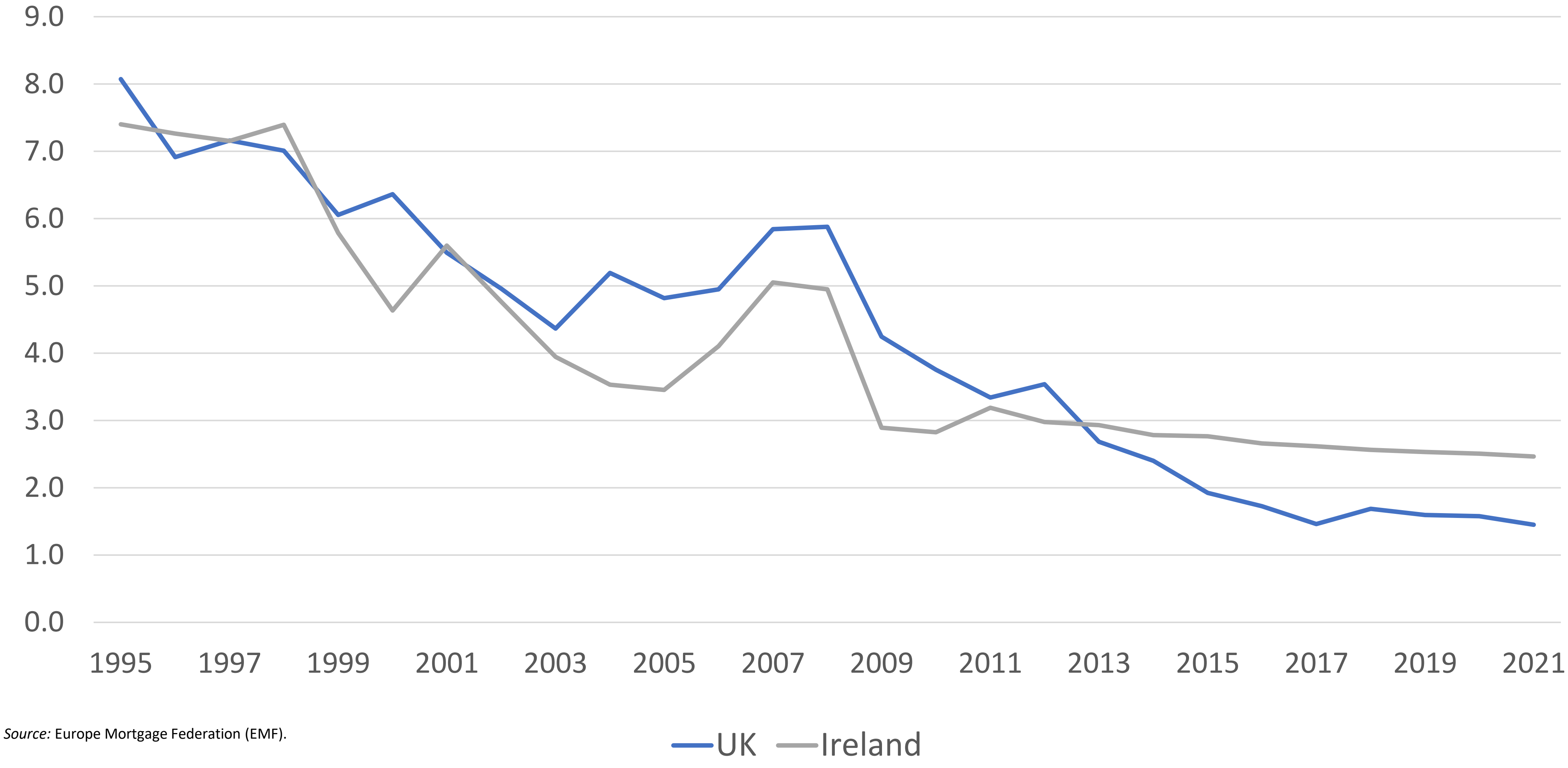


Source: Europe Mortgage Federation (EMF).

Access to Finance: Volume of credit

- Substantial build-up in mortgage credit in the Irish market relative to the UK market prior to 2009.
- More pronounced decline in the level of credit extended in the Irish market since 2010.
- The lower supply of credit in some markets as well macro-prudential regulations
    - Has led to a rise in non-bank financing.
- Frey, Leishman & McGreal (2020) note that in NI,
    - Developers are reliant on non-traditional finance and subjected to high financing rates,
    - This has contributed to an increase in the cost of development and hence, higher house prices.
- However, Frey, Leishman & McGreal (2020) also argue that
    - Shift towards larger developers in Scotland has led to less barriers in accessing finance.
- In the Irish market a number of commentators including McSweeney (2022) have observed
    - That financial viability is a significant problem in the private construction sector, particularly for apartments.

Representative mortgage interest rate for the Irish and UK markets (%): 1995 – 2021



Source: Europe Mortgage Federation (EMF).

Access to Finance: Price of credit

- Recent inflation has seen interest rates rise,
- Renewed focus on
  - Relationship between official policy rates and domestic rates.
- Many studies have shown
  - “Passthrough” in the Irish market to be somewhat impaired since the GFC (Egan and McQuinn (2023)).
- Therefore:
  - Interest rates remained elevated in Ireland compared to the UK and EU
  - As rates decreased in the 2010s,
  - Meaning a higher cost of finance in Ireland.

Hard costs – Materials

- The fast-paced economic recovery in the aftermath of COVID-19
    - Caused the prices of certain materials to increase sharply,
    - As supply chains struggled to recover at the same rate as demand.
- Outbreak of war in Ukraine
    - Pressures persist
    - Construction industry susceptible to energy price shocks.
- Effects were felt stronger in the UK due to Brexit
    - UK materials prices ↑60% compared to Ireland ↑35.5% and EU ↑35%
    - 2015 - 2022
- NI somewhat shielded from Brexit effect
    - As it remains in EU Single Market for goods– lowest costs across UK.
- Cost inflation has been more severe in UK,
    - Level of costs is higher in Ireland (Dep. Housing, Local Gov. and Heritage, 2023).

Hard costs – Labour

- Earnings in the construction sector have been on the rise since 2014.
- Last few years, increases have been driven by
    - Tightening labour markets and
    - Increased cost of living.
- Earnings are at lower levels in NI and UK than in Ireland, are increasing faster.
- NI is not shielded from Brexit when it comes to labour supply,
    - Visas required for non-UK/non-Irish citizens.
- Labour/resource supply policies are important:
    - IE needs 50,000 new entrants to construction sector by 2030, with carpenters, plasterers, electricians, painters, etc. most in demand (Dep. Further and Higher Education, 2022).
    - NI requires 5,650 new entrants by 2026, with wood trades, electrical trades, and office-based professionals most in demand (CITB, 2022).

Dynamics of respective housing markets

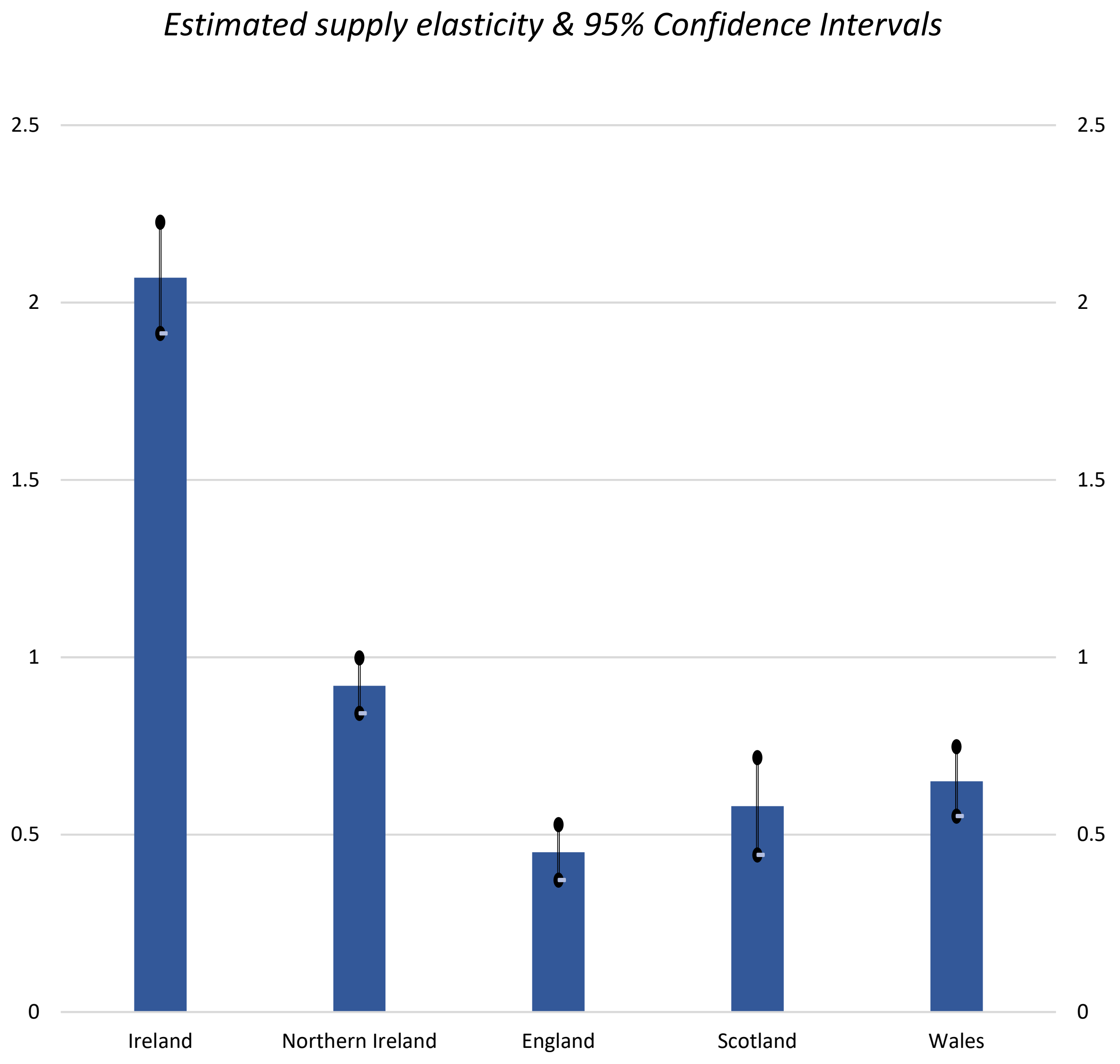
- The following are examined across Ireland, NI, and UK countries.
    - Responsiveness of housing supply to changes in house prices.
    - Responsiveness of house prices to changes in housing supply.

- The responsiveness of housing supply to changes in prices is a crucial

- Determines how the housing market responds to demand shocks
    - With increased construction or higher prices.

- Potential implications for the evolution of key housing market outcomes
    - Such as housing prices and affordability.

Dynamics of respective housing markets



- All elasticities are significant at least at the 1% level and range in values from 0.45 (England) to 2.1 (Ireland) while Northen Ireland is shown to have an elasticity of just below unity at 0.92.
- This result suggests that the level of response of housing supply to changes in the level of prices is most flexible in the Irish housing market, followed by NI.
- As pointed out by Caldera & Johansson (2013), a responsive housing supply is important to avoid bottlenecks in different segments of the market in response to an increase in housing demand.
- However, in flexible-supply countries, housing investment adjusts more rapidly to large changes in demand.
- This contributes to more cyclical swings in economic growth.

Conclusions

- Key difference is of economic growth and hence structural demand
- All markets subject to effects of global financial crisis
  - A long shadow in terms of changes in regulation and financing costs
  - Empirical results highlight heterogeneity across the markets in some respects
- Given the current interest rate and financial regulatory environments
  - Unlikely that the private sector in Ireland, NI or UK will be able to provide adequate housing supply
- Greater State involvement is required, but constraints remain
  - Surrounding planning and land use,
  - Tax codes, regulations,
  - As well as the supply and cost of materials and labour.
- Ireland can learn from some UK practices
- When it comes to a comparison of Ireland and NI
  - Both countries face similar constraints when it comes to housing.
- Brexit does make it more difficult for NI to increase labour supply

Policy options I

- Government policy commit to add
  - Certain number of social and affordable housing units to total stock each year
  - Higher interest rates may increase the need for Government investment
- Due to Brexit and tighter labour markets
  - It may be difficult to increase labour supply
- Both the UK and Ireland will have to adapt recruitment methods
  - Hiring trainees and apprenticeships to allow young workers to learn on the job.
  - Attracting skilled workers who have the left industry to return
- From an Irish perspective, Egan et al. (2022) suggest
  - Immigration policies and investment strategies which will also increase labour supply.
  - Redeployment of labour from office to residential construction?

Policy options II

- Efficiency of the planning system in Ireland, NI and the UK?
  - Large number of LAs expected to individually formalise their plans.
  - Greater aggregation in preparation of development plans?
- Scotland's planning system has benefited from a greater degree of autonomy?
  - NI also has autonomy however unable to exercise it
- UK authorities secure local buy in to housing development plans
  - Reduce judicial reviews and objections decrease if adopted here?
- Greater regulation in the provision of land for housing in Ireland
  - Help to reduce the role played by speculation in land prices and
  - Hence lower the cost of a key factor of production.
  - Key requirement is an official land price series

Policy options III

- Continued adoption of modern methods of construction
  - Important for increasing productivity.

- Particularly important in the context of climate change
  - Significant and ambitious targets set for retrofitting for example
  - 500,000 dwellings to be brought up to BER B2 rating by 2030

- Role of educational and training schemes
  - Smyth et al. (2022) highlight the benefits of greater cooperation and coordination
  - Across the two different sets of training and educational programmes

Thank You

Dynamics of respective housing markets

- The cross-country differences we have seen in both the supply response to price and the price response to supply are likely to be caused by a number of different factors including structural and institutional differences across housing markets.
- This point is highlighted in further analysis where labour supply as well as the level of public housing in a country is examined.
- Greater labour supply increases the responsiveness of supply to price changes due to a greater level of capacity relative to a construction sector with lower levels of labour supply.
- Additionally, higher proportions of public housing decrease the responsiveness of prices to a change in supply. Public housing consists of units which would be assigned for social, affordable or cost rental housing and are therefore assumed to be ‘non-market’ dwellings and therefore would not have the same price impact as houses coming onto the market through private channels.

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Dynamics of respective housing markets

	Responsiveness of house prices to changes in supply
Ireland	-1.18*** (0.60)
Northern Ireland	0.93 (2.04)
England	-1.78*** (0.39)
Scotland	-2.98*** (0.98)
Wales	-2.69*** (0.50)

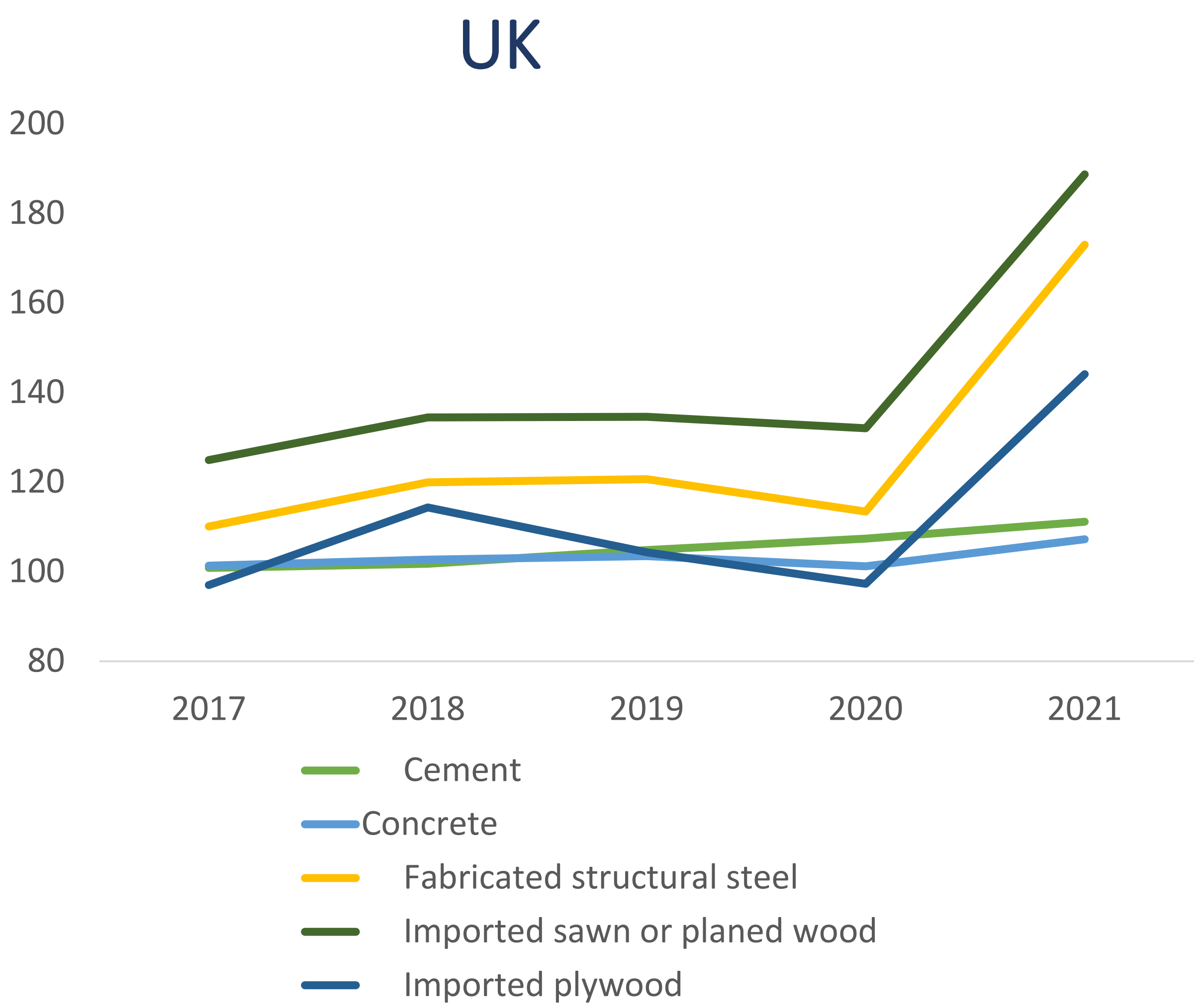
***, ** and * denotes significance at the 1, 5 and 10% level respectively. Standard errors are in parenthesis.

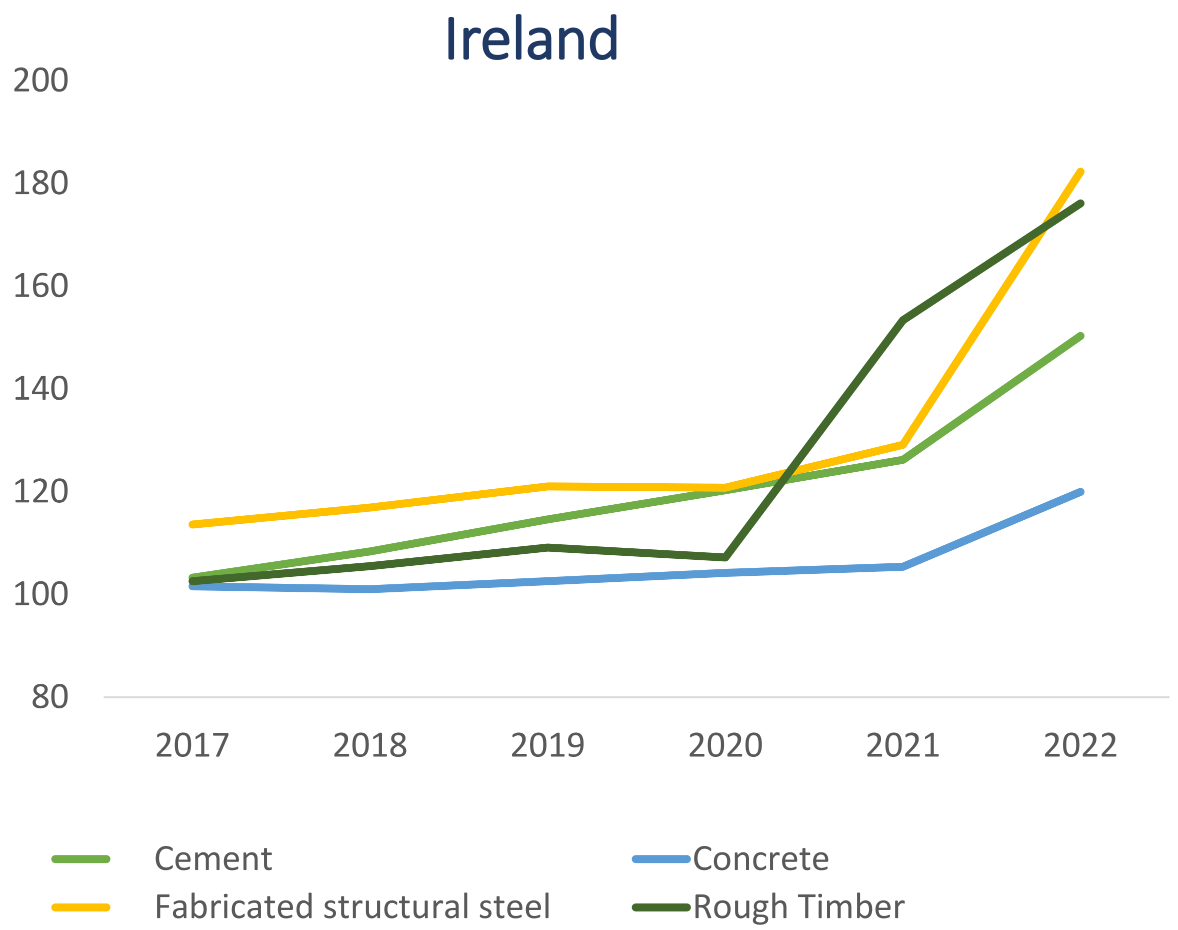
- Understanding the impact of housing supply on housing price inflation is a particularly important issue from a policy-maker's perspective and a fundamental question which has arisen is whether increased housing supply may help to mitigate house price inflation.
- Once again, the results seem to suggest a degree of heterogeneity across the five housing markets in Ireland, Northern Ireland, England, Scotland and Wales with regard to the response of house prices to changes in the level of dwelling stock.
- All housing markets have the expected negative coefficient and are statistically significant with the exception of Northern Ireland. This suggests that an increase in the overall level of dwelling stock has not had a significant deflationary impact on house prices in the North over the estimation period in question.
- Of those markets with coefficients that are both statistically significant and possess the expected negative sign, Scottish house prices would appear to be the most responsive with a coefficient of -2.9, while Ireland has the lowest coefficient of -1.2.

Overview of demand

- Shortage of housing across markets:
  - Has led to State intervention which includes the setting of housing targets
- Targets are estimated based on structural demand estimates. Approaches differ:
  - Ireland: structural demand of 33,000 homes per annum in the ‘Housing for All’ policy report
  - NI targets are less concrete due to the delegation of estimation of housing needs
  - But the Department of Communities suggested 8,000 per annum in 2017
- Estimation of demand can change substantially with new data and
- Buildup of backlog if housing targets are not met over a number of years

Hard costs – Materials





Mean Gross Weekly Earnings (Index 2008 = 100)