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M. Allen-Coghlan, K. McQuinn and C. O'Toole

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ASSESSING THE IMPACTS OF COVID-19 ON THE IRISH PROPERTY MARKET: AN OVERVIEW OF THE ISSUES

Matthew Allen-Coghlan, Kieran McQuinn and Conor O'Toole[1]

ABSTRACT

In this paper we examine some of the potential channels through which COVID-19 is likely to impact the Irish housing market and discuss some policy areas which may need refocusing or re-evaluation. Building on existing work by ESRI researchers, we examine the implications under the headings of housing demand, housing supply, affordability of prices and the rental market. While there is likely to be a significant number of effects across a wide variety of headings, the most long-lasting impact of the crisis is the potential exacerbation of the imbalance between housing demand and supply which already exists in the market. The most efficient policy response in that context is for an increase in the State provision of social and affordable housing over the short to medium term.

1. INTRODUCTION

Along with the general economy, the impact of COVID-19 on different aspects of the Irish housing market is likely to be profound. As noted in a variety of publications by researchers working in the ESRI and elsewhere (see McQuinn, 2017, for example), the Irish residential market has experienced unprecedented volatility over the past 25 years. It is evident that COVID-19 will exacerbate this volatility across a variety of headings in the housing sector.

In this paper we will outline some of the major issues which are likely to impact the Irish housing sector due to COVID-19. The impact of the pandemic on different aspects of housing demand and supply is discussed as is the impact on affordability in both the rental and home ownership markets. We will also outline pressure points through which the COVID-19 shock may impact the credit market.

To date, in light of the emergence of the pandemic, researchers in the ESRI have already produced three reports dealing directly with the impact of COVID-19 on the housing and rental markets. Allen-Coghlan and McQuinn (2020) look at how the shock caused by the virus on mortgage activity, incomes and supply is likely to

1 The authors are economists at the Economic and Social Research Institute (ESRI). They can be contacted at: kieran.mcquinn@esri.ie. The authors are solely responsible for the views expressed in the paper.

affect house prices over the next two years. Forecasts range from no change in prices to house prices declining by 12 per cent by the end of 2021. Allen-Coghlan et al. (2020) consider the short-term impacts of the pandemic on rental price developments as part of the ESRI/RTB Rent Index series and show a clear trend towards falling rental inflation.

A separate report by Coffey et al. (2020a) looks at the impact of the pandemic on affordability issues in the private rental market. They found that contrary to the pandemic increasing affordability issues in the sector, affordability may have actually improved over the last few months as a result of the government income support schemes and falling consumer costs.

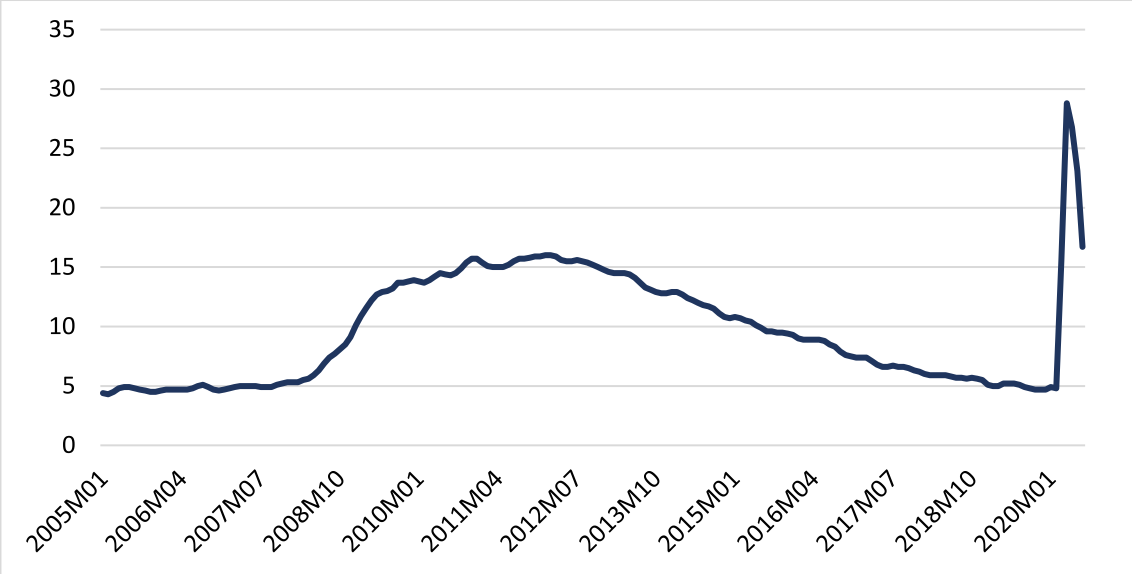
These reports have primarily explored the shock of COVID-19 on the housing and rental sector from a short-term perspective, analysing how prices and affordability have been impacted by the initial lockdown instigated in the country in March. However, due to the uncertainty caused by the lockdown and the impact this will have on demand and supply, COVID-19 is likely to have significant long-term impacts on both house prices and rents, affecting the market for years to come.

The rest of the paper is laid out as follows. In Section 2 the impact of COVID-19 on housing demand is explored, in Section 3 we look at the impact of the pandemic on housing supply, Section 4 deals with issues around price and affordability in the housing market, Section 5 looks at the rental market, Section 6 concludes.

2. HOUSING DEMAND

The impact COVID-19 has had on the Irish labour market is unprecedented. In April 2020, the unemployment rate spiked at 28.2 per cent, up from 4.8 per cent just two months earlier in February (Figure 1). This change in unemployment is unique both in terms of the rapidity and scale of the increase. While the labour market has recovered somewhat in the past couple of months as lockdown measures have been eased, the unemployment rate remains elevated at just under 17 per cent.

FIGURE 1 UNEMPLOYMENT RATE (%)



Source: Central Statistics Office.

Typically, such a large increase in unemployment would lead to a significant decrease in income which in turn would reduce the demand for housing. Kelly and McQuinn (2014), for example, observe a very close relationship between house prices and developments in the Irish labour market. However, as shown in Beirne et al. (2020) the immediate impact on incomes during this crisis has been largely offset by the introduction of extraordinary fiscal measures in the form of the Pandemic Unemployment Payment (PUP) and the Temporary COVID-19 Wage Subsidy Scheme (TWSS). As a result, the direct impact of the labour market shock on housing demand may be muted in the short term.

However, these support measures are set to be unwound over the next year. From September the welfare amount received will be dependent on an individual's pre-pandemic income and the supports are scheduled to be phased out altogether by April 2021. If unemployment rates remain elevated as income supports are curtailed, overall income in the country would likely decline which in turn would reduce the demand for housing. A critical question will relate to which households across the income distribution will face income shocks and how their demand for housing will change. Recent research by Beirne et al. (2020) and Coffey et al. (2020b) show considerable differences across the income distribution.

Beyond the direct impact of the pandemic on the Irish economy, the increased uncertainty around COVID-19 is likely to have a contractionary impact on demand. The longer the virus persists and uncertainty about the future opening of the economy continues, the greater the adverse impact on housing demand.

Consumers will be less willing to engage in significant purchases such as buying a house when there is such a high degree of uncertainty. Other practical considerations such as potential buyers being restricted from viewings of real estate are also likely to have impacted demand in the short term.

Key Issues for Consideration

- How will the labour market shocks translate into housing demand developments during, and in the aftermath of, the pandemic?
- To what extent will uncertainty affect housing demand?

Moving beyond the short term it is possible that the Irish housing market may experience a significant increase in demand when the pandemic is brought under control. Coffey et al. (2020b) show that as a result of the heightened uncertainty and the administrative closures which limited the ability of consumers to spend, consumption this year is likely to be significantly lower than previous years. Combined with the PUP and TWSS which have offset a significant decrease in income there is likely to be a large increase in savings this year. FitzGerald (2020) estimates that the savings rate in 2020 will be 19.7 per cent in comparison to 10.5 per cent in 2019. When the uncertainty around the pandemic begins to subside this large increase in savings may in part be directed towards the housing market. This opens up the possibility of a surge in housing demand when concerns about the pandemic subside in the future. In many respects this is what occurred after the financial crisis of 2007/2008. Between 2008 and 2012, house prices fell significantly in the Irish market. However, by 2012, once economic conditions had stabilised and uncertainty had abated, demand recovered strongly.

Housing demand will also be impacted through the credit channel, with COVID-19 likely to impact on credit institutions in a number of different ways. As a result of the supports that have been put in place for mortgage holders and SMEs, loan repayments have been deferred. There is also likely to be increased uncertainty around the issuance of credit in an environment of increased unemployment and falling incomes. These issues are likely to have an impact on bank profitability and capital levels. As such this may give rise to the possibility of credit constraints, with households limited in the amount of credit that they can obtain relative to before the crisis. This in turn will reduce the demand for housing. Fitzpatrick and McQuinn (2007) estimated a significant mutually reinforcing link between house prices and mortgage credit in the Irish market. Figure 2 shows that already there has been a sharp decline in the value of new residential mortgage loans with the annual growth rate declining by 35 per cent in Q2 2020. While early indications are that mortgage approvals have increased from April, banks may tighten underwriting standards given the difficulties in assessing risk in the current climate. This may further increase credit access difficulties.

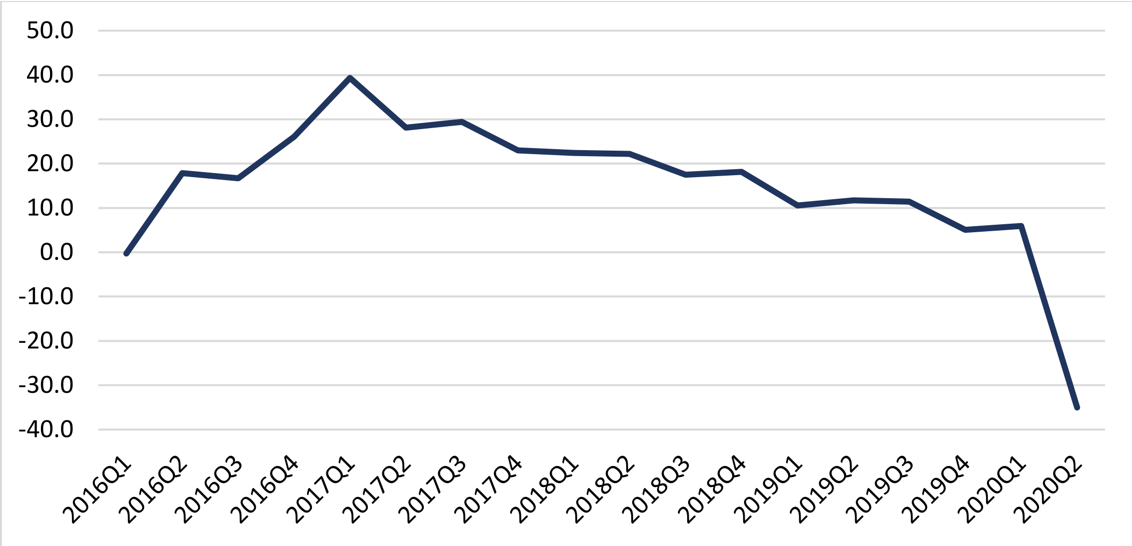
Where credit access difficulties become a binding concern for households (i.e. creditworthy households are unable to access sufficient credit), this may lead to a requirement for further policy interventions to deal with this market failure. The current Rebuilding Ireland Home Loan for first time buyers, which targets credit access issues for lower income households, may need to be revisited to ensure that it is dealing with the post-pandemic difficulties which certain households may have in accessing credit. This could be achieved through alleviating income constraints. It could be the case that the pandemic leads to more households facing wealth constraints in terms of saving for house purchase. If this occurs, then it may be necessary to provide a revamped equity scheme for first time buyers. While the Help-to-Buy Scheme is still in place, there is evidence that this scheme has been poorly targeted (to those with already low LTVs who are not constrained) (Parliamentary Budget Office, 2019),[2] and many commentators have noted the scheme is likely leading to higher levels of inflation in the market given present levels of housing supply. However, if the evidence is clear that households are facing wealth constraints then some intervention to facilitate equity support is warranted. One offsetting effect may be the rise in savings which could provide many households with ample equity for house purchase. At the very least, a reassessment of credit access following the pandemic and the role of public mortgage and equity supports for first time buyers is required given the highly changeable context.

Key Issues for Consideration

- How will the lending market evolve in the context of the pandemic?
- Do households face increased income or wealth constraints as a consequence of the pandemic and what is the appropriate policy mix required to deal with these issues?

[2] https://data.oireachtas.ie/ie/oireachtas/parliamentaryBudgetOffice/2019/2019-09-25_an-overview-of-the-help-to-buy-scheme-which-is-set-to-expire-at-the-end-of-2019_en.pdf

FIGURE 2 GROWTH RATE VALUE OF RESIDENTIAL MORTGAGE LOANS (%)



Source: Banking and Payments Federation Ireland.

Prior to the pandemic Bergin and Garcia-Rodriguez (2020) used a regional demographic model to determine the level of structural demand for housing at a local authority level up to 2040. Under their Baseline scenario urban areas are expected to continue to have the highest population share up to 2040 with the Mid-East region around Dublin expected to experience the fastest population growth relative to population shares. As a result, higher levels of housing demand are forecast in Dublin city, Cork county, south Dublin (SDCC), Dún Laoghaire-Rathdown, Cork city, Meath and Kildare.

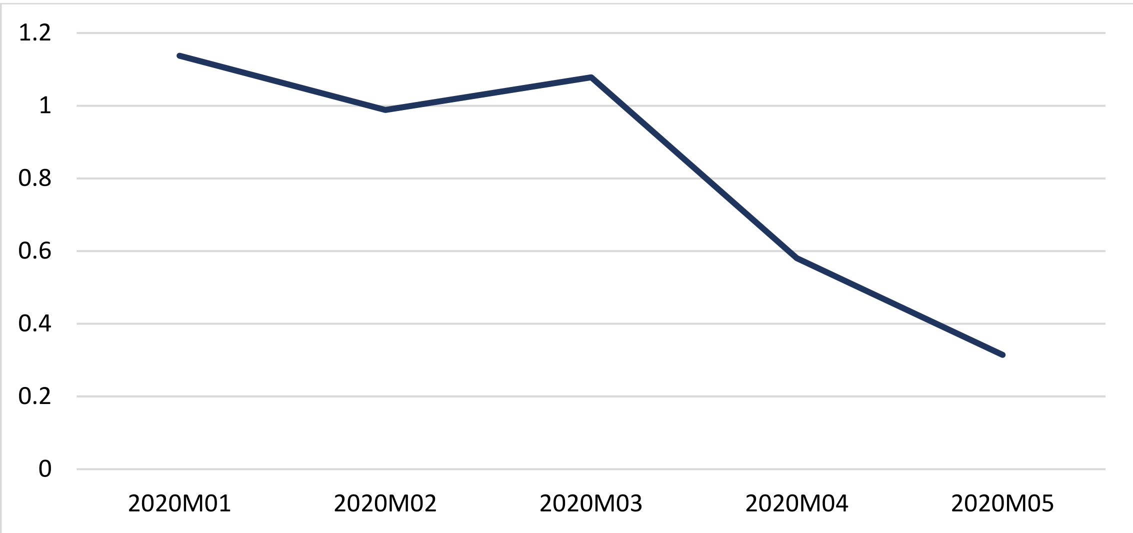
One of the most significant impacts that the pandemic and lockdown have had on the labour market is the increase in the number of people working from home. While the permanency of this shift to remote working remains to be seen, many companies have already signalled that employees will be given greater opportunities to work from home going forward. This may reduce the need for workers to be located near city centres both as a direct result of remote working and also the knock-on effect of reduced economic activity in city centres. In turn, this may result in decreased demand for housing in urban areas where house prices and rents are currently highest. The existing, desired move towards higher density models of accommodation is likely to be more challenging as a result of COVID-19. Households, particularly those with children, may place more emphasis on green space and houses rather than apartments. If the pandemic leads to a systemic re-evaluation of households housing preferences, then this may alter the composition of demand. Future research could examine how such changes are occurring and whether a review of related policies around planning is required.

Key Issues for Consideration

- How will the pandemic affect the structural demand for housing, in particular around migration?
- Will the pandemic change housing type preferences and location choice due to more working from home possibilities?
- Will such changes provide an opportunity for development in regional and rural locations?

Figure 3 shows the ratio of transactions in 2020 compared to the same period the previous year. There was a clear decline in transactions in April and May relative to 2019. While the transaction rate is influenced by demand- and supply-side factors, some of the reduction in sales may be coming through reduced housing demand as incomes decline and households are more uncertain about the future.

FIGURE 3 RATIO OF SALES TRANSACTIONS IN 2020 VS 2019



Source: Central Statistics Office, Property Price Register.

3. HOUSING SUPPLY

Before the pandemic emerged, the Irish housing market was already faced with a significant problem of undersupply. Despite increases over the last number of years there were still only 21,000 housing completions in 2019. This is well short of the amount of housing needed to keep up with the level of structural demand, estimated to be in the region of 30,000-35,000.[3] Issues of undersupply are likely to

[3] See for example: Conefrey and Staunton (2019) and earlier work in Duffy et al. (2016).

be amplified by the pandemic which will hinder both investment and construction of new housing.

The immediate consequence of the lockdown was to put physical restrictions on the construction industry. Construction sites were closed for a number of weeks as part of the administrative closures instigated in late March. Despite the easing of these restrictions efficiency on sites is likely to be below the level it was at before the pandemic. This is due to the safety protocols which have been put in place such as the limitations on the number of workers on site at any one time. Further to this a number of building sites have already had to be temporarily closed as a result of workers testing positive for the virus. As long as these measures remain in place, efficiency in the construction sector is likely to remain below normal. A key question arises as to how productivity in the construction sector will be affected under an economic environment with ongoing lockdowns and infection risks. These issues will naturally raise the cost of development if such measures, for example, lead to fewer employees allowed on site. However, COVID-19 could increase the popularity of alternative construction practices such as off-site volumetric builds particularly in the context of large scale builds.

Due to the nature of housing investment it may take a number of years before there is a return on the initial investment. Therefore, any uncertainty with regard to future market conditions is likely to reduce investment in housing today. A reduction in investment today will lead to a fall in new housing in the future. Thus, while a fall in uncertainty around the pandemic would likely result in an immediate increase in demand there is likely to be more of a lag for housing supply. As a result, the present imbalance in the market between demand and supply could be exacerbated over the coming years as supply lags behind a recovery in housing demand. This mismatch in terms of the recovery of supply vis-à-vis demand was observed post-2012 in the Irish market. However, for a comparable outcome to the financial crisis to materialise, the adverse effects of the pandemic would want to continue for a number of years.

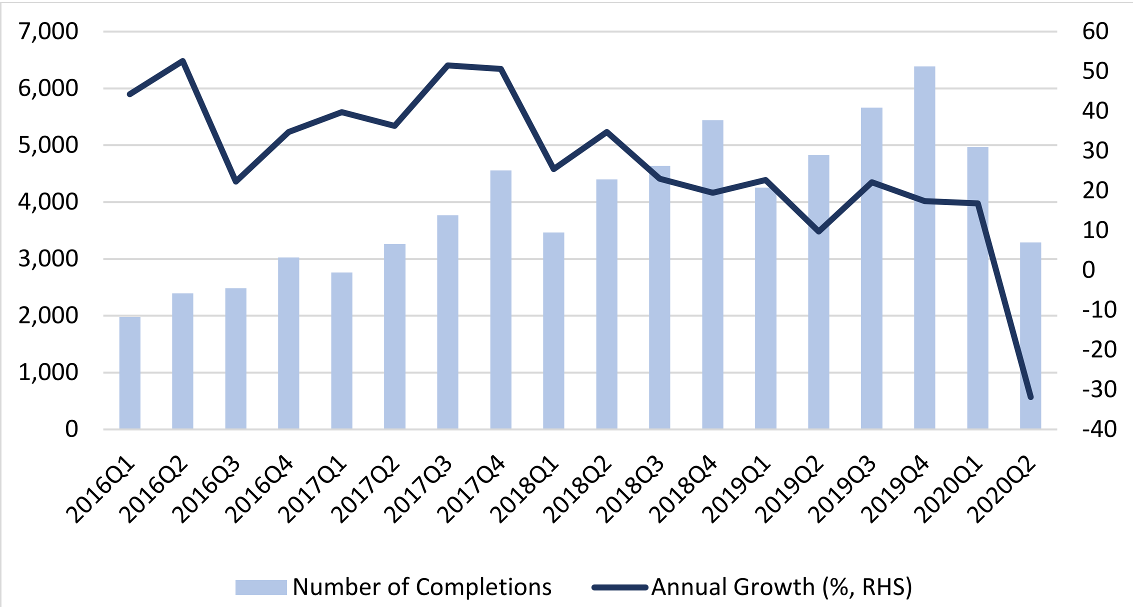
Key Issues for Consideration

- How will ongoing public health restrictions affect productivity in the building industry?
- How will uncertainty around the economic and epidemiological situation affect the supply of new housing?

The aforementioned credit restrictions brought about by COVID-19 are also likely to impact the supply side of the housing market as builders and developers may find it more difficult to receive credit to finance residential construction. Again, this will have the most significant impact on supply over the next couple of years, potentially at the same time that demand is starting to pick up. Policy intervention by national and supranational authorities will play a crucial role here. The ECB has introduced a number of measures and programmes such as targeted longer-term refinancing operations (TLTRO III) to support bank lending to enterprises which may help credit continue to flow. However, the effectiveness of these programmes may be undermined if financial institutions' attitudes to risk changes, and credit is restricted due to difficulties institutions experience in assessing repayment risk. In these circumstances, State lending providers (such as Home Building Finance Ireland) may need to play a greater role in lending activities on the ground. There is no clear evidence to date whether credit access difficulties for construction firms and suppliers have changed.

Housing completion data in Figure 4 reveal the short-term impact that the lockdown has had on the supply of housing. In Q2 2020 the number of housing completions fell by 32 per cent in comparison to the same period the previous year, down to 3,290. Allen-Coghlan and McQuinn (2020) forecast that house price completions in 2020 could fall to between 15,000 and 16,000 this year down from a pre-pandemic expectation in the *Quarterly Economic Commentary* of 24,500 completions.

FIGURE 4 HOUSING COMPLETIONS



Source: Central Statistics Office.

Another aspect of housing supply that may need an alternative set of scenario analysis following the pandemic is the issue of planning and demographic spread. While the current National Planning Framework and associated local county development plans are based off demographic projections built around strong economic growth, these results may now need to be accompanied by an alternative set of assumptions. It will not be possible to ascertain what the demographic impacts of the pandemic will be until the epidemiological situation is clearer but there may well be a range of additional questions that now need to be addressed from a planning and demographic perspective.

Key Issues for Consideration

How does planning policy react to changes brought on by the pandemic?

- Is city-led development going to be as required going forward with a more agile "working from home" culture and can this be an opportunity for a rejuvenation of rural areas and provincial towns?
- Is there the potential for surplus office accommodation in cities to be converted to residential accommodation?
- Will lower density housing with fewer apartments be more preferential for households given concerns around outdoor space and green spaces?

While city-led urban development is highly efficient from a public service provision perspective and spatial planning perspective, demand amongst households for this type of living may decline. This may need a reappraisal of the emphasis traditionally placed on such development and may offer an opportunity for a more balanced spread of population on a regional basis.

Investment and rental supply

Another concern from the supply side in the rental market is the extent to which tenant protection mechanisms and price cap limitations feed through over time into supply impacts. The immediate crisis related measures in the rental sector which were enacted as part of the *Emergency Measures in the Public Interest (COVID-19) Act 2020* removed eviction and price rise risk from the private rental sector for the period of the pandemic. This measure was entirely consistent (and warranted) with households being asked to restrict their movements to deal with the pandemic. While protections for households in arrears who had been affected by COVID-19 were continued to early 2021 as part of the *Residential Tenancies and Valuation Act 2020*, the extent to which these policies (and the longer-term rent control measures) add uncertainty and price risk for investors is an open question. The impact of the risk-return calculations of both household and institutional investors may lead to lower rental supply from private sources going forward. If these impacts delay project starts now, this could exacerbate supply bottlenecks in the future.

A consequence of this may be that the pandemic results in a major increase in State provision of longer-term rental housing which can be targeted at providing affordable solutions for lower income households. However, the impact of the pandemic on investment in rental supply requires a detailed exploration. In particular, it may be necessary to estimate if the current legislation, which limits evictions, has a significant impact on future investment levels in the sector? In both cases, an increase in the State provision of rental housing is likely to be required and could form a cornerstone of any post-pandemic capital stimulus.

Key Issues for Consideration

- How do changes in pandemic-related tenancy legislation impact rental supply?
- To what extent should the State step in to provide rental housing supply directly?

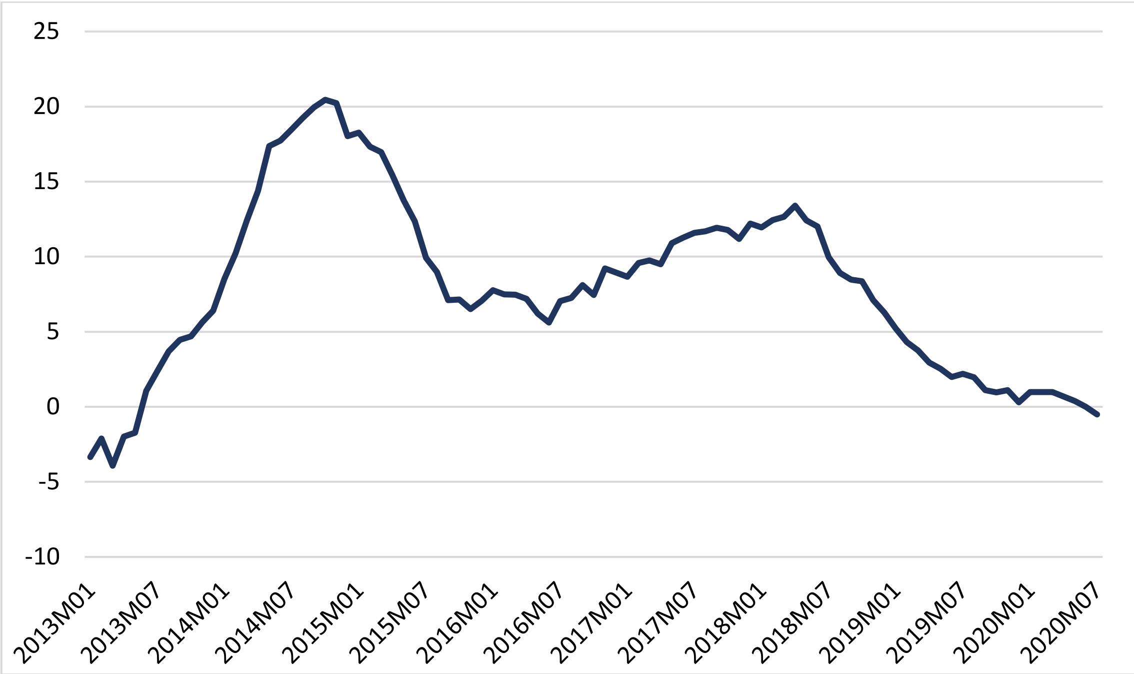
4. PRICE/AFFORDABILITY IN THE HOUSING MARKET

While house prices increased rapidly in the years following the nadir of the market in 2013, the inflation rate had fallen somewhat from 2019 onwards (see Figure 5). The stabilisation of house prices over this period reflected the fact that actual house prices had converged with their fundamental values as a result of the rapid increase in prices in preceding years.[4]

Since April 2020 the inflation rate has started to decline again, and in July 2020 national house prices experienced the first negative year-on-year growth rate since May 2013.

[4] For further information on house price sustainability in Ireland see: McQuinn et al. (2019) *House price expectations, labour market developments and the house price to rent ratio: A user cost of capital approach* and Allen-Coghlan M. et al. (2019) *Irish house price sustainability: a county-level analysis, for detail on house price sustainability*.

FIGURE 5 YEAR-ON-YEAR GROWTH RATE OF RESIDENTIAL PROPERTY PRICE INDEX: 2013:01 – 2020:07



Source: Central Statistics Office.

Despite the moderation of house price inflation, affordability issues in the housing market remain. Research by Corrigan et al. (2019) show that affordability pressures in the housing market are not universal but rather pertain to specific groups. Unsurprisingly those on low incomes face the greatest challenges in this regard with mortgaged households in the lowest 25 per cent of the income distribution paying on average two-fifths of their income on housing costs. A more granular look at affordability for first time buyers by Allen Coghlan et al. (2019) found that affordability issues are most pronounced in Dublin and the surrounding counties.

Given the aforementioned impact that COVID-19 will have on housing demand and supply it is very likely that the pandemic will have a knock-on effect for house prices and affordability.

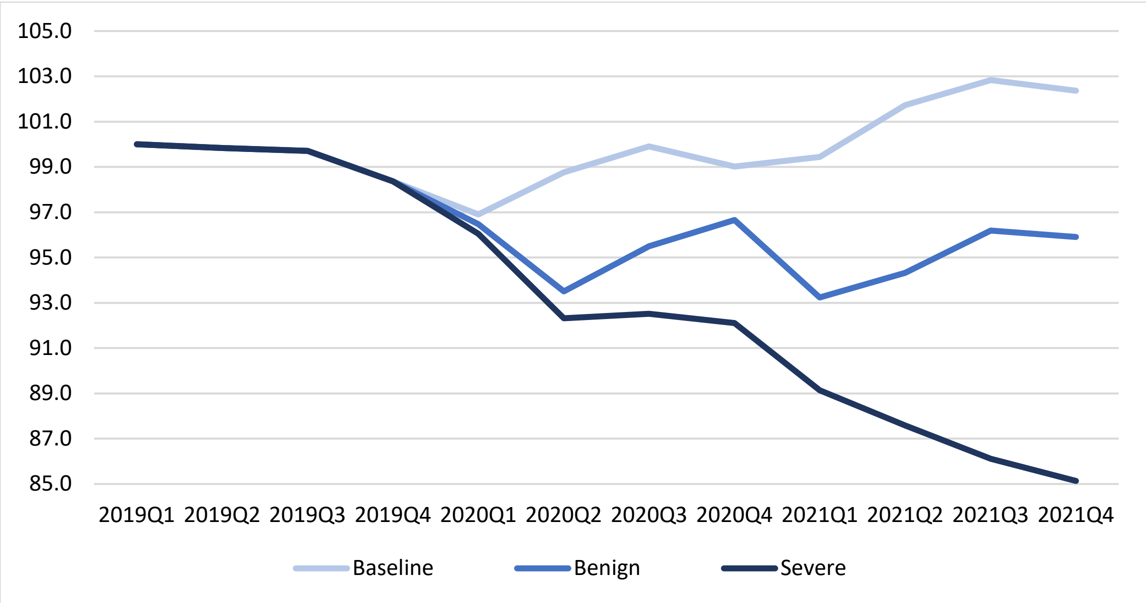
Allen-Coghlan and McQuinn (2020) look at the implications for house prices due to the potential impact of the pandemic on incomes, credit and new housing supply. An inverted demand model for housing with a mortgage credit activity variable is utilised to analyse the historical relationship between prices and these three variables. The coefficients estimated from this model are then used in a scenario analysis where incomes, credit and supply are modelled over the next two years. Three scenarios are put forward representing different recovery paths for the Irish economy; the Baseline, Benign and Severe. The Baseline is a counterfactual scenario where there was no pandemic. Under this scenario house prices were estimated to increase by just over 1 per cent this year and just over 3 per cent in 2021. Under the Benign scenario there is a significant contraction in the economy in Q2 2020 due to the lockdown restrictions imposed by the government. However, after this period, as the restrictions are gradually lifted, the economy recovers rapidly and by 2021 the economy has recovered to the level expected under the Baseline scenario. Here house prices in Q4 2021 are forecast to be the same level they were in Q1 2020, the period just before the pandemic. In the Severe scenario where the impacts of the pandemic stretch beyond 2020, house prices decline by over 12 per cent by the end of 2021 relative to Q1 2020.

While the short-term impact on prices will likely be dominated by demand-side factors of falling incomes and reduced credit access, longer-term prices are likely to be more influenced by supply-side factors which, as discussed, tend to have a lagged effect. This means that we could possibly experience a sharp increase in house price inflation when demand initially begins to pick up again.

Key Issues for Consideration

- How will house prices react to demand and supply side factors following the pandemic?

FIGURE 6 FORECASTS OF HOUSE PRICES (REAL) UNDER THREE SCENARIOS: 2019Q1-2021Q4



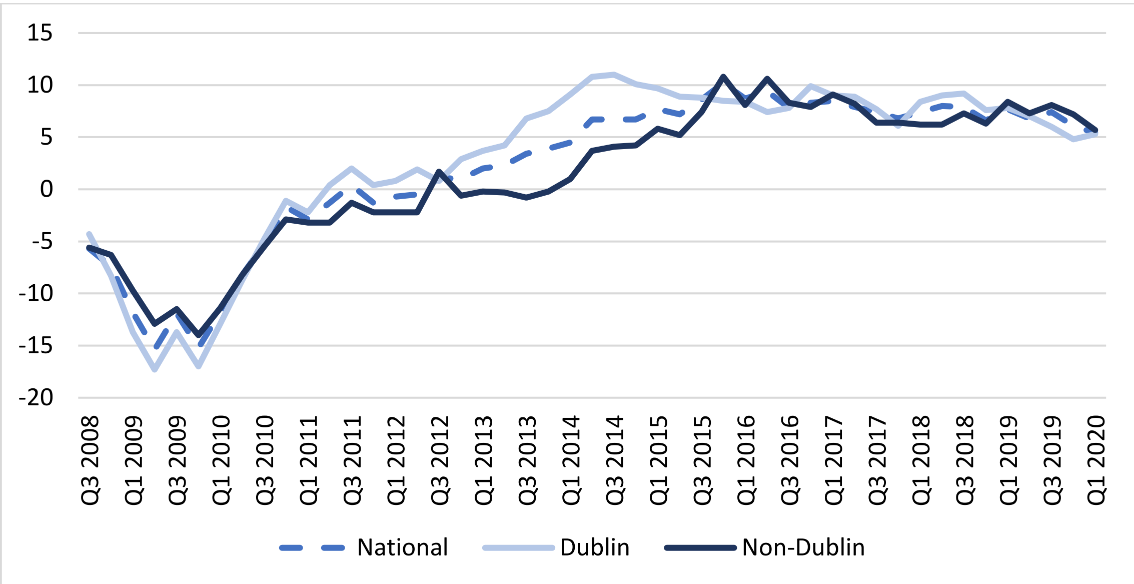
Source: Authors' calculations.
Note: All data are in index form with 2019Q1 set = 100.

While a short-term decline in house prices may be a relief to those currently seeking to buy a home, the pandemic will not be a panacea for affordability issues in the housing market. The negative impact of COVID-19 on the Irish labour market has not been evenly distributed across sectors or demographics. In a Box in the summer *Commentary* Roantree (2020) has shown that young workers have been disproportionately impacted by COVID-19. It is also clear from the labour market data that employees in lower paid sectors such as hospitality and tourism have been much more adversely impacted than those in higher paid sectors such as finance and ICT. As the work by Corrigan et al. (2019) showed, those in lower income groups were disproportionally impacted by affordability issues in the housing market before the pandemic. Allen-Coghlan et al. (2019) showed that there were significant affordability issues for first time buyers in the housing market, particularly in the GDA and urban areas generally. While government supports have prevented a significant drop in incomes for these groups so far, if the negative labour market shock persists then the very groups that were facing the most significant affordability issues before the pandemic may be even more negatively impacted in the years to come.

5. RENTAL MARKET

While there was some moderation in house price growth over the past year, rental prices have continued to increase rapidly. Figure 7 presents the RTB Quarterly Rent Index up to Q1 2020, before the lockdown took effect. The annualised growth rate of rents increased by 5.4 per cent in Q1 2020 nationally while the annual growth rate in Dublin increased by 5.3 per cent.

FIGURE 7 RTB/ESRI RENT INDEX ANNUAL GROWTH (%)

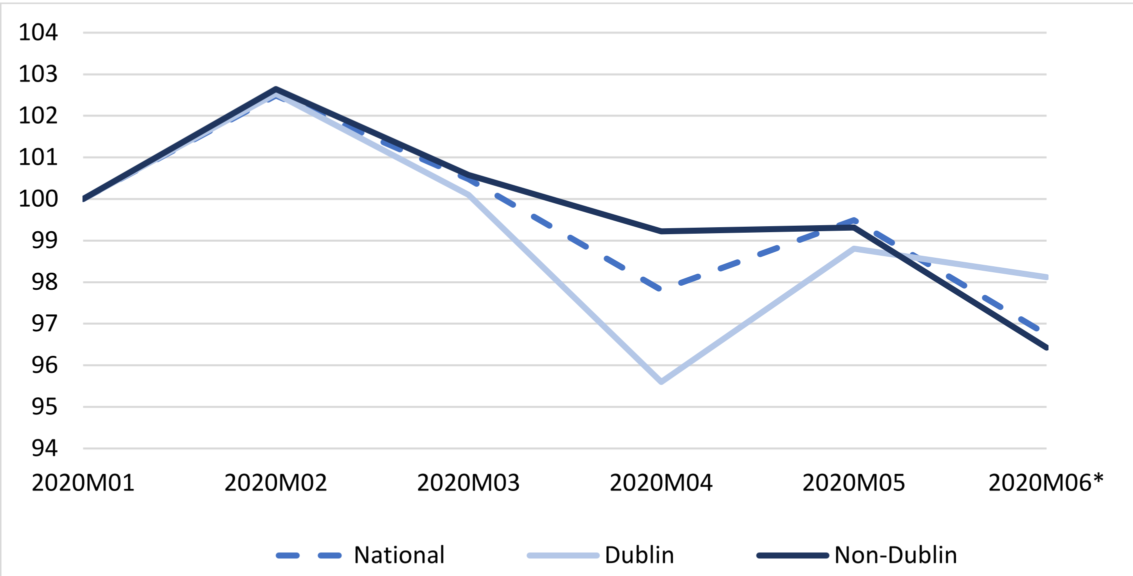


Source: ESRI/RTB Rent Index.

In order to explore the early impact of the pandemic on the rental market, the ESRI and RTB undertook a short-term analysis of monthly rent prices and transactions from January to June 2020 using a hedonic regression model (Allen-Coglan et al., 2020). The results of this are presented in Figure 8. Rent price growth has moderated somewhat since the pandemic began, declining by 2.7 per cent between March and April. The initial price decline was even more significant in Dublin where prices fell by 4.5 per cent between March and April. National month-on-month declines were registered in three of the four months since March 2020.

However, it should be noted that these price trends were based on early provisional data received by the RTB. These data do not include the total number of rental transactions that took place over this period as registrations with the RTB are often made in the months following the commencement of a tenancy. In order to assess the full impact of the pandemic on the rental market, we will need to wait until the regular quarterly RTB Rent Index for Q2 is released. Further downward pressure on rent prices may come as a result of the *Residential Tenancies and Valuation Act 2020* which provides a limitation on price increases for tenants affected by COVID-19 until early 2021.

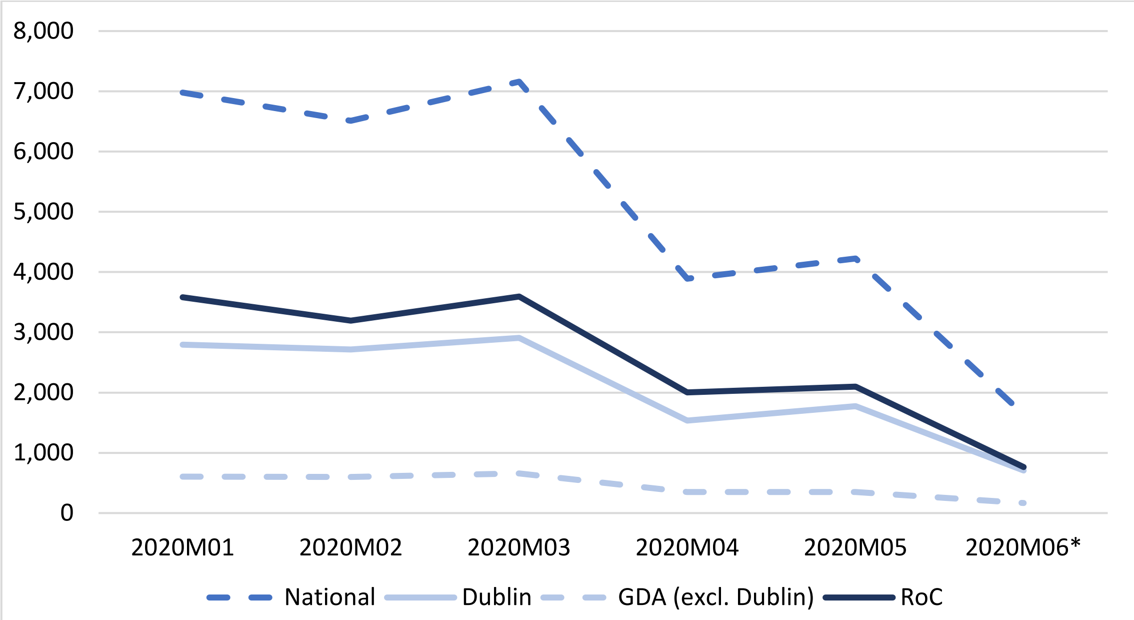
FIGURE 8 SHORT-TERM INDEX OF RENT PRICES



Source: ESRI/RTB Rent Index.
Note: * Data only available for tenancies commencing over the first 16 days of the month.

Figure 9 shows the number of tenancy registrations each month. Between March and April there was a significant decline in the number of tenancies registered with the RTB. While in March there were over 7,000 registrations, in April this had fallen to less than 4,000. The number of new registrations also remained subdued in May. The fall in registrations is consistent with the restrictions on economic and social life brought in to stop the spread of the COVID-19 virus.

FIGURE 9 NEW AND RENEWAL TENANCIES REGISTERED WITH THE RTB



Source: ESRI/RTB Rent Index.
Note: * June only contains data up to the 18th of the month.

Coffey et al. (2020b) looked at how COVID-19 would impact on affordability in the rental sector in the short term. The paper focused on households which were not in receipt of rental supports such as the Housing Assistance Payment (HAP) or Rent Supplement. The paper used two metrics to determine affordability (1) the ratio of rental payment to net income of the household and (2) a residual income ratio which takes the income left after the rental payment is made and determines whether it is sufficient to cover a minimum required level of expenditure. They find that while prior to the lockdown one-third of renters already experienced affordability issues, on an aggregate basis the immediate impact of the pandemic would not have made these affordability challenges any worse. This is primarily due to the extraordinary income supports which were put in place in the form of the PUP and the TWSS. As a result of these supports, they actually find a fall in affordability pressures among households. However, they also find that renting households were more likely to work in sectors affected by the pandemic and the income shock experienced by renters was greater than that for homeowners.

This paper also looked at how the pandemic affected missed rental payments. While model estimates based on the relationship between affordability stress, unemployment and rental payment difficulties suggest that there is likely to be an increase in missed payments, this will be reduced somewhat by consumption expenditure falling more rapidly than incomes. Model estimates suggest that missed payments will increase slightly from just under 10 per cent to just under 11 per cent.

Over a longer time period the pandemic is likely to worsen affordability issues in the rental market. Incomes are likely to rebound slower than rising costs in areas such as transport and childcare costs. COVID-19 is having the most significant impact on those in the accommodation and food service sectors, where 15 per cent of workers in these sectors live in private rental households compared to more than three times as many as in mortgaged households. As the income supports are removed any sluggishness in the recovery of incomes in these sectors will exacerbate pre-existing affordability challenges in the rental sector.

Work by Cronin and McQuinn (2016) has shown that restrictions in credit also have implications for tenure choice, leading to an increase in demand for rented accommodation. If there is a decline in the provision of credit going forward due to the pandemic then, ceterus paribus, we would expect to see greater demand for rental properties relative to owner-occupying which again could put upward pressure on rental prices.

These considerations reinforce the discussion above regarding the supply of rental properties given changes to the legislative agenda and the ongoing affordability challenges. If fewer households are able to afford the transition from renting to owning this will exacerbate the affordability issues in the rental sector.

6. OTHER CONSIDERATIONS

Given how fast moving and changeable the situation with regard to COVID-19 is regarding the broader economy, it is likely there are many aspects of the housing market that we have not explored that will be impacted by COVID-19. One such issue that may require additional analysis to understand its role in a post-COVID environment is the generalised goal of improving energy efficiency in the housing stock. The retrofitting of private housing may be more difficult to achieve if households become credit constrained or face a reduction in living standards due to the deterioration in labour market conditions. Incentivising investment through the private sector may need additional policy intervention if private households are unable or unwilling to finance such investment going forward.

7. CONCLUSIONS

COVID-19 has already had an unprecedented impact on the Irish economy and this has extended to the housing and rental markets. While government support schemes are likely to keep incomes stable in the near term, as these measures are unwound and the labour market struggles to recover, incomes are likely to fall, putting downward pressure on housing demand. The extensive and prompt introduction of the different household income supports has to date insulated the housing market from some of the most adverse consequences of COVID-19.

The fall in economic activity is also likely to lead to credit constraints which will also reduce the level of demand. These credit constraints may be compounded by any increases in the provisioning for impaired loans the domestic financial sector has to undertake due to the crisis.

While there has already been a fall in the number of housing completions due to reduced efficiency in the construction sector, the most significant impact on supply may not be seen for another year. In the face of a high level of uncertainty today investment is likely to be curtailed, meaning as demand starts to pick up the level of supply will not be there to meet it, amplifying the existing undersupply in the Irish market.

Ultimately, over the longer-term, this is likely to be the main impact on the housing market of COVID-19; an increase in the imbalance between the supply and demand for properties in the Irish market. Consequently, one of the most appropriate policy responses is for an increase in State provision of social and affordable housing. An increase in the supply of such housing at this point would help to reduce the extent to which the imbalance would be exacerbated by the present crisis. Ultimately, facilitating cheaper, more efficient housing supply is the primary policy concern in the housing market over the medium term.

At a more speculative level, the potential increase in the number of people who can and will work from home in the future may have significant implications for the housing market and the general economy over the longer term. In practical terms, this may mean that much of the longer-term analysis, which has already been conducted concerning the structural demand for housing at both a national and regional level, now needs to be accompanied by an alternative set of scenarios. More broadly, the impact of COVID-19 may lead to an additional set of questions examining the possibility of better regional and rural distribution along with a new consideration of the future purpose of towns and cities.

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