

**Review of Rebuilding Ireland:
Affordable Housing:
Policy Paper, September 2017.**

1. What is the State's Role?

The overarching principle underpinning the Government's housing policy is that:

all households – families, single people, older people, first-time buyers, renters, people with particular/special needs – should have access to suitable quality and affordable housing, either from their own income or with the support of the State

Housing affordability is not a uniquely Irish issue and is not just a short-term issue either. Across the world, housing affordability is regarded as a critical, on-going, social and economic policy challenge linked to the rising value of land and property relative to wages.

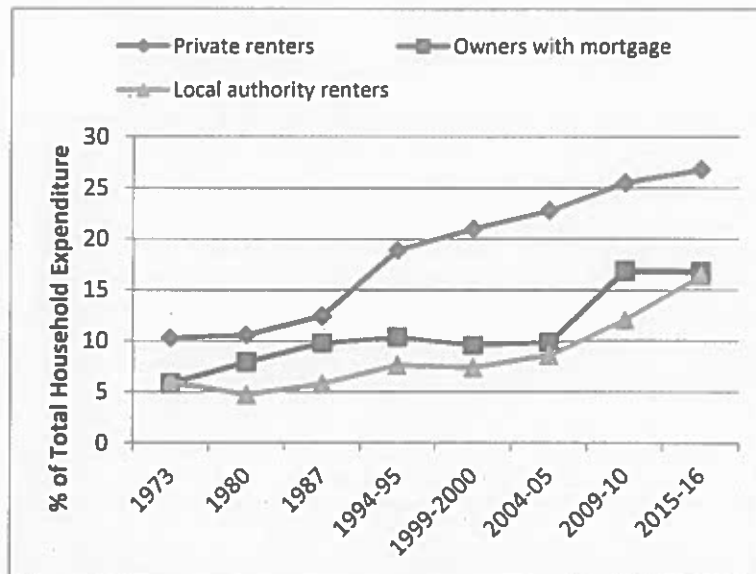
Clearly, the Government accepts that the State's responsibilities extend beyond the provision of social housing alone to ensuring there is a supply of affordable homes in the Irish housing system. In particular, low to moderate income households, renting in and around our cities, can struggle to secure suitable and affordable housing. Such households may contain so called "key workers" that the local economy needs in order to sustain growth.

2. The Declining Affordability of Housing

In Ireland there is a long standing trend of decreasing affordability of housing, which affects all tenure types but is most severe in the private rented sector. Those renting privately spend more than twice as much of their household budget on rent than they did in 1987, while the share spent on mortgage repayments has risen by more than half. The figure below shows that in 2016 for homeowners mortgage repayments made up 16.4% of their household expenditures, while rent in the private sector made up on average 26.8% of household spending¹. For moderate to low income households these proportions are of course higher.

Rent or Mortgage Payments as a proportion of Household Expenditure

¹ Household Budget Survey (HBS), Central Statistics Office, various years.



Data Sources: Fahey & Duffy, 2007 'The Housing Boom' in Fahey, T., Russell, H. & Whelan, C. T. (Eds.), *Best of Times? The Social Impact of the Celtic Tiger*, Dublin: Institute of Public Affairs; CSO, Household Budget Survey: 2007, 2012, 2017, Dublin: Central Statistics Office.

Both the private rental sector, and the owner occupied sector are characterised by increasing affordability pressures, particularly among households on moderate to low incomes. Rising house purchase prices directly challenge affordability in the home ownership sector, but also drive increased dependence on the rental sector, particularly for moderate to low income households, who can least afford the higher costs.

As a result, despite the greater affordability problems, more people are dependent on renting their accommodation than at any time in the last 45 years – nearly a third of households and the numbers are still growing. Home ownership has fallen from nearly 80% of households in 1991 to 67.6% in 2016, increasing the dependence on rented accommodation. The reduction in home ownership is concentrated among those on modest incomes.

Unaffordability is also likely to increase in the medium term. Home ownership among the 35 to 45 age group has declined from 82% in 1991 to 63% in 2016 resulting in a doubling in the proportion of those in this age cohort depending on rented accommodation. Most people in this age group, who have not bought a home, are now unlikely to ever do so and, as they reach the end of their working lives and start to live on reduced incomes requiring more affordable rental accommodation.

Unchecked, the lack of affordable housing options can lead to problems of accessibility; social exclusion; increased spatial stratification (particularly in cities) and decreased national competitiveness. The global financial crisis has changed the way the housing system operates and there is an acceptance internationally of the ongoing and increasing need for affordable housing options, in a tenure balanced manner, that can enable social mobility particularly within cities².

² UNECE

3. What Drives the Decline in Affordability?

The affordability imbalance appears to be a long term trend – not a short term problem. It principally derives from the rising value of land and property relative to other prices, particularly wages. Price inflation in both home ownership and residential rental markets is outstripping general measures of inflation and wage growth, over time and particularly, in recent years³.

The divergence between housing (purchase and rental) prices and incomes results significantly from the increased dependence on the private market for housing provision. Much of the substantial historic public investments in supply side subsidies to housing have not resulted in a proportionate permanent capacity to provide low cost housing. The sale of social housing assets, helps to resolve the affordability issues of the individual households, reducing the dependence on social housing and anchoring such households in communities that may be predominantly rental (social and otherwise). However, this has meant that the dwellings have, over time, entered the private market and may now command the same prices that drive unaffordability. The loss of social housing assets, coupled with the low level of investment in third sector - not for profit provision, has limited the housing system's capacity to provide reduced cost housing.

Consequently, dependence on the private rental sector for providing subsidised housing (social housing) has increased, driving up the cost per recipient of social housing and potentially putting further upward pressure on rental prices. The increased unit costs for social housing provision in the private rental sector limit the state's capacity to respond to the divergence between housing prices and incomes. The numbers of households considered ineligible for housing assistance, or for whom the state is unable to provide, but who cannot meet their accommodation needs from their own resources, grows.

4. What is the national housing requirement?

Ireland's total housing need (or future need) can be defined as the shortfall between the existing (or future) housing stock (in terms of quantity, quality, cost and location) and the housing stock required to ensure that existing (or future) households live in homes of an agreed standard, either through their own means or with State support. Rebuilding Ireland – Action Plan for Housing and Homelessness (July 2016) has, as its core objective, increasing housing supply to at least 25,000 new homes per annum, based on E5RI demand projections at the time. However, Rebuilding Ireland recognised that this target would need to be exceeded to account for pent-up demand and accumulated under-supply. Census 2016 figures suggesting that the numbers of persons per household had increased for the first time since 1966, and that the number of adult workers living at home with their parents had increased significantly by 19% to 215,088, would infer that the pent-up demand is significant, and rising.

5. What is affordable housing?

While there can be no universally agreed ideal price/rent to income ratio or minimum residual income requirement there is agreement in many quarters that lower income households in particular should not have a housing cost burden in excess of 30-35% of their income. Affordability, should also cover a household's ability to sustain its owner-occupancy/tenancy over time in financial terms e.g. repair, maintenance, insurance etc.

³ Appendix 3 refers

6. Which households need State support to secure housing?

a. Social Housing:

The total net household need, also referred to as the housing waiting list, encompasses 91,600 households (as of 21st September 2016). Around 40% (c36,000 households) are in Dublin. The maximum "net" income eligibility thresholds range from €25,000 for a single person to €42,000 for a multiple person household⁴.

The State is committed to meeting the need of the full waiting list and €5.35 billion has been allocated to fund 47,000 new social housing homes. In addition 84,000 households are targeted to be accommodated in the private rented sector predominantly through the Housing Assistance Payment.

b. Affordable Housing:

In considering where the State may need to support other households to meet the affordability challenge, income levels are obviously a key determining factor. Another key determining factor is location as the cost of housing to buy and rent, and consequently affordability, varies considerably throughout the country.

i. Location:

The greatest affordability challenge is faced by households in major urban areas – Dublin; the Greater Dublin Area and to a lesser degree, Cork and Galway. The Demographia International Housing Affordability Survey uses an income affordability ratio to summarise the regional disparities in housing cost affordability in Ireland. The study covers areas in Ireland with a population of 50,000 people or more, and reports that relative to household income Ireland has the most affordable housing costs compared to all other countries included in the Survey.⁵ Importantly however, Dublin is deemed 'seriously unaffordable'. Overall, the Survey points to an affordability challenge in Dublin, Cork and Galway. The Mid-East, including Louth, is excluded from the Demographia survey.

The Dublin house purchase market can be broadly characterised as being severely curtailed, in terms of the volume of transactions, and subject to ongoing inflation. Therefore, access and affordability are major issues in the Dublin market. There were just 3,900 house transactions to July 2017 representing a decrease of 13% year on year and just 0.8% of housing stock turnover⁶.

In Dublin, there are a limited number of new developments for sale, particularly in suburban parts of North and West Dublin, offering new homes for sale at price points between €250,000 and €300,000 for a 3 bed⁷. It is anticipated that further new homes, across 74 developments, will be brought to market in Dublin over the next number of months. Reflecting the current trend, the developments predominantly have less than 50 new homes for sale, at a time, and where prices are known in advance, most are above €350,000 and many are at the higher end of the market⁸.

⁴ A review of the eligibility criteria, including income thresholds, will be undertaken this year.

⁵ The Survey looks at housing market in Australia, Canada, China (Hong Kong), Ireland, Japan, New Zealand, Singapore, United Kingdom and the United States

⁶ Sherry Fitzgerald – 5% turnover is expected in a normal market

⁷ myhome.ie website 8th August, 2017

⁸ Irish Times 7/9/2017

In the 12 months to July, the median price paid by households for a dwelling on the residential property market was €212,500. Dublin was the region with the highest median price (€335,000) in the year to July. Of the four administrative areas of Dublin, Dún Laoghaire-Rathdown had the highest median price (€500,000). Whereas, Fingal had the lowest median price (€300,000). Outside Dublin, the highest median prices were in Wicklow (€290,000) and Kildare (€265,000)⁹.

The Dublin rental market has very limited supply and is subject to ongoing inflation. In terms of rents, the latest RTB Index shows average monthly rents in Dublin ranging from €1,100 - €1,950¹⁰. Rents in Dublin increased by 3.3% qtr. on qtr. and are now 10.8% above the previous peak (2007). There were just 1,074 properties available to rent in Dublin on May 1st, the lowest figure recorded in a series stretching back to January 2006.¹¹

ii. Income:

Analysis of the latest data by the Housing Agency suggests that households with gross earnings over €70,000 per annum (€82,000 per annum in Dublin) are able to access credit and afford repayments at present. That would equate to a house purchase price range of €272,000 to €318,000¹². The average house price for a FTB in Dublin is €345,000 requiring a mortgage of €310,000; with estimated monthly repayments of €1,656¹³ and an inferred minimum income requirement of €88,685¹⁴. Of course the number of such new homes being produced by the market is limited.

Average Dublin rents (€1,100 and €1,950) would require monthly net income of €3,143 to €5,571 in order to be affordable (i.e. <35% of income). In turn, this roughly equates to annual net incomes of €37,716 to €66,852. Average incomes are highest in Dublin (€51,900) and the Mid-east (€45,700) but the purchasing power of that income is far less than in other regions in many respects, particularly for housing. In Dublin, the median "asking price" for a 3 bed house is 5.7 times average earnings whereas it's as low as 3.3 times in other parts of the country¹⁵.

7. Rebuilding Affordability - What State interventions are planned?

While Ireland has returned to economic growth, Exchequer funds are still very scarce and must be carefully managed. The State simply cannot meet every household's aspirations, hopes and wishes in terms of where they would like to live and the home they would like to live in. The Government is therefore committed to supporting households, in most need, utilising the scarce resources available, optimally.

Given the scarcity of financial resources, the State land bank is a key resource that must be leveraged to deliver a significant amount of new homes at much more affordable prices and rents. Local authorities are crucial in terms of operationalising this policy objective. Councils are also housing and planning

⁹ Data extracted from CSO Residential Property Price Index table HPM07

¹⁰ RTB Index Q2 2017

¹¹ DAFT.ie

¹² Assuming monthly repayments of over €1,500 at 4.1% over 25 years; a minimum deposit of €32,300 (10%); costs such as fees, furniture and fittings are additional; FTB household may qualify for Help to Buy Scheme up to €20,000 tax rebate.

¹³ A local authority mortgage could be more affordable if available to the household.

¹⁴ Appendix 1 refers

¹⁵ Appendix 2 Refers

authorities and have a land bank of 700 sites - acquired to deliver social and affordable housing - covering c1,500 hectares capable of yielding c37,500 new homes at a conservative estimate.

In order to deal with the structural issues, that drive affordability, policy measures that will effect structural change over time are essential to build the housing systems capacity to provide lower cost housing. Given the critical and urgent affordability and access issues, particularly in Dublin and other major urban areas, more immediate supply side responses are also required.

The central long-term strategy will be to reduce the dependence on private housing and to increase the supply of lower cost accommodation over and above what the market alone provides. This will help improve affordability for households and reduce the numbers requiring assistance to meet their accommodation needs. It will also reduce the unit cost to the state of providing demand side subsidies, allowing more households to benefit from them.

In terms of more immediate responses, based on the foregoing, the case is clear for additional State interventions to increase the supply of affordable homes in Dublin from the State land Bank. It is envisaged that both affordable purchase and affordable rental will be pursued on such State land. The case for affordable housing in other locations will be examined on a case by case basis in consultation with the relevant local authorities. The choice of tenure will be a matter for the local authority concerned, in consultation with the Department, on the basis of an economic and financial assessment of the particular site / locations.

The Affordable Housing Programme will have the following objectives:

- A. To increase access to home ownership in appropriate locations through reducing purchase costs for key target groups in order to anchor households in communities, providing social continuity in neighbourhoods, providing more certainty in terms of long term demand for, and of access to, education, health and other services.
- B. To build a substantial cost rental sector within the rental market to:
 - a. directly provide lower cost sustainable and long term rental accommodation solutions for households unable to, or not wishing to, buy their own homes;
 - b. reduce the costs to the exchequer of the provision of social housing;
 - c. promote the development of socially mixed and sustainable communities.
- C. To contribute to good planning and social sustainability; urban design; social mix and climate management by:
 - a. delivering affordable housing in sustainable and suitable locations near centres of employment; public transport and other services and facilities thus reducing commuting distances and enhancing quality of life, and,
 - b. providing access to affordable housing for target groups to counteract the danger of communities nearer to Dublin and other cities becoming homogenised by virtue of income and affordability where lower income groups, other than those who qualify for social housing support, are effectively excluded from living in parts of our cities.
- D. To contribute to economic development and the delivery of State services, particularly in certain industries/services concentrated around cities, which may be challenged and

curtailed in the ability to expand, sustain and replace workers if there are no affordable housing options commensurate with the employees earning power. For example, the new Children's Hospital will have a significant, ongoing, staffing requirement. Rental can be particularly effective if the workers are on flexible contracts and are mobile.

- E. To correct the operation of land and housing markets in our cities; dampen house price inflation; and to spur development by private sector developers.
- F. To provide opportunities for small to medium builders to build new homes on State land.
- G. To maximise synergies and economies of scale in developing local authority sites with a mix of social and affordable housing e.g. in the provision of facilitating infrastructure for both.
- H. To redistribute income and wealth through the housing system to enhance social equity.

8. What are the next steps?

A. An Affordable Purchase Scheme will be re-introduced based upon the provisions of Part 5 the 2009 Housing Miscellaneous Provisions Act (un-commenced). Detailed regulations will be made by the Minister, but the key elements of the new Scheme are expected to be as follows:

- a. **Delivery Method:** local authorities will engage a partner developer/builder to deliver affordable housing from their sites, as part of mixed tenure developments, to be sold directly to identified purchasers;
- b. **Maximum Household Income:**
 - i. Single Household - €50,000;
 - ii. Two Earner Household - €85,000
- c. **Charge/Equity Stake:** The local authority will have a fully repayable equity stake (or charge) against the property equivalent to the discount, repayable on re-sale or within the charge period (min 25 years)
- d. **Discount:** Minimum discount 10% - maximum 40% (taking the average house price for a FTB in Dublin as the market price €345,000 that would equate to a potential affordable price range of €207,000 to €310,500)
- e. **Eligibility:** First time buyers; social housing tenants or those on the waiting list; that qualify for the necessary mortgage¹⁶ (based on Central Bank LTI & LTV rules);
- f. **Allocation:** by local authorities, based on a local authority Scheme, subject to agreement with the Minister, to eligible households taking account of:
 - i. accommodation needs including current circumstances – distance from employment and school attendance,

¹⁶ May be possible to avail of LA mortgages if household is refused by 2 other lenders.

- ii. whether the mortgage would be affordable – repayments < 35% net income;
 - iii. any relevant assets particularly a dwelling;
 - g. **Affordable Dwellings Fund:** will be established with funds from affordable payments to be paid in and the fund to be managed by the Housing Finance Agency to provide a long run funding stream for affordable housing.
- B. The Dublin local authorities have a land bank of 342ha and will be asked to bring forward proposals for affordable housing on these sites as part of the Strategic Management and Development Plans they are preparing at the moment.
- C. A number of pilot affordable purchase and cost rental schemes will be immediately advanced:
- a. Dublin City Council - O'Devaney Gardens/ Infirmary Rd. – Starter Homes Purchase and Regeneration areas of Dublin.
 - b. Housing Agency / DLRCC – Enniskerry Rd. – Rental
- D. The optimum institutional arrangements for the delivery of affordable housing across multiple local authorities and sites will be examined with the relevant local authorities.
- E. As part of the budgetary process consideration will be given to putting in place an Exchequer funded affordable housing fund to pay for infrastructure in order to make housing more affordable. This would be subject to bids by local authorities and would be particularly targeted at areas of regeneration.
- F. Detailed analysis of the requirement for affordable housing in GDA; Galway and Cork will be undertaken with the relevant local authorities.
- G. The Department will establish an Expert Cost Rental Group to examine the feasibility and benefits of building a substantial not-for-profit sector capable of delivering cost rental for significant numbers of households and to develop a roadmap for achieving this structural change to the rental sector and housing system.

Housing market Policy and Land Management Section,
14 September, 2017.

Appendix 1 – First Time Buyer Affordability - Purchase

	90% Deposit						80% Deposit				
	Average FTB Home Price	Inferred Max Mortgage	Monthly Repayment	Repayments as % of (Average Gross Earnings*1.5)	Inferred Minimum Income Requirement	Mortgage Repayment Requirement as Multiple of Average Earnings	Inferred Max Mortgage	Monthly Repayment	Repayments as % of (Average Gross Earnings*1.5)	Inferred Minimum Income Requirement	Mortgage Repayment Requirement as Multiple of Average Earnings
National	€ 259,143	€ 233,229	€ 1,244	26%	€ 66,636.86	1.77	€ 207,315	€ 1,106	24%	€ 59,232.76	1.58
Dublin	€ 344,885	€ 310,397	€ 1,656	35%	€ 88,684.76	2.36	€ 275,908	€ 1,472	31%	€ 78,830.90	2.10
Outside Dublin	€ 203,265	€ 182,939	€ 976	21%	€ 52,268.22	1.39	€ 162,612	€ 867	18%	€ 46,460.64	1.24

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Appendix 2 – Average Earnings and House Prices

Region ¹⁷	Average earnings	Median asking price, 3-bed semi-detached house	Price to income multiple
Border	39.2	130	3.3
Midlands	38.3	125	3.3
West	38.8	130	3.4
Mid-East	45.7	215	4.7
Mid-West	45.1	150	3.3
South-East	41.2	145	3.5
South-West	44.3	199	4.5
Dublin	51.9	295	5.7
State	45.1	220	4.9

Appendix 3

Changes in Consumer Price Index and Average Weekly Wage

Year	CPI Annual % Change	Average Weekly Earnings	
		€	Annual % Change
2014	0.2	€703.91	1.3
2015	-0.6	€712.02	1.1
2016	0.1	€716.07	0.5
2017	0.3		

Notes: Consumer Price Index Annual % Change, as measured in January of the Relevant Year¹⁸

Average Weekly Earnings, as measured in Q4 of the Relevant Year¹⁹

¹⁷ Source – MyHome; CSO; Davy.

¹⁸ Central Statistics Office. 2017. Consumer Price Index Annual % Change. Retrieved from CSO website: http://www.cso.ie/multiquicktables/quickTables.aspx?id=cpm01_1

¹⁹ Central Statistics Office. 2017. Earnings Hours and Employment Costs Survey Quarterly. Retrieved from CSO website: <http://www.cso.ie/px/pxeirestat/Statire/SelectVarVal/Define.asp?maintable=EHQ03&PLanguage=0>