Understanding Ireland’s housing challenge in the light of *Housing for All*

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The aim of this paper is to assess the challenges facing the Irish housing system in the light of the publication of the Government’s *Housing for All* strategy. One of the most remarkable features of this new strategy is its emphasis on homeownership, which marks a departure from the commitment to tenure neutrality within Irish housing policy. I argue, however, that *Housing for All*’s aim of reversing the decline of homeownership is unlikely to be successful. This is due to a complex set of interacting factors, the analysis of which can shed insight into the extent and scale of the challenges facing our housing system.

Housing for All aims to enhance the supply of housing between now and 2030 and thus to restore affordability and access to homeownership. The paper challenges some of the assumptions underpinning this approach, drawing on existing research and evidence. It argues that the proposed increase in supply is (a) unlikely to a be sufficiently large and (b) unlikely to lead to a decline in prices. Moreover, house prices are not the only cause of declining homeownership. International research suggests that credit constraints play an equally important role. Finally, Ireland is now dependent on international institutional capital to finance increased housing development, and this form of capital is overwhelmingly targeted at the Build-to-Rent sector. Consequently, the challenge of reversing the decline of homeownership, as well as the more fundamental issue of meeting housing need, may be greater than suggested by the *Housing for All* strategy.
The paper argues that Ireland faces three intertwining challenges. First, what Mulheirn (2019) calls the ‘homeownership trilemma’. Second, a long run supply/demand imbalance. Third, a dependence on international institutional investors.

The paper is structured as follows. The opening section analyses the framing of homeownership within *Housing for All* and compares this with its predecessor, *Rebuilding Ireland*. It then looks at the relationship between housing supply and demand to understand the extent of the challenge. The third section examines the role of international institutional capital in financing housing development, before a concluding section offers some final reflections on the challenges associated with reversing the decline of homeownership.

Housing for All: the end of tenure neutrality?

Housing for All represents a departure from the move towards tenure neutrality in the Irish hosing system since the Housing Policy Statement of 2011. It clearly sets out a preference for homeownership at a discursive level, and includes a variety of supports directed at would-be homeowners. At the launch of *Housing for All*, Tánaiste Leo Varadkar welcomed 'the focus on homeownership' which, he argued, is 'part of our culture and society'. Minister for Housing Darragh O'Brien stated: 'I believe in homeownership and this plan supports it'. He went on to reference research which shows that the vast majority of tenants aspire to be homeowners (see Corrigan et al., 2019; KPMG Future Analytics, 2021).

The foreword to *Housing for All* is equally clear on this point:

> It's a Plan for the squeezed middle, to give them the opportunity to buy their own home while ensuring we have the kind of society that helps those who need it. The breadth of ambition in the Plan will help to stop and reverse the decline in homeownership and break the rent trap that so many people are caught in.

The document goes on to state that the 'Government believes that homeownership is good for individuals, families and communities'.

To get a sense of how significant a break with the recent past this is, it is worth returning to *Rebuilding Ireland*. One of that strategy's core objectives was 'Maturing the rental sector so that tenants see it as one that offers security, quality and choice of tenure'

(Department of Housing, 2016a:9). The plan emphasised the importance of 'the delivery of more and better rental options' (Department of Housing, 2016a:9). The following paragraph captures the plan's vision for the PRS:

> Falling home ownership levels and increasing demand for rental accommodation on a long-term basis raises another key housing challenge - that of *changing attitudes such that the advantages of rental as a form of tenure are more widely recognised*. A strong rental sector should support a mobile labour market that is better able to adapt to new job opportunities and changing household circumstances. The rental sector must also cater for a diverse range of households, including students, low-income households and mobile professionals. *The appeal of the rental sector as a tenure type of choice must be developed*, which means increasing standards, security of tenure and altering some of the norms and expectations which characterise the sector (Department of Housing, 2016a: 27, my emphasis).

To achieve all this, *Rebuilding Ireland* established a national strategy for the rental sector (Department of Housing, 2016b) and supported Build-to-Rent as a major new component of housing delivery.

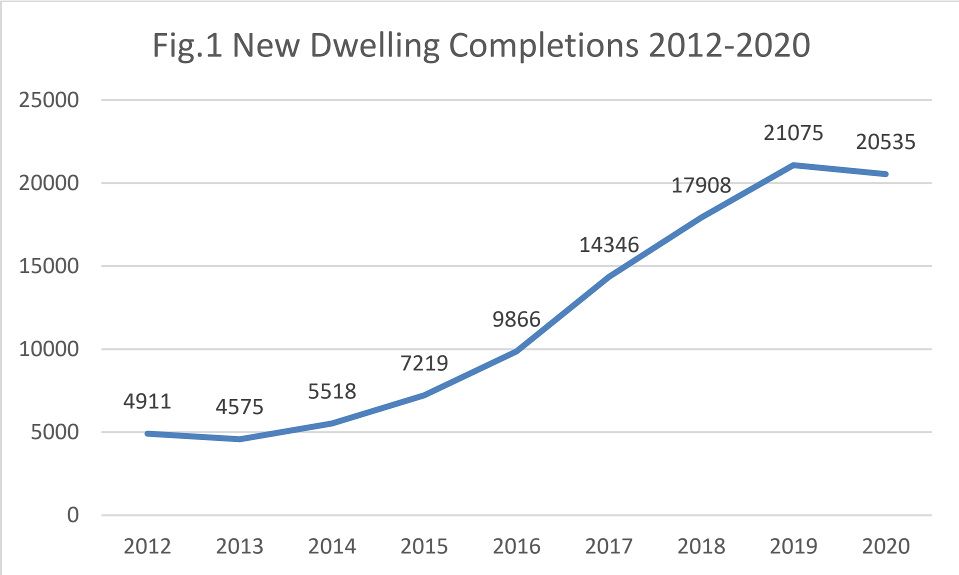
Housing for All jettisons any talk of 'maturing the rental sector' or recognizing its advantages, and returns to the traditional moral and political preference for homeownership long associated with Irish housing policy (Norris, 2016).

In terms of concrete policies to support homeownership, in addition to generally promising to increase housing supply an average of over 30,000 new homes per year between now and 2030, the plan sets out the following four key policies: the Affordable Purchase scheme; First Home shared equity scheme; Local Authority Home Loan; and the extension of Part V.

Housing supply, affordability and homeownership

Reversing the decline of homeownership, however, raises major challenges. Not least of which is the long run supply/demand imbalance. Ireland is unusual in the extent of the imbalance between supply and demand. This is in part because of the well documented low levels of supply of new housing in the wake of the financial crisis (see

Figure 1). Between 1998 and 2008 housing completions averaged 60,200 per annum. In contrast, between 2009 and 2019, an average of around 10,500 were delivered per annum (Conefrey & Staunton, 2019). This reduced rate of housebuilding took place in a context of population growth. Although output has increased steadily in recent years, it has remained relatively low, reaching just over 21,000 by 2019. Moreover, the Covid-19 pandemic will exacerbate the issue of undersupply, and it may take some years to recover from this set back (Allen-Coghlan et al., 2020).



Source: CSO

Pressure on housing supply is likely to increase over the medium to long term. Lyons (2021) estimates housing need to 2050 based on natural population increase, net migration, obsolescence and falling household sizes (the latter based on the assumption of convergence with other high-income countries). The most likely scenario will see Ireland requiring close to 49,000 units per year. This is obviously significantly more than the targets in *Housing for All* (33,000 per annum). Conefrey and Staunton (2019) estimate new housing demand over the next decade at between 34,000 and 47,000, depending on how headship rates develop. There is also concerns around supressed household formation, for example adults in full-time employment who continue to live with their parents. Lyons (2021) estimates that there are approximately 175,000 such individuals between the ages of 18-49.

Some commentators argue that increasing the supply of housing is essential to enhancing affordability. Lyons (2021) for example, analyses listings and price changes between 2006 and 2011, looking at both rents and sale prices. High levels of listings (the number of homes available to rent or buy on the first day of a given quarter) are strongly linked to low levels of price increases in the following 12-month period. On this basis, Lyons (2021:19) argues that 'the overwhelming evidence from both sale and rental markets in Dublin, therefore, is that availability is the key determinant of subsequent price changes: supply matters'.

However, while supply is important, and there is a correlation between supply and demand and prices, supply is not the only factor that effects house prices. House prices are shaped by many factors. Research is increasingly pointing to low interest rates as a key driver of house price increases, as well as a speculative dimension based on expectations of future asset price increases (Duca et al., 2021; Muellbauer, 2012). Moreover, international research suggests that the price reductions that are generated by increased supply are typically modest (Mulheirn, 2019). Finally, the supply challenge in Ireland is particularly large due to the exceptionally low levels of new housing in recent years and our growing population and economy. Indeed, Lyons (2021: 22) notes that 'the existing pipeline of build-to-rent apartments is likely to amount to only half the backlog of missing rental homes in Dublin needed to bring rents back to affordable levels'.

This above arguments suggest that supply may be unlikely to catch up with demand over the medium or even the long term, and that supply is also not the only factor driving price increases. As such, it seems unlikely that the targets set out in *Housing for All* will deliver greater affordability. There is, moreover, a further difficulty with the rationale underpinning *Housing for All*: it is also not clear that declining homeownership is driven only, or even primarily, by house prices. Consider, for example, that the decline in homeownership in Ireland continued during the period (roughly 2008 – 2013) in which house prices fell rapidly (Byrne, 2020). This supports the argument that financialization is a factor in declining homeownership. During the 'boom' phase of a financialized housing bubble, prices are driven out of the range of First Time Buyers (see Norris & Coates (2014) in the Irish context). During the 'bust' phase, credit constrained conditions also adversely affect First Time Buyers (Byrne, 2020; Duca et al., 2021). More generally, access to mortgage credit is one of the main factors which drive access to homeownership and this is to a degree independent of house prices (Mulheirn, 2019). We return to this issue below.

The supply of housing and international institutional capital

A further issue relating to the supply of housing is Ireland's dependence on international institutional capital to finance residential property development. International capital made up almost 80% of annual residential investment between 2017 and 2019 (Lyons, 2021). It has also been argued that the only way to increase the supply of housing sufficiently is greater reliance on international institutional investment (Irish Institutional Property, 2021; Hooke & McDonald, 2021). The limited capacity of domestic finance is central to this argument. Lyons (29021) suggests that Irish banks will be limited to around €800 million per annum in terms of capital investment in housing. Whereas, based on an estimated 45,000 houses needed each year, €15.6 billion is needed in capital for residential and commercial real estate. Similarly, Irish Institutional Property (2021), in a recent report, examine what would be required to increase housing supply to 30,000 units per annum. They look at a scenario in which annual public investment increases to €1.7 billion and domestic private finance increases to €900 million. On this basis, the report argues that international capital will need to increase from about €4.3 billion to €7 billion per annum.

Lyons (2021:31) argues that the reliance on foreign capital need not concern us, however:

> As an economy with significant population growth in coming decades, and thus a net borrower, Ireland is fortunate in that it shares a monetary union with older and wealthy countries that are, on balance, net savers. This means that Ireland can take advantage of an elastic supply of international capital, at low cost, in a way that it simply could not do prior to entry into the eurozone.

However, there is ample cause for concern here. Firstly, it is important to note that international investment in residential property is overwhelmingly focused on PRS apartments, i.e. the Build-to-Rent sector. Many argue that the costs associated with apartment construction (SCSI, 2021) mean that they are not viable for the homeowner market and institutional investors are solely interested in the long-term returns associated with the BTR sector (Hooke & McDonald, 2021). If we are almost entirely reliant on international institutional capital to fund the expansion of the housing system, it follows that the role of PRS housing will only grow and this is of course not compatible with the objective of reversing the decline in homeownership.

There are also wider issues associated with reliance on international institutional capital, First, it creates exposure to risks associated with the global financial system, in particular an abrupt change in monetary policy in Europe and the US. Second, it has been argued that institutional landlords can deliver a higher degree of professionalism and better outcomes for tenants, but the evidence on this is mixed (Gomory, 2021; Raymond et al., 2016). Third, the dominance of international capital focusing on BTR development is likely to generate local political contestation, as we have already seen in recent years. Indeed there is already quite a large body of research on this internationally (see Beswick et al., 2016; Fields, 2017; Nethercote, 2020). This is likely to slow down supply.

Conclusion

It has been argued above that the increased levels of supply targeted by *Housing for All* are unlikely to be sufficient and that, moreover, supply is not the only driver of house prices. In addition, prices themselves are not the only driver of declining homeownership. These factors suggest that the challenges associated with reversing the decline in homeownership may be more challenging than is currently appreciated. They also suggest that the Irish housing system currently faces an unprecedented set of challenges. These challenges can be conceptualised in terms of three interacting sets of factors. First, what Mulheirn (2019) calls a 'homeownership trilemma'. Second, the long-term supply and demand imbalance. Third, the Irish housing system's dependence on international institutional capital. The second and third of these have already been discussed above, so here I will focus on the concept of the homeownership trilemma.

Mulheirn (2019) argues that credit constraints for first time buyers have been the main driver of declining homeownership in the UK. However, as he also notes, this has arisen in large part due to stronger macro-prudential regulations and more conservative lending practices by the banking sector, both of which reflect the lessons from 2008. Therefore, while loosening credit standards might be the easiest way to increase homeownership, it also generates risks for the banking sector and also for households. An alternative option is to support homeownership with more active fiscal supports, such as tax relief and other supports. Indeed, *Housing for All* includes several supports for homeownership, as mentioned above. However, these types of supports in turn raise issues of tenure neutrality as it is unclear why First Time Buyers should receive extensive support, given that the households likely to take advantage of such schemes are unlikely to be those in greatest need (Parliamentary Budget Office, 2019). Moreover, by supporting demand, homeowner supports can increase prices, particularly in supply constrained contexts (as had been widely argued in the Irish case).

Consequently, Mulheirn (2019:38) argues that policymakers face a ‘homeownership trilemma’ according to which they can ‘prioritise any two of: high homeownership, financial stability in the banking system, or a greater degree of fiscal neutrality with respect to tenure’. In other words, it is possible to combine high homeownership with financial stability, but only if the state takes on the task of supporting homeownership. Likewise, it is possible to achieve financial stability and tenure neutrality, but only at the expense of high homeownership. And, finally, high homeownership and fiscal neutrality can be achieved (by loosening credit constraints), but this is incompatible with financial stability. In the Irish context, this challenge is exacerbated by two further factors noted above: the long-term supply/demand imbalance and reliance on international institutional finance. The former puts house price under particular pressure, while the latter tends towards continued expansion of the PRS. In sum, the challenge of reversing the decline of homeownership runs up against some very powerful structural forces within the Irish housing system.

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