The Irish Housing Market – 'Are we there yet?'

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Contents

Executive summary

The Irish housing market has made significant progress over the past number of years, with a sharp increase in housing supply and latterly a significant moderation in residential property price inflation. At the same time, rental price inflation appears to be slowing, with Dublin experiencing a marked slowdown in rental growth. On the surface, therefore, it appears that the Irish residential market is fast approaching equilibrium, with supply catching up with demand.

However, appearances can be deceptive. There is no doubt that increased supply has played a part in reducing the rate of residential property price inflation, but in our view, this has had more of an impact outside of the Dublin market, and has had little impact within the capital.

Essentially, population and housing demand have sharply outpaced the growth in the housing stock in Dublin from 2011 to 2019, but the disparity outside of Dublin has not been as pronounced. Based on Central Statistics Office (CSO) estimates of population growth, Dublin's population grew by 10.6 per cent between 2011 and 2019, whereas the housing stock grew by only 4.9 per cent. By contrast, the population of Ireland excluding Dublin ('ex-Dublin') grew by 6.4 per cent and the growth in the housing stock kept closer pace, growing by 5.0 per cent.

It is our view that affordability constraints and the loan-to-income (LTI) rules are the primary causes of the slowdown in residential property prices, particularly in the Dublin market. In terms of the rental market, we believe that a combination of affordability issues and regulatory constraints, rather than any marked increase in the supply of rental stock to date, have now started to restrain the increase in rental inflation.

Between 2020 and 2030, we believe that housing demand will be in the region of 30,000 to 35,000 new residential units per annum, with net migration acting as a key swing variable. We are in broad agreement with the housing demand estimates produced in a recent paper published by the Central Bank of Ireland. This level of demand will continue to put pressure on the housing market, especially the segment of the market that is classified as the 'affordability' segment, which contains the key worker segment. This is the cohort of the housing market that earns too much to qualify for social housing but does not earn enough to get a mortgage of sufficient size to buy their own home.

The most appropriate way to address the issue of affordability should be supply side measures that increase the supply of appropriately located zoned land and critically, reduce the cost of development. However, as neither of these approaches are imminent, the other option is to tackle the demand side of the market and introduce very specific and targeted measures to mitigate the affordability challenges faced by these households.

As a consequence, we believe there is merit in reintroducing a shared ownership scheme to target the affordability segment of the housing market. Shared ownership schemes are standard features in many housing markets globally and are not a new concept in an Irish context. In fact, a shared ownership scheme operated in Ireland from 1991 to 2011. Furthermore, the Government has recently introduced the Affordable Purchase Scheme - a national scheme that will see affordable homes built on public land in co-operation with local authorities. We believe a scheme similar to this should be introduced for the wider market. However, any scheme would have to take account of the Central Bank mortgage macro-prudential rules, in order to avoid any diminution of these requirements.

1. Has supply really caught up with demand – **have we reached equilibrium?**

Residential property price growth has seen a marked deceleration over the past 12 to 18 months. However, there has been much debate about the reasons why residential property prices have actually slowed. As housing supply has materially increased since 2016, it is tempting to argue that the Irish housing market is fast approaching equilibrium, where supply has caught up with demand.

There is no doubt that increased supply has played a part in reducing the rate of residential property price inflation, but in our view, this has had more of an impact outside of Dublin. In fact, we believe Dublin remains sharply under-supplied, and that the reasons property prices have moderated in Dublin are largely attributable to affordability issues and the impact of the LTI rules. Ultimately, we believe that the housing market is still not operating optimally, and there remains a large gap between supply and demand.

Annual residential property price trends clearly slowing…

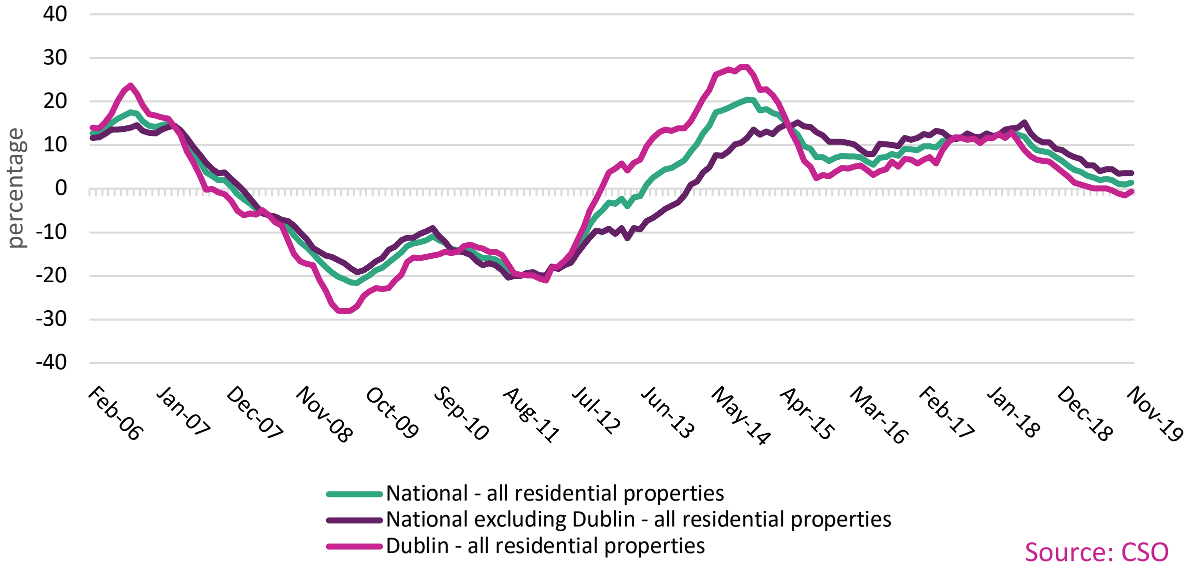
Annual residential property price inflation has moderated from an average of 10.3 per cent in 2018 to an average of 2.6 per cent in the 11 months to November 2019. In fact, the annual rate of property price inflation for November 2019 was only 1.4 per cent. The decline in the rate of residential prices has occurred in most parts of the country, with Dublin residential property prices actually in negative territory, falling by 0.7 per cent in annual terms in November 2019.

Figure 1: Residential property price inflation in Ireland

Annual percentage change by location (November 2019)

Source: CSO

Figure 2: Residential property price inflation in Ireland
Annual percentage change (2006 - 2019)

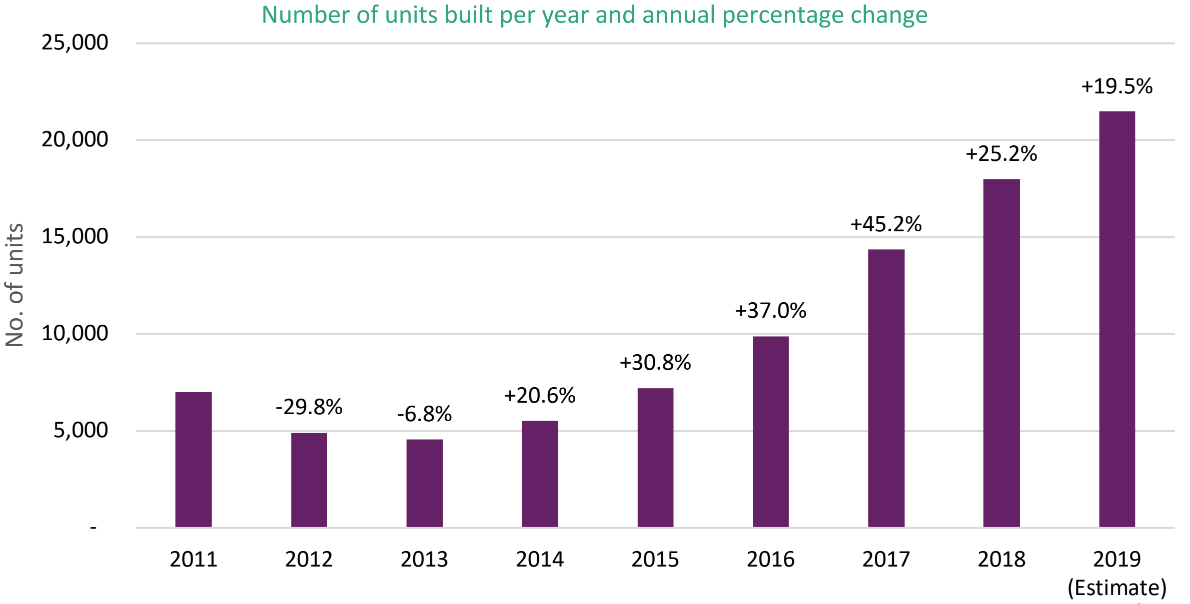


Source: CSO

...as housing supply has accelerated

Housing supply has recovered quite strongly over the past five years, increasing from a little over 5,500 residential units in 2014 to just under 20,250 residential units in the year to Q3 2019. The increase in housing supply has gathered momentum over the past number of years, as can be seen in Figure 3.

Figure 3: Increase in the supply of residential units in Ireland
Number of units built per year and annual percentage change



Source: CSO and AIB

However, while we believe that the increased supply has had an impact on slowing residential property price inflation outside of Dublin, it has had a limited impact on Dublin prices. We estimate that from 2011 to 2019 the rate of housing supply kept a closer pace with the rate of population growth in Ireland, excluding Dublin ('ex-Dublin'), but the rate of supply did not keep pace with the rate of population growth in Dublin during the same period.

Based on Central Statistics Office ('CSO') estimates of population growth, Dublin's population grew by 10.6 per cent between 2011 and 2019. However, the housing stock grew by only 4.9 per cent. By contrast, the population of Ireland ex-Dublin grew by 6.4 per cent and the growth in the housing stock kept closer pace, growing by 5.0 per cent.

In actual numbers, the ex-Dublin population grew by 212,500 (which translates into an extra housing requirement of approximately 78,700 residential units) whereas the housing stock increased by approximately 71,500 units. In Dublin, the population grew by 134,000 (which translates into an extra housing requirement of approximately 49,600 residential units) whereas the housing stock grew by approximately 25,700[1].

Affordability constraints and binding LTI requirements

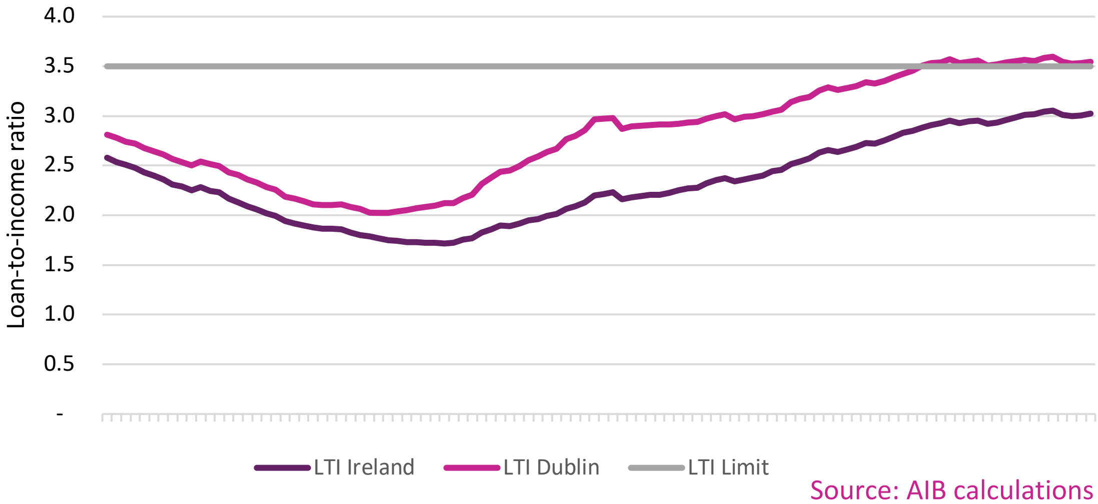
Consequently, while the increase in supply is more of a plausible explanation for the moderation in prices in the Ireland ex-Dublin market, it is not a reasonable explanation for the slowdown in residential prices in Dublin. It is our view that affordability constraints and the LTI rules have caused the slowdown in residential property prices, particularly in the Dublin market.

The LTI requirements are a binding constraint on low-to-average income workers, especially those looking to buy a residential property in the Dublin market. The combination of the cost of starter homes and the LTI restrictions on residential mortgage lending to the typical first-time-buyer has caused an affordability wedge that is not easily resolved.

[1] Dublin population in 2011: 1,261,500; Dublin population in 2019: 1,395,600 - an increase of 134,100.
Ex-Dublin population in 2011: 3,313,400; ex-Dublin population in 2019: 3,525,900 - an increase of 212,500.
Applying average household size of 2.7 implies housing demand in Dublin of 49,629 and housing demand in Ireland ex-Dublin of 78,703.
Housing stock in Ireland ex-Dublin in 2011 (Census 2011): 1,467,180. New completions of 59,113 between 2011 and Q3 2019 plus circa 30,000 ghost estate units, minus obsolescence of circa 17,600 units, implies an estimated housing stock of 1,538,693 in 2019.
Housing stock in Dublin in 2011 (Census 2011): 527,665. New completions of 27,123 between 2011 to Q3 2019 plus circa 5,000 ghost estate units, minus obsolescence of circa 6,400 units, implies an estimated housing stock of 553,388 in 2019.
In this analysis, we have deliberately used a low estimate of obsolescence given the uncertainty around its actual size.

Figure 4: The affordability wedge

Loan-to-income ratio in Ireland and Dublin



Source: AIB calculations

Figure 4 calculates the income multiple required to afford the average house price for first time buyers in Dublin and Ireland for a two-income household on average incomes with a 90% mortgage. The Help-to-Buy scheme has helped first-time buyers to accumulate a deposit, but the problem of qualifying for a mortgage of sufficient size to buy a starter home still remains a challenge.

We believe that there is a very large cohort of households that are on low-to-average incomes that cannot afford to purchase a residential unit in the Dublin market due to the LTI rules. This is constraining demand well below underlying demographic demand and it is the primary cause of the subdued inflationary pressures in the Dublin market.

Rents continue to rise – despite being at record levels, creating significant affordability issues

Rent levels continue to rise across the country although the annual rates of growth have moderated; however, the degree of moderation is debateable. There are three main sources[2] that track the performance of the rental market in Ireland. These are:

1. The Residential Tenancies Board (RTB) National Rent Index.
2. The CSO Private Rent Index.
3. The Daft.ie Rental Report.

[2] The methodology used by the three sources are different.

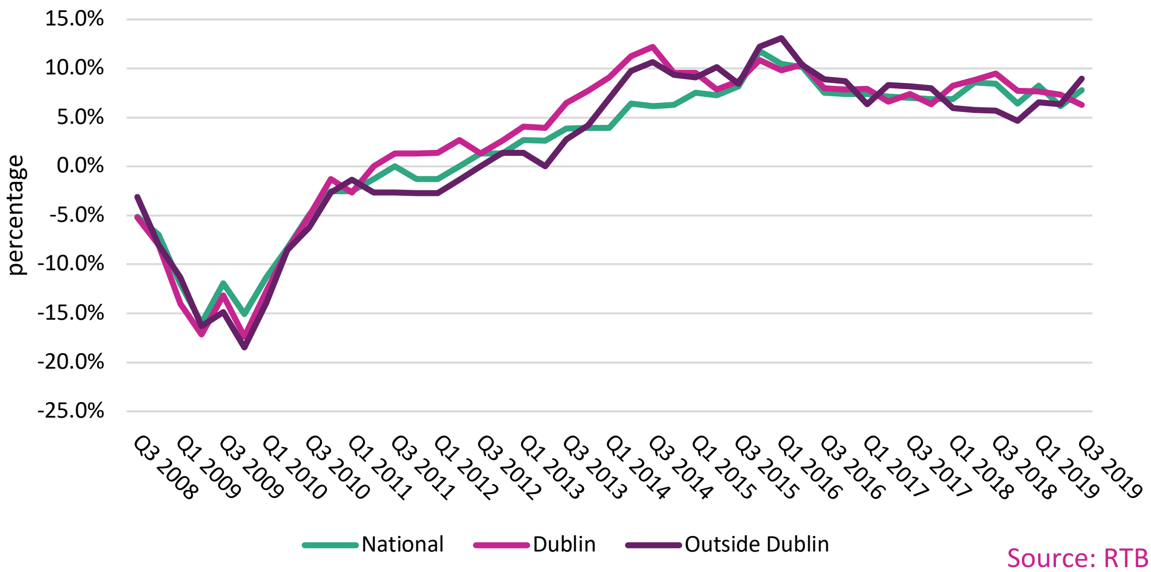
- The RTB National Rent Index uses regulatory data covering all new tenancy agreements registered with the RTB nationally, and the data coverage is broader than that used by Daft.ie and the CSO. It is a measure of actual rents achieved.
- The CSO Private Rent index is based on rental prices collected directly from multiple estate agents throughout Ireland. Responses include both new and existing rentals and are actual average rents achieved.
- The Daft.ie rental index is based on properties advertised on Daft.ie for a given period and are based on asking rents.

In Q3 2019, the Residential Tenancies Board (RTB) National Rent Index increased by 3.3 per cent in the quarter[3], which translated into an annual increase of 8.2 per cent. At a national level, the RTB index has shown no signs of moderation, with the annual rates of rental price inflation averaging 7.5 per cent over the past two years. However, the RTB Rent Index for Dublin has moderated, falling from 9.6 per cent in Q3 2018 to 6.6 per cent in Q3 2019.

The annual increase in the CSO Private Rent index for December 2019 was 4.3 per cent, down from 6.4 per cent a year previously. The latest figures from Daft.ie show that the annual rate has fallen from over 12 per cent in mid-2018 to 5.2 per cent in Q3 2019.

Figure 5: Rental growth in the Irish market

Some moderation in evidence



Source: RTB

This moderation in annual rental inflation is used by some commentators as further evidence that the increased supply of housing is the primary reason why price pressures have eased. However, we believe that the main reasons for any moderation in rental price inflation are largely attributable to affordability issues.

1. Rents in Ireland have increased by close to 70 per cent from their lows, while Dublin rents are up 85 per cent and are now the fourth most expensive in a survey[4] of 53 cities across the globe. Furthermore, according to the RTB[5], *"the Dublin rent index stood at 135 index points in Q3 2019 which is 35 index points higher than the pre-crisis peak in Q4 2007"*.

[3] In fact, the quarterly growth rate in national rents has accelerated since Q4 2018. Details as follows:

- 0.1 per cent – Q4 2018
- 1.7 per cent – Q1 2019
- 2.9 per cent – Q2 2019
- 3.3 per cent – Q3 2019

This would indicate that rental growth is accelerating again in the Irish market. The CSO Private Rent Index is more timely, with data points up to December 2019. Monthly rental growth in October, November and December 2019 has eased which might point to a more moderate rate of rental growth in Q4 for the RTB Index.

[4] 2018 Current Market Rents, Eurostat and iSRP. The rent data in the Eurostat 2018 Current Market Rents publication are part of a wider programme of work, the objective of which is to compare the relative cost of living of international civil servants, in any place of employment, with that of Brussels, the reference city. The work is carried out by the International Service for Remunerations and Pensions (ISRP) at the OECD and Eurostat, with the assistance of national statistical offices.

[5] RTB Rent Index Q3, 2019 - https://onestopshop.rtb.ie/research/

2. Rent affordability is becoming a significant problem in the Irish market. According to the CSO, average rent accounted for 29 per cent of tenants' households' disposable income in 2016. However, South Dublin (33.3 per cent), Dublin city (32.0 per cent), Dun Laoghaire-Rathdown (32.0 per cent), Wicklow (31.7 per cent), Fingal (31.6 per cent) and Cork city (30.2 per cent) have all breached the 30 per cent barrier. In fact, according to the CSO, the rent burden is 35 per cent or higher in many locations in Dublin and has exceeded 40 per cent of tenants' disposable income in a small number of locations. Stretched affordability will naturally limit rental increases even in a market with constrained supply.
3. Rent Pressure Zones (RPZ) were first introduced in 2016 and covered the four Dublin local authority areas and the Cork City Council area. They have been gradually extended to cover large areas of the country in the intervening years. The aim of RPZs is to limit rental inflation to no more than 4% per year. RPZs are another factor affecting the moderation of rental prices over the past number of years.

It is our view that any moderation in annual rental inflation has little to do with increased supply. Affordability in the rental market is stretched for many household cohorts, in particular for households with low-to-average incomes. This, along with the RPZs, is now starting to have an impact on rental growth. In our opinion, these are the primary explanatory variables.

Housing demand – in question

The general consensus is that Ireland needs somewhere in the region of 30,000 to 35,000 new residential units per annum over the next five to 10 years. However, forecast changes in population and household formation are, at best, uncertain. Therefore, it is worth assessing a range of estimates for housing demand in order to get a sense of how confident we can be in the consensus forecasts.

In formulating housing demand forecasts the key factors to take into consideration are:

- The rate of natural increase – the difference between deaths and births.
- Net migration – the difference between immigration and emigration.
- Household formation – the headship rate in the economy which is defined as the proportion of individuals who are heads of households. The inverse of this is the average household size in the economy, which Census 2016 showed was 2.75 persons per household.

In late 2019, the Central Bank of Ireland published a paper[6] that examined these trends and provided a range of forecasts for housing demand in Ireland based on CSO forecasts for Irish population growth up to 2051.

The CSO's population forecasts in turn are based on a range of assumptions[7] relating to fertility, mortality and migration. However, in terms of population forecasts up to 2029 the only variable that changes is the assumption around migration – the fertility and the mortality assumptions only change from 2031 onwards.

For the period 2020-2029 the range of forecasts for housing demand contained in the Central Bank Population Change and Housing Demand in Ireland paper are:

- Low net migration – 26,000 residential units per annum
- High net migration – 34,000 residential units per annum
- Headship convergence and high net migration – 47,000 residential units per annum

[6] Central Bank of Ireland, Economic Letter, Vol. 2019, No. 14. *Population Change and Housing Demand in Ireland. Thomas Conefrey and David Staunton.*

[7] CSO demographic assumptions:

Natural increase

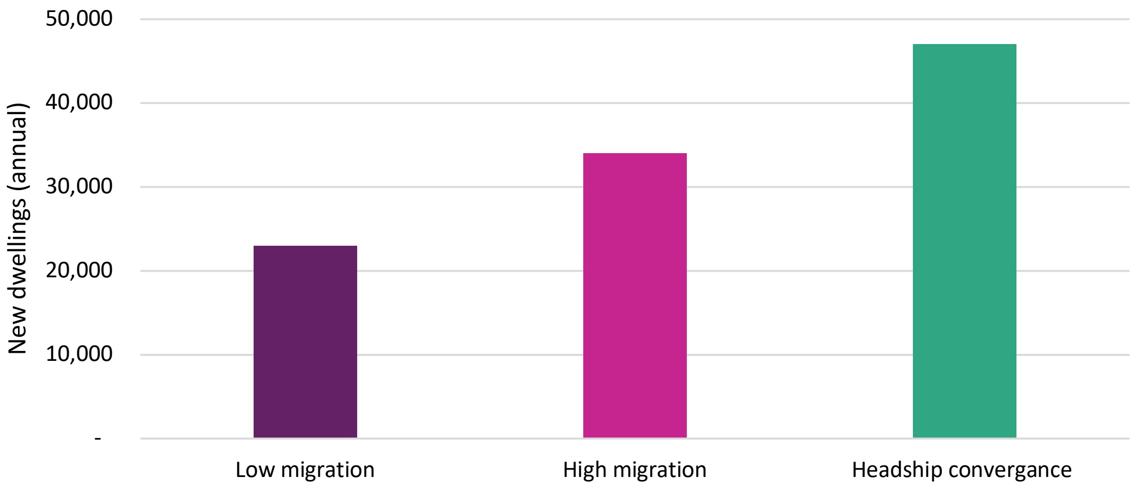
- F1 (Fertility) – Fertility rate remains at 2016 level (1.8) until 2051.
- F2 (Fertility) – Fertility rate remains at 2016 level (1.8) until 2031, then falls to 1.6.
- Mortality rates for males and females are assumed to improve at 2.5% and 2.0% per annum, decreasing linearly to 1.5% by 2040.

Net migration

- M1 – Net migration of 30,000 per annum to 2051
- M2 – Net migration of 20,000 per annum to 2051
- M3 – Net migration of 10,000 per annum to 2051

Figure 6 : Annual housing demand estimates 2020-2029

Using different assumptions for net migration and headship rates



Source: Central Bank of Ireland, Economic Letter, Vol. 2019, No.14

Are we there yet?

Given that housing completions will be in the region of 21,000 in 2019, this would mean that the housing market is very close to equilibrium if the low net migration estimate of housing demand (i.e. 27,000 units per annum) is the true estimate. However, if the high net migration or the headship convergence scenarios are more accurate estimates of housing demand, then we are still many years away from equilibrium.

Is the low net migration scenario probable?

The low net migration scenario assumes net migration of 10,000 per annum between 2020 and 2029 whereas the high net migration scenario assumes net migration of 30,000 per annum. The headship convergence scenario assumes 30,000 net migration along with a higher rate of household formation.

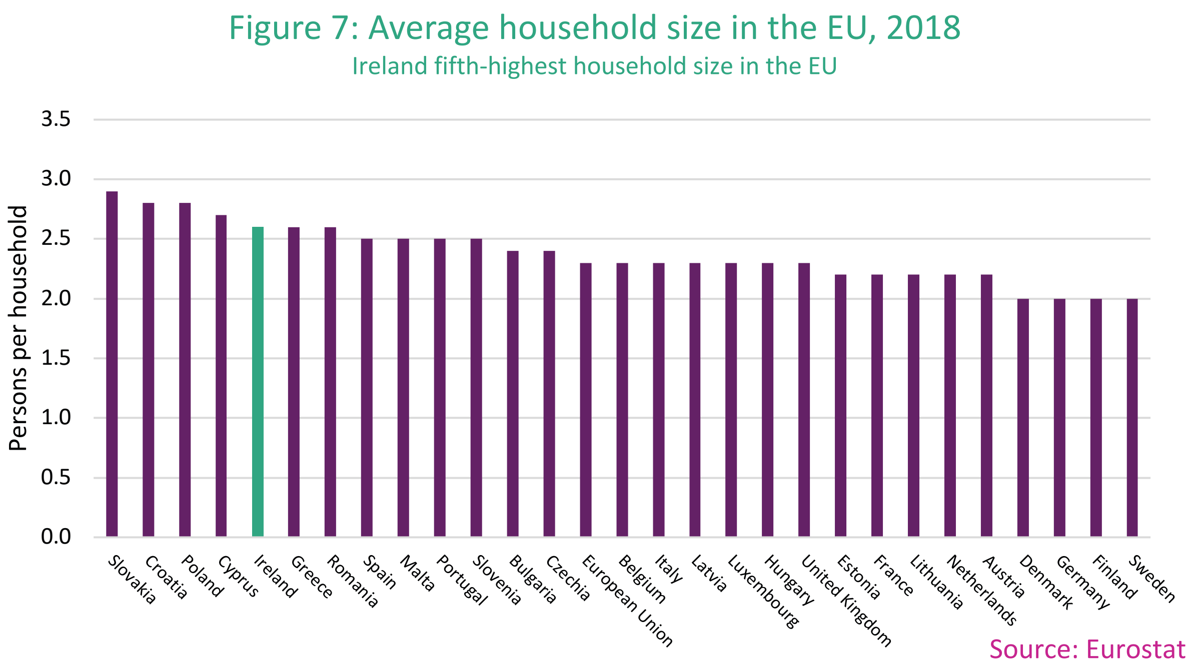
In our opinion, we believe net migration over the coming decade will be closer to 30,000 per annum than 10,000 per annum. To put these numbers into context, net migration has averaged 23,000 over the past 20 years.

However, net migration is very cyclical and is determined largely by the performance of the underlying economy. Generally, during periods of economic downturns net migration turns negative, but when the economy is expanding net migration turns strongly positive and has averaged in the region of 30,000 per annum.

Looking forward, the prospects for strong net migration flows into the economy remain very favourable, especially as Ireland appears to be the location of choice for the European headquarters of global technological companies in particular and for foreign direct investment in general.

Irish household size – an outlier in a European context

Furthermore, in arriving at the low and high net migration housing demand forecasts, the Central Bank paper also assumes no change in the average household size in Ireland (i.e. no change in the headship rate). This is a conservative assumption, particularly from a longer-term perspective. Ireland has the fifth-highest average household size in the EU and it is reasonable to assume that our household size will converge towards the EU average over time. By converging to the EU average, demand for residential dwellings would increase by around 13,000 units per annum.



Consensus probably right

Consequently, we are in broad agreement with the forecasts contained in the Central Bank paper, and we estimate that between 30,000 and 35,000 new residential units are required on average per annum over the coming decade.

2. A Shared ownership scheme – **strong merit for its introduction**

We believe that there is a strong rationale for the introduction of a new shared ownership/equity loan scheme to help resolve some of the affordability issues in the Irish housing market. The scheme should be designed to primarily help the affordable housing sector. This sector encompasses the key worker segment of the workforce. This is the cohort of the housing market that earns too much to qualify for social housing but does not earn enough to get a mortgage of sufficient size to buy their own home.

The scheme would allow eligible purchasers the opportunity to buy a share of their home in partnership with the State. Over time, the homeowner could ultimately own the property outright if their financial circumstances permitted. However, the scheme design should have repayment capacity checks and set minimum thresholds, in order to prevent very low income households from over-leveraging. Furthermore, any scheme would have to take account of the Central Bank mortgage macro-prudential rules, in order to avoid any diminution of these requirements.

Bridging the affordability gap

A shared ownership/equity loan scheme would be effective in Ireland, particularly in Dublin, the Greater Dublin Area (GDA) and a number of key urban locations, given the affordability wedge in these housing markets. The introduction of a shared ownership/equity loan scheme would bridge this affordability gap and greatly enhance the ability of prospective buyers with average household incomes to get a foothold on the housing ladder.

Normally, these schemes are designed to target marginal households that cannot afford to purchase a residential property but could do so over time based on the expectation of rising incomes. However, currently there is a large cohort of households on average incomes that could afford home ownership but are constrained from doing so. The introduction of a shared ownership scheme would directly help these households.

Not a new idea

Shared ownership schemes are standard features in many housing markets globally and such schemes are not a new concept in an Irish context. In fact, a shared ownership scheme operated in Ireland from 1991 to 2011 and this is described in more detail below. Furthermore, the Government has recently introduced the Affordable Purchase Scheme - a national scheme that will see affordable homes built on public land in co-operation with local authorities. We believe that a similar scheme should be introduced for the wider market.

A brief history of affordable home schemes in Ireland

The four main affordable home schemes that operated in Ireland at various times between 1991 and 2011 were:

1. The Shared Ownership Scheme: 1991 – 2011
2. The 1999 Affordable Housing Scheme: 1999 – 2011
3. The Part V – Affordable housing element: 2000 – 2015
4. The Affordable Housing Initiative: 2003 – 2011

Shared Ownership Scheme: 1991 – 2011

In 1991, the then government introduced a shared ownership scheme that helped qualified households to purchase either a new or second-hand home in a co-ownership agreement with a local authority. The scheme was designed to facilitate access to home ownership for those who were unable to buy a home outright with a conventional mortgage.

Eligibility criteria

Those eligible were first-time buyers, tenants of local authorities or voluntary bodies, or households whose applications for local authority housing had been approved. The eligibility criteria also included maximum income thresholds. The household income thresholds increased from €15,236 for a single-income household and €27,934 for a dual-income household in 1991 to €40,000 and €100,000, respectively, by 2007.

Process for buying a property

Under the Shared Ownership Scheme the borrower identified a dwelling they wished to acquire and the local authority then inspected the property to ensure that it met minimum requirements and standards. If approved, it was subsequently acquired by the local authority; the borrower would then purchase a share (minimum 40 per cent) in the property, using a local authority mortgage, and would lease the remaining share from the local authority. The borrower was obliged to purchase the local authority share of the dwelling within a 25-year period.

The rent component – how it worked

The rent was originally set at 5.0 per cent of the market value of the equity portion of the dwelling owned by the local authority and the rental rate was index linked to the Consumer Price Index (CPI). Furthermore, the original rental equity portion of the purchase price was adjusted each year in line with the most recently published CPI, which effectively meant that the equity portion increased over time.

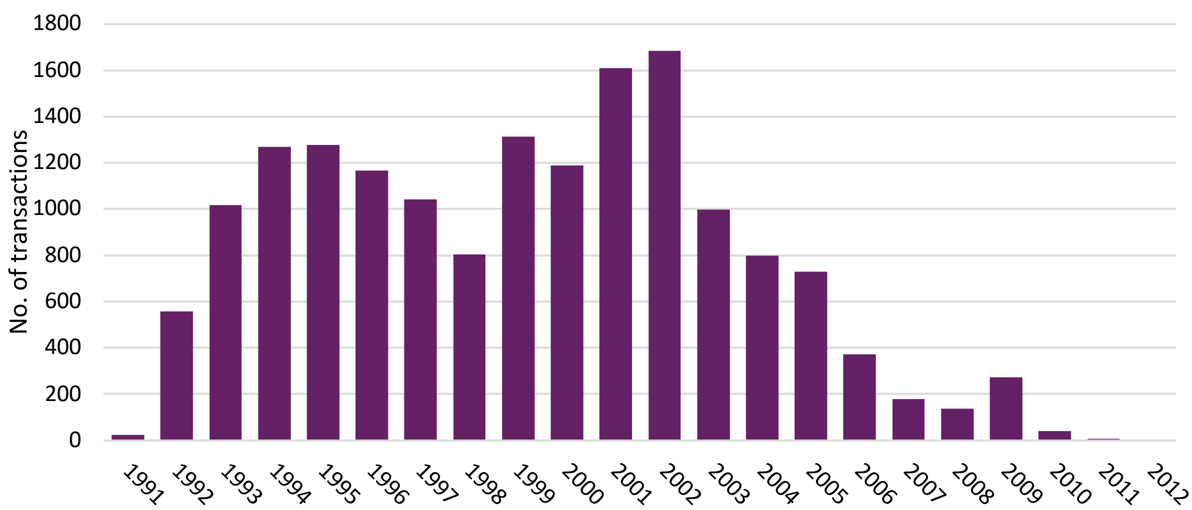
This proved to be increasingly unaffordable for many of the participants in the Shared Ownership Scheme and the rental terms were subsequently changed in 2003. The rent payable was reduced to 4.3 per cent of the rental equity portion and, significantly, the rental equity was reduced by the amount of rent paid in excess of the ongoing interest rate. In addition, the 4.3 per cent rental payment was no longer linked to the CPI and instead increased by a fixed rate annually. The aim was to try and ensure that, unlike the index-linked approach, the rental equity portion of the loan would be repaid over time.

The Shared Ownership Scheme also permitted the use of rental subsidies from local authorities, and these subsidies were linked to household income.

Transactions levels

Between 1991 and 2012 (the scheme ended in 2011) a total of 16,502 dwellings were purchased under the Shared Ownership Scheme. The scheme took a number of years to gain traction but by 1993 the number of completed transactions had risen to over 1,000. It was most active in the 10-year period 1993–2003, when the number of completed transactions averaged more than 1,200 per year. Thereafter, the annual number of completed transactions fell steadily, until the scheme was formally ended in 2011. (Two final transactions were completed in 2012.)

Figure 8: Shared Ownership Scheme, 1991-2012
The number of completed transactions



Source: Department of Housing, Planning and Local Government

The level of transactions tapered off significantly from 2003 onwards due to the introduction of new supports for low-income households, in particular the 1999 Affordable Housing Scheme, and also due to the wider availability of mortgage credit that characterised the period in question.

Performance out-turn problematic – highlights difficulties in design and implementation

The Shared Ownership Scheme was reasonably successful in achieving its main objective of making homeownership more accessible. However, the scheme's structure and operation has resulted in longer term difficulties for some borrowers in repaying and clearing their loans.

A fundamental problem with the scheme was that not enough attention was devoted to assessing the repayment capacity of very low-income households, with income multiples approaching six to eight times income. In particular, for many of the lower-income households, it was beyond their financial ability to fund the mortgage payment, the rent payment and to make sufficient provision to acquire the rental equity balance within the 25-year time limit.

1999 Affordable Housing scheme: 1999 – 2011

The 1999 Affordable Housing Scheme sanctioned local authorities to build new homes on their own lands and to sell them at a discounted price. A site subsidy was provided by the Department of Housing Planning and Local Government; this subsidy was €50,000 in City Councils and the Dublin local authorities, and €31,800 in other local authorities – roughly equating to a 30 per cent discount on the market value of the property.

The main qualification under the 1999 Affordable Housing Scheme was similar to the Shared Ownership Scheme and was based on maximum household incomes.

A mortgage subsidy was also available subject to income limits. Until 2005, all purchasers had to avail of local authority mortgages only, but thereafter this condition was relaxed for prospective purchasers who could use commercial mortgages.

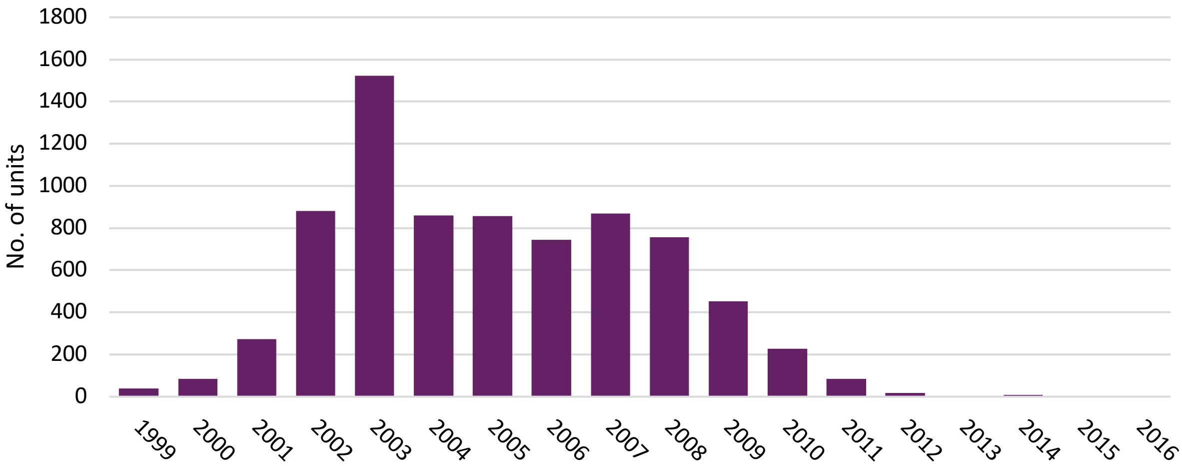
The property could be sold at full market value after purchase but there was an inbuilt system of clawbacks whereby the owner of the property had to repay some or all of the original subsidy. Clawback on resale related to the difference between the purchase price and the market value at resale: 100% was paid during years 1-10; in subsequent years, the proportion reduced by 10% until the 20th year, after which no clawback was due to the local authority.

Transaction levels

Under the 1999 Affordable Housing Scheme, 7,679 transactions were completed between 1999 and 2014 (although the scheme was closed to new applications in 2011). The 1999 Affordable Housing Scheme gained in popularity at the expense of the Shared Ownership Scheme due to its relative simplicity, the availability of the discount and the fact that prospective purchasers would have 100% ownership of the property from day one, albeit subject to a clawback mechanism.

Figure 9: Affordable Housing Scheme (1999) and Part V affordable housing contributions

The number of completed transactions



Source: Department of Housing, Planning and Local Government

Part V introduction

Part V superseded the 1999 Affordable Housing Scheme in the delivery of affordable homes, and the numbers from this source reached a peak of 3,081 in 2008, but then fell precipitously in the following years due to the impact of the financial crisis. However, the Part V Planning and Development Act 2000 was amended in 2015 so that Part V units would be used for social housing provision exclusively. Originally, under Part V, developers had to allocate up to 20 per cent of the development for social and affordable units, but this requirement was reduced to 10 per cent in 2015. However, the 10 per cent allocation has to be used for the delivery of social housing units only. Consequently, since 2015 no new affordable housing has been procured via the Part V framework; instead all housing is now directed towards social housing provision.

Affordable Housing Initiative

The Affordable Housing Initiative was essentially the same as the 1999 Affordable Housing Scheme, whereby local authorities used their own land or State-owned land to provide affordable housing. The eligibility criteria was the same as Part V but all mortgages were to be funded in the commercial sector, as opposed to via local authority loans.

Reactivation of affordable housing schemes – policy comes full circle

All of the above affordable housing schemes were effectively ended in 2011[8] when Government policy was changed in order to focus resources on *"meeting the most acute housing need"*[9] in Ireland at that time. That effectively meant that state funding for housing was focused almost exclusively on the social housing sector as opposed to the affordable housing sector. This decision was understandable given the extreme pressure on Government finances in 2011 and the imperative to get Exchequer spending back under control.

[8] It was announced in 2011 that a review of Part V would take place. This review was completed in 2014 and the Part V Planning and Development Act 2000 was amended in 2015.

[9] Government Housing Policy Statement, June 2011

Affordable Purchase Scheme

Over the past decade, both the economy and housing market in Ireland have recovered strongly, and the issue of housing affordability has re-emerged. The Government has recently introduced a number of measures to try and tackle the issue of affordability, one of which is a new Affordable Purchase Scheme.

The new Affordable Purchase Scheme is similar to previous affordable housing schemes and the key features are:

- A national scheme that will see affordable homes built on public land in co-operation with local authorities.
- Income limits of €50,000 for a single applicant and €75,000 for joint applicants.
- The local authority will take an equity share in the property equivalent to the value of the discount from the open market value. While the local authority's equity share in the property must be repaid in full, the timing of the repayment(s) is flexible.
- After five years, the household can choose when to make repayments on the equity share and it has some freedom to decide the amount it wishes to repay at a particular time (staircasing). The total amount of money the household pays to clear the local authority's equity share in the property will depend on the future market value of the home and the timing of the repayment(s).
- If the household is not in a position to repay the equity share earlier, the local authority will receive the value of its stake in the property when the household decides to sell the home.
- The local authority equity share is a maximum of 40% of the open market value of the property.
- The buyer gets full title to the home and repays the mortgage on the property in the same way as any other mortgage. The affordable home must be the household's normal place of residence.

Along with the Affordable Purchase Scheme, the Government has also introduced two other schemes to help tackle the issue of affordability and they are the:

1. Rebuilding Ireland Home Loan – a Government-backed mortgage for first-time buyers.
2. Affordable Rental Scheme – using a cost rental model where rent paid covers the cost of building the property, together with ongoing management and maintenance charges, but with a minimal profit margin included.

These are all welcome additions to help address the affordability problems in the housing market, but we believe that a shared ownership/equity scheme is also required. The Affordable Purchase Scheme is currently limited to local authority and State-owned lands and this, by definition will restrict the supply of affordable homes. Furthermore, Part V housing is exclusively aimed at meeting social housing needs, and the amended Part V Planning and Development Act makes no provision for delivering affordable housing. Also, the income limits are probably too low to be fully effective in the Dublin market, especially the dual applicant limit of €75,000.

3. A new support scheme to target the affordability segment of the housing market is required

As outlined, there are very few, if any schemes in existence that support the affordability segment of the housing market. The following outlines some key, general principles that should underpin a new scheme. Thereafter, we describe two potential options and either could be used as the basis for a new scheme.

Primary focus should be the key worker segment

The new scheme should be designed to target the affordable housing sector. Furthermore, the scheme design should have repayment capacity checks and set minimum thresholds in order to prevent very low income households from over-leveraging.

Eligibility criteria – need to be targeted

Eligibility for the scheme should primarily be based on household income, but as mentioned, repayment capacity must also be a key factor in assessing suitability. In order to be eligible to purchase a property under a shared ownership/equity scheme, single applicants should have a household income of less than €60,000 and dual applicants should have a household income of less than €100,000, and be otherwise unable to purchase a property suitable to meet their housing needs on the open market.

Ideally applicants should be first-time buyers, but some provision could be made for certain categories of applicants who own or have previously owned a home. This may include individuals who are separated or divorced for example.

Repayment capacity – limited to 35 per cent of after tax income

A weakness of the original shared ownership schemes that were introduced in the 1990s was that there was no emphasis on the repayment capacity of prospective homeowners. In order to help ensure the sustainability of any new shared/equity ownership scheme, the combination of mortgage and/or rental payments should be limited to no more than 35 per cent of a household's net income.

Maximum residential property prices

Any new shared ownership / equity scheme should only be applicable to property values aimed at the first time buyer market. In our view that would mean setting maximum values for houses and apartments in Dublin and the GDA at prices of circa €375,000 and €450,000 respectively. Outside of Dublin and the GDA the maximum prices should be circa €350,000 and €400,000. Minimum deposit requirements should also be standard.

To reiterate, these are maximum limits. The reasons apartment prices are set at a higher maximum price is related to viability and the inherently higher cost of development of apartments in the key urban centres. As density is critical to a sustainable and efficiently working city, apartment development will be a critical component of the overall supply of new residential units.

Limit the maximum co-ownership stake from 30 to 40 per cent of value of the property

We believe the maximum equity stake should be in the region of 30 to 40 per cent (depending on the nature of the underlying scheme) as this gives participating households a very realistic chance of acquiring full ownership within a reasonable period of time. Households should have flexible payment options to increase their ownership of the dwelling. This is known as 'staircasing' and is a typical feature of most shared / equity ownership schemes.

Available for new and existing properties

A new scheme should be applicable to both new and existing dwellings similar to the previous shared ownership scheme that was in place from 1991 to 2011. This will ensure a greater supply of properties that would be eligible for the scheme and provide greater choice to would be purchasers.

Transparency critical

A key criterion is that the scheme should be easy to understand and that potential applicants have a full understanding of the operation of these schemes. The scheme terms and conditions should be transparent and the financial implications must be clearly explained to any prospective applicant.

Examples of scheme structures - shared ownership and shared equity loan schemes

While there have been many different versions of these types of schemes in operation in various countries over many decades, two core models have evolved:

- Shared ownership where the purchaser buys a proportion of the property with a traditional mortgage, while the other portion is owned by a social landlord who receives rent on this element - (for details see table: **Option 1 - Shared ownership scheme**);
- Shared equity loan where the purchaser buys 100 per cent of the property but obtains an equity loan to cover part of the value along with a traditional mortgage - (for details see table: **Option 2 - Equity loan scheme**).

Option 1 - Shared ownership scheme – key characteristics	
Description	**Part rent / part buy** • The dwellings are part-rent/part buy (i.e. the property title and equity are split between the leaseholder (the household – the share ownership purchaser) and the landlord (local authority or approved housing body - the shared ownership provider) and are provided using a shared ownership lease.
Structure	**Leasehold structure** • The local authority and / or the approved housing body would have to acquire the residential property for the household and then grant a leasehold on the property to the household. • The household then would secure a mortgage to buy a stake in the residential property while paying rent on the remaining balance to a local authority or approved housing body.
Co-ownership	**40 per cent maximum** • The maximum amount that a local authority or approved housing body should retain as the co-owner should be 40 per cent of the value of the property at the time of purchase.
Rent	**Discounted rent** • The rent would be charged at a discounted rate. In setting the rent a balance will have to be struck between the repayment capacity of the household and the required return, if any, to the State.
Staircasing	**Staircasing linked to open market value** • The household can increase or staircase their ownership of the property over time to 100 per cent. The total amount of money the household pays to clear the co-owner's share in the property should be linked to the open market value of the home and the timing of the repayment(s). • If the household is not in a position to repay the co-owner's share earlier, the co-owner will receive the value of its stake in the property when the household decides to sell the home. • As the household purchases greater shares in the property, their rent falls according to the proportion of unsold equity. Where the household has become the outright owner of a house, the provider transfers the freehold of the property to the household.
Pre-emption rights	• In circumstances where the household has not staircased their ownership to 100% and wishes to sell, there is normally an obligation to offer their home back to the co-owner before it can go on the open market. This is the pre-final staircasing right of pre-emption. • This would facilitate keeping the residential property in public ownership. The right to exercise this option would be with the local authority / approved housing body.
Term of the scheme	**No time limit** • The scheme should not have a time limit by which households are obliged to acquire the co-owners share of the home. • In reality, the majority of households would make provisions to acquire the outstanding equity share over time, but some households would face unforeseen financial problems that will prevent them from making such provisions. • Having a deadline to acquire the co-owners equity would result in some households facing unsustainable financial liabilities.

Option 2 - Equity loan scheme – key characteristics	
Description	**Equity loan scheme** • The household would get a loan from a Government entity to part fund the acquisition of a dwelling.
Structure	**Freehold structure** • Under a shared equity loan structure, the household would purchase a home funded by a deposit, a standard mortgage and a loan from the Government. • The shared equity loan would take a second charge position behind the main mortgage lender. • This structure facilitates the use of a freehold structure in the name of the household. This means that the household owns the building and the land it stands on outright, in perpetuity.
Co-ownership	**30 per cent maximum** • The maximum amount of the Government loan should be in the region of 30 per cent of the value of the property
Interest rate	**Interest free for a period of time** • The interest rates on the loan from the Government should be at a discounted rate. • In the UK for example, no loan fees or interest rates are charged on the equity loan for the first five years. From year six, an interest rate of 1.75 per cent of the original equity loan value is charged. For subsequent years, the interest rate is multiplied by any increase in the Retail Price Index ('RPI') plus 1 per cent.
Staircasing	**Staircasing and repayment** • The total amount repayable could either be the original face value of the shared equity or the proportion of the market value of the home that was funded by this loan, plus interest and charges. • In other words, the repayment of the loan could be linked to the value of the property. The decision to link the principal repayment to the open market value of the property would be a trade-off between risk-sharing, return requirements for the State, and the perceived subsidy for the homeowner. • When the household sells the residential property (unless the equity loan has already been repaid), it would have to repay the shared equity loan from a share of the sale proceeds. • Following the purchase, the household could choose to make voluntary part repayments (staircasing or a full repayment) of the shared equity loan at any time. Normally, there would be a minimum repayment amount of around 10 per cent of the loan.
Pre-emption rights	**No pre-emption rights** • There would be no pre-emption rights in this structure as the form of the structure would lend itself to such an option.
Term of the scheme	**Loan term – maximum 25 to 30 years** • The shared equity loan could be re-paid at any time, but the loan would have a fixed term, typically in the region of 25 to 30 years.

Summary

We believe that there is merit in introducing either a shared ownership scheme or a shared equity scheme in the Irish market that targets the affordability segment. There is a large cohort of households on average incomes that could afford home ownership but are constrained from doing so. The introduction of a shared ownership scheme would help such households bridge this affordability gap. However, careful consideration would have to be given to the design features of any prospective scheme, in order to ensure transparency, fairness, affordability and effectiveness. In addition, any scheme would have to take account of the Central Bank mortgage macro-prudential rules, in order to avoid any diminution of these requirements.

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