The Dynamics of Housing Markets and Housing Provision in Ireland

Expert Statement: Royal Irish Academy Geosciences and Geographical Sciences Committee

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Housing and access to it has been recognised by the United Nations as a human right as part of the right to an adequate standard of living. Housing is also a commodity, traded on the market, and as such represents an asset as well as a vehicle for financial investment, particularly in the rental-market sector. Since the late 1970s housing policies worldwide have changed so that former direct state involvement in housing provision has been replaced by mainly private-sector provision. This in turn has led to the emergence of market-dominated systems of housing provision that operate on the basis of supply and demand, and ability to purchase or rent. A key point made by Drudy and Punch (2002) about market-led housing systems is that housing demand is predicated upon an ability to pay while housing need is not, meaning certain individuals (e.g. those on low incomes) find themselves excluded from the market-led system. They describe Ireland as having a 'dualist' (659) housing system involving social housing for lower-income or marginalised households alongside the dominant private-sector model of housing provision. Under a dualist model, social-housing provision tends to operate on an almost specialist basis, using means testing and other mechanisms to control prices and rents, and also to protect the private market from potential competition from this sector.

Ireland's housing system has evolved through a series of stages that reflect this changing shift towards a dualist model. The early 1990s mark a key period in this regard. This was a time when the Irish economy had started to recover from previous periods of over-indebtedness, and when the population was also increasing due to net migration and natural increase (Honohan, 2009a). It was a period of economic convergence with the rest of the EU (identified as the 'Celtic Tiger' era), which came to an end in the early–mid-2000s; however, economic growth continued into a second phase that lasted up until about 2007, with the construction sector (as opposed to export-led growth) driving economic activity (Honohan, 2008; Kitchin et al., 2015). This sector includes land owners, property developers, builders, financial institutions, the legal profession, estate agents and auctioneers. In 2007, at the peak of the Celtic Tiger, over 270,000 persons were directly employed in the construction sector.

In 2006 Ireland recorded the highest rate of housing construction in the EU, at 93,000 units. Several key mechanisms influenced this outcome. A principal one during the convergence phase was the increase in population and a shortage of housing at that time. A second key mechanism was increased affluence as the economy continued to improve (along with higher-than-average wages). A third mechanism, which began in earnest in 2000, was availability of mortgage finance. This was facilitated through Ireland entering the European Monetary Union (EMU) in 1999, which had the effect of lowering interest rates. Membership of the EMU, in theory, also reduced the risks associated with exchange rates, because the borrowing was in euros, thereby removing what previously had been a traditional check on domestic financial trends (Honohan, 2009a). Banks provided loans at up to 100 per cent of house values to first-time buyers, widening the base of customers eligible to borrow. Banks in turn borrowed the required capital from foreign banks. In

2008 foreign borrowings by Irish banks was 60 per cent of GDP (up from 10 per cent in 2003), and by early 2007 property-related loans accounted for 60 per cent of their total lending (ibid.). During the period 1994–2006, the value of land and housing inflated to three times its previous average. This was due to factors that included (a) the initial demand for housing that could not be instantly met by supply, thus creating a situation of competition for a scarce resource; (b) the availability of credit to facilitate house purchasing, thus allowing more potential buyers to enter the market; (c) the availability of certain tax and other fiscal incentives to encourage home ownership that also had the effect of driving up the competition for a perceived scarce resource; (d) the lack of perfect information to indicate whether or when supply would meet demand and at what prices; (e) the initial scarcity of suitably serviced land (a function of local authorities' planning and development agendas) on which to undertake development (Williams et al., 2010). The subsequent property crash in 2007 was contributed to in large part by development activity that continued to be financed and undertaken after 2002, when demand had evidently been met (census data showed over 177,000 vacant units, excluding holiday homes), with new house completions continuing up into 2009 (Kitchin et al., 2015). This development activity was also facilitated by local authorities continuing to make available land zoned for residential development, and granting planning permissions for development.

The housing sector became seen by policy-makers as a key component of Irish economic sustainability because housing comprised (a) a personal asset that could be used to leverage additional credit, which in turn was used for further forms of consumption of goods and services; (b) a major employment sector throughout the country in both urban and rural areas, yielding significant annual proportions of GDP; (c) a significant contributor to local-government finances in the form of development levies paid by housing developers (Norris and Byrne, 2015). Following Ireland's entry into the EMU in 1999, a process of 'financialisation' of mortgage markets began to take shape. The phenomenon of financialisation broadly means finding ways of accumulating profit through financial instruments rather than through production or trade of commodities: profit accumulates to investors or other actors rather than to the real economy (Aalbers, 2008). In the case of financial institutions, mortgages became an instrument of this financialisation process, being used not primarily to facilitate home ownership but as a means for accumulating profit (i.e. as a form of market) in their own right. In the Irish context this was facilitated by the low interest rates and relaxed borrowing conditions referred to above. The consequence of this is that housing markets and financial markets become interdependent. Irish banks that continued to borrow and finance housing construction after the indications that demand for housing had slowed were operating in the interests of this financialised mortgage market. Norris and Byrne (2015) illustrate further the reach of financialisation processes whereby housing in Ireland became used extensively as collateral for further household borrowings (particularly where the value of housing was increasing), which in turn were being spent on domestic goods and services (i.e. as a form of income), thus constituting a key national economic resource. They report that between 2005 and 2007, over one third (i.e. €5.5 billion per year) of all loans were based on homes as assets.

The state remains involved in the housing sector in at least five ways: (a) control over housing as part of wider planning for the built environment is still regulated by the state or local government via planning legislation and the parameters of local-development plans. Local-development plans, (covering the local-authority's administrative area) entail the designation, or 'zoning', by the local authority of certain sections of land for different kinds of use – e.g. agricultural, commercial, industrial, amenity or residential. Permission to build housing is granted through successful planning applications made by private-sector developers and housing trusts' representatives to either the local authority or to the state, and an enforcement process exists to safeguard against breaches of planning regulations; (b) the state regulates fiscal controls, such as tax reliefs on mortgages, to encourage home ownership and to incentivise construction, or to incentivise development for regeneration purposes (such as the 1999–2008 Upper Shannon Rural Renewal Scheme); (c) the state, through local authorities, makes decisions on the provision in certain locations of key infrastructure, such as roads, sewerage treatment, water mains and other utilities, which in turn increases the likelihood of those locations being targeted for housing development by the private sector; (d) the state exercises authority to intervene in the market to enable provision of affordable and social housing where need arises; (e) the state (in theory) regulates the activities of financial institutions via the Central Bank and the Financial Services Regulatory Authority (reunified with the Central Bank in 2010 and replacing the previous Financial Regulator).

Housing submarkets

The existence of a range of housing sub-markets (i.e. markets for housing that reflect the different needs, tastes, socio-economic profiles and purchasing capacities of prospective buyers or renters) illustrates the ways that urban residential patterns in particular are the product of interactions among the key stakeholders in this market. Decisions about where particular kinds of housing are built are strongly influenced by the availability of funding via financial institutions (to both property developers for construction and to prospective purchasers). They are also influenced by developers, who opt for development sites that will be most profitable – for example, serviced green-field sites on the edges of cities and towns. In such locations the construction of large, uniform housing subdivisions is usually most efficient and low risk in marketing terms. For example, the emphasis on two-storey, three-bedroom, semi-detached houses has represented an interpretation of market forces by financial institutions, developers and others involved in property development, such as auctioneers and estate agents, and has the effect of targeting and directing particular segments of a population towards certain kinds of housing developments in specific locations. This kind of influence in steering resources towards certain locations is particularly apparent under processes of 'gentrification'. Gentrification has been defined as the process whereby certain parts of urban centres become targeted for reinvestment aimed at a more affluent population than the one already in place there (Smith, 2000). The effect is to increase property prices and rents in these places, thus over time displacing those already there and excluding those who cannot afford to pay at these elevated rates. An associated practice is 'redlining', whereby financial institutions decide not to advance loans to applicants for housing in certain urban locations (usually inner city) that they perceive as a risky investment or which are being earmarked for gentrified forms of development (i.e. in effect initiating a decline in property values in those locations).

Trends in housing tenure

The preference for home ownership has been a sustained trend in Ireland, with owner-occupied housing currently accounting for about 70 per cent of housing stock. As already outlined, this has been incentivised in recent times through mechanisms such as the availability of tax relief and preferential interest rates on mortgages, particularly for first-time buyers, and the introduction of home-loan insurance. Such incentives reflect the importance that government attaches to home ownership as a driver of economic activity.

Home ownership is generally perceived as an asset against which other opportunities for improving socio-economic status and quality of life can be secured. Another trend has been the continued decline in average household size (it is projected that one- and two-person households will make up 55 per cent of housing-supply requirements in the near future).

Social housing

Until the 1980s, local authorities were the main providers of social housing in Ireland through direct house building for those on lower incomes (Norris and Fahey, 2011). During Ireland's post-independence era, state housing projects formed part of national a agenda to improve housing conditions and to encourage the transition to home ownership – i.e. as a means (in theory) of providing welfare via the asset of home ownership (ibid.). From the 1930s, sitting tenants in rural areas were facilitated in buying their houses from their local authority through the availability of generous discounts; from 1966 this right was extended to urban local-authority tenants. Norris and Fahey (2011) suggest that home ownership (rather than social housing) was seen primarily as a guarantee of accommodation in the face of uncertainties within the rental market, and that the use of the home to tap into further wealth was not in evidence until the late 1990s, when equity-release products became available. Over time there was a gradual decrease in financial returns to local authorities from their involvement in this form of direct housing provision. During the 1980s Ireland was in the midst of an economic recession, and public spending on the sector was severely cut back, which led to dramatically reduced local-authority building and ownership of housing stock. The state shifted to what Norris and Fahey (ibid.) describe as a more narrowly conceived welfare-led model of social-housing provision: it became targeted at welfare-dependent households, emphasising a link with poverty and low incomes. Between 1971 and 2002 the proportion of households living in social housing fell from 15.7 per cent to 6.9 per cent, with the average income of that proportion of households significantly lower than previously.

The now market-dominant model of housing provision had the effect of gradually reducing the provision of social housing (down to 8 per cent of total housing stock in 2011). In order to deal with this reduction, government devised a series of housing allowances for poorer households as private renters. The main allowance is Rent Supplement, paid to those on other welfare benefits. The numbers claiming rent supplement doubled between 1994 and 2005. Another is the Rent Accommodation Scheme, which is managed by local authorities for those on Rent Supplement for more than eighteen months, with the local authorities securing long-term leases from private landlords to let to eligible tenants. A third scheme, the Housing Assistance Payment (HAP), was introduced in 2016 as a form of social-housing support for those with long-term housing need. HAP is intended to replace Rent Supplement. The HAP scheme aims to allow all social-housing supports to be accessed through the local authority. Under HAP, the applicant is still responsible for securing the private rented accommodation, but the payment is made directly from the local authority to the landlord. According to the government's 2016 policy Rebuilding Ireland: Action Plan for Housing and Homelessness, HAP forms a key mechanism for the provision of social housing between now and 2021. Concerns have been expressed that current Rent Supplement and HAP limits are considerably below market prices, leaving it difficult for people to move on from, for example, emergency accommodation (Simon Communities, 2016).

The rate of house-price inflation during the Celtic Tiger period (2002–07), estimated to have been at over twice the rate of wage increases (Kitchin et al., 2010), has resulted in private home ownership being placed out of reach for many prospective home-buyers. It is estimated that the current average cost of a new residential property over six times the average annual income. This in turn has forced more people to place themselves on lengthening local-authority public-housing lists as a way to secure a home, creating pressure for the government to intervene in the market to provide solutions that are both socially and spatially equitable in the sense of providing housing whilst also avoiding the potential effects of social polarisation on lower-income households. Kitchin et al. (2015) report that in 1999, 39,176 households were on the social-housing waiting list, that this figure had risen to 98,318 by 2011, and that many of these households were now becoming homeless. The phenomenon of homelessness has evolved as one of the main consequences of the housing-market collapse. It has led to the establishment of a Special Oireachtas Committee on Housing and Homelessness, under the auspices of the newly named Department of Housing, Planning, Community and Local Government. Funding for new local-authority housing declined by 80 per cent in 2007–08 from an already low base, and provision of social housing fell by a similar amount (Kitchin et al., 2015). In 2014 the government announced new sources of funding for local authorities so as to return to a certain level of direct building for social housing. In June 2016 it further announced €200 million of public funding to advance critical infrastructure (roads/sewerage treatment/lighting) to reduce the cost of house building for private developers in key areas.

In the 1950s the private rented sector in Ireland accounted for over 25 per cent of housing stock, which declined to less than 8 per cent in 1991; however, since the collapse of the housing market it had increased to almost 20 per cent (2011). It is estimated that it now accounts for the housing needs of almost one in five families. The concentration is in the larger urban centres, where labour markets are most buoyant, and caters predominantly to those aged thirty-five and under, with almost one third of these being non-Irish nationals. The availability of rental properties in these centres is currently not meeting demand, and rents there have been on the increase since 2012 (when they were at their lowest average point nationally since 2006). This has been due to a combination of factors, including a lack of construction activity and a continued population increase over the last decade. Rental accommodation in Ireland is predominantly available through individuals who own small numbers of properties, and less through professional companies that deal in multi-unit dwellings, such as apartment blocks. The typical length of a rental lease in Ireland is twelve months, compared to up to ten-year leases in other European countries. The Private Residential Tenancies Act provides legislation to regulate the private rented sector, and the Private Residential Tenancies Board is the agency dealing with registration of tenancies and resolution of disputes between landlords and tenants. The phenomenon of 'buy-to-let' house purchases during the housing boom played a significant role in expanding the rental sector, but also in pushing up property prices. Kitchin et al. (2015) refer to the entry of what they term these 'amateur landlords' (4) into the property market, with 21.2 per cent (31,227) in arrears of more than ninety days on mortgage repayments in 2013, and 15,435 in arrears over 720 days in 2014. Since the crash, some large institutional landlords have begun to enter the rental market in the shape of real estate investment trusts (REITS) and other investment funds, particularly in major urban centres. These are currently targeting the more high-end rental market, as well as student accommodation.

In recent years housing associations (independent, not for profit), working alongside local government, have become important providers of rented social or non-profit housing in Ireland.

They often focus on specific groups, such as older people, people with disabilities, single parents or the homeless. However, about half of their housing stock is for standard family housing.

In 2014 the government published Construction 2020: A Strategy for a Renewed Construction Sector, which set out a range of targets for the government to manage and more strongly regulate the negative aspects of the housing market that emerged during the Celtic Tiger era; for example, speculative building leading to critical over-supply of housing in certain locations, and an increase in the homeless population in others. Along with a return to mainstream local-authority provision of social housing, other provisions include a commitment to collecting and collating real-time data to match actual housing need with supply and with necessary infrastructure, and for the establishment of an independent Office of Planning Regulation.

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